

## **SAPIENT VENTURES, LLC - SERIES YELLOW BRICK ROAD**

### **Offering a Maximum of 14,664 Membership Units for \$14,664,000.00**

Capitalized terms herein which are not otherwise defined shall have the same meaning as set forth in the Private Placement Memorandum of Sapient Ventures, LLC dated October 29, 2024 (the “PPM”), to which this document is an exhibit. Sapient Ventures, LLC – Series Yellow Brick Road (the “Series”) is offering a maximum of 14,664 Class A series membership units (“Units”). Each Unit has an Offering price of \$1,000.00, for potential total gross Offering proceeds of \$14,664,000.00 (the “Maximum Offering Amount”). The Series must raise \$2,400,000.00 before breaking impounds and deploying investor funds (the “Minimum Offering Amount”). If the Minimum Offering Amount is not raised within six months of the Memorandum date, all Offering proceeds will be returned without deduction. All Offering proceeds will be held in a self-managed, segregated account or escrow agent trust account until the Offering proceeds equal or exceed the Minimum Offering Amount. The minimum investment amount to acquire Class A Units is \$100,000.00, unless such minimum is waived by the series manager, Sapient Property Group, LLC, a Texas limited liability company (the “Manager”), who shall manage all the Series’ business, investments, and affairs.

### **THE BUSINESS**

The Series was designated as a series of Sapient Ventures, LLC, a Texas series limited liability on October 8, 2024. It was formed to develop a 35 duplex build to rent development (70 units) in the Black Hill Farm Master Planned Community of Gainesville, TX (the “Property”). The site consists of 10+ acres and is zoned for this purpose and it is “shovel ready.” The development is just 10 minutes away from WinStar the World’s largest casino and is located in the city of Gainesville a charming, rapidly growing, community with a warm and inviting hometown feeling. It is located at I35 and US Hwy 82 at the Red River and just north of the DFW Metroplex. The land is being purchased by the Series for \$1,400,000.00.

The land is being purchased by the Series from Granite Industries, LLC. The Series has not yet entered into a purchase and sale agreement but has entered into a standstill agreement whereby the seller agrees not to sell the land for the project and that the land will be available for purchase at the agreed upon purchase price so long as the Series completes its offering documents within 45 days of the effective date of the standstill agreement (September 20, 2024) and structures the offering such that the Series can break impounds and provide not less than 50% of the agreed purchase price within 180 days of the effective date of the standstill agreement, at which time the seller will convey title to the land to the Series, subject to a six month note for the balance of the purchase price secured by a deed of trust on the property at an interest rate of 6%. The seller will also be the developer for the project. While the Series believes that it is receiving a fair priced for the land, it is possible that the Series could receive a better price if it were purchasing the land from an unrelated third party.

The Yellow Brick Road development will consist of 35 one-bedroom units of 954 square feet and 35 two-bedroom units at 1,256 square feet. The one-bedroom units will each have a single car garage and the two-bedroom units will each have a two-car garage. All plans are one level. The development is planned to have a community center consisting of swimming pool, work out facility and club house. This development will be located adjacent to the Company’s Black Hills Apartment development described in Exhibit 5 to the PPM of which this Exhibit is a part and will be both development projects will be managed together to maximize efficiency. The properties may be managed by a third party or by a related party to management. The Series anticipates paying four percent (4%) of gross collected income for the management of the properties.

Construction of the project is estimated to take approximately 12 months. The completion of the project will depend on how long it takes the Series to raise the required capital for the project. The Series estimates approximately 18 months total for project completion, but it could take longer. The total development cost is approximately \$13,264,000. The Series intends to finance the acquisition and development of the Property with all cash. However, the Series may seek alternative financing, if necessary, as determined in the Series Manager’s sole discretion. Please see the Series investment summary attached as Exhibit A for more details on the business plan of the Series.

The Series will purchase wall components from Sapient Ventures, LLC – EcoShield (“EcoShield”), another series of the Company, for the construction of the Property. EcoShield is managed by the Manager and will receive a benefit from this transaction. The Series will be charged the same rates for these components as other third parties with such pricing being based upon the pricing of steel, foam, labor etc. at the time of the transaction. Such license is being granted by another Series of the Company, Sapient Ventures LLC – Series Ecoshield. A description of the EcoShield technology and series are contained in Exhibit 7 to the PPM of which this Exhibit is a part.

