Sourcing Off Market Commercial Real Estate Acquisition Targets

by

James French Mayo-Smith

B.A., English & Political Science

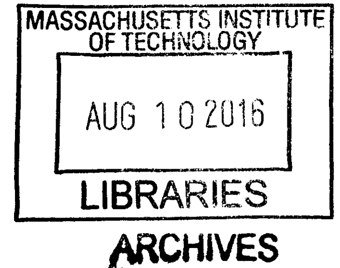
Colorado College, 2010

Submitted to the Program in Real Estate Development in Conjunction with the Center for Real Estate in Partial Fulfillment of the Requirements for the Degree of Master of Science in Real Estate Development

at the

Massachusetts Institute of Technology

September, 2016



©2016 James French Mayo-Smith
All rights reserved

The author hereby grants to MIT permission to reproduce and to distribute publicly paper and electronic copies of this thesis document in whole or in part in any medium now known or hereafter created.

Signature of Author________________________ Signature redacted

Center for Real Estate
July 29, 2016

Certified by________________________ Signature redacted

John F. Kennedy
Lecturer, Center for Real Estate
Thesis Supervisor

Accepted by________________________ Signature redacted

Professor Albert Saiz
Daniel Rose Associate Professor of Urban Economics and Real Estate
Department of Urban Studies and Center for Real Estate

Sourcing Off Market Commercial Real Estate Acquisition Targets

by

James French Mayo-Smith

Submitted to the Program in Real Estate Development in Conjunction with the Center for Real Estate on July 29, 2016 in Partial Fulfillment of the Requirements for the Degree of Master of Science in Real Estate Development

ABSTRACT

Sole sourcing, or acquiring grocery anchored properties that are marketed to only a few prospective buyers, is favorable to general partners, who will oversee and run the property, because it increases their chances of acquiring the target. Furthermore, this is beneficial to their limited partners who have provided meaningful sources of capital in order to acquire the property.

The hypothesis is that by tracking outstanding commercial mortgage backed securities (CMBS) loans coming due in the next several years, collecting data on current owners/borrowers, attempting to understand their wants and needs at asset and portfolio levels, and providing solutions to their circumstances while effectively marketing to engage existing owners of grocery anchored retail real estate assets in US metro markets with favorable demographics, one can increase the likelihood of closing off market transactions with prospective sellers while not using brokers through a system that is replicable across various real estate property types.

The conclusion is that evaluating CMBS loan maturity and other data-driven advances to sole source deals are currently underutilized in the market. Currently, firms must first define an investment thesis internally. Next, the team should gather property and owner names of target markets and submarkets that fit the established investment criteria. Analyzing owners' portfolios, fund lives, and tenant expirations builds understanding behind events that trigger property sales. Furthermore examining CMBS loan maturities and outstanding property-level debt should be analyzed when targeting properties, but this strategy has not been as widely adopted as it will be in the future. Building and establishing relationships in the market will remain critical and marketing directly to brokers and owners is essential. This is believed to be a replicable strategy across markets to source off market deals of grocery anchored retail centers today.

In the future, data-driven acquisition targeting is expected to increase. Firms that adopt these strategies, in conjunction with proven methods utilized today, will be better positioned to source and close off market acquisition.

Thesis Supervisor: John Kennedy
Title: Lecturer, MIT Center for Real Estate

ACKNOWLEDGEMENTS

This thesis would not have been possible without my advisor, John Kennedy. His thoughtful and constructive feedback, boundless optimism and self-deprecating humor made it a pleasure to work with him. I appreciate him putting me in touch with active industry participants and feel most fortunate to call him my friend.

I would also like to thank the investment team at AmCap Incorporated for driving the inspiration behind this thesis. Specifically, I would like to thank Jay Kaiser, Jake Bisenius, Aaron Wu, Jason Liu and Jack Krowl for their valuable input throughout this process. I am excited for you to implement some of these strategies and about the future of the company.

Thank you to all the interviewees that participated in this study for their time. Their insight put the meat on the bones of this report and allowed me to see how deals actually occur.

I am grateful for Minching Kao. Her belief and support over the years has propelled me further than I thought I could go. She is a terrific sounding board and I look forward to our fun adventures that have yet to come.

Thank you to my parents, Bill and Leslie, for being my life consiglieres. Their balanced and sound advice has steered me in the correct path innumerable times over the years.

I'm also proud and grateful to have two of the best brothers anyone could ask for, Andrew and Chris. It's been fun growing up together and I feel fortunate that we are so close.

Finally, I would like to thank my classmates from the MIT Master of Science in Real Estate Development, Class of 2016. Your intelligence is inspiring and I am excited to see how we will change the world for the better.

TABLE OF CONTENTS

1. Title Page.....1
2. Abstract.....2
3. Acknowledgements.....3
4. Table of Contents.....4
5. Chapter 1: Introduction.....5
6. Chapter 2: Literature Review.....13
7. Chapter 3: Interviews.....24
8. Interview 1.....24
9. Interview 2.....28
10. Interview 3.....32
11. Interview 4.....36
12. Interview 5.....38
13. Interview 6.....41
14. Interview 7.....47
15. Interview 8.....51
16. Interview 9.....54
17. Interview 10.....56
18. Interview 11.....59
19. Chapter 4: Conclusion.....60
20. Bibliography.....69

CHAPTER 1: INTRODUCTION

In the world of real estate investment, there are acquisition teams within firms that pore over prospective real estate asset targets every day of the year. These teams often examine hundreds and sometimes thousands of sales each year and may end up only buying one property. Prior to bidding, prudent acquisition teams often conduct various financial analyses, visit the property, consider market timing, and evaluate comparable sales, all while examining the property in accordance with their investment thesis, investment vehicle, and portfolio allocations across property types and geographies. Ultimately, in the simplest example, there is only one firm that wins the bid and the efforts of the other bidders go unrewarded because they did not acquire the target.

Brokers have historically played a facilitation role in real estate transactions, often with one firm providing services to represent the buyer and another firm providing services to the seller. Brokers are thought to have evidence-based knowledge of transactions and a firm understanding of current market conditions at the time of sale, given their repeated experience at this critical juncture between the buyer and the seller. Brokers help sellers price, position and market their properties while distributing sexy PDFs with accompanying Argus or Excel models for prospective buyers to consider before placing a bid. Sales that follow this process are considered marketed properties because a plethora of prospective investors are aware that the property is for sale. Conventional thinking holds that the more prospective buyers a brokerage team brings to the bidding process, the greater the likelihood the seller will receive the highest price. It is important to note, that broker compensation is typically a percentage of the total sale

price of the property. Therefore, the broker's interest should inherently be aligned with the seller's to achieve the highest sale price, given the broker is financially incentivized.

Acquisition teams sometimes approach a target property with a different perspective. If there are fewer bidders, each team has a higher probability of winning the bid, all else being equal. If there is only one bidder for the property, and the seller agrees to the terms, then the lone bidder will acquire the property with no competitive set. Sales in this category are categorized as off market. Quietly marketed deals occur when only a select group is aware that a property is for sale. At the outset, it appears the desires of the buyer and the seller are inherently opposed with regard to number of bidders required to achieve a fair price. However, if the desires of the buyers and sellers are opposed, then a deal is actually unlikely to close.

This thesis sets out to answer the question of how an acquisitions team can successfully target off market acquisition properties. Specifically, it will focus on grocery-anchored retail assets. Bridging the gap between the desires and needs of the buyer and the seller to close a deal is essential to sourcing these transactions. As such, highlighting terminology pertinent to the retail asset class is necessary to establish a baseline for understanding the property type and therefore how to source these properties.

Retail is arguably the most complicated category of the traditional commercial real estate classes because the symbiosis required across the tenant mix is more delicate than office, industrial, hotel or multifamily property types. Often, the business of one office tenant does not depend on the business of an adjacent tenant. As long as the neighboring tenants are quiet and respectful, both have the ability to operate independently of one another. To continue the example, one law firm will likely not base the decision of whether or not to move offices depending of if their new neighboring tenant will be an insurance company or offices for an oil

company because their law practice will be unaffected by the business of either other company. The same holds true for multifamily. Often one does not move into an apartment because of who rents the unit next to his/hers. The same holds true with industrial and hospitality properties.

Retail is different because consumer spending, and therefore tenant sales, are dependent on population demographics, income demographics, car counts or traffic density, and spending habits. For example, in the throes of the Global Financial Crisis (GFC) in 2008, Starbucks planned to shutter 600 stores.[1] This was in response to a change in consumer spending patterns. Given the significant losses of personal wealth and rising financial insecurity and economic uncertainty, consumers cut back on the affordable luxury items Starbucks is famous for, like $5 Frappuccino's. In response, Starbuck closed stores equivalent to 8.5% of its US portfolio and unfortunately laid off 12,000 employees because customers were less willing to shop at their stores.[1] During these challenging times when consumers were especially price-conscious, thrift stores sales grew. Year over year same-store sales at Goodwill International, a thrift store operator with approximately 2,200 stores, rose 6% through the first half of 2008.[2] New development even occurred, with Goodwill opening more than 200 new stores in 2012 as the market was beginning to recover.[3]

Grocery stores are considered necessity-based retail because regardless of market conditions, fundamentally, people will always need to eat. As a result, grocery stores are one type of anchor found at shopping centers under the retail property type. Similar to all the real estate property types, retail has unique classifications for its different property types. Below are the definitions of the various retail property types as defined by the National Council of Real Estate Investment Fiduciaries (NCREIF):

- **Neighborhood Center**: Provides for the sale of daily living needs of the immediate area. Typical area is 30,000 to 150,000 square feet with at least one anchor tenant.[4]

- **Community Center**: In addition to convenience goods, provides for the sale of goods such as apparel or furniture. Typical area is 100,000 to 350,000 square feet with two or more anchor tenants.[4]

- **Regional Mall**: Provides a variety of goods comparable to those of a central business district in a small city, including general merchandise, apparel and home furnishings, as well as a variety of services and perhaps recreational facilities. Two or more full-line department stores anchor a total area of 400,000 to 800,000 square feet.[4]

- **Super-Regional Mall**: Provides an extensive variety of shopping goods comparable to those of the central business district of a major metropolitan area. The anchors are three or more full-line department stores, with total area in excess of 800,000 square feet.[4]

- **Fashion/Specialty Center**: Typically 80,000 to 250,000 square feet with no dominant anchors, consisting of higher-end fashion oriented tenants.[4]

- **Power Center**: Typically 250,000 to 600,000 square feet with three or more anchors stores which occupy 75-90% of the total area. Anchor stores are "category-dominant" home improvement stores, discount department stores, warehouse clubs and off-price stores.[4]

These definitions are meant to helpfully provide general parameters for the various retail property types and not meant to be taken as hard and fast definitions. Similarly, one investor may consider a market to be a core market while another investor may view it as a core-plus city. It is also important to define what constitutes an off market transaction. In this paper, the definition of an off market includes sales that are transacted either directly between a seller and a buyer without the use of a broker, and also includes deals in which a broker was used to facilitate the transaction but only one prospective buyer was contacted. Quietly marketed deals often include brokers and prior to these transactions closing, only a limited number of investors were notified that the property was for sale. In other words, the property was not widely marketed to hundreds of investors but only a selected pool. In these transactions, offering memorandums that investment sales teams typically create, are often not developed. Again, over the course of research for this thesis, it has become apparent that these terms are fluid and not hard-and-fast definitions.

The motivation for the research on this topic is driven by a desire to understand the acquisition process and enable individuals at firms to utilize best industry practices in order to successfully close deals that have not been broadly marketed. It is a topic that is intended to have immediate industry applicability upon completion. The research will consist of interviews with 11 real estate investment professionals including principals, managing directors, a president, vice presidents, directors, owners, brokers, asset managers, and acquisition and disposition leaders. These individuals work at firms ranging from Fortune 100 companies, public real estate investment trusts, global investment sales brokerage houses, entrepreneurial investors, and regional developers. They invest capital from pension funds, sovereign wealth funds, employer

equity, limited partners, publicly traded stocks, high net worth families, separate accounts, open-ended and co-mingled funds, and other institutional and non-institutional investors. The methodology behind the research is that interviewing active market participants and industry leaders about specific deals that have been sourced and closed off market will provide data and highlight successfully employed techniques that have proven to work in the industry. This is a more effective method to analyze up to date and current market conditions with just in time data. Contrarily, formal data sets and indices are backwards looking and rapidly become stale in today's dynamic market. Communicating with market participants via interviews about live deals and fresh, recently closed transactions allows for an accurate analysis of current market standings, techniques and procedures. Additionally, there are no formal data sets that break out off market transactions and distinguish them from traditionally marketed properties. This data on techniques and strategies will then be analyzed in order to highlight best practices across various deals and firms. The analysis aims to find commonality across disparate off market deals in order to help acquisition professionals close on grocery anchored properties more efficiently.

This is especially important in the real estate market because assets are heterogeneous. Each property is unique and each deal is unique. This is one of the distinguishing features of real estate compared to other investment vehicles like stocks and bonds, which are homogeneous. Fundamentally, one share of stock in a firm is the same as any other share of stock in the company. Another difference is that real estate is immobile. A share of a public company can be moved between an office in Boston and an office in New York, whereas a real estate asset physically cannot. The immobility of real estate contributes to the, "location, location, location" adage pertaining to real estate values. Finally, real estate operates in a more opaque market than public markets for stocks and bonds. Stock investors can track the market and their investments

each day and monitor these fluctuations to determine exactly how much money was won or lost. Real estate owners cannot do that because real estate transactions occur less frequently than the buying and selling of stocks and bonds.

Sole sourcing or acquiring grocery anchored properties that are marketed to only a few prospective buyers is favorable to general partners, who will oversee and run the property, because it increases their chances of acquiring the target. Furthermore, this is beneficial to their limited partners who have provided meaningful sources of capital in order to acquire the property.

