9411 Alcorn Street

December 1 2021

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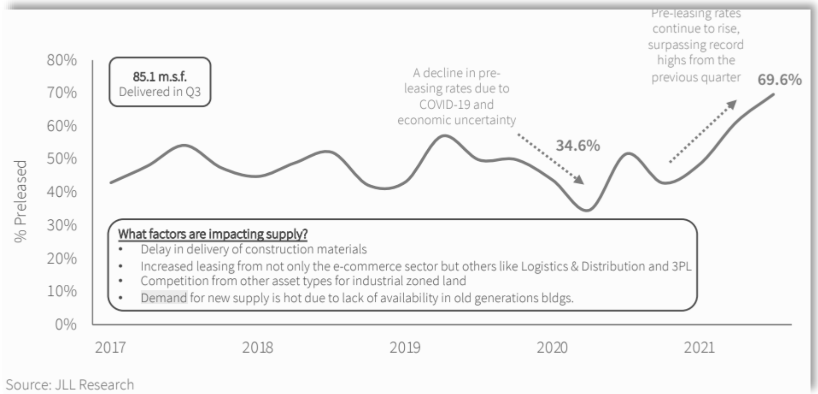
Property Overview

The subject property is an industrial lot comprised of 30.9 acres, located in Houston, Texas. The lot is in the North submarket of Houston—more specifically—Harris County. Harris County is densely populated with roughly 4.7 million residents. The existing 165,000 square foot building on the lot today is home to Trussway Manufacturer's Headquarters. Trussway is an industry leader manufacturer of floor and roof trusses with 31,000 employees. The Acre parcel is well-situated as it located 8 miles north of the city and at the top end of I-610 between I-45 and I-69, offering ample capacity for future development. We plan on acquiring this lot and developing a 165,000 sf micro fulfillment center facility. We believe this is an ideal investment due to fantastic logistical location, growing demand of this niche last mile distribution center, and an increased reliance for onshoring manufacturing centers.

Thesis

We believe this property is a great investment because of a growing demand for onshoring manufacturing centers, opportunity for value add with a developmental project such as the Micro fulfillment center and the ability to attract potential tenants due to low costs of operations and tax incentives. More onshoring manufacturing in North America will drive the increasing demand for high-quality industrial warehouse and distribution space across the U.S for the next five years and this demand will likely cause 750 million to 1 billion additional sf of warehouse space. Moreover, this lot's size will be easily adaptable to the growing demand for distribution centers. Lastly due to the state of Texas having no sales tax on leased equipment and no property tax on owned equipment as well as no state income tax, the search for tenants will not be taxing.

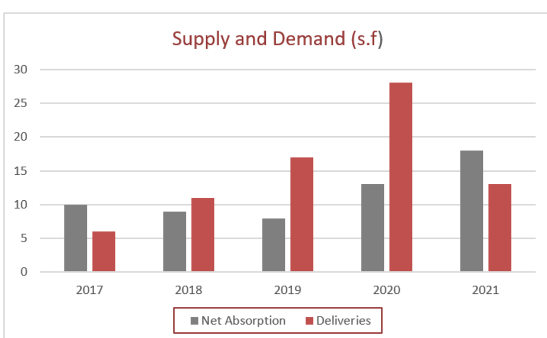
Industry Overview



We are bullish on this property for several reasons. As a global economy with substantial reliance on goods being manufactured abroad, shipping them to distant places puts pressure on the supply chain. Industries ship goods to critical ports in the US and these ports have seen a spike in demand and will continue to see demand as we head into the holiday season. Demand is outpacing supply. With this lack of supply, rents are consequentially rising and driving vacancy rates to hit record lows. Over 419 million sf of industrial space is under construction and still, with mass construction, vacancy rates are at record lows of around 4.3%. Because of the imbalance of supply and demand, pre-leasing of space has pushed record highs (69.6% of space is pre-leased) with future availability a concern for new tenants.