The Series expects to be self-liquidating through the sale of the Property and distribution of all remaining assets of the Series. The Series’ management expects that the Property will be sold in approximately six years of its acquisition. However, actual results may vary materially.

#### **ESTIMATED USE OF PROCEEDS**

The following table illustrates the amount of proceeds to be received by the Series on the sale of Units and the intended uses of such proceeds.

<b>Sources of Capital</b>	<b>Minimum Offering Amount<sup>(1)</sup></b>	<b>Percentage</b>	<b>Maximum Offering Amount<sup>(1)</sup></b>	<b>Percentage</b>
<b>Total Gross Capitalization</b>	\$2,400,000.00	100.00%	\$14,664,000.00	100.00%
<b>Use of Proceeds<sup>(2)</sup></b>				
<b>Land Acquisition</b>	\$1,400,000.00		\$1,400,000.00	
<b>Hard Costs</b>	-	-	\$10,318,042.63	
<b>Soft Costs<sup>(3)</sup></b>	1,000,000.00	-	\$3,976,840.50	
<b>Total Use of Proceeds</b>	<b>\$2,400,000.00</b>	<b>100.00%</b>	<b>\$14,664,000.00</b>	<b>100.00%</b>

(1) The Series must raise \$2,400,000.00 before breaking impounds and deploying investor funds. The Series does not anticipate that the Maximum Offering Amount will be required to execute its business plan. The Series may sell less than the Maximum Offering Amount or amend or supplement this Memorandum and sell more Units.

(2) The Manager and/or its Affiliates have advanced approximately monies for due diligence, underwriting, and other expenses, which may be reimbursed pursuant to the Series Agreement and Series Designation or for which Units may be issued on the same terms as those offered to prospective investors for the equivalent dollar value received by the Series.

(3) Soft costs include \$1,009,000.00 in an organization fee, \$1,050,000.00 for a project development fee, and operating reserves of \$400,000.00.

The allocation of the use of proceeds among the categories of anticipated expenditures represents management's best estimates based on the current status of the Series' proposed operations, plans, investment objectives, capital requirements, and financial conditions. Future events, including changes in economic or competitive conditions of the Series' business plan or the completion of less than the total Offering, may cause the Series to modify the above-described allocation of proceeds. The Series' use of proceeds may vary significantly in the event any of the Series' assumptions prove inaccurate. The Series reserves the right to change the allocation of net proceeds from the Offering as unanticipated events or opportunities arise.

## **RISK FACTORS**

PROSPECTIVE INVESTORS SHOULD BE AWARE THAT PURCHASING UNITS IS A SPECULATIVE INVESTMENT AND INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS SHOULD CAREFULLY READ THIS MEMORANDUM AND ALL EXHIBITS PRIOR TO MAKING AN INVESTMENT AND SHOULD BE ABLE TO BEAR THE COMPLETE LOSS OF THEIR INVESTMENT.

In addition to the negative implications of all information and financial data included or referred to directly in this Memorandum, prospective investors should consider the following risk factors before making an investment in Units. This Memorandum and this exhibit contains forward-looking statements and information concerning the Series, its investment plans, and other future events. These statements should be read together with the discussion of risk factors set forth in the Memorandum and below because those risk factors could cause actual results to differ materially from such forward-looking statements. The cautionary statements set forth under this section and elsewhere in this Memorandum identify important factors with respect to forward-looking statements.

### **Real Estate Risks**

*The Series will be subject to those general risks relating to the development, ownership, and operation of real estate.* The Series' economic success will depend upon the results of operations of the Property, which will be subject to those risks typically associated with such asset class. Fluctuations in operating expenses and tax rates can adversely affect operating results or render the sale or refinancing of the Property difficult or unattractive. Certain expenditures associated with the Property will be fixed (principally mortgage payments, if any, and real estate taxes) and will not necessarily decrease due to events adversely affecting the Series' income from the operation of the Property. No assurance can be given that certain assumptions as to the future profits from such operations will be accurate, since such matters will depend on events and factors beyond the Series' and the Manager's control. These factors include, among others:

- adverse changes in local and national economic conditions;
- changes in the financial condition of buyers and sellers of similar properties;
- changes in the availability of debt financing and refinancing;
- changes in the relative popularity of the Property and in real estate as an investment class;
- changes in interest rates, real estate taxes, operating expenses, and other expenses;
- changes in market capitalization rates;
- changes in utility rates;
- development and improvement of competitive properties;

- ongoing development, capital improvement, and repair requirements;
- risks and operating problems arising out of the presence or scarcity of certain construction materials;
- environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which adequate reserves had not been established;
- physical destruction and depreciation of property and equipment;
- damage to and destruction of the Property, or any improvements or personal property located thereon;
- acts of God;
- changes in availability and cost of insurance;
- unexpected construction costs;
- increases in the costs of labor and materials;
- materials shortages; and
- labor strikes.

