



# 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!  
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## Retail Properties: Characteristics and Analysis

Clifford J. Bogart CCIM

TREC Course #: 03-00-097-29211

Provider: Clifford J. Bogart #: 0287

## Instructor: Clifford J. Bogart CCIM

- Founder / President / Broker for The Vanguard Commercial Group, Inc., a full service Commercial Real Estate Brokerage firm based in DFW but focused on transactions in the major Texas markets
- Commercial Broker and Leasing Agent since 1979 in Houston, DFW, and Austin with The Vantage Companies, CBRE, Homart Development
- Founded Vanguard Commercial Group in 1995
- CCIM Designation in 1995
- MCE Instructor since 2001
- CCIM Instructor since 2005; CI 103 Instructor of the Year – 2011
- Contact Information:
  - Phone 214-704-9862
  - Email [cliff@vanguardcres.com](mailto:cliff@vanguardcres.com)
  - LinkedIn [www.linkedin.com/in/cliffordbogart/](http://www.linkedin.com/in/cliffordbogart/)
  - Blog [www.cliffbogart.com](http://www.cliffbogart.com)

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## 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

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## 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.

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## Some Types of Retail Buildings



Retail Strip –  
Non Anchored



Free Standing



Anchored Center



Power Center



Mixed Use Retail

9/25/2015

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## 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

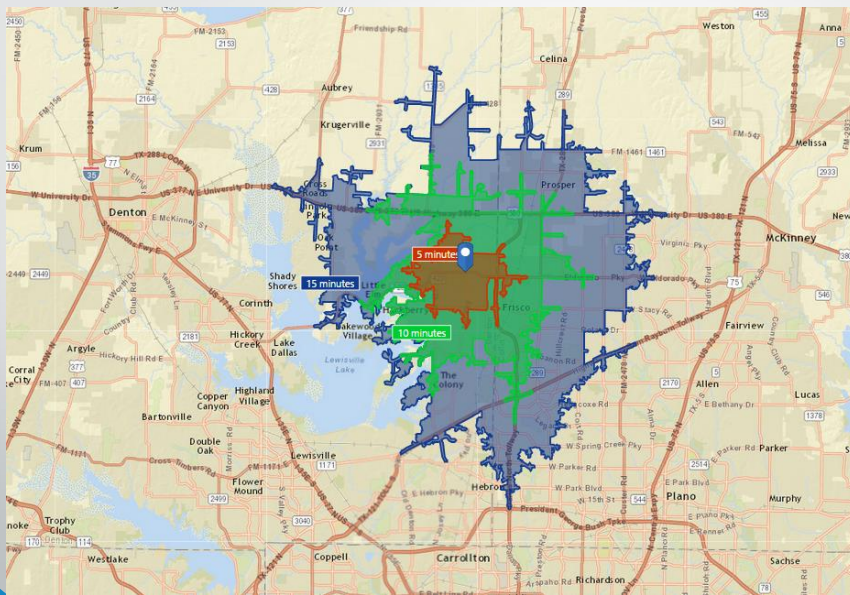
The real estate cycle for Industrial properties in any given market is a function of many interrelated factors including, but not limited to, the following:

- **Jobs, jobs, jobs** – Is there job grow 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

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## Retail Reports: Intersection of El Dorado and Teel



# Retail Report:



## Executive Summary

Northwest Frisco  
2676 El Dorado Pkwy, Frisco, Texas, 75033  
Drive Times: 5, 10, 15 minute radii

Northwest Frisco  
Latitude: 33.17826  
Longitude: -96.86584

Population	5 minutes	10 minutes	15 minutes
2000 Population	1,518	16,167	89,452
2010 Population	35,897	95,179	251,989
2015 Population	47,513	126,462	317,702
2020 Population	58,682	160,226	386,466
2000-2010 Annual Rate	37.21%	19.40%	10.91%
2010-2015 Annual Rate	5.49%	5.56%	4.51%
2015-2020 Annual Rate	4.31%	4.85%	4.00%
2015 Male Population	49.0%	49.2%	49.0%
2015 Female Population	51.0%	50.8%	51.0%
2015 Median Age	32.4	32.9	33.8

In the identified area, the current year population is 317,702. In 2010, the Census count in the area was 251,989. The rate of change since 2010 was 4.51% annually. The five-year projection for the population in the area is 386,466 representing a change of 4.00% annually from 2015 to 2020. Currently, the population is 49.0% male and 51.0% female.

