



INVESTMENT PROPERTIES DIGEST



H&R Retail's Investment Properties team, led by Michael Gorsage and Kate Howarth, is pleased to present the Second Quarter of 2017 edition of the Digest. The Digest is an edited collection of articles that we gather from various publications. We hope you find the information useful.

Market at Opitz Crossing Trades

Sterling Organization in Palm Beach, Fla., has sold the Market at Opitz Crossing, a 157,724-square foot PriceRite-anchored shopping center that it owned for three-and-a-half years. The company realized a gross IRR of more than 40% even with some modest leverage placed on the asset, according to CEO Brian Kosoy.

Here is how this seemingly modest deal breaks down.

1. In November 2013 Sterling's institutional fund Sterling Value Add Partners acquired the asset for \$17.75 million on behalf of its equity partners.
2. During Sterling's ownership, a new Chipotle Mexican Grill outparcel building was added and the occupancy of the shopping center increased from approximately 77% to 96%.
3. Klein Enterprises, a Baltimore-area real estate development firm makes its third acquisition in Virginia, snapping up Market at Opitz Crossing for \$29.25 million — thus delivering a gross equity multiple of more than 2.7x to Sterling Organization.

And now the story turns to Klein Enterprises. The company began expanding into Virginia in 2014 with the development of Stafford Corner. In 2016 it acquired Pleasant Valley Shopping Center. "Our acquisition is a prime example of our expanding geographic footprint, and we continue to remain focused on bringing our multigenerational investment and management experience to areas throughout the Mid Atlantic," president Daniel Klein says in a prepared statement.

Global Food Anchored-Retail Trades In Suddenly Active Market

For some reason, having an unusual grocery store to anchor a shopping center has become all the rage.

Bethesda-based Finmarc Management has acquired the Festival at Manassas, a 117,000-square foot neighborhood shopping center for \$20 million. The property, which is located at 10280-10388 Festival Lane, is anchored by Global Food and is 97% leased. The seller is Katz Properties.

Global Food is a grocery store specializing in Asian and other international food products. "In a lot of ways it flies under the radar of grocery stores that compete with each other," Finmarc VP Sean Sullivan tells GlobeSt.com. "This is a local operator — he owns five locations in the area and has good, healthy sales."

Global Food has attracted its own following, Sullivan says. "I think they will continue to be there despite the grocery battles that are now going on." Sullivan called the transaction an opportunistic, stable cash flow deal.

The normally staid grocery store market is experiencing a lot of new activity lately. German grocery discounters Lidl and Aldi are entering the US with their eye on establishing a wide footprint, while in the Mid-Atlantic Wegmans is expanding.

And of course, the announcement that Amazon was acquiring Whole Foods shocked the grocery-store industry to its core. Indeed, the deal promises to remake national

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food sourcing and distribution trends if Amazon decides to apply itself in this manner.

On top of all this, a case can be made that the grocery-store sector is over-retailed along with its traditional retail counterpart — especially when you take into account the non-traditional stores that have begun selling food, such as the Dollar stores, the grab-and-go options at drugstores, and Target. Also, retailers such as Wal-Mart have been increasing the quality of their grocery store offerings, such as its organic produce.

With this acquisition, Finmarc currently owns and manages 92 office, flex, industrial and retail properties as well as several residential projects in the Mid-Atlantic area, totaling 6.7 million square feet of space.

Clock Tower Place in Annapolis sells for \$10.3M

A mixed-use landmark in Annapolis has sold for \$10.3 million. The 46,838-square-foot Clock Tower Place is 98 percent leased with 11 retail tenants and 10 office tenants. It recently sold to the Abrams Development Group, based in Columbia, which also owns office and retail developments in Hunt Valley, Columbia, Frederick and Owings Mills.

The project is located at 1410 Forest Dr. in Annapolis, off of Interstate 97, and was built in 1986 on close to five acres.

Tenants include State Farm Insurance, the Blue Heron Financial Group Inc, Wine Cellars of Annapolis and Tastings Gourmet Market.

Aldi to invest \$3.4B in further expansion

Aldi has announced a \$3.4 billion capital investment that would expand the small discounter to 2,500 locations by the end of 2022 — an expansion the company said would make it the third largest U.S. grocery chain by store count. The announcement comes just days before its German counterpart Lidl opens its first U.S. stores, with the latter company expected to add hundreds of new grocery stores in the years ahead.

