



# Tenet Industrial Fund Overview

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# EXECUTIVE SUMMARY



Tenet Holdings has launched a new Private Equity Real Estate Fund to capitalize on Industrial Outdoor Storage (IOS) /Class B Industrial opportunities across the United States.

## Cohesive Team of Seasoned Commercial Real Estate Investors

- Actively investing in industrial real estate at scale for over a decade, over multiple market cycles
- Proven track record within Industrial Real Estate
- Broad exposure and access to attractive Metropolitan Statistical Areas across the United States

## Compelling Opportunity in Class B Industrial/Industrial Outdoor Storage

- Secular growth of e-commerce driving record demand for logistical infrastructure
- Structural and regulatory constraints inhibiting sufficient Class B and IOS supply, resulting in significant supply/demand imbalance
- Accelerated rent growth potential creates significant yield enhancement opportunities

## Strategically Positioned to Source and Execute on Opportunities

- Disciplined investment screening process to streamline asset diligence and sourcing
- Proven deal execution capabilities and active asset management approach to value creation
- Multi-layered risk management process
- Proven process for scaling operational infrastructure
- Defined strategy and criteria for divestment

# INTRODUCTION TO TENET HOLDINGS



**Tenet Holdings is a private real estate Investment and Fund Management Company** headquartered in Los Angeles, California. Tenet Industrial Fund I, LLC is an extension of management's success in acquiring, financing, and operating commercial real estate since 2010.

Tenet focuses on acquiring and improving **IOS and Class B Industrial** assets in demographically attractive Metropolitan Statistical Areas

**35+**  
YEARS

Principals have decades of combined commercial real estate experience

**1.5M**  
SQUARE FEET

Principals have acquired over 1.5 million square feet of commercial real estate across the United States to date

**\$300**  
MILLION

Approximately \$300 million in real estate asset value

# THE PRINCIPALS



**Paul Johnson** began investing in commercial real estate in 2010, including office, multifamily, and retail but with a focus on the industrial real estate asset class. Paul has been instrumental in the growth of the private real estate portfolio to approximately 1.5 million square feet in various markets across the United States. Additionally, Paul was one of the main investors and served on the board of directors of Lexicon Bank. He helped guide the bank from de novo status to more than \$300 million in asset value.



**Vimal Lala** is a founding member and principal of Tenet Holdings. He first became exposed to commercial real estate in 2010 as he, along with Paul, began to develop a regional chain of Ambulatory Surgical Centers in the Western United States. That same year, he and Paul founded J&L Real Properties, a private real estate investment company which has now grown to over 1 million square feet of industrial space and is currently valued at over \$200 million. Vimal is very active in his community and serves as the Chair of the Board of Trustees for Sierra Canyon School.



**Eric Esrailian** is an entrepreneur, philanthropist, and community leader. He also has extensive executive experience with finance matters, management, governance issues, and he has been a healthcare leader in one of the most prominent universities in the world. He was a leader on the UCLA campus steering committee for the Centennial Campaign which raised nearly \$5.5 billion. He is the co-chair for the Second Century Council, leading the next fundraising campaign with a minimum goal of \$6 billion.



**Frederic Esrailian** is a California licensed attorney since 2004 and a California licensed real estate broker since 2007. He has almost two decades of experience as an attorney working primarily on real estate and commercial transactions, including acquisitions and dispositions of real estate. His experience includes landlord-tenant matters, leasing, real estate lending/finance, and litigation management. He has brokered and/or transacted hundreds of millions of dollars worth of commercial real estate and has represented both tenants and landlords in numerous leasing transactions.



# IOS/CLASS B INDUSTRIAL OVERVIEW

# OVERVIEW: INDUSTRIAL OUTDOOR STORAGE (IOS)



**What is IOS?** IOS is real estate used to store a wide-range of equipment, vehicles, goods and building materials that are used to support e-commerce, infrastructure, construction and logistics businesses.

