

# **GOODEGG GROWTH FUND III, LLC**

## **BUSINESS SUMMARY**

**GOODEGG GROWTH FUND III, LLC (“GGFIII”) WILL BE A PASSIVE HOLDING COMPANY WHICH SHALL BE PURCHASING CLASS CF MEMBERSHIP INTEREST UNITS IN GOODEGG WEALTH FUND II, LLC, A WYOMING LIMITED LIABILITY COMPANY (“GWFII”). FOLLOWING IS A SUMMARY OF GWFII’S BUSINESS. COPIES OF GWFII’S ARTICLES OF ORGANIZATION AND OPERATING AGREEMENT (TOGETHER WITH AMENDMENTS THERETO) ARE ATTACHED AS PART OF THIS FORM C.**

### **SUMMARY OF GWFII’S BUSINESS**

GWFII will focus on purchasing multifamily apartment communities located primarily in Arizona, Texas, North Carolina, South Carolina, and Florida, however GWFII reserves the right to invest in Properties located anywhere in the United States.

GWFII’s Manager will seek to partner with other sponsors (“Co-Sponsors”) who are experts in their market and co-invest with them in core, core plus, and value add properties where we see an opportunity to increase value through property enhancement, optimizing operations, and institutional quality asset management.

GWFII reserves the right to co-invest in Properties alongside other Co-Sponsors or alongside any other tenants in common owner.

GWFII’s Manager may form or cause to be formed additional entities to sit between GWFII and any prospective joint venture that may be entered into with a Co-Sponsor, and between such joint venture and the special purpose entity that owns a Property and is the borrower on the loan associated therewith.

### **Management’s Discussion of Results from Operations**

GWFII is a recently formed entity and has only recently started principal business operations.

### **THE METHODOLOGY**

GWFII intends to operate as a real estate investment fund with substantially all allocated capital being utilized for investments that will mature over a four-to-seven-year period. GWFII intends to raise capital from Prospective Investors for approximately one year and then execute its business strategy as follows:

#### **Property Acquisition Phase – Year One**

GWFII’s Manager anticipates that it will co-invest in approximately three properties within the first six months to a year of Company operations. GWFII’s Manager anticipates the median cost to renovate and lease GWFII’s portfolio to vary depending on the capital needs of the specific asset, but to be in the range of approximately \$200,000 - \$2,000,000 per Property. GWFII’s Manager will be using operational principles developed from experience operating multifamily apartment communities and significant input from industry experts. GWFII’s Manager has an extensive track record of acquiring and managing multifamily apartment communities.

GWFI's opportunities will be value-add acquisitions sourced through GWFI's Manager's and Co-Sponsors' professional real estate network in the target markets of Arizona, Texas, North Carolina, South Carolina, and Florida. The management team's approach to buying multifamily apartment communities, developed through focus on this asset class, seeks to acquire properties where equity and value is present at the time of acquisition, and is enhanced through the renovation, expansion, re-positioning, marketing, and management processes.

The CapEx budget and program management experience of GWFI's Manager and Co-Sponsor(s), with a focus on efficiency and cost control, is a critical part of this process, as that will allow GWFI to fully assess expected costs, time frames and other key performance indicators to maximize net profit and minimize risks related to unexpected expenses.

### **Stabilization Phase – Years Two to Three**

GWFI's Manager intends to hold and manage properties for a period of four to seven years, and sell as a portfolio to an institutional investor, as individual sales to commercial real estate buyers, or a combination of these two exit strategies.

### **Capital Returns / Distributions – Beginning After Closing on First Acquisition**

Beginning after the closing on GWFI's first acquisition and the first Property is in stabilized financial position, through a combination of Property sales, cash out refinancing, and excess cash flows, GWFI intends to begin returning capital to Members. GWFI's Manager will determine the appropriate time to begin the returns. See "*Plan of Distribution.*"

### **Asset Liquidation / Divestment Phase – Beginning in Year Eight**

Beginning in approximately years five to seven, GWFI's Manager intends to begin marketing the portfolio and divesting the Properties as either a portfolio or as individual multifamily apartment communities, but it reserves the right to sell any Property earlier if the economics make sense. In the event that the market is not favorable, or no buyer can be sourced, GWFI's Manager will continue actively managing GWFI and all Properties until it is determined that liquidation is in the best interest of the Members.

GWFI's Manager will take into consideration the tax laws and any changes that have occurred during the life of GWFI prior to liquidation. The decision-making process of GWFI's Manager will be outlined in the quarterly updates leading up to year eight so that all Investors can plan accordingly with personal tax advisors, and GGFIII's Manager will cause such reports to be distributed to GGFIII's members within a reasonable time after receipt of such reports by GGFIII from GWFI.

