

# **Commercial Product Specialties – Retail Properties**



**BERKSHIRE  
HATHAWAY**  
HomeServices

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## PRODUCT OVERVIEW

Retail properties can range from a single, one-tenant building to over a million square feet of assorted shops that display goods or sell services to the public.

## CATEGORIES

There are 3 general categories of retail properties:

1. Shopping Centers – A group of stores catering to a trade area which offer a variety of goods and/or services and onsite parking (the tenant “mix”):
  - A “super regional center” has three or more major department stores; often enclosed (mall); 750,000 to 1 million square feet; and draws from a large trade area of 12 miles or more
  - A “regional center” has one or two department stores consisting of a variety of smaller stores and is larger than 300,000 square feet. It will draw from an 8-mile radius or more.
  - A “community center” usually has a supermarket, a junior department store and a variety store, is larger than 100,000 square feet and draws from a 3-5 mile radius.
  - A “neighborhood center” is built around a supermarket and/or drugstore, provides convenience goods and services to a neighborhood, is between 30-100,000 square feet and draws from a 1-3 mile radius.
  - A “convenience center” is a small cluster of stores along a street, 5-40,000 square feet; trade area is immediate neighborhood. May have a convenience market, laundromat, dry cleaner, etc.
  - A “specialty center” often has a theme, usually has no anchor and generally is local in impact. Examples might be home improvement centers, gift shops, or auto service and sales.
2. Free standing store – One commercial building meant to be occupied by a single user. It is typically found near major shopping centers on major routes, and fills a specific need in the area.
3. Strip commercial – A string of stores in a commercial area with no central leasing, management, or theme.

## THE RETAIL USER’S NEEDS (OWNER/OCCUPANT OR LESSEES)

A tenant or owner-user of retail property is primarily concerned with:

- Improvement allowances – additions to the basic leased area that the landlord budgets for such as carpeting, tile, bathrooms, etc. This allowance is sometimes called “T.I.” (tenant improvements).
- Location – traffic counts, ease of access to stores, convenience to shoppers.
- Cost of occupancy – expense pass-throughs, improvements, insurance, etc.
- Overall draw of customers to center – does center have a steady stream of shoppers?

- Demographics – are goods or services attractive to people in the trade area?
- Effectiveness of management – does the landlord respond to complaints or suggestions?
- Parking availability – is there adequate parking for customers?

A buyer of retail properties is primarily concerned with:

- Physical condition of property – price should be adjusted to reflect the condition of physical plant.
- Net income generated by leases – what is left after expenses of operation are paid?
- Occupancy level and tenant mix – are there vacant (“dark”) spaces; are tenants attracting shoppers?
- Stability of tenants – turnover rate; how long have tenants occupied the center?
- Upside potential in income – are rents under market; do leases escalate to keep pace with inflation?
- Protection from large increases in operating expenses – tenants share in expense increases; physical condition of center is good without deferred maintenance.
- Area growth patterns – is area gaining or losing population? Will new competition emerge?

You can learn more about leasing or selling retail properties by reading periodicals and books published for this segment of the market. The leading national organization in this field is the International Council of Shopping Centers headquartered in New York City.

## RETAIL BUILDING CONSTRUCTION TERMINOLOGY

**Bay or Space** – One rentable unit for a store. Generally a center rents one or a combination of units to a tenant. The units are a standard size.

**Off-site Costs** – Bring utilities to site, improve streets, add curbs and gutters, bring sewer to property.

**On-site Costs** – Prepare site for construction. Costs to level land, create parking lot, landscape and lights.

**A & E** – Architectural and engineering costs, expenses PSF.

**Hard Costs** – Direct costs associated with building construction and improvement. Does not include landscaping.

**Soft Costs** – Indirect costs including A & E, financing, carrying costs during construction period and commissions.

**HVAC** – System for providing heat and cool air (heating, ventilation, and air conditioning).

**CAM** – Common area maintenance. Includes expenses such as security, irrigation, window cleaning, etc. of such areas.

**Locals** – The tenant is a small operator; this may be the only store.

**Majors or Anchors** – The tenant is part of a large-chain store group of service companies and is the nucleus of the center. Usually have favorable leases, as they draw the public and stabilize the center.

**Overage** – The percentage of the volume of business that goes to the landlord as additional rent, also known as percentage rent.

