REALTY MENTORS
EXPERT ADVICE FOR COMMERCIAL REAL ESTATE INVESTING.

COMMERCIAL REAL ESTATE ANALYSIS REPORT

PROPERTY

Name	Shopping Village
Address	228 Main Street, Anywhere, USA
Property Type	Class A Anchored Retail
# Units / SF	88,459 SF
Year Built / Renovated	2014 / NAP
Occupancy (Current)	74.8%
(Projected)	92.0%
Unit Mix / Top Tenants	Major Off-Price Retailer – 30,000 SF – 33.9% of SF Thrift Store – 11,947 SF – 13.5% of SF
Construction Type	Single-story newly constructed retail; 3 buildings
Parking	500 spaces (5.6 spaces per 1,000 SF) **This is a good ratio**
Amenities	NAP

DEAL TERMS

Sponsor	Smith-Jones Development
Management	Retail Management Co.
Dollars Being Raised	$9,400,000 in Debt
Funding Purpose	Refinance existing construction debt and provide additional capital needed to complete Property's initial lease-up
Value (Current)	$13,820,000 (As-is)
(Projected)	$15,130,000 (Stabilized)
Loan to Value (Current)	68.0% **This is reasonable. Lenders typically like to see this below 75%**
(Projected)	62.1%
Loan To Cost (Current)	63.9%

Projected IRR	NAP
Term or Exit Strategy	3 year debt term Exit will occur upon Property refinance or sale after stabilization **Ideally we would like to see a fee to the Sponsor if the loan needs to be extended beyond the initial 3 year term. Any loan extension represents additional risk to the investor. Further, the deal terms should incentivize the Sponsor to pay back the principal.**
Rate / Return Schedule	8.0% interest only cumulative payments with balloon principal repayment at end of term **Per above, we would like to see payment back to the Investor for any extension of the loan term. 8% represents a reasonable return rate for the Investor given the relative higher risk and uncertainty associated with the subject offering.**
Special Conditions	$1,400,000 being earmarked for future tenant improvements and leasing commissions **This is a very good clause for the Investor. This partially mitigates the deal's greatest risk for lease-up and motivates the Sponsor.**
Fee Structure	2% origination fee 5% management fee **5% is on the high end of an acceptable fee range of 3%-5%** 5% administration fee **5% administrative is on the high end. 1-3% is more typical.** 6% Construction Management Fee
Sponsor Equity	$5,455,000 in previously invested capital (No new equity and no cash-out) **The previous equity contributions are encouraging along with the absence of a cash out for the Sponsor upon financing.**
Net Operating Income	
(Current)	$460,000 (As of YE 2017)
(Projected)	$1,110,000 (Year 3)
Net Cash Flow (Current)	$415,000 (As of YE 2017)
(Projected)	$1,070,000 (Year 3)
Debt Service Ratio Coverage Ratio	0.97x (current) **We would like to see a minimum DSCR of 1.20X, but the Sponsor is paying the Investor for this additional risk in the form of a higher than "market" interest rate.** 2.16x (stabilized)

SOURCES & USES

USES		
Payoff Loans	$7,688,000	
Fees	$226,000	
Closing Costs	$86,000	
Future TI/LC	$1,400,000	
Total Costs		$9,400,000
SOURCES		
Debt		
Investor Loan Funding	($9,400,000)	
Total Sources		($9,400,000)

Strengths:

Newly Constructed Asset with Good Location:

The property was recently constructed in 2014, began operating in 2015, and is located in a strong retail hub in the SEC of Primary Road (22,000 cars/day) and Main Street (18,100 cars/day) adjacent to a grocery store and across the street from a Wal-Mart Supercenter.

Strong Market:

The Retail Market had a vacancy rate of 5.3% as of 3Q2017, while the County submarket only had a vacancy rate of 2.4%.

Strong Management & Leasing Team:

The property is managed by Retail Management Co., which is a Sponsor-affiliated full service commercial real estate company servicing the subject area. The company was founded in 1915, specializes in retail, and is focused on the local area, therefore providing the experience and local expertise needed to bring the property to stabilization. The company currently has a property management portfolio of approximately 3 million square feet. The management company will be supported by Jones Lang LaSalle as the leasing agent. The current team has assisted the Sponsor in recently signing leases with Your Consignment Store and Taco Joe’s. Further, the Sponsor is currently in negotiations with a casual restaurant chain.

