June 7, 2017

ENL Report

Tacoma Warehouse Property *(See Photos, Pages 5-7)*

At long last, we can report the successful closing of escrow of a 51% interest in a 100% leased warehouse in Tacoma, WA. We purchased the Cotenancy interest for a price of $912,900, equity of $624,845, and debt assumption of $288,055. The debt is favorable from an interest standpoint, only 2% per year, but it requires full amortization within four years, and cannot be prepaid. (Nevertheless, we have a solution to that inconvenience as well, discussed further below.) The present monthly rent is $16,573, and escalates 2.5%/year on November 1st. The lessee pays the property taxes but our Cotenancy pays insurance of about $7,300/year. Accordingly, the warehouse will be a significant provider of income. We anticipate starting cash distributions as of December 31, 2017, and continuing on a six-monthly basis thereinafter.

We think we have the perfect partners in this undertaking: two industrial real estate brokers, Linn Larsen, and Dave Douglas, and their families. Larsen and Douglas were both born and raised in Tacoma, and have worked together for many years. I have known Linn Larsen since 1973, and we were involved in a smaller Tacoma warehouse investment from 1978 to 2002; in 2002 we sold the property and reinvested in a small Napa Valley vineyard with two of our long time investors. Valbois, the vineyard, has been quite successful and continues to cash flow and appreciate.

When Larsen learned from me that Chiles Valley was selling, he proposed we acquire the Cedar Street warehouse along with him and his local chum. They had an interesting situation: two old owners who wanted to spread their taxable capital gain over five tax years: twenty percent down and 20% principal each year following. Larsen and Douglas were willing but needed another partner to join them to make things financially comfortable. Our ENL partnership was ideal but there were big tax hurdles to jump. First, we had to have an investment that could accept a lot of equity via our Section 1031 needs and secondly in the sale of Chiles Valley, we were relieved of debt of $288,055. If we could not assume a like amount of debt, it would all hit ENL as taxable income in 2017.

What we agreed and structured was Larsen and Douglas, through their family investment companies, would acquire the property for $1,790,000 on the Seller's required terms, and then sell ENL the 51%, only assuming $288,055 of debt to the original Sellers. (Of course, ENL has two large scheduled principal payments, in $189,605 in 2020 and $98,450 in 2021, and we have a plan for that as well, discussed later in this report.) Because we were "over advancing" Larsen and Douglas in our closing with extra cash, they have guaranteed making the ENL share of the 2018 and 2019 loan principal payments from the "overpayments."

The 1965 constructed building is in relatively good shape but needs a new paint job, a new dock high loading door, and some vinyl roofing on a small section. (Our share of these costs is a budgeted $17,667.) When these improvements are completed this summer, we'll take some exterior photos and send them to the partners. After a couple of years, we will also start putting away some of the annual earnings for roof replacement in some future year. However, we have included some interior photos that I took in January that explain the uniqueness of the property and its value to the tenant. (Bradken is located just a few blocks away, and the molding forms that need storage for decades are big, bulky, but also need to be available on short notice.)

Larsen and Douglas will property manage for $400/month, which largely is assuring the rent has been received, expenses are paid, cash distributions are made to the Cotenants, the property gets dressed up, and reserves are maintained at a proper level. Burdell Management Ltd (BML) will asset manage this investment, and a second and larger property in escrow and expected to close in August, and the ENL partnership, for $1,000/month. (This property's share of the BML admin cost will be $400.)

We'll produce an overall multiyear cash flow projection for ENL later this year, but this is what it should look like by year's end 2017

Rent/ month (after November 2017 bump):	**$16,987**		
Less: local property management	**$400**		
ENL partnership fee	**$400**		
Net cash to Cotenants:	**$16,187**	**x 12=**	**$194,244**
Less: insurance			**$7,300**
Distributable cash			**$186,944**
ENL share		**X 51% =**	**$99,064**
Less: BML 15% participation		**x 85% =**	**$84,204/year**

However, as we mentioned earlier, we have a loan of $288,055 encumbering our 51% of the Cotenancy. Until it is paid off, our annual interest charge is $5,761.10. While that is relatively easy to shoulder, given our expected share of cash flow, the $288,055, due a few years out, is another matter. Instead of retaining all the annual cash flow, which will be taxable, of course, to establish a reserve to pay off the loan, I am personally committing to invest $288, 055 in the Cotenancy in 2018; thereafter, the ownership shares would be:

Estados Nuevos Ltd.	**34.91%**
David W. Jefferson	**16.09%**
Total	**51%**

My capital would be used to pay off the $288,055 loan when due, and I would pay pro rata annual interest starting in 2018. (Unfortunately, the loan by its terms cannot be prepaid.)

ENL's total investment in 3110 Cedar Street, including closing costs and initial cash reserves, will have been $642,333 + $17,667 (reserves share) = $660,000. ENL limited partner annual cash flow should be about $57,638, as I will also be subject to the BML 15% participation. The ENL return on investment starting in 2018 should be 8.7%, a pretty handsome return in this low return world.

