

PRE-TRANSACTION READINESS ASSESSMENT

Owner-Occupied Commercial Real Estate | Business Sale / PE Transaction

ENGAGEMENT DETAILS

Client: Pinnacle Fire Protection LLC
Owner: Michael DeSantis
Report Date: April 2026
Advisor: Gregory Elmiger, GERE Advisors
Referral Source: Elizabeth Harrington, CFP, CIMA, Broad Street Private Wealth Advisors, Red Bank, NJ
Engagement Type: Pre-Transaction Readiness Assessment
Trigger: PE term sheet received; net proceeds to owner appear thin relative to total asset value

ASSESSMENT VERDICT

NEGOTIATE BEFORE SIGNING

The PE offer is competently structured, and it favors the buyer. The real estate is embedded at a below-market cap rate, and the CMBS yield maintenance penalty has not been priced into the seller's net proceeds. Two adjustments to the deal terms, executed before LOI, recover more than \$2.5 million in value that the current structure transfers to the buyer.

PE Offer (Aggregate) \$13,200,000	GERE Opinion of Value \$15.65M - \$16.15M	RE Embedded (Implied) \$4.76M - \$5.08M	Value Left on Table ~\$2.5M+
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Prepared for discussion purposes only. This report represents the independent analysis of GERE Advisors based on a review of available financial records, the PE term sheet provided, public records research, and verified market data. It does not constitute legal, tax, financial, or investment advice. The owner should engage a CPA, real estate attorney, and commercial real estate broker before executing any transaction.

Executive Summary

GERE Advisors was engaged by Elizabeth Harrington, CFP, CIMA, of Broad Street Private Wealth Advisors, to provide an independent real estate readiness assessment in connection with a proposed sale of Pinnacle Fire Protection LLC, a second-generation fire suppression and alarm systems contractor serving the greater New Jersey market for more than thirty years. Ms. Harrington referred the engagement after reviewing a private equity term sheet received by the owner, Michael DeSantis, and concluding that the net proceeds to the seller appeared thin relative to the combined value of the business and the real estate. That instinct was correct.

The PE buyer's offer is professionally structured and internally consistent. It is also structured in the buyer's interest. The term sheet presents a single enterprise value for the operating business that implicitly absorbs the real estate at a capitalization rate appropriate for a PE platform acquisition, not for an arm's-length investment sale of a freestanding industrial building. The difference between those two valuations is approximately \$2.2 million to \$2.7 million, and it transfers quietly from seller to buyer unless the seller disaggregates the components before signing.

A second issue is compounding the first. The building carries a CMBS conduit loan originated in 2019 at 6.50% fixed rate. CMBS loans cannot be prepaid on normal commercial timelines without triggering a yield maintenance penalty. At current Treasury rates, that penalty is estimated at \$330,000 to \$340,000. Neither the term sheet nor the seller's current net proceeds analysis reflects this cost. It is real, it is payable at closing, and it belongs in the seller's negotiating baseline before any letter of intent is signed.

The purpose of this report is to quantify both issues, explain why they arose, and give the owner a specific negotiating framework to recover the value before the deal is papered.

	PE Offer (Bundled)	GERE Opinion of Value
Operating business	\$13,200,000	~\$8,400,000 (7.0x EBITDA)
Real estate	(implied, not stated)	\$7,250,000 - \$7,750,000
Total	\$13,200,000	\$15,650,000 - \$16,150,000
Value not recovered by seller	(not broken out)	~\$2.5M+ transferred to buyer

How This Happens

Experienced PE firms who acquire building service companies handle real estate the same way every time. They ask whether the target owns or leases. If it leases, they evaluate the lease assignability and remaining term. If it owns, they fold the building into the enterprise value at the blended return they need to generate on the combined investment, using an implied cap rate that is higher, often materially higher, than what an independent real estate buyer would pay. They do not call this out explicitly in the term sheet. The headline number simply reflects it.

