A Note on Real Estate Programs

Risks and Expenses

Whether you hold title directly, via a family partnership, or in a syndicated investment program, there are multiple common attributes of non-traded real estate ownership:

- Opportunity for both current income and long-term appreciation*
- Multiple tax benefits for real estate ownership
- Lower price volatility
- Reduced correlation to other Wall Street investments

Yet securitized real estate investing may also include, but is not limited to:

1. Operational risks
2. Leverage risks
3. Tax-law-change risks
4. Transaction risks
5. Tenant risks
6. Regulatory risks
7. Illiquidity
8. Fees and expenses – see below
9. Macroeconomic risks

The potential benefits and drawbacks of real estate investing will vary across sector and geography, but also by program structure and sponsor. If real estate has a place in your portfolio, then your circumstances, preferences, and tax situation will inform your decision on the type of program in which to invest. The specific opportunities, risks and expenses of each investment program are explained in the prospectus or offering memorandum.

Up-front Costs	Management Phase Costs	Back-end Costs
• Organizational costs • Syndication expenses • Sales commissions • Acquisition expenses • Financing costs • Acquisition fees	• Asset management fee • Revenue participation • Master lease supplemental rent	• "Waterfall" profit participation • Transaction expenses • Conversion fee • Disposition fee

* Potential cash flows/returns/appreciation are not guaranteed and could be lower than anticipated.

** The foregoing is not a complete list of all the risks related to this investment strategy. Investors should review the "Risk Factors," section in the private placement memorandum, prospectus or offering memorandum.

Lease Structure and Cap Rates

Unlike your home, investment properties trade at prices based primarily on capitalization rates (“cap rates”)—the average net operating income (“NOI”) that buyers expect to receive as a percentage of purchase price. Cap rates for any type of property change over time, a function of three important variables: interest rates, available market capital and perceived operating risk. If a specific building maintains a flat NOI, its future value is entirely dependent on how these forces move the applicable cap rate for such a property.

Put another way, if prevailing cap rates go up, a property’s NOI must increase proportionally to maintain its value, notwithstanding transaction costs. To actually appreciate, a property’s NOI must outpace any upward trend in cap rates. For properties with long-term leases and contractually predetermined rental revenues, it may be algebraically impossible to achieve appreciation if cap rates rise during ownership. Therefore, investors should strongly consider where to invest along the spectrum of lease structures:

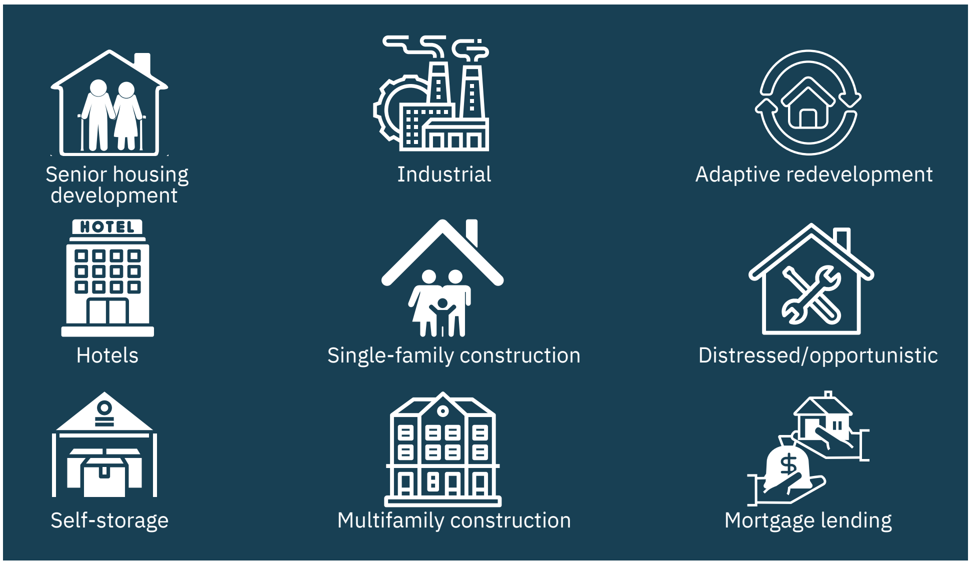
Lease Duration

Real Estate LPs and LLCs

Interests in Limited Partnerships (LPs) and Limited Liability Companies (LLCs) are sold almost exclusively as private placements (see REITs page regarding private vs. public offerings).

- LPs/LLCs typically invest in a smaller portfolio—perhaps one property—with only a fraction of the organizational overhead of a REIT.
- LP/LLC investors do not benefit from the same degree of reporting, transparency and corporate oversight as a public REIT.
- LP/LLCs typically offer no liquidity until the project is completed and/or the portfolio is sold.

These offerings often have more targeted strategies than larger programs. Examples include:



Sponsors of LPs/LLCs may have a greater financial stake in the underlying project, and participate more substantively in the overall return compared to structures such as listed REITs. Sometimes known as a "waterfall" formula, the algebra for calculating a sponsor's share of LP/LLC performance can be complicated.

TAXATION NUTSHELL—LP/LLC investors receive pass-through benefits of depreciation. In construction or redevelopment programs, accelerated depreciation of new fixtures and equipment may provide greater up-front tax benefits than more traditional buy-and-hold real estate. As partners for IRS purposes, LP/LLC investors receive K-1 forms rather than 1099 tax forms.