

## Doc 015 | Northgate Logistics Expansion – Construction Financing Proposal (Long / Full Underwrite)

### Project Overview

Northgate Logistics Expansion is a proposed 310 000 SF Class-B industrial warehouse in northern Indianapolis. The sponsor, MidStates Development LLC, requests a **\$36 MM** construction loan on total costs of **\$42.4 MM (85 % LTC)** to build an addition to an existing logistics park. The site already houses two older buildings leased to small distributors. The new structure is speculative.

### Capital Stack & Economics

Item	Amount (USD MM)	Notes / Formula
Land Cost	3.8	Already owned by affiliate entity (no cash basis in model)
Hard Costs	= 310 k SF × \$105 / SF ≈ 32.6	
Soft + Fees	3.2	Includes permits + leasing fees
Contingency	1.6	5 % of hard + soft
Total Cost	42.4	Rounded
Loan Request	36.0	85 % LTC (≈ 72 % LTV)
Equity	6.4	15 % cash + land carry value credit

### Operating Assumptions

- Target NOI (stabilized) = **2.85 MM** (@ \$9.50 rent / SF, 90 % occ.)
- Cap Rate 6.75 % → Stabilized Value ≈ **42.2 MM**
- DSCR Yr 1 (interest-only) = 0.95× → Yr 3 1.25×
- Exit IRR ≈ 10.4 % levered; unlevered ≈ 7.6 %.
- Interest Rate = SOFR + 400 bps, construction term 30 mo.

### Risks & Observations

1. **Lease-Up Exposure:** No pre-leases. CBRE market survey shows avg absorption 11 mo for comps; sponsor assumes 6 mo. Delaying to 12 mo cuts IRR to 8.7 %.
2. **Cost Inflation:** Contractor bid uses April pricing for steel; no escalation built in (2 – 3 % gap likely).
3. **Affiliate Land Transfer:** No third-party valuation of land credit. If excluded, true LTC  $\approx$  89 %.
4. **Sensitivity:** At \$8.75 rent, value = 38 MM  $\rightarrow$  LTV 95 %; DSCR 1.05 $\times$  stabilized.
5. **Exit Timing:** Assumes refi Q4 2027 @ 6.0 % perm rate; current fwd curve 6.8 %.
6. **Environmental:** Phase I notes old fuel tank on adjacent parcel (“no impact observed”) – pending clear letter.

### **Recommendation**

Proceed only if loan  $\leq$  33 MM (78 % LTC) and developer funds escrow for steel cost variance. Require GMP contract and third-party land appraisal. Location supports long-term value but speculative lease-up too optimistic at base case.