

\*NEW REMODEL COMPLETE NOVEMBER 2020

\*6% RENT vs. SALES Pre-Remodel



KFC BILLINGS MT

2223 Central Ave • Billings, MT 59102

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KFC BILLINGS MT  
Billings, MT  
ACT ID ZAB0110517

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## EXECUTIVE SUMMARY

## OFFERING SUMMARY

|                               |              |
|-------------------------------|--------------|
| Price                         | \$1,461,000  |
| Net Operating Income          | \$84,000     |
| Capitalization Rate – Current | 5.75%        |
| Price / SF                    | \$461.17     |
| Rent / SF                     | \$26.52      |
| Lease Type                    | Absolute Net |
| Gross Leasable Area           | 3,168 SF     |
| Year Built / Renovated        | 2003 / 2020  |
| Lot Size                      | 0.46 acre(s) |

## FINANCING

|                     |                  |
|---------------------|------------------|
| Down Payment        | All Cash         |
| Net Cash Flow       | 5.75% / \$84,000 |
| Cash on Cash Return | 5.75%            |
| Total Return        | 5.75% / \$84,000 |

\*\*\*6% Rent vs. Sales Ratio Pre-Remodel\*\*\*



## MAJOR EMPLOYERS

| EMPLOYER                       | # OF EMPLOYEES* |
|--------------------------------|-----------------|
| Billings Clinic                | 9,120           |
| Patricia Lahaie                | 1,407           |
| SISTERS OF CHARITY OF LEAVENWO | 1,407           |
| Walmart                        | 1,016           |
| City College                   | 600             |
| Huppert Brothers Cnstr Inc     | 550             |
| St Johns Lutheran Home         | 540             |
| Sysco                          | 460             |
| Holiday Stationstores 385      | 438             |
| McDonalds                      | 433             |
| Stockman Wealth Management Inc | 418             |
| Century Gaming Technologies    | 400             |

## DEMOGRAPHICS

|                   | 3-Miles  | 7-Miles  | 10-Miles |
|-------------------|----------|----------|----------|
| 2020 Estimate Pop | 69,716   | 124,352  | 141,291  |
| 2010 Census Pop   | 65,059   | 112,280  | 126,914  |
| 2020 Estimate HH  | 31,154   | 52,396   | 58,608   |
| 2010 Census HH    | 28,750   | 47,054   | 52,383   |
| Median HH Income  | \$57,635 | \$59,404 | \$60,290 |
| Per Capita Income | \$33,337 | \$33,633 | \$33,268 |
| Average HH Income | \$73,890 | \$79,070 | \$79,515 |

\* # of Employees based on 10 mile radius



## INVESTMENT OVERVIEW

The subject property is located at 2223 Central Avenue in Billings MT. This KFC is a 3,168 square foot freestanding drive-thru building on a 0.46 acre parcel. This investment is a 15 year absolute triple net lease with an experienced KFC Growth Approved Franchisee with 8% increases every 5 years and (4) 5-year options to renew beyond primary lease term.

## INVESTMENT HIGHLIGHTS

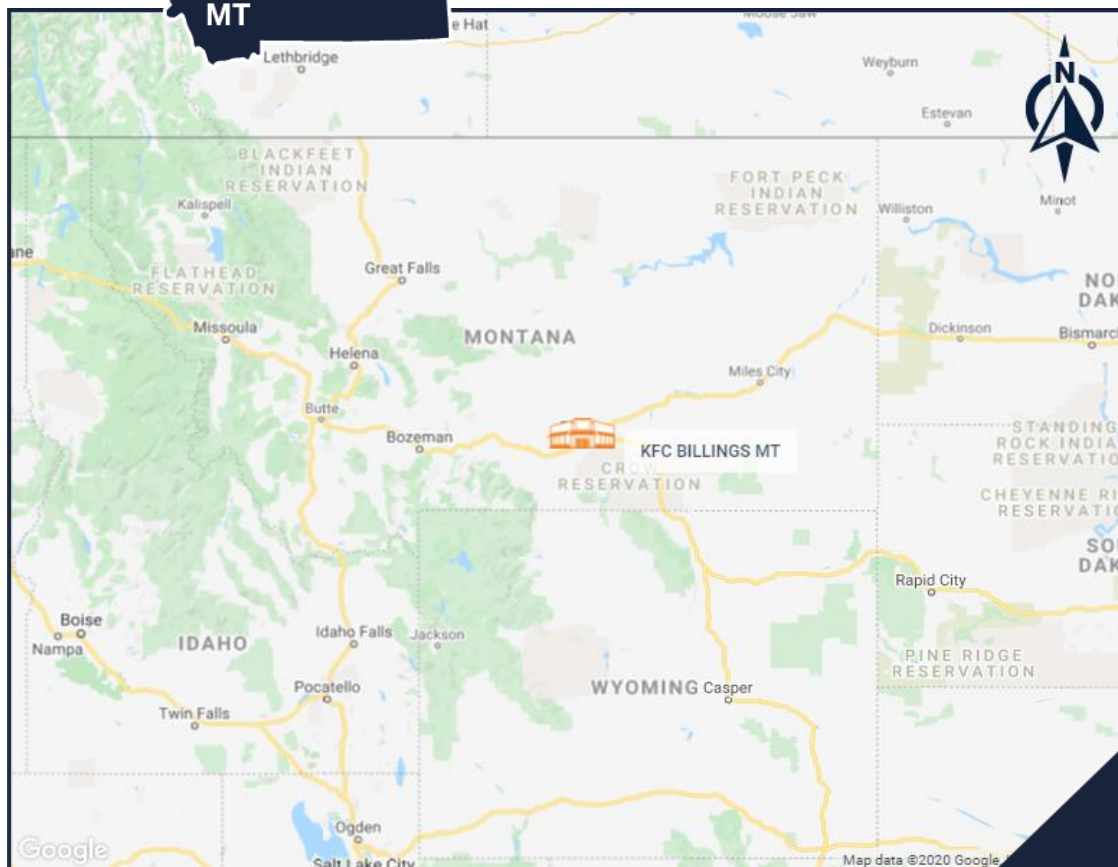
- 6% Rent vs. Sales Ratio
- New 2020 Remodel Currently Underway
- Heavily Trafficked Retail Area
- Recently Commenced 15 Year Primary Term Absolute NNN Lease with Renewal Options
- Strong KFC Sales Market



