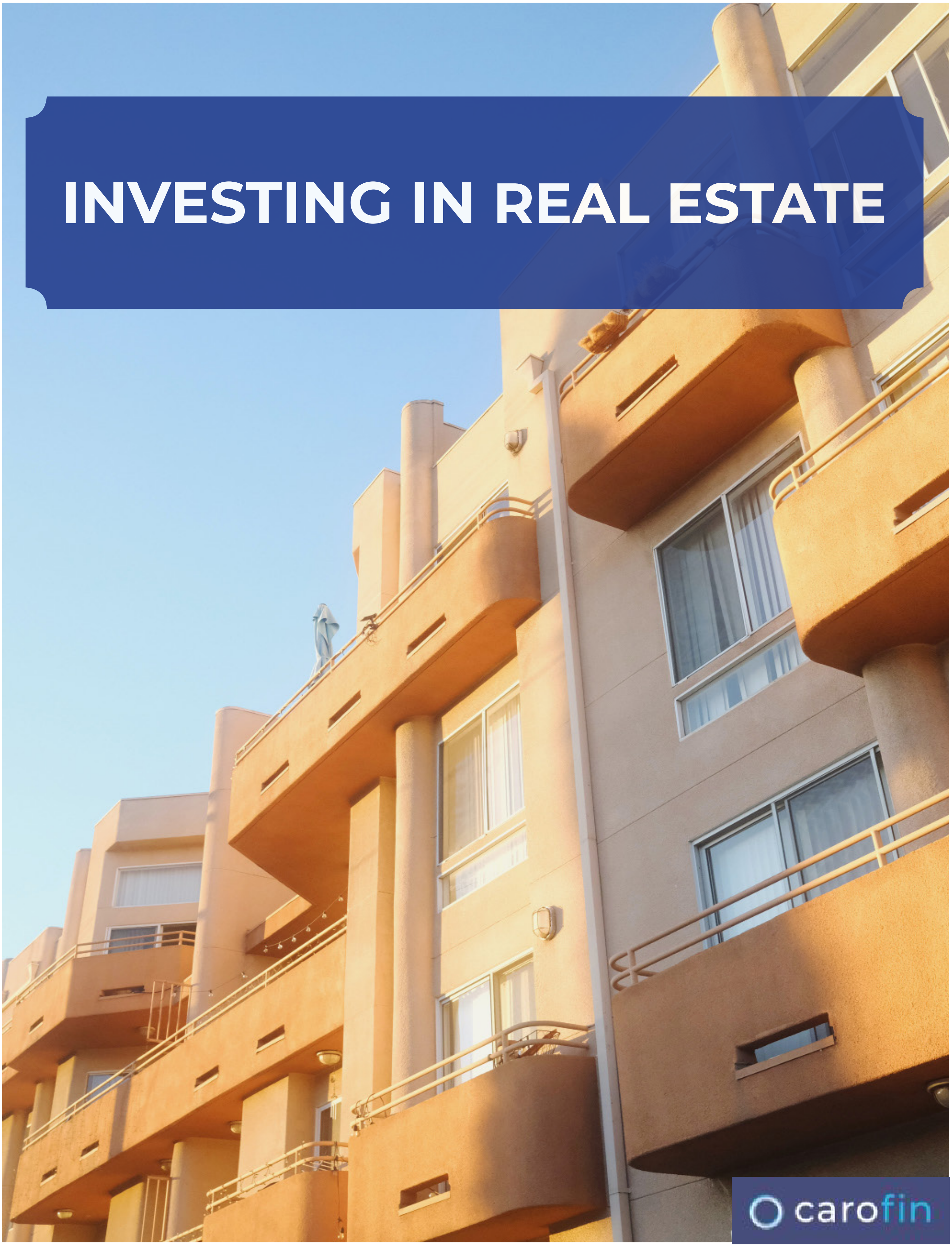
INVESTING IN REAL ESTATE



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INVESTING IN REAL ESTATE

With the pundits betting that the U.S. economy is headed for a recession, commercial real estate (CRE) is expected to suffer – but it is also likely to bounce back faster than other investment sectors. Nevertheless, over the last 20 years through market cycles, CRE has generated an average annual return roughly of 9.5%, higher than the S&P over the same period[1].

