

Dear Partner,

I hope you and your family are well and the new year brings good health and happiness! These are certainly trying times and as always, we appreciate your continued commitment to Luzern. Below is a brief update on our current investments and opportunities we have been evaluating.

2020 Recap

The past year was very productive for Luzern which included closing on three transactions with a total value of approximately \$54MM. We are very proud of our ability to execute during what has been a difficult period. I would like to thank the Team at Luzern for pushing through incredibly challenging times related to health concerns, family, and the economy. Our achievements this year could not have been accomplished without the skill and hard work of our Team, good counsel from our advisory board and support from our partners. Below is a summary of Luzern's transaction activity:

- Sold Oak Row, realizing a \$4.2MM profit and returning \$7.4MM of capital (63% owned by Fund III)
- Acquired 410 Forest Street in April representing Luzern's first industrial acquisition
- Acquired 90 & 104 John Murphy Drive ("JMD") in December bringing Luzern's industrial portfolio to a total of 97,222 SF
- Submitted eight LOIs on potential transactions

Industrial Portfolio

Luzern now owns two industrial properties: 410 Forest Street located in Marlborough, MA and 90 & 104 John Murphy Drive located in New Haven, CT with a combined total asset value of \$12,245,985 representing \$4,135,985 of invested capital.

410 Forest Street has been owned since April 2020 and to-date the operating performance of the investment is on target. We are pleased to announce the first distribution has been made. The first eight months of operation have generated a 12.27% annualized cash yield. The distribution breakdown is as follows:

- Net Cash Flow generated from operations after debt service and reserves: \$134,232
- Distribution as follows in accordance with Article 6.2(b) of the Partnership Agreement:
 - To the Limited Partners: \$120,209 representing an annualized yield of 11%
 - To the General Partner: \$14,022.

In December Luzern closed on the acquisition of 90 & 104 John Murphy Drive located in New Haven, CT a true urban infill location. The property is a best-in-class manufacturing facility leased to Industrial Flow Solutions. The company manufactures pumps for industrial applications, wastewater treatment plants, mining, and food processing among other applications. Overall, the acquisition process went smoothly though it was a complicated lease negotiation and the environmental history of the site added complexity as well. As a result, our environmental due diligence was extensive and included additional testing and negotiation of relevant lease terms. The final lease terms included six (6) months of security deposit, 2.5% annual increases in base rent, and a purchase option on an adjacent land parcel owned by the seller. The lease term is for twelve years with 100% of operating expenses and capital expenditures covered by the tenant during the term. Luzern sourced an attractive non-recourse first mortgage with People's Bank of Holyoke, MA which is a new lender relationship (relevant terms of the loan are summarized on the following page). Please note, the final amount of capital invested in JMD was \$84,187, less than the capital call. The lower required capital amount was the result of increased loan proceeds and final closing costs being under budget. The difference is being returned to the Limited Partners and will be included pro-rata with the remaining capital commitment of each Limited Partner.



Critical metrics for JMD:

- Invested Capital: \$2,618,201
- Projected Year 1 Distribution: \$206,000 (8.06% annualized yield)
- Debt Financing:
 - Principal: \$5,100,000
 - Fixed Rate: 3.25%
 - Term: Five years with two twelve-month extension options
 - Annual Amortization: \$100,000

Luzern Realty Fund III LP capital summary as of December 31, 2020 (subject to review by our accounting firm):

- Invested Capital: \$4,135,985
- Capital Contributed: \$9,250,346
- Total Distributions: \$7,573,489
- Remaining Committed Capital: \$8,749,654

Fund III Potential New Investment Activity

As mentioned in our previous letters, our strategy with industrial properties is to aggregate a portfolio which generates a strong risk adjusted current cash return (regular dividend payments) and has the potential to increase in value over a medium-term hold period of between 5 to 7 years. We have been evaluating several new investments since my last update in September. All the activity is focused on flex/industrial product type. Although we have evaluated opportunities in New Jersey, geographically we have decided to concentrate in Connecticut and Massachusetts. We made this strategic decision since we have a more robust transaction pipeline and the yields in these markets are more in-line with our targeted return profile. For 2021, we are estimating an additional \$4MM to \$5MM of invested capital (\$130,000 - \$160,000 for a full share Limited Partner). Currently, there is a solid pipeline of new deals, and by focusing on smaller properties (50K SF and below) we have been able to generate off market opportunities which provide better return metrics. The lending environment remains favorable with low interest rates enhancing cash-on-cash returns. I believe we are well positioned for continued growth of the existing portfolio. The two properties currently owned by Fund III (97,222 SF) have an average remaining lease term of 8.5 years. The projected Fund III gross annual return for 2021 is 10% (before profit sharing with the General Partner) which will yield Limited Partners 9% (after profit sharing with the General Partner).

