

105 EAST NORTH POINTE DRIVE

PETSMART

SALISBURY, MARYLAND

Video



PETSMART

GROOMING

Best Friends
Animal Services



PEGASUS
INVESTMENTS



North Salisbury Boulevard ± 38,000 ADT



PEGASUS
INVESTMENTS



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CONTENT

4

Executive Summary

10

Physical Description

11

Tenant Profile

12

Market Area & Location



EXECUTIVE SUMMARY

OFFERING SUMMARY

Pegasus Investments Real Estate Advisory Inc., as exclusive investment sale advisor, is pleased to present the opportunity to acquire an extremely well-located single tenant net leased PetSmart with 20-years of historical occupancy. Located in Salisbury, Maryland at the main entrance to The Commons – a 300,000 SF institutionally owned shopping center anchored by Target, Home Depot and Best Buy, the property is arguably the best junior box in the market. The immediate retail trade area boasts occupancy of 98.9%, an impressive metric considering the 1.2 million square feet of open air shopping centers surrounding the subject property (Costar, June 2019). Further, as the only full format pet supply store within 25-miles, the PetSmart has enjoyed continuous occupancy since 1999 and recently extended its lease term to 2025.

The investment property is secured by a uniquely passive net lease structure, requiring very minimal property management by the landlord. Specifically, the lease and shopping center declaration were recently amended to create a CAM “pass-thru” whereby the shopping center declarant will maintain and service all common areas of the PetSmart parcel and bill the landlord a fixed CAM amount, which corresponds exactly with the fixed CAM reimbursement specified in the PetSmart lease. The result is a rare, passive net lease structure where the landlord should only be responsible for roof and structural elements of the building itself, thus eliminating the need for a property manager or local CAM vendor. In addition to the fixed CAM, PetSmart also pays for property taxes and insurance.



PRICING

PRICE

\$3,584,000

CAP RATE

7.25%

NOI

\$259,806



The pet industry is one of the fastest growing and most exciting segments within consumer retail today. With nearly 70% of U.S. households owning a pet, spending on pet care in 2018 reached an all-time record breaking high of \$72.56 billion. Millennials now make up the largest segment of pet owners in the country (35%), and key findings from recent research point to this segment of the population as the most likely to indulge in pet care consumption. According to a recent survey conducted by TD Ameritrade, Millennials are prepared to spend an average of \$2,000 on a sick pet, and one in ten said they would spend up to \$10,000. PetSmart, the #1 ranked pet supply retailer in the country, currently has over 1,650 stores in North America and has opened 500 in the last decade alone. In an aggressive attempt to dominate the brick and mortar as well as e-commerce channels, in 2017 PetSmart completed the largest e-commerce acquisition in history through its purchase of Chewy.com for \$3.35 billion. Forbes recently reported Chewy.com accounts for a staggering 45% of all dog and cat food purchased online.

INVESTMENT HIGHLIGHTS

IMPORTANCE OF BRICK & MORTAR: PET SERVICES & PET FOOD

Incorporated in the latest amendment, the Tenant plans to introduce a “Pet Drop-off Area” at the front of the store to accommodate their pet services. PetSmart has grown from a pet supplies merchant to a full-service provider of pet care, offering a wide variety of white glove handling. The services include grooming, training, day camp and PetsHotel. Additionally, according to a recent Forbes article, pet food and supplies purchased online represented only 14% of total sales in 2017. The combination of specialty food, a variety of supplies and on-site services continues to drive customers to the physical stores. Additionally, bulk pet food is extremely heavy and cumbersome, making it a highly inefficient and expensive item to ship.

BEST IN CLASS TENANCY: PETSMART RANKED #1 NATIONALLY

PetSmart is the largest specialty retailer of pet products and services in North America with over 1,650 stores across the US & Canada. PetSmart has aggressively invested in its role as the leader in the booming pet industry, opening over 500 stores since 2009. In 2017, PetSmart strategically acquired Chewy.com in an effort to control the online market for pet supplies. At the time, Chewy.com was said to have reached \$880M in sales in 2016 and projected to surpass \$1.5B in sales in 2017. Forbes recently reported that the online giant is responsible for 45% of the dog and cat food that is purchased online.

EXTREMELY PASSIVE NET LEASE STRUCTURE

The lease was recently amended to streamline management and ownership for the landlord. Previously, the property was part of the greater shopping center CAM pool, requiring onerous budgeting and reconciliations. However, the recent lease amendment removed that management function and placed it squarely on the owner of the shopping center. Going forward, the shopping center owner will bill the PetSmart parcel a fixed annual CAM, which is equal to the fixed CAM PetSmart has agreed to pay. The result is one of the most passive forms of double net leased investments available on the market, relieving the new landlord of virtually all physical management obligations (with the sole exception being roof and structure responsibilities). In addition to the fixed CAM payments, PetSmart is also responsible to pay for property taxes and insurance.



