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As anchors leave, the future of Meriden Mall could hinge on lease terms for remaining stores

By Luther Turmelle, Staff writer April 6, 2024

The entrance to Dick's Sporting Goods at the Meriden Mall. The store will closed on April 20. The future of the remaining stores and the health of the mall will depend largely on the language in their lease terms concerning vacancy rates. Luther Turmelle/ Hearst Connecticut Media

With Dick's Sporting Goods scheduled to close its Meriden Mall location later this month, consumers and the smaller stores that remain at the shopping center are likely wondering if other retailers there will follow suit.

One factor that could further hasten the demise of the mall is whether any of its remaining tenants have leasing contracts that contain a co-tenancy clause. That language provides retailers that remain in malls after large stores close with an option for a significant reduction in monthly rent payments, or the ability to break their lease without paying a financial penalty.

Dick's Sporting Goods opened in the mall in 2004 at the same time as Best Buy launched a store there. Both retailers opened their stores in space that had formerly housed a Lord & Taylor. Best Buy closed its store in the mall in October 2021.

Of the stores that will remain in the Meriden Mall after Dick's Sporting Goods closes on April 20, the two retailers with the largest presence in terms of physical space are Boscov's department store and TJMaxx. Boscov's is the mall's largest retailer, occupying 180,000 square feet over two floors.

A spokeswoman for the mall's owner, Great Neck, N.Y.-based Namdar Realty Group, said the company does not comment on terms of the leases it has with tenants in its retail centers. A spokeswoman for TJX Companies, the Massachusetts-based corporate parent of TJMaxx also said the company does not comment on the terms of leases it has with shopping center owners.

Officials with Boscov's did not respond to requests for comment about what its future in Meriden might hold or whether it has a co-tenancy clause in its lease with Namdar. The Pennsylvania-based department store chain opened in the mall in November 2015 after JCPenney closed as one of the mall's anchors.

Adelaide Godwin, a Namdar spokeswoman, said the company is looking at a variety of different options for filling the Dick's Sporting Goods space in the Meriden Mall.

"As an anchor space, there are a variety of different avenues leasing and management takes when it comes to back filling," Godwin said. "Depending on the property, its community, and their needs, they've back filled former anchors with tenants such as healthcare providers, call centers, and entertainment venues, for example. They've also explored demolishing the boxes to make way for multifamily housing in some cases."

John Clapp, professor emeritus of real estate at the University of Connecticut, said the nation's largest mall operator, Simon Property Group, announced last year it will spend $1.5 billion over a five-year period to convert vacant spaces in its retail centers into multi-family housing units and hotel rooms.

"Simon has been really leaning into this idea and the investment community is pretty enthusiastic about it," Clapp said.

Burt Flickinger, managing director of the New York City-based Strategic Resource Group consulting firm, said co-tenancy clauses were not in widespread use decades ago when malls and the retailers that operated in them were on strong footing.

"But when you started seeing well known mall owners like Simon and Brookfield Properties defaulting on loans they had on some their properties, these clauses began to be quite common," Flickinger said. "It has become almost customary in the last three to five years."

Clapp said a recent survey of 115 shopping centers found that 27 percent of tenants have co-tenancy clauses. The inclusion of co-tenancy clauses in leases between mall owners and their tenants "is the subject of a lot of bargaining and trade-offs," he said.

"If a tenant wants a co-tenancy clause in their lease, they're going to pay more per-month for the space," he said. "Conversely, a tenant will waive having a co-tenancy clause in order to pay less for the space they occupy."

John Rosen, a University of New Haven economics professor, said anchor tenants typically generate between 3,000 and 5,000 customers per day for a mall.

"Generally, a mall operator does a long-term lease with an anchor tenant because it offers the center stability, both financially and operationally speaking," Rosen said. "If an anchor like Dick's Sporting Goods closes, that's a big negative if you're one of the tenants left behind. And it can create a real death spiral, a cascading effect of stores closing if some of the remaining tenants have co-tenancy clauses."

John Boyd, whose Florida-based company evaluates locations for corporations, said co-tenancy clauses have really became a more contentious issue sincethe pandemic.

"Some mall owners have now put language in leasing contracts with co-tenancy clauses in them requiring more documentation of the losses they have suffered as the result of an anchor store closing," Boyd said.

David Cadden, a professor emeritus at Quinnipiac University's business school, said co-tenancy clauses "are not something that mall owners like to talk about." Some mall landlords agree to renegotiate existing lease contracts in order to eliminate a co-tenancy clause in a retailer's lease, Cadden said.

Boyd said vacancy rates of between 60 and 70 percent at a mall will serve as the trigger for a co-tenancy clause.

"Some of the leases also have a clause that takes effect if the tenant loses a certain level of its overall sales," he said.