

Current Economics of the Deal

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11:25 am – 12:15 pm

- Understanding Net Effective Rent
 - Landlord Costs: Landlord Work; TI Allowance; Free Rent; Brokerage Commission
 - Example: \$80/sf base rent; 20,000sf; 10 year deal; 6 months free; \$70 TI allowance.
 - Net Effective Rent is \$1,600,000/yr or \$16,000,000 less \$800,000 less \$1,400,000, which equals \$13,800,000= \$69/sf
 - Plus (x) Landlord Work, and (y) Brokerage Commission of \$768,000 [$1.5 \times 32\% \times \$1,600,000$] or \$3.85/sf
- Understanding Cap Rates
 - What Is Cap Rate? Percentage Return on Investment
 - Cap Rate = NOI/Value
 - Lower Cap Rate = More Stable Asset/Stronger Market
 - Example: \$1,000,000 with a 5% Cap Rate = \$20,000,000 in Value
- Buying up the Rent Stream: Taking advantage of low cap rates
 - \$10 million in TI Allowance = \$20 million in value.
 - Should buyer/lenders be looking at the NOI or the Net Effective Rent?
- Breaking Down the Costs of Ownership
 - Operating Expenses are \$15/sf and Real Estate Taxes are \$13/sf. So Net to Landlord is \$52.
- Operating Escalations versus Percentage Increases
 - 2.5% of \$80 [\$2/sf] versus 5% of \$15 [\$0.75/sf]
 - Issues: (i) When To Add In Interval Step Ups; (ii) Should they apply during renewals?; (iii) Exclude from Brokerage Commissions
- Understanding Percentage Rent
 - Percentage Rent is Street Retail Trend Today
 - Natural Breakpoint = Minimum Rent divided by Percentage Rent Rate
 - Example: \$1,200,000 Minimum Rent, 6% Percentage Rent Rate. Breakpoint is \$20,000,000.