

The Next Perspective

REALTY

Spring 2022

Andrew Hochberg's Latest Forbes Article

In an article recently published by Forbes for the Forbes Real Estate Council, Next Realty CEO and Managing Principal Andrew Hochberg shares his thoughts on appealing to and addressing the needs of high-net-worth investors who make real estate investments through pooled funds. These investors represent a group that is more Main Street than Wall Street as they gain strength by pooling their resources with other investors. Andy addresses how to overcome the particular challenges faced by fund sponsors on the way to raising the discretionary capital required to invest in commercial real estate on behalf of pooled investor groups.

To read the Forbes article type the URL: bit.ly/3LGdAnK.



IN THIS ISSUE:

Andy Hochberg's Latest Forbes Article

Fund X: Fast Out of the Gate

Leasing Activity Around the Portfolio

Hall of Fame Welcomes Eteri Zaslavsky

The State of Milwaukee Retail is Stronger than Ever

Dispositions Yield Strong Returns to Investors

Fund X: Fast Out of the Gate

Next Realty Fund X, LP is fully funded and actively pursuing acquisitions throughout the United States, continuing to execute the firm's commitment to its Multi-Solution™ Strategy. The strategy is designed to balance annual cash-flow distributions with the longer-term potential for value creation.

Since December, on behalf of Fund X, affiliates of Next Realty have acquired a multifamily property in Milwaukee, WI; a multi-tenant retail center in Madison, WI; and a multi-tenant office building in Elkridge, MD. Diversification of geography, asset class, and tenant mix reduces exposure to any one credit risk. With these three acquisitions, the Fund is approximately 45% invested.

"We're very pleased with the quality and pace of acquisitions taking place for Fund X,"

said Andrew Hochberg, Next Realty LLC's CEO and Managing Principal. "These acquisitions, which follow our Multi-Solution™ Strategy, establish a strong, diverse foundation for the Fund X portfolio."

The following is a description of the properties that comprise the Fund X portfolio, as of May 1, 2022 in order of acquisition:

Dolphin Square Apartments



In December 2021, Next Realty acquired the Dolphin Square Apartments located at 10300 West Bluemound Road in Wauwatosa, WI

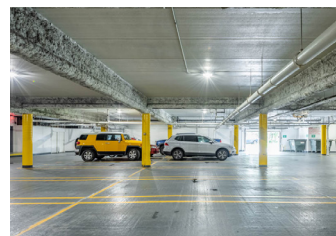
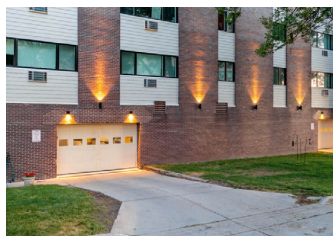
(Milwaukee MSA), near the Milwaukee County Zoo. The multifamily complex consists of 64 studio, one and two-bedroom apartments. The development is a three-story plus basement building that also includes 88 indoor heated parking spaces.

Recent upgrades made prior to the purchase include a new roof, Pella windows, high-efficiency boilers, and new exterior siding. Additionally, a complete renovation of the common areas and a refresh of the lobby were also among the numerous improvements.

As part of its acquisition strategy, Next Realty plans to complete a renovation program initiated by the previous owner. Anticipated cosmetic improvements include installation of new appliances, kitchen cabinets, plumbing fixtures, updated bathroom vanities and tile, and new flooring.

Dolphin Square is located minutes from two major Interstates (94 and 41) and just 10 minutes from downtown Milwaukee.

The property is ideally located near several amenities. It is one mile from the Wauwatosa Research Park, a technical and innovative community home to 80 companies and 4,500 employees. The 10th largest academic medical center in the country, Milwaukee's Regional Medical Center, is just over two miles from the property.



Essex Square Retail Center

In March 2022, Next Realty acquired Essex Square, a multi-tenant neighborhood center in Madison, WI.

The 44,000-square-foot center consists of three structures: a main single-story building that totals 31,000 square feet; a two-story, 12,600-square-foot mixed-use building; and a 400 square-foot freestanding drive-through facility occupied by MOKA Coffee.



