12440 Trail Driver Street
Austin, TX
Acquisition Proposal

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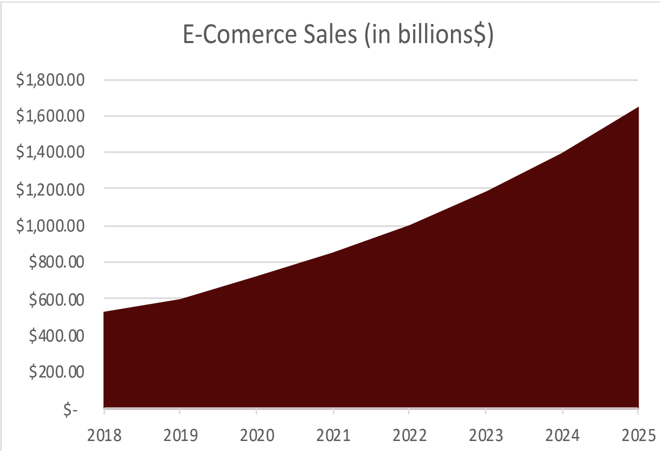
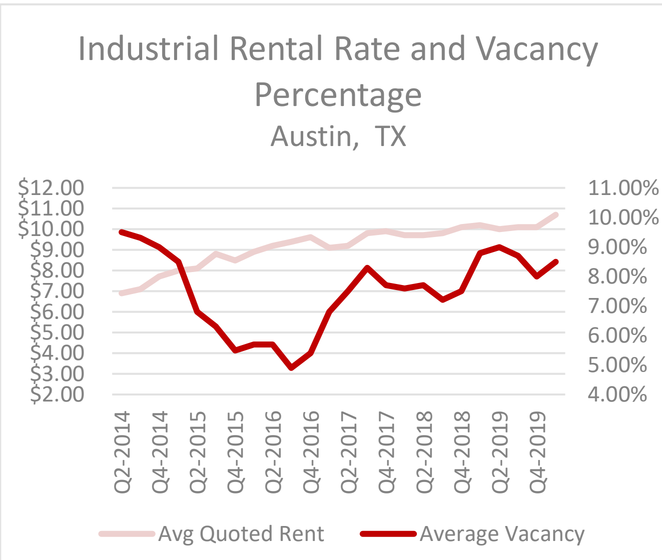
Property Overview

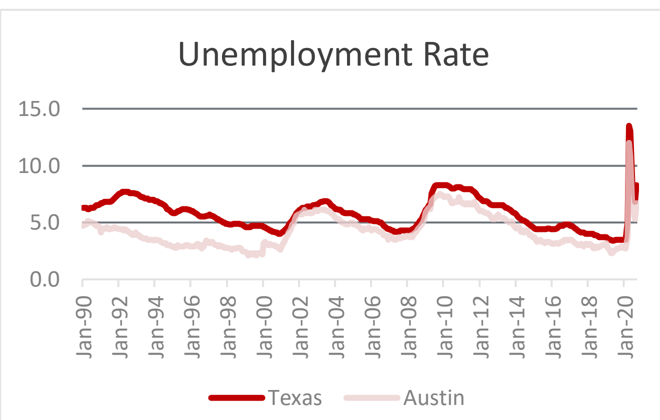
12440 Trail Driver road is an industrial property located just outside of Austin Texas. With multiple units comprising 31,000 SF of space, the property meets the demand for smaller office warehouse properties. It is built on 3.03 acres of land and allows for extra outdoor land space that tenants have used. Finished in 2019, this property is in pristine condition and The Fitz is one of the only modern warehouses available in the area and is conveniently located on the outskirts of Austin. The current tenants are a mix of spirit companies, breweries, and video game companies highlighting the versatility of this building. Each unit consists of office space with HVAC and restroom and warehouse space with overhead doors, allowing for a diverse range of possible tenants. The surrounding area's economy is ranked as the second fastest growing in the nation, bringing jobs and companies to the community. Austin and it's surrounding area are a great place to invest in industrial real estate, with a growing economy and demand for smaller warehouse properties, 12440 Trail Driver road is a prime investment.

