SPRING NEWSLETTER

This year marks the 25th anniversary of the founding of Next Realty, LLC by Andy Hochberg.

Recently, The Next Perspective set out to identify and characterize memorable transactions and key moments in the 25 year history of the firm by surveying those employees who have been integrally involved in Next Realty since the early days. Some of these transactions and moments are tied to a single event—an acquisition or a lease—while others are property specific because of an interesting storyline.

A recurring theme emerged as members of Next Realty reflected on the history of the firm. It's nearly impossible to qualify moments or transactions as the "best." Instead, it is the collective body of work, on behalf of hundreds of investors and partners, that showcases the firm's success as a real estate investment and management firm and member of the community.

In the two 2023 issues of The Next Perspective we'll highlight some of the signature moments from the past 25 years!

Signature Moments/Milestones in the 25-Year History of Next Realty – Part 1

Over the course of 25 years there have been countless moments and milestones that stand out. There are several that rise to the top, as signature moments, including:

First day–

January 28, 1998, marks the day Next Realty received its Articles of Incorporation. With months of planning and anticipation for that first day, Andy worked to complete the sale of Sportmart and advance to "what's next." He recalls feeling excitement and motivation at the incredible opportunity to build a company and help others manage and create wealth.

Rounding out the executive team–

Marc Blum, President and COO, joined the firm in 2002 and offers a focused and deliberate approach to the firm's asset and portfolio management operations, among other functions. Most rewarding for Marc is watching an asset go from acquisition to reposition to stabilization. Eteri Zaslavsky, Managing Director, joined in 2006 and her areas of expertise include property due diligence and acquisitions, fund raising, and investor relations.

Her experience has taught her that good underwriting doesn't always match reality; but thorough analysis of key data helps to avoid potential traps and unnecessary risks. Combined, Andy, Marc and Eteri make a formidable executive team where each individual complements the strengths of the other allowing Next to execute its strategic objectives and deliver for investors

Side by side with the big guns–

One measure of success for Marc Blum, and an indication the firm was well on its way was the formation of significant joint venture partnerships. "Over the years we have partnered with several of the large real estate private equity firms. Those partnerships validated our expertise in repositioning both retail and parking assets."

In Perspective: Next Realty's Notable ACQUISITIONS

Each acquisition is unique and has its own set of circumstances, challenges and complexities. Next has never shied away from transactions with varying degrees of difficulty, instead, Next views each property as a potential opportunity. Among the memorable Next Realty acquisitions:

Oak Lawn Promenade–

Next Realty had been pursuing the acquisition of Oak Lawn Promenade, a 32,300-square -foot neighborhood center, for more than one year. Surprisingly, on December 13th the Seller agreed to terms, but stipulated that it had to be a year-end closing. In the midst of the holiday season, with involved participants located across the country, Next mobilized to make it happen. On December 31st, while at a salon getting ready for a New Year's Eve event, Eteri was reviewing the closing prorations and other documents in order to complete the closing later that day. This transaction confirmed that the Next team can execute a quick close!

The Shops at Flint Creek–

Next Realty has owned The Shops at Flint Creek in Barrington, a 60,000-square-foot grocery-anchored center, since 2014. But it is an acquisition that was in jeopardy of falling apart at the last minute. Originally, the acquisition was to be a joint venture with an institutional equity partner. However, at the end of the due diligence period, the JV partner changed its mind and walked away from the deal. While it would have been easy to terminate the acquisition, the property met Next's investment criteria and was viewed as an excellent opportunity. Next made the decision to raise the additional capital required from its investor base and completed the acquisition on its own.

Nagle Plaza–

Nagle Plaza, the first acquisition for Next Realty Fund VII in 2011, is notable because of the complex seller profile and Next's confidence in its creative, value-add investment plan. Next initially acquired the defaulted first mortgage note, from a commercial mortgage backed security (CMBS) Special Servicer, and ultimately obtained the fee title to the property at a 30% discount via a sheriff's sale. The property was then refinanced with a new ten-year fixed-rate CMBS loan which facilitated the return of approximately 75% of investors' initial equity. The 30,000 square-foot, mixed-use property consisting of retail space and a two-story office building is located in a busy trade area at the intersection of Milwaukee, Devon, and Nagle Avenues. Ultimately, Next sold the center in 2022 after finalizing a long-term lease extension with Walgreens.