This is not predatory. It is standard practice. The PE firm has modeled this type of acquisition many times. They know what they are buying, they know how they are valuing it, and they know the seller's M&A advisor is focused on the EBITDA multiple and the business terms, not on independently verifying the embedded real estate valuation. The real estate becomes a secondary workstream that gets swept into the deal on the buyer's assumptions.

The seller's protection is disaggregation: identifying the real estate's independent market value, modeling the actual net proceeds waterfall including CMBS costs, and using that analysis to negotiate the terms before the LOI locks in the structure.

Summary of Findings

1. The PE offer embeds the real estate at a below-market cap rate.

The implied real estate value in the term sheet, derived from the buyer's 7.5% to 8.0% cap rate on the building's NOI, is \$4,764,750 to \$5,082,400. GERE's independent market analysis indicates the building is worth \$7,250,000 to \$7,750,000 as a standalone flex industrial asset in the Western Monmouth submarket. The embedded value is \$2.2 million to \$2.7 million below market. That gap does not disappear. It transfers to the buyer at closing.

2. The CMBS yield maintenance penalty is not reflected in the seller's net proceeds.

The building carries a CMBS loan with an outstanding balance of \$4,292,146, originated at 6.50% fixed rate and maturing in September 2029. Any sale or transfer of the property within the remaining three-year term triggers a yield maintenance payment estimated at \$330,000 to \$340,000, payable in cash at closing. This cost has not been incorporated into the seller's net proceeds model. Adding it to the waterfall changes the picture materially.

3. A leaseback structure recovers both issues simultaneously.

If the owner retains the real estate and executes a simultaneous 10-year NNN leaseback to the PE-backed operating company at market rate, the building converts from an owner-occupied asset embedded in a business transaction to a standalone NNN-leased investment. The CMBS loan remains in place and runs to maturity with no prepayment penalty. The indicated investment value of the leased building at a 6.00% cap rate is approximately \$6,353,000, preserved on the seller's balance sheet rather than transferred to the buyer at \$4.76 to \$5.08 million.

GERE as Transaction Quarterback

GERE remains available to continue as the owner's independent real estate advisor through execution of this strategy, including leaseback structuring, CMBS servicer coordination, valuation support, broker oversight, tax and proceeds waterfall modeling, and coordination among legal, M&A, and lending workstreams.

Property Overview

Property address	84 Industrial Way, Eatontown, NJ 07724
Owner / operator	Pinnacle Fire Protection LLC Michael DeSantis, owner
Asset type	Flex warehouse: 20% office, 80% warehouse
Year built	1998
Total building area	30,000 SF
Occupancy	100% owner-occupied; no lease in place
Existing CMBS loan	\$4,292,146 outstanding (6.50% fixed, matures Sep 2029)
Annual debt service	\$405,124 (\$33,760/month)
Original purchase price	~\$2,800,000 (estimated)

Assessment Findings: Scorecard

GERE evaluated the transaction structure across three categories. Two are quantified pricing issues embedded in the current term sheet. One is a structural prerequisite for the leaseback path. All three must be addressed before a letter of intent is executed.

#	Category	Status	Finding
1	Embedded RE Valuation Gap	NEGOTIATE	PE offer implies RE value of \$4.76M-\$5.08M against independent market value of \$7.25M-\$7.75M. The \$2.2M-\$2.7M gap is not an oversight. It is the buyer's standard cap rate applied to a platform acquisition. The seller must price this before signing.
2	CMBS Yield Maintenance	NEGOTIATE	CMBS loan at 6.50% vs current Treasury generates \$330K-\$340K prepayment penalty payable at closing. This cost is not in the seller's current net proceeds model. It must be incorporated into the negotiating baseline and addressed in deal structure before LOI.
3	Lease Structure	PREREQUISITE	No lease exists between the operating company and the real estate. A market-rate NNN leaseback must be executed simultaneously with the business closing to preserve the building as a standalone income-producing asset.

