



**BLUESTAR**  
CONSULTING

# Case Study

## Retail Property

824-890 Washington Avenue, Miami Beach, FL

# Introduction

This report consists of a purchase evaluation towards a retail portfolio specifically for investment. As planned, we gathered both primary and secondary sources of data for this assessment, however, CoStar, had been far less than 100% accurate. To mitigate this and create a reliable analysis, we used a set of hybrid data collected in real-time.

Throughout this report, our analysts will narrow down and delineate market sectors through which we will focus on the subject property. Macro trends and Micro trends were assessed in an evaluation of market sustainability. Locations of submarkets, respective demographics, supply & demand trends, along with other inferred data will allow us to make a risk-averse, financially sound, decision.

Our financial study consists of an ARGUS analysis, a negative scenario analysis on ARGUS, and a Direct Capitalization evaluation which indicated to our analysts their final conclusions. Not being evaluated numerically, will be the intangible risks associated with a purchase of this caliber.

This assessment will close with our summary, assessment limitations and final conclusive reasoning for our recommendation regarding this portfolio.

# Executive Summary

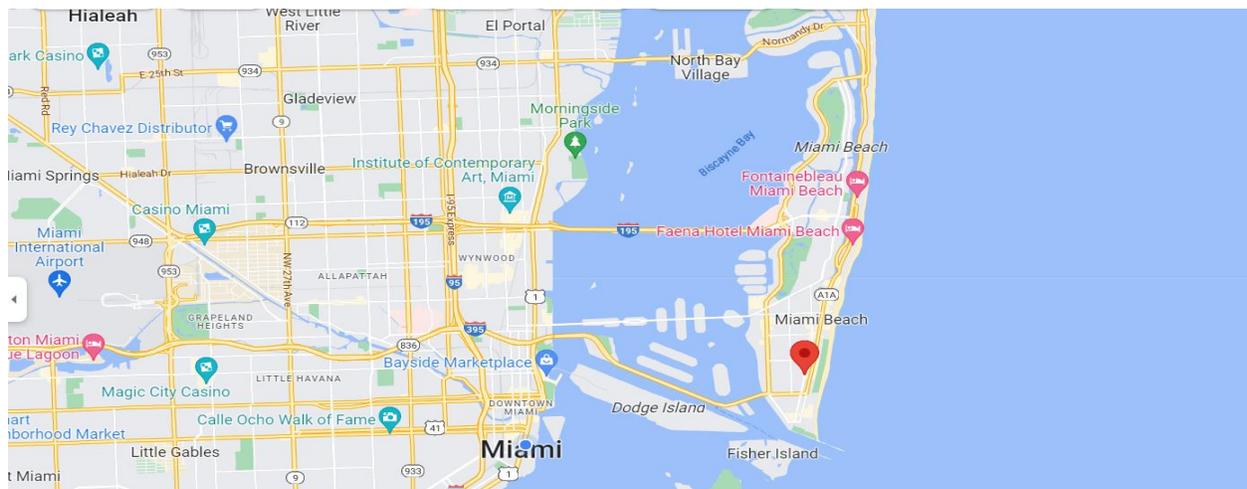
In this report we conduct a Level D Market Analysis on a 2-star retail portfolio located at 824-890 Washington Avenue, Miami Beach, FL; Asking \$9.7 million. The subject is a 7 storefront building, fully occupied, in an absolutely super prime tourist area. The property scored an 88 on the neighborhood retail shopping center rating, and received the lowest score, of 91, in the competitive location analysis. Demand for properties in this area is extremely competitive, as is tenant demand- being such, low turnover and full occupancy are expected for the duration of this study.



The current NOI is \$530,309- with \$48,699 available for distribution ending Y1. The asking price for the property is approximately \$2.5 million above the actual property value, while comparable properties have sold for anywhere between \$5-6 million.

## Geographic Overview

The property is located at the intersection of 9<sup>th</sup> Street and Washington Ave. It is Approximately 15.2 Miles from the Miami International Airport and 9.3 Miles from Miami Airport Commuter- Rail. The Site is located at a fully signalized intersection, with excellent visibility to both vehicular and pedestrian traffic. It is just steps away from South Beach and retail properties along the pedestrian-friendly Washington Ave Corridor have long attracted prime users such as small shop retailers, fast casual restaurants and service uses that cater to beachgoers and tourists.



# Site Plan & Layout

The property is strategically positioned on a hard corner right off 9<sup>th</sup> Street and Washington Avenue. The units are each different in terms of square footage but are appropriate for the types of businesses, and presentable. The site is located at a fully signalized intersection, with excellent visibility to both vehicular and pedestrian traffic. In addition to a city-operated surface parking lot just north (across the street) from the site, the 7th St. parking garage (600+ spaces) is located two blocks to the south. Each parking location requires a fee to park.



## Property Overview



This one-story multi-tenancy built retail storefront sits on 11,043 SF of Land with 214 Square feet of frontage space located right off Washington Ave. This building is a masonry structure that has a flat roof, an old-fashioned look and comprises 7 retail units. The unit sizes vary from 800 to 3200 square feet. Each unit is differently shaped however it creates the opportunity to develop a diverse multi-tenant property which will generate multiple opportunities to generate income.

# Property Features

The property sits on a 11,890 SF lot and is a total of 11,043 rentable SF on a prime corner in the heart of South beach. It is zoned CD-2 and was built in 1939. There is a city-operated surface parking lot just north (across the street) from the site and a 7th St. parking garage (600+ spaces) two blocks to the south. The property generates a high level of foot traffic due to nearby retail shops and residential areas. The site provides excellent visibility to vehicles and pedestrians. The anchor tenant (7-Eleven) is one of the most successful 7-Eleven locations in the country, and is the highest grossing non-gas location in Florida. In one of the most desirable locations in the country, the property’s tenants benefit from its prime location in South Beach, Florida just two blocks away from the beach and Ocean Drive, one block away from Collins Avenue, and closeby to Lincoln Road, a top 5 most expensive retail street in the entire United States.

