



# Cloverleaf News

WINTER NEWSLETTER

DECEMBER 2018

## The Virtue of Predictability

By Jonathan Basofin, Principal

What's the world coming to? In recent years, we have noted a marked reduction in buyers doing what they say they will do. Others in our business (e.g., lenders, brokers, owners) report the same experience. Whether this unreliability is consistent with an erosion of civility in our society, emblematic of frailty in the commercial real estate market, or some combination of the two, it is real and on the rise. However, unpredictability has always been, and continues to be, starkly at odds with Cloverleaf's mission statement. In fact, endeavoring to simply act honestly and dependably has been an essential ingredient in Cloverleaf's success the last 36 years and is central to our strategy going forward.

Despite our best efforts to vet prospective buyers of our properties, we increasingly see a disconnect between what is promised (including contractually) and what occurs. For example, an experienced buyer recently submitted a compelling letter of intent to purchase one of our assets. Then, just days after

negotiating and signing a contract, but before performing any due diligence, the buyer failed to make its earnest money deposit and terminated the contract. While the buyer did not answer inquiries about what happened, we suspect it either found a different property to buy or was unable to secure the requisite debt to proceed on ours.

The above behavior, while frustrating, is increasingly common. Several leading brokers have reported the same experience:

Larry Davis, a First Vice President in CBRE's Indianapolis office (and a member of Cloverleaf's Advisory Committee), tells us that "over the past 12-18 months, we have seen the investment sale arena show a significant shift in buyer predictability. Many transactions have been successfully moved to a signed term sheet, executed LOI or execution of a Purchase Agreement, without a successful closing occurring (for a variety of different reasons)." Davis goes on to say that "this uncertainty has made it harder than ever to close investment sale

transactions and many have required a second, third or fourth purchaser to emerge before a closing finally occurs."

Joe Girardi, a Principal in the Chicago office of Mid-America Real Estate, concurs, noting that "one facet of the investment market that has dramatically changed in the last 12 months is the amount of bidders we are getting on deals (it has gone down quite a bit) and more significantly, the reliability of these buyers."

Sean Sharko, a Senior Director in Marcus & Millichap's Oakbrook Terrace office, reports that "one of the trends that has been a struggle for the past couple years, and has only grown in commonality, is the unpredictability of buyers performing during escrow." Sharko analogizes that "buyers are looking to "date" a couple deals before getting "married" to one," noting that "buyers like a deal and start the escrow process but cannot help

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to turn their head when another deal (maybe better, maybe not) is presented to them.”

Cloverleaf differentiates itself by employing a more dependable and straightforward approach: To avoid (to the extent possible) “retrading” or walking from properties we put under contract, prior to making offers, we undertake significant due diligence and arrange relatively low loan-to-value debt. In our letters of intent, we discuss the elements of the property that inform our price. Then, assuming no material changes or surprises arise during our formal due diligence, we close at the contract price and in the promised timetable. That’s it – simple. Please see the article about Portage Commons in this newsletter for an example of this model working successfully (albeit months after we initially lost out on the property to a higher but ultimately less reliable bidder).

Our process seems practical but much to the frustration of sellers and brokers, it is not a popular or common approach. However, we believe it makes us more uniquely

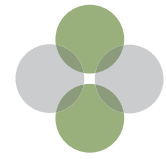
situated to capitalize on acquisition opportunities. Mid-America’s Joe Girardi agrees, advising that “certainty of execution is worth more to sellers today than it ever has before, and in this regard, I feel like Cloverleaf has a tremendous competitive advantage.” CBRE’s Larry Davis also offers that “my experience with Cloverleaf has proven that Cloverleaf operates and transacts in a polar opposite fashion. In short, they reach an agreement and do what they say they will do – period. Barring an improvement in the investment buyer pool, I believe that the character, closing performance and overall track record of Cloverleaf will be rewarded, as the market should reward Cloverleaf’s ability to close without re-trade and impeccable track record as both a buyer and a seller.”

Going forward, we will further highlight Cloverleaf’s reliability to prospective sellers and brokers. For example, with our offers, we will submit statistics on the last several transactions on which we have gone under contract (e.g., percentage that resulted in a closing,

time from contract to closing, etc.). Additionally, we will provide references from sellers and brokers from whom we have successfully acquired properties. And when selling our own properties, we will work to negotiate the best letters of intent and contracts we can within the confines of today’s market standards.

Our theory going forward is that property owners will continue desiring to sell without undue fuss, time, and expense. And as groups willing and able to perform in this way become fewer and further between, Cloverleaf can position itself as a particularly desirable buyer. We hope and expect to leverage our longstanding model of predictability to access more quality investment opportunities for Cloverleaf and its investors.





## BITTERSWEET PLAZA ACQUIRED



In November 2018, The Cloverleaf Fund VIII, LLC acquired a 92,295 square foot multitenant center in Mishawaka, IN. Mishawaka is part of the South Bend (University of Notre

Dame) area; South Bend is Indiana's fourth largest city.

The center is anchored by a Martin's Super Market, the region's leading grocer with 21 stores in the "Michiana" area. Occupied the site since 1992, the store is a particularly strong performer. Martin's has more recently demonstrated its commitment to the location by leasing two additional parts of the property: an 8,000 square foot pet store (Martin's Paw Mart concept) and a gas station outparcel (Martin's Fuel).

The rest of the tenants are largely internet-resistant business including

Anytime Fitness, PNC Bank, a Chinese restaurant, Great Clips, H&R Block, Papa John's, a nail salon, a tanning salon, and a dry cleaner. Another attraction of the asset is its 10% vacancy, presently broken into two spaces of 8,000 and 835 square feet.

We believe that given Cloverleaf's attentive approach to leasing and management, the vacant space is leasable and the property provides other avenues for value creation. In the interim, we anticipate initial annual cash flow to average around 7%.

## PROPERTY SPOTLIGHT



Portage Commons, our 107,805 square foot multitenant center in Portage, IN, so far exemplifies the successful execution of a key Cloverleaf operational and investment model.

First, how we came to own the center is akin to many Cloverleaf acquisitions in that it required patience. Our initial bid

was unsuccessful because the seller chose a higher-priced offer. Although we were attracted to the property's combination of a dominant location but with significant value-add potential, our preliminary diligence made us confident in our pricing. Therefore, we followed the sale's progress and when we learned the property had fallen out of contract, we reengaged, promising and delivering a predictable, fast closing.

Immediately after closing we got to work on remedying deferred maintenance items and undertaking cosmetic improvements. Within the first few months of our ownership, we gave the center a "face lift" by repainting its facade and updating

its signage, while repairing or replacing portions of the parking lot, HVAC units, and roof.

We have also tended to management and leasing matters. Since our acquisition in March 2018, we have negotiated an early five-year extension of the center's largest tenant, its 28,875 square foot Big Lots store. Additionally, we have leased space to two new tenants, including 14,448 square feet to national Harbor Freight Tools, which occupies over 800 stores across 47 states.

We believe the center's value has meaningfully grown since our acquisition and that we can continue to make it better.



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### NEW CLOVERLEAF INVESTMENT OFFERING

In the coming weeks or months, we look forward to launching our next investment offering. With our recent acquisition of Bittersweet Plaza in Mishawaka, IN (discussed in this newsletter), The Cloverleaf Fund VIII, LLC (commenced in the 4th quarter of 2017) placed the last of its acquisition capital. Therefore, the next property we identify to buy will cause us to offer our next opportunity. If you are interested in learning more, please contact Jonathan Basofin at [jeb@cleafgroup.com](mailto:jeb@cleafgroup.com) or 847-272-3300.



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