TwinRock Partners

QUARTERLY NEWSLETTER | Q3 14

IN THIS ISSUE:

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TwinRock Investors,

Welcome to the Second Issue of the TwinRock Quarterly Newsletter. First and foremost, we would like to offer our thanks for your continuing loyalty, support and trust.

The Third Quarter of 2014 has been both productive and exciting for TwinRock. Our funds continue to perform and we were able to acquire another multifamily property in Oklahoma City, Oklahoma as of the issuance of this report.

In September, we heard favorable news regarding our HOA Foreclosure strategy as the Nevada Supreme Court came out with a positive ruling regarding extinguishment of a mortgage by an HOA Foreclosure sale.

Our upcoming investment pipeline continues to reflect our confidence in the growth prospects of selected markets in the Midwest Region as we continue to target properties in Oklahoma and other parts of the country.

We would also like to take this opportunity to extend our thanks to all those who were able to attend and lend support to our company’s first annual philanthropic event in remembrance of the victims of 9/11 at the William Lyon Air Museum.

Sincerely,

Alexander Philips
Chief Executive Officer

HOA LEGAL VICTORY

In the beginning of 2013 and early half of 2014, TwinRock Partners began purchasing Nevada homes at HOA Foreclosures with the expectation and strategy that an HOA lien would extinguish a first deed of trust. Our confidence in the strategy was a result of extensive research on Nevada law and our experience in executing the strategy. TRP Fund III began allocating a portion of its portfolio to buying homes at HOA Foreclosures at 11% of Fair Market Value. With increasing confidence as the legal landscape unfolded, TwinRock, earlier this year, started TRP Fund IV and later TRP Fund V, Funds only invested in HOA Foreclosures.

On September 18th, 2014, investors scored a major legal victory as a result of the Nevada Supreme Court's determination that an HOA super priority lien is a true priority lien and that foreclosure of an HOA lien extinguishes a first deed of trust. Furthermore, the court ruled that an HOA does not need to file a judicial action to foreclose on its lien, instead approving of the non-judicial process used in our cases. While extinguishment is predicated upon proper application of noticing requirements per statute during the HOA collection agencies' foreclosure process, the decision is great news to our investors. However, certain portions of the issue remain complex, with ancillary hurdles still remaining. On the 15th and 25th of September, a Federal Court Judge issued two decisions that have no precedential value, but could affect clean title to HOA foreclosure homes owned by HUD or have FHA-insured loans. For the time being, the decision is a decisive victory for TwinRock and its investors.

The HOA foreclosure ruling benefits not only investors, but is great for Nevada, HOA associations and the communities they serve. This decision compels payment of HOA dues by all property owners, lowering payments for homeowners collectively, ensuring the standards of HOA communities, all of which work to increase property values. By compelling banks to pay the HOA assessments, communities are maintained.

Furthermore, with a decision having been reached and ambiguity with regard to the status of the first deed of trust removed, the free market is now going to work, with HOA Foreclosure sales heading towards market value . As we continue to monitor foreclosure sales, we are seeing less activity as a result of the banks protecting their interest and paying their HOA assessments.

In the Press - TwinRock Partners

Wall Street Journal— Mortgage Dispute Pits Mortgage Lenders vs. Investors

Globe St—Law to Protect HOAs, Owners a Plus

Recent Acquisitions

The Chelsea



TwinRock Partners acquired its 3rd property in Oklahoma as of the issuance of this report. The Chelsea (formerly Artisan Ridge Apartments) is a 312 unit complex consisting of 36 residential buildings and 1 single-story office/clubhouse building, located in Oklahoma City, Oklahoma that closed on October 27,2014. The purchase price was $12,175,000 or $39,022 per unit. Based on the current NOI, the cap rate on the purchase price was 8.8% and 7.5% on total cost.

The property represents a value add opportunity that was developed and constructed in 1984 and with recently replaced roofs and siding.

TwinRock Partners has rebranded and will reposition The Chelsea as a higher quality complex for Northwest Oklahoma City Residents, which will command increased rents. The nearby new development will further enhance the neighborhood. By upgrading the property image, new management, rebranding of the property and renovating apartment interiors, we expect to achieve above-average occupancy and rents compared to the other complexes in the neighborhood. While increased turnover and vacancy in the short term is to be expected, we expect a solid, stable and more valuable property afterwards.

We are excited about the major development and growth in the area. Chisholm Creek, a major 180 acre mixed use development minutes from The Chelsea broke ground this quarter. Gulfport Energy also broke ground on construction of its new headquarters less than a mile from The Chelsea.

External Link: *Aerial Video Presentation*

UPCOMING INVESTMENT PIPELINE

Carriage Square Apartments




Tuscan Villas



Carriage Square Apartments and Tuscan Villas, two adjacent properties in Oklahoma City, Oklahoma are scheduled to close by year end and early next year, respectively. TwinRock Partners was able to successfully aggregate Tuscan Villas, an off market property that has been fully renovated, to the current Carriage Square project. By aggregating the two adjacent properties, management will realize operational efficiencies and cost savings to both properties through economies of scale. Carriage Square will be upgraded with new gated fencing and apartment interiors renovated to meet or exceed rents being achieved at Tuscan Villas.

Carriage Square is a 254 unit complex consisting of 28 residential buildings, clubhouse and 2 standalone laundry facilities. Tuscan Villas is a 48 unit complex consisting of 3 residential buildings. Both are located in the heart of the Interstate 240 Corridor in South Oklahoma City near major retail development. Large employers such as State and Federal Government, Chesapeake Energy, OG&E Energy Corp., OU Heath Sciences, Devon, Integris, Cox Communications and are within a short commute of the properties. Boeing is relocating approximately 900 jobs to Oklahoma City to its campus less than 9 miles from Carriage Square. Both properties represent a solid investment with high in-place cash flow and value-add opportunity.

The property has frontage and high visibility on I-240, a major retail and restaurant corridor that carries 100,000 vehicles daily and is within walking distance to shopping centers. There is a pedestrian bridge adjacent to the properties that leads to a $45 million retail development owned by Inland American.

External Links: *Aerial Video Presentation*

TWINROCK PARTNERS

A REAL ESTATE INVESTMENT & ADVISORY FIRM

QUARTERLY NEWSLETTER

Update on 2014 ACQUISITIONS





Southern Elms

Southern Elms is a 78 unit apartment complex located in Tulsa, OK. The property was built in 1964 and consists of 4 two-story buildings and an office/clubhouse.