## Billings Restaurants LLC

\*1 of the principals in Billings Restaurants LLC owns/operates 95+ other YUM! Brands properties.

| General Information  |                          |
|----------------------|--------------------------|
| Tenant Name          | Billings Restaurants LLC |
| Website              | N/A                      |
| Parent Company       | N/A                      |
| Headquartered        | Billings MT              |
| Rentable Square Feet | 3,168 SF                 |
| Percentage of RBA    | 100%                     |
| Lease Commencement   | 12/4/2019                |
| Lease Expiration     | 12/1/2034                |
| No. of Locations     | 2+                       |

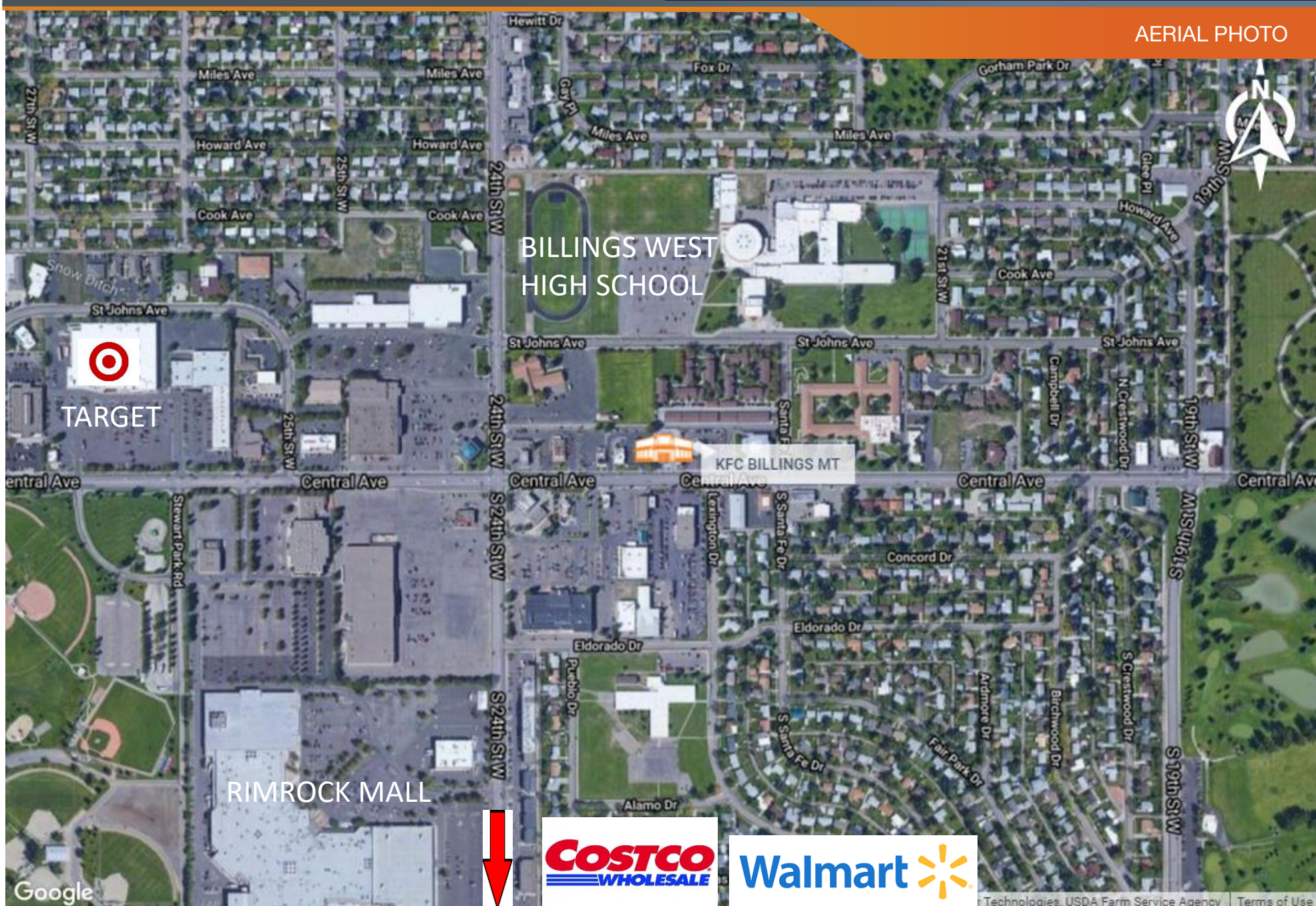
**2223 Central Ave, Billings, MT 59102**