350 S. Waukegan Road, Deerfield–

In another complex transaction, Next Realty acquired four nonperforming cross-collateralized loans that were secured by a restaurant property and other collateral assets. Upon taking title of the property, Next sold the non-real estate collateral. The firm's original business plan involved converting the former restaurant property, in a prime Deerfield trade area, into a multi-tenant retail building. However, at that time, hospitals and healthcare systems increasingly were looking outside their campuses for opportunities to be closer to their patients. Next was successful in capitalizing on the infancy of this trend and entered into a long-term lease with Northwestern Memorial Hospital. The property was sold after it was redeveloped.

Next Realty's Properties: Just What the Doctor Ordered

Next Realty combines its in-depth understanding of the retail real estate sector and its analysis of current business and economic conditions in order to develop and execute creative, property-specific business plans. This has been apparent in how Next has been successful in aligning dynamic trends in the healthcare industry with existing or potential vacancies in retail centers, including big box spaces.

Next's entry into the conversion of retail to medical space first took place with a redevelopment opportunity at **350 N. Waukegan Road in Deerfield**.

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In 2016 Next Realty and a joint venture partner acquired **Lincolnshire Commons**, a 133,000-square-foot lifestyle center in Lincolnshire. At the time of acquisition, one of the anchor tenants was Barnes & Noble, a national retailer that occupied approximately 35,000 square feet. A significant element of the business plan for the property revolved around replacing the poorly performing bookstore. Ultimately, the space was leased on a long-term basis to Northshore University Health System which allowed the healthcare provider to offer greater access in the Northern suburbs. By strategically orchestrating the re-tenanting of the space with Northshore, Next Realty produced a 20% increase in NOI at this Class A retail center.

Also, in 2016 national sporting goods retailer The Sports Authority filed for bankruptcy, an event that had a ripple effect at Next Realty where the retailer leased spaces in several properties, including a 50,000-square-foot location at **3134 N. Clark Street**, Chicago, IL.

With hospitals and healthcare systems continuing to focus on access to their targeted communities, Next was able to lease the entire space to Advocate Health Care which converted the space into a new medical office center serving Chicago's densely populated Lakeview neighborhood.

For Advocate, finding 50,000 square feet of free-standing retail space with parking in Lakeview was like finding the proverbial needle in a haystack. The conversion of the space from retail to medical demonstrated that while it is never easy to lose a significant tenant, the adaptive reuse of the property was a win for the neighborhood and the owners.

PROPERTY STORY

200 W. Randolph: Best Supporting Location in a Feature Film

The 400+ space parking garage at 200 W. Randolph (Randolph & Wells) in Chicago's CBD has been one of Next Realty's most storied properties, and for Batman enthusiasts around the world, one of Next's most recognizable acquisitions.

Next acquired the asset in 2002 as the firm continued to grow and expand its portfolio of owned and managed parking facilities. The garage's "big break" came in 2008 when it was cast in a supporting role in the Batman movie "The Dark Night."

The parking structure's rooftop was the location from where the iconic bat symbol was projected into the night sky. It also played a role in a number of other scenes, depicted in this YouTube video beginning at about the 2:30 mark.

While Next sold 200 W. Randolph in 2013, to this date it remains a great story to tell, from an investment perspective as well as Chicago movie trivia.

Greatest Lessons Learned

Time and exposure to a wide variety of real-world experiences make for great classrooms. Over the course of 25 years, and in some cases even longer than that, some of the greatest lessons the Next team has learned and shared include:

Watch Debt—Using leverage—incurring debt on an acquisition or for improvements—is a common practice that allows investment capital to go further. However, debt service obligations can become a challenge, particularly in climates like our current environment of rising interest rates. Therefore, it is critical to monitor debt levels and maintain a healthy debt service ratio often achieved by including both fixed and floating debt in the portfolio.

