

...Spectacular Achievement...is always preceded by Unspectacular Preparation...

The Pre-Sale Premise

As we have gathered over the continuum of this newsletter, the consensus without many contrarians, speaks to artificially low CAP rates. How do owners of under construction assets prepare for a sale without exposure before completion? The remedy is predicated on a hot topic of discussion in the investment arena today, the premise of pre-sales. Once a lease is inked on a new development, a pre-sale often safeguards today's CAP rate and mitigates exposure to devaluation. This strategic and forward thinking trend is also known as a forward commitment. A recent nationally publicized pre-sale conducted by our team took place as follows:

- New \$9.9 million net-leased Walgreens located in a preeminent Northeast demographic
- Traded Above List Price for Mid-5 CAP; Close of Escrow took place 24 hours following store opening
- Seller retains our team 7 months prior to completion of project: Our immediate marketing efforts sourced a qualified cash buyer 1 week from listing activation
- Buyer was deemed Non-Refundable in 21 days: Earnest Money Deposit was subject to seller deliverables (Estoppel, C of O, and punch list)
- Escrow was uniquely structured with aggressive pass-thru deposits



- Every approved status report w/ photos obliged buyer to inject an additional \$150k monthly deposit
- Deposit money was time stamped and totaled over \$1 million - Within 30 days of closing taking place
- Pro Seller Terms and Sale: No rent credits or discounted underwriting applied

What This Means to You:

Having sold high volumes to include net-leased and multi-tenant, we can attest to forward commitment transactions as a vehicle to optimize your present day equitability. Most investors typically favor new construction and readily assuming a fresh lease in advance of any term baking off. If the deal is financed, you should typically consult with lenders on forward rate locks or recasting debt scenarios as a post-closing option. Take into account the 4-6 month window before store opening/rent commencement as ripe timing that will not restrict aggressive 1031 buyers. Be circumspect to possible punch list delays by buttoning up escrow holdbacks or reserve accounts.

Welcome to Simon Says. While being in the day to day trenches I continue to realize we all share one common thread: we seek to learn daily and evolve our practice. Simon Says will share the latest on the pulse of the market from clients, developers, property managers, and all industry participants from REITS to Underwriters to private investors. The end objective is to better understand the market and what to expect from the market moving forward. The goal of Simon Says is to share knowledge.



SIMON JONNA
Executive Vice President

"No person was ever honored for what he received. Honor has been the reward for what he gave."

-Calvin Coolidge



401 S Old Woodward, Suite 425, Birmingham, MI
248 226 1610
simon@thejonnagroup.com