

HARBOR FREIGHT
QUALITY TOOLS LOWEST PRICES

OFFERING MEMORANDUM

BRAND NEW INTERSTATE 5 HARBOR FREIGHT TOOLS

90' High Pylon Sign on I-5

Ingress/Egress Adjacent to
Interstate 5 Freeway

LOS ANGELES COUNTY

5200 TRIGGS STREET
COMMERCE, CA 90022



Marcus & Millichap



HARBOR FREIGHT TOOLS

This is an aerial photograph of a busy section of Interstate 5. The highway has multiple lanes in both directions, filled with cars and trucks. To the right of the highway, there is a large commercial area. A prominent building is Harbor Freight Tools, with its name and logo clearly visible. Next to it is a smaller building labeled 'DESTINY INN'. The background shows a dense urban landscape with various buildings and trees under a clear sky. Two text boxes are overlaid on the image: one for 'HARBOR FREIGHT TOOLS' with a location pin icon, and another for 'INTERSTATE 5 380,000 VPD'.



INTERSTATE 5
380,000 VPD



HARBOR FREIGHT TOOLS · INTERSTATE 5

5200 TRIGGS STREET · COMMERCE, CA 90022

PRESENTED BY

ARIA POURNAZARIAN

Senior Associate

National Retail Group

Office 213.943.1874

Email aria.pournazarian@marcusmillichap.com

License CA 01918248

ADLEE EFRAIM

Associate

National Retail Group

Office 213.943.1872

Email adlee.efraim@marcusmillichap.com

License CA 02028358

Marcus & Millichap
515 S. Flower Street, Suite 500
Los Angeles, CA 90071

Marcus & Millichap

OFFICES NATIONWIDE AND THROUGHOUT CANADA

WWW.MARCUSMILLICHAP.COM

Commanding the most highly trafficked stretch of Southern California's Interstate 5 Freeway



Marcus & Millichap

This information has been secured from sources we believe to be reliable, but we make no representations or warranties, expressed or implied, as to the accuracy of the information. References to square footage or age are approximate. Buyer must verify the information and bears all risk for any inaccuracies. Any projections, opinions, assumptions or estimates used herein are for example purposes only and do not represent the current or future performance of the property. Marcus & Millichap Real Estate Investment Services is a service mark of Marcus & Millichap Real Estate Investment Services, Inc. © 2019 Marcus & Millichap. Activity ID: -

*An exclusive acquisition opportunity
in one of Los Angeles' highest
“barrier to entry” markets*



Marcus & Millichap



OFFERING OVERVIEW

Marcus & Millichap is pleased to offer an exclusive acquisition of the fee-simple interest in a net-leased Harbor Freight Tools (the “Property”) located in the City of Commerce.

The property consists of a newly constructed freestanding building that is corporately tenanted by Harbor Freight Tools USA, Inc. (d/b/a Harbor Freight Tools) on a brand new NNN lease with 10 years of term and 10% increases every 5 years. Landlord responsibilities are limited to roof and structure. The improvements consist of a newly constructed 16,190 square foot building situated on a 1.068 acre lot with 54 parking spaces.

The property benefits from signage with a newly erected 90-foot-tall pylon sign overlooking the I-5 Freeway enhancing existing tenant exposure and visibility to over **380,000 vehicles per day**. This spectacular site is located just off the on/off ramp for the 5 Freeway along a stretch of Commerce surrounded by dense retail, industrial, and residential presence. The

unique intersection of Atlantic Boulevard, Telegraph Road, and Eastern Avenue located steps from the property bridge Downtown Los Angeles, Mid-Cities, East Los Angeles, Montebello and Whittier.

The unity of Atlantic Boulevard, Telegraph Road, and Eastern Avenue located in close proximity to the property is a key component of this unique location serving to bridge several markets: Downtown Los Angeles, Vernon, Mid-Cities, East Los Angeles, Montebello, and Monterrey Park.

Complimenting national credit retailers of Home Depot, Target, and Costco are located blocks from the property. The location serves an extremely dense middle-class demographic with over 280,000 total population in a 3-Mile Radius and **over 760,000 residents in a 5-Mile radius** with a median household income of \$43,671. The outstanding location, newly constructed building, long-term corporate lease, and contractual rental increases make this a great investment opportunity.