## **OPERATIONS**

### **Asset Sourcing**

GWFI's Manager and Co-Sponsor(s) have multiple operating partners spread across the target market area who live locally and have extensive knowledge of the markets, brokers, and assets. We rely on our local partners to source deals, provide initial underwriting and pricing guidance, after which time we perform our own initial due diligence on the asset and the deal to determine whether or not to move forward on it.

## **Acquisition Criteria**

- Asset Class: Core, Core Plus, Value Add
- Property Type: Multifamily properties with 100+ units
- Acquisition Price: Up to \$125,000,000
- Opportunity to increase cashflow and optimize property operations
- Projected Debt Terms: Acquisition price plus any necessary renovations less than 80% of fair market value
- Upside rent and valuation potential from asset enhancements and re-positioning

## **Asset Acquisition – Due Diligence**

GWFII's Manager will complete a methodical evaluation of each asset targeted for potential acquisition. Each asset will be subject to the following general vetting process prior to acquisition and inclusion into GWFII's portfolio:

- (a) A full market analysis is completed internally.
- (b) A complete off-site due diligence process will be conducted prior to on-site inspections that will require third-party inspections. During this process GWFII's Manager's or the Co-Sponsor's team will receive a letter of zoning for the property to ascertain legal status; code enforcement will provide a written list of all violations currently on the property; the health department will provide a list of deficiencies with waste treatment and/or remediation as well as any other outstanding issues; utility providers will provide a list of deficiencies to maintain use of their services and process to convert to direct bill for the residents; law enforcement will advise of historical criminal activity and known criminals residing on the premises; and fire inspector will advise of violations that will need to be addressed. The financial health and prospect will be analyzed and underwritten. Our investment team will put together a five-year investment proforma that will guide our decision to execute on a given investment.
- (c) Only after the off-site due diligence has been completed and deemed acceptable will GWFII's Manager and Co-Sponsor(s) begin the on-site inspection process. This process will include, but is not limited to environmental inspection, electrical system inspection to include pedestals, service boxes and wires; septic tank inspections to ensure viability and ensure service will continue for years to come without issue; plumbing inspection to ensure that the lines to and from the homes are in proper working order and condition; and where applicable tree removal and trimming services will note where homes will have trees or limbs removed from dangerous proximity.
- (d) Once inspections are underway, GWFII's Manager and Co-Sponsor(s) will begin obtaining quotes from vendors necessary to conduct the turnaround process that makes up a large portion of our value-add strategy. This will typically include quotes from paving companies to either repair or resurface existing roads or add paved roads where the value can be recouped easily; installation of commercial solar streetlights; addition of new signage; addition of vinyl entry fencing; addition of privacy fencing or hedges to reduce road noise; addition of community gathering areas; and where possible playgrounds for children.

- (e) GWFII and Co-Sponsor(s) will utilize standard real estate purchase and sale contracts (or those of the state in which each Property is located), or alternatively will utilize a real estate attorney licensed in the state in which the Property is located to draft and negotiate the purchase and sale agreement to mitigate any potential contract-related risks to GWFII.

### **Closing and Settlement**

GWFII's Manager and Co-Sponsor(s) will utilize specific protocols, and deploy the services of title, settlement, and property closing professionals, to ensure that the closing and purchase of Company properties is executed properly and legally.

- (a) GWFII will also implement a general liability umbrella policy for each Property.
- (b) A title policy and municipal lien search will be required and verified clear prior to closing.
- (c) A property survey will be requested and completed when applicable.

### **Making a Multifamily Apartment Community Suitable for the Rental Market**

GWFII may acquire properties that require the completion of deferred maintenance and upgrade of systems and minor structural features. Further, GWFII expects to acquire properties that may require substantial renovation and repositioning. As such, all renovation and construction activities on Company assets will be completed following certain protocols:

- (a) All renovation and construction work will be performed by experienced contractors that meet strict standards of quality and experience. GWFII's Manager and Co-Sponsor(s) will be tasked with the approval and oversight of all general contractors utilized by GWFII and has extensive relationships with local general contractors who have already agreed to work with GWFII. GWFII's Manager Co-Sponsors have established relationships with general contractors in the target markets.
- (b) Property site inspection by GWFII's Manager, the Co-Sponsor(s), or their representative will be executed on a routine basis to ensure all repair work is progressing on schedule and on budget.
- (c) Large capital projects will be focused on making the changes necessary to increase the value of a Property and allow for increased revenues through justified rent increases. These improvements will improve the overall quality of the Properties as well as the rental appeal while also demonstrating competence and reliability to lenders.

### **Property Management**

GWFII's Manager's leadership has experience managing numerous multifamily apartment communities across the United States and has a deep understanding of the special considerations for managing this asset class. GWFII's Manager will either directly, or through the use of an affiliated entity (the "Property Manager"), manage each asset in GWFII's portfolio. This approach is both cost effective and designed to optimize the performance of each asset in GWFII's portfolio through thoughtful tenant selection, disciplined expense controls, and effective use of property management technology.

