GRIFFIN FINANCIAL GROUP LLC

CFO Workshop – DNA of Value

Table of Contents

GRIFFIN FINANCIAL GROUP LLC

GRIFFIN FINANCIAL GROUP LLC

Getting Acquainted

Glenn Blumenthal – Griffin Real Estate Group

GRIFFIN FINANCIAL GROUP LLC

Glenn Blumenthal
Managing Director
Real Estate
Griffin Financial Group, LLC

Contact Information:
Phone: (610) 205-6025
Cell: (215) 696-7700
gab@griffinfingroup.com

Unique combination of capital markets and real estate advisory services

EXPERIENCE

A seasoned executive with more than 40 years of experience managing large-scale, geographically diverse, multi-sector real estate operations in all phases of business development, capital markets, acquisitions and dispositions as well as asset management

Malvern Advisors - Founded a boutique consulting firm that provides commercial real estate asset management and restructuring advisory services

American Financial Realty Trust (NYSE:AFR) - Co-founded and Chief Operating Officer of a publicly traded REIT focused on financial institutions. Responsible for acquisitions, marketing, asset management and leasing of a portfolio consisting of 1,390 properties in 32 states with approximately 41M SF. Managed the growth from a $120M private L.P. in 1998 to approaching $5 billion in 2005 and sold the company in 2008.

First Union National Bank - Vice President Corporate Real Estate responsible for acquisition and asset management of major offices, capital and expense budgeting and reporting. Oversaw the 1998 acquisition by AFR of 106 bank branches after its merger with CoreStates Bank.

Resolution Trust Corporation (RTC) - Asset Manager a government-owned asset management company, responsible for liquidating assets seized from Savings & Loan institutions.

Bentley Developers – Development Coordinator – Managed land approval process for office projects and residential PUD.

Jim Pauloski -

Jim Pauloski
Real Estate Broker
Master of CRE Leases

Contact Information:
Phone: (610) 709-0277
jamespauloski@jpauloski.com

EXPERIENCE

- Full time real estate professional for 32 years
- Negotiated/reviewed 1,100+ leases
- Transaction size: $10,000 to $30+ million
- Bought/sold real estate in 9 states and Canada

Simple Philosophy Around Real Estate

GRIFFIN FINANCIAL GROUP LLC

We are driven by the belief that strong leadership and planning leads to successful outcomes.

How an owner approaches the overall management of a real estate asset plays a unique and significant role in its efficiency, access to capital markets and ability to drive bottom line results regardless of the asset's ownership status.

Survey

- **Own**

- **Lease**

- **Office**

- **Industrial**

Basic Real Estate Terms

GRIFFIN FINANCIAL GROUP LLC

- **Gross Lease** – Tenant pays one gross amount and the landlord (i.e., lessor) pays for all property charges usually included in ownership. These charges can include utilities, taxes, and maintenance.

- **Net Lease** - Also called triple-net lease. Tenant pays landlord a base amount and then they pay directly all the taxes, utilities, insurance, repairs, janitorial services, and license fees; any debt service and the landlord's income taxes are the responsibility of the landlord.

- **Net Operating Income** - Net operating income (NOI) refers to the income that is generated annually from an income property, after property expenses have been taken into consideration. Property expenses refer to all expenses that enable you to run and maintain the property, such as utility, property management fees, and property tax. NOI does not include loan payments, depreciation, amortization, capital expenditures or taxes.

- **Capitalization Rate** – The capitalization rate is a measure of a property's performance without considering the mortgage financing (i.e., the return on the asset). Also known as the cap rate, it's your net operating income divided by the sales price (akin to a yield). Low Cap, Low Risk: Typically, a low cap rate comes with a higher price point and less risk than a higher one; long leases, good location, & good credit

- **Cash-on-Cash Return** – Cash-on-Cash Return (CoC) is perhaps one of the easiest and most popular metrics used by commercial real estate investors. CoC is used to measure the ratio between an asset's annual cash flow in relation to the commercial property's down payment. CoC is generally calculated before taxes.

- **Return on Investment** - Return on investment (ROI) stands for the calculated benefit of an investment (called the return), divided by its cost. Your ROI is impacted by several variables, such as renovation and maintenance costs, and how much you originally borrowed in order to invest in your property.

Basic Real Estate Terms

GRIFFIN FINANCIAL GROUP LLC

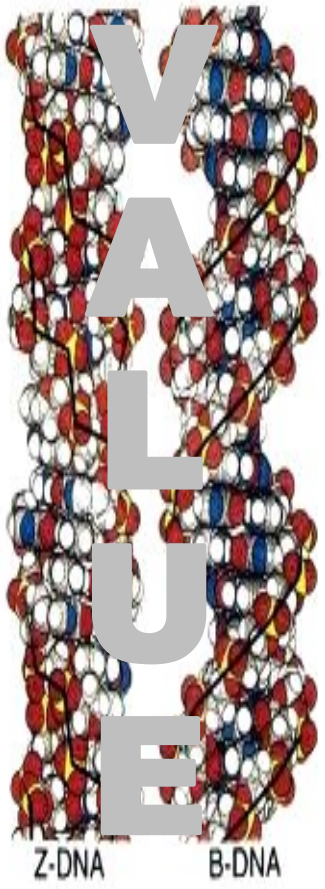
- **Debt Coverage Ratio** - Debt coverage ratio (DCR), sometimes known as the debt service coverage ratio (DSCR), compares an investment property's NOI with its debt service. Lenders use this ratio to calculate whether or not you will be able to generate enough income to pay your debts. Most commercial lenders require a DCR of 1.15-1.35 times the NOI/annual debt service.

- **Loan-to-Value** - When considering how to invest in real estate, one term you may see come up again and again is loan to value ratio (LTV). The LTV is determined by what percentage an asset's sale price or value is attributed to financing. Income property lenders perceive as lower risk are assigned a higher LTV.

- **Rentable Square Footage** - The RSF, or rentable square footage, is the total amount of space, including any shared space. This footage will give you an accurate expectation of the amount of working space and shared space such as lobbies, bathrooms, hallways, etc. Landlords primarily use this number to determine the rental amount for the commercial property.

- **Building Classifications** - Property values are determined by asset classifications. Investment property falls under one of four main categories: Class "A", "B", "C", or "D". A property's classification is determined by its market value. Class A properties refer to property in the most in-demand markets. They typically boast impressive aesthetics and construction, and require little renovations. Class "A" properties demand the highest rents.

The DNA of Value



- **Market Expertise**
  - Transparent Information – Accurate & Objective
  - Reliable Market Intelligence
  - Depth of experience
- **Organizational Leadership**
  - Real Estate Strategic Planning – Leverage
  - Data Management – Metrics
  - Internal Processes – Decision Making
  - Financial Strength – Credit
- **Capital Markets Knowledge**
  - Landlord & Asset Stability
  - Underwriting - Terms - Liquidity
  - Economy - Employment - Growth of GNP

