



**ALTURAS**  
REAL ESTATE FUND  
[www.alturas.com](http://www.alturas.com)

Quarterly Report | 4th Quarter 2018

# ALTURAS REAL ESTATE FUND

## Blake Hansen

Chief Investment Officer  
Alturas Capital Partners, LLC  
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## Key Numbers\*

**13.96%**

Realized return - 4th quarter

**18.39%**

Realized return - since inception

**21.40%**

Total return - 4th quarter

**28.68%**

Total return - since inception

**\$0.92M**

Quarterly distributable net income

**\$5.16M**

Distributable net income - 2018

\*Stated returns are average annualized investor returns. Individual investor returns may vary based on the unit pricing at the time of investment. Distributable net income includes realized gains and losses and excludes unrealized gains and losses recorded during the period.

### Cover Photo:

Sedona Winter Snow  
iStockphoto by equigini

### Inside Cover Photo:

Winter in the Grand Canyon - Arizona  
Photo by Andrei Stoica

Dear Investors,

What a great year for the Alturas Real Estate Fund! We achieved excellent returns, added new assets to the portfolio and purchased property in new states within our geographic footprint, adding only properties that fit within our strict underwriting criteria.

We understand that many of you would like to increase your investment with us; some of you are still waiting for an opportunity to make an initial investment. At this point in the market cycle, finding the right deals is proving to be challenging and we expect these market conditions to continue for the foreseeable future. That said, we will continue to accommodate investor demand as we find assets that fit our criteria.

Although we have more deal flow than ever, we are also passing on just about everything we see. The market is very competitive and there is more liquidity chasing deal flow, especially the value-add assets we target, making it that much more difficult to purchase assets at the right prices.

These headwinds aside, we are still identifying good opportunities and adding them to the portfolio. Many times it takes very unique relationships and knowledge to create the right risk-adjusted returns. This quarter we added two assets in Chinden & Linder and Siete Square II. With these assets, we were able to leverage our knowledge to create what we feel are appropriate risk-adjusted returns.

Today, many investors are taking on too much risk, paying prices that are too high, and setting themselves up for lower risk-adjusted returns down the road. We are unwilling to compete with these investors and have decided to sell a few assets in the portfolio to these overly ambitious buyers at prices above the real estate's intrinsic value.

We appreciate your confidence in us. Be patient with us as we selectively add assets to the portfolio and opportunistically sell assets. Market cycles are inevitable. It is only a matter of time until our discipline will pay off.

Thank you again for your continued support!

Sincerely,

Blake Hansen, Chief Investment Officer  
Alturas Capital Partners, LLC

Travis Barney, Chief Credit Officer  
Alturas Capital Partners, LLC

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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.

Financial information herein related to the year ended December 31, 2018 is unaudited as of the date of this report.

# Fundraising

## High Investor Demand; Investor Strategies for Deploying Capital with Alturas

We have very high demand from investors who wish to invest with us. Many of our current investors want to invest more while many new investors want to begin investing with us.

To ensure you have the first opportunity to place additional capital into the Fund we suggest two strategies:

- **Reinvest your dividends.** This ensures your dividend is subscribed every quarter on the first day following the end of the quarter. Another advantage of the reinvestment option is the capital is invested at the previous quarter's unit price.
- **Invest in our note program.** In addition to our equity offering, we are also raising up to \$3 million in notes from investors. These are 24-36 month notes bearing 6-8% interest and have a priority position in the Fund.

Here are some advantages of the note offering:

- Notes are placed at the front of the queue, and deployed first, before all equity investors.
- Notes are in a priority collateral position ahead of equity investments.
- Diversification: invest in notes as well as equity.

As summarized in the table below, as of December 31st, 2018, 6% of the Fund's capital is in the form of notes. At this time, our target is to have approximately 10-15% of Fund capital in the form of notes, which we will continue to evaluate as the Fund evolves.

	Notes	Equity
End of Q4-2018	6%	94%

Please let us know if you are interested in our note program. We are still looking for investors who would like to participate. Contact us at [invest@alturas.com](mailto:invest@alturas.com).

## 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 equity 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.

## Summary of Debt Offering

**Return range:** 6-8% interest rate, paid quarterly

**Investment type:** Secured notes

**Debt offering cap:** \$3 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:** \$250,000 (as of 01/01/2019)

**Investor eligibility:** Accredited investors only

**Targeted returns:** 9-14%

# Investment Overview

## Other Fund Metrics

**\$25.08M**

Aggregate capital raised as of 12/31/18

**\$7.56M**

Distributions since inception\*

**80+**

Investors in the Fund

**\$1,393.51**

Unit price as of 01/01/19

**\$88.60M**

Assets under management (AUM)

**780,128 SF**

Total Portfolio Square Footage

\*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.