# Property Rating

Based on multiple criteria, we assessed the property score to be 88 out of 100. The primary factors that influenced this ranking were location, tenant mix with an anchor, and general convenience. Parking was the factor to downgrade the score. Comparing the subject area with competitive locations, South Beach scored the lowest position from the others.

Walk Score  
97

**Walker's Paradise**  
 Daily errands do not require a car.

Transit Score  
50

**Good Transit**  
 Many nearby public transportation options.

Bike Score  
78

**Very Bikeable**  
 Biking is convenient for most trips.

Source: STDB		Competitive Location Analysis					4 Strongest	1 Weakest
		Area A*	Area B	Area C	Area D	Area E	Rank by Importance	
1	Proximity to Households in city	2	3	2	4	2	6	
2	Proximity to new retail	2	3	2	2	4	5	
3	Location in path of new residential growth	1	3	2	3	4	5	
4	Proximity to major roads-access and visibility (existing or approved)	3	4	1	4	2	4	
5	Traffic count through node	3	4	1	4	2	6	
6	Proximity to market (Interceptor sites)	2	1	3	2	4	3	
7	Size and drawing appeal of anchors	2	2	4	4	1	7	
8	Tenant mix and compatability	2	2	4	4	1	3	
9	Effective range of centers	2	2	3	4	1	2	
10	Special amenity features	4	3	2	3	1	1	
(Individual score times weighting)		91	118	99	146	97		
		South Beach	Downtown Miami	Sunny Isles	Brickell	Conconut Grove		

	Veto Factor	Neighborhood Retail Shopping Center-Property Rating					Superior	
		High	Inferior Moderate	Slight	Typical Neutral	Slight	Moderate	High
Sub-Rate (Rate Factors By inserting "X")								
Size				x				
Land-to-Build Ratio		x						
Parking			x					
Number					x			
Location								x
Convenience							x	
Interior Circulation								x
Street Visibility							x	
Tenant Mix & Marketing Features						x		
Anchor's Size							x	
Anchor's Drawing Power							x	
Tenant Compatability Mix					x			
Access Shops to Shops					x			
Center's Amenities features				x				
Legal	x							
Zoning/ Easements					x			
Rating Conclusions								
Sub-Rate Number of Items		1	1	2	4	1	4	2
Times Category Score		0	2	4	5	6	8	10
Category score		0	2	8	20	6	32	20
Total Subject Score		88						

# Demographics

## Area

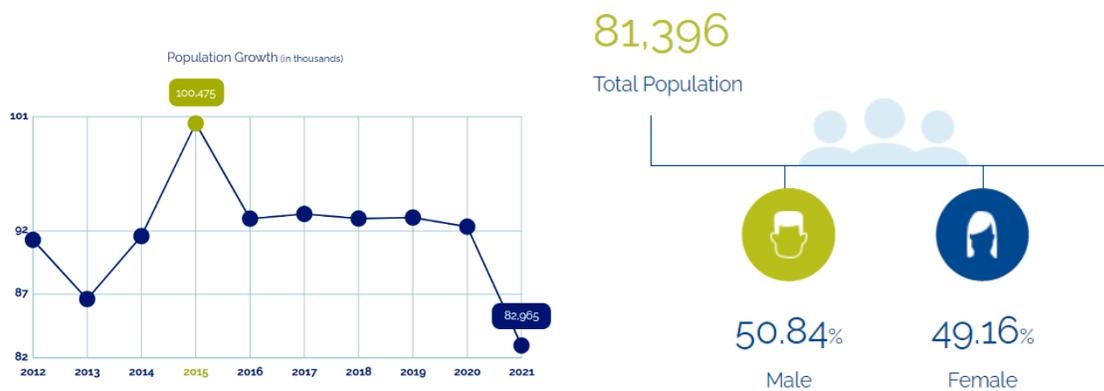
Miami Beach is a major tourist destination with a rich culture, art, and history, including seven miles of beaches, three golf courses, and 20 parks. Miami Beach is most recognized for being a popular vacation destination for tourists that welcomes residents, celebrities, and people from all over the world. Visitors see Miami Beach as a retail and cultural marvel as well as a hotspot for cutting-edge arts and entertainment. The restoration of the Art Deco Historic District, the modernization of the transportation system, and a new way of life that incorporates the arts, culture, sports, and entertainment have all been made possible by the economic boom.



## Population

Miami Beach is a city located in Miami-Dade County Florida. It is the 44th biggest city in Florida in 2023 with an estimated population of 81,396. Miami Beach's population has declined by -1.77% since the most recent census, and it is now dropping at a pace of -0.6% yearly. Ranging over 15 miles, Miami Beach has a population density of 10,585 people per square mile.

With 41,533 households, the average number of individuals per household is 1.99. This city is not a traditionally family-based region and is more likely to accommodate tourists and visitors. The population is relatively aged with approximately 17% of people 65+. However, over the last 5 years, the proportion changed and the share of middle-aged people increased.



## Employment & Income Profile

With the average family income increasing in 2022, the region has also continued to attract high-net-worth individuals, a trend that was encouraged by the pandemic. The average family income is projected to rise by 18.5% during the next five years. Miami Beach has a robust employment market anchored in the hospitality industry, food, and retail, and the city's economic recovery is now being driven by the tourist industry's comeback from COVID-19. Executives are migrating to Miami Beach and constructing satellite offices, which is fueling the recovery and adding jobs as tourist jobs increase along with it. These patterns are anticipated to persist, expanding the working force and utilizing fresh talent. The unemployment rate is below 2%.



