

Executive Summary and Investment Thesis

A. Investment Snapshot

Metric	Detail
Asset Type	Class A Office Building
Location	Central Business District (CBD), 123 Main Street
Total Purchase Price	\$80.77 Million
Initial Equity Investment	\$35.0 Million
Target Holding Period	5 Years
Going-In Cap Rate	6.50%
Target Levered IRR	17.20%
Target Equity Multiple	1.60x

B. Investment Thesis: "Acquire, Lease-Up, and Stabilize"

Assess the recommendation of the acquisition of 123 Main Street, a 150,000 sq ft office building, presenting an opportunity for attractive, leveraged returns generated by curing a high **33% vacancy rate** in a fundamentally strong CBD submarket.

1. Value Proposition (Why Buy Now?)

The asset is currently underperforming due to the recent departure of a major tenant, allowing us to acquire the property at an attractive **6.5% Going-In Cap Rate**—a discount compared to stabilized Class A CBD properties trading at 5.5% to 6.0%.

The core of the thesis is the **value-add potential** embedded in the 50,000 sq ft of vacant space:

- **Lease-Up Upside:** By deploying an initial \$2.73 million in **Tenant Improvement (TI) and leasing commissions (LC)**, we project stabilizing the occupancy at 95% within 18 months.
- **Yield Growth:** This successful lease-up is projected to boost the **Yield-on-Cost** (Year 5 NOI relative to total investment) from the initial 6.5% to **7.6%**.

2. Key Financial Returns (The Bottom Line)

The transaction is highly attractive due to the powerful **positive leverage effect**. Using a 60% Loan-to-Value (LTV) debt structure, we can elevate the investment's return:

- **Unlevered IRR** (Asset-only return): **12.5%**
- **Levered IRR** (Equity investor return): **17.2%**

This Levered IRR significantly exceeds the investor's minimum **12.0% Hurdle Rate**, creating an immediate value proposition (as confirmed by the positive **Levered NPV of \$4.67M**).

3. Risk and Mitigation Summary

The primary risk is **Leasing Execution Risk** (filling the 50,000 sq ft vacancy and renewing the 33% tenant expiring in 2026).

- **Mitigation:** We have budgeted aggressive TI allowances (\$40/sq ft) and identified a **shadow leasing plan** targeting creditworthy mid-sized tenants.
- **Contingency:** A separate \$1.0 million reserve is allocated in Year 1 for critical system upgrades (HVAC) to eliminate the risk of unexpected **Deferred Maintenance** and ensure a high-quality environment for new tenants.

In conclusion, the acquisition of 123 Main Street represents a **low-risk, high-reward** opportunity to acquire a core CBD asset at a discount, execute a clear leasing plan, and deliver a best-in-class **17.2% Levered IRR** to the investor.