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BIG BOX RETAILERS ARE OUT

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Cox, Castle & Nicholson's Gary Glick rarely sees big box leases anymore as a new category of fast casual restaurants dominates retail leasing.

Tenant mixes have changed dramatically in retail, and today, the tenant mix has become more important than ever. Now, there are fewer big box leases and more fast-casual restaurants signing new leases. These trends have emerged since the Great Recession, and will continue to dominate the retail market in the year ahead. We sat down with Gary Glick, head of Cox, Castle & Nicholson LLP**'s** Retail Practice Group, to talk about retail leasing trends and how the market has changed.

GlobeSt.com: How would you compare retail leasing before the Great Recession to retail leasing today?

Gary Glick: First and foremost, the tenants have changed dramatically. With the demise of power centers, we are rarely seeing much activity from big box retailers, many of whom no longer exist. For example, it is rare for us to handle a lease with Best Buy, Bed Bath & Beyond, PetsMart or Staples. In addition, a whole new category of fast casual restaurants that did not exist before the Great Recession has proliferated. We have worked on numerous lease transactions with tenants such as Tender Greens, Urban Plates, sweetgreens, Mixt and Lyfe Kitchen.

GlobeSt.com: Has the relationship between landlords and tenants shifted since the Great Recession?

Glick: Absolutely. Tenants have significantly more bargaining strength since the Great Recession. There are fewer tenants to choose from. As a result, the tenants that are making deals know that they are in high demand.

GlobeSt.com: What do these landlords and tenants require?

Glick: They will almost always have a cap on common area expenses. It is common for these caps to be on controllable common area expenses and be in the neighborhood of 5% per year on a non-cumulative basis. Savvy landlords will require that common area expenses get re-set to actual expenses for the first year of each option term. Non-controllable common area expenses generally include taxes, insurance, utilities and security, although they are negotiable from deal to deal.

GlobeSt.com: Are there any other new trends in tenant requirements?

Glick: Co-tenancy clauses are more prevalent. Retail tenants do not want to open in new retail centers that do not have a good lineup up compatible retailers. They also do not want to have to remain in centers that over time lose a significant number of compatible retailers. Therefore, tenants will require certain named tenants be open for business before they are required to open for business. If the retailer opens before these other co-tenants are open, the retailer will pay reduced rent. If these other named co-tenants never open for business (or comparable replacements), the retailer will want the right to terminate and be reimbursed for some of its "sunk" costs. The same will be true once the initial opening co-tenancy is met, if landlord fails to meet ongoing co-tenancy requirements. In such an event, the retailer will want the right to pay reduced rent and, ultimately, the right to terminate its lease.