THE NEXT PERSPECTIVE IN REAL ESTATE®

FALL ISSUE 2024

Next Realty, LLC Launches Next Realty Fund XI, LP

Earlier this year, Next Realty, LLC launched Next Realty Fund XI, LP ("Fund XI"). The private real estate offering is designed for investors seeking both current yields and value-creation opportunities with assets largely uncorrelated to the stock and bond markets.

Fund XI is characterized as a compelling investment opportunity given the continued impact of increased interest rates and corresponding market volatility.

Next's acquisition and management philosophies are based in part on the idea of not just buying good properties, but on buying them well and operating those assets with a focused business plan to produce strong risk-adjusted returns for investors.

In making investments for the Fund, Next Realty will closely adhere to its Multi-Solution® investment strategy. This approach of acquiring a diversified portfolio of multi-tenant and single-tenant properties is intended to balance current income yields with the longer-term potential for value creation and capital appreciation. The diversification of Fund XI will come from making investments in retail, flex, medtail, parking and multifamily assets.

This Issue:

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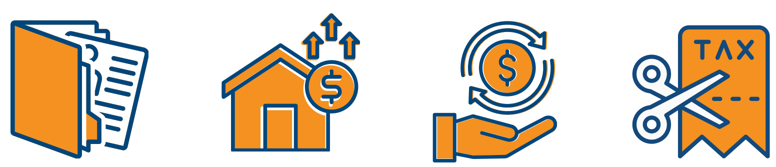
Building a Path to Wealth Through Real Estate Investing

Investing in commercial real estate (CRE) is a recognized means for building and accumulating wealth, a premise that is supported by studies and surveys on the historical benefits of these types of investments.

According to one survey, 23% of participants believe CRE is one of the best ways to build personal wealth. Further, according to another report, the average high-net-worth individual's (HNWIs) portfolio in direct and indirect real estate investments totals 34%. That figure is comprised of 21% of investors who typically gravitate toward direct investments in real estate property and 13% who invest in alternatives such as Real Estate Investment Trusts (REITs).

Beyond direct wealth building, there are additional benefits that further enhance the popularity of CRE investments including:

- **Portfolio diversification**—Portfolio diversification, by location and property type, reduces an element of risk exposure to any one type of investment.
- **Hedge against inflation**—Inflation proves an advantage in CRE when rental rates increase in response to inflation. Property values also tend to increase when adjusted for inflation.
- **Stabilized returns**—Income producing real estate investments can provide ongoing, predictable returns.
- **Tax benefits**—Depending on the investment, certain tax benefits may be realized, including depreciation and the option for deferred taxation.



Choosing real estate investment structures:

Direct investments in CRE come in a range of opportunities. A direct investment occurs when an individual or an investment group acquires and actively manages a property. Because of the investors' involvement, it is known as an active investment.

There are alternative, passive structures where a HNWI, as a limited partner and passive investor, can take part in a single property acquisition or a fund that will acquire several properties. Investment fund managers, like Next Realty, have developed a level of expertise and track record for managing property through the real estate investment lifecycle. This includes developing a unique investment strategy, raising capital, acquiring, and managing assets, the preparation of the necessary tax and financial reporting docs, and dispositions.

The benefits of fund investing:

Investing in a fund versus an individual investment is a matter of choice. There are significant benefits to choosing a fund structure, including:

- **Diversification**—A diversified property portfolio provides a hedge if one property does not meet performance expectations.
- **Capital raise/commitment of capital**—A fund that has firm commitments, for example, has available equity at the ready to move quickly and confidently to create the entire fund portfolio. With a greater level of capital, more properties can be acquired.
- **Economies of scale**—When an investment sponsor has a portfolio of properties it can achieve certain efficiencies and economies of scale in the management and operations of the property, such as the areas of property insurance and leasing.

The advantages of investing with a fund manager:

There can be significant benefits to investing through an experienced fund manager, particularly one like Next, whose principals invest significant capital alongside their investors.

