

Ibalio Gateway Business Center Investment Memo

To: Professor Steve Bell

From: Matt Ibalio Argus Analyst

Re: Gateway Business Center Analysis

EXECUTIVE SUMMARY

An analysis was conducted to evaluate the investment potential of Gateway Business Center at the asking price of \$6,700,000 using data pulled from CoStar, STDB, and the offering memorandum provided by the broker.

To calculate the recommended purchase prices for a bidding strategy, a discount rate of 11% was used. The best, worst, and probable cases are as follows:

| CFavail . For Distribution | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | Total |
|-------------------------------|----------------|-------------|---------------|-------------|-------------|-------------|-------------|--------------|----------------|----------------|--------------|----------------|
| Best Case | \$ 20,282.90 | \$62,342.50 | \$ (3,215.30) | \$55,855.80 | \$76,006.70 | \$47,065.70 | \$70,227.30 | \$120,242.10 | \$(254,612.60) | \$9,073,180.60 | \$631,669.50 | \$9,899,044.10 |
| Worst Case | \$ 14,751.20 | \$45,340.00 | \$ (2,338.40) | \$40,622.40 | \$55,277.60 | \$34,229.60 | \$51,074.40 | \$ 87,448.80 | \$(185,172.80) | \$6,598,676.80 | \$459,396.00 | \$7,199,304.80 |
| Probable Case | \$ 18,439.00 | \$56,675.00 | \$ (2,923.00) | \$50,778.00 | \$69,097.00 | \$42,787.00 | \$63,843.00 | \$109,311.00 | \$(231,466.00) | \$8,248,346.00 | \$574,245.00 | \$8,999,131.00 |
| Best Case PP | \$7,037,249.48 | | | | | | | | | | | |
| Worst Case PP | \$5,117,999.63 | | | | | | | | | | | |
| Probable PP | \$6,397,499.53 | | | | | | | | | | | |

The best-case scenario forecasts a 10% higher market rent and sale price, allowing for flexibility in negotiations to bid slightly higher than the asking price. The worst-case scenario forecasts a 20%+ decrease in net operating income and sale price. This is well below the asking price, however due to the strong demographics and tight market, bidding for such a discount would not be likely.

PROPERTY ANALYSIS

Property Summary and Location Analysis

Gateway Business Center has two buildings available for sale, 3235 and 3275 InterTech Drive, in Brookfield, Wisconsin. The total square footage for both buildings is 72,510 and are mixed-use properties for office and flex. The property offers immediate access to Highway 190 (Capitol Drive) and it is located approximately 1 mile from Highway F (Former 164 North). Interstate 94 is approximately 2 miles due south of the Center via Springdale Road. Brookfield's proximity to Milwaukee and its location within a suburban area makes it a strategic location for businesses that serve both city and suburban clients without the higher costs of urban office space. Well-connected transportation networks, including major highways and proximity to airports, support logistics and distribution needs, enhancing demand for industrial and warehouse spaces and offices for these businesses.

Demographics Analysis

| Miles | Total HH | Married/Cohabiting with Children (%) | | Total Population | Avg HH Size | Population Growth Rate (%) | | Median HH Income (2024) | Median HH Income (2029) |
|-------|----------|--------------------------------------|----------|------------------|-------------|----------------------------|-------|-------------------------|-------------------------|
| | | Children (%) | Children | | | | | | |
| 1 | 1,106 | 35% | 381 | 9 | 3,278 | 2.96 | 0.97% | \$ 149,342 | \$158,195 |
| 3 | 11,956 | 60% | 7,079 | 119 | 30,147 | 2.50 | 0.59% | \$ 114,638 | \$129,723 |
| 5 | 40,381 | 56% | 21,930 | 500 | 97,226 | 2.39 | 0.41% | \$ 99,539 | \$ 11,117 |

Demographic information was pulled from STDB using a radii of 1, 3, and 5 miles from the subject property. The current overall demographics for the surrounding area indicate a population that will remain relatively flat with a growing household size and income. This suggests a stable economic base for Brookfield Wisconsin that would support business growth and services.

