W | FINANCIAL

April 26, 2021
W FINANCIAL FUND, LP
INVESTOR LETTER
Q1 2021

Re: W Financial Fund, LP — 1st Quarter 2021 Update and Statement

Dear W Financial Investors,

Fortunately, a tremendous amount of progress has been made in the world's fight against the coronavirus, particularly during the past several months. While it is still very much a race between the significant increase in vaccinations on the one hand, and the emergence of new variants on the other, we finally seem to be edging closer to the end of the pandemic. There is also an increasing sense of optimism with regard to the improving economy, as many businesses begin to recover, and social interaction gradually edges closer to normalcy.

In New York, we are clearly still in the very early innings with regard to the recovery of the real estate sector, (with the office and retail sectors having been hit especially hard). Only after we see a further lessening of the pandemic and then we eventually start to see Broadway, sports, cultural and entertainment venues beginning to reopen, attracting audiences in meaningful numbers, can we then expect to see tourism start to pick up, hotels to get busier and some degree of normalization to return.

On another note, consistent with the strong demand for housing being seen nationwide over the past year, in recent months, sales volume of condominiums and townhouses in New York City (particularly in Brooklyn), has started to recover. Rents for NYC multifamily properties were hit hard when many people left the city at the beginning of the pandemic. While rent levels are still considerably lower than they were pre-pandemic, the lower rents should encourage younger people to return to Manhattan, Brooklyn and the other boroughs, revitalizing the city as the end of the pandemic finally appears to be within reach.

While W Financial has certainly faced its share of pandemic-related challenges, we have already resolved several of the loans that were previously in default. We will continue to methodically

work through any challenges that we face, with the goal of reaching a favorable outcome for our investors.

W Financial's lending team is travelling as needed and continues to source and originate good new loan opportunities, with existing loans in our portfolio meeting their obligations and with loans turning over and being repaid in the normal course of business. During Q1, two loans located in New Jersey, one loan in Georgia, one loan in Tennessee, one in Manhattan and one in Brooklyn were repaid totaling $33,150,000. In addition, we received paydowns on four other loans located in Manhattan, Brooklyn, New Jersey and Florida totaling $11,439,332.

W Financial's team has continued to implement our strategy of diversifying our bridge lending activities outside of the New York market. Much of this has occurred naturally as many of our NY-focused borrowers have expanded their geographic footprint beyond the NY Metro area, especially since the New York State rent-stabilization laws changed back in June 2019.

Over the years, we have learned that the best way to lend in new markets is to establish a presence within those markets and maintain a "boots on the ground" presence. As such, we have repositioned one member of our lending team. TJ Randall, who has been part of our lending team since 2017 has now relocated to Los Angeles. Over the years, we have been actively lending on the West Coast, and we view this as an opportunity to further penetrate this robust market. TJ is perfectly suited to spearhead this effort as he has family on the West Coast and has familiarity with the various submarkets in the region. He is focusing his efforts on new business development, expanding his network of commercial mortgage brokers, real estate attorneys and borrowers, with an emphasis on the California market.

In addition, as you have been seeing in these quarterly reports, our core lending team has been travelling to, and closing deals both in Florida and the adjoining Southern states. We continue to diversify our lending footprint with David, Jarret and Andrew travelling nationwide as needed. They will continue to focus on the New York Metropolitan area, as well as other markets where we have traditionally been active. This strategy will allow us to continue to maintain a strong presence in the New York market while allowing us to see more opportunities in other markets where we have been increasingly active over the past several years.

During the past quarter, we have continued to source and originate quality loan opportunities with five of our eight new loans located outside the New York Metro market. With the exception of the three previously described loans in default, monthly interest collections have been good, and we are seeing deal activity continuing to pick up as we establish a physical presence on the West Coast and as we continue to close more deals in the Southeast.

Q1 Portfolio Performance

We are pleased to report that W Financial completed the first quarter of its eighteenth year with all investor capital fully deployed, and with $49,400,000 of our $75 million, revolving credit line being utilized. Our credit facility augments our available investment capital, optimizes our readiness to respond to new loan opportunities and enhances our day-to-day cash management capabilities. W ended the first quarter with $316.34 million of investor capital under management and a loan portfolio totaling $340.72 million.

W posted a .53% compound, fund-level for January, a .41% return for February, and a .59% return for March, (which was our 213th consecutive month of positive performance). Our 1, 3 and 5-year trailing net returns through March 31st were: 1-year, 6.86%, 3-year 7.47%, 5-year: 7.91%.

From our 2003 inception through the end of the first quarter of 2020, W Financial has provided an average annual compound return of 9.17%, net of fees*. Thus, $100,000 invested at our 2003 launch had increased to $460,883 as of March 31, 2021, resulting in a total return of 374.51%.

