





PETCO CORPORATE HEADQUARTERS



■ **The Mortgaged Property.** The Petco Corporate Headquarters Property is a 257,040 SF office property located in San Diego, California. The Petco Corporate Headquarters Property was originally built in 1980 as a two-story industrial facility and was acquired by Petco Real Estate Holdings III LLC in 2014 for approximately \$33,080,000. In 2014 and 2015, Petco invested approximately \$50,000,000 to renovate the Petco Corporate Headquarters Property. After the renovation, the Petco Corporate Headquarters Property offers lofted ceilings, natural light, meeting areas and flexible floor plans. In addition, the Petco Corporate Headquarters Property features amenities including employee lounges, a gym, a walking path, dog parks and several coffee bars. In July 2017, the borrower acquired the property in a sale-leaseback transaction from Petco Real Estate Holdings III LLC. The property is solely leased to Petco (S&P: B) and serves as its corporate headquarters, with a lease expiration of July 31, 2037.

As of June 2017, over 600 employees worked at the Petco Corporate Headquarters Property inclusive of the executive, finance, marketing and other operations for Petco. The Petco Corporate Headquarters Property is located in San Diego's Rancho Bernardo submarket, adjacent to Interstate 15, offering access to the city of San Diego. The location provides nearby dining, shopping and lodging options as well as residential neighborhoods and schools. In addition, the Petco Corporate Headquarters Property is located approximately two miles from Black Mountain Open Space Park, a 2,352 acre park with hiking and biking trails

The following table presents certain information relating to the sole tenant at the Petco Corporate Headquarters Property:

Largest Tenant Based on Underwritten Base Rent

Tenant Name	Credit Rating (Fitch/MIS/S&P) ⁽¹⁾	Tenant GLA	% of GLA	UW Base Rent	% of Total UW Base Rent	UW Base Rent \$ per SF	Lease Expiration	Renewal / Extension Options
Petco	NR / NR / B	257,040	100.0%	\$7,260,000	100.0%	\$28.24	7/31/2037	1, 10-year option, 4, 5-year options
Totals / Wtd. Avg.		257,040	100.0%	\$7,260,000	100.0%	\$28.24		

(1) Certain ratings are those of the parent company whether or not the parent company guarantees the lease.

The following table presents certain information relating to the lease rollover schedule at the Petco Corporate Headquarters Property based on the initial lease expiration date:

Lease Expiration Schedule⁽¹⁾

Year Ending December 31,	Expiring Owned GLA	% of Owned GLA	Cumulative % of Owned GLA	UW Base Rent	% of Total UW Base Rent	UW Base Rent \$ per SF	# of Expiring Leases
MTM	0	0.0%	0.0%	\$0	0.0%	\$0.00	0
2017	0	0.0	0.0%	0	0.0	0.00	0
2018	0	0.0	0.0%	0	0.0	0.00	0
2019	0	0.0	0.0%	0	0.0	0.00	0
2020	0	0.0	0.0%	0	0.0	0.00	0
2021	0	0.0	0.0%	0	0.0	0.00	0
2022	0	0.0	0.0%	0	0.0	0.00	0
2023	0	0.0	0.0%	0	0.0	0.00	0
2024	0	0.0	0.0%	0	0.0	0.00	0
2025	0	0.0	0.0%	0	0.0	0.00	0
2026	0	0.0	0.0%	0	0.0	0.00	0
2027	0	0.0	0.0%	0	0.0	0.00	0
2028 & Thereafter ⁽²⁾	257,040	100.0	100.0%	7,260,000	100.0	28.24	1
Vacant	0	0.0	100.0%	0	0.0	0.00	0
Total / Wtd. Avg.	257,040	100.0%		\$7,260,000	100.0%	\$28.24	1

(1) Calculated based on approximate square footage occupied by the sole tenant.

(2) Petco's lease expires on July 31, 2037.

The following table presents certain information relating to historical occupancy at the Petco Corporate Headquarters Property:

Historical Leased %⁽¹⁾

2014	2015	2016
100.0%	100.0%	100.0%

(1) As provided by the borrower and reflects average occupancy for the indicated year ended December 31 unless specified otherwise.

