

Form ADV Part 2A: Firm Brochure

Including, Brochure Supplement (Part 2B Form ADV)

Prime Group

February 13, 2012

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This brochure (“Brochure”) provides information about the qualifications and business practices of Prime Group Advisor, L.P. (the “Advisor”, and together with its affiliates, “Prime Group”) and certain of its affiliates. For more information on the disclosure requirements required for Part 2A see the “General Instructions for Part 2 of Form ADV” by visiting www.sec.gov/rules/final/2010/ia-3060.pdf. If you have any questions about the contents of this Brochure, please contact Josh Frieman, our Chief Compliance Officer (“CCO”) at 415-986-2415 or email josh.frieman@primegrp.com.

Additional information about the Advisor is also available on the SEC’s website at: www.adviserinfo.sec.gov.

The Advisor is registered as an investment adviser with the United States Securities and Exchange Commission (“SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.

Item 2: Material Changes

On February 13, 2012, the Advisor filed its initial application to register as an investment adviser with the SEC. Accordingly, pursuant to disclosure rules under the Advisers Act, this is the first Brochure compiled by the Advisor to provide new and prospective clients and investors with clearly written, meaningful, current disclosure of its business practices, conflicts of interest and background of its advisory personnel. We encourage all recipients of this Brochure to read it carefully in its entirety.

In the future, this item will identify and discuss the material changes since the last annual update to assist clients and investors and make them aware of certain information that has changed since the prior year's Brochure and that may be important to them.

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Item 4: Advisory BusinessFirm History and Owners

Prime Group Advisor, L.P., a Delaware limited partnership (the “Advisor”), was formed in 2011 and is doing business as Prime Group, Prime Residential and Prime Finance. In combination with its affiliated and predecessor firms, Prime Group has more than 20 years of experience in sourcing, underwriting and managing real estate equity and debt investments in the U.S. The owners of the Advisor are: John C. Atwater, Jon W. Brayshaw, Scott G. Douglass, Steve A. Gerstung and Daniel H. James (collectively, the “Senior Managers”). As of February 13, 2012, affiliates of Prime Group managed \$3,743 million on a discretionary basis.

Services Provided

The Advisor provides discretionary advisory services only to private pooled investment funds, including funds that are organized into a structure comprised of parallel funds (“Funds”). Prime Group’s investment business is primarily comprised of two distinct platforms, Prime Finance and Prime Residential. Prime Finance encompasses private pooled investment funds organized and managed by Prime Group primarily for the purpose of investing in real estate debt instruments or assets, including funds that are organized into a structure comprised of parallel funds (“Finance Funds”); the Finance Funds may also make investments in preferred equity related to real estate and other real estate related investments. Prime Residential encompasses private funds organized and managed by Prime Group primarily for the purpose of investing directly in real estate and real estate-related assets (“Residential Funds”). A small portion of Prime Group’s business (one private fund) encompasses a private fund organized and managed by Prime Group primarily to invest cash reserves held by the Residential Funds (“Liquidity Fund”); this fund invests primarily in other private pooled investment vehicles and government-issued securities.

Within each private fund structure, there is a designated general partner, managing member, or person/entity occupying a role similar to that of a general partner or managing member (“General Partner”). The General Partners that manage each Fund are considered affiliates of the Advisor for the purposes of this Brochure and are controlled by one or more of the Senior Managers.

Prime Group formulates each Fund’s investment objectives, and facilitates the acquisition, management, monitoring, and disposition of each Fund’s investments. Prime Group provides investment advice directly to the Funds and not individually to the Funds’ limited partners, members, or shareholders (“Investors”); feeder Funds may be created for investors with specific mandates. Except for the initial determination as to an Investor’s qualifications for investment in each Fund, Prime Group does not consider the individual Investor needs when managing the Funds. Prime Group manages the assets of the Funds in accordance with the terms of each Fund’s confidential offering and/or private placement memoranda and/or individual limited partnership, limited liability company or shareholder agreements, or any other governing documents applicable to each Fund (“Governing Fund Documents”).

