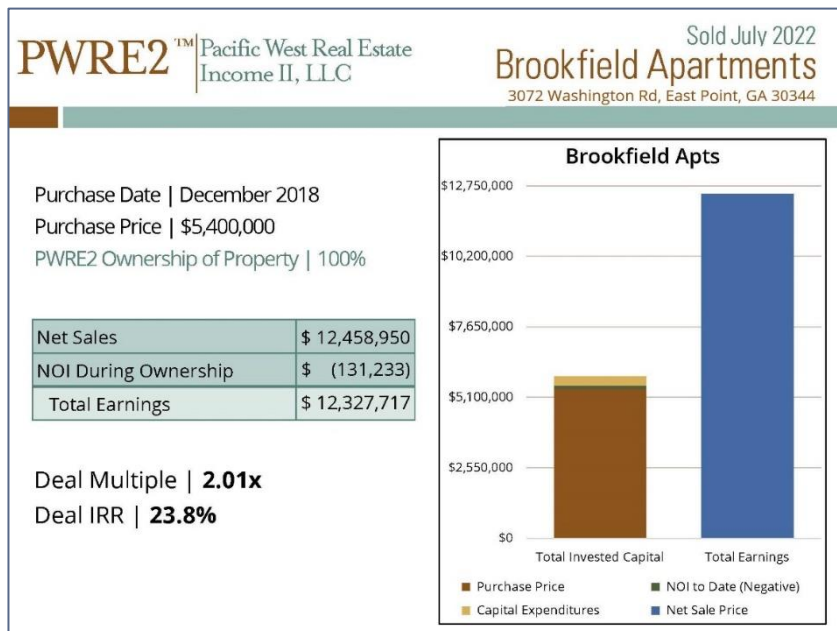




We host 3 meetings in the Seattle area each year for PWL investors, and on a less strict schedule investor meetings are held in other cities around the country. Last month we held our annual *official* investor meeting. This breakfast took place at the Washington Athletic Club and was hosted both in-person and virtually via Zoom, for our investors and their advisors. Thank you to everyone who attended. Here are some highlights (brags):

- **PWREI** Net income was \$7.7M in 2022 against an unreturned year-end capital balance of \$29.8M. (25.8%)
 - Net profits were up due to both better operating results and two property sales.
 - Free cash flow was \$3.4M, which was up despite operating a smaller asset base. The asset base was smaller due to previous property sales.
 - We talked about the sale of [Oak Creek Commons](#) and [The Shoppes at Buford](#). It's always a good use of time to talk about home runs.
- **PWRE2** Net income was over \$8M for the year against unreturned capital of \$41.6M. (19.2%)
 - We talked about the sale of [Brookfield](#) and [Westminster Apartments](#). It's worth noting that the results of these two value-add investments were excellent. Results would have been even better, had it not been for the many delays and challenges associated with the pandemic.
- **Overall 2022 results were excellent.**



Purchase Date | May 2015
Purchase Price | \$1,135,000
PWREI Ownership of Property | 100%

Net Sales	\$ 2,522,107
NOI During Ownership	\$ 771,793
Total Earnings	\$ 3,293,900

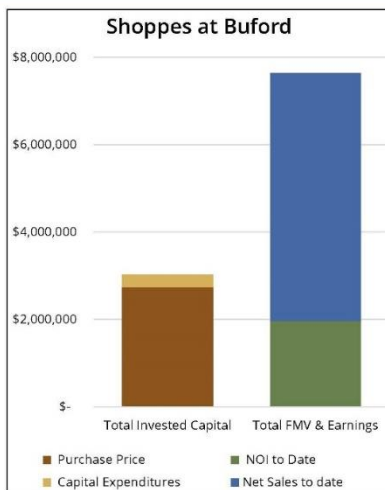
Deal Multiple | **2.81x**
Deal IRR | **18.4%**
100% occupied at sale



Purchase Date | May 2014
Purchase Price | \$2,740,600
PWREI Ownership of Property | 100%

