12770 E. 38th Ave. Acquisition Proposal

December 1, 2021

Property Overview

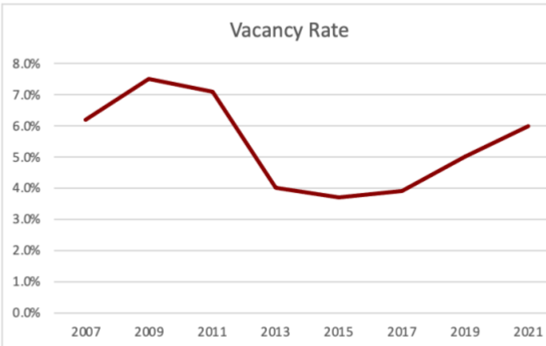
The subject property is located at 12770 E 38th Avenue in Denver, Colorado. It is a single unit industrial, class B building with 40,000 square feet, listed at $6,375,000. The building it currently vacant, but we estimate that the space will be filled quickly due to increase of presence of business in Denver which we will further discuss in our thesis. The building is in close proximity to the interstate highway I-70, which runs from Maryland to Utah. This is important to note as many materials and items will be shipped to and from the building and quick access to highways provides convenience to drivers. Denver is currently a great market to invest in as there is currently a high unemployment rate. By bringing in more business, there will be more opportunity for unemployed people to find a job. We also believe the Denver market is currently undervalued, so the payoff in the future, as seen in our underwriting, will be high if we buy now.

Thesis

We believe this property is a great investment because of the strong industries present in Denver that need industrial space and the high net absorption currently trending in the market. In 20221, we are still currently seeing the impact of the Covid-19 virus. This includes the high employment rates it has left many markets with. This includes Denver. As many tech and aerospace companies are moving to Denver, more warehouse workers will be needed to work which will help mitigate the unemployment issue in Denver. We have also seen how there is the highest new absorption in the last decade.

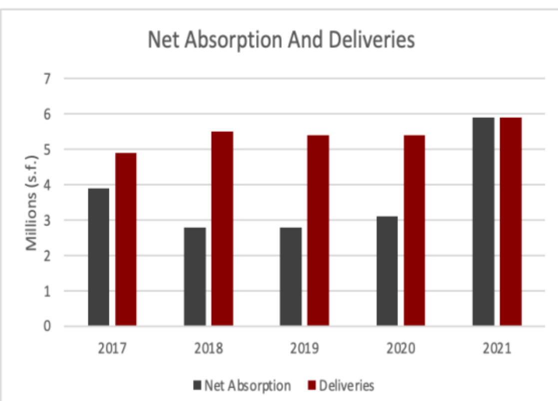
Industry and Market Overview

Roughly 35,000 people work in the distribution industry. Denver has a large work force pool that is only continuing to grow each year. Also, technology and aerospace companies have a large presence in Denver. Some of the largest employers in the area being Spacenav and Ball Aerospace. Next, Denver experienced the highest net absorption for industrial real estate that it has in the last decade with Roughly 6 million square feet of space leased up in the last year. Not only is Denver using a lot of space that is already developed, there is also a lot of new construction taking place. 8,680,649 square feet of space has been constructed in the last year as well. Lastly, currently Denver has a 6% vacancy rate for industrial property.



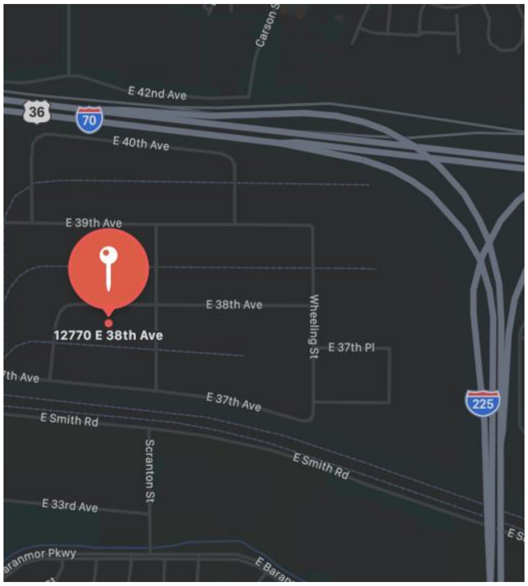
Thesis #1

Our first thesis point is that there is a large presence of many types of companies in the area that could use this space. This includes a large presence of aerospace and tech companies as we have mentioned before. Some of the aerospace companies include SpaceNav and Ball Aerospace. Some of the Tech companies in Denver include Zoom, Ring, and Xero. We also saw in previous quarters, especially in 2020 the large shift to online shopping and boost in ecommerce. Like we mentioned before in our demographics, there is a larger presence of consumers who use online shopping most. Use for distribution centers is a very probable option. Here we can see how the demand for industrial space is still very high.



