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Pop-Up Trend Shows Staying Power But May Evolve

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The 125% Lino pop-up in Beverly Hills and Hoka One One pop-up in West Hollywood showcase new apparel and shoe lines.

The \$50 billion pop-up industry is here to stay, experts agree, though some pop-ups may be operating a bit differently going forward.

While the idea of pop-up stores had already been around, they gained popularity during the Great Recession.

“It really took off in L.A. in 2009 coming out of the financial crisis because we had so many retailers file for bankruptcy, we had so much retail space coming up,” said Chris Maling, a principal at Avison Young Inc.

Pop-up stores are ones that, as their name implies, pop up for short periods of time, unlike stores with traditional, long-term leases.

These stores can be open for anywhere from a few hours to days to weeks to months.

“It’s temporary leased space for small-business owners who dream of opening up a brick-and-mortar store, or it’s online retailers looking to add a possible brick-and-mortar store as part of their omnichannel strategy to sell their products and services but aren’t ready to commit to a long-term brick-and-mortar store, and they are dipping their toes in the water to see if this is a concept that will work,” Maling said.

Kazuko Morgan, a vice chairman at Cushman & Wakefield Inc., said she also sees pop-ups as a way for high-end brands to show off something new.

“Some of them are collaborations, so it’s showcasing the collaboration, which gets a ton of business and activity,” she said. “It’s really fun because it adds excitement to the street, and you get more, you get new shoppers, new customers. The pop-ups are great.”

Perhaps the biggest change to pop-ups now, though, is that some stores are signing longer leases.

“Pop-ups, generally pre-Covid, were situations where people would come in for two to three months or two to three weeks or six months and do a display of merchandise at their store to give people an idea that they are there,” said Houman Mahboubi, an executive vice president at Jones Lang LaSalle Inc. “Post-Covid, which I call now post-Covid since things have settled down a lot, pop-ups’ definition has really changed. People are saying, ‘We’re not sure of where things are going to go ... so why don’t we engage in a six-month or a year lease but with the option to engage in a long-term lease and make it a normal lease.’ People will do a three-month, six-month, one-year or even two-year, and then engage in a five- to 10-year deal.”

He said a handful of stores got their start that way, signing as much as a two-year pop-up lease to test the waters before signing a long-term lease.

Maling agreed, saying he was seeing some longer pop-ups, but in many instances, he said, they start off with a short commitment and renew.

Some experts say using the term pop-up for longer leases is a marketing tactic, and experts agree the shorter leases have some similar benefits as traditional, shorter pop-ups.

It’s a ‘win-win’

Pop-ups offer a lot of benefits, especially to tenants.

“The main point of a pop-up is to lower the risk of the tenant, and due to what we’ve seen after the pandemic, a lot of tenants are looking to lower their risk and do a pop-up,” said Annika Colombi, a vice president at CBRE Group Inc.

She added that it was a great way for tenants to “test the market.”

“It’s a great idea and strategy because it’s low-risk,” Maling said of pop-ups. “It’s very minimal commitment in terms of rent, in terms of duration of time and in terms of infrastructure cost. Pop-ups can be done very inexpensively.”

And a benefit to both the tenant and the landlord is the excitement pop-ups stir up. “Pop-ups create buzz. Millennials and Gen Zers love pop-ups for that reason,” Colombi said. “They love chasing what’s new and (following) trends, and this is a way for a landlord to offer that.”

Maling added that pop-ups are often able to use a landlord’s marketing team and social media to create more buzz.

And for landlords, pop-ups can drive foot traffic to their centers and fill inline store space. If they have another tenant lined up for the space but who isn’t occupying it for a while, it’s a great way to make some income in the meantime, according to brokers.

“If you have a space that’s vacant or not leased or waiting for the permits, it’s a lot better than having a vacant storefront,” Morgan said.

And in some cases, the tenant ends up signing a long-term lease.

“It’s a very good thing because it’s a win-win for landlords and tenants,” Mahboubi said. “A landlord leases up an empty space, and a tenant tries a concept without a long-term obligation financially.”

Running out of space

But pop-ups also have a few drawbacks.

“The ironic part is that these pop-ups are actually more expensive for the landlords, but given that it’s more of a tenant-driven market right now, landlords are willing to do this ... with the hopes that the tenant will be successful, and it will turn into a long-term tenant,” Colombi said.

Not all landlords, though, are interested.

Jay Luchs, a vice chairman at Newmark Group Inc., said pop-up deals can take as long to complete as long-term deals, and he and the landlords he works with generally do them only as a favor.

“They generally say, ‘My legal fees will be more than the rent,’” Luchs said. “The concept is great of a pop-up, but in the real estate world, it (often) doesn’t make sense to a landlord.”

He added that the pop-up could also hurt long-term leases if something goes wrong.

Financial terms for pop-ups can vary from rent being paid by the hour or day to profit sharing agreements or a combination of base rent and profit sharing.

While brokers agree that brands want to continue doing pop-ups, a lack of available retail space in prime locations may make it trickier in the future.

“Looking forward, we’re going to see fewer pop-ups,” JLL’s Mahboubi said. “The economy is improving tremendously, and this has been one of the best years of leasing in the past decade.”

Luchs said that while things were slow last year — he only did one sale on one lease — things have picked up this year, and he has already done 50 sales and leases.

“All the better spaces are getting pretty leased up. Usually, a pop-up wants a better space,” Luchs said.

He added that fewer pop-ups happen when long-term deals are being signed, as less space is available. Landlords also see the possibility of their spaces getting leased out on longer leases and are concerned they might not be able to sign a long-term lease if there is a pop-up committed to the spot, he said.

And retailers are taking note of the lack of space and committing to leases.

“They are taking and gobbling up spaces the way they used to be, but now there’s even more of a frenzy because there’s less space in better areas,” Luchs said.

According to experts, for some brands, pop-ups are a big part are a big part of the business plan and something they will continue to do.

“It has become part of a lot of retailers’ programs to do permanent stores and sprinkle in the pop-up concepts,” Morgan said. “So, I think we’re going to see a lot more and a lot more go into it strategically. As the market recovers and gets stronger, though, there’s going to be less opportunity.”