Marcus & Millichap

- ▶ Concrete tilt-up built-to-suit building with official store opening October 22, 2019
- ▶ Tenant has 10 years of brand-new lease term remaining with 10% rental increases every 5 years
- ▶ The Tenant is on an NNN lease with landlord responsibilities limited to roof and structure
- ▶ Strong long-term tenant assumptions—Irreplaceable Harbor Freight Tools location with limited surrounding competition coupled with a replaceable starting rent of \$1.60/SF
- ▶ Property improvements include a newly constructed 16,190 square foot freestanding building with 24 foot high clearance, pylon signage, 54 parking spaces, with multiple points of ingress and egress
- ▶ Over \$1 Million in T.I.'s invested by tenant during construction
- ▶ Corporate guarantee from Harbor Freight Tools USA, Inc.
- ▶ Conveyor belt of consumers—Adjacent to a well-trafficked Interstate 5 Freeway Atlantic on/off ramp; adjacent to Denny's with reported annual sales of \$3,000,000+

OFFERING HIGHLIGHTS



NEWLY CONSTRUCTED
BUILT-TO-SUIT LOCATION



IDEAL 1031 EXCHANGE
OPPORTUNITY – TENANT
ON NEW NNN LEASE



NUMEROUS
PROPERTY
IMPROVEMENTS

OFFERING HIGHLIGHTS

HARBOR FREIGHT TOOLS

COMMERCE, CA

5200 Triggs Street, Commerce, CA 90022

OFFERING PRICE

\$6,844,444

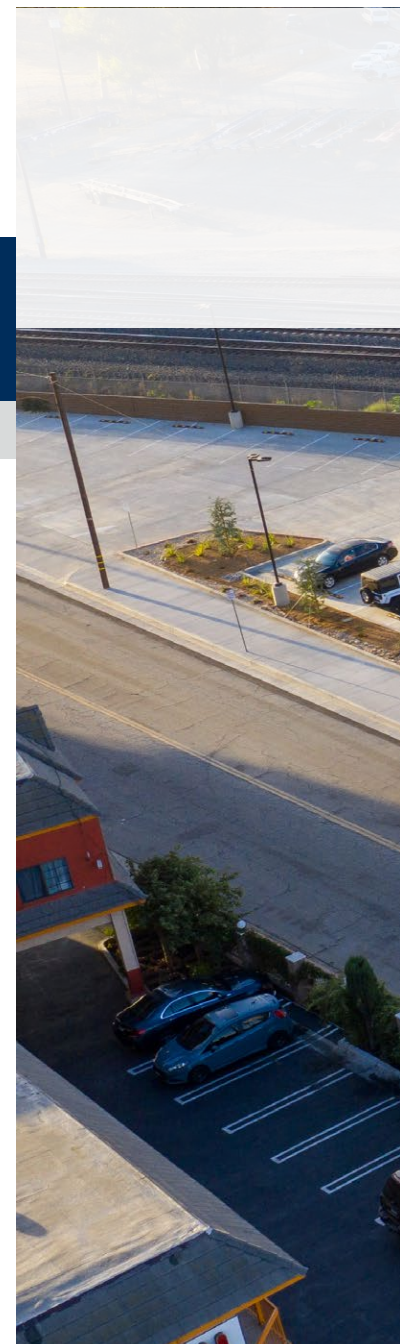
CAP RATE

4.50%

VITAL DATA

Price	\$6,844,444
Cap Rate (Years 1–5)	4.50%
Cap Rate (Years 6–10)	4.95%
Net Operating Income	\$308,000
Remaining Lease Term	10 Years
Gross Leasable Area	16,190 SF
Lot Size	1.068 Acres

Marcus & Millichap



NEWLY CONSTRUCTED
BUILDING ON BRAND
NEW NNN LEASE





FINANCIAL ANALYSIS

THE OFFERING

Property	Harbor Freight Tools
Address	5200 Triggs Street Commerce, CA 90022
Price	\$6,844,444
Cap Rate (Years 1–5)	4.50%
Cap Rate (Years 6–10)	4.95%
Product Type	Tools & Equipment

PROPERTY DESCRIPTION

Year Built	2019
Gross Leasable Area	16,190 SF
Lot Size	1.068 Acres
Zoning	Commerce M2

DEBT SUMMARY

Loan Amount	\$3,422,222
Interest Rate	4.04%
Amortization	30 Years
Term	10-Year Fixed
No Prepayment Penalty	



