W | FINANCIAL

JANUARY 22, 2021
W FINANCIAL FUND, LP
INVESTOR LETTER
Q4 2020

# Re: W Financial Fund, LP — 4th Quarter 2020 Update and Statement

Well, clearly 2020 was certainly not the year that any of us were expecting!

Now, as we begin what we hope will be a brighter 2021, the world has entered a new phase, which combines hope and optimism, thanks to an increasing array of effective coronavirus vaccines now in the early stages of being distributed and administered, mixed with justifiable concern as we face the most challenging stretch of the pandemic. The world in general, and the U.S. in particular, is reaching a new apex of infections, hospitalizations and deaths, not to mention the emergence of new variants of the virus, so that now, in the early innings of 2021, while we find ourselves with many challenges still ahead, at least now, on a positive note, we are beginning to feel like we can see some light at the end of the tunnel. On that positive note, we would like to wish all of you a safe, healthy, and prosperous New Year.

Meanwhile, Covid-related economic stress continues to affect the economy as well as some of the loans in our W Financial portfolio. However, as real estate investors seek out and uncover new acquisition opportunities, we are starting to see an increase in the pace of new loan requests. We are hopeful the pace of opportunistic buying and lending activity will continue to accelerate during the course of 2021.

2021 will be W Financial's eighteenth year of successful operations. As always, we want to thank our investors and their advisors who continue to rely upon our stewardship. As managers, we invest right alongside you, and we make our best efforts every day to source compelling new loan opportunities and do the best job we can on behalf of our investors with our loan origination, servicing, and the administration of our loan portfolio, especially in challenging times like we have today.

As you will read in detail on the following pages, two of the previously reported defaulted loans described in our November 30, 2020 Mid-Quarter Update were resolved. (Altogether, three of the loan defaults were resolved during the fourth quarter, one of which was reported in our November 30th Mid-Quarter Update letter).

## Q4 and 2020 Portfolio Performance

W Financial provided a .55% compounded, fund-level return in December 2020, with a compounded, fund-level return of 7.14% for the year, net of management and performance fees. December marked our 210th month of positive performance. Our 1, 3 and 5-year trailing returns through December 31, 2020 are as follows: 1-year: 7.14%, 3-year: 7.60% and 5-year: 8.05%.

Since our 2003 Inception through December 2020, W Financial has provided an average annual compounded, fund-level return of 9.21%, net of fees. Thus, $100,000 invested at our 2003 launch with distributions reinvested had increased to $454,064 as of December 31, 2020, resulting in a Total Return Since Inception of 367.30%, net of fees. Total investor capital in the fund (our closing capital balance for the year), was $315,246,035.

As of year-end our portfolio had 60 loans with an average loan size, net of participations, of $5,953,450. Our loan and investment portfolio totaled $366,481,922 as of the end of the year, ($360,206,992 net of loan participations). Geographically we ended the year with approximately 75% of our loans in the New York Metro area and with approximately 25% of our loans in other markets nationwide.

W originated 30 loans during the year totaling $188,051,300. In some cases, as has long been our practice, in order to enhance risk management and increase portfolio diversification, we work with loan participants on some deals. W originated $184,051,300 net of loan participations during the year.

We ended the quarter and the year with all investor capital fully deployed, and with $40,800,000 drawn on our $75 million revolving line of credit. One positive offshoot of the pandemic has been a reduction in our borrowing costs for the credit line. As of year-end, the floating rate on our LIBOR-based, credit line was down to ~3.08%. The credit line helps to optimize our cash management and is helpful to facilitating our lending strategy.

# New W Financial Loan Origination During Q4

During Q4, W Financial provided eleven new loans totaling $52,776,300. Loan highlights are provided below:

- a $2,700,000 first mortgage bridge loan secured by a single-family home located on Alva Lane in Pebble Beach, California. The loan was utilized to provide the borrower with some liquidity for another investment. The borrower currently has the house on the market for sale and plans to repay the W Financial loan upon the sale of the property.



