



ICSC European Retail Property School

LEASING AND DEVELOPMENT STRATEGIES

7 July, 2014

Berlin, Germany



Who am I?

Brian Jenkins

- **25+ years of doing this stuff**
- **CEO of Kings Street Retail, a Blackstone retail portfolio in Poland**
- **Still learning something new every day**

.....Who are you?



What should we accomplish today

Key Topics:

- **Understand the Interrelationship between Development and Leasing**
- **Your Role in both as a Manager**
- **Deal Making**
- **Terms and Conditions**
- **Negotiating Basics**



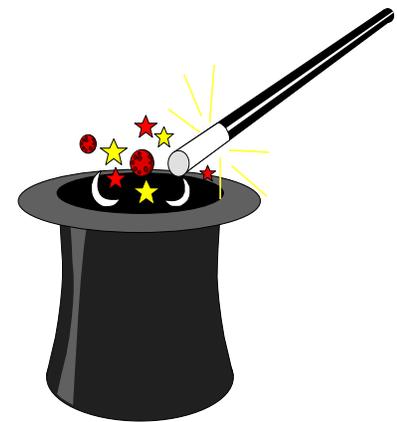
LEASING AND DEVELOPMENT

- **An explanation of these two key interrelated Shopping Center disciplines**
- **How each defines the shopping center**
- **Does Leasing drive the Development Train or vice versa?**



The Development Process

- **Market Research**
- **Site Review**
- **Concept Design and Anchor Interest**
- **Due Diligence**
- **Acquisition Deal**
- **Planning, Design, and Permitting**
- **Leasing and Marketing**
- **Cost Control, Reporting, and Bookkeeping**
- **Debt Financing**
- **Construction**
- **Opening**
- **Operation**





LEASING AND DEVELOPMENT...A key interrelationship

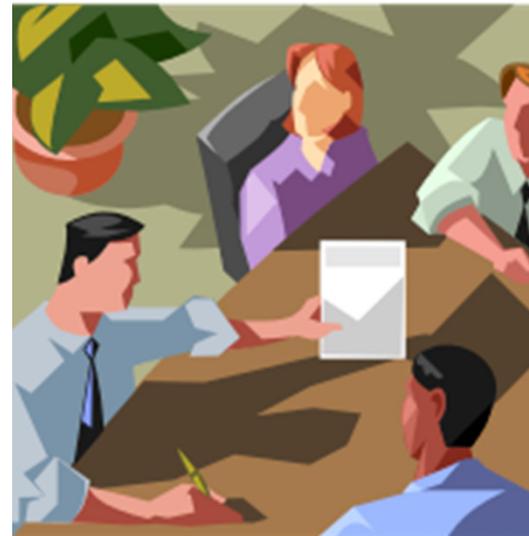
- 1. Site Review and Acquisition**
- 2. Project Parameters derived from Market Research**
- 3. Design and Leasing Concept**
- 4. Proforma Budget**
- 5. Financing**
- 6. Project Approval**
- 7. Project Execution**





TEAM APPROACH...For best results

- **Project Director**
- **Leasing Manager**
- **Tenant Coordinators**
- **Construction Director**
- **Legal Counsel**
- **Architect**
- **Consultants**
- **Mall Manager**
- **Marketing Director**





KEY INDUSTRY TRENDS

- **From Development to Asset Management**
- **From Opportunistic to Tenant Driven**
- **Retailer Consolidation**
- **No more borders**
- **Evolution of new income sources – non retail**
- **Team Leasing – “All hands on Deck”**
- **Vacancy management**
- **In House versus Broker**
- **Environmental consciousness**



SUSTAINABLE DEVELOPMENT

“We’re Number 1!”

