



ALTURAS
REAL ESTATE FUND
www.alturas.com

Quarterly Report | 1st Quarter 2018

ALTURAS

REAL ESTATE FUND

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Key Numbers*

15.00%

Realized return - 1st quarter

17.57%

Realized return - since inception

30.45%

Total return - since inception

\$792K

Quarterly net income

*Stated returns are average annualized investor returns. Individual investor returns may vary based on the unit pricing at the time of investment.

Cover Photo:
Devil's Bridge, Sedona, Arizona
Photo by Luke Curé

Inside Cover Photo:
Horseshoe Bend, Page, Arizona
iStockPhoto: SimonSkafar

Dear Investors,

We had a great start to 2018. The average net realized return for the first quarter was **15.00%** annualized. The average total return for the quarter, including unrealized gains, was **21.51%** annualized. The portfolio continues to produce strong recurring cash flows, our overall use of leverage remains very conservative, and we continue to find operational efficiencies that help us to generate these results.

We added two properties to the Fund, including a retail center in Idaho Falls, Idaho and an office asset in Phoenix, Arizona. These properties have strong, in-place income, with upside as we sign new leases for vacant space. We are excited to be in both of these markets.

We completed the tax return for the Fund and sent out K-1's to our investors. Due to the new tax law, we realized a significant reduction in the overall taxable income. In 2017, we had \$2,481,162 in book net income for the Fund; only \$457,798 was considered taxable income, and of that, approximately \$279,000 was considered long-term capital gain. This resulted in an after-tax net return to investors in 2017 of nearly 18.62% (up from 15.41% pre-tax assuming a 40% tax bracket).

We continue to work diligently to find additional properties. Good projects are difficult to find - but we are having success using our targeted strategy. Now is the time to be careful and prudent as we expect interest rates to rise and the overall real estate market to experience headwinds. We continue to believe in our contrarian, value-add strategy for long-term success.

Thank you for your continued support and for investing with us!

Sincerely,



Blake Hansen, Chief Investment Officer
Alturas Capital Partners, LLC



Travis Barney, Chief Credit Officer
Alturas Capital Partners, LLC

All projections are hypothetical and predicated upon various assumptions that may or may not be identified as such. The future operating and financial performance information contained herein is for illustrative purposes and is not intended to portray any sort of targeted or anticipated returns. There can be no assurance that the Fund will achieve its investment objectives and actual performance may vary significantly.

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Fundraising

High Investor Demand

We currently have very high investor demand to place new money in the Fund. Having this cash allows us to purchase new investments for the portfolio, adding diversification and cash flow.

New money is first placed in a subscription account, earning no interest, until it is deployed in the Fund. Typically, money sits in the subscription account for 2-4 months, but may sit as long as 6 months. All money is deployed into the Fund on a first-in, first-out basis. Cash must be in the account in order for you to be placed in the queue.

Priority for Debt Investments

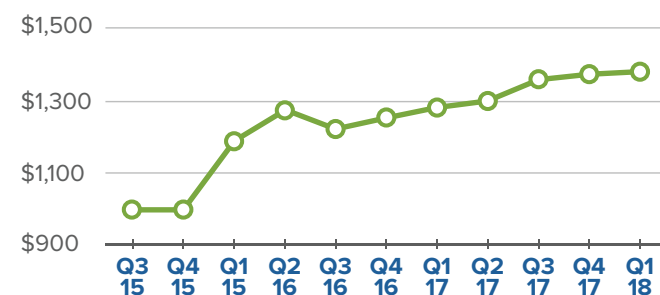
We are currently raising up to \$1 million in debt from investors, on 24-36 month notes, bearing 6-8% interest. Here are some advantages of the debt offering:

- Placed at the front of the queue, and deployed first, before all equity investors.
- Priority collateral position, ahead of equity investments.
- Investors are diversifying by investing both equity and debt in the Fund.

Please contact us if you are interested.

Unit Price

(Since Inception)



	2015	2016	2017	2018
Q1	N/A	\$1,188.86	\$1,280.86	\$1,388.41
Q2	N/A	\$1,274.41	\$1,299.39	
Q3	\$1,000.00	\$1,218.00	\$1,356.38	
Q4	\$1,000.00	\$1,254.26	\$1,369.28	

Fund Metrics

\$23.1M Total capital raised to date	\$4.1M Distributions paid to date
60+ Investors in the Fund	\$1,388.41 Unit price as of 4/1/18
\$81.0M Assets under management (AUM)	18.62%* After Tax Realized Return for 2017

*Alturas Capital Partners, LLC and its affiliates do not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. Please consult with your tax, legal and accounting advisors.

