Understanding the Retail Asset Class

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Miami Retail Market

- The retail industry has been one of the major foundations of the U.S. economy.
- Miami's retail market has evolved and continues to change to meet the consumers demand for retail and how goods are delivered.
- Miami is at the forefront of the changing retail landscape. Institutional investors, REIT's and foreign national's interest in retail shopping centers continues to be strong.
- 7 of the top 50 malls in the country are in Miami.

Aventura Mall

Lincoln Road

Dadeland Mall

Merrick Park

Bal Harbour Shops

Brickell City Center

Dolphin Mall

Specifics of Retail Property Types

- Shopping Center formats have many identities with descriptors as Malls, Lifestyle Centers, Markets, Strips, Mixed Use, Town Centers, Urban Retail, Vertical, Villages, Promenades, Entertainment Centers and other hybrids.

- The International Council of Shopping Centers (ICSC) defines different types of shopping centers as follows…

Malls

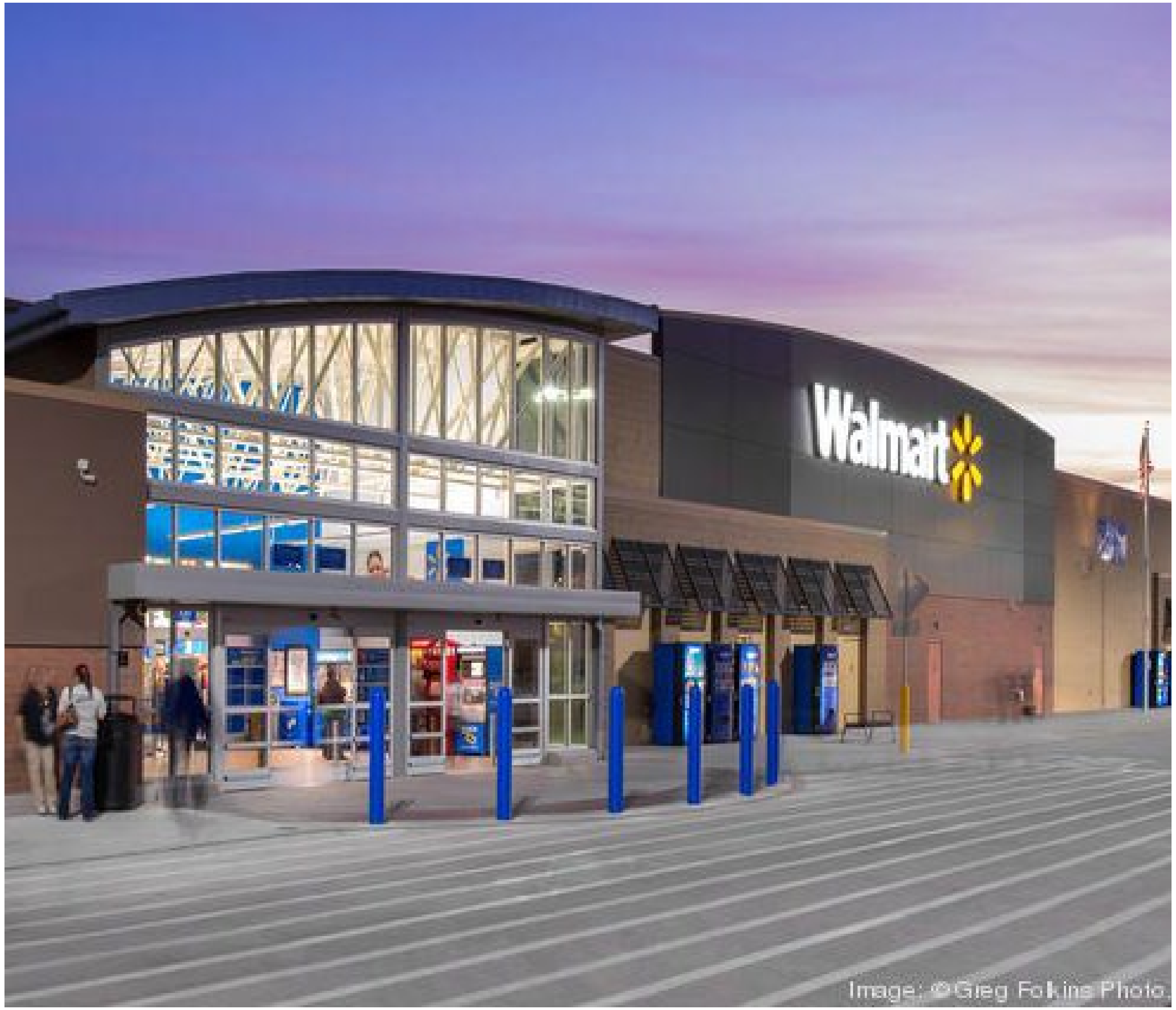
Typically enclosed with stores facing inwards joined by a common walkway with a large portion of space for parking surrounding exterior of mall.

Regional Malls-Range from 400K to 800K SF and include major department store anchors like Nordstrom or Macys, inline retail, service and restaurant tenants.

