



# MEMORANDUM

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**DATE:** April 23, 2024

**TO:** **CB Downtown Industrial, LLC**

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

**FROM:** Bucky Brooks 

**RE:** **CBDI Q1 2024 UPDATE**

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Greetings CBDI Partners,

Q1 was a strong quarter for CBDI financial performance and operations. Most importantly, the portfolio accumulated cash and reduced debt, in large part due to the sale of the Holly House property in January.

Below is the Q1 2024 recap.

## **DISTRIBUTION**

The portfolio is in a strong cash position, with funds available to make two quarterly distributions of 2% each. However, out of precaution because leasing and sales revenues are budgeted to keep the portfolio modestly cash positive through the year, and because the annualized floating interest rate on half of the portfolio loan remains at near 8% (blended rate of ~6.5% over entire loan), we will withhold distributions this quarter.

Distributions will be restored once we're able to further increase revenue through leasing and sales, and/or when there's a reduction in debt service due to a falling interest rate. Leasing (irrespective of the Holly House sale) is already off to a good start and outperforming budget. Unfortunately, floating interest rate cuts are now anticipated by some experts, including Chatham Financial, to occur by the end of this year at the earliest, which could be worse than budget that anticipated cuts in Q4 this year.

We'll revisit the portfolio cash position, outlook for the year, and potential distributions again each quarter. A silver lining to Q1 is that overall portfolio debt was reduced by \$859,000 during the quarter.

## **HOLLY HOUSE PROPERTY SALE**

The Holly House property was sold on January 16. The property had a valuation of \$350,000 within the portfolio. It was sold for \$1,500,000. From net sale proceeds, \$544,716 were used to pay down the Enterprise Bank loan and \$860,043 were retained as unrestricted cash.

The property is comprised of a large single-family home situated on a prime elevated lot overlooking the Downtown skyline. The home itself is in disrepair and requires either a tear-down or an extensive renovation. The property extends from the residential lot in an irregular shape, with steep hillsides running west to Mercier Street and north to 31<sup>st</sup> Street. CBDI retained the hard corner at 31<sup>st</sup> and Mercier, which contains the Smart storage sales office and 3101 Elevator to the Downtown Underground, as well as the surface parking lot.

The buyer, John Hodges, intends to do an extensive renovation to the Holly House and live in the home with his young family. Hodges claims to have no further plans to sell lot or develop additional homes. However, he does have the ability under the sale contract, to sell or develop up to six lots. CBDI set restrictions on the buyer limited to high-quality (>3,200 sf homes >\$1.2M market prices), low-density (up to a maximum of 6 homes in addition to the existing home) development. Additionally, CBDI has a formal Right of First Offer (“ROFO”) to repurchase the property when the buyer decides to sell.

The Holly House sale was beneficial in many ways. First, the property was not strategic to the portfolio, except for the fact that it sits at the “front door” to our holdings in Downtown Business Park and Downtown Underground, as well as the lots north of 31<sup>st</sup> Street. To protect our interests, we placed 30-year development restrictions and a ROFO on the buyer. Next, the buyer will make a substantial investment to improve the Holly House and maintain the property. And finally, the sale allows the portfolio to monetize the property at a handsome price and at a time when the portfolio needs to preserve and build cash.

## **LEASING & SALES**

Q1 leasing included six new leases totaling 36,947 square feet and eight lease renewals for 44,035 square feet. Q1 had six move-outs totaling 46,829 square feet. Net absorption for the quarter activity was negative 9,882 square feet.

Most notable among new leases is Sun Life, which signed a 10-year lease for 10,423 sf at Business Center 1 in Cambridge Business Park for their off-site printing facility. Most notable among the renewals is NuMotion in Downtown Business Park We budgeted NuMotion as a move-out in February. Instead, we were successful signing them to a 5-year renewal that exceeded this year’s budget for that space by \$165,000.

Two of the six move-outs were planned and/or represented a positive absorption. Kite & Crest moved out and expanded for a positive absorption of 3,386 SF. KC Woodworkers was terminated/moved out of 12,061 sf to accommodate an early renewal and expansion for Central Surfaces. The most notable move-out was Medical Positioning (18,931 SF), which was known since last year and budgeted for this year. Unfortunately, Medical Positioning grew out of their space in Cambridge Business Park and we

could not accommodate expansion for Medical Positioning after Minnesota Elevator expanded and renewed its lease next door in the same building last year.

Leasing is an especially critical focus for the portfolio this year. Jeremiah Dean and Molly Munninghoff are teaming to boost leasing and sales activity. Heightened marketing efforts are underway for the key vacancies, with some promising tours and interest in 3175 Terrace, 1211 W Cambridge and smaller spaces in the Downtown Underground.

### **SMART STORAGE**

The Smart Storage expansion strategy for the Downtown Underground is working. Smart Storage now totals 161,050 sf. It is 90% occupied by 583 customers. As overall Smart Storage occupancy reaches the mid-90% range again, we'll add the next suite of cages.