Realized Return by Month

(Annualized)

	2015	2016	2017	2018
January	N/A	13.37%	9.45%	12.90%
February	N/A	17.84%	15.17%	16.30%
March	N/A	14.84%	17.33%	15.91%
April	N/A	13.08%	16.08%	
May	13.64%	14.69%	11.39%	
June	13.64%	14.70%	29.02%	
July	13.62%	97.15%	13.89%	
August	11.79%	13.49%	16.21%	
September	23.57%	15.93%	14.53%	
October	14.90%	14.34%	15.16%	
November	15.15%	13.34%	13.90%	
December	15.04%	16.32%	13.18%	

Average Net Realized Return Since Inception **17.57%**

Investment Overview

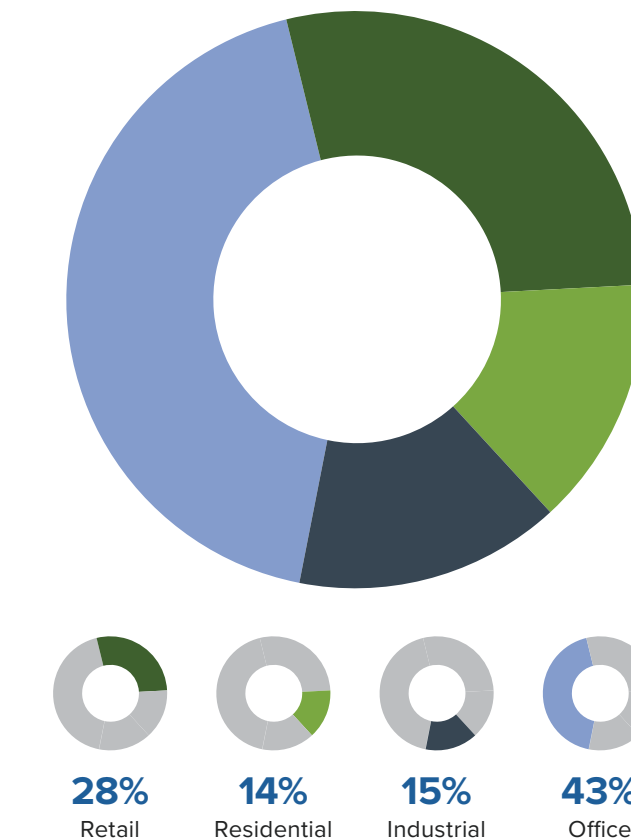
Fund Description

The Alturas Real Estate Fund, LLC was formed by Alturas Capital to provide high net worth individuals and accredited investors access to professionally managed real estate investments.

The Fund is a \$100 million offering, created to make value-add commercial and residential real estate investments. The Fund targets middle-market properties frequently ignored by larger funds. These properties can be profitable as a diverse portfolio that protects the investor's downside risk.

The Fund was created in May 2015 and owns properties primarily in the Intermountain West and Pacific Northwest. Managers of the Fund are continually searching for new properties to add to the Fund that meet strict underwriting criteria including a margin of safety, with a focus on cash flows.

Investment Allocation Overview



Summary of Debt Offering

Return range:	6-8% interest rate, paid quarterly
Investment type:	Secured notes
Debt offering cap:	\$1 million (Current)
Minimum investment:	\$100,000
Investor eligibility:	Accredited investors only
Security:	Priority position before equity investors

Summary of Equity Offering

Preferred return:	8% paid quarterly
Profit split:	70% to investors, 30% to manager after preferred return
Fees:	Asset management fee: 1.5%, no acquisition or disposition fees
Minimum investment:	\$100,000
Investor eligibility:	Accredited investors only
Targeted returns:	9-14%