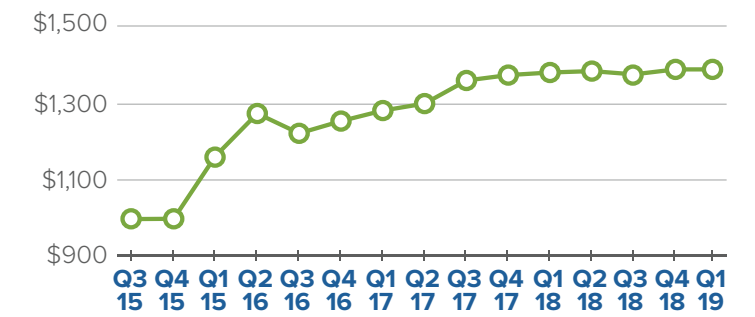
\*Distributions Since Inception includes Q4-2018 distributions paid on 01/31/19.

## Realized Return by Month (Annualized)

	2015	2016	2017	2018
<b>January</b>	N/A	13.37%	9.45%	12.90%
<b>February</b>	N/A	17.84%	15.17%	16.30%
<b>March</b>	N/A	14.84%	17.33%	15.91%
<b>April</b>	N/A	13.08%	16.08%	17.47%
<b>May</b>	13.64%	14.69%	11.39%	16.22%
<b>June</b>	13.64%	14.70%	29.02%	16.81%
<b>July</b>	13.62%	97.15%	13.89%	15.71%
<b>August</b>	11.79%	13.49%	16.21%	69.40%
<b>September</b>	23.57%	15.93%	14.53%	15.43%
<b>October</b>	14.90%	14.34%	15.16%	13.30%
<b>November</b>	15.15%	13.34%	13.90%	15.91%
<b>December</b>	15.04%	16.32%	13.18%	12.72%
	<b>15.34%</b>	<b>19.33%</b>	<b>17.82%</b>	<b>18.39%</b>

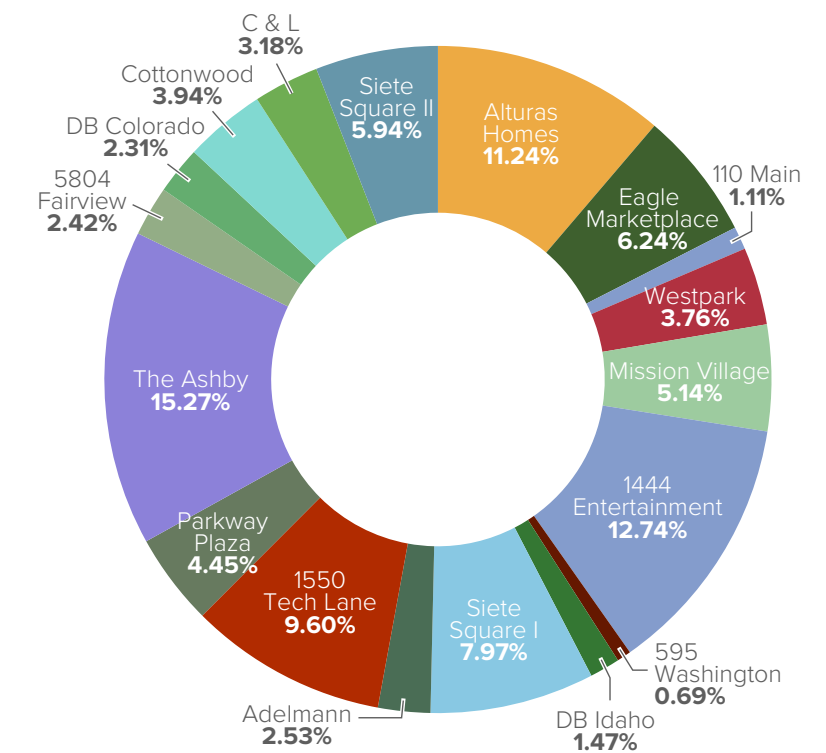
**Average Net Realized Return Since Inception**

