MID-AMERICA®
Real Estate-Minnesota, LLC

RETAIL INVESTMENT UPDATE

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Mid-America Real Estate – Minnesota, LLC

OVERALL SUMMARY

- Sales volumes low in 2021 Q1, Q2 higher, Q3 much, much higher
- Historic cap rates & pricing
- REITs sidelined during 2020, slowly waking up 2021
- CMBS Lending mostly non-existent
- Big question on fed funds rate hike
  - Rates go up = market pause
- Cap rate ~~disparity~~ compression between core “A” centers and “B/C” centers
- Aggressively priced assets ~~sit on~~ sell on market

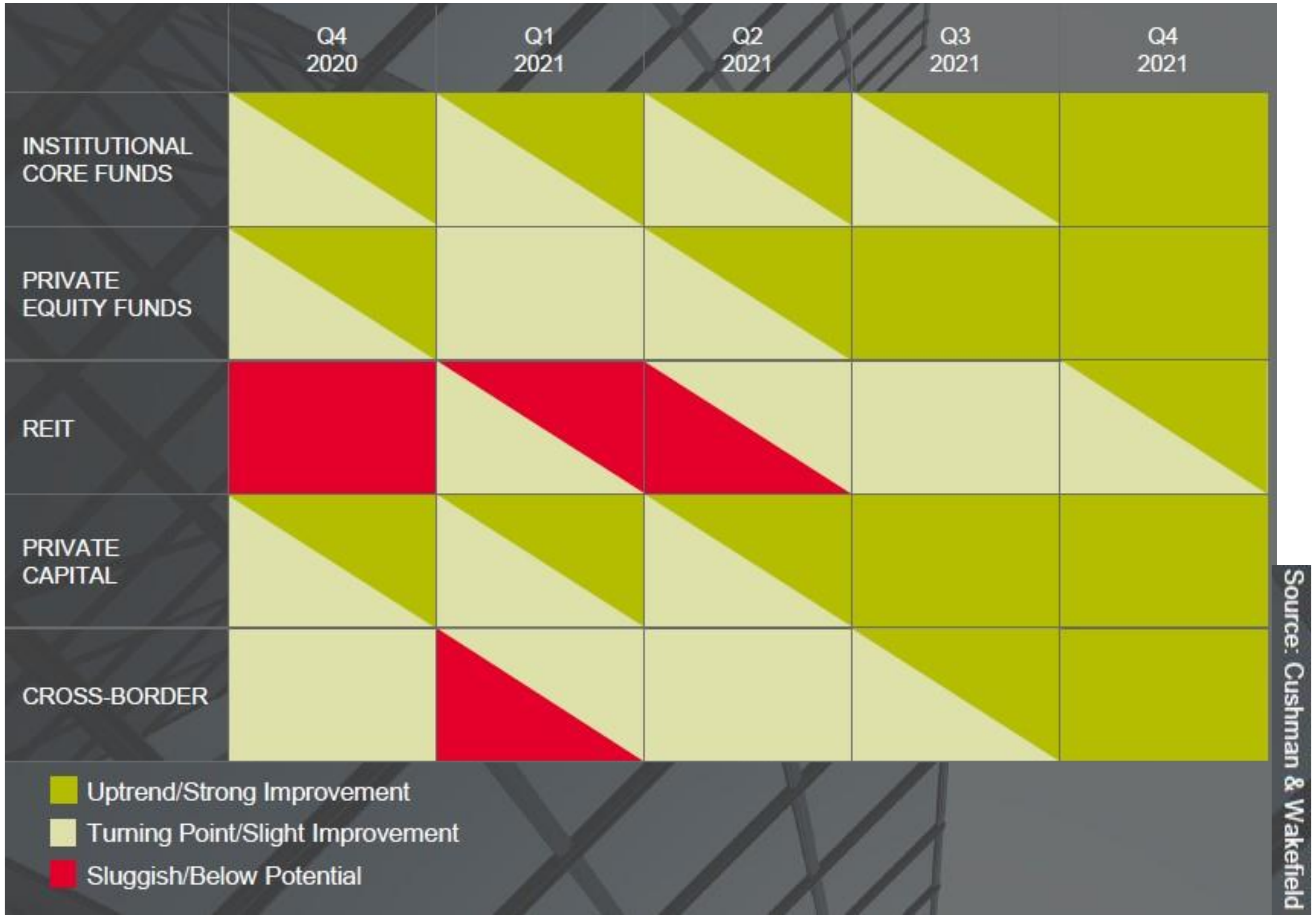
RETAIL CAP RATES BY CATEGORY

Product Type	Cap Rate 2016	Cap Rate 2021	Change
Grocery Anchored Centers	6.0% - 7.5%	6.5% - 7.5%	
Power Centers	6.0% - 7.5%	7.0% - 9.0%	
Neighborhood Centers	7.0% - 9.0%	6.0% - 8.0%	
Single Tenant	4.0% - 7.5%	3.75% - 7.0%	
Mixed Use	5.25% - 8.0%	6.0% – 7.5%	

NOTABLE 2021 RETAIL TRANSACTIONS

Property Name	City	Sale Price	GLA	Price PSF	Buyer	Seller
Ridgehaven Shopping Center	Minnetonka	TBD	140,418	TBD	TBD	Invesco
Birch Run Station	Maplewood	TBD	279,343	TBD	TBD	ACF Property Management, Inc.
Maple Grove Crossing	Maple Grove	Portfolio Sale	265,882	N/A	Bridge 33 Capital	DDR