**\$60,702**  
Median Household Income

- 5% more than the county
- 2% less than the state
- 11% less than the nation



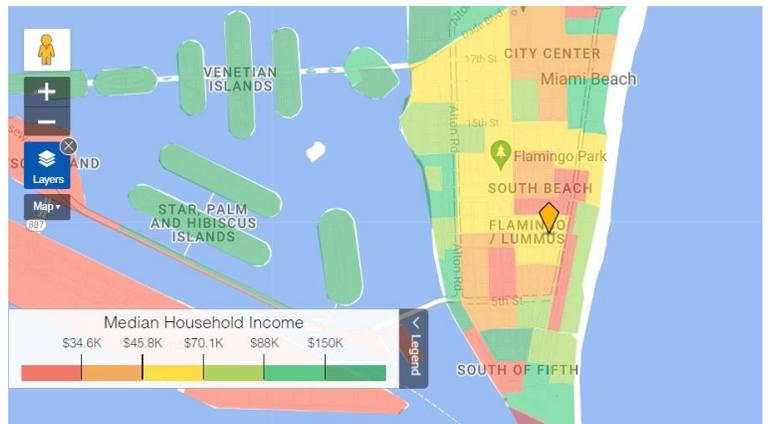
How do people spend most of their money?  
PER HOUSEHOLD



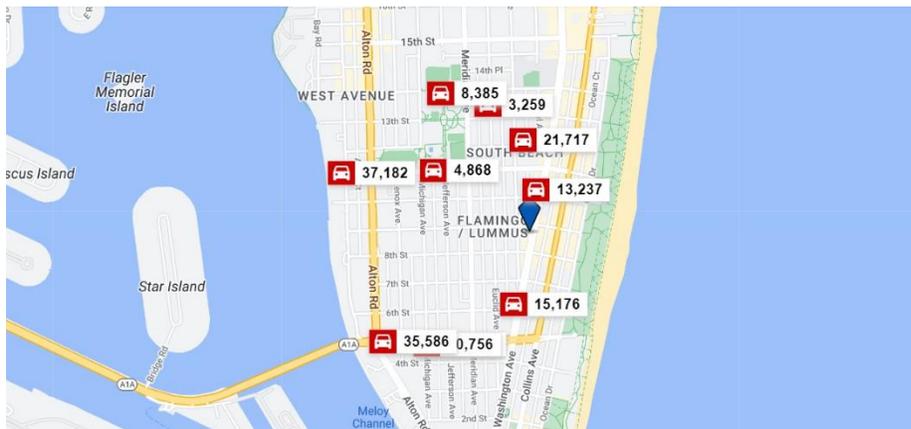
The subject property is a local retail store that services the neighborhood. It is assumed that the demographic analysis should be narrowed to a boundary that is relevant to the property type.



The median household income within the boundary area shows a higher degree of homogeneity, ranging from \$45.8k to \$70k on average. The majority of spending in the submarket area is allocated to food and beverages, with an annual total of almost \$190 million. As a result, retail establishments such as restaurants and supermarkets are in high demand among both the local population and tourists.



## Traffic



Miami Beach has three major roads: Washington Avenue, Ocean Drive, and Alton Road. The traffic volume on these roads fluctuates depending on the time of day, day of the week, and season. In the South Beach area, Miami Beach experiences heavy pedestrian

traffic. The city has therefore taken several measures to enhance pedestrian safety and minimize the risk of vehicular accidents. The subject property is located at a busy intersection, with excellent visibility to both vehicular and pedestrian traffic. Although the majority of traffic will be foot-traffic by locals and tourists, the property accommodates driving traffic as well. The location has excellent walkable and bicycle rankings.

## Demand forecast

Exhibit 13.48

Retail Market Analysis—Ratio Method					
Item					Source/Comments
1	Existing occupied square feet retail (and office in retail) in market area	101,055			2022 Miami Beach (Costar, SF total)
2	Current population in primary trade area for same time	80,671			Polygon (STDB)
3	Ratio of occupied retail square feet per capita (population or employees)	1.25			Calculation
<b>Forecast New Demand</b>		<b>Current Year</b>	<b>In 5 Years</b>	<b>In 10 Years</b>	
4	Forecast population in market area	81,423	83,866	86,382	Miami Beach (STDB)
5	Ratio of occupied square feet per capita	1.25	1.25	1.25	Calculation from Line 3
6	Demand for occupied shopping center space in market area	101,997	105,057	108,209	Calculation. Assumes current occupied space equal to in market area actual demand (i.e., no pent-up demand) ???
9	Plus frictional vacancy @ 5%	5,368	5,529	5,695	Calculation
10	Total forecasted supportable (adjusted) demand in market area (in square feet)	107,365	110,586	113,904	Includes all types of retail and non-retail users typically found in neighborhood shopping centers

A

demand forecast analysis was conducted using a ratio assessment, which indicated an increase in the demand for retail space based on the estimated population in the market area. The total forecasted area for retail demand is expected to be more than 113,000 square feet, providing strong evidence of continuous and robust demand for the retail sector in the subject market.

### New developments in the area.

An additional factor driving demand for retail businesses in Miami Beach is the influx of new developments in the area. Several large-scale projects in the hospitality and residential sectors have spurred traffic and business activity, positively impacting local retail stores. South Beach's retail tenants mainly benefit from its nearly 24 million visitors a year, making it heavily reliant on tourism. While Washington Avenue is not as popular as Collins Avenue, Ocean Drive, and Lincoln Road, the increase of hotel development along the street combined with an expanding convention center will continue to boost its walking traffic and popularity among visitors. The introduction of a more diverse demographic through new offices and residences being built on Washington Avenue will help the street escape its long-time reliance on tourism.