Thesis

We believe the acquisition of 12440 Trail Driver Street is a prime investment and will achieve an IRR of 17.45% for the limited partners and an IRR of 40.21% for the general partners over a 5-year investment horizon. The main driver of our thesis is Austin's rapid economic growth, driven by tech start-ups, will show through a constant increase in rent and property values. Additionally, Austin has become a hot spot for tech companies and has seen many companies relocate to the city over the past decade. Lastly, Texas's favorable taxes and regulations for businesses and developers make it a sought-after city by investors.







Industrial Overview

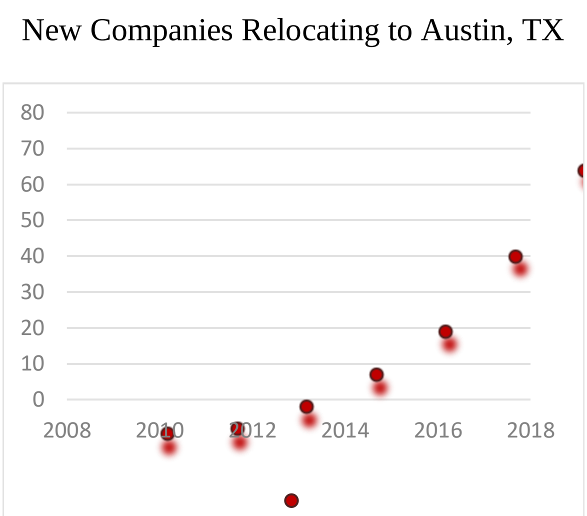
We are bullish on this property type since the COVID-19 pandemic has accelerated the need for warehouse space, there are low maintenance costs, and investing in industrial properties usually generates higher yields. The shelter-in-place policies that were put in place during the peak of the pandemic accelerated e-commerce growth and the need for warehouse space across the nation. JLL expects e-commerce sales could hit $1.5 trillion by 2025 - which would increase the demand for industrial real estate to an additional 1 billion square feet. President of JLL Industrial Properties group for the America's, Craig Meyer, stated that "since 2011, industrial rent growth has been positive and vacancy rates have been at historic lows providing attractive, stable, long-term returns to investors." In addition to the high demand, industrial spaces are relatively easy to maintain compared to other commercial spaces. The reason for this is that of industrial properties offer a triple net lease agreement. In this agreement, tenants promise to pay all the expenses of the property including real estate taxes, building insurance, and maintenance. Lastly, due to the longer leases, fewer market fluctuations, and less turnover, investors see a greater return on their income.

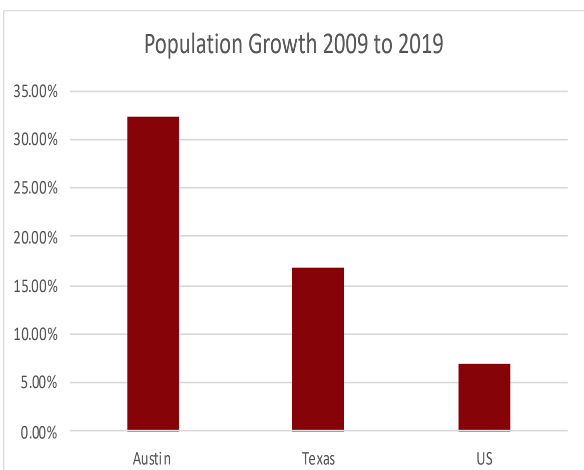
Strong Economic Growth

Over the past several years, Austin has experience strong economic growth. During this period, the city has prided itself on low unemployment rates and continued job growth. According to the Texas Workforce Commission, Texas saw a decrease in the state's seasonally adjusted unemployment rate to 6.8% in August. This is the fourth consecutive monthly decrease and the lowest rate since March 2020 when the Texas economy was initially impacted by the COVID-19 pandemic, remaining below the national average of 8.4%. Before COVID-19, Austin was able to maintain an unemployment rate of 2.7% for five consecutive months. These low unemployment rates are largely due to the addition of 27,200 jobs in the past year, making Austin the 6th fastest growing major metro. Austin continues to impress analysts and is a hot spot for employers in the high-tech industry. The Austin Chamber reported that jobs in Austin's tech industries total 161,433 or 15.8% of all jobs, compared to 8.7% nationally. Additionally, in 2018 Austin's tech industries grew 6.6% surpassing the metro's 3.6% total job growth. Ian Anderson, CBRE's Americas Head of Office research claims that "2020 will be another year where companies and people from around the country relocate to the Lone Star State, leaving most of the rest of the country in envy of the growth in Dallas, Houston, and Austin."

