



Alturas Real Estate Fund

Quarterly Update | 2nd Quarter 2016

ALTURAS
REAL ESTATE FUND
www.alturas.com

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Quarterly Update | 2nd Quarter 2016

May 29th marked the first year anniversary of the Alturas Real Estate Fund. As we take a moment to reflect on our achievements over the past year, we are humbled at the opportunity to be doing what we love and express our gratitude to each of our investors who have helped to make this happen.

We had another solid quarter, with realized returns of **14.17%**. The total realized return since inception of the fund is now **15.06%**, with a total unrealized return of **39.90%**. We have grown the assets under management to over **\$19 million**, and have raised just under **\$6 million** from our investors.

In the next month, the realized returns will jump, as we sell the Legends property in Kansas City. This will be the first commercial asset we sell from the fund portfolio. We hope that this marks the first of many assets that we take full cycle through our investment strategy.

We currently have 8 properties under contract, and offers in on multiple others. Our pipeline is full, and growing; and we continue to find new deal sources. We have built a very good reputation among the local brokerage community, who supply us with most of our deal flow, including many off-market opportunities. As we continue to perform, more deals come our way. Success leads to success; and deal flow creates more deal flow.

In the next few quarters, we will finish stabilizing a few more assets in the portfolio, and will have a decision to make: whether to sell the asset, or to keep it in the portfolio as a long-term, cash generating asset. In general, we want to continue growing the portfolio. We love the benefits of owning real estate, including long-term capital gains and yearly tax depreciation. However, along the way, we may decide to sell certain assets, to realize the value we have created. It is part of our overall portfolio management.

Many people continue to ask us how the market is holding up, and what we expect for the future. At this point, we are still finding great properties that meet our criteria of safety and risk-adjusted returns. We believe that deals exist in any market, especially for groups like ours, who are willing to take on projects that require work, patience, and hands-on expertise. We continue to monitor the changing landscape. We look forward to uncertainty and market cycles, as they will bring even more opportunities.

Again, we are grateful for the trust you have placed in us and look forward to continued success together.

Sincerely,



Blake Hansen, Managing Partner
Alturas Capital, LLC

ALTURAS REAL ESTATE FUND

Blake Hansen, Chief Investment Officer
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Key Numbers

14.17%
Realized return - 2nd quarter

15.06%
Realized return - since inception

39.90%
Unrealized return - since inception

\$19.07 M
Assets under management (AUM)

\$5.68 M
Total capital raised

Fundraising

We currently have eight properties under contract to purchase. These deals represent more than \$30 million of property value. We will have an opportunity to take on \$5 million to \$6 million in additional capital before the end of the year, in order to purchase the properties that make it through our thorough due diligence process. We anticipate the first need in September, and will be raising a significant amount in a short window of time.

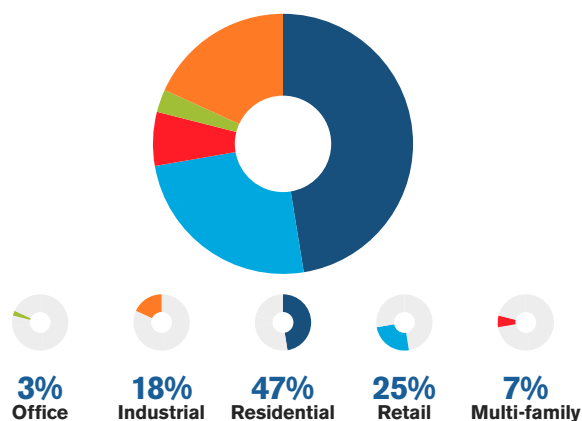
As always, our priority is to take care of our current investors. If you would like to invest more with us, please let us know by contacting Blake Hansen at (208) 921-5934 or blakehansen@alturas.com. We welcome any referrals of your qualified friends or family members who are looking for a great investment opportunity.

