

ARGémon Analytics

Background

For over a decade now things had been quiet around Pallet Town, Celadon City, and Goldenrod City as the widespread capturing of ARGémon and the ensuing ARGémon battles had become very rare. Many of the residents who had flocked to these and other cities seeking employment in the industries surrounding ARGémon were now forced to leave their homes in search of other opportunities. With the towns populations having surged in the early 2000's purely to support this rapidly growing industry, the retail centers that had been built to support this population were also now struggling.

In addition, without people to capture them, the ARGémon populations were now soaring. This created a crisis situation that left residents in a perilous situation, struggling to support themselves financially, while having to deal with an overwhelming number of ARGémon in their towns. However, the summer of 2016 brought a resurgence of interest in taking on the challenge of catching and battling ARGémon.

The leaders of Pallet Town, Celadon City, and Goldenrod City decided that this was the time to act. They worked with the area Chamber of Commerce to develop a media campaign that would highlight to those in other cities the incredible supply of ARGémon in their towns, and the affordability of these cities as places to spend time catching and battling ARGémon. They also decided to host a ARGémon tournament where they would provide free room and board for some of the legendary ARGémon masters from years past, encouraging younger people to come challenge these masters in the Tri-City Grand ARGémon Tournament.

One of the residents, Amelia Covington, who was one of the wealthier residents of Celadon City, had purchased retail centers in each of these three cities during the downturn. While vacancies in Amelia's centers were higher than she would like, she managed to keep enough tenants in her buildings to make a modest return while waiting for the day that the ARGémon excitement would bring people back to the area. However, the debt on her properties would soon be coming to term and she would need to either refinance or sell her portfolio of retail centers.

The Challenge

Amelia is asking your team to take on the task of assessing the existing assets and the potential improving market conditions to determine which of the following scenarios would be the best course of action for each of the individual assets:

1. Sell now while interest in the community is high
2. Refinance without increasing the debt, assuming conservative estimates of the long-term market viability and thus risk
3. Refinance and increase the debt, using the additional funds to improve the property in anticipation of improved market conditions for the long-term

There are many factors in the decision making process that are known, such as the current rent roll and existing lease offers, but there are also many assumptions your team will have to make

using the information presented. You will have to rely on your combined knowledge, experience, and intuition to determine which of these scenarios would present the best path forward for Amelia. While the draw to capture all of the ARGémon yourselves may appear attractive while on this assignment, you will need to remain focused on the task at hand so that you may provide Amelia with a fully developed analysis of each of the above scenarios and deliver to her a thoroughly vetted recommendation that she may rely on in her decision making.

Market Considerations

The interest in ARGémon is driving an economic boom in these three cities, but there is no certainty in how long this may last. The last time the craze hit it lasted for 7 years before things went bust. This time around the Chamber of Commerce is hoping to turn the interest into a long-term opportunity and has convinced the cities to provide economic incentives to technology and manufacturing firms willing to relocate to the area. The hope is that these firms could turn those interested in capturing ARGémon, a predominately young and tech savvy group, into long-term residents of the area where they could get jobs in the technology industry and continue their hobby.

Pallet Town

Historically one of the more affordable places to live, this city is currently feeling the boom the most as the young people are seeking out the affordability while they are in transition to their new life of capturing ARGémon. Just outside of the city there was also a recent discovery of oil that has brought the potential for a rapid expansion of jobs in the oil industry, depending on the size of reserves found. The Pallet Town City Council has decided to focus their economic incentives on manufacturing companies, believing their low-cost of living and influx of young talent to be an advantage to them. The area is already known for manufacturing thanks to Goldenrod City and the hope is that Pallet Town can prove to be an equally attractive center for employers.

Celadon City

This has long been a favored area for second homes as it is set amongst beautiful hills and there is a large river running through the middle of the city. Long ago the city dammed the river, creating a lake that is surrounded by parks, and beautiful scenery. The Celadon government has really stepped up and is offering the largest incentives for corporations to move there, believing that this presents their best opportunity to combine scenic views with a stable source of income for more permanent residents. Celadon has focused their incentives on technology firms, hoping to attract highly skilled technology professionals who can afford the higher prices of the scenic views that this beautiful city has to offer.

Goldenrod City

Historically one of the more stable economically due to their existing factories, Goldenrod City has offered the least incentives, but still believes it will have some long-term benefit to the boom as it had been difficult to attract employees to come work in the area factories. The interest in catching ARGémon has brought an increased interest in living in the city, and thus an increased potential employment base. While the government is not responding, residential developers are contemplating new projects and the general feeling is that there will be a sustained demand for new housing.