*The economic success of an investment in the Series will depend to a great extent upon the results of operations of the Property, some of which are outside the Series' control.* The Property will be subject to those risks typically associated with investments in real estate that produce income based on tenant occupancy and rental revenues. Fluctuations in vacancy rates, rent schedules, and operating expenses can adversely affect operating results or render the sale or refinancing of the Property difficult or unattractive. No assurance can be given that certain assumptions as to the future levels of occupancy of the Property, future rental appreciation, future cost of capital improvements, or future cost of operating the Property will be accurate since such matters will depend on events and factors beyond the control of the Series. Such factors include continued validity and enforceability of the leases, vacancy rates for properties similar to the Property, financial resources of tenants, rent levels near the Property, adverse changes in local population trends, market conditions, neighborhood values, local economic and social conditions, the enactment of unfavorable real estate regulations, rent control, and other risks.

*Real estate is a long-term illiquid investment that may be difficult to sell in response to changing economic conditions.* Real estate is generally a long-term investment that cannot be quickly converted to cash. Therefore, the ability to liquidate the Property promptly in response to economic or other conditions will be limited, which will affect the Series' ability to realize a return on its investment. Real estate investments are also subject to adverse changes in overall economic conditions or local conditions that may reduce the demand for real estate generally.

The Series will generate income from residential leases on the Property. These leases will generally be for terms of no more than one or two years. Therefore, there are vacancy and re-letting risks associated with income producing residential properties. In addition, an economic downturn, including increased unemployment rates, may cause the residential industry to experience a significant decline in business due to a reduction in renters. Low residential mortgage interest rates could accompany and encourage potential renters to purchase residences rather than lease them. These and other factors could have a material, adverse effect on the Series' performance. If current tenants for the Property do not renew or extend their leases or if current tenants terminate their leases, the operating results of the Property could be substantially and adversely affected by the loss of revenue and possible increase in operating expenses not reimbursed by the

tenants. There can be no assurance that any unoccupied space in the Property will be leased, levels of occupancy will be maintained, or the Property will be substantially occupied. In addition, lease-up of unoccupied space may be achievable only at decreased rental rates or with the provision of substantial rental concessions, both of which would adversely affect the operating cash flow of the Series. To the extent that tenants of the Property do not renew their leases, or renew at lower than current market rates, the financial viability of the Property may be adversely affected. In addition, tenants and lease guarantors, if any, may be unable to make their lease payments. Defaults by a significant number of tenants could, depending on the number of leases affected and the ability to successfully find substitute tenants, have a material, adverse effect on the financial performance of the Property, thus reducing cash flow to the Series.

*Due to a substantial influx of capital investment and competition, the value of the Property may not appreciate or may decrease in value.* The real estate markets are currently experiencing a substantial influx of capital from investors worldwide. This substantial flow of capital, combined with significant competition for real estate and the strength in the economy, may result in inflated purchase prices for such assets. To the extent the Series invests in real estate in such an environment, the Series is subject to the risk that the real estate market could cease to attract the same level of capital investment in the future, or if the number of companies seeking to acquire such assets decreases, Series returns could be lower, and the value of the Property may not appreciate or may decrease significantly below the amount we paid for the Property.

*The development of the Property could be hindered by local or state authorities.* The Property is subject to regulation by municipal, county, and state authorities, as well as restrictive covenants. Adverse action by any of these authorities could have a negative impact on the Series' ability to execute its business plan.

