

# ARIXA CAPITAL

Summer 2016 Newsletter

Dear Clients, Friends and Associates:

Ten years ago, I started Arixa Capital. In many ways the world has changed dramatically since then and in other ways, 2016 feels a bit like 2006 all over again. We do not expect another widespread housing crisis, because getting a mortgage is much harder today than it was in 2006. A huge difference between then and now is the increased regulation of the financial sector — banks have left large swaths of the economy without access to credit, creating an opportunity for all kinds of non-bank lenders.

## **Milestones and Missed Opportunities**

We are proud of the steady performance that our funds have delivered since Arixa launched its first fund in early 2010. Our Asset Management Portal, which is open to all investors and prospective investors, offers great transparency, showing the investments held by each fund and details about those investments, updated weekly. Arixa is building an institutional-quality platform that gives investors access to a very non-institutional asset class with attractive return characteristics. We are proud of Arixa's past employees who have excelled in their careers and are certain that keeping in touch and being supportive of Arixa alumni will yield dividends for everyone involved.

We did miss a big opportunity by not buying enough homes in 2012 when we launched Arixa Fund II, and not launching sooner with more capital. We correctly identified that home values had fallen too far — and we did purchase homes for under \$100,000 that had sold at the peak for \$400,000. However, that fund should have purchased more homes in the Inland Empire. The homes we did purchase are worth more than twice what the fund paid. The next time we see a terrific investment opportunity, we expect to be in a position to execute with a much larger pool of capital.

## **Goals for the Next 10 Years**

Another correction in the housing and real estate market is bound to happen and when it does, our primary goal is to preserve capital and keep generating income for our investors throughout the next market cycle. Additional goals include:

- taking advantage of buying opportunities when they do appear;
- expanding our platform so we can serve more clients, but only within the context of maintaining our good track record;
- maintaining and building on the culture which has guided us for the past 10 years; and
- playing a positive role in the real estate investment community. We love to help people succeed even if it doesn't lead to immediate business. Not only is it satisfying, but in the long run, our good reputation ensures that we continue to enjoy a steady stream of investment options from trusted sources.

Sincerely,



Jan B. Brzeski



Gregory S. Hebner

## PERFORMANCE OF ARIXA'S FUNDS

### Overview of Our Funds' Performance

Arixa operates three investment funds that are open to accredited investors. Based on SEC rules, we can accept money from those with either: (1) assets over \$1 million, not including equity in a primary residence, or (2) annual incomes over \$200,000 or \$250,000, depending on marital status. The funds have slightly different objectives and target returns, but all three share a common focus: generating attractive total returns with significant current income. Our portfolio managers strive to maintain a margin of safety, focusing on investments they understand well, based on extensive professional and personal investing experience. All three funds are currently open to existing and new investors.



### ARIXA FUND I—PRIVATE LENDING

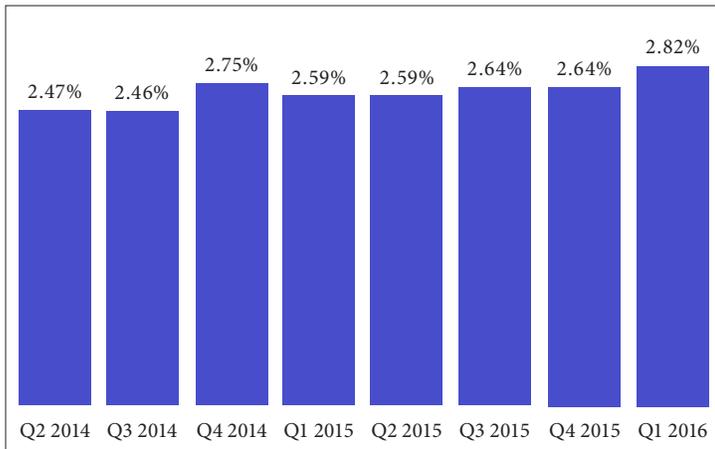
Founded in early 2010, Arixa Fund I has provided more than 240 loans to investors and developers who purchase, renovate and resell single family homes, mostly in California. The majority of loans are under \$500,000. Fund I has not had any losses to date, and based on recent payoffs, loans comprise on average less than 60 percent of the finished homes' value. As shown in the bar chart, Arixa Fund I generated returns of 2.1% (approx. 8.4% annualized) in the first quarter of 2016.