- 6% Rent vs. Sales Ratio
- Billings is Largest City in Montana
- Strong Immediate Trade Area
- Sales 30% Above National KFC Average

Billings is the largest city in the State of Montana located directly off Interstate 90. This KFC was constructed in 2003 and is 30% above national KFC average sales due to an experienced Tenant & strong immediate trade area.

**CLOSE PROXIMITY TO:****Airport****Major Highway****Hospital****Downtown****Shopping Center**







## PROPERTY SUMMARY

| THE OFFERING        |   |
|---------------------|---|
| Property            | KFC                                       |
| Property Address    | 2223 Central Avenue<br>Billings, MT 59102 |
| Price               | \$1,461,000                               |
| Capitalization Rate | 5.75%                                     |
| Price/SF            | \$461.17                                  |

| PROPERTY DESCRIPTION   |            |
|------------------------|------------|
| Year Built / Renovated | 2003/2020  |
| Gross Leasable Area    | 3,168 SF   |
| Zoning                 | Commercial |
| Type of Ownership      | Fee Simple |
| Lot Size               | 0.46 Acres |

| LEASE SUMMARY                   |                                    |
|---------------------------------|------------------------------------|
| Property Subtype                | Net Leased Restaurant              |
| Tenant                          | Billings Restaurants               |
| Rent Increases                  | 8% every 5 years including Options |
| Guarantor                       | Franchisee Guarantee               |
| Lease Type                      | Absolute Net                       |
| Lease Commencement              | 12/4/2019                          |
| Lease Expiration                | 12/1/2034                          |
| Lease Term                      | 15                                 |
| Term Remaining on Lease (Years) | 14.2                               |
| Renewal Options                 | Four 5-Year Renewal Options        |
| Landlord Responsibility         | None                               |
| Tenant Responsibility           | Absolute NNN                       |
| Right of First Refusal/Offer    | Yes                                |

## ANNUALIZED OPERATING INFORMATION

| INCOME               |          |
|----------------------|----------|
| Net Operating Income | \$84,000 |

| RENT SCHEDULE |             |              |         |          |
|---------------|-------------|--------------|---------|----------|
| YEAR          | ANNUAL RENT | MONTHLY RENT | RENT/SF | CAP RATE |
| Current       | \$84,000    | \$7,000      | \$26.52 | 5.75%    |
| Years 2-5     | \$84,000    | \$7,000      | \$26.52 | 5.75%    |
| Years 6-10    | \$90,720    | \$7,560      | \$28.64 | 6.21%    |
| Years 11-15   | \$97,978    | \$8,165      | \$30.93 | 6.71%    |

