



This is an update message for GRIFFIN PARTNERS OFFICE FUND II, L.P. (the "Fund"). In order to keep you updated, we will be forwarding these about once a month. After our final closing they will include information about the activities and results of the Fund.

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### **Fund Closing - Subscription Agreements and Offering Questionnaires have been mailed.**

The Fund has received sufficient commitments to proceed with the Initial Closing, and all investors who have confirmed their commitments should have received a transmittal letter by Fed Ex containing the following documents for completion and execution: i) Subscription Agreement, ii) Offering Questionnaire, and iii) Limited Partnership Agreement signature page. These are due back in our office by Tuesday, January 24<sup>th</sup>. If you are expecting to, or interested in participating in the Initial Closing and have not received these documents, please contact us immediately.

We are deeply appreciative of all those who have already committed to be partners with us in Fund II. It is both humbling and gratifying to be able to successfully raise funds in what is still a difficult environment for fund raising. The Offering Period is open through July 1, 2012, and we fully expect to have a second, and perhaps third closing prior to that date. A significant 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. We remain confident based on the schedule of prospective investors and ongoing conversations that the Fund will achieve its goal of \$50mm in total commitments.

### **More Frequently Asked Questions**

In our update letter # 2 we provided answers to a list of frequently asked questions. (click [here](#) if you would like to view any of our previous update letters) Two more questions have arisen fairly often as investors have thoroughly reviewed the Fund's offering materials and conducted due diligence. We have tried to answer them here.

#### **1. Do I have to file a tax return in each state where the Fund has investments?**

We have consulted with the Fund's independent accounting firm and determined that for most states in which the Fund is expected to own assets, the fund will be able to file composite tax returns to satisfy state filing requirements, and the Fund will pay any resulting taxes. For those states, limited partners will not have to file individual returns. There are two states currently targeted by the Fund for investment, North

Carolina and Florida, that do not allow composite reporting, and each limited partner would have to file independently in those states. The Fund will deliver a state specific K-1 and all required supporting information to make the preparation of a return in those two states a relatively easy matter. We recognize that having to file individual returns in those two states adds inconvenience and a modest cost, and we will consider those additional factors when judging the relative merits of any investment in those two states.

## **2. Will the Fund reinvest capital proceeds from the sale of any properties?**

No. The Fund will not purchase any additional property with the proceeds from the sale of any property owned by the Fund. Once a property owned by the Fund is sold, all net proceeds from the sale will be distributed to the partners. The Fund will maintain a modest reserve to support any short term capital needs at properties that it owns. The General Partner will determine from time to time whether the balance of the reserve is appropriate, and to the extent that determination indicates the reserve requires additional capital, the Fund may use some of the proceeds from a property sale to increase the balance of the reserve. Under no circumstances however will the Fund use the proceeds from the sale of property to purchase additional property.

## **Brief Market Outlook**

This time of year is always fun for us because we get to read large amounts of material which recaps real estate data from the prior year, opines about the meaning of the data and forecasts trends in vacancies, rental rates and values. The amusing part is comparing not only the different interpretations and opinions between the various sources, but even the variations in data amongst what one would believe to be very similar statistical measures. The long and short of it is that when it comes to real estate data, there are a multitude of permutations and methodologies for collecting and interpreting the figures. The simple reason is that the market is very large and diverse, and more importantly it is predominately private.

Sometimes it helps to start by focusing on a few large macro trends and then think about how they each apply to the many markets and sub-markets around the country. If you have been reading our offering materials and update letters, you have already heard a word or two about these macro trends from us.

