

# FEC: Real Estate and Financing Solutions for Your Entertainment Property

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## Jerry Merola, AEM

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#### R.J. Mohindra, FEC Real Estate

#### **Real Estate Alternatives**

# Securing a New Real Estate Location





#### **Brick and Mortar Retail**

#### POTENTIAL CLOSURES

- 80,000 retail stores (2025)
- 25% of malls (3-5 years)

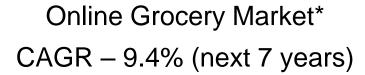
UBS (April 2021)





### **Online Retail**







46% of apparel shopping\*\* is now being made online

\*VMI (October 2021)
\*\*Digital Commerce (June 2021)







Vacancy = 12.3% (all time high)

Effective rents \$18.59/SF (fall an additional 6.8%)

Moody's Analytics (May 2021)





## Real Estate Transaction

- 1. Business Plan
- 2. Site Selection
- 3. Tour Checklist
- 4. Negotiations
- 5. Execution





## Site Evaluation

- Location
- Building size
- Pricing
- Tenant Improvement Allowance (TI)
- Demographic Benchmarks
- Restrictions
- Parking Ratio





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## "Inside and Outside"

- HVAC
- Restrooms
- Clear height
- Flooring
- Exterior of Building
- Parking Lot
- Signage





## Interior Air Quality

Landlord investment in air filtration systems

MERV 15A or 16A filters (highest capacity)

Restroom exhaust fans

Outside air (use of fans)





## **Facility Cleanliness** and **Sanitization**

GERMICIDAL ULTRAVIOLET LIGHTING (GUV)

"Need aisles wider"





#### **Exterior of Building**

#### **Patio**

- Cornhole, Bocce, etc.
- City and Landlord Approval
- Landlord construction

Drive-in movies





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#### Better DEALS



Personal Guarantee (PG) Burn-offs



Longer Construction Periods (CO)



Larger TI



Smaller Security Deposits



Construction Escrow



#### Better DEALS



Restriction approvals



Build to Suits (BTS)



Early Terminations



Investment in FF&E





- Other tenants are a business driver
- Opportunity for a solid deal

If at anytime, 80% of Anchor (to be further defined in Lease) tenants or a number of tenants that occupy space greater than 20% of the Building vacate or are not operating at its premises for more than 45 days and Tenant's Gross Sales decrease by more than 15% from the amount of Gross Sales for the same period in the previous year, then Tenant's base rent will be reduced by 40%.

Tenant shall resume paying the originally agreed upon rent when the aforementioned conditions cease to exist. If within 3 months Comparable Replacements (to be further defined in the Lease) do not occupy the vacated premises, then Tenant has the right to terminate its Lease.

### Cotenancy





#### **Abandonment and Continuous Use**

A stipulation to not abandon or vacate the premises during the term.





## Force Majeure

Unforeseeable circumstances that prevent fulfillment of a contract.





#### **Purchases**

Pricing

Longer feasibility

Less Earnest Money Lower closing costs





## Ralph Willis, EFA Partners

### **Financing Alternatives**

#### **EFA Partners**

- 12+ years focused on arranging financing and M&A for leisure companies
- Founders have 75+ years of experience in leisure finance
- Offices in New York and Atlanta
- \$1.4+ billion of closed financings and M&A transactions
- Focus on FECs, amusement parks/water parks, movie theaters, casinos, concert venues, and others







## **Targeted Sectors**

#### **Focused on Leisure Sectors**

- FECs
- Theme Parks
- Water Parks
- Casinos
- Sports

- Movie Theatres
- In-Theater Dining
- Concert Venues
- Observation Wheels
- Ski Resorts
- Hospitality
   Restaurants





### Select Closed Transactions

























































## **Typical Clients**

- Individuals Entering the Leisure Industry (Start-ups)
  - Seeking start-up financing for new venue
  - May be leased property or owned property
- Existing Leisure Companies
  - Could be seeking financing to grow their business and/or refinance existing debt
  - Certain companies seeking to sell their business or acquire another business





### **Banks**

#### Overview

- Lower interest rates
- Personal guarantees typically required
- Offer SBA loans for construction loans or early stage companies

- Many not active in the leisure sector due to issues of past year
- Longer due diligence and approval processes
- Seeking strong collateral coverage and certain banks will not review loans without real estate



## **Specialty Lenders**

#### Overview

- Higher interest rates than banks but lower loan amortization than banks
- More flexible terms than banks and often with no or limited loan covenants
- Will provide funding to refinance existing debt and also for growth projects

- Not currently interested in construction loans for early stage companies
- Many are actively seeking opportunities with mature leisure companies
- Certain ones that weren't previously interested in leisure companies are now showing interest





## **Equipment Financiers**

#### Overview

- Typically higher interest rates than banks with shorter loan terms
- Personal guarantees typically required
- Will review equipment financing for new construction projects or early stage companies

- Significant collateral coverage is key in the current market
- Some new equipment financiers have entered the leisure market
- Vendor programs continue to be available from equipment manufacturers and distributors



### **REITs**

#### Overview

- Typical structure is sale/leaseback of properties and buildings
- Personal guarantees often required
- Will consider construction financing for start-up companies with sites in favorable locations

- May require a rent reserve be put in place
- Some may offer options to repurchase real estate and building at a set time in the future
- New REITs have been formed over the past few years





## **Private Equity Funds**

#### Overview

- Typically seeking to invest in mature, profitable companies
- Most seek to invest majority interests but some will consider minority investments
- Typically not interested in construction financing unless it is a new site for an existing company

- Certain funds have leisure companies in their portfolio and are seeking to add sites
- Others are still concerned about the future of the industry so have not been investing
- Could be a different view next year given the strong performance of leisure companies this year





## **Be Prepared**

- Certain lenders may not currently be interested in the leisure sector
- Often need to approach 40+ lenders to find interested ones
- Personal guarantees typically required
- If a start-up company, may need a 3rd party feasibility study with projections
- If existing business, lenders may look at 2019 results as a "normal" year; however, they will also review 2020 and 2021 results
- The approval process is currently taking longer, especially if the SBA is involved, since it has been busy with PPP loans and other government initiatives





## Be Prepared (continued)

- Equity needs to be sufficient for contemplated transaction plus working capital and other business items that may be needed post loan closing
- Lenders are seeking more collateral coverage so the inclusion of real estate is a plus since many projects don't have sufficient collateral just based on FF&E
- If a construction project, lenders are often requiring full project designs with finalized construction bids before they will go for final credit approval





## Questions?

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