

Pacific West Land, LLC

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

12/10/2014

December 2014 Update

I hope you had a great Thanksgiving. We had a terrific traditional Thanksgiving dinner. Football was on TV. It was a great day. We got just enough snow over the holiday weekend for things to start looking festive in the Northwest. (For anyone in the Midwest or New England, what we got was not really snow as you know it, just the Seattle version of snow.)

The **Pacific West Real Estate Income Fund, LLC** is no longer accepting investors. Thanks to all who invested in the fund. We will do a final administrative close at the end of December and report the final closing amount at the start of the new year.

Because of some questions recently received following Q3 reporting, this month I'm going to provide an overview of the concept of **basis** in real estate. (*No one should confuse this for an accountant's or an auditor's technical explanation of basis.*) This explanation is not all encompassing, and is just meant to get at the concept but not all the functional detail. Each time we buy a property, its basis is the same as the purchase price plus any capitalized purchase expenses; for instance, a commission. When we buy a single building on a single lot, the basis is straight forward; the basis is the price we paid.

When we buy a property that has two buildings on two contiguous lots or other combinations, it is not straightforward. At the time of a purchase, our VP of Finance, Laurie, puts together a basis workbook for the property that allocates the purchase price into the various components of the property. The allocation of how much of the purchase price is assigned to each component is not arbitrary, but is governed by many accounting rules. The most difficult allocations are when one portion of a property is occupied, when the basis can be calculated based on the profitability of the building, while within that same purchase there is a vacant building, in which case the basis is calculated on a dollar-per-square-foot method. Another layer of complication may arise if we make a purchase that includes a vacant pad or vacant land.

Imagine we've purchased a pair of buildings: one with a NNN nationally known tenant and the other building with 8 inline local businesses and some vacancy. Our basis calculation might look like this:

	Building	Land	Total
NNN Tenant	\$8,500,000	\$1,500,000	\$10,000,000
Inline Space	\$4,000,000	\$1,500,000	\$5,500,000
	\$12,500,000	\$3,000,000	\$15,500,000

Now, the day we buy this fictional property we are thinking, *"Great! We bought it for \$15,500,000, but we think it's really worth \$17,500,000, with a lot of upside when we fill that vacancy."*

We put the NNN Tenant building on the market right away, and it sells for \$9,500,000. Even after selling the NNN piece for \$9.5M, we still think the total value of the remaining building is \$8,000,000. However, in the quarter in which the NNN sale takes place, we're going to show a loss of \$500,000, because the sale price was below the basis that was assigned to the NNN building at the time of purchase.

A sly person might wonder, *"Why not assign a basis of \$14,500,000 to the NNN piece, sell for \$9,500,000, and then we get a paper \$5,000,000 loss which will reduce my taxes! Genius!"* Going back to a point earlier in the explanation, the accounting rules are really IRS and GAAP rules which give little flexibility to assigning basis to prevent such financial shenanigans. Further, the basis calculation is audited for reliability as part of the annual audit process.

Leasing is still going well with PWREO. We signed a new deli tenant at **Vistancia Marketplace**. They will lease 1,568 starting with a 5-year lease. **Buenaventura Lakes** welcomes two new tenants. Pedro Rodriguez is a Puerto Rican bakery leasing 1,800 square feet. They are taking over the space formerly occupied by an ice cream shop. Dollar Land will join Buenaventura in 1,200 square feet of space. All leases include only minimal Tenant Improvement (TI) costs.

Best –

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

Real Estate Opportunity Fund Scorecard
(approximate investment by the Fund)
all data as of 10/31/14

Palm Bay Commons — SOLD April 2013. The Fund sold this 9,000-square-foot property in March 2013 for \$1.35M. Original purchase price was \$923,000 in May 2012.

Fund Initial Investment	Profit	Multiple	IRR
\$923,000	\$468,900	1.51x	48.42%

Eastern and St. Rose — SOLD August 2013. The Fund sold this property in August 2013 for \$6.5M. PWREO Fund owned 22% of this property. Purchased for \$3.21M in January 2012, this 20,180-square-foot commercial property is located at the northwest corner of Eastern Ave and St. Rose Parkway in Henderson, NV.