Strong Sponsor:

Mr. Smith and Mr. Jones have a combined 34 years of real estate experience. Mr. Smith has participated in over $1 billion worth of lower and middle market acquisitions, divestitures, and real estate developments. Mr. Jones is an award winning developer and has participated in the development of over 3,100 apartment units and 1 million square feet of office and retail development. Mr. Smith's PFS as of 6/1/17 reported a net worth of $14.56 MM and liquidity of $6.2 MM. Mr. Jones's PFS as of 11/30/17 reported a net worth of $2.13 MM.

Risks / Mitigants:

Lease Up Risk:

The property is currently 74.8% occupied, unable to meet debt service organically. This is mitigated by the leasing momentum created by the recent lease executions with Your Consignment Store and Taco Joe’s, as well as the Property’s attractive new construction in a strong submarket which features average vacancy of 2.4%.

Major Off-Price Retailer Co-Tenancy:

Retailer is currently not paying base rent of $300,000 as a result of the current co-tenancy failure which requires the Property to be 83% leased. Retailer may elect to terminate the lease upon 30 days' notice after the co-tenancy exists for 12 months (12 months of co-tenancy reached in March 2017). This is mitigated by the fact that the Sponsor is currently in talks with the Tenant to have them immediately certify co-tenancy and require them to pay a modestly reduced rent immediately. The Tenant has expressed interest in paying rent as they believe it will help the property lease up by providing more cash flow to the property, thus indirectly helping the Tenant.

As-is Debt Service Coverage:

As currently underwritten, the property has an as-is debt service coverage of 0.97x. This is partially mitigated by the development incentive payments from the city. The payments consist of four payments of $235,000 per annum for four years. The City is legally obligated to make the remaining payments each October through 2019 in order to compensate the Sponsor for its contribution to improvements to the city. In addition, approximately half of the Sponsor's projected increase in cash flow is attributable to Major Off-Price Retailer, which will begin paying ~$300,000/yr as soon as occupancy reaches 83% or an agreement is reached with the Sponsor. Were all vacant space to lease at market rents on a triple net basis, it could result in an additional $511,000 of income, which is significantly higher than the NCF difference of $355,166 after taking Major Off-Price Retailer into account.

Overall Thoughts and Recommendations:

While no real estate deal is without risk, it is the opinion of Realty Mentors that the subject investment opportunity offers an acceptable level of return (8%) for the risks being assumed. There are tangible risks as noted above. However, the risks are accompanied by reasonable mitigants and a credible plan as outlined by the Sponsor. A prudent investor can envision a high probability of the Sponsor successfully executing his plan given his track record and the merits of the Property. A reasonable investor could further conclude that this opportunity will eventually achieve a level of income to pay debt service and pay back the loan. The most reasonable question is just how quickly the Sponsor can achieve that level of success and whether that success comes soon enough to serve the investors in this deal within the 3-year loan term as requested. Other items to consider include:

• The remaining vacant spaces are fairly large for your typical inline tenant. If they are unable to lease the spaces as-is, they may need to subdivide them further, resulting in additional upfront capital costs to reach stabilization.

• Major Clothing Store is planning to close some stores. Details have not been released, but it would set back the stabilization if they had to re-lease this space as well. It may be worthwhile to try to find out what stores are on the list as well as whether this store has a sales related termination clause.

In summary, Realty Mentors feels a prudent investor could proceed with the subject investment opportunity provided they are comfortable with the risks outlined in this report.

Assumptions:

- All information provided by the sponsor is true and correct. There is no willful or inadvertent fraud being propagated.
- There are no zoning issues.
- All tenants are in-place, are current in paying their scheduled rent (except Major Off-Price Retailer), and have not given any indication of leaving.
- All past due accounts have been settled and real estate taxes are current.
- The Property does not have any environmental issues; thus, an environmental report is not needed.

Legal Disclosures:

- The work product contained herein is confidential. Its use shall be in accordance with the Client Services Agreement.
- Realty Mentors does not guarantee the future performance of this investment opportunity. All investment opportunities are subject to inherent risks, including but not limited to those outlined in the due diligence documents provided by the investment's sponsor.
- Realty Mentors is providing such information to you for *you* to determine whether such investment is suitable or appropriate based upon your investment objectives.
- Realty Mentors relies upon the information, documentation and data provided by its clients, and cannot be held liable for the failure to procure and/or incorporate any additional information which may be available through other sources.
- The information contained in this document does not constitute legal or tax advice. You should consult with a licensed attorney or qualified tax professional who can provide you with the advice that you need for your specific circumstances.

REALTY MENTORS
EXPERT ADVICE FOR COMMERCIAL REAL ESTATE INVESTING.

Phone: 412-263-3440

Email: contact@realtymentors.com