What Is A Turnover Lease?

A turnover lease is any lease where the rent payable for a term is dependent on a fraction of the store's turnover. The research established that there are three main turnover lease models that are commonly used in shopping centres and they are the **top-up** model *(ICSC, 2016)*, the **better-of** model *(Sutter 2017),* and the **100%** model *(Wyatt 2017; Sutter, 2017)*. In addition to these models, the percentage at which the turnover is calculated can vary dependent on the turnover, for example the **banding method** (Black, 2017).

The Benefits of A Turnover Lease?

Out of those interviewed, all agreed that they find the turnover lease a useful option when negotiating a lease. Therefore the benefits can go both ways if negotiated correctly.

For **Landlords,** benefits include:

- Access to a tenant's in-store turnover information which can be crucial for the management of shopping centres and malls.
- The possibility of a higher rent payable if the store does better than expected.

For **Tenants,** benefits include:

- A better cooperation with landlords as incentives are better aligned *(Shearwood, 2016; Sutter, 2017).*
- A reduced base rent that relieves pressure on the store to perform immediately when first settling in and reduces the damage to a retailer if the store fails to preform as well as expected *(Jarvis, 2017).*

It is not unusual for a landlord to use turnover leases to entice retailers who they believe would better the shopping environment. These tenants are called '**incubator tenants.** An example is Missguided in Westfield Stratford, Missguided operated purely online prior to the tenancy and needed a lease that did not punish them as they adjusted to operating in bricks and mortar.

The Higher-of Turnover Lease

Being the most common structure, the higher-of turnover lease holds the rent to a fixed minimum with an opportunity to grow if the tenant sells well. The rent payable for a period is whatever is higher between a fixed base rent at discount to the market rent or the agreed percentage of sales *(Grimes, 2017)*.

The Higher of Turnover Lease Model			
Scenario	1	2	3
Market rent	£		100,000
Sales	£ 1,500,000	£ 1,000,000	£ 500,000
Base rent @ 80% of the market rent	£ 80,000	£ 80,000	£ 80,000
Turnover rent @ 9% of the sales	£ 135,000	£ 90,000	£ 45,000
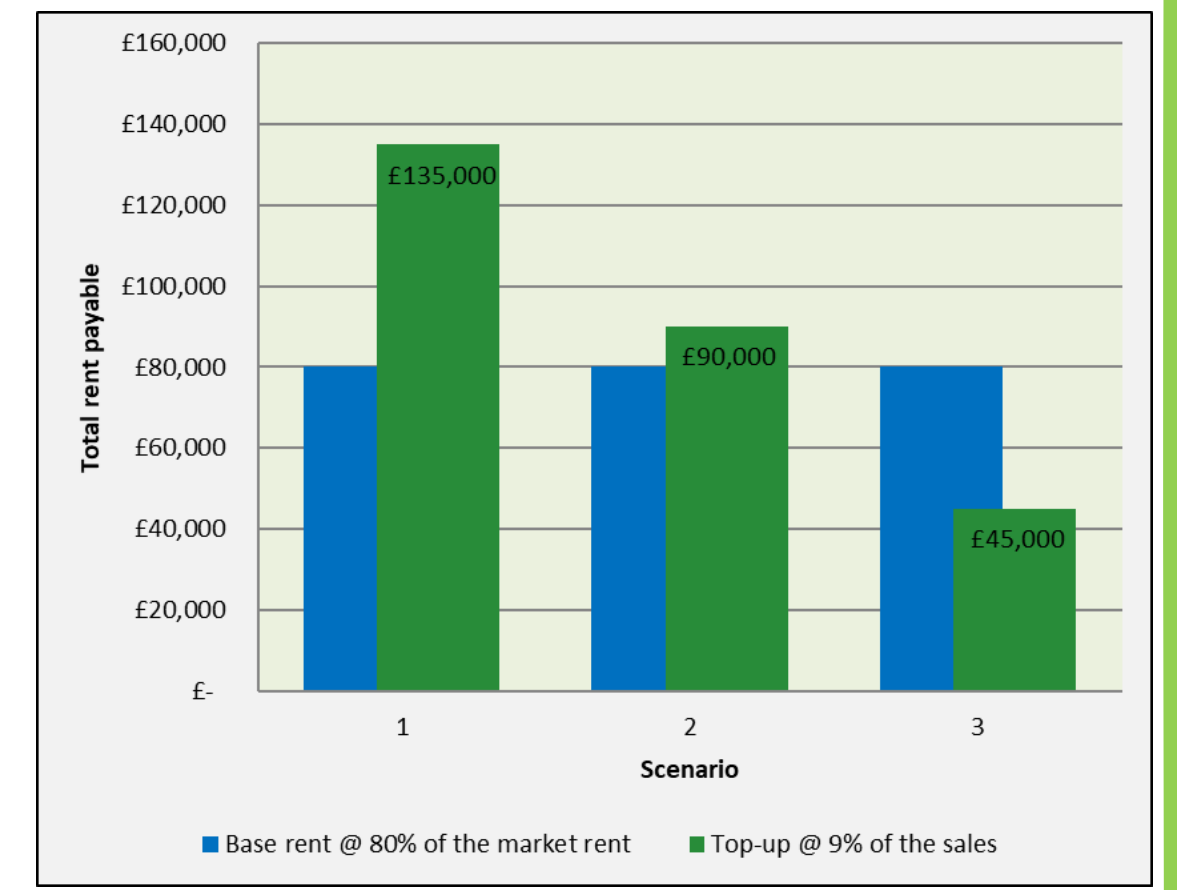
The Top-up Turnover Lease