Hot Spot for Tech

Over the past few years, Austin Texas has emerged as a national leader in the tech space. Talent from across the country including Silicon Valley has relocated to this area for the many opportunities and relatively low cost of living. Blue chip companies such as Google, Apple and Facebook have thousands of employees collectively. Apple has also announced that it will build a $1 billion dollar new campus in Austin. Furthermore, the area is home to some of the leading secondary education in the tech field. Colleges like the University of Texas, and Texas Tech provide an influx of new tech workers to bolster the already very strong sector. In 2019, there were a recorded 58 relocations to Austin, not counting companies like Apple that have opened second offices. The Austin tech market has grown by 25% over the last 5 years and is projected to continue to grow at an even faster pace as more companies relocate. The booming tech economy and e commerce in Austin is going to bring economic growth and more people and companies to the area, increasing the value and demand of industrial real estate



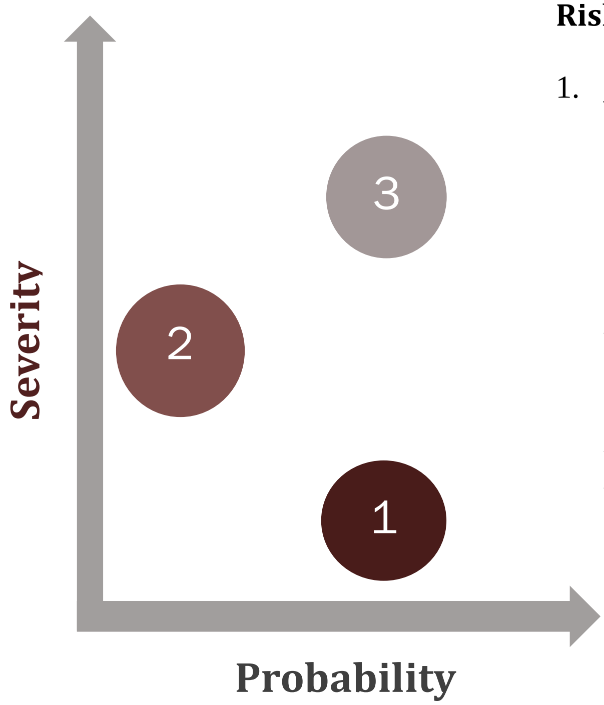


Desirable Location for Businesses

Texas is home to six of the top twenty largest American cities, one of them being Austin. From 2016 to 2017, Austin ranked eighth for top county population gains. The reason behind this population growth is because there are jobs available and the pay is good. On top of that, the cost of living is very affordable since the residents pay no personal state income tax. Austin offers opportunity and affordability, a combination that many large cities don't have. Additionally, Texas prides itself on being a "business friendly" and "developer friendly' state. Businesses operating in Texas benefit from tax incentives and lower business taxes that many would face in other states, which makes it easier to launch a commercial enterprise. Developers also benefit from working in Texas since there is plenty of land that can be bought cheaply. This makes it less expensive to get retail, office, warehouse, or multi-family property projects off the ground, especially due to the favorable regulations that let developers start quickly. The cheap land and easy construction regulations allow projects to get off the ground and meet the growing needs for housing, office space, and healthcare facilities. With a steady stream of Americans relocating to Austin, it holds promise for those involved in every aspect of the commercial real estate industry.