**Breakpoint** – Level of sales at which an overage or percentage rent additional payment becomes due.

**Merchant's Association** – Local association of store operators whose objective is jointly to promote business at the shopping center.

**Out Parcel** – A portion of shopping center land either leased or sold to a retail user.

**Cost of Living Increase** – Increase in annual base rent tied to cost of living index on predetermined formula.

## **FURTHER INFORMATION**

### **Organizations:**

International Council of Shopping Centers (ICSC)  
New York City, New York

## RETAIL LEASE SYNOPSIS

Property Name: \_\_\_\_\_

Tenant: \_\_\_\_\_ Invoiced S.F.: \_\_\_\_\_ Annual Rent P.S.F.: \_\_\_\_\_

Lease Term (Yrs): \_\_\_\_\_ Commencement & Expiration Dates: \_\_\_\_\_

Options: \_\_\_\_\_ Option Terms: \_\_\_\_\_

Percent Rent: \_\_\_\_\_ \$ Breakpoint \$: \_\_\_\_\_ Sales: \_\_\_\_\_

|                                   | Tenant Expense Contribution | Landlord Expenses Responsibility |
|-----------------------------------|-----------------------------|----------------------------------|
| Taxes:                            | _____                       | _____                            |
| Insurance:                        | _____                       | _____                            |
| C.A.M.:                           | _____                       | _____                            |
| Management:                       | _____                       | _____                            |
| Routing Repairs<br>& Maintenance: | _____                       | _____                            |
| Other:                            | _____                       | _____                            |
| Special Notes:                    | _____                       | _____                            |
|                                   | _____                       | _____                            |

Prepared by: \_\_\_\_\_

Date: \_\_\_\_\_

## SAMPLE RETAIL RENT ROLL

Rent Roll as of: September 2010    Loan Number: 9123720

\*UR = Utility Reimbursement

|                            | <b>Tenant's<br/>Square Feet<br/>Expenses</b> | <b>Annual Rent</b> | <b>Date Term<br/>Begins</b> | <b>Term</b> | <b>Any Free<br/>Rent or<br/>other</b> | <b>Concessions</b>      |
|----------------------------|--|--------------------|-----------------------------|-------------|---------------------------------------|-------------------------|
| Burger King                | Land Lease                                   | \$13,000.00        | 4/2/79                      | 20 yrs.     | None                                  | None                    |
| Specs Music                | 2,160  | \$19,233.01        | 2/87                        | 5 yrs.      | None                                  | None                    |
| Cato                       | 4,000  | \$22,238.64        | 7/15/79                     | 1/90        | None                                  | 1st yr. RE tax          |
| Vacant                     | 1,200  |                    |                             |             |                                       |                         |
| Drug Mart                  | 9,000  | \$51,070.80        | 6/15/78                     | 29 yrs.     | None                                  | Ins & 1st yr.<br>RE tax |
| Vacant                     | 40,000                                       |                    |                             |             |                                       |                         |
| Yogurt Shop                | 960  | \$9,600.00         | 1/5/88                      | 3 yrs.      | None                                  | None                    |
| Floyd Theater              | Land Lease                                   | \$6,360.00         | 10/27/78                    | 21 yrs.     | None                                  | None                    |
| Hair Salon                 | 1,200  | \$8,522.40         |                             | Monthly     | None                                  | None                    |
| High Fashion<br>Men's Wear | 1,200  | \$13,979.28        | 4/86                        | Monthly     | None                                  | None                    |
| IHOP                       | Land Lease                                   | \$13,143.96        | 4/5/79                      | 20 yrs.     | 3 mos. free<br>rent                   | None                    |
| Subway<br>Sandwiches       | 1,200  | \$11,549.76        | 3/1/88                      | 10 yrs.     | 3 mos. free<br>rent                   | None                    |
| Radio Shack                | 2,000  | \$11,108.76        | 7/5/78                      | 10 yrs.     | 3 mos. free<br>rent                   | 1st yr. RE tax          |
| Champion TV                | 2,160  | \$20,919.36        | 8/1/87                      | 3 yrs.      | 3 mos. free<br>rent                   | None                    |
| Waterbeds<br>Unltd.        | 1,200  | \$14,055.60        | 10/16/87                    | 1 yr.       | 3 mos. free<br>rent                   | None                    |
| Fresh<br>Cleaners          | 1,200  | \$8,649.60         | 8/1/80                      | 15 yrs.     | 3 mos. free<br>rent                   | Partial ins.            |