## USE CASES

- Rigs
- Trailers
- Containers
- Chassis
- Roofing supplies
- Construction material

## COMMON LOCATIONS:

- Built-out, infill markets
- Logistics hubs (ex: railroads, ports, air-freight terminals)
- Near residential, retail, office and industrial warehouse space development

## 3 TYPES OF IOS USERS:

- **Transportation and Logistics.** Notable Users: SAIA, Swift Logistics, Southeastern Freight Lines, CSX Transportation
- **Building Material and Construction Production.** Notable Users: Vulcan Materials, Builders FirstSource, Beacon Roofing, Fortiline Waterworks
- **Equipment Rental.** Notable Users: Sunbelt Rentals, United Rentals, Herc Rentals, H&E equipment

ESTIMATED **\$200 BILLION MARKET**

## LEGACY ASSET CLASS

Constructed decades ago, on periphery of large population centers

Initially owned by regional or local developers

Urbanization “engulfing” assets, properties now ideal for in-fill supply chain nodes

Hyper-local or regional client base

Clients tend to have specific location requirements and custom footprints

Only 1.3% of the asset class is owned by institutional investors

## HIGHLY FRAGMENTED OWNERSHIP STRUCTURE

# OVERVIEW: QUALIFIED OPPORTUNITY ZONES (QOZ)



In 2017, the United States Congress passed the Tax Cuts and Jobs Act to spur investment and development in economically depressed areas of the country.



## **Creation of Qualified Opportunity Zones**

- Established at the state level
- Resulted in the formation of ~8,800 tracts across the United states
- ~16% of the United States fall within a QOZ
- Allows for beneficial tax treatments for investors, developers and business owners

## **Investments in QOZ**

- Potentially eligible for a step-up in basis after ten years
- Elimination of depreciation recapture
- Favorable aspects relative to a 1031 exchange

**The step-up in basis effectively excludes these qualified assets from capital gains tax upon disposition of the asset after the requisite holding period.**

**Depreciation recapture can be eliminated**

# OVERVIEW: IOS & CLASS B INDUSTRIAL CAPACITY CONSTRAINTS



Accelerating growth in ecommerce is driving demand for Logistical Infrastructure, including fulfillment centers and IOS. However, there are significant structural barriers to increasing existing supply.

## IOS

- Lenders: relative inexperience with asset class makes underwriting risk a challenge
- Zoning: Must be industrial (light to heavy use)
- Municipalities are not zoning infill sites for IOS due to:
  - Tax: Highest and best use for municipalities does not favor IOS vs. alternative considerations
  - Urban: “aesthetic”
- Result: IOS Vacancy < 3% in 2022

## Class B INDUSTRIAL

- Urban zoning regulations limit availability of suitable sites for new development
- High replacement costs of existing light industrial assets
  - Given vintage nature of asset class, new projects do not necessarily impact total supply
  - Projected that less than 1% of all industrial projects in pipeline fall within light industrial sector

**Rents have grown cumulatively in the industrial sector by 41.8% since 2010, while IOS rents have increased 30% YOY, on average, since 2019**

# OVERVIEW: KEY CHALLENGES AND IOS COMPETITION



## IOS

- Capital Deployment at Scale - asset values tend to be significantly lower than industrial projects
- Underwriting – Lack of historical underwriting in the space makes financing a challenge for IOS
- Highly fragmented and poorly documented asset class can make deal sourcing challenging
- Counties may increase assessed value of the property due to improved use with IOS as opposed to vacant or unimproved land
- Fragmented ownership structure limits portfolio purchase opportunities

## IOS COMPETITORS

- JP Morgan Global Alternatives/Zenith: \$700m JV formed in 2022 create national IOS storage platform
- Alterra Property Group: \$524m total commitments for 2022 fund
- Criterion Group/Columbia Pacific Advisors JV: Portfolio now has 50 properties across 13 states valued at \$550m
- Iconic Equities/Leste Real Estate formed 2022 JV with \$150m to acquire \$400m portfolio

## CLASS B

- Institution focus on larger projects (> 200,000 sq. ft.)
  - National developers focusing on opportunities to deploy capital at scale
- Highly fragmented, legacy assets limits portfolio purchase opportunities



# TENET INDUSTRIAL FUND I, LLC

## By acquiring infill class B industrial assets with excess land, Tenet mitigates the hurdles/risks of industrial outdoor storage acquisition

