



## Benefits and Challenges to Leasing to Luxury Tenants

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Rather than creating a traditional shopping experience, more and more developers today focus on creating dynamic, unique, and “out-of-the-box” destinations by leasing to “high-end” or “luxury” tenants. Landlords seek out luxury and high-end retailers as part of their tenant mix in an effort to create an upscale, luxurious shopping environment that attracts both “aspirational” and wealthy clientele. Luxury retailers often seek out such developments hoping to enhance and expand their branding efforts. In theory, this should be a “win-win” for both sides; however, certain characteristics of luxury tenants create particularly challenging leasing issues.

### What is a “high-end” or “luxury” tenant?

“Luxury tenant” and “high-end tenant” are used interchangeably and tend to share very similar characteristics. Both luxury and high-end tenants often have fewer locations than other retailers and typically lease premises that are smaller than those of a mass marketer. Luxury and high-end tenants pay particular attention to location, not only within a development, but also more generally within an area of the country. Many look to establish a presence within a particular city/area of the country, but may not want to saturate a market. They seek locations within a city where the household median income is high. They also spend large sums of money building out their stores, as each location tends to have a significant impact on their brand.

### Who has more leverage?

Perhaps not surprisingly, Landlords pay close attention to, and base many business decisions on, leased square footage – the larger the tenant, the more leverage that tenant typically has. This concept is directly at odds with a luxury retailer’s perspective – premises size doesn’t matter, but brand recognition does. Through brand recognition, luxury retailers not only drive traffic, but also play a key role in making a development successful and, therefore, should be entitled to receive much more than a “typical” tenant of the same size. Many luxury retailers have roots in Europe, making negotiations particularly challenging, not only because of language barriers but also because of differences in customs. While the leverage issue is often addressed on a case-by-case basis, one thing is for certain: brokers play a particularly important role in lease negotiations with luxury tenants. While it is important to address “key” issues in the LOI, brokers often explain customs and general U.S. business practices and are active participants in many lease negotiations.

### Location and Visibility.

If there is a “high-end” wing of a particular development, the luxury retailer wants to ensure that it will always be a part of such area. As a result, most landlords will forgo the right to relocate a tenant without the tenant’s consent. However, luxury retailers are also particularly concerned with preventing the Landlord from interfering with access to, and visibility of, their premises – a point that is rarely addressed in the typical LOI. To accommodate a luxury tenant’s concerns while maintaining ultimate flexibility, Landlords will often agree to a “no-build” area within “X” number of feet of the luxury retailer’s premises, but will rarely agree not to impact the visibility of or access to a particular tenant’s space.

## **Parking.**

While parking is typically a concern for mass marketers and other retailers, the luxury retailer is particularly interested in offering its clientele reserved parking and valet parking to promote the “exclusive” and “special” atmosphere many luxury tenants seek. Parking rights also reinforce the luxury retailer’s brand - the idea being that, if a customer is going to spend a significant amount of money on a luxury tenant’s merchandise (think, a \$400,000 handbag, or a \$975 pair of shoes), those customers should at all times have “exclusive” VIP parking in close-proximity to the premises. From the luxury retailer’s perspective, the presence of the luxury retailer in a development is often so beneficial to the landlord that the Landlord should pay for all parking costs. Landlords, on the other hand, seek to maintain maximum flexibility when it comes to parking, maintaining the right to charge for parking, as well as the right, but not the obligation, to offer valet parking (all at rates and locations as it determines).

With the prevalence of luxury tenants on the rise, landlords would do well to understand the expectations that these tenants bring to the negotiation table. Visibility, parking, and other amenities impact the leverage of both parties and are key factors in achieving a win-win venture.

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