- **Operating History and Underwritten Net Cash Flow.** The following table presents certain information relating to the historical operating performance and the Underwritten Net Cash Flow at the Petco Corporate Headquarters Property:

Cash Flow Analysis⁽¹⁾

	In Place	Underwritten ⁽²⁾	Underwritten \$ per SF
Base Rental Revenue	\$7,260,000	\$7,260,000	\$28.24
Gross Revenue	\$7,260,000	\$7,260,000	\$28.24
Vacancy Loss	0	(181,500)	(0.71)
Effective Gross Revenue	\$7,260,000	\$7,078,500	\$27.54
Total Operating Expenses	\$0	\$0	\$0.00
Net Operating Income	\$7,260,000	\$7,078,500	\$27.54
Tenant Improvements	0	125,307	0.49
Leasing Commissions	0	125,307	0.49
Capital Expenditures	0	12,852	0.05
Net Cash Flow	\$7,260,000	\$6,815,034	\$26.51

(1) Certain items such as straight line rent, interest expense, interest income, lease cancellation income, depreciation, amortization, debt service payments and any other non-recurring or non-operating items were excluded from the historical presentation and are not considered for the underwritten cash flow.

(2) Underwritten cash flow based on contractual rents as of July 1, 2017 and contractual rent steps through July 31, 2018.

- **Appraisal.** According to the appraisal dated July 14, 2017, the Petco Corporate Headquarters Property had a “sale-leaseback scenario” appraised value of \$110,000,000 as of June 26, 2017, which assumed the sale-leaseback transaction occurred and a “dark value” of \$74,000,000 as of June 26, 2017. The Cut-off Date LTV Ratio calculated utilizing the “dark value” is 96.6%.
- **Environmental Matters.** According to a Phase I environmental report dated June 27, 2017, there are no recognized environmental conditions or recommendations for further action at the Petco Corporate Headquarters Property.
- **Market Overview and Competition.** The Petco Corporate Headquarters Property is located in San Diego's Rancho Bernardo submarket, adjacent to Interstate 15. The tenancy in the Rancho Bernardo submarket includes major corporations such as Broadcom, General Atomics, Intuit, Northrop Grumman, Sony, Hewlett-Packard and Cymer. The location provides nearby dining, shopping and lodging options. In addition, the Petco Corporate Headquarters Property is located approximately two miles from Black Mountain Open Space Park, a 2,352 acre park with hiking and biking trails.

The following table presents certain information relating to the primary competition for the Petco Corporate Headquarters Property:

Competitive Set⁽¹⁾

Property	Property Sub-Type	Year Built	Year Renovated	Total NRA	Rent/SF	Lease Type	Distance from Property (miles)
Petco Corporate Headquarters	General Suburban	1980	2014-2015	257,040	\$28.24	NNN	-
Primary Competition							
Bernardo Mesa Technology Center	Flex / R&D	1997	2016	180,946	NAV	NNN	0.7 miles
Rancho Vista Corporate Center (Former HP Campus)	Corporate Campus	1981	NA	125,000	NAV	NNN	0.8 miles
Discovery Corporate Center-D	Low-Rise	2011	NA	84,227	\$2.35	NNN	0.5 miles
Discovery Corporate Center-B	Low-Rise	2007	NA	53,160	\$2.35	NNN	0.4 miles
The Park	Low-Rise	1984	2016	150,423	NAV	NNN	13.9 miles
2051	Creative Flex / R&D	1981	2015	202,671	NAV	NNN	18.9 miles
Summit Rancho Bernardo BTS	Corporate Campus	Proposed (est. 2018)	NA	1,000,000	\$1.85	NNN	0.6 miles
Elevation at the Point	Low / Mid-Rise	Proposed (est. 2018)	NA	148,747	NAV	NNN	1.0 mile

(1) Source: Appraisal.

- **The Borrower.** The borrower is FidoCo Property LLC, a Delaware single-purpose entity. Legal counsel to the borrower delivered a non-consolidation opinion in connection with the origination of the Petco Corporate Headquarters Whole Loan. The non-recourse carveout guarantor is USRA Net Lease II Capital Corp., the direct owner of the borrower.

