

## COFE Strategy Paper

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### *Institutionalization Strategy*

The institutionalization of the assets takes on two primary forms – improving the assets’ physical appearance; and improving the operations, management, accounting and reporting for the investment.

From a physical standpoint, the primary capital improvement plan is to institutionalize the exterior look, feel and function of each asset. Many of the properties COFE acquires are older vintage assets that suffer from varying levels of deferred maintenance. Due to the high demand for smaller suites, private owners can get away with neglecting investment in their properties while maintaining occupancy. However, institutional operators are extremely focused on how the assets look from an optics standpoint and prefer to avoid product that appears old and worn down. COFE has developed a simple, but effective capital improvement plan that works across most small bay industrial assets that can efficiently improve the look and feel of the assets. COFE implements a branding strategy, where all of the assets are painted with a similar color scheme. Additionally, aesthetic improvements are enhanced via the installation of metal awnings, consistent downspout gutters, the implementation of landscaping plans, and the optimization of dysfunctional suites. Furthermore, COFE prefers to target parks as opposed to single building assets due to the fact that parks create an enhanced business and industrial community that leads to stronger tenant retention. As part of that industrial park atmosphere, management is particularly focused to the way tenants are utilizing the space outside of the warehouse, from trash disposal to excessive car parking. Tenants that do not comply with the park’s rules and regulations are either not renewed or evicted. These physical and operational improvements are in addition to curing any deferred maintenance, with a particular focus on roofs and HVAC. As a result, repositioning these properties institutionalizes the look and feel of the property, which complements the operational improvements described below and helps institutional investors get comfortable acquiring the product.

COFE institutionalizes the operations and management of the assets they acquire based on two decades of operational experience. The accounting is institutionalized with consistent operational allocations of expenses, CAM reconciliations, and accounting for capital improvements and property level staffing. These practices are memorialized through COFE’s proprietary management systems and software, which is fully integrated and accessible vertically through the organization, from the property managers and engineers to ownership. The management system and software is focused on a consistency of process, in terms of how COFE accounts for and allocate costs, and how information is disseminated through the organization via reporting, which in many cases is done in real time. Additionally, a standard lease form is utilized across the portfolio, which through the software, is fully integrated through the systems so that information from existing and new leases are seamlessly and automatically integrated into the management software, limiting the chance of human input error and also, forcing the consistency of form lease across the portfolio.

The purpose of COFE’s systems and software implementation is two-fold. First, it allows for more efficient management, reporting and communication of what are traditionally management intensive properties. As an example, many of the assets COFE acquires have an average tenant size that is 1% of the property. This leads to many leasing decisions, both renewal and vacant spaces on a monthly basis. The systems allows the asset managers to front run many of these decisions and automate them (lease renewals, setting market rents, etc.) which allows the property management team to be more efficient and focus on issues that drive value. The second purpose of the systems and software implementation is to institutionalize the operations, so that in the event of a sale, the financial audit is easier for institutional investors to understand. This has strengthened our reputation and led to a situation where some of the large institutional buyers prefer to transact with COFE as a result of a seamless transaction process.