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A Healthy Outlet

Lori smith protects the legal interests of craig realty group

Stan Sholik / Special to the Daily Journal

By Alexandra Schwappach
Daily Journal Staff Writer

Lori S. Smith knows a lot about real estate law and plenty about shopping.

As the general counsel for Craig Realty Group, a Newport Beach-based shopping center development firm, she has to know a lot about other state laws and regulations, too.

The company manages more than 4 million square feet of existing retail development in six states. Its latest outlet shopping center development, The Outlets at Traverse Mountain in Salt Lake City, is set to be unveiled this November, with 52 stores and tenants such as Polo Ralph Lauren Factory Store, Calvin Klein, Coach Factory and Banana Republic.

Though not recession-proof, the outlets developed by Craig Realty — in California and nationwide — held up well during the economic downturn, Smith said. Outlets are often perceived as offering a value compared to full-price retail, she said. So while Craig Realty's development deals may have been somewhat stuck during the recession, operations at the outlets stayed healthy.

"People tend to change their buying habits in a downturn, so the outlets that we had up and operating hung in there pretty well for the most part," Smith said.

Lori S. Smith

Vice President and General Counsel

Craig Realty Group

Newport Beach

Size of legal department: 2

But that hasn't eliminated any legal market challenges for Craig Realty. Smith, a self-proclaimed "total shopper," sat down with Daily Journal Staff Writer Alexandra Schwappach to discuss the company's growth, the regulations it faces and fears, and its newest project. Here is an edited transcript of their conversation:

DJ: How did you get involved at Craig Realty Group?

Smith: I joined Rutan & Tucker LLP right after law school at UC Davis and Steve Craig, who is the CEO here, was my first client in private practice in 1985. Later on, Steve's company had really grown to the point where he needed in-house counsel and I was at the point where if I was going to make a change, now was the time to do it. So, I came in house here a little over nine years ago. The company has grown quite a bit since I joined it and we just sort of gradually added more and more people. I'm a total shopper. It was actually one of the things that attracted me to this company because I thought it was just so exciting to be able to negotiate with the people with the brands that I shop. It's like, "Oh! I get to negotiate a lease with Ralph Lauren? How fun!" I like that I get to be interactive and really involved with the brands and understanding how they relate to our business.

DJ: What kind of cases do you give to outside counsel?

Smith: We're a little bit unusual in this, but probably about 80 to 85 percent of our legal work — exclusive of leasing work – is done in house. The work that does go to outside counsel is leasing work. They are very complicated and heavily negotiated leases because most of our tenants are national brands and have a national presence. I do get involved in leasing, but there's very few of them that I actually do myself. We're also in other states outside of California, so if we have any litigation outside the state, we use outside counsel for that because none of us are licensed outside of California. Our patent work is outsourced and occasionally on finance matters, if it's large enough where the lender is requiring an opinion of counsel, we have to bring in outside counsel to handle that part of the financing. I usually engage outside counsel in each of the states in which we have centers to look at our lease, to make sure it's state law compliant, to look at our employee manual, be a go-to during the acquisition, et cetera. We try to create a relationship with a full-service firm in each of the different states so that I can go back to the same firm each time, even if it's a different person at that firm. Every once in a while, we just get so busy that we need to outsource just because we can't keep up with what's going on. More often than not, I go back to Rutan & Tucker when I need help because I know everybody there and it's easy for me to have them pick up the ball.

DJ: What is your process for hiring outside counsel?

Smith: I am very involved in a group called Commercial Real Estate Women. So, oftentimes I will start with the directory if I'm looking in another state for who I might seek or sometimes I'll ask Rutan & Tucker who they know in the state. But usually I'm looking for kind of a mid-sized firm, a firm that's large enough to handle the ebb and flow of a transaction and bring additional people in fairly easily but not so large that they have a lot of junior people on the account that I don't know or that are too pricey for us.

DJ: How do you manage those costs?

Smith: With managing costs, a lot of it is doing much of the work in house. We provide a resource for them in terms of research or preparation, so their involvement is limited. I am a little bit suspect of a lot of the fee arrangements. I've worked under them and I've used them on occasion, and I was always very cognizant of the point when I felt like I was beginning to work for free. And I don't want our counsel ever to feel like they're working for free. Nor do I want them to feel like if they finished something really fast that they're going to make a bonus, and that's what those fixed fee arrangements are really designed to do.

DJ: What do you think are the biggest challenges facing Craig Realty in the next few years?

Smith: I think it's a combination of uncertainties in the capital market, which is not really a legal issue, but as in-house counsel, it's really hard for me to separate business issues from legal issues and I have responsibilities on both sides. So the uncertainties of the capital market and the availability of capital, I think, is a major issue for us in order to maintain growth. We have a lot of concern about the growing amount of government regulation and our ability to function in that environment, too.

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DJ: What kinds of regulations concern you the most?

Smith: We're not publicly held. We're private, so a lot of the securities laws and the Sarbanes-Oxley Act don't affect us directly. We have some joint venture partners who are subject to some regulation, and we are subject to those as well. The types of regulations we deal with are more employee issues and small business requirements. Things like land-use regulations, we know how to comply with those, but when it gets into day-to-day operations of the business, it can get very challenging. Sometimes the regulations get to the point where you start looking elsewhere to do your business — an area that's not as heavily regulated. It's certainly a lot easier for us to do business in Texas than it is in California. We have centers in Oregon, Colorado, Arizona, Texas, Mississippi and California, and we have projects in some stages of development in Utah. We don't typically select a state because of its regulatory climate, but after being in it, we can see what we're dealing with. Health care is also a major issue and we haven't really gotten a total feel for how that's going to play out yet, but that's a very expensive component of doing business for us.

DJ: What kind of challenges did you face in your latest project, The Outlets at Traverse Mountain in Salt Lake City?

Smith: We started working on the Utah project when we acquired that land as a joint venture with a partner who owns land locally. The land came into the joint venture in late 2007 and then the recession hit right afterwards and for about two or three years, a lot of our tenants were not making commitments to lease space in new projects. Tenants were very reluctant to commit capital to new deals because they really didn't know what was going to happen in the overall economy and in the industry. Whereas before it might take us three years to get from leasing the land to commencement of construction, in this project, we lost basically the first three years. We were able to work on entitlements and the site plan, but we had no tenants. Things picked up in late 2010. I wouldn't say it's back to the way it was, but tenants are back to the market and back making deals. In most cases, tenants are maybe making half as many deals a year as they were doing pre-recession. I'm seeing that pick up a little this year, but if there's another hiccup in the economy, everyone could clench down real fast. So, we lost time off of our development timetable, but once things started moving, we were able to pick it up reasonably quickly. And we will be able to open it in excess of 80 percent leased now. I think it's going to be a really nice, really beautiful center. It's in a great location and we're really excited because it's the first new center out of the ground for our company in many years.

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