Batavia, Ill.-based Aldi is nearing the end of a \$3 billion

investment announced in 2013 to expand to 2,000 stores by the end of 2018. It operates more than 1,600 stores today. Earlier this year, Aldi announced a separate initiative to invest \$1.6 billion in 1,300 store renovations, indicating the company is unleashing \$5 billion toward growth in the next five years.

In a press announcement of the initiative, CEO Jason Hart emphasized Aldi’s leadership in the hard-discount space, and the assortment evolution supported by renovations and new stores in recent years. Both Lidl and Aldi are positioning themselves as trend-right, less-expensive alternatives to traditional grocery stores.

“We pioneered a grocery model built around value, convenience, quality and selection and now Aldi is one of America’s favorite and fastest growing retailers,” said Hart. “We’re growing at a time when other retailers are struggling. We are giving our customers what they want, which is more organic produce, antibiotic-free meats and fresh healthier options across the store, all at unmatched prices up to 50% lower than traditional grocery stores.”

Aldi said the expansion would allow it to serve 100 million customers every month in the U.S. and add more than 25,000 new jobs. With 2,500 stores, it would trail only Walmart (which currently operates about 4,200 U.S. Supercenters and Neighborhood Market stores combined); and Kroger (nearly 2,800 stores) in terms of number of stores operated, while surpassing Albertsons Cos. (around 2,200) and Ahold Delhaize (2,000).

Analysts expect Lidl could build up to 1,000 stores by 2021, indicating German hard discounters could soon be gaining on Walmart in terms of total U.S. food stores operated.

Aldi, whose U.S. division was founded by German parent company Aldi Sud in 1976, has continued to evolve its selection of products to include more fresh foods, gluten-free options and award-winning products throughout the store. Aldi has also continued to increase its offering of fresh and sustainable seafood, specialty wines and cheeses, organic items from its SimplyNature line and Little Journey baby products. ALDI was the first grocery store to offer all of its exclusive products free of certified synthetic colors, added trans fat and added MSG.

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“We have passionate fans who know Aldi offers a smarter way to feed their families in a modern, convenient and easy-to-shop environment,” added Hart. “If you’ve never shopped with us, we invite you to come in and discover the Aldi that millions already know and love.”

Federal Realty Investment Trust plans to invest \$3.2 million in rehab of Barcroft Plaza

Federal Realty Investment Trust plans to spend \$3.2 million rehabilitating the outdated Barcroft Plaza shopping center in Falls Church. The plan calls for new facades, an improvement to the standalone building at the corner of Columbia Pike and Lincolnia Road that houses Bank of America, and a better connection between the Harris Teeter-anchored strip mall and a neighboring retail strip that until recently had a separate owner.

Federal acquired the neighboring retail piece at 6464 Lincolnia Road, which has Super Pollo and 7-Eleven as tenants, among others, back in November. With full control of the site, the company was able to contemplate investing some capital, according to Federal Senior Vice President Wendy Seher.

Work will begin in July on the eastern portion of the shopping center and the Bank of America building, with work on the older portion of the site being a few months behind. The project will add outdoor seating for Starbucks as well. Federal expects to complete the first phase by the end of the year.

Shoppers can also expect some new food offerings and other new tenants over the next few years. Glory Days Grill has already signed on — it’s expected to open by Labor Day, complete with a new outdoor seating area — and there are several other spaces that are available as is or that could be split into smaller storefronts.

One legacy tenant that will definitely be staying, in addition to the national brands there: Super Pollo. Federal renewed the Peruvian chicken restaurant’s lease shortly after buying the Lincolnia Road parcel, said Ralph Ours, who is in charge of leasing for the property. The idea is to bring in higher quality food options and services for the community, Seher said.

“We’re trying to create a better, holistic experience, as opposed to what’s there today which is very fragmented,” she said.

INVESTMENT OPPORTUNITIES

FOR SALE

DAMASCUS CENTER

DAMASCUS, MARYLAND

SIZE	142,529 SF
TENANTS	Safeway, Dollar Tree, Advance Auto



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7201 Wisconsin Avenue, Suite 600 | Bethesda, MD 20814 | 301.656.3030

FOR SALE

SHADY GROVE CENTER

GAITHERSBURG, MARYLAND

SIZE	106,924 SF
TENANTS	7-11, Melting Pot



FOR MORE INFORMATION PLEASE CONTACT

MICHAEL GORSAGE

240.482.3600 (office) | 301.466.7080 (cell)
mgorsage@hrretail.com

KATE HOWARTH

240.482.3601 (office) | 202.423.5747 (cell)
khowarth@hrretail.com

<http://investmentproperties.hrretail.com>