



1. Summary Verdict (Fit & Feasibility)

- **Overall Return Feasibility:** *Very low.* Base-case underwriting indicates a **<10% chance** of achieving the 14% IRR target – initial analysis shows levered IRR in the low single digits, well below 14% (the going-in cap ~5.0% vs. 6.25% exit cap results in value erosion despite modest NOI growth).
- **Fit with Mandate:** *Strong.* The asset is a grocery-anchored retail center in a top-50 MSA [REDACTED] with stable occupancy and value-add potential, aligning with our core-plus/value-add strategy. [REDACTED] is a dominant [REDACTED] grocer (essential retail), and [REDACTED] growth corridor fits our market preference.
- **Recommendation:** *Pass on a full pursuit for now.* While strategically compelling, the deal as priced does not underwrite to our 14%/1.75× hurdles. We should **monitor** for pricing changes or unmodeled upside, but **do not advance** to intensive underwriting at the \$40MM ask.

2. Return Potential (Base Case)

- **Projected IRR/EM:** *Sub-target.* At the \$40MM price, year-1 NOI is ~\$1.99MM, implying a ~5.0% cap rate. Over five years, NOI only rises to ~\$2.26MM (about +13%), while the exit cap is higher (6.25%). This base case yields an **approx. 0–5% levered IRR** (equity multiple ~1.0×), far below the 14%/1.75× goal (calc., 2021 OM p.46).
- **Key Drivers:** Modest rent growth and **NOI mark-to-market** potential are offset by **cap rate expansion**. The OM assumes steady 3% annual sales growth fueling percentage rent and rent bumps at renewals, but overall income growth is limited. With debt at 6.5% interest-only, there is negative leverage (debt cost > going yield), so **value creation hinges on NOI uplift** (through rent increases, re-leasing vacancies) more than leverage.
- **Sensitivities:** **Exit cap rate** is the biggest swing factor. Every 50 bps of cap rate change alters exit value by roughly ±15% (e.g. a 5.75% exit cap would increase value by ~\$3–4MM, boosting IRR by several hundred bps). **Rent roll outcomes** also matter – if major tenants renew at higher rents or if vacancy lingers, the IRR can shift materially. Achieving the target 14% IRR would likely require a combination of a **lower purchase price** or a significantly improved **NOI trajectory** beyond the OM base-case (DATA NEEDED: e.g. aggressive lease-up or densification scenarios).

3. Key Strengths

- **Dominant Grocery Anchor:** The center is anchored by [REDACTED], the preeminent [REDACTED] grocer with [REDACTED] years of success at this site. [REDACTED] was rated the [REDACTED] U.S. grocery retailer in [REDACTED], driving consistent foot traffic and essential sales. This tenant's long tenure and draw underpin the center's income stability.
- **Full Occupancy & Credit Tenants:** The property is **100% leased** ([REDACTED] SF) as of the offering, with a diverse national tenant mix – [REDACTED] 1. This mix of necessity and value retailers provides durable income and cross-shopping synergy.
- **Attractive Location & Trade Area:** Located in [REDACTED] a high-growth corridor, the center enjoys a large, loyal customer base and **limited competition** (closest grocery competitor is ~2.6 miles away). The area's explosive population growth and infrastructure improvements ([REDACTED]) are tailwinds for tenant sales and future appreciation.
- **Value-Add Upside (Mark-to-Market):** **In-place rents appear below market**, creating upside as leases roll. Notably, [REDACTED]'s rent is relatively low for its size (the OM assumes a renewal at \$10.50/SF in 20[REDACTED], suggesting current rent is below that market level). Similarly, junior anchors and shops from older leases present mark-to-market opportunities. A buyer can potentially drive NOI by re-leasing or renewing expiring spaces at higher rents (e.g. bringing discount retailers up to prevailing market rates – DATA NEEDED: rent

roll details).

- **Stable Cash Flow with Recent CapEx:** The majority of roofs (all tenants except [REDACTED] and [REDACTED] pads) were replaced in 20[REDACTED] with warranty through 20[REDACTED], indicating **limited near-term capital needs** for those structures. This, coupled with triple-net leases (tenants reimbursing CAM/Taxes), supports predictable net operating income. (Note: [REDACTED]'s roof was excluded from the 2013 replacements, a point to watch.)

4. Key Risks / Issues

- **Lease Rollover & Term:** The center has a **short WALT of [REDACTED] years**. Several key tenants will expire during our hold (e.g. major discount anchors likely up for renewal around 2025–26 – *DATA NEEDED: exact lease expirations from rent roll*). This concentrated rollover exposes us to vacancy/renewal risk. The OM's cash flow projection even shows a dip in Year 7 cash flow (dropping to ~\$2.17MM from \$2.29MM), implying an assumed temporary vacancy or downtime for a large space. Re-leasing those units could require significant tenant improvement and leasing commissions, impacting returns.

- **Negative Leverage & Low Yield:** The deal as structured has **negative leverage** – the going-in cap rate (~5%) is below the debt coupon (6.5%). As a result, initial cash-on-cash returns are minimal (Year 1 levered cash yield ~2%, by our calc) and interest payments eat up most NOI. This increases reliance on future growth to meet return targets. If income growth falters or financing costs rise, the levered returns could be further squeezed.

