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# GRANITE

INVESTMENT GROUP

PUTTING PEN TO PAPER...  
KEEPING YOU INFORMED

## Granite Insight

### TODAY'S REAL ESTATE MARKET

FROM BUST TO BOOM, AGAIN....BY ALLEN BOERNER



In my 40+ years in the real estate business, I have been through more “boom and bust” cycles that I probably care to admit! During those cycles, I have always looked for investment opportunities that could take advantage of the current market conditions with the belief there are attractive investments in all market cycles. And, today, nothing has changed my mind about that philosophy.

As a result of the 2007 global financial crisis, we saw opportunity in the business of distressed loans. After evaluating the industry for 12-18 months, in 2009 we made the decision to focus our activities on a specific niche within the trillion dollar mortgage industry - distressed loans secured by first trust deeds on lower-value single family homes. And so, over the past few years, Granite Loan Solutions purchased large pools of defaulted loans at wholesale prices, repackaged the loans in smaller pools that met specific criteria of smaller buyers across the country, and then sold those smaller pools at retail prices.

Recently some large private equity and hedge fund capital firms have come into the marketplace, leading to a significant increase in pricing for distressed loans. Similar to when we saw capitalization rates for apartment properties decline dramatically in the early 2000s (resulting in higher sale prices) and we elected to sell the

majority of our multi-family properties at those higher prices, due to the increased pricing in the distressed loan sector. Granite recently decided to step back from the distressed loan business, at least until the frenzy of new capital dies down and pricing returns to more appropriate levels in our opinion.

So, what's next? We continue to be bullish on the senior housing industry, given the “graying of America”. We have again limited our focus to a specific niche (skilled nursing facilities), and are now focused on increasing our holdings and activity in that sector through acquisitions and joint ventures. That said, we'll continue to look for those needles in the haystack of the constantly changing market conditions in other real estate sectors as well. We'll continue to inform you when we find suitable opportunities, and we thank you for your continued support over these past 18 years. I look forward to a continued relationship for many years to come.

# LOYALTY AND CHANGE

BY SCOTT RICKARD

Granite has been blessed with, and greatly appreciates, the loyalty of our investors. The majority of our investors have participated in numerous investment offerings with us over the past 8 to 12 years in a variety of debt and equity opportunities, ranging from conventional asset types such as multi-family and industrial to the less conventional senior housing and distressed loans. We sincerely appreciate our investors' continued confidence and support as we have extended our core competencies to look for undervalued opportunities, both in and outside the more conventional sectors.

As an example, in 2004, we identified an opportunity to invest in the post-acute healthcare sector of nursing homes on a simple triple-net lease basis. The real estate portfolio has grown to include 35 Granite controlled facilities with a combined portfolio value of approximately \$350 million. The real estate portfolio currently generates consistent cash on cash yields of 10% to 14% per year to our investors. Additionally, we believe we may have two new portfolios available in the 1st quarter of 2014, which will further such returns.

The initial real estate transaction has now led to the creation of one of the largest post-acute operating companies in the State of Texas. Senior Care Centers (SCC), which we originally formed in 2009 to operate 14 Granite-controlled skilled nursing and assisted living facilities with revenue of \$100 million annually, today operates 38 post-acute care facilities for Granite, as well as for two publicly-traded healthcare REIT's. The company is headquartered in Dallas and employs over 4,000 professionals, with approximately \$300 million annually of top line revenue. SCC is currently working on an opportunity that could possibly double the size of the company in 2014 through new management and leasing contracts. Over the past several months SCC has expanded its Board of Directors to include three new independent directors, including one with extensive hands-on post-acute operational experience and a second director who was responsible for opening the Orange County office for the McKinsey & Company consulting group as a Senior Partner and Director. The enhanced Board, along with the senior leadership team at SCC, is committed to continuing the company's role as a leader in the post-acute care environment, and we are proud to be a major part of SCC.



## A WORD FROM THE PRESIDENT

BY JOHN HELLER

Wow! In 2013, Granite is celebrating its 18th year in business. It doesn't seem that long ago Southern California was emerging from the recession of the early 90's and Allen Boerner formed Granite with the belief there was an opportunity to purchase under-valued apartments to take advantage of an emerging recovery, and he was right.

I had the good fortune to join Granite in October of 1996, after serving for almost 4 years as Vice President for Real Estate Owned (foreclosed assets) of the nation's largest savings and loan. In that capacity I was lucky enough to observe the impact that a high-quality team of motivated entrepreneurial people could have in an environment which was by nature set in its ways of operating and not necessarily open to different ideas and processes.

