January 25, 2023
W FINANCIAL FUND, LP
INVESTOR LETTER
Q4 2022

Re: W Financial Fund, LP — 4th Quarter 2022 Update and Statement

Dear W Financial Investors,

As we begin the new year, we are all grateful to be seeing the coronavirus pandemic continuing to recede, with life generally returning to normal. All of us at W Financial wish you and your families a very happy, healthy, and prosperous 2023!

2022 was the type of volatile year in the public equity markets that reminds us of why many investors and their financial advisors seek to allocate some capital to alternative investments, with relatively steady performance characteristics like W Financial, as one component of an overall investment portfolio.

W Financial will be celebrating our twentieth anniversary on April 30, 2023. During these past two decades we have originated more than $2 billion of loans and have achieved 234 consecutive months of positive returns. During 2022, we originated $251,687,000 of new loans, which was the highest annual volume of loans we have ever originated. We are now starting to see the benefits of expanding our lending efforts to select markets nationally. We have also expanded our loan origination team and hired a marketing coordinator to help us penetrate these new markets.

As a result of our increased loan originations and the higher interest rate environment, we anticipate that we will see our returns gradually increasing back to our historical levels, once we have resolved our defaulted East 79th Street loan and have redeployed that capital.

Q4 and 2022 Portfolio Performance

W Financial provided a .93% compounded, fund-level return in December 2022, a .60% return in November and a .85% return in October. Our compounded, fund-level return was 7.68% for the year, net of management and performance fees. December marked our 234th month of positive fund performance. Our 1, 3 and 5-year trailing net returns through December 31, 2022, were as follows: 1-year: 7.68%, 3-year 7.00% and 5-year 7.33%.

Since our 2003 inception through December 2022, W Financial has provided an average annual compounded, fund-level return of 8.98%, net of fees. Thus, $100,000 invested at our 2003 launch with distributions reinvested, had increased to $517,737 as of December 31, 2022, resulting in a total return of 434.49%. Total investor capital in the fund (our closing capital balance for the year), was $332.07 million.

As of year-end our portfolio was comprised of 70 loans with an average loan size, net of participations, of $5,123,679. Our loan and investment portfolio totaled $367,157,561 as of the end of the year ($358,657,561 net of loan participations). Geographically, we ended the year with approximately 57% of our loans in the New York Metropolitan area, and with approximately 43% of our loans located in other markets nationwide.

From time to time in order to increase portfolio diversification we will bring in a participant lender on select loans. W Financial originated 42 loans in 2022 totaling $251,687,000 ($244,687,000 net of participations) as compared to 37 loans in 2021 totaling $153,545,000 ($153,395,000 net of participations).

W Financial's borrowers often close on a property using a W bridge loan, and then, over time, they either refinance the bridge loan with conventional financing, or they sell the property. During 2022, there was healthy turnover in our loan portfolio, where 33 of W's loans were repaid in the normal course of business, and we also received partial paydowns on eight other loans. Loan repayments for the year totaled $218,871,971.

We ended the year with all investor capital fully deployed, and with $21,300,000 drawn on our recently extended and increased $125 million revolving line of credit. As of year-end, the floating rate on our SOFR-based, credit line was approximately 7.275%.

Sale of W Financial's Palm Beach Gardens Office Buildings Closed on December 16, 2022

From time to time, we have made opportunistic equity investments in select properties. Our most recent equity investment was made in March 2016, when we invested $3 million alongside a joint venture partner to acquire two cash-flowing office buildings totaling 115,000 square feet, located at 4200–4400 Northcorp Parkway, near I–95, in Palm Beach Gardens, Florida. Our purchase price was **$30.5 million**.



On December 16, 2022, we closed on the sale of both buildings for $38 million. The fund earned an internal rate of return of 12.6% over the nearly seven-year investment. Our equity multiple on this deal was 2.0x. The sale of this property and subsequent realized gain by the fund contributed to December's strong return. This gain will be reflected on the [*Net Realized & Unrealized Gain/(Loss*)] line item on your Q4 investor statement.

NYC UBT Tax Refund:

As mentioned in our previous letter, when our office lease in Manhattan neared expiration, we engaged in discussions with our professionals to research whether the fund would still be subject to paying New York City's 4% UBT tax if we moved our office outside of NYC.

After extensive research and discussions, it was determined that we would no longer be subject to this tax once we moved outside of New York City. After moving to Great Neck, Long Island, we subsequently applied for, and eventually received, a refund of the applicable amount of the UBT tax that we had prepaid but were no longer subject to.