LEASE SUMMARY

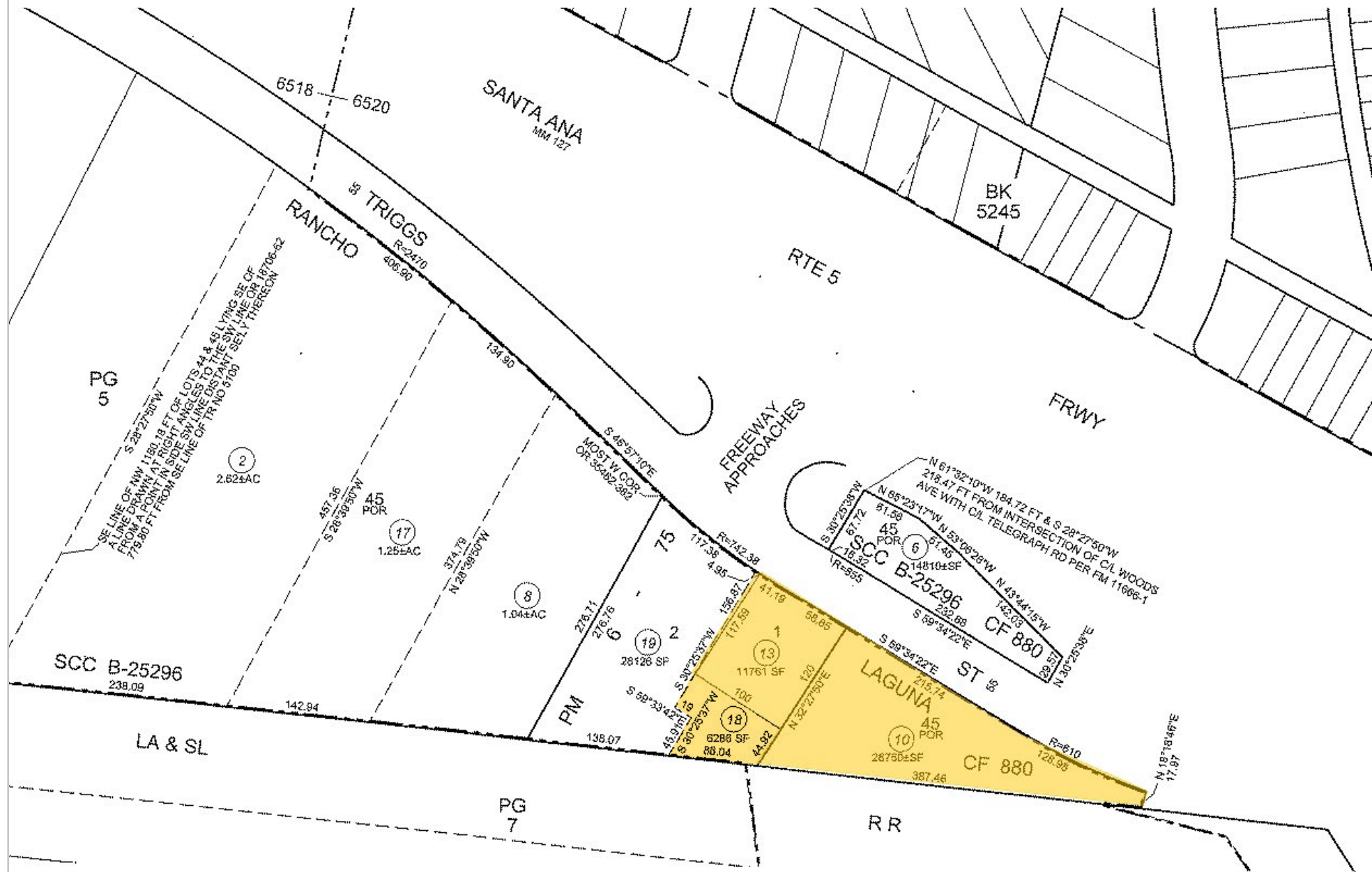
Property Subtype	Single-Tenant Freestanding Retail
Tenant	Harbor Freight Tools USA, Inc.
Company Type	Private
Lease Type	NNN
Landlord Responsibility	Roof & Structure*
Ownership Interest	Fee Simple
Lease Term	10 Years
NOI	\$308,000
NOI/SF	\$1.60
Rental Increases	10% Increase Every 5 years
Renewal Options	(4) 5-Year Options
Next Rental Increase	\$338,880 (Years 6-10)