- **Aggressive Growth Assumptions:** The base underwriting relies on steady rent growth and **percentage rent** from [REDACTED]. The OM assumes [REDACTED]'s sales grow ~3% annually, producing significant percentage rent income – reaching ~\$317k by Year 6 (vs. ~\$199k in Year 1). If [REDACTED]'s sales or other tenant revenues underperform, NOI will fall short of projections. Likewise, achieving market rent on renewals is not guaranteed; any tenant downsizing or rental concessions would reduce the upside. In short, the *pro forma* growth (~13% NOI uplift in 5 years) may be optimistic given competitive pressures and tenant financial health (DATA NEEDED: tenant sales figures, health ratios).

- **Anchor Tenant Uncertainty:** [REDACTED] is relatively secure through its [REDACTED] option expiration, but any long-term uncertainty around [REDACTED] is a critical risk. By our exit (Year 5, ~20[REDACTED]), [REDACTED] would have ~3 years left on its term – a new buyer might price in risk of [REDACTED] not renewing or requiring rent concessions. [REDACTED] is an extremely strong anchor, but they also prefer to own their sites; the OM notes only ~40% of [REDACTED] stores are tenant-leased. There's a tail risk that [REDACTED] could eventually relocate or build a modern store nearby if not given favorable terms. This "rollover" risk on the anchor could impair exit cap rate or require a future capital partner willing to renegotiate with [REDACTED].

- **Property Age & CapEx Needs:** Built in [REDACTED] (renovated [REDACTED]), the center is an older asset. While many roofs were replaced, **deferred maintenance** could emerge (e.g. [REDACTED]'s roof, parking lot, older building systems). Capital expenditures (unmodeled in the base case beyond reserves) might be needed to keep the property competitive (facade updates, HVAC, parking resurfacing). Unplanned capex would directly hit cash flow and returns. Investors must be comfortable with an asset of this vintage and potential upkeep costs (DATA NEEDED: engineering report, capex budget).

5. Fit Filters

- **You'll like this deal if you're...**

- **Seeking:** A **grocery-anchored** retail asset with an irreplaceable anchor tenant and embedded growth potential in a booming [REDACTED] market. The deal offers a well-located, 100%-leased center with below-market rents – essentially a **core-plus play with value-add optionality** (re-tenanting upside, future redevelopment of a [REDACTED]-acre site – *DATA NEEDED on zoning*).

- **Comfortable with:** Some **near-term lease turnover** and the need to invest in re-leasing or upgrades. Essentially, an investor who is fine with **low initial cash yield** and **rolling up sleeves on asset**

management to drive NOI growth. You can tolerate a bit of vacancy or short-term NOI dip in exchange for long-term upside in a high-growth location.

- **You likely won't like this deal if you're...**
- **Looking for: Long-term stabilized income** or bond-like leases. This asset's WALT (~[REDACTED] years) and upcoming rollovers mean it's not a passive, yield-focused hold. If you require a high going-in cash yield (e.g. 7–8%+) or 10+ year lease terms, [REDACTED] will not satisfy those criteria.
- **Sensitive to: Cash flow volatility or refinancing risk.** The short leases and high interest rate environment could lead to uneven cash flows and potential refinancing challenges (if income dips when loans mature or rates rise). Investors heavily averse to **vacancy risk, capital expenditures, or negative leverage** will find this opportunity outside their comfort zone. In short, this isn't a fit for pure core-income investors or those who can't weather interim value-add execution risk.

6. Likely Buyer Landscape

- **Target Buyer Profile:** Expect interest from **core-plus and value-add investors** who specialize in retail. Given the **scarcity of [REDACTED]-anchored centers** (only ~10 have traded in [REDACTED] over recent years²), the asset's profile will attract groups willing to accept a lower initial yield for a prime grocery-anchored location. Likely suitors include retail REITs and institutional funds focused on necessity retail (for example, established shopping center owners like Kimco or Regency that covet [REDACTED] sites), as well as [REDACTED]-based private investors or family offices (possibly via 1031 exchanges) looking for a stable, long-term hold in [REDACTED].

- **Capital Market Sentiment:** Currently, capital is **favoring grocery-anchored retail** for its e-commerce resilience and steady traffic, but most buyers are also yield-conscious. The **low cap rate** and upcoming lease rolls mean ultra-core buyers (who want turnkey stability) may shy away. Instead, the likely buyer pool is those with **patient capital or strategic motives** – e.g. a buyer who values a foothold in [REDACTED] and can underwrite the lease-up upside (and who may have a lower cost of capital enabling them to live with a 5%–6% yield). In summary, the deal will appeal to groups that view the [REDACTED] anchor as a rare “trophy” component and are prepared to actively manage the rollover risk.

7. Final Takeaways

- **Investment Merits vs. Hurdles:** [REDACTED] is a high-quality, **irreplaceable grocery-anchored asset** in a growth market – a strong strategic fit for our portfolio. However, at the **current pricing and assumptions**, the deal **fails to meet our return thresholds** (estimated ~0–5% IRR vs. 14% target). The fundamentals (100% occupancy, top-tier anchor) are attractive, but the pricing leaves little room for error given the negative leverage and future cap rate risk.

- **Recommendation: Do Not Pursue a full underwriting at this time.** Unless the **price comes down materially** or we identify additional upside (e.g. a path to materially higher NOI or a different financing structure), the deal's risk/return profile is not compelling for our fund. We should **monitor** the opportunity in case market dynamics shift or the seller adjusts expectations, but our preliminary verdict is to **pass** on advancing this acquisition to the next stage.