Summary of Equity Offering

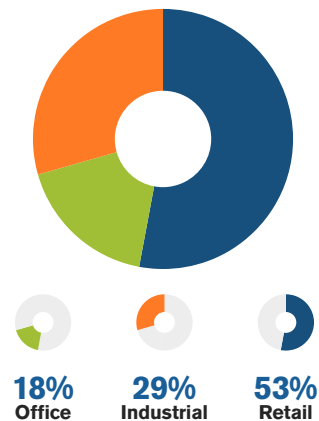
| | |
|-----------------------|---|
| Preferred return: | 8%, paid quarterly |
| Profit split: | 70% to investors, 30% to manager after preferred return. |
| Fees: | Asset management fee: 1.5%. No transaction level fees. |
| Minimum investment: | \$100,000 |
| Investor eligibility: | Accredited investors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

Investment Allocation Overview

Capital Deployed by Asset Class



Expected Capital Deployment by Asset Class (Under Contract)



Actual Annualized Realized Return by Month

| Year | Jan | Feb | Mar | April | May | June | July | Aug | Sept | Oct | Nov | Dec | Net Return Since Inception |
|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------------------|
| 2015 | N/A | N/A | N/A | N/A | 13.64% | 13.64% | 13.62% | 11.79% | 23.57% | 14.90% | 15.15% | 15.04% | |
| 2016 | 13.37% | 17.84% | 14.84% | 13.08% | 14.69% | 14.70% | N/A | N/A | N/A | N/A | N/A | N/A | 15.06% |



Eagle, Idaho

Eagle Marketplace

Multi-tenant retail

Property Type

1998

Year Built

\$4.10 M

Acquisition Price

Sep 2015

Acquisition Date

60,000

Square Feet

6 acres

Land Size

Key Bank and State Farm

Key Tenants

70%

Occupancy

This project continues to perform extremely well. Occupancy is at 70%, up from 50% when we acquired the property. Due to additional income from new leases, we were able to conservatively draw another \$1.1 million in loan proceeds at 4% interest, from our existing lender. Our debt service coverage ratio is in great shape, at almost two to one. This means that we could lose almost 50% of the income from the property, and still cover our debt payments.

We used the additional loan proceeds to pay for the landscaping, signage and tenant improvements at the property. After paying for these improvements, we will have extra cash on hand. We plan to use this extra cash to invest in additional fund assets. This will allow us to purchase the next asset in the fund, without having to raise more money.

We have completed the landscaping and signage improvements, and the changes have been quite dramatic. The property has better visibility from the adjacent roads, and the new signage also brings more visibility to our tenants. The community at large is very excited about these changes, and we have received hundreds of compliments. We expect to see continued leasing activity in the coming months as we continue to reposition this property and lease the remaining 30% vacancy. However, even without any new leases, this property is performing very well, and is generating very healthy cash flows.



Raymore, Missouri

The Legends Townhomes

Multi-family
Property Type

2007
Year Built

\$1.25 M
Purchase Price

\$1.70 M
Appraised Value

Dec 2015
Acquisition Date

\$2.02 M
Sale Price

July 2016
Sales Date

100%
Occupancy

This property is also performing very well for the Fund. The asset has consistently maintained high occupancy levels and net operating income, and has provided an excellent return since we purchased it the last day of 2015.

This quarter we received multiple offers from potential buyers of the property. We ended up agreeing to sell the property to a very motivated buyer for \$2,020,000. The property is scheduled to sell on July 5th, 2016. We marked the asset up at the end of the quarter. The resulting return is reflected in the unrealized returns for the quarter, but will convert to realized return in the third quarter, once the asset actually sells. The fund invested about \$330,000, and will make a profit of over \$500,000 in just over 6 months.

Although we had the property listed on the market for \$1.80 million, we were not set on the decision to sell. The property was generating one of the highest cash-on-cash returns of any asset in the portfolio. In some regards, we could have held onto the asset indefinitely. However, our position as the unmotivated seller, gave us leverage over a very aggressive buyer, who decided to pay us top dollar. We are very happy with our decision to sell this property at this price.



