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Aaron's Chalks Up Record Revenue Even With Closing Stores

Rent-to-own Retailer Empties Underperforming Locations to Strengthen Healthier Ones

Aaron's Inc., the Atlanta-based rent-to-own retailer, reported record revenue in the first quarter, topping $1 billion for the first time.

The company said it had higher same-store revenue and growth in its subsidiary Progressive Leasing, which offers web-based, lease-to-own financing for its stores and other retailers. The company also boosted revenue by buying four more franchised stores, adding to the 152 it acquired last year.

But the retailer also closed 85 company-operated stores, drawing down the number of those stores to 1,230, leaving landlords with space to fill. With the purchase of franchise locations, the number of franchises drops to 369.

Rather than expand and build new stores, Aaron's has been pursuing a strategy of closing underperforming locations and consolidating business into existing, better-performing and larger stores. Bryan Belk, senior director for retail real estate investment sales with Franklin Street in Atlanta, said Aaron's hasn't "added anything new in a while."

According to retail brokers, Aaron’s locations are evenly split between multi-tenant retail centers and standalone locations. The standalone locations, in particular, are bought and sold as net lease properties in which the tenant covers most of the operating expense on the properties.

Belk said bringing in a new tenant could be a challenge for the closed locations because they tend to be in so-called secondary areas with lower income demographics. There aren’t many national retail options for such places beyond dollar stores, he said.

Barry Wolfe, senior managing director for investments at Marcus & Millichap, said that while the locations “typically are not Main on Main,” owners may not be that bad off if Aaron’s leaves. Aaron's “rents aren’t real high,” and a landlord may be able to attract a tenant that pays better rent, Wolfe said.

Meanwhile, by strengthening its existing stores, Aaron's should be able to allay concerns about its prospects, according to the brokers said.

Aaron’s stores tend to fetch prices that put the return on the investment, known as the cap rate, above 7% and can go higher, depending on the building's location, its age and the amount of time left on the lease. With the possibility of the company deciding to close additional stores, “it makes it a little harder to sell locations” if there are not many years left on a lease, Belk said.

Wilmington, North Carolina-based on Cape Fear Commercial has a portfolio of three Tar Heel State stores owned by a single franchise operator listed for sale at $4.1 million with an average cap rate of 7.08% cap rate. With that listing, the broker noted that Aaron’s will sign a new 10-year lease that starts at closing. Of the three, the store at 7105 U.S. Highway 70 East in Newport has the highest price tag at nearly $1.48 million.