Passive investing in CRE through top-notch sponsors provides investors with current income opportunities, diversification, and potential equity upside that is not correlated to the stock and bond markets.

Furthermore, property ownership in CRE may provide asset depreciation and tax-deferred exchange.

You may depreciate the value of the properties in what one hopes will be an appreciating asset. And, in an inflationary environment, CRE often can offset its effects via adjustments to property rents. Finally, unlike investing in stocks and bonds, your investment in real property will always retain a certain value[2] and, in most cases, should outperform inflation.

Investment opportunities abound within U.S. commercial real estate. With 18,000 commercial management companies, a passive investor has no end of opportunities from which to choose.

But they are not alike. Real estate investments come in multiple forms and offer unique benefits. For those newer to this area of investing, Carofin has developed the following to help you become more conversant with the real estate sectors we plan to offer first. These include:

Multifamily Apartments

Hospitality Properties

Triple Nets

Other popular categories include Senior Living, Industrial, Healthcare Real Estate, Single Family Rentals, Student Housing, and Low-Income Housing (Section 8).

Experience tells us that it's more important to back the rider than the horse. In other words, finding the right commercial real estate (CRE) sponsor, with the experience and track record in its niche, is a key to a successful investment. Feeling confident we have the **right sponsors**, the following focuses for now on multifamily apartments, hospitality properties, and triple nets (NNN).

[1] These returns cannot be guaranteed, and past performance is not a guarantee of future results.
[2] While the property itself will retain value, it is important to consider your position in the capital stack in each CRE investment you make; if you are an equity holder, lenders to the fund or project would have first claim on this value in the event of bankruptcy or liquidation.

COMMERCIAL REAL ESTATE (CRE) SPONSOR

Many play a role in CRE: the general partner (GP), limited partners (LP), contractors, lenders, appraisers, brokers, attorneys and more.

The most critical player is the deal's sponsor. This is an individual or company in charge of finding, acquiring, developing, and managing real estate property on behalf of an investment partnership, usually an LLC, LP, LLP, or LLLP.

Sponsors, as general partners (or GPs), form partnerships with investors who become limited partners (or LPs), determine the project's feasibility, propose a business plan, entitle land, secure debt, raise equity, hire general contractors, develop it, and, in general, operate the property until its sale, then hire a real estate broker to sell it. Most often they invest 5-10% of the total equity in the project.

As sponsor performance is the key to the success of any real estate investment, Carofin takes particular care in bringing you hand-picked sponsors with considerable experience and accomplished track records. Each focuses on its core business, operating the properties it develops without providing management services to third parties.

MULTIFAMILY APARTMENTS

This class takes several forms – from small duplexes and triplexes, to 180+ units institutional-grade apartment complexes like the ones Carofin will offer.

But there are other types into which you might look, such as student housing, low-income housing, and four classes of 55+ senior living communities.

Furthermore, an investor has various ways to invest through a limited partnership – in an individual building or complex, a syndication in each type of residential real estate, through funds, as well as public and private real estate investment trusts (REITs).

WHAT TO EXPECT FROM CAROFIN

Carofin will offer investments with the following characteristics:

- ***Size***: *Institutional-grade offerings of 180+ units*
- ***Type***: *Both value-add acquisitions and ground-up developments*
- ***Length of Lease:*** *Standard one-year leases*
- ***Restrictions***: *Good credit required*
- ***Class***: *A and B-type properties*[3] *in the southeastern U.S.*
- ***Location***: *Typically in major metropolitan areas of the southeastern U.S.*
- ***Leverage***: *Bank financing between 60% and 80% LTC (loan to cost)*
- ***Investment Term***: *3-5 years*

[3] Class A, the highest quality buildings in the market -- newer with top amenities; Class B -- somewhat older with lower rents and fewer amenities than Class A

INVESTMENT OBJECTIVES

VALUE-ADD ACQUISITIONS:

- Quarterly current income distributions (from operatating income) averaging 4-9% annualized cash-on-cash dividends. With rising interest rates (that increase the cost of operating properties, cash-on-cash distributions tend to be lower.[4]

- Capital gains: Typical 15%-19% IRR capital gains are targeted upon the sale of the asset if 1) the net operating income (NOI) has increased and 2) the market Cap Rates[5] have been the same or have fallen. Even if the Cap Rate has risen, a capital gain could be generated, depending on how the NOI has increased.