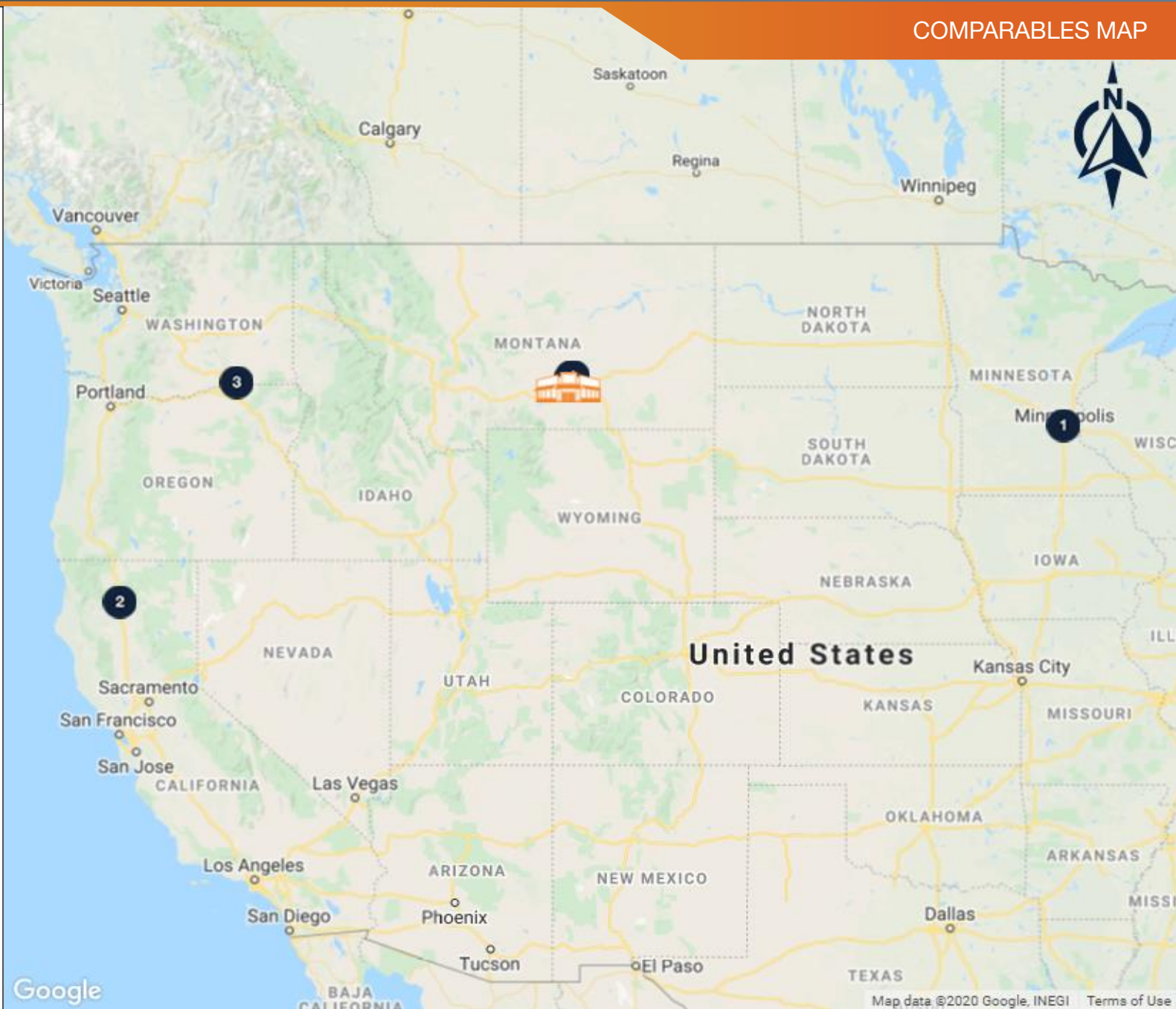


## NOTES

KFC BILLINGS MT  
(SUBJECT)