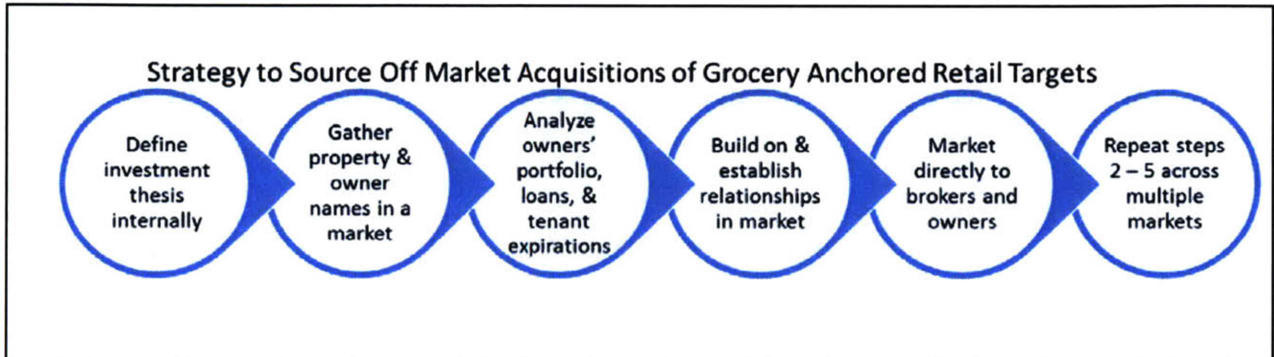
So, how can an acquisitions team successfully source off market or quietly marketed acquisitions of grocery-anchored retail commercial real estate? My hypothesis is that one can increase the likelihood of closing off market transactions with prospective sellers while not using brokers through a system that is replicable across various real estate property types by:

- Tracking outstanding commercial mortgage backed securities (CMBS) loans coming due in the next several years,
- Collecting data on current owners/borrowers,
- Attempting to understand the seller's wants and needs at the asset and portfolio levels,
- Creatively providing solutions to their circumstances, and,
- Effectively marketing to engage existing owners of grocery anchored retail real estate assets in US metro markets with favorable demographics.

In summary, based on the analysis of data gathered through interviewing market participants, there are various methods an acquisitions team can utilize in order to source off-market targets. There is not one universal strategy to employ because each property is unique and the circumstances surrounding the conditions of the transactions are unique. However, consistent

trends emerged that a team can utilize in order to improve their chances of sourcing acquisition deals off-market.

The framework can benefit the desires of a buyer and a seller and alleviate concerns faced by both buyers and sellers. It is a mix of quantitative and qualitative measures and should be viewed as an art, rather than a science.



Specifically, evaluating CMBS loan maturity and other data-driven advances to sole source deals are currently underutilized in the market. Currently, firms must first define an investment thesis internally. Next, the team should gather property and owner names of target markets and submarkets that fit the established investment criteria. Analyzing owners' portfolios, fund lives, and tenant expirations builds understanding behind events that trigger property sales. Furthermore examining CMBS loan maturities and outstanding property-level debt should be analyzed when targeting properties, but this strategy has not been as widely adopted as it will be in the future. Building and establishing relationships in the market will remain critical and marketing directly to brokers and owners is essential. This is believed to be a replicable strategy across markets to source off market deals of grocery anchored retail centers today.

In the future, data-driven acquisition targeting is expected to increase. Firms that adopt these strategies, in conjunction with proven methods utilized today, will be better positioned to source and close off market acquisition.

CHAPTER 2: LITERATURE REVIEW

Within retail, there are measurements to determine how well a tenant is performing relative to the rent they are legally obligated to pay to the landlord. The first step is to calculate the sales per square foot (PSF). One arrives at this calculation by measuring the total annual sales of a store divided by the square footage of the store. For example, say a retailer had total annual sales of $1,000,000 in a 10,000 square foot (SF) space. The total sales per square foot of this retailer would be calculated as: ($1,000,000 total sales) / (10,000 SF) = ($100 sales PSF). Top grocery chains as measured by sales will be discussed later in this section of the report.

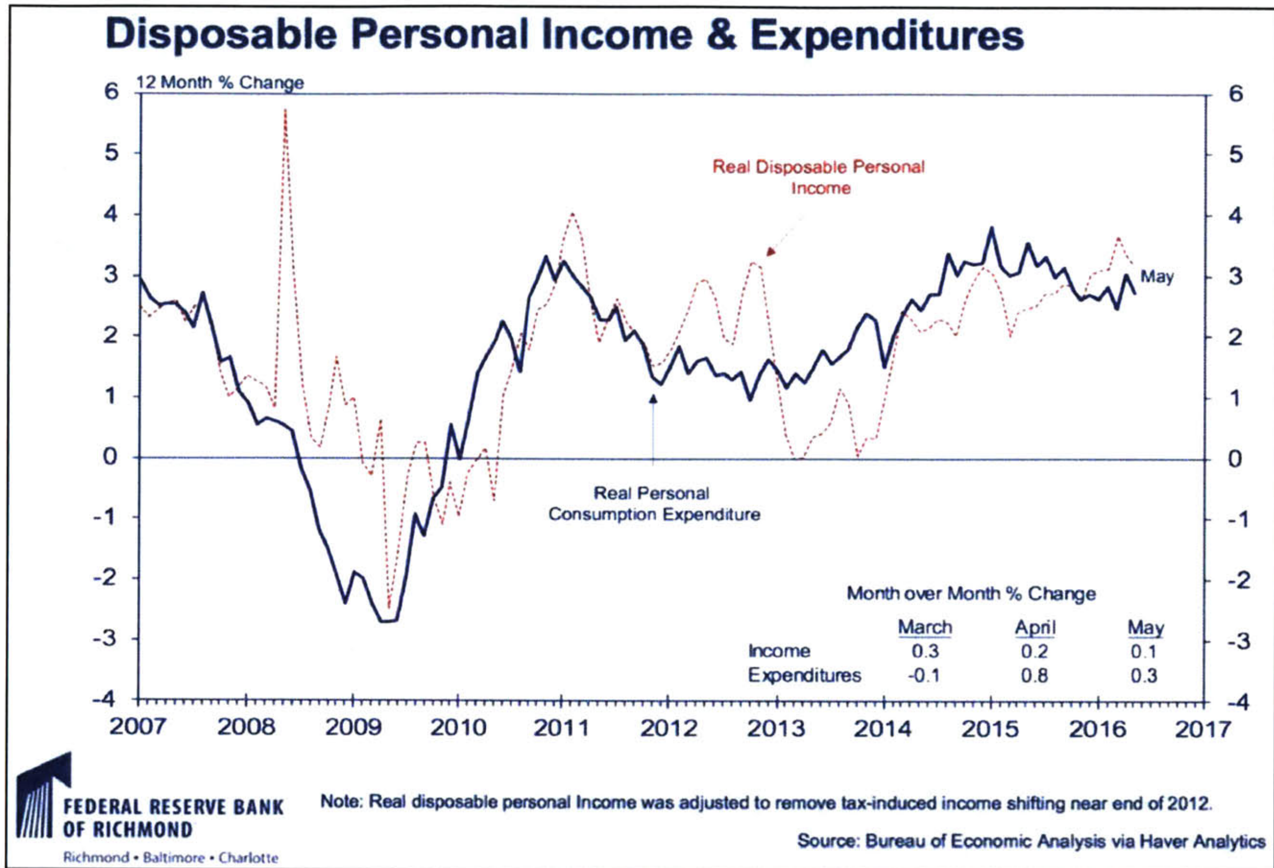
The next step is to compare the total sales PSF relative to the annual rental payment obligation. Continuing with the previous example, let us assume that the retailer tenant pays the landlord $10 PSF in gross annual rent. One can calculate the health ratio by taking the annual rent PSF ($10 PSF) divided by the annual sales PSF of the store ($100 PSF) to calculate a health ratio of the property as 10% because: ($10 rent PSF) / ($100 sales PSF) = (0.10 health ratio). A good health ratio depends on the type of retailer and its margins. For example, a strong grocery store will have a much lower health ratio (less than 5%) while a nail salon can be healthy at a much higher ratio (like 20%).[5] The health ratio is an indicator for a tenant's ability to pay their rent relative to the financial performance of their store and is a metric that retail owners monitor closely. Often the landlords are allowed to audit the financial statements of their tenants to derive this figure.

It is important to note that this example is an extremely simplified case to pedagogically explain performance metrics specific to retail properties. Often in real life, operating expenses associated with running and maintaining the entire shopping center, including: real estate taxes,

insurance, common area maintenance (CAM), and management are reimbursed to the landlord by the tenant in addition to a base rental rate. This is referred to as a triple net (NNN) lease on a pro-rata basis determined by the tenants square footage as a percentage of the overall net rentable area of the shopping center. Utility charges are often billed directly to the tenant for their specific use of the utilities.

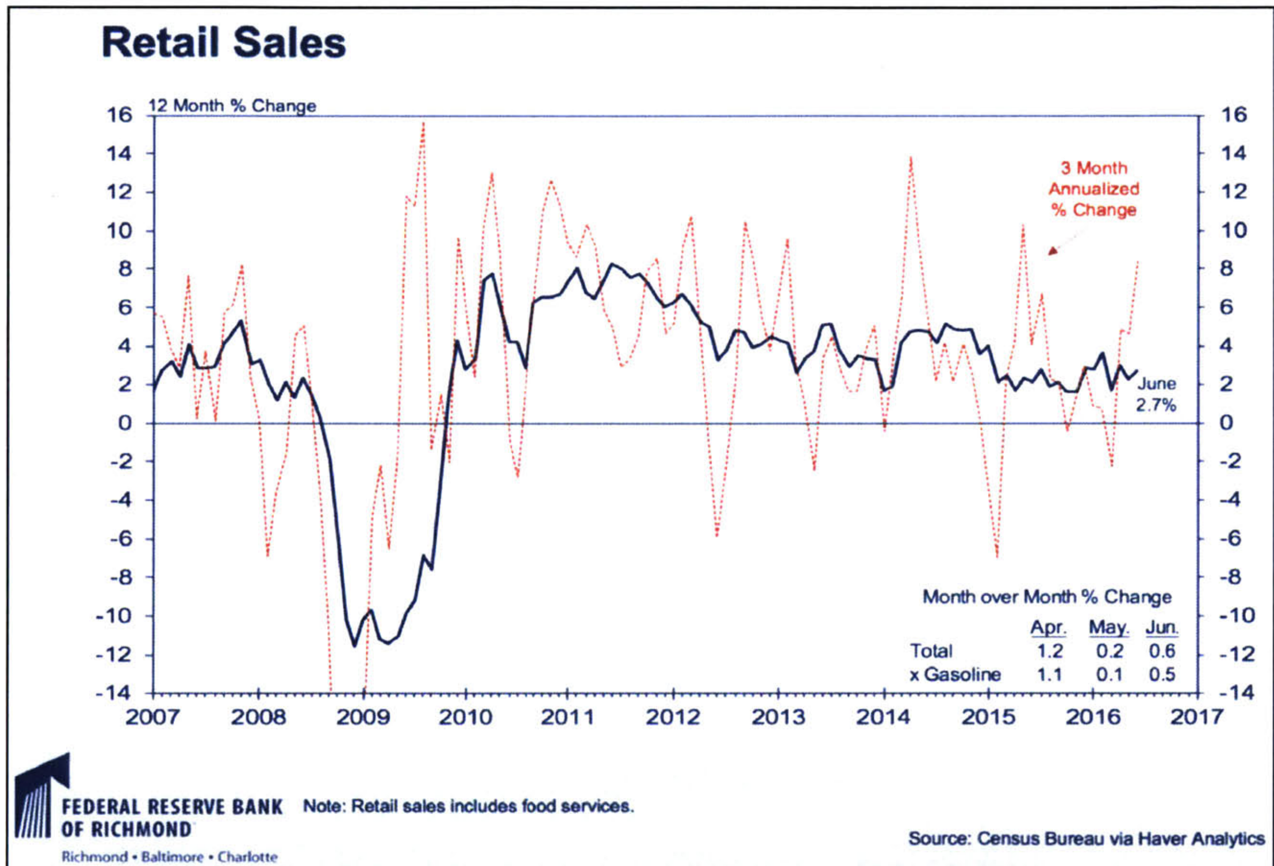
Another provision in leases that is unique to retail properties is percentage rent. "In a percentage lease, the rent is a specified percentage of the sales revenue or net income earned by the tenant in the rented space. Often, the rent will include both a fixed component referred to as the base rent ... plus a percentage component. Sometimes the percentage component only applies to revenue or profits above a specified threshold amount. Percentage rents are especially common in class A multitenant retail space, such as shopping malls (and especially for the "in-line" stores rather than the anchor tenants)."[6]

Historical data shows that expenditures are positively correlated to disposable personal income. This is important to the retail sector because expenditures occur in retail real estate. The table on the following page shows disposable personal income and personal expenditures across the United States from January 2007 through May 2016.[7]



The prior table shows that during the GFC, from January 2007 through approximately the first half of 2009, both disposable personal income and personal expenditures generally trended downward. Real personal consumption expenditure bottomed out in the data set just one month prior to the lowest real disposable personal income in the measured period. Both these lows occurred in the first half of 2009. Afterwards, both measurements trended upwards as the national, and global, economies slowly began recovering. The positive correlation between personal income and personal expenditures has a dramatic impact on the retail sector in particular because the expenditures measured in the table take place in the retail property types. As such, performance metrics based on sales are critical to determining the health of a retailer in a particular location.