*10 year transferable roof warranty

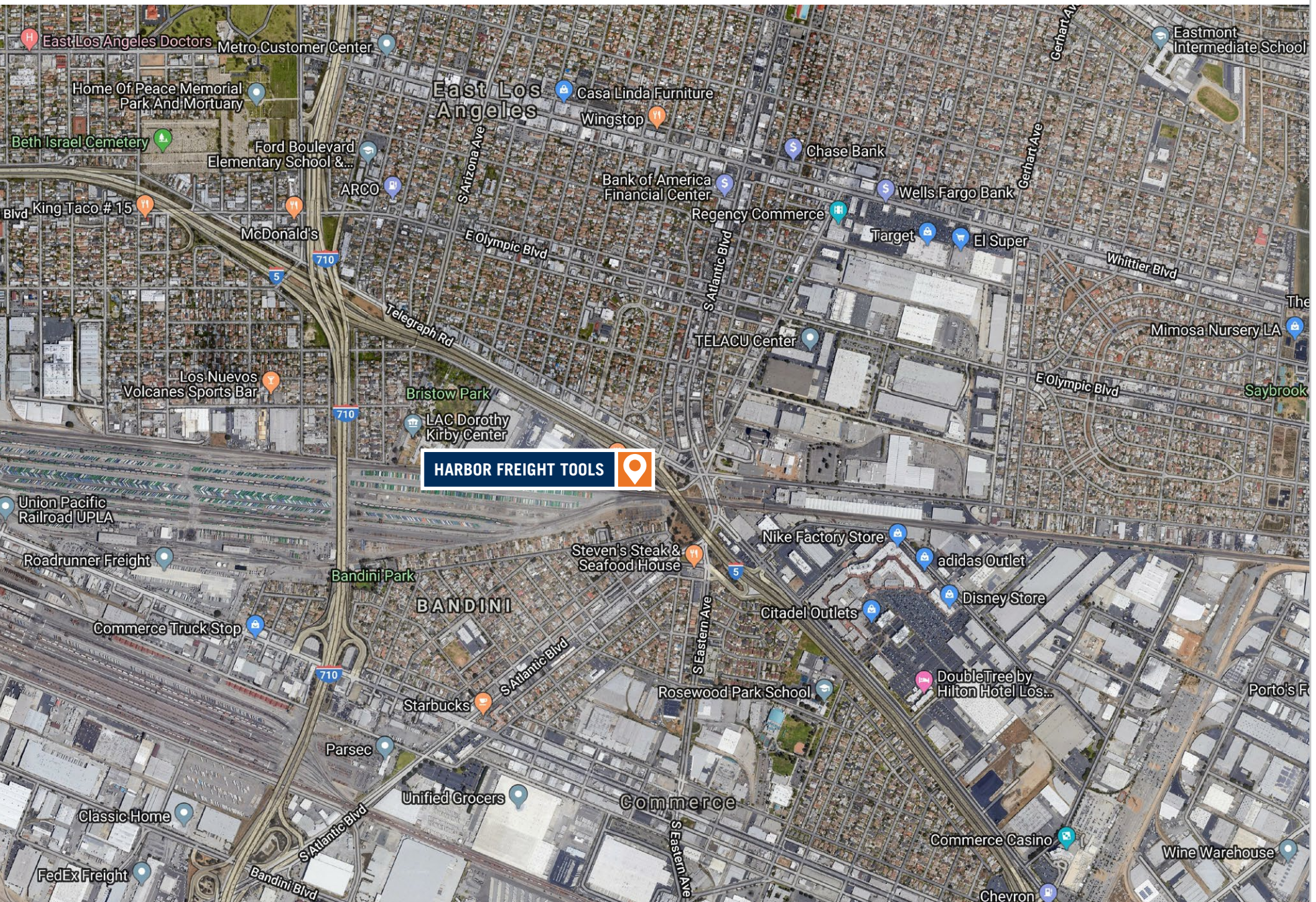
*50 year transferable roof membrane







MAR 1







WHY HARBOR FREIGHT TOOLS?

Just as the American consumer becomes more price sensitive:

- I. In 2019, tariffs increased from 10% to 25% on \$250 billion worth of exports***
- II. Chance of market correction / recession within next 24 months***

Harbor Freight Tools and its proprietary brands have reached a tipping point of national recognition. The retailer has expanded to every city and state in the USA and now has the scale to meaningfully draw customers away from The Home Depot, Walmart, and Loews at little additional marketing and logistics costs.

The corporation has expanded from

- I. In July 2015, \$3.1 billion in revenue & a \$606.9 million profit (EBITDA) to***
- II. In April 2019, \$4.6 billion in annual revenue & a \$961.3 million profit (EBITDA)***

at the lowest cost of money of any privately held retailer in the United States.