[4] These distributions cannot be guaranteed

[5] NOI divided by the property value

GROUND-UP DEVELOPMENTS:

- Investors can expect quarterly current income distributions only after refinancing the property's construction loan (usually around year 3) and when the property has been leased-up to 90%+ occupancy.

- Capital gains: Depending on economic cycles, location, and sponsor, targeted IRRs may reach between 20%-25% and may reach 40% IRR in some cases. Developing properties from the "ground-up" carry higher risks.

When considering multifamily apartment opportunities, it is important to understand the differences between value-add acquisitions and ground-up developments.

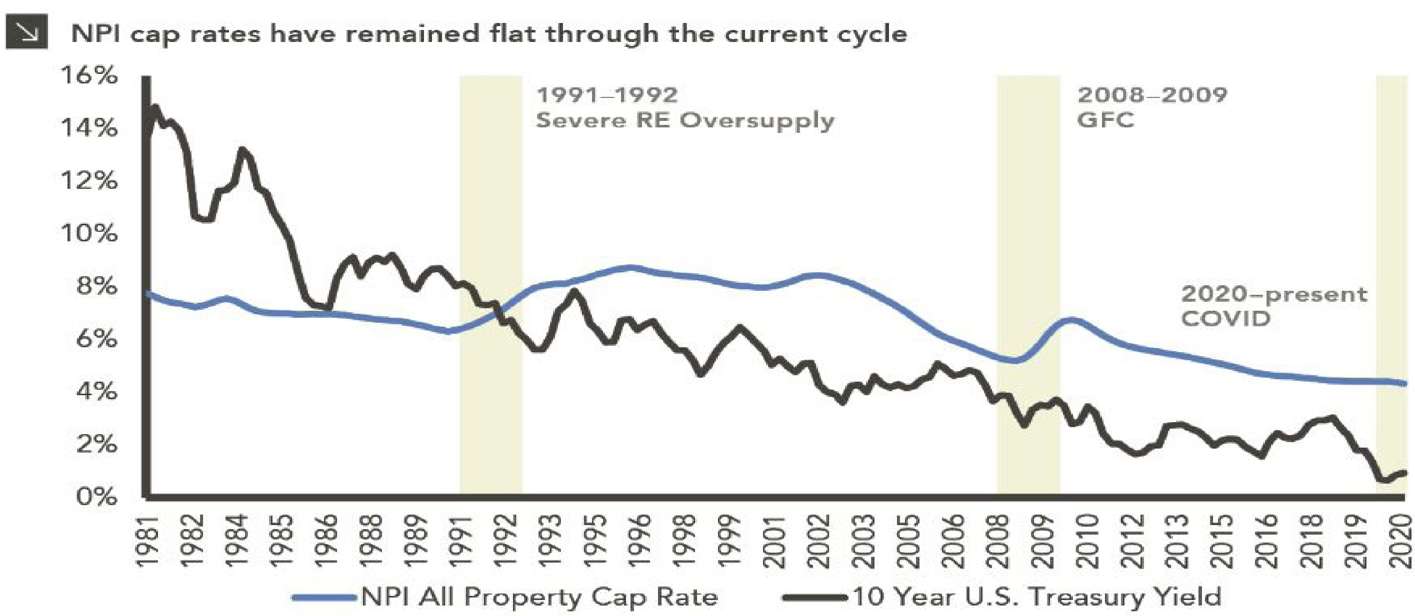
VALUE-ADD ACQUISITIONS

These are projects that involve renovation, repositioning, and rebranding of existing properties. These may have been mismanaged, may have high vacancy rates (over 10%), may rent below market potential, or may have reached the end of life in a REIT and owners need or want to sell.

Sponsors acquire, manage more efficiently, renovate, increase rents and seek to raise the property's Net Operating Income (NOI). This drives appreciation and, consequently, a higher sales price than the purchase price, assuming the market's Capitalization Rate (Cap rate) remains the same or lower. Cap rates may vary within economic cycles (see the chart below).