- 1 KFC
- 2 KFC
- 3 KFC
- 4 Starbucks
- 5 Burger King

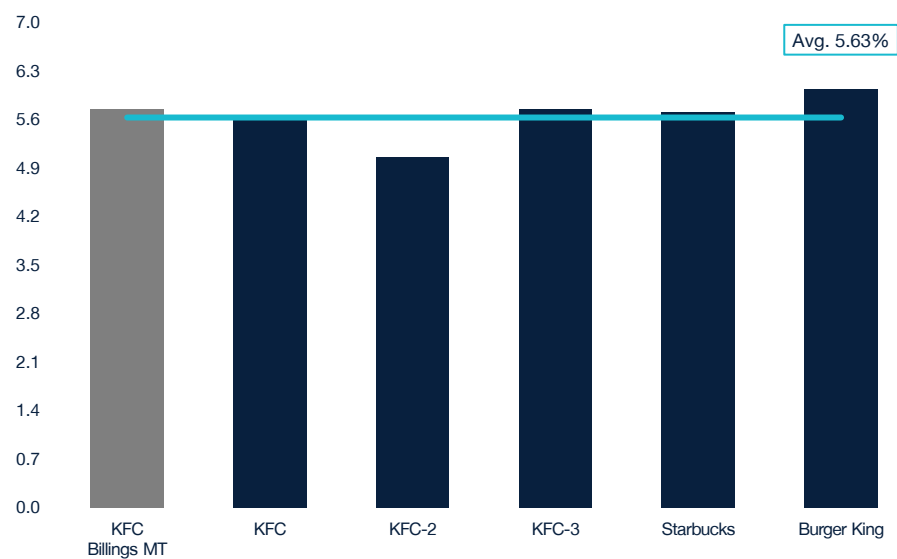
● SALES COMPARABLES



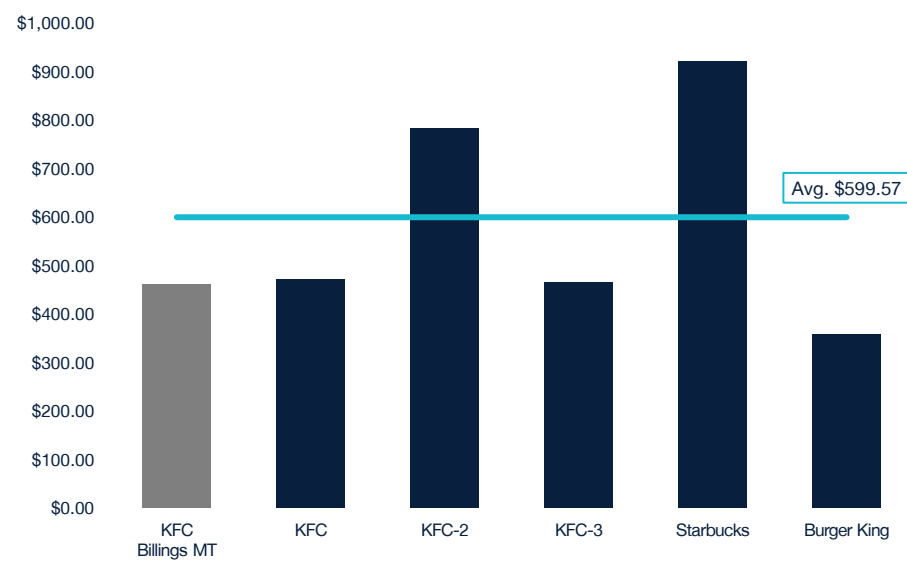
SALES COMPARABLES

SALES COMPS AVG

Average Cap Rate



Average Price Per Square Foot





## SALES COMPARABLES

**KFC BILLINGS MT**

2223 Central Ave, Billings, MT, 59102

**SUBJECT PROPERTY**

|                      |              |
|----------------------|--------------|
| Asking Price         | \$1,461,000  |
| Price/SF             | \$461.17     |
| CAP Rate             | 5.75%        |
| GLA                  | 3,168 SF     |
| Lot Size             | 0.46 acre(s) |
| Year Built           | 2003         |
| Lease Term Remaining | 14.2 Years   |

**KFC**

10755 165th Street W, Lakeville, MN, 55044



|                 |              |
|-----------------|--------------|
| Close Of Escrow | 12/10/2018   |
| Sales Price     | \$1,553,000  |
| Price/SF        | \$470.75     |
| CAP Rate        | 5.6%         |
| GLA             | 3,299 SF     |
| Lot Size        | 0.87 acre(s) |
| Year Built      | 1998         |

**NOTES**

Approximately 18+ years remaining on the absolute net franchise guaranteed lease. 8.0% rent increases every five years.

**KFC**

135 Lake Blvd E, Redding, CA, 96003



|                 |             |
|-----------------|-------------|
| Close Of Escrow | 11/25/2019  |
| Sales Price     | \$2,475,248 |
| Price/SF        | \$782.32    |
| CAP Rate        | 5.05%       |
| GLA             | 3,164 SF    |
| Lot Size        | 1 acre(s)   |
| Year Built      | 2019        |

## SALES COMPARABLES

**KFC**

1615 SW Emigrant Avenue, Pendleton, OR, 97801

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|                      |             |
|----------------------|-------------|
| Close Of Escrow      | 8/7/2020    |
| Days On Market       | 351         |
| Sales Price          | \$1,217,391 |
| Price/SF             | \$465.54    |
| CAP Rate             | 5.75%       |
| GLA                  | 2,615 SF    |
| Year Built           | 1982        |
| Lease Term Remaining | 14 Years    |

**STARBUCKS**

406 Main St, Billings, MT, 59105

4



|                 |              |
|-----------------|--------------|
| Close Of Escrow | 4/5/2019     |
| Sales Price     | \$2,210,000  |
| Price/SF        | \$920.83     |
| CAP Rate        | 5.7%         |
| GLA             | 2,400 SF     |
| Lot Size        | 0.52 acre(s) |
| Year Built      | 2016         |

**BURGER KING**

2813 Old Hardin Road, Billings, MT, 59101

5



|                 |              |
|-----------------|--------------|
| Close Of Escrow | 12/6/2018    |
| Days On Market  | 185          |
| Sales Price     | \$1,337,500  |
| Price/SF        | \$358.39     |
| CAP Rate        | 6.04%        |
| GLA             | 3,732 SF     |
| Lot Size        | 1.84 acre(s) |
| Year Built      | 1995         |

