Welcome to Today’s Simulcast!

Please Note:
• Remember to sign in (and don’t forget to sign out)!
• Sit as close to the front as possible in the assigned seating area.
• Read and sign MetroTex Course Policies for CE Credit.
• You may use your device to take notes only. Otherwise, all devices must be turned off and put away when class starts.
• Everyone is muted to eliminate sound clutter. Have a question during class?
  If you are in Dallas: Go to the mic!
  All other locations: Raise your hand! After you are recognized by the Simulcast Producer or Instructor, simply speak in a normal voice.

Enter into our weekly drawing for a FREE CLASS! (up to four hours)
Post or Tweet something you learn today with hashtag #metrotex.
Today’s Schedule

Retail Properties:

9:00 – 10:00 a.m.  Class
10:00 – 10:10  Break
10:10 – 11:00  Class
11:00 – 11:10  Break
11:10 – Noon  Class

Noon to 1:00 p.m.  Lunch

Industrial Properties:

1:00 – 2:00 p.m.  Class
2:00 – 2:10  Break
2:10 – 3:00  Class
3:00 – 3:10  Break
3:10 – 4:00  Class
Types of CRE Properties

Five Primary Categories
1. Office Buildings
2. Industrial / Warehouse / Manufacturing
3. Retail / Restaurant
4. Multi – Family
5. Land

Other Property Types
◦ Self-Storage, Hotel/Motel, Auto-Wash, Mobile Home Park, etc.

Some Types of Retail Buildings

Retail Strip – Non Anchored
Free Standing
Anchored Center
Power Center
Mixed Use Retail
## Retail Property Characteristics

- Visibility
- Traffic Count
- Signage
- Percentage Rent
- Tenant Improvements
- End Cap versus In Line
- Parking
- Neighborhood Strip
- Anchored Center
- Power Center
- Mixed Use
- Lifestyle Center
- Mall
- Outlet Mall
- Free Standing / Pad Site
- Shadow Anchored

## Retail Center Characteristics: Other

- Lease Type: NNN
- Management Involvement
- Percentage Rent
- Demographics
- Exclusivity
- Gap Analysis
- Competition
- Tenant Mix
- High Tenant Finish Costs
The Retail Property Real Estate Supply and Demand

The real estate cycle for Industrial properties in any given market is a function of many interrelated factors including, but not limited to, the following:

- **Jobs, jobs, jobs** – Is there job growth or decline in the market. What type of jobs and income levels?
- **The Economy** - Local, Regional, and National Economic trends.
- **Financing** – The availability and cost of financing for investors and developers of industrial properties.
- **Consumer Spending** – Related to Jobs. When people have jobs they earn incomes and spend a significant portion. Outlook for future dictates consumer confidence which impacts spending versus saving.
- **Demographics and Psychographics:** Population characteristics, growth, income, spending patterns.
Retail Report:

Executive Summary

Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2025</td>
<td>1,510</td>
</tr>
<tr>
<td>2020</td>
<td>15,934</td>
</tr>
<tr>
<td>2030</td>
<td>33,122</td>
</tr>
<tr>
<td>2040</td>
<td>55,485</td>
</tr>
</tbody>
</table>

Median Age

The median age in this area is 32.4, compared to the U.S. median age of 37.9.

Race and Ethnicity

<table>
<thead>
<tr>
<th>Year</th>
<th>White Alone</th>
<th>Black Alone</th>
<th>American Indian/Alaska Native</th>
<th>Asian Alone</th>
<th>Pacific Islander Alone</th>
<th>Other Race</th>
<th>Two or More Races</th>
</tr>
</thead>
<tbody>
<tr>
<td>2025</td>
<td>72.0%</td>
<td>12.0%</td>
<td>4.0%</td>
<td>3.0%</td>
<td>0.5%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2030</td>
<td>72.0%</td>
<td>12.0%</td>
<td>4.0%</td>
<td>3.0%</td>
<td>0.5%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2040</td>
<td>72.0%</td>
<td>12.0%</td>
<td>4.0%</td>
<td>3.0%</td>
<td>0.5%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Hispanic Origin

<table>
<thead>
<tr>
<th>Year</th>
<th>Hispanic Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2025</td>
<td>12.0%</td>
</tr>
<tr>
<td>2030</td>
<td>12.0%</td>
</tr>
<tr>
<td>2040</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

Households

<table>
<thead>
<tr>
<th>Year</th>
<th>Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>2025</td>
<td>5,600</td>
</tr>
<tr>
<td>2030</td>
<td>5,600</td>
</tr>
<tr>
<td>2040</td>
<td>5,600</td>
</tr>
</tbody>
</table>

