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# Lessons from RadioShack: Analyzing Commercial Tenant Risk

**Wheel of Tenant Misfortune**



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After years—even decades—of speculation, RadioShack’s bankruptcy has become reality. The plan is for Sprint to take over half its existing stores while the other half will shutter. Although the retailer has not seen a profit in 11 quarters and shares plunged more than 90% in the past

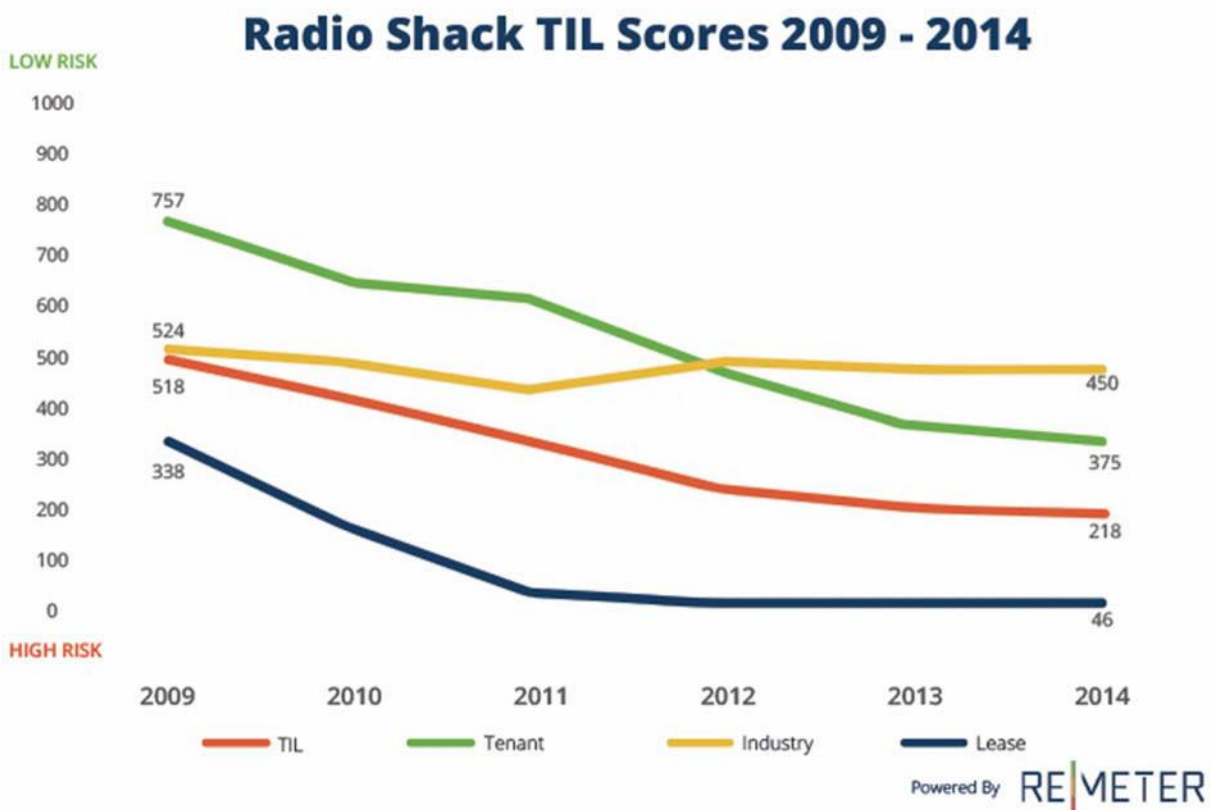
year, **RadioShack has long given the illusion of being a good, stable tenant.**

**Here’s why:**

- Better than average growth and operating margins.
- Strong liquidity and not overleveraged.
- Generated large revenues and was an established, mature, expanding public company.
- Moody's and S&P's 2010 ratings were stable.
- Easy for a public company to share data and ratings.

Here's **what (RE)Meter found that many landlords missed**: Starting in 2009, Moody's and S&P rated RadioShack as stable while the TIL score revealed significant lease risk.

- Starting in October 2011, the TIL score revealed that RadioShack was paying more rent relative to its revenues and EBITDA than over 97% of all 66,582 US electronic stores.
- RadioShack was paying greater rent expense relative to its revenues and EBITDA than 66.2% of all 40,061 US electronics stores. During 2010, RadioShack was paying more in rent than 81.6% of 48,802 electronic stores. This was two years before Radio Shack started to shed significant amounts of leased square footage.
- EBITDA-to-Rent ratio was well below average, an indication that RadioShack locations could not drive sufficient EBITDA to support its cost of rent.



#### How does a TIL Score help owners and developers?

- Avoid tenants who may be candidates for bankruptcy and/or secure a stronger lease in case of future store closures.

- Benefit from exclusive data, which includes over 27 million public and private US firms at an establishment level. This provides accurate and complete industry data sets.
- Assess risk on three levels: the tenant, the tenant's industry, and the tenant's ability to afford rent. This unique approach for rating risk is exclusive for the commercial real estate industry.

In the case of RadioShack, **(RE)Meter's TIL score** indicated there was risk of rent loss and store closings as far back as 2009. The **TIL score** revealed lease risk while Moody's and S&P rated RadioShack as just below Prime 3. Unlike rating agencies commonly used by landlords, the TIL score is a comprehensive rating of the tenant's financials, industry and lease terms. The **TIL score** revealed above-average risk for its ability to sustain rent expense and high risk during 2010.

As a landlord, you should know more about your tenant's risk than they do. To read more about Radio Shack and how a TIL score works, [click here](#).