Bruin Consulting, LLC

Assessment of Existing Assets

Prepared for: Amelia Covington

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Overview: The consulting team has been asked to evaluate the existing assets of Amelia Covington and the potential improving market conditions to determine which of the following scenarios is the best course of action for each of the individual assets: Sell now while interest in the community is high, refinance without increasing the debt, or refinance and increase the debt, using the additional funds to improve the property in anticipation of improved market conditions for the long-term. The subject assets are all retail property types in the markets of Pallet Town, Celadon City and Goldenrod City. Because of the reignited interest in ARGemon, Ms. Covington has asked the team to weigh all options regarding her assets and determine the best course of action.

Goals

1. Determine the net-profit of selling all assets now
2. Determine the net-profit of refinancing all assets
3. Determine the net-profit of refinancing all assets with additional debt, and using the debt to improve the properties
4. Determine whether a combination of the above scenarios is most beneficial
5. Determine whether there is an optimal sale date based on it producing the highest IRR

Specifications:

Ms. Covington's main concern regarding her assets is whether or not it is best to hold them with the recent increase in interest for ARGemon. With this said, it is crucial to take the effects which the resurgence of interest starting during the summer of 2016 will have on the subject markets. The last time the craze hit it lasted for seven (7) years. However, because the Chamber of Commerce is incentivizing technology and manufacturing firms to relocate to the area, we have made an assumption that the market could experience the craze for ten (10) years this time around. Therefore, in all of our assumptions we have made it a goal to sell by or around the end of 2026. This assumption is crucial in order to minimize the risk of holding the assets if the interest in ARGemon is not as long-term as is hoped for and begins to decline.

Overview of Scenarios Modeled:

(1) Sell all assets now while interest is still high with a target sale date of January 2017
(2) Sell all assets now while interest is still high with a target sale date of December 2017
(3) Refinance existing debt on all assets in January 2017 and hold until December 2026
(4) Refinance existing debt on all assets in January 2017 and hold until the optimal sale date
(5) Refinance all assets with additional debt in January 2017, use the funds to upgrade all properties, and hold until December 2026
(6) Refinance all assets with additional debt in January 2017, use the funds to upgrade all properties, and hold until the optimal sale date

Analysis of Scenario 1:

The profitability of scenario one is measured by looking at the projected sale price of each asset with an immediate sale date of January 2017. The projected sale price has been estimated by capitalizing the NOI 12 months after sale (Jan. 2017). The capitalization rates used are 7.25% for Class C, and 6.5% for Class B. The ending proceeds have been calculated by subtracting the necessary loan payoff amounts and equity (investment balance) from the gross sale price. These ending proceeds are the amounts which Ms. Covington would gain from the immediate sale of each asset. The following tables are the “Sales Proceeds Calculation” and “Distribution of Net Proceeds” results from the modeling.

Pallet Town Results:

Ending Proceeds: $3,671,915 (IRR Leveraged: 1.33%)

Distributions of Net Proceeds	
Net Sale Price	8,045,943
Less: Loan Payoff	-2,940,695
Less: Equity (Investment Balance)	-1,433,333
Ending Proceeds	3,671,915

Sales Proceeds Calculation	
Net Operating Income	583,331
Occupancy Gross-up Adjustment	0
NOI to Capitalize	583,331
Divided by Cap Rate	7.25%
Gross Sale Price	8,045,943
Adjusted Gross Sale Price	8,045,943
Net Sales Price	8,045,943
Less: Loan Balance	2,940,695
Proceeds from Sale	5,105,248
Pv of Net Sales Price	3,704,576

Celadon Square Results:

Ending Proceeds: $2,263,178 (IRR Leveraged: 3.15%)

Sales Proceeds Calculation	
Net Operating Income	292,111
Occupancy Gross-up Adjustment	0
NOI to Capitalize	292,111
Divided by Cap Rate	7.25%
Gross Sale Price	4,029,116
Adjusted Gross Sale Price	4,029,116
Net Sales Price	4,029,116
Less: Loan Balance	1,165,938
Proceeds from Sale	2,863,178
Pv of Net Sales Price	1,701,942

Distributions of Net Proceeds	
Net Sale Price	5,559,836
Less: Loan Payoff	0
Less: Equity (Investment Balance)	-600,000
Ending Proceeds	4,959,836

Goldenrod Center Results:

Ending Proceeds: $2,307,670 (IRR Leveraged: -2.53%)

Distributions of Net Proceeds	
Net Sale Price	5,520,182
Less: Loan Payoff	-2,145,846
Less: Equity (Investment Balance)	-1,066,666
Ending Proceeds	2,307,670

Sales Proceeds Calculation	
Net Operating Income	358,812
Occupancy Gross-up Adjustment	0
NOI to Capitalize	358,812
Divided by Cap Rate	6.50%
Gross Sale Price	5,520,182
Adjusted Gross Sale Price	5,520,182
Net Sales Price	5,520,182
Less: Loan Balance	2,145,846
Proceeds from Sale	3,374,336
Pv of Net Sales Price	2,678,359

According to our analysis, the total net proceeds from selling all assets now would be:

$8,242,763 (Cumulative Leveraged IRR: 1.95%)

Analysis of Scenario Two:

The purpose of scenario two is to measure the ending proceeds from a more realistic sale date of December 2017. Because real estate is an inherently illiquid asset type, scenario two is intended to account for the time which it would take to find a willing and able buyer, and close escrow. The method of scenario two is identical to that of scenario one with regards to how the ending proceeds are calculated; the only difference is the sale date of December 2017. The following tables are the “Sales Proceeds Calculation” and “Distribution of Net Proceeds” results from the modeling.