The property has highway frontage in the Central Submarket and is experiencing high rental demand and cash flow. Current occupancy stands at 99% with increased asking rents from acquisition.

Management completed a cost savings water conservation initiative to add low flow toilets and fixtures to the property that will see expense reduction in the coming quarters.

YaleTowne

YaleTowne is a 544 unit apartment complex located in Tulsa, OK. It consists of 32 two-story buildings and an office/clubhouse with good visibility on a high traffic arterial street. The property was built in 1978.

Over the past two quarters, management and a new on-site management team has implemented its strategy to rebrand and renovate the property. Management has completed the rebranding to YaleTowne including replacing all monuments and ancillary signage and is gradually increasing rental rates.

Management has been renovating and upgrading select unit interiors as well as exterior improvements such as rock veneer siding, asphalt repavement, fencing and security gates, as well as a complete clubhouse remodel.

TRP HOUSING FUND MARKET OVERVIEW

Inland Empire

The median sales price of single-family homes in Riverside and San Bernardino Counties decreased 2.8% in the quarter to $279,000, down from $287,000 as of June 2014; representing an increase of 9.0% year-over-year, up from $256,000 as of September 2013. While home prices did not appreciate the past quarter, the overall year-over-year price increases in the Fund's general housing market indicate healthy price appreciation for the Fund's underlying assets.

Home sales in Riverside and San Bernardino Counties during the Third Quarter totaled 11,484, down 2.3% from last quarter and down 6.3% quarter-over-quarter from last year. Homes available for sale in Riverside and San Bernardino Counties at Third Quarter end decreased by 7.0% from the end of last quarter. Year-over-year, number of houses available increased by 10.9% as the supply of new listings outpaced the number of sales over the past year. The "months supply" of inventory remained at 4.15 quarter-over-quarter and increased 10.1% year-over-year from 3.8 months in September 2013.

According to the Beacon Economics Report released October 23, 2014, "The Inland Empire is now the fastest growing region in Southern California – a trend predicted to continue over the next five years. The availability of land for development, combined with proximity to ports and major transportation corridors, has given this area a growth advantage over more built out coastal areas over the last two years." Overall, the Inland Empire accounted for two thirds of new businesses created statewide from 2012 to 2013 despite having only 7.4% of total businesses in the state. Over the last year, Inland Empire jobs have increased 2.7%, faster than any part of California besides the Bay Area. The Beacon Economics Report predicts job growth at 3.4% annually over the next five years. The Inland Empire still had an unemployment rate of 8.2% as of September, higher than the state's rate of 7.3%. However, one of the biggest bright spots going forward is the areas status as a major shipping and distribution port for Southern California and the nation. Amazon.com opened its 2nd major fulfillment center in Moreno Valley this year and is planning another facility in Redlands. In an earlier report in October, Beacon projected home prices in San Bernardino and Riverside counties growing at an average annual rate of 8.4% from the second quarter of 2014 through 2020.

Antelope Valley

The median sales price of single-family homes increased by 1.2% in the quarter to $211,000, up from $208,500 as of June 2014; representing an increase of 20.6% year-over-year, up from $175,000 as of September 2013. The overall price increases the past year indicate healthy price appreciation for the Fund's underlying assets in this region.

Home sales in Lancaster, Palmdale, and Quartz Hill during the Third Quarter were up 1.9% from last quarter and up 36.7% quarter-over-quarter from last year. Houses available for sale in Lancaster, Palmdale and Quartz Hill at Third Quarter-end increased 7.4% from the end of last quarter and the number of houses available for sale increased 63.3% year-over-year. The "months supply" of inventory on the market increased to 4.6 for the month of September 2014 compared to 4.4 from the end of last quarter and is up 9.8% year-over-year from 4.25 months in September 2013.

Southern Nevada (Las Vegas), Nevada

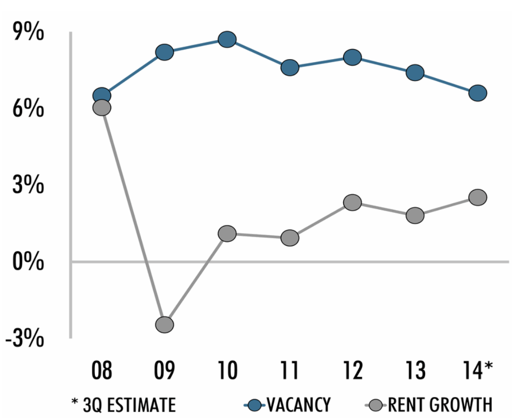
GLVAR reported the median price of single-family homes sold during September was $202,500, up 1.3 percent from an even $200,000 in July and August and up 12.5 percent from one year ago. At the end of last quarter, median sales price of a single family home was $199,000. Meanwhile, the median price of condominiums and townhomes sold in September was $104,250, down 0.7 percent from $105,000 in August, but up 9.7 percent from one year ago.

According to GLVAR, the total number of existing local homes, condominiums and townhomes sold in September was 2,982 down from 3,120 in August and down from 3,259 one year ago. The total number of single-family homes listed for sale on GLVAR was 13,847, down 5.5% from one year ago. The market is entering a more stable time with inventory levels increasing slightly and price increases moderating.

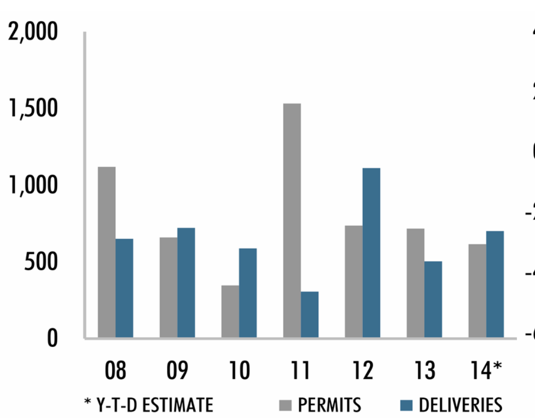
OKLAHOMA MARKET OVERVIEW

Tulsa

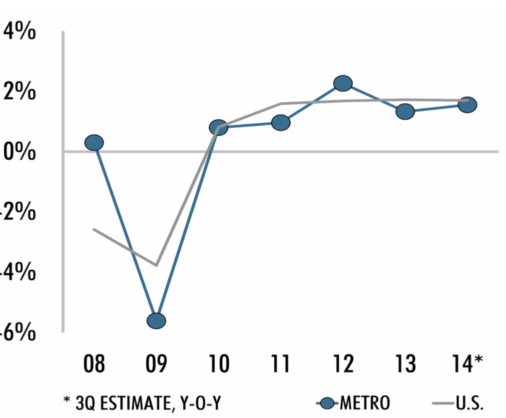
Vacancy



New Permits



Employment Growth



More than 6,700 jobs were added to local payrolls in the last 12 months, a 1.6% gain and a slight acceleration in job growth compared to the 1.5% expansion in the prior 12-month period. Hiring surged 7.3% in the manufacturing industry with 3,700 new hires.