Additionally, this relationship will provide GWFII's Manager with immediate access to financial data and qualitative information about every asset in GWFII's portfolio. GWFII's Manager will also be able to customize its data for analysis and reporting to Company investors, improving the accuracy of record keeping and improving its ability to project and control expenses.

GWFII's Manager's approach to property management prioritizes property value, accurate reporting, tenant satisfaction, and strong financial controls. Because of the past experience of GWFII's Manager's leadership team, GWFII's property management will be handled with attention to each Property, as well as customized operating procedures that will facilitate the application of high standards to cost control, lease administration, and accounting.

The goal of GWFII's Property Manager is to maximize the value of GWFII's real estate assets. To do this, GWFII's Property Manager uses various state of the art property management tools, many of these are SaaS products that drastically reduce the time and expense involved with leasing, inspections, rent collection, security, tenant communications, and maintenance.

The real estate principles employed by GWFII's Property Manager, combined with property management technology, allows GWFII's Property Manager to manage property at costs significantly lower than third-party managers, enhance the value of each asset in GWFII's portfolio, and effectively communicate critical financial and non-financial information with GWFII's Manager.

### **Maintenance Management**

GWFII's Property Manager may employ a local "Maintenance Manager" to respond to service calls and conduct move-in and move-out inspections. This person may also be utilized to assist with pre-purchase inspections on Company acquisition targets.

The Maintenance Manager, if utilized, will be responsible for coordinating the response to service calls, conducting move-in and move-out inspections, on the spot inspections and maintenance as necessary. By keeping this maintenance and inspection function in house, GWFII's Property Manager ensures consistency in service across GWFII's portfolio, a clear understanding of standards of maintenance and repairs, effective maintenance expense controls, and a high level of communication with GWFII's Manager.

In addition to specific tasks that may be assigned, the Maintenance Manager will be responsible for:

- Response to tenant requests
- Management of third-party contractors or vendors
- In depth knowledge of all mechanical systems
- Resource for prospective new tenant questions about the property
- Move-in and move-out inspections

### **Property Leasing Team**

GWFII's Property Manager may employ a leasing team to ensure timely showing of homes at each property. The "Property Leasing Team" will also conduct lease administration and property accounting in accordance with best practices that GWFII's Manager's leadership developed over the years. These lease administration and property accounting duties include billing, collections, vendor management, and internal financial controls to ensure consistency and accuracy.

In addition to specific tasks that may be assigned, the Property Leasing Team is responsible for:

- Marketing and leasing all assets in GWFII's portfolio

- Compliance with lease documentation and record keeping policies
- Rent roll administration
- Effective communication of lease terms to tenants
- Vendor / contractor insurance compliance
- Tenant insurance compliance
- Billing
- Budgeting
- Variance analysis

### **Asset Re-Positioning and Marketing**

Once any renovations and/or expansions of a Property are complete, GWFII will proceed with re-positioning the asset and marketing the asset to potential rental consumers. GWFII expects that many of the properties acquired will not be in a physical condition or managed such that the asset is attractive to a rental consumer willing to pay an increased rental rate. In part, much of the re-positioning process occurs with the modernization of the property and the inclusion of aesthetic features that will appeal to the core target rental audience in the selected markets. GWFII's Manager and Co-Sponsor(s) have extensive experience in rehabilitating and infilling properties such that they have significant rental appeal to multifamily apartment communities' tenants. This increase in appeal allows for increased rental rates, higher expected net operating income, and equity accretion.

Oversight of the re-branding and marketing of Company real estate assets will be the primary responsibility of GWFII's Property Manager. The marketing process involves networking with local multifamily apartment communities' owners and/or managers, online advertising, and technology enabled tools to facilitate the safe previewing of units to potential customers.

### **Disposition of Assets**

GWFII intends to use the services of a commercial real estate broker company to list and market GWFII properties for sale. GWFII may also engage in direct sales of assets without use of a real estate broker on certain transactions. Direct sale transactions will be reviewed, and contracts drafted by GWFII real estate attorney.

Proceeds from the sale of Properties will be distributed to the Members of GWFII as outlined in this Memorandum and GWFII's Operating Agreement (See "**Section X, Plan of Distribution,**" and "**Exhibit A, Operating Agreement**").

### **Subsequent Capital Contributions**

Members will not be required to make subsequent Capital Contributions in excess of their Committed Capital Contribution as stated on their Subscription Agreement. If additional capital is required, GWFII's Manager may solicit additional capital contributions from Members, but these will be voluntary, *provided however*, that if a Member does not contribute additional capital, their ownership percentage will be diluted accordingly.