305 Kenneth Welch Drive

We are currently working on an off-market value-add industrial opportunity in Boston (more detail can be found in the pipeline chart below). We have been working on this transaction since September and the property has been tied-up in a complicated eviction process of the current tenant by the lender. The building will be acquired vacant and the strategy will be to renovate the property and lease the space to a new tenant. The location of the property is excellent and the physical aspects of the building and site - parking ratio, ceiling height and truck circulation - is very good. The building has some deferred maintenance and needs upgrades to the lighting, paving, and cleaning. We have signed a purchase and sale agreement and the seller is in the process of removing equipment and other items left behind by the previous tenant. The acquisition timing is anticipated to be the end of March for completion of due diligence, a capital call by mid-April, and a closing by the end of April. Simultaneously, we have signed a leasing brokerage agreement and have begun marketing the property for lease to a single tenant. We will be forwarding a complete investment analysis shortly. The estimated capital required for this transaction is \$1.4MM (\$47,000 for a full share Limited Partner).



Luzern Realty Fund III

Investor Update

February, 2021

LUZERN CURRENTLY ACTIVE & CLOSED DEALS							Project Equity ¹	Call Amount ¹	Returns ¹	
Map	Property Address	State	Type	Status / Notes	Square Feet	Ask / Bid	Fund III	3.33% Full Share	Avg Yield ²	Gross IRR ³
Active Deals										
1	305 Kenneth Welch Dr	MA	WH/Dist	Off Market Deal; P&S Executed	33,600	\$2,800,000	\$1,366,285	\$45,497	10.6%	18.2%
2	40 Sebeth Dr	CT	WH/Dist	Off Market Deal; LOI Submitted	64,800	\$7,000,000	\$2,557,950	\$85,180	8.5%	14.2%
3	100, 104, 106 Sebeth Dr	CT	Flex/Dist	Under Evaluation	76,843	\$10,500,000	\$3,836,402	\$127,752	6.7%	10.3%
Average Active					58,414	\$6,766,667	\$2,586,879	\$86,143	8.6%	14.2%
Closed Deals										
4	410 Forest St	MA	WH/Dist	Closed in April 13, 2020	32,500	\$4,300,000	\$1,517,783	\$50,542	6.3%	14.9%
5	90 & 104 John Murphy Dr	CT	WH/Dist	Closed December 22, 2020	64,722	\$7,400,000	\$2,618,202	\$87,186	10.6%	14.6%

¹All Figures are Estimates ²Average Yield over Holding Period ³Gross IRR before Profit Sharing

Fund III Capital Calls and Target Investments

Projected Capital Call Calendar 2021 (Full share Limited Partner interest is 3.33%)

- April 2020 Fund Management Fee Capital Call: \$193,000 (Full Share Capital Call: \$6,427)
Kenneth Welch Drive Estimated Capital Call \$1.4 million (Full Share Capital Call: \$46,620)
- November 2021 Fund Management Fee Capital Call: \$193,000 (Full Share Capital Call: \$6,427)
- 2021 Target Additional Invested Capital of \$3.0MM (Full Share Capital Call: \$100,000)
This target assumes 305 Kenneth Welch closes.

Reporting/Distribution Calendar 2021

- March 31 Distribution of Tax Information Forms (K-1)
- April Luzern Fund III Partner Update
Reviewed Financials Posted
- July Semi-annual Distribution



Cyber Security

I wanted to make you aware that in December Luzern was the victim of a few email hacks during the JMD transaction. They involved emails with fraudulent wire instructions designed to redirect wires. There is no way to know if the act was perpetrated through Luzern's email system, through our attorneys, or other 3rd parties involved. The best defense is awareness by the parties we interact with. Our communications with our partners are most important to us and ensuring the integrity of our communications is one of our highest priorities. As a result of the recent events, we will be updating our protocol and will require password protection on all communication regarding capital calls and tax information. We are in the process of adding additional security to Luzern's email system. **PLEASE BE AWARE** if you receive any emails pertaining to redirecting wire information, please contact Mark, Greg, Trish or myself directly before taking any action.

As always, I want to thank you for your continued support of Luzern and our investments together. These are very challenging times and I wish you and your family health and peace in 2021!

Best Regards,

Sal

Salvatore Campofranco
Founder, Managing Partner
Luzern Associates LLC