Median household incomes range between \$99,539 - \$149,342 and projected to grow, suggesting discretionary spending in the Brookfield market will grow throughout the holding period stabilizing demand for the subject property.

Within a 5-mile radius, the area is densely populated with a density of up to 1,238.1 versus 1,624.5 for Brookfield as a whole and 740.3 for the state of Wisconsin. The annual growth rate is expected to average 1.04% and a large majority of the households within 5-miles are married with children or cohabitating with children. These demographics support bidding over the asking price per the best-case scenario and justifying the investment in the worst-case scenario.

Current Tenants Analysis

Four out of five of the current tenants have triple net leases, transferring most operating expense risks to the tenants, providing stable returns. Time Warner Telecom has two five-year renewal options at the landlord's fair current market rent. Time Warner, being the largest tenant with 33,455 rentable square feet, would provide stable operating income throughout the holding period. Given the other four tenants do not have an option to renew, the forecasted tenant revenue is highly speculative but given the 0% vacancy of the competitive set this is not expected to impact the investment returns.

Market Potential and Competitive Set of Properties

| Name | Address | Size (SF) | Age | Vacancy | Rent (SF) | Notes |
|------------------------------|---|-----------|------|---------|-----------|--------------------|
| 3070 Gateway Rd | 3070 Gateway Rd Brookfield, WI 53045 | 21,946 | 1999 | 0 | | |
| Gateway West Commerce Center | 21800 intertech dr Brookfield, WI 53045 | 51,892 | 2024 | 100 | | Under construction |
| 21365 Gateway Ct | 21365 Gateway Ct Brookfield, WI 53045 | 49,010 | 1900 | 0 | | Single Tenant |
| Sunset Gateway I | 3225 Gateway Rd Brookfield, WI 53045 | 92,160 | 2000 | 0 | \$ 9.07 | |
| Sunset Gateway II | 3265 Gateway Rd Brookfield, WI 53045 | 92,906 | 2005 | 0 | \$ 7.10 | |
| 3185 Gateway Rd | 3185 Gateway Rd Brookfield, WI 53045 | 21,700 | 2000 | 0 | \$ 6.75 | Avg |
| 3180 Intertech Dr | 3180 Intertech Dr Brookfield, WI 53045 | 33,803 | | 0 | \$ 3.60 | Single Tenant |
| 3120 Gateway Rd | 3120 Gateway Rd Brookfield, WI 53045 | 11,141 | 2016 | 0 | | Single Tenant |
| Average | | 46,820 | | | | |

The subject property is located among various office/flex buildings which are all 100% leased except for one that is under construction, indicating a tight market. The average rental square footage is 46,620 with the larger end of the range being 92,906 and the smaller space being

11,141 providing a wide range of options for all kinds of potential tenants meaning the area is competitive for office/flex space.

With high occupancy in housing and high ownership rates, Brookfield Wisconsin benefits via low turnover and stable demand, keeping office and industrial vacancy rates low, as shown by the above table. There is also a new building under construction given new or renovated spaces are likely to lease quickly. This supports a strong investment given leasable space will be filled quickly and demand is likely to remain stable when the investment is sold.

Site/Building Analysis

A site analysis including deferred maintenance where applicable was not required for this analysis.

FINANCIAL ANALYSIS

Assumptions

Rental growth is expected to increase at 2.5% annually while operating, inflation, and capital expenses are expected to grow at 3% after year 1, indicating rental revenue growth will lag behind expenses, adding risk to the investment.