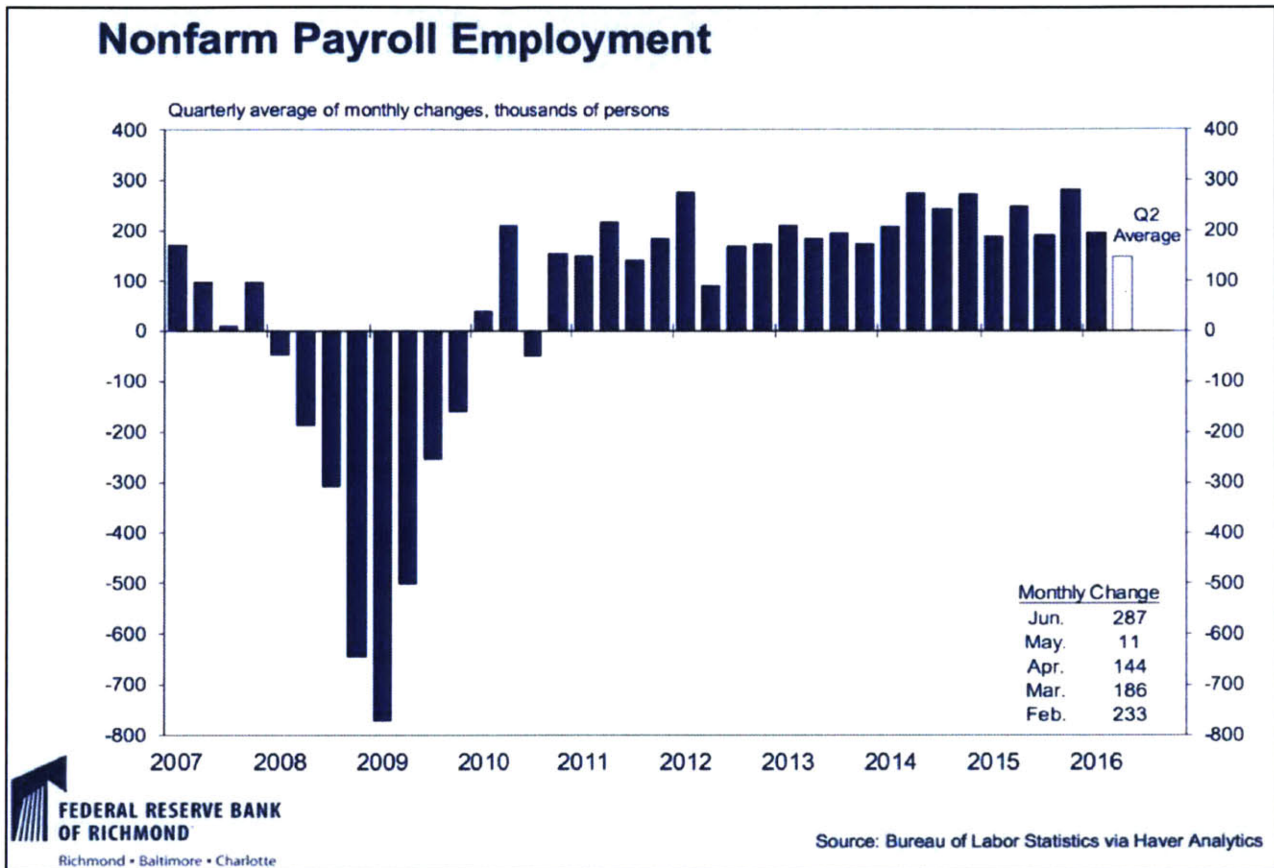
Another factor that impacts retail sales is changes in employment rates. This follows logically because if a large swath of individuals transition from employed to unemployed, their disposable income will decrease, thus spurring a slowdown in retail sales. The following table shows the year over year percentage change in monthly retail sales from January 2007 through June 2016.[8]



The solid blue line the graph above shows the 12 month percent change in retail sales. Not surprisingly, year over year retail sales dropped dramatically during the GFC and plummeted from mid-2008 through the first quarter of 2009. The dotted red line shows the three month annualized percent change had more dispersion and volatility than the 12 month percentage change. In June 2016, year over year retail sales grew 2.7%. Next, we will view a table about

percent changes in employment before analyzing both percent changes in retail sales and percent changes in employment.

The table below shows nonfarm payroll employment from Q1 2007 through Q2 2016.[9] Each bar is the quarterly average of the monthly changes, measuring thousands of people.

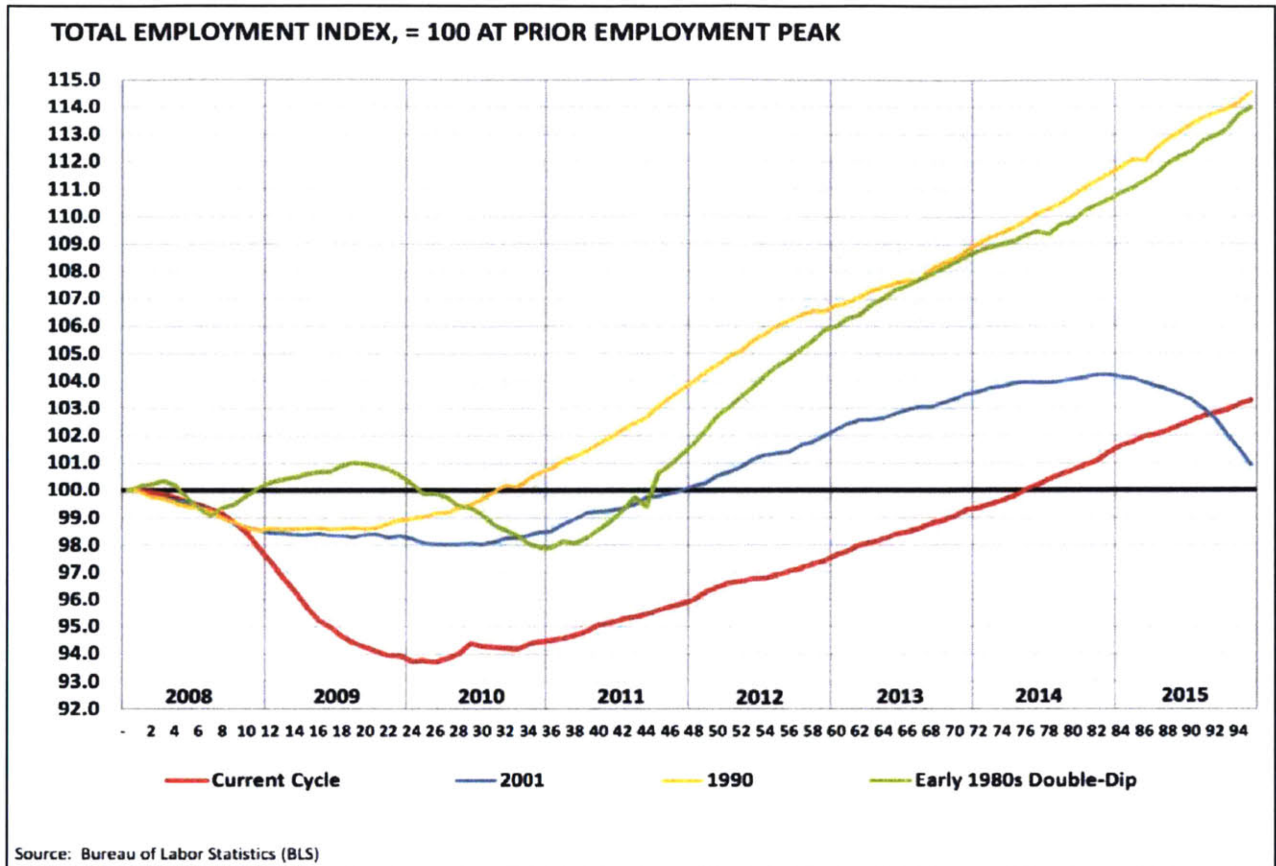


Consistent with the previous tables, Q1 2009 in the table above marked the greatest change in employment with more than 700,000 employees being cut from their firms. More recently, beginning in Q4 2010, all the quarterly average of monthly changes in nonfarm payroll employment have been positive through the Q2 2016 average. These recent macro trends bode well for the retail industry and furthermore for retail as a real estate property type.

When analyzing both the year over year percentage change in monthly retail sales from January 2007 through June 2016 and nonfarm payroll employment from Q1 2007 through Q2

2016 there is a correlation between the two measurements. As the economy has improved and employment has grown, so to have retail sale figures. It is important to not confuse correlation with causation, however it is apparent that both measurements have improved as the economy has recovered from the previous downturn. Rising employment and rising retail sales figures are beneficial for retailers because they point to improving economic fundamentals. With increased income spread across a largely employed population, the result is greater discretionary income available to be spent at retail centers.

Furthermore, this recovery is unique relative to historical cycles. The table on the next page measures the total employment index for the current cycle, along with the downturns in the early 1980s, 1990, and 2001.[10] On the Y-axis, 100 indicates the prior employment peak before each downturn. Normalizing these employment figures allows for an apples-to-apples comparison of the recoveries across the different periods spanning the previous 30+ years.

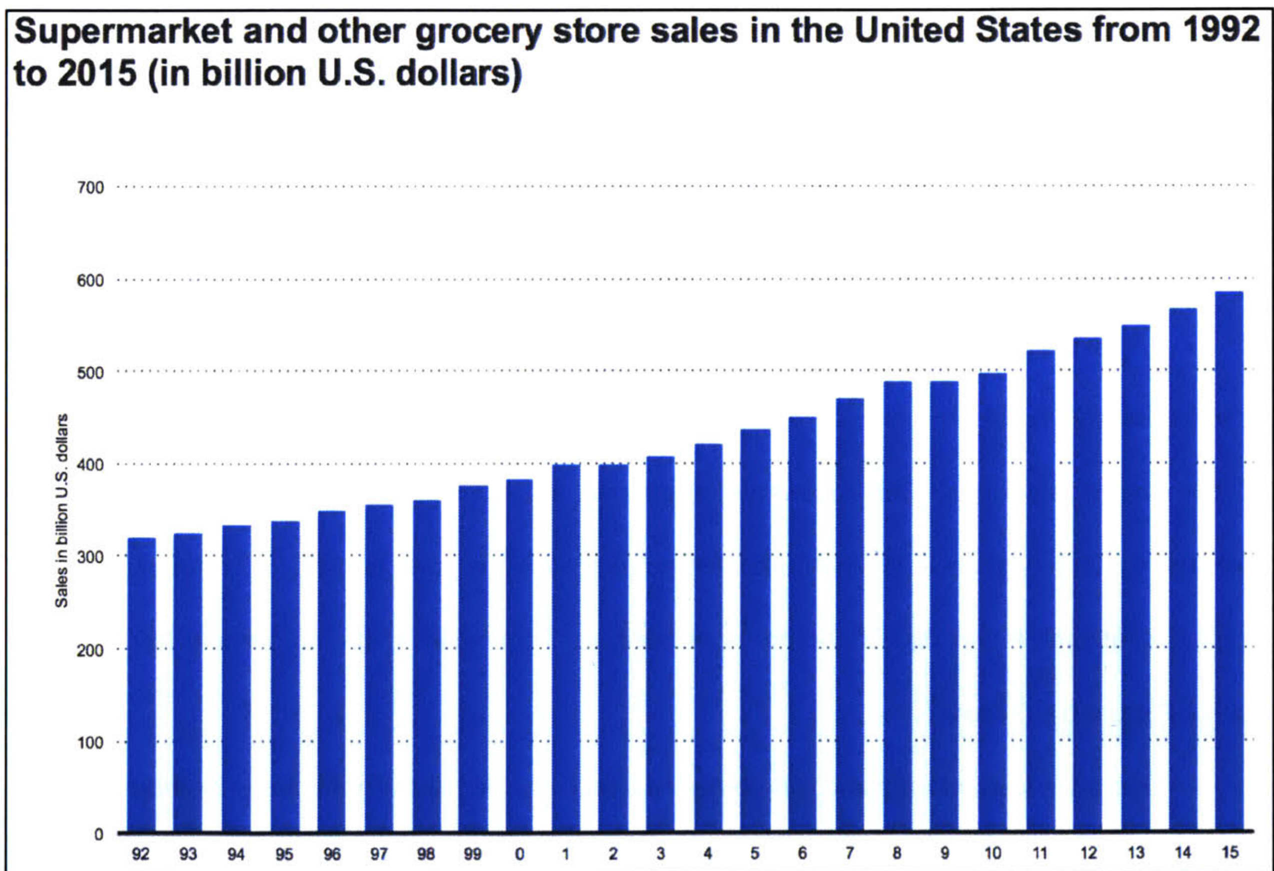


Comparing the recovery of the current cycle with the previous three market corrections, reveals that this recovery has experienced the longest continuous employment expansion out of all the measured periods. This points to strength and consistency of this recovery relative to those over the past thirty years. Clearly the lowest point seen in the current cycle indicates that employment sank lower than in the previous bubbles. This means that employment had the greatest ground to recover.

Overall, the economic and employment data described above indicate the rebound of the economy over the past six or seven years. Concurrent with these positive economic indicators, investors have increasingly turned to real estate as an investment vehicles in the wake of the GFC. This has been additionally spurred by low interest rates, liquidity in the capital markets and generally rising property values. With an increase in competition for a multitude of investors

chasing a single property, the ability to close an off market acquisition has become a greater challenge in recent years. However, the benefits of successfully closing such a deal are highly applauded by limited partners and other investors because it creates a more direct path between buyer and seller and the market perception is that a property acquired off market or in a quietly marketed campaign benefits from reduced competition. The next section of this chapter will review the history and current status of grocers and rising trends within the industry.