U.S. Realty Advisors, LLC (“USRA”) was founded in 1989 and is a single-tenant real estate investment and asset management firm. USRA’s current portfolio exceeds \$2.8 billion of investments, including assets for USRA’s own account, institutional investors, corporate clients and private families. USRA’s principals have acquired more than \$18 billion of single-tenant assets ranging from individual properties to large portfolios involving numerous properties leased to a single tenant, with transactions ranging from \$10 million to \$1.4 billion.

- **Escrows.** On the origination date, the borrower funded a rental escrow in an amount equal to \$605,000 for August 2017 rent.

On each due date, the borrower is required to fund a tax and insurance reserve in an amount equal to one-twelfth of the amount that the lender reasonably estimates will be necessary to pay taxes and insurance premiums over the then succeeding 12-month period; provided that for so long as no event of default under the Petco Corporate Headquarters Whole Loan is continuing, then (x) the borrower is not required to reserve any amounts for the payment of taxes if the borrower delivers proof of payment reasonably acceptable to the lender of all taxes prior to delinquency (subject to any right of the Petco tenant to contest taxes under its lease) and (y) the borrower is not required to reserve any amounts for the payment of insurance premiums if the borrower delivers proof of payment reasonably acceptable to the lender of all insurance premiums by the Petco tenant prior to the date they come due.

On each due date during the continuance of a Petco Corporate Headquarters Trigger Period, the borrower is required to fund (i) a tenant improvements and leasing commissions reserve in an amount equal to \$32,130 and (ii) a capital expenditure reserve in an amount equal to \$5,355. In addition, on each due date during the continuance of a Petco Corporate Headquarters Trigger Period or an event of default under the Petco Corporate Headquarters Whole Loan, the related loan documents require an excess cash flow reserve as discussed under “—Lockbox and Cash Management” below.

Notwithstanding the foregoing, if on any due date, (i) a Petco Corporate Headquarters Trigger Period is continuing solely as a result of a Tenant Vacancy Period and no event of default under the Petco Corporate Headquarters Whole Loan is then continuing, (ii) the Petco tenant is timely paying all rent pursuant to the Petco Lease, and (iii) the aggregate amount contained in the tax and insurance reserve, the capital expenditure reserve, the tenant improvements and leasing commissions reserve and the excess cash flow reserve is equal to \$8,996,400 (not including any lease termination proceeds), then the excess cash flow reserve will be considered capped and, the lender will be required to release to the borrower’s operating account all amounts remaining in the excess cash flow reserve account after making required payments for taxes, insurance and all scheduled or delinquent debt service (and the borrower will be entitled to distribute such amounts to its equity holders).

A “**Petco Corporate Headquarters Trigger Period**” means (a) any period during the continuance of (i) an event of default by the borrower under the Petco lease, which in the lender’s reasonable opinion is expected to lead to the termination of such lease until cured, (ii) a bankruptcy or similar insolvency proceeding of Petco tenant or any guarantor under the Petco lease, (iii) a Tenant Vacancy Period, (b) any period commencing as of the first day of any fiscal quarter during which the net operating income is less than \$6,171,000, and ending at the conclusion of the first day of the second consecutive fiscal quarter for which the net operating income for each such fiscal quarter is equal to or greater than \$6,171,000 and (c) after the borrower’s failure to deliver any monthly, quarterly or annual report and such failure remains uncured for 10 business days after the borrower receives written notice of such failure until such reports are delivered and they indicate that no other Petco Corporate Headquarters Trigger Period is ongoing.

A “**Tenant Vacancy Period**” means any period during the continuance of which the Petco tenant vacates, “goes dark”, discontinues its operations or business at the space demised under the Petco lease, or is otherwise not in occupancy of a substantial portion of such space for more than (x) 90 consecutive days or (y) 150 days in any 12-month period (other than by reason of repairs or alterations permitted under the Petco Corporate Headquarters loan documents).

