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Shrinking Office Depot makes extra space for smaller retailers

By Allison Wollam

Office Depot Inc. is downsizing area stores and looking to sublease the extra space to smaller retailers for the purpose of reducing overhead.

The Boca Raton, Fla.-based retailer has nine stores in the Houston area listed with Moody Rambin Interests Inc. offering between 2,100 square feet and 10,030 square feet of surplus space.

The firm has sent out flyers offering retailers an opportunity to “Join Office Depot” at locations with high visibility from major freeways, including a store on Kirby Drive and one directly across Interstate 45 from The Woodlands Mall.

Melissa Perlman, manager of public relations for Office Depot, says the company closed approximately 150 poorly performing stores in 2009.

The retailer is now making a targeted effort to reduce the size of many existing stores, where possible, from close to 30,000 square feet in some cases to around 20,000 square feet or smaller in other cases.

“The smaller store format is receiving good customer feedback and ends up being more cost-efficient for the company as a whole,” says Perlman.

Perlman says once a sublease is signed, the space will be reconfigured with a separate entrance from the Office Depot store. The retailer won’t have a “store within a store,” and Perlman isn’t aware of which retail segment the surplus space will attract.

The office supplies retailer decided to downsize to create a more efficient location in terms of space and how products are allocated, she says.

In contrast to the warehouse feel of older Office Depot stores, products are consigned to “pods” or small

sections along the outer perimeter. Each pod represents a certain category, such as “back to school” or “business machines.”

Less is more

Office Depot back-filled a number of Kids R Us locations several years ago, notes Jason Baker, a principal at Houston-based retail real estate brokerage firm Baker Katz LLC.

Baker says this gave the office retailer a wide range of store sizes, from 20,000 square feet to 45,000 square feet.

He notes that the reduction in square footage doesn’t limit the savings to “gross rent savings,” but downsizing allows the retailer to purchase less inventory and hire and pay fewer people.

Office Depot’s top competitors, OfficeMax and Staples, operate stores closer to 20,000 square feet, Baker says.

“There isn’t a retailer today that isn’t looking in every corner of their business to save money,” he says. “They aren’t right-sizing just to right-size. The trickle down in savings is realized at the store level all the way down to the distribution level.”

He suggests the configuration of many larger units means Office Depot could face some challenges in back-filling excess space.

Aside from the cost associated with subdividing the space — splitting utilities and adding new storefronts — many national and regional retailers have a minimum frontage requirement that could be hard to meet.

Local retail brokers have noticed other national retailers such as PetSmart Inc., Sports Authority, Ross Dress For Less and Golf Galaxy moving into smaller stores.

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Dean Lane, a principal at Houston-based NewQuest Properties, says as retailers have learned to become more efficient during the down economy, they no longer need big-box locations.

“The merchandise retailers carry isn’t as bulky,” says Lane. “They’ve also learned more efficient ways to display the products as well as new systems to get the products on the selling room floor quicker so that they spend less time in storage.”