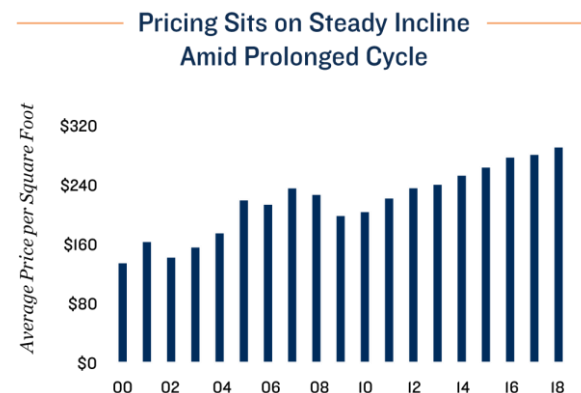
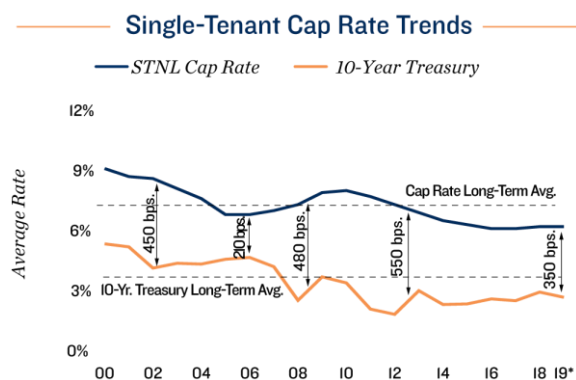
## Thriving Single-Tenant Sector Offers Stability and Yield Alternatives; Tax Clarification Prompts Investors to Use Long-Term Vision

Investment blueprints modeled around new tax provision. Recent clarification on the 20 percent pass-through deduction that was introduced with the Tax Cuts and Jobs Act is impacting investment strategies. While the low maintenance needs of single-tenant retail assets has long been a benefit, the pass-through deduction requires active management so these properties may not qualify for this provision. Some investors are taking a shorter-term decision-making approach to this, opting for different property types if their current business practices don't meet the new criteria. Conversely, others continue to favor the long-term stability of single-tenant retail. Taking a big-picture approach will be crucial for investors as they re-evaluate strategies and analyze potential outcomes.

Property dynamics shift but end result remains the same. The hands-off nature of single-tenant assets can be limited for investors seeking qualification of the 20 percent pass-through deduction. For tax years ending prior to Dec. 31, 2023, at least 250 hours of rental services must be performed on the property each year, including tasks that maintain or enhance the asset. While this can be difficult for investors to achieve under net-leased terms, the bond-like quality of these properties remains the same even if the qualification is out of reach. Owners still receive a steady cash flow from these corporate-backed assets, producing returns that can be more stable than those of other property types. Through accelerated depreciation using cost segregation analysis, yields for single-tenant assets can be boosted in the early years of the investment, paving the way for stronger long-term returns.

Sustainability of sector overshadows relatively compressed cap rates. Retailers occupying single-tenant space have outperformed over the past few years, driving consumer spending and reinforcing stability in the sector. Bars and restaurants, pharmacies and home improvement retailers continue to perform well even with the retail industry rapidly transforming. These assets' relative insulation to outside noise can outweigh the risk associated with other sectors of commercial real estate despite initial yields that may be lower than management-intensive options. Buyers ineligible for the 20 percent pass-through deduction must look at the long-term benefits in terms of credit-backed passive yield versus value-add real estate opportunities. Although other commercial property types may come with a modest yield premium, their management requirements produce operational risk.

Flourishing single-tenant retailers growing at strong clip. Many retailers in the single-tenant sector continue to expand despite the recent wave of store closures. Gyms are swiftly broadening their footprints as memberships continue to rise. Planet Fitness recently announced it will open 225 locations in 2019, while Blink Fitness remains intent on introducing roughly 200 more gyms over the next four years. The fast casual restaurant segment is also aggressively growing, with Blaze Pizza and Shake Shack leading the way. While some aspects of the retail sector hold uncertainty, many single-tenant-oriented retailers are thriving, producing viable investments able to withstand different economic climates.

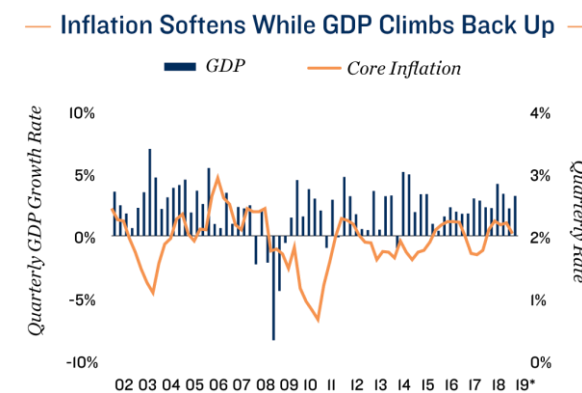
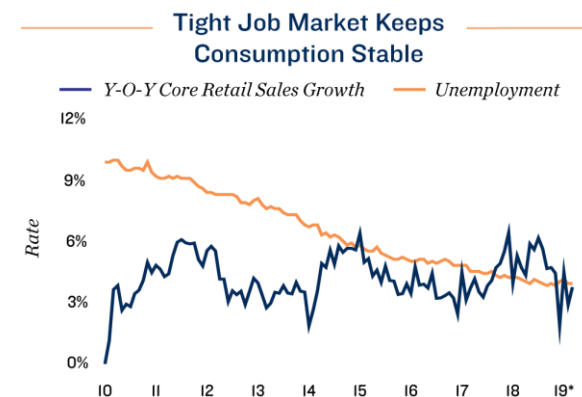