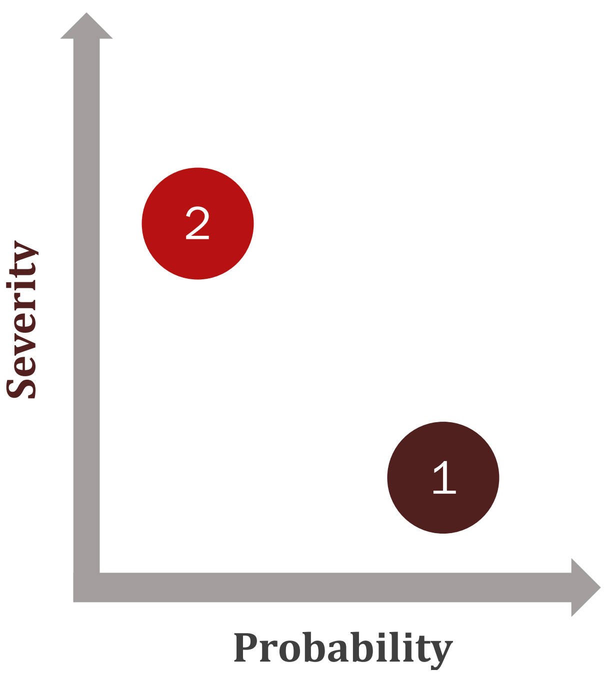
Thesis #2

Our second thesis point is the shift to ecommerce and the need for distribution centers. Denver saw its 45th consecutive quarter of positive net absorption. In the past year there have been high deliveries to the market. The fact that net absorption was still positive shows the strong demand for space in Denver. The high influx of deliveries also means that the value of properties went down a little making it a perfect time to buy. However, deliveries will start to taper off and then values will rise again. We also found that there is a decrease in large leases in terms of square footage and that leases for spaces between 30,000 and 50,000 square feet have become more common in Denver.



Location and Demographics

Within 50 miles of Denver, about a quarter of the residents are between 18-34 years old. This plays a large role as Gen z and Millennials are proven to be one of the largest consumers and do the most online shopping. Making sure that there are enough distribution centers near these populations makes businesses more efficient and a higher guarantee of customer satisfaction. Although the demographics are young, the median household income is just over $80,000 which is about 30% higher than the national income. About 47.8% of the adults in the area have a bachelor's degree or higher in comparison to the national average of 33.1%. This is important to note as Denver is one of the top educated cities in the nation and leaders like Builtin who specifically work with tech and startups as well as Blackstone who has taken the initiative through their entrepreneurs' network to mentor these tech startups. This means that these tech companies in Denver are creating better relationships with bigger companies that could bring in even more business and therefore create a larger need for space in the future.



Risks

1. Risk 1

One of the risks to our thesis is that we see that is already a large presense of industrial real estate in Denver. 2.6 million square feet of space was delivered to the market in the last quarter. On top of this, a large amount of industrial space already exists leading to a lot of competition. We are still confident in our investment however. We believe that the high net absorption will drive the market and finding a tenant will not be hard because of the this high demand.

2. Risk 2

Our Second risk that we found is that the property is 100% vacant. This serves to be a problem because there is no guaranteed income from the start of purchasing this property. However, because of the high net absorption, we are currently seeing finding a tenant should not be a problem. Most leases signed in the last year were for properties that were 30,000 to 50,000 square feet, making it even more likely that we will find a tenant fast.

Model Assumptions

Individual Group Assumptions	
Purchase Price	$ 6,375,000.00
Loan Value	$ 4,143,750.00
GP Equity	$ 111,562.50
LP Equity	$ 2,119,687.50
Annual Payment	$11,170.16
Exit Cap Rate	4%
Sale Price	$ 12,207,156.00

The first assumption we made that did not use the IREA given guidelines was that the exit cap rate would be 4% rather than 5%. This is because according to JLL and CBRE's market reports, construction for industrial space in Denver is going to slow down. This accompanied by high net absorption will lead to cap rates compressing. Secondly, we decided to go with a 33% vacancy rate for the first year and 0% for all the subsequent years.

IREA Given Guidelines	
LTV	65%
Annual Interest Rate	4%
Amortization Period (Yrs)	25
Prepyment Penalty	3%
LP Preferred Return	8%
GP Contribution	5%
LP Contribution	95%
GP Promote	30%
LP Promote	70%
Rent Growth	3%

This is because there is not a current tenant, so we allowed for a buffer period of 4 months where the landlord would be looking for a tenant. After the first year, since the tenant is occupying the entire space there is no need to factor in vacancy. The next assumption we made was the operating expenses would be 20% of the potential gross income rather than 35%. Industrial buildings often have fewer operating expenses than other asset classes, making us feel comfortable with the estimate of 20%. Most industrial buildings range from 15% to 25% of the potential gross income for operating expenses. Lastly, we decided to go with a 3% rent growth rate for this property, which is standard growth for an industrial property.