### Median Age

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

### Race and Ethnicity

2015 White Alone	71.8%	70.0%	70.0%
2015 Black Alone	12.0%	12.0%	10.6%
2015 American Indian/Alaska Native Alone	0.5%	0.6%	0.6%
2015 Asian Alone	8.5%	8.3%	10.6%
2015 Pacific Islander Alone	0.0%	0.1%	0.1%
2015 Other Race	3.5%	5.5%	4.6%
2015 Two or More Races	3.7%	3.6%	3.6%
2015 Hispanic Origin (Any Race)	13.9%	17.2%	15.9%

Persons of Hispanic origin represent 15.9% of the population in the identified area compared to 17.6% of the U.S. population. Persons of Hispanic Origin may be of any race. The Diversity Index, which measures the probability that two people from the same area will be from different race/ethnic groups, is 62.4 in the identified area, compared to 63.0 for the U.S. as a whole.

### Households

2000 Households	509	5,408	31,599
2010 Households	10,758	30,651	88,705
2015 Total Households	14,067	40,536	110,639
2020 Total Households	17,324	51,498	134,043
2000-2010 Annual Rate	35.68%	18.94%	10.97%
2010-2015 Annual Rate	5.24%	5.47%	4.30%
2015-2020 Annual Rate	4.25%	4.90%	3.91%
2015 Average Household Size	3.37	3.12	2.87

The household count in this area has changed from 88,705 in 2010 to 110,639 in the current year, a change of 4.30% annually. The five-year projection of households is 134,043, a change of 3.91% annually from the current year total. Average household size is currently 2.87, compared to 2.84 in the year 2010. The number of families in the current year is 82,902 in the specified area.

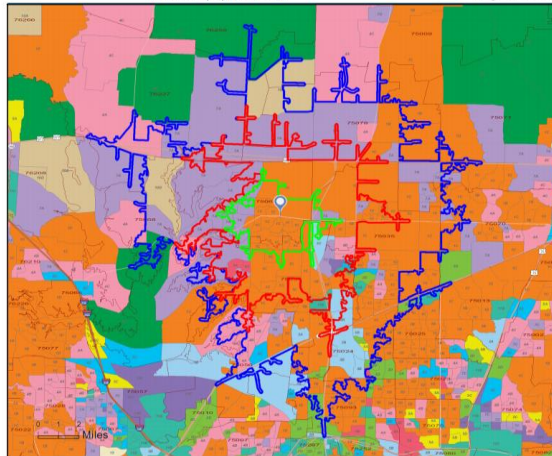
# Retail Report:



## Dominant Tapestry Map

Northwest Frisco  
2676 El Dorado Pkwy, Frisco, Texas, 75033  
Drive Times: 5, 10, 15 minute radii

Northwest Frisco  
Latitude: 33.17826  
Longitude: -96.86584



- Tapestry LifeMode**
- L1: Affluent Estates
  - L2: Upscale Aesthetics
  - L3: Upscale Individualists
  - L4: Family Landscapes
  - L5: Mainurban
  - L6: Near Quality
  - L7: Ethical Evolutions
  - L8: Middle Ground
  - L9: Sector Styles
  - L10: North Outposts
  - L11: Midtown Singles
  - L12: HomeTown
  - L13: Near Views
  - L14: Suburban and Parents





# Retail Report:

## Tapestry Segmentation

Tapestry Segmentation represents the fifth generation of market segmentation systems that began 30 years ago. The 67-segment Tapestry Segmentation system classifies U.S. neighborhoods based on their socioeconomic and demographic composition. Each segment is identified by its two-digit Segment Code. Match the two-digit segment labels on the map to the list below. Click each segment below for a detailed description.