Market Assumptions

The latest market research shows the following for this market:

Valuation Assumptions

Going-in Cap Rate		
Class A	Class B	Class C
5.75	6.75	8.25

Discount Rate		
Class A	Class B	Class C
6.50	7.50	9.00

Going-Out Cap Rate		
Class A	Class B	Class C
5.25	6.50	7.25

Leasing Assumptions

	Rent/SF/Yr.	Reimbursement	Free Rent	Term	TI	LC	Months Vacant	Renewal %
Class A- New	\$17.50	NNN	3	7	\$13.00	5%	3	90%
Class A- Renew	\$17.50	NNN	0	7	\$0.00	0%	3	90%
Class B- New	\$16.50	NNN	3	5	\$10.00	5%	3	85%
Class B- Renew	\$16.50	NNN	0	5	\$0.00	0%	3	85%
Class C- New	\$15.25	NNN	3	3	\$7.00	5%	6	65%
Class C- Renew	\$15.25	NNN	0	3	\$0.00	0%	6	65%

Refinancing Assumptions

For new loans, assume 10 year term with a 20 year amortization and a maximum LTV of 75% at the following interest rates:

Interest Rates	
Class A Retail	4.65%
Class B Retail	4.95%
Class C Retail	5.10%

Past Inflation Rates

These are the inflation rates for past years.

	2009	2010	2011	2012	2013	2014	2015
General Inflation	2.7%	2.5%	2.2%	2.0%	1.7%	1.7%	1.7%
Market Inflation	3%	2.7%	2.4%	2.2%	2.0%	2.0%	2.0%
Expense Inflation	2.7%	2.5%	2.2%	2.0%	1.7%	1.7%	1.7%

Pallet Town Central

Pallet Town Central is a class C single story retail strip center that is located right at the center of Pallet Town. While this is the largest retail center in the portfolio, it is also the only retail building in town, aside from a small convenience grocer. Residents of Pallet Town drive to one of the other cities to visit department stores, but at the moment there is no local competition for retail space.

Rent Roll

Tenant Name	Suite SF	Start Date /Term	Rent/S F/Yr.	Increase	%Rent	Sales	Reimbursement	Upon Expiration
Pallet Town Coffee	3,500	April, 2007 5 Years	\$14.00	\$0.50/Yr.			NNN	Market
The Creamery	1,500	June, 2011 7 Years	\$13.00	None			NNN	Renew
Vacant	4,000	February, 2017 10 Years	100% Market	None			NNN	Market
Café Carrell	7,000	September, 2012 15 Years	\$16.00	3%/Yr.			NNN	Market
Chic Couture	2,500	July 2013 8 Years	\$17.00	None			NNN	Renew
Lili Lime	2,000	March 2013 12 Years	\$13.00	None			NNN	Renew
Big & Tall Men's Clothes	2,000	October, 2015 7 Years	\$14.00	None			NNN	Market
Vacant	2,000	October, 2018 5 Years	100% Market	None			NNN	Market
Happy Belly Yoga	2,500	May, 2014 8 Years	\$15.00	None			NNN	Renew
Pretty in Pink Nails	2,500	September, 2014 8 Years	\$15.00	None			NNN	Renew
Frost Yourself Jewelry	3,000	January, 2013 15 Years	\$16.00	None	3%	\$1,578,462	NNN	Renew
Vacant	2,500	June, 2017 7 Years	100% Market	None			NNN	Market
Cake Baby	2,500	July, 2015 7 Years	\$13.00	None			NNN	Market
Chef Wong's Diner	3,500	March, 2012 9 Years	\$14.00	\$1.00/5 Yrs.			NNN	Renew
Total SF		41,000						

Operating Expenses

Expense	Cost/Yr.	% Fixed
Utilities	\$1.15/SF	75% Fixed
Landscaping	\$0.60/SF	100% Fixed
Repairs & Maintenance	\$0.80/SF	100% Fixed
Security	\$0.30/SF	100% Fixed
Management Fee	4% of Effective Gross Revenue	
Insurance	\$0.90/SF	100% Fixed
Real Estate Taxes	\$1.98/SF	100% Fixed

Budgeted Capital Expenses

Expense	Cost	Timing
Parking Lot Repaving	\$120,000	2017
Partial Roof Replacement	\$80,000	2018

Capital Expenses to improve center to class B

Expense	Cost
Landscaping	\$75,000
Siding and Paint	\$275,000
Doors and Windows	\$145,000
New Signage	\$165,000
Energy Efficiency Improvements	\$230,000

Existing Debt

Amount	Origination	Term (Yrs.)	Interest	Amortization (Yrs.)
\$4,300,000	March 2008	10	5.5	20

Celadon Square

Celadon Square is a two-story class C retail complex in the center of the residential area of Celadon City. It is not the largest retail center in the city, but the other large retail center is 2 miles away on the highway, dual anchored by a grocer and a department store. However, there is a plan for a stand-alone grocer to open down the street from Celadon Square that has potential to draw more of the retail tenants away from the highway center to this one.