Average Household Size

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Household Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2025</td>
<td>3.3</td>
</tr>
<tr>
<td>2030</td>
<td>3.3</td>
</tr>
<tr>
<td>2040</td>
<td>3.3</td>
</tr>
</tbody>
</table>

The household count in this area has changed from 8,795 in 2010 to 11,049 in the current year, a change of 4.99% annually. The first significant change was to 11,996 in 2020, a change of 0.00% compared to the current year. Average household size is currently 3.27, compared to 3.28 in the year 2020. The number of variables in the current year is 8,492 in the specified area.
Retail Market Statistics

Measuring Space

- Retail space measurement - Gross Leasable Area (GLA)
  - No common standard universally used
  - Generally the space within the four walls
  - Half of the demising wall width between two tenants
  - Entire thickness of the wall on the end space as well as front and rear structural walls
  - Sometimes includes outside areas under entry overhang
Sample Retail Floorplans: Cupcake Store

Sample Retail Floorplans: Coffee Shop
Retail properties share many of the same financial characteristics with other types of commercial investment properties such as office, multi-family, or industrial. Some of the unique differences would be:

- It is less management intensive than multi-tenant office but more than industrial categories.
  - Tenant responsible for interior and HVAC maintenance
  - Landlord responsible for roof, structure and common areas
  - Sometimes a Merchant Association Fee
- Tenant Improvement costs can be high and are usually shared by Landlord and Tenant. Tenant may be required to pay a significant portion
- Leases are almost always NNN and in some cases there is also a Percentage Rent provision
- Generally less tenant turnover if tenants are successful
- Difficult to receive a Brokerage commission on Renewals

All Investment CRE properties:

\[
\text{Potential Rental Income} - \text{Vacancy and Credit} + \text{Other Income} = \text{Gross Operating Income} \\
- \text{Operating Expenses} = \text{Net Operating Income} \\
- \text{Annual Debt Service} = \text{Cash Flow Before Taxes}
\]
Rent Structures

Rental schedules over the lease term can vary greatly and are limited only by what can be imagined or negotiated. There are, however, common lease structures, such as:

- Flat over the term – Base Rent stays constant over the term
- Stair-stepped – Base Rent bumps or “steps” up by fixed amounts
  - This could be one time, at regular intervals (i.e., annually), or at other negotiated points in the lease term
- Percentage Rent – In addition to Base Rent and NNN expenses, Tenant may pay a portion of Retail Sales above a Threshold or Breakpoint

Rent Structure Examples (NNN)

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Avg. Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
</tr>
<tr>
<td>Stepped</td>
<td>$17.00</td>
<td>$17.50</td>
<td>$18.00</td>
<td>$18.50</td>
<td>$19.00</td>
<td>$18.00</td>
</tr>
</tbody>
</table>

In either case the Tenant is responsible for paying their proportionate share of Property Taxes, Property Insurance, and Common Area Maintenance (the three Nets of NNN)
Common Lease Structure

Triple Net (NNN)

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Rent</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
</tr>
<tr>
<td>NNN Expenses</td>
<td>$7.50</td>
<td>$7.73</td>
<td>$8.11</td>
<td>$8.49</td>
<td>$8.93</td>
</tr>
<tr>
<td>Net to LL before Reimbursement</td>
<td>$10.50</td>
<td>$10.27</td>
<td>$9.89</td>
<td>$9.51</td>
<td>$9.07</td>
</tr>
<tr>
<td>NNN Reimbursement</td>
<td>$7.50</td>
<td>$7.73</td>
<td>$8.11</td>
<td>$8.49</td>
<td>$8.93</td>
</tr>
<tr>
<td>Total Net Rent to LL</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
<td>$18.00</td>
</tr>
<tr>
<td>Total Rent to Tenant</td>
<td>$25.50</td>
<td>$25.73</td>
<td>$26.11</td>
<td>$26.49</td>
<td>$26.93</td>
</tr>
</tbody>
</table>

Types of Properties Most Likely to Use This Lease Structure
- Industrial / Warehouse
- Retail

Included in Base Rent:* | Paid / Reimbursed by Tenant: *

*Subject to Expense Stop

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In some retail leases the tenant is required to pay, as additional rental above Base Rent, a percentage of their retail sales, usually above an agreed level, the Breakpoint. This additional rent is referred to as Percentage Rent. It can be paid monthly, quarterly, or otherwise as negotiated.

