

**Montclair 11 Pine Urban Renewal LLC
Financial Statements
December 31, 2024 and 2023**

Montclair 11 Pine Urban Renewal LLC

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Independent Auditors' Report

To the Member and Management of

Montclair 11 Pine Urban Renewal LLC

Opinion

We have audited the accompanying financial statements of Montclair 11 Pine Urban Renewal LLC (the "Company"), which comprise the balance sheet as of December 31, 2024, and the related statement of operations, changes in member's equity and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of Montclair 11 Pine Urban Renewal LLC as of, and for the year ended December 31, 2023, were audited by other auditors whose report, dated October 2, 2024, expressed an unmodified opinion on those statements. The prior period financial statements are included for comparative purposes only. We were not engaged to audit, review, or perform any procedures on the financial statements for the prior period, and we do not express an opinion or provide any assurance on them.

Responsibilities of Management 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financials statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.
2. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
3. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
5. Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 account 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read "William J. Guttenplan". The signature is written in a cursive style with a long horizontal flourish extending to the right.

East Brunswick, New Jersey

April 3, 2025

Montclair 11 Pine Urban Renewal LLC
Balance Sheets
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Rental real estate assets, net	\$ 73,306,798	\$ 75,074,710
Cash	50,088	40,094
Restricted cash	309,210	182,494
Prepaid expenses	312	645
Interest rate cap	906,357	1,238,349
	<u>906,357</u>	<u>1,238,349</u>
Total Assets	<u>\$ 74,572,765</u>	<u>\$ 76,536,292</u>
Liabilities and Member's Equity		
Liabilities		
Mortgage loan payable, net	\$ 53,398,192	\$ 52,992,915
Accounts payable	26,124	97,222
Accrued operating expenses	68,251	77,909
Accrued interest payable	297,686	335,222
Due to affiliates	18,719	7,744
	<u>18,719</u>	<u>7,744</u>
Total Liabilities	53,808,972	53,511,012
Member's Equity	<u>20,763,793</u>	<u>23,025,280</u>
Total Liabilities and Member's Equity	<u>\$ 74,572,765</u>	<u>\$ 76,536,292</u>

The accompanying notes are an integral part of these financial statements.

Montclair 11 Pine Urban Renewal LLC
Statements of Operations
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Revenues		
Rental income	\$ 1,630,000	\$ 1,629,973
Operating Expenses		
Annual service charge	396,858	375,800
General and administrative	60,982	73,488
Marketing and advertising	53,308	49,310
Professional fees	52,168	79,534
Total Operating Expenses	<u>563,316</u>	<u>578,132</u>
Net Operating Income before Other Expenses	<u>1,066,684</u>	<u>1,051,841</u>
Other Expenses		
Other expense	(12,000)	(11,993)
Unrealized loss on interest rate cap	(1,211,992)	(1,474,045)
Depreciation	(2,283,348)	(2,249,517)
Interest expense	(2,342,067)	(2,888,411)
Total Other Expenses	<u>(5,849,407)</u>	<u>(6,623,966)</u>
Net Loss	<u>\$ (4,782,723)</u>	<u>\$ (5,572,125)</u>

The accompanying notes are an integral part of these financial statements.

Montclair 11 Pine Urban Renewal LLC
Statements of Changes in Members' Equity
For the Years Ended December 31, 2024 and 2023

Members' Equity - January 1, 2023	\$ 26,020,405
Contributions	2,577,000
Net Loss	<u>(5,572,125)</u>
Members' Equity - December 31, 2023	23,025,280
Contributions	2,521,236
Net Loss	<u>(4,782,723)</u>
Members' Equity - December 31, 2024	<u><u>\$ 20,763,793</u></u>

The accompanying notes are an integral part of these financial statements.