The local unemployment rate descended 110 basis points year over year to 4.7% in September. Tulsa-area unemployment was among the lowest of the major metro areas in the country.

Home values dipped 0.4% in the last four quarters to a median price of $142,000 at the end of the third quarter of 2014. During the same time, sales velocity fell 4.5% to 31,900 annualized transactions.

Renters occupied an additional 610 apartments in the most recent 12 months compared to 1,490 units absorbed in the prior one-year period. Despite the decrease, apartment demand remained healthy, as absorption exceeded five-year average leasing activity by 23.1%. Nearly 50% of absorption was concentrated in the Arkansas River Southwest submarket.

Approximately 500 apartments were completed in the Tulsa metro area in the third quarter, bringing year-to-date deliveries to 700 units. Another 80 apartments are expected to be completed by year-end.

Multifamily developers kept the planning pipeline full, requesting permits for 920 annualized permits in September, a 34.5% increase from the same time last year and 29.6% greater than average issuance during the past 10 years.

he metro-area vacancy rate ascended 20 basis points in the last four quarters to 6.6% in September. Demand for Class A apartments moved in the opposite direction, with vacancy falling 150 basis points to 4.8%.

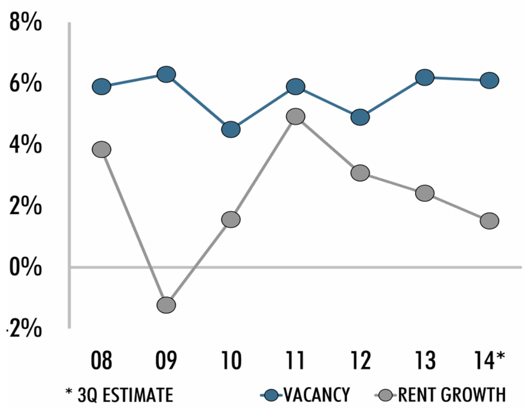
Rent appreciation accelerated in the most recent 12 months compared to the prior 12-month period. Asking rents advanced 2.5% to $692 per month in September, compared to a 2.1% increase one year before. Rates at Class A communities outpaced overall rent growth, reaching $932 per month, a 2.7% year-over-year gain.

Source: Berkadia Real Estate Advisors Tulsa Third Quarter 2014 Report

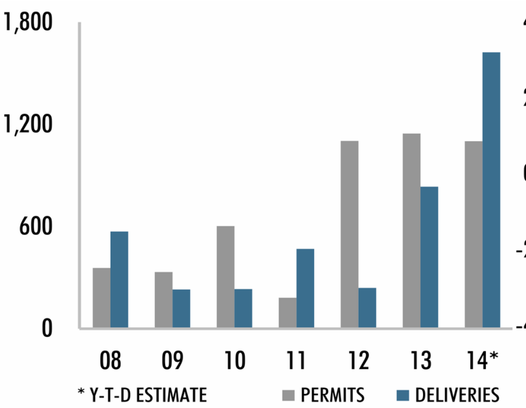
OKLAHOMA MARKET OVERVIEW

Oklahoma City

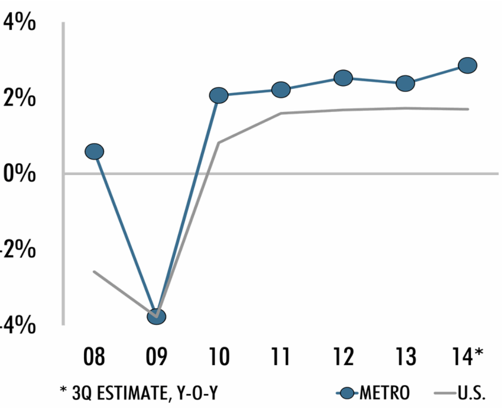
Vacancy



New Permits



Employment Growth



Employment expansion hit an eight-year high with 17,400 positions added since September of 2013, an increase of 2.9%. Growth was up from the 2.2% gains in the preceding year. The leisure and hospitality sector was the largest contributor to growth with 6,700 new hires, an expansion of 10.2% in the last four quarters. Additionally, employment in the construction industry soared 12.4% with 3,400 newly created jobs. Losses were greatest in the professional and business services sector, where 2,300 positions were eliminated, contracting 3%.

At the end of the third quarter, the jobless rate was 4.5%, an 80-basis-point annual decrease. Metrowide unemployment has been historically lower than the U.S. rate, even during the recession. The nationwide jobless rate was 6.1% in September.

During the most recent six months, single-family home prices advanced 1.8% and sales rebounded 6.4%; however, the gains did not offset decreases during the prior half year. For the 12-month period, home prices declined 1.6% to $157,000, while sales fell 5.6% to 41,100 annualized transactions.

Leasing remained strong in the third quarter as renters occupied 630 additional units. Demand was also robust in the second quarter with 1,100 apartments absorbed. This activity offset the negative net absorption of almost 1,200 units in the previous two quarters.

Developers completed 840 units in the previous three months, the highest quarterly total in more than 10 years. More than one-third of the deliveries occurred in the South Oklahoma City submarket. Another 250 units came online in the East Central Oklahoma City submarket, accounting for 29.8% of completions. Approximately 290 additional apartments are expected to be delivered by year-end, all in the South Oklahoma City submarket.

Multifamily permit issuance ramped up 33.2% year over year to 1,650 annualized apartments in September, well above the 10-year average of 740 units annually. Additions to the single-family pipeline, conversely, declined 2.1% to 6,210 annualized permits.

Vacancy soared 160 basis points year over year to 6.1%, fueled by deliveries that exceeded demand by 303%. The vacancy rate increased in six of the seven submarkets in the metro area.

Asking rents increased 1.5% since the third quarter of 2013 to $740 per month in September. Operators increased effective rents 1.1% to $730 per month as concessions widened. The Edmond submarket performed the best year over year as asking rents increased 5% to $798 per month.

