

Concurrent Session: Due Diligence

*Thursday, March 31st
2:45pm – 4pm
Marriott Marquis, Washington DC*

Moderator:

Steven Moore, Managing Director, KPMG LLP

Panelists:

Michael McGillis, Facility Assessor, Tetra Tech, Inc.
Baris Ipeker, VP-Investments & Legal Counsel, Federal
Realty Investment Trust
Michael Rusche, Director-Asset Manager. EPR Properties

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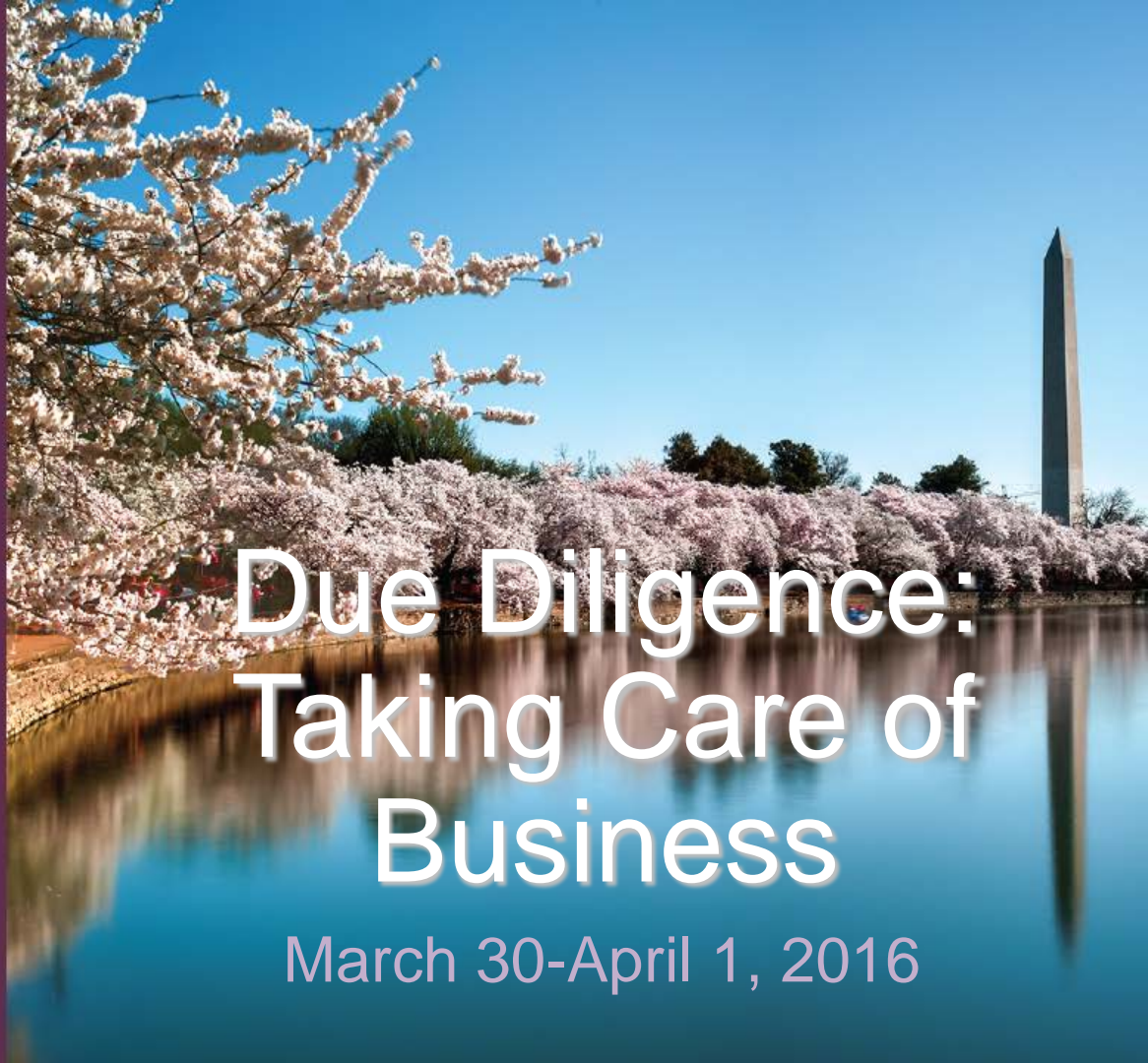
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March 30 - April 1

