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The Shopping Center Of Today

The multi-screen theater in shopping centers has been around for a long time but they have not been thought of as a key tenant until recently. The shopping center has gone way beyond a place where you can buy appeal and shoes. The shopping center of today is more of an entertainment center than just a shopping center. The key tenant in a shopping center was often a store from a nationwide chain that carried a wide variety of quality, brand-name items. Instead of signing just a department store as the anchor tenant, some large shopping center owners and operators are now choosing to sign a multi-screen movie theater as the key tenant. The multi-screen movie theatre may attract more people, more often than any type of store because they feel a movie theatre is a better drawing card for shoppers. Some large centers have signed up both a movie theater and a major department store as key tenants.

Either before the movie begins or after it is over, people can and will shop. Usually, all of the family members will come to the theatre, although not all together or at the same time. It has appeal for the whole range of spenders, from Mom and Dad to teenagers and their friends. By encouraging people to “get out of the house”, movies also encourage these people to combine a shopping trip with a few hours of movie entertainment.

Many centers now have more activities for the whole family, such as: climbing walls, Lego stores, different activities for kids and a big variety of restaurants and cafes from fine dining, to sushi, pizza and sports bars.

Special Attributes

Because a movie theatre has special attributes, here are some further ideas about the use of a theatre as a key tenant in the shopping center:

• Late running movies end after the stores in a shopping center will normally have closed making window shopping, and restaurants a prime target.

• The theatre should schedule plenty of afternoon and early evening programs to be an effective “anchor” tenant.

• Saturday morning or afternoon shows that are designed particularly for young children afford an excellent opportunity for parents to shop while the kids are safely enjoying a movie. The shopping center operator should negotiate a realistic programming schedule with the theatre manager, a schedule that will also let parents shop for uninterrupted hours.

• Many movie theatres display advertisements on the screen. These ads not only boost the awareness of stores and services available within the shopping center, they suggest to movie goers: “Go shopping.”

The Shopping center operator

(continued)

could also prepare a directory of all stores and services available within the center and include hours of business for each. This "pocket size" directory could be taken back to the car and then home as a ready reference for the theatre patron.

• Think about security for packages during the time shoppers are in the movie theatre. Security guards, cameras and roving patrol cars help minimize problems outside in the parking areas. Stores might hold packages purchased before the movie starts for pickup later.

Locate The Theatre Within The Center

The whole idea will be wasted if the theatre is located off by itself, near the end of the shopping center. The best location is in the middle of the shopping center with retail stores on each side of the theatre's main entrance. This permits and encourages, theatre goers to walk and see the stores nearby. Some shopping centers have the exits from the movie theatre lead patrons to the retail stores. ❏

The Purchase–Option Contract

A purchase-option contract lets the buyer-optionee purchase a property at a specific price within a certain period of time. If the option is exercised, a closing is held and the property is purchased at the price previously agreed upon. There is no legal obligation to buy the property. But, if the optionee does not exercise the option, the deposit paid to the seller-optionor is forfeited.

The biggest differences between the purchase-option and direct ownership may be two advantages from the viewpoint of the investor: First, the short term (6 to 24 month) purchase option contracts can be an outstanding way to control property without assuming the responsibilities of ownership. Second, the contract enables the optionee to receive all of the benefits from appreciation in market value of the property.

Basic Responsibilities Eliminated

There are five basic responsibilities of property ownership that are eliminated by using the purchase-option contract:

Long-term Commitment. With many investments, there will be no cash profit from property ownership until the property is sold. With the purchase-option, the responsibility for a long-term commitment of ownership is eliminated. The optionee's commitment is short-term only, with the ability to sell the option, buy and immediately sell the property, or never buy the property.

Mortgage Payments. There are no mortgage payments made by the optionee. He has eliminated the responsibility to "pay for" the property during the period when the purchase-option is open and unexercised.

Property Management. There will be no responsibility with respect to managing and maintaining the property unless the optionee exercises the option and takes possession of the property. In a straight purchase, the buyer must begin maintaining and managing the property right after closing–a time consuming and costly responsibility.

Cash Payments Required. As we all know, property ownership involves payment in full or cash down payment (10% to 25% or more). When the property is controlled with the purchase-option, the down payment is replaced by an option deposit (the consideration in the contract), that can be in a much smaller amount, perhaps in the 1% to 5% range.

Financial Liability. Optionees have no financial risk in the property other than the amount paid in the option contract. The property owner must pay the property taxes, mortgage payments, insurance payments, maintenance and repairs and any other obligations of ownership.

The optionee has the specified period of time that is in the term of the option in which to buy the property or decide to pass. During the time, the optionee can evaluate the potential and make those decisions. It is certainly the best way to hold a property for an increase in value over a very short term.

Control Of Property

Most real estate investors have traditionally been attracted to commercial real estate opportunities. Typically these investors have been well rewarded for their investment. Properties that are designed for "doing business" proliferate and succeed as businesses grow and diversify and become more and more profitable. For investors to be successful it is important to understand the operation of the particular commercial enterprise involved in the real estate investment.

However, some investors look for the short-term investment with less of an emphasis on "doing business" and more pre-investment research on controlling property for the maximum gain in the short term. These investors often use the option or purchase-option. ❏

The Management / Investor Conference

Property owners own investment real estate for profit. With proper management, they can earn a good return monthly from one property or a portfolio of properties. However, a certain property may have been acquired for an upgrade, to bring in income later or sell for a capital gain. Either way, the investment must be managed, considered, and watched at all times. If the owner and property manager are taking care of business, there may be ways to increase the income, or the value.

