



**The Buckeye Pharmacy**

*Case written by Spencer Couts*

**Objective:** Understand how to complete the simplest CRE valuation – a single tenant NNN lease.

**Investor Profile:** You work for one of the largest single-tenant REITs in the nation and are looking to acquire potentially three or four NNN drug store leases to balance the portfolio. The CVS directly adjacent to The Ohio State University recently became available. Your job is to analyze the expected cash flows from the existing lease to determine an appropriate price to offer for the property.

**Property Summary:** Constructed in 2001, The Ohio State University CVS is a single-tenant retail property with a 30 year NNN lease. It is located at the northeast corner of two of the busiest streets in Columbus and is directly adjacent to one of the largest universities in the nation. The university buildings closest to the corner are residential dorms that hold roughly 15,000 students during the Spring and Fall semesters. It is also directly adjacent to some of the hottest retail in the campus area as well as a residential neighborhood that is primarily student based as well.

**Property-level Information:**

- Address: 2160 N High Street
- City: Columbus, OH 43201
- Building SF: 8,200 SF Retail Building
- Year Built: 2001
- Land SF: 32,190 SF
- Land Acres: 0.74 AC
- Bldg FAR: 0.25
- GIS Map: <http://gis.columbus.gov/oss/>

**Financing Terms:**

- Loan Term: 30 year, fixed-rate, amortizing, non-recourse mortgage
- Interest rate: 4.15%
- Loan-to-value: 75%
- Loan fee: 1.5%
- Payments: monthly

**Required Returns:** 5.0% (unlevered) / 7.5% (levered)

**Purchase & Sale Assumptions:**

- Purchase date: December 31, 2016
- Holding period: 10 years
- Exit cap rate: Current market cap rates



**NNN Assumptions:**

- Operating Exp.: Paid for by tenant
- Property Taxes: Paid for by tenant
- Insurance: Paid for by tenant
- Maintenance: Paid for by tenant

**Rent Roll:** See Exhibit 1

**Sales Comps:** See Exhibit 2

**Lease Comps:** See Exhibit 3



Your task is to value the investment opportunity. Follow these steps:

1. Value the property based on the projected NOI and an appropriate cap rate.
2. Value the property based on a static version of the Pro forma valuation model.
3. Value the property based on a dynamic Pro forma valuation model.
4. Build a base Pro forma valuation model.
  - a. Obtain Unlevered Property Cash flows: Build a model that forecasts the expected incremental cash flows from purchasing the property.
  - b. Obtain Levered Property Cash flows: Add to the model the incremental loan proceeds and payments associated with obtaining financing on the property. Calculate the residual cash flows to and from the equity investor.
  - c. Calculate the Expected Unlevered and Levered Property Values and IRRs: Value the projected cash flows from the property before and after leveraging with debt. Calculate IRR values based on the levered and unlevered cash flow streams based on a purchase price calculated in the static valuation model.



**Helpful Excel Tips**

1. Debt Service Payment

- $=PMT(\$C\$59/12, \$C\$60*12, \$H\$41)*12$
- This formula calculates the yearly total of monthly debt service payments based on the following.
  - C59 = annual interest rate
  - C60 = number of payment periods (amortization period x # of years)
  - H41 = loan amount originally borrowed

2. Principle Portion of the Debt Payment

- $=CUMPRINC(\$C\$59/12, \$C\$60*12, \$H\$41, H3*12+1, I3*12, 0)$
- This formula calculates the yearly total of the principle portion of the monthly debt service payments based on the following.
  - C59 = annual interest rate
  - C60 = number of payment periods (amortization period x # of years)
  - H41 = loan amount originally borrowed
  - $H3*12 + 1$  = first month of this year's debt service payment
  - $I3*12$  = last month of this year's debt service payment