New Loan Origination During Q1

During Q1, W Financial provided eight new loans located in New York, Florida, California and Louisiana, totaling $27,390,000. Highlights are provided below:

- a $540,000 first mortgage bridge loan secured by a condominium unit held as an investment, located within a 41-unit condominium development known as Union House, on Union Street at the corner of Van Ness Avenue in San Francisco, California. The borrower is a foreign national and needed to close on the acquisition in a timely manner. He plans to refinance the bridge loan with conventional financing.



UNION STREET – SAN FRANCISCO

- a $4,500,000 first mortgage bridge loan secured by a commercial property located in Gainesville, Florida, that is a licensed cannabis production facility and is utilized for the cultivation and processing of cannabis products for medical use in the state of Florida. Our funds were utilized to complete a new 12,000



126TH STREET – GAINESVILLE, FLORIDA

square foot building on the site in order to expand the business to meet the very strong demand in Florida.

While the cannabis business has been growing (no pun intended), and becoming more institutionalized, with many well-capitalized, publicly traded Canadian firms running businesses in multiple states, it is still difficult for them to obtain conventional bank financing for their real estate, thus creating at least a temporary window of opportunity for private lenders like W Financial.

- a $2,500,000 first mortgage bridge loan secured by an adult rehabilitation center located on Royal Palm Avenue in New Port Richey, Florida. The borrower needed the loan in order to refinance an existing bank loan, which had been cross collateralized with another loan which paid off. The borrower plans to either refinance W Financial with a conventional lender, or may sell the property to the existing tenant who has expressed interest in buying the property.
- a $5,800,000 first mortgage bridge loan for the acquisition of two mobile-home parks located in Lake Charles, Louisiana. The parks have a total of 320 pad sites and is situated on approximately 40 acres. The borrower needed to close on the acquisition expeditiously and plans to stabilize the properties and then refinance W's bridge loan with a conventional bank loan.
- A $3,350,000 first mortgage bridge loan collateralized by a condominium unit located within a very upscale 30-unit, seven-story property on South Pointe Drive in the South Beach neighborhood of Miami, Florida. The borrower needed the bridge loan to acquire the unit as part of a reverse 1031 exchange. The unit is currently rented as an investment property. The borrower plans to repay the W Financial loan with a conventional loan. Two weeks after our closing the Borrower paid down their loan by $535,332 once their reverse 1031 exchange was completed.



ROYAL PALM AVE. – NEW PORT RICHEY, FLORIDA



LAKE CHARLES – LOUISIANA



SOUTH POINTE DRIVE – SOUTH BEACH – MIAMI

- A $1,300,000 first mortgage bridge loan secured by an industrial building located on 56th Street in the Maspeth neighborhood of Queens, NY. The borrower sought to recoup some equity from this property in order to facilitate another real estate investment. It is expected that W Financial will be repaid when the borrower refinances with a conventional lender.



56TH STREET – MASPETH – QUEENS

- A $2,700,000 first mortgage bridge loan secured by a five-story multifamily building located on West 91st Street between Central Park West and Columbus Avenue on Manhattan's Upper West Side. The borrower is a long-term, repeat customer with whom David has done business for more than 20 years. He purchased the property out of bankruptcy at an auction and therefore required a bridge loan to meet an expedited closing deadline. The borrower is in negotiations to buy out the last remaining tenant in the building. Once the tenant has vacated, he then plans to market the property for sale as a vacant townhouse conversion.



WEST 91ST ST. – UPPER WEST SIDE – MANHATTAN

- A $6,700,000 first mortgage bridge loan secured by two commercial buildings located in the Brighton Beach neighborhood of Brooklyn. The borrower required additional funds to gut renovate of one of the buildings. W Financial expects to be repaid with a conventional loan once the rehab is completed and the building is substantially leased.



BRIGHTON BEACH AVENUE – BROOKLYN

Note that the deal descriptions that you see in these 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.

Loans Currently in Default

The following is a Brief Recap of the Loans Currently in Default:

- 150 East 79th is a $43,600,000 first mortgage 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. As previously reported, this borrower has invested more than $30,000,000 of cash equity in the deal and is highly motivated to find a way to retain this asset and to redevelop the property in the future. As we have previously described, we have issued a default letter and we have accelerated the loan. On January 19th we commenced litigation against the borrower's personal guarantee (we did this because New York State still has a pandemic-related moratorium in effect on foreclosures and evictions that is set to expire on May 1, 2021, which applies even to commercial properties such as this assemblage). In the interim, the borrower has been cooperative and has sent us the net February, March and April rents generated by the property.

