KTR NJ URBAN RENEWAL, LLC
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

KTR NJ URBAN RENEWAL, LLC
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YEARS ENDED DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Member of
KTR NJ Urban Renewal, LLC

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of KTR NJ Urban Renewal, LLC (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income and expenses and changes in member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Company is owned and operated by a parent company that owns and operates several companies on their behalf. We were not provided sufficient audit trail for transaction pertaining individually to KTR NJ Urban Renewal, LLC. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded and unrecorded receivables, payables, and the elements making up the statements of income and expenses and changes in member's equity, and cash flows.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

Our audit of the financial statements was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of cumulative allowable net profit on page 14 is presented for purposes of additional analysis as required by the State of New Jersey Long Term Tax Law and is not a required part of the financial statements. The schedule of cumulative allowable net profit is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the schedule of cumulative allowable net profit.

Donohue, Gironda, Doria + Tomkins LLC

DONOHUE, GIRONDA, DORIA & TOMKINS, LLC
Certified Public Accountants

Bayonne, New Jersey
October 2, 2019

KTR NJ URBAN RENEWAL, LLC
BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Current assets:		
Tenant receivables	$ 224,274	$ 112,583
Due from Borough of Carteret	233,160	169,534
Prepaid expenses	144,711	160,101
Due from affiliate	17,418,246	9,752,017
Total current assets	18,020,391	10,194,235
Rental property:		
Building and improvements	106,099,171	106,099,171
Accumulated depreciation	(10,766,536)	(7,400,098)
Building and improvements, net	95,332,635	98,699,073
Land	85,417,053	85,417,053
Total rental property	180,749,688	184,116,126
Other assets:		
Deferred leasing commissions and other intangibles	7,998,558	7,845,349
Accumulated amortization	(3,394,587)	(2,566,614)
Deferred leasing commissions and other intangibles, net	4,603,971	5,278,735
Deferred rent assets	2,000,679	1,586,434
Total other assets	6,604,650	6,865,169
Total assets	$ 205,374,729	$ 201,175,530
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Accounts payable	$ 33,760	$ 153,636
Payment in lieu of taxes payable	184,189	201,721
Prepaid rent	-	56,145
Total current liabilities	217,949	411,502
Other liabilities:		
Unfavorable lease value allowance	274,406	274,406
Accumulated amortization	(219,200)	(173,513)
Unfavorable lease value allowance, net	55,206	100,893
Provision for environmental remediation	1,550,000	1,550,000
Tenant security deposits	31,984	31,984
Total other liabilities	1,637,190	1,682,877
Total liabilities	1,855,139	2,094,379
Member's equity	203,519,590	199,081,151
Total liabilities and member's equity	$ 205,374,729	$ 201,175,530

See accompanying notes to financial statements and independent auditor's report.

KTR NJ URBAN RENEWAL, LLC
STATEMENTS OF INCOME AND EXPENSES
AND CHANGES IN MEMBER'S EQUITY

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
REVENUES		
Rental revenue	$ 10,161,014	$ 10,161,014
Tenant reimbursements	3,892,444	2,751,714
Total revenue	14,053,458	12,912,728
OPERATING EXPENSES		
Payment in lieu of taxes	2,868,404	2,872,013
Operating and maintenance	1,250,709	1,062,600
Land taxes	810,390	775,111
Management fees	259,999	257,763
Insurance	142,245	127,016
Utilities	88,861	84,605
Total operating expenses	5,420,608	5,179,108
Net operating income	8,632,850	7,733,620
OTHER EXPENSES		
Depreciation	3,366,438	2,824,718
Amoritization	827,973	827,974
Total other expenses	4,194,411	3,652,692
Net income	4,438,439	4,080,928
Member's equity, January 1	199,081,151	195,000,223
Member's equity, December 31	$ 203,519,590	$ 199,081,151

KTR NJ URBAN RENEWAL, LLC
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Net income	$ 4,438,439	$ 4,080,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,366,438	2,824,718
Amortization	827,973	827,974
(Increase) decrease in assets:		
Tenant receivables	(111,691)	5,021,537
Due from Borough of Carteret	(63,626)	(62,379)
Prepaid expenses	15,390	4,436
Due from affiliate	(7,666,229)	(10,072,330)
Deferred leasing commissions and other intangibles	(153,209)	
Deferred rent assets	(414,245)	(603,384)
(Decrease) in liabilities:		
Accounts payable	(119,876)	(542,466)
Payment in lieu of taxes payable	(17,532)	(20,904)
Prepaid rent	(56,145)	56,145
Unfavorable lease value allowance, net	(45,687)	(45,687)
Net cash provided by operating activities	-	1,468,588
Cash flows from investing activities:		
Building improvements	-	(1,468,588)
Net cash (used) by investing activities	-	(1,468,588)
Net activity	$ -	$ -

See accompanying notes to financial statements and independent auditor's report.