Net Sales	\$ 5,672,837
NOI During Ownership	\$ 1,965,666
Total Earnings	\$ 7,638,503

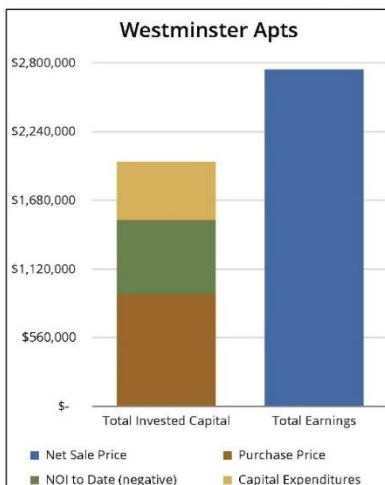
Deal Multiple | **2.68x**
Deal IRR | **15.1%**
100% occupied at sale



Purchase Date | August 2018
Purchase Price | \$918,750
PWRE2 Ownership of Property | 100%

Net Sales	\$ 2,746,400
NOI During Ownership	\$ (604,256)
Total Earnings	\$ 2,142,144

Deal Multiple | **1.39x**
Deal IRR | **13.6%**



Last month we included a paragraph about the new [Washington State tax on capital gains](#). This tax has received a lot of local news coverage. I'm sorry I was not clear about this earlier, but the tax only affects Washington State residents. The tax does not affect gains on real estate, except in certain situations. We will avoid giving tax advice by going no further into this topic.

I recently received calls from a couple investors who noticed that the depreciation shown in our

$$\text{Income} - \text{Depreciation} = \text{Taxable Income}$$

quarterly financials is not anything like the depreciation that shows up on K-1s. This observation is correct, as are both depreciation numbers. *Depreciation under GAAP and depreciation for tax purposes are only the same on two days, the day we buy and the day we sell.* In our quarterly reports, we are showing the GAAP version of depreciation. However, for tax purposes, depreciation is subject to manipulation via legislation. We are always striving to pull depreciation forward or accelerate depreciation, in order to lower our current taxes. This means less taxable income today, while we balance this out with more taxable income in the future. This is good, as making lower tax payments now means more money to invest now, which means unlocking the power of compounding now. Shorthand for this strategy is the [Time Value of Money](#). Remember, we can only change when, but not if, the tax is ultimately paid. Any tax on income that is shielded by depreciation will be collected at the time of a property's sale via the [Depreciation Recapture Tax](#).

Each time we buy a property, we order a [cost segregation study](#). This study, which combines engineering with accounting, allows us to depreciate many portions of a property more quickly, if the facts and circumstances justify it, rather than stick to a standard depreciation schedule for the whole building. For instance, if it is judged that a roof must be replaced in about 5 years, we can depreciate the value of the existing roof over 5 years, rather than on a standard 39-year depreciation schedule. *(If you ever need a cost segregation study for a commercial property, we've got a guy.)*

Sometimes, when we first buy a property, the effect of accelerated depreciation can be so great that taxable income for a property becomes a negative number for a year or two. This negative value flows through to investors' K-1s, reducing our taxes in the short term. Again, in the long run, the tax will be collected, but only after we enjoy the positive time value of money. This difference between GAAP depreciation and tax depreciation is kept track of by our accounting department for every property we manage. Please don't ask to look at these journal entries. I never do.

Of course, we feel a pang of regret as our "*depreciation shield*" is reduced each year. Depreciation has been going down each year, at the same time PWL's income has been going up. Therefore, the percentage subjected to income taxes is also going up. It is this noticeable increase in the portion of PWL's income that was not shielded by depreciation which probably led to those couple of phone calls and, in turn, led to this short explanation.

Something else that's been noticed by a few investors in this year's taxes is the [apportionment effect](#). Usually, when PWL sells a property, many of the states in which PWL does business get a piece of the taxes due on the gain via apportionment. Each state directs us to determine how much of PWL's business is done in their state as a percentage of the total. Then each state levies taxes on the whole income multiplied by this calculated percentage, rather than only taxing the portion of the income originating in their state. When we're selling off properties, this effect can appear dramatic.

