

3960 & 3980 Fabian Way
Palo Alto, CA

www.thefabianbuildings.com



LIFE SCIENCE CONVERSION OPPORTUNITY

Fabian Labs - 3960 & 3980 Fabian Way
\$5,200,000 Equity Investment
24,000 SF, Lab Conversion and Lease Up
Palo Alto, California

Confidential Memorandum

THIS IS A CONFIDENTIAL MEMORANDUM intended solely for your own limited use to determine whether you have an interest in investing in the opportunity (“Opportunity”) detailed in this confidential memorandum.

By your receipt of this confidential memorandum, you agree that this memorandum and the information contained herein is of a confidential nature, you will use it only to determine whether you wish to invest in the Opportunity, that you will hold and treat it in the strictest confidence, and that you will not, directly or indirectly, disclose or permit anyone else to disclose this memorandum or any part of the contents to any other person, firm or entity without prior written authorization of Graymark Capital, Inc. (“Graymark”), nor will you use or permit to be used this memorandum or any part of the contents in any fashion or manner detrimental to or in conflict with the interests of the Graymark. Notwithstanding the above, Graymark authorizes the disclosure of this memorandum and the information contained herein to your directors, officers, employees, affiliates and advisors (collectively, “Representatives”), but only to the extent necessary to evaluate the Opportunity, and, provided further, that such Representatives have agreed to be bound by the terms detailed herein.

This confidential memorandum does not purport to be all inclusive nor to contain all of the information which a prospective investor may desire. Neither Graymark, nor any of its officers, directors, employees or agents make any representation or warranty, express or implied, as to the accuracy or completeness of this confidential memorandum or any of its contents, and no legal liability is assumed or to be implied, by any of the aforementioned with respect thereto. This memorandum has been prepared solely for informational purposes to assist a potential investor in determining whether to proceed with an in-depth investigation of the Opportunity, and it is understood that a prospective investor is responsible for performing its own due diligence investigations.

If you do not wish to pursue this matter, kindly return this confidential memorandum to Graymark at your earliest possible convenience. Photocopying or other duplication is not authorized.

INVESTMENT OPPORTUNITY

LIFE SCIENCE –
PALO ALTO, CA



Financial Summary

Fabian Labs –
PALO ALTO, CA



Investment Overview

Property Address	3960-3980 Fabian
Project SF	24,000
% Leased At Close	100%
Life Science Market Rents	\$7.95
Stabilized Return on Cost	6.78%
Purchase Price	\$21,812,737
Purchase Price Per SF	\$909

Projected Investor Returns

Total Equity Amount	\$13,522,643
Exit Cap Rate	5.50%
Project Levered IRR	30.9%
Project Equity Multiple	1.7x
Investor Levered IRR	21.7%
Investor Equity Multiple	1.5x
Hold Period (Months)	24

INVESTMENT HIGHLIGHTS



- Opportunity to invest in a 2 building, 24,000 SF, Life Science/R&D campus located in a life science cluster in **Palo Alto, 4 miles from Stanford University** with direct access to Highway 101
- Ownership invested **\$2 million for interior and exterior renovation** to create a campus-like environment for the twin buildings
- Given strong demand for lab space in the market, **ownership planned a 50% office / 50% lab renovation** for the property, **led by a top national life science architect**.
- The **project is fully designed** and construction will commence upon permit receipt (February 2023)
- Palo Alto is one of the strongest life science submarkets in the country with a **lab vacancy rate less than 4%**
- There are **2.6M SF of active life science tenant requirements** in the Bay Area Peninsula including **30+ tenants** looking for 10,000 to 40,000 SF of space
- Over **700k SF of fully leased biotech incubators** (most with long waitlists) in the Bay Area Peninsula provide a pipeline of tenants looking for 12,000 – 24,000 SF spaces
- There is a **limited supply of life science space** projected to come online from Redwood City to Mountain View in the next 12 months, putting Fabian Labs in an ideal position to lease up quickly