The timing of the acquisition coincided with the opening of Concentra Health Services which is a division of the national health care company Select Medical. Concentra relocated to expand from its nearby location to Essex Square's larger 7,777 square-foot space. Concentra's Essex Square location provides urgent care, primary care, and occupational and physical therapies.



In addition to Concentra, Essex Square hosts a diverse list of tenants including Half Price Books, Penzeys Spice Company, The Camera Store, Noodles & Co., The UPS Store, Allstate, Great Clips and Merle Norman Cosmetics. Many of these tenants have been at the center for more than 20 years, including one that has occupied space since the center opened in 1987.

Essex Square is located approximately five miles northeast of downtown Madison and less than 3-miles from the I-90 and I-43 interchanges. It occupies a location on the southeast corner of the intersection at East Washington Avenue and Eagan Road and is adjacent to the 790,000-square-foot East Towne Mall.

Eteri Zaslavsky, Managing Director at Next Realty stated, "We are pleased to continue expanding and diversifying our Wisconsin portfolio, which now includes five retail centers and 13 multifamily properties. We have been targeting the Madison market for some time and are excited to have finally completed our first acquisition in this dynamic and growing market."



Roosevelt Commons Office Building

In April 2022, Roosevelt Commons, a 14,344 square foot, four-story office building in Elkridge, MD, became Fund X's most recent acquisition. The diversity of tenants, including an affiliate of Next Realty, adds value and stability to the asset. With the acquisition, Next has also taken over responsibility as on-site property management for the building.



Roosevelt Commons is a specialized property featuring 52 individually furnished executive office suites, ranging in size from smaller interior or exterior offices to larger exterior suites.

The building showcases professional finishes, fully furnished suites, fluted glass doors, high speed internet, and a security system with 24/7 access for tenants. Amenities in the communal areas include kitchens on each floor, several conference rooms with an online reservation system, cleaning services, and all utilities.

The Property is situated between the two major metropolitan areas of Baltimore, Maryland (15 miles NE) and Washington D.C (30 miles SW). Roosevelt Commons benefits from its central location and convenient highway access. The Property's location near Fort Meade, the National Security Agency, Goddard Space Flight Center, and other federal and state government sites provides an opportunity to attract affiliated small businesses and entrepreneurs requiring executive office suites.