Section 1: The PE Backdrop | Fire and Life Safety Sector

The acquisition interest directed at Pinnacle Fire Protection LLC is not a coincidence. It is the product of a systematic private equity consolidation strategy that has reshaped the fire and life safety sector over the past several years.

Private equity has identified building services contractors (fire suppression, alarm systems, HVAC, elevators, plumbing) as ideal rollup targets: fragmented markets, recurring revenue streams, long customer relationships, and services that customers cannot defer or self-perform. The model is straightforward. A PE firm acquires a regional operator, uses it as a platform, makes additional acquisitions, standardizes operations, and exits at a higher multiple than it paid on entry. In fire and life safety specifically, consolidation is advanced. Pye-Barker Fire and Safety, backed by Leonard Green and Altas Partners, executed more than 57 acquisitions in a single year. The independent regional operator is becoming increasingly rare, and increasingly valuable to acquirers, precisely because the qualified buyer pool is deep and motivated.

The PE firm that presented this term sheet has executed this acquisition many times before. They have a real estate checklist. The first question is owned or leased. If owned, the standard approach is to present a single enterprise value that absorbs the real estate at a blended platform cap rate. This is not a gap in their process. It is their process. The seller's M&A advisor, focused correctly on EBITDA multiple and business terms, typically does not independently value the embedded real estate component. The gap between the platform cap rate and the market investment cap rate accrues to the buyer.

What the Referring Advisor Recognized

Elizabeth Harrington did not see a specific error in the term sheet. She saw a headline number and noted that the combined value of a \$10M revenue business and a 30,000 SF industrial building in Eatontown should produce a different picture than what the seller was being shown. That instinct is what this engagement is designed to test and quantify.

Section 2: Business Enterprise Value vs. Real Estate Value

Two assets of nearly equal value. The buyer has priced both. The seller has modeled one.

2.1 Operating Company Valuation

The PE term sheet implies an enterprise value for the operating business based on a trailing EBITDA multiple consistent with the current market for small regional fire and life safety contractors. GERE has reviewed the term sheet framework. The following is presented for comparative context only and does not constitute a formal business appraisal.

Operating Company Valuation	Estimate
Assumed annual revenue	\$10,000,000
EBITDA margin (conservative 12%)	\$1,200,000
Applied EV multiple (regional trade services)	7.0x
IMPLIED ENTERPRISE VALUE	\$8,400,000

2.2 Real Estate Market Value: Independent Analysis

GERE's independent market analysis is based on verified CoStar sale comparables in the Western Monmouth industrial submarket as of April 2026. The building is a 1998-vintage flex/warehouse asset in a submarket with constrained supply and sustained occupier demand from distribution and service-oriented tenants.

Real Estate Valuation	Estimate
Building size	30,000 SF (6,000 office / 24,000 warehouse)
Primary method: sale comp basis	\$241-\$258/SF (CoStar Western Monmouth flex)
Secondary: NOI / 6.25% investment cap	\$381,180 NOI = \$6,098,880 indicated
INDEPENDENT MARKET VALUE RANGE	\$7,250,000 - \$7,750,000

2.3 What the PE Offer Implies for the Real Estate

PE acquirers of operating businesses embed real estate at the blended return required for a platform acquisition, not at the cap rate an independent real estate investor would pay. For building services businesses of this profile, that typically means an implied real estate cap rate of 7.5% to 8.0%. Applied to Pinnacle's building NOI, the PE-implied real estate values are as follows:

	7.5% Cap (PE Low)	8.0% Cap (PE High)
Building NOI	\$381,180	\$381,180
PE-implied real estate value	\$5,082,400	\$4,764,750
Independent market value (mid)	\$7,500,000	\$7,500,000
VALUE TRANSFERRED TO BUYER	\$2,417,600	\$2,735,250

Why This Is Not an Oversight

The PE buyer's real estate valuation is internally consistent with their acquisition model. They are not making an error. They are applying a return hurdle to a platform acquisition that includes a real estate component. The seller's M&A advisor is not making an error either; evaluating the EBITDA multiple is their job. The gap exists because no one on the seller's side has independently valued the real estate and compared it to what the term sheet implies. That is what this report does.