- **Asset Yield Optimization:** Converting excess land to IOS changes what was previously a tax burden to an income producing asset.
- **Underwriting:** The Class B industrial portion of the property provides an asset with against which a lender can assign value and therefore provide financing.
  - Cash flowing asset allows GP to improve returns via leverage as well as mitigate the risk of fluctuations in the IOS market
- **Zoning:** Re-zoning issues are mitigated by purchasing properties that are currently approved for industrial use (Class B)
  - Special use permits become easier to obtain
- **Competition:** By focusing on Class B with excess land vs. IOS specific sites, Tenet's unique approach significantly broadens the aperture of available target assets
- **Sourcing:** Focus on Class B vs. IOS specific sites facilitates asset screening and deal sourcing by leveraging existing industry databases

**PROVEN MANAGEMENT TEAM AND COMPELLING LONG-TERM MARKET DYNAMICS**

## CLASS B INDUSTRIAL ASSET MANAGEMENT

- Diversify rent streams to mitigate single tenant risks
- Shorten lease durations, allowing for lease-up, highest and best use, and more efficient mark-to-market of assets
- Focus on assets requiring relatively lower CapEx and operating expenses, yielding higher cash flow generation efficiency

## IOS: ASSET OPTIMIZATION

- Convert excess land on Class B sites to IOS to increase utility, cashflow and long-term value
- Become direct solution providers for logistics companies, construction companies, energy sector businesses and internet retailers
- Provide acquisition of suitable sites for companies in areas which they require an IOS site via direct contract with companies prior to Tenet's acquisition of an asset, de-risking acquisition
- Coordinate with companies requiring sites in geographical areas of need
- Secure sites which fit within its criteria combined with logistics requirements for preferred companies

# INVESTMENT PROCESS



**Tenet Management has developed a detailed, cost-efficient investment process, providing efficiency that we believe leads to superior execution and value creation.**

## INVESTMENT SOURCING

The Fund will use its network of relationships with strategic partners, brokerage firms, commercial and investment banks, industry advisors, and industry professionals to generate investment opportunities.

## INVESTMENT SCREENING

The preliminary review determines if the opportunity is consistent with the Fund's investment strategy and has the potential to achieve, with reasonable underwriting, the Fund's targeted risk-adjusted returns.

## DUE DILIGENCE & UNDERWRITING

Our underwriting process is designed to identify the risks and opportunities of a potential Fund investment.

## INVESTMENT APPROVAL PROCESS

The Investment Committee will consider an opportunity multiple times during the transaction. Initial approval is obtained during due diligence while final approval occurs prior to non-refundable deposits being posted.

# INVESTMENT APPROACH: FOUR KEY PRINCIPALS



## MINIMIZE COST BASIS

- Evaluate emerging trends and markets
- Assess pricing and operating metric comparables
- Diligent and expeditious transaction closings

## VALUE RECOGNITION AT PURCHASE

- Strong historical presence in local markets and expansive regional networks
- National financing networks with strong track record of speed-to-closing
- Deep knowledge of local, regional, and macro-market trends drive highest and best use strategies specific to each deal

## EXIT STRATEGIES / HIGHEST & BEST USE

- Identifying correctable weaknesses in property tenancy, physical attributes, market position, management, or capital structure
- Recognizing market trends that can lead to optimal realization of an asset
- Achieving IOS scale to attract national logistics tenants

## CONSERVATIVE UNDERWRITING

- Using key metrics to determine an investment risk-reward profile
- Leveraging local market knowledge and operational expertise
- Applying conservative assumptions while assessing the impact of potential downside

# INVESTMENT MANAGEMENT



	<b>ASSET MANAGEMENT</b>	<b>RISK MANAGEMENT</b>
<b>NEW ACQUISITIONS</b>	<ul style="list-style-type: none"><li>• Weekly monitoring</li><li>• Lease up/tenant stabilization</li><li>• Capital and tenant improvements</li><li>• Excess land conversion to IOS</li></ul>	<ul style="list-style-type: none"><li>• Market and submarket analysis of trends in sales, absorption, leasing, construction, and vacancies</li><li>• Conservative underwriting and use of leverage</li><li>• Thorough screening of zoning, environmental and capital improvement requirements</li></ul>
<b>STABILIZED ACQUISITIONS</b>	<ul style="list-style-type: none"><li>• Monthly monitoring</li><li>• Fundamental review of gross revenue expenses, NOI, leasing activity, P&amp;L</li><li>• Adherence to budget</li></ul>	
<b>PORTFOLIO</b>	<ul style="list-style-type: none"><li>• Quarterly review of portfolio</li><li>• COO and Regional Asset Manager review of assets</li></ul>	<ul style="list-style-type: none"><li>• Counterparty risk</li><li>• Geographic /property type overconcentration</li><li>• Future capital distributions and contributions</li><li>• Divestment considerations</li></ul>