## Economy Posts Solid Start to Year; Moderating Interest Rates Reignites Single-Tenant Demand

Domestic growth back on track but obstacles still on horizon. Economic momentum picked back up to start the year as GDP growth registered 3.2 percent in the first quarter. Tight labor markets nationally and strengthening wages are driving this metric near levels witnessed in mid-2018. Core retail sales have also logged resurgent growth, settling in the mid-3 percent range on an annual basis. While the national economy appears to have regained some stability, implications from trade tensions as well as slowing international economies could moderate GDP growth in the coming months, lowering it into the low-2 percent range for the year.

Investor demand picks back up amid falling interest rates. Declining interest rates should help buoy demand for single-tenant properties after some investors stepped to the sidelines late last year. More stability surrounding interest rates has boosted investor confidence in addition to modestly easing the buyer-seller expectation gap. Cap rates rose 10 basis points to 6.1 percent on a yearly basis ending in March largely due to the short phase of climbing interest rates in which buyers and sellers were out of sync. Overall demand for single-tenant assets should remain steady moving forward given the large number of buyers seeking more stable investment options. Tenants offering experiences such as restaurants, entertainment retailers and fitness centers may be in particular demand as they are capable of providing customers with an experiential setting unable to be mirrored by the internet.

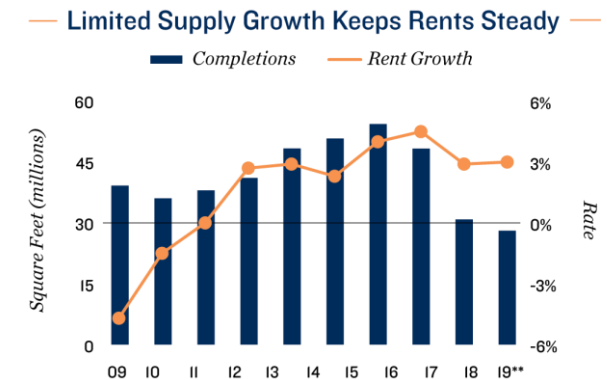


\* Through March

## Retailers Focus on Remodels as Consumers Evolve

Tempered construction paving the way for steady rental growth. The single-tenant pipeline will further contract this year as retail construction again stays limited. In 2018, single-tenant development tallied just 31 million square feet, roughly 60 percent of total retail construction — much lower than the previous 10-year average share of almost 80 percent. This trend continued in the first quarter of 2019 as multi-tenant development reached 4.7 million square feet, nearly matching its single-tenant counterpart. Sparse construction should allow rents to advance steadily this year as retailers vie for the limited remaining space. Rents should progress at a pace similar to 2018, driving the average asking rate more than \$2 above last cycle's high of \$19.78 per square foot.

Retailers making changes to account for modern consumers. With development costs rising, many retailers are focusing on reinventing layouts in response to evolving consumer trends. For pharmacies, this includes adding primary care clinics and dental services, as well as incorporating more grocery items. Dollar stores are also including grocery sections at some locations, creating competitors to local grocery stores in many financially struggling and rural areas. Other dollar store locations are implementing a convenience-oriented design, with the goal of broadening their customer base. These changes continue to improve the sector while at the same time boosting property performance for many investors.