Section 3: The CMBS Yield Maintenance | An Unmodeled Cost

STATUS: NEGOTIATE | \$330,000 to \$340,000 payable at closing. Not reflected in current net proceeds analysis.

3.1 What CMBS Loans Are and Why They Cannot Be Prepaid Freely

CMBS conduit loans are not bank portfolio loans. Once originated, they are pooled with other commercial mortgages, securitized, and sold to bond investors as structured products. The loan servicer, acting on behalf of those bondholders, is contractually obligated to protect their expected yield. When a CMBS loan is paid off before maturity, the borrower must compensate bondholders for the interest income they will no longer receive. This is the yield maintenance obligation. It is not a negotiable fee. It is a calculated payment embedded in the loan documents.

The practical consequence for this transaction is that the CMBS loan on 84 Industrial Way cannot simply be paid off at closing the way a conventional bank loan can. Any sale, transfer, or payoff of the property before the September 2029 maturity date triggers the yield maintenance calculation. That cost must be paid in cash at closing, and it reduces the seller's net proceeds dollar for dollar.

3.2 Loan Terms and Current Status

Lender	CMBS conduit (securitized; servicer controls prepayment)
Loan originated	September 2019
Original loan amount	\$5,000,000
Note rate	6.50% fixed
Loan maturity	September 2029
Current balance (Sep 2026)	\$4,292,146
Annual debt service	\$405,124 (\$33,760/month)
Remaining term at transaction	3 years (36 months)

3.3 Yield Maintenance Calculation

The yield maintenance penalty is calculated as the present value of the interest rate differential between the note rate and the current Treasury yield for the matching remaining term, applied to the outstanding balance. With three years remaining, the relevant benchmark is the 3-year Treasury.

Yield Maintenance Calculation	
Note rate	6.50% (2019 CMBS vintage)
3-year Treasury (Apr 2026)	~3.90%
Rate spread	2.60%
Outstanding balance (Sep 2026)	\$4,292,146
Remaining term	3 years

Yield Maintenance Calculation	
Simplified directional estimate	\$4,292,146 x 2.60% x 3 = ~\$335,000
ESTIMATED YIELD MAINTENANCE RANGE	\$330,000 - \$340,000

The calculation above is a directional planning estimate. Actual yield maintenance is determined by the specific loan document formula, the applicable Treasury securities matched to the remaining payment schedule, and the servicer's calculation at the time of closing. A formal payoff and yield maintenance quote from the CMBS servicer is required before any transaction is structured.

Why This Number Is Missing From the Current Analysis

Most sellers and their M&A advisors focus the net proceeds model on the business sale: EBITDA multiple times revenue, less transaction costs, less tax. CMBS prepayment mechanics are a real estate finance concept that falls outside that workstream. Unless someone has specifically pulled the loan documents and run the yield maintenance calculation, this cost does not appear in the model. It is not that anyone made an error. It is that no one asked the real estate question.

Section 4: What the Owner Actually Nets | The Corrected Waterfall

STATUS: NEGOTIATE | Bundled sale produces negative real estate proceeds after CMBS payoff, YM penalty, and tax.

The following waterfall models the seller's net real estate proceeds under the current PE offer structure, incorporating both the embedded cap rate and the yield maintenance obligation. The purpose of this analysis is not to suggest the transaction cannot proceed. It is to establish what the seller is actually agreeing to before signing, and to quantify what is recoverable through a revised deal structure.