Boise, Idaho Metro

Alturas Homes

Quality, middle market new single family homes in the Boise, Idaho Metro Area

No raw land development

Over \$30 million of revenue expected in 2016

Emphasis on presold homes

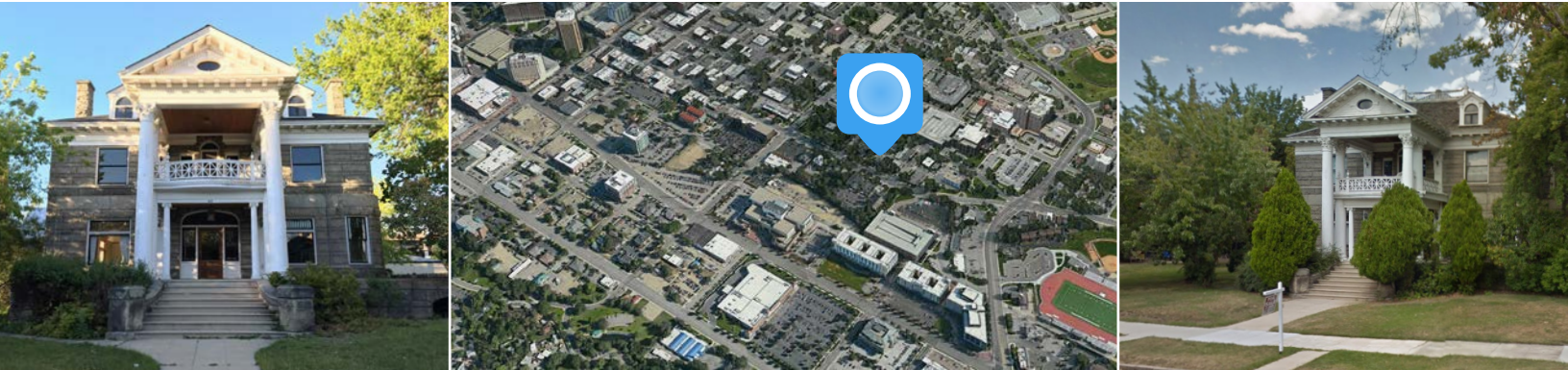
Focus on top-tier communities

Fund cash-on-cash returns: 22.5%

Our home building investments continue to be strong. At the end of the 2nd quarter, the fund had deployed approximately \$2.5 million in single family homes, generating a 22.5% return to the fund. Alturas Homes is a top-10 homebuilder in the Boise Metro Area, building in six top-tier communities located in the most desirable parts of the valley. The majority of the homes are pre-sold.

The Boise market continues to perform well, while not becoming overheated. New home sales for the area are trending at 2003 production levels, well below the pace during the boom of 2005 and 2006, even though the area has experienced significant growth of residents over this period. Production levels should be much higher than they currently are. Inventories are too low to keep up with existing demand. Today, the market has a 4-months' supply of new homes.

Another metric that we track is overall home affordability. We compute a proprietary affordability index each month, that factors in the price of new homes, median incomes, and interest rates. Today, the index indicates that homes are affordable for the average buyer in the areas we build and sell. We will continue to be vigilant about interest rate risk for these investments, and track production and inventory levels.



Boise, Idaho

110 Main

Residential to Office Conversion

Property Type

1905

Year Built

\$0.516 M

Acquisition Price

Oct 2015

Acquisition Date

6,225

Square Feet

We continue to perform the renovations on this project, including the exterior woodworking detail that has been a significant project for a craftsman who learned his trade on the old homes in New England. He is taking great care to perform the restoration correctly. In addition, we have been working to possibly secure a historic renovation tax credit that would mean up to 20% back on the renovation dollars.

We have installed new parking, replaced the roof, removed an old, worn-out garage, painted the exterior, cleaned the stone, and we are finishing up the final pieces of the exterior woodworking restoration. Next, we will be turning our attention to the interior of the home, where we are doing some hardwood flooring renovations, lighting, electrical and other changes. Although leasing interest continues, we have taken the property off the market until the interior improvements are completed, when we can promote the property in its newly renovated condition.

The asset is well located near downtown Boise, around the corner from the main campus of the largest regional hospital system in our market. We believe that this is solid real estate in the core of the market, which will maintain its value for decades to come.



Nampa, Idaho

Caldwell Boulevard Retail

Retail

Property Type

\$0.395 M

Acquisition Price

Oct 2015

Acquisition Date

2,686

Square Feet

100%

Occupancy

10 Years

Lease Term

When we purchased this property, we had a vision that it would be much more than an old Skippers restaurant. We have executed on this vision. We have signed a lease with a regional café operator, The Griddle, for their 5th location in the area. To accommodate this new lease, we successfully negotiated a buy out of the previous lease. The new 10-year lease is for \$23/foot, versus \$15.75/foot with the previous tenant, adding value to the property.

Renovations will begin shortly. A building permit is expected any day. We are anticipating a fall completion, when the Griddle will occupy the space and begin paying rent.

It is important to note that this relatively small deal has led to some amazing deal flow for us. At least two deals that we have under contract stem from relationships we gained in the acquisition of this investment.