Like DNA, these characteristics are interconnected and difficult to isolate

GRIFFIN FINANCIAL GROUP LLC

Geographic Market Conditions

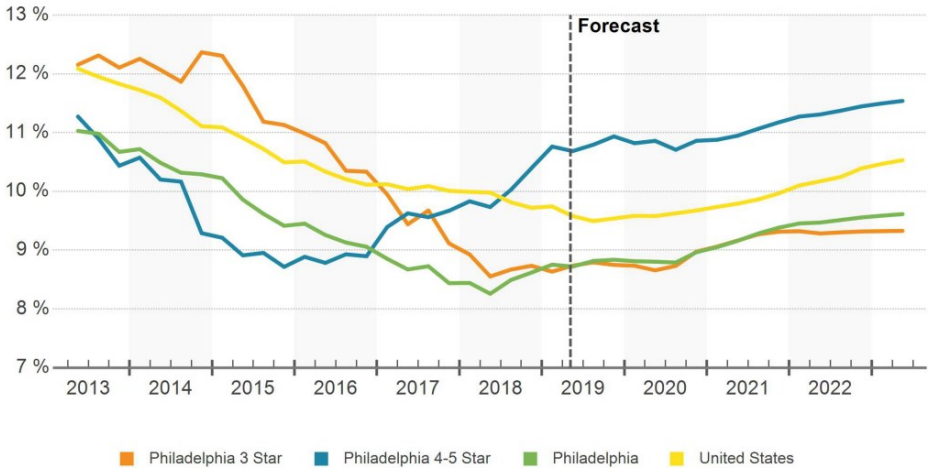
CoStar Market Data

GRIFFIN FINANCIAL GROUP LLC

Philadelphia – Office

- Vacancy off of 17-year low – better than Chicago, DC, & LA
- Investment sales volume at all-time high since 2015
- Considered one of the most stable big cities
- Absorption has been 2/3 of the national pace over the last 5 years

VACANCY RATE



KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	105,395,169	11.1%	$32.03	16.1%	(321,105)	20,000	1,768,234
3 Star	122,611,451	8.8%	$23.68	12.8%	(209,181)	0	290,129
1 & 2 Star	85,894,743	6.2%	$19.53	8.6%	117,015	0	0
Market	**313,901,363**	**8.9%**	**$25.38**	**12.8%**	**(413,271)**	**20,000**	**2,058,363**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.5%	9.9%	9.2%	12.4%	2004 Q1	6.8%	2000 Q2
Net Absorption SF	963 K	1,787,557	698,671	8,410,805	2006 Q4	(4,561,767)	2002 Q1
Deliveries SF	3.2 M	2,556,055	1,903,876	5,796,191	1999 Q4	442,740	2014 Q2
Rent Growth	2.8%	1.9%	1.3%	7.8%	1998 Q3	-3.6%	2010 Q1
Sales Volume	$2.4 B	$1.5B	N/A	$3.2B	2016 Q1	$125.4M	1998 Q2

Source: CoStar

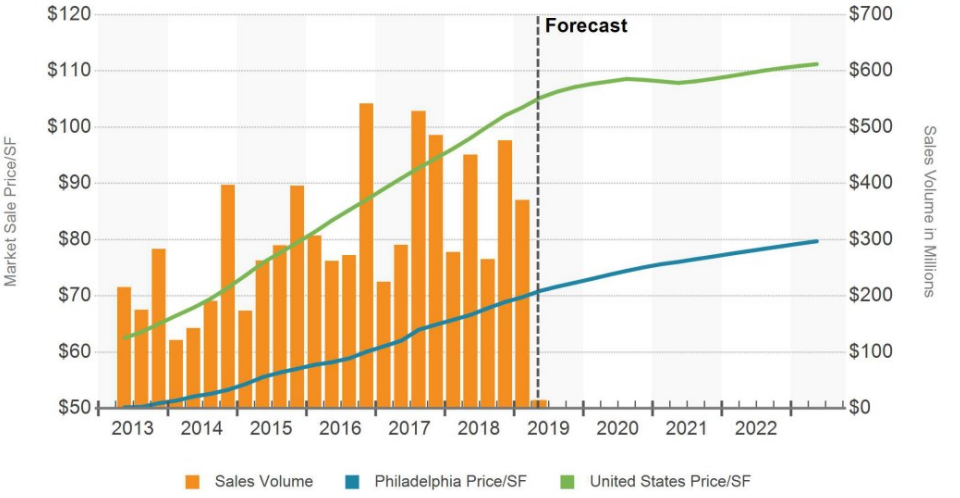
CoStar Market Data

GRIFFIN FINANCIAL GROUP LLC

Philadelphia – Industrial

- All-time high absorption in 2016-17 driven by logistics for e-commerce, but has started to soften through 2018-19 due to low vacancy
- Construction running at 15-year high since early 2015 – both pre-leased & speculative
- Over $1 billion in investment sales activity over the last 4 quarters
- Cap. rates have fallen between 4.5% - 5%

SALES VOLUME & MARKET SALE PRICE PER SF



KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	364,761,588	4.1%	$6.44	8.7%	(356,028)	0	9,139,426
Specialized Industrial	114,253,957	5.8%	$6.66	8.4%	70,335	0	105,840
Flex	64,024,039	7.5%	$10.71	10.6%	47,657	0	286,905
Market	**543,039,584**	**4.9%**	**$6.98**	**8.8%**	**(238,036)**	**0**	**9,532,171**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.4%	8.1%	5.6%	10.5%	2004 Q4	4.8%	2019 Q1
Net Absorption SF	4.6 M	3,459,568	2,699,578	15,218,125	2017 Q2	(5,506,208)	2009 Q3
Deliveries SF	4.1 M	3,849,891	6,194,366	8,904,802	2002 Q1	499,232	2011 Q1
Rent Growth	6.3%	1.8%	2.6%	7.1%	2018 Q4	-2.3%	2010 Q2
Sales Volume	$1.3 B	$773.0M	N/A	$1.7B	2018 Q2	$22.9M	1998 Q2

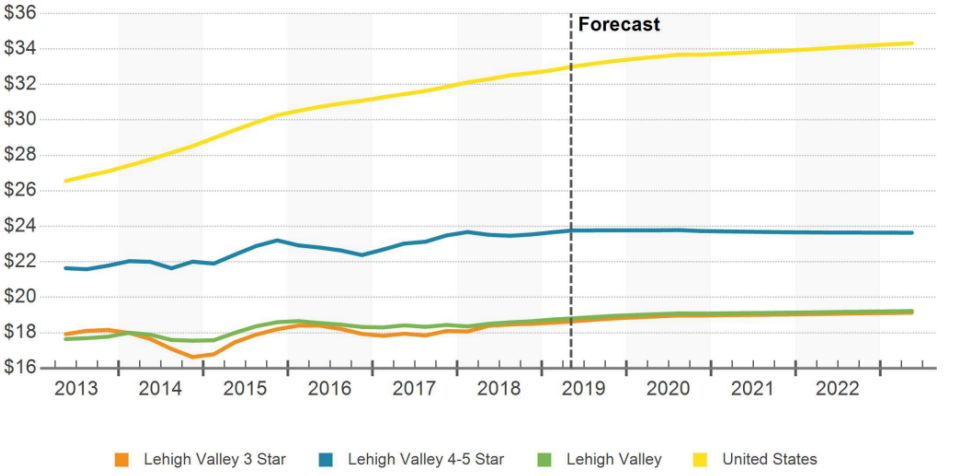
Source: CoStar

CoStar Market Data

Lehigh Valley – Office

- Absorption has outpaced supply growth over the last 5 years by nearly 2:1
- Tax incentive districts have encouraged downtown investment and competitive rental rates
- Relocation/consolidation risk in the suburbs
- Competitive downtown rates and cost-conscious tenants keep rents low

