



September 2024

# Deal Book

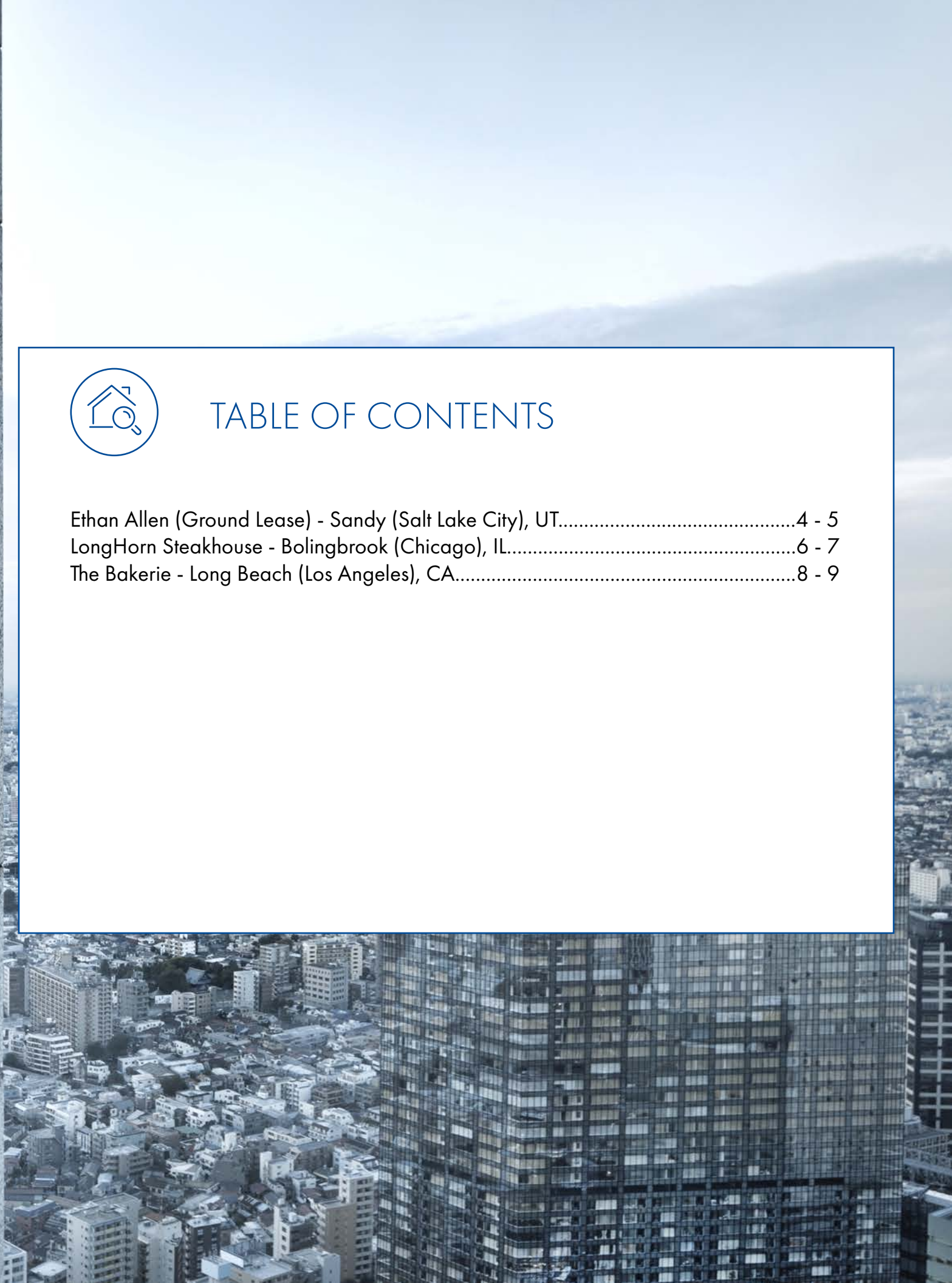
**An in-depth and detailed examination of deals**

