

Pacific West Land, LLC

403 Madison Avenue North, Suite 230
Bainbridge Island, WA 98110

3/26/2019

March 2019 Update

Our **Opportunity Zone Special** hasn't yet gone out in email. It's just been put behind getting taxes and year-end reporting out the door. Look forward to receiving it soon.

We are pleased to announce the purchase of **PWL's first syndicated Opportunity Zone project**. The purchase of Walnut Hills Apartments in Macon, GA, closed on January 31, 2019, for \$2,100,612. The property is a 100-unit, 11-building apartment complex on 11.45 acres. The current unit mix includes two- and three-bedroom floor plans that feature spacious kitchens. The Property benefits from its easy access to downtown Macon and Mercer University.

Walnut Hills is a value-add property located within an Opportunity Zone as established by the 2017 Tax Cuts and Jobs Act. The property requires unit upgrades and substantial repairs to address deferred maintenance. These capital improvements will allow us to meet the investment thresholds required by the Opportunity Zone program. The property should attract a more stable tenant base as the improvements have been completed, and we project the vacancy and rental rates will be in line with the market. We like the return characteristics of the project, with the OZ incentives making for a superior return net of taxes.

This time of year, the staff of PWL is running full throttle, as we are processing hundreds of K-1's, fulfilling year-end reporting requirements, reviewing audit reports, along with the many other reports and forms that we are responsible for each year. The last investor K-1's went in the mail on March 14.

As I have done every year for many years, I offer this rock-solid advice to all of our investors, "**Hire a CPA to do your taxes!**" Every year at least 3 or 4 investors tell me, "*I finally followed your advice, I paid a tax accountant. I had not wanted to pay the cost, but it turns out the accountant saved me a lot of money.*" Taxes today are impossibly complex. While strongly in favor of tax simplification, we play the cards we are dealt. If you have not done so already, hire a tax accountant. You'll probably save money and you will certainly avoid a week-long headache.

In these emails I sometimes write with my educator's hat on. Today's lesson: "**What is a 'depreciation shield'?**" We refer to the depreciation shield in our marketing materials and reporting with some frequency, making it worth explaining. Remember, our real estate investments distribute free cash flow, while we pay taxes on the investments' profits. In the long run these two things, profits and free cash flow, should be about the same, but in no particular year will they be the same, probably not even close. The biggest difference on a year-to-year basis between the two is caused by the treatment of depreciation. Let us imagine we have a \$1M real estate investment that cash flows at 7%. We would expect to receive \$70,000 per year. At the same time, this investment depreciates at 4% per year; depreciation being the reduction in the property's value because it is wearing out over time*. Therefore, while we receive 7% in cash today, we are currently taxed at 3%. **We call this 4% difference the "depreciation shield," meaning depreciation is shielding 4% from taxes for the time being.** When we sell the property, we are likely to pay a one-time tax called "depreciation recapture." While the entire 4% that was shielded each year may come due via depreciation recapture, we were able to keep this 4%

invested, compounding, and working for us until the property is sold. The depreciation shield is one of the huge advantages to direct real placements like those offered by PWL. (*For a more detailed and thoughtful definition of depreciation, *Bing* it.)

If you'd like to meet for breakfast or lunch, please give me a shout. Office visitors are always welcome.

Best –

Martin A. Stever
206-780-3944
martin@pacificwestland.com

PWREI Scorecard
(approximate investment by PWREI)
all data as of 1/31/19

Willow Hill Center — PWREI purchased this property in May 2014. The 21,082 sq. ft. center is located in Puyallup, WA. Tenants include Kumon Learning, Money Tree, Rainier Growlers and F45. PWREI owns 83% of this property. Starbucks' parcel sold for ~\$2.35M net on October 15, 2014. Ivar's pad sold for ~\$1.27M net on April 28, 2015.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$5,625,000	\$2,862,706	100%	\$326,730

Benjamin Square — PWREI purchased this property in May 2014. The 9,950 sq. ft. center is located in Woodland, WA, and is just off I-5. Tenants include Starbucks, Subway, Papa Murphy's, and H&R Block. A new lease signed in November with AT&T brings occupancy to 86%.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$1,900,000	\$1,967,475	86%	\$149,450

