



November 2019 Update

It looks like we will have one final Opportunity Zone syndication between now and the end of the year (knock on wood). If you have an interest in making an Opportunity Zone investment with us, please let me know. We have made three OZ investments already this year. While it's early days, we are happy with the results. In each case, the offering information for these syndications was only sent to those who had raised their hands to indicate their interest in advance. Please keep in mind our minimum for OZ investments is \$250K, and such an investment would only be suitable for an investor with a net worth of at least \$2M, excluding the value of his or her home and business.

For several years, I've been giving an educational talk to groups of financial advisors once or twice a year titled "*Analyzing Private Equity Real Estate Deal Terms.*" As one part of that talk, we review different methods unscrupulous firms may use to hide or deflect from exactly how much the investor is getting paid versus how much the General Partner is charging and/or receiving via a profit split.

Over the past couple of months, I've been bombarded by emails from real estate firms that are using a new, quite sneaky, technique to hide these two very important deal points: how are potential profits being split and how much is the real estate firm charging off the top. In these recent marketing emails from other firms, rather than talk about returns from the investors' point of view, the sole focus is how much the deal may return total, without regard to fees or the split.

In one offering I received, from a brand-new firm in Seattle, they marketed an investment in an already built office building in the suburbs. The pictures of the building were beautiful. In describing the deal, all of their projected returns were for the building as a whole, rather than the investors' piece of the pie. That may not be dishonest, but it is damned sneaky.

I've been seeing this same technique, purposely confusing gross returns with net returns to investors, from a firm in AZ, and from a well-capitalized firm made up of blue-chip Wall Street alumni, both of whom are using heavy email and social marketing. The next time I'm invited to give my talk, I'll be highlighting this technique as a trap to be avoided. Before investing in any private equity deal, you always need to fully understand, 1) what is the General Partner charging in fees, and 2) how much of the profits are going to the General Partner.

Pacific West Real Estate Opportunity Fund (PWREO) Results Brag:

As we announced last month, we are wrapping up PWREO in December. The average [Internal Rate of Return \(IRR\)](#) for PWREO investors over the life of the investment is 16.63%. The last time I wrote comparing one of our returns to the [Real Estate Investment Trust \(REIT\)](#) Index, a big shot from the REIT industry called me to complain. They must have eyes everywhere! His complaint was not justified, and it was good for a laugh. I may get another such call when this email goes out.

In order to judge how PWREO performed against its peer group, I used the Vanguard [REIT ETF: VNQ](#) as a stand-in for the REIT Index. From January 2012 through this October, VNQ's share price

grew about 6.2% per year and paid an annual dividend of about 3%. I also looked at the [FTSE NAREIT Equity Index](#), which shows an average total return (price change + dividends) of just about 9% annually for 2012-2018. This confirms the VNQ observations, showing that over its life PWREO at 16.63% outperformed the REITs' 9% by a very large margin.

PWL signed 2 new leases in October. Grimaldi's (an Italian restaurant) signed a 5-year lease at [Castleberry Promenade](#) for 3,075 sq. ft., and Deka Lash (a salon) signed a 5-year lease at [Sugarcreek Crossing](#) for 1,495 sq. ft.

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

Happy Thanksgiving! We should be grateful for our blessings every day. It's easier to remember when surrounded by family, enjoying football and the best meal of the year –

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PWREI Scorecard

Approximate investment by PWREI.
All data as of 9/30/19.

Willow Hill Center

PWREI purchased this property in May 2014. The 21,082 sq. ft. center is located in Puyallup, WA. Tenants include Money Tree, Rainier Growler, Omar Beauty, 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 | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$5,625,000 | \$2,889,710 | 100% | \$304,738 |

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 AT&T, Starbucks, Subway, Papa Murphy's, and H&R Block.

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$1,900,000 | \$1,978,735 | 86% | \$126,696 |

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, Ideal Image, and a Sushi restaurant.

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$2,740,600 | \$3,008,091 | 100% | \$255,402 |

Auburn Road

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

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$1,000,000 | \$1,031,598 | 100% | \$119,078 |

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, Cash America, Boba Donuts, 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 | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$2,960,000 | \$1,945,965 | 81% | \$145,346 |

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 | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$1,010,000 | \$1,039,430 | 59% | \$45,019 |

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, Regional Finance, Batteries Plus, Atlantic Kitchens, Tao Wellness Spa, Painting with a Twist, Guardian Security, and Palmetto School.

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$1,522,500 | \$1,652,989 | 100% | \$133,648 |

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, The Nutrition Store, World Finance, and Fancy Nails.

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$2,677,500 | \$2,772,719 | 100% | \$226,549 |

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 Hertz, Cheng's Chinese, Fiesta Salon, Big Apple Cafe, and CATO.

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$1,850,000 | \$2,031,256 | 87% | \$176,866 |

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 | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$13,415,287 | \$6,849,395 | 66% | \$297,066 |

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, Great Clips, Empress Nail Spa, and Yen Hwa Chinese Restaurant.

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$1,191,750 | \$1,270,600 | 77% | \$71,624 |

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. Home Depot sold on June 30, 2016 for ~\$9.36M net and proceeds were used to pay off debt. In addition to a 50,503 sq. ft. Dunham's Sports, this property boasts 63,048 sq. ft. of leasable shop space. Tenants include Oakpark Preschool, Stark Medical, P.S. Cook's, and Agavero Bar & Grill.

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$8,618,667 | \$2,409,687 | 85% | \$183,814 |

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.

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$12,512,000 | \$3,435,897 | 84% | \$261,621 |

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, Nexien, Newberry Nails & Spa, CATO, It's Fashion, Shoe Show, Groucho's Deli, and China Town Restaurant.

| Initial Investment | Net Investment | Occupancy | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$2,030,055 | \$2,228,040 | 100% | \$209,038 |

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 | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$1,100,000 | \$971,403 | 91% | \$99,779 |

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 Edward Jones, 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 | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$5,117,333 | \$2,059,531 | 86% | \$148,415 |

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 | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$2,660,000 | \$2,704,587 | 100% | \$194,288 |

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 | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$2,906,000 | \$3,009,302 | 82% | \$196,944 |

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 | 2019 Q1-Q3 NOI |
|--------------------|----------------|-----------|----------------|
| \$2,922,500 | \$2,962,558 | 92% | \$158,791 |

Note: 2019 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.

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