The top-up turnover rent works by the tenant paying a base rent at a percentage of the open market value plus a percentage of the tenant's in store turnover *(ICSC, 2016)*. Due to a low turnover percentage this model has the lowest upward and downward risk of the three variations.

| The Top-Up Turnover Lease Model			
Scenario	1	2	3
Market rent	£		100,000
Sales	£ 1,500,000	£ 1,000,000	£ 500,000
Base rent @ 80% of the market rent	£ 80,000	£ 80,000	£ 80,000
Turnover rent @ 2% of the sales	£ 30,000	£ 20,000	£ 10,000

The Straight Turnover Lease

The whole rent paid is dependent on the turnover that the store achieves with no minimum base rent guaranteed for the landlord *(ICSC, 2016)*. This approach is much riskier for the landlord and so is not commonly used.

| The Straight Turnover Lease Model			
Scenario	1	2	3
Market rent	£		100,000
Sales	£ 1,500,000	£ 1,000,000	£ 500,000
Base rent @ % of the market rent	£ -	£ -	£ -
Turnover rent @ 9% of the sales	£ 135,000	£ 90,000	£ 45,000
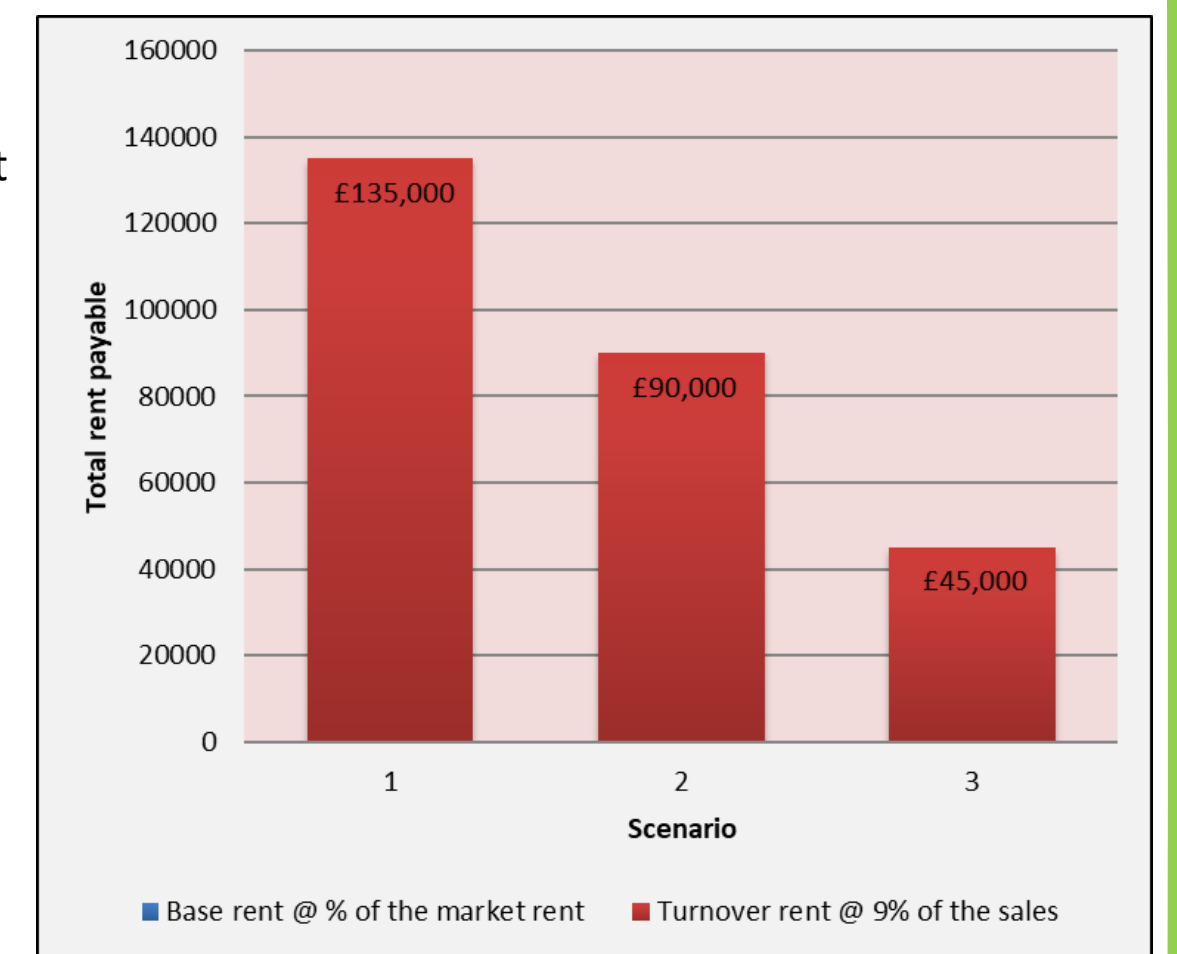
The Future Of The Turnover Lease In A World Of Omni-Channel Retail By Angus Harper

