GRANITE
CAPITAL GROUP
REAL ESTATE INVESTMENT

Granite Peak Partners Growth and Income Fund I, L.P.

- ***Victoria Business Park — Long Beach, CA***
- ***Multi-tenant Office and Industrial Park***
- ***South Bay submarket of Southern California***

Note

The investment profiled below was managed by Granite Peak Partners, a firm co-founded by Bruce Savett. In 2015, Mr. Savett and his partner Pierre Tada divided the firm in order to best focus on their respective areas of expertise. Today, Mr. Savett runs Granite Capital Group, Inc. For more information on GCG and the investment opportunities that we sponsor, please see the company profile at the end of this document or consult our website at GraniteCapitalGroup.com

Executive Summary

In 2005, we identified an appealing opportunity at Victoria Business Park, an underperforming office and industrial complex in Long Beach, CA. We acquired the property at a significant discount to market rates with a plan to address two main factors impeding its valuation; high vacancy rates and deferred maintenance. Those issues were remedied quickly, and within 18 months the property was under contract to be sold at a price more than 40% above our acquisition cost. Unfortunately, the sale was an early casualty of the credit crisis, as the buyer lost their financing and abandoned the purchase. As the Great Recession worsened, we were left with a choice between selling the property for a loss and managing it until conditions improved. We chose the latter option, holding the property until 2015, when it was sold for a profit.

Though the fund did not meet our investment objectives, through careful management we were able to return a profit.

The Property

In December 2005, Granite Peak Partners Growth and Income Fund I, L.P acquired the Victoria Business Park, an office and industrial complex in Long Beach, CA, for $12,448,000. The two-building, multi-tenant property—consisting of roughly 120,000 net rentable square feet on 6.3 landscaped acres—was acquired at a valuation of $104 per square foot. This represented a significant discount to prevailing market rates, which ranged from $130 to $135 per square foot for comparable properties in the area.

Victoria Business Park occupied a prime location in the desirable South Bay commercial market. With easy access to five major freeways and close proximity to the Ports of Long Beach and Los Angeles, the mixed-use property provided flexible space attractive to the dynamic, trade-driven businesses common in the area. Built in 1986, the buildings were sound but in need of some updating. Still, with vacancy rates at comparable industrial properties running as low as 3%, Victoria Business Park should have been a profitable asset for its owners. Instead, poor leasing practices and inattention to maintenance had led vacancy rates at the property to exceed 30% at the time of acquisition.

Also deterring would-be buyers was the fact that the property was encumbered with an unattractive loan that carried a significant prepayment penalty and therefore could not be refinanced for some time. While these factors ultimately led to an untenable situation for the previous owner, for us they conspired to create considerable opportunity. As we said when announcing the formation of the fund, "The purchase price compensates us for assuming both the vacancy risk and the above market [7.87%] financing. We have created a business plan for the property that will effectively address both issues."

The Turnaround

The plan was straightforward, drawing on our operational expertise and strong capital position. We recognized that the high vacancy rates at Victoria Business Park were the

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result primarily of poor leasing practices implemented by distant ownership, a combination that had frustrated the nearby community and driven prospective tenants elsewhere. By putting in place a new, local management and leasing team, we believed that it would be possible to reduce vacancy rates quickly, while simultaneously improving tenant quality and increasing rents. The resulting improvement in cash flow would ease the burden of servicing the loan until refinancing became possible. Additionally, a $1.2 million budget for improvements would allow us to address several key maintenance issues and make further upgrades to the property. Our initial plan called for a five to seven year holding period with a projected annual Return on Investment of 18.5%.

Within the first six months of ownership, occupancy rates increased by over one third—from 68% to 91.4%—confirming our beliefs about the potential at Victoria Business Park. Smoother leasing operations, better broker relations and improved marketing efforts all contributed to a steady stabilization of the property. Upgrades to the site also helped to attract new tenants and retain existing ones. Within nine months of acquisition, all scheduled capital improvements had been completed, including the installation of new roofs in both buildings and the construction of a security fence with controlled entry gating. Interior and exterior painting, new landscaping, and parking lot resealing also contributed to the repositioning of Victoria Business Park.