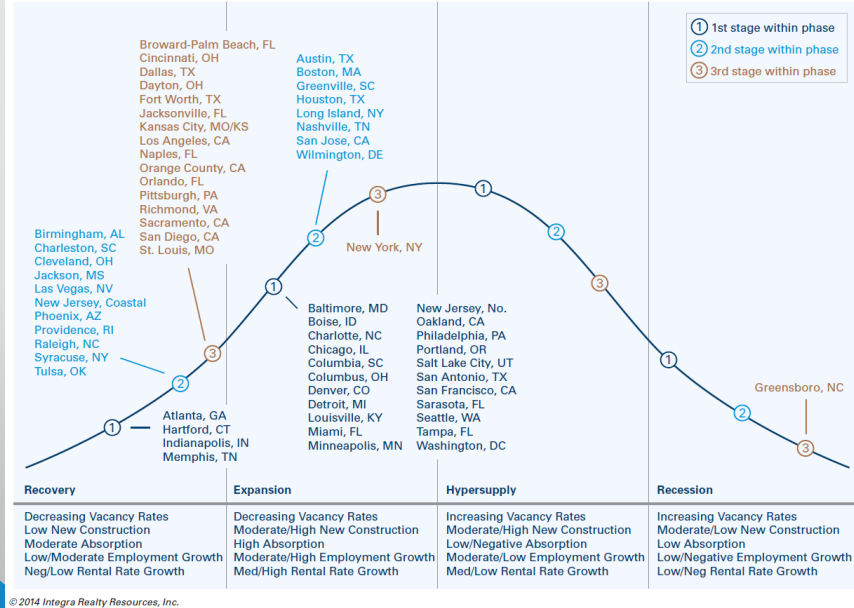
- Segment 1A (Top Tier)
- Segment 1B (Professional Pride)
- Segment 1C (Boomburbs)
- Segment 1D (Savvy Suburbanites)
- Segment 1E (Exurbanites)
- Segment 2A (Urban Chic)
- Segment 2B (Pleasantville)
- Segment 2C (Pacific Heights)
- Segment 2D (Enterprising Professionals)
- Segment 3A (Laptops and Lattes)
- Segment 3B (Metro Renters)
- Segment 3C (Trendsetters)
- Segment 4A (Soccer Moms)
- Segment 4B (Home Improvement)
- Segment 4C (Middleburg)
- Segment 5A (Comfortable Empty Nesters)
- Segment 5B (In Style)
- Segment 5C (Parks and Rec)
- Segment 5D (Rustbelt Traditions)
- Segment 5E (Midlife Constants)
- Segment 6A (Green Acres)
- Segment 6B (Salt of the Earth)
- Segment 6C (The Great Outdoors)
- Segment 6D (Prairie Living)
- Segment 6E (Rural Resort Dwellers)
- Segment 6F (Heartland Communities)
- Segment 7A (Up and Coming Families)
- Segment 7B (Urban Villages)
- Segment 7C (American Dreamers)
- Segment 7D (Barrios Urbanos)
- Segment 7E (Valley Growers)
- Segment 7F (Southwestern Families)
- Segment 8A (City Lights)
- Segment 8B (Emerald City)
- Segment 8C (Bright Young Professionals)
- Segment 8D (Downtown Melting Pot)
- Segment 8E (Front Porches)
- Segment 8F (Old and Newcomers)
- Segment 8G (Hardscrabble Road)
- Segment 9A (Silver & Gold)
- Segment 9B (Golden Years)
- Segment 9C (The Elders)
- Segment 9D (Senior Escapes)
- Segment 9E (Retirement Communities)
- Segment 9F (Social Security Set)
- Segment 10A (Southern Satellites)
- Segment 10B (Rooted Rural)
- Segment 10C (Diners & Miners)
- Segment 10D (Down the Road)
- Segment 10E (Rural Bypasses)
- Segment 11A (City Strivers)
- Segment 11B (Young and Restless)
- Segment 11C (Metro Fusion)
- Segment 11D (Set to Impress)
- Segment 11E (City Commons)
- Segment 12A (Family Foundations)
- Segment 12B (Traditional Living)
- Segment 12C (Small Town Simplicity)
- Segment 12D (Modest Income Homes)
- Segment 13A (International Marketplaces)
- Segment 13B (Las Casas)
- Segment 13C (NeWest Residents)
- Segment 13D (Fresh Ambitions)
- Segment 13E (High Rise Renters)
- Segment 14A (Military Proximity)
- Segment 14B (College Towns)
- Segment 14C (Dorms to Diplomas)
- Segment 15 (Unclassified)