Pallet Town Results:

Ending Proceeds: $4,698,375 (IRR Leveraged: 3.85%)

Distributions of Net Proceeds	
Net Sale Price	8,891,178
Less: Loan Payoff	-2,759,470
Less: Equity (Investment Balance)	-1,433,333
Ending Proceeds	4,698,375

Sales Proceeds Calculation	
Net Operating Income	644,610
Occupancy Gross-up Adjustment	0
NOI to Capitalize	644,610
Divided by Cap Rate	7.25%
Gross Sale Price	8,891,178
Adjusted Gross Sale Price	8,891,178
Net Sales Price	8,891,178
Less: Loan Balance	2,759,470
Proceeds from Sale	6,131,708
Pv of Net Sales Price	3,755,730

Celadon Square Results:

Ending Proceeds: $4,959,836 (IRR Leveraged: 8.47%)

Distributions of Net Proceeds	
Net Sale Price	5,559,836
Less: Loan Payoff	0
Less: Equity (Investment Balance)	-600,000
Ending Proceeds	4,959,836

Sales Proceeds Calculation	
Net Operating Income	403,088
Occupancy Gross-up Adjustment	0
NOI to Capitalize	403,088
Divided by Cap Rate	7.25%
Gross Sale Price	5,559,836
Adjusted Gross Sale Price	5,559,836
Net Sales Price	5,559,836
Less: Loan Balance	0
Proceeds from Sale	5,559,836
Pv of Net Sales Price	2,154,619

Goldenrod Center Results:

Ending Proceeds: $7,689,580 (IRR Leveraged: 6.11%)

Distributions of Net Proceeds	
Net Sale Price	8,756,246
Less: Loan Payoff	0
Less: Equity (Investment Balance)	-1,066,666
Ending Proceeds	7,689,580

Sales Proceeds Calculation	
Net Operating Income	569,156
Occupancy Gross-up Adjustment	0
NOI to Capitalize	569,156
Divided by Cap Rate	6.50%
Gross Sale Price	8,756,246
Adjusted Gross Sale Price	8,756,246
Net Sales Price	8,756,246
Less: Loan Balance	0
Proceeds from Sale	8,756,246
Pv of Net Sales Price	3,952,072

According to our analysis, the total net proceeds from selling all assets in December 2017 would be:

$17,347,791 (Total Leveraged IRR: 18.43%)

Analysis of Scenario Three:

The purpose of scenario three is to measure the ending proceeds from refinancing existing debt of all assets on January 2017, and holding the refinanced properties until December 2026. This sale date has been selected because it will mark ten (10) years since the craze reemerged during the summer of 2016. Refinancing is a great option because the client can take advantage of the lower interest rates which are offered. For class C retail properties the refinance interest rate being offered is 5.10%. For class B retail properties the refinance rate being offered is 4.95%. Since both rates are lower than the client's original arrangements, refinancing is encouraged if the client chooses to hold her assets past January 2017. The ending proceeds are calculated in the same manner as the previous scenarios. The following tables are the "Sales Proceeds Calculation" and "Distribution of Net Proceeds" results from the modeling.

Pallet Town Results:

Ending Proceeds: $8,151,108 (IRR Leveraged: 7.75%)

Distributions of Net Proceeds	
Net Sale Price	11,421,062
Less: Loan Payoff	-1,836,621
Less: Equity (Investment Balance)	-1,433,333
Ending Proceeds	8,151,108

Sales Proceeds Calculation	
Net Operating Income	828,027
Occupancy Gross-up Adjustment	0
NOI to Capitalize	828,027
Divided by Cap Rate	7.25%
Gross Sale Price	11,421,062
Adjusted Gross Sale Price	11,421,062
Net Sales Price	11,421,062
Less: Loan Balance	1,836,621
Proceeds from Sale	9,584,441
Pv of Net Sales Price	2,221,279

Celadon Square Results:

Ending Proceeds: $6,756,500 (IRR Leveraged: 10.47%)

Distributions of Net Proceeds	
Net Sale Price	8,084,690
Less: Loan Payoff	-728,190
Less: Equity (Investment Balance)	-600,000
Ending Proceeds	6,756,500

Sales Proceeds Calculation	
Net Operating Income	586,140
Occupancy Gross-up Adjustment	0
NOI to Capitalize	586,140
Divided by Cap Rate	7.25%
Gross Sale Price	8,084,690
Adjusted Gross Sale Price	8,084,690
Net Sales Price	8,084,690
Less: Loan Balance	728,190
Proceeds from Sale	7,356,500
Pv of Net Sales Price	1,442,558

Goldenrod Center Results:

Ending Proceeds: $8,740,153 (IRR Leveraged: 7.86%)

Distributions of Net Proceeds	
Net Sale Price	11,147,014
Less: Loan Payoff	-1,340,195
Less: Equity (Investment Balance)	-1,066,666
Ending Proceeds	8,740,153

Sales Proceeds Calculation	
Net Operating Income	724,556
Occupancy Gross-up Adjustment	0
NOI to Capitalize	724,556
Divided by Cap Rate	6.50%
Gross Sale Price	11,147,014
Adjusted Gross Sale Price	11,147,014
Net Sales Price	11,147,014
Less: Loan Balance	1,340,195
Proceeds from Sale	9,806,819
Pv of Net Sales Price	2,624,154

According to our analysis, the total net proceeds from refinancing all assets in January 2017 and selling them in December 2026 are:

$23,647,761 (Total Leveraged IRR: 26.08%)

Analysis of Scenario Four:

The purpose of scenario four is to measure the ending proceeds from refinancing existing debt of all assets on January 2017, and holding the refinanced properties until the optimal sale date. The optimal sale date was determined in our modeling by comparing the IRR of selling the property in every month, and selecting the sale month which produced the highest IRR. Refinancing is a great option because the client can take advantage of the lower interest rates which are offered. For class C retail properties the refinance interest rate being offered is 5.10%. For class B retail properties the refinance rate being offered is 4.95%. Since both rates are lower than the client's original arrangements, refinancing is encouraged if the client chooses to hold her assets past January 2017. The ending proceeds are calculated in the same manner as the previous scenarios. The following tables are the "Sales Proceeds Calculation" and "Distribution of Net Proceeds" results from the modeling.