MARKET RENT PER SQUARE FOOT



KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	4,521,425	13.2%	$23.73	15.6%	(114,853)	0	343,000
3 Star	13,981,371	8.3%	$18.62	11.2%	(114,028)	0	214,000
1 & 2 Star	10,698,006	5.0%	$16.74	6.7%	(16,282)	0	0
Market	**29,200,802**	**7.8%**	**$18.78**	**10.3%**	**(245,163)**	**0**	**557,000**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.7%	8.5%	7.3%	11.1%	2004 Q2	3.5%	1997 Q3
Net Absorption SF	(331 K)	248,533	247,240	1,922,012	2006 Q4	(525,955)	2013 Q1
Deliveries SF	214 K	326,371	300,457	1,306,116	2006 Q4	0	2013 Q1
Rent Growth	2.0%	0.9%	0.7%	7.2%	2001 Q1	-5.7%	2010 Q2
Sales Volume	$77.4 M	$55.8M	N/A	$213.7M	2008 Q3	$0	2005 Q3

Source: CoStar

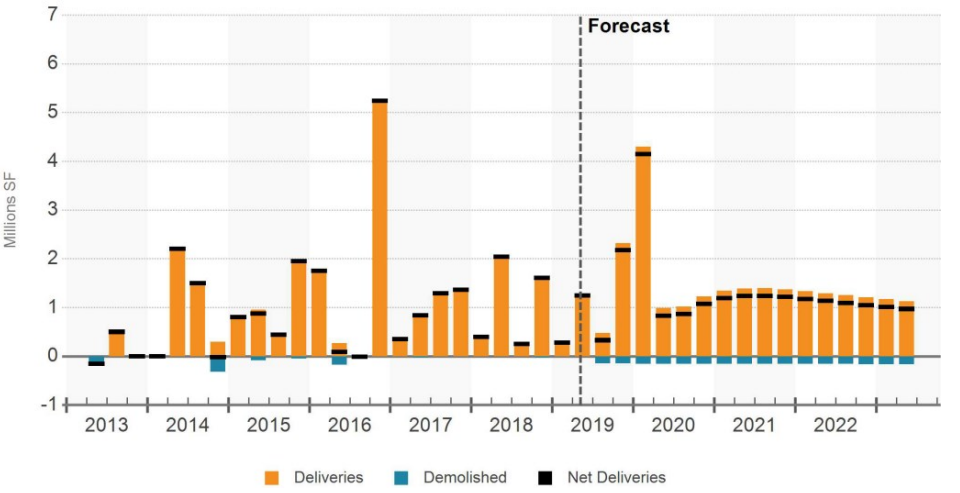
CoStar Market Data

GRIFFIN FINANCIAL GROUP LLC

Lehigh Valley – Industrial

- 2nd fastest growth in RBA among U.S. markets since 2010, driven by e-commerce
- Despite rapid construction, vacancy remains below historical average of 8.5%, and rents continue to climb
- These factors have drawn both national & international investor attention
- Local infrastructure is becoming constrained

DELIVERIES & DEMOLITIONS



KEY INDICATORS

Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
Logistics	364,761,588	4.1%	$6.44	8.7%	(356,028)	0	9,139,426
Specialized Industrial	114,253,957	5.8%	$6.66	8.4%	70,335	0	105,840
Flex	64,024,039	7.5%	$10.71	10.6%	47,657	0	286,905
Market	**543,039,584**	**4.9%**	**$6.98**	**8.8%**	**(238,036)**	**0**	**9,532,171**

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	-0.4%	8.1%	5.6%	10.5%	2004 Q4	4.8%	2019 Q1
Net Absorption SF	4.6 M	3,459,568	2,699,578	15,218,125	2017 Q2	(5,506,208)	2009 Q3
Deliveries SF	4.1 M	3,849,891	6,194,366	8,904,802	2002 Q1	499,232	2011 Q1
Rent Growth	6.3%	1.8%	2.6%	7.1%	2018 Q4	-2.3%	2010 Q2
Sales Volume	$1.3 B	$773.0M	N/A	$1.7B	2018 Q2	$22.9M	1998 Q2

Source: CoStar

CoStar Market Data

GRIFFIN FINANCIAL GROUP LLC

Central PA – Office

- Investment transaction activity up across the region relative to historical norms, driven by economic improvements and cap rates
- Harrisburg themes: pending exit from Act 47 and West submarket weakness
- Vacancies are very tight in Lancaster
- Construction is almost exclusively pre-leased or build-to-suit

CAP RATE

SUMMARY STATISTICS

Availability	Survey	5-Year Avg
Gross Rent Per SF	$17.88	$17.30
Vacancy Rate	5.9%	6.4%
Vacant SF	3,557,271	3,768,213
Availability Rate	8.2%	10.2%
Available SF	4,936,244	6,096,990
Sublet SF	179,413	227,952
Months on Market	10.7	16.3

Inventory	Survey	5-Year Avg
Existing Buildings	3,928	3,904
Existing SF	59,994,690	59,358,987
12 Mo. Const. Starts	6,000	202,781
Under Construction	20,000	253,746
12 Mo. Deliveries	373,299	270,112

Demand	Survey	5-Year Avg
12 Mo. Absorption SF	223,013	381,381
12 Mo. Leasing SF	1,430,492	1,501,523

Sales	Past Year	5-Year Avg
Sale Price Per SF	$99	$92
Asking Price Per SF	$147	$110
Sales Volume (Mil.)	$275	$203
Cap Rate	8.0%	8.0%

Source: CoStar

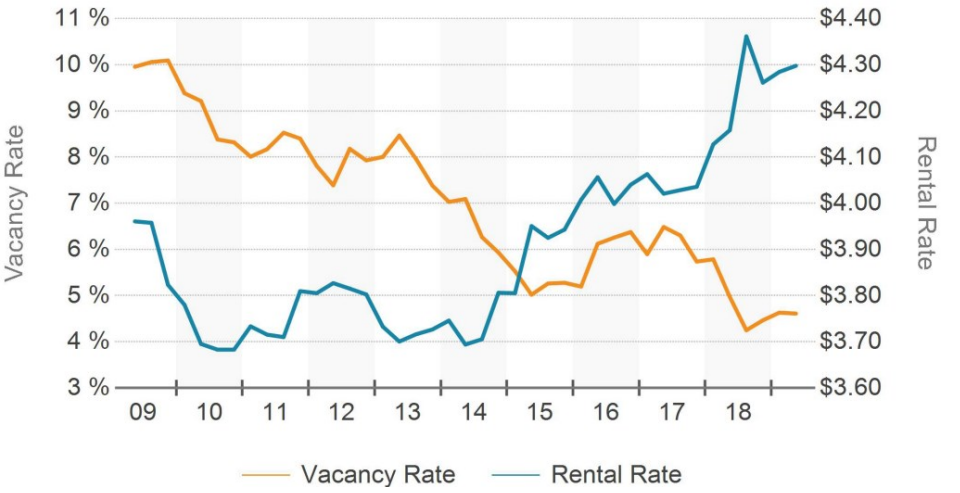
CoStar Market Data

GRIFFIN FINANCIAL GROUP LLC

Central PA – Industrial

- Also benefiting from strategic location and highway access – metrics & trends not far behind Lehigh Valley
- Logistics stronger in Harrisburg and York; Lancaster traditionally more manufacturing
- Large brands & investors present
- Low vacancies and large construction pipeline across the region

VACANCY & RENTAL RATES



SUMMARY STATISTICS

Availability	Survey	5-Year Avg
Rent Per SF	$4.30	$3.97
Vacancy Rate	4.6%	5.6%
Vacant SF	11,294,925	13,145,020
Availability Rate	9.2%	9.2%
Available SF	23,141,419	21,984,545
Sublet SF	1,347,238	885,349
Months on Market	9.9	16.9

Inventory	Survey	5-Year Avg
Existing Buildings	3,268	3,228
Existing SF	245,079,711	233,230,138
12 Mo. Const. Starts	5,843,087	5,053,267
Under Construction	7,373,888	4,771,045
12 Mo. Deliveries	4,687,991	4,479,924