Each of the Funds is organized as a limited partnership, limited liability company, or corporation. Certain Funds are organized into a structure comprised of parallel Funds, which generally invest assets side-by-side on a pro rata basis (based on capital commitments) with another Fund. Generally, parallel Funds are established to accommodate specific tax issues impacting certain types of investors.

The Funds are organized as closed-end investment vehicles. All terms are generally established at the time of the formation of a Fund, and the Funds are only terminable once the applicable Fund is dissolved, wound up, and terminated. The Investors may not restrict investments by the Funds in any capacity, and may only make withdrawals as permitted under limited circumstances by the Governing Fund Documents.

Joint Investments with Other Parties

Other than with respect to the Liquidity Fund, the Funds do not invest in other private pooled investment vehicles, and Prime Group does not provide any other services to other pooled investment vehicles not affiliated with the Funds. Occasionally, certain of the Funds have, or may in the future, make investments with joint venturers or other co-investors, and such joint venturers or other co-investors may be paid asset management or similar fees before the Fund is entitled to receive any fees or carried interest of its own.

Other

Limited partnership interests, limited liability company interests or shares in the Funds are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and the Funds are not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Accordingly, interests or shares in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements for private placement transactions within the United States.

The fair values of the investments held by the Residential Funds are estimated by the General Partners, as they deem necessary. The fair values of virtually all of the investments held by the Finance Funds are estimated by the General Partners quarterly. The values of the investments held by the Liquidity Fund are obtained from the custodian of the Liquidity Fund and the managers of the underlying pooled investment vehicles in which the Liquidity Fund invests.

Item 5: Fees and CompensationGeneral

The Advisor provides investment advisory services to each of the Funds pursuant to separate investment advisory agreements (the “Agreements”). The Agreements for each Fund, along with any specific organizational documents of such Fund, set forth the Prime Group entity which receives management or similar fees in connection with the investment advisory services provided by the Advisor to such Fund.

Depending on the Fund, various Prime Group entities receive management fees (sometimes called asset management fees, administrative fees or general partner fees in the case of the Residential Funds) and may also receive performance fees or carried interest in the returns of the Funds. For the Residential Funds, Prime Group affiliates will sometimes also receive property management fees, construction management fees, and financing fees. For the Finance Funds, Prime Group does not receive any compensation other than management fees and carried interest. Investors should review all fees charged by Prime Group and others to fully understand the total amount of fees to be paid by a Fund and, indirectly, by their Investors. The fees paid by the Funds are not negotiable.

Management Fee

Residential Funds. The Residential Funds pay Prime Group an annual asset management, administrative or general partner fee (the “Management Fee”) that generally ranges from 1.50% to 1.75% of gross property income. For a small number of Residential Funds, the Fund instead pays a fixed annual fee to Prime Group of \$5,000 to \$62,500. Consequently, the valuation of assets held by the Residential Funds do not impact the Management Fee paid by them. The Management Fee is calculated, deducted from the Fund, and paid to Prime Group on a monthly basis, except that the fixed dollar fees are paid annually in arrears.

Finance Funds. The Finance Funds pay Prime Group an annual Management Fee that generally ranges from 1.35% to 2% of committed capital during the investment period and of 1.35% to 1.9% of net equity invested after the expiration of the investment period. The Management Fee is calculated, deducted from the Fund, and paid quarterly in arrears or in advance. It is either paid directly to the Advisor from capital contributions received from the Investors or allocated to the Advisor from cash received from Fund investments.

Liquidity Fund. The Liquidity Fund pays Prime Group an annual management fee of \$10,000, which is paid annually in arrears and is deducted from the Fund. The Liquidity Fund also pays advisory fees to third party advisors. These fees are in addition to the management fees paid by the Residential Funds, which invest in the Liquidity Fund.