Village of Blaine	Blaine	$34,000,000	221,543	$153.47	Davis	Pine Tree
Elk Park	Elk River	$21,250,000	205,009	$103.65	Northwoods Management, LLC	Brixmor
Shoppes at Lyndale Green	Bloomington	$17,000,000	83,905	$202.61	L2 Partners, LLC	United Properties

Investor Profile Activity



INVESTOR PROFILES – INSTITUTIONAL/REIT/FUNDS

- Public & Private REITS, Pensions & Funds
- Low cost of capital
- Mostly Core “A” product
- Value add funds
- Sat out most of pandemic
- Massively undervalued in 2020
- REIT stocks slightly outperforming DOW

Examples:

Baceline Investments LLC

AGREE REALTY CORPORATION

Epic REAL ESTATE

SLATE REAL ESTATE PARTNERS

PHILLIPS EDISON & COMPANY

LAST MILE A NORTH AMERICAN PROPERTIES COMPANY

BRIDGE33

INVESTOR PROFILES – PRIVATE EQUITY

- Typically more local/regional
- Value add/creative buyers
- Smaller markets OK
- Higher cost of capital
- Most aggressive pricing on smaller assets
- Using 1031 tax advantages
- Sensitive to potential tax law changes
- Sensitive to debt interest rate increases

Examples:

CORE ACQUISITIONS

SONA INVESTMENTS

HJ
hj development

WELLINGTON MANAGEMENT
Commercial Real Estate

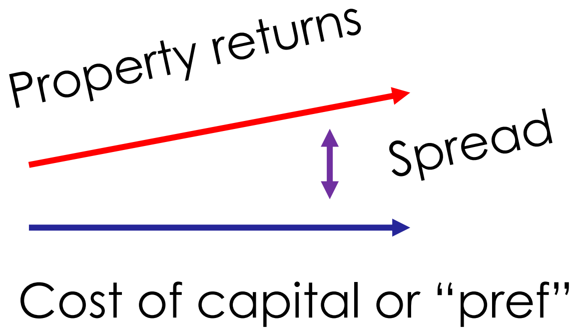
SOLOMON REAL ESTATE GROUP
Where Wisdom and Opportunity Meet