These include:

- **Experience/expertise**—Over the course of 25 years, Next has developed an expertise and track record approaching each portfolio property investment with a unique business plan and operating a Multi-Solution® strategy that typically would not be available with one-off pooled investments.

- **Agility**—Real estate is subject to cycles, both headwinds and tailwinds. A manager that has successfully navigated myriad cycles can react more quickly and with greater agility to economic and other external factors impacting the investment.

- **Access to internal and external resources**—Depending on its size, a fund manager will either have a full complement of resources on staff, or longstanding relationships with brokers, property managers, attorneys, lenders, and other professionals needed to manage an asset/portfolio.

- **Access to deal flow/opportunities**—Similarly, fund managers have deep relationships and are well informed about opportunities in the marketplace which is critical in creating a pipeline and accessing both on- and off-market opportunities.

Real estate is an established and proven vehicle for wealth generation. Investors have many factors to consider and opportunities to evaluate before delving into the CRE market. According to Andy Hochberg, CEO and Managing Partner, “To be successful, investors must make well-informed and well-researched decisions that weigh investment objectives tempered by risk tolerance.” Armed with the options, investors can navigate their way to include CRE in successfully diversified wealth strategies.

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>
> **-Andy Hochberg, CEO and Managing Partner**

From Hundreds to a Handful: Sifting Through the Property Opportunities

As Next Realty raises capital for Next Realty Fund XI, LP, the firm is also focused on evaluating and acquiring properties aligned with its investment objectives.

According to Eteri Zaslavsky, Principal and Managing Director, Next has developed a multi-step process that allows the firm to quickly triage the hundreds of acquisition opportunities that are presented. This allows the firm to efficiently identify the most logical properties that can be put through a series of rigorous analyses before submitting an offer and ultimately acquiring properties.

Next's acquisition strategy adheres to a focused set of criteria. This thorough and meticulous process includes:

1 Investment Offering

For each offering, Next begins with an initial evaluation based on its acquisition criteria to ensure properties are located in target markets, are within the firm's areas of sector expertise, and fall within an appropriate price range. There is also a subjective element, based on the acquisition team's years of experience and instinct. Next narrows down the number of offerings that make it to the next round; only a handful will move to underwriting.

2 Underwriting

This in-depth financial analysis of individual property and market dynamics helps to identify those properties that are likely to provide the appropriate level of return for the risk involved. In underwriting, Next tests a wide variety of assumptions, based on the firm's investment thesis/business plan for the property. Included in those assumptions are financing costs, marketing and leasing expenses, and capital expenditures, among other items. Typically, a select few assets make it past underwriting.

3 Negotiation / LOI / Contract

During this stage, after Next has completed underwriting and tested its investment thesis, an initial letter of intent would be submitted. Following further negotiations, and if terms are agreed upon, Next proceeds to a contract to spell out all terms and conditions of the acquisition. The contract negotiation process may take several weeks and several document versions to complete. There are specific contract clauses, including reps and warranties, that protect Next investors during the due diligence process. These are extremely important and are non-negotiable. Typically, Next reaches an agreement with the seller. However, occasionally, a deal may not move past contract negotiations.

4 Due Diligence

After a contract has been finalized and executed, but before Next closes on an acquisition, there is a period of validation. The financial facts of the property, the physical condition, and current market dynamics are verified to test the investment thesis. A change in any of these elements could have a material impact on the potential transaction. Additionally, during the due diligence process, the debt financing terms are finalized.

5 Closing

The closing stage is the final step that completes an acquisition. It's the period when all documentation—loan agreements and title insurance—is completed, funds are transferred, and Next (or a Next affiliate) becomes the proud owner of the asset.

Working through these various steps sets the stage for the period of time, which could range from a few years to longer, where property specific business plans establish "What's Next" for the asset: Value-Add or Next Value-Keep®.