Watch FOMO—Fear of Missing Out—It can be easy to get caught up in the hype of a new trend or acquisitions made by competitors that do not fit your investment criteria. Be wary of investment decisions that are made for "Fear Of Missing Out" on a popular but perhaps unsustainable trend. While it is important to continually monitor and, when necessary, adjust your investment criteria, do so on your own terms. Investments should be based on your own experience and values, ultimately rooted in your critical evaluation of market and economic conditions. In the business of allocating capital, it's important to remember that there is an opportunity to make a different decision down the road.

Be yourself, investors will follow—Securing investors for a fund or a single investment is a necessary and ultimately rewarding task. Investing for others requires mutual trust and authenticity. Most high-net worth investors are drawn to investment managers with similar interests, outlook, and philosophies. It is important to be yourself. The rest typically takes care of itself.

There's always another deal—It is not uncommon to focus on the deal that got away and second guess your approach and/or offer. But in reality, there's a reason a deal didn't happen ... and very likely there is a better deal just ahead.

Trademarks and Mantras

There are a number of key phrases and concepts that have come to define and communicate Next Realty's philosophies and practices. In fact, that definition is so strong that the firm has trademarked many of them, such as:

Patient. Agile. Diversified.

Next's business model is described as Patient, Agile, Diversified.

- Patient: Over the years, the firm has looked at thousands of investment opportunities, selecting a small percentage which it believed would generate attractive risk-adjusted returns. That methodical approach will translate to future investment opportunities.
- Agile: We continue to finetune our investment strategy based on market conditions. While our initial investments were in the retail asset class, we have pivoted as market dynamics have evolved and added additional property types such as parking and multi-family to our portfolio.
- Diversified: By assembling a portfolio of diverse asset classes, in select geographies, and of varying business plans, we believe we have outperformed the market on a risk adjusted basis. We continue to focus on acquiring high-quality properties and executing property-specific business plans to maximize the value of our assets.

Multi-Solution® Strategy

Next Realty's Multi-Solution® investment strategy focuses on the acquisition of high quality properties and executing specific business plans that take the asset from acquisition to repositioning to stabilization. The Next portfolio is diversified across alternative asset classes, geography and tenancy which enables the firm to balance delivering current income yields with longer term potential for value creation and capital appreciation.

Location, Liquidity, Luck®

Andy Hochberg established and refined the 3Ls as a more modernized take on the famous axiom Location, Location, Location. In real estate, location will likely always be one of the most important attributes of a property. Yet Andy contends that Liquidity – access to capital – is also important to re-tenant a property, make improvements and pay commissions. Sometimes, it is also important to have a little bit of luck on your side, too.

The Next Perspective in Real Estate®

The Next Perspective in Real Estate pays homage to the perspective that is uniquely Next's. More subtly, it also refers to the fact that the professionals at Next are always anticipating a broader perspective, asking what's next for a property, the industry and the overall business climate.

Value Keep®

Next coined this specific term to describe properties that preserve capital with predictable, sustainable cash flow over extended periods of time and varying economic conditions. The firm considers this "buying safety at a good price." This is accomplished through light physical improvements, operational efficiencies, and upgrades in tenancy, with the expectation of mild appreciation of the property value over the ownership term. These properties are more likely than core investments to be multi-tenant, though sharing a similar risk profile and business plan focused on preservation of capital.

NEXT PARKING: Responding to the Wall Street Journal

Next Parking LLC, a division of Next Realty, LLC, was founded in 2001 and specializes in the acquisition and operation of parking assets. Next Parking's platform consists of three primary segments: acquisitions, asset management and consulting. Next Parking is run by a team that has over 75 years of combined parking industry experience, including ownership, asset management and in-depth operational knowledge.

That level of experience provides the background for a time-tested perspective on the parking industry. In response to a recent Wall Street Journal article, America Has Too Much Parking. Really. Next Parking's President Michael Nichols provides the following response.

