

Pacific West Land, LLC

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January 2014 Update

Happy New Year! Unlike the last couple of years when we were swamped with year-end deals, I was able to take a 6-day weekend just before the New Year. What a great way to recharge the battery. We had an excellent Christmas. With a 10-year-old at home there is still some magic in the air on Christmas morning.

We're pleased to start the year by opening our new fund, the **Pacific West Real Estate Income Fund, LLC**, to investors. We send out the documentation in batches of 10 most days. We are just finishing up sending them to existing investors first. If you would like to receive a copy of the offering materials, please email Melissa@pacificwestland.com.

There are significant differences between the Pacific West Real Estate Income Fund (PWREI) and our previous two pooled real estate offerings. Our new fund is focused on providing investors with regular income over a 10-year period. In the current low-yield market, this will be a welcome option for most investors. Details can be found in the Private Placement Memorandum, Operating Agreement, and Marketing Brochure for the Fund which are all included in the offering materials along with subscription documents.

I finished 2014 with many investor meetings, traveling to Colorado, Portland, Boise, San Francisco, and San Luis Obispo before returning to Seattle in time for our luncheon here. It was our largest investor lunch in Seattle to date. It was great to see and talk with so many of investors. Meeting face-to-face is my favorite part of the job. We have scheduled a lunch in Seattle on January 24th for those who are interested in learning more about PWREI. Contact Melissa for details.

We are putting together year-end data for the Q4 2013 reports and look forward to sending more information on how 2013 panned out for our previous funds. These will hit investor inboxes in February.

Laurie and our accounting team at Peterson Sullivan are in the process of compiling year-end **K1 tax forms** for each investor. Those will be sent approximately the first week of March.

This is the time of year we get asked about valuations. For long-time readers of our monthly emails, you know this is a topic I give a lot of thought to. It is not uncommon to get this request: *“Can you just send me an email once a year that just says what your most recent fund is worth?”* The short answer is *“no,”* because there is no one single definition of value. There are at least five different ways we think about what each property is worth here in the office.

1) **Book value.** Which we publish on each investment’s quarterly balance sheet.

2) **(Assessed Value plus cash minus debt).** This is the number we include in each quarterly report. Assessed value generally trails the price at which a property would sell for by a year or two, whether that price is moving up or down. We like assessed value because it’s a data point that costs nothing, is relatively conservative, and is provided by a third party.

3) **(Appraised value plus cash minus debt).** This is a number we don’t know, do not provide, and have no plans to make available. We hate appraised value because it’s one person’s opinion on one day, and they only provide that opinion if we pay for it. We’d rather have the money than the data point.

4) **Fair market value (FMV)** is a number we will calculate and publish for PWREI because PWREI is subject to a GAAP audit. We prepare a discounted cash flow for each property which the auditor, Peterson Sullivan, reviews for accuracy in the historic numbers and reasonableness of the projected numbers. No matter how careful the calculation of FMV is, it’s still just an educated guess.

5) **(Estimated sale value plus cash minus debt)** is a number we calculate for internal use once a quarter. Bruce and Josh each independently estimate what each property would sell for, and we take the average of those two numbers. We use this estimation for things like *“sell now or sell later”* decisions.

The weakness of all these valuations is that they don’t account for what we see in the future. We’ve just closed a great year for leasing, and every new lease increases the value of the entities we manage. When we consider *“What’s the portfolio worth?”* we are thinking, *“We will have another 6 or 10 leases in the next 6 months and the new leases will add a value of X to our Fund.”* None of the valuation methods above adequately capture the value of X, the value of expected new leases, while here as the Manager we are

thinking about X and what that means to PWREI's future value all the time. X is what we're talking through when we consider "sell now or sell later."

We will continue to provide book value and (assessed value plus cash minus debt) in each quarterly report. While these should provide insight as to how we are doing, they will not provide the whole story.

In December we signed a new tenant at **Shoppes of Andover**. Big Paws Grooming Salon will join the property in a 1,050 square foot space with rent commencing in March 2014. There will be no Tenant Improvement (TI) costs. **Crabapple Station** welcomes Susie B/Southern Chic, a women's clothing boutique. They will lease 1,171 square feet of space starting with a 3-year lease with minimal TI costs. We look forward to many new leases in 2014.

We wish you and yours a Happy New Year.

Best –

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Distressed Asset Fund Scorecard
(approximate investment by the Fund)
all data as of 11/30/2013

San Diego County Loan—REPAID \$1M hard money loan at 18% interest. Borrower paid in full and Fund profit amounted to ~\$130.4k.

Oasis at the Islands—SOLD The Fund sold this 7,200-square-foot commercial property located in Gilbert, AZ for \$1,255,000 in April 2012. The property was purchased in March 2010, with an original purchase price of \$546k.

Fund Initial Investment	Profit	Multiple	IRR
\$610,078	\$541,817	1.9x	30.79%

Village at Surprise —SOLD The sale of this property was completed in April 2013 for \$6.01M. The property was purchased in February 2011 for \$3.108M, and was 30% owned by the Fund.