Houston Market Overview

The Houston market equates a good investment opportunity. Houston ranks in the top 5 of cities regarding net absorption (18 MSF). The vacancy rates, although higher than industry averages, shows continual demand and is a bright spot for potential tenants that cannot find space in cities and should consider Houston. Moreover, the built-to-suit market shows that there is a steady influx of tenants willing to move into new construction projects. The population increase in 2020 of 16% is an encouraging trend considering that industry follows consumers.



Top 5 Markets: Net Absorption	
Dallas	33.9 MSF
Chicago	32.9 MSF
Atlanta	27.4 MSF
Inland Empire	22.2 MSF
Houston	18 MSF

Tax Friendliness

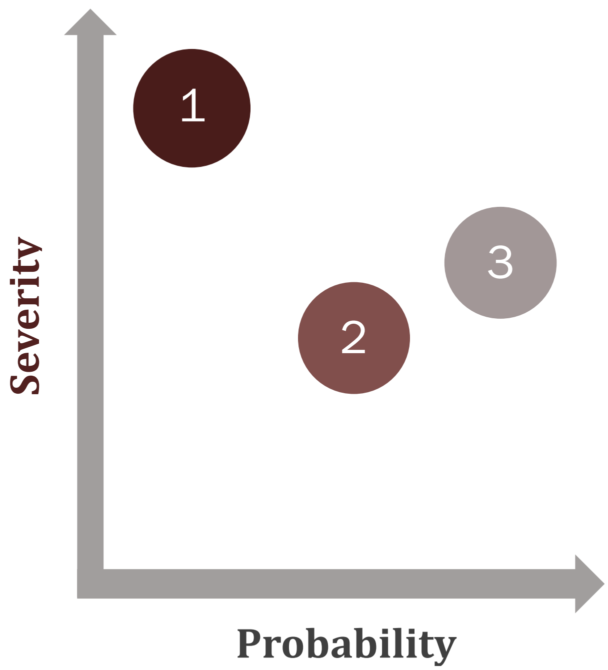
Texas is home to a plethora of tax incentives. A couple major ones is that there is no state income tax, no sales tax on leased equipment, and no property tax on owned equipment. Additionally, hurricane insurance costs less than earthquake insurance. With these lower costs of operations, there is a high potential for an increase in institutional capital and endless possibilities of suitable tenants.

Supply Chain Catalyst for Warehouse Space

With today's supply chain disruptions, companies see the need to transfer manufacturing operations to domestic land. More onshoring manufacturing in North America will drive the increasing demand for high-quality industrial warehouse and distribution space in the US alone.

Location and Demographics

9411 Alcorn Street is strategically situated at the top end of I-610 between I-45 and I-69. To add to this, our property sits 8 miles north of downtown Houston. Premier location creates opportunity to develop land and create a second building which we intend on being used for last mile delivery. This of course will significantly increase the NOI and value of a property



Risks

<u>1. Tenant Risk</u>

Although Trussway Manufacturers is a reliable tenant that has been occupying 9411 Alcorn Street for quite some time, sometimes it can be difficult to find a new tenant after a completed lease. In terms of industrial, if a tenant vacates, then an owner might need to invest significant amount of capital to make the property compatible with other tenants.

<u>2. Demand Outpacing Supply=Competition</u>

The anticipated future demand for warehouse space means that many real estate investors are building only fulfillment center. If too many of this type are constructed, the market is at risk of softening, it could significantly impact occupancy and rental rates, while also reducing property values.

<u>3. Expensive Construction</u>

Construction costs are already on the rise. Steel is up 123%, Lumber up 111%, and Aluminum is up 35%, but there is no sign they will go down, so paying a premium is a bit inevitable in todays landscape, but delaying breaking ground will only mean paying a larger premium in the future.

