

STICKY ISSUES ARISE IN FOOD HALL LEASE NEGOTIATIONS (PART 2 OF A 3-PART SERIES)



America is hungry for food halls. These indoor markets showcasing a variety of homegrown food vendors are one of our country's hottest culinary trends, and new developments continue to spring up across the country.

Hartman Simons' partner, [Jeremy Cohen](#), discusses issues arising out of negotiations of leases in food halls and operational concerns for developers and landlords, including addressing tenant build out, safety, balancing tenant mix and addressing tax credits and creative financing techniques. The following is part 2 of a 3-part series.

Q: What other sticky issues tend to come up during negotiations?

A: Similar to mall food courts, there are a lot of operational issues concerning food halls that arise during lease negotiations. Let's face it, today's food halls are supposed to be upscale, clean and a hip place to be seen. So, where does all of the trash go as restaurants and their patrons create an inordinate amount of garbage? What about recycling?

Everyone wants to be green today. Where do the chairs and tables get stored? What are the systems in place to tackle the food odors? And who operates the food hall, the landlord or a third-party manager?

These are important operational issues that have to be agreed upon, because all of this is very labor intensive and needs to take place 24/7. The lease must specify how the landlord will manage the food hall efficiently and then separate the various operating expenses between all of the restaurant owners.

What if one restaurant uses more napkins than another restaurant? For example, the restaurant that specializes in BBQ ribs will have customers who eat ribs and use significantly more napkins than a restaurant that serves tapas on tiny plates where customers eat with a fork. Should the BBQ restaurant pay more for trash removal than the other restaurant owner because they are clearly generating more trash?

Another important operating issue is plumbing. Restaurants use a lot of water in food prep and cleaning. Does each restaurant have its own water submeter? All of this adds up to a lot of extra costs. So, we will work with our clients to make sure their pro forma anticipates all of these additional costs and the best way to evenly distribute the same amongst the restaurant operators.

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Q: How do food hall leases differ from brick and mortar restaurant leases?

A: A typical lease for a standalone restaurant provides that the tenant will maintain not only their building and everything located therein, but the entire property as well. As a result, the landlord often does not have to be involved with the operation at all, and the lease is similar to typical retail leases.

With food hall leases, while we start with the same retail form of lease, we need to attach a food hall addendum or rider which addresses issues unique to the operation of the food hall, such as common seating areas, common trash areas and common recycling. Contrasted with the restaurant located on its own parcel, a landlord has a lot more operational responsibility in a food hall lease which requires investing a lot more time to understand and negotiate the lease with the tenant.

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