# CASE STUDIES

# CASE STUDY: FARMINGDALE, NY



**Property Type:** Multi-Tenant Industrial/Flex Property

**Square Feet:** 170,641

<b>Purchase Price</b>	\$18,375,000
<b>Purchase Date</b>	Mar 2014
<b>Sales Price</b>	\$34,000,000
<b>Sold Date</b>	Sept 2021

<b>IRR (Realized)</b>	24%
<b>Equity Multiple at Exit</b>	4.2x
<b>Years of Ownership</b>	7.6

## TRANSACTION OVERVIEW

- Multi-tenant light industrial portfolio consisting of three separate buildings
- Deal sourced through existing relationship with a national commercial real estate brokerage firm
- Two of the buildings were multi-tenant facilities consisting of smaller local and regional tenants that focused on service, light manufacturing, and limited distribution businesses. The third facility was leased to a single tenant pharmaceutical company
- Refinancing in 2019 allowed the principals to take advantage of lower interest rates as well as withdraw \$5,000,000 of equity from the property
- In 2021, an unsolicited bid was received by Exeter Property Group for \$34,000,000, leading to the sale of the asset

## INVESTMENT STRATEGY

The Inland Empire is one of the largest industrial markets in the world. At the time of purchase, demand for industrial property was pushing vacancy rates to sub 5% and driving rental rates higher. The portfolio had numerous tenants with near-term lease roll and rents that were 40-50% below market. As the lease roll progressed, the tenants were renewed at higher rates, improving yield. Our assessment is that the low vacancy rate prevented significant tenant migration and allowed for a low cost of leasing with very little concession regarding tenant improvements and free rent periods.

# CASE STUDY: PALMYRITA, RIVERSIDE, CA



**Property Type:** Multi-Tenant Industrial/Flex Property

**Square Feet:** 105,722

**Purchase Price** \$10,000,000

**Purchase Date** Sept 2016

**Sales Price** \$14,300,000

**Sold Date** Sept 2019

**IRR (Realized)** 30%

**Equity Multiple at Exit** 2.2x

**Years of Ownership** 3.1

## TRANSACTION OVERVIEW

- The multi-tenant light industrial portfolio consisted of three separate buildings in Riverside, CA
- Purchased from a Private Fund Manager
- Property rents were substantially discounted to market comps at the time of purchase
- Highest and best use strategy was implemented to improve yields and drive asset appreciation
- Competitive sales process led by CBRE yielded a winning (approved) bid of \$14,300,000 from KKR in 2019

## INVESTMENT STRATEGY

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# APPENDIX

# J&L SCHEDULE OF INVESTMENTS (REALIZED)

AS OF MARCH 2023



PROPERTY	CITY, STATE	BRIEF DESCRIPTION	ENTRY VALUATION	EST. CURRENT VALUATION	INVESTMENT DATE	UPDATE DATE	IMPLIED INVESTMENT RETURNS (GROSS)			
							MULTIPLE	IRR	STATUS	METHOD
<b>Palmyrita</b>	Riverside, CA	Multi-tenant (105,722 sq ft)	\$10,000,000	\$14,300,000	09/16/16	09/30/19	2.15	30%	Sold	Sale
<b>Farmingdale</b>	Farmingdale, NY	Three building multi-tenant (170,641 sq ft)	\$18,375,000	\$34,000,000	03/13/14	09/24/21	4.73	24%	Sold	Sale
<b>Farinon</b>	San Antonio, TX	Single Tenant (82,230 sq ft)	\$12,000,000	\$15,850,000	11/30/12	02/10/22	2.70	19%	Sold	Sale
<b>Edenvale Land</b>	San Jose, CA	Undeveloped vacant land (10.16 acres)	\$4,000,000	\$15,699,156	12/06/19	03/30/22	7.21	129%	Sold	Sale
<b>Oxnard</b>	Oxnard, CA	3-Story building (15,900 sq ft)	\$1,760,000	\$2,050,000	12/04/15	02/23/23	2.38	9%	Sold	Sale