Shoppes at Buford — PWREI purchased this 20,844 sq. ft. property in May 2014. The property is located in Buford, GA, and is located across from the Mall of Georgia. The tenants include Play It Again Sports, Foot Traveller, Edible Arrangements, a hair salon, and a Sushi restaurant.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$2,740,600	\$3,001,650	100%	\$226,201

Auburn Road — PWREI purchased this property in August 2014. The 8,400 sq. ft. property is located in Dacula, GA. The tenants include a medical care facility, a large veterinary office, and a hair salon.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$1,000,000	\$1,025,100	100%	\$111,275

Roosevelt Place — PWREI purchased this property in August 2014. The 14,000 sq. ft. center is located in Phoenix, AZ, off of busy I-10. The tenants include Port of Subs, Teramar Staffing, and a drive-thru Filiberto’s Mexican restaurant. The Jack in the Box pad sold on May 2, 2016 for ~\$1.08M net.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$2,960,000	\$1,943,078	70%	\$238,529

Little Corona — PWREI purchased this property in December 2014. The property consists of 6,074 sq. ft. of leasable space located at the busy intersection of Rural Rd and Ray Rd in Chandler, AZ. Current tenants include a Greek restaurant and Fullers Bar & Grill.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$1,010,000	\$1,033,939	59%	\$59,682

Dail Center — This property was purchased in December 2014. The 16,145 sq. ft. strip is located along US Route 17 in Myrtle Beach, SC, which boasts over 14 million visitors a year. Current tenants include State Farm, Batteries Plus, Atlantic Kitchens, Tao Wellness Spa, and Painting with a Twist.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$1,522,500	\$1,642,695	88%	\$169,663

Gulf Breeze — PWREI purchased this 27,736 sq. ft. property in January 2015. The property is located in Port Arthur, TX, and is shadow anchored by H-E-B, a major grocery chain based out of San Antonio, with great visibility from both Hwy 365 and 347. Current tenants include Pizza Hut, Edward Jones, Sprint, Supercuts, and Fancy Nails.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$2,677,500	\$2,762,653	88%	\$388,552

Log Pond Plaza — PWREI purchased this 27,368 sq. ft. property in March 2015. This property, located in Newark, OH, is shadow anchored by a Walmart Super Center and across the street from a Home Depot, in a dense residential area just north of SR-16. The center boasts a healthy mix of local and national tenants including Cheng’s Chinese, Fiesta Salon, Big Apple Cafe, and CATO.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$1,850,000	\$2,026,094	81%	\$219,016

Massard Farms — PWREI purchased this large shopping complex in April 2015, located in Fort Smith, AR. We own a total of 71,592 sq. ft. of leasable space, consisting of the Kohl's remainder space, IHOP, Savers, and an 8,000 sq. ft. mixed tenant building including Sport Clips, Firehouse Subs, Catherine's, and Pad Thai Cuisine. The Kohl's building sold in September 2018 for \$8.9M net. The revised Net Investment and Occupancy numbers are shown below with the Occupancy number reflecting the reduced square footage of the overall owned property.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$13,415,287	\$6,831,062	66%	\$841,739

Oak Creek Commons — PWREI purchased this small strip center in May 2015. Located south of Milwaukee, the population growth and average household income of Oak Creek, WI, are projected to outpace the national average over the next five years. The 10,462 sq. ft. property has a healthy mix of tenants including Dunkin' Donuts, Empress Nail Spa, and Yen Hwa Chinese Restaurant. *A new lease signed in February will bump occupancy to 88%.*

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$1,191,750	\$1,256,205	70%	\$139,934

Massillon Commons — PWREI is 66.7% owner of this shopping center purchased in June 2015. It is located along the busy Lincoln Way corridor in Massillon, OH. In addition to a 50,503 sq. ft. Dunham's Sports, this property boasts 63,048 sq. ft. of leasable shop space. Home Depot sold on June 30, 2016 for ~\$9.36M net and proceeds were used to pay off debt.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$8,618,667	\$2,379,809	80%	\$225,386