Montclair 11 Pine Urban Renewal LLC
Statements of Cash Flow
For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Net loss	\$ (4,782,723)	\$ (5,572,125)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	2,283,348	2,249,517
Amortization	-	418,012
Loss on interest rate cap	1,211,992	1,474,045
Changes in operating assets and liabilities		
Prepaid expenses	333	2,000
Accounts payable	(71,097)	191,139
Accrued operating expenses	(9,658)	-
Accrued interest payable	(37,536)	-
Net Cash Used in Operating Activities	<u>(1,405,341)</u>	<u>(1,237,412)</u>
Cash Flows from Investing Activities		
Construction of rental real estate assets	(515,437)	(984,000)
Additions to land	-	(7,000)
Purchase of interest rate cap agreement	(880,000)	(1,459,000)
Net Cash Used in Investing Activities	<u>(1,395,437)</u>	<u>(2,450,000)</u>
Cash Flows from Financing Activities		
Proceeds from mortgage payable	417,428	886,000
Payments from affiliates	10,975	-
Financing costs	(12,151)	-
Contributions	2,521,236	2,577,000
Net Cash Provided by Financing Activities	<u>2,937,488</u>	<u>3,463,000</u>
Net (Decrease)/Increase in Cash and Restricted Cash	136,710	(224,412)
Cash and Restricted Cash - Beginning of Year	<u>222,588</u>	<u>447,000</u>
Cash and Restricted Cash - End of Year	<u>\$ 359,298</u>	<u>\$ 222,588</u>
Cash and Restricted Cash - End of Year		
Cash and cash equivalents	\$ 50,088	\$ 40,094
Restricted cash	309,210	182,494
Cash and Restricted Cash - End of Year	<u>\$ 359,298</u>	<u>\$ 222,588</u>
Supplemental Disclosure of Cash Flow Information		
Cash Paid During the Year for		
Interest	<u>\$ 3,894,778</u>	<u>\$ 3,701,000</u>
Supplemental Disclosure of Non-Cash Investing Activities		
Additions to real estate financed by accounts payable	<u>\$ -</u>	<u>\$ 82,000</u>

The accompanying notes are an integral part of these financial statements.

Montclair 11 Pine Urban Renewal LLC
Notes to the Financial Statements
December 31, 2024 and 2023

Note 1 Nature of Operations

Montclair 11 Pine Urban Renewal LLC (the "Company") was formed November 30, 2021 by Montclair Residences JV LLC, as the sole equity member, ("Member"), and joined by Kristine E. Eppes, as Independent Manager and Special Member. The purpose of the Company is to acquire, develop, own, hold, sell, lease, transfer, exchange, manage and operate the land and land improvements comprising the Montclair Apartments, located at 11 Pine Street, in Montclair, New Jersey and all personal property owned by the Company located thereon (the "Property").

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. It is at least reasonably possible that actual results could differ from those estimates.

Cash

Cash is held in bank deposit accounts which, at times, may exceed federally insured limits.

Rental Real Estate

Building and site improvements, furniture and equipment and land are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and site improvements	4 – 30 years
Furniture and equipment	5 years

The Company reviews the carrying value of property and equipment whenever events and circumstances indicate that the carrying value or an asset may not be coverable from the estimated future cash flows expected to result from its eventual use and disposition. Based on this assessment, management has determined that there was no impairment.

The fair value of acquired in-place leases include opportunity costs associated with lost rentals that are avoided by acquiring a property with in-place leases. The value of opportunity costs is calculated by using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for similar leases.

Montclair 11 Pine Urban Renewal LLC
Notes to the Financial Statements
December 31, 2024 and 2023

Note 2 Summary of Significant Accounting Policies (Continued)

The Company acquired in-place leases totaling \$2,023,000 which are included in rental real estate assets, net in the accompanying balance sheets. Both in-place leases and below market in-place leases were fully amortized over a period of six months as of December 31, 2022.

Revenue Recognition

On December 1, 2021, the Company entered into a lease agreement with Montclair 11 Pine Urban Operating Company LLC ("Lessee"), an affiliate of the Member. In accordance with the lease, the Lessee shall pay annual rent to the Company in the amount of \$1,630,000 annually, in equal monthly installments of approximately \$136,000. The lease will expire in December 2039.

Deferred loan costs

Deferred loan costs are those costs associated with obtaining debt financing and are amortized using the effective interest rate method over the term of the related construction loan payable, not including extension options, if any. Such costs are presented as a reduction of the outstanding mortgage loan payable balance.

Derivative Financial Instrument

The Company utilized an interest rate cap for which it paid \$71,000 in 2021. This agreement terminated on December 9, 2023. On December 9, 2024 and December 9, 2023, the Company paid \$880,000 and \$1,459,000, respectively, for an interest rate cap. This instrument is the only derivative of the Company and is used to manage its exposure to variability of interest payments. On the date the derivative was entered into, the Company did not elect hedge accounting treatment. The derivative is carried on the balance sheet at its fair value, and related unrealized losses in the fair value of the derivative are recognized in the period such changes occur. For the years ended December 31, 2024 and 2023, the Company recorded a loss of approximately \$1,212,000 and \$1,474,000, respectively, on the interest rate cap. The Company categorizes the fair value measurement of its derivatives within Level 2 of the fair value hierarchy established by Accounting Standards Codification (ASC) 820 Fair Value Measurement.