Global CO₂ Emissions by Sector

- #1. Buildings
- #2. Transportation
- #3. Industry





SUSTAINABLE DEVELOPMENT

IMPACTS OF U.S. BUILDINGS ON RESOURCES

40% primary energy use*

72% electricity consumption*

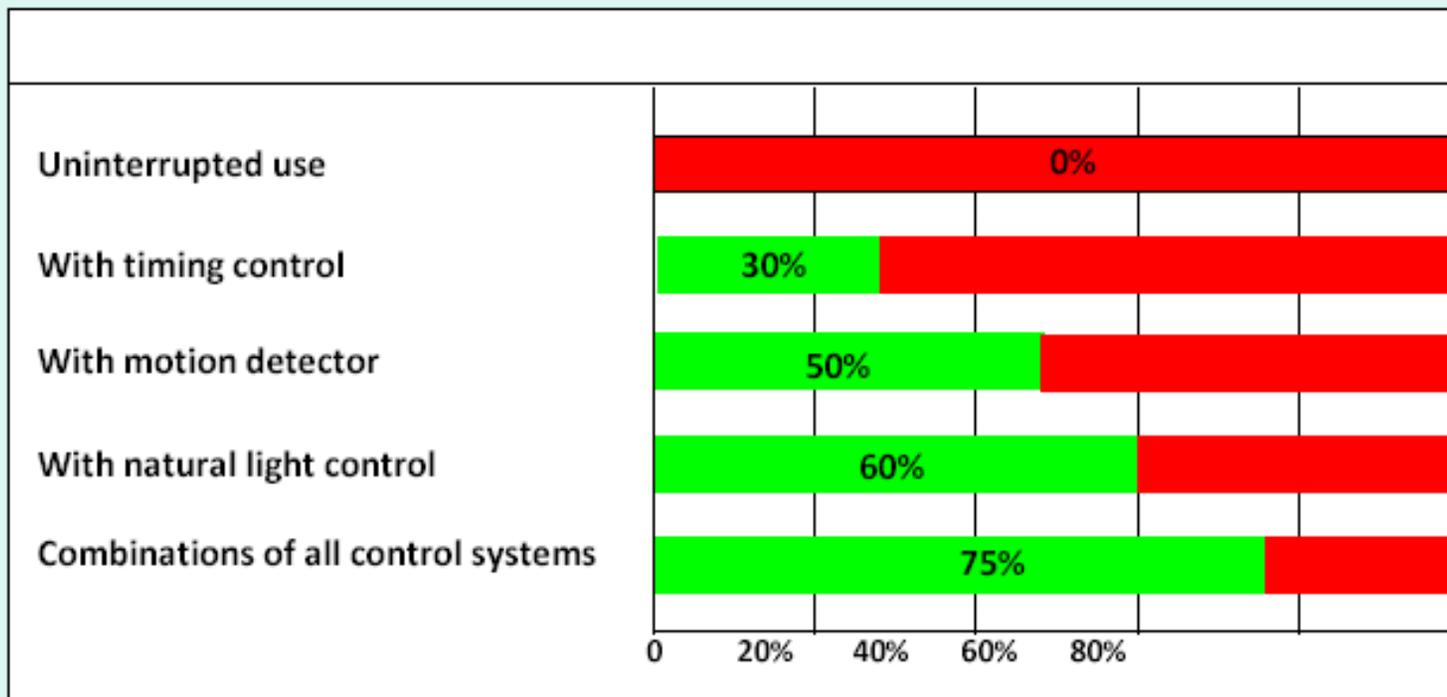
39% CO₂ emissions*

13.6% potable water consumption**



SUSTAINABLE MANAGEMENT

Energy Savings in Lighting





SUSTAINABILITY MEASURES

- **“Sensible Design and Management”**

- Use of Natural Light
- Water reclamation
- Green and more green
- Low volume water usage
- Alternative energy sources
- Mass transportation
- Recycling
- BMS
- The list is extensive and not so complicated

- **Breem or Leed certifications**



Value Enhancement Strategies for the Competitive Marketplace

- **Space Reconfigurations**
 - Subdivisions
 - Unit consolidations
 - Issues with both
- **Functional Adjustments**
 - Food court additions/relocations
- **Conversions**
 - Specialty store GLA to Big Box and vice versa
- **Expansions**
- **Renovations**





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THE OUTLETS
AT
BERGEN
TOWN CENTER