*Real estate construction involves various risk factors that can impact the successful completion and profitability of a project.* The Series plans to develop the Property, which brings unique risks, including, but not limited to:

- **Market Risk:** Fluctuations in real estate market conditions can affect demand for the completed Property, leading to potential delays in sales or lower selling prices. Economic downturns can reduce demand for the completed Property, which would affect the Series' ability to lease units at the Property.
- **Financial Risk:** Insufficient funding or cash flow issues can lead to project delays, cost overruns, or even project abandonment. Interest rate fluctuations can impact borrowing costs and profitability. Inadequate financial planning and budgeting can lead to cost overruns and negatively affect a project's profitability.
- **Construction and Design Risk:** Poor project planning and design can lead to construction delays and increased costs. Design flaws or changes can result in construction rework, causing delays and cost overruns which could affect the overall profitability of a project. Availability of skilled labor and materials can also impact the construction schedule and costs.
- **Regulatory and Legal Risk:** Delays or complications in obtaining necessary permits and approvals can lead to project delays and increased costs. Zoning changes or other regulatory issues can impact the feasibility of the project. Legal disputes, such as contract disputes or litigation, can lead to delays, increased costs, and reputational damage to the Series.
- **Environmental and Sustainability Risk:** Environmental contamination or other environmental issues can lead to costly cleanup efforts and delays. Changes in environmental regulations can impact project design and construction methods, potentially leading to increased costs.

- **Political and Geopolitical Risk:** Political instability, changes in government policies, or geopolitical events can affect the project's viability and profitability.
- **Technology and Innovation Risk:** Incorporating new technologies or construction methods without proper understanding or testing can lead to implementation challenges and delays. Technological disruptions or changes can impact project timelines and costs.
- **Health and Safety Risks:** Inadequate safety measures can result in accidents, injuries, or fatalities, leading to legal and financial consequences.

*Real estate projects may suffer losses that are not covered by insurance.* Material losses to real estate properties may occur in excess of insurance proceeds with respect to any property as insurance proceeds may not provide sufficient resources to fund the losses. However, there are types of losses, generally of a catastrophic nature, such as losses due to wars, earthquakes, floods, hurricanes, pollution, environmental matters, mold, or terrorism, which are either uninsurable or not economically insurable, or may be insured subject to limitations such as large deductibles or co-payments. If an uninsured loss or a loss in excess of insured limits occurs on the Property, the Series could lose anticipated future revenues.

*The consideration paid for the Property may exceed fair market value, which may harm the Series' financial condition and operating results.* The consideration that the Series pays will be based upon numerous factors. The Series cannot assure anyone that the purchase price that it pays for the Property, or its appraised value will be a fair price, that it will be able to generate an acceptable return on such Property, or that the location, lease terms or other relevant economic and financial data of the Property will meet acceptable risk profiles. The Series may also be unable to rent vacant space at market rates, which would adversely affect its returns on the property. As a result, the Series' investments in properties may fail to perform in accordance with its expectations, which may substantially harm its operating results and financial condition.

*Illiquidity of the Property could significantly impede the Series' ability to respond to adverse changes in the performance of the Property and harm our financial condition.* Because the Property is relatively illiquid, our ability to promptly sell in response to changing economic, financial and investment conditions may be limited. In particular, these risks could arise from weakness in or even the lack of an established market for the Property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions, and changes in laws, regulations, or fiscal policies of jurisdictions in which the Property is located. The Series may be unable to realize its investment objectives by sale, other disposition, or refinance at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. An exit event is not guaranteed and is subject to the Manager's discretion.

*Rising expenses could reduce cash flow and funds available for future investments.* The Property will be subject to increases in real estate tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance, administrative and other expenses. If the Series is unable to increase rents at an equal or higher rate or lease the Property on a basis requiring the tenants to pay all or some of the expenses, the Series would be required to pay those costs, which could adversely affect funds available for future cash distributions.

*Failure to Comply with Current Laws, Rules, and Regulations or Changes to Such may Adversely Affect Business or Financial Performance.* The Series' business and financial performance could be adversely affected by unfavorable changes in or interpretations of existing laws, rules and regulations or the promulgation of new laws, rules and regulations applicable to the Series and its business, including those relating to internet and online commerce, internet advertising, consumer protection, intermediary liability, data security and privacy, travel and rental licensing and listing requirements and tax. In many cases, these laws continue to evolve.

For example, there is, and will likely continue to be, an increasing number of laws and regulations pertaining to internet and online commerce that may relate to liability for information retrieved from or transmitted over the internet, online editorial and user-generated content, user privacy, data security, behavioral targeting and online advertising, taxation, liability for third-party activities and the quality of products and services. In addition, the growth and development of online commerce may prompt calls for more stringent consumer protection laws and more aggressive enforcement efforts, which may impose additional burdens on online businesses generally. Also, evolving case law and new legislation increase the potential for litigation and government audits in this area and may have ramifications as to how the Series operates its short-term rental business.

