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OPERATING COSTS RELOADED OR HOW TO POSITION YOURSELF IN TIMES OF CHANGING MARKETS

More than 50 years ago, a famous singer and songwriter had the lyrics "a change will come" on his lips. Today, we are at the forefront of a significant change in terms of the calculation and charging of operating costs by simply eliminating today's used, but outdated system of charging operating costs individually.

WHAT DO WE (BELIEVE TO) KNOW TODAY?

We know that there has been a significant rise in energy and property management costs in recent years. According to Christian Probszt's reply to our proposal for a new system of charging operating costs, we also know that the retailer's hunger for energy has increased dramatically due to changing consumer behaviors, changing shop designs, and changing techniques for displaying merchandise. Furthermore, we heard that the ordinary retailer would not be motivated to reduce energy consumption (e.g. by turning off the shop lights) if operating charges are capped. Then we learned that the world of shopping center operators is confronted with extreme weather conditions, like hot summers and cold winters colliding at unexpected turns, and that no shopping center operator could ever fight the climate. In short, we were told that switching from a long-established system of charging operating costs individually to a more competitive fixed service charge system comes with countless risks. Therefore, shopping center operators should stick with the given system and continue to pass the ever-rising operating costs on to their retailers.

Well, unlike others, we believe that this vicious cycle of passing all and any ever-rising operating costs on to the retailers should be broken. Admittedly, at first glance, the lump sum model seems to line up with specific uncertainties; nevertheless, we strongly believe that this model is the only commercially sound solution for shopping center operators, who are at the brink of investing in their centers' energy efficiency.

THE ROOT OF THE MATTER

Any investment by a shopping center operator will be "stranded," as long as the benefits resulting from such investments (in particular the reduction of energy consumption) remain with the retailers. This would be the case if the system of calculating operating costs would still focus on the actual consumption of the retailers. The lump sum model, however, would put the shopping center operator in a position to gain the cost benefits resulting from the higher energy efficiency of his center.

In the context of energy consumption and basic energy needs of the retailer, one thing has to be made crystal clear: the directly consumed electrical energy for the individual shop unit (i.e. costs for lightning, product presentation, etc.) will always remain with the retailer. Even in our proposed lump sum model, these very costs have to be directly settled between the retailer and its energy provider. Besides, it is common knowledge that such costs are always carved out of the operating expenses, making the tenant responsible for his own electricity consumption (costs). Another issue to be dealt with is the (incorrect) belief that energy costs, which seem to be in nature volatile, cannot be influenced. Even though we may not influence the price of a barrel of oil, the amount of barrels consumed is very much subject to our own behavior. Put simply, by updating the thermal insulation and implementing new technologies like solar power, ground water cooling, and wind energy, the operating costs of a shopping center can be reduced dramatically. It goes without saying that in the long run, these kinds of investments will also strengthen the shopping center operator's competitiveness. The reason why such investments are hardly ever being implemented is the short term perspective of not regaining the invested money. Our proposed lump sum model, however, would help shopping center operators (and other landlords) solve this dilemma.

In addition to the advantages outlined above, the lump sum model simplifies administration and sharpens the predictability of future operating costs for the retailers. Needless to say, less administration also cuts down on the operating costs for the retailer. Finally, when it comes to the consistency of the lump sum model with Austrian law, compliance and security is given for any investor; in particular, no hidden threats for investors who might fall under the Federal Act on Real Estate Investment Funds exist. Limitations set out in that Act regarding entering into guarantee agreements do not conflict with a lump sum model whatsoever.

THE BOTTOM LINE

In times of changing markets and increasing competitive pressure, fixing service charges should be considered a step in the right direction. ❖

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