ALVA LANE – PEBBLE BEACH, CALIFORNIA

- a $1,150,000 first mortgage bridge loan secured by an improved development site located on East Irlo Memorial Highway in Kissimmee, Florida. The tenant is a vertically integrated, Canadian publicly traded cannabis firm, which is very active in the United States. The dispensary is operating out of a temporary building on the site, providing the borrower with cash flow until the development of the new property is completed. The borrower plans to refinance the W Financial loan with a construction loan once potential tenants are lined up for the future building.




EAST IRLO HIGHWAY– KISSIMMEE, FLORIDA

- a $5,155,000 first mortgage bridge loan secured by a package of fifty-eight unsold condominium apartments located within a 338-unit apartment community located on Sans Souci Boulevard in Miami, Florida. The borrower required a bridge loan to refinance an interim loan provided by the seller.



SANS SOUCI BOULEVARD – MIAMI, FLORIDA

- a $3,711,300 first mortgage bridge loan secured by a mostly vacant office building located on East Palmetto Avenue in Boca Raton, Florida. The borrower sold a portion of the lot to a local developer who is building midrise luxury condos and will be provided a permanent easement for a portion of the new underground parking garage. The borrower plans to refinance W's bridge loan once the new parking garage is completed.



EAST PALMETTO AVENUE – BOCA RATON, FLORIDA

- a $1,500,000 first mortgage bridge loan secured by a partially constructed two-family home located on East 10th Street, between Avenue N and Avenue O in the Midwood neighborhood of Brooklyn. The borrower is a repeat client who had already invested a significant amount of equity into the project and needed a bridge loan to complete the job. The borrower plans to refinance the W Financial loan with a conventional residential mortgage once the construction has been completed.



EAST 10TH STREET – MIDWOOD, BROOKLYN

- a $5,250,000 senior bridge loan within a $9 million loan facility. W's first mortgage loan is secured by a garden style, three-story, six-building, 124-unit, multifamily property situated on 6.8 acres on Tate Springs Road in Lynchburg, Virginia. The borrower needed to close expeditiously on the property and plans to refinance W's loan upon stabilization of the property.



TATE SPRINGS ROAD – LYNCHBURG, VIRGINIA

- a $1,050,000 first mortgage bridge loan secured by 28 condominium units within a 52-unit garden style community located on Harmony Lane in Monticello, New York. The borrower needed a bridge loan to facilitate the acquisition and plans to refinance the W Financial loan with conventional bank financing.



HARMONY LANE – MONTICELLO, NEW YORK

- a $9,000,000 first mortgage and leasehold mortgage bridge loan collateralized by a 186,000 square foot retail center located on Shore Road in Port Washington, Long Island, NY. The borrower needed to close on the property expeditiously as he was buying it through an auction. The site has strong credit tenants including Target and Walgreens. The borrower plans to refinance W Financial's bridge loan upon stabilization of the center.



SHORE ROAD – PORT WASHINGTON, LONG ISLAND

- a $17,250,000 first mortgage bridge loan for the acquisition of a package of four garden style multifamily properties with a total of 475 apartments, located in New Orleans, Lafayette, New Iberia and Baton Rouge Louisiana. The borrower is a repeat client who needed to close expeditiously on the properties and then plans to refinance W's loan with conventional financing.



NEW ORLEANS, LAFAYETTE, NEW IBERIA, BATON ROUGE – LOUISIANA

- A $1,000,000 first mortgage bridge loan for a commercial building operated as a KFC located on Chili Avenue in Rochester, NY. The borrower needed to close quickly on the acquisition of this triple-net-leased property in a 1031 tax-free exchange. The borrower plans to exit the W Financial bridge loan when she refinances with a bank. This loan is cross collateralized and cross defaulted with the $1,260,000 loan discussed below.