## Unit Price (Since Inception)



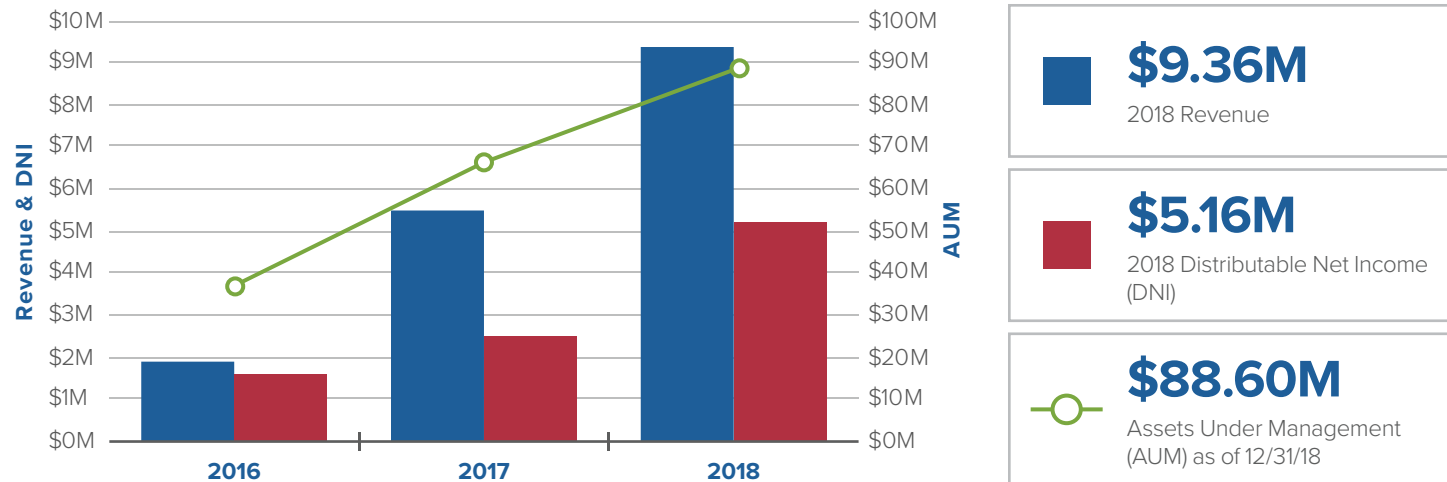
	2015	2016	2017	2018
<b>Q1</b>	N/A	\$1,188.86	\$1,280.86	\$1,388.41
<b>Q2</b>	N/A	\$1,274.41	\$1,299.39	\$1,389.45
<b>Q3</b>	\$1,000.00	\$1,218.00	\$1,356.38	\$1,370.75
<b>Q4</b>	\$1,000.00	\$1,254.26	\$1,369.28	\$1,393.51

## Fund Investment by Property



# 2018 Full Year Review

## Financial Highlights



## Portfolio Highlights

### Acquisitions & Dispositions

<b>7</b> Additions	<b>2</b> Sales
<b>284,336</b> Square feet	<b>28,294</b> Square feet
<b>\$28.89M</b> Acquisition cost	<b>\$10.60M</b> Total sales price

### Leasing Activity

<b>6</b> *New leases signed	<b>12</b> Renewed leases	<b>103</b> Total leases
<b>96,659</b> Square feet	<b>51,329</b> Square feet	
<b>\$0.82M</b> Annual rent	<b>\$0.87M</b> Annual rent	
<b>687,351</b> Total SF under lease		
<b>88%</b> Portfolio occupancy as of 12/31/18		

\*Excludes in-place leases at properties acquired during 2018

## Investor Highlights

<b>2018 Full Year Returns</b>	<b>33</b> New investors	<b>\$7.60M</b> Capital deployed during 2018	<b>60%</b> Reinvestment rate as of 01/01/19
<b>19.86%</b> Realized returns			
<b>21.86%</b> Total returns			

# New Investments

## Chinden & Linder Development



Eagle, ID

**Property Type:** Retail  
**Size:** 10,000 SF



The Fund acquired a pad at the Eagle Island Marketplace - located on the corner of Chinden Blvd and Linder Rd in Eagle - with plans to develop it into a 10,000 SF strip retail center.

The new shopping center is substantially pre-leased to Boise Fry Company, Palm Beach Tan, and Profile by Sanford with one 2,900 square foot space still available.

This project is currently in the permitting process with the City of Eagle with plans to break ground, weather permitting, in the spring of 2019. Construction is anticipated to take approximately six months with an expected completion by late summer or early fall of 2019.

Eagle Island Marketplace is a grocery-anchored shopping center located in the underserved North Meridian and Eagle markets directly in the residential growth path for those expanding communities.