Source: Berkadia Real Estate Advisors Oklahoma City Third Quarter 2014 Report

Recent OKC Developments

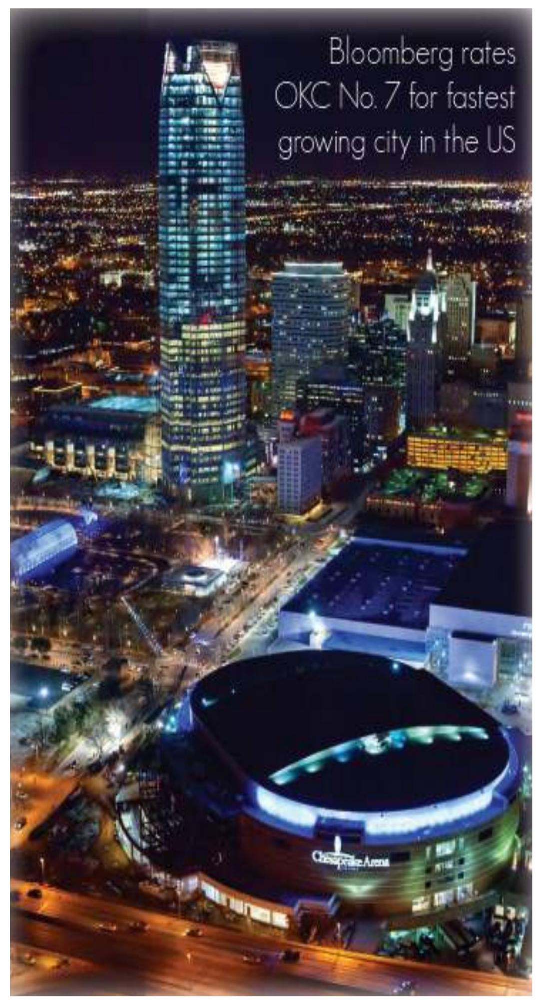
"Since 1999, the number of Californians departing the Golden State for Oklahoma has outnumbered those going the opposite direction by more than 21,000… The influx of Californians is a sign of Oklahoma's growing economic prowess. -USA Today

Economic Development in Downtown OKC

MAPS 3 Project is an approved $777 million initiative that includes: $252 million Convention Center, $130 million Downtown Park, $130 million Streetcar System.
Project 180 is a $141 million project to upgrade infrastructure throughout Downtown and is slated for completion this year.
Devon Energy completed construction on its $750 million tower in 2012.
Continental Resources plans to moves its headquarters to Downtown OKC.
Sandridge Energy spent $100 million upgrading its OKC campus.

General Electric announced last year it is constructing a $110 million research center.

Outlet Shoppes opened in 2012 and is a $50 million outlet mall in west OKC.
Will Rogers Airport recently completed a $110 million expansion project to improve its existing infrastructure.
St. Anthony is undergoing a major campus expansion.



QUARTERLY NEWSLETTER

Recent OKC Developments

Northwest Oklahoma City Developments

Chisholm Creek, the large-scale 180 acre mixed use development broke ground in the early part of October. This pedestrian friendly project will be located in the heart of the Quail Springs area of northwest Oklahoma City and Edmond trade areas. This project will feature entertainment and music venues, hotel and event space, class A office facilities, a collection of restaurants and lifestyle retailers, a fitness facility, residential, running trails, and is connected to an 80 acre city park. Chisholm Creek's location, combined with a dynamic mixed-use environment will make it the premiere destination for shopping, dining, and entertainment; as well as provide top quality office space and luxury residential living, according to the developers.

Gulfport Energy broke ground in November on a new Oklahoma City Headquarters a mile away from The Chelsea. The new $30 million building, designed by RBA Architects, will have underground parking, a staff restaurant, fitness center and auditorium on six floors totaling 120,000 square feet of space.

Southwest Oklahoma City Developments

Boeing is relocating about 900 defense and support-related jobs to Oklahoma City as part of a plan to shift defense-related jobs away from Washington state. The aerospace company already employs 2,000 in Oklahoma City, and the latest expansion could represent nearly a 50 percent increase in its presence in the city. This announcement marks the third time in four years that Boeing has decided to shift jobs to Oklahoma City from other locations.

APPENDIX A

WHILE GAINING POPULARITY, CROWDFUNDING FOR REAL ESTATE INVESTMENT HAS ITS POTENTIAL PITFALLS AS MORE INTERNET PLATFORMS JUMP ABOARD THE FAST MOVING BANDWAGON

By Alexander Philips

Is crowdfunding an exciting new source of real estate capital or a “flavor of the month” investment vehicle that could crash and burn. Only time will tell, but right now with the large number of investment entities filling the Internet “airwaves” and with many more certainly on the horizon, it reminds one of the heady and eventually disastrous days of the Internet startups that went bust in March 2000.

Labeled the dot-com bubble (also referred to as the dot-com boom, the Internet bubble and the information technology bubble), this was, according to Wikipedia, the result of a historic speculative timespan covering roughly 1997–2000 during which stock markets in industrialized nations saw their equity value rise rapidly from exuberant (some might say greedy) growth in the Internet sector and related fields, and then fall like a rock.

This dark period was marked by the founding (and, in many cases, spectacular failure) of a group of new Internet-based companies commonly referred to as the *dot-coms*. The critical period leading up to the collapse of the bubble was 1999–2001. Some companies such as pet.com, webvan.com and etoys.com, failed completely. Others lost a large portion of their market capitalization but were actually solid business models that remained stable and profitable, such as Amazon.com, whose stock went from $107 to $7 per share, but a decade later exceeded $400.

Not every Internet investment site is a bunch of crooks looking for their next sucker. In fact, many of these sites such as Kickstarter and IndieGoGo, are on the up-and-up and can be trailblazers for an entire new industry. As a long-time investor in all forms of real estate, I believe that while crowdfunding may have its upsides, it definitely has its pitfalls, especially for investors who are not experienced in the complex and risky world of real estate assets.

The purpose of this commentary is not to throw cold water on the crowdfunding movement, but to clearly and concisely point out from my perspective what I consider to be some danger areas for crowdfunding as it applies specifically to real estate. But first, some background.