Owners of portfolios of stocks and bonds meet with or call their stockbroker often. It makes sense for real estate investors also to meet with their real estate investment representative and property manager often, perhaps quarterly. Exchanging ideas with the professionals who have the daily pulse of the real estate market can be profitable. At each meeting, the investor can plan on finding out the current market conditions that will have an effect on equities that are owned or that can be acquired.

In many cases, the owner's investment representative is also the property manager. If not, the investment consultant and property manager should always meet with the owner together since both share the responsibility for improving the owner's position.

The Management/Investment Conference

Planning any professional meeting will make it more productive. To keep a business meeting on track and save everyone time, notes should be made in advance and an agenda prepared by the property portfolio owner or the broker. The following are some examples of questions or subjects that might be discussed at each meeting; or some at least once a year:

1. Are there ways that the management of the properties be improved? Can any current expenses be decreased?
2. How do our rent levels compare with the others in the immediate area?
3. Have there been collection problems–are all rents current at this time?
4. Is the current maintenance of the properties up to the best standards?
5. Has the planning department approved any zoning variances in the areas of my properties? Would it enhance the value of any property in the portfolio to apply for a change in zoning?
6. Have any new construction projects been started nearby? What are they and what effect might they have on my properties or rents in the area?
7. Is the present use of the properties the highest and best use?
8. Could improvements be made that would increase the income?
9. Are we attracting the kind of tenants that should be in this type of property? Would anyone else be more desirable?
10. Are any properties of the type we own on the market at this time in this immediate area? What is the price and how is that price justified? Has there been any buyer interest in it at that price? Should we consider adding it to this portfolio of properties? If so, how can we acquire it, either by cash purchase or exchange?
11. Is our leveraged position in all properties at its maximum potential? Would there be any benefit in a refinance of any properties at this time?
12. Are any properties in this portfolio suitable for a condo or co-op conversion? If so, should we do the conversion or sell the property to an expert in that field?
13. Can we offer any property for syndication? How would we handle it?
14. Which of these properties has the best set of benefits for the present owner? Which has the least benefits?
15. Which of the properties in the portfolio would be the most desirable to dispose of at this time?

Goals for Acquisition

When each of the points in the meeting has been covered, both the property owner and his/her management and investment representatives should have a much better picture of the property portfolio and what should be accomplished. At this time, maybe each property owned should be graded in order of the most desirable to the least desirable to continue holding. Then the answer to item #15 will be apparent.

That answer may be an important result of the meeting. The goal should be set for the sale or exchange of the least productive property (to this owner) in the list of real estate owned. This result is very satisfying since the "weakest" property is identified and the goal is set to use its equity to acquire a certain type of real estate that will fit better into this owner's portfolio.

This gives a result for the owner that is seldom achieved by many investment real estate owners. At all times, there is a definite effort being made by a top real estate management and investment team to improve the owner's position. ❏

Acquiring Investment Land

Land is one of the top investments by real estate professionals. Before any building project can be planned, the land must be available. At all times, real estate assemblers are looking at and acquiring under-utilized sites within cities or in suburbs. Here are some ideas on how those professionals do it.

• **A thorough knowledge.** Only purchase or option property in well-known localities to reduce the risk of unexpected surprises. If the locality is not familiar, seek out local professionals for their opinions.

• **Be a follower.** Being the first to buy increases the risk of being wrong and may mean an unexpectedly long wait until values rise. It is often better to go in after values have begun to increase or after some development has started.

• **Government maps.** Local governments often have maps and plans for projected roads and highways. These can point the way to desirable acquisitions.

• **Prepare an acreage map.** The map should show the ownership of all tracts in the locality and (if known) the asking price of each. This step marks the prime difference between the professional and the non-professional land acquirer.

• **Seek out builders.** Try to find a builder willing to let you act as an intermediary in acquiring land.

• **Option or installment contract.** When acquiring property, get a firm commitment from the landowner without the buyer having to pay out cash. This can be done either with an installment contract under which the buyer can pay interest only for the period of years with a right to walk away without further penalty.

Note: An investor or investment group retained by a builder to find land is obligated to give the builder the first opportunity to buy in all cases. However, any land the builder does not want may be a good investment for the assembler since its value is likely to increase as new construction occurs. ❏

The Upkeep On Your Rental Property

Keeping your property in top condition is not difficult if it is a continuing effort. There will be a plan in place for making ongoing improvements by investing a portion of each year's income. Failure to do this will result in a neglected property.

Many investment properties suffer from improper care and neglect. Getting started on the program of enhancing the value should focus first on three areas. These three will immediately make an office or apartment building begin to stand out:

1. The lobby and interiors of the building must be perceived by tenants and visitors as something unique.

2. The outside appearance from the street must give a favorable impression to passers-by, both pedestrians and those in vehicles.

3. The building must stand out from its surroundings when seen from a distance.

The Improvements

Here are a few improvements that usually will change the appearance of an office or apartment building quickly:

• A new outdoor lighting system will enhance the nighttime visibility and take advantage of any nighttime traffic. The building will be more visible from a distance.

• In older buildings, the elevators often are slow and reflect the age. Without changing the entire elevators, an electronic control system might be added, producing a swifter and more consistent service.

• Replace the wall coverings in public areas on each of the floors to produce a lighter, cleaner image.

It is seldom necessary to "do" an entire building all at one time, disrupting tenants and running up big costs. Try an improvement on one floor to see how it works and how effective it is. If it makes sense, phase in the improvement over a period of months or years. ❏

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