

OFFERING: Through this investment offering (*"Offering"*), Granite Investment Group (*"Granite"*) is seeking investors (*"Investors"*) to acquire a portfolio of senior health care-related properties located throughout various Austin sub-markets described herein as the Asista Senior Health Care Portfolio (the *"Portfolio"*). The Portfolio consists of 563 total licensed beds/units, and represents four (4) Skilled Nursing facilities (with 488 licensed beds), and one (1) Assisted Living facility (with 75 assisted living units which is currently configured for 53 residents), and an approximate 4,150 square foot separate medical office facility located on the premises), under the guidelines described in this Offering Memorandum. The total equity requirement is approximately **\$19,550,000**, and the target minimum investment is \$100,000. The description of the Offering herein is referred to as the "Investment Offering".



Sagebrook Health Center, Cedar Park, Texas

BUSINESS PLAN - OPERATIONS: The gross purchase price of the Portfolio is **\$56,100,000** (which consists of the net purchase price of \$55,000,000 plus broker commission of \$1,100,000). Granite is purchasing the Portfolio through five single-purpose Texas limited liability companies (*"Owner LLCs"*). One hundred percent (100%) of the membership (ownership) interest in each of the Owner LLCs will be held by Granite Asista LP, a Delaware limited partnership



Hearthstone Health Center, Round Rock, Texas



(“Partnership”). Upon acquisition, the Owner LLCs will lease the Portfolio back to the Operators, as defined herein, through five (5) triple-net leases (**“Leases”**), each for a five and one half (5 1/2) year term, subject to a right of termination in favor of the Owner LLCs effective on or after the first anniversary of the Closing date. The Leases will cover the five (5) Facilities in the Portfolio, and the parties to such Leases shall be (i) the Owner LLCs which hold title to such Facilities in the Portfolio, as Lessors, and (ii) the particular licensed Operator entity that has been operating such Facilities in the Portfolio in the past, as Lessee (collectively, the **“Operators”**). Each of the Operators is owned and controlled by the principals of the Seller of the Portfolio. The annual lease payment will be in the amount of \$5,775,000, which is equivalent to a 10.50% lease rate computed on the basis of the net purchase price of the Portfolio.

At any time following twelve (12) months after closing, the Partnership shall make a determination with respect to the existing operating leases with the current Operators as to whether it plans (i) to terminate the Leases and replace the Operators with a Granite-affiliated management company (**“Granite Operating Company” or “GOC”**), as permitted under the Leases, or (ii) to continue to operate the Portfolio with the existing Operators. Subject to market conditions in the industry, the exit plan will be to sell the Portfolio after a five (5)-year hold. **SEE FINANCIAL SUMMARY SECTION** regarding the lease structure.



Park Bend Health Center, Austin, Texas



Vista Oaks of Lakeway, Austin, Texas

OPPORTUNITY: According to the National Investment Center (NIC), a national organization that tracks capitalization rates on closed transactions, in 2004, the skilled nursing industry was experiencing sellers disposing of their facilities at 14% capitalization rates, primarily due to the lack of demand associated with this product type in the investment industry. Since then, the senior housing industry has drawn more attention and interest from institutional capital sources, which have recently created increased demand for this type of product as a result of the aging of the “baby boomer” generation. As a result, capitalization rates have dropped from 14% to 11% over the last three years for skilled nursing facilities, and there is some anticipation that they may decrease further over the next few years as the second “wave” of baby-boomers starts to seek out long-term care/housing. The purchase of the Portfolio by the Owner LLCs is at a capitalization rate of approximately 11.72%, including all costs and fees. Granite feels that this is an attractive acquisition opportunity as current market capitalization rates for similar properties are now estimated below 11%. If the climate of the market continues to improve over the next five (5) years, Granite’s intent would be to sell the Portfolio to recognize the increase in value through reduced cap rates, and higher net income.

Granite is seeking \$19,550,000 in equity capital, with Investors receiving a 8% preferred return of all cash flow from operations, plus 50% of all excess cash flow once the Investors have realized an annualized yield of 8%. Upon a sale or refinance of the Portfolio, once the Investors have received an annualized yield from all distributions equal to 8%, the Investors would then receive 60% of sales proceeds, up to a simple annualized yield of 20%, and 40% of sales proceeds thereafter. For purposes of this paragraph, "Investors" shall be deemed to include the General Partner. **SEE FINANCIAL SUMMARY SECTION.**

PORTFOLIO DESCRIPTION: The Portfolio consists of five (5) senior housing facilities (four (4) skilled nursing and one (1) assisted living facility) with a capacity of 563 beds/units (488 skilled beds and 75 assisted living units) located throughout various submarkets of Austin, Texas. The properties are in an asset class considered to be "B+" to "A-", and are all within a one hour drive of Austin, Texas. The Portfolio also includes an approximate 4,150 square foot medical office facility located on the campus of the assisted living facility, and is currently leased by a health services group. There is approximately one (1) year remaining on the medical facility lease term, and the current tenant has no intention of renewing the lease. Upon lease termination, the office building will likely be remodeled, and converted into 4 apartments to rent out as independent living units. Neither the revenue from the existing lease nor projected revenue from any such independent living units is included in any income analysis or projections in this Offering.