BERGEN MALL POST 1973



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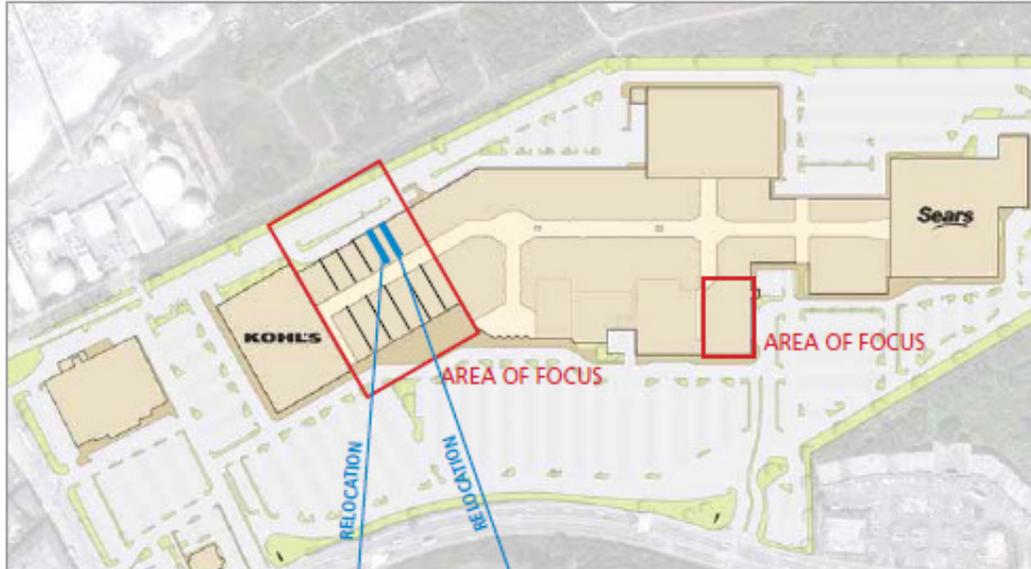
BERGEN TOWN CENTER COMPLETED





Bayshore Mall, Eureka California

CURRENT SITE PLAN



	CURRENT	POST-DEVELOPMENT
TOTAL GLA	612,998	611,659
SMALL SHOP GLA	392,740	391,401
OCCUPANCY	65.80%	80.40%
NOI IMPACT		466,897
SALES PER SF	256	272

BAYSHORE MALL STRATEGY:

- Vacate Kohl's Wing
- Execute 2 big box leases

Result: Smaller mall shop GLA with hybrid appeal

REDEVELOPMENT SITE PLAN





Bayshore Mall Conversion Results

- **Minimal change in GLA**
- **16% increase in NOI**
- **6% increase in Sales**
- **23% increase in occupancy**
- **Full cosmetic upgrade**



Renovation Example

Spring Hill Mall, Dundee, Illinois

- **Renovation in 2007**
- **\$7.0 M approximate cost**
- **New Tenants – 15**
- **Today's occupancy under 70%**
- **Why? Tenants or Tiles?**

Spring Hill Mall Before





Spring Hill Mall After





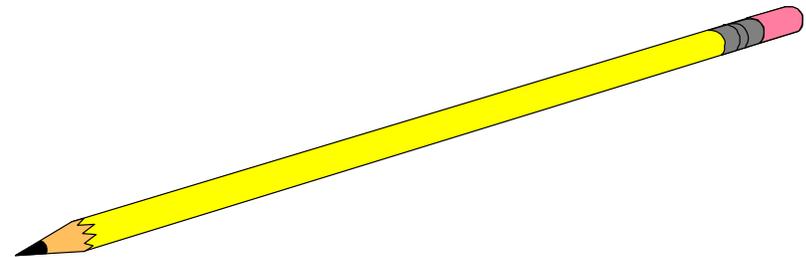
Financial Feasibility is First Priority

- **Develop a realistic Proforma or Budget**
- **Identify ALL costs and income**
- **Evaluation – Cash on Cash Return, Return on Equity or Investment, Value increase**
- **Quick Exercise**



GROUP EXERCISE

- **Break into your groups and review Handout on Forum Arcade**
- **Answer the questions. Is this a good deal?**



LEASING BASICS

Leasing = Revenue = Value

- **Development vs Operational Leasing**
- **Merchandizing and Leasing**
- **Filling the mix not just the space**
- **Proactive vs. Re-active**