Once we had received the refund, we were advised by our tax professionals to wait until the three-year statute of limitations had expired, before distributing the tax refund to our investors. We reported this amount in October 2022, once the statute of limitations had expired. This income will be reflected on the [*Other Income*] line item on your Q4 investor statement.

Marquand – 11 East 68th Street Condos:

In September 2021 we took ownership of the package of seven occupied condominium apartments in The Marquand, a pre-war, luxury Beaux-Arts Revival style building located at 11 East 68th Street, between Fifth and Madison Avenues on Manhattan's Upper East Side. We were able to convince the Borrower to give us the keys (a deed in lieu of foreclosure), and thus save the considerable time and legal expense of going through a foreclosure action.

In late 2022, we retained Jones Lang LaSalle Brokerage, Inc. as broker to market the units for sale. These are unique units as they are extremely valuable, however, they are currently occupied by rent stabilized tenants and can only be sold at market prices when the tenant voluntarily vacates the unit.

Consequently, it is difficult to forecast when each of the units will become vacant and be able to be sold at market prices. When JLL began marketing the units as a package, we received weak feedback and limited interest from potential buyers in the market. We re-value this property at least once annually and based on the market's feedback, in Q4 we decided to write down the value of the seven-unit package by $1,033,225, to a current value of $6,630,216. While we feel these units have intrinsically much more value, we always take a conservative approach when valuing assets. This adjustment will be reflected on the [*Net Realized & Unrealized Gain/(Loss)*] line item on your Q4 investor statement.

New W Financial Loan Origination During Q4:

During Q4, W Financial provided seven new loans totaling $31,800,000. Loan highlights are provided below:

- a $1,200,000 first mortgage bridge loan secured by a condominium unit located on Central Park West, in the Lincoln Square neighborhood of Manhattan. The borrower owned the unit free and clear and needed the bridge loan in order to facilitate another business transaction. The borrower plans to repay the W Financial loan with either a conventional loan or via the sale of the property.



CENTRAL PARK WEST – MANHATTAN

- a $3,750,000 bridge loan secured by a blanket first mortgage on a development site located on Broad Street in Bloomfield, New Jersey, and a partially occupied retail strip center in Belmar, New Jersey. The borrower is repeat W client who purchased the properties all-cash and utilized the loan in order to recoup some equity in the project. The borrower plans to repay the W Financial loan by refinancing with either a construction loan or a conventional bank loan.

- a $9,500,000 first mortgage bridge loan located at the corner of Second Avenue and East 80th Street on the Upper East Side of Manhattan. The borrower previously owner-occupied the retail space and required the bridge loan in order to refinance their existing debt, while signing a new lease with a third-party tenant. They plan to refinance the W bridge loan with conventional financing, once the new tenant has moved in and is paying rent.

- a $6,500,000 bridge loan secured by a first mortgage on three industrial properties located in Atlanta, Georgia. The properties are all occupied by the same tenant, The borrower needed to close on the acquisition of the properties expeditiously and plans on refinancing the W Financial loan with a sale of the properties.

- a $9,500,000 first mortgage bridge loan collateralized by twenty townhomes located on North Hall Street in the Oak Lawn area of Dallas, Texas. The borrower needed the bridge loan to refinance his existing construction loan. He plans to lease up the townhomes and upon stabilization of the property, to refinance our loan with traditional bank financing.

- a $600,000 first mortgage bridge loan secured by an ~1,020 square foot townhouse located on Eighth Avenue in the Park Slope neighborhood of Brooklyn. The borrower required equity for another transaction. The borrower plans to repay our loan with a sale of the property.


BLOOMFIELD – NEW JERSEY


BELMAR – NEW JERSEY


SECOND AVENUE – MANHATTAN


MACARTHUR BOULEVARD – ATLANTA – GEORGIA


NORTH HALL STREET – DALLAS – TEXAS


EIGHTH AVENUE – PARK SLOPE – BROOKLYN

- a $750,000 first mortgage bridge loan to acquire an ~1,850 square foot retail condominium located on West 25th Street in the West Chelsea neighborhood of Manhattan. The borrower needed to close expeditiously on the acquisition and plans to refinance our loan with conventional financing upon stabilization of the unit.

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.



WEST CHELSEA – MANHATTAN

Extension and Renewal of our Revolving Credit Facility:

Every three years, our revolving credit facility, which is a key resource and an important factor in maintaining efficient cash management for the fund, comes up for renewal. On December 15th, we closed on another three-year extension of our credit facility, which is provided by two regional banks, and increased it from $75 million to $125 million, giving us greater flexibility over time as the fund continues to grow. The revolving credit facility has very attractive pricing and floats at 290 basis points above the one-month SOFR rate (the Secured Overnight Financing Rate), [SOFR is the replacement index for LIBOR]. Our credit line helps us to optimize cash management and keep all investor capital deployed.