Location and Demographics

The Fitz is in a prime location for an industrial real estate investment. The property is about a 20-minute drive to downtown Austin giving it a unique advantage of being very close to the city while also having access to acres of land space. The area has been experiencing a rapid increase in economic growth over the past few years with GDP up 30% over the last 5 years, the second most in America. The surrounding area has a high population growth of 20% over 5 years and top tier household income levels of $128,457. This impressive growth has attracted many companies to the Austin area which has pushed demand for commercial real estate including warehouse space to an all-time high for the area. Around 50 companies a year have relocated to the Austin area. Overall, Austin is in a period of intense growth in population, economic growth, household income, and real estate demand, making it a great location for investment.



Risks

1. <u>Uptick in COIVD-19 Cases</u>
   The Texas economy continues to recover from sharp declines earlier in the year, however there has been a recent uptick in cases. The rise in cases will slow the recovery of the economy and lead to an increase in unemployment. Senior economist, Keith R. Phillips states that Texas is currently expecting job growth to be about 6.1% in the last three months of the year, however, if the recent rise in COVID-19 hospitalizations continues, job growth will likely be weaker. This could result in companies laying off workers and potentially default on their rent payments. Although a concern, we believe this is a minor risk since COVID-19 has actually increased the need for warehouse space across the country. In addition, all the tenants currently occupying the space paid rent throughout the height of the pandemic.

<u>2.Overdevelopment</u>

As discusses earlier, Texas is a "developer friendly" state, meaning that it has favorable regulations that let developers start building more quickly. The cheap land and easy construction regulations allow projects to get off the ground and meet the growing needs for housing, office space, and healthcare facilities. This could potentially lead to an overdeveloped city with not enough tenants to meet demand. If demand is greater than supply, this would cause the surrounding property levels to tank. This is definitely a concern, however, Austin is one of the fastest growing cities in America and has experienced positive population growth of 32.7% in the past decade. Also, in 2018 the Austin Chamber of Commerce recorded 46 relocations to the Austin area, which translated into 9,424 new jobs in the last year.

<u>3.Overvalued Housing Prices</u>

Austin's housing prices have seen positive growth over the past decade, but analysts believe the market is overvalued. Some say that the market is overvalued by 17%, which was determined by weighing income growth, population growth, unemployment, change in rental prices and change in home prices. This could potentially create a housing bubble. If the bubble bursts, housing prices would tank and the value of real estate in Austin would also decrease as a resulting factor. However, since the warehouse we are pitching is a unique building with flexible unit size, we believe our demand would remain high during this time. Also, the rent charged for the building is relatively low so there would still be a steady flow of tenants.

Model Assumptions

A number of assumptions were made when we underwrote this investment. We used $4,800,000 as the purchase price, which is $400,000 lower than the listing price. The reason behind this is that we believe this is the appropriate price to pay for this building in order to see positive returns for our investors. 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 8%. Lastly, the LP IRR requirement is 20% and the GP IRR requirement is 50%. We assumed an exit cap rate of 6.2%, which is right around the average cap rate in Austin. We assumed a 2% credit loss and a 0% vacancy since the building is 100% occupied. Since all the leases are triple net, we calculated expense reimbursements to be 85% of our operating expenses. The reason we underestimated the expense reimbursements is to account for times tenants might not pay for these charges. We chose a purchase price of $4,800,000 instead of the listing price of $5,200,000 because we believe that is a more realistic price and will provided the investors with great returns. We are charging rent of $1psf/month, which is very affordable for the area. The reason we are charging less rent is to give the tenants a break since they will be paying triple net charges. Under these assumptions, we found that the property value will increase by $1,651,360 when the disposition happens in 2026.