Omni-channel Retail's Effect On The Effectiveness Of The Turnover Lease
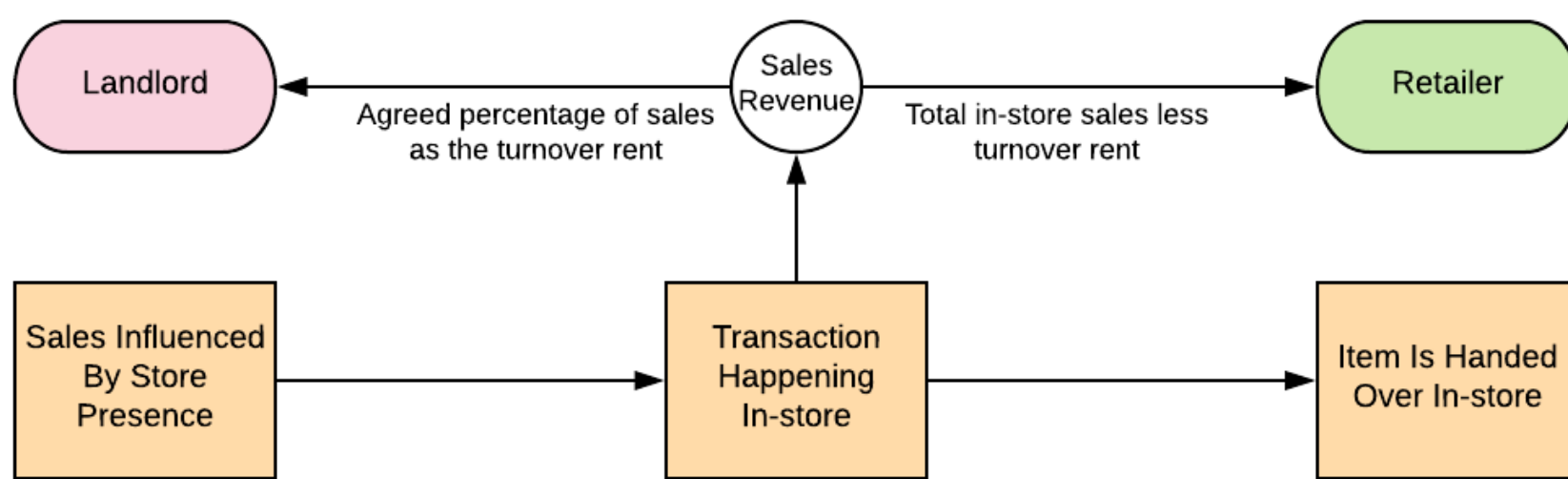
Above the diagram displays the simplicity of how rent is paid through a turnover lease. The researched established that the 'point of purchase' is where the transaction occurs. The flow chart below displays a turnover lease where the tenant trades on an omni-channel basis. Due to an ability to sell online, the store productivity for the retailer is not purely marked by in-store sales and so there is less of an aligned interest. This is a concern to landlords using the turnover lease given the changes in retail techniques.
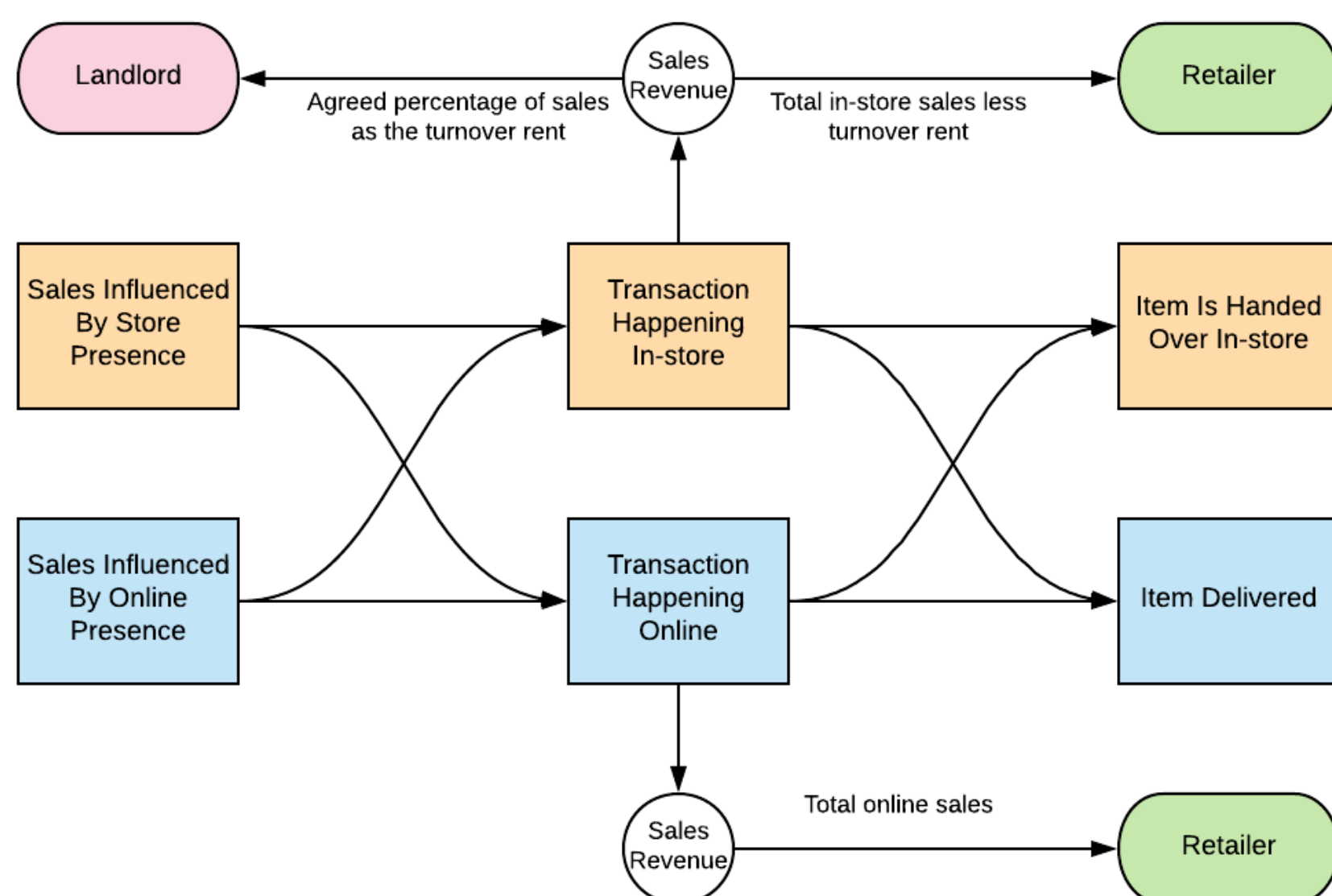
The Future Of Retail