Next's Middle Management Approach: Value-Add and Next Value-Keep®

As important as the purchase and sales prices are to maximizing investor returns, the strategies for how a property is managed in the middle, between acquisition and disposition, is critical for executing a value-focused business plan: Value-Add or Next Value-Keep®.

Value-Add

Among the most common methods for adding value include making physical improvements to reposition an asset which creates the opportunity to increase rental income. That makes the property more marketable to prospective tenants and increases the value for prospective investors. An asset that is more marketable is likely to achieve increased rental rates, occupancy levels and cash flow. As these increases occur, tangible value is added for the benefit of the investor. Next Realty has a long track record of executing successful value-add investment strategies throughout its 25+ year history.

For example, an affiliate of Next Realty acquired an under-managed multi-tenant neighborhood shopping center in Harwood Heights (suburban Chicago). The firm developed and executed a customized property renovation plan centered on upgrading the physical appearance of the center's façade. Also included in the overarching plan was relocating certain tenants to maximize their business and to create additional leasing opportunities. In 18 months, the addition of new tenants at higher rental rates increased net operating income by 125%. Upon disposition, the improvements translated to a $3.5 million in value creation.

Harwood Heights | Value-Add

Next Value-Keep®

Years ago, Next Realty coined this specific term to describe the acquisition and management of properties that preserve capital with predictable, sustainable cash flow over extended periods of time and varying economic conditions.

Sometimes those investments involve acquiring a property where a strong, creditworthy tenant has made a long-term commitment to occupying a specific asset. A variation of that could involve acquiring an asset occupied by a strong, credit-worthy tenant and then renegotiating and/or restructuring the lease terms to extend the duration of the lease. Again, property values are maintained or enhanced when lease terms produce predictable cash flow streams and significant lease term remains on the lease.

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For example, several years ago, an affiliate of Next Realty acquired a 50,000-square-foot industrial warehouse facility that was fully leased by Fiserv, a publicly traded investment-grade tenant, in Nashville. However, upon acquisition, there was only a limited amount of lease term left. Through careful negotiations, Next executed a long-term lease extension that provided a guaranteed, market-rate income stream and significantly enhanced market value. That allowed Next to sell the property and produce a net investor equity multiple of 2.3x.

As demonstrated by these examples, Next Realty proved it's not solely the value that that you add ... it's also the value that you keep.

Fiserv Building | Next Value-Keep®

About Rent Growth and Why It Matters

The value of a property is largely determined by the net operating income (income less expenses) it produces. The cornerstone of the value-add investment thesis is that when rental income is increased value typically follows suit.

Consider the following scenario: an investor buys a 50-unit multifamily asset as a value-add investment. At the time of acquisition, 44 of the units are occupied at an average rental rate of $1,000 per month. That equates to an operating income of $44,000 per month, or $528,000 per year.

Within six months of acquisition, the investor completes standard upgrades to each unit that along with bringing rents up to market levels are sufficient to increase rents by 25% to $1,250 per month. Further the improvements create greater demand and bring occupancy up to 48 units. Thus, in addition to increasing the rental rate, the investor has increased the number of units that are generating income. As a result, the building is generating $60,000 of monthly income or $720,000 annually.

Based solely on the income, but assuming the investor keeps property expenses in check, the value of the asset would have been increased proportionately.

Next Realty Takes on Technology

Earlier this year, Next Realty expanded its technological capabilities and added another element to its "toolkit" for analyzing the performance of its existing portfolio and the potential of future acquisitions. Using the relatively new Placer.ai system in conjunction with established industry technologies has provided an added dimension to property analysis, especially related to retail assets.

The technology expansion at Next is also expanding the skillsets and real estate knowledge of Emma Tanenbaum, Administrative Assistant. Since joining the company in 2022, Tanenbaum has played a key role in various projects, including regularly scheduled acquisition and property management meetings.