Fund Performance Summary

As of March 31, 2018

Sold Investments

Investment	Date of Investment	Date of Liquidation	Property Type	MSA	Size	Status	Occupancy	Cost Basis	Fair Market Value/Sold Price	Fund Investment	Risk Profile
1. Legends Townhomes	Dec-15	Jul-16	Multi-family	Kansas City, MO	18 Units	Sold	N/A	1,250,000	2,020,000	N/A	Core Plus
2. 1124 Caldwell Blvd	Oct-15	Jun-17	Retail	Boise, ID	2,646	Sold	N/A	844,338	1,050,000	N/A	Value Add
3. 12000 Deep Canyon*	Sep-17	Oct-17	Single Family	Boise, ID	1 Unit	Sold	N/A	605,000	605,000	N/A	Residential Value Add

Current Investments

1. Eagle Marketplace	Sep-15		Retail	Boise, ID	60,024	Stabilized	93%	5,387,169	7,865,991	1,338,644	Value Add
2. 110 Main	Oct-15		Office	Boise, ID	6,230	Lease-up	0%	1,091,472	1,091,472	209,558	Value Add
3. Westpark	Feb-16		Industrial	Boise, ID	117,510	Stabilized	100%	6,414,001	6,675,733	844,277	Tenant-in-Tow
4. Alturas Homes*	Jun-15		Single Family	Boise, ID	66 Units	In Progress	N/A	2,756,242	2,756,242	2,756,242	Residential New Construction
5. Mission Village	Sep-16		Retail	Wenatchee, WA	32,551	Lease-up	73%	4,482,433	4,482,433	1,146,000	Value Add
6. Treasure Valley Crossing	Sep-16		Retail	Boise, ID	21,000	Stabilized	100%	3,791,205	4,293,987	1,094,000	Core Plus
7. 1444 Entertainment	Dec-16		Office	Boise, ID	78,573	Stabilized	98%	12,727,342	13,268,125	2,858,563	Value Add
8. 595 Washington	Dec-16		Industrial	Twin Falls, ID	11,195	Stabilized	100%	733,407	805,282	154,174	Tenant-in-Tow
9. Dutch Bros Caldwell	Apr-17		Retail	Boise, ID	874	Stabilized	100%	1,404,796	1,692,900	328,874	Build-to-Suit
10. 12005 Meridian	Apr-17		Retail	Seattle, WA	7,274	Under Construction	55%	3,561,084	3,561,084	1,604,260	Build-to-Suit
11. Siete Square	Jun-17		Office	Phoenix, AZ	57,933	Stabilized	94%	8,384,664	8,384,664	1,755,814	Core Plus
12. Adelman Building	Jul-17		Retail	Boise, ID	14,704	Stabilized	100%	2,176,145	2,176,145	567,459	Core Plus
13. 1550 Tech Lane	Aug-17		Industrial	Boise, ID	105,759	Stabilized	100%	6,220,619	6,220,619	2,083,499	Value Add
14. Parkway Plaza	Feb-18		Retail	Idaho Falls, ID	75,300	Lease-up	77%	4,151,197	4,151,197	718,027	Value Add
15. The Ashby on Osborn	Mar-18		Office	Phoenix, AZ	89,230	Lease-up	71%	9,915,124	9,915,124	2,800,842	Value Add
Total					678,157 SF		90%	\$73,196,899	\$77,340,997	\$20,260,234	

Acquisition Pipeline

Investment	Est. Date of Investment	Property Type	MSA	Size	Status	Estimated Occupancy at Acquisition	Contracted Purchase Price	Estimated Fund Investment	Risk Profile
South Salt Lake Flex	18-Jun	Industrial	Salt Lake City, UT	35,770	Under Contract	100%	2,250,000	675,000	Tenant-in-Tow
Cottonwood Plaza	18-Aug	Office	Boise, ID	43,427	Under Contract	72%	4,300,000	1,300,000	Value Add
Dutch Bros Colorado Springs	18-Aug	Retail	Colorado Springs, CO	874	Under Contract	100%	1,400,000	300,000	Build-to-Suit
Fairview Retail	18-Sep	Retail	Boise, ID	22,500	Under Contract	100%	2,190,000	800,000	Tenant-in-Tow
Chinden & Linder Development	18-Sep	Retail	Boise, ID	6,000	Under Contract	100%	2,100,000	600,000	Build-to-Suit
Total				108,571 SF		89%	\$12,240,000	\$3,675,000	

*Subordinated notes.