Proposed Financing

There is an initial equity contribution of \$ 3,913,194 and a 65% LTV loan with a 5.27% interest rate amortized over 120 months.

| CFavail. For Distribution | Purchase | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total | |
|---------------------------|----------|----------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|--------------|----------------|----------------|--------------|----------------|
| Best Case PP | \$ | (3,904,411.32) | \$20,282.90 | \$62,342.50 | \$(3,215.30) | \$55,855.80 | \$76,006.70 | \$47,065.70 | \$70,227.30 | \$120,242.10 | \$(254,612.60) | \$9,073,180.60 | \$631,669.50 | \$9,899,044.10 |
| Worst Case PP | \$ | (2,820,638.58) | \$14,751.20 | \$45,340.00 | \$(2,338.40) | \$40,622.40 | \$55,277.60 | \$34,229.60 | \$51,074.40 | \$87,448.80 | \$(185,172.80) | \$6,598,676.80 | \$459,396.00 | \$7,199,304.80 |
| Probable Case PP | \$ | (3,533,912.20) | \$18,439.00 | \$56,675.00 | \$(2,923.00) | \$50,778.00 | \$69,097.00 | \$42,787.00 | \$63,843.00 | \$109,311.00 | \$(231,466.00) | \$8,248,346.00 | \$574,245.00 | \$8,999,131.00 |

The best, worst, and probable case scenarios are calculated using a 10% upside in market rent and purchase price and 20% downside for both the best and worst scenarios, respectively.

Listed below are the purchase prices required to achieve a 10% IRR.

- Best Case Analysis** In the best-case scenario, the total cash flow at the end of the holding period (\$9,899,044.10) would require a purchase price of \$7,037,249.48. Given the encouraging demographic information discussed earlier, the best-case scenario is also a likely case scenario, justifying bidding above the asking price.
- Worst Case Analysis** In the worst-case scenario, the total cash flow of \$7,199,304.80 would require a purchase price of \$5,117,999.63, which is a 20%+ discount and unlikely to be a price the seller will be willing to sell for. The Brookfield market is also stable with low vacancy rates, meaning there would not be enough selling pressure to encourage selling at this price.

- **Probable Case Analysis** In the probable-case scenario, the total cash flow of \$8,999,131.00 would require a purchase price of \$6,397,499.53. This is more in line with the asking price of \$6,700,000. Given the

When bidding for the property, there is big difference between the highest bidding price (\$7,037,249.48) and the lowest (\$5,117,999.63) offering room for negotiations. The bid price should not be below \$5,117,999.63 to ensure a target IRR of 10% can still be achieved.

Partitioned IRR

| Partitioned IRR | \$ Amount | %IRR |
|---------------------------|-----------------|--------|
| CFater Debt Service | \$ 868,767.00 | 9.65% |
| Net Proceeds from Sale | \$ 8,130,364.00 | 90.35% |
| Total CF for Distribution | \$ 8,999,131.00 | |

The partitioned IRR is used to quantify how much of the total potential return comes from regular operations of the property versus the sale price.

With cash flow after debt services of 9.65% of the IRR and the net proceeds from sale at 90.35%, this is a highly speculative investment. With 90.35% of the total return coming from the sale of the property versus tenant revenue the total return is dependent on the sale price of the property at the end of the holding period.

RECOMMENDATIONS

Based on the analysis, Gateway Business Center presents a viable investment opportunity with a 10% IRR even with a 20% reduction in market rents and forecasted sale price. The asking price of \$6,700,000 is in between the purchase price in the best market (\$7,037,249.48) and the most likely market (\$6,397,499.53). The property benefits from a stable, high-income, growing population, and positioning near major highways. Potential speculative risks from only one tenant renewal are offset by the strong market fundamentals.

When bidding on the property, the highest bid should be \$7,037,249.48 and the lowest negotiating price should be \$5,117,999.63 in order to achieve a target IRR of 10% given 90% of the return on the investment is coming from the sale.