Fund Initial Investment	Fund Profit	Multiple	IRR
\$939,139	\$781,492	1.89x	36.71%

Sunset Commons —SOLD The Popeye’s lease sold in February 2011 for ~\$605k. The sale of the remainder of this property was completed in July 2013 for \$1.85M. It was 100% owned by the Fund.

Fund Initial Investment	Fund Profit	Multiple	IRR
\$627,458	\$1,033,790	1.86x	34.23%

Desert Bloom Plaza — SOLD The sale of this property was completed in November 2013 for \$780k. The Fund acquired this 5,099-square-foot Las Vegas retail property through a trustee’s sale in August 2010. The note had a face value of \$800k. It was 100% owned by the Fund.

Fund Initial Investment	Fund Profit	Multiple	IRR
\$376,620	\$538,532	2.27	29.96%

Foothills Park Plaza — This commercial center is located in the Ahwatukee neighborhood of Phoenix, AZ, with 20,173 leasable square feet purchased in June 2011. The Fund owns 50% of this property.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,120,722	\$1,155,622	78%	\$3,672	\$27,655

Siena Canyon — The Fund purchased this 15,074-square-foot property on Tropicana Ave in Las Vegas, NV in July 2010. The Jack in the Box pad sold for \$1.835M and the Arby’s pad sold for \$1.417M. American Auto sold in October 2013 for \$700k. Remaining space is 6,000 square feet. Press Start Gaming opened in November 2013. Fund Net Investment is zero because we have earned back more than our capital investment.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$3,219,290	\$0	45%	\$-2,856	\$38,102

Laveen Village — This property is 20% owned by the Fund and was purchased in August 2010 for a total purchase price of \$8M. The Jack in the Box pad sold in December 2010 for \$1.225M. Remaining space has 47,106 leasable square feet. Construction started on Carniceria and Rainbow expansion spaces with delivery anticipated before the end of January.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,600,000	\$715,000	77%	\$6,288	\$73,639

Pepper Ridge Plaza — This 19,818-square-foot property in Phoenix was acquired in July 2010 for \$1,939M. It is 50% owned by the Fund.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$969,730	\$969,730	29%	\$3,020	\$19,882

Shops at Warm Springs — The Fund owns 20% of a 35,242-square-foot property in Las Vegas purchased November 2010 for \$6.5M. A Wells Fargo ground lease sold for \$3.38M, Sinclair’s gas station sold for \$1.4M, and Putter’s restaurant sold for \$700k, all in July 2011. We sold the SBA cell phone tower September 2011 for \$260,000, and completed the sale of the South Building in April 2013 for \$3.195M. Remaining building has 15,760 leasable square feet. Occupancy reflects remaining building. Fund Net Investment is zero because we have earned back more than our capital investment.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,350,000	\$0	49%	\$1,689	\$34,649

Walmart Country Club Shops — This Retail property is 44.9% owned by the Fund. It is located in Mesa, AZ with 17,597 square feet of retail space, purchased in December 2010 for \$2.049M. Lease signed with National Restaurant Supply for 5,228 square feet. Construction underway for National Restaurant Supply. Completion expected near the first of the year.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,123,362	\$1,103,023	48%	\$5,709	\$2,165

Ahwatukee Hills Plaza — This note was purchased by the Fund in December 2010 collateralized by retail property with 7,040 square feet in Phoenix, AZ.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$732,073	\$732,073	71%	\$6,885	\$38,079

Shops at Tatum & Dynamite — This 8,725-square-foot retail property was purchased by the Fund in December 2010.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,252,078	\$1,252,078	58%	\$5,565	\$37,264

Safeway Plaza — The Fund purchased this 6,039-square-foot retail end cap at Safeway Plaza at the southwest corner of Elliot & McClintock in Tempe, AZ in March 2011. This property is currently listed for sale.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$661,670	\$661,670	100%	\$5,355	\$17,507

Plaza in Scottsdale — This shopping center with 67,441 leasable square feet is 20% owned by the Fund, and is located at the intersection of Scottsdale & Thunderbird in Scottsdale, AZ. It was purchased for \$6.44M in May 2011. Jack in the Box sold in September 2011 for \$1.4M. Starbucks pad sold November 2013 for \$3M.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,300,000	\$442,353	69%	\$5,765	\$45,506

Cave Creek Plaza — This shopping center with 21,595 leasable square feet is located at the intersection of Bell & Cave Creek in north Phoenix, AZ. It was purchased in June 2011 for \$1.58M. Construction completed in Castillo Clothing and space was turned over to tenant.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,584,035	\$1,584,035	76%	\$13,092	\$103,354

Note: MTD and YTD numbers reflect Real Estate Opportunity Fund portion of the totals.

Due to the length of these messages, our monthly updates will now alternate scorecards of our Real Estate Opportunity Fund and our Distressed Asset Fund.