Reflecting on her role in harnessing available technology, Tanenbaum noted, "I get satisfaction 'owning' the tool, becoming more knowledgeable and proficient with it, and leveraging the platform to capture information that may lead to better outcomes. It's rewarding to assist our internal teams with analyses that contribute to more informed decisions and potential solutions, to aid in adding value to our properties and investors."

As part of her work on the platform, Tanenbaum entered Next's portfolio of retail properties, including all existing tenants. With the location of the properties and specific positions for each tenant in place, Placer.ai calculates the number of visitors to each individual tenant as well as the duration of those visits. It provides the same information for retail properties across the country. Using multiple technologies allows Tanenbaum to run reports that compare traffic and visitor metrics with other center and tenant locations in the market.

"My work on the platform is driving home the point that businesses are truly data-driven," Tanenbaum said. "Data is used to support or disprove a belief when we are operating a property. The same type of analysis is critical when we are evaluating potential acquisitions."

The use of the various technology platforms is collaborative, with Next's brokerage partners using the information from Placer.ai along with data that comes from other resources. This compounding of data creates a more thorough report so Next can identify opportunities and create an informed action plan.

While Placer.ai data can provide information on the number and duration of store visits, resources like Costar and Crexi are better equipped to provide lease comparison, traffic counts and other demographic information.

Through her exploration of the Placer.ai platform, Tanenbaum is identifying additional, supportive categories that could enhance how Next Realty utilizes technology. For example, one feature allows users to identify when certain tenants are more likely to lease space where other specific retailers are located. Equipped with that data, the Next team may be able to further target their marketing efforts for existing or anticipated vacancies.

In collaborating with members of the leasing, acquisitions, and management teams at Next, Tanenbaum has learned that the data gathered from Placer.ai can inform and validate decisions. However, she cautions it should not be the sole factor in determining a course of action. Rather, decisions are best made when the data is combined with the team's insights, perspectives, and instincts.

For Next, the use of technology platforms is a key differentiator – and it's the same for Tanenbaum. These tools provide her with an opportunity to gain experience, grow and establish her own place within the company.

"This adds to my sense of purpose," Tanenbaum said. "I can explore the platform, especially areas that others don't know well and contribute valuable insights at our team meetings."

Timing is Everything: Life Cycle of the Next Realty Property

Each property in the Next portfolio has its own story, or even series of stories. Whether it's the motivation behind an acquisition, the unique circumstances or challenges experienced through the investment, or how the acquisition came together, every property in the portfolio has its unique history.

An affiliate of Next Realty recently completed the disposition of Oak Lawn Promenade, a property that now has two stories to tell, including how it ranks as the firm's quickest acquisition closing.

Back in 2011 and 2012, Next Realty had been pursuing, with no real time sensitivity, the acquisition of Oak Lawn Promenade, a 32,300-square -foot neighborhood center. Negotiations for the purchase were going back and forth between the seller and the Next team.

Surprisingly, on December 13th the Seller agreed to terms with the stipulation of a year-end closing. In the midst of the holiday season, with many participants scattered across the country, Next forged ahead. On December 31st, while at a salon getting ready for a New Year's Eve event, Eteri Zaslavsky, Next's Managing Director, reviewed various closing documents to facilitate finalizing the purchase that afternoon. The acquisition was completed before the clock struck midnight, confirming that the Next team can execute a quick close – and make it to the party on time!

Oak Lawn Promenade now tells another Next Realty story. Its disposition earlier this year marked the final disposition of Next Realty Fund VII assets. With its business plan fulfilled, it was an appropriate time to sell the property and return capital to investors.

Oak Lawn Promenade

Since 1998, Next Realty has completed over 75 transactions totaling $700 million in gross asset value. Our success stems from our systematic approach to analyzing and pursuing new investments.

Andrew Hochberg
CEO & Managing Partner

Eteri Zaslavsky
Managing Director

Marc Blum
President & COO