Demand	Survey	5-Year Avg
12 Mo. Absorption SF	6,967,683	4,859,229
12 Mo. Leasing SF	16,737,967	15,262,572

Sales	Past Year	5-Year Avg
Sale Price Per SF	$64	$52
Asking Price Per SF	$55	$47
Sales Volume (Mil.)	$620	$490
Cap Rate	6.6%	6.9%

Source: CoStar

The Changing Real Estate Landscape

Real Estate Industry Landscape

GRIFFIN FINANCIAL GROUP LLC

- **2018 Commercial real estate investment volume surprised on the upside, 2019 will remain healthy**
- **Commercial property prices** have hit record-high pricing levels. Apartments, industrial, and suburban office assets have the largest boosts, with prices rising 11.6%, 6.5%, and 6%, respectively.
- **Cap rate compression likely to be Flat**. "Cap rate" is the ratio of net operating income to property value. Consensus Forecast does not expect much change in real estate capitalization rates. Investors will continue to purchase real estate, prices will continue to increase .
- **Interest rates still at historic lows**. As long as Treasury rates remain low, the investment environment for real estate will be attractive. **New tipping point is at 3% on the ten-year treasury rates**
- Many market analysts anticipate a **recession** at some point in the next **two to three years**, but the depth of the recession will determine its impact on CRE.

Cap Rate ⇨ = Value ⇨ and  **for Clients**

Changing Real Estate Environment

GRIFFIN FINANCIAL GROUP LLC

- **Portfolio Optimization "Smart Growth"**
  - Core vs. Non-Core & Value Creation
  - Mergers and Acquisitions
- **Centralized Structure "Greater Visibility"**
  - Integration of lease administration and accounting systems
  - Changes to the "principles of lease accounting"
- **Artful Application of Technology** – (The "Amazon Effect")
- **Evolution of the Workplace – Next Generation Expectations**
- **Service Delivery and Outsourcing**

Traditional Portfolio Allocation

GRIFFIN FINANCIAL GROUP LLC

Core Assets (20-30%)

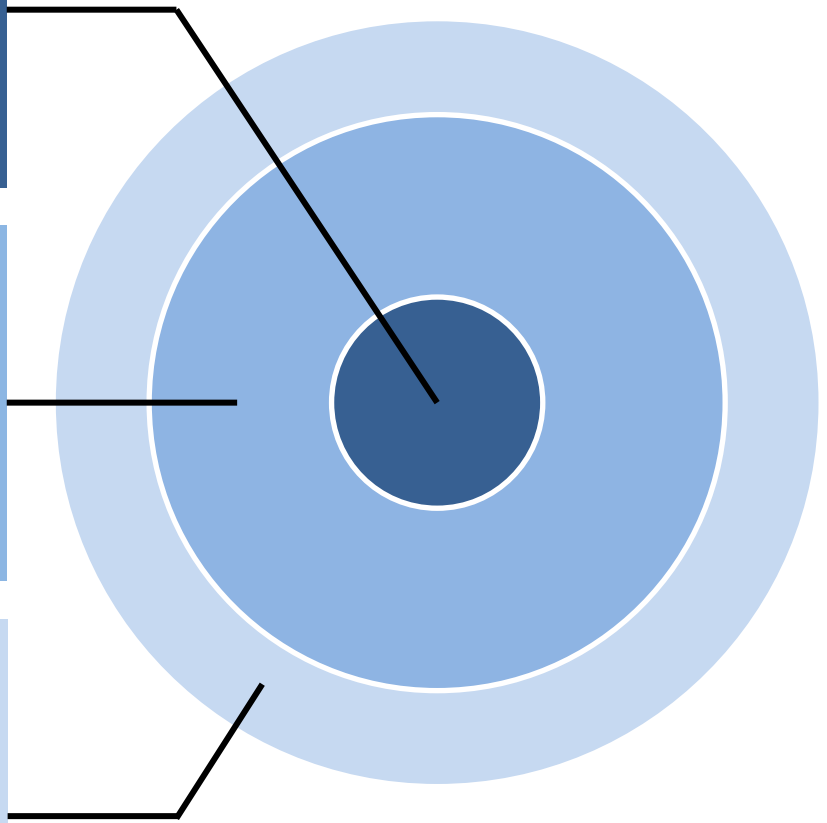
Operational Importance:	Mission-Critical
Real Estate Type:	Primary Markets, Key Locations, Special Improvements
	10-20-Year Hold
Real Estate Solutions:	Lease: Control long-term lease through options Own: Sale-Leaseback based on Economic Term

Strategic (30-60%)

Operational Importance:	Operationally Important
Real Estate Type:	Good Markets, Some Building Obsolescence
	7-12-Year Hold
Real Estate Solutions:	Lease: Cost/Benefit Analysis based on Term Extension Own: Sale-Leaseback based on Economic Term

Transitional (10-30%)

Operational Importance:	Non-Critical
Real Estate Type:	Poor Markets, Major Building Obsolescence, Multi-tenant
	Less than 7-Year Horizon
Real Estate Solutions:	Lease: Short-term Lease Horizon Own: Create Value with Sale-Leaseback with Short-term Lease



Portfolio Optimization: Benefits

GRIFFIN FINANCIAL GROUP LLC

- Significant cost reductions from reducing footprint and from moving to less expensive space
- An asset mix that reflects the firm's balance sheet strategy: potential one-time capital gains from alignment of ownership structure with investment objectives
- A portfolio strategy that supports evolving workplace requirements, fostering an environment that improves
  - ✓ Collaboration and teaming
  - ✓ Mobility and flexible working arrangements
  - ✓ Employee engagement
- The capability to update that strategy in response to evolving corporate prerogatives including
  - ✓ Baseline database
  - ✓ Methodology for performing analysis
  - ✓ Tools to drive decision-making
- Improved employee morale, and presumably higher levels of productivity
- Improvements in sustainability/green metrics
- Reflection of corporate objectives including proximity to markets, etc.

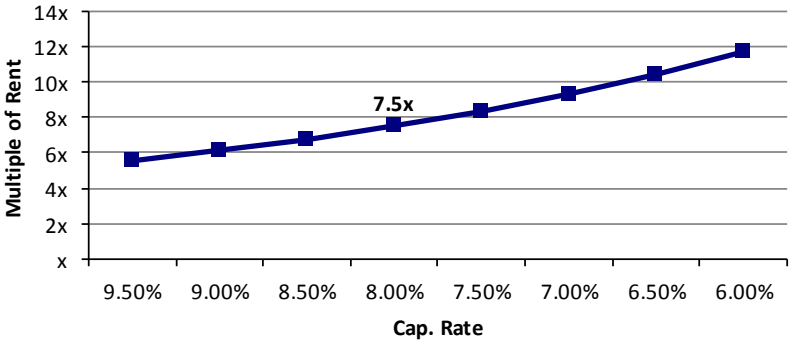
Sale-Leaseback Arbitrage During M&A (Company Sale)

GRIFFIN FINANCIAL GROUP LLC

- Mergers & acquisitions provide an opportunity for real estate to be valued more efficiently when identified as assets distinct from the rest of the business
- A sale-leaseback can unlock hidden – and many times, additional – value that otherwise would be untapped
  - When a business trades for a single-digit EBITDA multiple, an arbitrage frequently exists between the valuation of the overall business and the real estate assets embedded in it
  - For example, an **8%** cap rate on owned real estate implies a **12.5x** EBITDA multiple on the rent that property would pay to an investor
  - If the related business sold for a **5x** EBITDA multiple, the real estate monetized at 12.5x the new rent expense would have created incremental Enterprise Value of **7.5x** the rent
  - The table below illustrates some of the incremental EBITDA multiples that can be achieved when owned real estate is sold separately from the rest of the business and the two sale prices are summed (assumes no debt is involved)