EXHIBITS

ARGUS Property Summary Dashboard Report

Property Summary

Ibalio Gateway (Amounts in USD, Measures in SF)
Jan, 2006 through Dec, 2016

Jan, 2006 through Dec, 2010

| Property Information | | | Purchase & Investment | | |
|-------------------------------|-------------------------------|--------|----------------------------|---------------------------|--|
| Property Name | Ibalio Gateway | | Purchase Price | \$0 | |
| Property ID # | | | Closing Costs (N/A) | \$0 | |
| Address | 3235 Intertech Drive | | Total Purchase Price | \$0 | |
| City, State | Brookfield, Wisconsin | | Less Debt Amount (N/A) | \$3,913,194 | |
| Property Type | Mixed Use (Office/Industrial) | | Loan Costs | \$0 | |
| Building Area | 72,510 SF | | Equity | -\$3,913,194 | |
| Analysis Begin Date | Jan, 2006 | | Valuation & Yield | | |
| Length of Analysis | 10 Years 0 Months | | Discount Rate | 11.00% | |
| General Inflation | 3.00% [varies] | | Unleveraged PV | \$6,020,299 [\$83.03/SF] | |
| Market Inflation | 2.50% [varies] | | Cap Rate | 8.00% | |
| Expense Inflation | 3.00% [varies] | | Gross Income Multiplier | N/A | |
| CPI Inflation | 3.00% [varies] | | Property Resale(Dec, 2015) | \$8,130,364 [\$112.13/SF] | |
| General Vacancy Rate | 0.00% [varies] | | Direct Cap Rate | 10.00% | |
| Credit Loss Rate | 0.00% | | Direct Cap Value | \$5,299,765 [\$73.09/SF] | |
| Occupancy (Year End) | 100.00% | | Unleveraged IRR | N/A | |
| Occupancy (Average) | 93.42% | | Recommended Hold End | N/A | |
| W A L E (Area) | 6 Years 5 Months 22 Days | | IRR for Recommended Hold | | |
| W A L E (Rent) | 6 Years 11 Months | | Breakeven Date | Jan, 2006 | |
| Summary Cash Flow (Year 1) | | | NOI Yield | | |
| Potential Gross Revenue | Amount | Per SF | 0.00% | | |
| Vacancy & Adjustments | 701,690 | \$9.68 | Cash On Cash Yield | | |
| Effective Gross Revenue | 0 | 0.00 | -0.47% | | |
| Debt Financing | | | Note | | |
| Operating Expenses | 701,690 | 9.68 | Loan Begins | Jan, 2006 | |
| Ground Lease Expenses | -171,714 | -2.37 | Amount | \$3,913,194 | |
| Net Operating Income | 0 | 0.00 | Interest Rate | 5.27% | |
| Leasing & Capital Costs | 529,976 | 7.31 | Term | 120 Months | |
| Cash Flow Before Debt Service | -7,251 | -0.10 | Payment | \$42,024 Monthly | |
| Debt Service | 522,725 | 7.21 | Loan Costs | | |
| Cash Flow After Debt Service | -504,286 | -6.95 | Additional Loans | 0 | |
| | 18,439 | \$0.25 | Loan to Present Value | 65.00% | |
| | | | Debt Coverage | 1.05 | |

