

# 10700 Caribbean Blvd, Cutler Bay, FL

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## Introduction

10700 Caribbean Boulevard is a 4 story 58,994 square foot office building sitting on 2.19 acres of land. The property has a total of 36 units in 3 various sizes: 500 square feet, 1500 square feet, and 2500 square feet. Additionally, the building has 210 parking spots. This property was originally built in 1975 but was completely renovated in 2002 which added new air conditioning, elevators, lights, and more. It is also important to note that this property has also recently been approved for multifamily use which provides investment opportunities for future developers at the time of disposition. With Florida being one of the largest economies in the nation, and an increasing demand of office space within the tech industry, 10700 Caribbean Boulevard in Miami Florida makes a great investment.



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## Thesis

We believe the purchase of 10700 Caribbean Boulevard would be a great investment. Based on our analysis, the limited partner will achieve an IRR of 18.39% and 40.38% for the general partner over 5-years. One main driver behind our thesis is that commercial real estate in the sunbelt has seen a growth in demand over the past few years. Miami has been a prime target for investment as big businesses such as Blackstone, ShiftPixy, and Payless who are looking to get in on the cheaper cost of living in lower tax rates. In an area of Downtown Miami, there was a 2,069% increase in ten years. Cutler Bay is just outside Miami and is expected to see similar changes and attraction as Miami. construction. At just 2.2% of inventory, sublease availability in Miami is among the lowest in the nation leaving a shift very likely in Cutler Bay. Another driver is leasing cost. The Cutler Bay area is at around rent of just over \$30 sq/ft/yr while other parts of the country such as New York is at 70+. However, rent has been increasing from an average of \$38 in 2018 to around \$45 in 2020 in Miami which will likely collide with Cutler Bay. Another main driver is the tax incentives that Florida and Cutler Bay has. In Florida there is no Income tax and there is also no estate tax. There is also Homestead creditor protection, Protection of the cash value of life insurance, Protection for IRAs and annuities, and protection of assets held in a properly structured business entity.

## Demographics

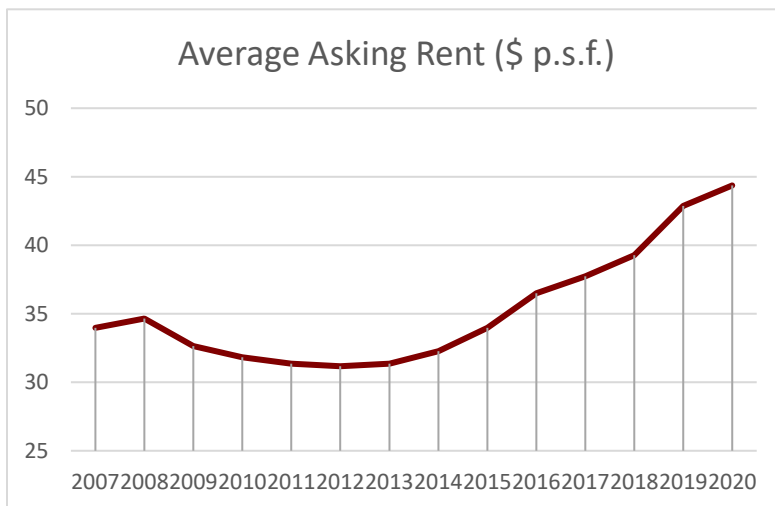
The median age in Cutler Bay is at 37 years old with 61% between the ages of 18 to 64 and about 26% under the age of 18. The median household income of \$75,101 is about 1.3 times the amount in the Miami Fort Lauderdale Pompano Beach, FL Metro Area. These factors prove there is more of a demand in a younger generation where families can move to. People who can rent and work closer to home is always ideal. The building in addition can be used in multifamily purposes so in the future it can be rented out to the growing residential needs of the city.

## Property Type

Office space in Miami makes for a great investment right now. Miami offices have been increasing in demand and asking rent prices for the past decade, with 2020 being an exception. Although Covid has caused problems for office spaces in the past year and increased vacancy rates, we still see indicators of growth in Miami and Southern Florida. Some of the main indicators include large companies moving in such as Goldman Sachs and Blackstone, increasing rent prices, one of the nation’s lowest sublease availability at 2.2%, and a net absorption better than the national average. When comparing office types in Miami, we see that Class B offices are performing better than their Class A equivalents vacancy wise. However, when comparing square footage under development, we see Class A blow Class B out of the water with 1,441,418 square feet under development versus 31,000 square feet for Class B offices. This is because a lot of tech companies have been migrating to Miami; recently SoftBank committed to investing \$100,000,000 in companies based in or relocating to Miami. This will drive smaller companies to locate themselves in Miami creating more demand for Class B office space.

