

# MEMORANDUM

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**DATE:** January 30, 2023

**TO:** CB Downtown Industrial, LLC

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

**FROM:** Bucky Brooks



**RE:** **CBDI Q4 AND YE 2022 UPDATE**

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Greetings all and Happy New Year!

We're pleased to distribute **\$412,272** as a result of Q4 2022 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 immediately. For those partners who prefer to receive checks, your check is being mailed to you accompanying a hard copy of this correspondence.

Q4 2022 financial results slightly exceeded budget, with approximately \$528,000 available to distribute. Because the floating interest rate on half the loan has risen sharply over the past year, because amortization of our loan began last May, and because we have substantial leasing to accomplish this year, we're holding back \$115,000 to help even out distributions throughout the year.

The portfolio is performing well and we're in good financial shape going into 2023.

Below is a brief recap of 2022 essentials.

## **DISTRIBUTIONS**

Partners received total distributions of **\$1,912,272** for 2022, for a 9.21% annualized simple return to the LP investors for the year.

## **LEASING & SALES**

Twenty new leases were signed for a total of 142,006 square feet. Eighteen leases were renewed for a total of 114,333 square feet. The new leases and renewals accounted for approximately 16% of the total space.

Move-outs in 2022 were substantial. There were 10 move-outs totaling 128,084 square feet in the Downtown Underground alone. An additional four tenants totaling 74,537 square feet moved out of above ground spaces in 2022. Move-outs accounted for 12% of the total space. 2022 absorption was negative 60,615 square feet.

Occupancy in the business parks remains flat in the 80's% range. Smart Storage is 96% occupied. However, the Downtown Underground warehouse space (excluding Smart Storage) occupancy is now 57%, dragging overall Portfolio occupancy at year end to 76%. See below:

#### YE 2022 SF Occupancy

	SF	Leased SF	Occupancy Rate
Industrial	459,926	400,681	87.1%
Underground	590,080	339,836	57.6%
Smart Storage	150,033	144,032	96.0%
Flex	397,505	322,736	81.2%
Office	68,961	61,035	88.5%
<b>Total</b>	<b>1,666,505</b>	<b>1,268,320</b>	<b>76.1%</b>

Economic occupancy, which is actual rent as a percentage of gross potential rent for the Portfolio, is closer to 80%, because the large Downtown Underground vacancy is relatively cheaper and bulk space.

Short term, we'll be working to fill vacancy in the Downtown Underground with warehouse and light distribution tenants, as well as with expanded Smart Storage suites. Longer term, we're intending to maximize Smart Storage in the Downtown Underground.

#### SMART STORAGE EXPANSION STRATEGY

One of the primary Portfolio growth strategies is expansion of self-storage in the Downtown Underground. Today, we have 525 storage customers who lease individual storage units or parking stalls. Total revenue from self-storage was \$1,591,102 in 2022, or approximately \$10.60 gross per square foot. If we can double the size of Smart Storage in the Underground over the next 2-3 years, converting what is typically \$4-5/sf space to \$10/sf space, it'll have a material positive impact to our NOI and valuation. Since acquisition, we've been taking the following steps to achieve the self-storage expansion strategy:

- identify the most desirable spaces in the Downtown Underground for phased Smart Storage expansion (grid pattern, loading access, etc.)
- moving Smart Storage customers from term leases to month-to-month agreements
- created new brand and trademark for Smart Storage
- installed new sign packages inside and outside of the Downtown Underground to promote Smart Storage

- built a street front sales office for Smart Storage integrated with the new 3101 elevator tower at the corner of 31<sup>st</sup> and Mercier
- engaged Absolute Storage Management (ASM), a premier third-party self-storage operator, to manage Smart Storage. This involves new storage software and billing systems; b-to-c website; call center for customer service and sales assistance; marketing; unit mix and market rent analysis; ancillary sales such as locks, insurance, etc.
- appointed Keena Masters to manage Smart Storage and the self-storage expansion strategy in the Downtown Underground. Keena is employed by CBDI, working hand in glove with ASM.

In 2022, Smart Storage far exceeded budget, improved operations, and increased unit rental rates by 7%. Square footage occupancy was also increased from 86% to 96% at year end.

### **OPERATIONS**

Asset and property management, as well as project accounting and financial operations, performed well throughout the year.

### **CAPITAL ITEMS**

In 2022, routine capital items included asphalt and concrete repair, additional cameras in the Downtown Underground, new cameras at Business Center 2, pole lights repair in the 3150 Mercier parking lot, two golf cart replacements in the Downtown Underground, exterior building painting at 3100, 3101, 3119, 3120, 3130, 3150, 3160 Terrace and 3189 and 3199 Mercier, several new exterior building and directional signs, and continued construction of the new 3101 elevator tower and Smart Storage sales office. In all, there were 34 capital projects completed and two projects ongoing in 2023 for a total cost of \$1,716,178. \$351,072 were charged to tenants in their CAM; \$1,365,106 were Owner costs. Most of the costs were from the construction on the new 3101 elevator tower and Smart Storage sales office, which was \$1,187,437.

