

# Class “A” Office Bldg *Investment Opportunity*



# Overview

- Newer 40,000+/- sf Class A multi-tenant office
- Strong 500,000+ MSA market:
  - 237,000 sf net positive absorption of office space, Q2 '07
  - Sublease space < 0.9% of standing inventory
  - Rents up 4% in H1 '07
  - Projected 10 yr job growth 24% (US average is 12%)
- (2) Fortune 500 credit tenants, S&P credit rating AAA
- Significant tenant investment
- NNN leases with annual 2% + increases
- Priced around \$7M
- 8.50%+/- cap at full occupancy, but:
- *Currently at 76% occupancy.*
- *By assuming the vacancy risk (low in this market), with an 8.5% pro forma cap, the upside is huge*

# Acquisition Strategy

*Because of above-market vacancy, conventional financing  
at 70-75% LTV is unavailable*

- Offer negotiations will include price reduction and/or possible Master Leasing of vacant units
  - *Nice upside if we get either, but*
  - *Financial Analysis does not depends on either being successful*
- Bridge Loan
  - 7.5%
  - Interest only
  - 1.0 DCR required and achievable
  - 80% LTV –will require only \$1.5M equity to close
- Lease-up during 2008, season during 2009
- Refinance in 2010
  - 6.5%
  - Amortized over 30 years
  - 1.25 DCR required and achievable
  - 75% LTV (stabilized value at 7% cap requires no further equity)

# The Prize

## *0% vacancy*

	2008	2009	2010	2011	2012	2013
<b>GROSS INCOME</b>	\$656,504	\$843,155	\$860,211	\$877,625	\$895,405	\$913,558
Vacancy & Credit Allowance	\$0	\$0	\$0	\$0	\$0	\$0
- Operating Expenses	\$203,638	\$207,235	\$210,905	\$214,647	\$218,465	\$222,358
<b>NET OPERATING INCOME</b>	\$452,866	\$635,920	\$649,307	\$662,978	\$676,940	\$691,199
Debt Coverage Ratio	1.03	1.45	1.47	1.50	1.53	1.56
- Debt Service, First Mortgage	\$438,000	\$438,000				
- Debt Service, Refinance			\$442,953	\$442,953	\$442,953	\$442,953
<b>CASH FLOW BEFORE TAXES</b>	\$14,866	\$197,920	\$206,353	\$220,025	\$233,987	\$248,246
Cash on Cash Return (CFBT/Initial investment)	<b>0.99%</b>	<b>13.16%</b>	<b>13.72%</b>	<b>14.63%</b>	<b>15.56%</b>	<b>16.51%</b>
<b>PROJECTED SELLING PRICE, REAL ESTATE</b>	\$6,469,500	\$9,084,600	\$9,275,800	\$9,471,100	\$9,670,600	\$9,874,300
- Costs of Sale	\$258,780	\$363,384	\$371,032	\$378,844	\$386,824	\$394,972
- First Mortgage Payoff, EOY		\$5,840,000				
- Refinance Payoff			\$5,774,725	\$5,705,078	\$5,630,767	\$5,551,479
<b>BEFORE-TAX SALE PROCEEDS</b>	\$370,720	\$2,881,216	\$3,130,043	\$3,387,178	\$3,653,009	\$3,927,849
<b>PROFIT</b>		<b>92%</b>	<b>108%</b>	<b>125%</b>	<b>143%</b>	<b>161%</b>
Internal Rate of Return, Before Tax		43.59%	34.13%	29.58%	26.86%	25.03%
Modified Internal Rate of Return, Before Tax		43.46%	33.31%	28.23%	25.09%	22.92%