Further, the rental business has been and continues to be subject to regulatory developments globally that affect the rental industry and the ability of companies to list those rentals online. For example, some states and local jurisdictions have fair housing or other laws governing whether and how properties may be rented. Operating in this dynamic regulatory environment requires significant management attention and financial resources. The Manager cannot assure investors that its efforts will be successful, and the investment and additional resources required to manage growth will produce the desired levels of revenue or profitability.

The Series may be subject to inquiries from time to time from regulatory bodies concerning compliance with consumer protection, competition, tax, data privacy and travel industry-specific laws and regulations. The failure of the Series to comply with these laws and regulations could result in fines and/or proceedings against it by governmental agencies, regulatory authorities, courts, and/or consumers, which if material, could adversely affect the business, financial condition, and results of operations. Further, if such laws and regulations are not enforced equally against other competitors in a particular market, the Series' compliance with such laws may put it at a competitive disadvantage vis-à-vis competitors who do not comply with such requirements.

The promulgation of new laws, rules and regulations, or the new interpretation of existing laws, rules and regulations, in each case that restrict or otherwise unfavorably impact the ability or manner in which the Series provides services could require the Manager to change certain aspects of the business, operations and commercial relationships to ensure compliance, which could decrease demand for services, reduce revenues, increase costs and/or subject the company to additional liabilities. For example, the State of California adopted the California Consumer Privacy Act implementing privacy rights and consumer protections for California residents. This legislation will continue to change the landscape for the use and protection of data and could increase the cost and complexity of delivering services. Unfavorable changes could decrease demand for products and services, limit marketing methods and capabilities, impede development of new products, result in negative publicity, require significant management time, increase costs, and/or subject the Series to additional liabilities. Violations of these laws and regulations could result in penalties and/or criminal sanctions against the Series, the Manager, or its members and/or restrictions on the conduct of parts of the business in certain jurisdictions.

*Regulatory risks that can affect cash flow for real estate include a range of factors from zoning changes to tenant protection laws. These risks can have significant impacts on property income and expenses, ultimately influencing the overall financial health and profitability of real estate investments.*

Zoning and Land Use Changes: Local governments can alter zoning laws and land use regulations, which can affect the types of developments permitted in certain areas. Changes that restrict property use or impose additional development requirements can limit a property's income potential or increase costs for compliance. For example, a shift from commercial to residential zoning can affect rental rates and tenant demand, thereby impacting cash flow.

Rent Control and Tenant Protection Laws: Rent control regulations, which cap the amount landlords can charge for rent or limit rent increases, can significantly constrain revenue streams. Similarly, tenant

protection laws that impose stricter eviction procedures and longer notice periods can increase administrative costs and reduce a landlord's ability to manage tenant turnover efficiently. Both can lead to reduced rental income and increased operational costs, negatively impacting cash flow.

Property Tax Changes: Increases in property taxes can have a direct impact on cash flow, as higher taxes reduce net income from rental properties. Property tax assessments can change due to reassessments, changes in local tax rates, or modifications in tax laws. Property owners must monitor these changes and budget accordingly, as sudden increases can strain cash flow and affect profitability.

Environmental and Health Regulations: Compliance with environmental and health regulations can lead to significant expenses, particularly if properties require upgrades or remediation to meet new standards. This includes regulations related to energy efficiency, waste management, and health and safety requirements. Non-compliance can result in fines, legal fees, and costly retrofits, all of which can reduce net income and disrupt cash flow.

Mortgage Lending and Finance Regulations: Regulations affecting mortgage lending practices can influence the cost and availability of financing for real estate projects. Changes in interest rate policies, lending criteria, and financial disclosure requirements can affect the terms of new loans or refinancing options. Higher borrowing costs or stricter lending conditions can reduce profitability and strain cash flow, particularly for leveraged properties. However, currently the Series does not plan on obtaining debt financing.

Changes in Subsidies and Incentives: Government incentives, such as tax credits and subsidies for affordable housing or energy-efficient upgrades, can significantly affect cash flow. Changes or eliminations of these programs can lead to higher operational costs or reduced income, impacting the financial performance of real estate investments.