DEVELOPMENT LEASING

- **Design**
 - **Format,**
 - **Write the “Story”**
- **Tenant Mix**
 - **Anchors, Feature Stores, Specialty Stores**
- **Budget/Merchandizing Plan**
- **Leasing Strategy**
- **Management**
 - **primarily involved in Expansions and Remodels**



OPERATIONAL LEASING PROCESS

The Common Objective – “Value Enhancement”

- **Team Leasing – “All Hands on Deck”**
 - **Expirations and Renewals**
 - **Vacancy Management**
 - **Limit Downtime**
- **Strengthen the Mix**
 - **Find “Distinction” and a “Point of Difference**
 - **Know the Competition better than they know themselves**
- **Tenant Allowance Planning**
 - **Know your limitations**
 - **Find alternatives to make the deal**



DEAL MAKING



THE MANAGER'S ROLE...Local Expert

- **KNOW YOUR TENANTS:**

- Lease Expirations
- Sales Performance
- Collections
- Other Issues



- **The CUSTOMER, and your COMPETITION**

- Update market research
- Know the gaps in the mix and be realistic about the retailers that can fill them



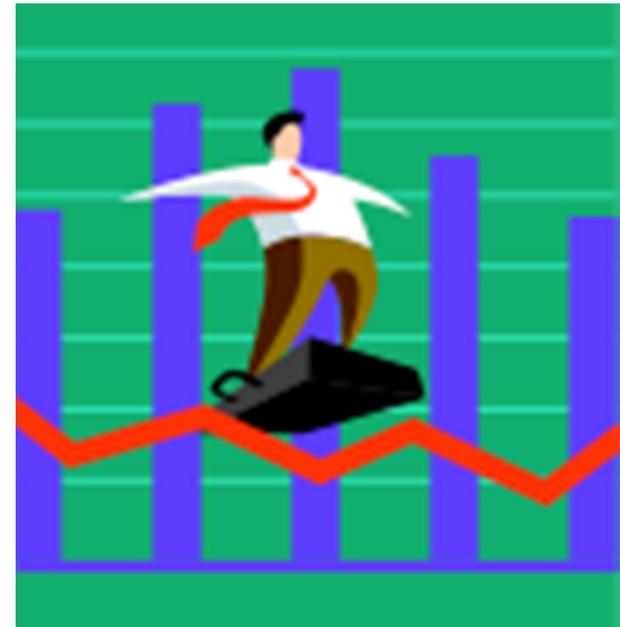
DEAL BACKGROUND...Tenant Investigation

- **Comparables for rent and sales**
 - **Within the portfolio**
 - **Within the country**
- **Performance of other stores in the market**
- **Is their Customer in Your Center**
- **Financial stability**
- **Owned or Franchisee**
- **Long term player or short term fad**



OTHER FACTORS

- **Sales Trend**
- **Staff Turnover**
- **Price Points**
- **Sales Category Depth**
- **Advertising Campaigns**
- **Participation in Marketing and Promotions**





PROSPECTING/CANVASSING

- **Local Concentrated Effort – Recommendations**
 - **One full afternoon per week**
 - **Targeted – Specific city and retail zones, What is missing in the mix?**
 - **Eliminate the obstacles**
 - **Rent too high – open book comparison**
 - **Build out costs – provide a vanilla shell, free rent period**
 - **Utilities should be cheaper**
- **Look within – Pop-ups/Short term retailers**



OTHER SEARCH METHODS

- **“Cold call” – You...the Manager**
- **Local Merchant Advocates**
- **Manufacturers**
- **Active local PR – Success stories, new retailers, customer tributes**
- **Discussion: Other Resources?**





DEAL MAKING STRATEGIES

- **“Bridging to a Positive”**

Example: Pick a Center



- **Find 5 best positive attributes**
- **Adhere to or Create a Leasing Strategy**
- **Budget Conservatively based on Comparables**
Tenants or tiles?
- **Fill holes in the mix not just holes in the center**
- **Tenant Mix Vs. Revenue Issues...What comes first?**



MERCHANDIZING

The art of aligning the mix for improved customer shopping and the increased value of the center

- **Comparison... Dept. Store to the Shopping Center**
- **Zoning or grouping by.....**
 - **Use**
 - **Price Point**
 - **Store Design**
- **Recommendation: Don't overdo it!**