2016

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Due Diligence: Taking Care of Business

March 30-April 1, 2016

Panelists



Steven M. Moore
KPMG LLP



***Managing Director, Head of US
Real Estate Deal Advisory***

- Leads a team focused on real estate transaction services
- 20 years of corporate finance and transaction experience
- Advised on over \$100 billion of RE financing and \$30 billion of RE transactions

Michael J. Rusche
EPR Properties



Director – Asset Management

- Manages the entertainment and retail assets of EPR
- Portfolio over 10 million sf of retail, restaurants, movie theatres and other venues
- Graduate of the University of Kansas with over [XXX] year of real estate experience

Michael McGillis
Tetra Tech, Inc.



Facility Assessor

- Specializes in developing and implementing full lifecycle real estate asset management programs
- Over 23 years of experience
- Extensive experience with acquisitions, design, renovation, and restoration

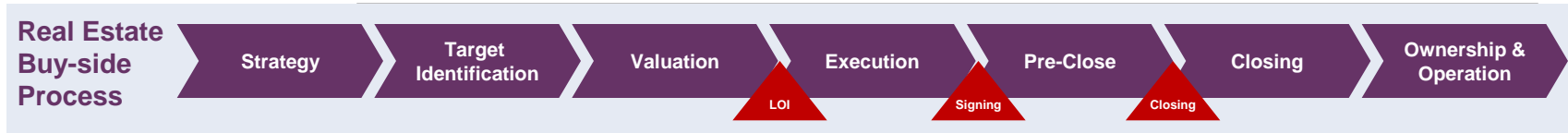
Baris H. Ipeker
Federal Realty Investment
Trust



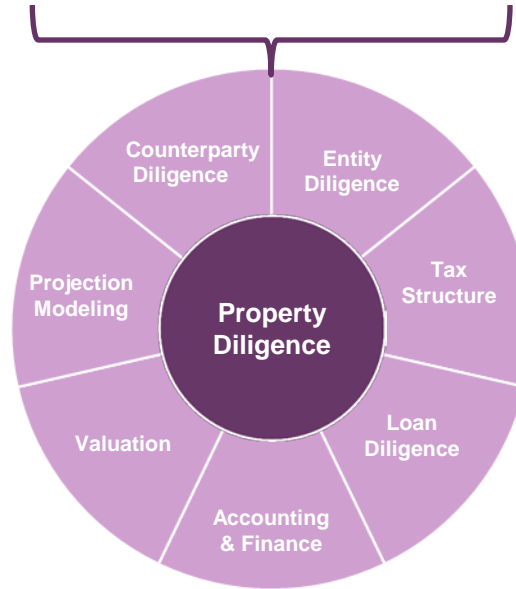
***Vice President Investments,
Legal Counsel***

- Responsible for structuring, negotiating and closing acquisitions, dispositions and property secured financings
- Past experience in real estate transactions at Venable LLP
- Alumnus of University of Virginia and JD from Emory

Introduction



- Property Diligence**
- Title and Survey
 - Zoning for in-place and proposed use
 - Environmental considerations and potential pitfalls
 - Physical assessment and property condition
 - Lease abstracting; Validation of rent rolls, revenues and Argus models
 - Tenants analysis with consideration of credit, lease structure and expense allocation
 - Analysis of NOI and cash flows
 - Market analysis and competitive property comps