Arixa Fund II recently made an investment in a 12-unit project in Mid-City Los Angeles, with a projected sale price of \$890,000 per unit.

By including similar opportunistic investments in Fund II, we are seeking to deliver double digit returns to our investors.

### ARIXA FUND II—EQUITY / RENTAL INCOME

Established in 2012 to purchase, renovate, lease and operate a portfolio of residential real estate, Arixa Fund II focused on purchasing single family homes from banks but has recently expanded our investments criteria to include selected multi-unit residential investments in the Los Angeles area. Fund II aims to blend steady income with limited opportunistic investment to generate attractive overall returns. Since its inception, Fund II has delivered returns of 12.3%. While recent returns have been slightly lower, Arixa is re-opening this fund to existing and new investors to take advantage of some of the opportunities created by the Los Angeles area housing shortage and other urban residential trends.



### ARIXA FUND III—LEVERED PRIVATE LENDING

We launched Arixa Fund III in 2014 to address our borrowers' need to finance extensive home renovation projects that exceeded the loan size that what Arixa Fund I typically provides. This fund also uses some bank leverage to increase returns to investors. Fund III features a 10% preferred return and in Q1 2016 generated returns of 2.82% (approx. 11.3% annualized returns). The fund has made over 100 loans without any losses.

## 10<sup>TH</sup> ANNUAL UCLA REAL ESTATE SYMPOSIUM ATTRACTS MORE THAN 400 ATTENDEES



# IS 2016 THE LAST SQUEEZE FOR THE MARKET?



Jesse Sharf  
Gibson, Dunn & Crutcher



William J. McMorrow  
Kennedy Wilson



Jonathan P. Roth  
Pier House Capital



William R. Lindsay  
PCCP, LLC



Jason Choulochas  
Bank of the Ozarks



Jan B. Brzeski  
Arixa Capital

In 2006, shortly after launching Arixa, we organized a real estate panel discussion at the UCLA Anderson School. Ten years later, this event has grown from 80 attendees at the first event to more than 400 attendees in April 2016. The event has thrived for several reasons, including: great networking and a panel of experienced, informative and entertaining speakers; an affordable price paired with food, beer and wine; and a 2 ½ hour run time which, compared to similar all-day events, moves at a brisk pace without sacrificing content or value. This year's speakers addressed opportunities throughout the U.S. and overseas, sharing an optimistic outlook for the year ahead.

The panel included William McMorrow, Chairman & CEO, Kennedy Wilson; William Lindsay, Founder of PCCP, LLC; Jason Choulochas, Executive Vice President, Bank of the Ozarks; Jonathan Roth, Founder & CEO, Pierhouse Capital; Jan Brzeski, Managing Director, Arixa Capital; and was moderated by Jesse Sharf, Partner and Co-Chair of Gibson Dunn & Crutcher's real estate department.



**SAVE THE DATE!** The 11th Annual Real Estate Investment Roundtable Discussion takes place Wednesday, April 19, 2017

## CHANGING DEMOGRAPHICS AND REGULATION CREATE OPPORTUNITY

Most housing units in the City of Los Angeles were built in the years immediately following World War II. Since then, major changes have included increasing population and traffic; changing housing preferences, such as a desire for more open floor plans; and much tougher building codes for earthquake safety. Each of these changes indicates that most of the City's housing stock is functionally obsolete today or will be soon. For example, the City of Los Angeles recently started sending notices to the owners of 13,500 apartment buildings. Known as "dingbats" or "soft-story buildings," they risk collapse in a major earthquake. Owners now have several years to either retrofit their buildings seismically or demolish them to replace with new residential units. We believe that this regulatory change, among other factors, creates a substantial opportunity for firms like Arixa that specialize in financing smaller real estate developers and investors. Such opportunities indicate that while we need to be aware of and cautious about the real estate market cycle, Arixa has a role to play in addressing longer-term needs that do not rely on a rising housing market.