## Location

Cutler Bay, Florida is at an ideal location for a large office building. Cutler Bay is just outside Miami which is currently seeing mass expansion. The distance between Cutler Bay and Miami is 26 kilometers which is about 16 miles. The reason for this expansion is due to the Sunbelt and because of the job opportunities and the lower cost of living in these areas. Companies get cheaper leases compared to in big cities such as New York and workers can get cheaper homes. Big businesses such as Blackstone, Elliot Management, Citadel, and Goldman Sachs have made the move from these big cities to move to Miami. In addition, asking rent prices increased around 2.5% to \$41.48 per square foot year-over-year in the Miami area which proves the more demand in the market. Miami has an inventory of commercial real estate that is decreasing rapidly while the construction of new facilities is slowing down. With the rising demand for commercial real estate in the sunbelt and especially Miami, Cutler Bay will be the next best location for businesses who are looking to get into the Miami and Florida market.



|                          | Class A    | Class B    |
|--------------------------|------------|------------|
| Inventory (s.f.)         | 22,551,875 | 16,105,410 |
| Vacancy (%)              | 17.6%      | 16.8%      |
| Under Development (s.f.) | 1,441,418  | 31,000     |

### Risks- Corona Virus and Delayed Return

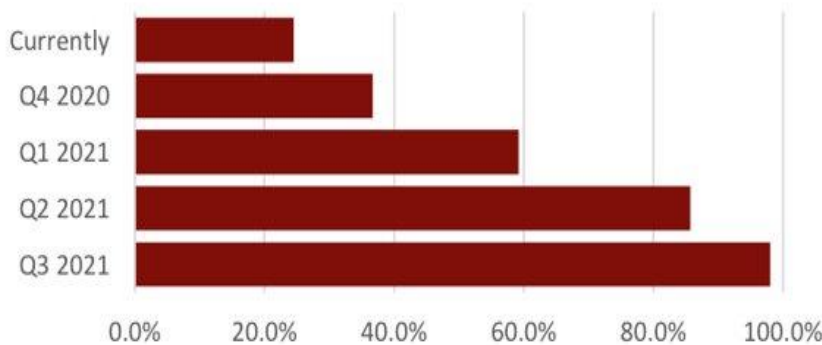
The greatest risk to the office market has been seen over the past year: The Corona virus. The Corona virus has sent home workers all across the country away from their offices to work from home in the process of limiting the spread of the virus. This affected the office market very negatively because there was a shattering of the demand in office space. Companies had to pay rent on space that was not needed and now could wish to not to return back. If Corona virus surges again or the vaccine does not work well than its likely that more companies would want to release space back in the market offering up a very limited and decreasing demand for this space back on the market.

### Risks- Hybrid Work and

#### Shared Spaces

If some companies decide that it is more functional to continue to keep workers at home, then this will greatly affect the demand for office space. Some companies may feel that spending money on rent for a large amount of their personnel is useless. Thus, they can downsize their square footage and by doing so saving money but releasing a lot of office space back into the market. This would additionally lower demand for office space. Companies can then use hybrid work and shared spaces. Employees can come in on different days of the week to check up on work and in doing so they share a desk with another worker who comes in on the other days. This can cut down space almost in half releasing space into the market.

Office Re-Entry Plans - Chance of Returning to Office



### Model Assumptions

When we underwrote this investment, several assumptions were made. For a purchase price we decided \$11,490,000 would be a fair price. This building being on the market for over 2 year, and the Covid-19 pandemic decreasing demand and creating a net absorption of -511,569 square feet in 2020 allowed for us to purchase this building \$1,000,000 below the list price. In terms of debt, we used a loan-to-value ratio of 65%, at a 4% interest rate, over a 25-year amortization period, with a prepayment penalty of 3%. In terms of equity, we assumed a GP contribution of 5% and LP contribution of 95%. We also assumed a GP promote of 30%, LP promote of 70%, and an 8% LP preferred return. As for IRR requirements, we decided to use 15% for the LP and 40% for the GP. We used an exit cap rate of 6% which is the current cap rate and a credit loss of 2%. We assumed a 10% vacancy based on the current vacancy rate of 10% in the Cutler Bay area and the buildings 5% vacancy. We decided to use 35% of the operating revenue as the amount for operating expenses. As for rent, we are charging a range from \$30.50 - \$31.50 per square foot yearly which is conservative considering the average of \$31.62 for Class Bs and the building is currently 95% leased. These assumptions allow for a profit of \$4,772,006 after the disposition in 2027.