- **Breakpoint**
  - Can be a negotiated value or calculated as the "Natural" Breakpoint
  - Base Rent / % Rent = Natural Break (NB)
  - Sales above NB x % rent = Percentage Rental ($)

- **Example:** Percentage Rent = 6% above Natural Breakpoint
  - $120,000/yr Base Rent / 6% = $2,000,000 Breakpoint (NB)
  - $3,000,000 Actual Sales - $2,000,000 NB = $1,000,000 sales subject to % Rent
  - $1,000,000 x 6% = $60,000 percentage rent (paid in addition to Base Rent)
Percentage Rent Calculation

• A retail tenant has agreed to a lease for 4,000 sf at $16.00 / SF, NNN, with percentage rent of 5% above the natural breakpoint. They anticipate first year retail sales of $1,180,000 which they project will grow at 3% per year.
  
  • In what year will they begin paying percentage rent? ______________
  • How much percentage rent will they pay in that year? ______________
  • Step One: Natural Breakpoint = Annual Base Rent / %

Work area

---

Percentage Rent Calculation

• A retail tenant has agreed to a lease for 4,000 sf at $16.00 / SF, NNN, with percentage rent of 5% above the natural breakpoint. They anticipate first year retail sales of $1,180,000 which they project will grow at 3% per year.

• In what year will they begin paying percentage rent? ______________
  Year 4

• How much percentage rent will they pay in that year? ______________
  $470.90

• Step One: Natural Breakpoint = Annual Base Rent / %

Annual Base Rent: 4,000 sf x $16.00/sf/yr = $64,000
Natural Breakpoint: $64,000 ÷ .05 = $1,280,000
Year 2 Sales: $1,180,000 x 1.03 = $1,215,400
Year 3 Sales: $1,215,400 x 1.03 = $1,251,862
Year 4 Sales: $1,251,862 x 1.03 = $1,289,418
Overage in Year 4: $1,289,418 - $1,280,000 = $9,418 excess Sales
Percentage Rent: $9,418 x .05 = $470.90
Measurement and Comparison

Some basic formulas to remember:

- **Gross Effective Rent** = The total of all rents due over the term.
- **Average Annual Rent** = Gross Effective Rent / # years
- **Average Annual (Effective) Rate** = Avg. Annual Rent/Sq. Ft.
- **Discounted Effective Rent (PV)** = The Present Value of the Gross Effective Rent for each year using a discount rate

Concessions

- Concessions vary according to Market conditions and can include almost anything, however, most commonly:
  - Rent abatement, usually at the beginning of the term
  - Above standard Tenant Improvements
  - Cash up front for moving or other expenses.
- In order to accurately compare one lease alternative to another, as well as the financial impact to the Landlord or Tenant, economic concessions must be taken into account.
- How concessions are accounted for can vary based on many factors such as cash outlays or avoidance, timing, or even tax impact.
Concession – Effective Rent

In the example below the Flat Base Rent quoted is $20.00/sf NNN. The Landlord will also abate the first six months of Base Rent.

- What is the Average (Effective) Base Rent over the term?

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Rent</td>
<td>$20.00</td>
<td>$20.00</td>
<td>$20.00</td>
<td>$20.00</td>
<td>$20.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>Abatement</td>
<td>($10.00)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>$10.00</td>
<td>$20.00</td>
<td>$20.00</td>
<td>$20.00</td>
<td>$20.00</td>
<td>$90.00</td>
</tr>
</tbody>
</table>

Average (Effective) Rent = $90.00 / 5 Years = $18.00/sf/Year

The Leasing Process: Tenant Perspective

- Needs Analysis: Develop Needs Criteria, Location, Size, Layout, Economics
- Analysis: Present Comparison of Terms, Financial Analysis, and non-economic factors
- Proposal: Prepare and present detailed RFP's to Selected Properties
- Present Alternatives: Present Client with all qualifying alternatives in comprehensive, clear, consistent format. Narrow Selection
- Research Market: Database, Survey calls, Internal Library, Drive. Terms, Floorplans
- Tour Properties: Inspect selected properties. Narrow Selection
- Select Finalist(s): Determine Preferred Building. Maintain Back-up Alternatives
- Final Negotiations: Negotiate Final Terms on Economics, Construction Pricing, Lease Document
- Lease Document: Review Lease Document for Terms, Problems, Changes
- Planning / Construction: Develop Space Plan(s) to determine functionality on preferred building(s). Pricing Plan.
- Construction Pricing: Pricing Plan to Contractor(s). “Value Engineering”
- Construction: Monitor Permitting and Construction Process
- Execute Lease Document
- Implementation: Assist in analyzing bids, select vendors, coordinate deliveries, etc.
- Relocation Assistance: Assist in finding Vendors and obtaining bids for Movers, Telecom, Furniture, etc.
- Move Into New Space

In the example below the Flat Base Rent quoted is $20.00/sf NNN. The Landlord will also abate the first six months of Base Rent.

- What is the Average (Effective) Base Rent over the term?
The End

Questions?