SITUATED WITHIN THE COMMONS – SALISBURY’S DOMINANT SHOPPING CENTER

The property is located at the primary entrance to the dominant center in the trade area. In order to obtain best position for success, PetSmart chose to locate at the epicenter of the bustling commercial hub in Salisbury, Maryland with over 1.2M SF of retail in the immediate area (1 mile). The property sits at the main signalized intersection as an outparcel to The Commons – an institutionally owned, 300,000+ SF open air shopping center anchored by Target, Home Depot and Best Buy. Additionally, Walmart, Sam’s Club, Kohl’s & Hobby Lobby are located directly across the street along with a new Aldi grocery store recently constructed adjacent to The Commons.

ONLY LARGE FORMAT NATIONAL PET STORE WITHIN 25 MILES – LIMITED COMPETITION

PetSmart benefits at this site from very limited competition in the market. With the nearest large format pet store being located over 25 miles away from the subject property, the site is the primary pet supply store serving the regional trade area. Although Salisbury is the largest city serving Maryland’s Eastern Shores region, the city of Salisbury itself is a year round city as well as the principal city within the Salisbury Metropolitan Statistical Area – an MSA with a population exceeding 400,000. The large trade area served by Salisbury’s thriving retail presence further underscores the relevance and importance of the PetSmart’s real estate. PetSmart’s 20 year occupancy history and recent renewal underscore the tenant’s proven competitive advantage in this location.



20-YEAR HISTORICAL OCCUPANCY – EARLY LEASE RENEWAL BY TENANT

A rare feat for many tenants in today’s retail environment, PetSmart has successfully operated at the site for 20 years. Furthermore, as a testament to the tenant’s successful performance and dedication to the real estate, when the tenant’s initial 15-year lease term expiration was coming up in 2015 it exercised not only one but two of its 5-year options. In today’s rapidly evolving environment, PetSmart has stood the test of time over the last two decades and has established itself as a staple destination within the Salisbury metro area.



NO JUNIOR BOX VACANCY – ONLY 1% RETAIL VACANCY – ATTRACTIVE RENT BASIS

Of the roughly 1.2 million square feet of retail in the immediate retail corridor surrounding The Commons, there is only 13,300 SF of total vacancy (1.1%), with the largest unit available being 6,500 SF (according to Costar, June 2019). The referenced vacant unit is located in the Salisbury Promenade – a Barnes & Noble anchored shopping center, with an advertised asking rent of \$25/SF + NNN. Comparatively, the PetSmart measures 18,895 SF and is paying \$13.75/SF + NNN. The location of the PetSmart is considered to be significantly superior. The lack of available space in the market speaks not only to the strength of the location, but also the limited options PetSmart has to relocate. Hypothetically, if PetSmart were to vacate, given the current supply/demand metrics the subject property would be the only option for new tenants coming to the market or seeking to relocate from within the market.

SURROUNDED BY SALISBURY'S HIGHEST CONCENTRATION OF LARGE MULTIFAMILY COMMUNITIES

Over the past 15 years, there have been multiple apartment complexes developed within one mile of the subject property. In total there are over 1,200 apartments within walking distance which provides a steady flow of traffic to the surrounding retailers. Driving through Salisbury today you will encounter several new, ground up residential developments – a clear sign of Salisbury's strong housing demand and a bright future for this community and its residents. The closest is Addison Court, a 300-unit multifamily campus completed in 2014 and located directly adjacent to the Target. A few hundred yards to the south of Addison Court is Mill pond Village, a 456-unit multifamily campus built in 2001. To the north is Pond's Edge Apartments, a 264-unit multifamily development completed in 2007. The three largest apartment developments in the Salisbury metro area have all been constructed within a mile of the subject property, illustrating the centrality of the PetSmart location.