### **Valuations**

GWFII will provide annual reports to the Members (including GGFIII) setting forth a

valuation summary for GWFII assets. GWFII's Manager will work with GWFII's administrator to produce accurate and reliable valuation methodology. GGFIII's Manager will cause such reports to be distributed to GGFIII's members within a reasonable time after receipt of such reports by GGFIII from GWFII.

### **Company Termination**

GWFII's Manager may terminate GWFII prior to the expiration of the term without the approval of the Members if GWFII's Manager believes there is an opportunistic exit opportunity. The planned term of GWFII is five to seven years from the start of principal Company activities subject to extension to up to two successive one-year periods at the discretion of GWFII's Manager in order to allow for an orderly liquidation of GWFII's assets.

### **Company Investment Limitations**

GWFII shall engage in the acquisition of or investment into multifamily apartment communities with the following underwriting limitations, and subject to the vetting and underwriting processes described in this Memorandum:

- (i) no more than \$25,000,000 may be invested in a single Property;
- (ii) no more than 50% of aggregate Capital Contributions may be invested in a single Property; unless the Property is a portfolio of multifamily apartment communities.

### **DESCRIPTION OF GWFII'S CAPITAL STRUCTURE**

GWFII has issued and outstanding Class A, Class B, Class CF, Class C, Class D, and Class E Units.

The Units represent membership interests in GWFII and entitle the holder thereof to limited voting rights as set forth in GWFII Operating Agreement, as well as distributions of Net Distributable Cash. Prospective Investors who purchase Units from GWFII and are accepted by GWFII's Manager will become Members in GWFII. See "**Summary of GWFII Operating Agreement.**"

Class A Members enjoy a Preferred Return of 9%; Class B and Class CF Members enjoy a Preferred Return of 7%, Class C Members enjoy a Preferred Return of 8%; Class D Members enjoy a Preferred Return of 9%, and Class E Members enjoy a Preferred Return of 10%, in all cases per annum non-compounded until each Member has achieved a Capital Return. Any distributable cash available after making the Preferred Returns will be distributed (at GWFII's Manager's discretion) to the Members as more specifically set forth in "**Plan of Distribution.**"

**THE COMPANY, AS THE HOLDER OF CLASS CF MEMBERSHIP INTEREST UNITS IN GWFII, SHALL ENJOY THE SAME RIGHTS AS GWFII'S CLASS B MEMBERS; I.E., A PREFERRED RETURN OF 7%, AS WELL AS THE RIGHT TO SHARE IN ANY DISTRIBUTABLE CASH WHICH IS DISTRIBUTED AT GWFII'S MANAGER'S DISCRETION PURSUANT TO THE PLAN OF DISTRIBUTION.**

### **Restrictions on Transferability**

There are substantial restrictions on the transferability of the Units contained in the

Operating Agreement and imposed by state and federal securities laws. The Units offered by this Memorandum have not been registered under the Act or with the securities regulatory authority of any state. The Units may not be resold unless they are registered under the Act and registered or qualified under applicable state securities laws or unless exemptions from such registration and qualification are available.

### **SUMMARY OF GWFII OPERATING AGREEMENT**

The following summary of GWFII's Operating Agreement does not purport to be comprehensive and is qualified in its entirety by reference to the full text thereof. Each prospective investor in the Units should review the entire GWFII Operating Agreement before executing a Subscription Agreement for the Units. (All capitalized terms in this section not otherwise defined in this Form C are as defined in GWFII Operating Agreement.)

**Management.** The initial Manager of GWFII shall be Goodegg Investments, LLC. GWFII's Manager may only be removed for cause. GWFII's Manager may resign at any time. GWFII's Manager may appoint additional Managers. In the case that no Manager is serving, vacancies for GWFII's Manager shall be filled by a majority vote of the Members. The Operating Agreement waives all fiduciary duties that would otherwise be implied by applicable law. GWFII's Manager has the sole discretion to approve any joint venture or tenancy in common arrangement in acquiring any Property, including any fees to be paid to another Person in connection therewith. GWFII's Manager shall have no personal liability for the return of any Member's capital contributions. GWFII's Manager has broad powers under the Operating Agreement to manage GWFII, execute contracts, borrow money, purchase insurance, distribute money, and generally conduct the affairs of GWFII. The Members waive any claims against GWFII's Manager for engaging in transactions or activities which may involve a conflict of interest.

**Manager Indemnification.** GWFII shall indemnify and exculpate GWFII's Manager for actions taken in its capacity as Manager so long as such actions are taken in good faith and unless such actions constitute fraud, gross negligence or willful misconduct. The sole duty of any Manager shall be that of good faith and fair dealing.

