Income Producing Commercial Real Estate

Cardiff Lexington 's Income Producing Real Estate focus is rural smaller markets. Mobile Home Parks, Strip Shopping Centers, and select other types of leased commercial property. When looking at commercial properties purely as an investment rather than as a partial-use property for business owners, the most important factor is supply and demand. The ideal property is in an area where competition is limited, vacancy is low and the space available for new developments is limited. Low supply and high demand often translates to fully leased at favorable rental rates as well a hedge for a higher rate of appreciation. Cardiff is committed to a robust commercial real estate portfolio and its related physical assets.

What Types of "Commercial Property"

Cardiff Lexington is interested in the following segments of commercial properties:

- Mobile Home Parks
- Strip Shopping Centers
- Office Buildings
- Warehouses
- Industrial Buildings
- Nursing Homes
- Assisted Living Facilities

Why Income Producing Commercial Real Estate?

OBJECTIVE VALUATIONS

While market comparisons and replacement value play a part in valuing commercial property, the key value for Cardiff Lexington is in determining the property's Net Operating Income(NOI). Net Operating Income is Gross Income minus operating expenses (excluding debt service). We evaluate the target commercial property's value by obtaining the current owner's income statement, balance sheet, and tax records. The asking price should be set at a price where an investor can earn the area's prevailing cap rate for that type of commercial property.

UNDERLYING ASSET

The land, buildings, and other improvements. Mature properties tend to be well located with established repetitive traffic. They also often have the potential for a higher and better use going forward. The strength of the local economy of the area will also affect the value of the purchase, so it is important to check employment rates and other economic growth and strength metrics. Cardiff Lexington likes this type of conservative asset investment to complement our strong growth and cash flow oriented subsidiary companies and our second stage startups.

DIVERSITY

Most commercial properties have multiple tenants. This gives the owner considerable portfolio balance and diversity – they are not 100% reliant on just one tenant's rent. For example, if you have a 100-space mobile home park – and one tenant leaves – the impact on the property's finances is minimal. However, with an investment in a single product or service company, you are 100% tied to that one business, and if it fails or does poorly, your investment is in jeopardy, if not lost.

TRIPLE NET LEASES

There are variations to triple net leases, but the general concept is that as the property owner expenses are not paid on the property. The lessee often handles all property expenses directly, including real estate taxes. Companies like Whole Foods, Walgreens, CVS, and Starbucks typically sign these types of leases, as they want to maintain a look and feel in keeping with their brand, so they manage those costs. Strip malls may have a variety of net leases and triple nets that are not usually done with smaller businesses, but these lease types are optimal.

INCOME POTENTIAL

Investment is traditionally made in Commercial Real Estate for its earning potential. Commercial properties generally have an annual return of the purchase price between 6% and 12%, depending on the type of property. Cardiff Lexington prefers equity based financing to traditional debt and will, over a short timeline, convert mortgages and other 3rd party debt to equity. The net effect is to drive returns higher over time while limiting exposure.

CAPITAL APPRECIATION

The ability to create massive wealth through capital appreciation is an even bigger part of commercial real estate than cash flow. It is not uncommon for commercial properties to increase significantly in value of time. In fact, commercial real estate has proven to be one of the greatest hedges to inflation of all investment types. One of the reasons is that rents increase with inflation, and commercial real estate's value is built upon those rents. If the rents double, then the value of the property doubles – it's that simple. Inflation also drives up the cost to build new properties, so the values of existing real estate go up to match those new values.

PROFESSIONAL RELATIONSHIPS

Small business owners generally take pride in their businesses and want to protect their livelihood. Owners of commercial properties are usually not individuals, but corporations that operate the property as a business. As such, the landlord and tenant have more of a business-to-business customer relationship, which helps keep interactions professional and courteous.

LIMITED HOURS OF OPERATION

Businesses usually go home at night. In other words, management works when they work. Barring emergency calls at night for break-ins or fire alarms, Property Managers should not normally be concerned about receiving a midnight call because a tenant wants repairs or has lost a key.

PUBLIC EYE

Retail tenants have a vested interest in maintaining their store and storefront, because if they don't, it will affect their business. As a result, commercial tenants and property owner interests are aligned, which helps the owner maintain and improve the quality of the property, and ultimately, the value of their investment.

SECURITY

Most commercial real estate is based on basic needs, such as shelter (mobile home parks), basic services (retail and office), and storage (self-storage and industrial warehouse). While other holding companies often revolve around complex business models and technology that has a somewhat fixed shelf life, commercial real estate is based on strong, perpetual demand. In addition, while stocks trade at price-to-earnings ratios (also known as P/E ratios) of up to 100 or more, commercial real estate rarely trades for P/E ratios of 10 or less – and the lower the P/E number, the lower the risk. Cardiff Lexington's Commercial Real Estate Holdings are designed to mitigate risk.

SUMMARY

Cardiff Lexington is a diversified holding company that offers a unique “Equity Exit Strategy” for Middle Market companies. Acquisitions become standalone Subsidiaries gaining advantage of the Power of a Public Company without losing their independent management control. A key element of our strategy is mature Income Producing Commercial Real Estate Property. We expect to reach our objectives through perpetual asset acquirement which become wholly owned subsidiaries. We implement multiple transaction strategies on a per transaction basis.

We prefer the many advantages of a Tax-Free Exchange using a stock for stock Acquisition. Once we agree on a value of the business and its assets, agreements are drawn up and Preferred shares are issued under IRS Section 368(a)1(B) guidelines. According to the IRS Section 368(a)1(B) there is a process in which all parties involved in the acquisition are free from reporting a Capital Gain or a Capital Loss, thus being a Tax-Free Exchange. Liquidity is created.