# Retail Report:

Northwest Frisco							Northwest Frisco	
2676 El Dorado Pkwy, Frisco, Texas, 75033							Latitude: 33.17826	
Drive Time: 5 minute radius							Longitude: -96.85584	
<b>Summary Demographics</b>								
2015 Population							47,513	
2015 Households							14,067	
2015 Median Disposable Income							\$86,005	
2015 Per Capita Income							\$37,990	
<b>Industry Summary</b>								
	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/Surplus	Factor	Number of Businesses	
Total Retail Trade and Food & Drink	44-45,722	\$652,462,901	\$323,680,691	\$328,782,210		33.7	235	
Total Retail Trade	44-45	\$582,016,399	\$313,215,827	\$268,800,572		30.0	207	
Total Food & Drink	722	\$70,446,502	\$110,464,865	\$39,018,337		74.1	28	
<b>Industry Group</b>								
	NAICS	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap	Leakage/Surplus	Factor	Number of Businesses	
Motor Vehicle & Parts Dealers	441	\$125,577,157	\$4,581,485	\$120,995,672		93.0	9	
Automobile Dealers	4411	\$108,639,001	\$1,169,267	\$107,469,734		92.9	2	
Other Motor Vehicle Dealers	4412	\$7,828,925	\$1,241,938	\$6,586,987		72.6	3	
Auto Parts, Accessories & Tire Stores	4413	\$9,109,231	\$2,170,280	\$6,938,951		61.5	5	
Furniture & Home Furnishings Stores	442	\$14,420,193	\$4,162,275	\$10,257,918		55.2	14	
Furniture Stores	4421	\$8,622,942	\$921,803	\$7,701,139		80.7	2	
Home Furnishings Stores	4422	\$5,797,250	\$3,240,472	\$2,556,778		28.3	11	
Electronics & Appliance Stores	443	\$17,005,079	\$27,045,601	-\$10,040,522		-22.8	6	
Bldg Materials, Garden Equip. & Supply Stores	444	\$20,996,058	\$21,472,429	-\$476,371		-1.1	9	
Bldg Material & Supplies Dealers	4441	\$18,801,982	\$21,472,429	-\$2,670,447		-6.6	9	
Lawn & Garden Equip & Supply Stores	4442	\$2,194,076	\$0	\$2,194,076		100.0	0	
Food & Beverage Stores	445	\$100,889,914	\$57,247,350	\$43,642,564		27.6	22	
Grocery Stores	4451	\$92,690,068	\$53,629,324	\$39,060,744		26.7	9	
Specialty Food Stores	4452	\$3,347,182	\$3,028,961	\$318,221		5.0	13	
Beer, Wine & Liquor Stores	4453	\$4,852,663	\$589,265	\$4,263,398		78.3	1	
Health & Personal Care Stores	446,4461	\$41,440,862	\$32,836,438	\$8,604,424		11.6	18	
Gasoline Stations	447,4471	\$55,979,050	\$7,132,374	\$48,846,676		77.4	2	
Clothing & Clothing Accessories Stores	448	\$37,807,123	\$11,123,503	\$26,683,620		54.5	41	
Clothing Stores	4481	\$26,970,796	\$5,974,917	\$20,995,879		63.7	31	
Shoe Stores	4482	\$9,122,594	\$343,482	\$8,779,112		85.3	2	
Jewelry, Luggage & Leather Goods Stores	4483	\$6,513,733	\$4,805,104	\$1,708,629		15.1	8	
Sporting Goods, Hobby, Book & Music Stores	451	\$15,345,501	\$17,164,096	-\$1,818,595		-5.6	18	
Sporting Goods/Hobby/Musical Instr Stores	4511	\$11,861,585	\$16,699,152	-\$4,837,567		-16.9	15	
Book, Periodical & Music Stores	4512	\$3,483,916	\$464,944	\$3,018,972		76.5	3	
General Merchandise Stores	452	\$10,027,339	\$121,219,171	-\$109,191,832		-9.1	9	
Department Stores Excluding Leased Depts.	4521	\$35,735,174	\$644,126	\$35,091,048		96.5	5	
Other General Merchandise Stores	4529	\$65,292,165	\$120,575,045	-\$55,282,880		-29.7	4	
Miscellaneous Store Retailers	453	\$7,080,706	\$5,353,216	\$1,727,490		52.3	49	
Florists	4531	\$603,621	\$152,835	\$450,786		59.6	6	
Office Supplies, Stationery & Gift Stores	4532	\$3,934,787	\$584,907	\$3,349,880		74.1	11	
Used Merchandise Stores	4533	\$3,918,364	\$306,409	\$3,611,955		85.5	2	
Other Miscellaneous Store Retailers	4539	\$6,623,934	\$4,309,065	\$2,314,869		33.4	33	
Nonstore Retailers	454	\$34,447,017	\$3,877,689	\$30,569,328		79.8	11	
Electronic Shopping & Mail-Order Houses	4541	\$30,199,469	\$2,541,589	\$27,657,880		84.5	1	
Vending Machine Operators	4542	\$1,609,866	\$653,026	\$956,840		42.3	2	
Direct Selling Establishments	4543	\$2,638,082	\$683,074	\$1,955,008		58.9	8	
Food Services & Drinking Places	722	\$70,446,502	\$10,464,865	\$59,981,637		74.1	28	
Full-Service Restaurants	7221	\$25,637,258	\$1,631,577	\$24,005,681		88.0	3	
Limited-Service Eating Places	7222	\$37,878,444	\$7,935,965	\$29,942,479		65.4	19	
Special Food Services	7223	\$1,739,545	\$221,008	\$1,518,537		77.5	2	
Drinking Places - Alcoholic Beverages	7224	\$5,191,255	\$676,315	\$4,514,940		76.9	4	

