

Dear Partner,

I hope you and your family are well and your New Year is off to a good start. Below is a brief update on our current portfolio and the upcoming capital call for our new investments.

Industrial Portfolio

The industrial portfolio is currently 100% leased and you should have received your semi-annual distribution for the six (6) month period ending December 31, 2021. All tenants are paying their rent timely and we are expecting to make our fourth distribution in July. The portfolio currently encompasses 130,822 SF with a weighted average lease term of 6.8 years. The average dividend yield for 2022 is projected to be 9.71%. Our industrial strategy, which is to source properties off-market with above average yields and assemble a portfolio thereby creating value through scale and ultimately monetize through a sale to an institutional buyer, remains unchanged. Both new investments discussed below fit in this strategy through strong in-place cash flow which enable us to grow our current dividend and through additional scale achieved with the development property.

Update on New Investments

As mentioned in my last update, we have been working on the purchase of an industrial portfolio located in Windsor, Connecticut. We are currently in our due diligence period and are moving towards a closing by the end of March. Capital call letters have been prepared and uploaded to the investor portal. A full share Limited Partner will have to contribute \$135,461.

Following is a brief summary of the transactions and please refer to the investment presentation, included with this update for the complete underwriting. The transaction includes seven (7) properties, five (5) industrial properties and two (2) single story office buildings. Luzern will acquire 770-790 Marshall Phelps Road which is a 62,080 SF industrial building that is fully occupied by two (2) tenants. Walgreens is the largest tenant in the building (84%) with four (4) years remaining on their initial lease term. The property will be 100% owned by Luzern Realty Fund III LP (the "Fund") and requires a total of \$2,192,450 of equity. Washington Trust who is our current lender on 410 Forest Street and 305 Kenneth Welch Drive will be providing the first mortgage on the property for the purchase. This property is projected to provide an annual dividend yield of 9.21% for the first (12) twelve months and will be included in our next semi-annual distribution. The asset fits very well with our current strategy of increasing the scale of our industrial portfolio (192,902 SF including this building) and the Walgreen's lease will improve the appeal of portfolio to a potential institutional buyer.

The remaining four (4) industrial buildings will be purchased by an entity affiliated with one of our Limited Partners who has a 1031 exchange requirement. These properties did not fit with our portfolio aggregation strategy due to size of the buildings and lease characteristics. By splitting the transaction, we were able to acquire the properties we were most interested in and at the same time meet the seller's requirement of purchasing the entire portfolio.

In addition to the operating property mentioned above, the Fund will acquire two (2) mostly vacant single story office buildings and one vacant land parcel (purchased through an option). Our strategy is to redevelop the three (3) properties into a new Class “A” industrial building. The site offers multiple scenarios for redevelopment of the property in the form of a single +/-150,000 SF building or two (2) smaller buildings. The final design will be determined by the approvals received from the Town of Windsor and the timing of vacating the remaining tenant currently located in one of the office buildings. The redevelopment will require obtaining approvals, construction and leasing of the new building(s). The land is outstanding related to existing infrastructure for utilities, traffic flow and access to major highways such as I-91 (which is less than 1.5-miles from the property).

The Windsor submarket is a very active industrial market illustrated by the current occupancy rate of 95% (according to CoStar’s 4Q 2021 Windsor Submarket report). Amazon occupies 1.5 MM SF and Chewy.com just signed a lease for a 750,000 SF build-to-suite. The Day Hill Road corridor is going through a transition from large office headquarter properties to industrial and multifamily developments. The project fits well with our track record of transforming and redeveloping under-utilized properties. We have assembled an excellent team of professionals working with us on the design, approvals, construction and leasing of the project. Tom Riley who has worked on our previous redevelopment projects and has extensive experience with industrial development, will be heading the team for Luzern.

The project will require a significant equity contribution estimated at \$6,722,258 and as a result we will look to utilize a joint venture partner for the transaction. We are targeting to have the Fund invest approximately \$2.7 MM (or +/-40%) of the required equity and the joint venture partner investing the balance. The initial closing will be funded by Fund III in the amount of \$1,678,401. The balance of the equity will be contributed through at least two (2) additional capital calls in December 2022 and the final upon closing of the construction loan estimated to be in March of 2023. A detailed timeline is included in the investment presentation.

Capital Call Summary

Simultaneous with this update we have sent a capital call notice summarized as follows:

Capital Call for 770/790 Marshall Phelps Road Investment: \$73,082 (full share Limited Partner 3.33%)

Capital Call for Day Hill Road Redevelopment: \$55,890 (full share Limited Partner 3.33%)

2021 Fund Management Fee: \$6,426 (full share Limited Partner 3.33%)

Total Equity Contribution: \$135,461 (full share Limited Partner)

Contributions are due by March 17th

Critical Metrics for Luzern Realty Fund III LP

Invested Equity as of December 31, 2021: \$5,657,320

Proforma Including Above Investments: \$9,528,171

Remaining Commitments (after above investments): \$1,960,966

Current Industrial Portfolio: 130,822 SF

Industrial Portfolio with Marshall Phelps: 192,902 SF

Industrial Portfolio with Day Hill Road Redevelopment: 342,000 SF

Reporting and Distribution Calendar

- March 17, 2022: Capital Call due Date for Windsor Portfolio and Fund III Management Fee
- March 31, 2022: K-1 Tax Information Form to be distributed (via secure portal)
- July 2023: Semi-Annual Distribution
- July 2023: Next Fund III Update Letter

Update Secure Portal

To increase security of information distributed related to risk of email hacking etc., we have established a secure portal on our website for each partner. All information and communication related to capital calls, tax return information and partners statement of account will be located on the portal. The partner update letters will continue to be sent via email however individual partner communication with sensitive information such as tax id numbers, bank account information for capital calls etc. will be accessed via the secure portal. *Please be sure to activate your access to the portal. Mark Liguori has previously sent an email; with your invitation and directions on how to access the portal. Please contact Mark directly at MLiguori@luzernassoc.com should you have any difficulty or questions related to accessing the portal.* This is an important step towards providing more secure information distribution to our partners. Thank you for your help in executing the transition.

In closing we are excited by the new investments discussed above and in the Investment Presentation. We appreciate your continued support and should you have any questions please do not hesitate to call or email me directly.

Best Regards,

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