Fund Initial Investment	Fund Profit	Multiple	IRR
\$709,000	\$545,677	1.84x	46.68%

Arrowhead Festival — The Fund purchased this property in March 2012. The 12,611-square-foot commercial property is located at the northeast corner of Bell Road and 73rd Ave in Glendale. New five year lease signed with Carl Quick Pizza for 1,392 square feet. Negative NOI reflects payment of property taxes.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,739,500	\$1,739,500	100%	-\$9,435	\$70,127

International Promenade — The Fund purchased this property in April 2012. This 35,296-square-foot commercial property is located at the corner of US Highway 192 and Vineland Road in Kissimmee, FL. Taco Bell parcel sold for \$1.9M on September 17, 2013.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$3,167,940	\$1,327,641	84%	\$17,418	\$112,575

Jonesboro-Towne Crest — The Fund purchased this property in May 2012. This 20,109-square-foot commercial property is located at the corner of Jonesboro Road and Vinings Drive in McDonough, GA.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,559,778	\$1,559,778	88%	\$19,058	\$124,517

91st and Northern — The Fund purchased this property in June 2012. This 7,900-square-foot commercial building is located in the popular Peoria Crossings shopping center just off Arizona Loop 101. The building is anchored by 2,700-square-foot Streets of New York restaurant.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,057,874	\$1,057,874	66%	\$3,390	\$68,504

Bell West Ranch Shops — The Fund purchased this property with an assumed loan in August 2012. The 7,000-square-foot O'Reilly Auto Parts pad sold in October 2012 for \$2.07M, which was used to pay down the loan. The remaining shop space is 20,225 square feet. The center is located on Bell Road near the growing Loop 303 corridor in Surprise, AZ. Negative NOI reflects payment of property taxes.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$5,838,446	\$3,850,343	77%	-\$504	\$109,448

Westminster Crossings — The Fund owns 50% of this property located in Westminster, CO. The property was purchased for \$4.05M in August 2012. It boasts a drive-thru Starbucks, Subway, and several local tenants. It totals 28,713 square feet and is shadow-anchored by Lowe's Home Improvement.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,948,347	\$1,948,347	78%	\$16,475	\$152,492

Shoppes of Andover — This property in Orlando, FL was purchased in August 2012. The property consists of 21,599 square feet of space. Tenants include a local pizza restaurant and TrustCo Bank. The location is easily accessible from the interstate and benefits from Publix as a shadow-anchor. New three year lease signed with Preferred Managing Agency for 1,400 square feet and a new five year lease signed with Diamond Cut Barbers for 925 square feet.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,918,863	\$2,918,863	94%	\$17,317	\$182,062

Shoppes at Summerlin — The Fund owns 50% of this property in the affluent Summerlin area of Las Vegas, NV. The property was purchased in August 2012 for \$2.86M. Tenants include Sprint, Nationwide Insurance, and many popular local businesses. The center consists of 16,147 square feet. It is shadow-anchored by K-Mart, Lowe’s, and Trader Joe’s.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,467,225	\$1,467,225	93%	\$6,795	\$110,965

Stonebridge Shops — This property is located in Mesa, AZ and is 50% owned by the fund. The purchase price was \$2.65M and was completed in August 2012. The property consists of 30,235 square feet of shops, shadow-anchored by Safeway. Tenants include Moki’s Hawaiian Grill, and Hungry Howie’s Pizza. Negative NOI reflects payment of property taxes.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,306,793	\$1,306,793	74%	-\$11,375	\$36,772

King’s Crossing — This property is located in Kennesaw, GA, just outside of Atlanta. Purchased in September 2012, it is located next to a busy Bank of America branch and has excellent visibility from the street. With 15,000 square feet, it provides easy access to I-75. Negative NOI reflects payment of property taxes.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$855,401	\$855,401	100%	-\$4,188	\$70,648

Northlake Promenade — This property, located in Atlanta, GA, was purchased in September 2012 for \$3.4M. The property is 80% owned by the PWREO Fund. Tenants include AT&T, FedEx Office, and Coast Dental. The 16,632-square-foot property is located on a busy intersection across from the Northlake Mall and has easy access. AT&T portion of the building sold in April 2013 for \$1.825M.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,742,170	\$1,348,765	76%	\$18,160	\$141,450