THE LEASING BUDGET

- **Budgets are usually fixed and approved based on theory and projections....It is obtaining the final NOI number that is Key.**

“Conservative budgeting makes future happy faces”

- **Software can not replace the accuracy of space by space budget team based projections**

- **The rules of budget are constant (never down)**

- **Actual/Projected rents can and will change based on tenant space demands, design modifications, and unknowns**

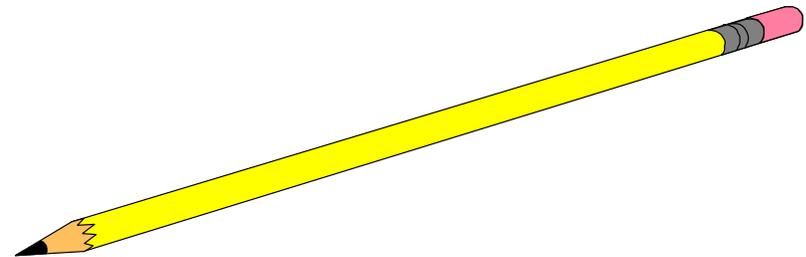
The Bottom Line is to make the Bottom Line



GROUP EXERCISE

- **Discuss the info provided on the next page with your other members of your table**

- **Create a Leasing Strategy to achieve 100% lease up at opening**





LEASING STRATEGY EXAMPLE: GALERIA DEKA

Competitor

- Edge City Location, 5 KM away
- 30,000 m2 GLA
- Anchors - Media Markt, Supermarket, Sports, Food Court, Zara
- Underground pay parking
- Connected to Metro line
- Catchment Area – 230,000 within drive/walk time of 15 minutes

Your Center

- Suburban Location at cross roads of major ring road
- 55,000 m2 GLA
- 3,000 ground level free parking spaces
- Connected to Bus line
- Catchment Area – 300,000 within drive time of 15 minutes, 1.2 M in 30 minutes
- There are 4 anchor spaces. The Hypermarket deal with Auchan is done 18,000 m2. 3 other anchors remain unleased. Average remaining anchor space size is 4,000 m2
- Opening in Oct 2015



Deal Making

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- **HOT/LOI (binding or non-binding)**
 - Positives and negatives
 - Email effect
- **Internal Lease Approval (Done usually on a form)**
- **Signoffs**
 - Financial status
 - Bank signoff (if applicable)
 - Management signoff
- **Standard Lease Document (yours not theirs)**
 - Tenant signs first!



LEASE APPROVAL EXAMPLE

•Tenant	Sports
•Unit	#1
•Term	10 years + 2 opt of 5 years
•Size	2,500 m ²
•Rent	Eur 10/m ²
•Percentage Rent	4%
•CAC	full prorata
•Marketing	full prorata
•Grand Opening Assessment	Eur 25,000
•TA	None
•Free Rent	None
•Space Handover Condition	Modified Shell
•Landlord Construction (add)	Eur 45/m ²
•Other Clauses	Exclusive above 900 m ²
•Cotenancy:	Minimum Anchor GLA of 4,000 m ² in Fashion and Electronics



THE LEASE PLAN – ROADMAP FOR LEASING

- **Spaces, Uses, Numbers, Areas**
- **Columns, Penetrations and Obstructions**
- **Ceiling Height Differences**
- **Dimensions**
- **Vertical Transportation**
- **Servicing**
- **Color Code or Cross Hatch**
 - **Executed and Committed spaces**



Terms and Conditions

Rent

- **Minimum/Base Rent**

- Flat, Stepped, Indexed,
- Per m²/month and /or Total rent Per year

- **Percentage/Overage/Turnover Rent**

- Explanation and Computation

- **Gross Rent**

- **Additional Rent**

- Service/Operating/Common Area Charges
- HVAC
- Marketing
- Special Assessment



PERCENTAGE RENT

(Also known as Turnover Rent)

What is it?

**It is the difference between
A Negotiated Percentage of Sales (i.e.6%)**

And

Minimum Annual Rent

Whichever is Greater



TYPICAL PERCENTAGE RENTS

General Rule: Higher the margin...higher the percentage

•Supermarket	2%
•Electronics	3 to 4%
•Apparel	6 to 8%
•Jewelry	10%
•Fast Food	8 to 10%
•Shoes	6%
•DIY	1 to 2%
•Service Retail	0%
•Furniture	2%



BREAKPOINT

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What is it?