HEMPEL

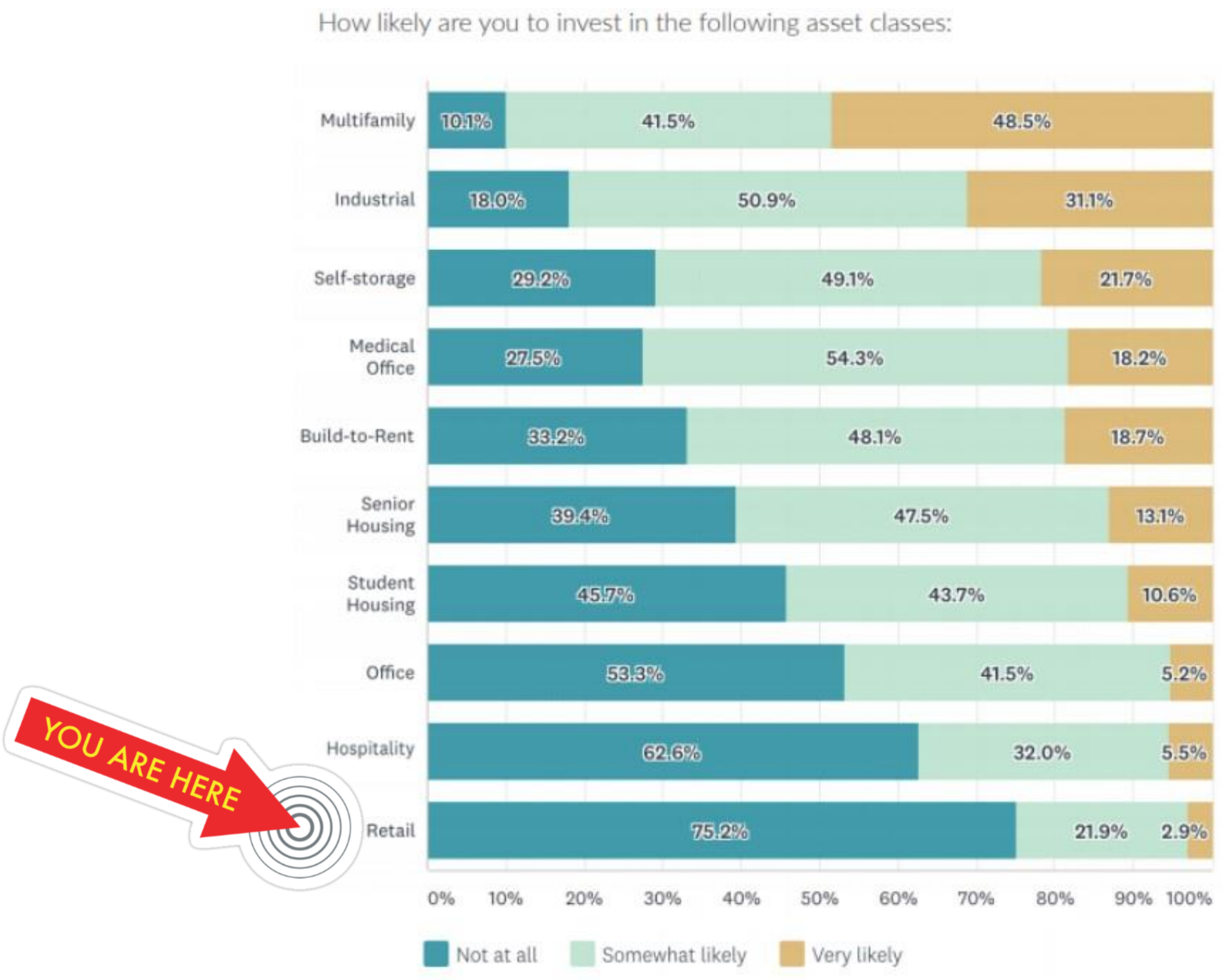
paster PROPERTIES

“COST OF CAPITAL” EXPLAINED

- Definition: The cost of capital is the return investors require or expect that the company earn on its assets
- Most investors use other people’s money (capital/equity)
- Lower cost of capital = ability to pay higher prices/lower cap rates
  - REITs are supplied by Wallstreet
    - Large supply of capital = lower required returns
  - Funds have large investor pools
    - Typically have a targeted “preferred return”
  - Private equity/syndicators have small/local capital
    - Less supply of capital = higher required returns
- Each generally make money on the spread between property returns and what investors must be paid on their equity