Vistancia Marketplace — This property, located in Peoria, AZ, was purchased in October 2012 for \$25.9M and is 25% owned by the Fund. The center is located in the master planned community of Vistancia which will have over 17,000 homes at final build-out. Chase pad and Walgreens pad sold in March

2013 for ~\$11.2M combined. Safeway pad sold October 2013 for ~\$14.1M. Remaining shops space equals 53,421 square feet. Negative NOI reflects payment of property taxes.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$4,821,809	\$224,632	54%	-\$5,880	\$73,753

Fairway Park Plaza — This property is located in Phoenix, AZ at the hard corner of 59th Ave and W. Indian School Rd, a high-volume, stabilized intersection. Purchased in November 2012, the property consists of 31,955 square feet of shops space, shadow-anchored by a CVS Pharmacy. Negative NOI reflects payment of property taxes.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$925,914	\$925,914	67%	-\$30,889	\$95,512

Hickory Flat — This property is located in Holly Springs, GA within the greater Atlanta metropolitan area. It was purchased in November 2012. The center includes 19,285 square feet of retail space in two separate buildings. Tenants include a freestanding Wendy's, a 6,000-square-foot liquor store, and Papa John's Pizza.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,276,454	\$2,276,454	84%	\$16,624	\$140,514

Shoppes of Maitland — Purchased December 2012, this property is located in Maitland, FL, a suburb of Orlando. The property consists of a 3,820-square-foot Regions Bank with drive-thru and a 16,441-square-foot retail shops building with second story office spaces. Regions Bank parcel sold February 2014 for \$3.986M.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$4,109,872	\$268,045	100%	\$25,669	\$215,336

Crabapple Station — This property was purchased in February 2013 and is located in Milton, GA, a suburb of Atlanta. The property consists of 18,943 square feet of retail space in three buildings. Tenants include Just for Giggles, Sip Wine, and a CrossFit studio.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,625,000	\$2,625,000	100%	\$4,559	\$252,872

Village Shoppes at Altamonte — This property is located in Altamonte Springs, FL, a suburb of Orlando, and was purchased May 2013. The property consists of 35,506 square feet of retail space. Tenants include Breakfast Club, Altamonte Springs Yoga, and Silvano’s Restaurant. T.G.I. Friday’s and Winghouse neighbor the property on each end.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,900,000	\$2,900,000	61%	\$18,943	\$112,446

Buenaventura Lakes — This property was purchased in May 2013 for \$2.8M and is located in Kissimmee, FL, just outside of Orlando. The property contains 23,625 square feet of inline retail space. Other tenants include BVL Pediatrics, Lou’s Pizza, and Chimichurri Grille. The property is 91% owned by the fund. The Bank of America parcel was sold on May 9, 2014 for \$1.23M.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$2,402,405	\$1,380,724	72%	\$16,646	\$197,723

Shoppes at Princeton Lakes — The fund owns 25% of this property located in Atlanta, GA, purchased May 2013 for \$3.1M. The property includes one retail building with 13,624 square feet of space with no vacancies. Current tenants include Edible Arrangements, Wireless Time, and Rice Box restaurant.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$775,000	\$775,000	100%	\$6,668	\$68,452

Fort Apache Shopping Center — The fund purchased the note secured by this property in Las Vegas, NV for \$1.85M and took ownership in August 2013 via trustee’s sale. The property is 9,819 square feet and tenants include Papa John’s and Sagos Tavern.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$1,850,000	\$1,942,500	55%	\$11,210	\$116,879

Highlands Shopping Center — The fund owns 100% of this property located in Clearwater, FL, purchased in June 2013 for \$700k. The property includes two retail buildings with 19,020 square feet of space. The property is shadow anchored by a Walmart Neighborhood Market. Negative NOI reflects current low occupancy.

Fund Initial Investment	Fund Net Investment	Occupancy	MTD NOI	YTD NOI
\$700,000	\$700,000	25%	-\$2,359	-\$31,071

Note: MTD and YTD numbers reflect the Real Estate Opportunity Fund's portion of the totals. All profit, NOI, IRR, and Multiple calculations presented are unaudited gross estimates.

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.