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# Real Estate Tip of the Week: Turnover rent on concession areas

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Increasing numbers of retail leases are being granted with a turnover rent as struggling retailers seek to share risk and reward with the landlord in the current challenging trading environment.

Turnover rent is calculated as a percentage of gross sales for the premises. But what happens if part of the premises is subject to a concession? Sharing space with a concessionaire or franchisee is a common business model for some of the larger retailers and some leases allow material amounts of space to be used for concessions. How does the landlord ensure it gets its fair share of the revenue for that space?

Here are some options:

1. The lease assumes that turnover is generated at the same rate in the concession area as it is in the rest of the demise. Gross sales for the areas not subject to the concession are pro-rated to generate a rate of gross sales per square foot. That rate is then applied to the concession area. With this approach the landlord's rent is dependent solely on the performance of the tenant, not the concessionaire(s).
2. Turnover generated by the concessionaire is included in the gross sales calculation. The lease is drafted so that gross sales are calculated on revenue from all operators at the premises, including not only the tenant, but also any licensee, concessionaire or other permitted occupier trading from the premises. With this approach the landlord's rent is dependent on the performance of both the tenant and the concessionaire(s).
3. Any payment made by the concessionaire to the tenant is included in the calculation of gross sales and the landlord receives the turnover percentage of that amount. If the amount paid by the concessionaire to the tenant is low, the landlord's rent in respect of the concession area will also be low as it will only be receiving the turnover percentage of that amount.
4. The parties agree an open market rent for the concession area and exclude it from the turnover arrangements.

There are other options but these are some of the most common. They can also be applied to underlet space, assuming underletting isn't prohibited as it often is in turnover leases. With all turnover arrangements we recommend calculating a worked example, following the requirements of the agreed form lease, before completion. This can help to flush out whether the lease drafting matches the landlord's expectations, in particular in relation to areas not occupied by the tenant.

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