**Commercial Real Estate | Debt & Equity | Investment Sales | Loan Servicing | Fund Management**



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# ETHAN ALLEN (GROUND LEASE)

Sandy, UT | Salt Lake City

\$4,550,000 | 5.70% Cap Rate | Mall Outparcel | Low Cap Rate



# ETHAN ALLEN (GROUND LEASE)

February 2024

Private Equity Group | Individual Investor

## The Setup: An Outparcel in Sandy, UT

Beginning in the fall of 2023, Northmarq was exclusively retained to sell 8 outparcels at the Shops at South Towne Mall on behalf of a long-standing client, Pacific Capital Retail Partners. The engagement focused on maximizing value for the client's overall investment of the mall by selling off individual pieces at accretive pricing levels. The Ethan Allen Property was one of the 8 outparcels.



Property Photo

## The Engagement: Streamlining the Portfolio

Pacific Capital Partners acquires larger mall properties and achieves outsized returns for their investors by right sizing the mall while simultaneously selling off smaller pieces that possess significant value. Said simply, they were looking to recycle capital. The client engaged Northmarq given Northmarq's long and successful track record selling long term net leased retail properties across the country.

## The Rising Action: Overcoming Hurdles: Parcel and Occupancy Challenges

The disposition process encountered a few unexpected roadblocks that required creative solutions:

- The Ethan Allen Property needed to be subdivided from the larger mall parcel, requiring a re-platting process that involved the city of Sandy.
- The tenant unexpectedly revealed their intention to sublease a portion of the building.



### A PARCEL WITH LIMITATIONS: NAVIGATING THE SUBDIVISION PROCESS

When Northmarq began formally marketing the property for sale, the Ethan Allen building was not yet on its own parcel. This meant the existing mall owners had to navigate the city and county approval process to formally separate the Ethan Allen building and its immediate footprint from the larger mall parcel. While the process was ultimately successful, the final parcel map only encompassed the building itself, excluding the parking lot and common areas typically associated with a building of that size. This presented a unique challenge, as the new owner wouldn't have direct control over the parking lot or surrounding area, potentially impacting future lease negotiations and development possibilities.



### UNVEILING SUBLEASE PLANS: A STRATEGIC MANEUVER WITH NUANCE

The transaction took another unexpected turn when the tenant, Ethan Allen, revealed plans to sublease a portion of the building. This presented a double-edged sword. On the positive side, a sublease could diversify income streams for the new owner by introducing another tenant and potentially lowering occupancy costs for Ethan Allen, making the lease more attractive in the long run. However, it could also signal weakness in Ethan Allen's core business, raising concerns about their ability to fill the entire space and potentially impacting the overall value of the property.

As the closing approached, two additional challenges emerged that needed to be navigated:

- The seller needed to secure formal approval from their lender to resell the outparcel, introducing potential delay.
- The buyer was operating under a tight 1031 exchange timeline, adding pressure to a potentially delayed closing.

## The Denouement: Navigating the Hurdles



### NAVIGATING TIME CONSTRAINTS: SELLER APPROVAL AND 1031 EXCHANGE DEADLINES

The path to closing presented a race against time on two fronts. First, obtaining formal approval from the seller's lender to resell the outparcel introduced a potential delay. A lender's decision to release a collateralized parcel from their loan is not something they are required to do and often does not have a set timeframe around a decision. This delay collided head-on with the buyer's strict 1031 exchange timeline. A 1031 exchange allows investors to defer capital gains taxes by reinvesting the proceeds from a sale into another qualified property within 180 days. Missing this deadline could have resulted in significant tax implications for the buyer, adding another layer of pressure to an already time-sensitive situation.

## Lessons of the Deal



### STRATEGIC PARCEL RE-PLATTING

Ensuring parcel size aligns with market expectations is critical to maintaining asset value and buyer interest.



### ASSIGNMENT AND SUBLETTING LEASE LANGUAGE

Fully understanding tenant lease clauses can help prevent unintended lease assignments that complicate and can kill transactions.



### EFFECTIVE COMMUNICATION

Clear communication and strategic messaging from the seller's team to the buyer's team is crucial to working through complex real estate issues and ensuring successful deal closure.