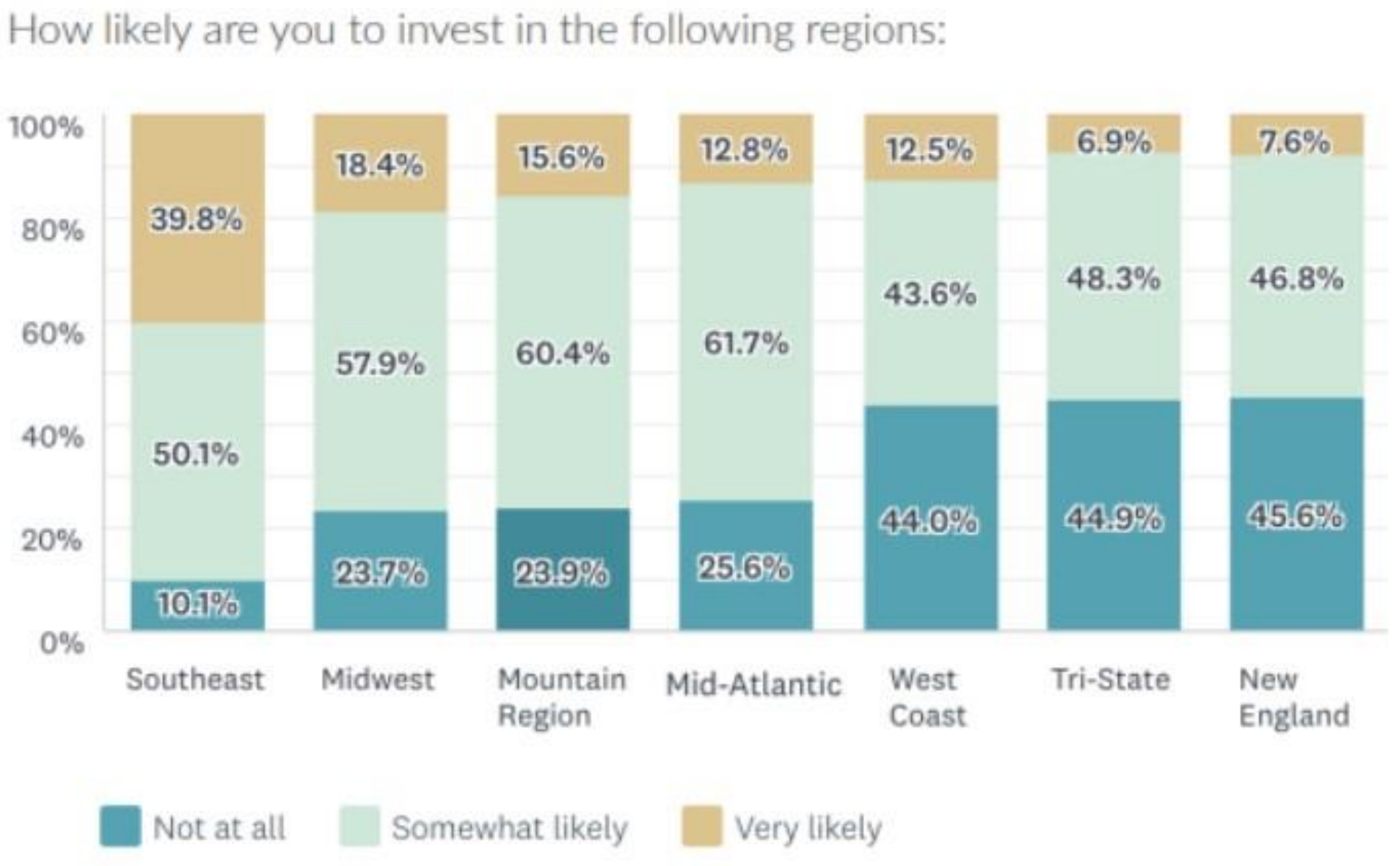


TYPES OF INVESTMENTS



