Second Closing

The Fund had its Initial Closing in March and has in excess of $20mm in aggregate commitments. There will be a second closing no later than June 2012. A number of prospective investors have expressed strong interest but have been unable to participate in the Initial Closing for various reasons, including requiring more time to complete due diligence and the need to finalize investment allocations for 2012 and 2013 in a relatively turbulent investment climate. Additionally, some investors who participated in the Initial Closing have indicated an interest in adding to their commitment subject to developing investment allocation matters. All of the Fund's informational materials, including the previous update letters, are available at http://www.griffinpartners.com/investors.html

First Prospective Acquisition

The Fund has placed its first prospective acquisition under contract for purchase. The target property is entirely consistent with the Fund's stated strategy, namely it i) is a mid-sized transaction with a total projected capitalization of $14.5mm, ii) is a suburban office asset in one of the Fund's primary target markets, iii) has distressed ownership that has caused significant vacancy and an adverse spread between the property's rental rates and the rates of its competitive (peer) set because of a diminishing tenant experience and the current owner's inability to fund tenant improvements, and iv) has exhibited, and is in a sub-market that has exhibited, peak-to-peak rental rate growth, a very solid indictor of intrinsic demand both for the property and within the sub-market. The property has a long track record of stabilized occupancy, averaging just shy of 90% over the ten years prior to 2009 when the current owner ran out of money, and should return to a stabilized occupancy once the Fund is able to invest capital to address deferred maintenance and improve the tenant experience. Additionally, further value accretion should occur from compression of the spread between the target property's rental rates and the rates of its peers as the tenant experience is improved after acquisition.

Deal Pipeline

The Fund currently has 23 prospective acquisitions in active underwriting. Deals in active underwriting typically represent about 10% of all of "opportunities" that the Fund will screen. In other words, during initial screening we eliminate about 90% of known opportunities within our target markets, usually because they do not fit the very strict investment thesis that the Fund pursues. In addition to the 23 deals in active underwriting, there are 12 more opportunities that we are aware of, have passed initial screening, but for which we have yet to obtain sufficient information to move them to active underwriting. Typically we will make an offer on about one-third of the deals that make it through active underwriting. Of the 35 total potential deals in the Fund's pipeline, 4 are truly "off market." A ratio of 10% to 15% of underwritten deals being truly "off market" is realistic for the Fund's target properties in the current environment. Many real estate investment managers claim to have a higher proportion of "proprietary" or "off market" deal flow; however, we would recommend treating those claims cautiously.

Brief Market Outlook

A few non-proprietary thoughts that are bounding around the real estate blogosphere:

Source: Multi-family Executive
Bobby Lee, president of the investment division of Los Angeles–based JRK Property Holdings, has gotten a number of calls from brokers this week. They haven't been shopping new properties or inquiring about sales opportunities. Instead, they're checking to see if Lee would still be interested in buying properties that he had finished second or third on originally. "For a lot of deals [on which] we finished second, third, fourth, and fifth earlier in the year, we're starting to hear scuttlebutt from brokers asking if we're still there," Lee says. "Many are deals awarded in the last month where brokers are concerned about fallout