For a 5x EBITDA business:

Incremental Enterprise Value Gained as Multiple of Rent



Incremental Enterprise Value Gained as Multiple of Rent									
		EBITDA Multiple							
		3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00
Cap. Rate	6.00%	13.67	12.67	11.67	10.67	9.67	8.67	7.67	6.67
	6.50%	12.38	11.38	10.38	9.38	8.38	7.38	6.38	5.38
	7.00%	11.29	10.29	9.29	8.29	7.29	6.29	5.29	4.29
	7.50%	10.33	9.33	8.33	7.33	6.33	5.33	4.33	3.33
	8.00%	9.50	8.50	7.50	6.50	5.50	4.50	3.50	2.50
	8.50%	8.76	7.76	6.76	5.76	4.76	3.76	2.76	1.76
	9.00%	8.11	7.11	6.11	5.11	4.11	3.11	2.11	1.11
	9.50%	7.53	6.53	5.53	4.53	3.53	2.53	1.53	0.53

Material opportunity to pursue | To be investigated further | Disadvantageous

Lease Accounting

GRIFFIN FINANCIAL GROUP LLC

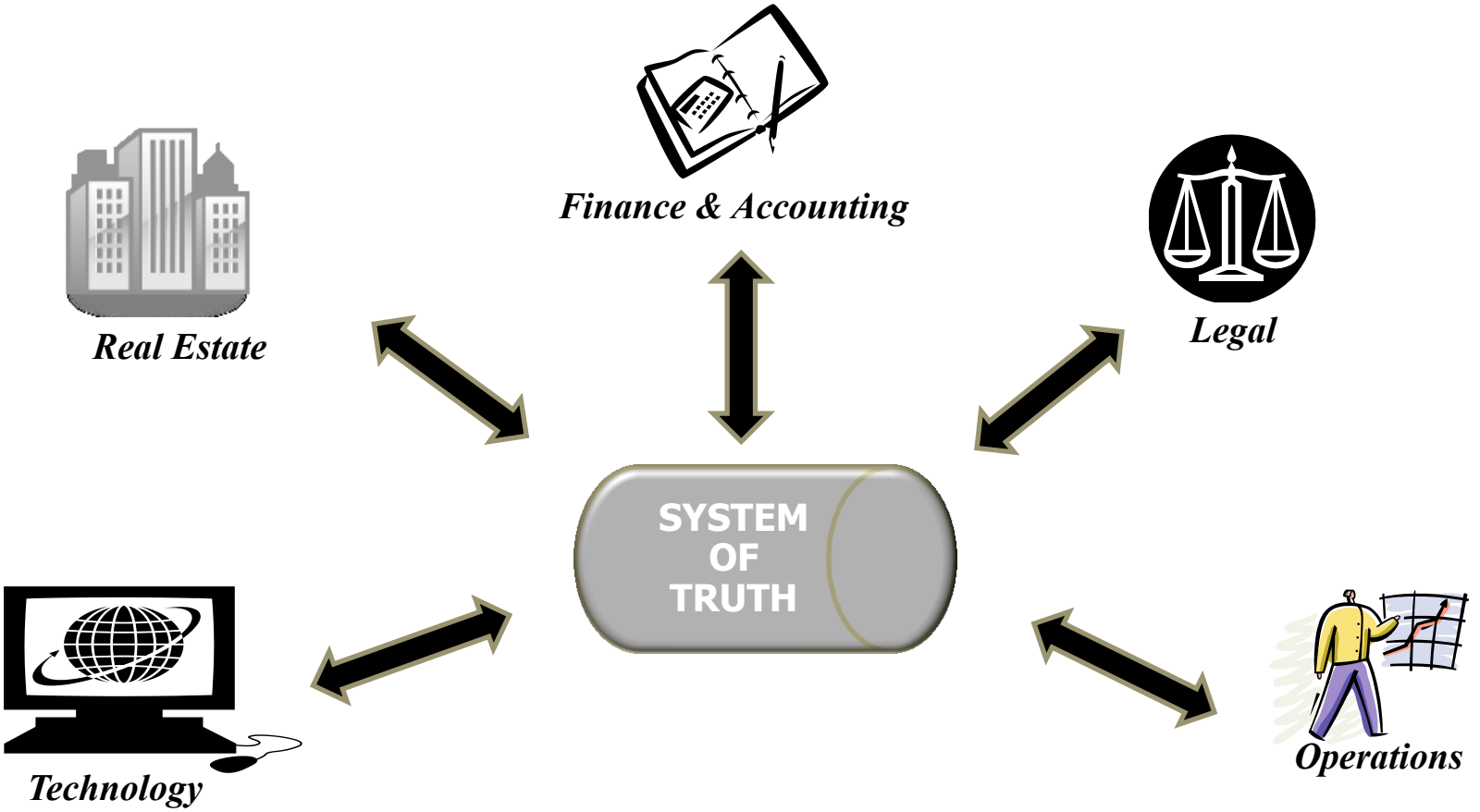
- All leases, greater than one year, (real estate and equipment) are now recorded on the balance sheet including any options if it is determined that there is a "Significant Economic Incentive" to remain after the existing term
  - On Balance Sheet as ROU Assets – PV of all remaining lease payments
  - Transaction fees are also capitalized
  - Structure all lease payments as true net payments (separate operating expense) to reduce balance sheet effect
- Leases negotiated in a vacuum create financial, reporting, & operational risks. Need for centralized solution. As a result of the new rules, operational processes will shift from a decentralized P&L impact to a centralized balance sheet impact, resulting in a longer decision-making timeframe
- Balance sheets will grow significantly. Change in key performance ratios such as leverage / cash flow may impact covenants. Other key metrics to follow:
  - EBITDA or Net Margin (case-by-case basis)
  - Return on Assets (expected to be lower)
  - Fixed Charge Coverage Ratio (case-by-case; credit is important)
- Most public companies have implemented the accounting changes already, while the majority of private companies are just beginning or still assessing the impact now[1]

Inherent in the rules is an opportunity for structuring ground leases

[1] PwC 2018 Q4 accounting change survey:

https://www.pwc.com/us/en/services/audit-assurance/accounting-advisory/2018-accounting-change-survey.html

Managing the Portfolio



The new Standard will require a cross-functional approach to Lease decision making.

Big Theme – Take Away

GRIFFIN FINANCIAL GROUP LLC

- "Generational Opportunity" – What do you do with it?
- Alters lease negotiations and structure – Triple Net vs Gross
- Internal approvals will take longer. Create financial, reporting & operational risks. - Need for centralized solution
- Changes key metrics used to evaluate decision making – Own vs Lease
- More opportunities for Sale Leaseback – Highlights Cost of Capital
- Ground Leases – A Sweet Spot – Think About it?
- Rollover Management becomes important tool
- **Decentralized P&L vs. Centralized B/S**

Artful Application of Technology – (The "Amazon Effect")

GRIFFIN FINANCIAL GROUP LLC

- Amazon has changed the way consumers view the entire shopping experience, creating waves of disruption within the traditional retail sector
- It is forcing investors to reconsider which markets offer the highest returns, and with the waves of retail closings across the U.S., many investors are turning toward other, more secure property types
- One property type, in particular, is finding particular favor among investors: **industrial**
- **Once the stepsister of the commercial real estate world, industrial properties – particularly warehouses – are a hot asset class:**
  - Same-Day delivery fuels demand for industrial properties closer to cities
  - Investors are seeking a leg up with innovative construction and logistics
  - Statistics reveal industrial real estate is a safe asset class
  - Class B properties are even more lucrative

