

# SHOPPING CENTER ASSESSMENT VALUATION ISSUES

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Appraisal  
Institute™

*Professionals Providing  
Real Estate Solutions*

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# What Do We Do?

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- **Retail/Commercial & Mixed-Use Feasibility/  
Strategic Implementation Consultants**
- **Intersection With Appraisal Techniques:**
  - Preparation of Rental Income Pro Formas;
  - Cost Estimates & Land Residual Analyses;
  - Due Diligence Acquisition Assignments;
  - Shopping Center Sales Projections & Analysis  
of Existing Sales;

# What Do We Do?

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- **Intersection With Appraisal Techniques (continued):**
  - Competition Impact & Rent Projections;
  - Redevelopment/Re-Leasing Strategies & Pro Forma Impacts;
  - Current & Future Shopping Center Valuations—
    - Frequently Confidential/Future Strategy-Oriented For Ownership Or Buyer's Use

# SHOPPING CENTER ASSESSMENT VALUATION ISSUES

## Happy Shopping Center 😊



# SHOPPING CENTER ASSESSMENT VALUATION ISSUES

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## Sad Shopping Center ☹️



# SHOPPING CENTER VALUATION "FUNDAMENTALS": ITS ALL ABOUT THE RENTS & RENTAL GROWTH

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- Rents, Rental Growth & Turnover-Rents = Most Important Factors
- Vacant Space & Projected Vacant Space Issues Critical
- Expense Issues Typically Not As Critical Or Controversial
- Most Risk & Most Mistakes Are In Revenue Assumptions

# SHOPPING CENTER VALUATION "FUNDAMENTALS": ITS ALL ABOUT THE RENTS & RENTAL GROWTH

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- Valuation Reviewers Focus On Cash Flow As "King"
- Cap Rates; Reversionary Values; IRR'S: Metrics Easily Researched
- Rents & Rent Growth Require Awareness Of Complex Demographic, Market, Tenant & Management Factors
- Be Wary of "Wind-Shield" Effect

# TOP 12 “HIDDEN” SHOPPING CENTER VALUATION POTENTIAL PITFALLS

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1. Unhealthy Or Unsustainable Rent-To-Sales Ratios
2. Significant Soon-To-Be Vacant Space
3. No Competition Barriers To Entry
4. Structurally Weak Demographics



# TOP 12 "HIDDEN" SHOPPING CENTER VALUATION POTENTIAL PITFALLS

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5. Rents & Sales Already "Maxxed Out"
6. Vulnerable Anchor/Mini-Anchor Stores
7. Extraordinarily High Extra Charges (CAM+)
8. Unusually High Construction Costs

# TOP 12 “HIDDEN” SHOPPING CENTER VALUATION POTENTIAL PITFALLS

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9. Misunderstanding Of Tourist Market “Drivers” Of Spending
10. Inability To “See” Immediate Area Over-Supply Signals (Other Than Vacancies)
11. Not “Seeing” The Impacts Of Overly Tight & Unpopular Parking
12. Residentially-Based Design-Driven Mixed-Use Lacking Basic Retail Principles

# HEALTHY RENT-TO-SALES RATIOS

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## Total Rent-to Sales Ratios

$$\frac{\text{Annual Total Rent (Min. + All Extras) Per S.F.}}{\text{Annual Sales Per S.F.}} \div$$

- Percentage Reflects Tenant's "Health Ratio"
- Health Ratios Differ By Major Categories
- Should Separate Out Anchors/Mini-Anchors Vs. In-Line Shops
- In-Line Shop Health %'s Differ By Category

# HEALTHY RENT-TO-SALES RATIOS



## SAMPLE "TOP" NOT-TO-EXCEED "STABILIZED PERIOD" TOTAL RENT-TO-SALES RATIOS

### Stabilized Period=Beyond 2-3 Yr. Initial Lease-Up

- Grocery: 1.5% to 2.5%
- Drug: 2.5% to 3.5%
- Mini-Anchor Retail (Approx. 5,000-20,000 S.F.): 6.5% to 8 % (larger), less than 10% for smaller
- Full-service sit-down restaurants: 7.5% to 10%
- Cafes (2,500-4,500 S.F. restaurants): 10% to 12%
- Quick/Fast Foods: 13% to 15%
- In-line (Non-food) Retail (<5,000 S.F.): 10% to 13%