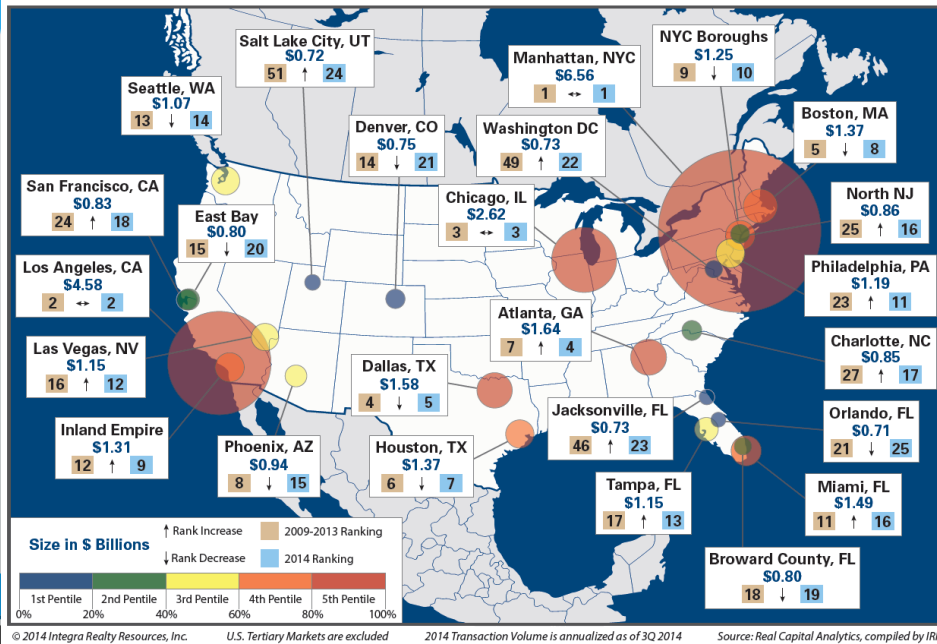
# Retail Real Estate Cycle

Retail Market Cycle (Fig. 21)



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Top 25 Markets by Retail Transaction Volume (Fig. 22)





# Retail Market Statistics

IRR® Viewpoint 2015

Retail

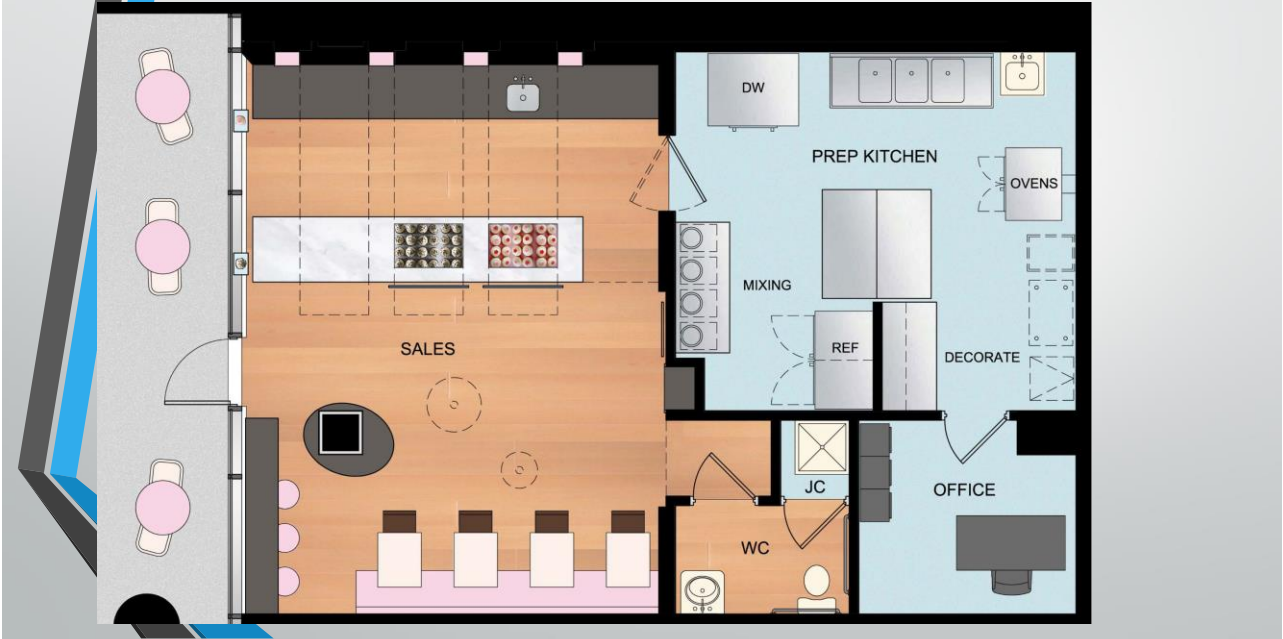
2014 Retail Market Conditions and 2015 Forecasts (Table 25)