Pallet Town Results:

Optimal Sale Date Suggestion: January 2026

Ending Proceeds: $9,681,227 (IRR Leveraged: 8.51%)

Distributions of Net Proceeds	
Net Sale Price	13,077,350
Less: Loan Payoff	-1,962,790
Less: Equity (Investment Balance)	-1,433,333
Ending Proceeds	9,681,227

Sales Proceeds Calculation	
Net Operating Income	948,108
Occupancy Gross-up Adjustment	0
NOI to Capitalize	948,108
Divided by Cap Rate	7.25%
Gross Sale Price	13,077,350
Adjusted Gross Sale Price	13,077,350
Net Sales Price	13,077,350
Less: Loan Balance	1,962,790
Proceeds from Sale	11,114,560
Pv of Net Sales Price	2,772,316

Celadon Square Results:

Optimal Sale Date Suggestion: June 2027

Ending Proceeds: $7,640,695 (IRR Leveraged: 10.70%)

Distributions of Net Proceeds	
Net Sale Price	8,240,695
Less: Loan Payoff	0
Less: Equity (Investment Balance)	-600,000
Ending Proceeds	7,640,695

Sales Proceeds Calculation	
Net Operating Income	597,450
Occupancy Gross-up Adjustment	0
NOI to Capitalize	597,450
Divided by Cap Rate	7.25%
Gross Sale Price	8,240,695
Adjusted Gross Sale Price	8,240,695
Net Sales Price	8,240,695
Less: Loan Balance	0
Proceeds from Sale	8,240,695
Pv of Net Sales Price	1,470,395

Goldenrod Center Results:

Optimal Sale Date Suggestion: September 2023

Ending Proceeds: $8,477,254 (IRR Leveraged: 8.63%)

Distributions of Net Proceeds	
Net Sale Price	11,192,038
Less: Loan Payoff	-1,648,118
Less: Equity (Investment Balance)	-1,066,666
Ending Proceeds	8,477,254

Sales Proceeds Calculation	
Net Operating Income	727,482
Occupancy Gross-up Adjustment	0
NOI to Capitalize	727,482
Divided by Cap Rate	6.50%
Gross Sale Price	11,192,038
Adjusted Gross Sale Price	11,192,038
Net Sales Price	11,192,038
Less: Loan Balance	1,648,118
Proceeds from Sale	9,543,920
Pv of Net Sales Price	3,518,631

According to our analysis, the total net proceeds from refinancing all assets in January 2017 and selling on the optimal sale dates are:

$25,799,176 (Total Leveraged IRR: 27.84%)

Analysis of Scenario Five:

The purpose of scenario five is to measure the ending proceeds from refinancing existing debt of all assets on January 2017, taking on additional debt to improve the asset classes, and holding the refinanced properties until December 2026. The purpose of improving the asset classes is to be able to increase market rents and receive a greater cash-flow. This not only means greater month-to-month cash-flow, but a greater sale price as well because of the lower going-out cap rates. The going-out cap rates are 6.50% for class B, and 5.25% for class A.

Refinancing is a great option because the client can take advantage of the lower interest rates which are offered. For class B retail properties the refinance interest rate being offered is 4.95%. For class A retail properties the refinance rate being offered is 4.65%. Since both rates are lower than the client's original arrangements, refinancing is encouraged if the client chooses to hold her assets past January 2017.

Pallet Town and Celadon Square were improved from class C to class B. Goldenrod Center was improved from class B to class A.The ending proceeds are calculated in the same manner as the previous scenarios. The following tables are the "Sales Proceeds Calculation" and "Distribution of Net Proceeds" results from the modeling.

Pallet Town Results:

Ending Proceeds: $10,901,510 (IRR Leveraged: 8.55%)

Total Capital Need to Improve Pallet Town Center's Class: $979,000

Pallet Town New Loan with Additional Debt: $2,940,695 + $979,000 = $3,919,695

Distributions of Net Proceeds	
Net Sale Price	14,769,146
Less: Loan Payoff	-2,434,303
Less: Equity (Investment Balance)	-1,433,333
Ending Proceeds	10,901,510

Sales Proceeds Calculation	
Net Operating Income	959,994
Occupancy Gross-up Adjustment	0
NOI to Capitalize	959,994
Divided by Cap Rate	6.50%
Gross Sale Price	14,769,146
Adjusted Gross Sale Price	14,769,146
Net Sales Price	14,769,146
Less: Loan Balance	2,434,303
Proceeds from Sale	12,334,843
Pv of Net Sales Price	3,737,615

Celadon Square Results:

Ending Proceeds: $8,582,790 (IRR Leveraged: 10.77%)

Total Capital Needed to Improve Celadon Square's Class: $690,800
Celadon Square New Loan with Additional Debt: $724,099 + $690,800 = $1,414,899

Distributions of Net Proceeds	
Net Sale Price	10,061,505
Less: Loan Payoff	-878,715
Less: Equity (Investment Balance)	-600,000
Ending Proceeds	8,582,790

Sales Proceeds Calculation	
Net Operating Income	653,998
Occupancy Gross-up Adjustment	0
NOI to Capitalize	653,998
Divided by Cap Rate	6.50%
Gross Sale Price	10,061,505
Adjusted Gross Sale Price	10,061,505
Net Sales Price	10,061,505
Less: Loan Balance	878,715
Proceeds from Sale	9,182,790
Pv of Net Sales Price	2,368,611

Goldenrod Center Results:

Ending Proceeds: $11,519,811 (IRR Leveraged: 9.26%)

Total Capital Needed to Improve Goldenrod Center's Class: $663,300

Goldenrod Center New Loan with Additional Debt: $2,145,846 + $663,300 = $2,809,146

Distributions of Net Proceeds	
Net Sale Price	14,311,256
Less: Loan Payoff	-1,724,779
Less: Equity (Investment Balance)	-1,066,666
Ending Proceeds	11,519,811

Sales Proceeds Calculation	
Net Operating Income	751,341
Occupancy Gross-up Adjustment	0
NOI to Capitalize	751,341
Divided by Cap Rate	5.25%
Gross Sale Price	14,311,256
Adjusted Gross Sale Price	14,311,256
Net Sales Price	14,311,256
Less: Loan Balance	1,724,779
Proceeds from Sale	12,586,477
Pv of Net Sales Price	4,061,492

According to our analysis, the total net proceeds from refinancing all assets with additional debt in January 2017, using the capital to improve each asset's class, and selling in December 2026 are:

$31,004,111 (Total Leveraged IRR: 28.58%)

Analysis of Scenario Six:

The purpose of scenario five is to measure the ending proceeds from refinancing existing debt of all assets on January 2017, taking on additional debt to improve the asset classes, and holding the refinanced properties until the optimal sale date. The optimal sale date was determined in our modeling by comparing the IRR of selling the property in every month, and selecting the sale month which produced the highest IRR. The purpose of improving the asset classes is to be able to increase market rents and receive a greater cash-flow. This not only means greater month-to-month cash-flow, but a greater sale price as well because of the lower going-out cap rates. The going-out cap rates are 6.50% for class B, and 5.25% for class A.

