

Granite Peak Partners Opportunity Fund III, LP

- **Investment in Hearthstone at City Center and Bella Terra at City Center**
- **364 and 304 Unit Apartment Communities**
- **Aurora (Denver) Colorado**

In 2007, Granite Peak Partners acquired two multifamily garden-style properties built in the 1980's. Located in Aurora Colorado, a suburb of Denver, Hearthstone at City Center (formerly Stonebrook Apartments) and Bella Terra at City Center (formerly Countryside Village) were purchased together for \$41.86 million. The two apartment communities encompassed 57 buildings for a total of 664 units. Considered Class C assets with few amenities, the buildings suffered from significant deferred maintenance and the neighborhood had issues with crime. Granite Peak recognized the value-add investment opportunity to increase rental income through capital improvement renovations, establishing operational efficiencies and hiring a well-trained property management team. Granite Peak successfully repositioned the apartments into a profitable Class B asset concluding with the sale of the properties for \$91 million in June 2015.

Granite Peak's plan was to execute a three-year rehabilitation and stabilization program, while operating them at 90% occupancy, then stabilize at 95% occupancy and sell the assets. Unfortunately, the financial crisis in 2008 occurred shortly after the acquisition of these two properties resulting in the partnership facing several decisions – to either sell at a loss or weather the storm and adhere to its business plan. After analyzing current market conditions and assessing the properties, Granite Peak determined that by managing cash flow and restructuring debt, it was prudent to follow the original business plan and allow time for the real estate market to recover.

In June 2015, Granite Peak Partners (GPP) sold the two apartment communities for \$91 million. Although five years later than planned, the return averaged over 18% per year therein proving the decision was the right one. At the time of acquisition Net Operating Income (NOI) was approximately \$2.1 million. At the time of sale NOI had increased to over \$5 million; a staggering increase of nearly 240% over the 7.7-year holding period.

Challenges Big and Small

The Great Recession was the worst economic downturn since the 1930s and it deeply affected the real estate industry. Capital was largely unavailable as either debt or equity. Mortgage defaults were rampant, transactional volume hit all-time lows and the lending environment was hostile. Like most of the real estate market, the two Denver projects acquired by Granite Peak were impacted with lower than average occupancy rates, high occupancy turnover and flat or declining rental rates. The situation required us to hold these properties for much longer than

originally planned. In an investor letter to limited partners dated May 2010, GPP noted “it is still impossible to define an exit date with any reliability.”

The three-year bridge loan was due for repayment in late 2010, however the Partnership was able to obtain a loan extension with its existing lender for six months; the added time allowed GPP to obtain permanent financing with Freddie Mac the following spring at historically low interest rates. At the time no lender was willing to lend an amount required to pay off the existing loan. GPP executed a capital raise of an additional \$4.5 million to pay down the original loan, allowing for the refinance to be completed, and to complete the ongoing improvements to the property. The capital raise came at a time when the economy was still unstable and investors lacked the confidence to invest money into existing and new commercial property. However, GPP was able to raise the sum needed based on the strong relationships the general partner has with its investor base. In summary, there was a great deal of caution in the financial markets and “capital preservation” was the leading mantra of the day.

Renovation on the two apartment communities was complex and included permitting, construction and construction management issues. For example, each unit renovation required

seven separate inspections by the City of Aurora. Further, installing the in-unit washers/dryers required close coordination of no fewer than five subcontractors for each job. The addition of washers/ dryers in each unit was an important and attractive amenity that helped fill a void in the market for “B” quality apartments.



Renovations for the properties included:

- Carports
- Landscaping
- Barbeque and playground areas
- New gating and fencing
- New ground-up construction of the clubhouse at Bella Terra
- Parking areas and driveway

- In-unit washers/dryers
- Full unit rehab (flooring, paint, cabinet fronts, counter tops, etc.)

GPP worked tirelessly with its property management team to maintain occupancy levels in the high-80s and low-90s percentile. Improved occupancy levels kept the properties cash-flowing positively during the worst of the recession. Gradually, Hearthstone and Bella Terra (combined) attained full stabilization and for the last few years averaged +95% occupancy.

Patience, Performance and Timing Pays Off

The successful renovation and repositioning of the two apartment communities achieved the two stated goals of substantially increasing rental rates (and rental income) and significant capital appreciation of the two assets.

The bet on Denver’s economy paid off. In the last few years, Denver’s economy has not only recovered, but its housing market has become one of the strongest in the U.S. to date due to annual employment growth of +40,000 jobs and net in-migration of nearly 2% per year (much higher than the national average). Professional services, construction, technology, education and healthcare sectors generated more jobs than other industries. However, new residential housing supply (in multifamily and single family) has not kept pace with demand. Granite Peak Partners’ two Denver apartment communities became priority acquisition targets for institutional investors.

UNIT RENOVATION SUMMARY

The property recently began a unit renovation program that is detailed in the following chart. Because washers and dryers have been added to a majority of the units at Bella Terra and Hearthstone, the properties are comparable to 1990s constructed properties. There are currently only two properties within a three-mile radius that were constructed in the 1990s.