Evolution of the Workplace – Next Generation Expectations

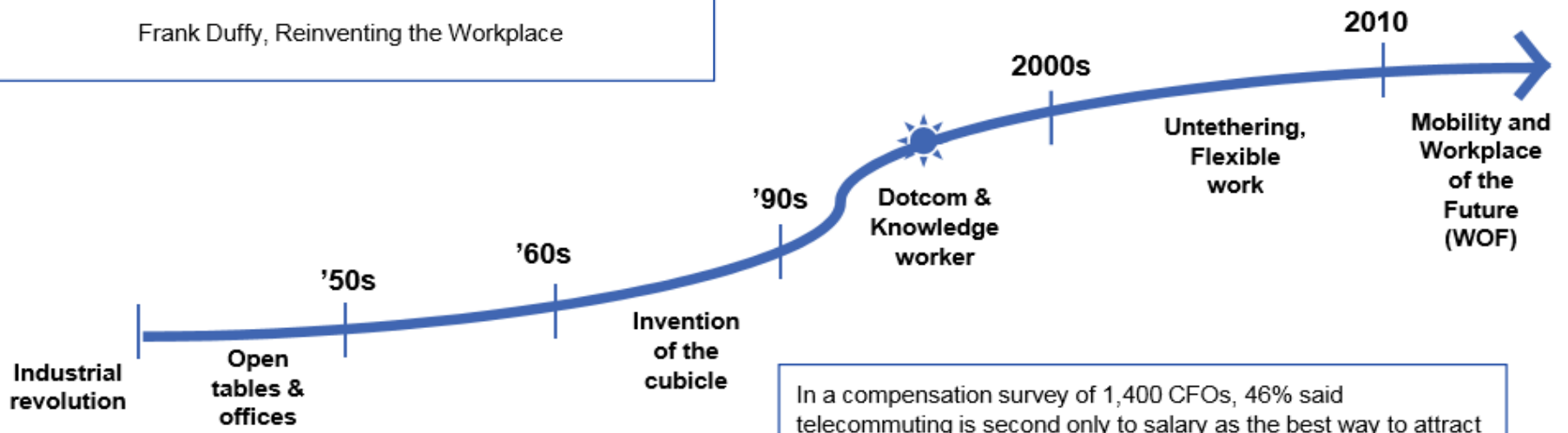
GRIFFIN FINANCIAL GROUP LLC

"The great agent of change which makes new ways of working inevitable is, of course, information technology, the power, reliability, and robustness of which are already evident in their impact not only on work processes within the **office** but on every **train**, in every **airport lounge**, at every **street corner**, in every **classroom**, **library** and **café**. Work, no longer confined to office buildings, is everywhere "

Frank Duffy, Reinventing the Workplace

Nearly 80% of workers say they would like more flexible work options and would utilize them if they could do so without consequences at work.

Workplace Flexibility 2010, Georgetown University Law Center



In a compensation survey of 1,400 CFOs, 46% said telecommuting is second only to salary as the best way to attract top talent. 33% said telecommuting was the top draw.

Robert Half International

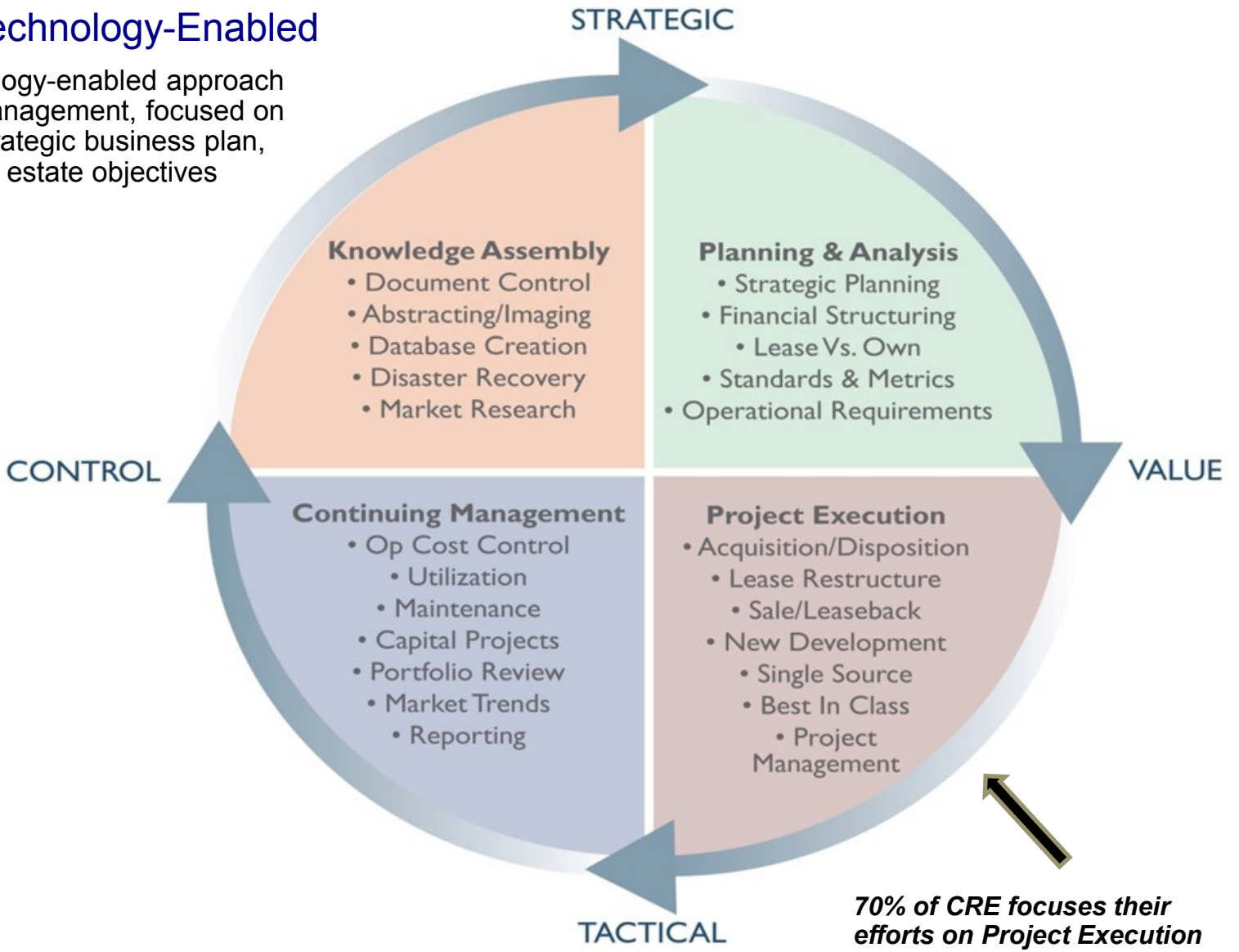
Today's workplace is about the dynamic combination of people, process, technology and space. It is "anywhere, any time, any place."

