Risks with Investing in Real Estate

Investing in real estate along with any type of investing involves significant risk, including the risk that you could lose some or all of your money. This section describes some of the most significant risk factors affecting the investment and its Investors. These factors are not intended to deter you from investing in real estate, rather educate you on the many factors at play when doing so.

Speculative Nature: Time has shown that the real estate market goes down without warning, sometimes resulting in significant losses. Some of the risks of investing in real estate include changing laws, including environmental laws; floods, fires, and other Acts of God, some of which can be uninsurable; changes in national or local economic conditions; changes in government policies, including changes in interest rates established by the Federal Reserve; and international crises. You should invest in real estate in general, only if you can afford to lose your investment and are willing to live with the ups and downs of the real estate industry.

Illiquidity of Real Estate: Real estate is generally illiquid, meaning that it is not typically capable of being readily sold for cash at fair market value. Thus, the investment might not be able to sell properties as quickly or on the terms that it would like. We might be required to expend significant amounts of money to correct defects or make improvements before a property can be sold. Moreover, the overall economic conditions that might cause the Fund to want to sell properties are generally the same as those in which it would be most difficult to sell.

No Guarantee of Distributions: The ability to make the distributions you expect, and ultimately to give you your money back, depends on a number of factors, including some beyond its control.

Inability to Participate in the Management of the investment: As an Investor, you will not have a right to vote or otherwise participate in managing the investment, except on very limited matters. Instead, the Manager will make all decisions, including investment decisions. Investors will have the right to remove the Manager only in very limited circumstances.

Property Values Could Decrease: Factors that could cause the value of our property to decline include, but are not limited to: Changes in interest rates; Competition from existing properties and new construction; Changes in national or local economic conditions; Changes in zoning; Environmental contamination or liabilities; Changes in local market conditions; Fires, floods, and other casualties; Uninsured losses; Undisclosed defects in property.

Ability to Attract and/or Retain Tenants: Our success depends on our ability to attract and retain tenants in our properties. The risks we face include the following:

- Competition from other landlords could keep us from raising rents, or require us to provide financial or other inducements or concessions to attract tenants (*g.*, rent concessions or costs incurred for tenant improvements).
- Changes in economic conditions generally could reduce demand for our properties.
- Existing tenants might not renew their leases.
- Portions of buildings could remain vacant for extended periods.
- We are subject to the risk that our tenants may default on their obligations, or file for bankruptcy protection.

Operating Expenses: The costs of operating real estate – including taxes, insurance, utilities, and maintenance – tend to move up over time. We have limited control over some of our operating costs, and if our costs increase it may reduce the amount available for distribution to investors.

Reliance on Third Parties: If a third party on-site property management and construction performs poorly or becomes unable to fulfill its obligations, the business could be severely disrupted and our financial condition could be adversely affected. Disputes between us and our third party service providers could disrupt our business and may result in litigation or other forms of legal proceedings.

Financial Projections: We have prepared financial projections reflecting what we believe are reasonable assumptions concerning the conduct of our business. However, if some of our assumptions are likely to be mistaken, either for better or for worse, the actual results of investing in the properties are likely to be different than the results reflected in the projections, possibly by a wide amount. The real estate industry can be volatile and difficult to predict.

Inability to Implement Liquidity Transactions: We will typically aim to hold our properties for approximately five years (although certain properties may be held for longer or shorter periods depending on the characteristics of each property and prevailing market conditions), at which point we intend to seek a “liquidity event,” such as a sale or refinancing of the property. However, there is no guarantee that we will be able to successfully pursue a liquidity event with respect to any of our properties. Market conditions may delay or even prevent the Manager from pursuing liquidity events. If we do not or cannot liquidate our real estate portfolio, or if we experience delays due to market conditions, this could delay Investors’ ability to receive a return of their investment indefinitely and may even result in losses, notwithstanding the provisions of the LLC Agreement.

Need for Additional Capital: The real estate industry is capital intensive, and the inability to obtain financing could limit our growth. We may need to raise more money in the future so we can continue to acquire and operate properties. In addition, we might need to raise money to make capital improvements required by law or by market conditions, or for other purposes. If we cannot raise additional funding when needed, our operations and prospects could be negatively affected.

Risk of Dilution: If we raise additional capital in the future by issuing equity interests, your ownership interest in the investment would be diluted.

Risks Associated with Leverage: There is no guaranty that we will generate sufficient cash flow to meet our debt service obligations, and we may be unable to repay, refinance or extend our debt when due. We may also give our lender(s) security interests in our assets as collateral for our debt obligations. If we are unable to meet our debt service obligations, those assets could be foreclosed upon, which could negatively affect our ability to generate cash flows to fund distributions to Investors. We may also be required to sell assets to repay debt, and may be forced to sell at times that are unfavorable, which would likewise negatively affect our ability to operate successfully.

Personal Injury Liability: Although we expect to maintain our properties in a customary and commercially reasonable manner and to carry insurance against potential liability in amounts we believe are adequate, it is possible that we could suffer liabilities in excess of our insurance coverage or uninsured liabilities.

Environmental Risks: We will conduct typical environmental testing on the properties we acquire to determine the existence of significant environmental hazards. Under federal and state laws, a current or previous owner or operator of real estate may be required to remediate any hazardous conditions without regard to whether the owner knew about or caused the contamination. Similarly, the owner of real estate may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination.

ADA Compliance: The Americans with Disabilities Act of 1990 (the “ADA”) requires all public buildings to meet certain standards for accessibility by disabled persons. If a property is not compliant with all requirements of the ADA and is not “grandfathered” into compliance, or if additional requirements are imposed in the future, whether pursuant to the ADA or otherwise, we would need to make modifications to that property and/or additional expenditures.

Casualty Losses: A fire, earthquake, hurricane, mold infestation, or other casualty could materially and adversely affect the operation of one or more properties, even if we carry adequate insurance.

Changes in Laws: Changes in laws, including but not limited to zoning laws, environmental laws, tax laws, or the laws governing how we are allowed to raise money from investors, could harm and reduce the return to Investors.

Uninsured Losses: Some risks cannot be insured at all, or cannot be insured on an affordable basis, and the Fund might not be able to purchase or afford all the insurance it needs. Therefore, the Fund could incur an uninsured loss.

Risk Related to Joint Ventures: We may from time to time enter into joint ventures with financial partners selected by the Manager. We may rely on our real estate venture partners for a variety of matters, including, without limitation, financing, property development services, and property management services. Our real estate venture partners may have financial, business or other interests that are inconsistent with the interests of the original investment (and thus your interests as an Investor), including interests with respect to the acquisition, financing, sale or refinancing of a property, or the timing of such activities. Disputes between us and our real estate venture partners may result in litigation or other forms of legal proceedings (*e.g.*, arbitration), which could require us, the Manager to expend significant time, money and other resources, and may adversely affect the financial position.