Super Regional Malls- exceed 800K SF with a larger variety of stores and entertainment.

Community & Neighborhood Centers

Mix of general merchandise or convenience-oriented tenants. Often anchored by big box retailers like Target, Walmart, a supermarket or medical outpatient center. Size range 30K to 400K SF.



Strip Centers

Typical straight-line configuration with focus on local convenience tenants like hair salons, dry cleaners, sandwich shops, bakeries, day care centers & restaurants. Size is smaller than 30K SF.

Power Centers

Dominated by “Big Box” retailers or “category killers” like Bed Bath & Beyond, Best Buy, COSTCO, Home Depot, Michaels and have only a few small tenants.

Lifestyle Centers

Upscale apparel, jewelry, eyewear, footwear, outdoor restaurants, entertainment and theaters. Designed to appeal to higher end consumers.

Factory Outlets

Manufacturers' and retailers' outlet store selling brand name goods at a discount.

Out Parcel

Separate parcels or land within or next to a larger shopping center.

Can have a single tenant like a bank or restaurant or a variety of smaller tenants.

How Do You Get Retail Right?

- Tenant Mix is something of an art and science in the retail industry and an important factor because retailers thrive off certain neighbors and some refuse to be located near others.
- Planning the right tenant mix increases rental rates and long-term revenues and decreases tenant turnover.
- Finding out as much as you can about your tenants before signing a lease is critical. How liquid/secure is their business? What are their sales per square foot, occupancy costs? If a local operator, do they have a business plan? What are their annual sales projections?

Investors Evaluating Retail Properties Look At:

- Location, Location, Location…and traffic counts.
- Foot traffic, access to public transportation, parking and curbside pickup areas.
- Balance sheet and profit and loss statement.
- CAP Rate to compare with comparable properties.
- Rent rolls, lease expirations, vacancy, potential upside in rents and guarantees.
- Income, Percentage rent income and expenses.
- Property taxes – may reset after purchase.
- Zoning.
- Size of center.

Investors Evaluating Retail Properties Look At: (cont.)

- Age of property, condition of roof, structure, parking lots, mechanical, electrical and plumbing systems.
- Land value.
- Demographics- Number of households, estimated age, income and education.
- Lease clauses i.e. exclusives, non-competes, kick outs, co-tenancy, percentage rents, etc.
- Tenant mix, lease terms and credit worthiness of Tenants.
- Center's sales per square foot.

Pros

- Retail properties offer investors opportunities for solid returns with higher yields and tax benefits.
- They are leased out on a long-term triple net (NNN) lease basis with the tenant doing most of the interior upgrades, repairs and maintenance and the Tenant bears a lot of the costs such as real estate taxes, insurance, utility bills and maintenance costs.
- Investors rates of return won’t go down over time as the taxes and expenses go up.

Pros (cont.)

- Leases have escalation clauses tied to the consumer price index or built in graduated or stepped rentals. As rent increases, revenue gains keep getting better and better.
- Leases with percentage rents in addition to the base rental give the landlord a percentage of the gross revenue from the business after reaching a certain “breakpoint” in sales.

Cons

- Retail is sensitive to impacts on the economy and surrounding physical infrastructure modifications like road widening construction and investors must be prepared for long vacancies and offer incentives like rent abatement/deferment, reduced rents, and improvement allowances to attract the right tenant.
- Long leases can be a problem if rents fall behind present market rates. Owners will have to wait before raising the rent. Investors should be careful to structure renewal options in order to account for the difference.

Cons (cont.)

- Professional help is required to handle lease administration, maintenance and repair issues. Property management companies can charge between 5-10% of rent revenues for their services.
- Brokerage fees and legal fees are factored in for marketing, leasing services and contract negotiations.

Case Study: Miracle Mile, Coral Gables

- 50-year-old Retail building with same ownership.
- Building remained unchanged for many years with dated signage, lighting, merchandising, roof, storefronts, etc.
- At Lease assignment - 3 tenants and 1 restaurant vacancy.
- 2 Tenants had below market leases in place for over 30 years, on MTH/MTH and were retiring. The other Tenant's below market lease was due to expire.
- Proposed streetscape renovation including new drainage, parking and sidewalks necessitating one year of construction.

Case Study Lease Up Results

- Created and marketed a new vision based on the proposed Miracle Mile improvements.
- Old Leases were rewritten by Landlords attorney.
- Signed 4 new leases with a restaurant, children's furniture, women's apparel and gelateria.
- Building was modernized with new storefronts, roof, signage, lighting and finishes.
- Tenant's bore all costs of improvements. Rent concessions given during construction period.
- Increased rental income and pass thru's to market rates.
- Increased net income by 471%.

Case Study Sale Results

- Ownership was an absentee family trust with 5 members. All were retired and residing in different states with minimum involvement and wished to sell the stabilized asset.
- Marketed stabilized property via various on-line platforms. Buyer's broker responded to the MLS listing, resulting in a sale.
- Property was sold at its highest valuation via a full price cash offer.
- Buyer was a foreign national represented by local agent/property management team.
- The sale was recorded at $1,046.00/sf.

THANK YOU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