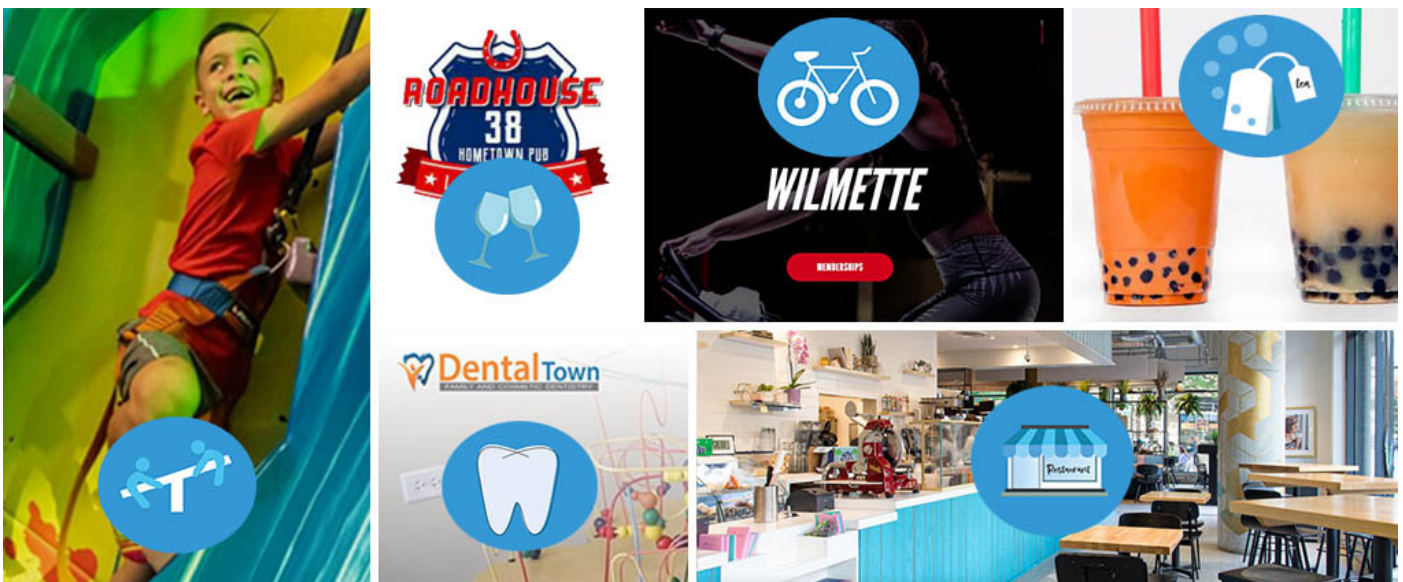
Leasing Activity Around the Portfolio

Next Realty has experienced strong leasing momentum across its portfolio of properties, particularly its retail properties located in the Chicago metro area.

At **Wilmette Commons** (50-126 Skokie Blvd.) **CycleBar** has leased approximately 2,800 square feet of space. **CycleBar** offers a low-impact, high-intensity indoor cycling experience that has become an increasingly popular method of exercise. This will be the seventh location for **CycleBar** in the Chicago metro area. An opening is expected late this year. With the addition of **CycleBar** to the tenant roster at **Wilmette Commons**, the retail center has evolved into a health and wellness service center. Other tenants there that support this concept include **ATI**, **SpaDerma**, **Salon Fusion**, **Spa Nail City**, **Palm Beach Tan**, **New Vision Optical**, and **Osteo Strong**.

Dental Town has leased approximately 2,300 square feet of space at **Parrot Plaza** (1401 W. North Ave.) in Melrose Park, expanding its number of Chicago area locations to eight. **Dental Town Chicago** was established in 2013 with a community focus to provide an affordable yet amazing dental experience for kids and adults in the Chicago area. **Dental Town** implements the latest in dental technology, performing a variety of services in state-of-the-art facilities. A Summer opening is expected.

Roadhouse 38, the third in a series of restaurants owned by Jay DeMarco, is expected to open in approximately 5,900 square feet of space in June at **Roosevelt Plaza** (201-275 West Roosevelt Rd.) in Lombard. The restaurant will feature an American Bar classic menu featuring a variety of different burgers, steaks, mac 'n cheese and its signature rib-eye steak sandwich, among other items. Other tenants within the center include **Hobby Lobby**, **Harbor Freight Tool**, **X Sport Fitness** and **Fruitful Yield**, among others.



Chill Bubble Tea has leased an approximately 1,700-square-foot space at Next's **Niles Retail Center** (7233 W. Dempster St.) at the corner of Dempster St. and Harlem Ave. This will be the seventh location for **Chill Bubble Tea**, a Chicago-based, privately owned and operated company. In addition to bubble tea, it also serves smoothies and high-quality teas. **Chill Bubble Tea** will be located in the outlot at our **Niles Retail Center**, next to **AT&T** and **Little Caesars**.

Urban Air Adventure Park, a new franchise of our tenant in Franklin, TN (Nashville) has completed a lease for approximately 28,000 square feet (3201 E. Lincoln Highway) in Merrillville, IN. The adventure park features trampolines, climbing walls, virtual reality, a slam dunk zone, a ropes course, and an obstacle course, among many other attractions. There also is a food/concession area. Construction on the space is expected to begin shortly. Other tenants of the **Merrillville Center** include **Big Lots** and **Xfinity**.

Edie's All Day Café & Bar (Edie's) completed a lease for approximately 4,000 square feet of ground-floor restaurant space at Chicago's **Kingsbury Center** (354 West Hubbard). This represents a second River North location for Edie's. This concept is a blend of café, restaurant, workspace, and wine bar—a place where people can meet, work, and create throughout the day. Edie's was founded by hospitality veterans Matt Matros, Arturo Gomez, and Chef Partner, Chris Dunstatter. A late Spring/early Summer opening is anticipated.