Diligence in the Transaction Process



Seller



Asset



Deal



Buyer



Co-investor



Lender



Ownership



Title & Survey



- Does Seller own the Property?
- Restrictions in deeds or easements?
 - Covenants, Conditions and Restrictions (CCRs) are a detailed list of operating rules and restrictions for the property
 - Does anyone other than the Property owner benefit from the restrictions
 - Does the Property meet all of the requirements
 - Do the restrictions prevent future plans?
- Are there any liens or encumbrances on the Property?
- Is the Property where you think it is?
- Do all of the improvements fit within the boundaries of the Property?
- Do you have setbacks and are your improvements within them?
- Do you have buildings sitting on top of easements?
- Do you have access to public roads?

Zoning



- Is the use of the Property by right?
- Do all of the buildings conform?
- Does the signage comply?
- Does the parking ratio and landscaped area conform?
- What is the zoning process to obtain variances or special permits?
- How long will it take to change zoning if it is not by right?
 - Entitlements
 - Rezoning
 - Costs

Environmental



- Are there any environmental issues at the property? Understand property use (including past use) and onsite operations (Dry Cleaners, Treatment Facilities, Tanks.....)
- Phase I & II Environmental Assessment Study – Identify Risks
- Typical Hazards Encountered: materials in soil, in ground water, vapor in buildings, asbestos, mold, tanks, lead, etc.
- If there is an environmental issue, is it:
 - Insurable
 - Quantifiable
 - Within a state clean-up program
 - Easily remediated



Case Study - Environmental



Prior to purchasing the facility, the perspective buyer researched claims that the existing sanitary ponds were not properly sized: Through an evaluation of the ponds, permits, and system it was found that the ponds were properly sized for the facility use, but the amount of ground water infiltration into the system caused to ponds to be inadequately sized to store effluent during months when discharge was limited

PHYSICAL PROPERTY ASSESSMENT



- What's the Typical Size (\$) of Each Transaction?
- What's the Typical Size (SF) of Each Transaction?
- How Much do You Spend on Pre-Acquisition Assessments?
- How Much do You Spend on Repairs Following Purchase?
- Where are Your Liabilities?
- Are the Assessments Useful?



PHYSICAL PROPERTY ASSESSMENT



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- Collected Information Should be Used for Negotiations and Development of Terms
- Assessments Should be Modified to Cover Item of Greatest Liability
- Information Gathered Should be Adequate to Develop Capital Plans
- Implementation of Asset Management Programs Should be Considered



Case Study - Physical



January 2005

ITEM	Excellent	Good	Fair	Poor	ACTION*	IMMEDIATE NEEDS	CAPITAL RESERVES
SITE IMPROVEMENTS							
Topography		X			NA	0	0
Storm Drain System		X			NM	0	0
Parking Pavement, Curbs & Gutters		X			RR	0	\$154,698
Sidewalks		X			NM	0	0
Utilities		X			NM	0	0
Landscaping		X			NM	0	0
Site Lighting		X			NM	0	0
Site & Building Signage		X			NM	0	0
Recreational Facilities/Amenities					NA	0	0
STRUCTURAL SYSTEMS & BLDG ENVELOPE							
Foundations		X			NM	0	0
Structural System Including Floors		X			NM	0	0
Exterior Walls, Patch & Paint		X			RR	0	\$70,000
Windows & Frames		X			NM	0	0
Exterior Doors & Frames		X			NM	0	0
Stairs (Interior & Exterior)		X			NM	0	0
Balconies & Upper Floor Walkways		X			NM	0	0
Roof Coverings		X			NM	0	0
Roof Drainage		X			NM	0	0
MECH. ELEC & PLUMBING SYSTEMS							
HVAC		X			RR	0	\$234,000
Electrical		X			NM	0	0
Emergency Generator					NA	0	0
Hot & Cold Water Distribution System		X			NM	0	0
Water Heaters		X			NM	0	0
Gas Distribution System		X			NM	0	0
VERTICAL TRANS CONVEYING SYSTEMS							
Elevators, Escalators					NA	0	0
FIRE LIFE SAFETY							
Fire Suppression Systems		X			NM	0	0
Security Alarm Systems		X			NM	0	0
INTERIOR ELEMENTS							
Common Area Finishes		X			RR	0	\$23,380
Tenant Area Finishes (Walls, Floors, Ceilings, Etc.)		X			NA	0	0
Interior Doors & Frames		X			NA	0	0
"BARRIER FREE" ACCESSIBILITY (ADA)							
Parking, Signage & Ramps		X			NM	0	0
Common Area Accessibility Including Restrooms		X			NM	0	0
UNINFLATED COSTS						\$0	\$482,078