Timing of the Issuance of K-1s:

This is always a popular topic among our investors once the new year arrives, as we always hear from many of our investors looking for their K-1 tax reporting documents. Note that, **as always, we expect to deliver the K-1s for the 2022 tax year by the end of March 2023**.

Recap of Loans in Default or Foreclosure:

After more than two years we are getting closer to the foreclosure auction of 150 East 79th Street (the five-building assemblage at the corner of Lexington Avenue). The scheduled auction date for the foreclosure sale is February 1, 2023. Provided the borrower does not file bankruptcy, we plan to take ownership of the property shortly thereafter.

The sole tenant remaining in this property is a bank with two leases for two adjacent areas (involving two of the five buildings covered by our first mortgage loan), which have 13 years left until maturity.

Our review of the leases indicated that one of these two leases is subordinate to our mortgage and should be terminated as a result of the foreclosure sale. Late in Q4 the bank filed a motion in court seeking to vacate the Judgement of Foreclosure and Sale, by arguing that neither of their leases are subordinate to our mortgage. The bank/tenant had been properly served during the foreclosure action and their motion was filed after the applicable time to answer and after the judgement of foreclosure and sale was entered. We have opposed the motion aggressively and feel their motion has no merit and will be denied. We expect the judge to rule on the motion in the near term.

Over the past year, we have identified and have had discussions with numerous New York City developers who are very interested in the prospect of developing a luxury condominium building at the southeast corner of Lexington Avenue and East 79th Street. The caveat with all these developers is that they want a definitive plan in place for the bank to vacate the property. After vetting them, we chose one major NYC development firm to move forward with. One of the reasons we selected this developer is that they know the senior management of the aforementioned bank and have a good working relationship with them.

Over the past several months we have been negotiating with the bank/tenant, jointly with the developer, in order to negotiate a buyout of the bank's lease, and to relocate the bank to a new and comparable location. We have been pursuing this strategy as it would yield the highest value for the property and thus achieve the best return for the fund.

We continue to present the bank with options for new potential locations, however, recently the bank has slowed down these discussions while they wait for the judge to rule on their motion (the ruling is expected in the short term). If the judge rules in our favor, then we feel that the bank will be much more likely to accept a buyout and move to another location. If the negotiations to buy out the bank's lease fail, then we are prepared to market the property for sale "as is", with no contingency for the bank vacating the property. While this scenario would lead to a lower sales price than if we were able to sell the property as vacant, we feel that ownership of this five-building property will be accretive to our earnings.

We recently had a borrower (for a $6,200,000 loan secured by a first mortgage on a multifamily property located in Baton Rouge, Louisiana) miss payments. We issued a default notice and shortly thereafter we initiated a foreclosure action. In this case, since the property is located in the state of Louisiana, the good news is that the Executory foreclosure process used in that state, typically only takes a few months (in other words, a small fraction of the time it takes to foreclose in a state like New York). We expect to own this property by sometime in mid-2023. Once we own the property, we plan to complete the lease-up and stabilize the property.

Contact Us

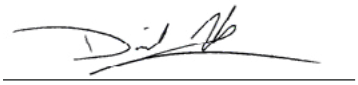
If you have changed your email or mailing address, please let Karen Mannoia in Investor Relations know. Karen can be reached at karen@w-financial.com | (212) 532–9178 or (631) 750–0937.

As a reminder, always feel free to call or email David Heiden at (516) 633–1424 | david@w-financial.com and Gregg Winter at (212) 532–9170 | gregg@w-financial.com with any questions that you may have about our investment activities, (including any questions about any of the content or real estate terminology discussed in this letter that you would like us to explain in greater detail). Contact our Chief Financial Officer, Adam Windwer, with any questions regarding your account statements (212) 532–9284 | adam@w-financial.com.

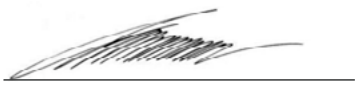
Along with Gregg and Karen, Ryan DeLissio (212) 684–2259 | ryan@w-financial.com is also available to assist our investors with any questions that may arise, or materials they may need.

Note that we have posted a guide for our investors called: “How to Read Your Statement” which is available on our private investor website: private.w-financial.com username: **W-Private**, password: **delta14six**

Very truly yours,
W FINANCIAL FUND, LP



By: David Heiden, Member



By: Gregg Winter, 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.*