

GRANITE

INVESTMENT GROUP

GRANITE GETS BUSY...

Granite Insight

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TODAY'S REAL ESTATE MARKET

BANNER YEARS BY ALLEN BOERNER



Like most businesses, Granite has had its share of ups and downs over the past 20 years. But, I am very glad to say I consider 2013 to have been a “banner year” for Granite, and I believe 2014 will be even better! A banner year typically exceeds expectations, and over the past 12-15 months we certainly did so. The biggest “banner” relates to our senior housing operating company, Senior Care Centers LLC (“SCC”), which doubled in size through the acquisition of 10 new operating leases and 38 management contracts on January 1, 2014. SCC is now the largest senior housing operator in the state of Texas; quite an accomplishment for a company that opened its doors just five short years ago!

Our ability to adapt to the ever-changing markets has been a vibrant characteristic of Granite from its inception. Current markets continue to pose challenges to us in our search for acceptable investments. Nevertheless, we have the dedication and expertise to continue to do what we do best – hire great people, give them the tools and resources to excel, and provide the foundation to allow them to bring good opportunities to our investors. I am eager to see what the balance of 2014 brings, and I am confident Granite will be successful in our endeavor to continue our record of providing our investors attractive investment opportunities.

INVESTOR FOCUS BY SCOTT RICKARD

John's comments mention "getting busy" and Carey's comments about "timing" could not be more relevant. Granite has been working hard over the past three years to make sure the senior housing investments we have sponsored continue to achieve great results. In the next 120 days, such efforts are coming to fruition. These efforts include the \$140 million dollar refinance of our largest individual healthcare portfolio and the positioning of the portfolio for a favorable long term solution with a HUD loan in the coming years. Granite is also in the process of converting (or rolling up) several Tenant- In- Common investments we sponsored in 2005, which will require 4 separate securities offerings, totaling nearly \$40 million of equity procurement and

a new mezzanine loan in the amount of \$15 million. On a combined basis, Granite expects to raise the equity from the approximately 76 existing investors and 9 separate broker / dealers, and complete two private debt transactions, along with the refinance of 26 properties with institutional lenders such as CIT & GE Healthcare. Once these transactions are complete, the portfolios will be well positioned to provide our investors with a long term - double digit cash flow stream. While we are focused on repositioning these portfolios, Granite still strives to identify new opportunities for our investors. As I mentioned in our last newsletter, this is an exciting time at Granite. When the next 120 days are behind us and the above transactions are completed, Granite will be refocused on new acquisitions for the foreseeable future. Thank you for your patience and support.



THOUGHTS FROM THE PRESIDENT

BY JOHN HELLER

Our theme of this Granite Insight is "getting busy". As I was thinking about this issue, I thought back to last quarter in which I remarked on the unique team of professionals that make up Granite, and my good fortune to be affiliated with the team of people here.

As we were "getting busy" preparing the documentation for some upcoming investment programs, I thought about whom we were preparing those documents for. It struck me that I've had the equal good fortune to work for a group of investors that are second to none.

Granite's base of investors, many of whom have been with us from my starting date in 1996, has been everything we could have wished for - loyal, appreciative, supportive and encouraging. At the same time, and equally important, you have questioned and challenged us, as well as demanded that we provide fair and reasonable investment programs for your consideration.

Your involvement has made us a better sponsor, and we hope you agree. Although not every single program has been successful, we are very proud of our overall track record, and I want to sincerely thank you for your continued support and guidance.

KEEPING UP FOR YOU BY NICOLE HALLSEY



INVESTOR TALK

We continue working on the development of the Granite Investor Portal. This will allow you to have web access at your convenience to your tax reporting information (IRS Form K-1's), quarterly reports, latest property update letters and subscription information. We anticipate concluding this project by the end of 2014 and will keep you posted on the progress, along with emailing you instructions for access in the coming months. We have included a contact information update form to ensure we have your current email and contact information. Please return the form in the enclosed envelope at your earliest convenience.

Granite is planning a late Summer Investor Appreciation night..... details to follow. This will be a great social event for us all to enjoy an evening of food, fun and relaxation!

As always you are welcome to contact me with any questions, concerns or address updates.

TIMING IS EVERYTHING

BY CAREY LEVY



We all have heard the adage “timing is everything”. I believe this to be true for Granite, because what culminates with success is the hard work that comes before the timing, which provides the exceptional results. In late 2013 and first quarter 2014, Granite timed the market for key dispositions of multifamily properties, totaling over \$83 million at stellar prices & cap rates. Early in 2014, we identified and acquired (or acquiring) properties in new markets for both multifamily and senior housing projects. Granite’s hard work and dedication should well position the company through 2014 to be advantaged in the real estate sectors of senior housing, multi-family, commercial and industrial properties.

Timing also comes in the way of positioning the company in its staffing for necessary operations and growth. Granite is pleased to add Humair Sabir, as VP of Acquisition / Asset Management to our senior housing endeavors and Sandra Frey, as Transaction Coordinator for acquisitions and dispositions by the company.

As we continue to further our business plan for strategic growth, Granite looks forward to 2014 where “timing and hard work is everything” and for the opportunity to perform well for our investors and partners.



SENIOR CARE ON THE RISE

BY JASON PRICE

While increases in healthcare expenditures have been slowing down, the mergers and acquisitions (M&A) market continues to be quite active. As the economy has improved, so has the outlook for Independent and Assisted Living assets. These assets generally have revenues dependent on private pay sources that a healthy economy can bolster, and as a result, occupancies have continued to grow over the last two years.

With regards to Skilled Nursing, the introduction of Health Care Reform has seen buyers be more strategic with their acquisitions, focusing on assets and companies that will be well positioned in the market to excel in a “pay-for-performance”, or outcomes-based healthcare universe. Reimbursement will continue to be an issue, but there has been some rate growth both in Medicare and Medicaid. The key will be to align with operators that are best positioned to take advantage of changes and can adapt faster than their competitors.

2013 saw a 14% increase in the healthcare M&A market to \$164 billion. This was a good improvement, but not yet at the levels of 2011 with \$231 billion in transactions. The improvements in the economy have brought financial buyers to the table and driven up asset prices along with the availability of low cost permanent financing from HUD. However, even given the competitive nature of the market (often driven by REITs’ low cost of capital), there are still many fundamentally good transactions to pursue. The Skilled Nursing asset class has been highly stable over the last 5 years and has provided above market returns to investors. Skilled Nursing saw an average price of over \$70 thousand per bed, a high watermark for this market.

We think the increase in market activity, coupled with Granite’s and SCC’s reputation in the industry, will provide more opportunities for Granite and its investors in the near future.

APARTMENTS 4 HEROES

UPDATE BY AMBER MARCEAU

As you know, Allen Boerner has been actively involved with offering transitional housing for combat wounded heroes returning from Iraq and Afghanistan. Through a partnership with Military Warriors Support Foundation and with the help of Allen’s friends and colleagues, we have expanded into other states in support of our heroes as they transition out of the military and into their new civilian lives by offering them a rent-free apartment for one year. We are continuing to grow our network of apartment owners as the number of applicants from across the nation continues to grow. We are actively seeking apartments units for the Apartments4Heroes program. If you or someone you know would be interested in learning more about this wonderful cause, please contact Amber at Granite (amarceau@graniteinvestment.com).