TENANT SUMMARY

Lessee Name	PetSmart, Inc.
Type of Ownership	Fee Simple
Lessee Entity Type	Corporate
Lease Type	NN
Roof and Structure	Landlord Responsible
Term Remaining	± 5.5 Years
Lease Commencement Date	6/1/1999
Lease Expiration Date	1/31/2025
Increases	Varied
Options	Three, 5-Year Options



20-YEAR HISTORICAL OCCUPANCY



ANNUALIZED OPERATING DATA

	MONTHLY RENT	ANNUAL RENT	RENT/SF	CAP RATE
Current - 1/31/2020	\$20,942	\$251,304	\$13.30	7.01%
2/1/2020 - 1/31/2025	\$21,651	\$259,806	\$13.75	7.25%
Option 1	\$22,044	\$264,530	\$14.00	7.38%
Option 2	\$22,831	\$273,978	\$14.50	7.65%
Option 3	\$23,619	\$283,425	\$15.00	7.91%

PHYSICAL DESCRIPTION

BUILDING & SITE PROFILE

Property Name	PetSmart
Address	105 East North Pointe Drive Salisbury, MD 21804
Zoning	General Commercial
Gross Leasable Area	± 18,895 SF
Lot Size	± 0.75 Acres (32,681 SF)
Year Built / Renovated	1999
Number of Stories	1
Number of Buildings	1





TENANT PROFILE



PETSMART

Private

www.petsmart.com

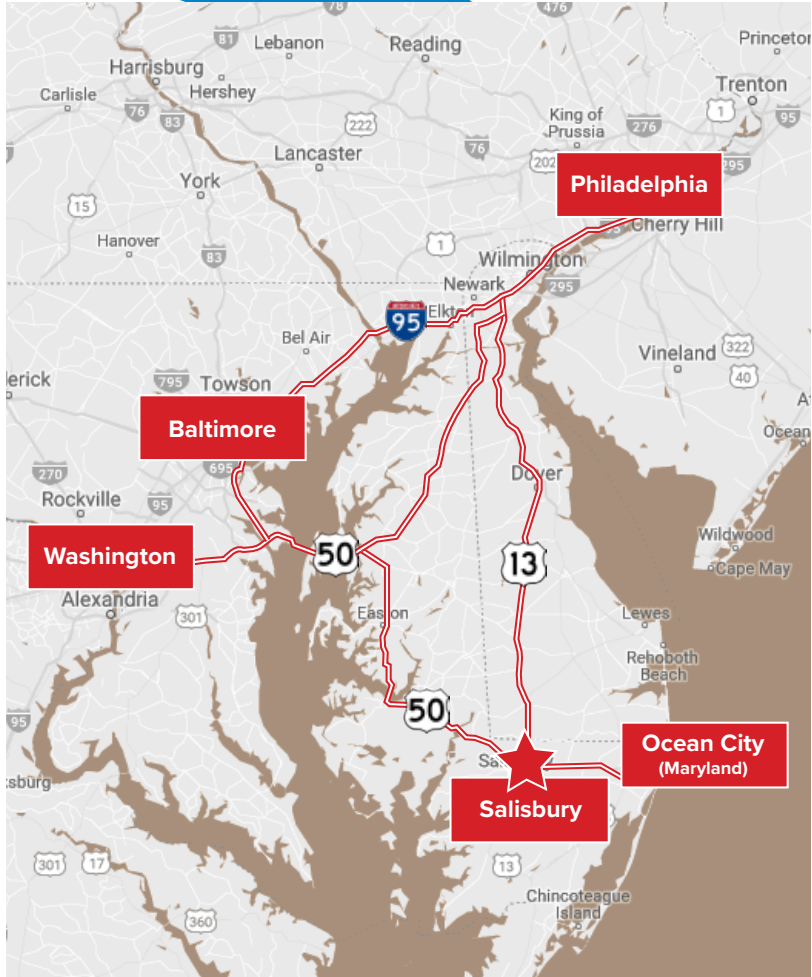
# of Locations	± 1,650 (All)
# of Employees	± 56,000
Headquartered	Phoenix, AZ
Year Founded	1987

PET CARE SPENDING IN 2018 REACHED A RECORD-BREAKING HIGH OF \$72.56B

OVERVIEW

PetSmart is the largest specialty pet retailer that provides products and services for the needs and well-being for all kinds of pets – from cats and dogs to parakeets and goldfish. The store has more than 1,650 locations across the U.S., Canada and Puerto Rico. In addition to providing over 11,000 competitively priced pet food and products, PetSmart also offers a wide array of pet services including training, pet grooming, boarding, PetSmart Doggie Day Camp and in-store pet adoptions. Customers can also find expert veterinarian care and in-store pet hospitals that provide a full range of health care and emergency services for pets in need. Dedicated to improving the wellness of homeless animals, PetSmart has continuously brought adoptable pets into stores to help them find a permanent home. As of 2018, PetSmart has facilitated more than 8M pet adoptions – more than any other brick-and-mortar organization.