Case Study

1444 Entertainment



12/16/16
Acquisition Date

\$11M
Acquisition Price

\$13.27M*
Current Fair Value

13.12%
Expected Year 1 Total Return

21.80%
Actual Year 1 Total Return

In December 2016, the Fund acquired 1444 Entertainment, an 80,000 SF office building located in Boise, ID. The performance of this asset over the past fifteen months has exceeded our expectations and is an excellent example of our investment strategy further demonstrates how we identify underperforming real estate assets and reposition them for success.

The Challenges

Bad Ownership — Despite being a Class A property located directly off the interstate with access and visibility second to none in the market, the property had struggled to stabilize since construction 10 years prior. This was almost entirely due to horrible ownership. The previous owner had a very bad reputation among the brokerage and tenant community.

Stigmatized — Due to this owner's approach to leasing, the asset sat mostly vacant and eventually became stigmatized in the community even though there was nothing fundamentally wrong with the real estate.

Special Use Tenant — The primary tenant at the time of acquisition was a private college. Having the college and its students as the primary tenant did not help with the professional image of the building.

The Solutions

Over time, Alturas has been able to establish a reputation as a landlord of choice. Once the brokerage community was informed of the ownership change, they immediately knew we would take the opposite approach to the old owner. We are broker friendly, we invest in our assets, and we take care of our tenant clients.

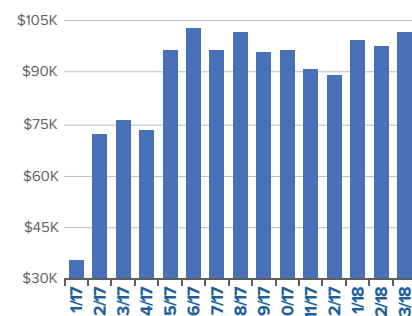
Once we took over ownership and started making investments in the asset the stigma dissipated quickly. The market recognized the asset's strengths and realized the only significant problem with the property in the past was the owner.

Through active management, lobby and common area renovations, and the addition of professional tenants, we were able to enhance the professional image of the building and mitigate the effect of the college tenant.

The Results

A few key metrics further underscore the improvement that has taken place. At acquisition the property was **67%** leased. It is now **98%** leased with multiple tenants considering the final small vacancy. The annual NOI has increased from approximately **\$800,000 to \$1,200,000**; an increase of **50.0%** in just over one year. The cap rate has increased from **7%** at acquisition to over **9%** currently. The total return has increased from **13.12%** at acquisition to over **22%** today.

NOI by Month



*The gross fair market value is \$14.1M which adds back the selling costs. One tenant is paying rent but the tenant improvements are not completed. This lease is not included in the fair value calculation.

BEFORE



AFTER



BEFORE



AFTER



BEFORE



AFTER



BEFORE



AFTER



Portfolio



The Ashby on Osborn
Phoenix, Arizona

In March we closed on The Ashby on Osborn (formerly known as Country Club Manor), a 89,230 SF office building. There are two prospective tenants currently considering leasing vacant space in the project. If they proceed to lease the space, the occupancy would increase to 95%. While these two leases are in the preliminary stages and may not materialize, it is encouraging to see significant leasing activity in the first 30 days since the acquisition.



Parkway Plaza
Idaho Falls, Idaho

In February we closed on Parkway Plaza, a 75,300 SF shopping center in Idaho Falls, Idaho. The center was lender-owned and being liquidated by the same special-servicer from which the Fund has purchased other assets. Planet Fitness executed a lease for 41,711 SF to anchor the property for a 10-year term. We are currently upgrading the signage at the property and working with our local brokers to fill the vacancy.



1550 Tech Lane
Meridian, Idaho

1550 Tech Lane is a multi-use industrial/office building in Meridian, Idaho. The 105,759 SF two-story building is centrally located in the Treasure Valley with convenient access to I-84 and excellent visibility from the freeway. We were able to sign new long-term leases with two tenants which brings the project to stabilization. The tenant improvements were recently completed for those tenants and they are now in occupancy.



Adelmann Building
Boise, Idaho

In July, the Fund acquired its first investment in downtown Boise, the Adelmann Building, a 14,704 SF two-story retail building. The asset is fully leased but has upside as the existing tenants are doing very well at this location and their current rents are below market. We are currently working with the city of Boise to improve the streetscape around the building including potentially adding awnings to provide additional patio space for our tenants.