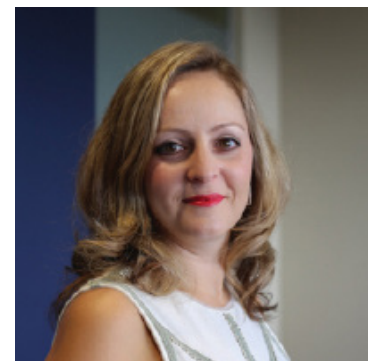
Hall of Fame Welcomes Eteri Zaslavsky

For more than 13 years, the publishers of trade publication Midwest Real Estate News have announced an annual class of new Hall of Fame members. Recently, Eteri Zaslavsky, CCIM and Next Realty's Managing Director, was named a member of the Hall of Fame Class of 2022.

The recognition of Zaslavsky is based on her cumulative experience, including 16 years as a Principal at Next Realty as well as the roles she had earlier in her career with JLL, The Tuckerman Group and Allstate Investments. In her acceptance of the award, Zaslavsky said, "I have been fortunate to have worked with some amazing people from whom I have learned a tremendous amount. Every day has been a new challenge and adventure!"

About her team at Next, she further states, "Working closely with the Next Realty team, we have developed a well-defined strategy for pursuing and evaluating investment opportunities and executing our business plans. Having a comprehensive view of the business has contributed to my approach, outlook, and success."

Zaslavsky joins her fellow Next Realty Principals Andrew Hochberg (2013) and Marc Blum (2018) as members of the Midwest Real Estate News Hall of Fame.



The State of Milwaukee Retail is Stronger than Ever

In the Milwaukee area, Next Realty currently owns four retail centers totaling more than 150,000 square feet of space and nearly 300 apartment units including a 12-building portfolio near Marquette University.

The Next Perspective recently had a conversation about the state of the retail market in Milwaukee with Kevin Schmoldt who, along with Brian Vanevenhoven, both of Newmark, are responsible for leasing Next's retail centers in the Milwaukee area.

"The state of the retail market in Milwaukee is strong, even stronger than it was prior to COVID," Schmoldt said.

He noted that the robust performance of Next's portfolio in Milwaukee mirrors that of the broader, overall market where vacancies that occurred were likely accelerated due to the pandemic. But as a sign of the strength of the market, the available space was leased quickly, often at higher lease rates than those prior to COVID.

One of the notable characteristics of the Milwaukee market, and in many markets across the U.S., is the lack of development of new centers. Schmoldt attributes that phenomena to numerous factors that he expects will continue, including increasing interest rates and the overall rise in development costs, from land prices to construction materials.

"Given the lack of new product availability, tenants in the market must look at and consider existing centers to satisfy their space needs," Schmoldt said. "It's a good time to be an investor/owner of retail property right now as seen by the solid leasing in Next's four Milwaukee area retail properties."



For the long term, Schmoldt is optimistic about the regional market particularly due to Milwaukee's steadily performing economy and a diverse workforce. "We're a solid Midwest market, one that doesn't experience the extreme highs and lows that coastal markets are likely to experience," he said.

Schmoldt believes that trends that emerged and evolved during the pandemic will remain. Specifically, he believes that the increased levels of outdoor dining arrangements will continue as will the level of carry out and delivery service from restaurants. He added that with increasing labor shortages and higher employment costs, delivery and carry out is beneficial to the establishments.

Another interesting trend Schmoldt sees, and one that has occurred at one of Next's Milwaukee properties, is how tenant mixes can evolve over time. For example, moving from general retail and services to medtail (medical retail) and wellness.

The immediate outlook for Milwaukee retail is strong, especially for property owners who, according to Schmoldt, are consistent in their management approach and are good communicators with their tenants.

Dispositions Yield Strong Returns to Investors

Next Realty recently completed two dispositions allowing it to return investment capital to its investors.

The first disposition was the sale of the Fiserv Building in Nashville, TN. This property was the first acquisition of Next Realty Fund IX, LP which, at the time, represented an opportunity to add value by extending the short-term lease with the tenant.



In September 2017, Next Realty acquired this 51,000 square foot industrial building occupied by a subsidiary of Fiserv, Inc., a Fortune 500 company. In acquiring the property, Next drew upon its local Nashville market knowledge and experience. Fiserv has occupied the space since 2005, manufacturing credit and payment cards at the property. In November 2021, after nearly a year of negotiations, a ten-year lease extension was finalized.

