



Breathing New Life into Underperforming Retail Properties

Under performing retail centers abound throughout California's cities. These shopping centers struggle due to changing demographics, dying or our dated retailer concepts, new anchors moving in, or something newer, better, with more energy moves in.

Opportunities abound for Caliber Retail Properties' to help others reposition properties and unlock and create more value.

By using our data base to sort potential preferred anchor tenants by category and required square footage, Caliber is able to determine which retailers are already positioned in the Subject's trade area, and what categories may be underserved and best fit the customer base.

Full renovation of the exterior, adding new signage and lighting, resurfacing the parking lot. The results are a much better performing property and the trade.

Creatively Devising Solutions and Providing Strategies That Bring Added Value

10 Leasing Strategies to Assure Maximum Value

1. When we sign a lease, we are assigning rights to use our property; relinquishing control of our property to the extent that the lease provides in exchange for rental income.
2. Don't let mistakes and oversights cost you cash flow or overall value.
3. Convert to or Maintain NNN Leases.
4. Recapture Management Fees.
 - a. Usually 3-5% of Base Rent or Gross Income, depending upon the size of project.
5. Recapture Administration Fees
6. Get and Enforce Base Rent Increases
7. Say NO to Expense Caps
8. Avoid Giving Options...and worse case if you do, make them PERSONAL to Tenant
9. Boost NOI with TI's and Free Rent
10. Avoid Exclusive Use Clauses

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- In considering refurbishments with a property. Stop and Read!
 - Leases & Exhibits, CC&R's, REA, to locate "lease obstacles" to possible renovation
 - Thoroughly review and analyze tenant mix!
 - Imperative to read all Leases!
 - Tenant Extensions / Rate / Roll-Over's / Retention %
 - Clauses that will be difficult to maintain during renovation and renegotiate them!
- Status of all Leases to locate obstacles to possible renovation, Lease obstacles.
 - REA controls? _____
 - Right to approve architectural changes? _____
 - Right to approve changes to Common Area? _____
 - Right to approve changes to Parking Lot or Buildings? _____
 - No Site Plan changes without prior approval? _____
 - Exclusives - Uses & Parking Lot? Control? _____
 - Co-Tenancy Provisions? _____
 - Operating Covenants, REA reqts. _____
 - Kick-Out Provisions? _____
 - Lease Extension / Renewal Terms? _____
- Tenant Name _____
- Parent Company _____
- Franchise _____
- Who Signs/Guarantees _____
- Personal Guarantees _____
- Tenant leasable square footage _____
- Size / Bay Depths _____
- Tenant Profile _____
- Sales Turnover Information _____
- Tenant Financials _____
- Credit Reports _____
- Tenant Organization Paperwork _____
- Tenant's Suite Number _____
- Minimum Rent including applicable rent increases _____
- How do Minimum Rent and Percent Rents compare with current market values?
- How much Percentage Rents have actually been paid?
- Sales Reports, Health Ratio of Retailer? Is Tenant operating at a profit?
- Remaining Term
- Lease Options _____
- Lease Commencement date _____
- Lease Termination date _____
- Expense reimbursement information for CAM, Taxes, Insurance, and sales figures _____
- Use / Exclusives _____

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- ❑ Co-Tenancy Clause & Control Provisions _____
 - Exclusive / Competitive Uses, Parking, Common Area, Building,
 - Changes to Site Plan, Ingress-Egress, Assignment / Subleasing, Control Issues,
 - Caps on CAM
- ❑ Operating / Opening Covenant _____
- ❑ Relocation Provision _____
- ❑ Status of all Leases; Locate possible obstacles to proposed renovation _____
 - i.e., "No changes to Common Area , Buildings, Site Plan without prior approval"
- ❑ Does Lease permit other uses, assignment or sub-leases _____

- ❑ Type and value of each Tenant Improvement?
- ❑ Is the Lease NNN, Gross or Bond _____
- ❑ If NNN, what does it
 - Include: _____
 - Exclude: _____
- ❑ Is the Management Fee being Recaptured/Recapture able ? _____
 - (3-5% o of base Rent is ideal)
- ❑ Is the Administrative Fee being Recaptured/Recapture able? _____
 - The cost of contracting , supervising and paying for CAM charges
 - (Admin. Fee being collected on CAM , 10-15% on total CAM is ideal)
- ❑ Does the Lease incorporate annual rental increases _____
 - (3-5% fixed annual increases are ideal; annual CPI-based increases are great when they include a "not less than" clause)
- ❑ Get and enforce Base Rent Increases _____
 - (try to achieve annual, fixed rent increases)
- ❑ Have Any Expenses Been Capped Or Excluded _____
 - (If so, how can we renegotiate to remove the caps or exclusions)
 - Worse case. A one-time cap on sale every 5 years.