* Results displayed are based on Forecast data only

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ARGUS Property
Summary

ARGUS Property Cash Flow Report

Cash Flow

Ibalio Gateway (Amounts in USD)
Jan, 2006 through Dec, 2016
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| | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast |
|---------------------------------------|------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 | Forecast |
| For the Years Ending | Dec-2006 | Dec-2007 | Dec-2008 | Dec-2009 | Dec-2010 | Dec-2011 | Dec-2012 | Dec-2013 | Dec-2014 | Dec-2015 | Dec-2016 | Total |
| Note | 305,367 | 321,853 | 339,233 | 357,547 | 376,851 | 397,199 | 418,645 | 441,247 | 465,071 | 490,181 | 0 | 3,913,194 |
| Total Principal | 305,367 | 321,853 | 339,233 | 357,547 | 376,851 | 397,199 | 418,645 | 441,247 | 465,071 | 490,181 | 0 | 3,913,194 |
| Total Debt Service | 504,286 | 504,286 | 504,287 | 504,286 | 504,286 | 504,286 | 504,287 | 504,286 | 504,286 | 504,286 | 0 | 5,042,862 |
| Cash Flow After Debt Service | 18,439 | 56,675 | -2,923 | 50,778 | 69,097 | 42,787 | 63,843 | 109,311 | -231,466 | 117,982 | 574,245 | 868,767 |
| Financing | | | | | | | | | | | | |
| Debt Funding Proceeds | 3,913,194 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,913,194 |
| Initial Equity Contribution | -3,913,194 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -3,913,194 |
| Proceeds from Sale | | | | | | | | | | | | |
| Gross Sale Price (Inc. Capital Costs) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,130,364 | 0 | 8,130,364 |
| Net Sale Price | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,130,364 | 0 | 8,130,364 |
| Net Proceeds from Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,130,364 | 0 | 8,130,364 |
| Total Financing (Net) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8,130,364 | 0 | 8,130,364 |
| Cash Flow Available for Distribution | 18,439 | 56,675 | -2,923 | 50,778 | 69,097 | 42,787 | 63,843 | 109,311 | -231,466 | 8,248,346 | 574,245 | 8,999,131 |



ARGUS Cashflow
Summary

CoStar Competitive Set

| Name | Address | Size (SF) | Age | Vacancy | Rent (SF) | Notes |
|------------------------------|---|-----------|------|---------|-----------|--------------------|
| 3070 Gateway Rd | 3070 Gateway Rd Brookfield, WI 53045 | 21,946 | 1999 | 0 | | |
| Gateway West Commerce Center | 21800 intertech dr Brookfield, WI 53045 | 51,892 | 2024 | 100 | | Under construction |
| 21365 Gateway Ct | 21365 Gateway Ct Brookfield, WI 53045 | 49,010 | 1900 | 0 | | Single Tenant |
| Sunset Gateway I | 3225 Gateway Rd Brookfield, WI 53045 | 92,160 | 2000 | 0 | \$ 9.07 | |
| Sunset Gateway II | 3265 Gateway Rd Brookfield, WI 53045 | 92,906 | 2005 | 0 | \$ 7.10 | |
| 3185 Gateway Rd | 3185 Gateway Rd Brookfield, WI 53045 | 21,700 | 2000 | 0 | \$ 6.75 | Avg |
| 3180 Intertech Dr | 3180 Intertech Dr Brookfield, WI 53045 | 33,803 | | 0 | \$ 3.60 | Single Tenant |
| 3120 Gateway Rd | 3120 Gateway Rd Brookfield, WI 53045 | 11,141 | 2016 | 0 | | Single Tenant |
| Average | | 46,820 | | | | |