- **The point where percentage rent exceeds minimum rent**
- **Easy Calculation...divide annual rent by the percentage (of percentage rent)**

Euro 100,000/6% = BP - Euro 1,666,666

Landlord gets 6% of all sales over BP



BREAKPOINT (Cont'd)

Types

- **Natural – Percentage remains constant**
- **Artificial – Percentage is varied to increase /decrease the breakpoint or increase / decrease the percentage of sales recovery**

Example 10% to the break... 6% thereafter (good deal) or 4% to the break....6% thereafter (Not so much).



KEY ASPECTS OF PERCENTAGE RENT

- **Define Gross Sales (Lease)**
- **Define Reporting Requirement (Lease)**
- **Enforce Sales Reporting (Management)**
- **Enforce Accuracy (Random Audits)**
- **Bank on It?.....Never!**



TERMS AND CONDITIONS

Lease Term

“Shorter Leases Make Better Tenants”

.....Irving Wolf (the godfather of retail leasing)

- **Benefits of the short term deal**
- **The horror of the Woolworth lease term**
- **Options- Unilateral, Bilateral**
- **Termination or Break Clauses**
- **Amortizing tenant allowance and other concessions**



TERMS AND CONDITIONS

Use Clause

- **For the sale.....and for no other use or purpose**
- **Importance of Control....future value**
- **The more specific the better....**
 - Categories – i.e men’s or women’s shoes
 - Brand names- Hugo Boss or even private label
 - Sizes – Junior, Plus etc.
- **Exceptions to the rule...Tschibo..... cool or not cool?**
- **Beware the term “and other accessories”**



SERVICE CHARGES/CAM

- **Second most negotiated condition**
- **Triple net – NNN – all expenses charged**
- **Pro-rata Share**
 - Based on total area or occupancy – big difference
 - The evolution of the CAP
 - Deficits
 - Reconciliation
- **The US model**
 - Fixed CAM or Service Charges
 - Revenue Growth
 - Could it work in Europe?





TERMS AND CONDITIONS

Space or Unit

- **Numbering (skip a number between spaces)**
- **Size (approximate always)**
- **Measurement**
 - Mid point of demising walls
 - Outside of front, corridor and exterior walls
 - Final measurement upon handover
- **Condition**
 - Shell (Cold and Hot)
 - Custom
 - Turn Key



TERMS AND CONDITIONS

Rent Commencement

- **Handover**

- Partial
- Final

- **Costs during improvements**

- **Services during improvements**

- **Grand Opening**

- Goal is for all to open at once or as early as possible
- Language should reflect this
- Soft or Early Openings
- Rent....The Earlier of



TENANT CONCESSIONS

- **Tenant Allowance (TI/TA)**

- Budget
- When is it appropriate?

- **Free Rent**

- Free rent vs. Allowance
- 6 months limit

- **Stepped Rent**

- Stabilize by 3rd year

- **Recapture from Overage**

- **Landlord Construction Costs**





TOUGHEST CONDITIONS

- **Exclusivity**

The worst word in Leasing

- **Co-tenancy**

Tying other tenant deals to lease validity/rent start/termination (reserved only for key deals)

- **Termination Clauses**

Kick outs, performance, conditions (only as an exception)

- **Common Area Charge caps (anchors only)**

- **Percentage Rent only (seldom)**

- **Gross Deals (popularity increasing)**

- **Turn Key Deals (High rent and when the budget allows)**

- **Affordability Clause**

Occupancy costs not to exceed a %



EXCLUSIVITY...SACRED NO NO

- **What is so bad about it?**

 - Restricts current and future flexibility to lease

 - Decreases perceived value by investors

 - It is a lose/lose for the Developer

- **Best Solution...Just say NO and hold firm**

- **Rationale**

 - Defeats the purpose of a shopping center

 - >depth=>customers=>sales... proven fact

 - Stand alone stores do < sales than shopping center stores

- **What are the Exceptions**

 - Category Killers and Dominant Anchors

 - Conditional Exclusives by size, comp, use.