- I. As of Summer 2019, Harbor Freight Tools pays a 4.94% interest rate on its debt***
- II. Other major retailers, from discount to luxury, pay 6.00% to 7.50% interest***

Like Apple, Starbucks and other leading American companies, Harbor Freight Tools has taken advantage of its low cost of money to not only expand, but *invest*:

- I. The company controls its supply chain, from the manufacturing to the warehousing***
- II. In its market space, Harbor Freight Tools is uniquely able to redistribute costs and discounts at the store to gain market share without decreasing profit, while simultaneously relocating manufacturing across the world to avoid tariffs***

“Lenders line up to write money for him,” jests investment banker Lloyd Greif to *Bloomberg* several months ago about Harbor Freight Tools sole owner, philanthropist Eric Smidt. The smartest and most conservative money in the world (BlackRock, Fidelity Investments) competes to lend to this corporation because it is both the “high EBIT margin” player in its industry (*Moody’s*) and yet also positioned to dominate that market as the synergies of its just-completed national expansion come to fruition. In its August 4, 2019 credit opinion, *Moody’s* predicted that “given the many pressures facing consumers, we think the company’s focus on value is an advantage.”

TENANT SUMMARY

Name	Harbor Freight Tools USA, Inc.
Type	Private
Founded	1977
Headquarters	Calabasas, California
Locations	1,000 Nationwide
Number of Employees	20,000

IMAGE A: HARBOR FREIGHT REVENUE GROWTH FROM JULY 2015 TO MOST RECENT DISCLOSURE

	7/31/15	7/31/16	7/31/17	7/31/18	4/30/19
Revenue	3,100,000,000	3,500,000,000	3,800,000,000	4,300,000,000	4,600,000,000
Operating Leases	131,000,000	149,600,000	173,400,000	197,100,000	197,100,000
Leases as % of Revenue	4.23%	4.27%	4.56%	4.58%	4.28%
Moody's-Adjusted EBITDA	606,900,000	850,000,000	866,000,000	1,011,100,000	961,300,000
Leases as % of EBITDA	21.59%	17.60%	20.02%	19.49%	20.50%

IMAGE B: COST OF MONEY FOR HARBOR FREIGHT TOOLS AS OF SUMMER 2019**BlackRock Debt Strategies Fund***[From May 31, 2019 Schedule of Investments](#)*

Harbor Freight Tools 2018 Term Loan B, (1 mo. LIBOR + 2.50%)	4.94%	08/18/23
Hudson's Bay Co. 2015 Term Loan B, (2 mo. LIBOR + 3.25%, 1.00% Floor)	5.81%	09/30/22
Neiman Marcus 2020 Term Loan, (1 mo. LIBOR + 3.25%, 1.00% Floor)	5.72%	10/25/20
Albertsons Term Loan B7, (1 mo. LIBOR + 3.00%)	5.44%	11/17/25
Albertsons	6.63%	06/15/24
Staples	7.50%	04/15/26

Fidelity Summer Street Trust*[From June 30, 2019 Portfolio Holdings Exhibit](#)**[Archived](#)*

Harbor Freight Tools Tranche B, term loan 3 month U.S. LIBOR + 2.500%	4.9024%	8/19/23
PETCO Tranche B 1LN, term loan 3 month U.S. LIBOR + 3.250%	5.8328%	1/26/23
PetSmart term loan 3 month U.S. LIBOR + 4.250%	6.67%%	3/11/22

LOCATION OVERVIEW

The City of Commerce is located in Southeast Los Angeles County bordered by Vernon to the West and Southwest, Montebello to the east, Downey and Bell Gardens to the south. The immediate area is largely categorized as a concentrated in-fill market. Known for being a primarily industrial market in Los Angeles County, Commerce boasts itself as a haven for industry, consumerism, and transportation. The City of Commerce boasts several established points of interest between Commerce Casino, Citadel Outlet Malls and AltaMed's corporate Commerce Facility. Amazon recently opened a fulfillment center in neighboring Vernon further boosting the area's profile. Commerce is served by major freeways, including the Long Beach 710 and Santa Ana 5 Freeways, along with Metrolink commuter rail service center at the Commerce station. In 1960, the city was incorporated to prevent neighboring cities from annexing industrial land for tax revenue. In the 1980s, Commerce began the process to maintain its processing and manufacturing distribution base by successfully converting former industrial sites into high technology, warehouse, office, and retail. The City of Commerce continues to be a dynamic city servicing the greater Los Angeles area.



