LBX CASE STUDY: REPOSITIONING AN UNDERMANAGED CENTER

MARKET COMMENTARY — DECEMBER 7, 2020

LBX Acquired Alafaya Commons, A Neighborhood Center, From A Public REIT in 2018

The Center Offered Several Opportunities For Active Asset Management To Create Value

INTRODUCTION

LBX Investments acquired Alafaya Commons ("Alafaya"), a Class B, 130,811 square foot neighborhood shopping center located in Orlando, FL, for $19.8 million in June 2018. Our original four-year plan was to acquire Alafaya, sell its three outparcels during the holding period, and lease up the remaining vacant space. Additionally, we planned to explore separately parceling off Academy's anchor space. Although we did not model this scenario in our base case projections, successfully executing this plan would sharply reduce our basis and return capital to investors.

A little more than halfway through our expected holding period, the deal is progressing ahead of our original expectations. We have executed on key areas of our strategic plan and have accomplished the following:

1. Returned ~34% of original invested capital to investors through outparcel and parcel sales
2. Distributed 19.2% (8.5% annualized) since inception through return on capital (from operating cash flow at the property), normal course distributions
3. Improved shop space occupancy from 78.9% to 89.6% and base rental rates from $13.30/SF to $16.57/SF
4. Dropped LTV from 65.6% at acquisition to ~27% as of 9/30/2020 through significant debt principal paydowns

ALAFAYA COMMONS TWO YEARS IN

- Returned ~34% of Invested Capital
- Distributed at 8.5% Per Annum
- Improved Shop Occupancy by 10.7%
- Boosted Shop Rents by $3.27/SF (24.6%)

This case study is intended to walk investors through the steps we have taken to achieve these results at Alafaya.

OVERVIEW OF ALAFAYA AT PURCHASE (*FROM INITIAL INVESTMENT MEMO*)

Alafaya boasts several attributes that made it a compelling investment from the outset:

ATTRACTIVE ARBITRAGE OPPORTUNITIES

By selling off outparcels and potentially, the Academy parcel, at low cap rates, we saw an opportunity to sharply improve our basis from an 8.7% cap rate at acquisition.

WELL-POSITIONED IN STRONG SUBMARKET

Alafaya is within two miles of Central Florida Research Park, the University of Central Florida (the second largest university in the country), and Lockheed Martin's Orlando campus. The center also sits at a busy intersection that sees more than 100,000 vehicles per day and has experienced rapid growth over the past decade.

DOWNSIDE PROTECTION

At ~$1 million per acre for a 20-acre site, we acquired Alafaya at or very close to land value. Our basis – even prior to disposing of outparcels – provides us with significant protection against new competition.

UNDERMANAGEMENT

Alafaya's previous owners were not set up to actively manage the asset. Their leasing team was remote – hindering their ability to source shop tenants – and they were not set up to pursue arbitrage opportunities.

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THE CHALLENGES

There were three major issues at Alafaya that needed to be addressed upon acquisition:

1. Academy Credit Was Weak: At acquisition, Academy – which has since gone public – was a privately held company that had undergone a leveraged buyout ("LBO") in 2011. A sizable term loan was weighing heavily on its long-term prospects, as many of the retailers that have declared bankruptcy over the past several years have been overleveraged LBOs.

2. Chuan Lu Garden Had A Great Location But Poor Credit: Two of the outparcels were leased by Taco Bell (a national credit) and Amscot Financial (a strong regional credit). The third was leased by Chuan Lu Garden, a privately held Chinese restaurant with weaker financials. Chuan Lu ultimately vacated the space in 2020.

3. Dated Building Appearance: While Academy's store had been recently renovated, the façade and storefronts for the rest of the center needed upgrading. Additionally, the rest of the center needed minor capital improvements.

TWO YEARS OF STEADY PROGRESS ON KEY STRATEGIC INITIATIVES

In order to address the challenges Alafaya faced, we outlined three strategic initiatives driving our value-add plan:

1. Arbitrage Initiative: Disposing of three outparcels and the Academy Sports parcel in order to reduce and enhance our overall cost basis
2. Center Upgrade: Improving the overall condition of the center through various capital initiatives (e.g., landscaping) and façade renovation
3. Improving Tenant Roster and Pushing Rental Rate: Improving occupancy and rental rates for the vacant in-line space