# The Prize

*5% vacancy- expected sale pro forma*

	2008	2009	2010	2011	2012	2013
<b>GROSS INCOME</b>	\$656,504	\$843,155	\$860,211	\$877,625	\$895,405	\$913,558
Vacancy & Credit Allowance	\$0	\$42,158	\$43,011	\$43,881	\$44,770	\$45,678
- Operating Expenses	\$203,638	\$207,235	\$210,905	\$214,647	\$218,465	\$222,358
<b>NET OPERATING INCOME</b>	\$452,866	\$593,762	\$606,296	\$619,097	\$632,170	\$645,521
Debt Coverage Ratio	1.03	1.36	1.37	1.40	1.43	1.46
- Debt Service, First Mortgage	\$438,000	\$438,000				
- Debt Service, Refinance			\$442,953	\$442,953	\$442,953	\$442,953
<b>CASH FLOW BEFORE TAXES</b>	\$14,866	\$155,762	\$163,343	\$176,144	\$189,217	\$202,568
Cash on Cash Return (CFBT/Initial investment)	<b>0.99%</b>	<b>10.36%</b>	<b>10.86%</b>	<b>11.71%</b>	<b>12.58%</b>	<b>13.47%</b>
<b>PROJECTED SELLING PRICE, REAL ESTATE</b>	\$6,469,500	\$8,482,300	\$8,661,400	\$8,844,200	\$9,031,000	\$9,221,700
- Costs of Sale	\$258,780	\$339,292	\$346,456	\$353,768	\$361,240	\$368,868
- First Mortgage Payoff, EOY		\$5,840,000				
- Refinance Payoff			\$5,774,725	\$5,705,078	\$5,630,767	\$5,551,479
<b>BEFORE-TAX SALE PROCEEDS</b>	\$370,720	\$2,303,008	\$2,540,219	\$2,785,354	\$3,038,993	\$3,301,353
<b>PROFIT</b>		<b>53%</b>	<b>69%</b>	<b>85%</b>	<b>102%</b>	<b>120%</b>
<b>Internal Rate of Return, Before Tax</b>		28.36%	24.77%	22.85%	21.59%	20.68%
<b>Modified Internal Rate of Return, Before Tax</b>		28.28%	24.26%	21.96%	20.39%	19.20%

# The Prize

*10% market vacancy: still underwrite-able*

	2008	2009	2010	2011	2012	2013
<b>GROSS INCOME</b>	\$656,504	\$843,155	\$860,211	\$877,625	\$895,405	\$913,558
Vacancy & Credit Allowance	\$0	\$84,315	\$86,021	\$87,763	\$89,540	\$91,356
- Operating Expenses	\$203,638	\$207,235	\$210,905	\$214,647	\$218,465	\$222,358
<b>NET OPERATING INCOME</b>	\$452,866	\$551,604	\$563,286	\$575,216	\$587,400	\$599,844
Debt Coverage Ratio	1.03	1.26	1.27	1.30	1.33	1.35
- Debt Service, First Mortgage	\$438,000	\$438,000				
- Debt Service, Refinance			\$442,953	\$442,953	\$442,953	\$442,953
<b>CASH FLOW BEFORE TAXES</b>	\$14,866	\$113,604	\$120,332	\$132,262	\$144,447	\$156,890
<b>Cash on Cash Return (CFBT/Initial investment)</b>	<b>0.99%</b>	<b>7.55%</b>	<b>8.00%</b>	<b>8.80%</b>	<b>9.61%</b>	<b>10.43%</b>
<b>PROJECTED SELLING PRICE, REAL ESTATE</b>	\$6,469,500	\$7,880,100	\$8,046,900	\$8,217,400	\$8,391,400	\$8,569,200
- Costs of Sale	\$258,780	\$315,204	\$321,876	\$328,696	\$335,656	\$342,768
- First Mortgage Payoff, EOY		\$5,840,000				
- Refinance Payoff			\$5,774,725	\$5,705,078	\$5,630,767	\$5,551,479
<b>BEFORE-TAX SALE PROCEEDS</b>	\$370,720	\$1,724,896	\$1,950,299	\$2,183,626	\$2,424,977	\$2,674,953
<b>PROFIT</b>		<b>15%</b>	<b>30%</b>	<b>45%</b>	<b>61%</b>	<b>78%</b>
<b>Internal Rate of Return, Before Tax</b>		11.07%	13.85%	14.97%	15.45%	15.64%
<b>Modified Internal Rate of Return, Before Tax</b>		11.04%	13.65%	14.55%	14.80%	14.79%

# Hold period analysis

- Holding through 2009 (2 years) should provide 12 months of “seasoning” at full occupancy.
  - 28% IRR
  - 53% Before-Tax Profit
- If held until 2013 (6 years), and refinancing with a permanent loan in early 2010
  - 20% IRR
  - 120% Before-Tax Profit
- *Selling assumptions:*
  - 7% cap
  - 4% selling costs
  - Sales Price determined using 5% vacancy, 2.7% mgmt

# Time is of the Essence!

- Bldg has only been on the market one week
- Others can do this analysis too
- Tired of the same old 7-8% return on equity with commercial buildings? This is your chance.