The Portfolio collectively is operating in excess of



The information contained herein, while not guaranteed, has been obtained from sources which we believe to be reliable. However, Granite Investment Group makes no representations or warranties, either expressed or implied, regarding the accuracy of this information.

90% occupancy, and boasts a greater than 50% quality mix (combined Medicare and other payor types, excluding Medicaid patients, as a percentage of the total occupancy). **SEE PROPERTY DESCRIPTION SECTION.**

OPERATIONS: Asista Corporation ("*Asista*") is the controlling shareholder, directly or indirectly, of the Operators. Asista also owns, directly or indirectly, several independently operated long-term health care centers in the greater Austin and San Antonio areas. Asista is owned and operated by the principals of the Seller of the Portfolio.

Built to high standards and staffed by professional, well-trained and conscientious employees, each health care center provides cost-effective short and long-term care coupled with high levels of service. Asista offers a full array of services, from skilled nursing care and rehabilitation to assisted living. Within each skilled nursing facility, a full team of therapy professionals is on staff to provide therapeutic intervention. Asista's goal is to enhance the lives of each of its residents by providing personalized care, a comfortable environment and stimulating activities. **SEE OPERATOR/SPONSOR PROFILE.**

In the event the Owner LLCs elect to terminate the Leases at the end of twelve (12) months or thereafter, and replace the Operators with Granite Operating Company under the GOC Leases, Granite anticipates that many of the employees and staff of the Operators, and possibly of Asista, will remain involved in the operations of the Facilities, either as employees of Granite Operating Company or an affiliate thereof.

LEGAL STRUCTURE: The acquisition of the Asista Senior Health Care Portfolio (the "*Facilities*") will take place through five (5) separate limited liability companies ("*Owner LLCs*"), all formed in the State of Texas, each one of which will acquire

title to one of the Facilities, and all of which will be included as “Borrowers” under the Senior Loan (as defined in the Financial Summary section). One hundred percent (100%) of the membership (ownership) interests in each of the Owner LLCs will be held by Granite Asista LP, a single purpose Delaware limited partnership (“**Partnership**”). The ownership of the partnership interests in the Partnership (“**Percentage Interests**”) will be held, as set forth in the limited partnership agreement of the Partnership, (“**LPA**”), as follows: (i) the Investors in the Offering (as limited partners) and Granite Asista Acquisition GP LLC, a single purpose Delaware limited liability company, as the general partner of the Partnership (“**General Partner**”), will collectively acquire fifty percent (50%) of the Percentage Interests. (The General Partner will hold two and one half percent (2.5%) of the Percentage Interests, in exchange for its initial Capital Contribution of approximately \$977,500, or 5% of the total equity requirement, and the Investors will hold forty-seven and one half percent (47.5%) of the Percentage Interests, in exchange for their collective initial Contribution of approximately \$18,572,500, or 95% of the total equity requirement.); and (ii) Granite Asset Management Group, L.P. (the “**Sponsor Partner**” or “**GAMG**”) will own fifty percent (50%) of the Percentage Interests, as a limited partner. The General Partner will direct the activities of the Partnership and Granite, as the sole member and Manager of the General Part-

ner, will direct the activities of the General Partner. The Operators will lease each of the Facilities directly from the Owner LLCs, pursuant to five (5) separate leases (“**Leases**”) and will in turn continue to operate the Facilities, subject to the right of the Owner LLCs to terminate the Leases as described herein. In the event of such termination of the Leases, Granite Operating Company will enter into five (5) new leases (“**GOC Leases**”) with Granite affiliates for purposes of the on-site management of the Facilities. Administrative, quality control, billing and other “back office” support services will be provided by another Granite single purpose affiliate.

