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Q&A with June Fish of Ashworth Mortgage Corp.

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How do you analyze a short remaining on a long term initial lease term or subsequent option term when seeking financing?

--BEH

Here I assume you are referring to a retail type lease. When attempting to secure financing on a retail property when one or more leases have only short terms remaining on the initial lease, or on one of the options, I always suggest looking at the current market rent for similar space.

If the market rent is higher than that of the remaining lease term for the initial lease or its option, then it creates a positive scenarioâ€”that being that if the tenant re-ups the worse case is rent will remain at the stated rent. If the tenant does not renew, assumedly a higher market rent can be interpreted as forthcoming.

I am currently working on a well located, fully leased retail center. The issue with regards to its financing is that there are two anchors, a Kmart and a ShopRite. Each tenant has strong sales for its store. Each tenant is into one of several five year option periods. The good news is that the history for each tenant has been to renew. In each case, the option rent is \$3 per s/f and \$4 per s/f respectively.

The situation is that lenders are suspect of retail today. Additionally they are very concerned with leases that may not be re-upped. What is the case here is that the market rent, for the spaces in question, is \$12 per s/f! And, further of note is that there is one particular credit that would take the space as is immediately were one of the two tenants not to exercise the option.

So the analysis put forth is simple. The worst case scenario is that the tenants do exercise the option and the borrower/owner continues with deeply discounted rents for the option period. The lender, on the flip side, has comfort of knowing that the worst case scenario is the continuation of the current state of play and that the risk of the tenants not exercising their option is minimized by the extreme differential between the existing contract rent and current market rent.

Send your questions to info@ashworthmortgage.com.

June Fish is a commercial real estate broker with Ashworth Mortgage Corp in Newton, Mass. She has over 30 years of commercial real estate experience. Ashworth Mortgage specializes in the placement of debt and equity for all types of commercial real estate and is highly respected for its creative solutions to today's complicated financing needs and objectives.

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