## Siete Square II



Phoenix, AZ

**Property Type:** Office  
**Size:** 53,880 SF

Siete Square II is a part of the same office park as Siete Square I, an asset previously purchased by the Fund in June of 2017 creating an opportunity for operational efficiencies in terms of management, leasing, maintenance, and branding between the two buildings.

The 3-story building is located at 3707 North 7th Street - part of the Midtown submarket of the Phoenix CBD which is in the midst of a revitalization including thousands of new Class A apartments and a wide array of new retail and restaurants.

The property is currently 86% occupied, with approximately 7,500 square feet still available for lease. We plan to make improvements to the common areas, signage, and exterior of the building.





## Siete Square II

Phoenix, Arizona

- Acquired December 2018
- Adjacent to existing property Siete Square I.



## Chinden & Linder Development

Eagle, Idaho

- Acquired October 2018
- Construction expected to begin in the spring.



## Cottonwood Plaza

Boise, Idaho

- Improvements to the landscaping, building facade and signage are all now complete.
- Currently in negotiations with two prospective tenants to occupy 10,000-14,000 SF of vacancy in the building.



## 5804 Fairview

Boise, Idaho

- Single tenant building with tenant in occupancy and open for business.
- All indications are that the tenant is doing well and business is good.



## 595 Washington

Twin Falls, Idaho

- St. Luke's has elected to move forward with improvements to the building in the form of adding a fire sprinkler system.
- This improvement will add further value to the building upon sale.



## 1444 Entertainment

Boise, Idaho

- Clickbank expanded and took the remaining vacancy on the 3rd floor bringing the building to 100% occupancy.
- Signage on the facade over the entrance was changed to further enhance the brand of the building.



## Treasure Valley Crossing

Nampa, Idaho

- This property was sold in Q3 to a 1031-exchange buyer at a price that we considered to be well above the intrinsic value of the property.
- This resulted in a sizable realized gain for the Fund.



## Mission Village

Wenatchee, Washington

- Recently repainted to update its appearance and signal to the market that the ownership is active and willing to reinvest in the property.
- Plans to improve the pylon signage are underway.



## Dutch Bros Colorado

Colorado Springs, Colorado

- Permitting and entitlements are nearly complete. Construction will likely begin in February or March 2019.
- Following a 90-120 day construction period, Dutch Bros should open for business in June or July 2019.



## The Ashby on Osborn

Phoenix, Arizona

- Improvements to both lobbies, the exterior facade and the signage are now complete.
- Currently in negotiations with two prospective tenants to occupy 8,000-14,000 SF of vacancy in the building.



## Parkway Plaza

Idaho Falls, Idaho

- Improvements to the landscaping, parking lot and roof are all now complete.
- Currently in negotiations with two prospective tenants to occupy 1,500-4,300 SF of vacancy in the building.



## 1550 Tech Lane

Meridian, Idaho

- This summer, Consign Furniture will move to the south side of the building providing them with retail frontage on Overland Road.
- The move will also allow us to accommodate growth for our other tenants in the building.



## Westpark

Boise, Idaho

- Improvements to the roof were completed in Q4.
- Further capital improvements to the parking lot and landscaping have been budgeted for 2019.



## 110 Main

Boise, Idaho

- We have been unsuccessful so far finding a single tenant or an owner-user for the property.
- We are now exploring other multi-tenant alternatives including executive office and other uses.



## Eagle Marketplace

Eagle, Idaho

- Leases were signed in Q4 for the remaining 2,695 SF of vacancy bringing the property to 100% occupancy.
- Those tenants took occupancy and began paying rent in January.



## Alturas Homes

Boise, Idaho Metro

- The single-family home market remains strong in the Boise area.



## Adelmann Building

Boise, Idaho

- Permitting for new awnings are nearly complete and will be installed in the next 90 days.
- Boise Fry Company is opening a new ramen restaurant in the basement this spring.



## Siete Square I

Phoenix, Arizona

- Castle Biosciences signed a new lease to expand into an additional 2,970 SF bringing the occupancy to 98%.
- Operating expenses should decrease as we consolidate service contracts & property management with Siete II.



## Dutch Bros Caldwell

Caldwell, Idaho

- This property was sold on January 2nd which will result in a sizable realized gain in Q1 of 2019.



## 12005 Meridian

Puyallup, Washington

- Sold to a corporate dental office. While the sale generated only a small realized gain, it was still a valuable project as it allowed us to further enhance our track record on build-to-suit development projects.

