NEWS FROM CLOVERLEAF

Winter, 2013

WHAT, ME WORRY!?

By: Michael Basofin, Principal & Founder of Cloverleaf
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As we look toward 2013 and beyond, we try to evaluate various components that comprise the risk/reward equation. The good news is that at least in the short-term, there is now some predictability about tax and interest rates. Additionally, we believe that the leasing market, from the owner/landlord's perspective, will continue to gradually improve. And there seems to be an improved sales market for non-distressed, non-trophy properties.

All this sounds positive, right? So what is there to worry about?

While we Basofins are notorious for always finding something to worry about, there is a real and major concern around the corner: the upward volatility of real estate taxes for commercial properties. Cook County (Illinois) may be scarier than other places, but governmental entities (e.g., school and park districts, etc.) that historically rely on real estate taxes for funding are almost universally desperate for dollars. Since there are many more homeowners than commercial property owners, it does not take a lot of imagination to figure out who will be hit first and hardest.

At most of our properties, the real estate taxes can be substantially "passed through" to tenants as part of the "net" leases. Nevertheless, "dollars do not have names." In other words, tenants properly evaluate their total lease financial obligation; so every dollar that is passed through for real estate taxes is one less that landlords may get for base rent.

What can we do about this? Well, we cannot control taxing authorities (and anyone who tells you otherwise is inaccurate or dishonest), but we can do the following:

- Choose locations carefully. Some communities are riskier than others because of real estate tax rates (and other factors). Pricing should be adjusted to compensate for those risks.
- Work with real estate tax counsel and appraisers to maximize all opportunities to reduce real estate taxes, or, at least minimize increases.
- Service our tenants in a professional, courteous fashion. They are our customers and we want our properties to enjoy a competitive advantage. All commercial properties will be facing the same real estate tax challenges, so we want our tenants/customers to have a reason to "stay put."

Basofins will be Basofins, so even if the problem of real estate tax volatility is solved, we will undoubtedly find something new to worry about. For now, however, we will keep our eye on real estate taxes (and other factors) when evaluating prospective acquisitions.

OUR INVESTORS: PAST, PRESENT, AND FUTURE

By: Jonathan Basofin, Principal of Cloverleaf
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With our 30th anniversary year recently concluding, we are focused on the future while remaining mindful of our past. We are particularly grateful for our loyal and expanding investor base. Here are a few interesting statistics:

- Since Cloverleaf's inception in 1982, we have raised over $160,000,000 of capital (without paying any third parties) for approximately 60 investment opportunities.
- Over 700 different individuals/entities have invested in Cloverleaf's offerings.
- Of the 6 multi-property funds for which we have raised capital since we started doing funds in 1998, 95 individuals/entities have invested in more than 1 fund and 22 have invested in 4 or more.

We are humbled by our investors' confidence and take pride in the longevity of so many of those relationships.

We are also excited to have an abundance of interest from new investors. For example, we recently sent a "teaser" letter for a new fund concept we will soon roll out – The Cloverleaf Horizon Fund I, LLC. This fund will provide an opportunity for investors (primarily new ones, including those that are referred to in securities law parlance as "unaccredited") to invest smaller amounts with Cloverleaf than is the case in our traditional funds. Each unit of Horizon will be $12,000 and the total raise will be under $1,000,000. Horizon will not be in lieu of, but in addition to, a "Cloverleaf Fund VI" - the idea being to expand our investment opportunities to a whole new group. The response to this new fund has been overwhelming.*

We are pleased that our over 30-year old company is now generational, including both investors who have been with us since the early days and a new, expanding group.

*This article is for informational purposes only, does not constitute an offer to sell any investment, and may be subject to changes and corrections. An offer for units can only be made through a Private Placement Memorandum for The Cloverleaf Horizon Fund I, LLC.

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Will Trillions of Dollars of Loan Maturities Yield Opportunities for Well-Capitalized Entrepreneurs?

By: Jonathan Basofin, Principal of Cloverleaf
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A recent article in *Midwest Real Estate News* notes that over $2 trillion of commercial real estate loans will mature by 2017, including approximately $1 trillion of loans that are "underwater" (i.e., the loan amount exceeds the value of the underlying property). Since 2008-2009, plenty of ink has been spilled in real estate publications, the *Wall Street Journal*, and even our own newsletter anticipating discounted buying opportunities that might result from troubled loan maturities.

Yet here we are in 2013, a plethora of loan maturities have come and gone, and the opportunities have not been as abundant as predicted. Why? And what might the relative dearth of opportunistic buys predict about future loan maturities?

With respect to loans that have matured over the last few years, according to Steve Roth, Executive Vice President of CBRE's Debt and Equity Finance division and one of Cloverleaf's most trusted advisors, "for a variety of reasons, the lending community elected to 'work with' borrowers as opposed to foreclosing on the collateral." The result, per Roth, is that "the expected 'opportunity' never materialized."

However, the above-referenced article contemplates that the huge number of upcoming loan maturities will present a "significant opportunity for borrowers and third-party buyers alike to purchase real estate or real estate debt at significant discounts to legacy value." But Roth is not so sure, noting that the combination of a slowly improving economy, strengthening property fundamentals (e.g., rental and occupancy rates), and an influx of available capital render it unlikely that the upcoming maturities will yield an increase in available deals. According to Roth, "unless the absolute supply of 'problem' deals overwhelms the capital markets, it is unlikely that there will be opportunist 'buys' for entrepreneurs." Having said that, Roth cautions that "$2 trillion could be an overwhelming figure."

The last few years have taught us that although no one knows what tomorrow's commercial real estate market may look like, it behooves us to remain well-capitalized, open-minded, and without excessive debt. Cloverleaf's investment base, coupled with its low-leveraged approach, make us poised to take advantage of whatever opportunities may be forthcoming.

Steve Roth may be reached at steve.roth@cbre.com.

Miscellaneous Updates

The Cloverleaf Fund V, LLC Acquires Single Tenant Retail Building in Grafton, WI

On November 16, 2012, The Cloverleaf Fund V, LLC closed on the purchase of a 21,400 square foot retail building in Grafton, WI. The building is 100% leased to Goodwill Retail Services, Inc. for an initial term of ten years and is located about one-eighth of a mile from another of our holdings – a 72,118 square foot Pick 'N Save anchored center in Grafton. The acquisition was financed with a combination of equity from Fund V investors and an approximately 55% loan, which amortizes on a 20-year schedule. We are projecting annual "cash-on-cash" returns of over 9%.

Cloverleaf Renews Over 11,000 Square Feet of Leases at High Point Square in Romeoville, IL

On July 31, 2012, The Cloverleaf Fund V, LLC purchased a 49,900 square foot retail center and three outlot buildings in Romeoville, IL. Since our acquisition, we are pleased to have renewed five of the center's leases totaling 11,150 square feet. Most of these renewals were "early" given that the leases were not set to expire until 2014. In addition to adding term, by staggering the expiration dates, we will avoid an overabundance of leases expiring in any one year.

Cloverleaf Refinances West Aurora Plaza in Aurora, IL

We recently completed a refinancing of The Cloverleaf Fund IV, LLC's 209,474 square foot Walmart-anchored center in Aurora, IL. Our new loan features a significantly lower interest rate and a six-year term that extends beyond Walmart's next lease expiration. Additionally, the loan includes a revolving line of credit for buildout/structural expenses, etc. Apart from improving the property's cash flow (vis-à-vis the lower interest rate), we believe this new loan structure provides more stability.

Please contact us with any questions or comments at 847.272.3300 or at the e-mail addresses below.

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We wish you a happy, healthy, and prosperous 2013!