

OUCH! LANDLORD HIT WITH \$2.6 MILLION IN DAMAGES FOR TENANT'S SALE OF COUNTERFEIT GOODS

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When I was fourteen years old, my family took a vacation to New York City. Upon arrival in Times Square, the first item I purchased with my hard-earned lawn mowing money was a Rolox watch. Yes, you read that correctly: "Rolox." To the casual viewer, my Rolox looked just like an actual Rolex with its signature crown emblem and luxury design. In fact, when I handed the guy \$20 in exchange for the watch in his white velvet-lined display case, I was certain it read "Rolex." It was not until later that I discovered my prized Rolex was a Rolox!

While anecdotally amusing, the sale of counterfeit goods is no laughing matter for retail manufacturers. Some reports estimate that the counterfeiting industry steals in excess of \$20 billion each year from legitimate brands. Selling counterfeit goods is a crime. In addition, those engaged in counterfeiting activities can also be held liable for monetary damages in civil court. However, this issue presents a significant challenge for designers because pursuing the vendors of counterfeit goods criminally or by way of civil action has little or no effect on the problem. Faced with limited options to protect their brands, some manufacturers have taken the approach of suing the landlords that lease space to those selling counterfeit goods.

Historically, most of these lawsuits focused their attention on injunctive relief which was aimed at forcing landlords to prevent the sale of counterfeit goods at their properties. For example, in 2005, Louis Vuitton sued the owner of seven buildings on Canal Street in New York City and obtained injunctions forcing the landlord to evict several tenants, pay for a court-appointed investigator to monitor the premises on a weekly basis and post display signs that the tenants were not authorized or licensed to sell Louis Vuitton merchandise. Most lawsuits seeking monetary damages typically targeted flea markets or swap meets. For example, in 2014 Coach

sued the owner of Swap Shop flea market in Fort Lauderdale for permitting the sale of counterfeit Coach goods. That matter settled with the owner of the flea market paying \$5.5 million.

More recently, however, merchandisers have turned their attention to traditional “brick and mortar” landlords. In 2015, Michael Kors Holdings filed suit against the owners of several commercial properties on Mulberry Street in New York City, claiming that each of the landlords “continues to allow its premises to be used as a safe haven and marketplace from which counterfeiters can sell their wares.” Last month, on May 27, 2016, the United States District Court issued a judgment for \$2.6 million against one of the landlords who failed to respond to the lawsuit by Michael Kors. Based on the amount of damages, and the Court’s rationale for the damages, this author suspects the remaining defendant landlords will pursue settlement.

The primary legal theories advanced in lawsuits against a landlord are vicarious liability and contributory liability. The theory of vicarious liability is that the landlord exercises sufficient control over the tenant that the landlord has some ability to halt or deter the infringing acts. Here, the landlord is held liable for the harm committed by the tenant. Under contributory liability, the landlord need not exercise control over the tenant, but instead has knowledge of the offending activity and has provided material support which facilitates, induces or causes the infringing activity to occur. In the Michael Kors case, it is alleged that the landlords were advised on several occasions of counterfeit goods being sold from the premises and took no action against the tenants. Under either theory, a landlord who sits idly by while its tenant engages in the criminal activity of selling counterfeit goods can be sued in civil court for significant damages.

By now you might be asking yourself: so what should a landlord do? If a landlord observes or learns that a tenant is selling “designer” products for a fraction of what they retail for at the designer’s store or other department stores, a landlord should take action to investigate the activities of its tenant. Most leases contain (or should contain) a provision requiring compliance with laws. The sale of counterfeit goods is a crime and likely a default under the lease for failure to comply with laws. If you own retail property in a locale known for issues with counterfeit goods, a landlord could consider adding a provision to its lease which specifically prohibits the sale of counterfeit goods and that such activity is a material default under the lease. And, remember, your insurance company is most likely not going to provide coverage to the landlord

for claims against it by the merchandiser.

The primary takeaway from the \$2.6 million award in the Michael Kors lawsuit is that the rent a landlord will receive from a tenant selling counterfeit goods is most likely never going to cover the damages and fees the landlord will sustain if it becomes the target of a lawsuit by a merchandiser. Landlords should take care to monitor the activities of their tenants to prevent the sale of counterfeit goods at the properties.

Even as a fourteen year old, I knew somewhere in the back of my mind that there was no way I was getting a real Rolex for \$20. I was, however, still able to impress some of my friends until it stopped ticking a few months later!