Labor and Employment Laws: Regulations related to labor and employment can affect the cost of property management and maintenance. Minimum wage increases, mandatory benefits, and changes in labor practices can increase payroll expenses. These additional costs can strain cash flow, especially for properties that rely heavily on staff for day-to-day operations.

Understanding and mitigating these regulatory risks is essential for maintaining healthy cash flow in real estate operations. Real estate investors and operators need to stay informed about regulatory changes, engage in proactive planning, and consider potential impacts when making investment decisions.

*Tenant protection laws and rent control regulations present significant risks to real estate operations.* Tenant protection laws are designed to safeguard tenants from unfair practices by landlords, ensuring their rights to fair treatment, safe living conditions, and privacy. These laws encompass a range of regulations, including requirements for lease agreements, limitations on security deposits, and protections against wrongful eviction. For real estate operators, navigating these laws can be complex and challenging. Non-compliance can lead to legal disputes, financial penalties, and reputational damage, which can disrupt operations and erode profitability.

Rent control regulations add another layer of complexity and risk for real estate operators. These regulations are intended to maintain affordable housing by limiting the amount landlords can increase rent, both annually and between tenancies. While beneficial for tenants, rent control can significantly impact the financial viability of rental properties. It can limit the ability to adjust rents in response to market conditions, inflation, and rising maintenance costs. This can reduce the return on investment and deter potential investors from entering markets with stringent rent control measures. Additionally, rent control can



discourage property owners from investing in property maintenance and improvements, leading to the deterioration of housing quality over time.

The implementation and enforcement of tenant protection and rent control laws can vary significantly by jurisdiction, adding to the regulatory risk for real estate operators. Staying compliant requires continuous monitoring of local, state, and federal regulations, as well as staying informed about potential legislative changes. Failure to adequately address these regulatory requirements can result in costly litigation, loss of rental income, and damage to the operator's reputation, ultimately affecting the long-term sustainability of real estate investments.

*During the COVID-19 pandemic, several real estate-related regulations were implemented to address the unprecedented challenges faced by tenants, landlords, and the broader housing market. These regulations were aimed at protecting public health, preventing widespread displacement, and stabilizing the housing market during the crisis, but posed a significant burden on real estate operators.*

Eviction Moratoriums: Many jurisdictions implemented eviction moratoriums to prevent tenants from being evicted due to non-payment of rent. These temporary bans on evictions were designed to ensure that individuals and families could remain in their homes despite economic hardships caused by the pandemic. The Centers for Disease Control and Prevention (CDC) also issued a federal eviction moratorium to prevent homelessness and reduce the spread of COVID-19. These moratoriums significantly impacted landlords' ability to collect rent and manage their properties, leading to financial strain for property owners.

Rent Relief Programs: To address the financial difficulties faced by both tenants and landlords, various rent relief programs were established. Governments allocated funds to provide direct financial assistance to tenants struggling to pay rent and to landlords who lost rental income. These programs aimed to prevent evictions and ensure landlords could cover their operational costs. The implementation of these programs required coordination between federal, state, and local governments, and often involved complex application processes and eligibility criteria.

Mortgage Forbearance and Foreclosure Protections: In addition to renter protections, measures were put in place to assist homeowners and property owners with mortgages. Mortgage forbearance programs allowed borrowers to temporarily pause or reduce their mortgage payments without facing foreclosure. These programs were essential for homeowners who experienced job loss or income reduction during the pandemic. The federal government, through agencies like the Federal Housing Finance Agency (FHFA), extended foreclosure protections for properties with federally backed mortgages, providing critical relief to property owners.

These regulations, while providing essential protections during the pandemic, also presented challenges for the real estate market. Landlords faced cash flow issues due to non-payment of rent, and the administrative burden of navigating new regulations and relief programs added complexity to property management. The long-term impact of these measures on the housing market, property values, and rental prices is still being assessed as the sector continues to recover from the pandemic's effects.