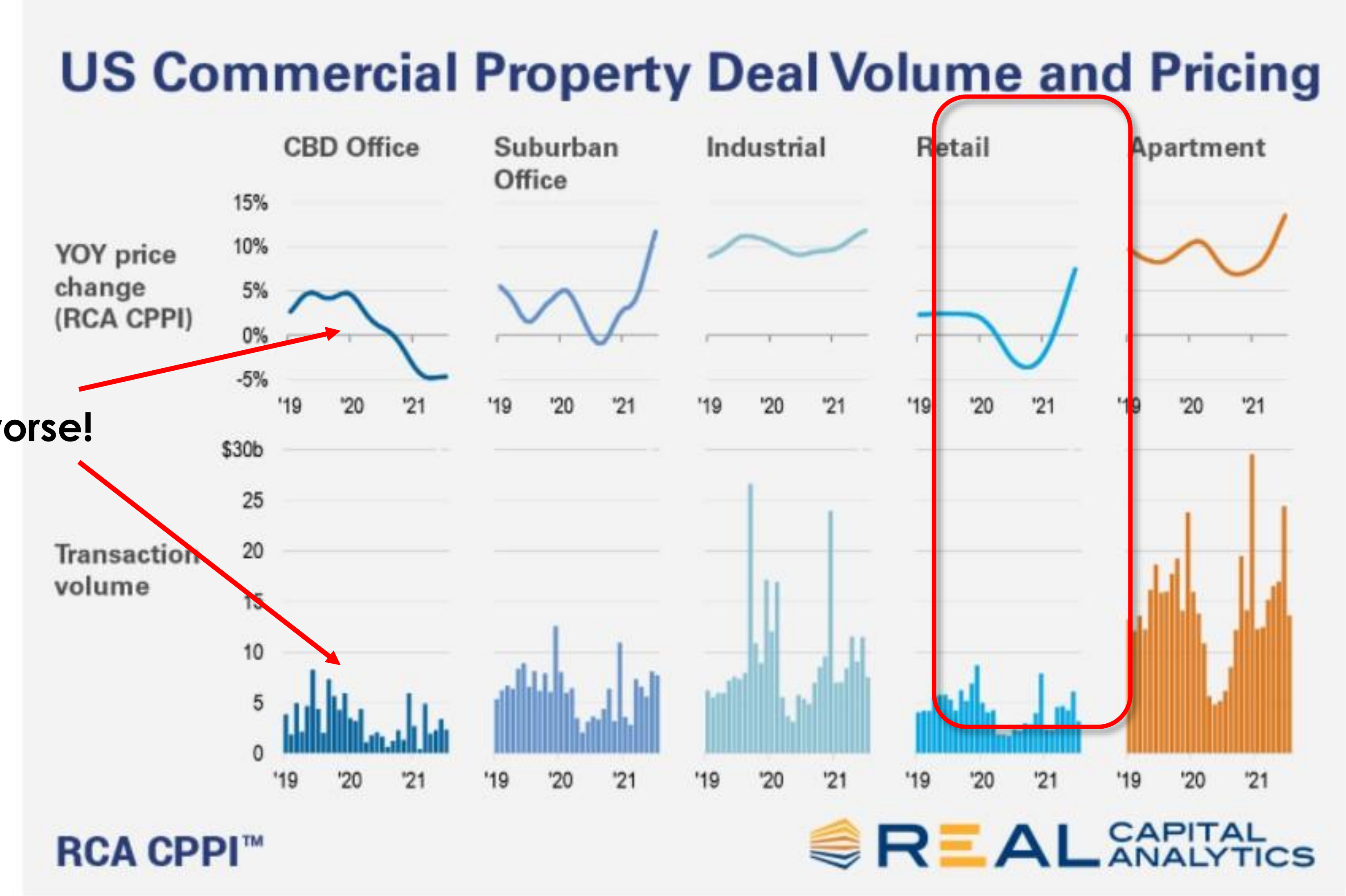
Source: CrowdStreet

WHERE IS THE MONEY GOING?