The lease extension created an optimal time to sell the asset. The property was sold to an institutional investment fund at an initial cap rate of 4.42%.

Over the 4.5-year holding period, the sale resulted in a property level Net Internal Rate of Return of approximately 22.4%, and a Net Return Multiple of approximately 2.3x to the investors.

"Fiserv showcases our successful assessment that the purchase of this single-tenant industrial asset would add to the diversification of asset classes within our portfolio, leverage our local Nashville market knowledge, and benefit from our asset management expertise," said Eteri Zaslavsky, Next Realty Managing Director.



The second disposition was the sale of a single-tenant building occupied by a Best Buy store in Deptford, NJ. Next Realty acquired this 61,000 square foot building in 2001, taking a risk purchasing a fractures investment, first closing on the land (no income for 15 years!) and then the leasehold interest. Both positions were governed by a cumbersome, 13-property "unitary lease" to Hechinger stores that included this particular property which was subleased to Best Buy.

In 2002 a win-win proposition was formalized and executed, resulting in a new, direct 20-year lease with Best Buy, thus removing both parties from dealing with a complicated lease structure. Earlier this year a ten-year lease extension was negotiated with Best Buy. Like the Nashville property, the lease extension created an optimal time to sell the asset.

The property was sold to a private investment fund at an initial cap rate of 5.81%.

Over the 21-year holding period, the sale resulted in a property level Net Internal Rate of Return of approximately 40.7%, and a Net Return Multiple of approximately 9.8x to the investors.

"Deptford Best Buy holds a special place for our company and our early investors. When we purchased the property, we combined the ownership of the ground lease with that of the building that were controlled by unrelated entities, thus forming the basis for the current fee simple ownership structure. We were happy that the sale allowed us to provide a significant and final return to our investors," said Next Realty CEO and Managing Principal Andrew Hochberg.

OUR EXECUTIVE TEAM:

The principals of Next Realty have been working together for over a decade and have a combined total of over 75 years of diverse real estate industry experience.

ANDREW S. HOCHBERG

FOUNDER
AND CEO

Andrew is responsible for designing Next Realty's strategic direction and executing its investment strategy. He is a real estate industry veteran with a wide range of expertise. Andrew served as CEO of Sportmart, a \$450 million sporting goods retailer, where he led the company's expansion to 70 stores nationwide. He is also the co-founder of Hilco Real Estate. Andrew founded Next Realty in 1998 to invest capital on behalf of his family office and other like-minded investors.



MARC J. BLUM

PRESIDENT
AND COO

Joining Next Realty in 2001, Marc oversees all of the company's portfolio operations and asset management activity, as well as Next Realty's financial structuring and reporting. Marc has more than 25 years of experience successfully navigating the acquisition, reposition, and disposition of more than \$1 billion in real estate assets, including more than \$250 million in loan acquisitions and work-outs nationwide.



ETERI ZASLAVSKY, CCIM

MANAGING
DIRECTOR

Joining Next Realty in 2006, Eteri is responsible for executing the company's investment strategy, sourcing acquisitions, raising capital and overseeing investor relations. Eteri has more than 20 years of experience in real estate investing, underwriting and financing. Since 1999, Eteri has been involved with the sourcing and execution of more than \$1 billion of commercial real estate acquisitions, dispositions and financings.



ahochberg@nextrealty.com
847-881-2001

mblum@nextrealty.com
847-881-2002

ezaslavsky@nextrealty.com
847-881-2018

Next Realty is a real estate investment and operating company with over 20-years of success in the industry. We have closed nearly \$625 million in acquisitions across the country. With over 75 transactions completed, Next Realty continues to manage a diversified portfolio with assets that include retail, industrial, parking, adaptive reuse and medtail holdings. Next Realty has expanded the asset classes in which it considers investing as it broadens its portfolio of assets under management. If you have any questions regarding any of the articles here, or would like to know more about what we do, please contact one of our Nextperts® today.

The Next Perspective In Real Estate™