MAJOR RETAIL HUB SERVING MARYLAND'S BEACH COMMUNITIES



MARKET AREA & LOCATION

SALISBURY, MARYLAND

Located in the heart of Maryland's eastern shore along the Wicomico River, Salisbury is a city that enjoys convenient access to amongst the Washington DC, Philadelphia, Baltimore and the Virginia areas. Often referred to as the crossroads of Delmarva, Salisbury is considered the commercial hub of Delmarva Peninsula; it has historically acted as the port and transportation center Maryland's eastern shore region. The diverse real estate options and reasonable cost of living have made the city a highly desirable location for businesses and families. Consequently, today it is the largest city in Maryland's eastern shore region and the county seat of Wicomico County. A close-knit community blessed with natural beauty of both the ocean and the bay, Salisbury is rapidly growing and innovating itself to represent the well-rounded and authentic Maryland experience.

ECONOMIC SNAPSHOT

Located in the heart of Maryland's eastern shore along the Wicomico River, Salisbury is a city that enjoys convenient access to amongst the Washington DC, Philadelphia, Baltimore and the Virginia areas. Often referred to as the crossroads of Delmarva, Salisbury is considered the commercial hub of Delmarva Peninsula; it has historically acted as the port and transportation center Maryland's eastern shore region. The diverse real estate options and reasonable cost of living have made the city a highly desirable location for businesses and families. Consequently, today it is the largest city in Maryland's eastern shore region and the county seat of Wicomico County. A close-knit community blessed with natural beauty of both the ocean and the bay, Salisbury is rapidly growing and innovating itself to represent the well-rounded and authentic Maryland experience.



TOWN SQUARE AND TOWN CENTER

The Salisbury Town Square and Town Center is a city-planned mixed-development project. Upon completion, it will become the cultural center for outdoor events and community gatherings. Scheduled to break ground in June 2019, the \$1M Town Square will feature green space, outdoor seating, family-friendly games, etc. The Town Center will begin construction in October 2019, featuring restaurants and retail space on the ground floor with 40-50 apartment units on the floors above it.