The income originating from a particular state may be much smaller than the tax due to that state because of the gains on a sale that took place in a different state.

States use the apportionment method so that a company with operations in many states won't arrange their books so that all the company's profits show up only in low tax states. For investors in states with high personal income tax rates, like California and Illinois, apportionment does not really matter much. Investors in these states will end up paying their home state's high rate, with some tax first paid to other states before their home state collects the balance between what has been paid to other states and the high home rate.



PWL has purchased another property in Indiana!

Located in Indianapolis, Indiana, [Meridian Marketplace](#) is a 41,645-sq. ft. neighborhood shopping center. In April, PWL purchased this property for \$8.2M. The property is located in one of Indianapolis' most affluent suburbs, with very high daytime traffic counts. It is a superior location.

Club Deals

In our monthly reports, we note when PWL has purchased a new property, like Meridian Marketplace. Each of these new investments is organized as a stand-alone LLC funded by a handful of current PWL investors. We have dubbed these one-off investments "club deals," in part because "multiple one-off deals" does not roll off the tongue. The terms for club deals are very similar to those underlying PWRE1 and PWRE2. We charge a 1% one-time acquisition fee and 1% per year of asset value. We split the profits 80/20, in favor of Members. The minimum investment is typically \$250K. We just closed on purchasing two new income-focused club deals, including Meridian. We keep a rolling list of current PWL and potential investors who would like to participate in such opportunities. If such an investment might suit you, we would be happy to add you to this list at your request. Such opportunities are only open to accredited investors and are not suitable for anyone who does not have at least \$2M of investible assets, excluding their own home and own business. This bar is not set by any legal standard, but just good sense.

1031-Exchanges

PWL's purchase of Meridian satisfied the **1031-exchange** need of a client of a financial advisor who has had other clients with us for over a decade. If you are selling a property and looking at 1031-exchange options, please give me a call.

Golf

Office visitors with an appointment are welcome, although ferry rides are more fun when the sun is shining. We really, really enjoy reasons to get out of the office during the summer. Throw us a line. If you'd like to hit the links with Josh at [Wing Point Country Club](#) some Friday this summer, let's get it on the calendar. Martin usually joins for lunch before or after the round.

We have extra copies of "The Snow Goose" here in our office. If you'd like a copy to gift to a friend or family member, please email caroline@pacificwestland.com.

Finally, I attended a remembrance for one of our investors in late April. I first met him through his personal financial advisor over a decade ago. Following the memorial service, I wrote to some of my friends, “*The deceased was a very humble, very wealthy guy who gave a tremendous amount of dough to charity, but who steadfastly remained anonymous. I got to know him over the last 14 years. We usually met for breakfast at a diner near his home, a few miles north of the Golden Gate Bridge. Found out today he did not like fancy or expensive restaurants, and that he had been very happy with my choice of venues.*

He lived a long and healthy life. His family loved him. He remained loyal to his college football team. He gave to others more than he spent on himself. We should all be so lucky. RIP CT.”

Stay healthy & keep smiling –

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PWREI Scorecard

Approximate investment by PWREI

Data as of 2/28/2023

Willow Hill Center

The 21,082 sq. ft. center located in Puyallup, WA was purchased in May 2014 with an 83% stake for PWREI. We sold the Starbucks pad in October 2014 for ~\$2.35M net and the Ivar’s pad in April 2015 for ~\$1.27M net. The property currently has 9 tenants with the most recognizable being Moneytree, Pho Tai Vietnamese, and Rainier Growlers.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$5,625,000	\$2,943,228	100%	\$105,371

Benjamin Square

PWREI purchased this 9,950 sq. ft. property in May 2014. Benjamin Square is in a highly visible center just off I-5 in Woodland, WA. The property currently has 6 tenants; the national tenants include Starbucks (drive thru), Subway, Papa Murphy’s, T-Mobile and H&R block.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$1,900,000	\$2,069,607	86%	\$43,506