Refinancing is a great option because the client can take advantage of the lower interest rates which are offered. For class B retail properties the refinance interest rate being offered is 4.95%. For class A retail properties the refinance rate being offered is 4.65%. Since both rates are lower than the client's original arrangements, refinancing is encouraged if the client chooses to hold her assets past January 2017.

Pallet Town and Celadon Square were improved from class C to class B. Goldenrod Center was improved from class B to class A.The ending proceeds are calculated in the same manner as the previous scenarios. The following tables are the "Sales Proceeds Calculation" and "Distribution of Net Proceeds" results from the modeling.

Pallet Town Results:

Suggested Sale Date: January 2026

Ending Proceeds: $11,387,613 (Leveraged IRR: 8.91%)

Total Capital Need to Improve Pallet Town Center's Class: $979,000

Pallet Town New Loan with Additional Debt: $2,940,695 + $979,000 = $3,919,695

Distributions of Net Proceeds	
Net Sale Price	15,423,950
Less: Loan Payoff	-2,603,004
Less: Equity (Investment Balance)	-1,433,333
Ending Proceeds	11,387,613

Sales Proceeds Calculation	
Net Operating Income	1,002,557
Occupancy Gross-up Adjustment	0
NOI to Capitalize	1,002,557
Divided by Cap Rate	6.50%
Gross Sale Price	15,423,950
Adjusted Gross Sale Price	15,423,950
Net Sales Price	15,423,950
Less: Loan Balance	2,603,004
Proceeds from Sale	12,820,946
Pv of Net Sales Price	4,196,075

Celadon Square Results:

Suggested Sale Date: June 2026

Ending Proceeds: $8,249,166 (Leveraged IRR: 10.96%)

Total Capital Needed to Improve Celadon Square's Class: $690,800

Celadon Square New Loan with Additional Debt: $724,099 + $690,800 = $1,414,899

Distributions of Net Proceeds	
Net Sale Price	9,761,439
Less: Loan Payoff	-912,273
Less: Equity (Investment Balance)	-600,000
Ending Proceeds	8,249,166

Sales Proceeds Calculation	
Net Operating Income	634,494
Occupancy Gross-up Adjustment	0
NOI to Capitalize	634,494
Divided by Cap Rate	6.50%
Gross Sale Price	9,761,439
Adjusted Gross Sale Price	9,761,439
Net Sales Price	9,761,439
Less: Loan Balance	912,273
Proceeds from Sale	8,849,166
Pv of Net Sales Price	2,470,319

Goldenrod Center Results:

Suggested Sale Date: September 2023
Ending Proceeds: $10,770,046 (Leveraged IRR: 10.25%)
Total Capital Needed to Improve Goldenrod Center's Class: $663,300
Goldenrod Center New Loan with Additional Debt: $2,145,846 + $663,300 = $2,809,146

Distributions of Net Proceeds	
Net Sale Price	13,970,381
Less: Loan Payoff	-2,133,669
Less: Equity (Investment Balance)	-1,066,666
Ending Proceeds	10,770,046

Sales Proceeds Calculation	
Net Operating Income	733,445
Occupancy Gross-up Adjustment	0
NOI to Capitalize	733,445
Divided by Cap Rate	5.25%
Gross Sale Price	13,970,381
Adjusted Gross Sale Price	13,970,381
Net Sales Price	13,970,381
Less: Loan Balance	2,133,669
Proceeds from Sale	11,836,712
Pv of Net Sales Price	5,100,521

According to our analysis, the total net proceeds from refinancing all assets with additional debt in January 2017, using the capital to improve each asset's class and selling on the optimal sale dates are:

$30,406,825 (Total Leveraged IRR: 30.12%)

Overview of Asset IRRs Based on Scenarios:

Asset IRR Based on Scenario	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Pallet Town	1.33%	3.85%	7.75%	8.51%	8.55%	8.91%
Caledon Square	3.15%	8.47%	10.47%	10.70%	10.77%	10.96%
Goldenrod Center	-2.53%	6.11%	7.86%	8.63%	9.26%	10.25%
Total IRR:	1.95%	18.43%	26.08%	27.84%	28.58%	30.12%

Final Recommendation Intuition:

Pallet Town Recommendation:

Pallet Town is known for its low-cost of living and manufacturing. Because of the influx of young people due to their demand for affordable housing options, our team recommends against selling this asset now (against Scenario 1/2). Furthermore, because of Pallet Town Central's prime location in the center of the town, and lack of competition in the surrounding area of retail space, our team suggests that the client refinance her property with additional debt and reinvest the capital to improve the center to a class B (Scenario 5/6). This option will let the client take advantage of lower interest rates due to the center's improvement, and enjoy greater cash-flow due to increased market rents. With regards to the sale date, the IRRs from selling in December 2026 (Scenario 5) and the optimal sale date of January 2026 (Scenario 6) are 8.55% and 8.91% respectively. Clearly, the optimal sale date leads to the greatest IRR for Pallet town and is therefore our recommendation for this asset.

Celadon Square Recommendation:

Celadon City is a favored area for second homes because of the beautiful scenery throughout the city. The government of Celadon City is offering the largest incentives for corporations to move there, and is hoping to attract technology firms whose professionals can afford the higher prices of this city. Celadon Square is located in the center of the residential area and its only competition is a retail center 2 miles away by highway. Because of the large incentives which the government is offering for technology firms, our team recommends against selling this asset immediately (against Scenario 1/2). Furthermore, because there is a plan for a stand-alone grocer to open down the street from Celadon Square, our team foresees a greater portion of consumers who travel to the further retail center to now stay more local. Because of this increased consumer base, our team suggests that the client refinance her property with additional debt and reinvest the capital to improve the center to a class B (Scenario 5/6). This option will let the client take advantage of lower interest rates due to the center's improvement, and enjoy greater cash-flow due to increased market rents. With regards to the sale date, the IRRs from selling in December 2026 (Scenario 5) and the optimal sale date of June 2026 (Scenario 6) are 10.77% and 10.96% respectively

Goldenrod Center Recommendation:

Goldenrod City is known to be one of the more stable economically because of the existing factories. Although the city has offered the least incentives, our team believes that the discovery of oil and investment in manufacturing of Pallet Town will help drive a long-term boom for Goldenrod City. Furthermore, the interest in ARGemon has increased interest in living in the city and therefore increased the employment base. Both of these increased also increase the consumer base for retail centers such as Goldenrod Center. This has also lead residential developers to contemplate new projects in anticipation of increased demand for housing. This increased supply of housing could lead to affordable housing options and further increase the demand to live in Goldenrod City, increasing the consumer base. Although Goldenrod Center is located a bit out of the central area of the city, the developer of the neighborhood is expected to get his permits approved by the city. This development of new housing, along with all the aforementioned factors, leads our team to suggest that the client refinances Goldenrod Center with additional debt, and uses the capital to improve the center to class A (Scenario 5/6). The improvement of Goldenrod Center to class A will generate interest in the area. This will especially be significant with regards to the new housing supply. Improvement of the center to class A will drive an influx of housing and retail consumers to this area, and Goldenrod Center will enjoy the long-term benefits of the boom. With regards to the sale date, the IRRs from selling in September 2023 (Scenario 5) and the optimal sale date of June 2026 (Scenario 6) are 9.26% and 10.25% respectively. Although the recommended sale date is three years before our suggest exit-year (2026) in order to minimize the risk of holding the asset during another downturn, the difference in IRR significant enough where an earlier exit-year is suggested.

Final Recommendation Values:

Pallet Town Center Recommendation:

Scenario 6: Refinance with additional debt to improve center to class B

Optimal Sale Date: January 2026

Sale Price: $15,423,950

Ending Proceeds: $11,387,613

Leveraged IRR: 8.91%

Celadon Square Recommendation:

Scenario 6: Refinance with additional debt to improve center to class B

Optimal Sale Date: June 2026

Sale Price: $9,761,439

Ending Proceeds: $8,249,166

Leveraged IRR: 10.96%

Goldenrod Center Recommendation:

Scenario 6: Refinance with additional debt to improve center to class A

Optimal Sale Date: September 2023

Sale Price: $13,970,301

Ending Proceeds: $10,770,046

Leveraged IRR: 10.25%

Total Ending Proceeds and Leveraged IRR of Suggested Exit Strategy:

$30,406,825 (Total Leveraged IRR: 30.12%)

Key Modeling Assumptions:

Analysis Begin Date:

Because the analysis begin date is by default the purchase date on ARGUS, our team made the analysis begin date the same as the origination date of the original loan on each property.

Pallet Town Center: March 2008

Celadon Square: July 2007

Goldenrod Center: October 2007

Analysis Length:

The analysis length dates were selected with regards to ensuring that: the sale dates were within the length's frame, with the loan terms in mind (10-years), and with the preference exit by December 2026 in mind:

Pallet Town Center:

Scenario 1: 10 yrs

Scenario 2: 10 yrs

Scenario 3: 20 yrs

Scenario 4: 20 yrs

Scenario 5: 20 yrs

Scenario 6: 20 yrs

Celadon Square:

Scenario 1: 11 yrs

Scenario 2: 11 yrs

Scenario 3: 20 yrs

Scenario 4: 20 yrs

Scenario 5: 20 yrs

Scenario 6: 20 yrs

Goldenrod Center:

Scenario 1: 11 yrs

Scenario 2: 11 yrs

Scenario 3: 20 yrs

Scenario 4: 20 yrs

Scenario 5: 20 yrs

Scenario 6: 20 yrs

Recovery Timing Structure:

The recovery timing structure for all scenarios was : Calendar Recovery with Fiscal Inflation

Budgeted Capital Expenses:

Our team conducted research in order to make educated estimates on the length of time which it would take to complete each capital expense. Payments were divided evenly throughout the length of time. If the length was three or more (>3) months, 50% of the expense was paid up-front to the contractor, and the other 50% of costs were distributed evenly throughout the remaining project months. Furthermore, 10% capital reserves were assumed on top of the budgeted expense to account for any unforeseen circumstances.

Capital Expenses to Improve Center Class:

Our team conducted research in order to make educated estimates on the length of time which it would take to complete each capital expense. Payments were divided evenly throughout the length of time. If the length was three or more (>3) months, 50% of the expense was paid up-front to the contractor, and the other 50% of costs were distributed evenly throughout the remaining project months. Furthermore, 10% capital reserves were assumed on top of the budgeted expense to account for any unforeseen circumstances. All capital expenses to improve center classes were budgeted into 2017 in congruence with the refinancing with additional debt.

Tenant Suite:

For the sake of organization, tenant were assigned suites in order of rent roll place. All suits in one-story centers were given a base suite number of 100 (100,101,102, etc.). All two-story centers were given a base suite number of 100 for first floor, and 200 for second floor.

Purchase Price:

The purchase price for each property was derived by using the known values: original loan amount and 75% LTV. The loan amount was divided by the LTV to derive the purchase price.

Center	Loan Amount	LTV	Purchase Price
Pallet Town	$4,300,000	75%	$5,733,333
Celadon Square	$1,800,000	75%	$2,400,000
Goldenrod Center	$3,200,000	75%	$4,266,666

Refinance Amount:

The refinance amount was derived by taking the balloon payment amount needed to payoff the original loan in January 2017. The new LTV is that of the new loan amount in comparison to the property's value in January 2017. The new property value was calculated by dividing the 2018 NOI by the class's respective exit-cap (7.25% Class C, 6.5% Class B). Because the maximum LTV for refinancing is 75%, all LTV for this scenario must be at most 75%.

Center	Balloon Payment Amount	2018 NOI	New Property Value	LTV	New Loan Amount
Pallet Town	$2,940,695	$593,870	$8,191,310	35.90%	$2,940,695
Celadon Square	$1,165,938	$345,365	$4,763,655	24.47%	$1,165,938
Goldenrod Center	$2,145,846	$534,552	$8,223,876	26.09%	$2,145,846

Refinance Amount with Additional Debt:

The total refinance amount was derived by taking the balloon payment amount needed to payoff the original loan in January 2017, and adding the additional debt needed for capital expenses to upgrade the asset's class. The new LTV is that of the new loan amount in comparison to the property's estimated value in January 2017. The new property value was calculated by dividing the 2018 NOI by the respective exit-cap of the property's upgraded class (6.5% Class B, 5.25% Class A). Because the maximum LTV for refinancing is 75%, all LTV for this scenario must be at most 75%.