## MIAMI BEACH NEW DEVELOPMENTS

<p><b>MIAMI BEACH CONVENTION CENTER</b></p>  <p>The Miami Beach Convention Center recently wrapped up the main phase of its three-year, \$620 million renovation. The improvements include the addition of 263,000 square feet of space, 10 new meeting rooms and LEED Silver certification, which is granted to environmentally friendly buildings. The renovation brings the facility's total to 1.43 million square feet. Upgrades to the Convention Center were crucial to making the aging facility competitive in the crowded but lucrative convention industry. Officials hope the redevelopment of the Convention Center will help boost Miami-Dade's \$26 billion tourism industry, helping it to grab a greater share of the U.S. meetings industry.</p>	<p><b>CONVENTION CENTER GRAND HYATT</b></p>  <p>In late 2018, Miami Beach voters approved a plan to build a convention center hotel after two previous efforts to get a hotel project off the ground failed. Voters authorized the lease of city land and the construction of an 800-room hotel that will connect to the Convention Center. The Convention Center hotel, at the corner of 17th Street and Convention Center Drive, will include a large, resort-style pool deck atop a 53-foot-tall pedestal. It will also have an 8,000 square foot spa, 5,000 square foot fitness center, and ballrooms. There will be 320 valet-only parking spaces and the project is expected to be completed by 2023.</p>	<p><b>MOXY MIAMI SOUTH BEACH</b></p>  <p>Lightstone and Canyon Partners developed the seven-story, 202-key urban lifestyle hotel, replacing an existing single-story historic retail building on a 26,000 square foot site. Moxy is a Marriott brand that features large public spaces and well-designed, efficient guest rooms, offering guests affordability without sacrificing comfort. Moxy Miami South Beach completed construction and opened in 2021. The project encompasses 78,000 square feet and includes an oversized indoor/outdoor covered lobby, co-working lounge, meeting studios, a 72-foot pool, fitness center, and six food and beverage spaces that include an all-day bar and outdoor bar. The development also features an activated rooftop with a second pool and entertainment capabilities.</p>	<p><b>URBIN MIAMI BEACH</b></p>  <p>The mixed-use development will deliver a combination of 69 turnkey residences, coworking space, and ground-floor retail at 1260 Washington Avenue, an area of Miami Beach with revitalization underway. The project, exclusively represented by ONE Sotheby's International Realty, commanded an average price of \$1,350 per square foot for its residences comprised of micro-style units, comparable to nearby luxury condominiums. Winmar Construction is slated to break ground this summer and is anticipated to be delivered by 2025.</p>
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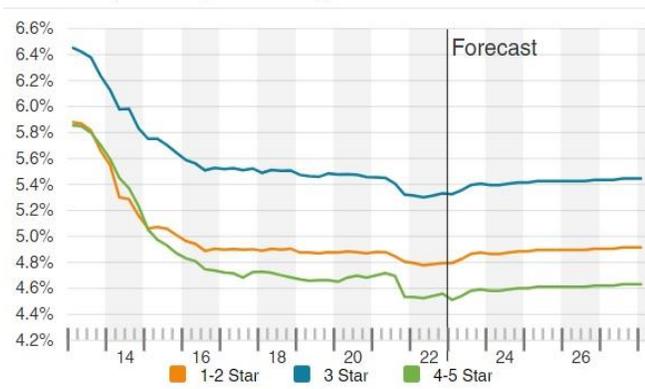
## Market Supply

INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
612K <span style="color: green;">+0.5%</span>	0 <span style="color: red;">-100.0%</span>	2.8K <span style="color: red;">-82.3%</span>	9.1% <span style="color: gray;">+0%</span>	\$87.66 <span style="color: green;">+4.6%</span>	\$1,064 <span style="color: green;">+6.7%</span>	4.9% <span style="color: red;">-0.1%</span>
Prior Period 610K	Prior Period 2.8K	Prior Period 16K	Prior Period 9.1%	Prior Period \$83.81	Prior Period \$997	Prior Period 5.0%

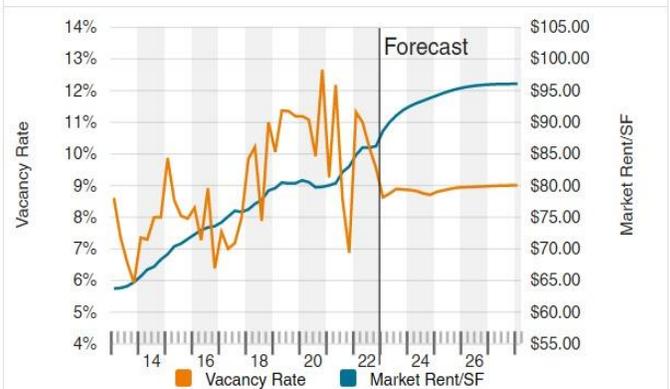
Miami Beach has historically been an important area for retail business. Miami Beach is a popular tourist destination, and many of the city's retail businesses cater to visitors. Some areas of Miami Beach, such as Lincoln Road and Collins Avenue, are popular shopping destinations that attract both tourists and locals. These areas have seen significant investment in recent years, with new developments and renovations aimed at improving the shopping experience and attracting more visitors. Some property owners in Miami Beach have turned to mixed-use developments, which combine retail space with residential and/or commercial space. Like many other cities, Miami Beach has seen a shift toward online shopping in recent years. This has led to some challenges for brick-and-mortar retailers, particularly smaller, independent businesses. The COVID-19 pandemic has had a significant impact on retail real estate in Miami Beach, as it has elsewhere. Many businesses were forced to close temporarily or reduce their operating hours, and some have struggled to recover in the wake of the pandemic. Despite these challenges, there is still demand for retail space in Miami Beach, and the vacancy rate in the city was around 7% in the second part of 2022. Due to the limited available land for development, it is projected that the occupancy rate for retail space will stay high at the level of at least 90%.

Market rent prices in Miami Beach have been consistently increasing and are projected to reach \$87 per square foot by the beginning of 2023. Following the 2019-2021 period, the absorption rate has stabilized and is now aligned with the average leasing activity of 5000 square feet per quarter. Over the past eight years, the cap rates have declined and are estimated to stabilize around 4.8% for 2-star properties, based on CoStar data.