Rent Roll

Tenant Name	Suite SF	Start Date/Term	Rent/S F/Yr.	Increase	%Rent	Sales	Reimbursement	Upon Expiration
FuFu Flowers	1,500	February, 2010 10 Years	\$12.00	None			NNN	Renew
Vacant	2,500	March, 2017 7 Years	100% Market	None			NNN	Market
Cake Baby	1,500	August, 2012 5 Years	\$13.00	None			NNN	Renew
Celadon Pies	1,500	November, 2014 7 Years	\$15.00	None			NNN	Renew
Papa Julio's Pizza	3,000	April, 2011 12 Years	\$16.00	\$0.50/Yr.			NNN	Market
Vacant	3,500	April, 2017 5 Years	100% Market	None			NNN	Market
Sparkle Nails	2,000	March, 2014 5 Years	\$13.00	None			NNN	Renew
Lili Lime	2,500	January, 2012 7 Years	\$15.00	3%/Yr.			NNN	Market
Vacant	3,000	August, 2018 5 Years	100% Market	None			NNN	Renew
The Creamery	1,500	July, 2012 6 Years	\$16.00	None			NNN	Renew
Vacant	2,500	September, 2017 8 Years	100% Market	None			NNN	Market

Total SF 25,000

Operating Expenses

Expense	Cost	% Fixed
Utilities	\$1.25/SF	75% Fixed
Landscaping	\$0.80/SF	100% Fixed
Repairs and Maintenance	\$0.70/SF	100% Fixed
Security	\$0.20/SF	100% Fixed
Management Fee	4% of Effective Gross Revenue	
Insurance	\$1.10/SF	100% Fixed
Real Estate Taxes	\$2.15/SF	100% Fixed

Budgeted Capital Expenses

Expense	Cost	Timing
Air Conditioner Replacement	\$75,000	2020
Replace Leaking Irrigation System	\$60,000	2017

Capital Expenses to Improve Center to Class B

Expense	Cost
Siding and Paint	\$195,000
Doors and Windows	\$78,000
New Signage	\$115,000
Energy Efficiency Improvements	\$170,000
Parking Lot Repaving	\$70,000

Existing Debt

Amount	Origination	Term (Yrs.)	Interest	Amortization (Yrs.)
\$1,800,000	July 2007	10	5.25%	20

Goldenrod Centre

Goldenrod Centre is a single-story class B retail center and is one of many retail centers in Goldenrod City. It is a bit out of the central area of the city and has missed most of the more recent development, but there is speculation that there will be a new neighborhood going in close to the center. The developer of the neighborhood is currently going through permitting and it is anticipated that the housing boom caused by ARGémon will push the city to approve the permits and the developer to get houses coming on to the market soon.

Rent Roll

Tenant Name	Suite SF	Start Date /Term	Rent/ SF/Yr.	Increase	% Rent	Sales	Reimbursement	Upon Expiration
Big & Tall Men's Clothes	2,500	January, 2013 10 Years	\$16.00	\$1.00/5 Yrs.			NNN	Market
Goldenrod Espresso	1,500	April, 2015 5 Years	\$17.00	None			NNN	Renew
Whatataco	2,000	August, 2011 7 Years	\$15.00	None			NNN	Renew
Vacant	2,500	April, 2017 5 Years	100% Market	None			NNN	Market
Dress Shed	3,500	July 2012 8 Years	\$16.00	None	3%	3,562,489	NNN	Renew
Golden Doughnuts	1,500	Septemeber , 2011 10 Years	\$17.00	None			NNN	Market
Flower Power Yoga	3,000	June, 2014 7 Years	\$14.00	3%/Yr.			NNN	Market
Powder Puff Kid's Clothes	3,000	May, 2013 8 Years	\$16.00	3%/Yr.			NNN	Renew
Vacant	2,500	May, 2018 7 Years	100% Market	None			NNN	Market
Mojo Massage	2,000	February, 2013 5 Years	\$15.00	None			NNN	Renew
Silver Nails	1,500	December, 2014 5 Years	\$16.00	None			NNN	Market
Vacant	2,500	October, 2017 7 Years	100% Market	None			NNN	Market

Total SF 28,000

Operating Expenses

Expense	Cost	% Fixed
Utilities	\$1.20/SF	75% Fixed
Landscaping	\$1.10/SF	100% Fixed
Repairs and Maintenance	\$0.95/SF	100% Fixed
Security	\$0.30/SF	100% Fixed
Management Fee	4% of Effective Gross Revenue	
Insurance	\$1.25/SF	100% Fixed
Real Estate Taxes	\$1.95/SF	100% Fixed

Budgeted Capital Expenses

Expense	Cost	Timing
Doors and Windows	\$85,000	2017

Capital Expenses to improve center to class A

Expense	Cost
Landscaping	\$65,000
Siding and Paint	\$245,000
New Signage	\$143,000
Energy Efficiency Improvements	\$150,000

Existing Debt

Amount	Origination	Term (Yrs.)	Interest	Amortization (Yrs.)
\$3,200,000	October 2007	10	5.75%	20