Boise, Idaho

Westpark

Industrial

Property Type

Décor Manufacturing

Tenant

\$6.265 M

Acquisition Price

Feb 2016

Acquisition Date

117,510

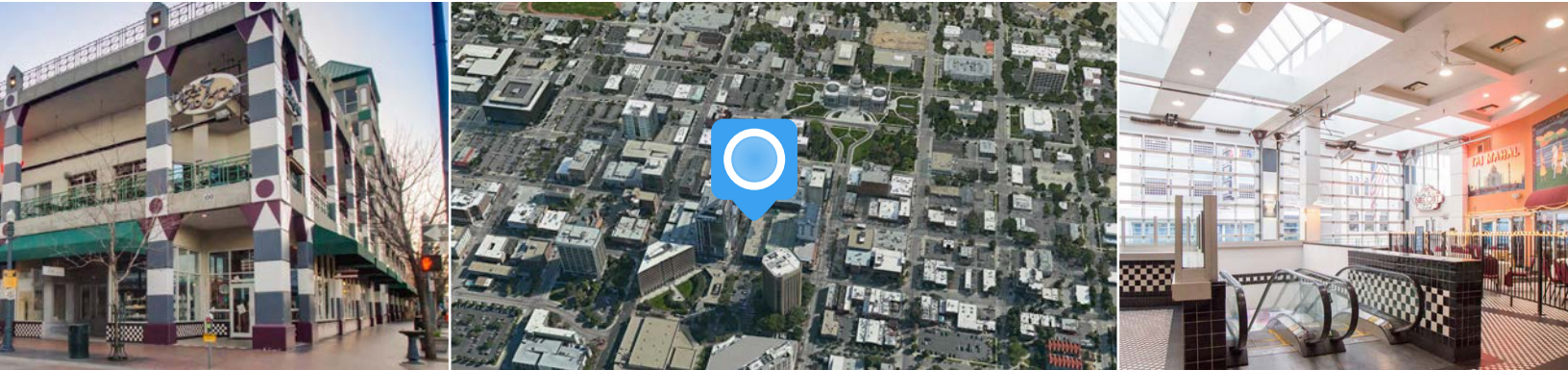
Square Feet

This property continues to perform well. Décor Manufacturing has moved into the property and recently began their manufacturing operations. Although they started paying rent in February, when we purchased the property, it has taken Décor some time to complete their tenant improvements for their manufacturing operations.

As we reported last quarter, we purchased this 117,510 square foot vacant property and negotiated the arrival of Décor Manufacturing by Patrick Industries, which will bring a total of at least 85 new jobs to the area. In 2015, two major players in the RV manufacturing industry announced new operations in the area, in order to expand their reach to growing West coast markets. Heartland Recreational Vehicles has opened in Nampa (the third largest city in the Boise Metro Area), and they expect to employ 120 workers. Omega RVs in Caldwell expects to bring 150 manufacturing jobs.

This property has produced a very strong cash flow out of the gate, even though Décor pays below market rate. We were able to attract Décor to this site by giving them this attractive rate – a rate that works for us because of our low purchase price. Going forward, this low purchase price gives us a margin of safety, as we can continue to lease the property at below market rates, and continue to achieve excellent returns.

Industrial vacancies are at historic lows in the area, which may lead to an increase in market rates. This is solid industrial property in the industrial core of the valley.



Boise, Idaho

Capitol Terrace

Retail + Future Development

Property Type

1988

Year Built

\$10.80 M

Acquisition Price

43,852

Square Feet

100%

Occupancy

Capitol Terrace is located on 8th and Main in downtown Boise. Demand is high in this area, and remains a choice location for new and expanding retailers due to the additions of the 253,000 SF 8th & Main building (2014) and the soon to be completed 206,000 SF City Center Plaza (expected 2016), at the same intersection.

The property includes 43,852 square feet of retail space. It is currently owned by a school teacher from a small town in Idaho, self-managed the property remotely, and has not invested in the property. The owner recently retired and is now motivated to sell. Current tenants are paying rates significantly below market.

We anticipate adding value through capital improvements such as converting common area to rentable square footage, and redoing the facade of the building. We will bring the leases up to market, over time, through professional leasing and management. This property has an irreplaceable location at the heart of the downtown core.

In addition, the property was built with the ability to add up to six levels of multi-family, or a mix of office, hospitality and multi-family. This future development potential, at one of the best sites in Idaho, provides additional future upside to the fund. We are very excited about this project, and are in the process of conducting our due diligence.