CHARACTERISTICS:

- ***Dividend Distributions**: Usually expected in the second quarter after acquiring the property and generally occur until the properties sell, since apartments likely will continue to generate cash-flow even if some units have been taken off-market for renovations;*
- ***Capital Gains**: Usually lower than in ground-up developments;*
- ***Average Dividend Distributions**: 4–9% cash-on-cash, depending upon interest rates;*
- ***Targeted IRRs**: 15%-19%;*[7]
- ***Typical Investment Term**: 3-5 years.*



Sources: NCREIF, FRED (Federal Reserve Economic Data); Cap Rates are of the NCREIF NPI U.S. All Property Index.

GROUND-UP DEVELOPMENTS

These are greenfield (new development) construction projects that bring additional levels of complexity and investment characteristics to investors.[7]

CHARACTERISTICS:

- ***Financing**: The GP sponsor (General Partner) is fully responsible for obtaining and approving financing; consequently, LP investors (Limited Partners) are shielded from sourcing debt;*
- ***Dividend Distributions**: None until the property has been stabilized and is generating positive cash-flow;*
- ***Capital Gains**: Higher than in value-add acquisitions, given the higher risk;*
- ***Income**: The lease-up period starts a few months prior to a C.O., generating income as renters lease apartments;*
- ***Typical Returns**: May generate an annualized 20%+ return on investment;*
- ***Investment Term**: Typically, 2.5 -4 years, although certain investors may prefer to retain the cash-flowing properties longer;*
- ***Additional Risks**: Obtaining financing for construction and building until a Certificate of Occupancy (C.O.) has been obtained.*

[6] While high targeted returns/IRRs are often attractive at first glance, investors should consider that a higher return is often accompanied by higher risk. Furthermore, a targeted return is simply that, a "target", and may not be reached by the sponsor or General Partner in practice.

[7] As such, the higher targeted IRR is accompanied by higher risk.

WHY MULTIFAMILY APARTMENTS?

Shifting demographics favor this asset class. No longer can many younger adults afford, nor are they inclined to purchase, single family homes as they used to. Nor can they enjoy apartment-living amenities. So, with market shortages, high demand, and rising rents, this class affords attractive investment characteristics both for new and to-be-renovated properties.

As an investment class, multifamily apartments constitute a significant equity portion of portfolios for some of the largest and most conservative institutions in the world: insurance companies, pension funds, and university endowment funds. They conduct extensive due diligence and risk mitigation before deciding on an investment strategy.

Furthermore, commercial lenders finance 65%-75% of the capital at attractive terms with low interest rates, enabling the sponsor to afford to pay investors a good return.

Whether ground-up or value-add, Carofin's staff applies its 2+ decades of credit analysis and due diligence controls before and after selecting top-notch sponsors in each real estate category.

For ground-up developments specifically, Carofin seeks to mitigate risk by offering investments in shovel-ready projects. The sponsor has acquired the land, designed the buildings' concept, obtained favorable environmental reports and financing, and is wrapping up architectural and engineering plans for obtaining permits to build. This way, ground breaking can be reached a couple of months after the investment has closed.

Multifamily apartments, when the right sponsor, location and project characteristics combine for a successful offering, should provide investors with:

- Lower risk compared to a single-tenant NNN property which depends on finding a new tenant when the long-term lease (usually 10-20 years) expires; a high occupancy rate (90-95%) on short-term leases (usually 1 year) should maintain an adequate debt coverage ratio from recurring revenues;

- Less risk when compared to other forms of real estate during a downturn;
- Targeted internal rates of return (IRRs) that may outperform stock and bond indexed returns in inflationary periods.
- Liquid institutional markets in major metropolitan areas.

INVESTMENT RISKS

Investments in real estate partnerships are illiquid, meaning investors will have their capital tied-up for three to six years, only realizing their returns when the partnerships sell their properties.

After improving the apartments, will the rental rates per unit favorably compare to the competition? Is an experienced operator managing those improvements?

Whether ground-up or value-add, Carofin's staff applies 2+ decades of credit analysis and due diligence controls before selecting top-notch sponsors.