### FIND YOUR FINANCING UNICORN



Illustration by Dennis Wunsch

*The following is an excerpt from an article written by Jan Brzeski that appeared in the April 2016 Scotsman Guide.*

#### **Single-family Construction is an Untapped Market for Mortgage Originators**

In Silicon Valley, a "unicorn" is a private company valued at more than \$1 billion based on its most recent round of funding. Such businesses are known as unicorns because, historically, so few private venture-backed companies reach this lofty valuation.

In the world of residential real estate finance, there is a different unicorn to contend with: construction loans to small homebuilders. The economics of building single-family homes have become compelling in many cities, and yet loans to pursue such projects remain elusive.

Read the full article on [www.arixacapital.com/press](http://www.arixacapital.com/press)

### BE THE BANK, WESTSIDE MEETUP GROUP

"Be the Bank" Westside Real Estate Meetup Group discusses current real estate investments, trends and issues, providing a forum for real estate investors to meet borrowers.



#### **Transforming and Discovering the Next Hot Property** *March 28, 2016*

Longtime journalist Lauren Beale spoke about the luxury home market, while Arixa Capital's Greg Hebner discussed residential fix-and-flip investments and how to build a full time business flipping homes.



#### **What Are Investors Looking for Today?** *January 25, 2016*

Mark Tronstein of Andell Inc. and Sonja Harrigan of Atlantic Creek Real Estate Partners explained what limited partners are seeking, from the perspective of a family office.



#### **Small Lot Subdivision Panel Discussion** *October 26, 2015*

Christian Navar and Derek Leavitt, of Modative Architecture, and Craig Knight and Eric Fishburn, of Guild GC, discussed challenges and rewards of their recent projects.

*To join or learn more about upcoming events, visit:*  
[meetup.com/Be-the-Bank-Westside-Real-Estate-Meetup-Group](http://meetup.com/Be-the-Bank-Westside-Real-Estate-Meetup-Group)

## CROSSWIND TO OFFER COMMERCIAL REAL ESTATE BRIDGE LOANS

After focusing almost exclusively on single-family home loans, we now offer bridge financing for commercial real estate as well. Our Crosswind partner has spent his career making commercial real estate investments, including bridge loans, and Arixa's founder, Jan Brzeski, spent the first part of his real estate career focusing on commercial real estate. Crosswind will focus on loans in the \$1-\$10 million range, up to roughly 70% of cost. In many cases, opportunistic investors require quick funding and will use our financing for about a year while they reposition a property before getting a lower-cost bank loan. If you are a developer, investor or broker requiring flexible bridge financing, please call Jan Brzeski at (310) 905-3055.

### RECENTLY FUNDED LOANS



**Arixa Fund I  
Sacramento, CA**

Loan Amount: \$228,000  
Interest Rate: 9.99%  
Loan-to-Cost: 75%  
Est. Loan-to-ARV: 62%



**Crosswind Financial  
Los Angeles (West Hollywood), CA**

Loan Amount: \$1,000,000  
Interest Rate: 9%  
Loan-to-Cost: 50%  
Est. Loan-to-ARV: 28%



**Arixa Fund III  
Los Angeles (San Pedro), CA**

Loan Amount: \$585,000  
Interest Rate: 9.75%  
Loan-to-Cost: 75%  
Est. Loan-to-ARV: 60%



**Crosswind Financial  
Los Angeles (Hancock Park), CA**

Loan Amount: \$4,000,000  
Interest Rate: 10%  
Loan-to-Cost: 70%  
Est. Loan-to-ARV: 60%

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