LIFE SCIENCE & R&D CORPORATE NEIGHBORS



FABIAN WAY AERIAL



PROPERTY DESCRIPTION



Property Overview

Property:	3960 Fabian Way	3980 Fabian Way
Year Built:	1962	1959
Year Renovated:	2021	2021
Square Footage	12,000	12,000
Acres:	0.7 acres	0.67 acres
Parking:	3.00/1,000	3.00/1,000
Power:	1,600 amps @ 208/110 volts	800 amps @ 208/110 volts
Loading:	1 grade level rollup door	1 grade level rollup door

SUMMARY OF COMPLETED CAPITAL PROJECTS

Interiors:

- Painting
- Polished concrete floors
- Installation of vapor intrusion coating
- Renovated bathrooms
- 1 Glass rollup door per building
- Renovated kitchen/break area in 3960 building

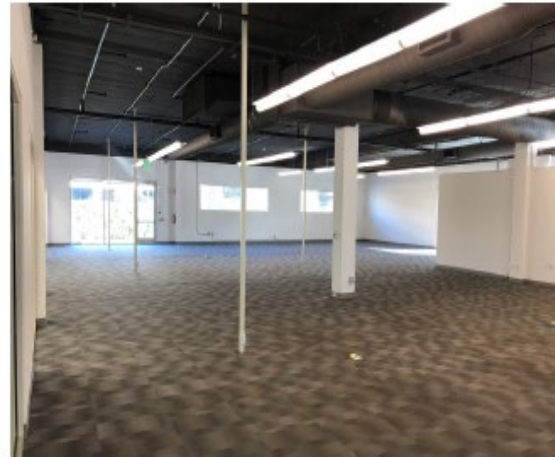
Exteriors:

- New awnings
- Exterior façade and finish upgrades
- New door installation
- Painting
- Asphalt repairs + paving
- New landscaping
- Fire lane relocated allowing for potential amenity between buildings

Prior to Renovations:



Post Renovations:



