RETAIL PROPERTIES

TYPES OF RETAIL

GROCERY ANCHOR
Viewed as the most stable - everyone has to eat.

UNANCHORED RETAIL
Small centers of all local tenants - these are the least stable, and trade at the highest cap rate.

NEIGHBORHOOD CENTER
Local center, servicing surrounding residential areas, may have a grocery store.

POWER CENTER
A destination center, typically with combination of "big box" and local inline space.

REGIONAL MALLS
Large restaurant centers, typically with multiple anchors being department stores.

FACTORS TO CONSIDER

TENANT CREDIT
Tenants have different financial strengths. The better tenants are credit tenants.

The more credit tenants a property has, the more valuable the property.

CO-TENANTING PROVISIONS
Retail revolves around consumer sales. Thus, many tenants want to be next or in the same center as large, well known tenants that produce a lot of traffic (like Target).
Smaller tenants will have "go dark" provisions that allow them out of their lease if the anchor tenant leaves.

GO DARK / RECAPTURE PROVISIONS
If a tenant goes dark, the landlord will want the ability to "reclaim" or release that space.

Some retailers will go dark as a defensive move and purposely not allow competition in the trade area.

PERCENTAGE OF RENTS
The landlord collects a portion of the rent based on tenant sales.

MULTIFAMILY

MULTIFAMILY DRIVERS
Vacancy factor
Rent level (prices)
Concessions (i.e.: free month's rent, giveaways)

VACANCY
There are two types of vacancy used to underwrite multifamily properties

ACTUAL VACANCY
The amount of unoccupied space or square feet

ECONOMIC VACANCY
Economic vacancy is defined as the total vacancy when dark or vacant units and concessions are taken into account.

MULTIFAMILY HAS TRADITIONALLY BEEN VIEWED AS THE SAFEST ASSET CLASS. THIS IS DUE TO THE FOLLOWING FACTORS:

1. Everyone needs a place to live. **2.** At some level, the sponsor can drive occupancy by lowering rent.

FORMULA FOR DETERMINING ECONOMIC VACANCY
Total Economic Collections = Total Potential Rent (Full rent at 100% occupancy) - Total Rent Collected
Economic Vacancy Cost = Total Economic Collections / Total Potential Rent
Economic Vacancy = Economic Vacancy Cost / Total Potential Rent

ASSET CLASS REVIEW

INDUSTRIAL

THE DIFFERENTIATING FACTORS IN INDUSTRIAL PROPERTIES ARE

Location to major transportation routes

Ceiling heights: **the higher, the better for more storage**

- Docks / Bays: Bays for tractor trailers
- Docks for delivery trucks

Rents on industrial properties are mostly driven by **supply and demand.**

It is difficult to drive price via asset quality like in office and multifamily.

Industrial is viewed as a "safe" asset class because it is very homogenous.

In General, Office Buildings are Viewed in Three Classes that Relate to Building Quality, Not Location.

Class A	Class B	Class C
The newest, nicest, best in the market.	Might be 1970's vintage. Does not have "modern" features.	The older, "unkempt" properties.

Office Buildings Are Also Viewed in the Following Categories.

Urban	Suburban	Flex Space
Downtown locations, typically with higher barriers to entry.	Fewer barriers to entry, but closer to employment bases.	Typically suburban; typically one story and used as part warehouse, part light manufacturing. Typically have drive in doors and some warehouse space.

OFFICE PROPERTIES

FACTORS TO CONSIDER

LEASE-UP PERIOD
What will be the absorption pace on new leases?
This needs to be calculated by looking at historic absorption levels, the strength of the local economy (job growth), and the supply of office space in the market.

OCCUPANCY LEVEL
How well leased is the market?
Will the subject property under or over perform the market? Underwriting to the lesser of 95% or actual market vacancy.

RENT CONCESSIONS
If the market is offering concessions, this deduction from revenue must be factored into the pro forma underwriting. Concessions are typically:
• Free Rent. • Large tenant improvement packages.

TENANT IMPROVEMENTS
The investor must understand the quality of the existing build-out/finishes of the building. Tenant improvements are expensive, and office buildings require the most tenant improvements.

OPERATING EXPENSES
The investor must understand the normal expenses required to operate the building in that market.
- This is described in cost per square foot terms.
- The investor will need to understand what expenses are "passed through" to the tenant and which are not.
- Also, leases may contain "expense stops" which limit the amount of expenses that can be passed through to a tenant.
- Typical office operating expenses are from $9.00-$14.00/square foot.

TYPICAL IMPROVEMENTS ARE:

NEW LEASES
Typically the space is re-done at $25-$35 per square foot

RENEWAL LEASES
Typically the tenant will ask for new paint or carpet at $5 per square foot.

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