

# Retail lease agreements need to be updated

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7 Aug 2015

Options on retail lease agreements that give shopping centre tenants certain future rights, often with punitive effects for the shopping mall owner, have come under the spotlight as South Africa's retail centre industry matures and evolves to meet modern shopping trends.



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Renewal options on lease agreements give the tenant rights to occupy the same premises often on the same terms and conditions, at a negotiated rental, for a further period after their initial lease expires.

Landlords are guilty of signing these agreements, often as sweeteners to secure leases with retailers when new malls are developed. This lease option allows the retailer to reduce their risk at a new mall, with a shorter lease to test the waters, but also secures their right to a longer tenancy if trading conditions prove favourable - giving retailers a best-case scenario either way.

However, it has had nasty consequences, especially for mall owners who want to extend or improve their shopping centres to meet the changing needs of its customers.

## Adverse result

The most obvious adverse result is that a renewal option prevents a mall from replacing a retailer that is no longer relevant, beneficial or desirable to its retail mix, but wants to stay in the centre. This can hurt trade at neighbouring retailers and have negative impacts on the attractiveness of the entire centre.

But, there are cases where the detrimental consequences of renewal options on lease agreements are even more widespread.

Option clauses in leases have resulted in situations where a retailer can hold a space in a shopping centre 'hostage' for decades for its own ends, blocking multimillion rand improvements and expansions that would otherwise benefit all other retailers in the shopping centre, its customers and its owners.

To sidestep this damaging scenario, landlords are faced with the expensive alternative of buying out the retailer's option, or footing costly bills for the store's relocation. Moreover, while a renewal option is a reasonably common lease clause in South Africa, so far no uniform or standard option clause exists across the retail property sector.

## **Alarming results**

This can have alarming results, especially when an option comes up decades after the original lease was signed and, in that time, a shopping centre's ownership could have changed hands several times. Renewal options on leases, certainly in the form they have applied until now, should become a thing of the past.

If the industry is going to offer lease renewal options at all, it is imperative that we update our approach to reflect the modern retail environment and standardise the clauses to ensure consistency across the industry.

Historically, renewal options were seen as offering the possibility of retaining a retailer's tenancy at a mall for longer, but this view is changing. In today's fast-paced, constantly changing retail world, lease options don't benefit the landlord. In fact, they can actually put the landlord at greater risk.

Retailers and malls must constantly adapt to be relevant and appealing, so it follows that tactics that worked in the past need to be re-evaluated. The time has come for retailers to make the same commitment to their trading spaces as their landlords.

## **Demanding consumers**

With today's consumers demanding new and different experiences, retail property owners are now more inclined than ever before to update their shopping centres and tenant mixes, particularly with the drive of new international retailers entering our market.

Change has become part-and-parcel of the retail business, especially in South Africa's vibrant and highly-competitive retail industry. In this environment, no shopping centre can afford to be hamstrung by a detrimental lease option.

## **ABOUT THE AUTHOR**

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