CROWDFUNDING SPRANG FROM JOBS ACT OF 2012

Crowdfunding sprang from the JOBS of 2012 (Jumpstart our Business) Act, and especially its Regulation D, signed by President Obama on April 5, 2012. According to a posting on the Harvard Law School Forum on Corporate Governance and Financial Regulation, the impetus for the JOBS Act “came not from any expansive study to reform federal securities laws, but rather from crowdfunding advocates, who sought to extend the recent crowdfunding phenomenon—social, civic and 'rewards-based' crowdfunding—to a realm where small, largely unsophisticated investors could invest relatively modest sums of money in the most risky of ventures—startups and early stage companies." (http://blogs.law.harvard.edu/corpgov/2014/03/09/sec-crowdfunding-rulemaking-under-the-jobs-act-an-opportunity-lost/#more-60865)

The stated purpose of the act is to facilitate capital formation for small businesses, widely viewed as the principal engine of job creation in the United States, a key element of Obama's economic strategy. Regulation D gives crowdfunding firms the green light to market directly to a large pool of potential investors via social media and the Internet.

Regulation D's new Rule 506(c) that became effective Sept. 23, 2013, allows issuers, sponsors, syndicators and others who are raising capital from private investors to advertise those private investment opportunities to accredited investors under certain conditions. The new federal legislation represents a huge change for sponsors who are raising funds for a real estate acquisition or development. It also has opened up a new vehicle for investors to more easily access direct real estate investment opportunities.

THE DEBATE OVER TITLE III

One of the JOBS Act's more controversial – but not yet enacted -- provisions is Title III that exempts from registration the offer and sale of "crowdfunded" securities under the Securities Act of 1933. This exemption would allow for the sale of securities to an unlimited number of unaccredited investors without registration, on an Internet-based platform, through intermediaries which are either registered broker-dealers or SEC licensed "funding portals."

To qualify today as an accredited investor under current regulations, an individual must have a net worth of more than $1 million not including the primary place of residence, or an annual income of more than $200,000 for the past three years ($300,000 with spouse). Title III of the JOBS Act would pretty much do away with these requirements and would allow a much larger number of let's call them "micro-investors" to participate in crowdfunding. According to financial writer Peter Clough in his article posted on the Early Investing web site, Title III could open the door to 233 million Americans who do not currently qualify compared 3.4 million who qualify under existing regulations - although only about 25,000 investors are currently active in crowdfunding. (http://earlyinvesting.com/jobs-act-title-iii/)

It could also make it easier to create funding web sites. Clough further writes that, "After Title III of the JOBS Act goes into effect, the number of available startup investing opportunities will increase rapidly. Even with all the red tape, it doesn't take too much time and effort to create a business plan, write a profile, record an explainer video and put your fledging company online for potential investors to review." But until – and if – Title III is enacted, real estate crowdfunding sites must still go through the expensive and protracted process of registering every deal (even the ones involving small investors) with the SEC.

FLESHING OUT TITLE III

When approving the JOBS Act, Congress left much of the details of Title III in the hands of the SEC, to be fleshed out in the rulemaking process. On October 23, 2013, the Commission approved the issuance of proposed Title III rules for public comment, with the comment period expiring in February 2014.

At this juncture, the SEC has not completed its action on "fleshing out" Title III but when and if completed it is expected to set standards for allowing non-accredited investors to invest in crowdfunding offerings subject to a limit of $1 million over a rolling period of 12 months, as well as dollar limits on positions. The title would also most likely include a number of built-in investor protections such as limitations on the amount invested, detailed financial and non-financial disclosure in connection with the offering, and ongoing annual issuer disclosure.

It may all sound good and secure in the voluminous and mostly positive reports in the print media including Forbes, the Wall Street Journal and New York Times, as well as electronic and digital media, but what are the realities of investing in real estate via crowdfunding? Do these on-line crowdfunding entities, many of which appear to be created by people who are more technology professionals than seasoned real estate investors, have the expertise and track record to be knowledgeable brokers for enormously complex and certainly risky investment opportunities? Do they really know what they are doing?

Jorge Newbery, CEO of American Homeowner Foundation LLC, *w*hich purchases pools of distressed mortgages from banks at discounts and then offers sustainable solutions for homeowners to stay in their homes, is cautious about the ease with which crowdfunding sites can be created. "The barrier to entry is low: a web developer, some time with attorneys and accountants, and connecting up some vendors will spawn an operational real estate crowdfunding site in a few months. As a result, the proliferation is likely to continue unabated," he writes in a Huffington Post blog. (http://www.huffingtonpost.com/jorge-newbery/the-first-50-real-estate-_b_5575474.html)

"That said, the expertise and prudence to be selective with offerings is essential to delivering on advertised returns to investors," he continues. "With many markets today demonstrating a discomforting frothiness, platforms which are loose in underwriting deals may do well initially. However, these will likely be the first to falter if markets turn, projects flounder and investors start to lose money. An event like 2008's meltdown would strain even the most sapient platform operators."

According to a Wall Street Journal article posted on the WSJ web site June 11, 2014, "there is skepticism that crowdfunding can become anything more than a niche. Among the concerns: It is a loosely regulated market in which many investors aren't sophisticated real-estate professionals and the scrutiny of potential investments and other practices vary widely. In addition, many landlords and developers are turning to crowdfunding because banks or other traditional financing sources turned them down." (http://online.wsj.com/articles/real-estate-sector-moves-crowdfunding-beyond-the-trinkets-1402526777)

NOTES OF CAUTION

When I think of crowdfunding, I think about the California Gold Rush (1848-1859) during which the only people to really strike it rich on a consistent basis were merchants who sold shovels and picks to the poor fools who thought gold was in them thar hills. Nevertheless, crowdfunding is becoming more popular and growing in many different ways. Some good, some maybe not so good, and the jury is still out. Following are five cautionary notes about real estate crowdfunding from someone who has spent most of his professional career investing in a broadband of real estate assets on behalf of others:

1. The operators' level of knowledge and experience. Real estate is an extremely complex and challenging asset that requires extensive and deep experience in acquisition, development and/or improvement, management, and marketing. There's an old but true adage in real estate that only three things matter: location, location, location. To an extent, this is true regardless of the type of product, but for some assets such as residential, it's more important than for others, e.g. industrial. While location is a critical factor, it is only one of numerous criteria that must be taken into account when assessing the value – especially the potential value – of a real estate asset. Others include such variables as market status, current ownership, condition of the property, operating expenses, tenant mix if it's an income producing property, access to transportation, and surrounding businesses and/or competing properties. Analyzing these and other factors that affect a property's value and potential upside requires someone or a group of professionals with solid knowledge and experience in real estate, whether it's investing, acquiring, developing, renovating, or, most challenging of all, purchasing a property for re-use such as transforming an office building into an apartment or condo building. Erroneous information regarding any one of these factors could turn an investment into a nightmare (remember the very funny movie "The Money Pit" starring Tom Hanks and Shelley Long). Quoted in an article by Brian O'Connell posted on Investopedia, Darren Powderly, co-founder of crowdfunding site CrowdStreet.com, says an investor doing his or her due diligence is more important in real estate than other investments. "From the investor's perspective, one should take care to research the platforms on which they are searching for investment opportunities," he says. ". . . Key industry expertise in finance, real estate and technology is essential to operate a trusted and reliable platform. Investors should gravitate towards platforms that deliver excellent customer service not only during the fundraising process, but also after the deal is fully funded and closed. Despite the fact that there are 50-plus platforms in some mode of operation, there are only a half dozen or so that are emerging as leaders in the space. Investors should research multiple platforms and select their top three based on their investment goals and preferred user experience." Powderly also states that a professional real estate crowdfunding platform should provide investors with ample opportunities to

communicate about the offering, including making introductions directly to the sponsor of the particular property listing. (http://www.investopedia.com/articles/investing/072514/real-estate-and-crowdfunding-new-path-investors.asp)

2. One-off real estate investments. Searching several of the crowdfunding sites, it is apparent that most of the investment opportunities are single, smaller properties including single-family homes. One site has 24 different investment possibilities with annual returns ranging from 7% to 24%. I am sure these deals are researched to some extent and offered by honest brokers with every good intention of doing the right thing for the investors. But one has to wonder just how extensive is the due diligence that went into assessing the investment value of each property ranging from retail, to student housing, to office buildings, to residential, all on one site. To ensure that a property is everything that it is promoted to be, I believe it is necessary for an investment professional with deep experience in real estate to actually walk the property and surrounding areas or have someone they trust do it for them. Since the true value of a real estate asset is based not only on the property itself, but what's around it, above it, and underneath it, boots on the ground are absolutely essential to really understand and analyze a property and the environment in which it is located. Although an interesting and useful tool, Google Maps just doesn't do it.

3. Relationship of key participants. At the end of the day, real estate is a relationship business and one has to wonder about the degree of relationships in a crowdfunding environment. It has been my experience in every deal in which I or my team has been involved that we either personally know the investor – whether an individual or entity –or the investor came to us via a referral of someone we know. That relationship is a critical factor in any real estate transaction in that it establishes a level of trust between two or more participating people. If I know and trust you and you know and trust me, that adds organic value to a deal that cannot be achieved any other way. Relationships also play another important role and that is creating a comfort level around who's in charge. Due to the structure of almost every real estate investment deal, there is a majority equity partner who has final say over financing and other decisions, and a managing partner (who may or may not be the majority equity partner) who is responsible for the day-to-day operations. For the most part, these people know one another and probably have been involved in many other investments together. As with any organization, it is best if someone who is trusted is in charge and responsible. Another advantage of a strong working relationship is, if there is a problem, it can most likely be resolved without litigation, which may not be the case with crowdfunding where few, if any, of the participating investors knows one another.

4. The risk factor. Since real estate crowdfunding is relatively new, there has not been enough investment activity to create the any reportable legal or meaningful regulatory action to date. According to the Wall Street Journal, the 50 existing real estate crowdfunding sites (see list below) have raised $135 million, a drop in the bucket compared to the more than $700 billion in market value of publicly traded real-estate investment trusts. There is no way at this juncture in

crowdfunding's short lifespan to gauge if the risks of investing via these Internet entities is any greater – or less so – than dealing with a traditional sticks-and-bricks investment firm. Who is legally responsible if an investment goes bust? What if fraud is evident? Is it the developer? The sponsor? That determination has not yet come to light in crowdfunding of real estate investments but there is a bellwether in the State of Washington where the attorney general in May filed what's believed to be the nation's first consumer-protection lawsuit involving crowdfunding against a Tennessee entertainment and artist management firm and its owner. In this case, the sponsoring entity is Kickstarter which was not named as a defendant. The campaign funded in October 2012, raised $25,126 from 810 backers to create a set of special playing cards and promised rewards with an estimated delivery date of December 2012. The lawsuit alleges that the project hasn't been completed and none of the backers has received any rewards, and the company has not communicated with backers since July 2013. "Consumers need to be aware that crowdfunding is not without risk," the lawsuit states. "This lawsuit sends a clear message to people seeking the public's money: Washington State will not tolerate crowd-funding theft." The complaint, filed in King County Superior Court, seeks restitution for investors and as much as $2,000 per violation of the state's Consumer Protection Act. (http://nwnewsnetwork.org/post/washington-state-files-lawsuit-over-alleged-crowdfunding-scam)

5. What about a "bad actor?" When it comes to fraud and dirty dealing, the Internet is still the Wild, Wild West. It is for this reason that the Securities & Exchange Commission created a series of private placement safe harbor regulations under Rule 506 protecting investors from deceit and fraud including what it terms "bad actors." Under existing bad actor rules, an individual who, for example, has been convicted of certain securities felonies or misdemeanors, or has been disciplined by the SEC, may not be involved in a securities issuance. If Title III is enacted – which is at this time is questionable at best – it could throw open the flood gates for all types and forms of investors including marginally shady if not totally dishonest ones who could turn the crowdfunding industry upside down. Surprisingly, in its final rule, Rule 506(d)(1), the SEC has effectively nullified the "bad actor" disqualifications for the present by providing that only "triggering events occurring after the effectiveness of the rule amendments" will be considered. In effect, all existing felons and fraudsters are grandfathered. Specifically, the new rule says that an issuer cannot use Rule 506 if it or any executive officer, director, or certain other persons have "been convicted, within ten years before such sale" of certain securities fraud offenses. But it then provides in Rule 506(d)(2) that these disqualification "shall not apply with respect to any conviction, order, judgment, decree, suspension, expulsion or ban that occurred or was issued before" 60 days after publication of the amended rule in the Federal Register. The definition is still evolving on what constitutes a bad actor and when does that designation become an issue when applied to crowdfunding and especially the still to be enacted Title III. This question creates a large and uneasy legal void that could potentially be a new field of opportunity for less than honest crowdfunding sites and the entities they sponsor. One blog writer cites the movie "The Wolf of Wall Street" about Jordan Belfort who was

convicted of fraud crimes related to stock market manipulation and running a boiler room as part of a penny stock scam, for which he spent 22 months in prison. The final status of bad actors in terms of crowdfunding has yet to be determined and legal expert such as Columbia Law School's John Coffee are concerned about the direction. Citing the possibility that the SEC might not consider bad actor designations that predate the enactment of Title III, he states, "Should the SEC be keen on protecting investors in the Title III market, I suggest that final Title III rules provide that known offenders not be given the opportunity to 'case the joint,' even if they are wearing an easily discernable badge of fraud, as currently required by the SEC's proposed rules." He urges that the SEC apply the "bad actor" provisions "retroactively – covering proscribed activity which occurred before the implementation of the final rules." In the aforementioned Investopedia article, CrowdStreet.com CEO Powderly specifically advises investors to investigate the founders and senior management of the crowdfunding platform or firm to make sure they have a sterling reputation built upon their previous business experience. I could not agree more.