MARKET AREA	CR/NR INVENTORY (SF)	CR/NR VACANCY RATE (%)	REGIONAL MALL INVENTORY (SF)	REGIONAL MALL VACANCY RATE (%)	CR/NR AVG ANNUAL NET ABSORP. 2011-2014 (SF)	CR/NR FORECAST AVG ANNUAL NET ABSORP. 2015-2018 (SF)	EST CONST. (SF)	EST CR/NR TENNANT IMPROVEMENT (\$/SF)	CR/NR MARKET RENT (\$/SF)	EST MARKET RENT CHANGE (%)	EST EXPENSE GROWTH (%)	EST CR/NR TO BALANCE*
Atlanta, GA	81,600,000	13.40%	25,900,000	7.00%	405,000	550,000	330,000	13.50	17.44	2.00%	2.50%	2 2
Austin, TX	20,852,000	6.57%	2,532,805	6.00%	193,250	317,250	2,108,816	14.50	20.98	3.00%	3.00%	IB IB
Baltimore, MD	124,740,000	5.20%	-	-	782,920	821,870	500,000	10.00	17.56	0.00%	2.50%	3 3
Birmingham, AL	12,067,000	13.74%	7,882,938	11.10%	74,000	200,000	415,000	26.00	14.89	2.00%	3.00%	5 3
Boise, ID	8,080,902	7.19%	5,199,187	9.55%	230,000	245,000	150,000	17.50	18.65	2.50%	2.50%	IB 2
Boston, MA	37,350,000	7.54%	-	10.00%	300,000	300,000	420,000	2.00	27.28	3.00%	3.00%	IB IB
Broward-Palm Bch, FL	169,461,600	9.46%	18,820,700	5.00%	1,125,000	1,310,000	3,400,000	-	21.04	3.20%	2.50%	1 1
Charleston, SC	-	-	-	-	200,000	250,000	100,000	15.00	14.25	3.00%	3.00%	IB IB
Charlotte, NC	32,421,944	10.69%	8,248,706	2.50%	520,000	300,000	858,887	5.00	16.74	2.75%	3.00%	2 2
Chicago, IL	82,000,000	13.43%	20,400,000	3.50%	350,000	950,000	1,600,000	25.00	19.05	0.00%	2.25%	3 4
Cincinnati, OH	94,100,000	8.85%	16,500,000	8.75%	-	-	10,000	15.00	11.20	2.00%	2.50%	1 2
Cleveland, OH	25,162,400	11.89%	6,121,466	7.50%	118,000	190,000	100,000	-	12.52	1.75%	1.50%	2 2
Columbia, SC	45,005,000	13.93%	5,750,000	14.00%	150,000	150,000	450,000	15.00	10.89	2.00%	3.00%	IB 3
Columbus, OH	25,660,000	8.27%	4,990,000	8.50%	400,000	300,000	300,000	10.00	16.00	2.00%	2.50%	IB 1
Dallas, TX	119,777,561	9.18%	20,718,354	5.00%	583,000	628,750	2,401,046	16.50	16.15	2.50%	3.00%	3 3
Dayton, OH	60,000,000	8.33%	6,000,000	12.00%	50,000	60,000	300,000	7.50	9.00	5.00%	2.50%	2 IB
Denver, CO	94,500,000	7.53%	18,900,000	7.50%	3,552,000	4,500,000	800,000	12.50	16.08	3.00%	3.00%	IB 4
Detroit, MI	147,800,000	10.92%	11,500,000	7.00%	540,000	900,000	1,200,000	6.50	15.21	1.50%	1.75%	IB 2
Fort Worth, TX	61,576,806	9.81%	14,709,985	3.50%	240,750	242,750	299,361	14.50	13.39	2.00%	3.00%	3 4
Greensboro, NC	18,008,560	11.61%	6,887,989	14.00%	100,000	300,000	3,000,000	12.50	14.20	2.00%	2.00%	3 3
Greenville, SC	79,520,000	6.43%	3,685,000	1.00%	675,000	675,000	200,000	10.00	9.72	2.50%	3.00%	IB IB
Hartford, CT	5,260,000	11.00%	5,100,000	8.50%	200,000	50,000	100,000	15.00	18.00	0.00%	2.00%	4 4
Houston, TX	179,053,253	8.55%	28,578,920	5.30%	683,719	400,000	1,582,491	21.00	15.15	1.50%	1.50%	1 1
Indianapolis, IN	23,800,000	10.67%	8,600,000	7.50%	200,000	200,000	275,000	25.00	23.66	1.75%	2.00%	3 3