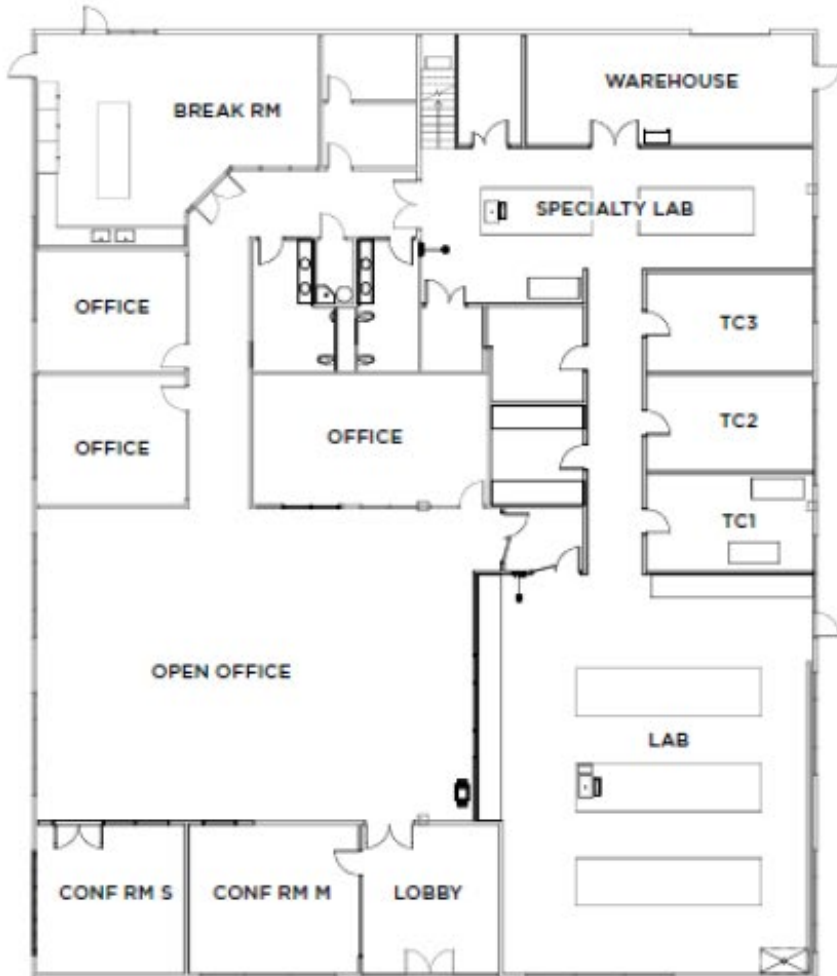
BUSINESS PLAN

- Spend \$7,141,697 to construct a 50% office / 50% lab buildout
 - The lab spaces will be turnkey including lab grade mechanical, electrical, and plumbing and modular benching
 - 2 emergency generators will be installed to provide backup power required by lab tenants in the market
 - The office areas will be open, creative space
- Market the property as a turnkey lab opportunity
- Ownership expects to sign a lease with the following terms:
 - \$7.50/SF/Mo NNN-8.00/SF/Mo NNN rents
 - 3.5% annual increases
 - Minimum 7-year lease term
 - 6 months of free rent
 - \$600,000 (\$25/SF) in tenant improvements (on top of the speculative market ready)
 - \$702,000 (\$29/SF) in leasing commissions.
- Sell in Month 24 (5.50% exit cap, \$1,831/SF)

