

Shopping center owners must be alert to signs of troubled tenants



Mon Oct 1, 8:52 PM ET

If you are the owner of a shopping center, you may not know when one of your tenants is in trouble, but there are telltale signs that something may be wrong.

Christine Evans, Sudberry Properties asset manager, says the best thing shopping center owners can do to protect themselves is to demand a tenant prepare an extensive business plan before being allowed to sign the lease.

Evans, who headed a roundtable discussion on the topic at the International Council of Shopping Centers convention at the San Diego Convention Center last week, said she wants to know the extent of a tenant's history, and how they have handled their personal finances.

"Is your tenant someone who owns their own house. Do they have a 401K? These are the people who will pay," Evans said. "You have to be really, really careful up front."

Evans, without going into particulars, knows of cases where a business with a national name failed because the franchisee didn't know how to run the operation, and added that if a master franchise is involved that may affect multiple properties, the relationships needs to be fully understood.

"Has the tenant asked the franchisor for relief from royalties and/or product costs? If so, get proof in writing from the franchisor and pass that information through to the franchisee," Evans said.

If a franchise location is being considered, Evans said the landlord needs to keep an eye on newspapers, trade journals and other forms of media to see which companies are being merged and bought -- in short, anything that could impact a given space.

Once the tenant is in the center, Evans said there are any number of red flags that signal when a retailer is in trouble.

"We do pay attention to checks and where they come from. If you start receiving cashier's checks, that could be a sign," Evans said before adding that a new bank account on a rent check could be an indication of a line of credit or other pertinent issue.

Some of the roundtable participants suggested there can be much more blatant methods. In some cases, checks are deliberately sent unsigned to try and buy more time. When the landlord complains, "I must have forgot" is a frequent reply.

Other obvious signs are partial rent payments, irregular shop hours, insurance cancellation notices, failure to report sales, a for sale sign on the owner's BMW outside the space, and "sad looking sales racks or tables with 80 percent off," Evans said.

Some signs are significantly more subtle.

These include a failure to remedy non-monetary defaults such as outdoor furniture and fixtures repair; a lack of advertising in center-wide promotions; reports of declining sales in that merchandising category, or the owner doesn't return phone calls.

If the worst is suspected, Evans says an updated financial statement complete with a sales analysis coupled with a rent/sales ratio should be requested.

After a profit/loss statement is received, if it doesn't look right, tax returns can provide the answer. Quarterly or monthly sales tax records may provide insights as well.

Evans says sometimes just talking to a tenant may go a long way to solving the problem if the landlord shows the tenant it is best for everybody if a tenancy is a success.

While there will always be deadbeat tenants, Evans said there are times when it is appropriate to meet a tenant halfway if they find themselves in trouble.

Reasons cited for granting relief include that the tenant is an important part of the center's mix, the tenant is in more than one of your properties, the tenant's base rent is way above market, and the business is fundamentally sound save for the current rough patch.

"What if the space is horrible? There always seems to be one space that's in the wrong part of the center," Evans continued.

Evans suggested deferring rent or improving the space if possible, are a couple of ways to help out a tenant who might otherwise leave a space dark.

If some sort of accommodation is made, Evans said any relief should be for a definite period of time. This means trigger dates should be in place to allow full rent payments to resume, the lease may be terminated if there are further violations, and back rent is all due and payable in the event of a default.

Finally, Evans has one last piece of advice.

"Don't forget that no good deed goes unpunished," Evans said emphasizing that it is possible to be too nice to a tenant.

Sudberry, which specializes in the development of Town Center-oriented projects, is the developer of nearly 30 projects.

New Sudberry ventures include 80-acre Rio Vista West mixed-use development, and the 230-acre Quarry Falls mixed-use development that calls for residential, office, and 500,000 square feet of retail space. Both are in Mission Valley.