Are the property management personnel diligent and experienced?

Is the sponsor experienced and has prior successes in operating this class of property? What about geographic and demographic trends? In other words, do they know the specific markets?

How leveraged is the investment? And is the debt fixed at a favorable rate?

How will inflation affect the cap rate at the time of sale?

HOSPITALITY PROPERTIES

As with multifamily apartments, our hospitality equity offerings will include value-add acquisitions and ground-up developments. We will also offer 2-3-year current income debt with quarterly or monthly payments.

These may be business or tourism hotels and resorts with their entertainment assets (usually restaurants and bars) leased to third parties. Upscale or budget, in an urban or resort location, for leisure or business, they require hands-on management. These are also available in individual locations and through syndicates, funds and REITs.

The deleterious effect that COVID had on the hospitality sector forced operators to amend many of their approaches. These included safe stay programs, greater separation between tables, an increased use of automation, contactless check-in/check-out, and work at hotel offers.

As a result, many sectors have bounced back recently and are better positioned in the event of another pandemic or economic recession. Hotels, restaurants, travel, tourism, and recreation – the primary segments – have successfully controlled operational costs and increased revenues since 2020.

CHARACTERISTICS:

- ***Locations***: *Throughout the US, where demand and occupancy rates are high*
- ***Property size***: *90+ keys;*
- ***Brands***: *All major brands*
- ***Acquisitions***:
  - *Target returns: 14-17%;*
  - *Direct ownership in assets with value-add opportunities;*
  - *Operational performance distributions;*
  - *Upside participation benefits;*
  - *Anticipated Term: 5-7 years.*

Ground-up Development:

- *Target Returns: 20%+;*
- *Ground-up development from site identification through to opening;*
- *Unique capital formation strategies (e.g., Opportunity Zones);*

Lending:

- *Target Returns of 8-12%;*
- *Conservative position in the capital stack. Fixed-income benefits with low correlation to asset performance;*
- *Anticipated term: 2-3 years.*

WHY HOSPITALITY INVESTMENTS?

Hospitality investments constitute [a small percentage of CRE]() – less than 3% of the total commercial real estate square footage.

At the same time, hospitality cap rates generally exceed those of

other commercial real estate assets, as operations are a bit more complex and usually represent a higher level of risk to manage.

As with other real estate sectors, tax law allows investors to offset taxable income through depreciation. But, unlike others, investors can benefit from personal and intangible property tax benefits.[8]

Investors can be assured that Carofin will have conducted its full due diligence before selecting a sponsor. Carofin will have reviewed the sponsor's principals, track record and

[8] Please consult with a tax professional when evaluating how the tax benefits of CRE investing may apply to your particular tax situation.

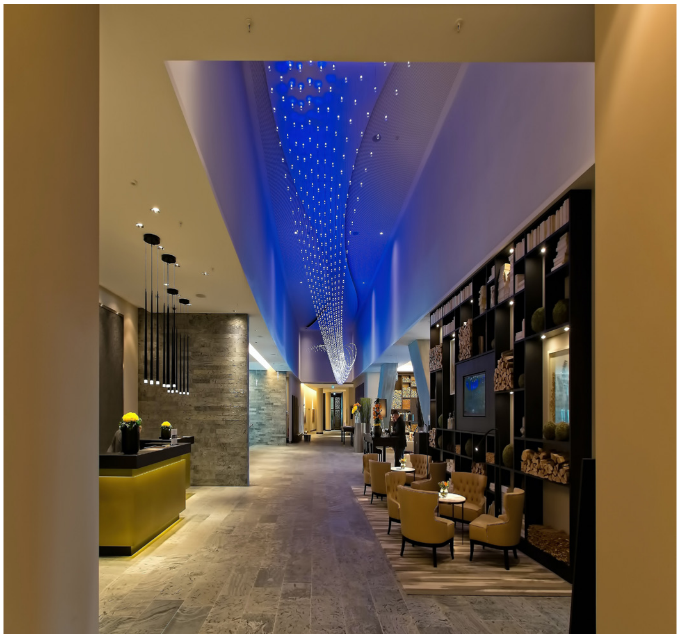
business plan, looked over the demographic demand and comparable assets in the neighborhood, and thoroughly examined the proforma financials, before introducing you to the investment opportunity.

