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GRANITE

INVESTMENT GROUP

LIGHTING THE WAY TO
REAL ESTATE INVESTING ...

Granite Insight

REFLECTION

BY ALLEN BOERNER



It's almost impossible for me to believe Granite is celebrating its 20th year of business. While I may not always remember every transaction, I can recall the many moments and events that have shaped Granite's history. Beginning with our first 60-unit apartment transaction in which the seller (a bank selling off its foreclosures) wanted to close escrow immediately and didn't trust we had the funds to close, and continuing through

the most recent closed acquisition of a four facility skilled nursing portfolio from a seller who threatened to derail the deal at the last minute over tax allocation issues, we have overcome many challenges and roadblocks along the way.

However, those are the types of issues over the years that remind us that perseverance is an important part of success. The ability of the Granite team to continually press ahead, whether it be in dealing with difficult sellers, buyers, lenders, properties or even troublesome outside factors over which we have no control, is a testament to the team of professionals that embody Granite.

When I sit back and reflect on our 20 years of structuring real estate investment programs, I'm provided with a perspective on the both the creative and highly focused group of employees I'm fortunate to be surrounded by, as well as the depth and loyalty of our investor base we have

developed over that period. That creativity has been shown in the structuring of acquisitions ranging from multiple asset purchases utilizing 1031 tax-deferred exchanges to a \$250 million senior housing portfolio requiring a short-term triple net sale-leaseback which provided for the opportunity to launch an affiliated skilled nursing operating company in 2009. That operating company has now grown to become the largest operator in the state of Texas and has reached projected annual gross revenues of \$1 billion – quite an accomplishment!

Most pointedly, while I may not remember all of our early transactions, I never forget our success is dependent on the continued investment and support of our loyal investors, who continue to remind me that we really do "light the way" for their investments.

INVESTOR FOCUS

BY SCOTT RICKARD

Securities Regulatory and Compliance is an ever changing environment. I often reflect on easier times when we could put together an investment proposal without a lot of regulatory and attorney involvement to reach our core investors and raise the necessary equity to close our acquisitions. Unfortunately, in the highly regulated world we live in today, we are forced to prepare Investment Offering Memorandums (“PPM”) that are hundreds of pages long. We are now required to use FINRA licensed Broker Dealers (“BD”) to market and sell our investments which require an exhaustive annual 3rd party due diligence report on the Sponsor and the specific project. Once the 3rd party reports are completed, the BD’s generally need 3 to 4 weeks to perform their own due diligence creating lag time for Granite to talk to investors. Also, the BDs have to evaluate the “suitability” as it relates to the individual investor’s personal situation. With the inherent timeline challenge, we are often compelled to use bridge capital to close the transactions which adds costs

and complexity to the transactions. That said, Granite has always persevered and is adept at maneuvering through the maze, even if it will take longer! We are consistently looking to develop new investor relationships which will allow us to continue to provide quality investment opportunities. Given Granite’s last decade of successful investment in the Senior Housing sector, we are now rapidly approaching the point of concentration with our core base of investors. So if you’ve been satisfied with your relationship with Granite, please tell a friend!



A WORD FROM THE PRESIDENT

BY JOHN HELLER

Our theme is really all about lighting the way to better real estate investing. We have been providing our investors with opportunities to invest in various real estate syndications since 1995, which have included investments in several different real estate asset classes, including apartments, self-storage, industrial, and over the past ten years, seniors housing.

Each opportunity has been structured with a specific investment goal in mind – our investments are typically oriented to primarily either cash flow or capital appreciation, but in many cases, the goal is a combination of the two. The vast majority of our recent activity has been focused on the senior housing industry, which has resulted in us offering more cash flow opportunities, as opposed to our first ten years during which we focused primarily on value-added (i.e. capital appreciation) opportunities.

To date, we have sponsored approximately 80 syndications, raising over \$500 million in capital and acquired over \$1.5 billion in real estate. While not every one of those programs have been as successful as we initially projected, we are very proud of our overall track record, and we look forward to continuing to “light the way” for quality real estate opportunities.



KEEPING UP FOR YOU

BY NICOLE HALLSEY

With the recent preparation and closing of the Momentum seniors housing skilled nursing portfolio, Investor Services has been busy, along with the typical daily responsibilities, in providing specific investor communication and documentation. We appreciate the opportunity to service your investment and your trust. We are always looking for ways to build a better investor relation platform of services for our investors for online access, account activity, distributions and reporting.

We hope you had a chance over the past couple months to view Granite’s updated website. We believe it complements our market presence and grows Granite’s exposure for future investments.

In keeping with our “Lighting The Way” presentation of this Granite Insight publication, please enjoy the enclosed mini flashlight!

As always, please do not hesitate to contact me should you have any questions, concerns or suggestions.