Income Taxes

The Company is a wholly owned LLC and is disregarded for federal income tax purposes. Under current law, no federal income taxes are payable directly by the Company. Accordingly, no provision has been made in the financial statements for federal income taxes. The sole member is responsible for federal taxes on its respective share of the Company's net income or loss. For state income tax purposes, the Company may be subject to entity level taxes imposed by the state authority; however, based on the Company's operations, no such taxes have been imposed on the Company.

Montclair 11 Pine Urban Renewal LLC
Notes to the Financial Statements
December 31, 2024 and 2023

Note 2 Summary of Significant Accounting Policies (Continued)

Marketing and Advertising Costs

The Company's policy is to expense marketing and advertising costs as the costs are incurred.

Subsequent Events

The Company has evaluated subsequent events and transactions for potential recognition or disclosure through the date of the auditors' report, which is the date the financial statements were available to be issued.

Note 3 Rental Real Estate Assets

Rental real estate assets consist of the following:

	December 31,	
	<u>2024</u>	<u>2023</u>
Land	\$ 7,441,000	\$ 7,441,000
Building and site improvements	68,709,000	68,709,000
Furniture and equipment	3,755,436	3,240,000
In-place leases	<u>2,023,000</u>	<u>2,023,000</u>
Total	81,928,436	81,413,000
Less: accumulated depreciation	<u>(8,621,638)</u>	<u>(6,338,290)</u>
Total	<u>\$ 73,306,798</u>	<u>\$ 75,074,710</u>

Note 4 Financial Agreement - Annual Service Charges

In December 2021, the Company assumed the Financial Agreement with the Township of Montclair (the "Township") dated July 28, 2006. The Financial Agreement provides for the Property to be exempt from real property taxation for a period of 30 years. In lieu of real estate taxes, the Company is required to pay an Annual Service Charge (ASC) to the Township for municipal services supplied to the Property in quarterly installments. A Minimum Annual Service Charge (MASC) of \$244,500 shall be paid each year in which the ASC would be less than the MASC.

The ASC is calculated as follows:

- Years 1 – 5 - 15% of Annual Gross Revenue (AGR) or \$1,500 per unit
- Years 6 – 10 - 18% of AGR or \$1,900 per unit
- Years 11 – 15 - 21% of AGR or \$2,300 per unit
- Years 16 – 20 - 24% of AGR or \$2,700 per unit
- Years 21 – 25 - 27% of AGR or \$3,000 per unit
- Years 26 – 30 - 30% of AGR or \$3,300 per unit

Montclair 11 Pine Urban Renewal LLC
Notes to the Financial Statements
December 31, 2024 and 2023

Note 4 Financial Agreement - Annual Service Charges (Continued)

From the 16th year through the termination of the Financial Agreement, the amount due to the town is the greater of the MASC, the ASC or:

Years 16 – 20 – 20% of the taxes otherwise due on the value of the land and Project improvements

Years 22 – 27 - 40% of the taxes otherwise due on the value of the land and Project improvements

Years 28 – 29 - 60% of the taxes otherwise due on the value of the land and Project improvements

Year 30 - 80% of the taxes otherwise due on the value of the land and Project improvements

The Company is responsible for the real estate taxes assessed on the land but receives a credit against the ASC in the amount of land taxes paid. For the years ended December 31, 2024 and 2023, the Company received a credit of approximately \$33,000 and \$32,000, respectively.

Additionally, under the Financial Agreement, the Company has agreed to a limitation on its Net Profits, as defined. The Company has the right to establish a reserve against vacancies, unpaid rentals, and reasonable contingencies in an amount up to 10% of the Gross Revenues of the last full fiscal year preceding the year. In the event the Company's Net Profits in a fiscal year exceed the allowable Net Profits, excess profits shall be paid to the Township as an additional ASC.

As of December 31, 2024 and 2023, there was no excess net profits due to the Township.