Prime Group, to the extent permissible by the Governing Fund Documents, reserves the right to waive or reduce management fees for certain Investors, including employees, a limited number of strategic partners, advisors and consultants and others as may be determined in Prime Group’s sole discretion.

Incentive Compensation

Finance Funds. With respect to the Finance Funds, each General Partner of the Finance Funds receives an incentive fee that is deducted from the Fund and calculated as a portion of such Fund's profits. The method for calculating the incentive fee is disclosed in the Governing Fund Documents and may vary by Fund; each Fund has a waterfall describing how distributions will be paid to Investors and the General Partner. Generally, Investors receive a return of their invested capital plus a preferred return prior to the distribution of any incentive fee paid to Prime Group. The preferred return may vary for each Fund, but it is generally 8% per annum. The incentive fee is limited to 20% of the cash available for distribution in excess of the limited partners' capital contributions and is subject to a clawback as discussed in the Governing Fund Documents.

Residential Funds. With respect to nearly all of the Residential Funds, each General Partner of the Residential Funds receives an incentive fee that is deducted from the Fund and equal to 20% of the Fund's distributions after all capital contributions have been returned to investors.

Liquidity Fund. No incentive fee is paid in connection with the Liquidity Fund, but most of the investors in the Liquidity Fund are Residential Funds that do charge incentive fees as described above.

Prime Group's incentive compensation in each Fund's profits could create an incentive for Prime Group to make more speculative investments on behalf of the Fund than it would otherwise make in the absence of any incentive compensation. As is the case with Management Fees, Prime Group, to the extent permissible under the Governing Fund Documents, reserves the right to waive or reduce the incentive fee for certain investors, including employees, a limited number of strategic partners, advisors and consultants and others as may be determined in Prime Group's sole discretion.

Residential Funds Only: Property Management, Construction, and Financing Fees

Finance Funds do not pay any fees to Prime Group other than the Management Fees and incentive fees described above.

Many Residential Funds pay Prime Group certain fees for certain property-level services performed on behalf of the Funds, in addition to the Management Fees and incentive fees described above. Specifically, Prime Administration, LLC, an affiliate of the Advisor ("Prime Administration"), charges fees to Residential Funds for providing property management, construction management, and financing services to certain Residential Funds.

Most Residential Funds hold one or more real property investment(s) managed by Prime Administration or its affiliate. Such Residential Funds pay Prime Administration or its affiliate a management fee that is a percentage of gross revenues from the property according to the following schedule: 3.0% of gross revenues up to \$3.1 million, plus 2.5% of gross revenues between \$3.1 million and \$5.0 million, plus 2.00% of gross revenues above \$5.0 million. In the case of Park LaBrea, a very large real estate asset owned by a Residential Fund and managed by

an affiliate of Prime Administration, the management fee is a flat 1.5% of gross revenues. In the case of Residential Fund Prime Property Fund II, L.P., which indirectly owns a portion of the real estate asset called The Gateway, a property management fee of 2.5% of gross rents is paid by The Gateway to Golden Management, L.P. (the "Gateway Manager"), an entity in which Mr. Atwater indirectly holds a 33.33% interest. The property management fee is calculated and paid on a monthly basis. In some cases, Residential Funds own real estate assets that are managed by third parties and not by Prime Group.

In addition to managing real estate assets held by certain Residential Funds, Prime Administration or its affiliate provides construction management services to such properties and receives fees for such services equaling 5.0% of the capital expenditures made at the property plus 0.75% of property gross revenues. The construction management fee is calculated and paid on a monthly basis. Prime Group may also contract with third parties for certain construction services.

Prime Administration or its affiliate sometimes sources and executes financings of the properties held by Residential Funds instead of using a third party loan broker. In such cases, Prime Administration or its affiliate charges a financing fee of 0.40% of the loan proceeds. Such financing fee is calculated and paid at the closing of the loan. Prime Group may contract with third parties for financing services for the Residential Funds, and in such cases Prime Administration or its affiliate, as applicable, is not paid a financing fee.