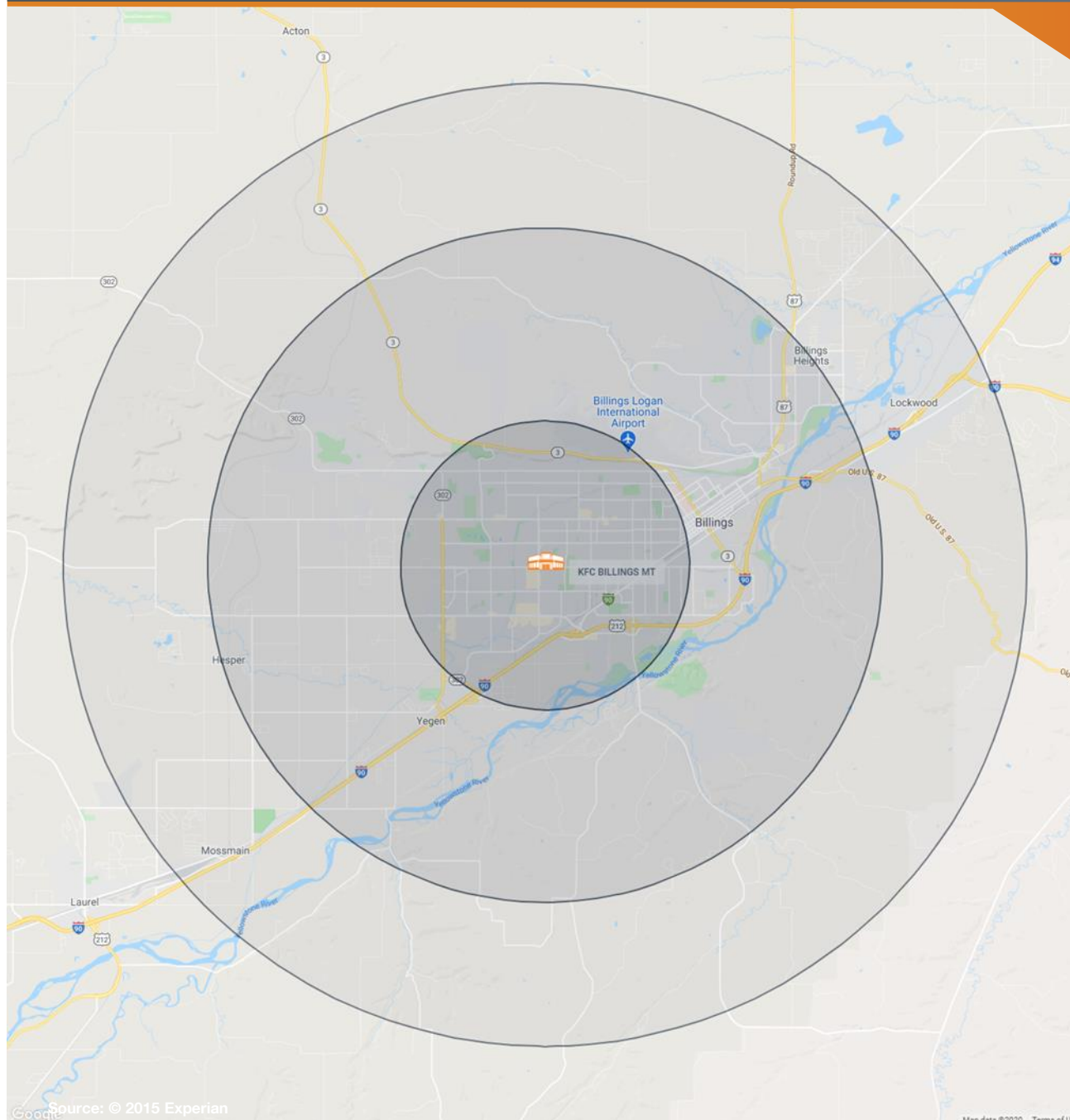
\* Through March

\*\* Forecast

## DEMOGRAPHICS



CREATED ON OCTOBER 7, 2020



|                             | 3 Miles   | 7 Miles   | 10 Miles  |
|-----------------------------|-----------|-----------|-----------|
| <b>POPULATION</b>           |           |           |           |
| 2025 Projection             | 73,176    | 133,164   | 151,758   |
| 2020 Estimate               | 69,716    | 124,352   | 141,291   |
| 2010 Census                 | 65,059    | 112,280   | 126,914   |
| 2000 Census                 | 61,346    | 98,217    | 109,894   |
| <b>INCOME</b>               |           |           |           |
| Average                     | \$73,890  | \$79,070  | \$79,515  |
| Median                      | \$57,635  | \$59,404  | \$60,290  |
| Per Capita                  | \$33,337  | \$33,633  | \$33,268  |
| <b>HOUSEHOLDS</b>           |           |           |           |
| 2025 Projection             | 33,086    | 56,513    | 63,382    |
| 2020 Estimate               | 31,154    | 52,396    | 58,608    |
| 2010 Census                 | 28,750    | 47,054    | 52,383    |
| 2000 Census                 | 26,474    | 40,637    | 44,730    |
| <b>HOUSING</b>              |           |           |           |
| 2020                        | \$212,780 | \$227,572 | \$228,743 |
| <b>EMPLOYMENT</b>           |           |           |           |
| 2020 Daytime Population     | 89,722    | 143,665   | 155,022   |
| 2020 Unemployment           | 2.99%     | 3.14%     | 3.21%     |
| 2020 Median Time Traveled   | 17        | 18        | 19        |
| <b>RACE &amp; ETHNICITY</b> |           |           |           |
| White                       | 88.85%    | 88.10%    | 88.34%    |
| Native American             | 0.11%     | 0.09%     | 0.09%     |
| African American            | 0.86%     | 0.85%     | 0.80%     |
| Asian/Pacific Islander      | 0.77%     | 0.83%     | 0.78%     |