



MEMORANDUM

DATE: January 24, 2020

TO: CB Downtown Industrial, LLC

- Dean Realty Co,
- BMPI Downtown Industrial, LLC
- CB Downtown Industrial Investors, LLC

FROM: Bucky Brooks **RAB**

RE: CBDI Q4 DISTRIBUTION
2019 Actual Results

Greetings all and Happy New Year!

We are pleased to distribute **\$475,000** as a result of Q4 2019 Operations. Attached is a calculation for your share of the distribution. For those partners set up with wiring instructions, the Q4 distribution will be transferred the week of January 27. For those partners who prefer to receive checks, your check is being mailed to you accompanying a hard copy of this correspondence.

The inaugural year for CBDI was eventful, and positive. The portfolio is performing well, thanks in large part to the strong core team that came over from Dean Realty operations and Copaken Brooks management.

During the first couple months we built up reserves. In Q3 and Q4 we exceeded cumulative minimum target distributions of 2% per quarter.

Below is a brief recap of the 2019 essentials.

DISTRIBUTIONS

Partners received total distributions of \$775,547, a 4.10% return on equity for the partial year May 9 through December 31.

LEASING & SALES

Leasing throughout the partial year was healthy. Sixteen new leases were signed for a total of 97,616 square feet. 21 leases were renewed for a total of 340,608 square feet. The new leases and renewals accounted for approximately 27% of the space and new leases and renewals were signed at increased lease rates approximately 6% over 2018 rates. Portfolio occupancy at year-end was 86%.

Of note, JR & Co., a roofing contractor expanded and extended their lease at 1201 West 31st Street for 7 years through 2026. This lease was signed at a 28% increase over the 2018 rental rates. JR & Co.

expanded by 11,600 square feet into the vacancy created by Dean Realty Company after the sale. Importantly, the lease was made as-is, with JR & Co. paying for its own tenant improvements. JR & Co. now leases all but 1,600 square feet in the building, which is occupied by the now down-sized Dean Realty Company. If in the future JR & Co. should need to expand into the full building, Dean Realty Company can be relocated.

Also notably, the largest tenant in the portfolio, MVP Law Firm, expanded and renewed its 36,000 square foot office lease in 10 E. Cambridge. Additionally, MVP renewed its 10,000 square foot office lease at 2600 Bi-State Drive and its 16,000 square foot lease in Downtown Underground. MVP renewed its leases for 10 years, through April 2030. The MVP deal represents 3% of the space but 7% of the Net Operating Income. This new lease was signed in January 2020. Commencement is May 1, 2020. We are also working on a deal for Superior Moving to relocate its headquarters to Downtown Business Park from its longtime location at 21st and Walnut in the Crossroads. If successful, the Superior lease would fill the portfolio's largest vacant block of 70,000 square feet at 3177 Mercier. The Superior deal would likely commence in Q2 or Q3 this year.

We have a proposal out to a local 150,000 square foot office prospect for Lot 9 at the northwest corner of I-35 and Cambridge Circle Drive. The proposal contemplates either selling the land to the user directly, or selling the land for a build-to-suit development. The proposal has been out now for approximately 90 days. We are told the prospect is analyzing the proposal including incentives. No date has been given for a conclusion or reply.

Quick Delivery suddenly moved out of 43,998 square feet at 3199 Mercier in October due to financial hardship. This is a loss of annual scheduled rent of \$150,000. We negotiated a termination with them and we are marketing the space for what we expect to be at increased rent when leased.

OPERATIONS

The transition from Dean Realty Company to Copaken Brooks management and operations was organized and well-executed. This was due in part to the dedicated staff who moved to Copaken Brooks in the joint venture. It was also due to the efforts of Copaken Brooks senior management and staff, who coordinated the successful transition to new systems, software, property management and accounting.

The portfolio and staff are now well integrated and operating smoothly. The properties are generally in sound condition, with a few small discoveries and otherwise normal maintenance and repairs.

The portfolio met financial setbacks from increased real estate taxes and insurance, each more than anticipated or budgeted. We have hired a tax appeal consultant and we are taking the insurance out to market for the next renewal later this year.

CAPITAL ITEMS

In 2019, major capital improvements included a parking lot replacement south of 1201 West 31st Street in connection with the JR & Co. new lease, and a water line replacement in the parking lot north of Business Center 4. In total, we spent \$241,000 on capital, substantially less than the budgeted amount of \$926,000 for the first 12 months.

For 2020, we are focusing on:

- New branding and park signage;
- New front gate and added/updated security cameras throughout Downtown Underground;
- New security keypads for all of the Smart Storage suites, replacing the old door keys;
- 25 new units containing a total of 2,500 square feet of additional self storage space is under construction
- Correcting the ceiling pan and drainage to prevent water from dripping in the on the ingress/egress drive and Liberty Bend in Downtown Underground;
- Repairs to the 3101 elevator tower;
- MVP tenant improvements and commissions amount to \$940,000 to be paid in 2020. Of this amount, we have \$600,000 that was paid by a former tenant, CVR Energy, in a lease buyout, to apply toward the MVP buildout.

All of the above will be funded through the line of credit that was established to fund the expenses necessary to stabilize the portfolio, including capital improvements to the parks, tenant improvements and leasing commissions.

INCOME

Total Income of \$6,388,762 is higher than budget by \$358,081, a 6% increase. The additional income is a result of: (i) favorable leasing; (ii) increased recoveries due to transitioning from gross leases to net leases; and (iii) increased parking income in the Underground.

EXPENSES

Total Expenses of \$3,818,290 is higher than budget by \$736,032, a 20% increase. The increase is a result of: (i) residual expenses from closing; (ii) increases in real estate taxes; and (iii) increases in insurance policy premiums.

Real estate tax bills were up \$215,000, or 20% from 2018. Insurance premiums increased by \$120,000, or 43% over 2018. We reserved for the increase in taxes due in 2020. However, note approximately two-thirds of the \$335,000 of real estate tax and insurance increases will be recovered later in the year from pass-through recoveries paid by the tenants.

EBITDA

Earnings Before Interest Taxes Depreciation Amortization of \$3,094,184 is higher than budget by \$145,761, a 5% increase over budget.

CASH FLOW FROM OPERATIONS

Cash Flow from Operations is **\$792,517**.

TOTAL CASH IN BANK AT 12/31/2019:	\$2,501,074
Reserves – Restricted Cash	\$1,568,112
<u>Reserves have been funded for:</u>	
• Real Estate Taxes - \$444,415	
• MVP Tenant Improvement - \$600,000	
• Security Deposits - \$406,797	
• Reserves for Replacement - \$116,900	
Unrestricted Cash at 12/31/2019:	\$932,962

DEBT

At 12/31/19 the loan balance was \$55,050,000. The project loan is interest-only through April 2022. A separate line of credit in the amount of \$6,450,000 is set up to fund expenses necessary to spruce up and lease the project through stabilization.

2020 BUDGET

The 2020 Business Plan and Budget will be accessible on the Investor Portal by the end of January.

OPPORTUNITY ZONE (OZ) DEVELOPMENT LAND ACQUISITION

The Portfolio is under contract and pursuing the acquisition of the 50.43 acres of vacant development land. An updated status of the acquisition has been circulated to the partners in a separate communication. We are excited to fold in the OZ land back into the Portfolio. The land investment is projected to be accretive to the overall Portfolio LP investment returns. Additionally, proper development of this land will certainly bolster property valuation and vitality of the overall Portfolio. Please call me with any questions.

Thank you for investing with us.