During this period, valuations for income properties continued the upward trend they had been on for several years. By April of 2007, having added substantial value to the property and concluding that the opportunity for further appreciation was limited, we listed Victoria Business Park for sale. Though this would make for a considerably shorter hold period than anticipated, the historically low capitalization rates that we were seeing at the time told us that the risk of inaction was considerable.

In relatively short order, the property was under contract for approximately $18 million, a price that represented a return on Invested Capital in excess of 40% after a hold period of only 18 months. Ultimately, the nascent financial crisis and the tightening credit conditions that accompanied it prevented the purchase. The buyer requested an extension of the inspection period and, at the conclusion of that time, backed out of the transaction. Though the property was immediately re-listed, conditions had already turned for the worse and buyers had exited the market. As the crisis deepened, we were faced with the choice of selling for a loss or managing through the difficult conditions. Given our experience, we believed the best option was to navigate the recession and pursue a sale once conditions improved.

The Outcome

Though we were cognizant of the opportunity costs borne by our Limited Partners, as well as the continued operational overhead we would incur during a longer hold period, our decades of experience in the real estate industry told us that better days would eventually return. Given that perspective, we were reluctant to sell for a loss when we were not forced to do so. By carefully managing the property, including making concessions to obtain and retain tenants when necessary, it was possible to continue servicing the debt on the property. Meanwhile, many real estate partnerships with similar investments were not able to navigate the recession as successfully, resulting in myriad bankruptcies and foreclosures.

Eventually market conditions did improve and we again listed the property for sale. In September 2015, GPP Growth and Income Fund I, L.P. sold Victoria Business Park for $15,130,000. While this outcome was far from our initial projections, each investor received the full return of their initial capital plus a profit of approximately 42%, or 4.3% per year. In contrast, the SIOR Index of West Coast Industrial/Office real estate for the same period declined by 4.5%, evidence of the widespread losses experienced throughout the industry during this time.

Though we were able to quickly and successfully execute on our turnaround plan, the extraordinary macroeconomic forces involved in the Great Recession were too strong to overcome. Nonetheless, we view the project as a success in many regards. Our initial analysis proved to be correct, as shown by the rapid increase in occupancy following acquisition. Furthermore, our decision to pursue an early sale turned out to be a prescient one, as the market was indeed reaching a peak. Finally, our diligence in managing the investment throughout the downturn allowed us to avoid a forced sale and ultimately secure a profit.

About Granite Capital Group, Inc.

Granite Capital Group, Inc. (GCG) provides institutions and accredited individuals with access to the highly desirable commercial real estate market. The team of professional at GCG is constantly evaluating a wide range of potential investments, seeking to identify the best and most sound projects. From acquisition to disposition, the firm handles every aspect of these frequently complicated transactions, allowing its investing partners to focus on their own lives and businesses with the confidence that their funds are being managed with the utmost diligence.

While commercial real estate is attractive due to the significant potential for steady returns, it is also rife with challenges that can be difficult for those without experience in the field to anticipate. Moreover, the size of commercial transactions often makes it necessary to commit large sums of capital. By pooling investor funds and sourcing deals from an extensive network of business associates, Granite Capital Group is able to present its investment partners with opportunities that would otherwise be available to only a select few.

Growth & Income Fund I, LP

Purchase		
Purchase Price	$	(12,448,000)
Original Equity	$	(6,705,000)
Total Distributions from Operations		
Distributions from Operations	$	2,007,302
Total Distributions from Sale		
Sale Price	$	15,134,431
Loan Repayment	$	(7,705,102)
Selling Cost and Commissions (GPP/Voit/Colliers)	$	(446,408)
Reserves, Prorations and Property Costs	$	536,983
Total Net Proceeds Distributed to Investors	$	7,519,904
Total Investor Distributions	$	9,527,207
ROI		42.1%
Term (years)		9.8
Annual Average ROI		4.3%