Boise, Idaho

Park Terrace

Office

Property Type

1982

Year Built

1999

Year Remodeled

\$3.875 M

Acquisition Price

51,835

Square Feet

Park Terrace a 51,835 square foot, value-add office property located along the Boise River near, downtown Boise. We have come to terms with the seller, and expect to have a signed contract in the coming weeks.

One of the property's key tenants is a company called Happy Family, which was a very successful startup that was recently acquired by Danon (the French multi-national food products corporation, based in Paris that does business in the United States as Dannon). The office is run as a separate business unit, with offices in New York and Boise. Due to growth, they have a need for more, higher quality space.

Happy Family likes the location but dislike the owner. In fact, they have told the owner that they will be leaving when their lease expires. However, we know that they would like to stay and expand, but only with a new property owner. We will be purchasing property and performing a large renovation for their expanded space, plus other common area and exterior improvements. Happy Family will expand to take the entire third floor, and will pay a significantly higher rate than they are currently paying.

We like the opportunity to acquire the property at the right price, while immediately leasing additional space at market rates. There is additional upside as we lease the remaining vacant space and as we move the existing leases to market rates. We are very excited about this property.



Nampa, Idaho

Treasure Valley Crossing

Retail

Property Type

\$3.9 M

Acquisition Price

21,000

Square Feet

100%

Occupancy

Treasure Valley Crossing is a 21,000 SF retail property located in the dominated retail area of Nampa, Idaho, the third largest city in Idaho after neighboring Boise and Meridian. The property is a pad building and a part of the Treasure Valley Crossing shopping center with tenants including PetSmart, TJ Maxx, Dick's Sporting Goods, Hobby Lobby, Sportsman's Warehouse, McDonalds, Panera Bread, Cracker Barrel, Chilis, and Chick-Fil-A. The property is adjacent to Treasure Valley Marketplace a 700,000+ SF retail center with neighboring tenants including Costco, Kohl's, Target, Best Buy, Bed Bath & Beyond, Cost Plus World Market, Old Navy, Petco, Michael's, Famous Footwear and many more.

There are two tenants in the property; Stevens Henagar, a regional non-profit college, and Paul Mitchell the School. Both tenants pay below market rents, and have 4 and 9 years remaining on their leases. At our acquisition price, we are going in at a 9% cap rate. We believe that this is a dominant retail area that will be relevant for decades to come.

The owner of this asset is a large, well-known REIT that had partnered with the landowner to build out much of the retail in the area, including this building. This is the last asset owned by the partnership in this area, and the REIT has now lost interest. They are motivated to sell.

We expect this asset to generate excellent cash flows out of the gate, and for years in the future.



Meridian, Idaho

Treasure Valley Tech Center

Industrial and Office

Property Type

2000

Year Built

\$6.55 M

Acquisition Price

105,909

Square Feet

Western Electronics

Key Tenant

Treasure Valley Tech Center (TVTC) is a 105,000 SF office/industrial property located in the center of the Treasure Valley, in an area that will see significant growth in the coming years. The property is just off the interstate, and on a major thoroughfare in south Meridian. The property is 100% occupied by office and manufacturing/industrial tenants.

We have already added value to this asset, while under contract, by agreeing to a new long term lease with the property's anchor tenant, Western Electronics. Western Electronics occupies 50% of the property and only had three years left on their lease. The lack of term on their lease had deterred many buyers.

In addition, this property has a maturing CMBS loan, making the seller very motivated to sell. The seller is out of Illinois, and overpaid for the property, spending over \$12 million when it purchased the property almost 10 years ago. Now they are facing the maturing loan on the property, and will be required to right-size the loan by putting even more equity into the property. After losing so much money on the asset, they are motivated to cut their losses, and sell.

This asset will provide excellent long term cash flow to the fund and is located in a core part of the valley.



Wenatchee, Washington

Mission Village

Retail

Property Type

1976

Year Built

\$4.163 M

Acquisition Price

32,271

Square Feet

0.63 acres

Land Size

50%

Occupancy

Mission Village, a 32,000 square foot, value-add retail center located in Wenatchee, Washington. Tenants include T-Mobile, Jimmy Johns and several popular local retailers and restaurants. The property will be 56% occupied at the time of acquisition.