Mr. Philips is Chief Executive and Investment Officer of Newport Beach, CA – based TwinRock Partners (www.twinrockpartners.com) and is responsible for the overall strategic direction of the firm's investment strategy including the development of new investment opportunities, portfolio management and the company's operations. Prior to forming TwinRock Partners, Mr. Philips was employed with GE Real Estate (GE) as a Director in the North American Equity Investments group (Joint Ventures). At GE he was responsible for sourcing direct real estate investments in all product types including, multi-family, office, industrial and retail, through partner relationships that he had established. He can be contacted at alex@trp-llc.com.

Sidebar:

Below is a list of America's first 50 real estate crowdfunding platforms:

aCrowd
American Colonial Capital Fund
American Homeowner Preservation
AssetAvenue
Blackhawk Investments
Carlton Accredited Equity
CCFG Investments
Creative Equity Group
CrowdMason
CrowdStreet
CrowdTranche
CrowdVested
CRWD
DiversyFund

EquityHunt
ForeFund Capital
Fquare
Funding Hamptons
Fundrise
Gizmo
Global Groupfund
Globerex
Groundfloor
GroundBreaker
High Income Real Estate
iFunding
Loquidity
Money 360
NexRegen
NXGen Capital, Inc.
OpenSource Capital
PassiveFlow
Patch of Land
Primarq
Prodigy Network
ProHatch
Prop Funds
Propellr
Real Circle
Real Liquidity
RealCrowd
Realquidity
RealRite
Realty Mogul
RealtyShares
Rich-Uncles
Sequorum
Sharestates
Sprovy
Tycoon Real Estate

APPENDIX B

CALCULATED RISK – THE CONTRARIAN APPROACH TO INVESTING IN REAL ESTATE

By Alexander Philips

There' no question about it. If you are looking for an investment opportunity in a red hot market like Coastal California, you will undoubtedly find it . . . if you have plenty of money and long-term patience. However, if you don't want to stand in long lines behind multimillionaires and billionaires as they compete for these trophy assets, there are other less obvious but potentially fruitful places to be looking and investing.

TwinRock Partners was formed in 2006 in Newport Beach, CA, as a real estate investment entity, and since the real estate nationwide was just starting its downward spiral as the Great Recession picked up steam, we decided our best bet was uncovering asset opportunities in more affordable markets with a strong potential for future upside. Of course, there is always some risk when investing in real estate regardless of where it is, and sometimes you win and, well, sometimes you don't.

Our firm's investment strategy is to identify and takes advantage of the continuing unsettled market conditions that resulted from the soft economic environment over the past several years by planting our investment flag in markets that we see as having long-term, high job and population growth potential. Based on our research and analysis, we expect these target markets to recover at a faster rate than the nation as a whole.

Our guiding mission is to find opportunities in these markets that are under-valued product types that include market situations in which an asset's acquisition basis compares favorably to its perceived intrinsic value. We actively pursue opportunities where we believe we can rehabilitate or reposition an asset to improve the property's physical characteristics and/or market value. Additionally, we target assets in distress and assets where a change of use such as converting from office to residential may be appropriate based on market dynamics.

Early Winners

One of our early winners was the purchase of several hundred distressed residential units in the so-called Inland Empire which is made up of Riverside and San Bernardino counties in Southern California. With my partner Michael Meyer's deep and long-time experience in Southern California real estate, we knew intuitively that homes selling at one-half to one-third of their original price in that market during the recession, would return to the previous higher price levels at some point in time. We were also one of the first investors to be active in the Inland Empire before it became the primary hunting ground for many other investment groups including some of the nation's largest.

A few examples of what we consider winning investments for both us and investors in our funds:

- A single-family detached home in Riverside (Riverside County) purchased in July 2011 for $94,000 and sold in October 2012 for $205,000, a 104% return on equity.
- A single-family detached home in Riverside (Riverside County) purchased in March 2011 for $140,000 and sold in January 2013 for $224,000, a 62% return on equity.
- A single-family detached home in Redlands (San Bernardino County) purchased in October 2011 for $163,300 and sold in February 2013 for $272,000, a 52% return on equity.
- One of our bigger winners is a single-family detached home in Moreno Valley purchased in March 2011 for $128,000 and sold in October 2013 for $235,000, a 113% return on equity. Although not typical, this deal underscores the substantial upside potential when you as an investor know the market and know when and where to buy and when to sell.

With the success of these investments coupled with the knowledge that the Inland Empire would become a much more competitive market for the type of deals that fit our criteria, we moved on to other areas of opportunities such as Victorville and Palmdale in Southern California. But as those markets became more saturated with investors carrying briefcases full of money, we decided to move away from these increasingly hotter spots to cooler areas where we believed, based on our investment strategies and in-depth research, worthwhile opportunities also existed . . . they just weren't outside our back door.

One of our first out-of-state target markets was the greater Las Vegas metropolitan area which had been pummeled by the recession and consequently offered what we believed were some exceptional investment values based on a mixture of opportunity, knowledge and timing, as well as hopefully some Las Vegas-style luck. It turns out that the biggest win for our investors had more to do with a highly complex civil lawsuit (*SFR Investments Pool v US Bank*) and a decision Sept. 18, 2014, of the Nevada Supreme Court that has the potential of generating a substantial return for our investors. SFR Investment Pools is a Las Vegas-based private investment company.

