

Simple Retail Development Example

– A.CRE All-in-One –

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Investment Summary

- Investment name: Saddle Farms
- Parking: 250 spaces
- Year built: 2019
- Analysis Start: Jan 1, 2018
- Construction length: 18 months
- Analysis Period: 10 years
- Building size: 50,000 SF (35,000 SF anchor plus 15,000 SF inline)

Valuation

- Market NOI cap rate for comparable retail centers: 5.50%
- Forecast growth in cap rate: 5 bps per year
- Exit cap rate: 6.00%

Development Assumptions

Construction Budget

- Land cost with entitlement: 750,000
- Hard costs: 6,250,000 (125 PSF)
- Hard cost contingency: 5% of hard costs
- Soft costs: 1,250,000 (25 PSF)
- Soft cost contingency: 5% of soft costs
- Leasing costs included on rent roll

Construction Financing

- 5% interest rate
- 70% LTC loan
- 2% loan origination fee

Operating Assumptions

Rent Roll

- John's Market – 35,000 SF (pre-leased); lease start at construction completion; 16 year lease; 12 months free rent upfront;
 - Rent: 12.50 PSF rent for years 1-6; 15.00 PSF for years 7-11; and 17.50 PSF for years 12-16
 - Leasing costs: Tenant improvements of \$30 PSF; no leasing commission
 - Expense Reimbursement: 5.00 PSF CAM
 - Future leasing assumptions: N/A
- Inline space – 15,000 SF (not pre-leased)
 - 5 suites at ~3,000 SF per suite
 - Absorption: 1 suite every 3 months with first suite leasing at construction completion

- Leasing costs: Tenant improvements of \$40 PSF and 6% leasing commission for 1st generation leases
- Rent: 16.50 as of lease start with 2% annual bumps
- Lease term: 63 months with 3 months free rent upfront
- Expense Reimbursement: NNN (100% of pro rata share)
- Future leasing:
 - Market rent: 16.50 PSF;
 - TIs: New: 20 PSF, Renewal: 7.50 PSF
 - LCs: New: 6%, Renewal: 4%
 - Free rent: none
 - Market rent growth: 3%, 3%, 2%, 2%, 2%
 - Contract rent growth: 2%
 - Expense Reimbursement: NNN (100% of pro rata share)
 - Renewal probability: 60%
 - Lease length: 60 months
 - Downtime: 6 months

Other Income

- Misc. Income: 15,000 grown at 2% annually

General Vacancy

- 10%, excluding anchor space

Operating Expenses

- CAM: 4.00 PSF
- Mgmt Fee: 3%
- Insurance: 0.25 PSF
- RE Tax: 1.25 PSF

Capital Expenditures

- Capital reserve: 0.15 PSF

Permanent Debt Assumptions

Senior Debt

- Amount: 65% of stabilized value
- Loan Fees: 0.5% of loan amount
- Interest rate: 4.25%
- Amortization: 30 years
- Interest-only: None

Junior Debt

- None

Partnership Assumptions

- Equity split: 90/10 LP/GP
- Preferred return: 8.0% paid pro rata
- Promote: 80/20 to a 12% IRR, 70/30 to a 15% IRR, 60/40 thereafter