*The Property may be subject to foreclosure if a default under any mortgage loan occurs. The Series does not currently intend to utilize debt financing but reserves the right to do so. If it does, each mortgage loan secured by the Property will contain various default provisions, including payment defaults, operating restrictions, reporting defaults, transfer restrictions, and capital improvement obligations. Upon an uncured default under a loan, the lender may declare the entire amount of the loan, including principal, interest, prepayment premiums, and other charges to be immediately due and payable. If a senior mortgage lender declares a loan to be immediately due and payable, the Series will have the obligation to immediately repay the loan in full. If repayment does not occur, the lender may invoke its remedies under the loan documents, including proceeding with a foreclosure sale, which is likely to result in the Series losing its entire investment.*

*The Property will experience competition.* A number of other comparable properties may be located within the vicinity of the Property. These competitive properties may reduce demand for the Property. Competition from nearby residential properties could make it more difficult to attract buyers as well. Competition may increase costs and reduce returns on the Property and thus reduce returns to the Series and the Members.

*The Property or a portion of the Property could become subject to an eminent domain or a condemnation action.* Such an action could have a material, adverse effect on the marketability of the Property and any returns therefrom.

*Future changes in land use and environmental laws and regulations, whether federal, state, or local, may impose new restrictions on the Property.* The Series ability to sell or operate the Property as intended may be adversely affected by such regulations, which could affect returns therefrom.

*Leasing property involves several risks that can impact financial stability and investment returns.* The following are some, but not all, of the risks the Series may encounter:

- **Vacancy Risk:** One of the primary risks for landlords is the potential for extended vacancies. If a property remains unoccupied for a significant period, the Series will lose out on rental income and may struggle to cover mortgage payments, property taxes, and other expenses. If this occurs, the Series may suffer losses which could affect Member returns.
- **Tenant Default:** Tenants may default on their lease obligations, such as failing to pay rent or violating lease terms. The Series may incur legal fees and face challenges in evicting non-compliant tenants. Additionally, a vacant property resulting from tenant default can lead to financial losses.
- **Market Fluctuations:** Changes in the commercial real estate market, including shifts in demand, rental rates, and property values, can affect the Series' income and property valuation. Economic downturns or oversupply in the market can make it difficult to attract and retain tenants at favorable rental rates.
- **Property Maintenance and Repairs:** The Series is responsible for maintaining the condition of its property, including structural repairs, maintenance of common areas, and compliance with building codes and safety regulations. Unexpected maintenance issues can incur significant costs and disrupt rental income.
- **Legal and Liability Risks:** The Series may face legal risks related to lease agreements, property disputes, tenant grievances, and compliance with local, state, and federal regulations. Failure to address legal issues promptly can result in litigation expenses, fines, and reputational damage.
- **Capital Expenditures:** The Series may need to make capital investments in the property to maintain competitiveness, attract tenants, or comply with regulatory requirements. High capital expenditures can strain cash flow and reduce profitability, particularly if they are not adequately planned for.
- **Lease Renewal and Negotiation Risks:** At the end of a lease term, the Series faces the risk of tenants not renewing their leases or renegotiating lease terms. This can result in periods of vacancy or the need to offer concessions to attract new tenants, impacting rental income and profitability.

*Any person who supplies services or materials to the Property may have a lien against such Property securing any amounts owed to such person under state law.* Therefore, even if a contractor is paid its contract fees, if that contractor fails to pay its subcontractors or materials supplier, then such subcontractor or materials supplier who was not paid will have mechanic's lien rights against such Property. If one or more mechanic's liens does appear against the Property, their release must be obtained or the person holding

such liens will have the right to foreclose. A forced sale of the Property could negatively affect returns therefrom.

*The Series may experience liability for environmental issues.* Under various federal, state and local environmental and public health laws, regulations and ordinances, the Series may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases (including in some cases natural substances such as methane or radon gas) and may be held liable under these laws or common law to a governmental entity or to third-parties for property, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the real or suspected presence of these substances in soil or groundwater beneath the Property. These damages and costs may be substantial and may exceed the insurance coverage the Series has for such events.

*The Series must comply with the Americans with Disabilities Act.* Under the Americans with Disabilities Act of 1990 (the ADA), all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. A determination that a property is not in compliance with the ADA could result in imposition of fines or an award of damages to private litigants. Furthermore, substantial modifications made in order to comply with the ADA may negatively affect the Series' ability to make cash distributions to its Members.

## **DISTRIBUTIONS AND ALLOCATIONS**

### **Timing of Distributions**

Distributions will be made in accordance with the terms of the Series Designation. The Series estimates that distributions will begin six months after completion of the project.