Incidentally, the Cotenancy Agreement contains a First Right of Refusal exercisable on the sale of any Cotenant's interest, but Larsen and Douglas have already waived their rights for this one time transaction between ENL and the President of its General Partner, BML. It also makes their investment, as well as ENL's, somewhat safer, as it assures the availability of the cash to make the final principal payments on the loan to the Sellers of the warehouse.

A couple more things about this investment. At present, the Bradken Energy lease runs until Oct. 31, 2020. Bradken presently has two five year options to renew their lease at negotiated rates, which potentially could be much higher than currently apply. Larsen has offered them a new 10-year lease, however, which continues the present rental rates, with the 2.5% annual increase, and they have indicated they will probably accept the offer. However, they want to wait until later in 2017 so their new Japanese owner, Hitachi, can approve the lease terms.

Incidentally, there is very little vacancy in older warehouses in Tacoma, and were Bradken not to renew their lease, a new tenant at higher rents would be easy to obtain. Also, in the State of Washington, sale of marijuana has been legalized a few years ago, as it now is in CA, and indoor marijuana producers are paying roughly double the going rents for warehouse space such as this property. A very large grower has such an operation across the street from us. Accordingly, we have no worries about future rental income.

Lastly, prior to committing to this acquisition, we obtained a *Phase I* environmental report and a legal opinion from the leading expert on soil contamination that we will have no liability for any environmental cleanup expenses for the acquired property. This is important as there is a warehouse across the street with significant soil pollution problems that the State of Washington is requiring the owners to clean up. Further, it is likely that some amount of the creosote petroleum product from prior wood manufacturing migrated our way. However, our report and legal opinion means our property ownership has no financial liability and the warehouse could be refinanced once the purchase money note is paid off in four years' time. Further, we will also seek a "No Further Action" letter from Washington State which is the ultimate gold seal of no financial liability. To do this may require some monitoring expense but we will not start this effort until the cleanup of the neighboring property has been completed.

It is a bit early to start talking about appreciation, but Larsen and Douglas believe the value of the property will increase at least 40-50% in next two years, as the environmental issues fade into the background and a new 10-year lease is put into place. We hope they are right, but the initial operating results by themselves look excellent.

Sonoma Retail Property *(See Rendering, Page 8)*

We are also on contract to acquire a retail property on a major arterial, West Napa Street, in the City of Sonoma, CA. While the property has great potential, what we have envisioned is a "renovation" and partial change of use, so let's provide some more detail. The strip center has about 100' of frontage on Napa and is 300' deep, so roughly 30,000 sq. ft total. Accordingly, it has roughly 50 parking spaces but frontage that needs serious cosmetic work. (Attached is an architect's rendering of what we believe we can get approved by the City and completed within 9-12 months.) There is a restaurant in a free-standing building of 2730 sq. ft. There is an 18' walkway between it and the second building, a structure of 5,700 sq. ft. Total area is about 8,430 sq. ft. and likely a potential to expand somewhat.

The Community Café has been an institution in Sonoma for decades but is presently in somewhat shaky hands. The new onsite management couple appears very talented and may be poised to take over ownership of the restaurant.

From a contractual standpoint, we need to release contingencies by next week, and will be prepared to close by August 10th; We have a somewhat dysfunctional Seller (five individuals who are not well organized or particularly responsive) so we have requested they put a signed deed into escrow in conjunction with our release of contingencies.

What we see occurring in the months to come is as follows:

a. Extensive cosmetic work on the front of the property, as per the drawing provided, to increase its street appeal and value to all tenants. We will soon be applying for a building permit for this work, as well as demolition of a portion of the rear building and replacement with a two story structure, including a manager's unit and office with retail space below.

b. Execution of a new lease with the replacement restaurant operators once renovations are complete. (The new managers have indicated they are willing to work around construction issues.) The new lease is not anticipated until mid 2018 at the earliest.

c. Submitting a plan in later 2017 for a new two-story building at the rear of the property which will be an 8-unit Inn (living room, bedroom, and bath; breakfast at the restaurant). Financing of the Inn will likely have to be done by an affiliated entity, which would ultimately pay ENL at least $750,000 for an interest in the land and a new manager's unit and office constructed in a remodeled front building. Preliminarily, we have estimated the building cost of the proposed building at $2,000,000. Total cost, therefore, is presently estimated at $2,750,000.

d. Master leasing the restaurant and the balance of the buildings to the Lone Pine Group (LPG), presently a tenant in some 1500 square feet in the front building, as of close of escrow in August.

There is a great deal more to explain about this property but we are involved in many moving parts of this development, and closing its acquisition is just one aspect. Jon Early, 69 and his wife Jackie, are the principals of LPG, have lived for over 40 years in Sonoma, and are very respected and knowledgeable members of the community. John has been a real estate developer for over 30 years and an entrepreneur far longer. My wife has worked with them in real estate and been friends for over 25 years.