BALANCE IS KEY

BY CAREY LEVY



Sometimes what propels Granite most is what you don't see... the balance which maintains an efficient company and workforce. Like a water polo team, below the water, there is finesse, strength and balance created to move in the direction necessary to be positioned correctly and to be forward thinking. It takes hard work, team work and dedication to know when to stay stationary or to launch forward. The strategy might change but the ultimate success and objective is a goal and the underlying components for success have a tremendous bearing on what's happening below the water line. These are the same attributes Granite's team possesses. Each day we use those "under water skills" to be adept at investments, acquisitions, equity replacement, underwriting, asset management, accounting and investor relations. We want to make each shot on goal a successful opportunity for our investors. Granite will continue to strive hard to identify investments which can achieve, if not surpass, the designated goals and objectives and expend our energies not "treading water" but always moving forward. So next time you think of Granite, think of what you don't see!



THE SENIOR CARE MARKET

BY JASON PRICE

Dynamic Market

2014 saw the second lowest average cap rates on record for skilled nursing assets at 12.4% (Senior Care Investor). This is an indicator of how active the current market has been. The combination of low interest rates, availability of HUD debt (3.5% to 4.5% with 35 year amortization), and steady performance is attracting significant equity capital to the market. The yields available from senior housing assets are driving new investors to our shores. This is both good and bad. Good in the sense that as the asset class gains visibility it is being treated as an equal to the other traditional real estate asset classes e.g. Multi-family, Commercial, Industrial and Office; Bad in the sense prices are being driven up and this new capital may not understand the world of seniors housing or how to effectively manage these assets and operators.

The change to performance driven healthcare continues to march forward with the government targeting 90% of all traditional Medicare payments to be paid through value based models by the end of 2018. What this means is operators will need to generate the electronic information necessary to measure and report value (outcomes). Coupled with the changes to Federal (Medicare) reimbursement, States (Medicaid) are implementing their own changes with Managed Medicaid. In 2015 Texas is

implementing Managed Medicaid where third party managed care organizations (MCOs) administer the Medicaid program on behalf of the State. This change adds layers of reporting and oversight not previously seen with the goal of reducing costs and utilization. It is anticipated these requirements might drive unsophisticated operators to sell as they struggle to meet the demand to provide more and more information, thusly creating an acquisition opportunity for Granite.

REITs are aggressively competing for large portfolios and are setting new highs in price and transaction size. However, even with this competitive environment, we continue to see opportunity for the small to mid-size private equity groups like Granite. We look forward to keeping you apprised of future seniors housing investment opportunities.



A LITTLE LAUGHTER AS WE AGE

I started out with nothing, and I still have most of it.

My wild oats have turned into prunes and All Bran.

I finally got my head together; now my body is falling apart.

Funny, I don't remember being absent minded.

It is easier to get older than it is to get wiser.

Some days you're the dog; some days you're the hydrant.

I wish the buck stopped here; I sure could use a few.

Kids in the back seat cause accidents. Accidents in the back seat cause kids.

The only time the world beats a path to your door is when you're in the bathroom.

If God wanted me to touch my toes, he would have put them on my knees.

When I'm finally holding all the cards, why does everyone decide to play chess?

These days, I spend a lot of time thinking about the hereafter. I go somewhere to get something and then wonder what I'm here after.



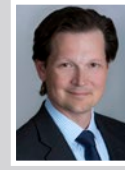
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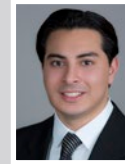
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AFFILIATE COMPANIES



Branson Property Management has extensive experience in the management of multi-family assets including those that require renovation, resident retention and lease-up skills. Since inception, Branson has assisted Granite Investment Group with the management, acquisition and disposition of over 10,000 multi-family units in the Western United States.



Senior Care Centers (SCC) provides Skilled Nursing Care, Long-term Care, Alzheimer's Care, Assisted Living, and Independent Living with a personal touch. SCC provides the highest standards of care in a compassionate, respectful and enjoyable environment. Quality of life is as important to Senior Care Centers as quality of care. That means all residents deserve personalized medical treatment, stimulating activities, good food, and the ability to maintain independence for as long as possible. SCC currently operates in Texas and operates 90+ health communities in DFW Metro, Austin, South and West Texas.

**BUILDING ON EXPERIENCE
STRENGTH | PERFORMANCE | INTEGRITY**

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TECHNOLOGY FLASH...

BY PHAP LUONG

Can Your Wristwatch Be Your EKG?

Google is working on a wearable device that can help doctors remotely monitor patients' health. The "investigational device" could take a person's electrocardiogram (EKG) and assess environmental stressors, including light and noise levels. The device would measure electrical pulses of the heart and skin temperature.

Google says studies will help the company figure out how the watch-like gadget could be used to study and treat diseases. Activity sensors in the wristband could detect changes in a person's mobility, which could help in studying Parkinson's, for example. Physicians could also advise heart attack patients to wear the wristband after being released from the hospital.

What a great age we live in for research and technology advancement.