VOSKANIAN INVESTMENT GROUP, INC.

A KW Commercial Affiliated Company

CASE STUDY:

LUGO PLAZA

2550-2584 E. Slauson Ave.
Huntington Park, Ca 90255

Price: $4,400,00

Rentable Area: 22,042 Sq. Ft.
Lot Size: 56,885 Sq. Ft.
Cap Rate: 6.29%
Price Per Sq. Ft: $199
Vacancy Rate: 32%

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CHALLENGE

The subject property, Lugo Plaza, had twice been unsuccessfully marketed for sale within the past seven years. One of Lugo Plaza's drawbacks was a significant second story retail component. Other concerns included a current 32% vacancy rate and an 18% historic vacancy. Additionally, of the tenants in place, 88% of the square footage was occupied by non-credit Mom & Pop tenants. 7-11 was the only credit tenant and had two years left on the lease. Lastly, the second building, furthest east of the property, had been completely rehabbed and had just signed a 10-year lease with a coin-laundry-operator. This stable lease made the asset a mix of value/add for the larger property along with a long- term stabilized investment for the smaller property. The property also had some deferred maintenance, the parking lot was in need of new asphalt, and the roof was in poor condition. The property was situated on a major intersection, E. Slauson Avenue and Pacific Boulevard. The corner generated 49,000+ car-count-per-day in addition to having a McDonald's pad in the front generating more traffic within the center (although the pad blocked some of the curb visibility of our property).

ACTION

We priced the two properties together at $5,950,000. However, moving forward, we offered the two properties separately, the larger value-added portion at $4,595,000 and the smaller and stable portion at $1,350,000. We implemented this strategy to break up the stable and value add components of the property. We figured most buyers looking for stable assets were not looking for a larger value-added investment; this made the transaction unfeasible for them. Also, we gathered two years of the financials for the property, as we would in any transaction. However, given that a lot of the tenants were smaller Mom-and-Pop Tenants, we wanted to make sure that the CAM reconciliation was accurate in addition to reviewing all the leases and rent increases over the upcoming year (and incorporating it into the current annualized income to achieve a current CAP Rate of over 6%). This was critical in the sale of the asset. Additionally, we worked closely with the current leasing agent in an effort to get as much of the vacant space leased as possible during the marketing of the asset. Lastly, our marketing campaign entailed a comprehensive offering memorandum of the asset, in addition to an email blast to all shopping center owners within a 10 mile radius, a full-color postcard mailed to 2,700 shopping center owners in Southern California, property line e-market emails, in addition to the asset being marketed on Loopnet, Costar, PropertyLine and Property First.

RESULTS

We were able to generate 4 offers on the property. The property was sold to a local buyer in a 1031 exchange. We were able to obtain an offer and negotiate it to within 96% of the list price and close in a timely manner. Additionally, the seller of this asset did a 1031 exchange. We were able to locate a Petco & Golfsmith anchored shopping center in Golden, Colorado, a suburb of Denver. Accordingly, working closely with our client, we manage to increase our clients' cash flow by 112%.

TESTIMONIAL

Edwin did the evaluation, in addition to the marketing and closing of Lugo Plaza for me, and he did great work! He foresaw the obstacles we'd face in the transaction and had the background & expertise to overcome them. – Mr. Jae M. Lee