Note 5 Mortgage Loan Payable

On December 1, 2021, the Company and Montclair 11 Pine Urban Operating Company LLC entered into a loan agreement with Natixis, New York Branch, a branch of Natixis S.A., a public limited company organized and existing under the laws of France (the "Lender"), with available borrowings of up to \$54,000,000. The loan bears interest at a spread of 199 basis points (1.99%) plus the Term SOFR Reference Rate (6.47% and 7.35% at December 31, 2024 and 2023, respectively) until the loan is converted to a Base Rate Loan or Benchmark Replacement Loan, as defined in the loan agreement, or the Lender determines that a 30-day SOFR average has been selected by the Lender for similarly situated loans. The loan had an initial maturity date of December 9, 2023. The Company exercised two extension options resulting in an extended maturity date of December 9, 2025. The loan contains one additional extension option, for a period of 12 months. The remaining extension option is subject to the Company meeting certain coverage and loan-to-value ratios. The first interest payment was due December 8, 2021. On January 9, 2022 and the 9th day of each calendar month thereafter throughout the Term, Borrower shall pay an amount equal to the monthly interest accrued.

Montclair 11 Pine Urban Renewal LLC
Notes to the Financial Statements
December 31, 2024 and 2023

Note 5 Mortgage Loan Payable (Continued)

On the maturity date, the Company will pay the lender the outstanding principal balance together with all accrued and unpaid interest.

The following costs have been presented net in the accompanying balance sheet as of December 31,:

	<u>2024</u>	<u>2023</u>
Mortgage loan payable	\$ 53,410,343	\$ 52,993,000
Less: loan acquisition costs, net	<u>(12,151)</u>	<u>-</u>
Total	<u>\$ 53,398,192</u>	<u>\$ 52,993,000</u>

Note 6 Related Party Transactions

The Company is obligated to pay MCRT Montclair LLC (MCRT), an affiliate of the Member, a renovation management fee with respect to the common area renovation and apartment unit renovation. The renovation management fee is capitalized and included in investment in real estate, net in the accompanying balance sheets. The fee is equal to 5% of the hard costs from the Renovation Budget. The renovation management fee shall be paid monthly out of, and to the extent of, cash flow during the performance of such work, based on the hard costs incurred during such month by the Member or a Subsidiary of the Member, under the renovation budget.

During the years ended December 31, 2024 and 2023, the Company incurred renovation management fees of \$20,000 and \$38,000, respectively. For the years ended December 31, 2024 and 2023, \$19,000 and \$4,000, respectively, remained payable and is included in accrued expenses and other liabilities in the accompanying balance sheets.

During the year ended December 31, 2024, the Company made payments to the Lessee for operating expenses totaling approximately \$14,000.

Note 7 Restricted Cash

As required by the mortgage loan agreement, the Company is required to maintain cash reserves for real estate taxes, which totaled approximately \$309,000 and \$182,000 as of December 31, 2024 and 2023, respectively.

Montclair 11 Pine Urban Renewal LLC
Notes to the Financial Statements
December 31, 2024 and 2023

Note 8 Operating Lease Commitments

The Company leases its property to Montclair 11 Pine Urban Operating Company LLC under a lease agreement that calls for lease payments totaling \$1,630,000 annually, to be made in equal monthly installments of approximately \$136,000. The lease expires in December 2039.

The following is a summary of future minimum payments for the next five years of the lease and thereafter under the non-cancellable term of the lease agreement:

Year Ended December 31,

2025	\$ 1,630,000
2026	1,630,000
2027	1,630,000
2028	1,630,000
2029	1,630,000
Thereafter	<u>16,241,945</u>
Total	<u>\$ 24,391,945</u>

SUPPLEMENTARY INFORMATION

Montclair 11 Pine Urban Renewal LLC
Schedule of Annual Service Charge and Schedule of Allowable Net Profit
For the Year Ended December 31, 2024

Annual Service Charge

Amount per unit	\$ 2,700
Units	163

Annual Service Charge

\$ 440,100

Allowable Net Profit

Net loss for the year ended December 31, 2024 \$ (4,782,723)

Adjustments:

Add - Depreciation	2,283,348
Less - Allowable project amortization	<u>(1,150,833)</u>

Adjusted net loss for the year ended December 31, 2024 (3,650,208)

Net allowable profit 4,143,000

Prior years net loss carryover (15,906,667)

Shortage under net allowable profit through December 31, 2024 \$ (23,699,875)

Computation of Allowable Project Amortization

Total project costs	\$ 34,525,000
Term of the Agreement	<u>30</u>

Annual Allowable Project Amortization

\$ 1,150,833

Computation of Project Allowable Net Profit

Total project costs	\$ 34,525,000
Allowable profit rate	<u>12%</u>

Project Allowable Net Profit

\$ 4,143,000

The accompanying notes are an integral part of these financial statements.