In 2023, we're budgeting 14 capital projects totaling \$821,000. \$581,000 are to be charged in the CAM estimate; \$240,000 are Owner costs, the bulk of which includes additional Smart Storage cameras and the replacement of the chiller in the Downtown Underground.

Notable major capital projects underway and expected to be completed in 2023 include:

- Completion of new tenant directory signage for Downtown Business Park and Downtown Underground.
- Completion of the new 3101 elevator tower and Smart Storage sales office on 31<sup>st</sup> Street. The project is now complete and move-in is underway.
- Fully correcting the ceiling pan and drainage to prevent water from dripping in on the ingress/egress drive and Liberty Bend in Downtown Underground. Liberty Bend phase expected to follow if we're pleased with first phase.
- Demolition of Imperial Brewery

All the above, except for Imperial Brewery demolition, are 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.

We're prepared to move forward to demolish Imperial Brewery, pending potential Brownfield Grant funds that might be available for this project, as well as the Greystone Mine remediation. We've spent the last two years trying to identify all sources for these types of funds. Thus far, we've not been successful in qualifying for available funds. The Imperial Brewery demolition will be funded by the land loan for the OZ development land acquisition, if not by Brownfield Grant funds.

#### **OPPORTUNITY ZONE (OZ) DEVELOPMENT LAND MARKETING**

The Cambridge Crest and Imperial/Chopp sites are being actively marketed for development or sale. Most of the prospects for Cambridge have expressed interest in mixed or residential use. We've been exploring detailed cost estimating and plans for industrial flex development on the Imperial/Chopp site.

#### **DOWNTOWN BUSINESS PARK URD**

Since early 2021, we've been working in combination with neighboring property owners to form an Urban Redevelopment District (URD), which will include all of the CBDI parcels owned on both sides of 31<sup>st</sup> Street. A hold up has been Westside Housing, which we'd like to have join us. Westside has finally evaluated the URD and agreed to join, The URD application is in progress. When/if we're successful with URD approval, the Downtown Business Park will enjoy broader zoning latitude and tax abatement for redevelopment projects that might occur in the future.

#### **INCOME**

Total Annual Revenue of \$12,210,229 was up \$834,288 (or 7.3%) over the prior year, mostly due to higher storage income.

#### **EXPENSES**

Total Annual Expenses of \$6,570,776 were up \$584,011 (or 9.8%) over the prior year.

#### **DEBT SERVICE**

Debt service increased dramatically in 2022, from roughly \$200,000 per month in January to more than \$400,000 in October. The increase is due to (a) rising interest rates for half of the loan (additional \$75,000 per month), and (b) amortization of the loan that began in June, adding \$154,000 of principal reduction per month). Principal was reduced by \$1.1 million in 2022.

#### **NET OPERATING INCOME**

Net Operating Income of \$5,639,453 was up \$250,278 (or 4.6%) over the prior year.

### CASH FLOW FROM OPERATIONS

NOI (Earnings Before Interest, Taxes, Depreciation, & Amortization) **\$5,639,453**

**TOTAL CASH AT 12/31/22** **\$3,093,445**

**Reserves – Restricted Cash** **\$1,819,802**

Reserves have been funded for:

- Real Estate Taxes - **\$491,432**
- Security Deposits - **\$611,154**
- Reserves for Replacement - **\$207,216**
- Construction Escrow - **\$300,000**
- Reserve for Insurance - **\$210,000**

**Unrestricted Cash at 12/31/2022** **\$1,273,643**

### 2023 OUTLOOK

Distributions are targeted at 8% annualized, or an average of \$412,000 per quarter in 2023. Much depends on leasing and holding the floating interest rate in check for half the debt.

2023 is a critical year for leasing. The portfolio has a relatively higher amount of lease roll, 309,610 square feet, or 19% of the total leasable space. Along with new leases, the renewals, when converted, present opportunities for us to capture increased rental rates and occupancy this year. We're projecting 25 new leases and 26 lease renewals in 2023. Chief among the renewal tenants in 2023 is ICONEX, which occupies 88,461 square feet in Cambridge Business Park. We've agreed to economic terms with ICONEX for a new 7-year lease commencing in September. The lease draft is out for negotiation.

Suite 342 in the Downtown Underground, containing 15,005 square feet, is being converted and added to Smart Storage, expanding Smart Storage from 150,033 square feet to 165,038 square feet.

The 2023 Business Plan and Budget are currently available on the investor portal.