Proceeds Waterfall: Real Estate Component	PE Low (8.0% cap)	PE High (7.5% cap)
PE-implied gross value	\$4,764,750	\$5,082,400
Less: CMBS payoff	(\$4,292,146)	(\$4,292,146)
Less: YM penalty (est.)	(\$335,000)	(\$335,000)
Less: brokerage and closing costs	(\$285,885)	(\$304,944)
Less: estimated tax on gain	(\$1,089,127)	(\$1,198,875)
NET TO OWNER: REAL ESTATE	NEGATIVE	NEGATIVE

What This Means in Plain Terms

Under the current bundled structure, the real estate component of this transaction produces negative proceeds for the seller after accounting for the CMBS payoff, the yield maintenance penalty, transaction costs, and estimated tax. The business sale proceeds are real and they are sound. The real estate, as currently structured, is not a gain. It is a cost. The seller is effectively contributing the building to the deal in order to close.

Section 5: The Leaseback Structure | How to Recover the Value

STATUS: RECOMMENDED | Leaseback preserves ~\$6.35M in real estate value and eliminates the YM penalty.

The solution to both problems, the embedded cap rate gap and the CMBS yield maintenance obligation, is the same structure: the owner retains the real estate, executes a simultaneous 10-year NNN leaseback to the PE-backed operating company at market rate, and holds the building as a standalone income-producing asset. The CMBS loan remains in place and runs to its September 2029 maturity without triggering prepayment. There is no yield maintenance obligation. The building converts from owner-occupied to investment-grade at closing.

5.1 Why the PE Buyer Is a Good Tenant

A PE-backed operating company is a creditworthy tenant. The buyer is acquiring Pinnacle specifically because it has stable recurring revenue, long customer relationships, and a defensible market position. That is the same profile that makes a good NNN tenant. The PE sponsor has typically raised an institutional fund, carries managed debt, and is accountable to its LPs for operational performance. A 10-year NNN lease to a PE-backed building services platform is a materially different credit than a lease to a small owner-operated business.

The leaseback is not a concession the buyer is granting the seller. It is a term the seller negotiates into the deal structure before the LOI. The PE buyer continues to occupy the building they need to run the business they just acquired. The seller retains a real estate asset with a creditworthy institutional tenant on a long-term lease.

5.2 Lease Rate and Real Estate Value Under the Leaseback

The NNN lease rate must be set at a defensible market level supported by lease comparables. At \$13.60 per square foot blended NNN, consistent with CoStar Western Monmouth submarket data for 1998-vintage Class B flex product, annual base rent is \$408,000. This rate reflects a market position below the \$15.00 per square foot commanded by new Class A construction in the immediate submarket.

Leaseback Valuation	
Lease rate (NNN blended)	\$13.60/SF
Annual base rent	\$408,000
Tenant	PE-backed Pinnacle Fire Protection LLC
Lease term	10 years NNN
Stabilized cap rate (PE-backed NNN)	6.00%
INDICATED NNN INVESTMENT VALUE	\$6,353,000

The Rate-Setting Tension

The NNN rent rate affects both the business valuation and the real estate valuation simultaneously, and in opposite directions. A higher rent raises the real estate value but increases the PE buyer's occupancy cost and compresses the EBITDA multiple they are paying for. A lower rent protects the business valuation but suppresses the real estate. The rate must be set at a defensible market level that all parties can support with lease comparables. This negotiation belongs in the transaction structure, not left to be resolved at closing.

5.3 Scenario Comparison

	Bundled Sale (Current Structure)	Leaseback + Retain (Recommended)
Real estate value	\$4,764,750 - \$5,082,400 (PE-implied)	\$6,353,000 (NNN investment value)
CMBS payoff required	Yes: \$4,292,146	No; loan runs to maturity 2029
YM penalty	\$330,000 - \$340,000 at closing	\$0; no prepayment triggered
Tax on RE gain	Due at closing	Deferred until future RE sale
Net RE proceeds to seller	NEGATIVE	Building retained as \$6.35M asset
Annual income after closing	\$0	\$408,000 NNN
Optionality	None	Hold / Refinance 2029 / Sell as NNN investment
RECOMMENDED	No	Yes

Value Preserved by the Leaseback Structure

The leaseback preserves approximately \$2,500,000 or more in real estate value relative to the current bundled structure. The difference is between a transaction where the real estate produces negative net proceeds and one where the seller retains a \$6.35M stabilized income-producing asset with full optionality. This is recoverable. It requires negotiating the deal structure before the LOI is signed, not after.