- ❑ Do the Leases avoid giving any Options to Extend the Lease? _____
- ❑ **If Options have been given, do they include the following** _____
 - A provision voiding the options if the Tenant is in default?
 - A provision voiding the options(s) if the Premises has been Sub-Leased
 - A fair market value adjustment at each option?
 - "Not Less Than" language at each FMV adjustment?
 - Increases during each year of the Option term(s)?
 - Options Personal to Tenant?

- ❑ Option Period _____
 - Rent Adjustments _____
 - Caps _____
 - FMV language, etc. _____
 - Hair cut letter for value impact over option period _____



- Has Estoppels language been included in the Lease _____
- Has SNDA language been included in the Lease _____
 - Subordination - To any mortgage , Deed of Trust
 - Attornment - Transfer of title upon foreclosure, tenant reqd. to sign new Lease.
 - Non Disturbance - Lease will not be disturbed
- IS the Lease personally guaranteed?
- Percentage Rent Clause? _____
- Gross Sales reporting clause? (Monthly is better) _____
- Does the Lease avoid Exclusive Rights, Operating Covenants, and Co-Tenancy provisions?** __
- Continuous Operations Clause? _____
- Right to Recapture Clause? _____
- Leases to state; _____
 - If improvements or added co-anchor = increased rent
- Buying Rent with TI's and Free Rent - The quickest Way to boost NOI! _____
- Site Plan controls _____
- Parking Lot Or Common Area Controls Or Exclusivity (exclusive parking) _____
- Extent of Common Areas in the center and whether leases permit changes in the common areas, entrances, exits _____
- Exclusives Uses _____
- Review all Co-Tenancy and Exclusive provisions _____
- Enhancement Provisions (if center is improved) _____
- Do existing leases prohibit Competing Tenants (Exclusives?) _____
- Do existing leases permit Assignments or Subleases for other uses _____
- Kick-outs or Termination rights _____
- Do existing tenants that the Landlord wishes to retain have the right to terminate their leases if the Landlord fails to keep a certain number of (anchor) tenants or a certain amount of in-line space open and operating during expansion and rehabilitation?
- Obligations of the existing tenants to contribute to the center's operating expenses and whether these amounts have been billed and paid _____
- Architectural Approvals required prior to renovation _____
- Other Approvals needed from Anchors _____
- How do Minimum and Percentage Rents in existing leases compare with current market values and how much percentage rent has actually been paid _____
- Income Tracking / Sales reports from existing tenants? _____
 - Ability to confirm if operating at a profit and generating traffic for center
 - How industry (& center) is doing as a whole!
- Assess the type and value of each tenant's existing TI's and whether these improvements will remain in the space or be removed at end of Lease Term _____
- The amount of Real Property Taxes assessed on the center _____
- The amount by which repositioning will increase these Taxes, and the availability of tax incentives for redevelopment or improvement to the center _____
- Any Defaults or 3 Day Notices in the last 12 months _____



- ❑ Current Signage in the center and whether current tenants have the right to additional signage or approve changes in the signage _____
- ❑ Whether leases permit the Landlord to Relocate a Tenant _____
 - After review of the above;
 - Obtain Early Termination of poorly performing Tenants that are not suitable for center's new position!
 - Allow poor performers to terminate with a 2 months' notice; Buyout others!
- ❑ Obligations of Existing Tenant(s) to contribute to the Center's operating expenses and if these have been billed and paid?
- ❑ Does Lease permit changes in the Common Area?
- ❑ Budget – Tenant Relocation _____
 - Moving, Build out, Signage, Letterhead Costs to Relocate
- ❑ Excel Worksheet (Quick Pro forma)
- ❑ Hunt for Onerous Lease Provisions
(Use Clause – Co-Tenancy – Kick-Outs – Right to approve changes -)
- ❑ Approvals that will have to be obtained from anchors and other tenants.
- ❑ Remaining terms of existing leases and whether they have options
- ❑ How minimum and percentage rents in existing leases compare with current market values, and how much percentage rent has been paid.
- ❑ Sales reports of existing tenants and whether they are making a profit, how each stack up to industry and Dollars and Cents averages.
- ❑ Whether leases prohibit competing tenants.
- ❑ Whether leases permit other uses or assignments of sub-leases of other uses.
- ❑ The type and value of each tenants existing tenant improvements and whether these improvements will remain in space or removed at end of lease term.
- ❑ The amount of taxes assessed on the center, the amount by which repositioning will increase these taxes, and the availability of any tax incentives for redevelopment or improvement to the center.
- ❑ Obligations of existing tenants to contribute to the center's operating expenses and whether these amounts have been billed and paid.