# NEIGHBORHOOD SHOPPING CENTER EXAMPLE

## RENT-TO-SALES RATIOS



	S.F.	Per S.F. Rent	Annual Per S.F. Sales	Rent-to- Sales Ratio
<b>ANCHORS</b>				
Grocery	47,500	\$15.00	\$600	2.5%
<b>Subtotal:</b>	<b>47,500</b>	<b>\$15.00</b>	<b>\$600</b>	<b>2.5%</b>
<b>RESTAURANTS &amp; CAFES</b>				
Restaurants	7,052	\$24.50	\$350	7.0%
Cafes (1,200 to 2,400 s.f.)	17,877	\$31.00	\$250	12.4%
<b>Subtotal:</b>	<b>24,929</b>	<b>\$29.16</b>	<b>\$278</b>	<b>10.5%</b>
<b>RETAIL</b>				
In-Line Shops	36,731	\$31.00	\$220	<b>14.1%</b>
<b>Subtotal:</b>	<b>36,731</b>	<b>\$31.00</b>	<b>\$220</b>	<b>14.1%</b>
<b>SUBTOTAL</b> <i>(SALES PRODUCING SPACE)</i>	<b>109,160</b>	<b>\$23.62</b>	<b>\$399</b>	<b>5.9%</b>
<b>OFFICES/SERVICES</b>				
Service Shops	19,021	\$28.00	-----	
Offices	19,790	\$28.00	-----	
<b>Subtotal:</b>	<b>38,811</b>	<b>\$28.00</b>	-----	
<b>VACANT SPACE</b>	<b>37,326</b>			
<b>GRAND TOTAL</b>	<b>185,297</b>	<b>\$19.78</b>		
<b>ALLOCATION OF SQUARE FOOTAGE</b>				
ANCHOR S.F.	47,500	25.6%		
FOOD & RETAIL	61,660	33.3%		
OFFICES/SERVICES	38,811	20.9%		
VACANT	37,326	20.1%		
<b>TOTAL</b>	<b>185,297</b>	<b>100.0%</b>		

# SOON-TO-BE VACANT SPACE: WHAT IS IT?

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- Unsustainable Rent-To-Sales Ratio
- Weak Sales For Category
- Low Inventory
- Poor Store Presentation/Merchandising
- Floundering Retail Niche
- Lack Of Cohesive Strategy
- Amateur/"Hobbyist" Without Capital
- Inattentive Salesmanship

# LACK OF FUTURE COMPETITION BARRIERS: WHAT DOES THIS MEAN?

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- Flat City Grid Pattern:
  - Think Dallas Or Phoenix
- Govt. Entitlements Geared To Increasing Retail
- Residential Communities That View Retail As Amenity
- More Is Better Syndrome....
- Retail On Every Arterial Corner
- Lack Of Prominent Physical Barriers:
  - Hills, Mountains Lakes, Rivers, Ocean, Etc.

# WHAT ARE "STRUCTURALLY WEAK" DEMOGRAPHICS?

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- Mature, Non-Growing Housing--Lack Of Land For New Growth
- Retirees, Pre-Retirees, Aging Consumers
- Mixed-Use Office Retail In Low Office Worker Markets--Lack Of Office Growth
- Tourist-Driven Projects Dependent Upon Day-Trippers



# WHAT ARE "MAXXED OUT" SALES & RENTS?

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## CENTERS WITH PEAK SALES & RENTS BUT.....

- Mature, Non-Growth Housing Market
- Top Sales For Retail Category Already
- Expected Increases To Track Inflation
- As Good As It Gets....
- Parking As Constraint On Further Increases

# WHAT IS A VULNERABLE ANCHOR/MINI-ANCHOR?

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- Concept Unsustainable (Think Home Expo)
- Tenants' Sales Weak
- Anchors Do "Walk Away" Today From Leases
- No "Go Dark" Clause
- Landlord Does Not Own Pad--Tenant Does
- Store Recently Acquired
- Competition "Killing" Concept
- Rent Too High
- Store Not Really Functioning As "Anchor" With Cross-Over Shopping