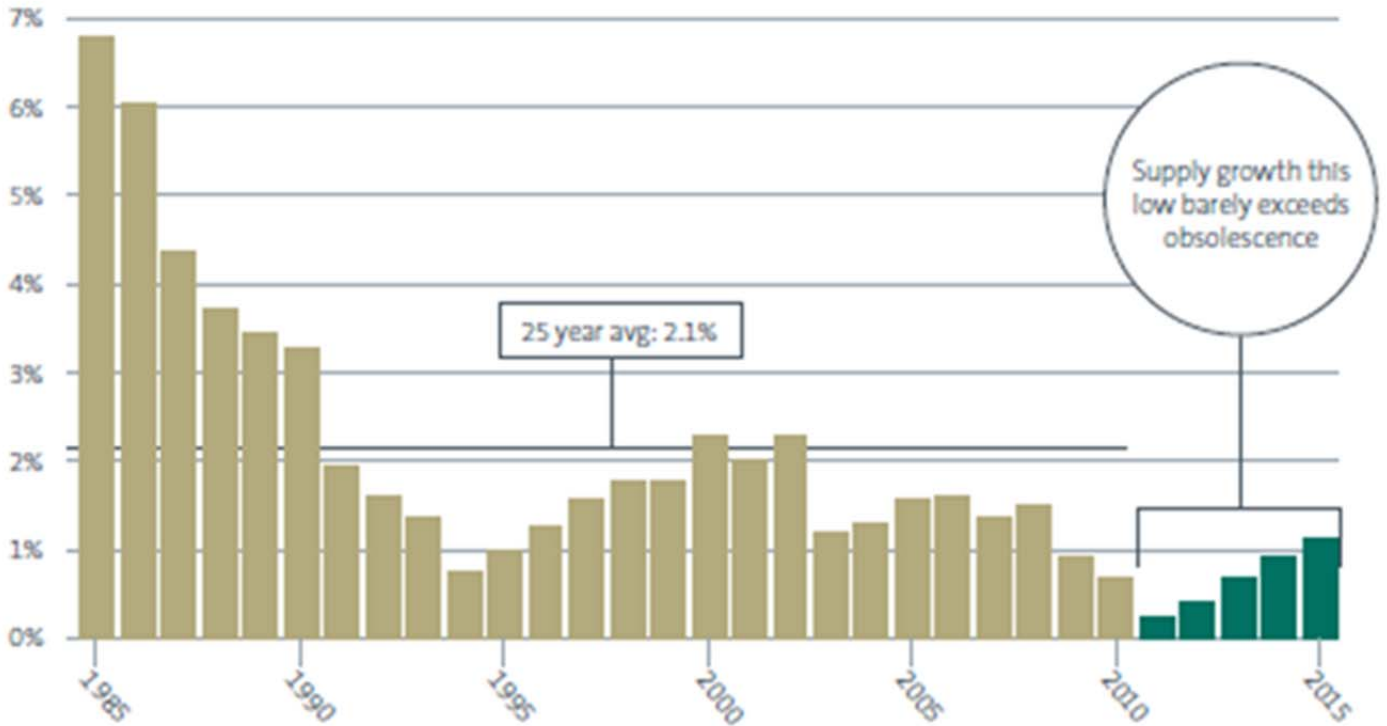
We have all seen recent evidence of slow but steady improvement in employment. Increases in population and job growth are the primary demand drivers for real estate, and not surprisingly Jones Lang LaSalle reports that Q4-2011 saw the seventh consecutive quarter of occupancy gains (absorption) in the office sector (six through Q3-2011 for industrial) albeit the rate of growth remains subdued. Regardless of the rate, the trend is indicating consistent growth. So what about the supply side?

As you can see from the chart below (source: Forward Funds, Green Street Advisors), supply growth for the past two years has been at generational lows when measured as a percentage of existing inventory.