Where Residential Funds pay fees for services performed by Prime Group, such fees are usually equal to or less than the fees that Prime Group believes the Residential Funds would otherwise pay to third parties for similar services.

Other Expenses Charged to the Funds

The Funds are responsible for paying all organizational expenses and all other Fund expenses. These fees and expenses vary by Fund, but typically will include, among other things: (i) taxes, fees and other governmental charges, (ii) expenses for attorneys, accountants, advisors, consultants, custodians, and administrators, (iii) costs of borrowings and other financings, and insurance, (iv) other expenses associated with the acquisition, holding and disposition of investments, and (v) the costs and expenses of any litigation involving the Funds and the amount of any judgments or settlements paid in connection with such litigation.

The Funds will be responsible for incurring the cost of travel expenses related to a Fund's business. Such expenses include Prime Group's and its affiliated persons' coach or economy class airfare for domestic travel and, for international destinations or other longer duration flights, business or first class airfare. Certain senior executives will sometimes travel domestically in business or first class, and travel expenses for Prime Group and its affiliated persons will occasionally include expenses for private air transportation (in which case, the Funds will be responsible for an amount not to exceed the expense of first class airfare for an equivalent trip).

Occasionally, where it is determined that certain Residential Funds may have a compelling interest, such Funds will be responsible for incurring the cost of lobbying efforts related to current or prospective real estate regulations that may affect such Funds.

To the extent that any of these costs are incurred by Prime Group, the Funds will be responsible for paying the expenses directly to Prime Group or reimbursing Prime Group. It is not anticipated that expenses paid by the Funds to Prime Group will exceed the amounts that would otherwise be payable by a Fund if such services were provided by third parties on an arm's length basis. If expenses are associated with multiple Funds, Prime Group will allocate the expenses in good faith and in a manner that is fair to all the Funds incurring such expenses.

Residential Fund Operating Services/Products provided by Affiliated Parties

While most Residential Fund expenses are paid directly by the Residential Fund, in some cases another member of Prime Group incurs costs in providing services and products to the Residential Funds, which are generally related to managing the Residential Funds' underlying real property investments. In such cases, the Residential Funds are responsible for paying those costs. The expenses typically fall into one of the following categories: labor, human resources, technology, utility bills, asset maintenance, capital expenditures, administrative, and marketing. Specific expenses include those associated with: administering property revenue management software, training property service and maintenance personnel, managing the property management/revenue software, training maintenance staff, maintaining properties, software (including revenue management software, accounting software, server management software, and licenses to use computer operating systems and certain applications), acquiring leads to rent properties, credit checks to rent properties, audit expenses for employee 401K program, background checks and drug tests for potential employees and employees, advertising and marketing to rent properties, payroll processing, shipping and postage, and office supplies. The Residential Funds pay these expenses directly to Prime Group when the costs are incurred by it or, alternatively, Prime Group will incur the costs and the Residential Funds will later reimburse the affiliate. It is not anticipated that expenses paid to Prime Group by the Residential Funds will exceed the amount that would otherwise be payable by a Residential Fund if such services were provided by third parties on an arm's length basis. If the expenses are associated with multiple Residential Funds, Prime Group will allocate the expenses in good faith and in a manner that is fair to all the Residential Funds incurring such expenses.

General Partners' Advances to the Funds

Finance Funds. The General Partners of the Finance Funds are generally permitted to make short-term advances to fund such Funds' obligations prior to receiving capital contributions from their respective Investors. In such cases, the General Partner receives interest with respect to such advances equal to its cost of funds and can be repaid from Investors' capital contributions or other funds of the Fund. Such General Partner may not, however, provide such short-term advances if the Fund has access to short-term borrowings from a credit facility or other available financing source which offers a lower cost of funds than the General Partner or its affiliate is able to provide. Additionally, one of the Finance Funds requires the Advisory Board (as defined below) to approve any loan from affiliates of the Fund's General Partner to the Fund or its subsidiary.