CITADEL OUTLET MALL →

Located in the City of Commerce, the Citadel Outlets is an outlet mall and can be seen along the Santa Ana Freeway (I-5 Freeway) going towards Downtown Los Angeles. The center features exotic revival architecture of the old tire factory, completed in the style of an Assyrian castle. It features over 130 name brand stores and restaurants. In 2008, a \$52M renovation took place to maintain its historical architecture and in 2010, the center expanded again opening an additional \$157,000 SF. The Citadel Outlets is known as one of Southern California's most convenient and attractive outlet shopping destinations.

Distance to the Property: 0.7 Miles



← COMMERCE CASINO

Commerce Casino is the largest cardroom in the world which features over 240 tables on site. As of 2016, the casino was providing \$22M annually in licensing fees to the city. Along with the cardroom, Commerce Casino includes a full service 200-room hotel, the Crowne Plaza Hotel, including dining options, spa, salon, pool, shops and entertainment. The Commerce Casino houses several poker tournament series, including the Los Angeles Poker Classic, California State Poker Championship, Commerce Hold'em Series, and the LA Poker Open.

Distance to the Property: 1.3 Miles Away

AMAZON FULFILLMENT CENTER ↓

Newly constructed in 2015, the site serves as the fulfillment facility for Amazon's Los Angeles and Southern California market. The site serves and a 120,000 SF warehouse and distribution facility visited by hundreds of drivers and delivery personnel daily while employing a multitude of logistics managers, operations specialists, and corporate employees.

Distance to the Property: 2.1 Miles

AltaMed

ALTAMED CORPORATE HEADQUARTERS ↑

To expand health care services to Los Angeles' growing communities, AltaMed Health Services, the nation's largest independent federally qualified community health center, has opened a new medical and dental center in Commerce.

The community will have a new 30,000 square foot facility, which has 13 urgent care exam rooms, 10 dental exam rooms, 19 pediatric exam rooms, eight women's health exam rooms for gynecology and obstetrics, and a pharmacy.

The increased prevalence of chronic diseases in the United States, including diabetes, obesity, heart disease and respiratory illness, have been widely recognized as major social and economic challenges for Los Angeles County. According to a report from the Los Angeles County Department of Public Health, 35 percent of adults in East Los Angeles have expressed difficulty accessing medical care.

Distance to the Property: 0.7 Miles

AREA HIGHLIGHTS



EXCELLENT INFRASTRUCTURE

I-5 Freeway adjacent with access to over 380,000 vehicles VPD. The I-5 Freeway is the primary North-South artery of Southern California. I-5 Freeway enters the City of Commerce from Downtown Los Angeles, passing the property, and intersects the I-710 Freeway before entering large unincorporated communities of East and South Los Angeles.



MAJOR INDUSTRIAL MARKET

Property is in City of Commerce a major industrial market of Los Angeles for both manufacturing and national logistics.



