

MEMORANDUM

DATE: July 21, 2023

TO: CB Downtown Industrial, LLC

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

FROM: Bucky Brooks



RE: **CBDI Q2 2023 UPDATE**

Greetings CBDI Partners,

Below is the Q2 2023 recap.

DISTRIBUTION

The Q1 distribution is **\$75,000**. Attached is a calculation for your share of the distribution. For those partners set up with wiring instructions, the Q2 distribution will be transferred next week. For those partners who prefer to receive checks, your check is being mailed to you accompanying a hard copy of this correspondence.

Q2 2023 financial results fell short of budget, with approximately \$85,774 available to distribute. Key factors include the timing of unbudgeted tenant move-outs and new leasing with deferred rent commencement, plus the headwind of increased floating interest rate expense associated with half of the debt.

The portfolio is looking good and operating well, despite stresses to cash flow this year due to:

- a) Slower leasing. Leasing revenue and occupancy is lagging budget by roughly \$99,000 per month for the year. Vacancies are generally concentrated in the Underground, one large block space at 3155 Terrace, and in two or three locations in Cambridge Business Park;
- b) Floating interest expense on half the loan has increased total monthly interest expense to \$311,000 in June, compared to \$214,000 in June last year; and
- c) (This is actually a positive) principal reduction of the loan by \$154,000 per month, which commenced in June last year.

We expect new leasing activity, which has been positive, to boost future revenues and meet budget for the year. We are keeping a close eye on any discretionary owner expenses throughout the rest of the year. We are also keeping up with the latest forward curve interest rate projections from Chatham Financial, which indicate rates will begin to come back down next year.

LEASING & SALES

Q2 leasing included four new leases totaling 27,802 square feet and four lease renewals for 21,542 square feet. Q2 had five move-outs totaling 23,090 square feet. Net absorption for the quarter activity was positive 4,712 square feet.

Leasing is an especially critical focus for the portfolio this year. 2023 is an unusually high lease roll year (330,000 sf). Thus far, leasing is lagging budget because a) we are not re-leasing vacant spaces as quickly as projected, and b) we've experienced more move-outs than anticipated. The silver lining in the larger than normal lease roll year is that it is an opportunity to re-lease and renew tenants at higher rents and for term. The lease terms we are negotiating and the economics for new deals have been met or exceeded underwriting. We need to sign more new deals faster.

SMART STORAGE

The Smart Storage expansion strategy for the Underground is working. In March, when occupancy reached 96%, we expanded storage space inventory by roughly 15,000 square feet in Suite 342. Occupancy for the expanded space, now totaling 153,440 square feet, now stands at 89%. It is our plan to keep expanding Smart Storage in the Underground. Spaces in newly added Suite 342 have begun to fill. As overall Smart Storage occupancy reaches the mid-90% range again, we'll add another suite of cages.

CAPITAL ITEMS

Notable major capital projects that are underway this year include:

- New exterior painting of select remaining buildings in Downtown Business Park.
- Fully correcting the ceiling pan and drainage to prevent water from dripping in on the ingress/egress drive and Liberty Bend in Downtown Underground. The main drive portion is phase one, which we expect to be completed in Q4. If satisfied with phase one, we'll immediately move on phase two, the Liberty Bend portion.
- Demolition of Imperial Brewery.

OPPORTUNITY ZONE (OZ) DEVELOPMENT LAND

The Cambridge Crest and Imperial/Chopp sites are being actively marketed for development or sale. Most of the prospects for Cambridge Crest have expressed interest in mixed use or residential. We've been exploring detailed cost estimating and plans for light industrial development on the Imperial/Chopp sites. The light industrial development plan is not feasible today without incentives, due to the cost of construction relative to the maximum achievable net rent in current market. We

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are looking into any incentives that may be available to help bridge the gap. We are also entertaining a 300-unit apartment development on the Imperial Brewery lot from an outside developer who would purchase the land.

After more than two years exhausting all potential sources of incentive grants to demolish Imperial Brewery, we are moving ahead with demolition. The buildings are dangerous and too far gone to try and preserve or qualify for Historic Tax Credits. A \$300,000 escrow is reserved for the demolition. However, low bid for demolition has risen to \$375,000 since 2020.

INCOME

Total Revenue year-to-date of \$5,909,611 is unfavorable to budget by \$596,403, mostly due to leasing that has not occurred as projected.