**Additional Capital Requirements.** If GWFII's Manager determines additional capital is required by GWFII, GWFII's Manager may secure capital in any of the following ways:

- (a) Internal Debt. GWFII's Manager may enter into debt financing agreements with current Company Members, at terms that are agreeable in the sole discretion of GWFII's Manager;
- (b) External Debt. GWFII's Manager may secure debt financing from non-members of financial institutions, at terms that are agreeable in the sole discretion of Manager;
- (c) Internal Equity. GWFII's Manager may issue additional Units to current Members, comprised of Class A, Class B, Class C, Class CF, Class D, or Class E Units, or may issue a Unit from a new Class of Units; and
- (d) External Equity. GWFII's Manager may issue additional Units to new members, comprised of Class A, Class B, Class CF, Class C, Class D, or Class E Units, or may issue a Unit from a new class of units;



***Allocations of Profit and Loss.*** GWFII shall allocate profits and losses of GWFII to the Members as if GWFII completely liquidated at the time of such allocation.

***Transfer Restrictions.*** The GWFII Units are not registered with the Securities & Exchange Commission or with the securities regulators of any state and thus cannot be transferred without an effective registration or a valid exemption from registration. A Member including GGFIII) may sell, exchange, encumber, transfer or otherwise assign, whether during his or her lifetime or through the laws of intestacy or inheritance, in whole or in part, his or her Units. GWFII reserves the right to purchase Units from Members, at agreed upon terms, at any time. In addition, GWFII and the other Members have a right of first option prior to any sale to a third party. The purchase price for such Units will be determined by an independent third-party appraiser. Persons who acquire Units by transfer or by other means may or may not be admitted as Members and, if not, shall hold their Units as Participation Interest holders.

***Preparation for Sale of Property; Prospective Sale of Property.*** GWFII's Manager reserves the right, in its sole discretion, to determine the terms of any prospective sale, or other disposition of the Properties or any Company assets.

***No Right to Participate in Management.*** Except as expressly provided in the Operating Agreement, no Member shall have a right to participate in the management and operation of GWFII's business and investment activities.

#### **SUMMARY OF GGFIII'S OPERATING AGREEMENT**

The following summary of GGFIII's Operating Agreement does not purport to be comprehensive and is qualified in its entirety by reference to the full text thereof. Each prospective investor in the Units should review the entire Operating Agreement and Memorandum before executing a Subscription Agreement for the Units. (All capitalized terms in this section not otherwise defined in the GGFIII Operating Agreement.)

***Management.*** The initial Manager of GGFIII shall be Goodegg Investments, LLC. GGFIII's Manager may only be removed for cause. GGFIII's Manager may resign at any time. GGFIII's Manager may appoint additional Managers. In the case that no Manager is serving, vacancies for GGFIII's Manager shall be filled by a majority vote of the Members. The Operating Agreement waives all fiduciary duties that would otherwise be implied by applicable law. GGFIII's Manager shall have no personal liability for the return of any Member's capital contributions. GGFIII's Manager has broad powers under the Operating Agreement to manage GGFIII, execute contracts, borrow money, purchase insurance, distribute money, and generally conduct the affairs of GGFIII. The Members waive any claims against GGFIII's Manager for engaging in transactions or activities which may involve a conflict of interest.

***Manager Indemnification.*** GGFIII shall indemnify and exculpate GGFIII's Manager for actions taken in its capacity as Manager so long as such actions are taken in good faith and unless such actions constitute fraud, gross negligence or willful misconduct. The sole duty of any Manager shall be that of good faith and fair dealing.

***Additional Capital Requirements.*** If GGFIII's Manager determines additional capital is required by the Company, GGFIII's Manager may secure capital in any of the following ways:

- (a) Internal Debt. GGFIII's Manager may enter into debt financing agreements with current GGFIII Members, at terms that are agreeable in the sole discretion of GGFIII's Manager;
- (b) External Debt. GGFIII's Manager may secure debt financing from non-members of financial institutions, at terms that are agreeable in the sole discretion of GGFIII's Manager;
- (c) Internal Equity. GGFIII's Manager may issue additional Units to current Members, or may issue Units from a new Class of Units; and
- (d) External Equity. GGFIII's Manager may issue additional Units to new members, or may issue a Unit from a new class of units;

***Allocations of Profit and Loss.*** GGFIII shall allocate profits and losses of GGFIII to the Members as if GGFIII completely liquidated at the time of such allocation.

***Transfer Restrictions.*** GGFIII's Units are not registered with the Securities & Exchange Commission or with the securities regulators of any state and thus cannot be transferred without an effective registration or a valid exemption from registration. A Member may sell, exchange, encumber, transfer or otherwise assign, whether during his or her lifetime or through the laws of intestacy or inheritance, in whole or in part, his or her Units. GGFIII reserves the right to purchase Units from Members, at agreed upon terms, at any time. In addition, GGFIII and the other Members have a right of first option prior to any sale to a third party. The purchase price for such Units will be determined by an independent third-party appraiser. Persons who acquire Units by transfer or by other means may or may not be admitted as Members and, if not, shall hold their Units as Participation Interest holders.