Auburn Road

Located in Dacula, GA, this 8,400 sq. ft. property was purchased by PWREI in August 2014. The center is located at the busy intersection of Auburn Rd. and Jim Moore Rd. and is at the center of a

sprawling residential area. Auburn Road's 4 tenants include State Farm, Intracore Healthcare, Georgia Veterinary, and Center Stripe Golf.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$1,000,000	\$1,051,877	100%	\$40,115

Gulf Breeze

PWREI purchased this 27,739 sq. ft. property located in Port Arthur, TX in January 2015. The property is shadow anchored by the major grocery store, H-E-B, and maintains great visibility from both HWY 347 and HWY 365. Gulf Breeze's national tenants include Edward Jones, Sprint, World Finance, Super Cuts, Republic Finance, The Nutrition Store, Pizza Hut, and a Wells Fargo ATM.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$2,677,500	\$2,889,380	100%	\$164,130

Log Pond Plaza

Located in a dense residential area just north of State Route 16 in Newark, OH, this 27,368 sq. ft. property was purchased by PWREI in March 2015. The property is shadow anchored by a Walmart Super Center with a Home Depot across the street. Log Pond boasts a healthy mix of 11 local and national tenants, which include Hertz, Cheng's Chinese, Fiesta Salon, and CATO.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$1,850,000	\$2,179,603	94%	\$72,514

Massard Farms

Located in Fort Smith, AR, this large shopping complex was purchased in April 2015. In September 2018, the Kohl's building sold for \$8.9M net. After its sale, PWREI still owns 71,592 sq. ft. leasable space. Massard Farms tenants include an IHOP, Savers, Sports Clips, Firehouse Subs, and Pad Thai Cuisine.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$13,415,287	\$7,401,127	96%	\$146,519

Massillon Commons

Located along the busy Lincoln Way corridor in Massillon, Ohio, this property was purchased in June 2015 for a 66.7% stake for PWREI. In June 2016, the Home Depot pad sold for ~\$9.36M net with the proceeds used to pay off debt. In addition to a 50,503 sq. ft. Dunham's Sports, Massillon Commons boasts 63,048 sq. ft. of leasable space that includes 12 tenants, the largest being P.S. Cook's, OakPark Preschool, and Stark Medical.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$8,618,667	\$2,502,750	87%	\$47,531

Greensburg Commons

Purchased in July 2015 for a 66.7% stake for PWREI, this large 88,953 sq. ft. shopping center is located at the intersection of I-74 and State Rd. 3 in Greensburg, IN. In December 2016, the Walmart parcel sold for ~\$13.9M net with most of the proceeds used to pay off debt. Greensburg Commons holds a mix of 15 local and national tenants. The most recognizable tenants are Jimmy John's, Great Clips, GameStop, GNC, Rent-A-Center, Feeder's Pet Supply, Goodwill, Open Box Outlet and Bath & Body Works.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$12,512,000	\$3,884,907	91%	\$99,703

Gateway Center

PWREI purchased this 28,056 sq. ft. mixed retail space, located in Newberry, SC, in October 2015. Gateway Center sits at the intersection of US 76 and Main St. and is shadow anchored by a Walmart. With 12 tenants, the center's most notable occupants include GameStop, Quick Credit, Nexien, and T-Mobile.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$2,030,055	\$2,233,215	100%	\$77,684

Powder Springs

Purchased in October 2015 by PWREI, this 15,050 sq. ft. strip center is located on Richard D. Sailors Pkwy in Powder Springs, GA. Upon purchase of the property, we acquired a vacant pad that was sold in February 2016 for ~\$280K net. Powder Springs is shadow anchored by a Home Depot and has a total of 6 tenants including Hanger Prosthetics and Premier Martial Arts.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$1,100,000	\$745,182	81%	\$30,726

Sugarcreek Crossing

Located in Centerville, OH, PWREI purchased Sugarcreek Crossing in October 2015 and holds a 66.7% stake. Upon purchase, the property included three parcels: a ground leased Cracker Barrel pad that was eventually sold in May 2016 for ~\$2.28M net; a Tire Discounters pad that was sold in December 2016 for ~\$2.96M net; and a multi-tenant retail building containing a UPS store, a Chiropractic office, and Edward Jones, among others.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$5,117,333	\$2,161,342	96%	\$56,184