Developments do not have much cash flow at inception but LPG has agreed to pay $300,000 in rent for the first 18 months with corporate notes with convertible rights. All in all, we see ENL's total investment being $2,325,000, plus closing costs, including $450,000 being paid to various contractors for renovations and improvements. Further, with $750,000 from whoever funds, constructs and owns the Inn, and $300,000 in short term notes, ENL's net investment may be closer to $1,000,000 within 24 months. Further, we anticipate an overall doubling of ENL property value also within this period.

By mid-August, we will be back with a detailed report, renderings, and financial projections. At that point in time, all ENL partners can make their individual decisions to stay with the partnership or not. We have a lot of work to do in the interim, however, to create value for us and provide a legitimate basis for investment decision making.

Dave Jefferson

Managing Partner

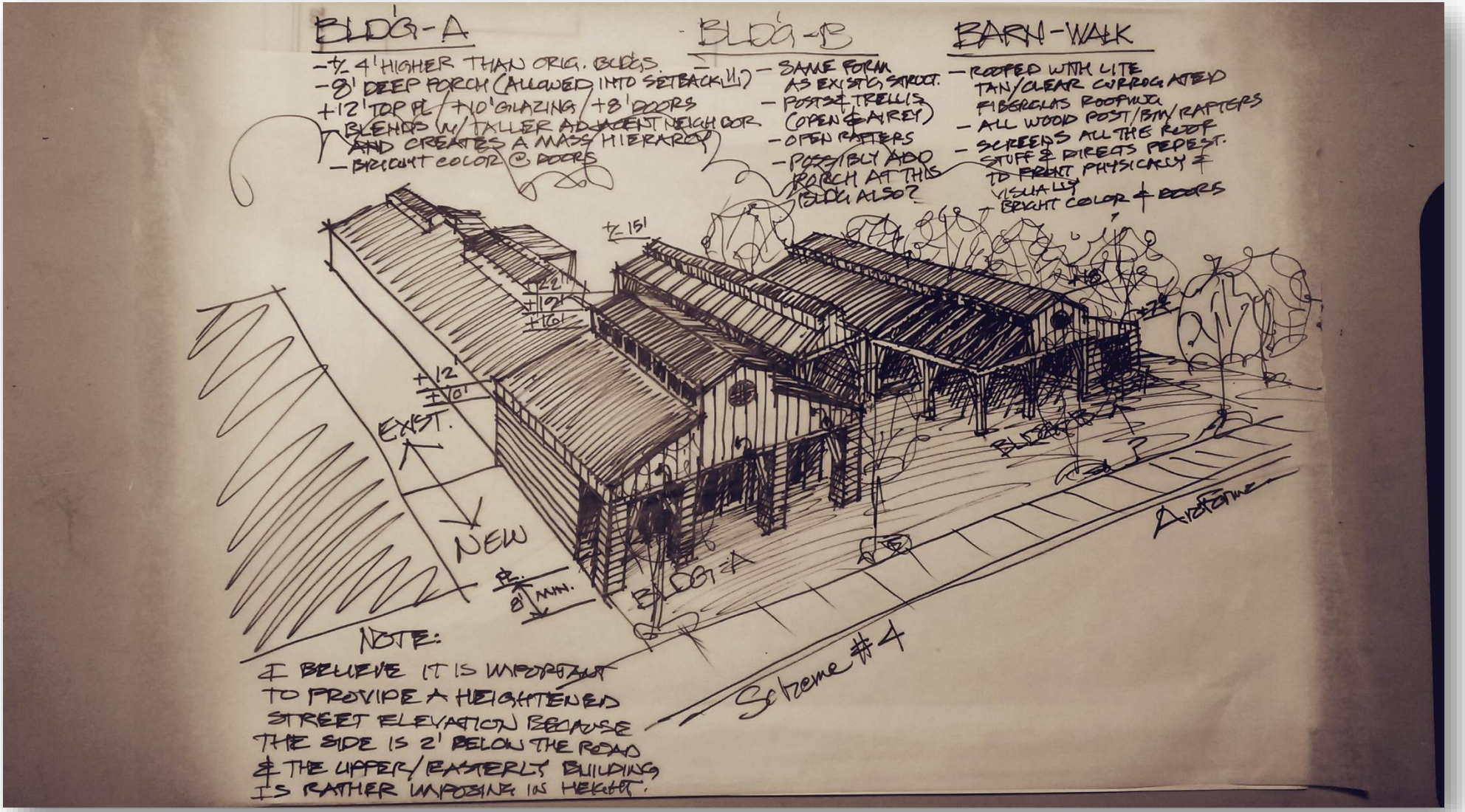
Burdell Properties

See Following:

Tacoma Warehouse

Tacoma Warehouse

Tacoma Warehouse



Sonoma Retail Property

865- 875 W. Napa Street