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Retail Leasing: The Determinants of Shopping Center Rents

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Abstract

The determinants of lease rentals are of fundamental importance to real estate researchers and practitioners. Retail leases are unique in that they typically have two rental components: a base rent and an "overage" rent equal to a percentage of the tenant's gross sales above some threshold level. In this paper, we develop and test a simple cash flow model of retail lease valuation that predicts that base rents are lower with higher percentage rent rates and are higher with greater threshold levels of sales. Using a sample of shopping center leases, regression analysis indicates that these tradeoffs are observed in the market.

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