January 2004

Case Study - Physical



EIFS replacement (vert. surfaces)	40,150 sf @ \$14/sf	\$562,100
(horiz. surfaces)	760 sf @ \$30/sf	\$22,800
Ceramic tile replacement	5,600 sf @ \$75/sf	\$420,000
Clay brick masonry repairs	allowance	\$42,000
Roofing repairs (horiz. surfaces)	allowance	\$500,000
(copings)	5,200 lf @ \$22/lf	\$114,400
Roofing replacement (large areas)	192,000 sf @ \$8/sf	\$1,536,000
(small areas)	1,800 sf @ \$12/sf	\$21,600
(copings)	5,200 lf @ \$22/lf	\$114,400

With 10% Contingency and 10% GC, Total Estimate - \$4,033,300

Report Date: March 2005

Total Spent on Repairs \$

OBSERVATIONS AND FINDINGS

The ceramic tile and EIFS facade materials were observed and evaluated for adhesion and method of attachment on selected portions of each of the major faces of the building. The following observations were made:

1. North third of the west wall: Approximately 60% of the EIFS system has delaminated from the wall. Supplemental plates and fasteners were installed to laterally support a portion of the ceramic tile facing that had apparently become delaminated.
2. North third of the east wall: Approximately 40% of the EIFS system has delaminated from the wall. A portion of the ceramic tile and mortar bed was missing and was reported to have fallen off of the wall.
3. West third on the south wall: Approximately 5% of the EIFS system has delaminated from the wall. Supplemental plates and fasteners were installed to laterally support a portion of the ceramic tile cladding that had apparently become delaminated.

Lease Review



- Confirm the rents in the rent roll
- Uncustomary expenses for the Landlord in leases
- CAM and Taxes
- Confirm that tenants do not have unilateral rights to terminate the lease
- Rights that affect your future development
- Impact on future plans to lease the property
- Rights of first refusal or purchase options

Financial



- Analysis of in-place NOI and cash flows
- Market analysis and competitive property comps
- Property / Argus and Transaction model
- Quality of earnings analysis
- Evaluation of operating platform, controls and reporting functions
- Balance sheet and debt review
- Prorations
- Identification of state and local tax exposures
- Investigation in potential transfer and other taxes
- Tax structuring

Strategic Diligence



Seller



Asset



Deal



Buyer



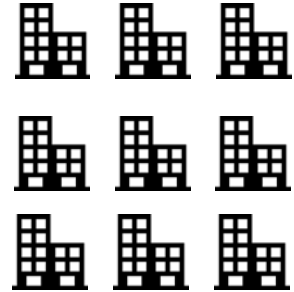
Co-investor



Lender



Ownership



- Speed of execution
- Maintain control
- Preposition issues
- Enhance terms

- Facilitate the process
- Identify key issues
- Align perceptions
- Agreement / contracts

- Validate investment
- Assurance / protection
- Process requirement
- Enhance terms