## SAMPLE COMPARABLE WORKSHEET

### VERIFIED SALE INFORMATION

Data Source (s): AC70549  
REDI #:  
Computer:  
Verbal:  
Origin: New Data:  
Filed by Librarian:

Type of Sale: Shopping Center  
County: Orange  
Location: (NE) (NW) (SE) (SW)  
Tax ID: TWP-RNG-SEC-SUB-BLK-LOT/PCL  
Updated Sale Write-Up:

7924  
AC70549

### IMPROVED SALE 2 (WINTER PARK CORNERS)

|                   |   |
|-------------------|---|
| LOCATION          | This property is located on the northeast corner of State Road 426 (Aloma Avenue) and Lakemont Avenue in Winter Park, Orange County, Florida.   |
| LEGAL DESCRIPTION | Lengthy Legal, See Deed. Tax Parcel 30-22-24-2316-05-001, 003, 004, 005. Orange County, Florida   |
| GRANTOR           | Winter Park Corners, Limited  |
| GRANTEE           | Brand and Associates  |
| SALE DATE         | October 1987  |
| SALE PRICE        | \$9,075,000.00  |
| FINANCING         | \$5,000,000.00 mortgage - Third party financing at market rates.  |
| VERIFICATION      |   |
| With              | Chip Whiting, Broker  |
| By                | William T. Anglyn, November 18, 1987  |
| RECORDED          | O.R. Book 3924, Page 2960, Orange County, Florida   |
| DESCRIPTION SITE  | This is an approximate 9.37-acre parcel, irregular in shape, but resembles a rectangle. There is 976 +/- feet of frontage on the north side of Aloma Avenue and 300 +/- feet of frontage on the east side of Lakemont Avenue. This site does not include the 100'x120' out parcel at the corner of Aloma Avenue and Lakemont (occupied by a Union Oil gas station). The center also has frontage on a back street (Edwin Boulevard) and frontage on a side street (Lander Road) |



|              |  |
|--------------|--|
| IMPROVEMENTS | This center is improved with a 99,000 square foot shopping center anchored by a Drug Emporium and a White Rose nursery. According to the tax records, this center was constructed in 1960. Based on our inspection, a renovation refurbishment program has reduced this effective age from 27 to 15 years. |
| PROPOSED USE | Continued use as a neighborhood shopping center.   |
| ZONING       | C-1  |
| COMMENTS     | <p>The center was approximately 99% occupied upon sale. Subsequent to the sale, two tenants have vacated this center, containing approximately 20,000 square feet.</p> <p>This sale included a six to nine month master lease on the local spaces.</p>   |
| ANALYSIS     | An Analysis of this sale indicates a unit price of \$91.67 per square foot of building area.   |

## SAMPLE PERFORMANCE

### Rosemont Plaza Pro Forma October 30, 1987

| Gross Potential Income                                  |              | S/SF     |
|---|--------------|----------|
| Anchor – Publix   | \$281,868    |          |
| Co-Anchor – Eckerd's                                    | \$93,204     |          |
| Local Tenants   | \$667,042    |          |
| C.A.M.  | \$36,490     |          |
| Pro Rata Taxes & Insurance                              | \$49,665     |          |
| Total Gross Potential Income                            | \$1,065,269  | \$10.75  |
| Less: 5.45% Vac. & Col. (Locals)                        | (\$36,350)   | (\$0.37) |
| Effective Gross Income (\$10.38)                        | \$1,028,919  | \$10.38  |
| Less Expenses   |              |          |
| Real Estate Taxes                                       | \$56,229     | \$0.57   |
| Insurance   | \$21,272     | \$0.21   |
| Maintenance   | \$12,000     | \$0.12   |
| Landscaping   | \$18,000     | \$0.18   |
| Repairs   | \$5,000      | \$0.05   |
| Legal   | \$2,500      | \$0.03   |
| Miscellaneous   | \$8,000      | \$0.08   |
| Management (6%)   | \$61,735     | \$0.00   |
| Electricity   | \$12,000     | \$0.12   |
| Reserves  | \$5,946      | \$0.06   |
| Total Expenses  | \$202,682    | \$2.05   |
| Net Operating Income                                    | \$826,237    | \$8.34   |
| Less Debt Service<br>(10.865%, 30 yr. Amort. 7yr. Call) | (\$610,992.) |          |
| Cash Flow   | \$215,245.   |          |