

Attention: Mr./ Mrs. Investor

Re: 1234 Main St, Anytown, Ontario

Dear Client:

After having visited and toured the property, reviewed the offer to purchase, leases, Phase 1 Environmental Audit, Building Condition Report, and other pertinent documentation for 1234 Main St., Anytown, Ontario, I have the following comments/recommendations:

Known as the Example Plaza, this strip mall has 5 restaurant tenants that cater to the student population of The University and College. There is parking in front of the restaurants as well as ample additional parking with a garbage room adjacent to the west of this modern strip plaza, that shares a right of way with the adjacent Gas Station. These restaurants are the only ones within walking distance of these higher learning institutions that between them have over 21,000 full time enrolled students. These restaurants target their menus and marketing to the student population which is a growing captive market. For variety from the college cafeterias, the only other convenient place for students to buy food is the gas station that sells pre-packaged food. One block south at 1400 Main St. there is a plaza is being constructed with occupancy estimated for Q3, 2019. This plaza will directly compete with the Example Plaza, posting asking net rents of \$30. However, this student housing area is currently underserved, and I don't perceive an additional plaza as a concern for 1234 Main St. Immediately north and east there is construction of new college space as well as additional student housing.

The end cap facing Main Street is leased to a Roadhouse Restaurant and Pub. It occupies 3,122 square feet and has a 1,000 square foot patio facing Main Street, which is counted as common area for this plaza. Roadhouse Restaurant is a franchise operation that has 93 locations in Ontario, which bodes well for its continued success. It features a modern eating area and bar, offering student friendly pricing, meals average \$40 per couple inclusive of drinks. Tuesday night, typically a slow night for the restaurant industry, they offer half price wings. The contracted net rental is \$27.00 per square foot for the ten-year term with no escalations, expiring February 28, 2023. There is a non-interest-bearing security deposit in the amount of \$11,755.78. Upon renewal, in 5 years, I anticipate a rental increase in the \$30 net range. They have 2 five-year renewal options to be exercised not more than 12 months, and not less than 6 months prior to expiry, subject to the Ontario Arbitrations Act should both parties not agree on fair market rent. Should they overhold their gross rental is increased by 125%.

The second unit west from Main St. is occupied by Joe's Famous Burgers. This is one-off family run business, which is indemnified by the tenant. It is a small 1,023 square foot stylish take-out and delivery burger and souvlaki restaurant. It has a handful of tables with benches for eat-in customers. It features daily specials that should attract budget conscious students; Tuesday they offer a burger and a pop for \$3.99. They have a 10-year lease term which expires on Nov. 30/2022. They currently pay \$32 net rental which increased from \$30 net this past December. There is a non-interest-bearing security deposit of \$8,285. They have one 5-year renewal option which should increase to between \$34 - \$35 net, anticipated to be fair market in 5 years. Should they overhold, their gross rental is increased by 150%.

The middle unit is occupied by The Neighborhood Restaurant and Bar. It occupies 2,800 sq. ft. It has a similar menu to Joe's Famous Burgers, but it has a liquor license, and features pub nights with a D. J. It offers a \$5 cover charge and \$4 drink specials. This is also a family run establishment indemnified by Mr. Smith. There is a \$8,965 non-interest-bearing security deposit. The lease has a 10-year term which expires on November 30, 2019. This was the first tenant in the plaza whose lease commenced at \$16 net, escalated to \$20 net years 3 and 4, and is currently \$24 net until it expires. The ambience is very similar to a typical on-campus pup, and due to its proximity, appears to be very popular with the students. I anticipate similar escalations with their 5-year renewal which should commence at \$26. net rising to \$30 in the fourth and fifth years. Should they overhold, their gross rental will increase by 150%.

Unit number 4 is tenanted by Grando Burrito, which occupies 1,023 square feet. It features fresh Mexican cuisine, and their posted low menu prices include tax. They also offer delivery and have daily freshly made ingredients with a student-budget-friendly menu. This establishment is a one-off family business. The initial lease term is 5 years at \$30 net with no escalations. They have a \$4,239. non-interest-bearing security deposit. The first 2 years of this lease was indemnified by 2393454 Ontario Inc, which has no current effect. They have one 5-year renewal option to be exercised between 12 and 6 months prior to the Nov. 30, 2019 expiry. Upon renewal, I anticipate a negotiated \$32 net rental rate for the first 2 years escalating to \$35 for the back 3 years; a one-month gross rental security deposit should be negotiated in the renewal. Should they overhold, their gross rental increases by 125%.

The western end cap, unit number 5 in this plaza, is tenanted by Luige's Awesome Pizza. They occupy a clean and spacious restaurant with limited seating, measuring 1,720 square feet. They have a 10-year lease at \$27 net with no escalations. Their menu includes poutine, sandwiches, with many dessert options as well as halal options that cater to the Muslims living in the student community. This one-off restaurant business has no security deposit, and is owned by 2341412 Ontario Inc. When this lease terminates on November 30, 2020, should they exercise 1 of their 2 five-year renewal options within 12 – 6 months of expiry, I recommend a minimum renewal rate of \$30; a one-month gross rental security deposit should be negotiated in the renewal. Their overhold provision allows for a 150% gross rental increase

The Building Condition Assessment Report highlights a-number-of maintenance issues that have been neglected totaling \$261,000 to repair. Most of the work is recommended to be completed within the next year, and once remediated, the plaza should require only annual maintenance for many years. It would be prudent to negotiate a reduction in the purchase price to reflect the-majority-of these costs, realizing that some of these costs represent annual maintenance. Perhaps 50 – 75 percent, or \$130,000 - \$200,000 negotiated from the purchase price would be reasonable to both the purchaser and seller.

A Phase 1 Environmental Assessment was completed by Environmental Consultants on May 20, 2014. It concluded that there were no potential environmental contaminating activities from onsite land use. No evidence of contamination was observed during their on-site investigation and no further environmental investigation was recommended.



The conditional offer to purchase price of \$5M represents a current 5% capitalization rate with an increase, as the leases renew, of approximately an additional .5% within the next 5 years. This relatively new, 9-year-old plaza enjoys a large growing captive student client base which should bode well for these restaurant tenants future. There is a 2 km. radius clause in all the leases which protects the tenants from competition. Should any of the tenants be unsuccessful in the future, there should be a long line of quality replacement tenants to quickly back fill the vacant space. In my opinion this property is a quality long term investment.

Kindly call should you have any questions.

Yours Truly,

Mark J. Burns,  
Principal/Broker of Record