HEARTHSTONE AT CITY CENTER	
GAIN OVER IN-PLACE RENTS	1 BD: \$100
	2 BD/ 1 BA: \$125
	3 BD/ 2 BA: \$150
AVERAGE UPGRADE COST	1BD: \$3,300
	2BD: \$4,500
	3BD: \$5,200

- Faux Wood Plank Flooring
- New Cabinet Fronts
- Laminate Countertops
- Two-Toned Paint

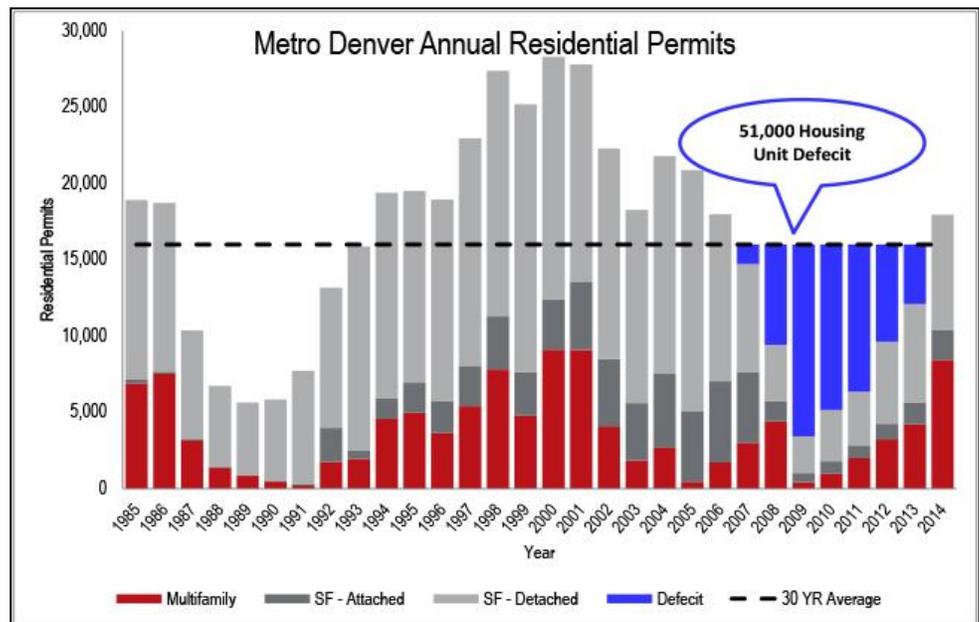
CAPITAL EXPENDITURES SUMMARY (2008 - 2014)

PROJECT	APPROX. COST
UNIT INTERIOR RENOVATION	\$2.2M
WASHER/DRYER	\$1.0M
DECK IMPROVEMENTS	\$438K
ROOFS & GUTTERS	\$355K
AC CONDENSERS	\$260K
ASPHALT PAVING	\$244K
LANDSCAPING	\$220K
PLAYGROUND/PICNIC AREA	\$157K
CLUBHOUSE	\$134K
CARPORTS/GARAGES	\$68K
OTHER	\$224K
TOTAL	\$5.3M





Denver's economy was one of the first metro regions in the U.S. to recover from the recession and economic indicators seemed positive in 2012, which spurred GPP to consider the possible sale of the two properties. The market was improving, rents had stabilized and the economy was trending upward. GPP conducted research, reviewed economic data and talked to its sources in the Denver market to evaluate the benefit of a sale versus a hold. Ultimately GPP felt that 2012 was not the right time to sell the properties. Two years later, in 2014, GPP reviewed updated economic data as well as the performance of the assets and decided the timing was right for an exit. Subsequently, in 2015 GPP successfully negotiated the sale of Hearthstone and Bella Terra to a private apartment REIT looking to get their first buildings Denver.



From 2007 to 2013, total housing units permitted in Denver fell below the 30-year historical average of 16,000 annually, creating a 51,000 unit shortfall. 2014 was the first year since the recession that total units permitted were above the 30-year historical average. Meanwhile, Denver's population grew at an annual rate of 1.7% (roughly double the national rate) causing a shortage in available housing.

Investment Performance Summary

In 2007, GPP raised \$13.075 million in original capital to buy the two properties and in 2011 raised another \$4.5 million in capital to help secure a new mortgage with favorable lending terms. Approximately \$12 million was invested in the improvement, renovation and related costs.

In 2015, the \$91 million price set a record in the Aurora/Denver market for the sale of garden-style suburban apartments. During the lifetime of the investment, after repaying the mortgage debt and closing costs, Granite Peak Partners has distributed nearly \$40 million.

Original and Additional investors both had 100% of their original capital returned and reaped significant average annual returns.

	<u>Original</u>	<u>Additional</u>
Total Distributed Capital	\$31,666,156	\$8,331,730
ROI	142.19%	85.15%
Term (years)	7.76	4.32
Annual Average ROI	18.33%	19.71%

Granite Peak Partners, Inc.

Based in Santa Barbara, CA, Granite Peak Partners, Inc. is a full service and vertically integrated Private Equity Real Estate Firm. The Firm creates and manages structured real estate investment funds for high-net worth, accredited investors and provides comprehensive real estate advisory services and asset management. Advisory services include valuation, strategic planning, acquisition, disposition, financing and 1031 tax-deferred exchange transactions. Granite Peak has expertise in multifamily, industrial, agricultural, storage and retail properties. The firm was founded in 2003 by Bruce Savett and Pierre Tada.