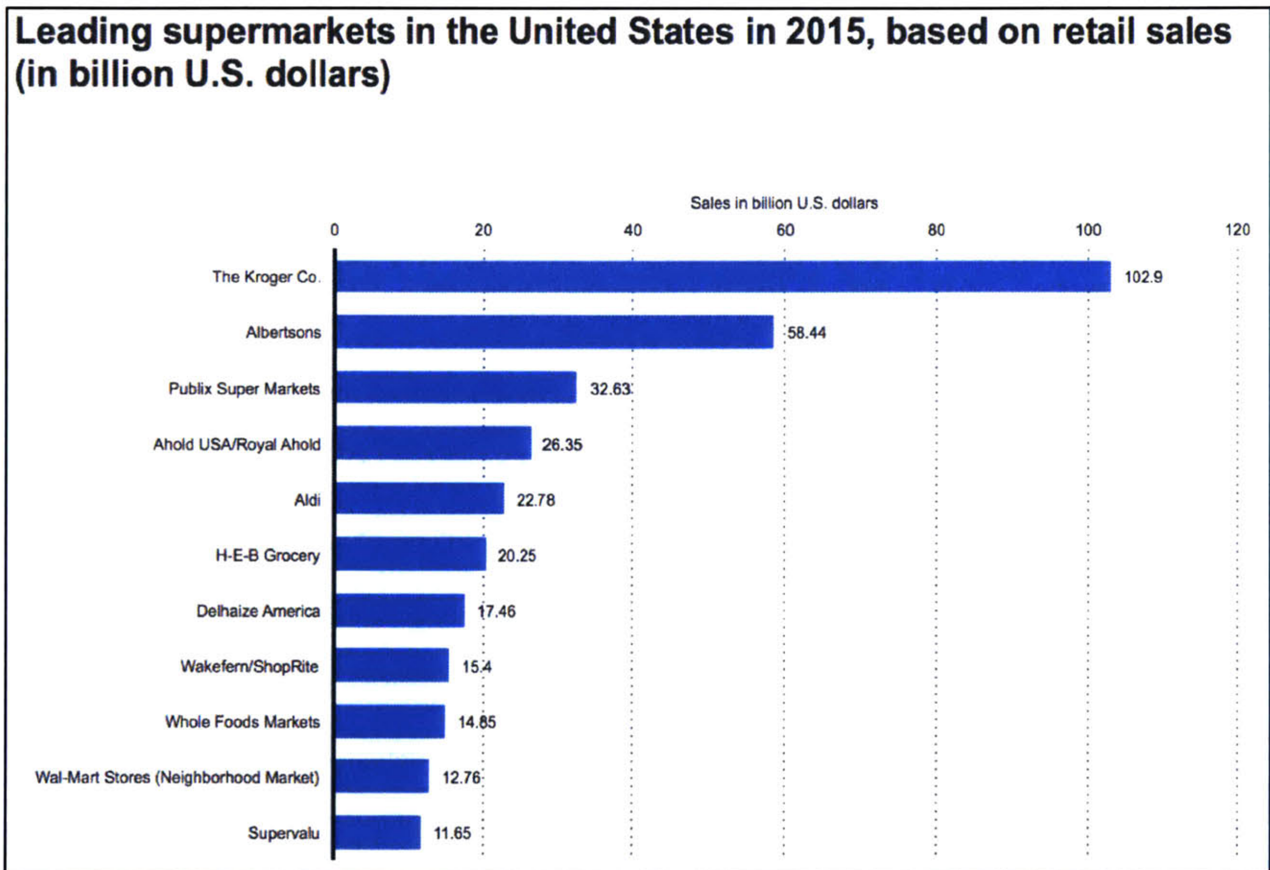
The following table shows supermarket and other grocery store sales, excluding convenience stores, in the United States from 1992 to 2015.[11]



In 2015, supermarket and grocery store sales totaled nearly $600 billion across the United States. This is up from just over $300 billion in 1992. This consistent rise points to the recession proof nature of necessity based retail. While the growth has been substantial over the previous 23

years, these figures are not adjusted for price changes, so the growth may be slightly overstated. Regardless, the historical performance of this sector has grown consistently in the measured time period and points to the strength of supermarket and grocers as tenants within retail properties. Now, we will examine some of the largest firms in the industry.

The following table shows the leading supermarkets in the United States based on 2015 retail sales.[12] The figures include online sales of the various retailers. Collectively, these 11 companies generated an astounding $335.5 billion in sales in the past year alone.



The Kroger Company led the group with $102.9 billion in sales, with Albertsons coming in second place at $58.44 billion in sales. The figure for Wal-Mart is significantly lower than actual sales at all of its stores in the United States because this table only accounts for the Neighborhood Market store concept rather than all the Wal-Mart stores where groceries are

available. Furthermore, additional discount retailers like Target and warehouse clubs like Costco are absent in the above table. This is because they are categorized differently in the data. However, they are significant players in the grocery retail space and credit-worthy tenants that many retail owners would love to have as anchors or shadow anchors.

One benefit of having nationally recognized retailers as tenants is that the building owner has existing business relationships with tenants that they want to open additional business relationships with. "If you have a relationship with a Petco rep in Florida, she can contact the Petco person who runs the Northeast, and the owner can replicate the Petco in other centers. It would be different if your tenant were a law firm in an office building. That business is specific to a certain market. The law firm is not going to follow you around nor need to open more offices. Retailers are different. They need to keep growing their top line revenue, and they need to open stores in different locations to achieve sales growth."[13]

The industry analysis above points to the benefits of focusing on grocery anchored retail as a property type in which to invest. There are many public and private real estate investment trusts (REITs) that focus on grocery anchored retail centers. In addition, there are numerous private equity firms focused on this segment. With all this competition amongst firms seeking to acquire grocery anchored shopping centers, one can gain a competitive advantage through sourcing off market acquisition targets. Next, the paper outlines potential changes to this property type.

Retail is a fascinating real estate property type to study because it is undergoing significant changes with the rise of e-commerce and the decline of the traditional shopping mall. "First quarter 2016 e-commerce sales were up 15.2 percent from year-ago levels, while total retail sales increased 2.2 percent during the same period. Although e-commerce sales in the first

quarter accounted for only 7.8 percent of total retail sales, many traditional retailers are facing difficulties dealing with online competition."[14]

The growth of e-commerce indicates that grocery stores will switch to an omni-channel approach to supplementing in store grocery sales with online delivery of their goods. As e-commerce sales increase, it is likely that in store purchases will decline. As such, the display component of the grocery store could decrease slightly, with a growth of space allocated to more of a back of house or warehouse space to deal with an increase in online orders. By serving customers both through their stores and via online ordering, retails that adopt this omni-channel approach will fare better than those that unsuccessfully adapt to the realities of the changing times as a result of online technology. The next chapter details the interviews with various market participants.

CHAPTER 3 - INTERVIEWS

Interview 1

This interviewee is a Managing Director for a Fortune 100 financial firm headquartered in New York City. The company provides banking services to secure real estate debt and invests directly into real estate assets for themselves and on behalf of pension funds and other investors. As part of a company policy, the name of the individual and the firm are withheld. Further in line with company policy, the phone interview was not recorded. Notes were taken and the interview conducted on July 15, 2016.

When asked about the desirability of off market sourcing for commercial real estate acquisitions, this person said, "Everyone is attracted to off market deals." He indicated the reason behind this mentality is due to the fact that off market acquisitions prevent a heated competitive bidding process amongst prospective buyers. It also provides a more direct path from the buyers to the sellers. This more direct path allows deals to happen more quickly before an offering memorandum is created by a brokerage team and the brokers widely advertise the upcoming sale of a given property. It can also reduce transaction costs which are typically borne by the seller.

He stressed the difference between a, "pure off market," deal and, "follow on deals." Pure off market acquisitions are, "pretty rare," and account for, "20% or less," of acquisitions that this person has been a part of. One way these deals can arise is if the buyer is an, "adjacent land owner." In a pure buy and sell deal, the seller and buyer may have never conducted business

before and a broker may or may not be involved. In these instances, sellers often, "care about the ability [of the buyer] to close."

He expressed that firms with strong reputations in the marketplace are more likely to source and secure an off market acquisition than unfamiliar or unproven companies. He stressed the importance a company must take to be, "careful of protecting reputation in the market." He felt that his colleague, the Managing Director of Acquisitions, is an expert at protecting the reputation of the firm and called her, "honest and credible."

When asked about the search criteria a seller would look for in an off market deal, he again stressed reputation and that, "we do what we say we will." This reputation can be reinforced by, "not re-trading at the last minute." Re-trading is essentially attempting to change the parameters of the purchase and sale agreement at or shortly before the closing. For example, at closing a buyer might exaggerate a claim about the deferred maintenance on the property and therefore ask the seller to take $1 million off the previously agreed upon sale price. The seller is so close to the finish line of getting the property sold and has not heard any mention of this deferred maintenance from the buyer previously. In this case, the seller recognizes the buyer trying to strong arm them at the last minute and needs to carefully weigh the options of trying to reopen the bidding process after having taken the property off market versus taking a previously unforeseen $1 million reduction in the sale price.

When asked for more detail, he explained that some buying firms come to the closing table knowing that the seller desires to close on the property, and therefore can be in a somewhat weakened position. Some acquisition teams and companies have a reputation for trying to take advantage of this relative position of power over the seller by asking for money back or a lower price than originally agreed upon based on trumped up or phony charges at the last moment. If

this happens repeatedly, a firm will quickly get a tainted reputation and be less likely to source off market deals.

Additionally, the seller wants to be sure that the buyer, "has capital." He explained that working for a large institutional firm that is a household name helps put sellers at ease leading up to the closing because they can be sure that the company he works for has resources to close deals. "We will close," and our proven track record of closing deals helps to put a seller at ease knowing we have the money behind our intention.

Even though transactions can be a onetime occurrence between two companies, he indicated that, "the quality of the counterparty matters." He stressed that a seller must ask its team, "Do we trust that they [the buyer] underwrote it correctly? Do we trust that they understand the market? Do we trust that they understand the physical asset? Do we trust that they are sophisticated?" These questions arise prior to every transaction and again the issue of reputation arises. If the seller is familiar with the buyer and respects their reputation, the acquisitions team will have a greater chance of closing the off market deal.

Another way to source off market acquisition targets is, "follow on deals." These are often, "relationship based deals" and occur more frequently than one-time acquisitions. In these deals, the parties have a shared interest in an existing development and both strive to conduct additional business in the future. These existing business channels make closing a deal off market easier because the parties are familiar with one another prior to the transaction.

This interviewee indicated that the acquisition process does not just involve buyers. He believes that in order for a deal to close successfully there must be, "advantages for both sides."

* * *

The analysis of this interview is intended to provide current market practices and just in time thinking on best practices to employ for sourcing off market acquisition targets. Sometimes there are unique circumstances that allow an off market deal to occur. Specifically, if the prospective buyer is an adjacent landowner, they would have a greater chance at sourcing an off market deal with their neighbor. However, there are more drivers that apply across a spectrum of deals in which an acquisitions team can close off market acquisitions. These drivers will be discussed below.

Indicators that a firm is able to source and close off market acquisition are driven by reputation. Does the firm have a reputation for having deep pockets? Does the firm have a track record of closing deals in the past? Did the firm try and change the parameters of a previously agreed upon deal at the 11th hour? A firm that has a reputation, earned through performance and execution, of successfully closing deals by bringing capital to the table, will be more likely to source off market acquisition targets because the seller will have increased confidence in their ability to close the deal. Adhering to previously agreed upon covenants and conditions of sale and not changing the rules at the 11th hour puts a firm in a position to close off market deals.

These practices can be achieved at the negotiation table and also through having team members be spokespeople and the face of the firm at public outings. Getting involved with trade associations like the International Council of Shopping Centers (ICSC) and non-profit research and education organizations like the Urban Land Institute (ULI) are ways that teams can get their name known. In addition, getting to know the brokerage community and explaining to them the company's investment thesis and the capital at their disposal can help get the firm recognized as a serious player seeking off market deals.

Interview 2

The next interviewee works for the same large financial institution as the previous interviewee and is the Managing Director of Acquisitions mentioned in that interview. The interview was conducted on July 19, 2016.

She explained that off market deals are, "defined differently," for different people and that, "truly off market deals are hard to come by." She brought up an example of a recently closed acquisition in 2015 of a, "small office building," in Boston that, "was not truly off market," but had a very limited buyer pool. The asset was a venture between an operator in Boston and a more removed limited partner.

Originally, the firm she represents, "wanted to do deals with the operator," of the office building and increase business avenues with this entity. "Two years ago, the operator wanted to sell," and her firm, "met the asking price." This was not a widely marketed deal and instead was, "driven by relationships." However, the limited partner at that time was not ready to sell the asset. Therefore, the deal got tabled and no transaction occurred.

"Next year, the limited partner wanted to sell." This limited partner in the ownership entity, "went to a local broker," who was friends with the interviewee. Through established relationships with brokers, she heard about the deal before many others in the market became aware of it. Having done analysis and due diligence on the property just one year prior, her firm was able to meet a shortened due diligence deadline which was beneficial to the selling party who wanted to dispose of the property quickly with a reliable party that was essentially certain to have the capital available for the purchase. Furthermore, her firm was able to meet the asking price of the seller. These factors resulted in the acquisition of the property and fortuitously

allowed her firm to increase business lines with the operating partner of the property that she had originally sought.

She stressed that off market and quietly marketed deals are frequently, "driven by relationships." One important facet for sellers in the off market and quietly marketed acquisitions she has executed is, "capital execution," by the buyer. This means, "having capital," is essential for the buyer. The, "depth and validity," of that capital is also a seller concern. Her firm has a large open ended core fund that assures sellers and brokers that there is capital available for the purchase. Working for a large firm allows her to have a national scope with local expertise. This creates synergies that a firm can build on in order to continue sourcing off market acquisition targets.

Furthermore, she stressed the, "ability to execute," can help a firm source off market deals. A firm with an, "excellent reputation," in the marketplace will help generate deal flow that other firms might not get exposure to. This reputation is earned through a, "proven," track record of closing deals and remaining consistent. She explained that in all of her acquisitions, "we say what we do, and do what we say." She explained that she would rather tell the seller up front that the due diligence period will take 20 days rather than telling the seller it will be completed in 10 days and then dragging the period out 10 more days. Being upfront and realistic is an important part of this process.

She stressed the importance of being, "respectful," to everyone in the industry. Specifically, it is important to remember that, "brokers are social beings," and enjoy socializing. Attending industry gatherings provides a chance for one to market the firm and helps to, "make sure people do not forget you." After attendance, one can continue, "putting yourself out there,"

by stepping into a leadership position with ULI, ICSC, or the National Association of Industrial and Office Properties (NAIOP), depending on the specific property type focus.

On the buyer side, it is important to, "get in front of groups you want to do business with." This helps potential sellers learn an active buyer's investment criteria. This, "front end targeting," of getting involved with real estate groups facilitates deal flow not just at the property level, but also one step above, at the organization level. This can open doors to off market transactions that help solve seller issues. Specifically, she spoke on the difference between an asset sale versus an entity sale. In an asset sale, the physical property is changing ownership via a deed on the property. In this instance, the buyer is, "not liable for liabilities," prior to the sale. For an entity sale, the LLC that owns the building is changing ownership but the deed on the property is still held by the same LLC. This presents a potential challenge for the new ownership because entity responsibility for liabilities, "extend prior to the acquisition." However, a seller may be more inclined to limit the marketing on the property if they already know a firm that might be willing to buy via an entity sale.