Center	Balloon Payment Amount	Additional Debt Needed for CapEx	2018 NOI	New Property Value	LTV	New Loan Amount
Pallet Town	$2,940,695	$979,000	$593,870	$9,136,461	42.90%	$3,919,695
Celadon Square	$1,165,938	$248,961	$345,365	$5,313,307	26.63%	$1,414,899
Goldenrod Center	$2,145,846	$663,300	$534,552	$10,181,942	27.59%	$2,809,146

Refinance Prepayment Penalty:

Because the new value of the collateralized properties is so significantly greater than their previous value when the original loans were received, and because of the significant cash-flow increases which upgraded the assets' classes will bring, we have assumed no prepayment penalties for refinancing.

Closing Costs:

No closing costs were assumed.

Going-In Cap Rate:

The going-in cap rates which were used were those given in the market assumptions. The going-cap rates were assigned to each asset by their class at the time of acquisition.

Going-Out Cap Rate:

The going-out cap rates which were used were those given in the market assumptions. The going-out cap rates were assigned to each asset by their class at the time of disposition. Therefore, if a class was purchased while it was a class C, but after improvements it became a class B asset, a going-out cap rate for Class B was used in the sale assumptions.

Discount Rate:

The discount rates which were used were those given in the market assumptions. The discount rates were assigned to each asset by their class at the time of disposition. Therefore, if a class was purchased while it was a class C, but after improvements it became a class B asset, a discount rate for Class B was used in the assumptions.

Refinancing Interest Rate:

The refinancing interest rates which were used were those given in the market assumptions. The discount rates were assigned to each asset by the class which they were being improved to. Therefore, if a class was purchased while it was a class C, but after improvements it became a class B asset, a refinancing interest rate for Class B was used in the assumptions.

Inflation Rates (2016-Analysis End):

A constant 3% inflation rate was assumed from 2016 to the end of analysis.

Research and Intuition Behind CapEx Assumptions:

Pallet Town Central Capital Improvements

Parking Lot Repaving

After carefully considering the recommended season and estimated length of time to pave a business parking lot, we arrived at a two month project to be completed during the months of September and October of the year 2017. One month allocated for the actual repaving, and one month allocated for the sealing, which has to be done 30 days after the asphalt repaving takes place. In order to not disrupt regular business operations at the property, asphalt paving should be completed in parts, which is why we estimated a month time frame for just repaving. Temperature and a rainy climate can affect the cooling process of the asphalt; temperatures of 50 to 60 degrees are recommended for a recoat. Since we do not know the location of where this property is located, we assumed a temperate climate. A dry subgrade is better for paved parking lots, because it does not cool the asphalt from the bottom so fast. We recommend that the payment for the asphalt repaving should be divided over the two months of September and October 2017. When considering possible issues and problems with parking lot repaving, we also have added an additional 10 percent increase to the estimated cost for unforeseen circumstances. Instead of allocating $120,000, we advise to allocate $132,000, and pay two payments of $66,000 during the months of September and October 2017.

Partial Roof Replacement

Partial roof replacements can be unpredictable in terms of the structural integrity of the roof, and since the property is a Class C, we decided that three months would be the maximum time to complete the project. There is a range of time between a few weeks to a few months for a roof replacement and we assumed the worst conditions for the project. We recommend starting the project in September of 2018, because if the property is located where there are temperate weather conditions, we assume the months of September to November of 2018 will have less rain and snow. Since the property is a Class C, we assume that there could be unforeseen circumstances during the project, so we have allocated an additional 10 percent increase to the estimated budget for the roof replacement. We also recommend paying 50 percent of the total payment in the first month, and divide the remainder equally over the other two months. Instead of allocating $80,000, we advise to allocate $88,000, and pay one payment of $40,000 during the month of September 2018, and two payments of $22,000 during the months of October and November 2018.

Pallet Town Central Budgeted Capital Expenses to improve to Next Class

Landscaping

Based on the budget allocated to landscaping, we assume this project would require planning and overview before actually starting the project. We recommend planting everything and doing the actual landscaping in spring, so the plants have time to acclimate before the summer months. After careful consideration of the time frame and possible length to do stone pavers, trees, and various types of planets, we advise to estimate a maximum time frame of two months, April and May of 2017. This property may not have a sprinkler system in place, so we allocated extra time for installation, in case that will be necessary. Since other expenses could arise and charges that were not foreseen initially, we have increased the budget by 10 percent. The quality of work could be possibly improved, and a reserve of additional money set aside would leave room for flexibility in costs. We recommend dividing the payment equally over both months of when the project will be completed. Instead of allocating $75,000, we advise to allocate $82,500, and pay two payments of $41,250 during the months of April and May 2017.

Siding and Paint

For a property of this size and a Class Level C rating, we advise that extra time should be allocated for possible infrastructure problems and issues with the pre existing exterior of the building. The project, we estimate, will take roughly three months to complete because the job may need to be completed in parts so tenants and their businesses are not interrupted excessively. We plan to complete the project during April, May, and June of 2017, and since we will also be completing our landscaping project during those months, we want to be conscious of our tenants. Since the first couple weeks of landscaping will be primarily planning and overview, we advise to start painting then and focus the other two months on areas where units will not be disturbed as much. If all tenants are located inside and do not have separate outside entrances, then painting and siding may not take as long as we have estimated. Since the property is a Class Level C, we have budgeted an additional 10 percent for unforeseen circumstances and problems that could arise while the project is ongoing. Also, 50 percent of the payment should be paid in the first month and the remainder can be divided equally over the other two months. Instead of allocating $275,000, we advise to allocate $302,500, and pay one payment of $151,250 during the month of April 2017, and two payments of $75625 during the months of May and June 2017.

