

Pacific West Land, LLC

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

9/5/2014

September 2014 Update

I hope you've had a great summer. Here at Pacific West Land we're sad to see summer come to a close, but we're excited for the start of football season. Bragging rights are up for grabs in the office-wide fantasy football league. My team, The Favreites2Win, are hoping to bounce back after an injury plagued 2013-14 campaign.

The **Pacific West Real Estate Income Fund, LLC (PWREI)** ended the month of August with firm commitments of \$39,317,500. **PWREI is open to new investors.** I will be visiting **Chicago** and the **San Francisco Bay** area in the next few weeks. If you would like to schedule an appointment to discuss PWL and PWREI, in our office, by phone, or while I'm on the road. Please email me. (**Martin@pacificwestland.com**)

PWREI made two recent acquisitions. On August 1st we closed on an 8,400-square-foot property in Dacula, GA. We purchased **1250B Auburn Road** for \$1,000,000. The center is situated in a growing area outside Atlanta with superior visibility along a main road. The single-building property is 57% occupied by a doctor's office and a veterinary clinic anchoring each side. Adjacent businesses include Gold's Gym and Shenanigan's Sports Bar. Median income in a 1-mile radius is \$90,824.

We purchased **Roosevelt Place** in Phoenix, AZ on August 22nd for \$2,960,000. The property consists of a 14,000-square-foot building and an adjacent 1.02-acre undeveloped pad. Current tenants in the building include Filiberto's Taco Shop, Pawn Central, Cricket Wireless, and Port of Subs sandwich shop, making it 70% leased. The property is located on 51st Avenue, the most significant north/south arterial to Laveen, a growing community to the south, and is just off I-10. Multiple access points give the center convenient entry. With a population density of 369,392 people living in a 5-mile radius, an estimated 15,000 employees work in the immediate vicinity daily.

We've added three new tenants to **Pacific West Real Estate Opportunity Fund (PWREO)** properties. The **Shoppes at Andover** welcomes Red Mountain BBQ into 1,542 square feet of space. The tenants will move in this month. There are no Tenant Improvement (TI) costs.

Central Arizona Medical Associates will join **Stonebridge Shops** in Mesa, AZ. They will lease 9,398 square feet, combining several vacant suites into one medical office. Their lease is five years.

Dancercenter South, an existing dance studio, will relocate to our **Hickory Flats** shopping center in Holy Springs, GA. They will lease 2,800 square feet over 5 years.

On July 30th we completed the sale of the final building at the **Shops at Warm Springs**, part of our **Pacific West Distressed Asset Fund (PWDAF)**, with a final sale price of over \$3M. The building was the last of six separate parcel sales for the property. PWDAF owned 20% of this property. The final gross IRR on the property was 33.93%, with Total Fund NOI of \$962,953. A distribution based on the sale was sent to investors last month.

We have sold 7 of PWDAF's 15 properties. Our eight remaining properties have a combined occupancy rate of 74%, up from 53% for the same properties in August 2013, a net absorption of 30,358 square feet of leased space.

I was recently asked about **IRR**, an acronym we throw around quite often. **Internal Rate of Return (IRR)** is the annually compounded return of an investment or group of investments. A couple of decades ago, when I worked in consulting, we used the acronym **CAGR** (Compound Annual Growth Rate), which has the same meaning. IRR combines the two elements of (a)return and (b)time into a single measure. If we said an investment had a return of 20%, it would be great if it was held for a year or two. If an investment had a return of 20% but was held for 10 years, it's not that good of a result. IRR bakes the time element in, so that we can make easy comparisons. An investment that returned 20% in three years would have an IRR of 6.27%. An investment that returned 20% over 10 years would have an IRR of 1.84%.

When we report the IRR of each property we've sold, remember that the number does indicate if we made a good investment or not, but the IRR may overstate the positive results if the reader does not keep two things in mind. First, the IRR clock started ticking on the day we bought the property. The time the money was sitting in the bank waiting for us to find an investment was not counted. Second, the IRRs reported for each property do not capture the portion of the profits the Manager will be paid if the entire PWDAF portfolio performs as anticipated for investors. We cannot calculate that

portion the Manager will receive until after investors have gotten all of their capital back and also received a substantial profit.