When asked about sourcing via reaching out to companies with a loan coming due on an asset, she said it is, "not a common avenue," that her firm pursues. She seemed to think that it would be a time consuming endeavor that would not produce substantive leads. Instead, she focuses on having a short diligence period and hitting the deadlines that she tells the seller she will hit. A firm can expedite a diligence period by, "spending money prior," to an asset formally being marketed. For insurance on the asset, she is sure to get a quote early. To forecast real estate expenses, her firm hires a third party to analyze the projected real estate tax increases over five or 10 years. These two steps do not require a seller's permission. However, a seller must sign an access agreement with the prospective buyer before a physical inspection of the property or an

environmental assessment can occur. Once those access agreements are signed, those two steps of the due diligence process can take place.

* * *

Based on this interview, it is clear that a pattern is beginning to emerge in order to successfully source off market acquisition targets. The concepts of relationships, reputation, reliability and creativity can help a firm differentiate themselves in order to get to deals. It is important to note that there is a gray area involved with these off market and quietly marketed transactions because the terms are not rigidly defined. As such, brokers can be involved with these transactions. Interacting with brokers and owners of the properties one aims to acquire and building brand awareness and recognition are key to get on the short list before a property is brought to market.

Once market participants understand the investment criteria of a firm, the execution of the firm's reputation can occur. Specifically, a company has an opportunity to gain a reputation for reliability and clarity throughout the due diligence and closing process when facing that opportunity. An acquisition team seems better served to present the seller with a realistic time frame up front, rather than suggesting a shortened due diligence period and then dragging their heels across the finish line. Finally, the availability and depth of capital is another component that can help differentiate a prospective buyer aiming to source off market acquisition targets.

Interview 3

The interviewee is the Director of Finance – Acquisitions and Dispositions for a public REIT focused on retail, listed on the New York Stock Exchange, and headquartered in the Midwest. The interview was conducted on July 19, 2016.

He explained that sourcing off market acquisition targets is the, "preferred method industry-wide." The rationale behind the desire to source off market acquisitions is that it creates, "cost savings, less competition, and expedites transaction timing." However, there is, "no standard way," to source these deals. "Most [off market deals] are coming through business relationships," and sometimes they are, "sourced through brokers." Often the broker has a relationship with the owner and his firm maintains, "various relationships," with both brokers and owners.

Working for a, "larger company with access to capital is a significant advantage." As a public REIT there is, "no need to source debt," at the individual asset level because there is liquidity available through the public markets. Instead they carry a low level of corporate level debt. Since 2011, this individual has invested $800 million without securing debt on a property. In that same time frame, he, "assumed debt on two properties," by purchasing the properties. Both deals were done off market and the sellers had securitized loans. In these instances, lender approval was required prior to the transfer of the deed. He explained that a firm with, "a sizeable balance sheet helps lenders approve," of the transfer more easily.

He stressed the importance of the reputation of the firm and the individuals working within the firm to close deals. "Performance is everything." When asked about methods to build and maintain this reputation, he explained that he aims to be, "known as a closer." To achieve

this, one must be, “open and honest” throughout the process and, “not a re-trader.” It is also important to get the company name out to brokers and owners. “Our relations know we prefer off market deals.” And once an off market or quietly marketed deal is brought to the team, it is important to, “try and reward those that bring you deals.”

He explained that his firm does not source deals via CMBS loan notes coming due. In this low interest rate environment, he felt that refinancing properties is not a significant hurdle for existing owners of grocery anchored shopping centers. This technique of sourcing via loan maturity was popular in 2008 through 2010 when property values had decreased significantly. Firms were unable to refinance at that time because sometimes the outstanding debt was higher than the property value. One technique he uses is to examine whether an asset fits in the investment profile of prospective sellers. If the property seems misaligned with the investment thesis of the current owner, there is a chance to acquire the property off market by directly approaching the owner.

When asked about the potential benefits to a seller of disposing of a property off market, he indicated that the broker is paid by the seller. Directly marketing a property to a limited pool of buyers and bypassing real estate brokers can, “save hundreds of thousands of dollars.” It is important to consider the buyer pool for the specific asset. If the buyer pool is deep, and there are many firms that would be interested in acquiring the property, then typically it makes sense to hire a broker with the goal of garnering a competitive bidding process. However, if the buyer pool is shallow and there are not many firms that would be interested in the property, then it becomes less necessary to hire a broker.

Furthermore, off market deals can lead to a more rapid closing, which generally benefits the seller. “Time kills deals,” and typically the buyer wants additional time leading up to the

close while the seller wants less time before closing. This ties back to the benefits of not putting debt on off market acquisitions because a 25 to 30 day closing period may not be enough time to secure a loan. "The top return is not always through broadly marketed deals," because, "it hurts [the seller] to market a property twice." A property can be broadly marketed and then taken off the market after the bidding process. If the deal does not actually close, and the seller has to place the property on the market again, the seller could potentially have to accept a lower purchase price based on a change in market conditions or stigma related to the re-marketing of the same property in such a short time. Often times prospective buyers have also moved on.

Buying firms can take steps to expedite the closing process. Specifically, due diligence can be outsourced and then compared with internal underwriting. "We use a lot of service providers," during the due diligence period. Firms like Real Diligence and Lease Probe, respectively provide services for financial underwriting and creating lease abstracts. Internally managing assets and leasing them provides his firm knowledge and allows them to more rapidly understanding expenses at the target property.

* * *

Based on this interview, there appears to be potential to source off market acquisition targets via CMBS loans set to expire in the coming years when a price correction occurs. There are also contingencies associated with this potential. A down market with limited liquidity can create distress for an owner with a large loan coming due. A prospective buyer can help alleviate this seller issue by acquiring the property to allow the seller to pay off the balance of the note. In this scenario, high interest rates and a challenging refinancing market further exacerbate the situation from a seller's perspective. The fact that this strategy was successfully implemented in the downturn points to its viability, even in a low interest rate environment. However, current

market conditions are different. Specifically, it is not challenging for an owner to refinance on an existing shopping center in today's market, according to the interviewee. This means that sourcing deals via CMBS loans might not work in today's lending environment but may work down the road as market conditions change.

Running parallel due diligence with third-party providers on a target property can expedite closing time. Firms that employ this technique are poised to benefit from earning a reputation for being able to close. This also benefits the buyer because it helps prevent a critical detail from slipping through the cracks during the due diligence process leading up to a P&S agreement. Also, having to market a property twice hurts the seller.

Acquisition teams must think like sellers and extrapolate the depth of the buyer pool for a given asset. If the team is interested in acquiring the property and determines the buyer pool to be shallow, than directly contacting the owner can lead to sourcing an off market acquisition. It is important to also determine whether the asset actually aligns with the investment thesis of the current owner. If the property might be out of synch with the portfolio, directly contacting the owner has the potential to result in an off market acquisition.

This interview again brought up common themes in the search for off market grocery-anchored retail acquisition targets. Reputation and relationships were mentioned as key drivers for sourcing. Performance, execution and reliability during the entire purchasing process garners a firm credibility in the marketplace which allows for the increase in sourcing off market opportunities.

Interview 4

This interviewee is a Managing Principal in a northeastern US city for a global commercial real estate brokerage firm. The interview was conducted on July 10, 2016. He was skeptical of off market sourcing for grocery anchored retail centers.

According to the interviewee, approximately 95% to 99% of commercial transactions are marketed through brokers. Off market acquisitions arise as a result of, “atypical situations,” like coordinating a purchase and sale agreement directly with an abutting landowner. Sometimes, sales of quietly marketed properties arise from a seller’s desire to, “not go through the publicity of having a property talked about in the marketplace.” He mentioned another instance could involve a, “reluctant seller.”

In regards to the buyers, he explained they will get excited at a quietly marketed deal because, “competing with only three to five firms increases their likelihood of winning.” No firm jumped out at him for their ability to close off market or quietly marketed deals. When the market is hot and there is a lot of capital chasing deals, he saw no reason not to market a property through traditional brokerage methods. He also stressed it would be a waste of energy for an acquisitions team to try and engage owners in the same capacity as brokers do, with the hopes of acquiring a property off market.

His brokers are constantly in contact with real estate owners, who have an unquenchable thirst for information about the market. Specifically, his firm is trying to develop relationships with real estate owners, to educate them on the status of the market and educate owners of his firm’s qualifications.

* * *

This interview was aimed to discover if and how a prospective seller could emulate the services provided by a broker with the goal of disintermediation and securing an off market acquisition. Based on the information provided in the interview, there are challenges with this approach for an acquisitions team. Specifically, no firm was considered to have a track record of sourcing off market or even quietly marketed deals. Additionally, based on the experience of the interviewee, off market and quietly marketed deals only account from approximately 1% to 5% of the total sales volume. As a broker, it is not surprising that he had a strong inclination for the benefits of using brokers to facilitate and widely market deals.

However, this interview pointed to the similarities between the current owners of real estate and the aspiring owners of more real estate. The owners of real estate were described as having an, "unquenchable thirst," for market information. The same is true for acquisition teams. Specifically, owners strive to know market trends for leasing rates, tenant improvement allowances, commission, occupancy levels, and transaction figures. Acquisition teams searching for an off market deal are searching for information about current owners and potential reasons they would sell their properties, in addition to all the information that owners are striving to figure out. What this indicates is the general trend across the industry of the desire for data in a traditionally non-data oriented field. Since off market deals do not benefit his business or his firm, he seems strongly disinclined to point a seller in that direction.

Interview 5

This interviewee is a Vice Chairman in the Boston office of a commercial real estate brokerage firm. The interview was conducted on July 18, 2016.

"A broker's job is typically to make as wide a market as possible," for the sale of a commercial real estate asset. However, there are instances when it makes sense to bring a deal to only one or two parties. This can happen with large class A trophy assets in core markets with a price tag north of $500 million. Locally, these transactions are only occurring in Boston and Cambridge and are not occurring in the suburban markets. Furthermore, a buyer may be willing to pay slightly more than the property is worth in order to secure the deal off market.

For more normal size transactions (under $125 million) in the Greater Boston area, a prospective buyer is best served to, "use shoe leather," by building relationships with owners. Entrepreneurial firms are able to bypass the traditional marketing periods by having lots and lots of direct relationships in the market place and striking a deal, "principal to principal," with sellers. Sellers that are more likely to move quicker are those charged with being, "as entrepreneurial as they can be," like Blackstone. These firms aim to be nimble and strive for speed and efficiency over process. Whereas, pension fund advisors like UBS might be less likely to dispose of a property with a quiet marketing campaign to a select group of buyers.

The acquisition teams that are able to source these off market deals through relationships also must be willing to spend money up front before they are guaranteed to secure the property. Firms that spend money to conduct due diligence prior to formally agreeing to terms are at a competitive advantage. They are able to close with a shorter due diligence period because they

laid out capital before deal terms were formalized. This can be advantageous to some sellers as the closing time can be compressed and there is a higher confidence that the buyer will close.

Current market conditions make sourcing off market acquisitions challenging. Asset prices are being helped by the low interest rate environment. Furthermore, in current market conditions, practically, "everyone can refinance unless the property is underwater." The strength of the market in Boston and Cambridge is encouraging owners to broadly market their properties for sale rather than focus on an exclusive subset. He estimated that no more than 10% of deals are being done with quiet marketing or off market. Therefore, he was not familiar with firms that have had repeated and extensive success in sourcing off market deals.

He felt that trying to source grocery anchored retail assets via CMBS loans coming due is a, "good tactic." It depends highly on the terms of the loan and on the detail of whether or not there is a prepayment penalty associated with the loan. Often six months prior to a loan coming due would be the best time to approach a potential seller in order to help alleviate the payment coming due at the end of the loan term.

There are also creative ways that a prospective buyer can address the needs of a seller aiming to avoid substantial capital gains taxes on the sale of a property. Specifically, a buyer can keep the seller in the deal by reducing their equity stake to a small percentage, and paying for a majority stake in the asset. Another creative tactic can be utilized by public REITs. Trading UPREIT shares occurs when a real estate investment trust exchanges shares of their REIT for ownership of an asset. After the trading of UPREIT shares, the seller can sell the shares for cash or continue to hold stock in the company that just purchased the asset. A third strategy is to conduct a 1031 exchange. This allows the seller to defer capital gains taxes if they reinvest in a like-kind property within a certain number of days of the sale of the original asset. He explained

that this can be tricky and that, "nine out of 10 commercial real estate owners know about 1031s."

*   *   *

Consistent trends are emerging across the interviews with various market participants. Sourcing off market deals is a goal of many acquisition teams. Proven practices to successfully source these deals include building and maintaining extensive business relationships. With the competitive market investors now face, a firm should be willing to spend resources on due diligence prior to knowing whether or not they have exclusive access to the deal. Finally, addressing the needs of the seller is an important concept.

With an asset price correction expected by some in the coming two years, buyers may begin to have more success through a data-driven approach coupled with a relation-based approach. Using data and how one gains access to deal flow may be the wave of the future as well as the reliable way explained by the interviewees to date. Specifically, alleviating a seller's issue of capital gains taxes from transactions can make a buyer more likely to source an off market deal.

Interview 6

This interviewee is the Owner and Founder of a nimble entrepreneurial firm focused on value-add investment opportunities. He has purchased multiple properties off market directly from sellers and also purchased property with a limited buyer pool where the property was not marketed as widely as it possibly could have been. The interview occurred on July 19, 2016.

He began by discussing the shades of gray with the terms: off market and quietly marketed. "There is virtually no deal today that does not include an intermediary of some kind, whether it be a broker or an attorney." This is driven by sellers of real estate seeking counsel to ensure they are getting value and consultation on the price even if they are experienced real estate business professionals. He then began speaking about the off market deals he had been a part of.