# J&L SCHEDULE OF INVESTMENTS (UNREALIZED)

AS OF MARCH 2023



PROPERTY	CITY, STATE	BRIEF DESCRIPTION	ENTRY VALUATION	EST. CURRENT VALUATION	INVESTMENT DATE	UPDATE DATE	IMPLIED INVESTMENT RETURNS (GROSS)			
							MULTIPLE	IRR	STATUS	METHOD
<b>Edenvale Bldg</b>	San Jose, CA	Multi-tenant (256,250 sq ft)	\$51,250,000	\$78,567,652	12/06/19	12/03/29	3.31	15%	Unrealized	Valuation Mark
<b>J&amp;J Embedded Way</b>	San Jose, CA	Multi-tenant (67,912 sq ft)	\$12,500,000	\$14,604,210	07/13/18	07/10/28	3.00	15%	Unrealized	Valuation Mark
<b>713 Market</b>	Oklahoma City, OK	Single tenant (57,000 sq ft)	\$12,200,000	\$14,332,232	12/28/12	12/26/23	1.82	17%	Unrealized	Valuation Mark
<b>10 Clifton</b>	Clifton, NJ	Single story multi-tenant (144,014 sq ft)	\$13,350,000	\$16,319,830	09/04/14	09/01/24	3.05	18%	Unrealized	Valuation Mark
<b>200 Clifton</b>	Clifton, NJ	Single story multi-tenant (144,464 sq ft)	\$13,950,000	\$15,095,310	01/05/15	01/02/25	1.91	11%	Unrealized	Valuation Mark
<b>La Jolla</b>	San Diego, CA	Multi-tenant office (40,283 sq ft)	\$6,300,000	\$6,353,913	08/31/15	08/28/25	1.37	1%	Unrealized	Valuation Mark
<b>Corsa</b>	Westlake Village, CA	Multi-tenant (23,694 sq ft)	\$7,500,000	\$8,484,045	11/24/15	11/21/25	2.46	6%	Unrealized	Valuation Mark
<b>J&amp;L Embedded Way</b>	San Jose, CA	Multi-tenant 160,000 sq ft	\$64,250,000	\$76,210,616	11/03/21	11/01/31	2.23	11%	Unrealized	Valuation Mark
<b>Chicago Portfolio</b>	Chicago, IL	7 properties ranging from single-tenant to 40+ tenant buildings 450,034 sq ft	\$35,500,000	\$46,319,448	04/13/22	04/10/32	2.48	12%	Unrealized	Valuation Mark

# INVESTOR CONSIDERATIONS FOR EXPOSURE



- In our view, the multi-use logistics space has a very limited inventory, which is growing at a substantially smaller rate than any other industrial classification subsector. Many multi-use logistics facilities are irreplaceable and are constantly pressured by higher and better use underwriting.
- We believe multi-use logistics assets offer high barriers to investment entry due to their decentralized ownership nature; however, investors are becoming increasingly attracted to the low capital and operational expenditure required for exposure to the subsector.
- Tenant diversification has typical sub three-year leases and higher average rental rates on an aggregate and CAGR basis versus large-box industrial assets.
- Our view is that shorter leases in high-growth markets will allow investors to drive yield, as fierce competition for this type of space will offer limited to no alternatives to existing inventory going forward. We believe that demand will only get stronger as e-commerce final touch point facilities begin to expand further within the supply chain.
- We believe that very consistent leasing activity for an increasingly “in demand” set of stagnant inventory has been pushing rents to outperform the sector as a whole.
- Tenet believes multi-use logistics assets are experiencing a pricing premium as investors seek opportunities in a very yield-starved environment, particularly within the industrial sector. We believe multi-use logistics offer favorable spreads over other industrial assets and even greater spreads over institutional-grade assets.
- Multi-use logistics asset ownership is highly localized/regionalized across every market in the country. Our position is that deploying capital at scale would require an efficient team to seek, value, offer, and attempt to build a portfolio in more than one market.

# CONTACT US



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