- **Lockbox and Cash Management.** The Petco Corporate Headquarters Whole Loan is structured with a hard lockbox and in-place cash management. The related loan documents require the borrower to direct tenants to pay rent directly to a lender-controlled lockbox account and all cash revenues relating to the Petco Corporate Headquarters Property and all other revenue and income received by the borrower or the property manager with respect to the Petco Corporate Headquarters Property (other than tenant security deposits) be deposited into such lockbox account or the cash management account by the end of the first business day following receipt. All funds in the lockbox account are required to be swept into the cash management account at the end of each business day. For as long as no Petco Corporate Headquarters Trigger Period or event of default under the Petco Corporate Headquarters Whole Loan is continuing, all funds in the cash management account in excess of those required to pay amounts due to the lender on the next due date (including any monthly debt service payments and any applicable reserves) are required to be swept into a borrower-controlled operating account on a daily basis. On each due date during the continuance of a Petco Corporate Headquarters Trigger Period, the related loan documents require that all amounts on deposit in the cash management account in excess of the monthly debt service payment, required reserves and operating expenses be reserved in an excess cash flow reserve account. If no Petco Corporate Headquarters Trigger Period or event of default under the Petco Corporate Headquarters Whole Loan is continuing, all amounts remaining in the cash management account after payment of debt service and required reserves, will be transferred to the borrower’s operating account.
- **Property Management.** The Petco Corporate Headquarters Property is to be self-managed by the borrower, provided that so long as the Petco tenant’s lease is in full force and effect, the Petco tenant will manage the Petco Corporate Headquarters Property. Under the related loan documents, if the Petco Corporate Headquarters Property is no longer managed by the borrower or by the Petco tenant as described in the immediately preceding sentence, and is managed by any third-party management company, such management company must be approved by the lender in accordance with the related loan documents and the management agreement must be approved by the lender in accordance with the related loan documents and is subject to Rating Agency Confirmation. The lender has the right to replace, or require the borrower to replace, the property manager and require the borrower to engage a property manager selected by the borrower (or, in the circumstances described in clauses (i) and (ii) below, by the lender, or as provided in the related loan documents) and reasonably approved by the lender (i) during the continuance of an event of default under the Petco Corporate Headquarters Whole Loan, (ii) following any foreclosure, conveyance in lieu of foreclosure or other similar transaction, (iii) during the continuance of a material default by the property manager under the management agreement (after the expiration of any applicable notice and/or cure periods), (iv) if the property manager files or is the subject of a petition in bankruptcy or (v) if a trustee or receiver is appointed for the property manager’s assets or the property manager makes an assignment for the benefit of its creditors or is adjudicated insolvent.
- **Mezzanine or Secured Subordinate Indebtedness.** Not permitted.

- **Terrorism Insurance.** So long as TRIPRA or a similar or subsequent statute is in effect, the borrower is required, or cause the Petco tenant, to maintain terrorism insurance for foreign and domestic acts (as those terms are defined in TRIPRA or similar or similar subsequent statute) in an amount equal to the full replacement cost of the Petco Corporate Headquarters Property (plus, in certain circumstances, 18 months of rental loss and/or business interruption coverage plus an additional period of indemnity covering the 60 days following restoration). If TRIPRA or a similar or subsequent statute is not in effect, then provided that terrorism insurance is commercially available, the borrower is required to carry terrorism insurance throughout the term of the Petco Corporate Headquarters Whole Loan as described in the preceding sentence, but in that event the borrower is not required to spend more than two times the amount of the insurance premium that is payable at that time in respect of the property and business interruption/rental loss insurance required under the related loan documents (without giving effect to the cost of terrorism, flood and earthquake components of such property and business interruption/rental loss insurance), and if the cost of terrorism insurance exceeds such amount, then the borrower is required to purchase the maximum amount of terrorism insurance available with funds equal to such amount. In either such case, terrorism insurance may not have a deductible in excess of \$50,000. The required terrorism insurance may be included in a blanket policy so long as the borrower provides evidence satisfactory to the lender that the insurance premiums for the Petco Corporate Headquarters Property are separately allocated to the Petco Corporate Headquarters Property and that the policy will provide the same protection as a separate policy. See “*Risk Factors—Terrorism Insurance May Not Be Available for All Mortgaged Properties*” in the Prospectus.