|   | 2021<br>Year 0  | 2022<br>Year 1 | 2023<br>Year 2 | 2024<br>Year 3 | 2025<br>Year 4 | 2026<br>Year 5 | 2027<br>Year 6 |
|---|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Potential Gross Income                        |                 | \$ 1,545,000   | \$ 1,575,900   | \$ 1,607,418   | \$ 1,639,566   | \$ 1,672,358   | \$ 1,705,805   |
| Vacancy                                       |                 | \$ 154,500     | \$ 157,590     | \$ 160,742     | \$ 163,957     | \$ 167,236     | \$ 170,580     |
| Credit Loss                                   |                 | \$ 30,900      | \$ 31,518      | \$ 32,148      | \$ 32,791      | \$ 33,447      | \$ 34,116      |
| Effective Gross Income                        |                 | \$ 1,359,600   | \$ 1,386,792   | \$ 1,414,528   | \$ 1,442,818   | \$ 1,471,675   | \$ 1,501,108   |
| Expense Reimbursements                        |                 | \$ -           | \$ -           | \$ -           | \$ -           | \$ -           | \$ -           |
| Total Operating Revenue                       |                 | \$ 1,359,600   | \$ 1,386,792   | \$ 1,414,528   | \$ 1,442,818   | \$ 1,471,675   | \$ 1,501,108   |
| Operating Expenses                            |                 | \$ 475,860     | \$ 485,377     | \$ 495,085     | \$ 504,986     | \$ 515,086     | \$ 525,388     |
| Net Operating Income                          |                 | \$ 883,740     | \$ 901,415     | \$ 919,443     | \$ 937,832     | \$ 956,589     | \$ 975,720     |
| Debt Service                                  |                 | \$ 453,144     | \$ 453,144     | \$ 453,144     | \$ 453,144     | \$ 453,144     | \$ 453,144     |
| Capital Expenditures                          | \$ -            | \$ 135,960     | \$ 138,679     | \$ 141,453     | \$ 144,282     | \$ 147,167     | \$ 150,111     |
| Leasing Commissions                           |                 | \$ 1,313       | \$ 1,339       | \$ 1,366       | \$ 1,393       | \$ 1,421       | \$ 1,449       |
| Management Fee                                |                 | \$ 108,768     | \$ 110,943     | \$ 113,162     | \$ 115,425     | \$ 117,734     | \$ 120,089     |
| Reversion Sale Price                          |                 |                |                |                |                | \$ 16,262,006  |                |
| Property Before Tax Cash Flow from Operations |                 | \$ 184,555     | \$ 197,309     | \$ 210,319     | \$ 223,588     | \$ 237,122     |                |
| Property Before Tax Cash Flow                 | \$ (11,490,000) | \$ 184,555     | \$ 197,309     | \$ 210,319     | \$ 223,588     | \$ 16,499,129  |                |

|                      |              |
|----------------------|--------------|
| <b>Exit Cap Rate</b> | <b>6.00%</b> |
| <b>IRR</b>           | <b>8.78%</b> |