There was a, "For Sale or Lease," sign outside a commercial property in suburban Boston. The interviewee knew the listing broker well and approached him prior the creation of an investment offering package. Through previous work experience, the interviewee's co-manager knew the seller. The seller was an individual with outside investors who had owned the property for approximately 25 years. He was motivated to sell based on his age and in order to clean up his business affairs. They called the seller directly and were able to close on the property in 2010 before a formal investment package was created and the deal was formally marketed. They considered keeping the seller in the partnership without voting rights in order to prevent the seller having to incur substantial capital gains taxes while allowing the seller to monetize his gain. However, the transaction size prevented the costs of this strategy from making

sense for both the buyer and the seller. He believed the seller ultimately participated in a 1031 exchange to help defer taxes resulting from the sale of the asset.

The second property was the neighboring vacant building to the previously discussed acquisition. It was owned by a public company that again the interviewee's co-manager knew. There was not a broker used on this deal, to the best of his recollection. The seller had purchased the property as part of a 10 or 20 property portfolio and there were two properties that did not really fit with their investment model. This asset was one of the two that made sense for the owner to sell based on their investment thesis. This confirms that sole source can work when a particular property does not fit in the seller's portfolio.

The third adjacent property was again owned by a party familiar to the interviewee's team. The seller was motivated because a fund was winding down and they were interested in closing with a familiar party. In that deal, a broker was utilized because they felt the seller was more amenable to negotiating through a third party and to help price the asset. Once one owns the first two properties, that party becomes a logical player for an off market transaction for the third, adjacent property.

Another deal that he purchased without significant marketing materials was owned by a foreign entity with a local asset manager. The owner was very removed from the property and the intermediaries wanted to get a deal done quickly. The seller was an individual who likely sold to increase personal liquidity. The asset manager reached out to a broker stating what he thought the property was worth. The broker called the interviewee who hit the asking price. He believed he was the only person called on that deal. In this transaction, he believed that the firm closed the acquisition in a time consistent with market standards. Expedited due diligence periods are a way to differentiate a firm when the property is more widely marketed, in his

opinion. He is in the process of closing a widely marketed deal with an expedited due diligence period and feels that help differentiate his firm from the competitors.

Shifting to brokers, they are motivated by the path of least resistance. They ask themselves, "Who do I know who will close on this property with the minimal effort required on my part?" His firm focuses on a niche property type and brokers know that certain properties would fit their investment criteria better than another firm. In this niche property type in the Boston market there are often five or six firms that likely would make sense as buyers. Whereas a broker might be leaving more on the table by not broadly marketing a more conventional office space or multifamily property because the buyer pools for those assets are deeper than his property type.

The closing process then becomes reputational. By this, he meant, "You do what you say you will do," which brokers pay attention to. His firm works to keep their reputation strong in the marketplace. When purchasing a building his firm does not believe the physical property is absolutely perfect and there is nothing wrong with it. They are willing and able to take on some deferred maintenance in order to stick to the original terms rather than trying to nickel and dime the seller during due diligence and closing. There some firms with a reputation of doing what they say they will do and there are others with a reputation for habitually trying to renegotiating the price down from what was originally agreed upon.

He has also been the seller in quietly marketed recapitalization deals. Recently, his firm had a broker create an offering memorandum for a property that was formally marketed. A firm that his company had previously done business with, called the interviewee directly and essentially said, "You should have called us directly because this is just the asset we are looking for. We are the buyers that make the most sense." The interviewee explained what conditions

this buyer would need to meet in order to close the deal. The buyer agreed and the property was formally taken off the market. This recapitalization is an example of a relationship-based transaction between familiar parties. The interviewee wants to keep doing business with the buyer and the buyer agreed to a price higher than what brokers had quoted him and as high as he felt they could get. Relationships with real estate owners, such as this deal, are generally built up over a long period of time and continuing relationship are important in this industry.

One important challenge for sellers with not broadly marketing a property is the question of, "What if?" A seller can never completely know if they would have been able to get a higher price via a broadly marketed sale if they opt for an off market or selectively marketed deal. This is a critical component of sourcing off market deals. Firms working together that want to continue in future endeavors may not look to squeeze every nickel out of a sale if they are selling for a profit and the partner is asking for a sale. Maintaining open lines of business in the long run is a factor that can contribute to an asset being potentially available for sale.

With regard to sourcing off market opportunities via CMBS data, his firm is not as a size where that is efficient for them to pursue that avenue. Instead, they aim to purchase adjacent properties to properties that they already own.

In building broker relationships, he cited multiple components to help garner support for sourcing off market acquisitions. One must first visit offices and spread the word about one's firm and explain the investment criteria and investment thesis to brokers. This process is ongoing and it is important to keep reminding brokers what property types you are interested in and that you have capital to invest. The second step, is execution and performing when there is an opportunity in front of you. Brokers see how one behaves and can get a sense for how one conducts business during the closing process. It is also important to pay brokers quickly and not

haggle them about their fee. In addition, his firm conducts a golf outing with 20 brokers each summer. Creating a fun and enjoyable atmosphere helps brokers keep his firm in mind. Finally, as a result of having built a portfolio, he is now in a position to help brokers with their jobs. He can help brokers who are vying to list a property with his thought process on how to position the asset and how he would view the property for investment. Other owners and investors might blow off those requests but he strives to help brokers with their jobs even if it is an unrelated matter. He believes this approach generally pays off because it is something they will remember.

In terms of acquisitions, the interviewee is of the mindset that there are no good deals out there and generally everyone is paying market prices for assets. For example, he does not feel like there are firms that are getting better deals than others. However, when he tells his investors that he successfully closed an off market acquisition they are always happy. Institutional firms and high net worth individuals love to hear that a property was not widely marketed. He joked that, "you could pay three times what it is worth and if you tell investors that you found the deal off market, they would love it."

In this regard, he views the value of successfully sourcing off market deals as much a benefit to gaining future investors and limited partners, as it is to actually receiving the asset at a discount. This is true especially in light of the frothy market conditions that exist today where investors have capital to get out the door but have been unable to close deals because the investor pools are so deep. There are also deals that he has closed that have been widely marketed in which different market information was passed along and different prospective buyers knew different things. "This is not the New York stock exchange." Therefore, he was able to close deals as if they had been off market based on knowing information of which others were not aware.

*   *   *

From this interview, it is clear that savvy property owners can successfully close off market acquisitions for abutting properties. It is important for acquisition teams to consider not just the current deal but also future deals. Generosity with brokers and helping others solve their problems can help to differentiate a firm because people have long memories. At the end of the day, real estate is a people business. Therefore, ensuring that the stakeholders are happy can facilitate future business avenues. In addition, acquisition teams can benefit from informational inconsistencies in the marketplace.

Interview 7

This interviewee is a Vice President with a commercial real estate development firm based in Boston and the interview was conducted on July 15, 2016.

He explained that sourcing off market deals is easier for development projects than for existing buildings because a landowner has less to market because it is up to the developer to create value. Whereas, the owner of an existing building usually has cash flow and will want to go to market because there is more transparency.

He was involved in 2011 with the purchase of an off market property in West Cambridge near Alewife Station that was rented by a small company that had recently been acquired by a major defense contractor. His firm was developing a multifamily building across the street and directly approached the owner of the target property. His firm was familiar with the owner of the property. It was a complicated deal because there were approximately five years left on the lease with the tenant and the landlord had options to cancel the lease. He put the property under contract and during that time was able to rework the lease before closing. This was beneficial to the tenant because they did not like how the landlord had the option to kick them out of the building on short notice. The property was valued on a cap rate and cash flow basis because the in place rental stream was higher than the value of the land alone.

He believed there were various factors that impacted why the deal was done off market. First, if the deal had been more straightforward, with a 10 or 15 year lease in place with more conventional terms, it would have been easier for the owner to go to market to sell. However, given the complexity of the lease and the desire for his firm to acquire the site, it made sense to keep the buyer pool small. Secondly, in 2011 there was less capital chasing deals than there is

today. So market timing and liquidity conditions also played a role in the ease of going off market. Thirdly, the CEO of his firm knew the CEO of the seller's firm so it was an exchange between two familiar parties. Finally, he believes the firm got lucky in regards to timing because the seller was amenable to selling.

His development oriented firm was intrigued with the property because it was a hybrid. Long term, there was potential to redevelop the site but it had the advantage of cash flow already in place. The in place income helps secure financing for the property. It also helps because the buyer can receive cash while working with the city to obtain permits for redevelopment, if they ultimately choose this path. Landowners typically do not want to wait 12 months for the buyer to obtain permits before closing on the deal. In this instance, five years after the purchase, his firm discussed with the tenant about working with them to turn the site into a redevelopment project as a build-to-suit. However, his firm ultimately decided to sell the property rather than redeveloping.

Another off market acquisition he closed was a redevelopment site. It was six acres in Newton, MA, improved with a single tenant retail gym use on a long term lease. They bought it for a price based on a cap rate of the in place income. However, they determined the highest and best use in the long run was redevelopment for multifamily. They worked with the tenant to amend the lease and are currently working to get building permits to change the use. If that plan fails, they will be able to sell the asset on a cash flow basis. This deal was sourced via cold calling the owners.

A third acquisition was a development deal purchased from a hospital in Brighton, MA. It was quietly marketed to approximately five firms. The seller had to get the site off their books before the end of the year based on financial reasons. Although his firm was not the high bidder,

they were able to meet the time constraints necessary for the seller with a sale leaseback. It took convincing the seller that their firm was the best able to execute this process.

He is currently working on the acquisition of an owner occupied property that has been run by a family business for approximately 30 years. The seller will need to conduct a sale leaseback to give them time to find a new location for their business. As the interviewee's firm seeks building permits, they will sign a six month lease with the current property owner. In order to close the deal, the seller needed to believe in the landlord abilities of the buying entity while they secure permits for redevelopment. This deal was sourced by figuring out the existing owner and explaining to the seller about how much money the land is worth once it is correctly zoned for the redevelopment. There have already been approximately six meetings between the buyer and seller, who did not know the value of the land they owned. For every one deal that his firm closes on, there are 99 times when the deal does not occur for a multitude of different reasons.

* * *

He believes the strategy to approaching sellers varies deal to deal. Working with brokers can help lead to off market or quietly marketed deals. Targets with, "a bit of hair on them," are easier to source off market because it requires more creativity on behalf of the broker. These deals might also have a narrower buyer pool than a property that is leased up at market rents with long remaining terms. For this matter, it is important to speak with brokers that are not necessarily the top brokers in the market, because they tend to list properties that are more challenging to market. "The top broker in the market is going to sell trophy assets and does not want to roll up their sleeves and do a messy deal." The smaller brokerage shops are more likely to get more challenging properties to market which can be bought either off market or in quietly marketed sales.

Selling off market can be an advantage to a seller in terms of expedited timing. A sophisticated owner may know approximately what their property is worth. If they can agree to terms with a buyer quickly, they can shave off several months that it takes to involve a brokerage company formally marketing the asset. Furthermore, an off market buyer is more likely to hit the agreed upon price because they have not artificially inflated the figure to win a competitive bidding process. On market deals can then become a slightly higher risk because once the parties are pregnant with a deal, the buyer can try to alter the price after the property has been taken off market.

Interview 8

This interview was conducted on July 27, 2016 with the President of a retail REIT listed on the New York Stock Exchange.

He explained that real estate is a very cyclical business and, "when the market is as frothy as it is today ... you have to get lucky to get [a deal] off market." His favorite method for the REIT to acquire new properties is off market, followed by quietly marketed deals. This is because the odds of winning the bid are improved with a shallower buyer pool. He estimated the odds of submitting a winning bid improve from approximately less than 5% to between 80% and 90%. He then explained the company's investment philosophy.

REITs are, "all about NAV," (net asset value). He strives to grow net operating income at 3% annually. However, the leasing structures for retail assets, especially the longer term leases, range from 1% annual growth to 2.5% annual growth, when normalized across the lease term of approximately 10 to 15 years. In order to grow Net Operating Income (NOI) at 3% annually, "we do crazy deals." Specifically, they buy old, broken down properties that are 40 to 60 years old in markets with high barriers to entry and that have below market rents. His firm is able to wait for the growth if leases get renewed back to market rates at the end of their terms. The REIT benefits from the, "luxury of redevelopment," which allows for growth in the interim until rental rates increase at their properties.

He oversaw the acquisition of three off market New England retail centers in 2011, "when times were difficult." The purchase price for the portfolio was $80 million. He believed they were able to close this deal because they have deep pockets and did not need to secure financing.

Networking by grabbing coffee with owners or taking them to breakfast, lunch, or out for drinks is critical for an acquisitions team to inform the market about their investment strategy and explain, "what we do and why we do it." He works to, "buy old stuff and wait," to renew leases at market rates. From September 2009 through November 2011, the company purchased $2 billion of retail real estate. "We were the biggest buyer at our space in that time," and sourced 90% of their deals off market. Since November 2012, the firm has disposed of $1.5 billion in real estate. Thereafter, "we have done a[n acquisition] deal or two each year," and have grown to a $4 billion platform.

The company successfully sourced three transactions with outstanding debt but not from using CMBS data. Instead, they made a mezzanine loan which helped improve an owner's liquidity. In addition, they bought two properties with outstanding debt in California. Overall, he believes they spent a lot of time mining CMBS but were unsuccessful in sourcing off market acquisition targets in the manner.

The key to off market deals is, "pounding pavement," and meeting with owners, investors and fund managers. The acquisitions team should be out in the field meeting with market participants, rather than sitting behind their desks all day. It is, "all about mining relationships," including leveraging brokers to get to deals. He does not mind having brokers involved if he can get quietly marketed deals. He also explained that, "people who sell off market know what they are doing." He elaborated on this point with his belief that off market deals do not necessarily garner lower prices and that there even when you buy off market, you might not actually be getting a better price, but rather little (or no) competition to acquire the property.

* * *

This interview reiterated the importance of market timing, deployable capital, and business partnerships. He also echoed UPREITS as a way to defer capital gains tax for the seller. One new topic raised over the course of this interview that is important to sourcing off market acquisitions is the issue of luck. His firm was active in the downturn and his success in sourcing and closing off market acquisition targets begat more success with off market targeting. Given that each property is unique and each seller has a unique reason for selling the asset, there is an element of luck with the timing of the buyer seeking to acquire properties and the seller looking to offload real estate.

