

April 26, 2013

To the Members of Adaptive Realty Fund 1:

We write to provide you with an update on the market, a status report on our progress to-date, and financials for Q1 2013.

### **Market update**

Due to the low-interest rate environment, the market for income producing real estate, and especially apartment buildings, remains very tight. This is obviously good news for our existing properties. However, it is impeding our ability to place additional capital, since we refuse to lower our standards.

We continue to review the relevant listings databases, leverage our broker network, and contact owners directly for buying opportunities. We remain confident that we will be able to place all of the capital you have committed to us, though it may take a bit longer than we all would prefer.

Some unalloyed good news: The rental market in our part of Los Angeles remains hot. We are seeing strong demand and rent growth in our management portfolio, particularly for units the renovation of which we oversaw. We therefore remain confident in our projections of rents for the Fund 1 portfolio and hope to over-perform.

### **Progress**

Renovations are currently underway at all three properties owned by Adaptive Realty Fund 1 LLC through our 100% owned subsidiary, 1947 Clinton Street LLC.

Below please find some detail for each property. Please also see the pictures attached to my email.

#### 1947 Clinton

- Framing, rough plumbing, rough HVAC and rough electric all completed and signed-off by city inspectors as of 4/24/13;
- Foundation bolted and reinforced;
- New windows installed;
- Insulation going in as I write this;
- Once inspector signs off on insulation, walls will be closed and finish work will begin;
- Projected completion of construction is 7/24/13

#### 1012 N. Virgil

- Framing, rough plumbing and rough electric all completed and signed-off by city inspectors as of 4/25/13;
- Foundation bolted and reinforced;
- New windows installed;
- Insulation going in over the weekend;
- Once inspector signs off on insulation, walls will be closed and finish work will begin;
- Projected completion of construction is 8/1/13

#### 2415 London

- All tenants have now vacated;
- Foundation bolted and reinforced;
- Interior demolition has been completed;
- Plans have been submitted to the building department and should be approved within the next week or so;
- Still a bit early to give a projected completion date until we get the plans back from the city.

### **Q1 2013 Financials**

Below please find some notes on the Q1 financials:

In the report entitled "Building and Land Investment...", for 1947 Clinton and 1012 N. Virgil, you will see what is a fairly typical pattern of renovation spending for our projects. Demolition of the existing interiors is not particularly expensive but takes a while to complete, creating a bottleneck before we can really begin to make good progress. Clinton was demo'd in Q4 2012, so we were able to push through more spending on that project than on Virgil, which was in demo for the first part of Q1.

When we acquire a new building, there is typically a delay between closing and the beginning of renovations. The length of the delay is governed by the relocation agreements we strike with the tenants; obviously, we aim for the shortest period possible. The Q1 financials reflect this delay for 2514 London: The tenants moved out on the night of March 31, so renovations did not begin

before the quarter ended.

Finally, in the same report, you will see a “development fee” which is allocated to 1947 Clinton. This is, in fact, the general contractor margin we were paid for construction on all three properties during the quarter. Going forward, we will split this out by property for ease of review.

## **Conclusion**

We are pleased with progress on Fund 1 and hope you are, too. If you have questions, please don't hesitate to contact me by phone or email, any time.

Sincerely,

A handwritten signature in black ink, appearing to read 'MK' or 'M. Kagan', written in a stylized, cursive-like font.

Moses Kagan  
Manager, Adaptive Realty Manager, LLC, which is  
Manager, Adaptive Realty Fund 1, LLC