## 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

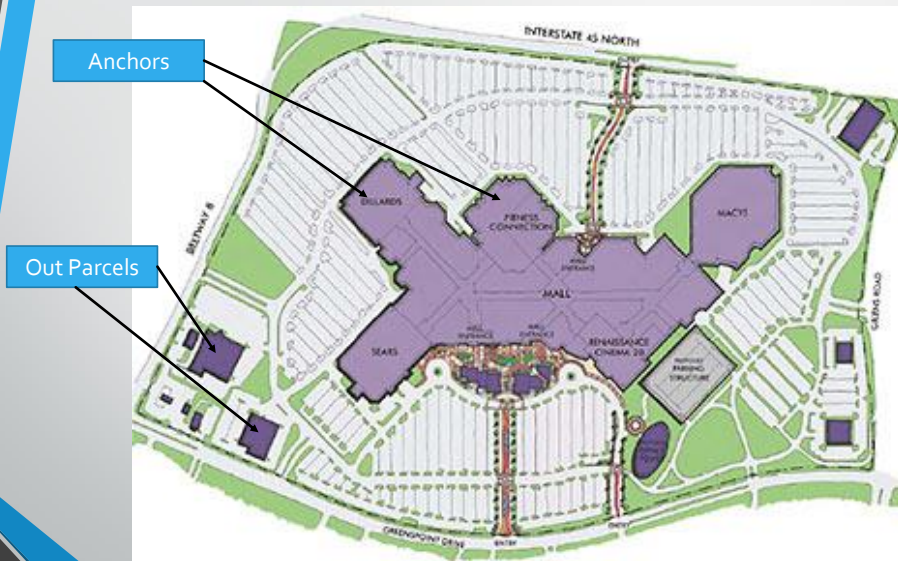
### Sample Retail Floorplans: Cupcake Store



### Sample Retail Floorplans: Coffee Shop



## Mall Site Plan



## Retail Property Economics

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

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All Investment CRE properties:

### Potential Rental Income

- Vacancy and Credit

+ Other Income

= **Gross Operating Income**

- Operating Expenses

= **Net Operating Income**

- Annual Debt Service

= **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

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## Rent Structure Examples (NNN)

	Year 1	Year 2	Year 3	Year 4	Year 5	Avg. Rate
Fixed	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00
Stepped	\$17.00	\$17.50	\$18.00	\$18.50	\$19.00	\$18.00

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)

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## Common Lease Structure

Triple Net (NNN)						
Property Taxes	Property Insurance	Maintenance	Management	Water	Janitorial	Electric

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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## Operating Expense (NNN) Reimbursements

	Year 1	Year 2	Year 3	Year 4	Year 5
Base Rent	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00
NNN Expenses	\$7.50	\$7.73	\$8.11	\$8.49	\$8.93
Net to LL before Reimbursement	\$10.50	\$10.27	\$9.89	\$9.51	\$9.07
NNN Reimbursement	\$7.50	\$7.73	\$8.11	\$8.49	\$8.93
Total Net Rent to LL	\$18.00	\$18.00	\$18.00	\$18.00	\$18.00
Total Rent to Tenant	\$25.50	\$25.73	\$26.11	\$26.49	\$26.93