HIGH VISIBILITY

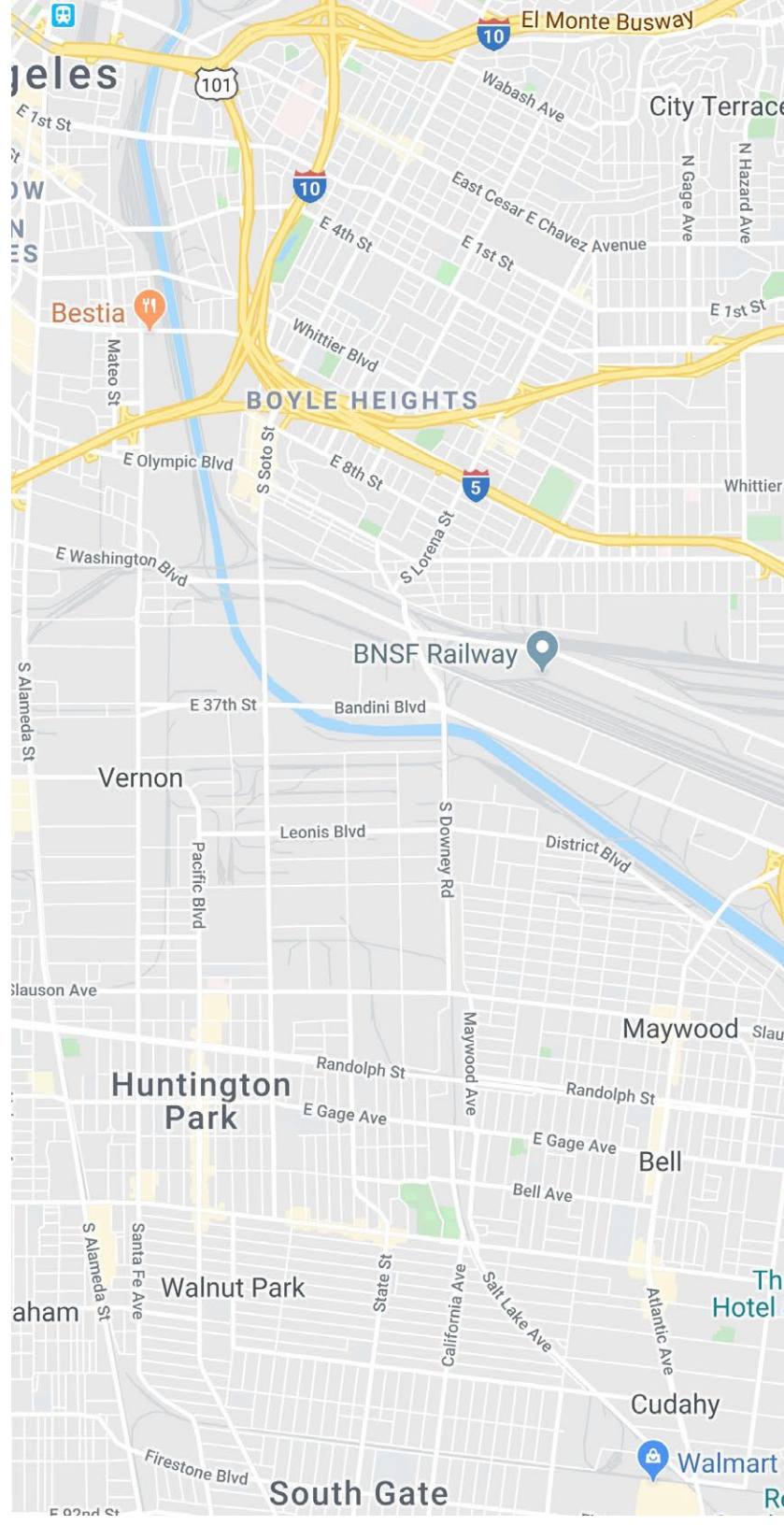
Excellent frontage a visibility to I-5 Freeway, Atlantic Avenue, Eastern Avenue and Telegraph Road.



IDEAL TENANT DEMOGRAPHIC

Large dense in-fill market comprised of neighboring East Los Angeles, Montebello, Whittier, Mid-Cities.

Marcus & Millichap





DEMOGRAPHIC SNAPSHOT

POPULATION	1 MILE	3 MILES	5 MILES
2023 Projection	20,772	237,765	748,880
2018 Estimate	20,761	240,623	760,979
2010 Census	20,046	234,793	745,319
2000 Census	19,068	234,369	748,315

INCOME	1 MILE	3 MILES	5 MILES
Average	\$70,754	\$69,294	\$68,764
Median	\$54,535	\$52,286	\$52,366
Per Capita	\$18,474	\$18,892	\$18,519

HOUSEHOLDS	1 MILE	3 MILES	5 MILES
2023 Projection	5,389	65,765	205,257
2018 Estimate	5,289	65,129	203,738
2010 Census	5,056	62,896	197,487
2000 Census	4,738	62,447	196,299

HOUSING	1 MILE	3 MILES	5 MILES
2018	\$458,508	\$467,888	\$438,914

EMPLOYMENT	1 MILE	3 MILES	5 MILES
2018 Daytime Population	25,783	235,784	677,417
2018 Unemployment	7.05%	5.74%	5.59%
2018 Median Time Traveled	32	32	32

RACE & ETHNICITY	1 MILE	3 MILES	5 MILES
White	53.99%	54.35%	51.78%
Native American	0.15%	0.11%	0.14%
African American	1.42%	1.49%	1.94%
Asian/Pacific Islander	2.65%	3.17%	4.44%

NET LEASED DISCLAIMER

Marcus & Millichap hereby advises all prospective purchasers of Net Leased property as follows:

The information contained in this Marketing Brochure has been obtained from sources we believe to be reliable. However, Marcus & Millichap has not and will not verify any of this information, nor has Marcus & Millichap conducted any investigation regarding these matters. Marcus & Millichap makes no guarantee, warranty or representation whatsoever about the accuracy or completeness of any information provided.

As the Buyer of a net leased property, it is the Buyer's responsibility to independently confirm the accuracy and completeness of all material information before completing any purchase. This Marketing Brochure is not a substitute for your thorough due diligence investigation of this investment opportunity. Marcus & Millichap expressly denies any obligation to conduct a due diligence examination of this Property for Buyer.