- ❑ Extent of existing common areas in the center and whether existing leases permit changes in these common areas.
- ❑ Current signage in the center and whether existing tenants have the right to additional signage or to approve changes in signage.
- ❑ Whether leases permit landlord to relocate tenants.
- ❑ Whether existing tenants that the owner wishes to retain have the right to terminate their leases if the owner does not keep a certain number of in-line space open and operating during the expansion and rehabilitation.
- ❑ After this review, Owner should obtain early termination of poorly performing tenants that are not suitable for center's new market position.
- ❑ Tenant's that are losing money will be willing to agree that landlord can terminate their leases at any time with a few months' notice.
- ❑ Next, the owner should then consider desirable tenants whose leases expire within the next 2-3 years, and who have options to renew. If these tenants are profitable and they want to stay in the center, then the owner should be able to renegotiate their leases and raise the rents to current market rates in return for an extended term.
- ❑ Most leases of in-line space give Landlord right to relocate, providing it's comparable and LL pays the costs of relocation, moving, and new space build out costs, and concessions to placate tenant.
- ❑ Even tenants with substantial remaining lease terms or options to renew and no relocation obligation can usually be persuaded to move to a new location when a center is rehabilitated.
- ❑ In terminating tenants and re-leasing space, the owner must keep in mind requirements for co-tenancy that leases of the most desirable tenant usually contain. These provisions give the right to reduced rent or termination if too few stores are open and operating.
- ❑ Before the major center renovation, the owner should reach agreement with these tenants that allows more store closures, in exchange for percentage of sales rather than fixed rent.
- ❑ In anticipation of rehabilitation, owner may wish to offer only short-term leases that permit the owner to terminate with notice.
- ❑ Should allow for accommodations in leases, if rehabilitation or center is substantially changed, it would allow for provisions for increased rent if inline space is upgraded or enlarged, or an anchor is added.
- ❑ Always allow for the center to add square footage or make modifications to center and common areas with approval, and to relocate tenants.
- ❑ In all exiting centers, be very wary of strict co-tenancy provisions, unless it takes effect at some time in future, to allow for renovation or repositioning.



Working Together Fairly

KEY LEASE PROVISIONS

Force Majeure – Continuing Operations – Business Disruption

This is where long term, synergistic relationships will be created.

Tenants

- **Be Honest -**
- **Communication is Key -**
- **Be Prepared –**
 - Provide LL 2019 sales reports and year-to-date 2020 sales
 - Provide financial statements
- **Be prepared for full disclosure -**
 - Tenants Tell the whole Story – LL’s Listen to the Story
 - When did store close? -
 - Know LL / T Full Lease Obligations
 - Discuss new Offer
 - Discuss / Frame - New temporary / permanent lease terms
 - Rent commencement
 - Rent deferral
 - Rent abatement
 - % Rent in Lieu
 - Tenants - Make your own case specific to you
 - Landlords – Make abatements and all concessions contingent upon fulfilling the balance of lease term without future defaults.
- **Tenant**
 - Program Applications – Correspondence – Status
 - PPP
 - EIDL
 - Historical Sales since opening
 - 2019
 - Year to date
 - Financial Statements - certified
 - Personal
- Tenants Lease & remaining term
 - What Is Tenant’s Offer?
- What is Tenant’s Plan? Best Practices Plan?
 - Marketing Plan – 3rd Party Delivery – Curbside – Dining Room – etc.

- What is LL's counter
 - X percent discount
 - LL right to terminate.
 - Defer, rent, extend term? bury concession into a blend/extend.
 - Confidentiality Clause!

- Loan Document Requirements
 - Tenant inducements that vary from docs.

Make a Deal – based upon compromise & trade offs

For Franchisees

- T & LL, ask what the Franchisor is doing to help?
- If nothing, Why?
- T provide LL identical sales reports provided to Franchisor, certified
- LL to engage franchisor

Resources

- Federal Programs
 - <https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>
- Other Resources
 - <https://laedc.org/coronavirus/>