Next Parking agrees with the thesis if not all the supporting premises of the Wall Street Journal article. Parking is expensive to build and when public parking started out it was often offered as a amenity to tenants, residents, and customers of urban buildings that had a structured parking component. The only way to recapture the cost of constructing and operating parking assets was through the rents and CAM charges paid by tenants. If city zoning ordinances did not require parking minimums, then developers might not have built parking into their developments creating a chaotic situation once they were delivered. Oh, the Humanity!

A significant number of parking garages (spaces) were built to serve parking needs when driving to work was commonplace. But like everything else, needs and demand evolve over time. Smaller cars, larger SUV's, electric vehicles, self-driving autos, public transport, bike share, scooter rentals, Uber, Lyft, work-from-home – all have resulted in changes in societal behavior. In the process, they have impacted parking demand.

What is missing from the WSJ's article is faith in the market to solve parking problems that result from too few (or too many) parking spaces. If there we no parking minimums tied to development, fewer parking spaces would have been built by developers. But the market would have quickly understood this and stand-alone parking garages and lots would have been built by entrepreneurs who quickly recognized the opportunity and solved it.

This likely would also have resulted in more flexible downtown redevelopment opportunities. When parking is required as a component of development, it is typically constructed under the building it serves. However, if the market responds to parking needs, it would be built as a stand-alone purpose built parking garage or lot. It is much easier and less expensive to redevelop a stand-alone garage or flat parking lot into some other use than making the choice to bring down an entire building and associated parking garage for a new use.

We believe that over time, the decision to eliminate parking minimums will result in parking supply being right-sized to demand. We also believe this will make existing well-maintained parking structures more valuable as occupancy and rates will increase as the excess underutilized parking assets are repurposed. Next will continue to acquire parking assets in the preferred markets with the right fundamentals to capitalize on this new direction in parking minimization.

Around the Portfolio

2023 is off to a productive start with the signing of new leases, the opening of stores, and the buildout of tenant space occurring across Next Realty's portfolio of properties. Some highlights include:

- Roosevelt Plaza—a lease was executed with Aldi Foods for a new, 22,951-square-foot grocery store. Aldi approached Next because of the center's excellent location and great visibility and will occupy the former XSport space with an estimated opening in late 2023. The ability to lease space to Aldi is a great value-add story for Next. As underscored by performance during the pandemic, grocery-anchored centers have been among the most popular retail property investments.

- Niles Center—two new retailers will be opening in the near future at Next's center in Niles. Chill Bubble Tea has leased 1,694 square feet and is expected to be opening in May. Friends Bakery expects to open its 1,440-square-foot store in the Fall.

- Lincolnshire—Next has welcomed two new tenants and leased two other spaces at its 133,000-square-foot lifestyle center. Stretch Zone, a fitness center, has opened a 1,200-square-foot store and Red Wing Shoes is a 1,478-square-foot shoe store. 3Bs, featuring Asian cuisine, signed a lease for 1,800 square feet and plans to open in May. In the last of the new tenants, Sola Salon Suites has leased 5,697 square feet of space for a salon that rents out spaces to beauty consultants and technicians—stylists, colorists, etc.

- Merrillville—Urban Air Adventure Park, an entertainment and kids' activity franchise, has leased more than 28,000 square feet of space for a fun center. A late summer opening is anticipated.

Andy Hochberg's Latest Piece for Forbes

Next Realty CEO Andy Hochberg has published a fifth article as a member of the Forbes Business Council, *Patience, Agility And Diversification: A Winning Strategy For Real Estate Investment and Management*. In his latest piece, Andy offers a perspective on the importance of patience, agility and diversification, a concept that is woven through the culture and business practices at Next.

patient • agile • diversified

Next Realty: A Retail Influencer

It is only fitting that as Next Realty celebrates its 25th anniversary, the firm has been named a Retail Influencer by ALM Publishing which produces Real Estate Forum and GlobeSt.com. Three years ago, Andy Hochberg was named a Retail Influencer, and this year the team of Hochberg, Marc Blum and Eteri Zaslavsky have earned the honor as an institutional influencer. Among the many attributes which lead to Next Realty's selection as a Retail Influencer are the team's ability to navigate dramatic market shifts which helped to bolster the firm's successful portfolio.