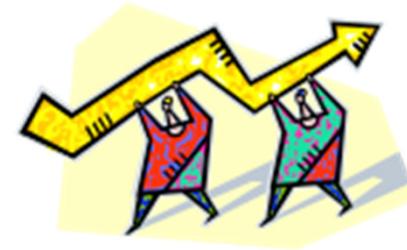
OTHER CRITICAL DEAL ELEMENTS

- Radius Clauses- Negative and Positive
- Security Deposits/ Corporate Guarantees
- Occupancy Percentage Kick Outs and Delays
- Store Hours....Is 24 Hours Good?
- Marketing
 - Assessments: Grand Opening, Advertising Fund
 - General trend
 - US model



DEAL MAKING DO'S AND DON'TS

- Know and use your leverage
- Always return phone calls
- Be careful with email...never for negotiation
- Check, check and check again all docs
- Get it in writing..verbal commitments are worthless
- Use the Partners or Board for cover
- Don't take it personal





COUNTERING THE OFFER

- **Options:**

 - Just say NO, Ignore it, Find a Solution

- **Remember that the Goal is to make a deal**

- **Confirm positions on ALL terms and conditions**

- **Identify where you can and can't give**

- **Solve the key terms... Rent, Rent, and Rent**

- **Don't get stuck on the small points**

- ***Time Kills Deals!***

 - Bring the your best possible deal forward for approval.

 - What is the worst that can happen





VOCABULARY

- GLA
- Common Area Charges
- Minimum, Gross, Percentage and Additional Rent
- Demising
- TA
- Shells: Cold, Hot, Vanilla
- Fire Rating
- Grade
- Exclusivity
- Storefront Design Criteria
- Recapture
- Parking ratio
- Stub in
- As is and As built
- HVAC



Tips

“People do Business with People they like”

“Best Tenant, Highest Rent, Worst Location”

“Every Location has a Positive”

“Honesty really is the Best Policy”

“Only a Fool represents himself in court but a good manager should be able to play lawyer from time to time”



CONCLUSION

....Leasing Merchandises the Center
....Development Builds initial value

BUT

MANAGEMENT DRIVES ASSET VALUE



Class Evaluation:

Please remember to complete the class evaluation by using your smartphone or tablet.

Class Evaluations Link:

survey.icsc.org/2014ERPS

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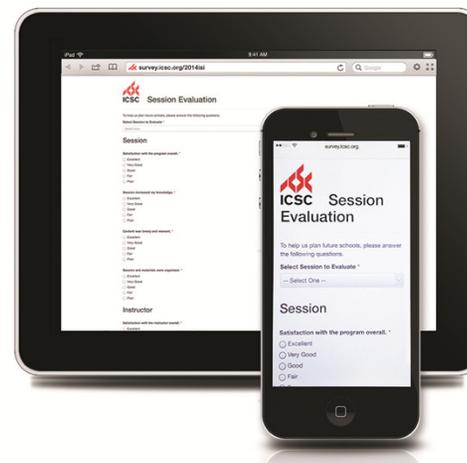
SESSION:
INSTRUCTOR(S):
Please rate the following by circling the appropriate number.

SESSION:	Excellent	Good	Fair	Poor	
1. Satisfaction with the program overall.	5	4	3	2	1
2. Session increased my knowledge.	5	4	3	2	1
3. Content was timely and relevant.	5	4	3	2	1
4. Session and materials were organized.	5	4	3	2	1

INSTRUCTOR(S):	Excellent	Good	Fair	Poor	
1. Satisfaction with the instructor overall.	5	4	3	2	1
2. Instructor demonstrated a strong command of the information.	5	4	3	2	1
3. Instructor was enthusiastic, professional and kept me engaged in the learning.	5	4	3	2	1
4. Instructor provided practical and relevant examples?	5	4	3	2	1

COMMENTS:

1. What issues, challenges or trends are you dealing with now that could be recommended for future education sessions?
2. What is the most valuable takeaway you gained from the session?
3. What enhancement would you recommend for the session?
4. Additional comments?



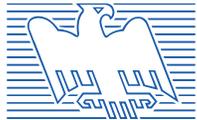


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