Interview 9

This interview took place on July 27, 2016 with a Director of Acquisitions for a New York Stock Exchange listed retail REIT headquartered on the east coast of the US.

This investor explained that his firm focuses on lifestyle centers and mixed use projects with large retail components in core US markets. Most retail properties in the dense, affluent areas he invests in have recovered in price since the downturn due to cap rate compression and rising rents. That, coupled with the abundance of capital chasing deals, has made off market deals harder to come by recently, relative to years past.

He described knowledge as the first step in successfully sourcing off market acquisition targets. Specifically, he suggested identifying and examining markets and submarkets in which a firm is interested in investing. Thereafter, a team should determine who owns the property and determine if those owners have funds with finite lives. The second step, after knowledge, is relationships. "A lot of the business is networking," and one must be active in the marketplace to get as much information as possible. It is better to use brokers to facilitate a warm introduction than to cold call the owner. However, the latter strategy can work also. Persistence is critical to build these relationships. It is important to go out for coffee, dinner, drinks, and to play golf with owners and brokers. He believes that company-wide, "we have great broker contacts," and that it takes time to build these relationships. Attending ICSC events is important and landing one off market transaction can have a domino effect to securing more deals off market. He is not afraid to spend money on due diligence before being sure that he has won a bid in a quietly marketed property. However he tries to keep that dollar figure as small as possible. The firm conducts due diligence in house and then hires consultants to cross-check.

He also noted it is a great time to sell assets with cap rates reaching sub 4% for desirable assets in core markets. High street trophy retail are trading for cap rates below 2% in gateway cities. Furthermore, investors are flush with capital to place and many of them have the ability to perform. The investor pool for assets that fit the REIT's investment profile is shallow so everyone typically gets a look at a deal and often it comes down to the criteria of fit. He did not provide many details about specific off market transactions in his investment past.

* * *

Since his firm is less opportunistic, they do not use CMBS loan maturities coming due as a method to source off market deals. He does know that some firms utilize this approach. He also suggested an interesting strategy to approach sellers and source off market deals by keeping a schedule of tenant lease expirations. Each year acquisition teams scour hundred and sometimes thousands of widely marketed properties for sale. They typically get full and accurate rent rolls. A team could compile a database of all the properties they analyze and determine when major anchor and junior anchor tenants have the opportunity to roll to market. Over time, this database would become substantially large. A firm could then begin introducing themselves to owners as they are likely trying to renew a significant tenant. If that tenant decided not to renew, an opportunistic acquisition team might have success in directly contacting the owner, after having built up a relationship, and potentially be able to source a deal with previous broker information. Some investors view tenants rolling as a worry while others view this occurrence as an opportunity to remerchandise the tenant mix and bring rental rates up to market.

Interview 10

This interviewee is a Senior Vice President of National Acquisitions for a New York Stock Exchange listed shopping center REIT headquartered on the east coast. The interview was conducted on July 28, 2016.

He candidly spoke about how the Global Financial Crisis resulted in a tightening of the investment thesis for the REIT which has resulted in a more selective acquisition approach. In order to source off market acquisition targets, a team must first identify a target market or markets. Afterwards, a team should catalogue the market inventory to determine who owns what where. His firm focuses on gateway 24 hour centers and second tier cities with sound fundamentals like Raleigh, North Carolina. Currently, there are less than 20 markets approved for investment at the company.

He originally uses a software that overlays geocodes with the highest correlation of density and income to develop a hotspot of which areas are best to invest in for a given market. Once the hotspots have been determined, one should catalogue grocery anchored properties and their owners in the targeted submarket. Then, a team should execute a game plan by calling and setting up meetings with the existing owners of these assets and with brokers. It is helpful to distribute marketing materials so the owners can be reminded of the firm's presence and understand its investment criteria. Specifically, tax deferral techniques like UPREITs can be attractive for sellers. Finally, there are a greater number of assets across secondary and tertiary markets in the US, so there could be more opportunities to source off market deals in these cities than in the institutional gateway cities.

In the current investment environment, grocery anchored retail properties are selling for more than brokers are telling the sellers that they believe is a market price. Cap rates have compressed in many markets, retail rents have increased and interest rates have remained near historic lows. Generally speaking, these conditions make a public auction the best avenue for a seller to get the highest price for its asset. This generally leads to more efficiency and transparency in the marketplace. Alternatively, he felt that if one buys a grocery anchored retail property off market, then it might cost slightly more than market rate. However, it allows the transaction to occur more quietly than if the property were broadly marketed.

In order to be relevant, a firm along with its acquisitions department must be active in the marketplace by talking with brokers and meeting with owners. They must be accustomed to a lot of, "no's," before an opportunity arrives. He stressed that there are times, "when deals shake loose ... [and] it is important to be at the forefront of people's minds." Once again, integrity is essential. As a firm, we should do what we say and always be in the market in order to stay relevant. Next he spoke about dispositions.

He has sold properties off market to firms that had bought his company's shopping centers previously. Calling up a friendly business associate and telling them that this is the first phone call one made, or that they are on a short list with two other companies psychologically will make that prospective buyer feel good, even if they do not acquire the property. They will likely remember the gesture and it could pay dividends down the road. Building on the psychology of a deal, an advantage to buying off market is that it conforms to people's desires that, "nobody wants to feel like they're getting played and nobody wants other people to know their business."

During the GFC he had access to TREPP data and tried to utilize it to source off market deals. He described the process as, "the biggest waste of time." He is not worried about the maturities coming due in 2016 and 2017 because many of the bondholders extended maturity dates and it is extremely difficult for bondholders to foreclose.

* * *

The psychology of a deal is an important consideration that was raised during this discussion. Furthermore, this interviewee thought companies should not be jacks of all trades. Once a firm becomes honed in and focused, it can become a sharp shooter. He believes aggregators are on a treadmill and ultimately end in train wrecks due to lack of focus.

Interview 11

This is the final interviewee and he is a Vice President of East Coast Acquisitions with a New York Stock Exchange listed retail REIT headquartered on the east coast of the US. The interview took place on July 29, 2016.

His strategy for sourcing off market deals is to proactively call owners every six months after having built up relationships over years. His firm recently bought the majority stake in a shopping center off market without a broker from an owner that had owned the property for multiple decades. They transferred REIT shares in exchange for the majority share of ownership in the property.

* * *

He has used databases to analyze loan maturities as a means to source off market targets but this method has not led to a deal for his firm that he knows of. Nevertheless, he refers to it as, "a good technique." He feels a bigger concern for sellers than loan maturities are capital gains taxes. This is because many lenders extended maturities in the most recent downturn. Based on his market participation, properties with 10 year CMBS loans coming due today are generally performing fine. There is not that much distressed real estate remaining in the strongest markets. This is especially true for his investment profile which includes high quality assets in top tier markets where there has been notable cap rate compression. Speaking with boutique brokerage firms that focus on specific submarkets is a way to try and source off market deals. However, he is seeing brokers market deals widely given investor demand for quality grocery anchored retail shopping centers.

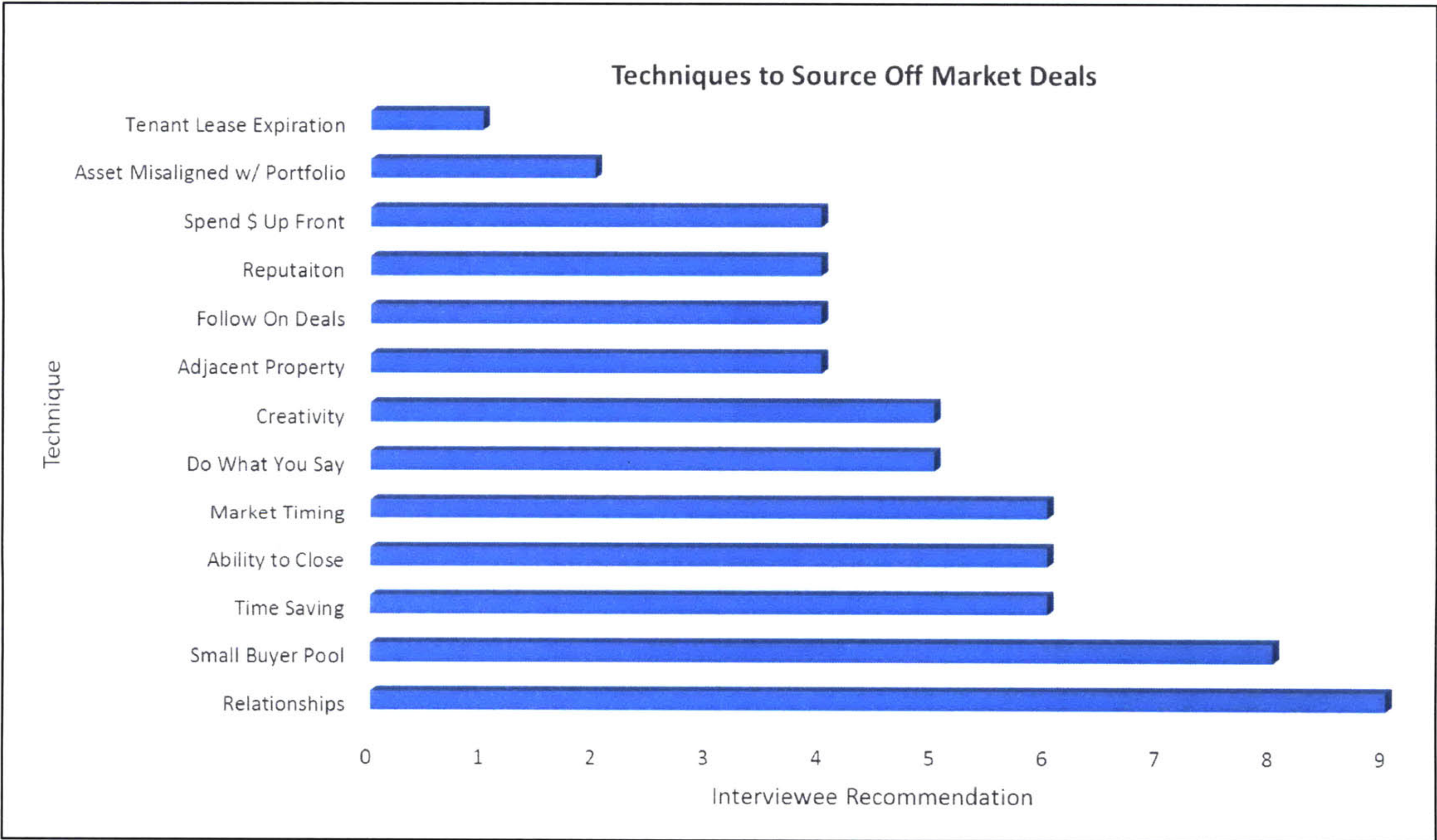
CONCLUSION

So, how can an acquisitions team successfully source off market or quietly marketed grocery anchored retail commercial real estate? As stated in the Introduction of this report, my hypothesis is that one can increase the likelihood of closing off market transactions with prospective sellers while not using brokers through a system that is replicable across various real estate property types by:

- Tracking outstanding commercial mortgage backed securities (CMBS) loans coming due in the next several years,
- Collecting data on current owners/borrowers,
- Attempting to understand the seller's wants and needs at the asset and portfolio levels,
- Providing solutions to their circumstances, and,
- Effectively marketing to engage existing owners of grocery anchored retail real estate assets in US metro markets with favorable demographics

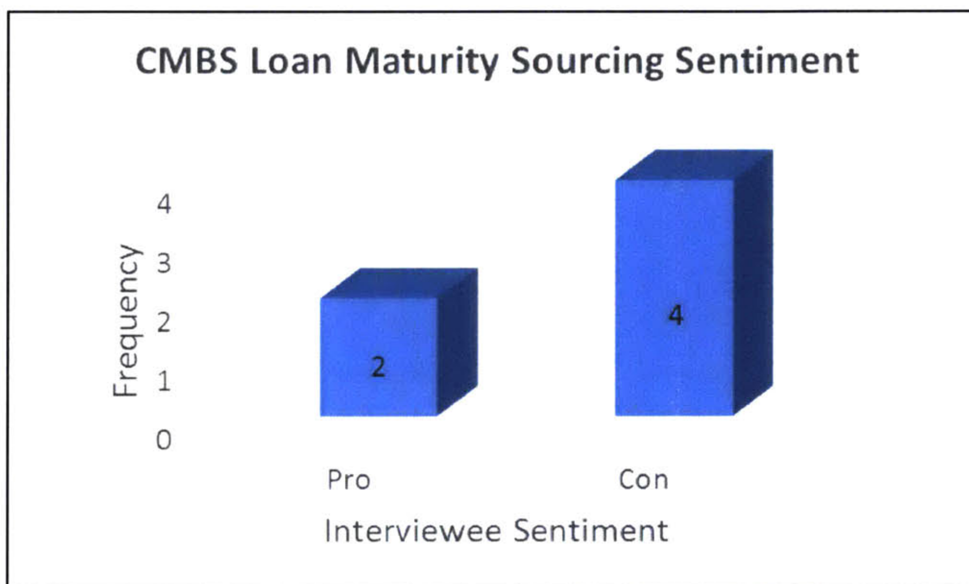
Based on the research, it appears that the hypothesis is partially correct. However, the interviews with 11 prominent and active real estate investment professionals shed a great deal of light on the opacity of off market transactions and from their feedback, a more refined approach to sourcing off market acquisitions is supported by the data. Specifically, there are factual issues that can be quantified and qualitative issues that affect deals and pertain to buyers and sellers.

Over the course of the interviews, there are various approaches taken by the interviewees to source off market deals. The table on the following page highlights various techniques and the number of interviews in which the topics were discussed.