GRIFFIN FINANCIAL GROUP LLC

The "Knowledge Wheel"

Process-Driven, Technology-Enabled

A process-based, technology-enabled approach to real estate portfolio management, focused on the goals of an overall strategic business plan, with the alignment of real estate objectives



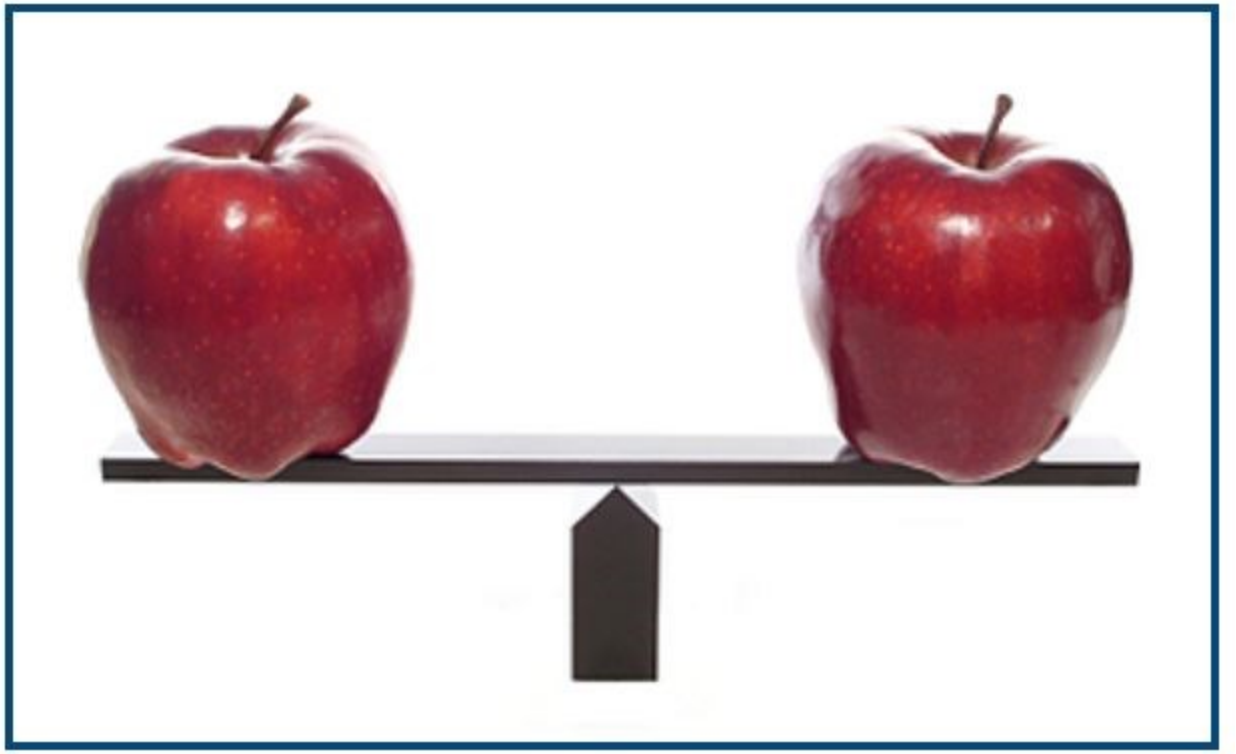
70% of CRE focuses their efforts on Project Execution

Value Management

Four Areas of Value Management

GRIFFIN FINANCIAL GROUP LLC

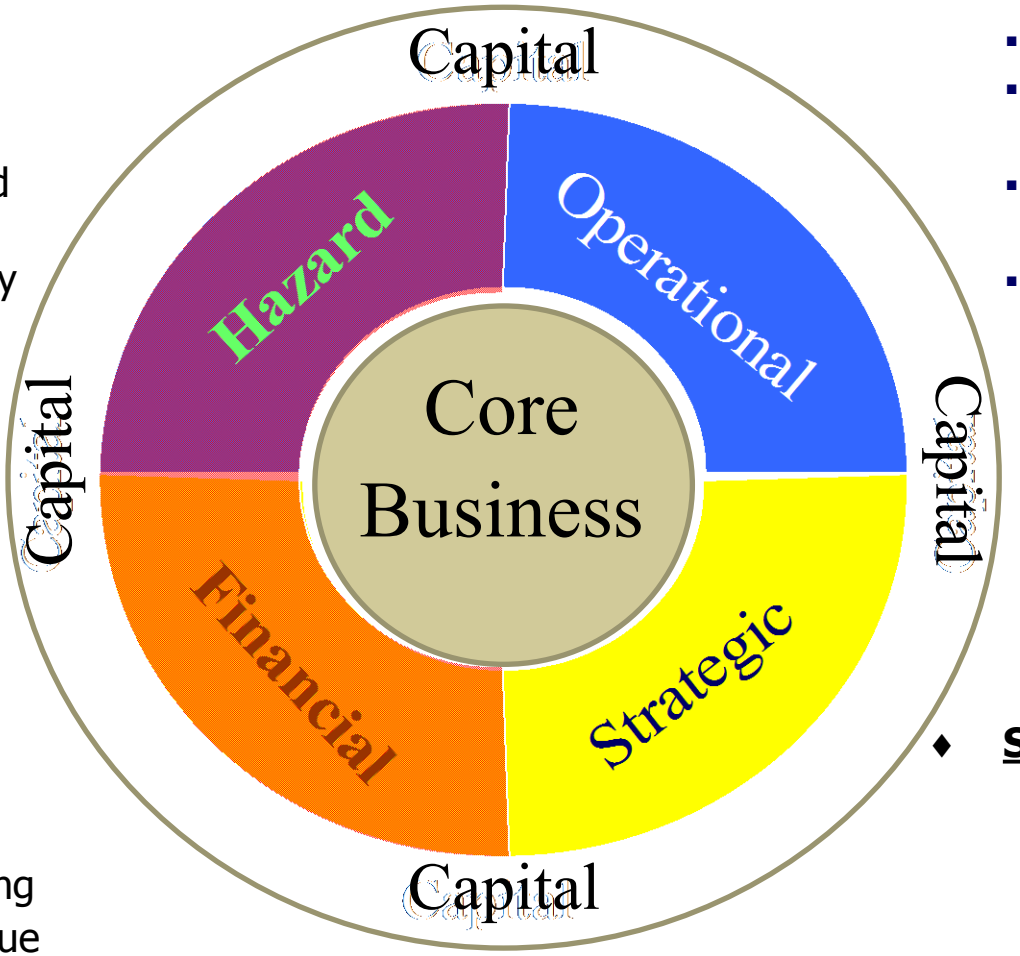
- **Risk** – hides under every rock and creates inability to act
- **Capital** – utilization and structure can be big value creators
- **Cost Management** – many small pieces that add up over time
- **Value** – defined in different ways



Commercial Real Estate Risk (from the CFO's Perspective)

- **Hazard/Legal Risks**
  - Property
  - Business Interruption
  - Lease Review
  - Tenant/Landlord
  - General Liability
  - Boiler & Machinery

- **Operational Risks**
  - Warranty
  - Policy & Procedures
  - Property Management
  - Project Management
  - Political



- **Financial Risks**
  - Financing Terms
  - Asset Valuation
    - Market Pricing
    - Residual Value
  - Tax Appeals
  - Income/Expense Controls
  - Strike/Labor Relations

- **Strategic Risks**
  - Model Selection
  - General Assumptions
  - Geographic Expansion
  - Brand Image
  - Acquisitions
  - Divestitures

Capital

GRIFFIN FINANCIAL GROUP LLC

- Real estate is a commodity – how do you capitalize it?
- How is your commodity valued? – Appraisal, insurance, etc.
- Own vs. lease – you are still leveraging and using (accessing) capital

GRIFFIN FINANCIAL GROUP LLC

Focus on Leasing

Use

- The single most important provision
- Can the tenant use the Premises for the purpose intended?
- Examples

Rent

GRIFFIN FINANCIAL GROUP LLC

- Often the smallest cost of doing business
- Usually confidential
- What is included in the rent?
- "Net," "net, net," "triple net," and "NNN" usually mean the same thing
- Future increases
- Free rent
- "Usable" vs. "Rentable"

What Is Additional Rent

- Sometimes called "CAM" or "operating expenses" or "nets"
- "Gross" and "full service" don't always include all operating expenses
- Property management fee?
- CAM can be $4.00 – 10.00/sq. ft.
- "Rentable" vs. "Rented"

Security Deposit

- Range: zero to two month's rent
- Most common: one month's rent
- Typically paid when lease is signed
- Different from a personal guarantee

Where to Locate

- "Location, Location, Location", or "Location, Location, Price"?
- Importance of Image to Your Business

Estoppel Certificates

- It's a statement of the basic terms and conditions
- Should be prepared by the landlord
- Read it carefully!
- Never sign if it is wrong! It could override the lease!