1444 Entertainment
Boise, Idaho

Fourteen Forty-Four is an 80,000 SF Class-A office building. Since acquisition, new leases have been signed that bring the total occupancy to 98%. An entire floor was leased to Clickbank and Truckstop.com significantly expanded their footprint in the building. Those tenants are all now in occupancy and paying rent. We have also recently completed renovations to the lobby and landscaping around the building to further enhance the value of the asset.



Treasure Valley Crossing
Nampa, Idaho

Treasure Valley Crossing is a 21,000 SF retail property, located in the main retail shopping area of Nampa, Idaho. Nearby retailers include Costco, Target, McDonalds and Panera. The building is 100% occupied and there are long-term leases with the two tenants: Paul Mitchell the School and Stevens-Henager College. The asset was purchased for a discount from a very motivated seller and it continues to perform well.



Mission Village
Wenatchee, Washington

Mission Village is a 32,271 SF retail center in eastern Washington. The Fund purchased the property with significant vacancy and has been working with our local broker partners to attract additional tenants. We have signed several new leases since acquisition and the occupancy is up to 73%. While the property is performing well at current occupancy levels, there is additional leasing interest and we hope to have the property fully stabilized later this year.



Alturas Homes
Boise, Idaho Metro

The Fund continues to make investments in residential real estate. As the Fund grows, this asset class continues to shrink as a percentage of the total portfolio. At this point in the cycle there is a pronounced lack of single-family home inventory in the market. Fund management remains vigilant about any changes to the market and continues to focus on homes located in the most desirable communities in the area.



Siete Square
Phoenix, Arizona

In June, the Fund acquired a 57,933 SF two-story office property in Phoenix, Arizona. The property, Siete Square I, lies within the Midtown submarket north of Phoenix's CBD. We recently completed a renovation of the lobby and common areas. Since then, we have had one existing tenant renew and another agreed to expand into additional space at the building. This asset continues to provide excellent recurring cash flow to the Fund due to our attractive acquisition cap rate.



12005 Meridian
Puyallup, Washington

12005 Meridian is a build-to-suit 7,274 SF retail building in the Seattle metro area. The site was formerly the location of a thrift store. Situated along the primary retail corridor in Puyallup, the property was severely underutilized. Construction of the core and shell is now complete and the primary tenant (City MD) has completed their tenant improvements and will open for business later this month. 3,400 SF of the space is available for lease.



Dutch Bros Caldwell
Caldwell, Idaho

In April of last year, the Fund started construction of a new 874 SF Dutch Bros in Caldwell, Idaho. Dutch Bros is a popular drive-thru coffee chain headquartered in Grants Pass, Oregon known for its specialty coffee, teas & smoothies. Construction was completed in September and the tenant has now been successfully operating for over 6 months.



595 Washington
Twin Falls, Idaho

595 Washington is an 11,195 SF industrial building that is entirely leased to St. Luke's Regional Medical Center who is the largest hospital system in the region. The property was purchased vacant with the tenant-in-tow. The parcel includes additional land and St. Luke's has expressed interest in expanding into another building on that land. We are currently in the early planning stages of that expansion.



Westpark
Boise, Idaho

Westpark is a 117,510 SF industrial and office property located in Boise, Idaho. The property consists of two buildings and has excellent access to I-84. We are currently working with Union Pacific to add a railroad spur at the back of the property to allow the tenant (Patrick Industries, a publicly traded manufacturing company) to more efficiently produce and ship their products. This improvement should also incentivize the tenant to extend their current lease.



110 Main
Boise, Idaho

110 Main is a historic mansion very well located in downtown Boise that has been converted to a commercial building. The property is currently being marketed for rent or sale and has received considerable activity and interest but limited offers. As a result, the asking price for the property was recently reduced by \$50,000 and the fair market value for the asset was decreased correspondingly to more accurately reflect the market value at this time.



Eagle Marketplace
Eagle, Idaho

Eagle Marketplace is a 60,024 SF retail center located at the intersection of two key arterial roads. This project continues to outperform our initial underwriting. Occupancy is now up to 93% from 50% at the time of acquisition. Leasing activity remains strong and one additional lease has been signed since the last quarter. Remarkably, only two suites remain to be leased before the project reaches 100% occupancy.

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