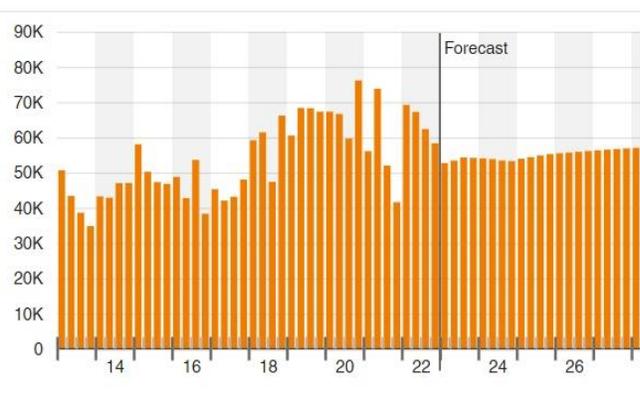
Market Cap Rate By Star Rating



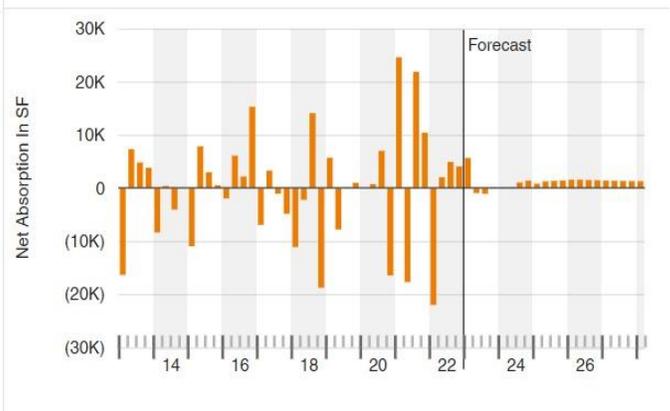
Vacancy & Market Rent Per SF



Vacant SF

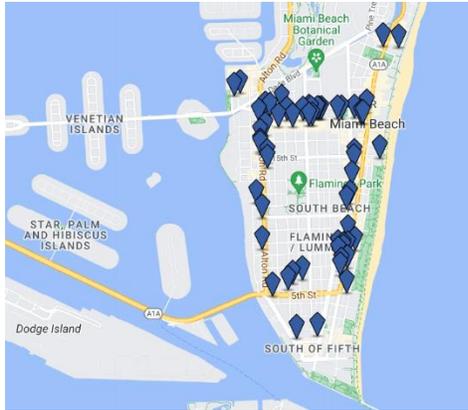


Net Absorption



The boundary area comprises 62 retail properties with an area of less than 20,000 square feet that can be compared with the subject property. The total inventory of retail space in this area amounts to 612,000 square feet. There are currently only two new retail property developments under construction in the Miami Beach area, indicating that the supply is limited by existing buildings.

**Existing**



**Under construction**



1769 Purdy Ave  
Miami Beach, FL 33139  
55,660 SF · Retail · Under Construction



700 Alton Rd  
Miami Beach, FL 33139 - Park on Fifth's  
3,630 SF · Retail (Strip Center) · Under Construction

# Comparable Properties

In order to perform a proper evaluation of the perspective portfolio, a multitude of portfolios were evaluated; below are the most comparable:



<p><b>232 12th Street</b></p> <p>2 Star Portfolio</p> <p>1935 Construction</p> <p>7612 SF.</p> <p>0.27 Miles from Subject</p>	<p><b>524 Jefferson Ave</b></p> <p>3 Star Building</p> <p>1995 Construction</p> <p>15020 SF.</p> <p>.39 Miles from Subject</p>	<p><b>1450 Collins Avenue</b></p> <p>2 Star Portfolio</p> <p>1940 Construction</p> <p>12868 SF.</p> <p>.57 Miles from Subject</p>
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Sold 12/2021	Sold 5/2022	12/2021
Sale Price \$5,950,000	Sale Price \$9,400,000	Sale Price \$10,000,000

## **Market Research**

### **Site Visit**

The site visit was conducted on February 15, 2023, at 4:30 pm. This site visit is essential to visualize and understand the subject property and surrounding areas completely. Before the sight visit, we were unaware that two of the units in the property were vacant; Costar said the property was leased at 100%. Additionally, one of the main things that we noticed was that the property needed more/convenient parking. In the back of the property, a multi-use parking lot could hold about 15 vehicles. Directly north across the street, another multi-use parking lot could hold about 25 cars. And lastly, in front of the building, there was curbside parking that could hold about eight cars. Although this seems like a lot of parking for the property, the two main parking lots were paid parking for a minimum of \$10 per hour, and they were difficult to park into. Additionally, with the parking lot at full capacity, there were only two people in 7-eleven (anchor tenant). The primary use for the parking was for the beach that was two blocks away and for some of the nearby restaurants. On the positive side, we noticed that it was a convenient walk for many of the people in the multiple residential apartments in the area.

### **Broker Interview**

Following our group's site visit to the property, we contacted the listing broker for the property. We had a good ten-minute call with Colliers Broker named David Preston. When asked about our site findings of the two vacant spaces at the property, he mentioned that one had a new tenant who had signed a lease and was moving in. The other space was leased by a tenant that was waiting on permits from the city to begin operations. David mentioned that finding tenants to occupy the property was effortless, and there was strong demand for retail in that area. He also mentioned that the anchor tenant, 7-eleven generates more income than any other "non-gas" 7-eleven in south Florida. We continued to talk further about his thoughts on the property and some strengths and weaknesses, but there were a few things that he didn't want me to quote him on or comment on; therefore, we did not include them in this report.

# Tenant Analysis

The property hosts 7 total tenants, consisting of Chapel Tattoos, Pilar Latin Foods, Sobe Smiles Dentistry, Iron Sushi, Burbowl, and 7-Eleven, its anchor tenant. On average, the remaining lease is about 5.6 years, representing a healthy average remaining lease term. Iron Sushi has been a long-time go-to fast casual restaurant in South Beach, occupying 910 SF since 1998 while Burbowl and Chapel Tattoos have occupied the space since 2019 and show no signs of slowing down. SoBe Smiles Dentistry has built themselves a great reputation since 2016, serving a loyal local clientele and offering a safe tenant profile to the rent roll. 7-Eleven has benefited from the property's prime location by being the company's highest-grossing non-gas location in Florida. The two most recent lease signings, Pilar Latin Foods (occupying 1450 SF at a base rate of \$51 per SF) and Unlimited Biking (occupying 1800 SF at a base rate of \$52 per SF), do raise a few concerns. While both are individually signed on a 10-year lease, both lack a track-record and pose a risk of not succeeding in a highly-competitive market like South Beach.