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# LONGHORN STEAKHOUSE

Bolingbrook, IL | Chicago

\$2,048,275 | 7.25% Cap Rate | Mall Outparcel | REA Negotiations



# LONGHORN STEAKHOUSE

May 2024

Private Investor | REIT

## The Setup: An Outparcel in Bolingbrook, IL

Beginning in the fall of 2023, Northmarq was exclusively retained to sell an outparcel at The Promenade Bolingbrook on behalf of a long-standing client, M&J Wilkow. The engagement focused on guiding the client through the process of creating and selling the outparcel to reduce their basis and reallocate funds to the shopping center.



Property Photo

## The Engagement: Disposition Strategy

M&J Wilkow owns 90 properties across the country, including 25 office buildings and 65 retail properties, many of which are large shopping centers. The company aimed to sell off outparcels to reduce their basis and reinvest the proceeds into the other centers through new tenant improvements and renovations. The client engaged Northmarq due to Northmarq's long and successful track record of selling net lease retail properties nationwide.

## The Rising Action: Overcoming Hurdles: Parcel and Lease Challenges

The disposition process encountered a few unexpected roadblocks that required creative solutions:

- The Property lease was originally written to be part of the shopping center, creating complications when selling the outparcel and what the landlord responsibilities would be for a new owner.
- The Tenant's remaining short lease term reduced the buyer pool.



### NAVIGATING DIFFICULT GROUND: ADDRESSING LEASE DISCREPANCIES

After replating the Property and creating a new Declaration, the tenant's common area reimbursements did not perfectly align with the original parcel's square footage, which could cause potential slippage for future owners. Additionally, unlike other Longhorn ground leases, the Tenant was only responsible for the building premises. Many interested groups wanted the Seller to approach the Tenant to restructure the lease to make this an absolute NNN lease. However, any lease amendments could lead to rent reductions, potential capital improvements, etc. the intention was to not have an absolute NNN lease, but ownership was willing to work with future buyers about continuing to maintain the common areas as they still owned the balance of the outlots and shopping center.



### SECURING THE IDEAL BUYER: LEASE CHALLENGES AND MARKET COMPLEXITIES

With only five years remaining in the lease and its intricacies pertaining to landlord responsibilities, the pool of interested buyers was significantly limited. Many of the 1031 exchange buyers we spoke with were seeking longer term leases with clearly defined Landlord responsibilities. Despite this, Northmarq sourced a buyer they were confident would be interested in the asset due to fantastic location and tenancy, Four Corners Property Trust Inc. and extended an offer.

As the closing approached, additional challenges emerged that needed to be navigated:

- A new REA agreement had to be negotiated to address the Landlord responsibilities issue.
- A new management / service agreement between the Buyer and Seller needed to be negotiated.

## The Denouement: Navigating the Hurdles



### LIMITING LANDLORD RESPONSIBILITIES: CRAFTING A SERVICE AGREEMENT

To reduce the intricacies regarding landlord responsibilities, Northmarq helped in negotiations to create service agreement between the buyer and seller for managing the common areas. The goal was for the shopping center owner to continue maintaining everything outside the tenant's leased premises. After countless purchase agreement amendments, this was successfully created.

## Lessons of the Deal



### REVIVING INTEREST: SECURING A NEW BUYER

The first buyer was in a exchange and ultimately went with a deal closer to home. However, Northmarq reengaged Four Corners Property Trust Inc. to see if they still had interest in the property and if they could get closer to ownerships expectations. Ultimately, they were able to come to agreement at attractive pricing for both the seller and buyer.



### LEASE LANGUAGE MATTERS

When creating a lease, you don't always know what will be done with the property in the future. Many older leases, which are outlots to shopping centers were never intended to be flipped out to reduce owners basis's in the assets. This has become a much more common thing over the years. However, these hurdles can be overcome by sophisticated Landlord's willing to create / revise Declarations and REAs to make these assets more hands off for future owners.



### KNOW THE PROPERTY AND BUYERS

Understanding the highlights and challenges of your property and ascertaining viable buyers from them is imperative to an efficient and profitable selling experience. Northmarq's knowledge of the market, buyer pool and understanding how to address these types of hurdles resulted in a successful sale.