Arbitrage Initiative

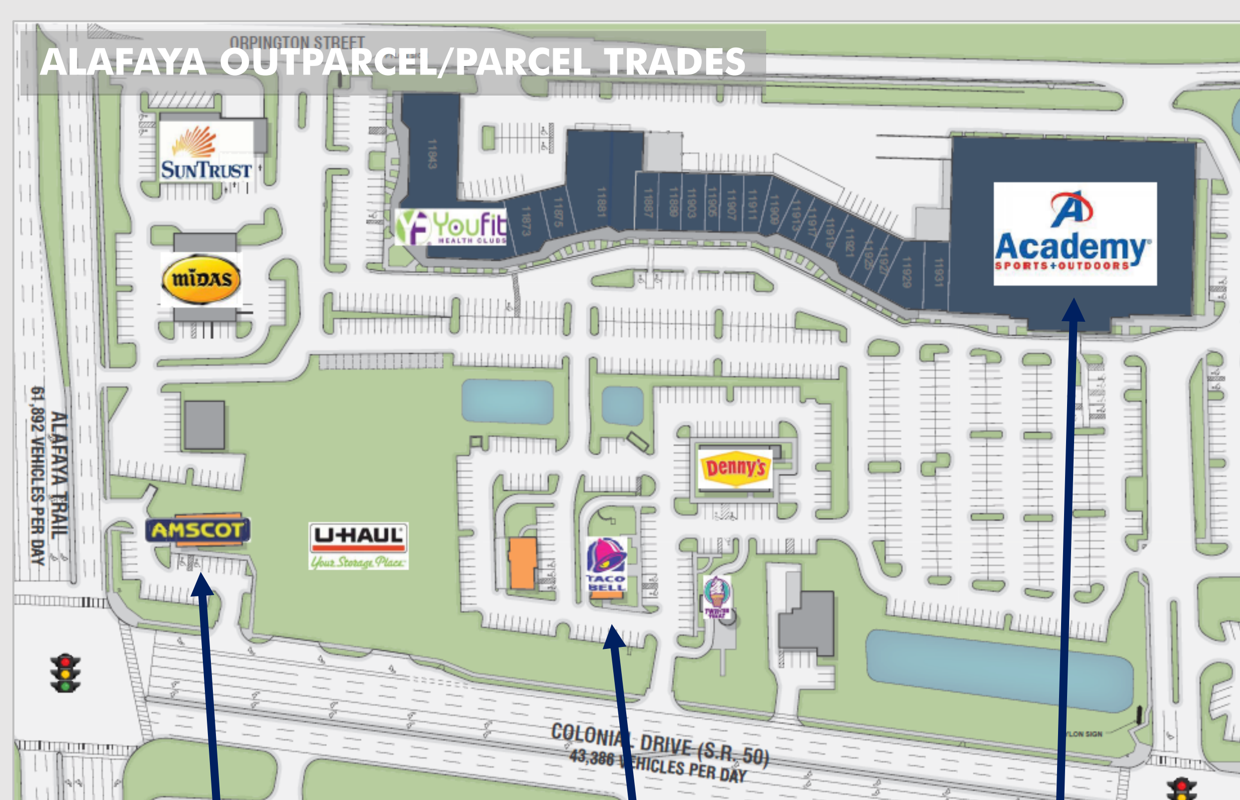
Before we could sell off outparcels, we needed to craft a Reciprocal Easement Agreement ("REA") for the property, as well as create a separate tax parcel for Academy. REAs are important because they clearly delineate rights and responsibilities (e.g. easements, restrictions, common areas) between tenants at a center. Once we finalized the REA, we quickly made significant progress on Alafaya's arbitrage initiative – selling below our acquisition cap rate of 8.7% and paying down debt and returning capital.

1. Taco Bell: Sold in March 2019 for $970,000 (a 5.6% cap rate).
2. Amscot Financial: Sold in August 2020 for $3,270,000 (a 6.6% cap rate)
3. Academy Sports: Sold in October 2020 for $8,000,000 (an 8.1% cap rate)

The one remaining outparcel is the former Chuan Lu Garden space; we are making significant progress marketing it to national retailers, and in fact are negotiating a lease at this time with one key prospect. Once we lease up this space we will look to sell the outparcel in 2021.

Thus far, all sales have compared favorably to our original underwriting. Taco Bell was sold for $27,000 above initial projections. Amscot was sold eight months earlier than anticipated at $155,000 above our initial projections. We did not project the Academy sale in our original underwriting because we felt it was too speculative. We did, however, project a reversion cap rate of 8% for the entire center after a 4-year holding period. The Academy sale achieved this cap rate for the riskiest part of Alafaya Commons approximately two years ahead of schedule. We believe this should bode well for the cap rate of the remaining center once we are ready to monetize this transaction.