The chosen sponsor will have decades of experience, billions of dollars in assets under management, and will have developed, acquired and operated over 100 properties. We are likely to co-sponsor investments in a dedicated closed-end fund which may invest in a selected property, or in a sponsor-operated master fund, or as an equity partner on deals which could later be syndicated through funds.

In general, hotel cap rates exceed those of other business real estate assets. They do, however, carry a higher level of risk to manage.

INVESTMENT RISKS

To start, a large hospitality operation is more complex than a multifamily operation, as it may involve food and beverage, entertainment, and higher pedestrian and automobile traffic. The return on investment (ROI) for a resort or a hotel can be highly sensitive to competitive pressures. Both are subject to branding expertise, reservations platforms, management experience, choice of



location, economic cycle, and market trends.

Investments in hospitality are also sensitive to climate change and pandemics such as COVID. In 2020 and 2021, many hospitality properties and cruise lines faced lower cash-flows due to travel restrictions worldwide.

However, aside from the risks common to investing in multifamily apartments outlined above, hospitality carries additional operational risks usually mitigated by owning insurance policies to protect the investment in case of:

- Property exposures
- Equipment breakdowns
- Criminal exposure
- Premises liability
- Food and products
- Liquor liability
- Cyber crime
- Business interruptions

TRIPLE NET LEASED (NNN)

What is a triple net leased property?

It is a lease agreement on a property in which the tenant (or lessee) promises to pay all the expenses of the property, including real estate taxes, building insurance, and maintenance in addition to the cost of rent and utilities.

In other words, the rental income is generated net of expenses to the property owners. Most of the risk is on the lessee rather than the investor.

In contrast, standard commercial lease agreements normally require the property owners, rather than the tenant, to make some or all these payments.

A single net lease, on the other hand, requires the tenants to pay property taxes in addition to rent, and a double net lease usually adds on property insurance.

CHARACTERISTICS:

Properties leased under NNN arrangements usually include the following types of properties with one or more tenants:

- *Industrial (warehouses for manufacturing, and logistics applications)*
- *Quick service restaurants (QSR)*
- *Urgent care facilities (UCF) / dental clinics*
- *Entertainment*
- *Banking*
- *Retail*
- *Gas stations and convenience stores*

These investments are in build to suit, long-term (15-20 year) leased properties. They can be advantageous to the owners because revenues are more predictable, i.e., fewer expenses to deduct from the gross income, they are easier to manage, easier to finance and require lower investment costs because most have a single tenant.

However, should the property become vacant at the end of a lease, the loan's debt service still may need to be paid. That risk is generally lower when there is a *corporate* guarantee instead of one from a *franchisee*.

Of the types of properties Carofin will offer, the investment term is usually the shortest (2-3 years on average). As the properties usually are sold right after (or even before) obtaining the C.O., this investment does not generate quarterly distributions.

Of the types of properties Carofin will offer, the investment term for NNN properties is usually the shortest (2-2.5 years on average).

Demand is high as investors trade thousands of properties annually, benefitting from tax incentives related to IRS rule 1031.

The annualized target return on investment is 18%+, with a 15% preferred equity threshold. This means that sponsors do not participate in profit distributions unless and until investors have received their principal plus their preferred return.

WHY NNN INVESTMENTS?

As with multifamily apartments, this investment class constitutes a significant equity portion of portfolios for some of the largest and most conservative institutions, as well as that of private investors in the world.

Before selecting a sponsor, Carofin applies the same credit analysis and due diligence controls we use for all our offerings. In this case, Carofin likely will be co-sponsoring investments in a dedicated closed-end fund investing in a selected property, or in a sponsor-operated master fund, or as an equity partner on deals which could later be syndicated through funds.

Like ground-up multifamily apartments, these properties will be shovel ready. The sponsor will have acquired the land, designed the buildings, obtained favorable environmental reports and financing, and building permits begun. With an abbreviated investment term, investors may maximize their return potential during the term they selected to invest.