The borrower recently contacted us to report that he has been approached by another developer (who is currently developing another property nearby on East 79th Street), whose intention, according to the term sheet between the parties, would be to bring our loan current, with the new developer taking over the obligation to make payments on our loan and to complete development of the property. We are skeptical that this deal will be consummated, and since the pandemic-related New York State foreclosure moratorium is finally expected to end on May 1, we have instructed our counsel to file a foreclosure action on May 3.

Over the past several months, we have been contacted by several prominent and very well-capitalized Manhattan real estate developers who have expressed strong interest in buying the site from us, if we take ownership of the property. In the meantime, New York City continues to incrementally improve, and we are optimistic about the prospects for this assemblage which is located at the intersection of East 79th Street and Lexington Avenue.

- The second loan that we have previously reported to be in default is The Raffaello, which is located at 201 East Delaware Place, near Michigan Avenue and Lake Shore Drive, in the Gold Coast Historic District of Chicago, Illinois. Our $29,250,000 first mortgage loan is collateralized by a seventeen-story, full-service, 175-room hotel. The property had been undergoing an upgrade with all but five of the floors completed. As reported previously, after we issued the default letter, the borrower approached us to begin to negotiate a loan reinstatement. These negotiations are continuing, and we will keep you apprised of our progress.

- The third loan that we have previously reported in default is 11 East 68th Street. This is an $8,300,000 first mortgage loan collateralized by seven condominium units located in a luxury Beaux-Arts Revival Style pre-war condominium conversion on East 68th Street, between Fifth and Madison Avenues, a prime location on Manhattan's Upper East Side. The borrower has experienced significant setbacks as a result of the pandemic and has engaged a broker to market the units for sale. We are also in discussions with the owner about taking over ownership of the units.

The above-referenced loans are all first mortgages totaling $81,350,000 (~23.8% of our loan portfolio). As a point of reference, our total outstanding loan portfolio was $340,720,303 as of the end of Q1 and was comprised of 62 loans.

So, to summarize, we are continuing to work through the process of resolving our three problem loans, and as they are resolved, we would then expect to see our returns normalize back to pre-pandemic levels.

As always, we encourage our investors and their advisors who have any questions to contact either Gregg Winter at (212) 532–9170 | gregg@w-financial.com or David Heiden at (212) 684–8484 | david@w-financial.com. Our quarterly investor letters and any Mid-Quarter Updates are archived here: w-financial.com/updates)

W Financial's 2020 Audited Financial Statements are now available:

W Financial completed 2020 with a 7.14% compounded, fund-level return, net of fees*. Our auditor, Marcum LLP, (marcumllp.com) has completed our 2020 audited financial statement, which is now available for your review by visiting our secure, private, password-protected Investor Information website at the following link: private.w-financial.com—and then entering the username: w-fund and the password: twofive6.

Scroll down to "Audited Financial Statements" and click on the 2020 box. If you would prefer to have a copy mailed to you, please contact Karen Mannoia in Investor Relations (contact info below), and we will be happy to mail you a hard copy.

A note about your 2020 K-1 tax reporting:

You should have received your 2020 Schedule K-1 in late March. As you know, W Financial converted to a private REIT structure on November 1, 2019. Therefore, your 2020 K-1 reflects a full year of REIT dividend income. The REIT dividend income qualifies for the Qualified Business Income deduction. Note that this pertains only to investors with taxable accounts and does not affect tax-exempt accounts, such as IRA's. Please consult with your accountant or tax preparer and feel free to contact our CFO Adam Windwer with any questions you may have on this. Adam's contact info is below.

Latest Form ADV:

As required every March, W Financial's Investment Manager, Sag Harbor Capital Management, LLC, a Registered Investment Advisor, files an updated form ADV with the SEC. These regulatory documents (along with the latest versions of our other fund documents) are always available here: private.w-financial.com (username: w-fund, password: twofive6).

Contact Us

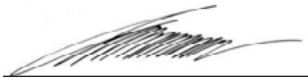
If you have updated your email or mailing address, please let Karen Mannoia know. Karen can be reached at karen@w-financial.com | (631) 750–0937 | (212) 532–9178.

As a reminder, our door is always open to our investors. Always feel free to call Gregg Winter at (212) 532–9170 or David Heiden at (212) 684–8484 with any questions that you may have, (including any questions about any of the content or real estate terminology in this letter that you would like us to explain in greater detail). Contact our CFO Adam Windwer with any questions that you may have regarding our audited financial statements, or your quarterly statement at (212) 532–9284 | adam@w-financial.com. Alternatively, you can always email us directly at gregg@w-financial.com and david@w-financial.com.

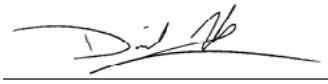
Very truly yours,

W FINANCIAL FUND, LP

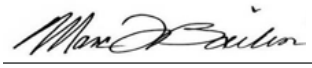
By: W Financial GP, LLC, Manager



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.*