# Fund Performance Summary

As of 12/31/18

## Sold Investments

Investment	Date of Investment	Date of Liquidation	Property Type	MSA	Size	Status	Sold Price (\$'000)	Realized Gains/ (Losses) (\$'000)	Risk Profile
1. Legends Townhomes	Dec-15	Jul-16	Multi-family	Kansas City, MO	18 Units	Sold	2,020	765	Core Plus
2. 1124 Caldwell Blvd	Oct-15	Jun-17	Retail	Boise, ID	2,646	Sold	1,050	206	Value Add
3. 12000 Deep Canyon*	Sep-17	Sep-17	Single Family	Boise, ID	1 Unit	Sold	605	-	Residential Value Add
4. Treasure Valley Crossing	Sep-16	Aug-18	Retail	Boise, ID	21	Sold	5,650	1,440	Core Plus
5. 12005 Meridian	Apr-17	Nov-18	Retail	Seattle, WA	7,388	Sold	4,950	201	Build-to-Suit

## Current Investments

Investment	Date of Investment	Property Type	MSA	Size	Status	Occupancy	Cost Basis (\$'000)	Fair Market Value (\$'000)	Fund Investment (\$'000)	Risk Profile
1. Alturas Homes*	Jun-15	Single Family	Boise, ID	59 Units	In Progress	N/A	2,522	2,522	2,522	Residential New Construction
2. Eagle Marketplace	Sep-15	Retail	Boise, ID	60,024	Stabilized	96%	5,458	7,937	1,399	Value Add
3. 110 Main	Oct-15	Office	Boise, ID	6,230	Lease-up	0%	1,157	1,157	249	Value Add
4. Westpark	Feb-16	Industrial	Boise, ID	117,510	Stabilized	100%	6,439	6,700	844	Tenant-in-Tow
5. Mission Village	Sep-16	Retail	Wenatchee, WA	32,514	Lease-up	59%	4,547	4,270	1,146	Value Add
6. 1444 Entertainment	Dec-16	Office	Boise, ID	78,175	Stabilized	100%	13,019	13,560	2,859	Value Add
7. 595 Washington	Dec-16	Industrial	Twin Falls, ID	11,195	Stabilized	100%	725	931	154	Tenant-in-Tow
8. Dutch Bros Caldwell	Apr-17	Retail	Boise, ID	874	Stabilized	100%	1,405	2,156	329	Build-to-Suit
9. Siete Square I	Jun-17	Office	Phoenix, AZ	57,933	Stabilized	98%	8,661	8,661	1,787	Core Plus
10. Adelman Building	Jul-17	Retail	Boise, ID	14,704	Stabilized	100%	2,195	2,195	567	Core Plus
11. 1550 Tech Lane	Aug-17	Industrial	Boise, ID	105,759	Stabilized	100%	6,854	6,854	2,153	Value Add
12. Parkway Plaza	Feb-18	Retail	Idaho Falls, ID	75,300	Lease-up	77%	4,257	4,257	808	Value Add
13. The Ashby on Osborn	Mar-18	Office	Phoenix, AZ	89,230	Lease-up	66%	10,899	10,899	3,426	Value Add
14. 5804 Fairview	Aug-18	Retail	Boise, ID	22,500	Stabilized	100%	2,369	2,679	488	Tenant-in-Tow
15. Dutch Bros Colorado Springs	Aug-18	Retail	Colorado Springs, CO	874	Under Construction	100%	543	543	518	Tenant-in-Tow
16. Cottonwood Plaza	Sep-18	Office	Boise, ID	43,426	Lease-up	72%	4,445	4,445	883	Value Add
17. Chinden & Linder Development	Oct-18	Retail	Boise, ID	10,000	Under Construction	73%	722	722	665	Build-to-Suit
18. Siete Square II	Dec-18	Office	Phoenix, AZ	53,880	Lease-up	86%	5,658	5,658	1,332	Core Plus
<b>Total</b>				<b>780,128 SF</b>		<b>88%</b>	<b>\$81,875</b>	<b>\$86,148</b>	<b>\$22,129</b>	

## Acquisition Pipeline

Investment	Est. Date of Investment	Property Type	MSA	Size	Status	Estimated Occupancy at Acquisition	Contracted Purchase Price (\$'000)	Estimated Fund Investment (\$'000)	Risk Profile
IGCP	Mar-19	Industrial/Flex	Spokane, WA	74,000	Under Contract	91%	6,900	1,825	Value Add
Shops at Decker Lake	Mar-19	Retail	Salt Lake City, UT	52,250	Under Contract	75%	7,200	2,250	Value Add
<b>Total</b>				<b>126,250 SF</b>		<b>84%</b>	<b>\$14,100</b>	<b>\$4,075</b>	

\*Subordinated notes.

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