- Foundation of operations
- Identify issues and opportunities



Questions & Answers



Thank You



Additional Information

Steven M. Moore - KPMG LLP



***Managing Director, Head
of US Real Estate Deal
Advisory***

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Background

- As part of KPMG International's global real estate practice, and working through a coordinated team of more than 1,500 professionals in the U.S. and more than 3,000 professionals in 77 countries worldwide, Steve seeks to provide superior service and solutions to KPMG's clients that beneficially integrate financial and strategic advisory, accounting and tax expertise.
- Steve leads the U.S. Real Estate Deal Advisory practice for KPMG and focuses on real estate advisory, restructuring, company mergers and acquisitions, capital raising and distressed situations.
- In his capacity, Steve serves and expands long-standing relationships with real estate clients across the multi-family, industrial, retail, office, healthcare, lodging and technology infrastructure sub-sectors.
- Steve focuses on transactions, advisory services, equity and debt capital raising for clients including: private equity funds, family offices, institutional investors and management teams of publicly-traded and privately-owned companies, as well as their board members.

Professional and Industry Experience

- Steve has advised on the financing of nearly \$100 billion in real estate assets, consummated sale or acquisition transactions representing more than \$30 billion in asset or portfolio value and participated extensively in both in-court and out-of-court real estate restructurings.
- Prior to joining KPMG, Steve was a Senior Vice President at Moelis & Company in the Real Estate Investment Banking Group. Previously, he held investment banking roles at Citigroup, JPMorgan and Houlihan Lokey and he began his professional career in the Strategic Planning Group of the Walt Disney Company.

Michael J. Rusche - EPR Properties



***Director – Asset
Management***

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Background

- Michael J. Rusche is Director - Asset Management for EPR Properties (NYSE: EPR) where he manages the entertainment and retail assets of the company, including more than 10 million square feet of retail centers, restaurants, movie theatres and other entertainment venues. The portfolio has consistently been more than 99% occupied and includes many of the top performing movie theatres and entertainment based destinations in North America.
- Mike is a graduate of the University of Kansas and began his career in real estate with EPR in 2005. He has engaged in Acquisitions, Asset Management, Development, Redevelopment and Disposition for the company and, over the last ten years, has developed deep relationships within the movie theatre industry while gaining significant insight into the performance of both entertainment based and recreational destinations.
- Mike and his wife Holly are residents of Parkville, MO and together they enjoy many wonderful days, sleepless nights and countless adventures with their daughter Adelaide.

Michael McGillis, P.E. - Tetra Tech, Inc.



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Facility Assessor

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Background

- Working at Tetra Tech, Inc.: worked with buildings, building systems, and utility systems for over 23 years.
- Graduated from Penn State University with a Bachelor of Architectural Engineering and holds professional licenses in PA and MI.
- Worked with the design, renovation, and restoration of buildings throughout entire career.
- In addition to building design and restoration, Mr. McGillis developed and worked on asset management programs for military, retail, medical, and utility clients.
- Programs encompass the entire lifecycle of assets starting at plan conception, through design & construction, commissioning, turn-over, into maintenance / sustainment, and culminating in divestment.

Baris H. Ipeker - Federal Realty



***Vice President -
Investments, Legal
Counsel***

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Background

- Baris Ipeker is Vice President - Investments, Legal Counsel of Federal Realty Investment Trust. In that capacity, Mr. Ipeker is responsible for structuring, negotiating and closing acquisitions, dispositions and property secured financings for the Trust's real estate portfolio.
- Mr. Ipeker is also responsible for managing the Trust's trademark assets.
- Mr. Ipeker joined Federal Realty Investment Trust in 2003 as Senior Real Estate Counsel, was promoted to Director, Legal Counsel in 2006 and Senior Director - Investments, Legal Counsel in 2010. Recently in 2016, Mr. Ipeker was promoted to Vice President - Investments, Legal Counsel.
- Prior to joining Federal Realty Investment Trust, Mr. Ipeker specialized in real estate transactional work at Venable LLP.
- Mr. Ipeker received a Bachelor of Science in Finance from the McIntire School of Commerce at the University of Virginia and holds a Juris Doctorate from Emory University School of Law.