

# MEMORANDUM

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**DATE:** January 26, 2024

**TO:** CB Downtown Industrial, LLC

- Dean Operations
- BMPI Downtown Industrial, LLC
- CB Downtown Industrial Investors, LLC

**FROM:** Bucky Brooks



**RE:** **CBDI Q4 AND YE 2023 UPDATE**

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Greetings all and Happy New Year!

There is no distribution for Q4 2023. As previously mentioned in the Q3 investor update, distributions are suspended while we manage the portfolio to remain cash positive and accumulate cash.

Distributions will be restored once we're able to generate greater cash flow again from additional leasing and sales, and potentially reduced debt service due to a falling interest rate. The latter is anticipated by some experts, including Chatham Financial, to occur sometime by the end of this year.

Q4 and YE 2023 financial results fell short of budget, primarily due to more move-outs and less new leasing than anticipated, especially in the Downtown Underground, and because the floating interest rate on half the loan rose sharply throughout the year.

We have substantial leasing to accomplish in 2024, in the Downtown Underground and among a handful of key vacancies above ground. Overall, the portfolio is operating well. The 2024 budget, which we believe is realistic and conservative, is cash positive and growing modestly throughout the coming year.

Below is a brief recap of 2023 essentials.

## **DISTRIBUTIONS**

Partners received total distributions of **\$390,000** for 2023, for a 1.88% annualized simple return to the LP investors for the year.

## **LEASING & SALES**

Twenty-eight new leases were signed for a total of 159,568 square feet. Twenty-four leases were renewed for a total of 265,632 square feet. The new leases and renewals accounted for approximately 25% of the total space.

There were 16 move-outs totaling 110,243 square feet. Move-outs accounted for 7% of the total space. 2023 absorption was positive 49,325 square feet. Leasing did not slump; rather, it was modestly positive. Compared to budget, however, leasing was short by roughly \$100,000 per month.

Occupancy in the business parks remains flat in the 80's% range. Smart Storage, which expanded in 2023, ended the year at 89% occupied. Downtown Underground warehouse space (excluding Smart Storage) occupancy is now 63%, dragging overall Portfolio occupancy at year end to 76%. See below:

#### YE 2023 SF Occupancy

	Rentable SF	Leased SF	Occupancy Rate
Cambridge Business Park	465,175	374,654	80.5%
Downtown Business Park	459,926	381,465	82.9%
Downtown Underground	578,495	366,527	63.4%
Smart Storage	161,050	142,750	88.6%
<b>Total</b>	<b>1,664,646</b>	<b>1,265,396</b>	<b>76.0%</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 580 storage customers who lease individual storage units or parking stalls. Total revenue from self-storage was \$1,687,112 in 2023, or approximately \$10.48 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 2023, Smart Storage exceeded budget, improved operations, and increased unit rental rates by more than 10%. After reaching 96% occupancy at YE 2022, Smart Storage was expanded again by 11,017 sf. At YE 2023, Smart Storage totals 161,050 sf, at 89% occupancy. We're identifying the next suite expansion possibilities for Smart Storage in the Downtown Underground.

#### **OPERATIONS**

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

#### **CAPITAL ITEMS**

In 2023, routine capital items include asphalt and concrete repair, and additional cameras for Smart Storage in the Downtown Underground. Additionally, other notable items included completion of new tenant directory signage for Downtown Business Park and Downtown Underground, replacement of the chiller in the Downtown Underground, and demolition of Imperial Brewery.

In 2024, we're budgeting capital projects totaling \$763,080. \$391,580 are to be charged in the CAM estimate; \$371,500 are Owner costs, the bulk of which includes a new cooling tower for the Downtown Underground and other HVAC replacements.

Notable major capital projects underway and expected to be completed in 2024 include:

- New cooling tower in the Downtown Underground and other HVAC replacements.
- 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.
- Water diversion and drain system to channel open water flow along Mercier Street south of 31<sup>st</sup> Street.

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

Demolition at Imperial Brewery is entering the final stages of hauling off material and rough grading out the two development pads. 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 the CBDI parcels owned on both sides of 31<sup>st</sup> Street. A hold up was enlisting Westside Housing to join the URD. Westside finally evaluated the URD and agreed to join. The URD application is in progress. It is now in the blight study phase. 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 \$12,106,320 was down \$103,909 (or .8%) over the prior year, mostly due to move-outs followed by new leasing with initial free rent concessions.

**EXPENSES**

Total Annual Expenses of \$6,748,270 was up \$177,494 (or 2.7%) over the prior year. Expense increase drivers were primarily real estate taxes and bad debt charge offs.

**DEBT SERVICE**

Debt service increased in 2023, from \$456,000 per month in January to \$490,000 in December. The increase is mostly due to rising interest rates for half of the loan. Additionally, the OZ land loan began amortizing in June. Change in total principal balance of the debt was a reduction of \$209,237.