Tenant	Type	SF	Start	Expiration	Remaining	Rent	Rent / SF	Options
<b>Chapel Tattoos</b>	Service	800	6/15/2019	6/14/2025	2 Years	\$58,537	\$73.00	
<b>Pilar Latin Foods</b>	Restaurant	1450	3/1/2023	2/28/2033	10 Years	\$73,950	\$51.00	
<b>Sobe Smiles Dentistry</b>	Dentist	1400	6/1/2016	5/31/2026	3 Years	\$61,927	\$44.00	
<b>Iron Sushi</b>	Restaurant	910	4/15/1998	4/30/2028	5 Years	\$53,974	\$59.00	
<b>Unlimited Biking</b>	Retail	1800	3/1/2023	2/28/2033	10 Years	\$93,600	\$52.00	
<b>Burbowl</b>	Restaurant	2000	8/1/2019	7/31/2029	6 Years	\$118,741	\$59.00	
<b>7-Eleven</b>	Convenience	3200	4/1/2011	7/31/2026	3 Years	\$152,535	\$48.00	<b>2 Renewal Options- 2036</b>

# Tenant & Building Reviews

## BurBowl



4.1 ★★★★★ 337 Google reviews

\$\$ · Hamburger restaurant

## Iron Sushi



3.8 ★★★★★ 509 Google reviews

\$ · Sushi restaurant

## Chapel Tattoos Miami



5.0 ★★★★★ 601 Google reviews

Tattoo shop in Miami Beach, Florida



## SoBe Smiles: Jinelle Andujar DMD PA



4.9 ★★★★★ 229 Google reviews

Dental clinic in Miami Beach, Florida

824-890 Washington Avenue's tenant mix have earned themselves a great reputation. While the anchor tenant, 7-Eleven, only has a 2.4 Star rating, it is still one of the company's most successful locations and shows no signs of slowing down in the near future. Burbowl, Iron Sushi, Chapel Tattoos, and SoBe Smiles Dentistry have earned an average of 4.45 Stars, showing the fantastic products & services that they offer. Pilar Latin Foods and Unlimited Biking both plan on opening within the first half of 2023 and we have yet to see how they perform and are received by customers, leaving uncertainty in the reviews they will receive once open.

# SWOT Analysis

Strengths	Weaknesses
<p>Two blocks from the beach and in walking distance from many residential apartments.</p> <ul style="list-style-type: none"> <li>-This property has a very high land value and could generate a lot of foot traffic and visitors.</li> <li>-The property has a main anchor tenant of 7-eleven and this is the main convenience store for basic necessities in the immediate area.</li> <li>-B24Taller buildings are being built and increase in population over the last 10 years; growth is likely to continue.</li> </ul>	<ul style="list-style-type: none"> <li>Pay to park, difficult to park, and lack of parking.</li> <li>-Old building that is at a high risk of structural problems.</li> <li>-high risk area for floods.</li> <li>-Due to location and age of the building, overall operating expenses will be very high.</li> <li>-many Old residential buildings in the area that will soon need to be renovated or rebuilt. could decrease foot traffic when This takes place.</li> <li>-No major renovations have been conducted, the improvements in the structure have all been done by the tenants.</li> </ul>

Opportunities	Threats
<p>With the area being great for foot traffic, the property is able to be renovated to attract a tenant that would give the property a better use for the area.</p> <ul style="list-style-type: none"> <li>-More floors can be added to the structure to increase the overall asset value.</li> </ul>	<ul style="list-style-type: none"> <li>Rising sea levels are a growing concern in the area. Ground surface properties will likely have higher flooding risk year of year.</li> <li>-With the building age and flood risk, capital expenditures will likely be very high for years to come.</li> <li>No land available to build or extend properties.</li> </ul>

# Financial Analysis (ARGUS)

In order to perform a proper evaluation of the perspective portfolio, multiple levels of analysis were performed. The Argus analysis, based on interviews, retrieved data, & publicly available records, allowed our analysts to understand that the investment does generate cash flow.

In our Argus assumptions, we assumed the "general inflation" in the five years will average 3.3%. We believe inflation will reach 4.2% at the end of 2023, but it will struggle in the following years to reach the federal reserves goal of 2% inflation. Due to the high demand and lack of development projects in south Miami Beach, we think the "market inflation" will average at a 4.2% clip in the five-year holding period.

#### Assumptions:

General Inflation	3.3%*
Market Inflation	4.2%
Expense Inflation	2.8%*
Risk Premium	2%
5 Year Treasury Rate	4.2%
Required Return	10%
Going-in Cap	5.7%**
LTV	65%
Mortgage Interest	5.9
Closing Cost	4%
Selling Expense	3%
Holding period	5 Years
Vacancy Rate	0%
Mgt Fees	4%
Leases Option	Renew
Amortization	30 Years