1. ORGANIZATION AND NATURE OF OPERATIONS

KTR NJ Urban Renewal, LLC (the "Company") was formed in 2013 as a Delaware limited liability company for the purpose of acquiring, planning, constructing, maintaining and operating industrial rental property in the Borough of Carteret, NJ. In May 29, 2015 KTR Property Trust III ("the Assignor") agreed to sell, transfer and assigns to Prologis USLV SubREIT4, LLC, a Delaware limited liability company ("Assignee"), and assignee hereby purchase and accepts all rights, titles and interest. The parties agree that the change in ownership of the acquired interest shall not dissolve the Company, and business shall continue without any break or interruption in continuity.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Company uses the accrual basis of accounting for financial statement purposes.

Concentration

The Company's revenue is derived from rental and management of two commercial facilities, which consists of approximately 1,264,000 square feet of industrial space located in the Borough of Carteret, New Jersey.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Assets

Real estate assets are carried at depreciated cost. The Company capitalizes costs incurred in developing, renovating, rehabilitating and improving real estate assets. Costs for repairs and maintenance are expensed as incurred.

Depreciable portions of real estate assets are charged to depreciation expense on a straight-line basis over the respective estimated useful lives. The following useful lives are generally used: 5 to 7 years for capital improvements, 10 years for standard tenant improvements, 25 years for depreciable land improvements, 30 years for operating properties acquired and 40 years for operating properties developed. Depreciation expense was $3,366,438 and $2,824,718 for the years ended December 31, 2018 and 2017, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease Commissions and Other Intangibles

Leasing commissions and other intangibles associated with the transfer of ownership of the Company are amortized over the terms of the lease in order to properly reflect the pattern of economic benefit as follows:

Leasing Commissions – The Company recognizes an asset for leasing commissions upon the acquisition of in-place leases based on our estimate of the cost to lease space in the applicable markets. The value is recorded in other assets and amortized over the remaining life of the respective leases to amortization expense. $676,286 and $676,286 in leasing commissions were amortized during the years ended December 31, 2018 and 2017, respectively.

Foregone Rent – The Company calculates the value of the revenue and recovery of costs foregone during a reasonable lease-up period, as if the space was vacant, in each of the applicable markets. The values are recorded in other assets and amortized over the remaining life of the respective leases to amortization expense. $151,687 and $151,688 in forgone rents were amortized during the years ended December 31, 2018 and 2017, respectively.

Above and Below Market Leases – The Company recognizes an asset or liability for acquired in-place leases with favorable or unfavorable rents based on an estimate of current market rents of the applicable markets. The value is recorded in either other assets or other liabilities, as appropriate, and is amortized over the term of the respective leases, including any bargain renewal options, to rental revenues. $45,687 and $45,687 of unfavorable rents were amortized as a component of rental revenue during the years ended December 31, 2018 and 2017, respectively.

Fair Value Measurements

The objective of fair value is to determine the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). The Company estimates fair value using available market information and valuation methodologies it believes to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that we would realize on disposition. The fair value hierarchy consists of three broad levels:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 — Unobservable inputs for the asset or liability.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis generally consist of real estate assets that were subject to impairment charges related to a change of intent to sell and through a recoverability analysis discussed below. The Company estimates fair value based on expected sales prices in the market (Level 2) or by applying the income approach methodology using a discounted cash flow analysis (Level 3).

Recoverability of Real Estate Assets

The Company assesses the carrying values of respective real estate assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable. Recoverability of the asset is measured by comparing the carrying amount of the asset to the estimated future undiscounted cash flows. If the analysis indicates that the carrying value of the real estate property is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized for the amount by which the carrying value exceeds the current estimated fair value of the real estate property. For the real estate properties intended to be held long-term, recoverability is assessed based on the estimated undiscounted future net rental income from operating the property and the terminal value. For the years ended December 31, 2018 and 2017 there was no impairment of the Company's real estate assets.