### **CAPITAL ITEMS**

Notable major capital projects that are underway this year include:

- Interior painting in the roadways is underway to match up with wayfinding and the Smart Storage color schemes.
- Fully correcting the ceiling pan and drainage to prevent water from dripping 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 Q2. If satisfied with phase one, we'll move on phase two, the Liberty Bend portion. This will eliminate the ceiling leaks that drip on the cars and create puddles at the entrance ramp and around the Liberty Bend. After contractor failures and delays, our in-house Field Services Group is executing the project.
- A new cooling tower for the Downtown Underground.
- Demolition of Imperial Brewery is almost complete. Unfortunately, we ran into a series of underground concrete tunnels and storage tanks. This added \$75,000 of unbudgeted Owner's expense.
- Water diversion and new drain system to channel open water flow along Mercier Street south of 31<sup>st</sup> Street. This project is necessary to prevent ice conditions on the private street. It added \$65,000 of unbudgeted Owner's expense.
- Various HVAC unit replacements to accommodate new leases and renewals.

### **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 are in preliminary stages of exploring a residential development plan with another developer for Cambridge Crest that would likely include a combination of single family, townhomes and multifamily. 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.

**INCOME**

Total Revenue year-to-date of \$3,148,737 is favorable to budget by \$70,442, mostly due to the NuMotion renewal that was budgeted to vacate and not lease up until October (\$22K/mo).

**EXPENSES**

Total Expenses year-to-date of \$1,602,268 are favorable to budget by \$337,814, due to timing of the cooling tower replacement (\$200K), which was budgeted for March but due to materials delay is now projected for late April/early May.

**NET OPERATING INCOME**

Net Operating Income of \$1,546,468 is favorable to budget by \$408,256.

**CASH FLOW FROM OPERATIONS**

NOI (Earnings Before Taxes, Interest & Depreciation)	<u>\$1,546,468</u>
<b>TOTAL CASH AT 3/31/2024:</b>	<b>\$3,456,809</b>
<b>Reserves – Restricted Cash</b>	<b>\$1,996,051</b>

Reserves have been funded for:

Real Estate Taxes	<b>\$966,954</b>
Security Deposits	<b>\$588,717</b>
Reserves for Replacement	<b>\$211,260</b>
Demolition Escrow	<b>\$107,475</b>
Reserve for Insurance	<b>\$121,645</b>

**Unrestricted Cash at 3/31/2024:** **\$1,460,758**

Despite current debt interest rate and cash flow challenges, the portfolio has been upgraded according to plan, the team in place is solid, and the portfolio is operating well.

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

**CB Downtown Industrial, LLC Distribution Calculations**

<b>Tier 1 - Distribution of Operating Proceeds Paid up to 8%</b>			
<b>LP Investment of 95%</b>	<b>Equity Contribution</b>	<b>LP Equity Percentage</b>	<b>1st QTR 2024</b>
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>	-
<b>GP Investment of 5%</b>			
Copaken Brooks Realty Capital, LLC	0.00	5.00%	-
			-
<b>Total Distributed Tier 1</b>			
			-
<b>Tier 2 - Distribution of Operating Proceeds up to 15%</b>			
<b>LP Investment of 85%</b>	<b>Equity Contribution</b>	<b>LP Equity Percentage</b>	<b>1st QTR 2024</b>
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>	-
<b>GP Investment of 15%</b>			
Copaken Brooks Realty Capital, LLC			-
			-
<b>Total Distributed Tier 2</b>			
			-
<b>Total Distributed</b>			
			-
<b>Cumulative Distributions for the Year 2024</b>			<u>\$ -</u>
<b>Cumulative Distributions Since Inception</b>			<u>\$ 6,776,819.00</u>
<b>Tax AJE to Adjust Land Basis</b>			\$ 1,633,180.84
<b>Adjusted Cumulative Distributions Since Inception</b>			<u>\$ 8,409,999.84</u>
<b>Recap of Above Distributions by Owners</b>			
Dean Operations, Inc			-
BMPI Downtown Industrial, LLC			-
CB Downtown Industrial Investors, LLC			-
Copaken Brooks Realty Capital, LLC			-
			-
<b>Total Distributed</b>			
			<u>\$ -</u>

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

<b>Members</b>	<b>Equity Contribution</b>	<b>Equity Percentage</b>	<b>1st QTR 2024</b>
CP KC Downtown Industrial, LLC	513,842	26.31577%	-
Robert A. Brooks, Jr. and Cheri J. Brooks, Revocable Trust	364,828	18.68421%	-
Robert A. Brooks III	323,721	16.57896%	-
James Copaken Trust	215,814	11.05264%	-
Jon Copaken Trust	215,814	11.05264%	-
Keith Copaken Trust	215,814	11.05264%	-
John Coe Family	51,384	2.63157%	-
LVE Downtown LLC	51,384	2.63157%	-
	<u>1,952,601</u>	<u>100.00%</u>	-
<b>Total Distributed</b>			
			-
<b>Cumulative Distributions for the Year 2024</b>			<u>\$ -</u>
<b>Cumulative Distributions Since Inception</b>			<u>\$ 607,440.25</u>



View of the Smart Storage office and 3101 elevator to Downtown Underground looking south from 31<sup>st</sup> Street and Mercier



View from 31<sup>st</sup> Street looking south at the recently painted buildings along Terrace Street in Downtown Business Park