| Period | Beginning Balance | Interest     | Principal    | Total Payment | Ending Principal |
|--------|-------------------|--------------|--------------|---------------|------------------|
| 1      | \$ (7,468,500)    | \$ (261,398) | \$ (191,747) | \$ (453,144)  | \$ (7,276,753)   |
| 2      | \$ (7,276,753)    | \$ (254,686) | \$ (198,458) | \$ (453,144)  | \$ (7,078,296)   |
| 3      | \$ (7,078,296)    | \$ (247,740) | \$ (205,404) | \$ (453,144)  | \$ (6,872,892)   |
| 4      | \$ (6,872,892)    | \$ (240,551) | \$ (212,593) | \$ (453,144)  | \$ (6,660,299)   |
| 5      | \$ (6,660,299)    | \$ (233,110) | \$ (220,034) | \$ (453,144)  | \$ (6,440,266)   |
| 6      | \$ (6,440,266)    | \$ (225,409) | \$ (227,735) | \$ (453,144)  | \$ (6,212,531)   |
| 7      | \$ (6,212,531)    | \$ (217,439) | \$ (235,705) | \$ (453,144)  | \$ (5,976,826)   |
| 8      | \$ (5,976,826)    | \$ (209,189) | \$ (243,955) | \$ (453,144)  | \$ (5,732,870)   |
| 9      | \$ (5,732,870)    | \$ (200,650) | \$ (252,494) | \$ (453,144)  | \$ (5,480,377)   |
| 10     | \$ (5,480,377)    | \$ (191,813) | \$ (261,331) | \$ (453,144)  | \$ (5,219,046)   |
| 11     | \$ (5,219,046)    | \$ (182,667) | \$ (270,477) | \$ (453,144)  | \$ (4,948,569)   |
| 12     | \$ (4,948,569)    | \$ (173,200) | \$ (279,944) | \$ (453,144)  | \$ (4,668,624)   |
| 13     | \$ (4,668,624)    | \$ (163,402) | \$ (289,742) | \$ (453,144)  | \$ (4,378,882)   |
| 14     | \$ (4,378,882)    | \$ (153,261) | \$ (299,883) | \$ (453,144)  | \$ (4,078,999)   |
| 15     | \$ (4,078,999)    | \$ (142,765) | \$ (310,379) | \$ (453,144)  | \$ (3,768,620)   |
| 16     | \$ (3,768,620)    | \$ (131,902) | \$ (321,242) | \$ (453,144)  | \$ (3,447,378)   |
| 17     | \$ (3,447,378)    | \$ (120,658) | \$ (332,486) | \$ (453,144)  | \$ (3,114,892)   |
| 18     | \$ (3,114,892)    | \$ (109,021) | \$ (344,123) | \$ (453,144)  | \$ (2,770,769)   |
| 19     | \$ (2,770,769)    | \$ (96,977)  | \$ (356,167) | \$ (453,144)  | \$ (2,414,602)   |
| 20     | \$ (2,414,602)    | \$ (84,511)  | \$ (368,633) | \$ (453,144)  | \$ (2,045,969)   |
| 21     | \$ (2,045,969)    | \$ (71,609)  | \$ (381,535) | \$ (453,144)  | \$ (1,664,434)   |
| 22     | \$ (1,664,434)    | \$ (58,255)  | \$ (394,889) | \$ (453,144)  | \$ (1,269,545)   |
| 23     | \$ (1,269,545)    | \$ (44,434)  | \$ (408,710) | \$ (453,144)  | \$ (860,835)     |
| 24     | \$ (860,835)      | \$ (30,129)  | \$ (423,015) | \$ (453,144)  | \$ (437,820)     |
| 25     | \$ (437,820)      | \$ (15,324)  | \$ (437,820) | \$ (453,144)  | \$ 0             |

| Property Assumptions |                 |
|----------------------|-----------------|
| Purchase Price       | \$11,490,000.00 |
| Loan Value           | \$7,468,500.00  |
| GP Equity            | \$201,075.00    |
| LP Equity            | \$3,820,425.00  |
| Annual Payment       | \$453,144.03    |
| Exit Cap Rate        | 6%              |
| Sale Price           | \$16,262,006.15 |

| Debt Assumptions     |     |
|----------------------|-----|
| LTV                  | 65% |
| Annual Interest Rate | 4%  |
| Amortization Period  | 25  |
| Prepayment Penalty   | 3%  |

| Equity Assumptions  |     |
|---------------------|-----|
| LP Preferred Return | 8%  |
| GP Contribution     | 5%  |
| LP Contribution     | 95% |
| GP Promote          | 30% |
| LP Promote          | 70% |

| Additional Assumptions |     |
|------------------------|-----|
| Vacancy                | 10% |
| Management Fee         | 8%  |
| Credit Loss            | 2%  |
| Rent Growth            | 2%  |
| Closing Fee            | 6%  |