Revenue Recognition

Rental and management revenues are generally recognized over the lease and contractual term as it is earned according to the provisions of the lease and contract agreements, except where minimum rental payments vary from a straight-line method, in which case income is recognized on a straight-line basis. Amounts recognized as rental revenue in excess of amounts currently due from tenants are recorded as a deferred rent asset on the balance sheet. Tenant reimbursements for real estate taxes, common area maintenance, and other recoverable costs are recognized in the period that the expenses are incurred.

Income Taxes

The Company is a disregarded entity for income tax purposes, and thus no tax provision has been recorded in the financial statements. The results of the Company's operations are included in the member's tax returns.

Long-Term Tax Exemption

The Company entered into a financial agreement for long-term tax exemption with the Borough of Carteret, NJ. Under the terms of the agreement, in lieu of paying real estate taxes, the Company shall pay an Annual Service Charge, as defined, to the Borough of Carteret. In addition, the terms of the agreement bind the Company to comply with the New Jersey Long-Term Tax Exemption Law.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management has evaluated subsequent events through October 2, 2019 which is the date the financial statements were available to be issued.

Reclassifications

Certain amounts included in the financial statements for 2017 have been reclassified to conform to the 2018 financial statement presentation.

3. MEMBER'S EQUITY

The member does not have any liability for the obligations or liabilities of the Company except to the extent provided in the Limited Liability Company Operation Agreement. Profits and losses, as defined, are allocated to the member. Distributions are made to the member at the time and in the aggregate amounts as determined by the member. The term of the Company shall continue until dissolved in accordance with the Limited Liability Company Operating Agreement.

4. RELATED PARTIES

The company is solely-owned by the member, Prologis USLV SubREIT4, LLC, a Delaware limited liability company, which is a subsidiary of Prologs, Inc., a Maryland corporation. Prologis, Inc. operates its subsidiary companies on their behalves with its bank accounts and records transactions at each company level through intercompany transactions. As a result, the Company had $17,418,246 and $9,752,017 due from affiliate at December 31, 2018 and 2017, respectively.

5. LEASE

The Company leases 100% of the two properties for commercial space to 3 tenant's lease with corresponding lease expirations ranging from December 31, 2017 to October 31, 2025. Monthly rental revenue for the three tenants in the approximate amount of $787,385 and increases approximately 2.0% each year until the expiration of the leases. Rental revenue for the year ended December 31, 2018 was $10,161,014 which included a straight line rent adjustment in the amount of $414,245 and a fair value lease adjustment of $45,687. Rental revenue for the year ended December 31, 2017 was $10,161,014 which included a straight line rent adjustment in the amount of $603,384 and a fair value lease adjustment of $45,687. The tenant is also responsible for all taxes, maintenance, and other recoverable costs.

5. LEASE (Continued)

The following is a schedule of approximate minimum future rentals expected to be received from its non-cancellable operating lease through:

For year ended December 31,	Amount
2019	$ 9,431,734
2020	8,844,316
2021	8,761,666
2022	8,936,899
2023	9,115,637
Thereafter	17,174,951
Total Minimum Future Rental Revenue	$ 62,265,203

6. FINANCIAL AGREEMENT WITH BOROUGH OF CARTERET

The New Jersey Environmental Infrastructure Trust ("NJEIT") issued Series 2006B Bonds on behalf of the Carteret Redevelopment Agency, and pursuant to the issuance has established a Trust Loan Agreement in the amount of $28,180,000 and a Fund Loan Agreement in the amount of $18,292,833, of which totals $38,472,833, dated November 9, 2006. The conduit bonds are guaranteed by the Borough of Carteret and KTR NJ Urban Renewal, LLC.

The Borough has a Financial Agreement with KTR NJ Urban Renewal, LLC setting forth-annual service charges for the project financed by the NJEIT Series 2006B Bonds. The annual services charges represent pledged and unpledged amounts due to the Borough and the Borough has assigned the annual service charged, which are pledged to the Carteret Redevelopment Agency for payment of debt service requirements of the NJEIT Trust and Fund Loan Agreements.

6. FINANCIAL AGREEMENT WITH BOROUGH OF CARTERET (Continued)

The remainder of the annual service charges pledged to NJEIT Trust and Fund Loans at December 31, 2018 are as follows:

For year ended December 31,	Amount
2019	$ 2,544,374
2020	2,543,324
2021	2,545,508
2022	2,538,817
2023	2,536,583
2024	2,537,749
2025	2,532,538
2026	2,538,941
	$ 20,317,834

Pledged Annual Service Charge

The pledged annual service charge is equal to the annual debt service portion of the NJEIT Trust and Fund Loans, plus an amount equal to the land taxes paid by the Company in the last four preceding quarters, less the incremental land tax. The incremental land tax is the portion of land taxes over and above the base land taxes at the commencement of the pledged annual service charges of $110,222. The Company is entitled to a credit against the pledged annual service charge for the amount without interest, of all land taxes paid by it in the last four preceding quarterly installments in accordance with N.J.S.A. 40a:20-12(b).