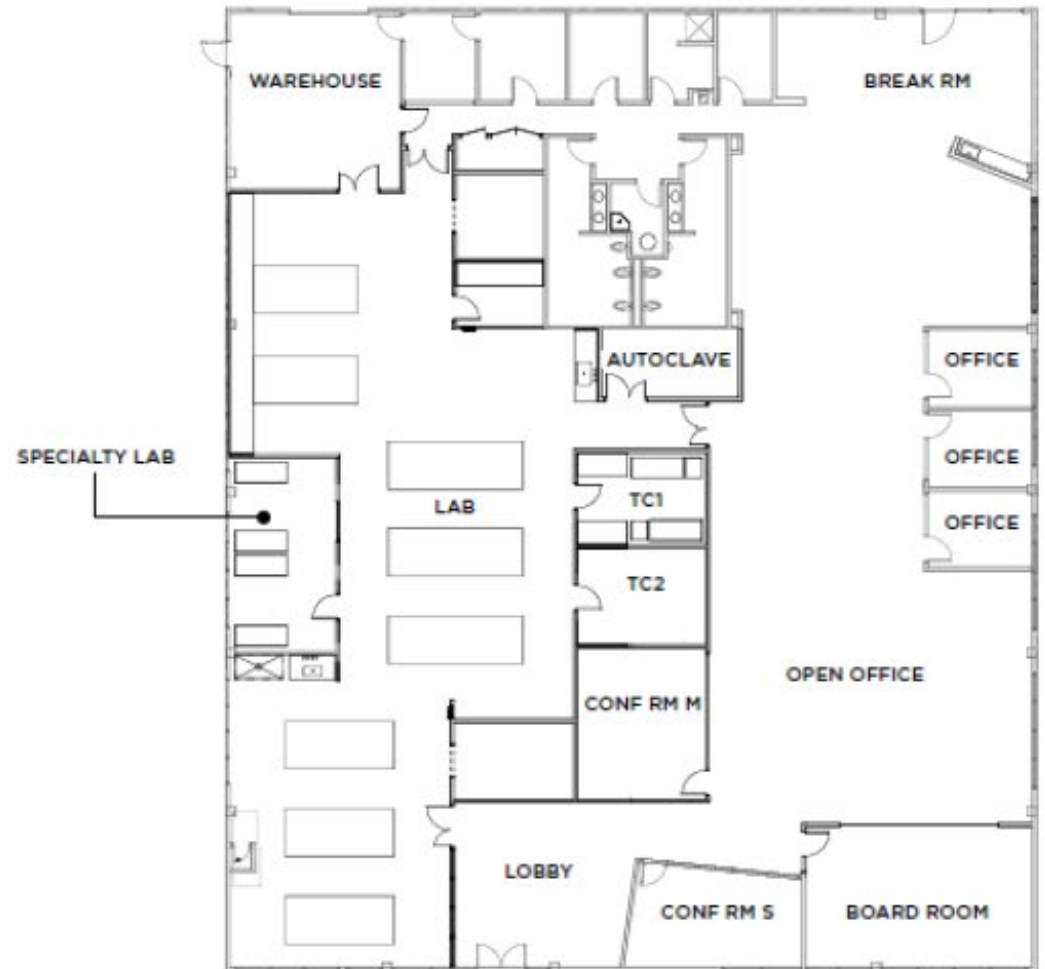


LAB FLOOR PLANS

3960 FABIAN WAY



3980 FABIAN WAY



SOURCES & USES



Sources & Uses			
Sources	Total	PSF	% of Total
Cash Equity	13,522,643	563	40%
New Loan Amount/Future Funding	20,266,158	844	60%
Total Sources	\$ 33,788,801	1,408	100%
Uses			
Purchase Price	21,812,737	909	65%
Capital Improvements	7,141,698	298	21%
Tenant Improvements	600,000	25	2%
Leasing Commissions	552,000	23	2%
Leasing Override	178,117	7	1%
Senior Interest/Opex Reserve	1,966,012	82	6%
PACE Interest Reserve	674,000	28	2%
AM Fee/Ownership Expense Shortfall	75,167	3	0%
Closing Costs	789,070	33	2%
Acquisition Fee	-	-	0%
Total Uses	\$ 33,788,801	1,408	100%

PROFORMA CASH FLOW

YEAR	1	2
For Years Ending	<u>Apr-24</u>	<u>Apr-25</u>
Potential Base Rent	\$ 1,335,600	\$ 2,336,346
Rent Abatement	(1,144,800)	-
Expense Recoveries and Other Revenue	180,127	358,463
Effective Gross Revenue	\$ 370,927	\$ 2,694,809
Operating Expenses	(305,860)	(358,463)
NET OPERATING INCOME	\$ 65,067	\$ 2,336,346
TI/LC/CapEx Reserves	-	-
Debt Service	(1,987,292)	(1,912,345)
CASH FLOW AFTER DEBT SERVICE & RESERVES	\$ (1,922,225)	\$ 424,001
Cap Ex and Lease up Costs:		
Capital Improvements	(7,141,698)	-
Additional Capital	-	-
Tenant Improvements	(600,000)	-
Leasing Commissions	(730,117)	-
Cash Flow Sweep	-	-
Funding from Lender Reserves	10,397,417	-
CASH FLOW AFTER DEBT SERVICE, RESERVES & CAPEX	\$ 3,377	\$ 424,001
Ownership Expenses	\$ (78,500)	\$ (40,000)
NET CASH FLOW PRE SALE	(75,123)	384,001
Net Proceeds from Sale	-	22,749,059
CASH FLOW TO EQUITY	\$ (75,123)	\$ 23,133,060

ABOUT GRAYMARK

Since 2012, Graymark Capital has purchased 32 office/R&D/life sciences/industrial properties comprising 3.5 million square feet and \$2.0 billion of value, while delivering excellent returns to its investors.