IREA

Model Assumptions

The following are model assumptions used during the underwriting process of this investment. We used the listing price of $7,786,474 as the purchase price. In terms of debt, we assumed a loan-to-value ratio of 65%, a rate of 4.85%, an amortization period of 30 years, and a prepayment penalty of 3%. In terms of equity, we assumed a GP contribution of 5% and an LP contribution of 95%. We used an LP promote of 70% and a GP promote of 30%. The limited partners preferred return is roughly 8%, while the LP IRR requirement is approximately 11% and the GP IRR requirement is 25%. We assumed an exit cap rate of 5.5%, which is conservative considering market rates. We assumed a 3% credit loss and modeled out operating expenses as 30% of potential gross income. We decided to add another tenant to our lot. Conducting analysis on the decision and investment options, the total PGI would come in at $377,640 for the first totaling a net income of $370,087 for the first year. When it comes to the rent roll. We assumed that it would take 1.5 years for the second tenant to occupy the new industrial building. Construction might be quicker than we expect but we wanted to take a conservative approach. Being that what it is, the rent roll total reflects tenant #1's twelve month rent as well as six months rent of tenant #2 The pro forma assumes no vacancy and both leases are triple net so expenses would be reimbursed. An exit IRR of 16% is very attractive for an industrial deal.

Sources and Uses

IREA Given Guidelines	
LTV	65%
Annual Interest Rate	4.85%
Amortization Period	30
Prepayment Penalty	3%
LP Preferred Return	8%
GP Contribution	5%
LP Contribution	95%
GP Promote	30%
LP Promote	70%
Amort Year	30
Amort Month	360
Monthly IR	0.40%
Growth Factor	4%

Individual Group Assumptions	
Purchase Price	$7,786,474
Loan Value	$ 5,061,208
GP Equity	$ 136,263
LP Equity	$ 2,589,003
Monthly Payment	$26,708
Annual Payment	$ 320,490.98
Exit Cap Rate	5.50%
Sale Price	$ 16,373,369.67

Construction	
Construction Costs	$ 2,654,528.00
LTV	90%
Loan Value	$ 2,389,075.20
GP Equity	$ 13,272.64
LP Equity	$ 252,180.16
Monthly Payment	$12,606.95

Rent Roll

	Monthly Rent					
Unit	2021	2022	2023	2024	2025	2026
1	$ 31,470	$ 32,729	$ 34,038	$ 35,399	$ 36,815	$ 38,288
2	-	$ 32,729	$ 34,038	$ 35,399	$ 36,815	$ 38,288
Monthly Total	$ 31,470	$ 65,458	$ 68,076	$ 70,799	$ 73,631	$ 76,576
Yearly Total	$ 377,640	$ 589,118	$ 816,911	$ 849,587	$ 883,571	$ 918,914

Pro Forma

	2020 Year 0	2021 Year 1	2022 Year 2	2023 Year 3	2024 Year 4	2025 Year 5	2026 Year 6
Potential Gross Income		$ 377,640	$ 589,118	$ 816,911	$ 849,587	$ 883,571	$ 918,914
Vacancy		$ -	$ -	$ -	$ -	$ -	$ -
Credit Loss		$ (7,552.80)	$ (11,782.37)	$ (16,338.22)	$ (16,991.75)	$ (17,671.42)	$ (18,378.27)
Effective Gross Income (EGI)		**$ 370,087**	**$ 577,336**	**$ 800,573**	**$ 832,596**	**$ 865,899**	**$ 900,535**
Expense Reimbursements		$ 111,026	$ 173,201	$ 240,172	$ 249,779	$ 259,770	$ 270,161
Total Operating Revenue		$ 481,113	$ 750,537	$ 1,040,744	$ 1,082,374	$ 1,125,669	$ 1,170,696
Operating Expenses		$ (111,026)	$ (173,201)	$ (240,172)	$ (249,779)	$ (259,770)	$ (270,161)
Net Operating Income		$ 370,087	$ 577,336	$ 800,573	$ 832,596	$ 865,899	$ 900,535
Debt Service (On Purchase Loan)		$ 323,631	$ 323,631	$ 323,631	$ 323,631	$ 323,631	$ 323,631
Debt Service (On Construction Loan)		$ 12,607	$ 12,607	$ 12,607	$ 12,607	$ 12,607	$ 12,607
Capital Expenditures	$ (2,654,528)	$ 37,009	$ 57,734	$ 80,057	$ 83,260	$ 86,590	$ 90,054
Leasing Commissions		$ 31,470	$ 32,729				
Management Fee		$ 14,433	$ 22,516	$ 31,222	$ 32,471	$ 33,770	$ 35,121
Reversion Sale Price						$ 16,373,370	
Property Before Tax Cash Flow from Operations		$ (36,456)	$ 1,026,552	$ 1,248,090	$ 1,284,564	$ 1,322,497	
Property Before Tax Cash Flow	$ (10,441,002)	$ (36,456)	$ 1,026,552	$ 1,248,090	$ 1,284,564	$ 17,695,867	