# WHY ARE HIGH EXTRA CHARGES A PROBLEM?

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- Security, High Pedestrian Issues, Crime
- Can Greatly Impact Owner's Bottom Line
- Management Issues?
- When Extras = Rent.... It Forces Super-Duper Need For Top-Sales Performers
- Reduces Tenants' Profitability
- Can Increase Turnover

# WHY WOULD HIGH CONSTRUCTION COSTS IMPACT VALUATION?

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- New/Rehabbed Centers Need Top Rents
- Centers Require High S.F. Of Small Shops With Strong Sales
- Big Box Tenancies Often Do Not Work
- Smaller Centers Are Often Stronger
- Continuing Maintenance Costs Higher

# MISUNDERSTANDING TOURIST MARKETS

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- Day-Trippers Vs. Overnight Visitors
- Short Vs. Long-Term Stays
- Longer Stays = More Spending
- Food/Entertainment Vs. Retail Sales
- Does The Future Mean More Hotel Rooms?
- Proximity Is Important
- And Yet: Some Tourists Are Fluid Car Travelers
- Recent Recession Problems
- Top Markets: Orlando, Las Vegas, Hawaii
- Caution Re: Chamber/City Data

# WHAT ARE OVER-SUPPLY SIGNS OTHER THAN VACANCIES?

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- Lots Of Non-Retail, Non-Food Services (Offices)
- Lots Of “Hobbyists”
- Excessive Independent Retailers With Weak Experience
- Young Center With Above Characteristics
- Unproven Tourist Market--Young Center
- Seasonal Market
- Most Spaces Exhibiting Below-Market Rents

# PARKING PROBLEMS DIFFICULT TO "SEE":

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- Tight Parking Constraining Tenant Sales
- Unpopular Structured or Paid Parking
- Perceived Unsafe Parking
- Over-Priced Parking
- Inconvenient Parking

# POOR MIXED-USE DESIGNS THAT ARE STRUCTURALLY WEAK:

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- Residentially-Driven
- Faddish Designs
- Lack Of Retail Store Merchandise Visibility
- No Anchor Stores
- Poor Store Layouts
- Office-Looking Designs
- Hidden Shops
- Customer Does Not View As Shopping Destination



# A SHOPPING CENTER VALUATION QUESTIONNAIRE: THE TOP 10 QUESTIONS

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1. What have been the anchor total annual and per-square-foot sales over last 3-5 years?
2. What have been per-store total annual food sales and sales-per-square-foot sales over last 3-5 years, broken out by the following categories:
  - Major restaurants (4,000 s.f.+)
  - Cafes (1,500-4,000 s.f.)
  - Quick/Fast Foods (<1,500 s.f.)

# A SHOPPING CENTER VALUATION QUESTIONNAIRE: THE TOP 10 QUESTIONS

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3. What have been the per-store **non-food, non-service** total annual sales and sales per-square-foot over the last 3-5 years?
4. What are the current annual rents per square foot for all tenants? (Provide current site plan showing current tenants and vacancies, showing square footages).
5. When are store leases expiring, and where are their locations? (Provide site plan showing lease expiration years by store location).

# A SHOPPING CENTER VALUATION QUESTIONNAIRE: THE TOP 10 QUESTIONS

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6. What are all the new leases signed, and what spaces will they occupy? What other deals have LOI's?
7. When was the last renovation or other physical upgrading conducted for the center, and how much was spent? (Please provide photos and plan showing changes).
8. How many service tenants and what is total service-oriented space as percentage of total in-line (non-anchor) space?

# A SHOPPING CENTER VALUATION QUESTIONNAIRE: THE TOP 10 QUESTIONS

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9. What are the total per-store annual "extra" charges, summarized by expense?
  - Real estate taxes
  - Common area charges
  - Marketing/ promotion/ advertising
  - Any other expenses?
  - What are non-recoverable expenses management incurs?

# A SHOPPING CENTER VALUATION QUESTIONNAIRE: THE TOP 10 QUESTIONS

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10. What are the total rent-to-sales ratios by the following categories, with "total rent" comprising all rent components paid by tenants, including minimum or base rent plus all extra charges:
- Anchor Stores
  - Major Restaurants
  - Cafes
  - Quick Foods
  - In-Line Retail (Non-Food, Non-Service) Shops