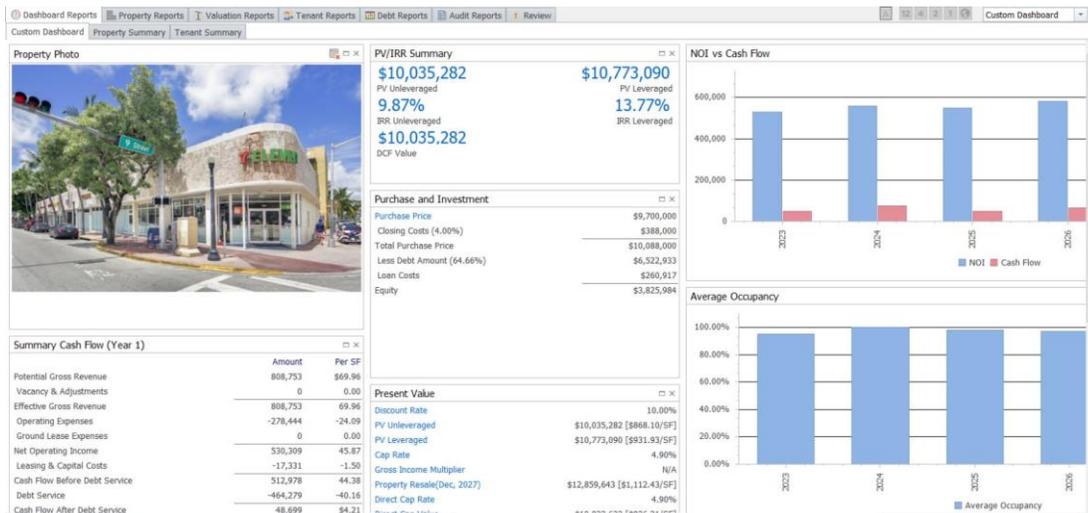
Regarding our required return assumption, our team needed to ensure we factored in the risks accordingly. The current risk-free rate we assumed was 4.2%. We then added an additional 2% risk premium for a retail Real Estate investment that is located in an excellent location. Following these initial assumptions, we then considered the buildings' age, flood risk, and future city policies. We determined that we need to require an additional 3.8% to offset the risks that are associated with this property. In total, we will require a 10% required return.

The property is acquired with financing using a fixed-interest loan at 5.9% interest, LTV 65%. These might be optimistic numbers, but we assume it is reasonable for this type of transaction. The market leasing profile is the following: 50/50 chance of renewal with \$85 of rent per SF and 6 months of vacancy. These are typical market conditions for the subject area. Finally, we embedded extra capex in the amount of 2% of gross revenue on top of the capex reserve that we acquired from the broker.

## Base Scenario

The property generates NOI up to 619k in year 5 starting from 530k in the 1st year. Operating expenses amount to an average of 30-35% which is normal for this type of property. We assume that the occupancy is going to be close to 100%. One tenant will move out and is going to be replaced with a market leasing profile tenant. The anchor tenant is going to renew the contract. This guarantees stable effective gross revenue growth.

Cash Flow	Forecast						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	
	Dec-2023	Dec-2024	Dec-2025	Dec-2026	Dec-2027	Dec-2028	Total
Effective Gross Revenue	808,753	844,051	842,782	884,325	959,990	982,405	5,322,307
Operating Expenses	278,444	286,240	294,255	302,494	310,964	319,671	1,792,069
<b>Net Operating Income</b>	<b>530,309</b>	<b>557,811</b>	<b>548,527</b>	<b>581,831</b>	<b>649,026</b>	<b>662,734</b>	<b>3,530,238</b>
Leasing Costs	0	0	17,639	32,165	0	22,700	72,505
Capital Expenditures	17,331	18,069	18,077	18,942	20,491	20,975	113,886
Cash Flow Before Debt Service	512,978	539,741	512,811	530,724	628,535	619,058	3,343,847
Debt Service	464,279	464,279	464,278	464,279	464,279	0	2,321,394
<b>Cash Flow Available for Distribution</b>	<b>48,699</b>	<b>75,462</b>	<b>48,533</b>	<b>66,445</b>	<b>164,256</b>	<b>619,058</b>	<b>1,022,453</b>



After year 5 with the sale of the property, the terminal value is going to be determined by the direct cap method. We assume the exit cap rate to be 4.9%. This is determined by the following: risk-free rate (Treasury Yield 4.2%) plus a risk premium (200 bp) + cap over market 2% and subtracted the inflation 3.3%. Moreover, the 4.9% cap rate is aligned with the Costar forecast. Given that, our PV (levered) is \$10,773,090 and IRR (levered) is 13.77%. IRR is higher than the required rate of return (10%). Hence, the Argus model gives a positive result for the investment in the subject property for a 5-year holding period.

# Negative Scenario

Property Photo



PV/IRR Summary

<b>\$9,469,533</b>	<b>\$10,031,042</b>
PV Unleveraged	PV Leveraged
<b>8.49%</b>	<b>9.70%</b>
IRR Unleveraged	IRR Leveraged
<b>\$9,469,533</b>	
DCF Value	

Purchase and Investment

Purchase Price	\$9,700,000
Closing Costs (4.00%)	\$388,000
Total Purchase Price	\$10,088,000
Less Debt Amount (61.02%)	\$6,155,196
Loan Costs	\$246,208
Equity	\$4,179,012

Summary Cash Flow (Year 1)

	Amount	Per SF
Potential Gross Revenue	808,753	\$69.96
Vacancy & Adjustments	0	0.00
Effective Gross Revenue	808,753	69.96
Operating Expenses	-278,444	-24.09
Ground Lease Expenses	0	0.00
Net Operating Income	530,309	45.87
Leasing & Capital Costs	-25,419	-2.20
Cash Flow Before Debt Service	504,890	43.68
Debt Service	-466,860	-40.39
Cash Flow After Debt Service	38,030	\$3.29

Present Value

Discount Rate	10.00%
PV Unleveraged	\$9,469,533 [\$819.16/SF]
PV Leveraged	\$10,031,042 [\$867.74/SF]
Cap Rate	4.90%
Gross Income Multiplier	N/A
Property Resale(Dec, 2027)	\$12,200,516 [\$1,055.41/SF]
Direct Cap Rate	4.90%
Direct Cap Value	\$10,822,633 [\$936.21/SF]

The adverse scenario that would be reasonable for our market analysis is assuming that the federal government fails to lower the inflation at the pace they previously expected. The effects of this would increase the expense inflation to 4% instead of 3.3%, and then this rise in inflation would create an environment where they feel the need to raise interest rates more which would

increase the mortgage rate to 6.5% for the investor. Additionally, we plan to assume increased expenses for Capex and repairs. Our adverse scenario for Capex and repairs will be 3% and \$75,000, respectively. Lastly, we will assume a \$78 PSF instead of \$85 PSF for our market leasing profile and then nine months of vacancy instead of six months. With these new calculations imputed into Argus, the new leveraged IRR for this property is 9.7% which is below our required rate of 10%; therefore, not a good investment.