Additionally, by executing on these transactions, we significantly de-risked Alafaya Commons, returned capital to investors, and paid down a sizable piece of our loan. Our adjusted basis in the property was reduced from $19.8 million to ~$8.9 million and our loan has been paid down from $12.3million to $4.0million. In addition, the equity remaining in the property today is $4.9 million, down from our original equity raise of $7.4 million. Based on feedback from local brokers, in our view the remaining 62,112 SF center is likely worth $15 million or more, providing for a 26.9% loan to value ratio, and a potential significant gain for our LPs.



AMSCOT	TACO BELL	ACADEMY SPORTS
Sold eight months earlier than projected at $155K above projections	Underwritten to sell for $900K and sold for $927K	Achieved exit cap rate of 8% two years ahead of schedule

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Center Upgrade

Alafaya's renovation plan can be split into three phases. First, soon after acquisition we completed more than $50,000 of minor capital improvements, including landscaping, fence repair, pressure washing, and sign rehab. During this phase, we also took an active approach towards working with tenants to unclutter their storefronts, address parking issues, and spruce up the overall look and feel of the center.

Second, before year-end 2020, we are set to embark on wholesale site renovations including painting and the first phase of façade upgrades (see images below). Eventually – as either part of a lease extension with YouFit or a deal with another tenant – we plan to finalize façade upgrades. Center upgrades are pivotal because they play a major role in lease negotiations with existing and prospective tenants. The allure of an upgraded center in this key location has helped us entice strong national and regional retailers at rental rates that are $4-7/SF above underwriting projections.

Improving Tenant Roster and Pushing Rental Rate

We believe that focused strategic leasing, built-in rent increases and an ability to push rent in certain circumstances with a more proactive leasing approach generally leads to NOI gains. This approach has worked well at Alafaya in part because the asset was, prior to our acquisition, a non-core asset being managed passively by a remote leasing team that had stronger national relationships but no local infrastructure. At acquisition, in-line occupancy – which typically requires a hands-on effort from a local leasing team – had underperformed the market and stood at 78.9%.

Working in conjunction with a local third-party leasing team, we have aggressively canvassed the market and worked with existing tenants to stabilize the center. Using the upcoming renovations as a selling point, we have executed renewals with several of the current tenants and new leases with a tea chain (1,200 SF at $25/SF), an upscale dog groomer (1,200 SF at $25/SF) and a national beauty services chain, Salon Lofts (3,982 SF at $24.50/SF) at rates well above of our underwriting projections of $18/SF. Additionally, we are finalizing an expansion and extension with one of our larger tenants, TrueHealth, and negotiating a draft lease with a national fast-food retailer to backfill the existing Chuan Lu Garden outparcel.

IN-LINE RENTAL GROWTH, 2018-20

SPACE	SF	2018 RENT	2020 RENT	CHANGE
1	17,011	$12.75	$12.75	$0.00
2	2,942	$24.15	$25.00	$0.85
3	1,858	$20.26	$21.50	$1.24
4	6,000	$17.13	$18.72	$1.59
5	7,800	$16.08	$17.06	$0.98
6	2,031	$18.50	$19.63	$1.13
7	989	$19.57	$21.38	$1.81
8	1,942	$25.75	$27.32	$1.57
9	1,182	$24.56	$26.84	$2.28
10	1,200	$0.00	$25.00	$25.00
11	2,550	$21.00	$22.28	$1.28
12	1,400	$15.00	$15.50	$0.50
13	1,400	$21.22	$22.51	$1.29
14	2,580	$0.00	$0.00	$0.00
15	1,892	$0.00	$0.00	$0.00
16	1,200	$0.00	$25.00	$25.00
17	3,982	$0.00	$24.50	$24.50
18	1,753	$0.00	$0.00	$0.00
TOTALS	**59,712**	**$13.30**	**$16.57**	**$3.27**

NEXT STEPS: 2021 SHOULD BE BUSY

2021 should be busy at Alafaya, as we complete leases in process, bring the final outparcel to market and complete the first stage of renovations. While there is still work to do, investors have seen significant value creation since acquisition, as well as robust returns of and on capital.

We plan to release an updated case study in 2H21.

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