Other

- Quiet Enjoyment
- Rules and Regulations
- Ground Leases
- Leasehold Mortgages
- Condominium
- Option to Purchase

READ

ASK

CONSULT

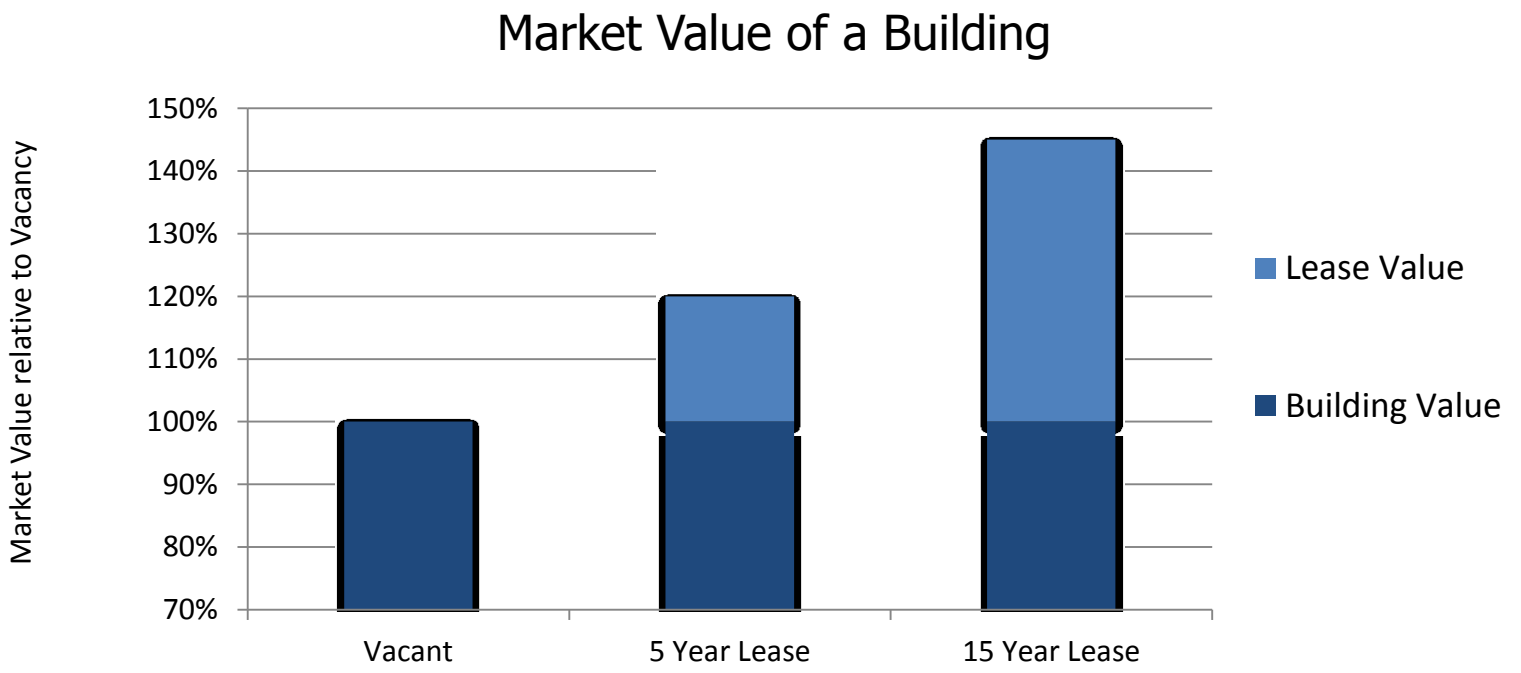
BEFORE SIGNING!

(Or you will lose the pot!)

GRIFFIN FINANCIAL GROUP LLC

Understanding the Value Spread

Value Spread



- Market factors determine the value of a vacant property
- Overall value is determined by lease term and a tenant's credit
  - Affects new development and lease renewals
- Negotiate before committing to term
- Apply lower market cost of capital for appropriate term

Understanding Flexibility Premium

GRIFFIN FINANCIAL GROUP LLC

Term & Risk

Type	Average Length of Stay (years)	Average Remaining Term (years)
Office	14.4	3.5
Retail	16.3	2.1
Industrial	17.1	4.6

Asset Value

Property Value created on $100,000/yr. rent from Tenant

Lease Term	Cap. Rate	Property Value
5 Years	6.50%	$1.54 M
10 Years	5.50%	$1.81 M
15 Years	4.75%	$2.10 M
20 Years	4.25%	$2.35 M

65% difference based on Term

The Lease Restructure Program identifies value increase to owner and negotiates a win/win structure to share with Client.

General Value Analysis

GRIFFIN FINANCIAL GROUP LLC

General Assumptions

Existing Lease

Store Size		12,000	SF
Annual Base Rent	$	216,350	
Annual Rent (Square Foot Basis)	$	18.03	PSF
Term Remaining		3 Years	
Lease Type		NN	
Projected Cap Rate		9.00%	

New Proposed Lease

Annual Rent (Square Foot Basis)	$	18.03	PSF			
Annual Base Rent	$	216,350				
Projected Refurbishment Capital	$	-		Capital PSF	$ -	PSF
Additional Term		7 Years				
New Total Lease Term		10 Years				
New Projected Cap Rate		7.00%				

Asset Value Increase Analysis

				Landlord Value
Existing Lease				
Current Annual Rental Amount	$	216,350		
Project Cap Rate		9.00%		$ 2,405,000
Plus: Additional Refurbishment Capital			$ -	-
Total Landlord Cost Basis				$ 2,405,000
New Proposed Lease				
Cap Rate on Extended Lease Term		7.00%		
New Proposed Annual Rental		216,350		
Projected Asset Value				3,090,714
Total Asset Value Increase				**$ 685,714**

Notes:

Please note there is a tactical progression in our successful process, which we have found essential to participating in the value creation.

Finding Data to Support Total Cost of Ownership (TCO)

GRIFFIN FINANCIAL GROUP LLC

	TCO CATEGORY	TCO COMPONENT
Total Cost of Ownership (TCO) For Real Estate & Facilities	Cost to Own	• Depreciation • Lease Expenses • Insurance • Taxes
	Cost to Operate	• Utilities • Repairs & Maintenance • Facilities Management • Space Planning • Environmental Health & Safety • Physical Security • Project Engineering • Software
	Cost to Provide Site Services	• Grounds • Housekeeping / Janitorial • Food Services • Transportation Services • Health & Wellness • Child Care / Day Care • Mail Services • Common Conference Room Admin • Stockroom Services
	Cost to Provide Multi-Site Services	• Multi-Site Environmental Health & Safety • Multi-Site Strategic Planning • Multi-Site Warehousing • Multi-Site Fixed Asset Accounting
	Cost to Administer Services	• Management Operations

Questions