Residential Funds. Generally, each General Partner of a Residential Fund has the option, but not the obligation, to make an advance to such Fund to the extent the initial capital contributions of its Investors are insufficient to carry on the business of the Fund. Such advances bear an interest rate

equal to the lesser of a publicly announced rate plus 2% and the maximum rate permitted under applicable law, and the outstanding principal and interest of such advances are considered expenses of the Fund.

Investments with Other Parties

As mentioned in the Advisory Business section, although this is not the primary strategy of any Residential Fund, Prime Group may invest assets of a Residential Fund in other pooled investment vehicles, such as through the Liquidity Fund. Through these types of investments, Investors will generally bear multiple layers of management fees which include a fee paid to the sponsor of the vehicle, a management fee to Prime Group, and (if applicable) other fees paid to third party advisors.

Occasionally, certain of the Funds have, or may in the future, make investments with joint venturers or other co-investors, and such joint venturers or other co-investors may be paid asset management or similar fees before the Fund is entitled to receive any fees or carried interest of its own.

Brokerage and other transaction costs

Prime group may engage real estate or mortgage loan brokers as well as securities brokers from time to time. Fees associates with any brokers will be paid by the Funds.

See section on Brokerage Practices.

Investors are encouraged, to the extent practicable, to inquire about and review all fees charged by Prime Group and others to fully understand the total amount of fees to be paid by the Funds and, indirectly, their Investors.

Item 6: Performance Based Fees and Side-by-Side Management

As described above in the Fees and Compensation section, Prime Group receives performance-based compensation (incentive fees or carried interests). See Fees and Compensation Section for a description of the performance-based compensation. Also, certain of Prime Group's supervised persons receive compensation that is directly tied to the aggregate performance of a particular Fund. The fact that a significant portion of Prime Group's and certain supervised persons' compensation is directly computed on the basis of profits creates an incentive for Prime Group to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of such compensation. Prime Group manages this potential conflict of interest by ensuring that no single person makes material investment decisions for Funds that pay performance-based compensation; instead, investment decisions are made by an investment committee, which consists of at least two of the Senior Managers for each Fund. In addition, the General Partner and one or more of the Senior Managers and other principals of the Funds generally maintain interests in the Funds (except in the case of a parallel investment vehicle) on the same basis as outside Investors; this also serves to alleviate the incentive to engage in riskier or more speculative investments.

Additionally, in order to mitigate and opine upon potential conflicts of interest, each of the Finance Funds has established an independent advisory committee (each, an "Advisory Board") consisting of limited partners unaffiliated with Prime Group who have been selected by the General Partner as representatives of such Fund's limited partners. The purpose of the Advisory Board is to: (i) consult with the General Partner with respect to any matter as to which the General Partner determines in good faith creates a conflicts of interest; (ii) give consents required of the "client" under the Advisers Act; and (iii) provide advice and counsel on other issues requested by the General Partner or required pursuant to the Governing Fund Documents in connection with other potential conflicts of interest, valuation matters, additional fees received by the General Partner and other matters relating to the Fund. No fees are paid to the members of an Advisory Board, but the members may be reimbursed for reasonable out-of-pocket expenses incurred in connection with attending meetings of an Advisory Board.

Prime Group only receives compensation based upon capital appreciation where the Fund and the Investors are "qualified clients" as defined in Rule 205-3 under the Advisers Act. In addition, none of Prime Group's incentive compensation is based on unrealized investments or the mark-to-market value of the holdings of the Funds, which reduces the risk of manipulating investment performance results to increase performance-based compensation.