There are many things IRR does not measure. The two most important of these are risk and debt. If an options trader makes many bets each day, some should have high IRRs; only by aggregating all the bets would that trader's IRR be a meaningful measure for investors. Bragging about a very high IRR on a few investments while taking a loss on several related investments is misstating the risk. When we make our final distributions to investors on any portfolio of investments, we also report out, "The net IRR to investors," to avoid the problem illustrated by the option trader. Second, IRR does not include total debt, which is also the biggest element of risk for real estate investments. An IRR of 11% which is built on the back of 80% debt is far riskier and therefore far less desirable than an investment with an IRR of 11% but without the use of borrowed funds.

I am also sometimes asked how we calculate IRRs. Excel has an IRR formula built in, so that we only need to enter each cash-in or cash-out event, along with the date that event took place. Excel then performs the math.

PWL welcomes a new member to our Property Management team. **Tyler Cowdrey** hails from Chicago where he just earned a BA in Physics with a Minor in Philosophy from Northwestern University. He joins Zach in overseeing tenants and property managers, managing construction and maintenance projects, and aggregating financials for use in reports. When he's not at work he can be found exploring Seattle, biking, or backpacking.

We're always happy to hear from investors, so give us a call or stop by any time.

Best --

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

Distressed Asset Fund Scorecard
(approximate investment by the Fund)
all data as of 7/31/2014

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% |

Safeway Plaza — SOLD The sale of this property was completed at the end of January 2014 with a sale price of \$1,275,000 net. The fund acquired the building in March 2011.

| Fund Initial Investment | Fund Profit | Multiple | IRR |
|-------------------------|-------------|----------|--------|
| \$661,670 | \$319,250 | 1.87 | 28.87% |

Laveen Village — SOLD This property was 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. We sold an Office Max pad in June of 2011 for just over \$3M. The remainder of the property sold for \$7.15M on May 1, 2014.

| Fund Initial Investment | Fund Profit | Multiple | IRR |
|-------------------------|-------------|----------|-------|
| \$1,600,000 | \$647,717 | 1.66 | 27.9% |

Shops at Warm Springs — SOLD 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 was sold in July 2014 for \$3.025M.

| Fund Initial Investment | Fund Profit | Multiple | IRR |
|-------------------------|-------------|----------|--------|
| \$1,350,000 | \$962,953 | 1.49 | 33.93% |

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% | \$6,989 | \$61,090 |

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. 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 | 70% | \$8,709 | \$17,629 |

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 | 35% | \$2,861 | \$8,331 |

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.

| Fund Initial Investment | Fund Net Investment | Occupancy | MTD NOI | YTD NOI |
|-------------------------|---------------------|-----------|---------|----------|
| \$1,123,362 | \$1,103,023 | 56% | \$3,985 | \$10,207 |

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% | \$12,531 | \$51,541 |

Shops at Tatum & Dynamite — This 8,725-square-foot retail property was purchased by the Fund in December 2010. Lease signed with Goodwill for last remaining suite.

| Fund Initial Investment | Fund Net Investment | Occupancy | MTD NOI | YTD NOI |
|-------------------------|---------------------|-----------|----------|----------|
| \$1,252,078 | \$1,252,078 | 100% | \$12,065 | \$46,518 |

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. Lease signed with Phenix Salon Suites and Healing Path Day Spa.

| Fund Initial Investment | Fund Net Investment | Occupancy | MTD NOI | YTD NOI |
|-------------------------|---------------------|-----------|----------|----------|
| \$1,300,000 | \$442,353 | 87% | \$17,192 | \$51,971 |

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.

| Fund Initial Investment | Fund Net Investment | Occupancy | MTD NOI | YTD NOI |
|-------------------------|---------------------|-----------|----------|----------|
| \$1,584,035 | \$1,584,035 | 79% | \$22,803 | \$43,825 |

Note: MTD and YTD numbers reflect Distressed Asset 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.