### **Cash Distributions**

“Free Cash Flow” means any available cash for distribution generated from the net income received by a Series, as determined by the Manager to be in the nature of income, whether from operations or capital transactions like a sale or refinance of a Series Asset, less (a) any capital expenditure related to the Series Asset (as shown on the cash flow statement of such Series) (b) any other liabilities or obligations of the Series, including interest payments on debt obligations and tax liabilities, in each case to the extent not already paid or provided for, (c) reserves for future expenses of the Series, as determined in the discretion of the Manager and (d) upon the termination and winding up of a Series or the Company, all costs and expenses incidental to such termination and winding as allocated to the relevant Series. For avoidance of doubt, net income received by a Series shall reflect the deduction of applicable management fees of the Series as expenses of the Series.

Any Free Cash Flows of each Series will be distributed as follows:

#### Operational Cash Flow

Free Cash Flows from operational cash flow will be distributed as follows:

- First, the Class A Members shall ratably receive a cumulative, non-compounding preferred return of eight percent (8%) per annum, calculated on their unreturned Capital Contributions (the “Preferred Return”).
- Thereafter, remaining Free Cash Flows will be distributed seventy percent (70%) to the Class A Members, and thirty percent (30%) to the Class B Members, ratably apportioned to each Member based upon their Class A and Class B Interests.

### Cash Flow from Capital Transactions and Dissolution/Liquidation

Free Cash Flows from capital transactions (sale or refinance of the Series Asset) or from dissolution and liquidation of the Series will be distributed as follows:

- First, Class A Members shall ratably receive any accrued but unpaid Preferred Return.
- Second, the Class A Members shall ratably receive all Free Cash Flows, until they have been returned all their unreturned Capital Contributions.
- Thereafter, remaining Free Cash Flows will be distributed seventy percent (70%) to the Class A Members, and thirty percent (30%) to the Class B Members, ratably apportioned to each Member based upon their Class A and Class B Interests.

Please review the foregoing distribution terms in the Series Designation, attached as an exhibit to the PPM, before purchasing any Units.

### **Allocations**

During the Series term and upon its liquidation, the Series shall allocate all profits and losses as though there had been a deemed liquidation of the Series. Prospective investors should read the Operating Agreement for a more detailed description of how Profits and Losses will be allocated to the Members.

### **MANAGEMENT COMPENSATION AND FEES**

The Manager and other members of the Series' management, along with their Affiliates, may receive substantial fees and compensation in connection with the management of the Series, the Series' assets, investments, and operations, and reimbursement for expenses incurred on behalf of the Series as further described below. The Manager reserves the right to assign any fee, income, or compensation due. The maximum amount of fees the Manager, the other members of the Series' management, or their Affiliates may receive cannot be determined at this time. The compensation arrangements described herein have been established by the Manager and are not the result of arm's-length negotiations. The following fees may be paid from capital contributions, revenues, or reserves.

The Manager, its designated Affiliates, and/or third parties will receive the following fees, in addition to distributions of Distributable Cash, as set forth herein:

Organization Fee: For efforts in conducting due diligence and making this investment opportunity available to the Series and its Members, the Manager, its Affiliates, or designated assigns shall earn an organization fee of \$1,009,000.00. Twenty-five percent (25%) of the fee shall be payable upon breaking escrow for the Property. The remainder shall be payable in additional twenty-five percent increments when the corresponding percentage of the capital required for the project is deployed (50% of the fee due when 50% of the capital required for the project has been deployed, 50% of the fee due when 50% of the capital required for the project has been deployed, and 100% of the fee due when 100% of the capital required for the project has been deployed).

Project Development Fee: As compensation for organizing the Series and ongoing administrative and management services provided, the Manager, its Affiliates, or designated assigns will receive a project development fee in the amount of \$1,050,000.00 payable in the same manner as the Organization Fee.

Finance Fee: For efforts in obtaining debt financing for the Property, the Manager, its Affiliates, or designated assigns shall earn a finance fee of one percent (1%) of the loan amount, payable upon closing of the loan.

Reimbursement of Expenses; Fees for Professional Services: The Series will reimburse the Manager or its Affiliates reasonable expenses paid or incurred in connection with the Series' operations. Such reimbursements may be paid from Capital Contributions, operating revenue, or reserves. In addition, the Manager or its Affiliates will be reimbursed the fair value for provision of additional services to the Series at reasonable commercial rates on either an hourly or per-service basis.