As described above in the Fees and Compensation section, the Funds pay performance based fees and the Liquidity Fund does not pay a performance based fee. Prime Group does not believe that the side-by-side management of the Liquidity Fund and the other Funds creates an incentive to favor the other Funds because the investment objectives of the Liquidity Fund are distinct from those of any other Fund.

Item 7: Types of Clients

Prime Group provides discretionary management and advisory services to the Funds directly, subject to the direction and control of the affiliated General Partner of each Fund, and not individually to the Investors. Investors in the Funds may include, but are not limited to, high net worth individuals, pension plans (corporate, state and foreign), endowments, foundations, other pooled investment vehicles (e.g., funds-of-funds), trusts, estates or charitable organizations, and corporate or business entities. None of the Funds are registered under the Investment Company Act, in reliance on an appropriate exemption.

The minimum commitment for an Investor is outlined in the Governing Fund Documents or determined by Prime Group at the time of formation of a Fund; however Prime Group maintains discretion to accept less than the minimum investment threshold. Investors are required to meet certain suitability qualifications, such as being an “accredited investor” within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act. Also, Investors are required to make certain representations when investing in a Fund, including, but not limited to that (i) they are acquiring an interest for their own account, (ii) they received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment and that (iii) they have the ability to bear the economic risk of an investment in the Fund. Details concerning applicable Investor suitability criteria may be set forth in the respective Governing Fund Documents and subscription materials, which are furnished to each Investor, or may otherwise be provided to Prime Group at the time of investment.

From time to time, Prime Group will enter into side letter or other similar arrangements with certain Investors that have the effect of establishing rights and benefits more favorable than those described in the Governing Fund Documents. Rights and benefits that are more favorable in any material respect may be afforded to an Investor based upon its commitment level, and the same favorable rights and benefits may be extended to other Investors in accordance with each respective Fund’s Governing Fund Documents. These rights and benefits include, without limitation, “most favored nation” status, advisory board designations, capacity and co-investment opportunities, reporting requirements, tax considerations, Management Fee discounts, and other terms and conditions. These rights and benefits may also (i) excuse an Investor from participating in particular types of investments (which may increase the percentage interest of other Investors in, and capital contribution obligations of other Investors with respect to, such investments); (ii) require additional reporting obligations of the General Partner; (iii) waive certain confidentiality or disclosure obligations of the Investor; (iv) forego the general requirement that the General Partner consent to transfers by the Investor of its limited partnership interests; (v) prohibit the General Partner from using an Investor’s name; or they may grant other rights or terms necessary in light of a particular legal, regulatory or public policy characteristic of an Investor or make certain representations and warranties from the General Partner with respect to a Fund.

Item 8: Methods of Analysis, Investment Strategies and Risk of LossInvestment Analysis

The Advisor identifies potential investment opportunities for the Funds through a variety of sources and bases a portion of its investment analyses on information obtained from working with industry professionals such as consultants, joint venture partners, property management and leasing professionals, lenders, brokers, and other professionals within the real estate sector.

For the Residential Funds and the Finance Funds, the screening process for potential investments involves several steps, which vary depending on the type of asset being proposed for acquisition. Due diligence and research is conducted and includes, depending on the investment, comparable analyses, onsite visits, and cash flow projections. A written deal memorandum is created following the due diligence and research phases and presented to each Fund's investment committee for final approval. A Fund's investment committee must unanimously approve each investment.

For the Liquidity Fund, a third party advisor has been engaged to manage the portion of the Fund that invests in government-issued securities. Also, a third party advisor has been engaged to provide investment recommendations on the portion of the Fund that invests in private pooled investment vehicles. The third party advisors conduct research and due diligence on the investments of the Fund, subject to the oversight of Mr. Atwater, who is the sole member of the investment committee for the Fund.