The Company has been paying the full pledged annual service charge including the incremental land tax that is due from the Borough of Carteret. As a result, the Company is due from the Borough of Carteret $233,160 and $169,534 at December 31, 2018 and 2017, respectively.

6. FINANCIAL AGREEMENT WITH BOROUGH OF CARTERET (Continued)

Unpledged Annual Service Charge

The terms of the financial agreement for the unpledged service charges are as follows:

Years	Annual Amount
1 – 5	$107,624
6 – 10	$143,499
11 – 15	$179,373
16 – 20	$215,248
21 – end (if applicable*)	Shall equal the amount that would otherwise be assessed against non-exempt property improvements.

* The financial agreement remains in effect until the earlier of (i) thrity-five (35) years from the date of execution, (iii) thirty (30) years from the project completion date of September 15, 2011 or (iii) the date on which no conduit loan bonds remain outstanding.

The Company is also required to pay a County portion of the unpledged annual service charge equal to 5% of the annual service charge.

7. LIMITATION OF PROFITS AND RESERVES

During the period of the tax exemption, the Company is subject to limitation of its profits as defined in the New Jersey Long-Term Tax Exemption Law. The Company allowable net profit is arrived by applying the allowable profit rate of 12% to the total project cost. In the event that the net profits of the Company exceed the allowable net profits, the net profits are payable to the City of Elizabeth as additional PILOT. However, the Company can maintain a reserve against unpaid rentals, reasonable contingencies and vacancies in an amount not exceeding 5% of the gross revenues.

8. CONTINGENCIES

The Company is not presently involved in any litigation nor to its knowledge is any litigation threatened against the Company that, in management’s opinion, would result in any material adverse effect on the Company’s ownership, management or operation of the property, or which is not covered by the Company’s liability insurance.

8. CONTINGENCIES (Continued)

Environmental Costs

The Company incurs certain environmental remediation costs, including cleanup costs, consulting fees for environmental studies and investigations, monitoring costs, and legal costs relating to cleanup, litigation defense, and the pursuit of responsible third parties. The Company expenses costs incurred in connection with operating the rental property and maintains a liability for the estimated costs of environmental remediation expected to be incurred in connection with operating the rental property that is adjusted as appropriate as information becomes available. As of December 31, 2018 and 2017 the company has a provision for environmental remediation in the amount of $1,550,000 related to the acquisition and development of the two properties located in the Borough of Carteret, New Jersey.

SUPPLEMENTARY INFORMATION

KTR NJ URBAN RENEWAL, LLC
SCHEDULES OF CUMULATIVE ALLOWABLE NET PROFIT

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Total project cost[(1)]	$ 121,977,035	$ 121,977,035
Allowable profit rate	12%	12%
Annual allowable net profit	14,637,244	14,637,244
Annual gross revenues	14,053,458	12,912,728
Less:		
Straight-line rent adjustment	(414,245)	(603,384)
Fair value lease adjustment	(45,687)	(45,687)
Adjusted gross revenues	13,593,526	12,263,657
Allowable operating expenses:		
Payment in lieu of taxes	2,868,404	2,872,013
Operating and maintenance	1,250,709	1,062,600
Land taxes	810,390	775,111
Management fees	259,999	257,763
Insurance	142,245	127,016
Utilities	88,861	84,605
Amortization of total project costs over term of abatement	3,341,403	3,341,403
Debt service	-	-
Total allowable operating expenses	8,762,011	8,520,511
Net profit	4,831,515	3,743,146
Excess allowable net profit	9,805,729	10,894,098
Cumulative allowable net profit, January 1	30,305,316	19,411,218
Cumulative allowable net profit, December 31[(2)]	$ 40,111,045	$ 30,305,316

(1) *Total project cost certification has not been made available and therefore estimated total project cost as presented in the Company's approved exemption application has been used as the basis for the required computation.*

(2) *Cumulative allowable net profit prior to change in ownership has not been made available and therefore has not been audited nor presented. Cumulative allowable net profit is only presented since May 1, 2015.*