FISCAL (TAX) STRUCTURE: The income of the Portfolio is allocated among the Partners according to the sharing ratio defined in the LPA, and each Partner reports their share of the income of the Property on their respective tax return. At year end, each Partner will receive a form K-1 delineating the share of profits or losses, and a summary of their capital account activity. Partnership income is taxed after deducting Facilities-related expenses. Gains from the sale of the real property, based on the current tax laws, are taxed at graduating rates ranging from 5% to 15% for individuals, and 15% to 39% for corporations, provided that the Portfolio is held for more than 12 months. To the extent depreciation is deducted as an expense to reduce the taxable income during the holding period, the depreciation deducted would be



Stonebridge Health Center, Austin, Tx



Park Bend Health Center, Austin, Tx



“recaptured”, and taxed as ordinary income at a rate of 25%. **SEE FISCAL (TAX) STRUCTURE SECTION.**

FINANCIAL ASPECTS: On November 13, 2007, Granite entered into a contract to purchase the Asista Portfolio from Asista Realty Corporation, HS-RR Realty Corp., SGE Realty Corp., SB Realty Corp. VO Realty Corp., and PB Realty Corp. (collectively “**Seller**”) for the purchase price of \$55,000,000 (net of real estate brokerage commissions). The Portfolio is scheduled to be acquired by the Owner LLCs on February 28, 2008.

PROFIT PARTICIPATION STRUCTURE: Distributions of available net cash flow are anticipated to be monthly, commencing within 30 days after acquisition. Investors shall be entitled to a preferred return equal to eight percent (8%) simple annualized return on all equity funds contributed, which return shall accrue if net cash flow from operations (i.e. the Lease payment after debt service and impounds) is not sufficient to pay the full preferred return on a current basis. After payment of the Investors’ preferred return, all excess cash flow from the Lease payment shall be split 50/50 be-

tween the Investors and GAMG. For purposes of this paragraph and the following paragraphs in this Executive Summary, “Investors” shall be deemed to include the General Partner.

INVESTORS RETURN OF CAPITAL: Upon a sale or refinance of all or a portion of the Portfolio, the Investors shall be entitled to receive a return of capital invested (“Capital Contributions”), prior to the distribution of any sale or refinance distributions to GAMG, or the Partner.

SALE / REFINANCE DISTRIBUTIONS: The residual proceeds from the sale or refinance will be allocated as follows: (i) 100% to the Investors until the Investors have received their accrued and unpaid Preferred Return and a full return of their outstanding Capital Contributions; then (ii) sixty percent (60%) to the Investors and forty percent (40%) to GAMG, *pari passu*, until the Investors have realized a twenty percent (20%) simple annualized return; and then, (iii) to the extent of any excess proceeds, forty percent (40%) to the Investors and sixty percent (60%) to GAMG, *pari passu*.



Lobby complete with fireplace - Hearthstone Health Center, Round Rock, Tx

DEPRECIATION BENEFITS: Depreciation benefits are based on a straight-line depreciation (29.5 years), and shall be allocated 47.5% to the Investors, 2.5% to the General Partner, and 50% to GAMG.

ACQUISITION FEE: Upon the closing of the transaction, GAMG shall receive an acquisition fee equal to \$825,000, or 1.5% of the net purchase price. **SEE FINANCIAL ANALYSIS** for fees to be paid to third parties.

DISPOSITION FEE/BROKERAGE COMMISSION: The General Partner shall receive a disposition fee in the amount of two percent (2.0%) of the sales price for providing sale-related services for the benefit of the Investors and GAMG; provided however, that some or all of said fee may be reallocated and paid to third-party real estate brokers as a real estate commission and to other third parties for providing services at the time of sale

SPONSOR EXPERIENCE: Granite has a unique team of highly accomplished real estate industry professionals with over 150 years of collective experience

in identifying, acquiring, renovating, operating, and creating profitably through selling income producing real estate. In recent years, Granite has included senior housing properties as an income producing asset. To support Granite's entry into the senior housing industry, the professional team has been expanded to include experienced leadership, advisors and third party consultants. **See SPONSOR PROFILE in the APPENDIX.**

REQUIREMENTS FOR PARTICIPATION: The minimum investment will be \$100,000, subject to the discretion of the General Partner to admit Investors wishing to invest a lower amount. This offering is only available to "accredited investors" as defined in the United States Securities and Exchange Commission ("SEC") Rule 501(a), promulgated as part of "Regulation D" pursuant to the 1982 addition of Section 4(6) to the Securities Act of 1933, as amended (the "Act"). (For more information on what constitutes an accredited investor please refer to <http://www.sec.gov/answers/accred.htm>). As both a Regulation D and Regulation S offering, this investment is not registered under the Act pursuant to SEC Rules 506 and 901 et seq.