Investment Strategies

Each Fund's investment objective is set forth in detail in its respective Governing Fund Documents or is otherwise provided to Investors by Prime Group at the time of investment. Generally, the objective of the Residential Funds is to acquire and operate income-generating real estate and real estate-related assets. The objective of the Finance Funds is to originate or acquire real estate debt instruments and real-estate related debt instruments; they may also acquire preferred equity interests in real estate related assets. The objective of the Liquidity Fund is to invest in government-issued securities and other private pooled investment vehicles. The Funds have the goal of achieving attractive risk-adjusted returns. For certain transactions, the Funds may seek co-investment with third parties.

Associated Risks

Investors should refer to the risks described in the Governing Fund Documents for each Fund or a description of the risks otherwise provided to them by Prime Group.

All investing involves a risk of loss and the investment strategy offered by Prime Group could lose money over short or even long periods. An investment in any Fund sponsored by Prime Group may be deemed a speculative investment and is not intended as a complete investment program. Investments in the Funds and most investments made by the Funds are illiquid. An

investment in a Fund is intended for sophisticated investors who fully understand and are capable of bearing the risk of an investment in the Funds. A potential Investor should not invest unless he or she is able to withstand a total loss of such investment in the Fund. No guarantee or representation is made that a Fund will achieve its investment objective or that Investors will receive a return of their capital. Even if the investments of a particular Fund are successful, they may not produce a realized return to Fund investors for a period of years.

Below is a list of some of the risks to which Investors in the Funds may be exposed. Investors should review in detail any Governing Fund Documents prior to making an investment in the Funds.

Credit Crises and Global Economic Slowdown. The Funds' business may be affected by market and economic conditions experienced by the U.S. economy and real estate industry as a whole or by the local economic conditions in the markets in which the Funds invest, e.g., dislocations in the credit markets and general global economic recession. These conditions may have a negative effect on the following, among other things: fundamentals of the Funds' business, including their ability to acquire and/or originate debt investments in keeping with their investment objectives; the financial condition of the Funds' borrowers, lenders, partners, servicers and investors, which may expose the Funds to increased risks of default by these parties and may increase the Funds' future expenses in managing, working out and/or foreclosing on investments; the Funds' ability to obtain or maintain debt financing on attractive terms or at all, which may adversely impact the Funds' ability to pursue and work out investments, originate loans and refinance existing debt and may increase the Funds' future interest expenses; and the value of the Funds' debt investments, which may limit the Funds' ability to dispose of investments at attractive prices, and the value of the Funds' underlying collateral, which may adversely affect the Fund's recovery through foreclosure or in bankruptcy.

Investment in Distressed Debt. The Funds' may acquire interests in non-performing or sub-performing debt secured by real estate or by interests in entities that own real estate. The Funds may also acquire interests in unsecured debt issued by real estate companies or real estate investment trusts ("REITs"), or that pertain to the owners of the underlying real estate. In all such cases there can be no assurance that the borrower on any such debt will be able to perform its contractual obligations. In fact, in certain cases the debt will be distressed as a function of the fact that it is unlikely that the borrower will be able to perform its contractual obligations. In addition to the risks of borrower default, the value of the underlying collateral on secured obligations may decline as a result of market conditions or mismanagement prior to the Funds' being able to obtain control of the underlying real estate. Even if the collateral maintains its value, the borrower may be unable to refinance all or portions of the debt, particularly subordinate portions, due to constrictions in the credit markets and/or changing underwriting criteria for lenders. In addition, borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to actions to enforce mortgage obligations. If any of the above occurred, the Funds' respective abilities to make distributions to Investors could be delayed or otherwise adversely affected. Although it is anticipated that a substantial portion of the Funds' debt investments, if any, will not be rated by any nationally-recognized rating agency, if rated assets are downgraded, it may adversely affect their value and may adversely affect the value of the Funds.