|                                     | 2020<br>Year 0               | 2021<br>Year 1 | 2022<br>Year 2 | 2023<br>Year 3 | 2024<br>Year 4 | 2025<br>Year 5 |              |
|-------------------------------------|------------------------------|----------------|----------------|----------------|----------------|----------------|--------------|
| <b>Equity Level Cash Flows:</b>     |                              |                |                |                |                |                |              |
| Entity Level Operational EBTCF      | \$ (4,021,500)               | \$ 184,555     | \$ 197,309     | \$ 210,319     | \$ 223,588     | \$ 237,122     |              |
| Entity Level Reversion EBTCF        | \$ -                         | \$ -           | \$ -           | \$ -           | \$ -           | \$ 10,045,795  |              |
| Entity Level EBTCF                  | \$ (4,021,500) <b>23.79%</b> | \$ 184,555     | \$ 197,309     | \$ 210,319     | \$ 223,588     | \$ 10,282,918  |              |
| <b>LP Equity Capital Account:</b>   |                              |                |                |                |                |                |              |
| Beginning Equity Investment Balance | \$ -                         | \$ 3,820,425   | \$ 3,941,504   | \$ 4,049,828   | \$ 4,145,144   | \$ 4,227,190   |              |
| Annual Preferred Investment         | \$ (3,820,425)               | \$ -           | \$ -           | \$ -           | \$ -           | \$ -           |              |
| Preferred Return Earned             | \$ -                         | \$ 305,634     | \$ 305,634     | \$ 305,634     | \$ 305,634     | \$ 305,634     |              |
| Preferred Return Owed               | \$ -                         | \$ 305,634     | \$ 305,634     | \$ 305,634     | \$ 305,634     | \$ 305,634     |              |
| Accrued But Unpaid Preferred Return | \$ -                         | \$ 121,079     | \$ 108,325     | \$ 95,315      | \$ 82,046      | \$ 68,512      |              |
| Ending Equity Investment Balance    | \$ 3,820,425                 | \$ 3,941,504   | \$ 4,049,828   | \$ 4,145,144   | \$ 4,227,190   | \$ 4,295,701   |              |
| <b>GP Equity Capital Account:</b>   |                              |                |                |                |                |                |              |
| Beginning Equity Investment Balance | \$ -                         | \$ 201,075     | \$ 201,075     | \$ 201,075     | \$ 201,075     | \$ 201,075     |              |
| Annual Subordinated Investment      | \$ (201,075)                 | \$ -           | \$ -           | \$ -           | \$ -           | \$ -           |              |
| Ending Equity Investment Balance    | \$ 201,075                   | \$ 201,075     | \$ 201,075     | \$ 201,075     | \$ 201,075     | \$ 201,075     |              |
| <b>Operational Cash Flow:</b>       |                              |                |                |                |                |                |              |
| LP Level Cash Flows: 70%            | \$ (3,820,425)               | \$ 220,879     | \$ 229,807     | \$ 238,913     | \$ 248,202     | \$ 257,676     |              |
| GP Level Cash Flows: 30%            | \$ (201,075)                 | \$ (36,324)    | \$ (32,497)    | \$ (28,595)    | \$ (24,614)    | \$ (20,553)    |              |
| <b>Reversion Allocations:</b>       |                              |                |                |                |                |                |              |
| Sale Price                          |                              |                |                |                |                | \$ 16,262,006  |              |
| Closing Costs                       |                              |                |                |                |                | \$ (975,720)   |              |
| Remaining Principal                 |                              |                |                |                |                | \$ (6,440,266) |              |
| Prepayment Penalty                  |                              |                |                |                |                | \$ (224,055)   |              |
| LP Return of Equity                 |                              |                |                |                |                | \$ 4,295,701   |              |
| GP Return of Equity                 |                              |                |                |                |                | \$ 201,075     |              |
| Remaining Equity                    |                              |                |                |                |                | \$ 4,125,189   |              |
| LP Additional Proceeds              |                              |                |                |                |                | \$ 2,887,632   |              |
| GP Additional Proceeds              |                              |                |                |                |                | \$ 1,237,557   |              |
| <b>Reversion cash flow:</b>         |                              |                |                |                |                |                |              |
| LP Level Cash Flows:                |                              |                |                |                |                | \$ 7,183,333   |              |
| GP Level Cash Flows:                |                              |                |                |                |                | \$ 1,438,632   |              |
| <b>Total EBTCF:</b>                 |                              |                |                |                |                |                |              |
|                                     | <b>IRR</b>                   |                |                |                |                |                |              |
| LP Level Cash Flows:                | <b>18.39%</b>                | \$ (3,820,425) | \$ 220,879     | \$ 229,807     | \$ 238,913     | \$ 248,202     | \$ 7,441,009 |
| GP Level Cash Flows:                | <b>40.38%</b>                | \$ (201,075)   | \$ (36,324)    | \$ (32,497)    | \$ (28,595)    | \$ (24,614)    | \$ 1,418,078 |