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## Percentage Rent



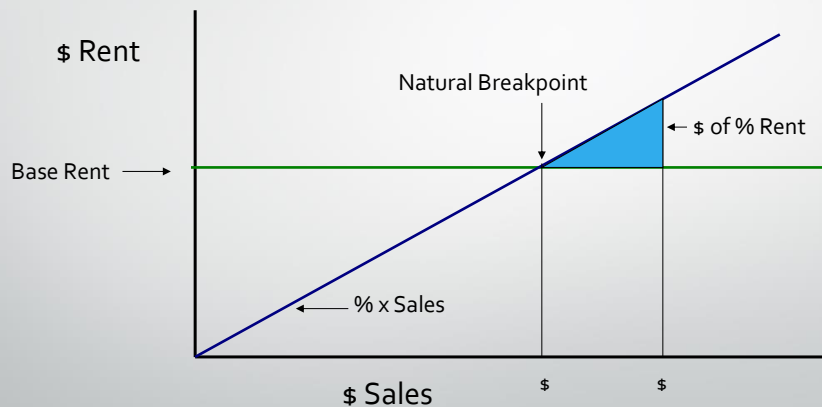
In some retail leases the tenant is required to pay, as additional rental above Base Rent, a percentage of their retail sales, usually above an agreed level, the Breakpoint. This additional rent is referred to as Percentage Rent. It can be paid monthly, quarterly, or otherwise as negotiated.

- Breakpoint
  - Can be a negotiated value or calculated as the "Natural" Breakpoint
  - $\text{Base Rent} / \% \text{ Rent} = \text{Natural Break (NB)}$
  - $\text{Sales above NB} \times \% \text{ rent} = \text{Percentage Rental (\$)}$
- Example: Percentage Rent = 6% above Natural Breakpoint
  - $\$120,000/\text{yr Base Rent} / 6\% = \$2,000,000 \text{ Breakpoint (NB)}$
  - $\$3,000,000 \text{ Actual Sales} - \$2,000,000 \text{ NB} = \$1,000,000 \text{ sales subject to \% Rent}$
  - $\$1,000,000 \times 6\% = \$60,000 \text{ percentage rent (paid in addition to Base Rent)}$

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## Percentage Rent



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## 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

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## 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
<b>Natural Breakpoint: \$64,000 ÷ .05 =</b>	<b>\$1,280,000</b>
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
<b>Percentage Rent: \$9,418 x .05 =</b>	<b>\$470.90</b>

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## 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

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## 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.

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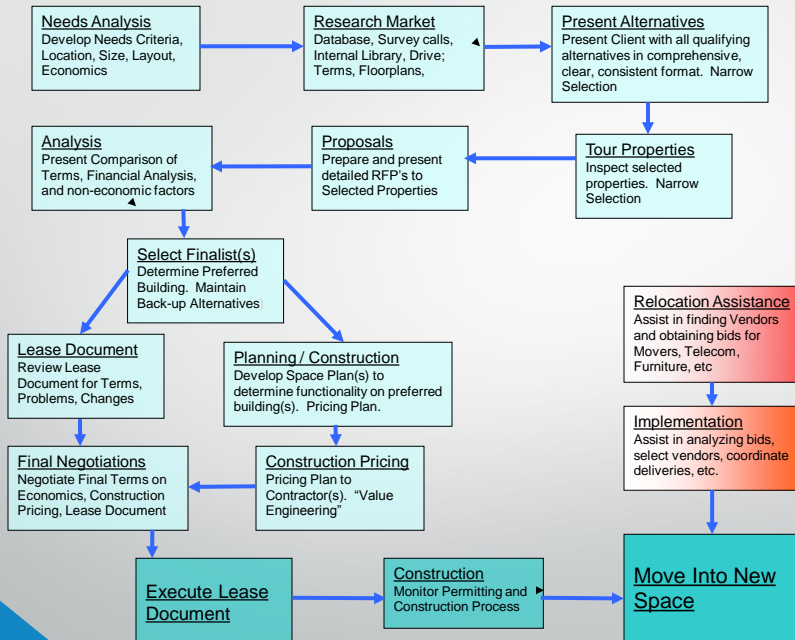
## Concession – Effective Rent

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?

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Base Rent	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00	\$100.00
Abatement	(\$10.00)					(\$10.00)
Totals	\$10.00	\$20.00	\$20.00	\$20.00	\$20.00	\$90.00
Average (Effective) Rent = \$90.00 / 5 Years = \$18.00/sf/Year						

## The Leasing Process: Tenant Perspective





The End

Questions?