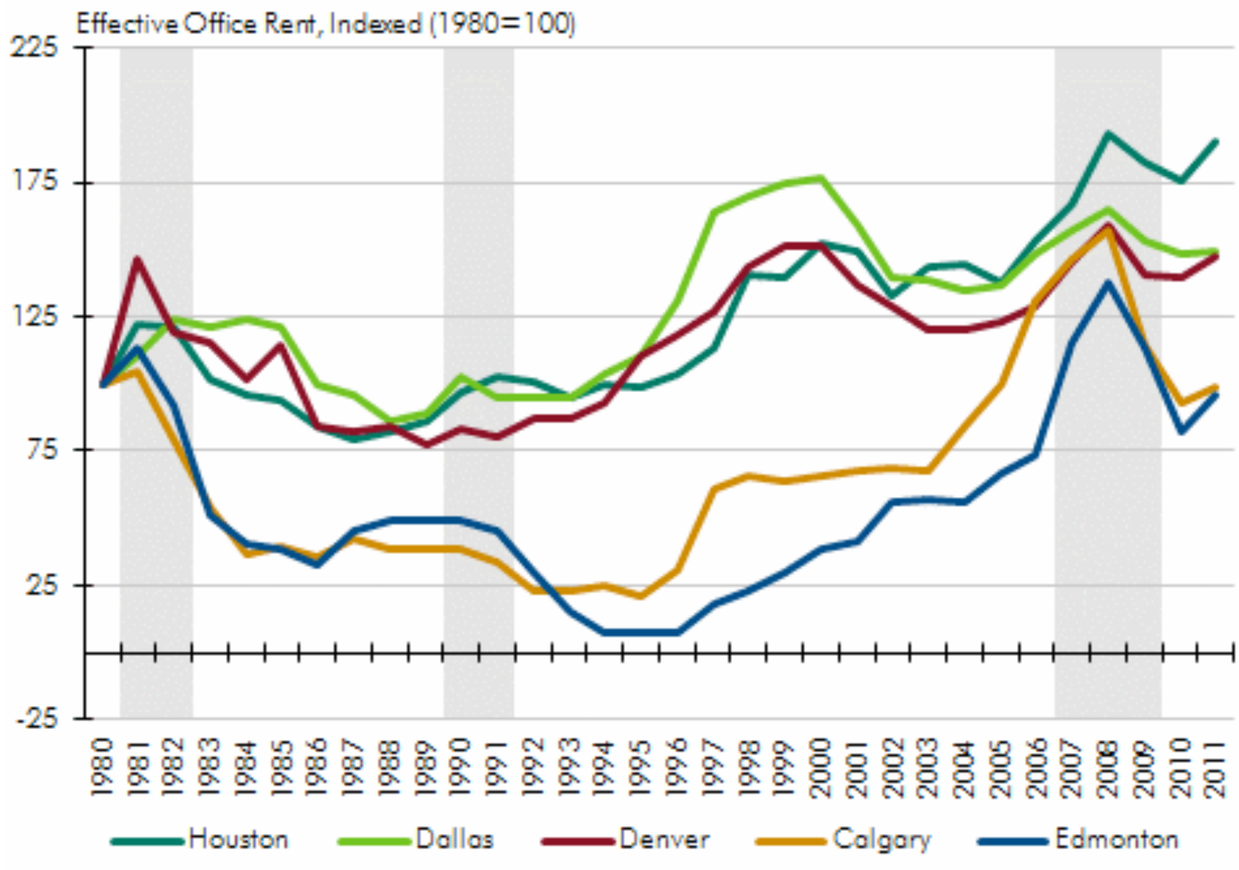
resulting from either trouble raising equity or returns getting squashed because of rising interest rates."

Uncertain Projections - With the movement of the 10-year Treasury rate jumping from 1.98 percent on March 7 to 2.24 percent on March 23, a lot of buyers got spooked. Because of that, Lee says he'd be surprised if more than half of the deals in the pipeline right now get closed. "The wider the spread between the yield on the 10-year Treasury and a cap rate, the better. So when the 10-year goes up, that shrinks."

Griffin's musings about the above: We too have experienced call backs from brokers inquiring about whether we still have an interest in properties for which we came in third or fourth in the original bidding. Frankly, if the relatively small rise in interest rates that has recently occurred is knocking a buyer's deal out of bed, then that buyer was either overleveraging the property or had made fundamental assumptions that were simply too aggressive in the first place.

Source: CBRE Econometric Advisors
For most property types, the recovery remains a year away from taking hold in a meaningful way, which is to say, from when landlords can restock space with new tenants and employers backfill shadow space left behind during the recession. But as the recovery takes shape, the slow progress we're seeing at the national level is the product of an uneven recovery in which certain markets have shown a great deal of progress—and this is where energy markets are starting to play a role.

Over the past year, it has been global gateway cities and financial centers that have improved the lot of commercial real estate markets, particularly the office asset class. Though this trend is likely to continue, the run in oil is starting to open opportunities in energy markets as well, which, in the near term, are the next batch of North American markets to transition to recovery.



Energy-focused markets in the U.S., like Dallas, Houston and Denver, may be better positioned than they have ever been. From a fundamentals perspective, they have seen solid demand, and occupancy gains have improved vacancy rates, which are now near equilibrium—meaning that these markets are poised for more substantial rental improvements in the near term. For a broader swath of markets, the same cannot be said. Moreover, the capital markets picture shows that pricing has yet to ramp up, and that relative to core financial centers, current cap rates suggest that opportunities exist for growth and return on investment.

The upside to these three primary energy markets is how their local economies have evolved since the heady days of the early 1980s, when an oil boom could drive rent spikes, but then leave a market susceptible to overheating and correction. Dallas and Houston in particular have more well-rounded economies than they did 30 years ago, and now focus nearly as much on high-tech, education and healthcare services as they do on energy.