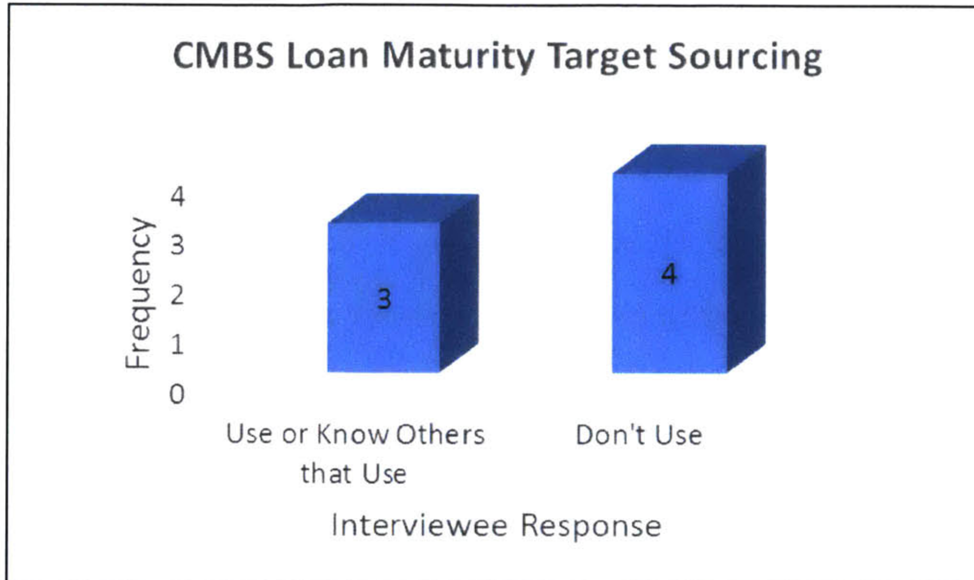

Techniques to Source Off Market Deals
Tenant Lease Expiration
Asset Misaligned w/ Portfolio
Spend $ Up Front
Reputaiton
Follow On Deals
Adjacent Property
Creativity
Do What You Say
Market Timing
Ability to Close
Time Saving
Small Buyer Pool
Relationships
Technique
0
1
2
3
4
5
6
7
8
9
Interviewee Recommendation

Quantitatively, relationships and sourcing deals from a shallow buyer pool were the most frequently discussed techniques to source off market deals. Even some of the less frequently discussed techniques, like monitoring anchor lease expirations and considering assets that are misaligned with the portfolio of the seller are creative ways that an acquisitions team can source off market deals.

With regard to CMBS loan maturity as an avenue to source off market deals, four interviewees felt it was not a worthwhile endeavor and two interviewees described it as a good tactic to source deals. The chart below reflects the findings across the interviews in this thesis.

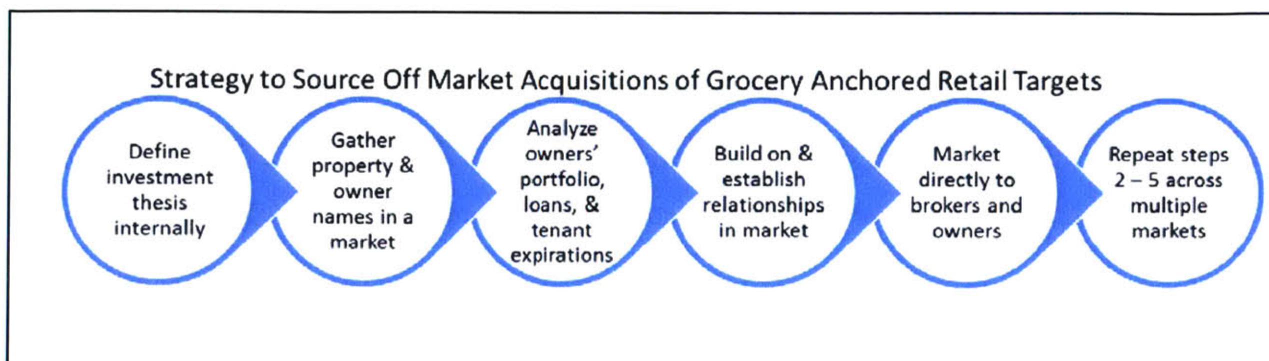


Furthermore, four interviewees explicitly stated that they do not use this technique and three interviewees had experience utilizing this technique or had familiarity with firms that did source deals through this avenue. The chart on the following page indicates the breakdown of interviewees that have used CMBS to track and try to source off market deals, including knowledge of other firms using this technique, and the firms that explicitly do not use this strategy to source off market deals.



Based on the data gathered in conjunction with this thesis, it appears that sourcing off market acquisitions via CMBS loan maturities is an underutilized technique in the market today. Currently, monitoring CMBS loans is not a primary driver in sourcing deals. However, data driven investment and targeting is expected to increase in the future given the growing availability of data in this sector and the rise of technology oriented third party firms specializing in aggregating and providing beneficial data for real estate investment professionals.

While there is no single strategy to pursue to source off market acquisition targets in the grocery anchored retail space, there is a framework that can benefit the desires of a buyer and a seller and alleviate concerns faced by both buyers and sellers. It is a mix of quantitative and qualitative measures and should be viewed as an art, rather than a science.



The first step an acquisition team must take is to internally define the investment thesis and criteria. One investment parameter is the markets. Will they focus on the top 20 Metropolitan Statistical Areas (MSA's) in the US? Are they targeting the market in which they are headquartered? Once this is defined, then the team can define population and income thresholds any target property must meet. Finally, it is important for the team to determine which anchors they want to acquire. Once the investment thesis is internally defined, quantitative analysis on properties and owners can be gathered.

Software tools exist that allow a firm to overlay geocodes with the highest correlation of density and average household income. These will help the investment team determine which submarkets, within the market, are worth targeting. Once the parameters have been set in accordance with the investment criteria established in the investment thesis, a firm can use resources such as CoStar to provide the names, addresses, leasing agents and ownership LLC's that own the assets the firm wishes to target. Using public records can help pierce the LLC's to determine the true owners of the properties. Alternatively, one can hire consultants or use Internet based solutions like Reonomy.com to pierce the LLC ownership entities and gather contact information including the name and phone number of the true owner of the properties. This will allow the team to continue to work on evaluating the existing deal pipeline.

The third step a firm should take is to gather as much additional information on the target assets as possible. Resources include previous marketing materials for the asset and determining the other properties that the owner possesses. Access to previous marketing materials may be possible for established buyers with a long past and diligent record keeping. These firms often receive marketing materials for hundreds or thousands of properties listed for sale each year.

From this older data, the firm might be able to determine tenant lease expirations that would make an owner consider a sale within the market or submarket.

In addition, examining the portfolio of the owner will allow the acquisition team to determine whether or not the individual asset fits into the investment thesis of the current owner. If it does not exactly fit, there is potential for a buyer to directly approach an owner about selling the property off market. Knowing an asset is part of a fund with a finite life will allow the acquisition team to gauge if a sale is likely in the short term or when a sale is likely to occur further in the future.

During this stage, one should aim to determine if a property has existing debt and extrapolate as much information about the status of the debt as possible. Trepp.com is a resource that compiles data about CMBS loans and includes property level details. Typically, CMBS loans have a maturity date of 10 years. After this period, the outstanding loan balance becomes due which can require the owner to inject capital to service the debt at the end of the term. The interviews in this report indicated mixed reviews about utilizing this strategy to source deals. However, the area seems primed for an innovative company to streamline some of the energy that firms currently must expend to use this as a way of sourcing deals. As an example, Credifi.com supplies commercial real estate financial data, across millions of assets on a property level basis. This resource is designed to facilitate loan originations, however it could be used to target specific grocery anchored retail assets with loans coming due in the short term.

Armed with as much information about all the assets within the market and submarkets that an acquisitions team is interested in, the firm should then foster existing relationships with familiar brokers and owners. Reminding these entities of the firm's desire to source off market or quietly marketed deals and explaining which specific asset the firm is interested in will help

clarify the investment thesis to known market participants. It can also lead to unexpected deal flow, if they know of or own another property that might fight the investment criteria of the team. Since this is an arena where success begets success, a firm would be wise to highlight recent acquisitions in this market or similar markets. Broadcasting this information will help keep the firm in the mind of brokers and owners and build a reputation of the firm being closers. While it is unlikely that the firm owns an adjacent parcel to one of the target shopping centers, this avenue should also be pursued in terms of acquiring assets off market because it is a proven strategy for success. In addition to maintaining relationships, a firm should work on building new contacts in the industry.

Establishing new relationships with brokers and owners is also a key to this process. Disseminating marketing materials will allow the acquisition team to become a known entity within the market. Helping brokers and owners with their professional challenges is a great way to build goodwill in the market and source off market deals. This is an ongoing process and contact must be continued at least once every six months. Since owners are always thirsty for market knowledge, providing pertinent information about overall market conditions, recent transactions, recently executed leases and vacancy rates can help owners better determine how their property compares to the market.

Once these avenues have been pursued within one market, the acquisition team should begin steps two through five again in another market in which they are interested. Casting a wide net across multiple markets and multiple properties that still fit the parameters in the investment thesis will allow the firm to successfully source off market deals. Choosing a market where a firm has recently closed a deal would be a wise strategy to pursue. In this market, the firm should

already understand the regional conditions. They can also begin to show a track record and build a reputation of getting deals done in an honest and efficient manner.

* * *

In addition to all the above strategies that a firm can employ to source off market acquisitions of grocery anchored retail properties, it is also important to consider external factors that are beyond the control of the acquisition team. Real estate is a cyclical industry and market timing and availability of capital are important considerations for an acquisitions team searching for off market deals of grocery anchored retail assets. There are times in the market, like today, where there is significant capital chasing acquisition targets. The buyer pool is deep because firms are trying to put money to work and there are many investors chasing a limited number of deals. In downturns, liquidity and capital becomes more constrained and often the buyer pool shrinks. Generally, it is easier during these later periods to source off market deals because there are fewer firms willing or able to purchase new assets.

Given the recent cap rate compression, the investor pool can shrink for trophy assets on high street retail in gateway cities. In this instance, the property might be so expensive that only a handful of firms can afford to purchase the asset. Thus, there are fewer investors competing for a property that is widely marketed. These conditions can effectively result in a buyer pool comparable to that of a quietly marketed deal simply because very few firms can afford the price of the asset.

The commercial real estate market today is dynamic. There are emerging technologies that will make sourcing off market deals easier. Specifically, websites like Ten-X.com, which recently acquired Auction.com, is an online platform for the sale of commercial real estate assets. Tools on this website allow owners to market their properties in a simplified fashion and

could lead to broker disintermediation. In addition to the industry implications of this thesis, it is also important to consider the academic implications and next research steps.

The aim of this thesis was to establish a framework in which one could systematically source off market deals. To further this academic pursuit, one could implement the strategies suggested in this report and gauge the success in accomplishing the goal of sourcing off market acquisitions. It would also be interesting to determine whether strategies differ across property types. Finally, one could also try and compile a database of off or quietly marketed deals and analyze trends across that selected data.

Real estate is comprised of physical assets and has long been a relationship oriented business between individuals. In the past, data has been scarce and asymmetrical within the industry. In the near-term future, the firms that implement data driven decision making, while continue to foster relationships in the community, will be best poised to source off market acquisitions of grocery anchored retail assets.

BIBLIOGRAPHY

1. De La Merced, Michael J. "Starbucks Announces It Will Close 600 Stores." *The New York Times* 2 July 2008: n. pag. *The New York Times*. The New York Times, 01 July 2008. Web. 14 July 2016.

2. Rosenbloom, Stephanie. "Thrift Shops Thriving, but Running Low on Stock." *The New York Times*. The New York Times, 09 Sept. 2008. Web. 14 July 2016.

3. Goodwill Industries International, Inc. *2012 Annual Report*. N.p., n.d. Web. 14 July 2016. <http://www.goodwill.org/wp-content/uploads/2013/06/Goodwill-Industries-International-2012-Annual-Report.pdf>. Page 4

4. *QuickStats Data Manual*. Publication. International Council of Shopping Centers, n.d. Web. 14 July 2016. <http://quickstats.icsc.org/Documents/Listing_of_Data.pdf>. Page 15

5. Vice President, Acquisitions at AEW. "Quick Health Ratio Questions." Message to the author. 27 July 2016. E-mail.

6. Geltner, David, Norman G. Miller, Jim Clayton, and Piet Eichholtz. *Commercial Real Estate: Analysis and Investments*. N.p.: n.p., n.d. Print. Page 787

7. *National Economic Indicators*. Rep. Federal Reserve Bank of Richmond, n.d. Web. 20 July 2016. <https://www.richmondfed.org/~/media/richmondfedorg/research/national_economy/national_economic_indicators/pdf/all_charts.pdf>. Page 8

8. *National Economic Indicators*. Rep. Federal Reserve Bank of Richmond, n.d. Web. 20 July 2016. <https://www.richmondfed.org/~/media/richmondfedorg/research/national_economy/national_economic_indicators/pdf/all_charts.pdf>. Page 7

9. *National Economic Indicators*. Rep. Federal Reserve Bank of Richmond, n.d. Web. 20 July 2016. <https://www.richmondfed.org/~/media/richmondfedorg/research/national_economy/national_economic_indicators/pdf/all_charts.pdf>. Page 32

10. *A Brief Discussion of Property Investment Styles and Current Outlook for U.S. Commercial Property Investment March 2016*. Rep. N.p.: Withheld, n.d. Print. Page 17

11. *Supermarkets in the U.S. - Statista Dossier*. Rep. N.p.: n.p., n.d. *Statista*. Web. 25 July 2016. Page 6

12. *Supermarkets in the U.S. - Statista Dossier*. Rep. N.p.: n.p., n.d. *Statista*. Web. 25 July 2016. Page 7

13. Peisner, Lynn. "Anchored by Reputation." *Shopping Center Business* May 2014: n. pag. *Recent News*. AmCap Inc., 20 June 2014. Web. 31 Dec. 2015.

14. Persin, Susan. "Real Estate Markets Healthy, But Warning Signals Are Flashing." *Real Estate Markets Healthy, But Warning Signals Are Flashing*. Commercial Real Estate Direct, 13 June 2016. Web. 19 July 2016.

Q.E.D.