Any projections, opinions, assumptions or estimates used in this Marketing Brochure are for example only and do not represent the current or future performance of this property. The value of a net leased property to you depends on factors that should be evaluated by you and your tax, financial and legal advisors.

Buyer and Buyer's tax, financial, legal, and construction advisors should conduct a careful, independent investigation of any net leased property to determine to your satisfaction with the suitability of the property for your needs.

Like all real estate investments, this investment carries significant risks. Buyer and Buyer's legal and financial advisors must request and carefully review all legal and financial documents related to the property and tenant. While the tenant's past performance at this or other locations is an important consideration, it is not a guarantee of future success. Similarly, the lease rate for some properties, including newly-constructed facilities or newly-acquired locations, may be set based on a tenant's projected sales with little or no record of actual performance, or comparable rents for the area. Returns are not guaranteed; the tenant and any guarantors may fail to pay the lease rent or property taxes, or may fail to comply with other material terms of the lease; cash flow may be interrupted in part or in whole due to market, economic, environmental or other conditions. Regardless of tenant history and lease guarantees, Buyer is responsible for conducting his/her own investigation of all matters affecting the intrinsic value of the property and the value of any long-term lease, including the likelihood of locating a replacement tenant if the current tenant should default or abandon the property, and the lease terms that Buyer may be able to negotiate with a potential replacement tenant considering the location of the property, and Buyer's legal ability to make alternate use of the property.

By accepting this Marketing Brochure you agree to release Marcus & Millichap Real Estate Investment Services and hold it harmless from any kind of claim, cost, expense, or liability arising out of your investigation and/or purchase of this net leased property.





NON-ENDORSEMENT & DISCLAIMER NOTICE

CONFIDENTIALITY & DISCLAIMER

The information contained in the following Marketing Brochure is proprietary and strictly confidential. It is intended to be reviewed only by the party receiving it from Marcus & Millichap and should not be made available to any other person or entity without the written consent of Marcus & Millichap. This Marketing Brochure has been prepared to provide summary, unverified information to prospective purchasers, and to establish only a preliminary level of interest in the subject property. The information contained herein is not a substitute for a thorough due diligence investigation. Marcus & Millichap has not made any investigation, and makes no warranty or representation, with respect to the income or expenses for the subject property, the future projected financial performance of the property, the size and square footage of the property and improvements, the presence or absence of contaminating substances, PCB's or asbestos, the compliance with State and Federal regulations, the physical condition of the improvements thereon, or the financial condition or business prospects of any tenant, or any tenant's plans or intentions to continue its occupancy of the subject property. The information contained in this Marketing Brochure has been obtained from sources we believe to be reliable; however, Marcus & Millichap has not verified, and will not verify, any of the information contained herein, nor has Marcus & Millichap conducted any investigation regarding these matters and makes no warranty or representation whatsoever regarding the accuracy or completeness of the information provided. All potential buyers must take appropriate measures to verify all of the information set forth herein. Marcus & Millichap is a service mark of Marcus & Millichap Real Estate Investment Services, Inc.

© 2019 Marcus & Millichap. All rights reserved.

NON-ENDORSEMENT NOTICE

Marcus & Millichap is not affiliated with, sponsored by, or endorsed by any commercial tenant or lessee identified in this marketing package. The presence of any corporation's logo or name is not intended to indicate or imply affiliation with, or sponsorship or endorsement by, said corporation of Marcus & Millichap, its affiliates or subsidiaries, or any agent, product, service, or commercial listing of Marcus & Millichap, and is solely included for the purpose of providing tenant lessee information about this listing to prospective customers.

ALL PROPERTY SHOWINGS ARE BY APPOINTMENT ONLY.

PLEASE CONSULT YOUR MARCUS & MILLICHAP AGENT FOR MORE DETAILS.

Activity ID: -

Marcus & Millichap

OFFICES NATIONWIDE AND THROUGHOUT CANADA

WWW.MARCUSMILLICHAP.COM



HARBOR FREIGHT TOOLS · INTERSTATE 5

COMMERCE, CA

Marcus & Millichap

ARIA POURNAZARIAN

Senior Associate

National Retail Group

Cell 310.408.8886

Office 213.943.1874

Email aria.pournazarian@marcusmillichap.com

License CA 01918248

ADLEE EFRAIM

Associate

National Retail Group

Office 213.943.1872

Email adlee.efraim@marcusmillichap.com

License CA 02028358