# Sensitivity Matrix

Key Valuation Policies	
Valuation (PV/IRR) Date:	January, 2023
Date of Sale:	December, 2027
Discount Method:	Annual
Period to Cap (at Sale):	Year of Sale

IRR Matrix							
Table Shows:		1) IRR (Unleveraged)	1) Net Sale Price 2) Net Sale Proceeds 3) Exit Cap Rate				
		2) IRR (Leveraged)	16,156,987	14,320,966	12,859,643	11,668,935	10,680,043
			10,094,664	8,258,643	6,797,320	5,606,612	4,617,720
			3.90%	4.40%	4.90%	5.40%	5.90%
1) Purchase Price 2) Equity 3) Going In Cap Rate		<b>9,988,000</b>	14.63%	12.21%	10.11%	8.28%	6.64%
		<b>3,725,984</b>	23.42%	18.74%	14.39%	10.28%	6.31%
		<b>5.31%</b>					
		<b>10,038,000</b>	14.50%	12.09%	9.99%	8.16%	6.52%
		<b>3,775,984</b>	23.08%	18.41%	14.08%	9.97%	6.02%
		<b>5.28%</b>					
		<b>10,088,000</b>	14.38%	11.96%	9.87%	8.04%	6.41%
		<b>3,825,984</b>	22.75%	18.09%	13.77%	9.68%	5.74%
		<b>5.26%</b>					
		<b>10,138,000</b>	14.26%	11.84%	9.76%	7.92%	6.29%
	<b>3,875,984</b>	22.43%	17.78%	13.47%	9.39%	5.45%	
	<b>5.23%</b>						
	<b>10,188,000</b>	14.13%	11.72%	9.64%	7.80%	6.18%	
	<b>3,925,984</b>	22.11%	17.47%	13.17%	9.10%	5.18%	
	<b>5.21%</b>						

# Summary & Limitations

Summarizing the above market evaluation and analysis, we see the area has consistently high foot traffic, increasing demand as space availability is limited, and has great potential to return revenue on investment through ARGUS and direct capitalization analysis. The market is on an uptrend.

Accordingly, in the conclusion we will mention what we deem as an appropriate acquisition price, inclusive of all the risks related to this particular subject.

**Some significant limitations impacting our decision are discussed below;**

- **Riskiness of requiring significant CAPEX within the 5 year timeline:**

Due to both the age of this building, and the fact that *ONLY* tenant improvements have been accounted for throughout its lifetime; we expect this building to need some “enhanced CAPEX” within the scope of this study.

- **Socioeconomic effects on the retail industry (IE;COVID):**

Although most industries claim they have fully recovered from the socioeconomic impacts of COVID- we see unique trends in labor post-pandemic. It is interesting to ponder the long-term effects of “remote-work” on the retail sector, as shopping malls similar to our portfolio often require high foot traffic and physical employees. We can’t hedge against the inherent risk of another pandemic.

- **Limited Expansion Possibilities**

This property’s location adds to its uniqueness, it also however adds inherent risk to this evaluation via its zoning. Although South Beach is consistently growing according to our market insights, the physical zoning of the property and surrounding buildings limit the potential for an NOI increase during the term of our study. There are only 1 story buildings nearby, and the zoning does not dictate a change until the county decides fit. This evaluation doesn’t cover the difficulty in obtaining permitting for expansion in South Beach, however, that would also be a *very significant* point.

- **Risk of Water Level Rising:**

Finally, there is a significant risk of water levels in the area rising inside of our 5-year timeline. Without exclusion, but in addition to that risk is *flood risk*- Florida is one of the most storm-rich environments, elevating the risk of irreparable damage due to physical flooding, within the scope of our assessment.

Not discussing insurance- If the property is destroyed and completely loses its value, every possibility for generating a profit is lost.

## **Conclusion:**

None the less, although the property is in a great area, which shows significant market potential and growth; we don't recommend pursuing this as an investment. The intangible risks related to an acquisition of this nature far outweigh the benefits our investors serve to reap.

Our property's asking price outweighs any of its local competitive comparable properties by approximately \$3 million dollars.

Additionally, the calculated property value deemed appropriate for the subject would be approximately \$7.2 million- meaning our subject is grossly overpriced by approximately \$2.5 million.

Taking into account the intangible risks such as CAPEX, Water, Hedging against a retail market downturn, and brand new tenancies– This property is deemed a significant risk to capital.



# BLUESTAR CONSULTING

## ABOUT US

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At BlueStar, we offer unmatched real estate consultancy services with a focus on precise underwriting and asset valuation. Utilizing state-of-the-art software, we deliver maximum accuracy and detail in assessing both commercial and residential properties worldwide.

Whether you're a developer, investor, or property owner, our bespoke approach offers tailored strategies aligned with your investment goals and timelines, supplying the most accurate data for informed decision-making globally.

**We are the  
North Star<sup>★</sup>  
of real estate  
analysis.**

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Unlike traditional brokers who rely on arbitrary comparisons, we delve into detailed analyses and deliver vital information on potential investments, from construction history to market dynamics.

Our expertise in tax treatment covers all property types and locations, providing all the insights needed for your strategic decisions.

### Integrative Consulting

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For entities seeking to optimize acquisition strategies and portfolio management, we integrate seamlessly with your operations and offer comprehensive analyses.

We ensure your investments align with business objectives and consistently deliver the growth and success outlined in your strategy.

### Bespoke Strategy

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We will craft strategies as unique as your vision, considering specific goals, timelines, and resources.

By honing in on your personalized solution, we'll build a customized a roadmap designed to meet your distinct investment aspirations.

## GET IN TOUCH

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