CHILI AVENUE – ROCHESTER, NEW YORK

- A $1,260,000 first mortgage bridge loan for a commercial property operated as a Dollar General store located on Route 206 in Montague Township, New Jersey. The borrower needed a bridge loan in order to close quickly on the acquisition of the triple-net-leased property in a 1031 tax-free exchange and later plans to refinance the property with conventional bank financing.




ROUTE 206 – MONTAGUE TOWNSHIP, NEW JERSEY

*Note that the deal descriptions that you see in our quarterly letters are intended to be a high-level overview, and, as always, we invite you to contact us to discuss any questions that you may have regarding the transactions described, or to simply hear a more in-depth description than space allows in these letters.*

During Q4, one loan located in Manhattan was repaid totaling $2,500,000. We also received paydowns on seven loans totaling $4,545,549 during the quarter.

## Loans Previously in Default that were Paid Off, Paid Down or Reinstated During Q4

As mentioned in our last Mid-Quarter Update letter, our loan on 207 South 3rd Street, in Williamsburg, Brooklyn was successfully resolved. The $16,734,586 loan that we had previously reported as being in default was repaid in full on November 23rd, including all stated interest when the borrower successfully refinanced W's bridge loan with a conventional bank loan.

15 Charles Street, located in Manhattan's Greenwich Village, is a $1,250,000 loan collateralized by two, one-bedroom condominium units and had been in default since the beginning of the pandemic in March 2020. During Q4, one of the two units was sold. The net proceeds from this sale in the amount of approximately $1,218,000 were directed to W Financial and applied as follows (all amounts are approximate): all the default interest due in the amount of $225,000, along with expenses incurred of $8,000 and $35,000 were used to establish a new interest reserve. The surplus proceeds of $950,000 reduced our loan balance to $300,000. The value of the remaining unit is comparable to the unit sold above, resulting in a very low current loan to value.

551 West 21st Street, located in Manhattan's West Chelsea NYC neighborhood is a $3,500,000 loan collateralized by a three-bedroom, three-bath condominium unit in a 20-story luxury building and had been in default since the beginning of the pandemic in March 2020. On December 15, 2020, the borrower brought fresh equity in the amount of $1,105,000 and in consideration of this substantial infusion of new equity, we reinstated the loan. This amount was applied as follows (all amounts are approximate): all default interest due in the amount of $622,500, a deferred origination fee in the amount of $17,500, along with expenses incurred of $5,000 and $221,200 were used to establish a new interest reserve. The surplus proceeds of $238,800 were applied to pay down the loan balance from $3,500,000 to $3,261,200.

Recap of Current Loans in Default:

11 East 68th Street is an $8,300,000 loan collateralized by a package of fully renovated condominium units located in a luxury Beaux-Arts Revival Style pre-war condominium conversion on East 68th Street, between Fifth and Madison Avenues, on Manhattan's Upper East Side. Since the onset of the pandemic this borrower, who has common ownership with the 150 East 79th street loan, has been periodically falling behind and then bringing his loan current but is now approximately 150 days behind as we received his last payment on September 9th. He is actively marketing the package of units to sell them in bulk. These condominium units are difficult to value in the current Covid environment. As such, we reanalyzed the collateral, and as a result of Covid, we've decided to write the loan down by $800,000 to $7,500,000 as of December 31, 2020. This adjustment was reflected as reduced income in our Q4 December numbers.

150 East 79th is a $43,600,000 loan collateralized by a five-building assemblage located at the corner of East 79th Street and Lexington Avenue on the Upper East Side of Manhattan. It is worth noting that this borrower has more than of $30,000,000 of cash equity invested in the deal and is highly motivated to retain this asset and to redevelop the property in the future. Since the onset of the pandemic, he has been slow to pay, and during the month of October we received payments totaling $360,900, then on November 27th we received another $100,000 payment, and then we received another payment on December 3rd in the amount of $350,000. As the Borrower has not made any payments since then, we have engaged counsel to commence litigation. As a result of Covid, New York currently has a moratorium on foreclosure, which has been extended several times since it was first instituted last year. As such, we have decided to initiate litigation and to sue the Principal personally under his Guaranty in order to put pressure on him to resolve this default.