***Preparation for Sale of Property; Prospective Sale of Property.*** GGFIII's Manager reserves the right, in its sole discretion, to determine the terms of any prospective sale, or other disposition of the Properties or any GGFIII assets.

***No Right to Participate in Management.*** Except as expressly provided in GGFIII's Operating Agreement, no Member shall have a right to participate in the management and operation of GGFIII's business and investment activities.

## **GWFII'S PLAN OF DISTRIBUTION**

### **Distributions**

The amount of any distribution of Net Distributable Cash (defined for the purposes herein with respect to any fiscal year as the excess of all revenues derived by GWFII with respect to such period over all expenses incurred by GWFII with respect to such period, less amounts reserved to cover its reasonable business needs and any fees paid to GWFII's Manager) shall be determined by GWFII's Manager in its sole discretion. In the event GWFII's Manager determines Net Distributable Cash will be distributed, it will be distributed to Members no later than 30 days after the close of the quarter.

All distributions are restricted in that GWFII will not distribute cash unless that cash is available after paying other Company obligations.

- (i) Net Distributable Cash shall be distributed quarterly on the following basis:
  - a. First, to Class A Members, a 9% Preferred Return,
  - b. Second, *pari passu* to Class B Members, a 7% Preferred Return, to Class C Members, an 8% Preferred Return, to Class D Members, a 9% Preferred Return, to Class E Members, a 10% Preferred Return, and to Class CF Members, a 7% Preferred Return, in each case in proportion to each Member's respective Preferred Return Balances until each such Member's Preferred Return Balance is reduced to zero;
  - c. Second, to the Class F Member, an amount equal to x% of the total amount distributed in subsection (a) and (b) above, including the amount distributed in this subsection (c), where "x" is 1, minus the weighted average of the percentage splits to the Class B, C, D, E and CF Members shown below in subsection (e), based on the amount of each type of Unit actually sold at the close of the Offering. See Exhibit B to GWFII Operating Agreement for examples of how "x" is calculated.
  - d. Third, to Class A, B, C, D, E and CF Members until each such Member has received distributions in an amount sufficient to achieve its Capital Return;
  - e. Fourth, and only up to an Internal Rate of Return ("IRR") equal to 13.0%, (i) 70% to the Class B Members and 30% to the Class F Members where the dollar amount to be distributed is based on the weighted pro rata percentage of Class B ownership in GWFII, respectively (e.g. if \$100,000 was the weighted pro rata amount, then \$70,000 to Class B and \$30,000 to Class F), (ii) 70% to the Class CF Members and 30% to the Class F Members where the dollar amount to be distributed is based on the weighted pro rata percentage of Class CF ownership in GWFII, respectively (e.g. if \$100,000 was the weighted pro rata amount, then \$70,000 to Class CF and \$30,000 to Class F); (iii) 75% to the Class C Members and 25% to the Class F Members where the dollar amount to be distributed is based on the weighted pro rata percentage of Class C ownership in GWFII (e.g. if \$100,000 was the weighted pro rata amount, then \$75,000 to Class C and \$25,000 to Class F), (iv) 80% to the Class D Members and 20% to the Class F

Members where the dollar amount to be distributed is based on the weighted pro rata percentage of Class D ownership in GWFII (e.g. if \$100,000 was the weighted pro rata amount, then \$80,000 to Class D and \$20,000 to Class F, and (v) 80% to the Class E Members and 20% to the Class F Members where the dollar amount to be distributed is based on the weighted pro rata percentage of Class E ownership in GWFII (e.g. if \$100,000 was the weighted pro rata amount, then \$80,000 to Class E and \$20,000 to Class F), in each case in proportion to each Member's respective percentage ownership interest.

- f. Thereafter, and for all dollars above a 13.0% IRR, 50% to Class B, C, D, E and CF members and 50% to Class F Members where the dollar amount to be distributed is based on the weighted pro rata percentage of ownership in GWFII in each case in proportion to each member's respective percentage ownership interest.

Returns will only accrue from the closing date of the purchase of the first Property until the closing date of the sale or refinancing of a Property that achieves a Capital Return for Members, subject to the limitations set forth in the below definition of "Preferred Return."

In the event any bonus depreciation is allocated to the Members, it shall only be allocated (at GWFII's Manager's discretion) to the Class B, C, D, E, F and CF Members.

