

COURSE SYLLABUS:

RETAIL REAL ESTATE AND DEVELOPMENT

SPRING 2018

PLA6585

1.5 CREDITS

Monday, 4pm to 6pm, 200 South Fayerweather

Instructors:

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Class assistant: TBD

1. COURSE DESCRIPTION

The success of the shopping center is driven by a combination of the strength of the real estate and the retailer. In the case of retail real estate, the success of the retailer (user) is arguably more correlated to the fundamentals of the underlying real estate than the tenants (users) of other asset classes such as office and industrial. The course will discuss retail real estate from the perspective of both the retailer and the landlord / developer.

The retail industry is very competitive, resulting in frequent turnover of the leading tenants. Furthermore, ecommerce and mobile phone applications are accelerating the pace of change in the retail industry and retail real estate. A thorough understanding of the retailer's business model will increase the likelihood of success for retail real estate investors and developers. New openings and closing occur almost every day. With proper due diligence of submarkets and an awareness of the competitive landscape of tenants, the constant change within the real estate industry provides opportunity for disciplined investors.

In addition to contemplating trends in the retail real estate industry, the class will review the primary considerations of the retail developer and owner, including tenant mix, shopping center design, leasing, and valuation. The lease not only outlines the economics of rent and expenses; it also establishes various rights and restrictions of both landlord and tenant.

1. COURSE REQUIREMENTS AND ASSIGNMENTS

Students will be expected to research trends in retail and retail real estate during the 6 week class, share findings from readings on the industry, and actively participate in class discussions.

Assignments will involve researching and recommending retailer(s) as part of a leasing strategy and drafting a letter of intent reflective of key lease clauses and issues. Students will need to consider both the property's characteristics (i.e. location, shopping center configuration, competition, market demographics) and the retailer's business (i.e. consumer draw, other store locations, financial health, customers, desired co-tenancy, spatial requirements) as part of the work.

The class discussions, assignments, and research will culminate in a final assignment in which students will need to propose a specific shopping center or proposed retail development for investment, as part of a larger overall investment strategy that students find the most fitting for today's retail RE landscape.

III. COURSE GRADING CRITERIA

Course grading criteria are as follows:

- Attendance and in-class participation: 30%
- Assignments: 30%
- Final Assignment: 40%

Only exceptional performers will receive a High Pass. Those who fall short on more than one major assignment will receive a Low Pass.

1. COURSE OUTLINE

Class 1 (Monday, January 22nd): Introduction

- Industry Size & Scope
- Supply & Demand
- Operating Metrics
- Types of Shopping Centers
- Design Characteristics
- Major Owners
- Tenants / Retailers / Retailer Requirements
- E-commerce / Retail Trends

Class 2 (Monday, January 29th): Leases

The retail lease represents a long-term commitment on behalf of both landlord and tenant, often lasting 10 years and frequently 25 + years. The retail lease addresses the many business issues (often unique to retail) that both Landlord and Tenant must contemplate and will have to endure for the duration of the lease term.

Key clauses of leases and real world examples of leasing negotiations will be discussed, involving:

- Lease types: ground lease, NNN lease, NN lease, gross lease
- Economics: Base Rent, reimbursements (additional rent), percentage rent, natural breakpoint;
- Operating Clauses:
 - CAM, RE Tax & Insurance, Controllable expenses, Expense caps
 - Permitted Uses / Prohibited Uses / Exclusives
 - Assignment & Subletting
 - Repairs / Maintenance / Alterations
 - Kick out clauses, Right of Recapture
 - Cotenancy (“Inducement Tenants”)
 - Relocation Rights

Class 3 (Monday, February 5th): Retailer Perspective

A leading retailer (TBD) will join the class discussion and provide some direct perspective from the standpoint of the tenant.

- Site Selection
 - Spatial criteria, traffic, demographics, etc.
- Research methods & tools
- Expansion Strategies
- Prototypes
- Key lease terms according to the retailer
- Store operations
 - Merchandising
 - Labor force
 - Marketing
 - Operating costs & Occupancy Costs
- Ecommerce / Omni-channel Retailing
- Competition

Class 4 (Monday, February 12th): Landlord / Developer Perspective

- Deal Types & Sourcing
 - Development
 - Redevelopment / Repositioning
 - Core / Stable assets
- Investment Criteria and Risk Management
- Leasing strategy
- Due Diligence
- Financing
- Tenant Roster & Mix
- Operations / Management

Class 5 (Monday, February 19th): Underwriting / Tenant Credit

Underwriting:

- Economic Evaluation

- Back of the envelope
- Development yields, spreads to cap rates
- UIRR, LIRR, cash on cash
- Price per pound
- Waterfalls, promoted interests
- Operating Expenses & Reimbursements
- Qualitative risks and considerations
- Example proforma & development models
- Case Study

Tenant Credit

- Credit Considerations
- Ratings
- Financial Metrics