When I was named President of Granite in the early 2000's, I made a conscious decision to build a team of people that would contribute a variety of expertise and experiences to our operation so we could benefit from the different backgrounds each person would bring to the table. I wanted to attract a team of people that could, and would, look at an issue from many different perspectives to try and make the best decision possible, given the information available at the time. While there is no doubt Granite has experienced some set backs that I wish we could go back and change, our success over these past 18 years has proven that the decision to focus first and foremost on building a great team of people was indeed the right decision.

Since my first day at Granite in October of 1996, I have been awed by the talented group of people I have the opportunity to work with. As you read through this initial edition of Granite Insight, I hope you will be more informed, but also hope you gain a better sense of some of the people you have entrusted with your investment dollars. I trust you come away confident that you have made a "right decision" in investing with Granite.



## INVESTOR TALK

## TODAY'S INVESTOR

BY NICOLE HALLSEY

Not only are we excited about our new Granite Investment Group logo and Granite Insight Newsletter image, Investor Services is also working on enhancing how we provide information to all our investors. In the coming months we will be working on developing a Granite Investor Portal. This Portal will allow you to have web access at your convenience for your tax reporting information (IRS Form K-1's), quarterly reports, latest property update letters and subscription information.

Investor Services has exciting new features to present over the coming year and we look forward to getting you involved. Watch for more news and information about our Portal in the next few months.

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

# GRANITE GROWS

BY CAREY LEVY



*As the economy and real estate markets grow, so does Granite Investment Group in various ways.*

First, I'm pleased to rejoin Granite after a five year hiatus. The integrity and strength of Granite is something I'll strive to continue as part of the exceptional staff of professionals within Granite.

Granite Insight is a new opportunity to communicate with our investors and partners in regard to the ever changing real estate market, as well as Granite's business plan and views.

You may have noticed on the cover page, Granite's new refined logo, which is intended to reflect the breadth of change & growth which has occurred at Granite over the past couple years and going forward. This includes growth in leadership, growth toward new acquisitions, an expansion of our footprint coupled with enhanced market strategies and growth toward strong relationships with institutional partners and lenders, giving Granite a solid platform for opportunities of quality investments for our valued investors.

Granite recently renewed its lease at 2 Park Plaza in Irvine for another five years which reflects the stability of operations in which to office.

Granite looks toward new real estate opportunities in emerging growth markets such as Austin, Dallas, Houston, Nashville, the Carolinas, Salt Lake City, Phoenix and Albuquerque that have been boosted by the energy, information and healthcare sectors.

Granite remains focused on the elements that have made it a trusted partner and sponsor for many years. You can be confident, as Granite grows; we are committed to a culture which embraces the stable, core qualities to meet the needs of our investors and partners.



# HEALTHCARE CHANGES BRING OPPORTUNITY

BY JASON PRICE

With an annual tab of \$1 trillion, and growing, Healthcare will be a full 26% of all Federal spending in 2014, for the first time out pacing Defense spending. We are at the beginning of a dramatic paradigm shift that will permanently alter how and where healthcare dollars are spent, and who will be winners and losers. Seniors housing will be part of this revolutionary change, and it has already started.

## Performance

Through the last recession seniors housing outperformed other major real estate asset classes. Seniors housing rents continued to grow through and beyond the recession. Because medical condition drives the utilization of much seniors housing, it can have the effect of making it recession resistant.

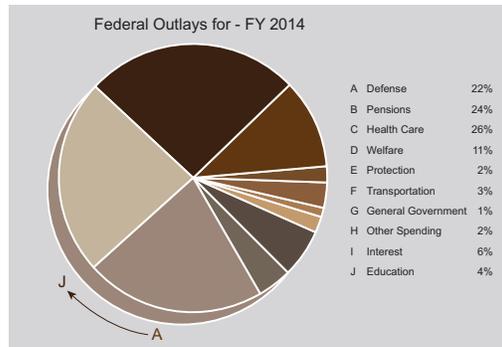
## Growing demand

The demand for seniors housing is expected to dramatically grow over the next 15 years. The U.S. Census Bureau estimates that Americans aged 75 and older will increase from 18.8 million in 2010 to 33.3 million by 2030. Meanwhile, construction of senior facilities has declined and remained flat over the last five years. The dramatic surge of the aging population, coupled with limited growth in supply, should create abundant opportunity for the experienced investor.