East West Market

Purchased as a joint deal with Castleberry Promenade, PWREI acquired this 17,017 sq. ft. property in February 2016. East West Market is located along the East West Connector in Austell, GA. The 1.09-acre Dunkin Donuts pad sold in June 2020 for ~\$522K net. The property currently holds 6 tenants, the largest being WellStar Health System, American Hearing Imaging, and Thumbs Up Diner.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$2,660,000	\$2,206,308	100%	\$100,776

Castleberry Promenade

PWREI acquired this 26,651 sq. ft. property in February 2016 as a joint deal with East West Market. Castleberry Promenade is located at the busy intersection of Bethelview Rd. and Castleberry Rd. in Cumming, GA. Upon purchase, the property included leasable space as well as two small developable pads. This property currently has 10 tenants, among them Liberty Tax, Kumon Learning, Castleberry Ale House, and Ovo Salon.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$2,906,000	\$3,237,237	100%	\$159,147

Village at Las Sendas

PWREI purchased this 39,144 sq. ft property in June 2016 for a 33.4% stake. The Village at Las Sendas is located at the intersection of McDowell Rd. and Power Rd. in Mesa, AZ. This shopping center has a diverse mix of 16 national and local tenants, with the most recognizable being Chipotle, Jimmy John's, and Smashburger.

Initial Investment	Net Investment	Occupancy	2023 Q1 NOI
\$2,922,500	\$3,030,034	100%	\$59,786

Little Corona – SOLD August 2020

Located at the busy intersection of Rural Rd. and Ray Rd. in Chandler, AZ, this 6,074 sq. ft. property was purchased by PWREI in December 2014. Little Corona was sold in August 2020 for \$1.57M. At the time of sale, Little Corona held 100% occupancy.

Initial Investment	Profit	Deal Multiple	Deal IRR
\$1,010,000	\$1,170,646	1.82x	13%

Dail Center – SOLD August 2020

Dail Center was purchased by PWREI in December 2014. This 16,145 sq. ft. center is located along US Route 17 in famous Myrtle Beach, SC. Due to its popular location, the area attracts over 14 million visitors each year. In August 2020, Dail Center was sold for \$2.4M and was 100% occupied.

Initial Investment	Profit	Deal Multiple	Deal IRR
\$1,522,500	\$1,990,807	2.08x	16%

Roosevelt Place – SOLD November 2021

This 14,000 sq. ft. property was purchased in August 2014 by PWREI. The property is located in the industrial corridor of Phoenix, AZ by I-10. This location allows for heavy daytime traffic. In May 2016, the Jack in the Box pad sold for ~\$1.08M. Roosevelt Place sold in November 2021 for \$5.02M.

Initial Investment	Profit	Deal Multiple	Deal IRR
\$2,960,000	\$4,620,030	2.55x	19.9%

Shoppes at Buford – SOLD June 2022

This 20,844 sq. ft. property was purchased by PWREI in May 2014 and is located in Buford, GA. The centers' location across from the Mall of Georgia puts it in a retail corridor ideal for drawing shoppers. Shoppes at Buford sold in June 2022 for \$5.7M.

Initial Investment	Profit	Deal Multiple	Deal IRR
\$2,740,600	\$5,699,583	2.68x	15.1%

Oak Creek Commons– SOLD June 2022

This small 10,462 sq. ft. strip center located in Oak Creek, WI was purchased by PWREI in May 2015. Being south of Milwaukee, the area's population growth and average household income are projected to outpace the national average over the next five years. Oak Creek Commons sold in June 2022 for \$2.5M.

Initial Investment	Profit	Deal Multiple	Deal IRR
\$1,191,750	\$2,499,248	2.81x	18.4%

Note: 2023 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 audited results on an annual basis from a PCAOB registered public accounting firm.