Investment History - 2012 to Current							
<u>Location</u>	<u>SF</u>	<u>Bought</u>	<u>Sold</u>	<u>Total Cost</u>	<u>Exit Value</u>	<u>Investor Returns</u>	
<u>Realized Investments</u>						<u>Multiple</u>	<u>IRR</u>
Sunnyvale, CA	39,311	2012	2014	\$8,300,000	\$13,300,000	2.83	57%
Palo Alto, CA	22,300	2012	2013	5,445,000	9,475,000	1.80	112%
Sunnyvale, CA	52,801	2013	2014	11,150,000	16,500,000	1.64	171%
Sunnyvale, CA	53,000	2014	2014	10,200,000	12,874,000	Flipped Contract	
Sunnyvale, CA	33,055	2014	2017	8,095,000	13,000,000	2.79	40%
Carlsbad, CA	127,287	2015	2017	18,150,000	23,100,000	2.13	52%
Sunnyvale, CA	68,608	2016	2017	21,215,000	26,200,000	1.50	26%
Mountain View, CA	34,041	2017	2019	20,800,000	26,100,000	1.43	23%
San Jose, CA	238,342	2015	2019	52,200,000	77,000,000	2.22	30%
Kapolei, HI	240,923	2018	2019	28,335,000	37,300,000	1.87	52%
Redmond, WA	80,980	2018	2020	20,800,000	35,498,000	2.13	45%
Cupertino, CA	109,779	2017	2020	45,298,000	73,800,000	2.33	26%
Carlsbad, CA	74,774	2015	2021	14,520,000	25,250,000	2.81	23%
Pasadena, CA	163,574	2016	2021	27,800,000	33,000,000	1.71	14%
San Diego, CA	69,900	2016	2021	18,567,000	25,000,000	1.97	17%
San Diego, CA	92,477	2019	2021	27,988,000	53,000,000	3.46	86%
Sunnyvale, CA	89,273	2014	2021	25,200,000	38,000,000	2.85	20%
Waipahu, HI	120,700	2014	2021	23,000,000	35,103,000	3.29	44%
Sunnyvale, CA	85,875	2014	2021	23,150,000	52,000,000	5.76	32%
San Carlos, CA*	229,640	2019	2022	99,732,000	190,000,000	2.17	47%
Realized/Contract Total	2,026,640			\$509,945,000	\$815,500,000	2.46	48%
<u>Unrealized Investments - Forecast Returns</u>							
Hillsboro, OR	210,496	2017	n/a	34,149,000			
Sunnyvale, CA	78,623	2019	n/a	49,233,000			
San Francisco, CA	35,526	2019	n/a	37,190,000			
Pasadena, CA	218,983	2019	n/a	46,500,000			
Los Angeles, CA	206,023	2019	n/a	109,700,000			
Palo Alto, CA	24,000	2020	n/a	23,838,000			
Austin, TX	345,600	2021	n/a	76,100,000			
Austin, TX	257,600	2021	n/a	64,700,000			
Palo Alto, CA	44,000	2021	n/a	51,000,000			
Palo Alto, CA	56,369	2021	n/a	58,000,000			
San Carlos, CA	229,640	2022	n/a	307,000,000			
Carlsbad, CA	205,321	2022	n/a	136,000,000			
Unrealized Totals	1,912,181			\$993,410,000			
* Unlevered investment. Returns are adjusted as if levered at 60%							
TOTAL	3,938,821			\$1,503,355,000			

Appendix – Gray Matter Overview & Selected Life Science Case Studies



Gray Matter is focused on providing life sciences tenants a modern office atmosphere with robust lab capabilities. The company has purchased ten life science assets in San Diego, the Bay Area and Austin totaling over 1,100,000 square feet. Our tenants range from Fortune 500 companies to early-stage growth companies.

Infill Life Science Project San Carlos, CA

Forecast Deal Returns

Total Cost	\$300,000,000
Acquisition Cap Rate	NA
Return on Cost at Market Rent	6.30%
Current Cash on Cash Yield	NA
Stabilized Cash on Cash Yield	12.29%
Exit cap rate	5.00%
Forecast Investor IRR (3-yr hold)	19.73%
Forecast Investor Equity Multiple (3-yr hold)	1.56x



- 2022 recapitalization of a 2019 off-market buy of 230,000 SF life science project in strong Bay Area life science market - delivered a 47% IRR and 2.17x equity multiple to our original investor.
- Building delivered vacant at time of recap; it was formerly leased to Fortune 500 pharma company.
- Significant life science / interior improvements completed by tenant, providing value to next tenant.
- Tight 3.5% vacancy in Bay Area life science market with over 3.8 million SF of tenant requirements.
- Graymark is in the process of a \$100 million upgrade of the property to appeal to modern tenant requirements; we expect to submit for permits in 3Q 2022. Will include exterior and speculative lab/office improvements and speculative lab
- This building represents the largest currently deliverable life science space in the Peninsula.
- We have strong interest from several life science tenants prior to our development – we expect rents between \$7.50 to \$8.50 psf on a stabilized basis.

2051 Palomar Airport Rd Carlsbad, CA

Forecast Deal Returns

Total cost	\$68,000,000
Acquisition Cap Rate	1.29%
Stabilized Return on Cost	7.30%
Current Cash on cash yield	N/A
Stabilized Cash on Cash Yield	10.76%
Exit Cap Rate	5.50%
IRR (4-year hold)	21.35%
Equity Multiple (4-year hold)	2.10x