"You have to coexist in both (bricks & mortar and online), you cannot exist in a vacuum and a petri-dish"   *(Strueuer, 2016)*

Proven by online retailers moving to 'bricks & mortar' and 'bricks & mortar' moving to online it is clear that an omni-channel business structure is most efficient. *(Mabbett, 2017; Grimes, 2017)*

"Retail is theatre, you don't just go in to buy, you go in to be entertained"

(Horwitz,2017)

Many innovative retailers aren't looking for sales from their stores but are using them to create demand for their products *(Sykes, 2017; Portas, 2016).* Samsung, Tesla, Hyundai and Ikea are all changing how we perceive retail. They are forming a more exciting store front with little intention to sell in-store but to promote sales through other channels *(Hardie, 2017)*.

Suggestions For Industry

A **trusted software** that correctly, fairly and confidentially incorporates sales produced by the halo effect into the turnover lease. Such a technology would be expensive and face legal challenges.

A **lease based on footfall** and not turnover. Many of the advantages held by the turnover lease would be the same but problems would exist over how much the landlord could charge per person walking past/into the store.

More use of **top-up turnover lease**. The top up lease is less dependent on turnover than the other models. Therefore landlords will still achieve turnover information and higher rents if the store performs well, and for the tenant a lowered risk, a smaller initial investment and better cohesion with the landlord.

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Bar charts constructed using Microsoft Excel

Flowcharts constructed using Lucidchart.com