FIGURE 2

## Supply Growth Is at an All-Time Low

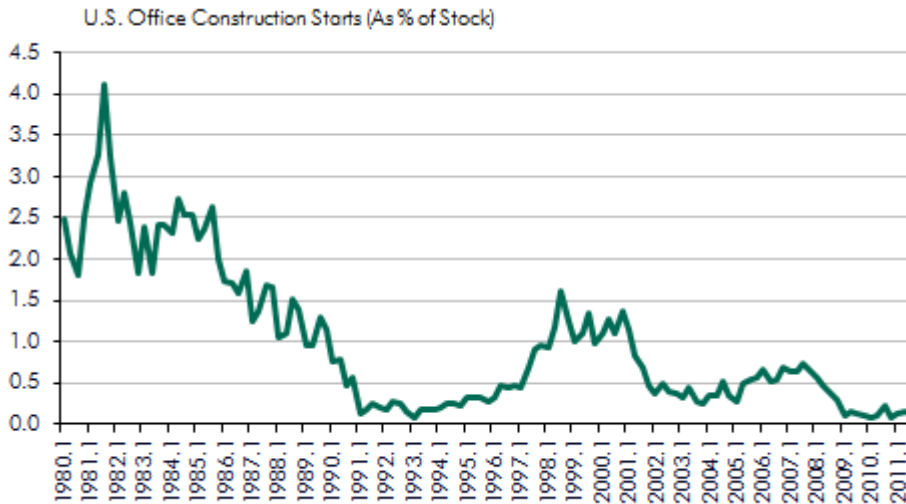
New completions as a percentage of existing stock\* (1/1/85 – 12/31/15)



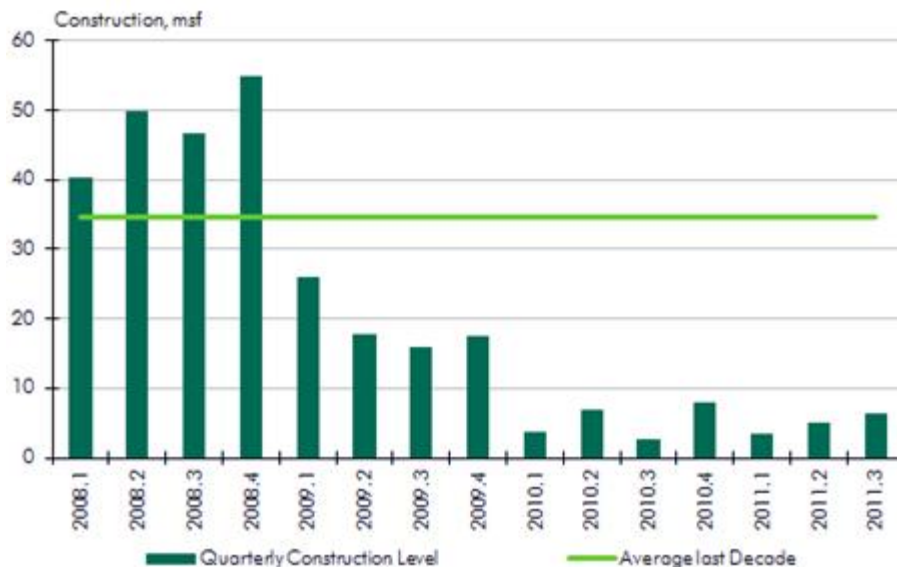
\*Supply growth is an equal-weighted average of the five major property sectors: apartment, industrial, mall, office and strip center.

Source: Green Street Advisors, Inc., as of 9/8/11.

And notice that after contracting from the impact of the 2001 recession, supply growth never got back to its 25 year average. The chart above is for all types of real estate, but the long period of low supply growth is also evident when looking only at office (Source: CBRE Econometric Advisors):



and industrial (Source: CBRE Econometric Advisors):



Increasing demand and constrained supply will ultimately lead to increasing rental rates and gains in value. Meanwhile, TREPP reports that delinquencies of commercial mortgage backed securities (CMBS) ticked up in December, and are expected to rise more during 2012. Why? Because the CMBS loans with terms of 5 years that were made at the height of the last cycle, late 2006 and 2007, are now maturing, and despite having already seen some limited gains in occupancy, rent rates and values in the healthier markets, we are still a long way from those previous peaks. As a result, leveraged owners remain unable to refinance.

How's our thesis holding up given the macro trends highlighted above? The volume of mid-sized properties being moved by lenders and over leveraged borrowers is increasing, and best we can tell, the large funds are still focused on the larger properties. Opportunity!!

Please feel free to contact us with any questions you have about the Fund or the Initial Closing.

Best regards,

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