In the last decade Granite has assembled an excellent portfolio of skilled nursing homes that is almost 5% of the total market in Texas; higher in some key cities like Dallas and Austin. This portfolio, together with additional identified opportunities, gives Granite the market power to be at the forefront of these seismic changes in the delivery of care and to influence the process.

## Where are the opportunities?

The Accountable Care Act (ACA), also known as healthcare reform, is driving many changes to the current landscape. Embedded in the ACA is the concept of pay-for-performance (outcomes) versus the current model that is driven by fee-for-service. Healthcare providers will be rewarded for keeping people healthier, not by how many services they can provide.



Granite feels that an outcomes driven healthcare system will cause unprecedented consolidation in a traditionally fragmented industry. This is because many smaller providers are either unable, or unwilling, to make the changes necessary to meet the demands in this kind of sophisticated operating environment. We further believe future success can be attained through deep market penetration and scale. Granite's strategy will be to take advantage of the healthcare environment by extending our systems and experience to new markets and by strategically growing in our existing markets. As consolidation of public markets renew their interest in large providers/aggregators, opportunities to provide a lucrative exit for high performing portfolios could be on the horizon.

## APARTMENTS 4 HEROES BY AMBER MARCEAU

For several years Allen Boerner has been personally involved with offering multi-family transitional housing for combat wounded heroes returning from Iraq and Afghanistan. Through VHI and the involvement of other friends and colleagues we have provided over 27 rent free apartments in the San Diego area. To grow this worthy cause throughout California and into other states, a partnership has been formed with another non-profit organization, **Military Warriors Support Foundation**, founded by retired 3-Star General, Leroy Sisco. **Our common goal is to support our wounded heroes as they transition out of the military and into their new civilian life by providing a rent-free apartment for one year.** We are actively seeking apartment units for the program. If you or someone you know would like to learn more, please contact Amber at Granite ([amarceau@graniteinvestment.com](mailto:amarceau@graniteinvestment.com)).

ALLEN L. BOERNER,  
CHIEF EXECUTIVE OFFICER



JOHN J. HELLER,  
PRESIDENT



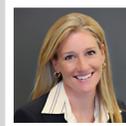
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DIRECTOR OF HUMAN RESOURCES  
& INVESTOR SERVICES



AMBER MARCEAU,  
PERSONAL ASSISTANT TO CEO



JENNIFER TRAN,  
STAFF ACCOUNTANT



## AFFILIATE COMPANIES



Branson Property Management has extensive experience in the management of multi-family assets including those that require renovation, resident retention and lease-up skills. Since inception, Branson has assisted Granite Investment Group with the management, acquisition and disposition of over 10,000 multi-family units in the Western United States. Branson has also provided value addition to Granite through ancillary revenue enhancement and budgetary cost controls.

Branson's property management services include marketing/leasing of units, rent collection, tenant selection (including credit and background checks), management of onsite staff, overseeing maintenance and repair and renovation.

### HELPING YOUR LOVED ONES LIVE THE LIFE THEY DESERVE.

Senior Care Centers (SCC) provides Skilled Nursing Care, Long-term Care, Alzheimer's Care, Assisted Living, and Independent Living in Texas and operates 35 health communities in DFW Metro, Austin, South and West Texas.



**BUILDING ON EXPERIENCE**  
**STRENGTH | PERFORMANCE | INTEGRITY**

**GRANITE**  
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## LEGAL SPOTLIGHT

BY JOSEPH MCKEEVER

As General Counsel for Granite since April 2006, I've enjoyed the most interesting work and colleagues of my 30+ year career. Having spent 16 years in private practice and another 9 years as an Investment Counsel with PacLife (with a 2-year hiatus for recovery from a cycling accident), I thought I was prepared for an in-house position with a creative syndicator of senior housing and multi-family properties such as Granite. My four children were grown and gone (other than the odd rebound child now and then) and life seemed simplified. That proved to be a bit naive, as the syndication, senior housing and securities practice proves to be challenging, yet an invigorating area of practice. I find myself involved in a company and industry which allows me to stay on my toes and participate to the fullest as its in-house counsel. As Granite moves forward with its opportunities and business plan, I am most fortunate for the opportunity to continue learning and to think outside the box (as well as inside). I enjoy the communication from time to time with investors, lenders and affiliates and appreciate the continued support as Granite's General Counsel.