This property also has a maturing CMBS loan, and an ownership group that is very motivated to sell. In fact, our purchase price is exactly the balance of their existing debt. The ownership group is facing a scenario where they will have to right-size the loan by putting in more equity into the property, and has decided sell the property instead.

This property is the classic example of bad ownership and management. The owner overpaid for the asset in 2006 and was not suited for ownership of this type of property, resulting in the loss of existing and potential tenants. In contrast, while we had the property under contract, we leased two suites to quality tenants, and we have interest from additional tenants. Our local partners are working on a potential lease that will lease most if not all of the remaining space to a national tenant within the first year of ownership.

This property will provide good immediate cash flow to the fund with significant upside as we sign new leases.

Latest News

8% Debt Investments

As part of the Alturas Real Estate Fund, we are offering investors an opportunity to make debt investments in the fund. These notes are in a priority position, before all equity investors. All interest payments are paid quarterly.

If you are interested in placing new money in the Fund, consider this option as a way to diversify your investment with us. We will also allow existing investors the opportunity to convert all or a portion of their existing equity investment to these notes. For more information, contact Blake Hansen at (208) 921-5934 or blakehansen@alturas.com.

Alturas Capital Presents at Fairway America's SBRE Investment Summit on May 17-18 at the Montage Laguna Beach in California

We had another successful reception by investors at the SBRE Investment Summit in Laguna Beach, coming away with millions of dollars in commitments from current and new investors.

One of the most important things we do at these conferences is to strengthen our relationship with Fairway America. We value the individual relationships we have with their team members and the growing community of SBRE entrepreneurs and investors we meet.

We especially enjoyed connecting with many of our current investors. Thank you for taking time to meet with us, and for introducing us to your friends at the conference.

We look forward to seeing many of you at next year's SBRE Investment Summit April 2017 to be held at the Fairmont Grand Del Mar, San Diego, California, April 27-30, 2017.

First Ever Manager Call – Tuesday, August 23, 2016 at 11am Mountain

Over the last year we have been looking for ways to improve our communication with investors. Currently, we are providing a quarterly update, around a month after the end of each quarter. In addition, we try to have direct communication with our investors 1-2 times per year, either at a live event (like the SBRE Investment Summits), over the phone, or at our offices. Most of our current and potential investors have direct access to us via email and telephone.

We are now adding a Manager Call, where the Fund managers, Blake Hansen and Travis Barney, will be walking through our current investments, upcoming projects, and provide answers to real estate and fund questions that we hear from our investors. We hope that this will keep our investors up to date with the latest information about their investment in the fund and provide a more efficient way to communicate what is going on in the fund on a monthly basis.

Alturas Capital Named as Finalist for Emerging Fund Manager of the Year

We were recently named as one of four finalists for an award at the upcoming SBREfunds.com Capital Flow Conference, to be held in Portland Oregon on July 27-30. Although we did not expect to receive this sort of recognition, we are humbled at the validation it provides to us and our investors that we are doing good things in the fund.

Winners will be determined by four inputs: votes from fans, registered investors on the SBREfunds.com website, SBRE fund managers and peers, and Fairway America. As a finalist, we are being recognized as one of the top groups in our class of new and emerging fund managers who operate in the small balance real estate space.

Benefits of Real Estate



Collateralization

Real estate is a tangible asset. When purchased at the right price, it has more stability than other competing investment opportunities.



Inflation Hedge

Real estate is proven to be an inflation hedge in comparison to other investments.



Appreciation

Real estate is a tangible asset which appreciates in value over the long term.



Tax Benefits

For tax purposes the government permits an investor to expense the cost of the purchase price as depreciation over the life of the asset.



Inefficient Market

Real estate is purchased and sold in a marketplace that is inefficient. This creates opportunities to buy at undervalued prices.



Local Expertise

Real estate is local. We choose to own real estate in areas that we know, in desirable places in the path of growth.

About Alturas Capital

Alturas Capital, LLC (Alturas) is a leading real estate investment company based in Eagle, Idaho, with investments in commercial and residential real estate. Using a principled approach and conservative investment strategy, Alturas has experienced exceptional growth. Alturas manages a proprietary investment fund, the Alturas Real Estate Fund, LLC. This fund is focused on making real estate investments in the Intermountain and Pacific Northwest.

To learn more about Alturas Capital, visit www.alturas.com.

To speak with Managing Partner Blake Hansen, contact him at (208) 921-5934 or email blakehansen@alturas.com.

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