- Opportunity to acquire a rare, creatively improved, life science trophy property in the infill Carlsbad submarket.
- Property is 36% occupied, with in-place rents approx. 55% below market, providing significant value-add upside.
- Ideally suited for life science conversion – 24' clear heights, 7,000 amps at 480 volts, and 3 loading docks.
- In place cash flow is in part generated by anchor credit tenants. Activision Blizzard occupies through June-2024.
- Use \$300 psf in capital to perform speculative lab improvements on the vacant suites. Life Science rents in Carlsbad currently hover north of \$4.25 psf NNN
- Sell in year 4 at a 5.50% cap rate or \$851 psf

Fremont Labs Fremont, CA

Forecast Deal Returns

Total Cost	\$57,919,684
Sale Price	\$82,000,000
Stabilized Return on Cost	7.90%
Exit Cap Rate	5.58%
Project-Level Levered IRR	23.3%
Investor Levered IRR (28-month hold)	21.6%
Investor Equity Multiple (28-month hold)	2.94x



- Graymark repositioned the property, which was vacant but partially built out at time of acquisition. Graymark sourced the tenant, managed the remaining buildout and positioned the property for sale
- Property is 100% occupied by Alamar Biosciences, who just signed a 12-year lease to make this laboratory their headquarters.
- Property features heavy power, loading capabilities, chemistry/biology labs and vivarium capabilities, making it highly reusable in a future releasing scenario
- Fremont continues to attract a variety of tenants in the life sciences, clean-tech, food-tech, and auto-tech sectors. Notable tenants in the submarket include Tesla, Apple, Thermo Fisher, Stryker, Western Digital, Seagate, and Lam Research.
- Sold for \$82,000,000 in July-2022 or \$926 psf, which equates to a 5.58% exit cap.

Opportunistic LS Reposition Palo Alto, CA

Forecast Deal Returns

Total cost	\$61,110,778
Acquisition Cap Rate	2.19%
Stabilized Return on Cost	7.19%
Current Cash on cash yield	N/A
Stabilized Cash on Cash Yield	6.18%
Exit Cap Rate	5.25%
IRR (up to 4-year hold)	26.88%
Equity Multiple (up to 4-year hold)	1.70x



- Off-market purchase of two R&D/Life Science buildings totaling 56,369 sf located in Palo Alto, CA.
- 2 building campus, 3 miles from Stanford. One building 100% leased to Nvidia (NASDAQ: NVDA, \$558B Value). One building undergoing life science redevelopment.
- In place rents are \$3.82 psf, a +20% discount to today's R&D market rent and +36% discount to life science market rent
- Purchased for \$31.75M / \$562 psf, a +20% discount to comparable trades in the submarket and a +50% discount to replacement cost
- Graymark is in for permits on the vacant building for a full life science speculative build.

Life Science/R&D Reposition Sorrento Mesa, CA

Forecast Deal Returns

Total forecast cost	\$27,988,000
Acquisition Cap Rate	4.24%
Return on Costs at Market	8.33%
Current Cash on cash yield	N/A
Stabilized Cash on Cash Yield	9.87%
Exit Cap rate	5.00%
IRR (2-year hold)	86.00%
Equity Multiple (2-year hold)	3.46x



- Purchased in 2019 - 92,477 square foot R&D building located in Sorrento Mesa, a strong San Diego life science submarket, with significant supply/demand imbalance.
- Institutional quality with large floor plates, generous glass line, and significant improvements to the lobby and leased spaces by prior owner, Kilroy.
- Sorrento has no real lab vacancy and corporate and life science tenants such as Qualcomm, Verizon, Google, Dexcom (\$12B), Nuvasive (\$3B), Becton-Dickson (\$63B) are active in the market.
- Graymark completed a \$7 million renovation of the exterior and vacant shell space.
- We signed a lease for all the vacant space in the project with a publicly-traded life science tenant, Dexcom, and sold the property in 1Q 2021 for a substantial profit, with very strong interest from institutional investors.



CONTACT GRAYMARK

GRAYMARK CAPITAL

180 Sutter Street, Suite 400
San Francisco, California, 94104

BRIAN HECKTMAN

(415) 310-7717

bhecktman@graymarkcapital.com

JEFF HOPPEN

(415) 819-2533

jhoppen@graymarkcapital.com

RICK LAFRANCHI

(415) 596-0494

rlafranchi@graymarkcapital.com

GAVIN HESSION

(415) 320-5399

ghession@graymarkcapital.com