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%**

	Equity Contribution	LP Equity Percentage	1st QTR 2022	2nd QTR 2022	3rd QTR 2022	4th QTR 2022
<b>LP Investment of 95%</b>						
Dean Realty Co.	15,415,267	79.37%	304,082.00	307,460.00	310,840.00	310,840.00
BMPI Downtown Industrial, LLC	2,055,369	10.58%	40,544.00	40,995.00	41,446.00	41,445.00
CB Downtown Industrial Investors, LLC	1,952,601	10.05%	38,517.00	38,945.00	39,372.00	39,373.00
	<u>19,423,237</u>	<u>100.00%</u>	<u>383,143.00</u>	<u>387,400.00</u>	<u>391,658.00</u>	<u>391,658.00</u>
<b>GP Investment of 5%</b>						
Copaken Brooks Realty Capital, LLC	0.00	5.00%	20,165.00	20,389.00	20,614.00	20,614.00
			<u>20,165.00</u>	<u>20,389.00</u>	<u>20,614.00</u>	<u>20,614.00</u>
<b>Total Distributed Tier 1</b>			<b>403,308.00</b>	<b>407,789.00</b>	<b>412,272.00</b>	<b>412,272.00</b>

**Tier 2 - Distribution of Operating Proceeds up to 15%**

	Equity Contribution	LP Equity Percentage	1st QTR 2022	2nd QTR 2022	3rd QTR 2022	4th QTR 2022
<b>LP Investment of 85%</b>						
Dean Realty Co.	15,415,267	79.37%	65,229.00	62,206.00	59,182.00	-
BMPI Downtown Industrial, LLC	2,055,369	10.58%	8,697.00	8,294.00	7,891.00	-
CB Downtown Industrial Investors, LLC	1,952,601	10.05%	8,262.00	7,879.00	7,496.00	-
	<u>19,423,237</u>	<u>100.00%</u>	<u>82,188.00</u>	<u>78,379.00</u>	<u>74,569.00</u>	<u>-</u>
<b>GP Investment of 15%</b>						
Copaken Brooks Realty Capital, LLC			14,504.00	13,832.00	13,159.00	-
			<u>14,504.00</u>	<u>13,832.00</u>	<u>13,159.00</u>	<u>-</u>
<b>Total Distributed Tier 2</b>			<b>96,692.00</b>	<b>92,211.00</b>	<b>87,728.00</b>	<b>-</b>
<b>Total Distributed</b>			<b>500,000.00</b>	<b>500,000.00</b>	<b>500,000.00</b>	<b>412,272.00</b>
<b>Cumulative Distributions for the Year 2022</b>			<b>\$ 500,000.00</b>	<b>\$ 1,000,000.00</b>	<b>\$ 1,500,000.00</b>	<b>\$ 1,912,272.00</b>
<b>Cumulative Distributions Since Inception</b>			<b>\$ 4,974,547.00</b>	<b>\$ 5,474,547.00</b>	<b>\$ 5,974,547.00</b>	<b>\$ 6,386,819.00</b>

**Recap of Above Distributions by Owners**

Dean Realty Co.	369,311.00	369,666.00	370,022.00	310,840.00
BMPI Downtown Industrial, LLC	49,241.00	49,289.00	49,337.00	41,445.00
CB Downtown Industrial Investors, LLC	46,779.00	46,824.00	46,868.00	39,373.00
Copaken Brooks Realty Capital, LLC	34,669.00	34,221.00	33,773.00	20,614.00
<b>Total Distributed</b>	<b>\$ 500,000.00</b>	<b>\$ 500,000.00</b>	<b>\$ 500,000.00</b>	<b>\$ 412,272.00</b>

**CB Downtown Industrial Investors, LLC Distribution Calculations**

Members	Equity Contribution	Equity Percentage	1st QTR 2022	2nd QTR 2022	3rd QTR 2022	4th QTR 2022
CP KC Downtown Industrial, LLC	513,842	26.32%	11,842.09	12,322.11	12,333.69	10,361.32
Robert A. Brooks, Jr. Trust	364,828	18.68%	8,407.89	8,748.69	8,756.92	7,356.54
Robert A. Brooks III	323,721	16.58%	7,460.53	7,762.93	7,770.24	6,527.65
James Copaken Trust	215,814	11.05%	4,973.69	5,175.29	5,180.16	4,351.77
Jon Copaken Trust	215,814	11.05%	4,973.69	5,175.29	5,180.16	4,351.77
Keith Copaken Trust	215,814	11.05%	4,973.69	5,175.29	5,180.16	4,351.77
John Coe Family	51,384	2.63%	1,184.21	1,232.20	1,233.37	1,036.14
LVE Downtown LLC	51,384	2.63%	1,184.21	1,232.20	1,233.37	1,036.14
	<u>1,952,601</u>	<u>100.00%</u>	<u>45,000.00</u>	<u>46,824.00</u>	<u>46,868.07</u>	<u>39,373.10</u>
<b>Total Distributed</b>			<b>45,000.00</b>	<b>46,824.00</b>	<b>46,868.07</b>	<b>39,373.10</b>
<b>Cumulative Distributions for the Year 2022</b>			<b>\$ 45,000.00</b>	<b>\$ 91,824.00</b>	<b>\$ 138,692.07</b>	<b>\$ 178,065.17</b>
<b>Cumulative Distributions Since Inception</b>			<b>437,130.18</b>	<b>\$ 483,954.18</b>	<b>\$ 530,822.25</b>	<b>\$ 570,195.35</b>