The sponsor with whom we choose to partner will have the following characteristics:

- **Sponsors/Operators:** Deeply experienced with proven track records in this class of U.S. real estate;
- **Advantageous Lease Structure**: Responsibility lies with tenants for property tax, insurance and maintenance expenses;
- **Properties**: Stand-alone, high visibility;
- **Leases**: Long-term (10+ years) leases with renewal options and rent increases;
- **Inflation Resistant**: Long-term NNN lease structure protects property owners and investors from inflation and rising operating expenses;
- **Liquid Market**: Strong tenant demand and high investor demand for single-tenant net lease properties, creating an active and liquid market;
- **Net Lease essential business retail properties**: Considered one of the top asset classes in commercial real estate;
- **Short-duration investments**: 2-3 years on average

- **Fast Turnover of Capital**: Averaging 1.5 years or less per unit;
- **Above-average Potential Preferred Return**:[9] ~15%. Equity investors should expect to receive the stated return before the sponsor and co-sponsors receive any allocation of profits.
- **Targeted IRRs**: Dependent on market CAP rates and inflation; have been around 18%+ from our selected sponsor's funds.

INVESTMENT RISKS

Investment Returns: Capped by the lease, the market cap rate, and the contract with the sponsor;

Cap Rates: May be higher than expected at the time of sale (see historical rates below);

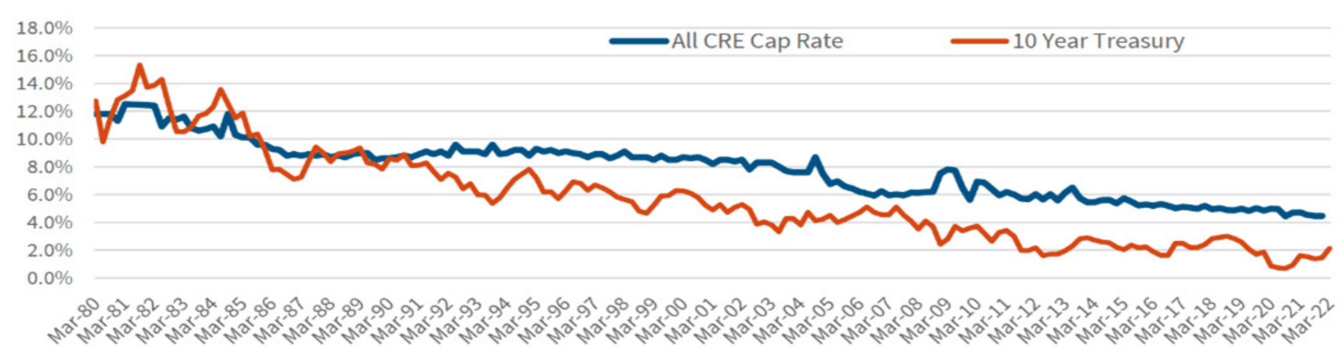
Construction: Sponsor must obtain permits and financing; construction poses its own risks;

Natural Disasters: Depending on the form of the lease, e.g., NNN or absolute NNN, the property owner may be responsible for incurring expenses;

Vacant Property: May be difficult to find a new tenant and may be subject to a high investment to accommodate the new tenant (known as TI or Tenant Improvement).

[9] While Sponsors are confident they will meet a preferred return threshold (and thereafter participate in distributions), these returns cannot be guaranteed.

10-Year Treasury and ACLI All Commercial Property Capitalization Rates – 1Q1980 – 1Q2022



Source: ACLI, Commercial Mortgage Commitments (CMC) and Federal Reserve, Selected Interest Rates H.15, per Moody's Analytics

CONCLUSION

Carofin is pleased to present this primer which we designed for investors interested in broadening their exposure to private real estate investments which are less correlated to market fluctuations than the stock and bond markets. Coupled with other direct, private investments, they may add stability and significant returns to your portfolio.

Please direct questions relating specifically to real estate to Garrick Ruiz at gruiz@carofin.com or to Lucio Martins Rodrigues at lrodrigues@carofin.com.

If you would like to learn more about Carofin's investments, please register here.

Feel free to make use of our Knowledge Base. Improving investment standards for direct private investors is an important goal of Carofin. Please tell us your experiences so we can share them with others.

