

Denver-area stores squeeze landlords

When big-box retailers close, other tenants look to shift or end leases

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Vacant big-box retail space in shopping centers throughout metro Denver has left many neighboring retailers combing through their leases and looking for a way out.

Many retail leases contain provisions known as "co-tenancy" clauses. The clauses take many forms, with some requiring a certain percentage of a shopping center to be leased and others naming specific retailers or categories that must remain open.

If the conditions aren't met, the remaining tenants in a center can demand rent reductions or leave altogether. In other cases, tenants who are preparing to open can back out of a center if their promised neighbors fail to materialize.

"The relationship among retailers is synergistic — they depend on each other to generate sales," said Rick Calhoun, senior managing director of CB Richard Ellis' Denver office.

The advent of "power" shopping centers in the 1980s led to the inclusion of co-tenancy clauses in leases, when national retailers realized that there was strength in locating near one another. Now, the bankruptcies of national big-box chains such as Circuit City and Linens 'N Things have led to a spike in retail vacancies, causing the co-tenancy clauses to kick in.

In Denver, the retail vacancy rate reached a record 9.3 percent in the second quarter, according to a report by CB Richard Ellis. The average asking lease rate for retail space in the metro area decreased for the first time in two years to \$17.42 per square foot in the second quarter.

Most developers aren't willing to discuss co-tenancy clauses except in general terms because they don't want tenants to demand concessions.

Gart Properties, which owns 10 shopping centers in Colorado, only has co-tenancy clauses at the Denver Pavilions downtown, said Mark Sidell, the company's president. The clauses, he said, are harmful to shopping centers and their owners.

"When your leg gets chopped off, the tenant wants the right to chop the other leg off," he said. "It's a bad deal."

At the Pavilions, however, Gart has made concessions to tenants who are staying through the

redevelopment of the shopping center. The company also has granted concessions to struggling tenants at other centers to keep them from shutting their doors.

"We've deferred rent and allowed them to pay it back over 18 months," Sidell said. "Some we'll lose because we're not willing to invest in them." He said it's better for tenants and landlords alike to keep shopping centers full. "We take very seriously our responsibility to merchandise the shopping center, just the way we expect a retailer to merchandise their store."

When Gart purchased City Center Marketplace in Aurora, the 233,000-square-foot shopping center was 70 percent vacant. Today, the shopping center is 70 percent leased, but only 60 percent of the space is open because a 35,000-square-foot Office Depot closed its doors after seven months at the directive of its corporate office, Sidell said. The company is still paying rent.

"We turned down the mega churches, bingo halls and craft centers," Sidell said. "You don't really create value with tenants like that."

Miller Weingarten Realty LLC, which owns about 3.5 million square feet in 11 shopping centers throughout Colorado, is having co-tenancy issues in several of its properties, said Bill Mackiernan, vice president of leasing and asset management for the company. He declined to discuss the details of the lease clauses.

"In today's market, with as many boxes that are empty or having trouble, tenants are exercising those rights now," he said.

While it's unclear who's asking for rent reduction or lease termination — several retailers and their brokers declined to comment — centers that could be facing issues include Flatiron Marketplace in Broomfield, where Office Depot and Linens 'N Things both went dark and tenants like Pier One, Borders and the Great Indoors are on the "endangered" retailers list.

Among the tenants in a sea of vacant space in the Flatiron Marketplace is Nordstrom Rack. While the retailer doesn't discuss the details of its leases, it tends to stay in shopping centers for a long time, said Brooke White, a spokeswoman for the company.

"We want to be in centers that are fully leased," White said. "We would be working with a developer to encourage leasing and filling up the center. It's better for the customer in the long run, and we're most successful when we're surrounded by good competition."