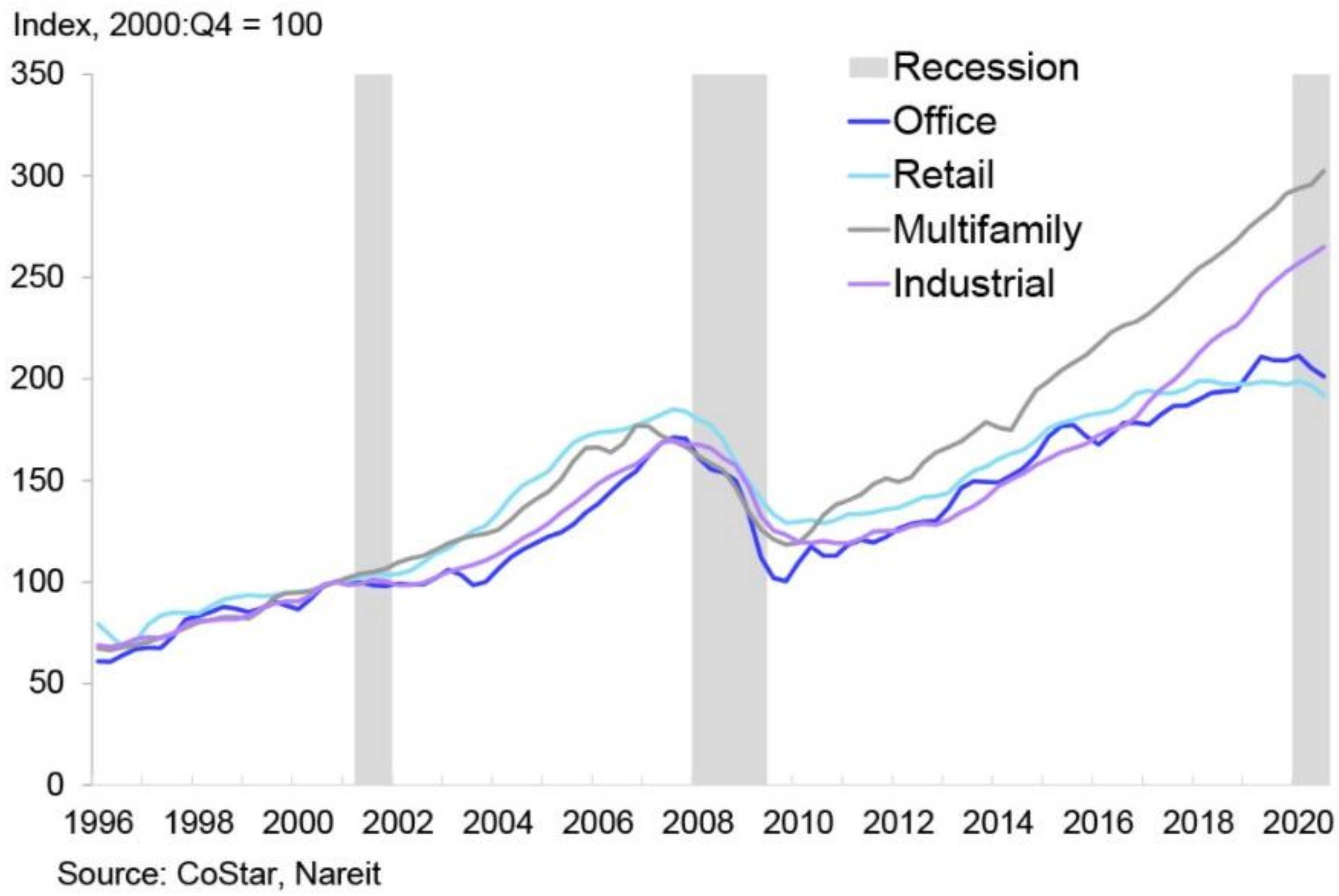
Source: CrowdStreet

US COMMERCIAL PROPERTY DEAL VOLUME AND PRICING