Section 6: Immediate Next Steps

The following actions must be completed before any letter of intent is executed. Time is the material constraint. Once the LOI is signed, the deal structure is substantially set. The leverage to negotiate the leaseback and address the CMBS cost exists now, not after the buyer's counsel has drafted the purchase agreement.

Priority	Action	Owner	Timeline	Est. Cost
Immediate	Obtain formal yield maintenance / defeasance quote from CMBS loan servicer. This is the first number that must be in the seller's hands.	Owner / GERE	Week 1	\$0
Immediate	Engage commercial RE attorney to review CMBS loan documents and confirm prepayment, assumption, and defeasance provisions	RE attorney / GERE	Week 1	\$2,500-\$5,000
Immediate	Engage CPA to model full tax liability under bundled vs. leaseback scenarios: depreciation recapture, LTCG, NJ state tax, and NIIT	CPA / GERE	Week 1	\$3,000-\$5,000
Immediate	Notify M&A counsel and PE buyer that real estate will be structured as a separate leaseback; request that LOI reflect leaseback terms or be held pending RE structuring	Owner / M&A counsel	Week 1	\$0

Priority	Action	Owner	Timeline	Est. Cost
2 Weeks	Draft 10-year NNN leaseback term sheet at \$13.60/SF for incorporation into the transaction. Rate to be supported by lease comparables.	RE attorney / GERE	Weeks 1-2	\$3,000-\$5,000
2 Weeks	Engage commercial broker for independent broker opinion of value on the leased building for NNN investment sale benchmarking	Broker / GERE	Week 2	\$0
30 Days	Coordinate CMBS servicer on hold-to-maturity path; confirm no lien transfer issues arise from the business sale alone vs. sale of the real property	RE attorney / GERE	Weeks 2-4	\$1,000-\$2,000
At Close	Execute NNN leaseback simultaneously with business sale closing. Lease must be fully executed at closing, not deferred.	All parties	Transaction close	Included / Commission at RE sale

Closing Note

This report provides Michael DeSantis and his advisors with an independent analytical framework for evaluating the real estate implications of the proposed business sale. The operating business transaction is sound, the buyer is credible, and the timing is favorable given where the PE consolidation cycle sits in this sector. None of that is in question.

What is in question is whether the seller's net proceeds reflect the full value of what he is selling. The analysis in this report indicates they do not, under the current structure. The gap is not the result of a bad offer or an unethical buyer. It is the result of a buyer applying their standard model to a transaction where the seller has not independently valued the real estate component or accounted for the CMBS prepayment cost. Both are correctable. Both require action before the LOI is signed.

The building at 84 Industrial Way is worth \$7,250,000 to \$7,750,000 on the open market as a freestanding flex industrial asset. With a 10-year NNN lease to a PE-backed tenant and no CMBS prepayment event, it is a \$6.35 million stabilized investment on the seller's balance sheet. The difference between that outcome and the current deal structure is approximately \$2.5 million. It is recoverable. The negotiating window to recover it is now.

GERE remains available to continue as the owner's independent real estate advisor through execution of this strategy, including leaseback structuring, CMBS servicer coordination, valuation support, and coordination with legal, M&A, and tax counsel.

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ENGAGEMENT SUMMARY

Engaging advisor: Elizabeth Harrington, Broad Street Private Wealth Advisors
Engagement trigger: Net proceeds appeared thin vs. combined asset value
Engagement date: April 2026
Report date: April 2026
PE term sheet reviewed: Yes
CMBS loan documents reviewed: In progress
CoStar comps reviewed: 17 sales, 4 leases