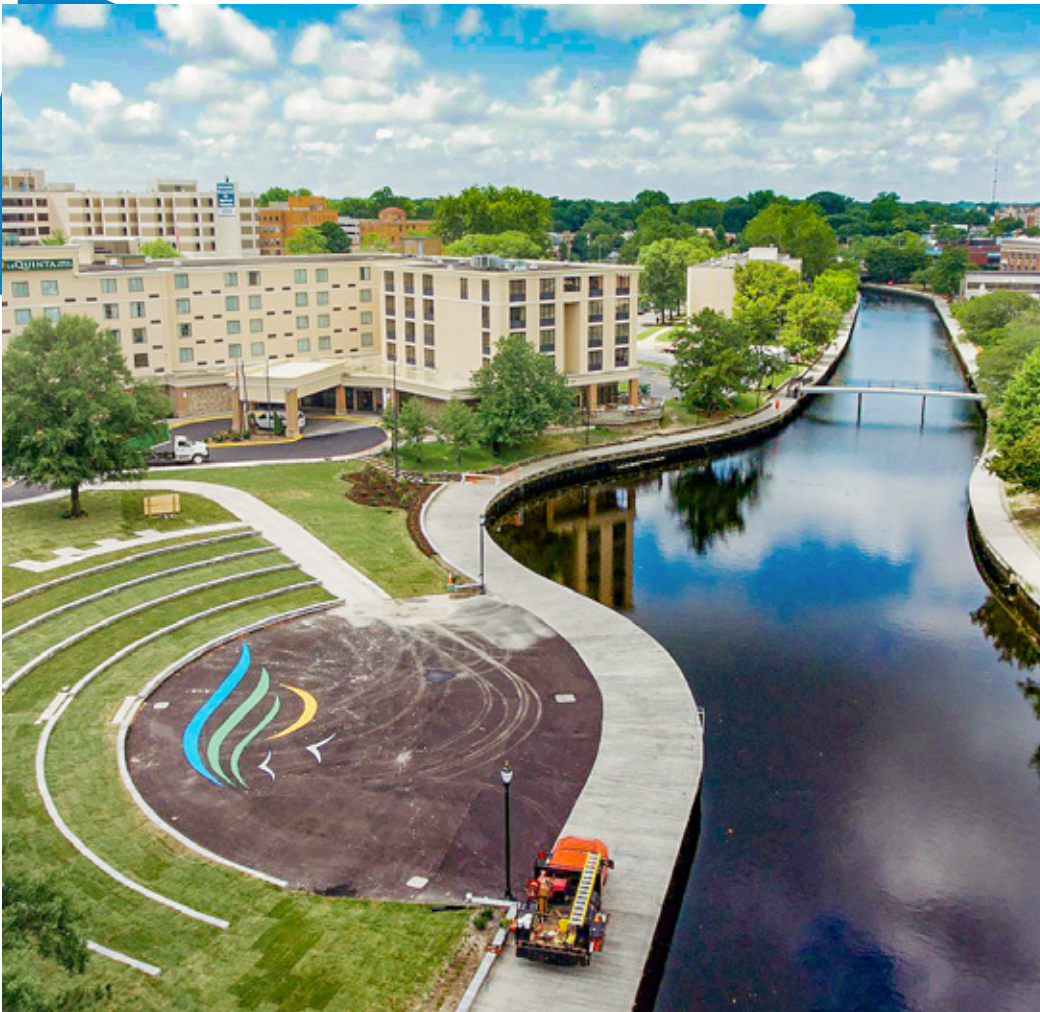


SALISBURY UNIVERSITY

Salisbury University is a prominent public institution located merely two miles away from Downtown Salisbury. Home to more than 8,700 students, the 185-acre university campus exudes a small university atmosphere alongside big university resources, creating a superior learning environment that nurtures excellence and success. Salisbury provides its students and athletes numerous benefits and an enriched recreational campus life. The recent addition of a \$3.8M, 135,000 SF baseball stadium culminated the university's impressive series of improvements to its athletics complex, which totaled more than \$40M.

132 EAST MAIN STREET

One of the most exciting incoming projects in downtown, 132 East Main Street is about to transform Salisbury's skyline forever. Originally a historic 4-story office building constructed in the 1920s, a local developer is planning to give the property a fresh makeover. The completed project will preserve the historic façade of the downtown landmark while incorporating a contemporary design that gives its residents unobstructed views of downtown Salisbury and the Wicomico River. Upon its scheduled completion in Fall 2019, the building will have an additional six floors of fully furnished luxury student apartments with free parking garage access, a community garden, a coffee bar and study rooms.



PROPERTY DEMOGRAPHICS

POPULATION	1-MILE	3-MILE	5-MILE
2023 Projection	3,357	20,914	56,617
2018 Estimate	3,225	20,296	54,988
Growth 2018 - 2023	4.09%	3.04%	2.96%
HOUSEHOLDS	1-MILE	3-MILE	5-MILE
2023 Projection	1,440	7,969	22,066
2018 Estimate	1,376	7,716	21,412
Growth 2018 - 2023	4.65%	3.28%	3.05%
INCOME	1-MILE	3-MILE	5-MILE
2018 Est. Average Household Income	\$74,088	\$63,610	\$56,756

SURROUNDED BY NEW RESIDENTIAL PROJECTS

500 RIVERSIDE DRIVE

Slated to open in 2019, the 3-acre riverfront development 500 Riverside Drive will become a mixed-use town center including retail, dining and office space for people of all ages to enjoy along the scenic Wicomico River. Anchored by a 10,000 SF restaurant with a banquet room and a rooftop bar, all suites in the building will have pleasant views of the river and downtown Salisbury. A destination well-incorporated into the riverfront, the building offers outdoor and rooftop dining areas, a large breezeway allowing boats slipping into the center of the building, a new Riverwalk optimized for pedestrian access, and free parking.

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ABOUT PEGASUS INVESTMENTS

Pegasus Investments Real Estate Advisory ("Pegasus Investments") represents a broad range of clients, from institutional investment firms to developers, high net worth individuals, family trusts and partnerships in connection with the purchase & sale and leasing of high quality investment properties nationwide. Pegasus Investments is one of the foremost leading advisory firms within the single tenant and multi-tenant triple net leased retail property category having completed in excess of \$1 billion in volume since 2014.

Pegasus Investments offers a highly differentiated advisory platform given its ability to collaborate within a vertically integrated environment with Pegasus Capital Markets and Pegasus Asset Management to ensure a seamless transaction for all parties involved. The result is highly customized, creative, streamlined execution.



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ABOUT PEGASUS

Pegasus is a boutique commercial real estate investment and advisory firm based in Los Angeles, California. Specializing in retail shopping centers, single tenant net leased and multifamily properties throughout the United States, Pegasus has consistently delivered on its 30 year reputation of providing high quality, white glove service throughout all stages of the investment sales process. Pegasus provides its clients, which include high net worth private investors, family trusts, private & public REITs, local and regional developers and syndicators with advisory services encompassing underwriting, market research, investment sales and asset management. Pegasus continues to set the bar for high quality, boutique investment sales brokerage and advisory by relying on its industry-leading talent, which include experienced institutional and private sector investors.