As reported in our November 30th Mid-Quarter Update, we issued a default letter to our borrower for this $29,250,000 first mortgage loan collateralized by a seventeen-story, full-service hotel called the Raffaello located at 201 East Delaware Place, near Michigan Avenue and Lake Shore Drive in the Gold Coast Historic District of Chicago, Illinois. Clearly the economic effects of the pandemic have played a role, and the borrower failed to make their scheduled mortgage payment on October 1st. After we issued the default letter, the Borrower approached us to begin to negotiate a workout on this loan.

The above-referenced loans are all secured by first mortgages totaling $81,150,000 (~22.5% of our loan portfolio). As a point of reference, at of the end of Q4, our total outstanding loan portfolio was $360,206,992 and was comprised of 60 loans.

## W Completes its First Full Year Structured as a Private REIT

2020 was our first full year structured as a private REIT. As a reminder to those of our investors with taxable accounts, substantially all income generated by W will be treated as REIT dividends. As always, we recommend that you discuss any tax-related questions with your tax advisor, and if there are any questions, you or your advisor may contact our CFO Adam Windwer, per his contact info below.

## Timing of the Issuance of K-1s

Starting every January, we always receive many emails and phone calls from our investors inquiring as to when they should expect our K-1s to be issued. This year, as usual, we expect to issue the K-1s for your 2020 tax reporting purposes by the end of March 2021.

## New and Additional Investments for W Financial

Given the opportunity landscape ahead, we expect to be accepting new and additional investments during 2021. Of course, the answer in any given month always depends upon several variables: the pace of new loan originations and repayments of existing loans in our investment portfolio, as well as the extent of our usage of our revolving line of credit.

If you would like to be ready to add to an existing account or establish a new account, then please contact your financial advisor, or you may contact Karen Mannoia in Investor Relations per her contact info below, and she will be able to provide you with our updated, January 2021 subscription agreements.

# Contact Us

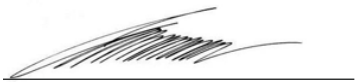
If you have updated your phone number, email or mailing address, please advise Karen Mannoia in Investor Relations karen@w-financial.com (631) 750-0937 or (212) 532-9178.

There is often a lot of information to digest in our quarterly letters, especially during the course of a pandemic. As always, please feel free to call or email Gregg Winter at (212) 532-9170 | gregg@w-financial.com or David Heiden at (212) 684-8484 | david@w-financial.com with any questions that you may have, (including questions about any of the content or real estate in this letter that you would like us to explain in greater detail). You can also contact our Chief Financial Officer, Adam Windwer, with any questions that you may have regarding your account statement or our audited financial statements at (212) 532-9284 | adam@w-financial.com.

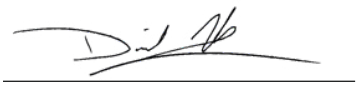
While there can be no question that we are living through strange and unprecedented times, we hope that you and your families are enjoying spending time together safely during the winter season.

With warm regards,

W FINANCIAL FUND, LP
By: W Financial GP, LLC, Manager



By: Gregg Winter, Member



By: David Heiden, Member



By: Marc Bailin, Member

**Returns are calculated for the limited partner class taken as a whole and are computed using a time-weighted methodology whereby the returns for individual accounting periods are geometrically linked and proforma incentive allocations are taken into account. An individual limited partner's return may vary based on different management fee arrangements as outlined in the Private Placement Memorandum and the Limited Partnership Agreement, as well as by the timing of capital transactions. The monthly returns and other performance calculations are prepared internally and have not been audited or verified by a third party. The use of a different methodology for preparing, calculating or presenting performance returns may lead to different results and such differences may be material.*