Property Photo

# THE BAKERIE

## Long Beach, CA | Los Angeles

\$11,000,000 | 7.41% Cap Rate | Dispensary | Trophy Asset



# THE BAKERIE

## May 2024

Private Investor | Foreign Investor

### The Setup: A Flagship Asset in Long Beach

In the spring of 2022, Northmarq was exclusively retained to sell a dispensary property in Long Beach, California, on behalf of one of the leading cannabis private equity companies. The property featured a single tenant dispensary operating under a long-term lease with five personal guarantees but no corporate backing.



Property Photo

### The Engagement: Disposition Strategy

The client sought to capitalize on exceptional real estate, long term lease with annual increases and California's high demand for dispensary properties. Northmarq was selected for the engagement due to its extensive experience in the cannabis sector and proven track record of successfully selling net lease dispensary properties nationwide.

### The Rising Action: Overcoming Hurdles: Going Global

The disposition process was marked by several key factors that influenced the transaction:

- The lease's reliance on personal guarantees rather than corporate backing presented a higher risk profile for potential buyers.
- Limited buyer pool for large cannabis purchases due to the difficulties of financing these types of assets.



#### LIMITED BUYER POOL: PERSONAL GUARANTEE IMPLICATIONS AND LARGE PRICE

The lease's guarantee posed a significant challenge in attracting a broad pool of buyers. Unlike many cannabis assets on the market with large multi-state operators, this agreement relied solely on personal guarantees from multiple individuals. This unique arrangement limited the buyer pool for investors looking for corporate backed leases.. Additionally, the property was being listed for \$12,550,615, which was a 6.50% cap rate. Due to the limitations for financing these types of properties Northmarq needed to secure an all cash investor.



#### GLOBAL INVESTOR INTEREST: A STRATEGIC ADVANTAGE

Despite the property's unique guarantee structure and large price point presenting challenges for many investors, a strategic opportunity emerged. Foreign capital, particularly drawn to the high-growth U.S. cannabis market, proved to be a decisive factor. This international investor interest created a specialized buyer pool, ultimately driving exceptional competition for the property. Northmarq's deep-rooted relationships within the global investment community were instrumental in identifying and engaging these strategic buyers, ultimately resulting in a record-breaking sale price.

### The Denouement: Navigating the Hurdles



#### SECURING A RECORD-BREAKING SALE: GLOBAL INVESTOR PARTNERSHIP

Through strategic marketing and leveraging its extensive global network, Northmarq successfully identified a foreign investor willing to acquire the property for an all-cash consideration of \$11,000,000, setting a new benchmark for dispensary property sales. This landmark transaction not only showcased Northmarq's deep understanding of the cannabis market but also highlighted the firm's ability to connect domestic sellers with international capital.

### Lessons of the Deal



#### MARKET TIMING IS CRITICAL

The success of this transaction highlights the importance of understanding market cycles and identifying optimal entry and exit points. Northmarq's ability to recognize the peak of the dispensary investment boom and bring the property to market at the right time was instrumental in achieving a record-breaking sale price.



#### FOREIGN INVESTMENT OPPORTUNITIES

The deal underscores foreign investors' growing interest in the U.S. cannabis market, especially for west coast investments, highlighting its potential as a lucrative investment sector. Northmarq's relationships with international investors and brokers, cultivated through years of experience in the industry, proved invaluable in identifying and securing a buyer for this unique property. This strategic partnership facilitated a successful sale and solidified Northmarq's position as a leading advisor in the cannabis real estate sector.



#### LEVERAGING MARKET EXPERTISE

Northmarq's deep understanding of the cannabis sector and its ability to navigate complex lease guarantees were essential to the deal's success. By effectively communicating the property's strengths and mitigating potential risks, Northmarq was able to attract a qualified buyer and achieve a premium valuation. This transaction solidified Northmarq's position as a leading expert in the cannabis net lease sector, demonstrating the firm's ability to deliver exceptional client results, even in challenging market conditions.



Property Photo