### **Definitions for Distributions**

"Capital Contributions" means those sums and other property contributed by the Members pursuant to the Operating Agreement including, without limitation, Initial Capital Contributions, subsequent Capital Contributions, and Additional Capital Contributions (together, the "Total Capital Contribution"), if any; a Member's Total Capital Contribution is that portion of the Capital Contributions contributed by an individual Member.

"Capital Return" means the payment to the Class A, B, C, D, E and CF Members of aggregate distributions, whether out of Net Cash Proceeds, or distributions upon refinance or dissolution equal to their aggregate unreturned Net Capital Contributions.

"Cash Transaction" means any transaction which results in GWFII's receipt of cash or other consideration other than Capital Contributions, including, without limitation, proceeds of sales or exchanges or other dispositions of property not in the ordinary course of business, initial financing of the acquisition of the Property, condemnations, recoveries of damage awards, and insurance proceeds which, in accordance with generally accepted accounting principles, are considered capital in nature, but expressly excluding refinancing.

"Net Capital Contributions" shall mean the Total Capital Contribution made by a Class A, B, C, D, E or CF Member to GWFII, as reduced by the amount of distributions made by GWFII to such member from Net Cash Proceeds and Net Distributable Cash, but excluding distributions of the Preferred Return.

“Net Cash Proceeds” are the proceeds received by GWFII in connection with a Cash Transaction after the payment of costs and expenses incurred by GWFII in connection with such Cash Transaction, including brokers’ commissions, loan fees, loan payments, other closing costs, and the cost of any alteration, improvement, restoration, or repair of GWFII property including the Property necessitated by or incurred in connection with such Cash Transaction.

“Preferred Return” means, (i) as to each Class A Member, a sum equal to 9%; (ii) as to each Class B Member and each Class CF Member, a sum equal to 7%; (iii) as to each Class C Member, a sum equal to 8%; (iv) as to each Class D Member, a sum equal to 9%, and (v) as to each Class E Member, a sum equal to 10%, in each case per annum non-compounded times the amount of the Net Capital Contributions of such Member calculated quarterly. The quarterly calculation to begin on the first day of the month following the completion of the first quarter after the purchase of the first Property, to be paid to the extent that (i) GWFII has sufficient Net Distributable Cash to pay such Preferred Return, and (ii) GWFII’s Manager elects, in its sole discretion, to make such payment or defer such payment to a later date. The Preferred Return is retired as to each Member once he, she, or it achieves a Capital Return. Distributions of the Preferred Return do not reduce a Member’s Capital Account. Any funds received in a Capital Call that are not deployed in the purchase of a Property (“Non-Deployed Funds”) shall not accrue the Preferred Return, but rather, shall bear interest at a rate of 2% per annum non-compounding, accruing from the date of when funds are deployed (“Deployed Funds”) from such Capital Call until such time as GWFII deploys the Non-Deployed Funds into a subsequent Property.

“Preferred Return Balance” means amounts owed under the Preferred Return, including amounts accrued but not distributed.

### **Tax Distributions**

In addition to the above distributions, if funds are available, GWFII’s Manager may make a distribution to Members in amounts intended to cover their tax obligations for any taxable gains not previously distributed during a calendar year in cash as further described in the Operating Agreement.

GWFII shall endeavor provide Schedule K-1s to Members no later than March 31st following the taxable year, but it is likely Members will need to file an extension on their tax returns.

*No assurance can be given, and none is, that sufficient Net Distributable Cash of GWFII will be generated such that the Members will actually receive a distribution of any amount during the term of GWFII.*

## **I. GWFII MANAGER COMPENSATION AND CONFLICTS OF INTEREST**

Various conflicts of interest will arise out of the relationship between GWFII and GWFII's Manager and its respective affiliates. GWFII's Manager will have sole control over GWFII's organization and operations and will resolve conflicts of interest through the exercise of its judgment.

### **Receipt of Fees and Other Compensation by GWFII's Manager and its Respective Affiliates**

GWFII will pay substantial fees to GWFII's Manager and its respective affiliates in connection with its services. Further, GWFII must reimburse GWFII's Manager and its respective affiliates for costs incurred by them in managing GWFII and its portfolio of real estate-related debt and debt-like instruments and other investments. In addition to management and other fees, GWFII's Manager will also be entitled to distributions as holders of Class F Units.

Subject to GWFII operating agreement, GWFII's Manager has sole discretion with respect to the terms and timing of GWFII's investments, although it is anticipated that those investments will be consistent with GWFII's investment objectives and strategy. The agreements and arrangements, including those relating to compensation, between GWFII and GWFII's Manager are not the result of arm's-length negotiations and may create conflicts between the interests of GWFII's Manager, and its respective affiliates, on the one hand, and GWFII and its Members on the other hand.