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		$ 372,000	$ 383,160	$ 394,655	$ 406,494	$ 418,689	$ 431,250
Vacancy		$ -	$ -	$ -	$ -	$ -	$ -
Credit Loss		$ (7,440)	$ (7,663)	$ (7,893)	$ (8,130)	$ (8,374)	$ (8,625)
Effective Gross Income		$ 364,560	$ 375,497	$ 386,762	$ 398,365	$ 410,315	$ 422,625
Expense Reimbursements		$ 110,670	$ 113,990	$ 117,410	$ 120,932	$ 124,560	$ 128,297
Total Operating Revenue		$ 475,230	$ 489,487	$ 504,172	$ 519,297	$ 534,876	$ 550,922
Operating Expenses		$ (130,200)	$ (134,106)	$ (138,129)	$ (142,273)	$ (146,541)	$ (150,937)
Net Operating Income		$ 345,030	$ 355,381	$ 366,042	$ 377,024	$ 388,334	$ 399,984
Debt Service		$ (189,303)	$ (189,303)	$ (189,303)	$ (189,303)	$ (189,303)	$ (189,303)
Capital Expenditures	$ -	$ (36,456)	$ (37,550)	$ (38,676)	$ (39,836)	$ (41,032)	$ (42,262)
Leasing Commissions		$ -	$ -	$ -	$ -	$ -	$ -
Management Fee		$ (25,519)	$ (26,285)	$ (27,073)	$ (27,886)	$ (28,722)	$ (29,584)
Reversion Sale Price						$ 6,451,360	$ -
Property Before Tax Cash Flow from Operations		$ 93,752	$ 102,243	$ 110,990	$ 119,999	$ 129,278	$ 138,835
Property Before Tax Cash Flow	$ (4,800,000)	$ 93,752	$ 102,243	$ 110,990	$ 119,999	$ 6,580,638	$ 138,835

Exit Cap Rate	**6.20%**
IRR	**8.14%**

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		$ (1,680,000)	$ 93,752	$ 102,243	$ 110,990	$ 119,999	$ 138,835
Entity Level Reversion EBTCF		$ -	$ -	$ -			$ 3,760,910
Entity Level EBTCF	22.37%	$ (1,680,000)	$ 93,752	$ 102,243	$ 110,990	$ 119,999	$ 3,899,745
LP Equity Capital Account:							
Beginning Equity Investment Balance		$ -	$ 1,596,000	$ 1,629,928	$ 1,658,079	$ 1,679,735	$ 1,694,116
Annual Preferred Investment		$ (1,596,000)	$ -	$ -	$ -	$ -	$ -
Preferred Return Earned		$ -	$ 127,680	$ 130,394	$ 132,646	$ 134,379	$ 135,529
Preferred Return Owed		$ -	$ 127,680	$ 130,394	$ 132,646	$ 134,379	$ 135,529
Accrued But Unpaid Preferred Return		$ -	$ 33,928	$ 28,151	$ 21,656	$ 14,380	$ (3,306)
Ending Equity Investment Balance		$ 1,596,000	$ 1,629,928	$ 1,658,079	$ 1,679,735	$ 1,694,116	$ 1,690,810
GP Equity Capital Account:							
Beginning Equity Investment Balance		$ -	$ 84,000	$ 84,000	$ 84,000	$ 84,000	$ 84,000
Annual Subordinated Investment		$ (84,000)	$ -	$ -	$ -	$ -	$ -
Ending Equity Investment Balance		$ 84,000	$ 84,000	$ 84,000	$ 84,000	$ 84,000	$ 84,000
Operational Cash Flow:							
LP Level Cash Flows: 70%		$ (1,596,000)	$ 103,930	$ 110,689	$ 117,487	$ 124,313	$ 137,843
GP Level Cash Flows: 30%		$ (84,000)	$ (10,178)	$ (8,445)	$ (6,497)	$ (4,314)	$ 992
Reversion Allocations:							
Sale Price							$ 6,451,360
Closing Costs							$ (387,082)
Remaining Principal							$ (2,690,450)
Prepayment Penalty							$ (93,600)
LP Return of Equity							$ 1,690,810
GP Return of Equity							$ 84,000
Remaining Equity							$ 1,505,418
LP Additional Proceeds							$ 1,053,793
GP Additional Proceeds							$ 451,626
Reversion cash flow:							
LP Level Cash Flows:							$ 2,744,603
GP Level Cash Flows:							$ 535,626
Total EBTCF:	**IRR**						
LP Level Cash Flows:	**17.45%**	$ (1,596,000)	$ 103,930	$ 110,689	$ 117,487	$ 124,313	$ 2,882,446
GP Level Cash Flows:	**40.21%**	$ (84,000)	$ (10,178)	$ (8,445)	$ (6,497)	$ (4,314)	$ 536,617