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Financial terms used herein are more fully defined in the Carofin's Glossary of Investment Terms.

If you like reading these papers and want to stay current, please "Follow us" on LinkedIn.

As always, please reach out to schedule a call if you have questions. (828.393.5401)

And, if you are ready to consider investing in our alternative investments, please click here.

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MEANINGFUL INVESTMENTS — VITAL CAPITAL

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Our firms seek to present vital capital with meaningful investment opportunities through the fundamental analysis of the businesses we seek to finance. Such analysis is usually conducted through a First Principles approach.When we provide you with a recommendation, we have to act in your best interest and not put our interest ahead of yours. At the same time, the way we make money creates some conflicts with your interests. You should understand and ask us about these conflicts because they can affect the recommendations we provide you. Here are some examples to help you understand what this means:

Proprietary Products: Our firms will often present investments that are only available through them, which may result in a higher placement fee. The Firms will receive the placement fee regardless of your investment performing as expected.

Administrative Agent Services: CFG Financial Services, LLC, an affiliate of our firms, will act as Administrative agent for the securities while they are outstanding. Given that our firms have an interest in providing recurring services to the Issuer, while the administrative agent looks after the interests of investors, there may be a conflict of interest between the firms and its affiliates.

Our firms offer brokerage services to accredited investors, exclusively through the sale of private placements. the offerings we bring to market are carefully selected, and any recommendation you may receive from us will be limited to these offerings. Therefore, we may be unable to adequately compare the risks and benefits of the offerings we bring to offerings presented by other financial professionals. While our firms will often present new investments and discuss such investment's risks and benefits with you, the ultimate authority to make such investment rests solely with you.

Our firms do not hold any investor cash or securities, and securities offered by us often have no easily assessable market value, so our firms will not monitor the market value of your investment on an ongoing basis. The investments we present often require a minimum investment of $5,000 for equity offerings and $10,000 for debt offerings.

Fees and costs may reduce any amount of money you make on your investments over time. Our firms are mostly compensated through placement fees, which are payable by the issuer, meaning that the firms will be compensated by receiving a percentage of the funds raised in an offering, regardless of the investment performing as expected. Such placement fee is usually between 3% and 7% (please find the specific Placement Fee for this offering in the "Placement Agent Fees" section of the "Security Terms". Given that different investments have different placement fees, we may often have a conflict of interest when presenting these investments to you. The Firms' bankers are often compensated by receiving a percentage of the placement fee, and may have their own conflict of interest when presenting you with offerings they structure.

Private placements are high risk and illiquid investments. As with other investments, you can lose some or all of your investment. Nothing in this document should be interpreted to state or imply that past results indicate future performance, nor should it be interpreted that FINRA, the SEC or any other securities regulator approves of any of these securities. Additionally, there are no warranties expressed or implied as to accuracy, completeness, or results obtained from any information provided in this document. Investing in private securities transactions bears risk, in part due to the following factors: there is no secondary market for the securities; there is credit risk; where there is collateral as security for the investment, its value may be imped if it is sold. Please see the Private Placement Memorandum (PPM), and the complete list of contents for each contemplated investment for a more detailed explanation of the securities Summary of Terms, Investor Suitability Standards, Confidentiality, Securities Matters and Risk Factors.

Caution Regarding Forward-Looking Statements

Certain statements herein may be "Forward-looking" in that they do not discuss historical facts but instead note future expectations, projections, intentions, or other items relating to the future. We caution you to be aware of the speculative nature of forward-looking statements as these statements are not guarantees of performance or results.

Forward-looking statements, which are generally prefaced by the words "may," "anticipate," "estimate," "could," "should," "would," "expect," "believe," "will," "plan," "project," "intend," and similar terms, are subject to known and unknown risks, uncertainties and other facts that may cause our actual results or performance to differ materially from those contemplated by the forward-looking statements.

Although these forward-looking statements reflect our good faith belief based on current expectations, estimates and projections about, among other things, the industry, and the markets in which we operate, they are not guarantees of future performance. Whether actual results will conform to our expectations and predictions is subject to several known and unknown risks and uncertainties, including risks and uncertainties discussed in the offering materials for each specific investment.

Consequently, all the forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, your investment. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.