GWFII's Manager intends to charge certain fees at GWFII level in addition to fees related to the acquisition of each Property. For instance, related to the acquisition of the Property shown on the table in Section VI, GWFII's Managers and Co-Sponsors shall be paid an Acquisition Fee equal to 2% of the total Acquisition Price and a Guarantor Fee equal to 1% of the total loan amount. At GWFII level, GWFII's Manager shall be paid a Disposition Fee upon sale of any Property equal to 1% of the proceeds returned to GWFII upon the sale of any Property, a Sponsor Fee equal to \$150,000 paid at acquisition of a Property, and a \$50,000 yearly Administrative Fee. GWFII's Manager intends to charge the same or similar fees on subsequent Properties, though GWFII's Manager has the discretion to vary any fee depending on what is required on any specific Property and may charge additional fees not described here in GWFII's Manager's sole discretion. In addition to these, GWFII's Manager shall be paid certain fees for the overall management of GWFII, apart from the acquisition and management of each Property.

### **GWFII's Manager its Affiliates May Compete with GWFII**

GWFII's Manager and its respective affiliates may engage in acquisitions of multifamily apartment communities on their own behalf or on behalf of other entities. In the future, GWFII's Manager and its respective affiliates may also sponsor other real estate and real estate-related investment programs with similar investment objectives and reinvestment policies. GWFII's Manager and its respective affiliates have, and in the future may have, legal and financial obligations with respect to its other programs that are similar to GWFII's Manager's obligations to GWFII. Competition for investments among the real estate-related investment programs sponsored by GWFII's Manager and its respective affiliates will create a conflict of interest.

### **Related Party Transactions**

Related party transactions are those where GWFII, or GWFII's Manager on GWFII's behalf, transacts with affiliated companies such as (i) acquiring any multifamily apartment

communities or any other asset from, or selling any multifamily apartment communities or any other asset to, a party affiliated with GWFII or (ii) entering into a joint venture arrangement with an affiliated party in connection with the acquisition or sale of a multifamily apartment communities.

### **GWFII Will Rely on GWFII's Manager to Manage GWFII's Operations**

GWFII will not have any independent employees, officers, or directors and will rely solely on the management teams of GWFII's Manager to manage GWFII and its operations. Under GWFII Operating Agreement, GWFII's Manager is required to devote to GWFII's affairs only that time as is necessary, in their judgment, for the proper performance of their duties under GWFII Operating Agreement. GWFII's Manager has engaged, and may continue to engage, in other business activities and may not devote its full time to the performance of duties related to GWFII's business. Therefore, conflicts may arise in the allocation of the time of GWFII's Manager between GWFII's activities and other activities in which they are involved.

### **Receipt of Compensation by Affiliates**

Certain of the payments to GWFII's Manager have not been determined through arm's-length negotiations, and are payable regardless of GWFII's profitability.

### **Loans Involving Affiliates**

Pursuant to GWFII Operating Agreement, GWFII is prohibited from making loans to its affiliates and affiliates of GWFII's Manager, except as set forth above in "Related Party Transactions." GWFII will not make any loans to GWFII's Manager or any of its respective affiliates.

Under GWFII Operating Agreement, GWFII's Manager may, but will have no obligation to, make loans to GWFII to acquire assets or to pay GWFII's operating expenses. Any such loans would not be the result of arm's-length negotiations and could create conflicts between the interests of GWFII's Manager and its affiliates on the one hand and GWFII and its Members on the other hand.

### **The Resolution of Conflicts Will Be Undertaken by Employees of GWFII's Manager and its Respective Affiliates**

In the event of a conflict between GWFII, on the one hand, and any of GWFII's Manager or its respective affiliates, on the other hand, the conflict will be resolved by GWFII's Manager. Although GWFII's Manager has certain duties and responsibilities to GWFII and to its Members, a conflict of interest relating to the resolution of conflicts between GWFII and GWFII's Manager or its respective affiliates does exist.

### **No Independent Counsel**

GWFII's counsel and GWFII's Manager's counsel in connection with this Offering is the same, and it is anticipated that such multiple representation will continue in the future. As a result, conflicts may arise in the future and if those conflicts cannot be resolved or the consent of the respective parties obtained to the continuation to the multiple representations after full disclosure of any such conflict, said counsel will withdraw from representing one or more of the conflicting interests with respect to the specific matter involved. Each subscriber acknowledges and agrees that counsel representing GWFII, GWFII's Manager, and their respective affiliates does not represent and shall not be deemed under the applicable codes of professional responsibility to have

represented or to be representing any or all of the Members in any respect. Additionally, each Member consents to GWFII hiring counsel that is also counsel for GWFII's Manager and its respective affiliates. Subscribers seeking legal advice should retain their own counsel and conduct any due diligence they deem appropriate to verify the accuracy of the representations or information set forth in this Memorandum.