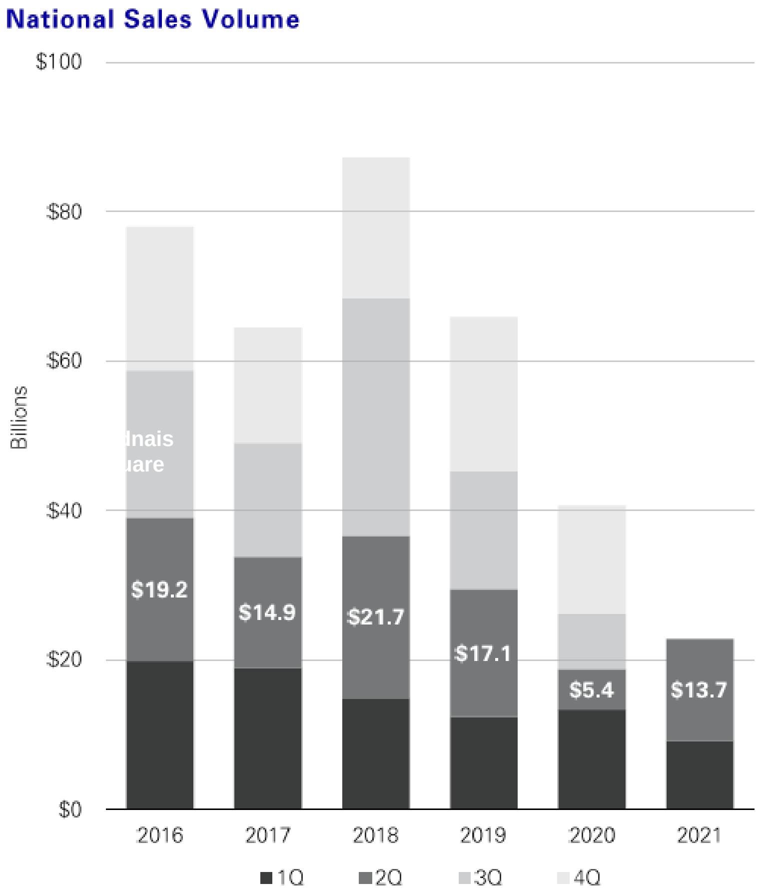


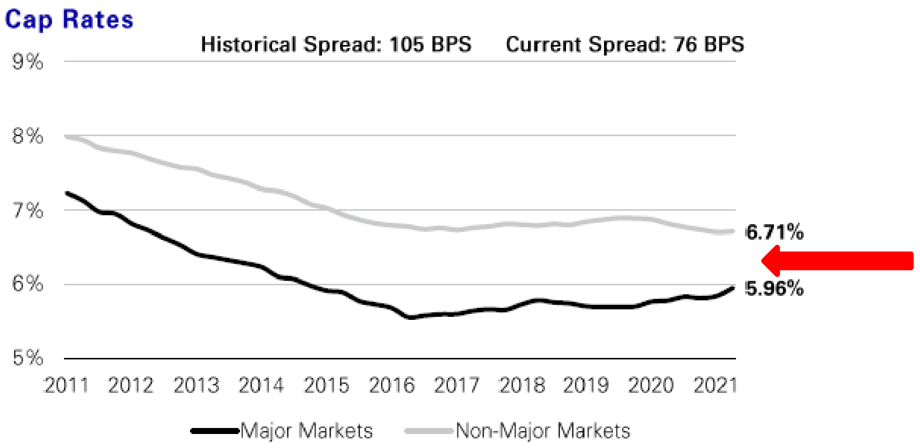
It could be worse!