STDB Geographic Comparison

| | | | | | | |
|---|---|---|---|---|---|---|
| 3,278 Total Population | 30,147 Total Population | 97,226 Total Population | 23,810 Total Population | 406,978 Total Population | 5,893,718 Total Population | 331,449,281 Total Population |
| 1,122 Housing Units | 12,439 Housing Units | 42,034 Housing Units | 9,887 Housing Units | 172,177 Housing Units | 2,727,726 Housing Units | 140,498,736 Housing Units |
| 1,044.2 Population Density | 1,066.5 Population Density | 1,238.1 Population Density | 1,624.5 Population Density | 740.3 Population Density | 108.8 Population Density | 93.8 Population Density |
| 2.96 Average Household Size | 2.50 Average Household Size | 2.39 Average Household Size | 2.50 Average Household Size | 2.45 Average Household Size | 2.36 Average Household Size | 2.55 Average Household Size |
| 1,106 Total Households | 11,956 Total Households | 40,381 Total Households | 9,402 Total Households | 164,537 Total Households | 2,428,361 Total Households | 126,817,580 Total Households |
| 27.1 Diversity Index | 36.7 Diversity Index | 39.0 Diversity Index | 40.9 Diversity Index | 31.6 Diversity Index | 43.6 Diversity Index | 71.0 Diversity Index |
| 2015-2020 ANNUAL GROWTH RATE Population 1.17% | 2015-2020 ANNUAL GROWTH RATE Population 1.23% | 2015-2020 ANNUAL GROWTH RATE Population 0.72% | 2015-2020 ANNUAL GROWTH RATE Population 0.89% | 2015-2020 ANNUAL GROWTH RATE Population 0.43% | 2015-2020 ANNUAL GROWTH RATE Population 0.36% | 2015-2020 ANNUAL GROWTH RATE Population 0.71% |
| Group Quarters 0.00% | Group Quarters -3.93% | Group Quarters -5.78% | Group Quarters -3.41% | Group Quarters -3.06% | Group Quarters 0.07% | Group Quarters 0.31% |
| Households 1.14% | Households 1.18% | Households 0.89% | Households 0.95% | Households 0.75% | Households 0.63% | Households 0.83% |

STDB Geographic Comparison

STDB Housing Profile

| Miles | Total HH | Type | Married/Cohabiting with Children (%) | Married with Children | Cohabiting with Children | Total Population | Avg HH Size | Population Growth Rate (%) | Median HH Income (2024) | Median HH Income (2029) |
|-------|----------|------|--------------------------------------|-----------------------|--------------------------|------------------|-------------|----------------------------|-------------------------|-------------------------|
| 1 | 1,106 | | 35% | 381 | 9 | 3,278 | 2.96 | 0.97% | \$ 149,342 | \$ 158,195 |
| 3 | 11,956 | | 60% | 7,079 | 119 | 30,147 | 2.50 | 0.59% | \$ 114,638 | \$ 129,723 |
| 5 | 40,381 | | 56% | 21,930 | 500 | 97,226 | 2.39 | 0.41% | \$ 99,539 | \$ 11,117 |

Housing Profile

STDB Census Profile



2020 Census Profile

3275 Intertech Dr, Brookfield, Wisconsin, 53045
Ring: 1 mile radius

Prepared by Esri
Latitude: 43.07829
Longitude: -88.18482

Households by Type

| | 2020 Number | Percent |
|--|----------------|---------|
| Total | 1,106 | 100% |
| Married Couple Households | 876 | 79.2% |
| With Own Children <18 | 381 | 34.4% |
| Without Own Children <18 | 495 | 44.8% |
| Cohabiting Couple Households | 31 | 2.8% |
| With Own Children <18 | 9 | 0.8% |
| Without Own Children <18 | 22 | 2.0% |
| Male Householder, No Spouse/Partner | 76 | 6.9% |
| Living Alone | 53 | 4.8% |
| 65 Years and over | 23 | 2.1% |
| With Own Children <18 | 8 | 0.7% |
| Without Own Children <18, With Relatives | 12 | 1.1% |
| No Relatives Present | 3 | 0.3% |
| Female Householder, No Spouse/Partner | 123 | 11.1% |
| Living Alone | 74 | 6.7% |
| 65 Years and over | 50 | 4.5% |
| With Own Children <18 | 24 | 2.2% |
| Without Own Children <18, With Relatives | 25 | 2.3% |
| No Relatives Present | 1 | 0.1% |

Households by Size

| | 2020 Number | Percent |
|---------------------|----------------|---------|
| Total | 1,106 | 100% |
| 1 Person Household | 128 | 11.6% |
| 2 Person Household | 416 | 37.6% |
| 3 Person Household | 198 | 17.9% |
| 4 Person Household | 215 | 19.4% |
| 5 Person Household | 114 | 10.3% |
| 6 Person Household | 22 | 2.0% |
| 7+ Person Household | 13 | 1.2% |

STDB Census Profile