EXPENSES

Total Expenses year-to-date of \$3,014,169 are favorable to budget by \$871,359, due to timing of the HVAC chiller replacement and Liberty Bend water project, as well as other small projects that have not yet been completed.

NET OPERATING INCOME

Net Operating Income of \$2,895,441 is favorable to budget by \$274,957.

CASH FLOW FROM OPERATIONS

NOI (Earnings Before Taxes, Interest & Depreciation)	<u>\$2,895,441</u>
TOTAL CASH AT 6/30/2023:	\$2,921,339
Reserves – Restricted Cash	\$2,096,458
<u>Reserves have been funded for:</u>	
Real Estate Taxes	\$767,802
Security Deposits	\$611,439
Reserves for Replacement	\$207,216
Demolition Escrow	\$300,000
Reserve for Insurance	\$210,000
Unrestricted Cash at 6/30/2023:	\$824,881

Please call me with any questions. Thank you for investing with us.

CB Downtown Industrial, LLC Distribution Calculations

Tier 1 - Distribution of Operating Proceeds Paid up to 8%

LP Investment of 95%	Equity Contribution	LP Equity Percentage	1st QTR 2023	2nd QTR 2023
Dean Operations, Inc	15,415,267	79.37%	237,500.00	56,548.00
BMPI Downtown Industrial, LLC	2,055,369	10.58%	31,667.00	7,540.00
CB Downtown Industrial Investors, LLC	1,952,601	10.05%	30,083.00	7,162.00
	<u>19,423,237</u>	<u>100.00%</u>	<u>299,250.00</u>	<u>71,250.00</u>

GP Investment of 5%

Copaken Brooks Realty Capital, LLC	0.00	5.00%	15,750.00	3,750.00
			<u>15,750.00</u>	<u>3,750.00</u>

Total Distributed Tier 1

315,000.00 75,000.00

Tier 2 - Distribution of Operating Proceeds up to 15%

LP Investment of 85%	Equity Contribution	LP Equity Percentage	1st QTR 2023	2nd QTR 2023
Dean Operations, Inc	15,415,267	79.37%	-	-
BMPI Downtown Industrial, LLC	2,055,369	10.58%	-	-
CB Downtown Industrial Investors, LLC	1,952,601	10.05%	-	-
	<u>19,423,237</u>	<u>100.00%</u>	<u>-</u>	<u>-</u>

GP Investment of 15%

Copaken Brooks Realty Capital, LLC			-	-
			<u>-</u>	<u>-</u>

Total Distributed Tier 2

- -

Total Distributed

315,000.00 75,000.00

Cumulative Distributions for the Year 2023

\$ 315,000.00 \$ 75,000.00

Cumulative Distributions Since Inception

\$ 6,701,819.00 \$ 6,776,819.00

Recap of Above Distributions by Owners

Dean Operations, Inc	237,500.00	56,548.00
BMPI Downtown Industrial, LLC	31,667.00	7,540.00
CB Downtown Industrial Investors, LLC	30,083.00	7,162.00
Copaken Brooks Realty Capital, LLC	15,750.00	3,750.00
Total Distributed	<u>\$ 315,000.00</u>	<u>\$ 75,000.00</u>

CB Downtown Industrial Investors, LLC Distribution Calculations

Members	Equity Contribution	Equity Percentage	1st QTR 2023	2nd QTR 2023
CP KC Downtown Industrial, LLC	513,842	26.32%	7,916.57	1,884.74
Robert A. Brooks, Jr. Trust	364,828	18.68%	5,620.77	1,338.16
Robert A. Brooks III	323,721	16.58%	4,987.45	1,187.39
James Copaken Trust	215,814	11.05%	3,324.97	791.59
Jon Copaken Trust	215,814	11.05%	3,324.97	791.59
Keith Copaken Trust	215,814	11.05%	3,324.97	791.59
John Coe Family	51,384	2.63%	791.65	188.47
LVE Downtown LLC	51,384	2.63%	791.65	188.47
	<u>1,952,601</u>	<u>100.00%</u>	<u>30,083.00</u>	<u>7,162.00</u>

Total Distributed

30,083.00 7,162.00

Cumulative Distributions for the Year 2023

\$ 30,083.00 \$ 7,162.00

Cumulative Distributions Since Inception

\$ 600,278.25