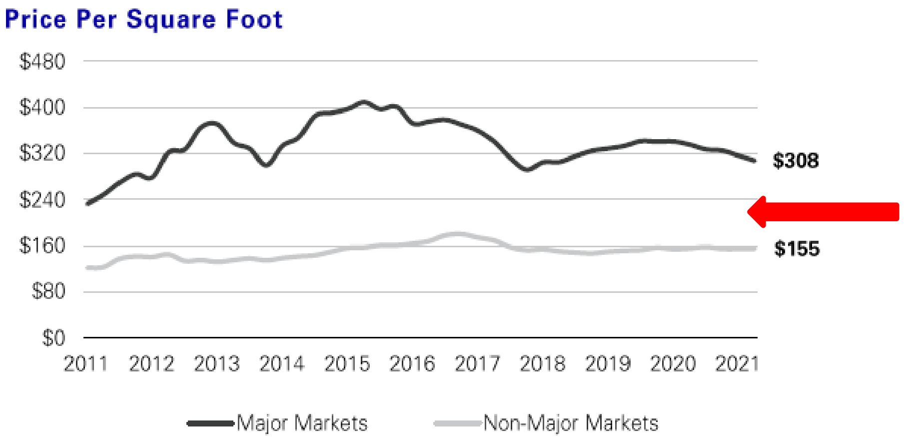
COMMERCIAL PROPERTY PRICES



HISTORICAL SHOPPING CENTER SALES VOLUME





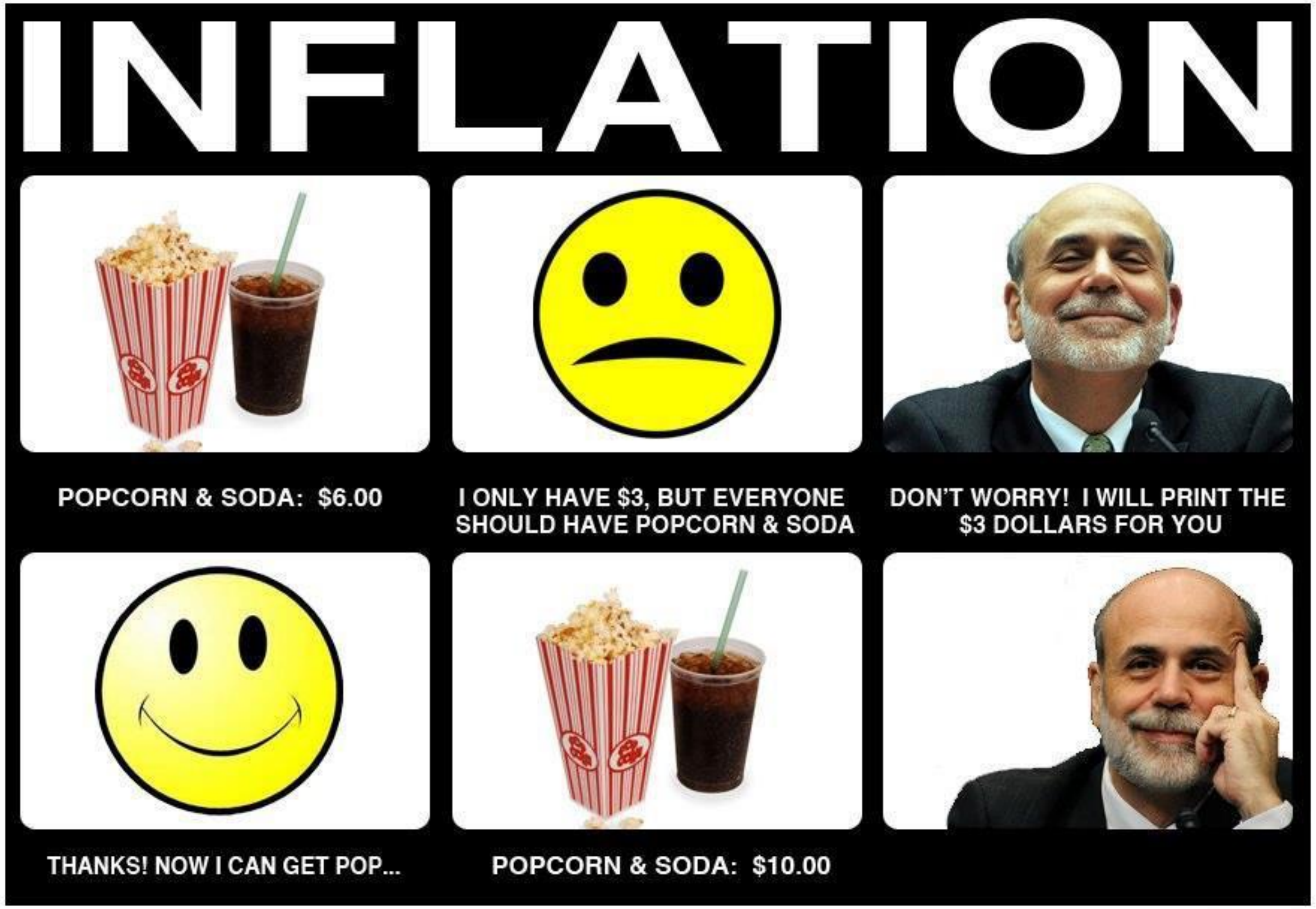


Source: Newmark Research, Real Capital Analytics

FACTORS (STILL) AFFECTING PRICING

- In Place Rent vs. Market Rent
- Unreimbursed CAM expenses
- Sales & Co-Tenancy Kick Out Clauses
- Lease Guarantor
- Quarterly Financial Reports for Guarantor
- Individual Unit Sales Reports
- Tenant rollover/lease term

BUT THE NEW CONCERN . . .



- Investors now looking at rent bumps and potential to keep up with anticipated inflation

2022 PREDICTIONS

- Continued record pricing and cap rates
- Above 2019 transaction volume
- Tax legislation will be watched closely & could temper market
- Interest rates creep up

"The crystal ball says to buy and the 8-Ball says to sell."