Case Background

In early 2013, our firm began investing in homes that were located in various homeowner association communities in the Las Vegas area. These HOA foreclosed homes fell under the 1982 Uniform Common Interest Ownership Act which Nevada adopted in 1991 along with some 20 other states. The rule gives HOAs "super priority" over mortgage lenders, that is, HOAs legally have the first right of refusal to sell a foreclosed home if the owner is more than nine months delinquent in HOA dues.

With limited exceptions, the HOA lien is "prior to all other liens and encumbrances" on the homeowner's property, even a first deed of trust recorded before the dues became delinquent, according to the rule. This law created an untenable situation for mortgage lenders such as the Bank of America and U.S. Bank, but offered a potentially fruitful opportunity for investors willing to take a bigger risk.

The SFR-U.S. Bank cased involved a residence located in a common-interest community known as Southern Highlands. The property was subject to Covenants, Conditions, and Restrictions (CC&Rs) recorded in 2000. In 2007, the property was further encumbered by a note and deed of trust in favor of, via assignment, U.S. Bank. By 2010, the former homeowners, who are not party to the case, had fallen delinquent on their association dues and also defaulted on their mortgage obligations to U.S. Bank.

Separately, the homeowner association and U.S. Bank each initiated non-judicial foreclosure proceedings. However, during this period the homeowner association acted first to put the home on the auction block in the keeping with the super-priority statute and SFR purchased the property at the HOA trustee's sale on September 5, 2012. As a result, the investment firm received and recorded a trustee's deed reciting compliance with all applicable notice requirements. In the meantime, the trustee's sale on U.S. Bank's deed of trust had been postponed to December 19, 2012. Days before then, SFR filed an action to quiet the property's title and enjoin the sale.

Based on the super-priority rule, the HOA trustee's deed did in fact extinguish U.S. Bank's deed of trust and vested clear title to SFR, leaving U.S. Bank with nothing to foreclose. U.S Bank filed a law suit and SFR counter sued. The Clark County District Court temporarily enjoined the U.S. Bank trustee's sale pending a court briefing and argument on SFR's motion for a preliminary injunction.

Since the HOA foreclosed on the property non-judicially, the district court reasoned that U.S. Bank's first deed of trust survived the HOA trustee's sale and was senior to the trustee's deed that the investment firm received. Consequently, the district court denied SFR's motion for a preliminary injunction and granted U.S. Bank's countermotion to dismiss, holding that an HOA must proceed judicially to validly foreclose based on its super-priority lien. SFR appealed the decision and the district court stayed U.S. Bank's trustee's sale pending a decision of the appeal by the Nevada Supreme Court.

In its 35-page opinion overturning the lower court decision and remanding the case back to the district court, the Supreme Court ruled that the HOA's super- priority lien against a foreclosed property does in fact extinguish a first deed of trust on the property. It further ruled that the HOA has the power to foreclose on the property non-judicially with the blessing of the Nevada State Legislature per the state's NRS Chapter 116.

In its opinion, the court, perhaps with a touch of sarcasm, also pointed out that the bank could have stopped the problem by paying the lien itself. In fact, the super-priority rule does require that the HOA give notice of the sale to the property owner and to the "holder of a recorded security interest" if the security interest holder "has notified the association, before the mailing of the notice of sale of the existence of the security interest." Which, evidently, the bank did not do, at least neither timely nor properly.

Big Risk, Big Reward

As outsiders looking into the Las Vegas market and especially the HOA situation, many of the factors associated with real estate values and especially residential met our criteria except one – a big one. The pending law suit could have gone either way, but we took a long and deep look at previous litigation associated with the super-priority rule and believed the appellant in this case would ultimately prevail.

Furthermore, the facts of the case leading up to the law suit clearly showed a rare investment opportunity with significant upside potential that was simply too good to pass up. The SFR-U.S. Bank case involved a Las Vegas home purchased in 2007 with an $885,000 mortgage on which the homeowner defaulted the next year. The homeowners association foreclosed on the home and sold it at auction in September 2012 to SFR Investments for $6,000, the amount owed to the HOA by the delinquent homeowner. Even with Las Vegas' slowly improving housing market, the delta between the original mortgage and the purchase from the HOA leaves a lot of time for recovery and room for profit.

After extensive research and touring the areas where we intended to purchase properties, our firm jumped into the Las Vegas/HOA opportunity about two years ago. We spent a few million dollars purchasing HOA foreclosure homes with the objective of fixing them up, renting them, and at the right time, selling them for a tidy profit. As reported in a Wall Street Journal article (Foreclosure Dispute Pits Mortgage Lenders vs. Investors, Oct. 14, 2014) in which I was quoted, one of the homes we purchased was originally bought by the original owner for about $300,000 in 2006. The owner had an interest-only mortgage and gave up the home in 2008 after his payment was set to balloon.

We acquired the home in May 2013 from the homeowners association for $11,000 and real estate information site Zillow.com estimates that the property today is worth about $184,000. With upsides such as this, we anticipate that our investors could triple their money after accounting for investment fees and expenses. "If courts determine that proper notice of foreclosure was given in this and the many similar cases now pending, then the investors will walk away winners," noted a local Las Vegas attorney. States another local investor, "This is one of the greatest returns in real estate that I've ever seen."

While this investment opportunity allowed us to purchase foreclosed properties at steeply discounted prices, it was not without significant risk. We and other investors were up against major banks and other powerful organizations such as the Mortgage Bankers Associations which argued forcefully that the super-priority rule did not extinguish the mortgage in favor of HOA, and their arguments did win in the lower courts. In the story previously cited, the Wall Street Journal reports that, "Lenders nationwide have argued that HOAs should have to foreclose through the court system and shouldn't have the power to wipe away entire mortgages."

Although the case was remanded back to the district court to be retried, we feel confident based on the Supreme Court's solid opinion and our own research and legal analysis that the court's decision will stand and that our firm and other investors will indeed be winners. Nevertheless, we are keeping our fingers crossed and our investors informed as the case progresses once more through the Nevada courts.

AUTHOR:

Mr. Philips is Chief Executive and Investment Officer of Newport Beach, CA – based TwinRock Partners (www.twinrockpartners.com) and is responsible for the overall strategic direction of the firm's investment strategy including the development of new investment opportunities, portfolio management and the company's operations. Prior to forming TwinRock Partners, Mr. Philips was employed with GE Real Estate (GE) as a Director in the North American Equity Investments group (Joint Ventures). At GE he was responsible for sourcing direct real estate investments in all product types including, multi-family, office, industrial and retail, through partner relationships that the firm and its partners have established. He can be contacted at alex@trp-llc.com.