Doors and Windows

Window and door replacement can be a lengthy and time consuming project, especially when a property is a Class C level and could have unforeseen problems after the project has already started. Tenants will have to be notified incase business operations have to be temporarily closed during the project, unless the window and door replacement is only done during the hours when businesses are not open, which can be difficult to manage. The quality of work may also be affected if working during the late evening and night. Based on the square footage and assuming that the location has a temperate climate, we assess that this project would be best completed during the time frame of February to June of 2017. Ordering windows can take up to four weeks, and we added an additional 8 weeks for installation and notifying tenants. We also considered another 1-2 weeks for permits if the city requires that where the property is located. For doors, we assumed that more than 60 doors, if not more, would need to be replaced and estimated two months for installing doors. The property is a Class C, so we assume the foundational integrity of door frames and window frames will not be in the best condition. We recommend paying 50 percent in the first month and divide the remainder over the other four months. The season for completing this project would be during early spring to early summer, because the temperatures are warm, but not too hot. Door and window openings expand during the hotter months, so installing when the opening would be largest ensures that not as many additional problems will arise with the doors and windows later on. This is the largest property, so the time length would be longest for replacing doors and windows, since the class level is also the lowest as well. Instead of allocating $145,000, we advise to allocate $159,500, and pay one payment of $79,750 during the month of February 2017, and four payments of $19,938 roughly during the months of March, April, May, and June 2017.

New Signage

After considering the process of creating signs and getting approval by the city, if this property is located in an area where there are city boundaries for signage, we have allocated two months for new signage. Creating signs and getting approval for the signage could take less than a month, but we have allocated extra time incase the city rejects it and we have to resubmit. We predict that the installation of the signs will also take a couple weeks, so two months seemed like the best estimate for the project. We will divide the payment over two months equally, and have increased the budget by 10 percent for unforeseen circumstances. The season does not matter for this project, since we assume that most of this project will be planning, so we recommend completing this project in November and December of 2017. Instead of allocating $165,000, we advise to allocate $181500, and pay two payments of $90,750 during November and December 2017.

Energy Efficiency

Energy efficiency is hard to allocate time for, since identification of what upgrades to the property will reap energy saving benefits will not predict the actual effects until after implementation has occurred over a long period of time. After carefully considering that, we have estimated three months for this project, one month for identifying what changes should be made to the property to make it more energy efficient, and two months for implementation of these changes. Since we are replacing doors and windows for this property before we do this energy efficiency project, we advise to use some of the additional reserved money that we allocated to the budget for door and window replacement on getting energy efficient windows and doors. We recommend doing this project during the months of March to May of 2017, and paying 50 percent of the costs in the first month and dividing the remainder over the last two months of the project. Instead of allocating $230,000, we advise to allocate $253,000, and pay one payment of $126,500 for the month of March, and two payments of $63,250 for April and May 2017.

Celadon Square Capital Improvements

Air Conditioner Replacement

After carefully considering the cost of air conditioner replacement and the best time frame to complete the project, we arrived at completing the project in two months. We do not know the extent of the air conditioner replacement and are not sure that vents need to be replaced throughout. We assume that the project will take less than two months, however we have overestimated time and increased the estimated cost by 10 percent for unforeseen circumstances. In case tenants need to temporarily stop business operations because of construction, we need time to warn the tenants and have a reserve of money set aside to compensate for any additional problems. Since the property is a Class C, infrastructure could present issues that were not originally considered. The time frame would be March to April of 2020 and the payment will be equally divided over both months. We do not consider the season to be a factor, since the ac replacement could be mostly internal. Instead of allocating $75,000, we advise to allocate $82,500, and pay two payments of $41,250 for March and April 2020.

Replace Leaking Irrigation System

When considering the time frame and season to complete a leaking irrigation system replacement, we recommend allocating less than a month to the project. The season can be a factor with irrigation systems, because rain can affect the trenches dug for the installation and cool, yet warm nights are recommended for any type of installation in a temperate climate zone. The project start date would be August 2017 and payments would be divided over a time frame of two months August to September. We also have increased the budget by 10 percent for unforeseen circumstances and pipe issues, which can happen when doing irrigation systems on a property of this size and Class C level. Instead of allocating $60,000, we advise to allocate $66,000, and pay two payments of $33,000 for August and September 2017.

Celadon Square Budgeted Capital Expenses to improve to Next Class

Siding and Paint

For a property of this size and a Class Level C rating, we advise that extra time should be allocated for possible infrastructure problems and issues with the pre existing exterior of the building. The project, we estimate, will take roughly one month to complete because the job may need to be completed in parts so tenants and their businesses are not interrupted excessively. We advise to complete the project during May of 2017. If all tenants are located inside and do not have separate outside entrances, then painting and siding may not take as long as we have estimated. Since the property is a Class Level C, we need to budget an additional 10 percent for unforeseen circumstances and problems that could arise while the project is ongoing. The payment will be paid in full during the month of May. Instead of allocating $195,000, we advise to allocate $214,500, and pay that in full during May 2017.

Doors and Windows

Window and door replacement can be a lengthy and time consuming project, especially when a property is a Class C level and could have unforeseen problems after the project has already started. Tenants will have to be notified incase business operations have to be temporarily closed during the project, unless the window and door replacement is only done during the hours when businesses are not open, which can be difficult to manage. The quality of work may also be affected if working during the late evening and night. Based on the square footage and assuming that the location has a temperate climate, we assess that this project would be best completed during the time frame of March to May of 2017. Ordering windows and doors can take up to four weeks, and we added an additional 4 weeks for installation and notifying tenants. We also considered another 1-2 weeks for permits if the city requires that where the property is located. For doors, we assumed that more than 35-40 doors, if not more, would need to be replaced and estimated one month for installing doors. The property is a Class C, so we assume the foundational integrity of door frames and window frames will not be in the best condition. We recommend paying 50 percent in the first month and divide the remainder over the other two months. The season for completing this project would be during early spring to early summer, because the temperatures are warm, but not too hot. Door and window openings expand during the hotter months, so installing when the opening would be largest ensures that not as many additional problems will arise with the doors and windows later on. Instead of allocating $78,000, we advise to allocate $85,800, and pay one payment of $49,200, and pay two payments of $21,450 during April and May 2017.

New Signage

After considering the process of creating signs and getting approval by the city, if this property is located in an area where there are city boundaries for signage, we have allocated two months for new signage. Creating signs and getting approval for the signage could take less than a month, but we have allocated extra time incase the city rejects it and we have to resubmit. We predict that the installation of the signs will also take a couple weeks, so two months seemed like the best estimate for the project. We will divide the payment over two months equally, and have increased the budget by 10 percent for unforeseen circumstances. The season does not matter for this project, since we assume that most of this project will be planning, so we recommend completing this project in October and November of 2017. Instead of allocating $115,000, we advise to allocate $126,500, and pay two payments of $63,250 for October and November 2017.