**NET OPERATING INCOME**

Net Operating Income of \$5,358,049 was down \$281,404 (or 4.9%) over the prior year.

**CASH FLOW FROM OPERATIONS**

NOI (Earnings Before Interest, Taxes, Depreciation, & Amortization) **\$5,358,049**

**TOTAL CASH AT 12/31/23** **\$2,317,629**

**Reserves – Restricted Cash** **\$1,710,783**

Reserves have been funded for:

- Real Estate Taxes - **\$574,579**
- Security Deposits - **\$581,458**
- Reserves for Replacement - **\$208,655**
- Demolition Escrow (Imperial) - **\$165,436**
- Reserve for Insurance - **\$180,655**

**Unrestricted Cash at 12/31/2023** **\$606,846**

## 2024 OUTLOOK

The overriding goal for the year is to outperform budget by intensifying leasing, particularly for a handful of key vacancies that remain available, as well as warehouse space in the Downtown Underground. Teaming Jeremiah Dean and Molly Munninghoff will undoubtedly elevate leasing and sales efforts for the portfolio.

2024 is a critical year for leasing. The portfolio has a relatively normal amount of lease roll, 244,829 square feet, or 14.7% 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 23 new leases and 30 lease renewals in 2024. Chief among the renewal tenants in 2024 is Midwest Industrial Rubber, which occupies 50,479 square feet in Downtown Business Park. Their lease rolls in September.

Suite 298 in the Downtown Underground, containing 22,417 square feet, is identified as the next likely suite to be converted and added to Smart Storage. Adding Suite 298 would expand Smart Storage from 161,050 square feet to 183,467 square feet. We expect to move on the expansion once the current total space reaches occupancy in the mid-90% range.

## HOLLY PROPERTY SALE

**In late breaking news, the Holly Property was sold on January 16<sup>th</sup>.** The purchase price was \$1,500,000. The property sold included the "Holly House" single family home and the surrounding hillsides sloping down north to 31<sup>st</sup> Street and west to Mercier Street. We carved out the paved parking lot and elevator/Smart Storage sales office on the hard corner of 31<sup>st</sup> and Mercier. The buyer has plans for extensive renovation to the home and will make it his family's primary residence.

The sale proceeds included a loan paydown of \$544,712. Approximately \$800,000 of net profit after transaction costs will be retained as unrestricted cash in an interest-bearing account this year, which will also provide some breathing room as leasing catches up and floating debt interest rates subside.

The 2024 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%**

LP Investment of 95%	Equity	LP Equity	1st QTR	2nd QTR	3rd QTR	4th QTR
	Contribution	Percentage	2023	2023	2023	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>	<u>-</u>	<u>-</u>
<b>GP Investment of 5%</b>						
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>	<u>-</u>	<u>-</u>
<b>Total Distributed Tier 1</b>			<b>315,000.00</b>	<b>75,000.00</b>	<b>-</b>	<b>-</b>

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

LP Investment of 85%	Equity	LP Equity	1st QTR	2nd QTR	3rd QTR	4th QTR
	Contribution	Percentage	2023	2023	2023	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>	<u>-</u>	<u>-</u>
<b>GP Investment of 15%</b>						
Copaken Brooks Realty Capital, LLC			-	-	-	-
			<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Distributed Tier 2</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Distributed</b>			<b>315,000.00</b>	<b>75,000.00</b>	<b>-</b>	<b>-</b>

**Cumulative Distributions for the Year 2023**

\$ 315,000.00 \$ 390,000.00 \$ 390,000.00 \$ 390,000.00

**Cumulative Distributions Since Inception**

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

**Tax AJE to Adjust Land Basis**

\$ 1,633,180.84 \$ 1,633,180.84 \$ 1,633,180.84 \$ 1,633,180.84

**Adjusted Cumulative Distributions Since Inception**

\$ 8,334,999.84 \$ 8,409,999.84 \$ 8,409,999.84 \$ 8,409,999.84

**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	-	-
<b>Total Distributed</b>	<b>\$ 315,000.00</b>	<b>\$ 75,000.00</b>	<b>\$ -</b>	<b>\$ -</b>

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

Members	Equity	Equity	1st QTR	2nd QTR	3rd QTR	4th QTR
	Contribution	Percentage	2023	2023	2023	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>	<u>-</u>	<u>-</u>
<b>Total Distributed</b>			<b>30,083.00</b>	<b>7,162.00</b>	<b>-</b>	<b>-</b>
<b>Cumulative Distributions for the Year 2023</b>			<b>\$ 30,083.00</b>	<b>\$ 37,245.00</b>	<b>\$ 37,245.00</b>	<b>\$ 37,245.00</b>
<b>Cumulative Distributions Since Inception</b>			<b>\$ 600,278.25</b>	<b>\$ 607,440.25</b>	<b>\$ 607,440.25</b>	<b>\$ 607,440.25</b>