Rent Roll

			Monthly Rent		
Unit	2021	2022	2023	2024	2025
Monthly Rent	$ 45,000	$ 46,350	$ 47,741	$ 49,173	$ 50,648
Monthly Total	$ 45,000	$ 46,350	$ 47,741	$ 49,173	$ 50,648
Yearly Total	$ 540,000	$ 556,200	$ 572,886	$ 590,073	$ 607,775

Pro Forma

	2020 Year 0	2021 Year 1	2022 Year 2	2023 Year 3	2024 Year 4	2025 Year 5
Potential Gross Income		$ 540,000	$ 556,200	$ 572,886	$ 590,073	$ 607,775
Vacancy		$ 178,200	$ -	$ -	$ -	$ -
		33%				
Credit Loss		$ 10,800.00	$ 11,124.00	$ 11,457.72	$ 11,801.45	$ 12,155.50
Effective Gross Income		$ 351,000.00	$ 545,076.00	$ 561,428.28	$ 578,271.13	$ 595,619.26
Expense Reimbursements		$ -	$ -	$ -	$ -	$ -
Total Operating Revenue		$ 351,000.00	$ 545,076.00	$ 561,428.28	$ 578,271.13	$ 595,619.26
Operating Expenses		$ 108,000.00	$ 111,240.00	$ 114,577.20	$ 118,014.52	$ 121,554.95
Net Operating Income		$ 243,000.00	$ 433,836.00	$ 446,851.08	$ 460,256.61	$ 474,064.31
Debt Service		$ 251,418	$ 251,418	$ 251,418	$ 251,418	$ 251,418
Capital Expenditures		$ 24,300.00	$ 43,383.60	$ 44,685.11	$ 46,025.66	$ 47,406.43
Leasing Commissions		$ 45,000	$ 46,350	$ 47,741	$ 49,173	$ 50,648
Management Fee		$ 28,080.00	$ 43,606.08	$ 44,914.26	$ 46,261.69	$ 47,649.54
Reversion Sale Price						$ 11,851,607.77
Property Before Tax Cash Flow from Operations		$ (105,798.03)	$ 49,078.29	$ 58,093.18	$ 67,378.51	$ 76,942.41
Property Before Tax Cash Flow	$ (6,375,000)	$ (105,798.03)	$ 49,078.29	$ 58,093.18	$ 67,378.51	$ 11,928,550.18

Exit Cap Rate	**4.00%**
IRR	**13.44%**

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		$ (2,231,250)	$ (105,798)	$ 49,078	$ 58,093	$ 67,379	$ 76,942
Entity Level Reversion EBTCF		$ -	$ -	$ -	$ -	$ -	$ 11,851,608
Entity Level EBTCF	39.69%	$ (2,231,250)	$ (105,798)	$ 49,078	$ 58,093	$ 67,379	$ 11,928,550
LP Equity Capital Account:							
Beginning Equity Investment Balance		$ -	$ 2,119,688	$ 1,844,314	$ 1,723,818	$ 1,612,336	$ 1,510,139
Annual Preferred Investment		$ (2,119,688)	$ -	$ -	$ -	$ -	$ -
Preferred Return Earned		$ -	$ 169,575	$ 169,575	$ 169,575	$ 169,575	$ 169,575
Preferred Return Owed		$ -	$ 169,575.00	$ 169,575.00	$ 169,575.00	$ 169,575.00	$ 169,575.00
Accrued But Unpaid Preferred Return		$ -	$ (275,373)	$ (120,497)	$ (111,482)	$ (102,196)	$ -
Ending Equity Investment Balance		$ 2,119,688	$ 1,844,314	$ 1,723,818	$ 1,612,336	$ 1,510,139	$ 1,510,139
GP Equity Capital Account:							
Beginning Equity Investment Balance		$ -	$ (111,563)	$ (111,563)	$ (111,563)	$ (111,563)	$ (111,563)
Annual Subordinated Investment		$ (111,563)	$ -	$ -	$ -	$ -	$ -
Ending Equity Investment Balance		$ (111,563)	$ (111,563)	$ (111,563)	$ (111,563)	$ (111,563)	$ (111,563)
Operational Cash Flow:							
LP Level Cash Flows: 70%		$ (2,119,688)	$ (23,186)	$ 85,227	$ 91,538	$ 98,037	$ 104,732
GP Level Cash Flows: 30%		$ (111,563)	$ (82,612)	$ (36,149)	$ (33,445)	$ (30,659)	$ (27,790)
Reversion Allocations:							
Sale Price							$ 11,851,608
Closing Costs							$ (711,096)
Remaining Principal							$ (3,573,254)
Prepayment Penalty							$ (124,313)
LP Return of Equity							$ 1,510,139
GP Return of Equity							$ (111,563)
Remaining Equity							$ 5,821,242
LP Additional Proceeds							$ 4,074,870
GP Additional Proceeds							$ 1,746,373
Reversion cash flow:							
LP Level Cash Flows:							$ 5,585,009
GP Level Cash Flows:							$ 1,634,810
Total EBTCF:							
LP Level Cash Flows:	23.36%	$ (2,119,688)	$ (23,186)	$ 85,227	$ 91,538	$ 98,037	$ 5,689,741
GP Level Cash Flows:	52.22%	$ (111,563)	$ (82,612)	$ (36,149)	$ (33,445)	$ (30,659)	$ 1,607,020