Norfolk Industrial Complex Equity II

Third Quarter 2022 Investment Update

Performance Status
PERFORMING

Investment Strategy
INCOME

Sub-Strategy
CORE

Asset Class
REAL ESTATE

Sub-Asset Class
INDUSTRIAL

KEY TAKEAWAYS

- **The properties are 95% leased and current in-place rents are in-line with rents underwritten at closing. Accordingly, net operating income (NOI) is in-line with projections.**
- **The JV partnership paid a ~14% annualized distribution for the 3Q2022, part of which has been used to pay the Yieldstreet management fee and other expenses as described in the Investment Memorandum and Operating agreement. Yieldstreet investors should expect to receive distributions once the investment is fully subscribed.**
- **The rising rate environment has not negatively impacted cash flows as the Portfolio's debt carries a fixed rate for the first 3 years of its term.**
- **The Sponsor continues to work through the business plan on this asset, looking to expand and extend existing tenants and convert leases to NNN (all expenses are borne by the tenants versus the landlord). Sponsor has signed or is in the final stages of signing over 36k SF (14% of RSF) of new & renewal leasing. Consistent with the business plan, these leases are all NNN (all operating expenses are borne by the tenants versus the landlord) and extend the weighted average lease term, thereby making the property more stable and attractive for a potential buyer.**
- **Yieldstreet investors should expect distributions to fluctuate going forward as tenants continue to roll and the business plan continues to develop. Target return remains unchanged.**

INVESTMENT DESCRIPTION

Yieldstreet invested a $14M equity position in three industrial buildings all located in Norfolk Commerce Park. The investment is junior to $22.9M of senior debt. The Sponsor has provided the remaining $1.6M of equity which demonstrates alignment of interests.

Investment Thesis

The sponsor intends to re-lease or re-tenant a significant square footage of tenancy at triple net (NNN) lease terms, ultimately reducing their overheads and increasing bottom-line income.

IN - STABILIZATION Stage	**QUARTERLY + EVENT BASED** Payment schedule	**MAY - 2026** Target term[1]	**13 - 15%** Target return[2]
	HERITAGE CAPITAL Sponsor	**2551 Eltham Avenue** **2550 Ellsmere Avenue** **5301 Robin Hood Road** Properties	**$14.0M** Investment size

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Yieldstreet

PERFORMANCE UPDATE

The properties maintained average occupancy of over 95% in 3Q2022. The Sponsor is achieving rental income in-line with projections at closing.

The Sponsor is progressing with the business plan to re-lease tenants at more landlord-friendly terms (including more reimbursable expenses and longer lease terms without sacrificing Rent/SF).

The Portfolio has signed or is in the final stages of signing over 36k SF (14% of RSF) of new & renewal leasing. These leases blend to a $11.41/SF NNN rental rate with 3% annual escalations and a weighted average lease term of 6.7 years. These rental rates are in-line with acquisition assumptions and the blended lease term is over a full year longer than underwritten assumptions. Further, all of these leases are structured with triple-net reimbursement structures, meaning the tenants reimburse all operating expenses for their space. Long lease terms and fully reimbursable expense lease structures make properties more attractive for potential buyers because these structures lower the risk of losing NOI associated with vacating tenants and rising operating expenses at properties.

Based on 2022 YTD performance, net operating income was in-line with underwritten projections.

LOOKING AHEAD

The property is performing in line with expectations with NOI in-line with projections. The Sponsor will continue to effectuate the business plan and maintain high occupancy across the Portfolio.

Debt service expenses are stabilized as the asset's debt has a fixed interest rate for the first 3 years of the loan term. Interest rate increases have not negatively impacted the Portfolio's cash flows and will not be relevant until at least 2Q2024.

MARKET INSIGHTS

Submarket rents have posted gains of ~7% over the trailing 12 months, outpacing the underwritten average annual growth rate of 3.0% projected at closing.

The submarket vacancy rate stood at 1.4%, and, consistent with historical trends, are expected to remain stable.

There is ~89,000 SF of new inventory under construction in the submarket and this minimal amount of new delivery is not expected to increase the submarket's vacancy beyond 1.5% over the next four years. Additionally,there are no proposed projects beyond this construction pipeline, emphasizing how little land is available in this extremely low-vacancy submarket.

Source: Per Costar as of 12/19/2022