Energy Efficiency

Energy efficiency is hard to allocate time for, since identification of what upgrades to the property will reap energy saving benefits, will not predict the actual effects until after implementation has occurred over a long period of time. After carefully considering that, we have estimated three months for this project, one month for identifying what changes should be made to the property to make it more energy efficient, and two months for implementation of these changes. Since we are replacing doors and windows for this property before we do this energy efficiency project, we advise to use some of the additional reserved money that we allocated to the budget for door and window replacement on getting energy efficient windows and doors. We recommend doing this project during the months of March to May of 2017, and paying 50 percent of the costs in the first month and dividing the remainder over the last two months of the project. Instead of allocating $170,000, we advise to allocate $187,000, and pay one payment of $93,500 during March 2017, and two payments of $46,750 for April and May 2017.

Parking Lot Repaving

After carefully considering the recommended season and estimated length of time to pave a business parking lot, we arrived at a one month project to be completed during the month of September during the year 2017. One month allocated for the actual repaving, and after roughly one month, sealing should be completed, which has to be done 30 days after the asphalt repaving takes place. In order to not disrupt regular business operations at the property, asphalt paving should be completed in parts, which is why we estimated a month time frame for just repaving. Temperature and a rainy climate can affect the cooling process of the asphalt; temperatures of 50 to 60 degrees are recommended for a recoat. Since we do not know the location of where this property is located, we assumed a temperate climate. A dry subgrade is better for paved parking lots, because it does not cool the asphalt from the bottom so fast. We recommend that the payment for the asphalt repaving should be paid over the month of September of 2017. When considering possible issues and problems with parking lot repaving, we also have added an additional 10 percent increase to the estimated cost for unforeseen circumstances. Instead of allocating $70,000, we advise to allocate $77,000, and pay one payment of $77,000 during September 2017.

Goldenrod Centre Capital Improvements

Window and Door Replacement

Window and door replacement can be a lengthy and time consuming project, especially when a property is a Class C level and could have unforeseen problems after the project has already started. Tenants will have to be notified incase business operations have to be temporarily closed during the project, unless the window and door replacement is only done during the hours when businesses are not open, which can be difficult to manage. The quality of work may also be affected if working during the late evening and night. Based on the square footage and assuming that the location has a temperate climate, we assess that this project would be best completed during the time frame of May to August of 2017. Ordering windows and doors can take up to four weeks, and we added an additional 4 weeks for installation and notifying tenants. We also considered another 1-2 weeks for permits if the city requires that where the property is located. For doors, we assumed that more than 50 doors, if not more, would need to be replaced and estimated two months for installing doors. The property is a Class B, so we assume the foundational integrity of door frames and window frames will be salvageable. We recommend paying 50 percent in the first month and divide the remainder over the other three months. The season for completing this project would be during spring to early summer, because the temperatures are warm, but not too hot. Door and window openings expand during the hotter months, so installing when the opening would be largest ensures that not as many additional problems will arise with the doors and windows later on. Instead of allocating \$85,000, we advise to allocate \$93,500, and pay one payment of \$46,750 during May 2017, and pay three payments of \$15583.34 for June, July, and August 2017.

Goldenrod Centre Budgeted Capital Expenses to improve to Next Class

Landscaping

Based on the budget allocated to landscaping, we assume this project would require planning and overview before actually starting the project. We recommend planting everything and doing the actual landscaping spring, so the plants have time to acclimate before summer months. After careful consideration of the time frame and possible length to do stone pavers, trees, and various types of planets, we advise to estimate a maximum time frame of one month, April of 2017. This property may not have a sprinkler system in place, so we allocated extra time for installation, in case that will be necessary. Since other expenses could arise and charges that were not foreseen initially, we have increased the budget by 10 percent. The quality of the work could possibly improved, and a reserve of additional money set aside would leave room for flexibility in costs. We recommend paying the payment in full during April 2017. Instead of allocating \$65,000, we advise to allocate \$71,500 and pay one full payment of \$71,500 during April 2017.

Siding and Paint

For a property of this size and a Class Level B rating, we advise that extra time should be allocated for possible infrastructure problems and issues with the pre existing exterior of the building. The project, we estimate, will take roughly one month to complete because the job may need to be completed in parts so tenants and their businesses are not interrupted excessively. We advise to complete the project during May of 2017. If all tenants are located inside and do not have separate outside entrances, then painting and siding may not take as long as we have estimated. Since the property is a Class Level B, we need to budget an additional 10 percent for unforeseen circumstances and problems that could arise while the project is ongoing. The payment will be paid in full during the month of May. Instead of allocating $245,000, we advise to allocate $269,500, and pay one full payment of $269,500 during May 2017.

New Signage

After considering the process of creating signs and getting approval by the city, if this property is located in an area where there are city boundaries for signage, we have allocated two months for new signage. Creating signs and getting approval for the signage could take less than a month, but we have allocated extra time incase the city rejects it and we have to resubmit. We predict that the installation of the signs will also take a couple weeks, so two months seemed like the best estimate for the project. We will divide the payment over two months equally, and have increased the budget by 10 percent for unforeseen circumstances. The season does not matter for this project, since we assume that most of this project will be planning, so we recommend completing this project in October and November of 2017. Instead of allocating $143,000, we advise to allocate $157,300, and pay two payments of $78,650 for October and November 2017.

Energy Efficiency

Energy efficiency is hard to allocate time for, since identification of what upgrades to the property will reap energy saving benefits, will not predict the actual effects until after implementation has occurred over a long period of time. After carefully considering that, we have estimated three months for this project, one month for identifying what changes should be made to the property to make it more energy efficient, and two months for implementation of these changes. Since we are replacing doors and windows for this property before we do this energy efficiency project, we advise to use some of the additional reserved money that we allocated to the budget for door and window replacement on getting energy efficient windows and doors. We recommend doing this project during the months of March to May of 2017, and paying 50 percent of the costs in the first month and dividing the remainder over the last two months of the project. Instead of allocating $150,000, we advise to allocate $165,000, and pay one payment of $82,500 during March 2017, and pay two payments of $41,250 for April and May 2017.