Greensburg Commons — This property was purchased in July 2015 and is 66.7% owned by PWREI. The large shopping center is located at the intersection of I-74 and State Rd 3 in Greensburg, IN. It currently consists of 88,953 sq. ft. of leasable retail space and boasts a healthy mix of tenants including Jimmy Johns, Great Clips, GameStop, GNC, Rent A Center, Goodwill, Cricket Wireless, and Bath and Body Works. The Walmart parcel sold on December 2, 2016 for ~\$13.9M net, with most of the proceeds used to pay off debt. Goodwill officially opened for business at the property.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$12,512,000	\$3,431,264	79%	\$288,734

Gateway Center — PWREI purchased this center in October 2015. It consists of 28,056 sq. ft. of mixed retail space located at the intersection of US 76 and Main St in Newberry, SC. It is shadow anchored by a Walmart. Current tenants include GameStop, T-Mobile, Newberry Nails & Spa, CATO, It's Fashion, Shoe Show, Groucho's Deli, and China Town Restaurant.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$2,030,055	\$2,204,289	94%	\$336,222

Powder Springs — This property was purchased by PWREI in October 2015. It is located on Richard D Sailors Pkwy in Powder Springs, GA, and is shadow anchored by a Home Depot. The small strip center has a total of 15,050 sq. ft. and has Allen Chiropractic, Johnny’s Pizza, Hanger Prosthetics and Benchmark Therapy as tenants. The vacant pad we bought with the building was sold on February 12, 2016 for ~\$280k net.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$1,100,000	\$896,188	70%	\$26,034

Sugarcreek Crossing — PWREI is 66.7% owner of this shopping center in Centerville, OH, purchased in October 2015. The property at purchase included three parcels – a ground leased Cracker Barrel pad, a Tire Discounters pad, and a multi-tenant retail building containing a UPS Store, a Chiropractic office, and Godfather’s Pizza, among others. The Cracker Barrel parcel was sold on May 6, 2016 for ~\$2.28M net. The Tire Discounter’s parcel sold on December 23, 2016 for ~\$2.96M net. Work is complete on the project to create an additional 3,425 sq. ft. of retail space in what used to be a bank drive-thru in the middle of the strip center.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$5,117,333	\$2,063,330	94%	\$176,866

East West Market — PWREI purchased this property as a joint deal with Castleberry Promenade in February 2016. This center is located along East West Connector in Austell, GA, and consists of 17,017 sq. ft. of leasable space and a 1.09-acre developable pad. Current tenants include 100% Chiropractic, WellStar, and American Health Imaging.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$2,660,000	\$2,688,980	87%	\$227,889

Castleberry Promenade — PWREI purchased this property as a joint deal with East West Market in February 2016. It consists of 26,651 sq. ft. of leasable space with two small developable pads, and is located at the busy intersection of Bethelview Rd and Castleberry Rd in Cumming, GA. Current tenants include Kumon Learning, Liberty Tax, Castleberry Ale House, My Running Store, Fitness Foundation, and Arise Chiropractic.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$2,906,000	\$2,998,944	74%	\$214,824

Village at Las Sendas — PWREI purchased a 33.4% stake in this property in June 2016. The shopping center is located in Mesa, AZ, at the intersection of McDowell Rd and Power Rd and consists of 39,144 sq. ft. of leasable space. Current tenancy is a diverse mix of local and national tenants including Jimmy Johns, Smashburger, Chipotle, Sunnyside Breakfast, Pacino’s Italian, D’Vine Wine, Two Wheel Jones, Royal Tobacco, and Echo 5 Sports Pub.

Initial Investment	Net Investment	Occupancy	2018 Q1-Q4 NOI
\$2,922,500	\$2,946,578	81%	\$190,915

Note: 2018 NOI numbers reflect the PWREI's portion of the total. All profit, NOI, Gross IRR, and Deal Multiple calculations presented are unaudited gross estimates.

All numbers within this report are unaudited and should be considered as close approximations. Members receive the audited results on an annual basis.