

# STRATEGIC NEWS

Your Monthly "Dirt" on Real Estate Investments

QUALITY INTEGRITY  
creativity

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## Last But Not Leased?

"How's the leasing going?" This is a question often asked of a developer of a new retail center, but how important is rapid leasing to overall performance or value of a shopping center?

### To Lease or Not To Lease?

Certain markets in the Bay Area may not see the lease rate change for years at a time. Other areas seem to rise by the week. In high growth corridors or "emerging markets," like those on which SPG focuses—New Tampa/Southern Pasco County, US-41, SR-54 in Land O Lakes, and other areas—leasing is tricky business. A fine line emerges between the race to sign a tenant before he or she signs a lease in another new or existing retail project and the desire to maximize lease revenues and provide the best ROI for the investors.

### Time is Money

What's the value of a dollar? To a developer, and in turn an investor, a dollar increase in lease rate can make a big difference to the bottom line. Lease too slowly and your property has too little income to make a profit. Take the "bird in the hand" too quickly and lease up a development before the market drives up lease rates, and developers often risk leaving money on the table.

Consider the case of the Shoppes of Good Fortune, a fictitious 40,000 square foot shopping center. Let's assume a developer can lease the space for an average of \$26/sf NNN in January, generating a NOI for that property of \$1,040,000. Leasing part of the property at the \$26 rate and then waiting for the market to mature could mean the overall lease rate is more like \$27 a foot. That new rate raises the NOI an additional \$40,000. A lease rate of \$28 a foot creates an additional \$80,000 in NOI over the \$26 rate. Out of context, those figures may not seem terribly exciting. Think about the value created by the increase in NOI, however, and the magnitude of the difference becomes clear. (Last month's

issue of *Strategic News* focused on valuing commercial properties.) Under the current Cap Rate for that project, the increase in \$1 of lease rate would mean a \$500,000 increase in the value of the shopping center. \$2 means \$1 million in value created.

### The Delicate Balance

Most development projects rely on construction financing to drive the process, and banks often require that 50% of the project be leased prior to their releasing funds for construction. As you can see, skilled and patient developers often use timing to drive the process of leasing and try to temper their eagerness to "lease up."

### Did You Know?

Early leases signed for SPG's Shoppes of Wesley Chapel averaged \$26/sf. Last week, leases and letters of intent for the same space were signed for \$30/sf.

### Your Real Estate Investment Family



Barry Jackson  
Partner

- Married to Tracey for 14 years
- 2 sons: Matthew (11) and Zachary (12)
- Responsible for construction supervision, budgeting, management of architects & engineers
- Built, ran, and sold own residential and commercial building inspection business
- Developed, owned and operated, and sold #1 Jiffy Lube franchise in Florida
- Favorite quote: Is the expense REALLY necessary?

## Selected SPG Project Updates

**REIF Spec 1 Closed** SPG's REIF Spec 1 fund has closed to new investment. Stay tuned to future issues of Strategic News for updates on REIF Spec 1 properties.

**Camp Indianhead Crossings (CIC)** and **Land O Lakes Landings (LOLL)**, both REIF Spec 1 properties, are moving toward permitting and ground breaking in late summer for occupancy in Q1 of 2007.

SPG is currently seeking a 3rd REIF property to round out that fund.

**Sheldon Office Park** Office condo project behind Shoppes of Sheldon. All 3 buildings now have signed contracts for purchase. Already have site and SWFMD permitting; in construction permitting now. Expected to break ground early Fall. ▲

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