Exit Cap Rate	**5.50%**
IRR	**16.54%**
NPV	**$6,264,473.85**

Equity Waterfall

		2020 Year 0	2021 Year 1	2022 Year 2	2023 Year 3	2024 Year 4	2025 Year 5
Equity Level Cash Flows:							
Entity Level Operational EBTCF		$ (336,191)	$ 37,009	$ 57,734	$ 80,057	$ 83,260	$ 86,590
Entity Level Reversion EBTCF		$ -	$ -	$ -	$ -	$ -	$ 16,373,370
Entity Level EBTCF	123.15%	$ (336,191)	$ 37,009	$ 57,734	$ 80,057	$ 83,260	$ 16,459,960
LP Equity Capital Account:							
Beginning Equity Investment Balance		$ -	$ -	$ 2,841,183	$ 2,650,897	$ 2,481,336	$ 2,334,098
Annual Preferred Investment		$ (2,589,003)	$ -	$ -	$ -	$ -	$ -
Annual preffered Investment (construction)		$ (252,180)	$ -	$ -	$ -	$ -	$ -
Preferred Return Earned		$ -	$ 227,295	$ 227,295	$ 227,295	$ 227,295	$ 227,295
Preferred Return Owed		$ -	$ 227,295	$ 227,295	$ 227,295	$ 227,295	$ 227,295
Accrued But Unpaid Preferred Return		$ -	$ (190,286)	$ (169,561)	$ (147,237)	$ (144,035)	$ -
Ending Equity Investment Balance		$ 2,841,183	$ 2,650,897	$ 2,481,336	$ 2,334,098	$ 2,190,063	$ 2,190,063
GP Equity Capital Account:							
Beginning Equity Investment Balance		$ -	$ 149,536	$ 149,536	$ 149,536	$ 149,536	$ 149,536
Annual Subordinated Investment		$ (136,263)	$ -	$ -	$ -	$ -	$ -
Annual Subordinated Investment (construction)		$ (13,273)	$ -	$ -	$ -	$ -	$ -
Ending Equity Investment Balance		$ 149,536	$ 149,536	$ 149,536	$ 149,536	$ 149,536	$ 149,536
Operational Cash Flow:							
LP Level Cash Flows: 70%		$ (2,841,183)	$ 94,094	$ 108,602	$ 124,228	$ 126,470	$ 128,801
GP Level Cash Flows: 30%		$ (149,536)	$ (57,086)	$ (50,868)	$ (44,171)	$ (43,211)	$ (42,211)
Reversion Allocations:							
Sale Price							$ 16,373,370
Closing Costs							$ (982,402)
Remaining Principal							$ (4,637,666)
Prepayment Penalty							$ (151,836)
LP Return of Equity							$ 2,190,063
GP Return of Equity							$ 149,536
Remaining Equity							$ 12,791,528
LP Additional Proceeds							$ 8,954,070
GP Additional Proceeds							$ 3,837,458
Reversion cash flow:							
LP Level Cash Flows:							$ 11,144,133
GP Level Cash Flows:							$ 3,986,994
Total EBTCF:	**IRR**						
LP Level Cash Flows:	**33.90%**	$ (2,841,183)	$ 94,094	$ 108,602	$ 124,228	$ 126,470	$ 11,272,935
GP Level Cash Flows:	**80.02%**	$ (149,536)	$ (57,086)	$ (50,868)	$ (44,171)	$ (43,211)	$ 3,944,783