Investment in Subordinate Debt. The Funds may acquire interests in debt assets that do not have the first priority against any applicable collateral. In such circumstances, such interests in the applicable collateral may be adversely impacted or extinguished in any foreclosure proceedings of any senior collateral interest or in the course of the senior lender exercising other rights available to it. Such subordinate debt may also be significantly disadvantaged in any bankruptcy proceedings. Such subordinate debt may be subject to a participation agreement with the originating lender or an intercreditor agreement between the holders of any senior debt and the holder of the subordinate debt. Such participation agreements and intercreditor agreements routinely limit the remedies available to the holder of the subordinate debt or the participation interest and may severely limit the Funds' ability to realize on any applicable collateral. In some

circumstances the only available remedy the holder of the subordinate debt may have is to pay off the senior interests and the Funds may not have sufficient funds to effectuate such pay offs.

General Real Estate Considerations. Most of the assets acquired by the Funds will be direct interests in real estate or secured by interests in real estate or companies whose primary asset is real estate. Realization on these assets may often depend on the success of the underlying real property investments. Real property investments are subject to varying degrees of risk. Real estate values are affected by a number of factors, including changes in the general economic climate, local conditions, the quality and philosophy of management, competition based on rental rates, attractiveness and location of the properties, physical condition of the properties, financial condition of buyers and sellers of properties, quality of maintenance, insurance and management services, and changes in operating costs. If investments do not generate sufficient revenues to meet their operating expenses, including debt service, the cash flow of the Funds and their ability to pay distributions to the Investors will be adversely affected. In addition, in certain circumstances, a Fund may be required to draw down additional capital from Investors to pay fund expenses or to make follow-on investments in real estate or interests in real estate then held by the Fund. Real estate values are also affected by such factors as government regulations (including those governing usage, improvements, zoning and taxes), interest rate levels, the availability of financing, participation by other investors in the financial markets and potential liability under changing laws.

Income Producing Real Estate Property. The Funds invest in real estate properties expected to generate income which may be subject to various risks, including fluctuations in occupancy, rental rates, operating income and expenses, and such risks may render the eventual sale or financing of Fund properties difficult or unattractive. For example, following the termination or expiration of a tenant's lease there may be a period of time before a Fund will begin receiving rental payments with respect to such tenant's property under a replacement lease. During that period, such Fund will continue to bear fixed expenses such as interest, real estate taxes, maintenance and other operating expenses. In addition, declining economic conditions may impair such Fund's ability to attract replacement tenants and achieve rental rates equal to or greater than the rents paid under previous leases. Increased competition for tenants may require such Fund to make capital improvements to properties which would not have otherwise been planned. Any unbudgeted capital improvements that such Fund undertakes may divert cash that would otherwise be available for distribution to Investors. Ultimately, to the extent that such Fund is unable to renew leases or re-let space as leases expire, decreased cash flow from tenants will result, which could adversely impact such Funds operating results.

Leverage. Subject to the restrictions set forth in the relevant Governing Fund Documents, some Funds may leverage their investments with nonrecourse debt financing, in which case a third-party lender would be entitled to the cash flow generated by such investment prior to such Fund receiving a return of or on its investment. A Fund may also obtain recourse debt financing to allow it to close transactions quickly and/or obtain more favorable terms. Although the use of leverage may enhance returns and increase the number of investments that can be made, it involves a heightened degree of risk, is inherently more sensitive to adverse economic factors (such as a significant rise in interest rates, a downturn in the economy, deterioration in the condition of such investments, declines in revenues and increases in expenses) and can exaggerate the financial effect of any increase or decrease in the value of such investments.

Availability of Insurance Against Certain Catastrophic Losses/No Earthquake Insurance.

Certain Funds plan to obtain liability, fire, flood (if required), extended coverage and rental loss insurance for their real estate investments, if any, if such coverages are available at commercially reasonable rates and with such insured limits and policy specifications as Prime Group believes are customary. Certain losses of a catastrophic nature, such as those caused by wars, mold, earthquakes, windstorms, terrorist attacks, or other similar events, may be either uninsurable or, insurable at such high rates as to adversely impact the profitability of the Funds. Specifically, Prime Residential generally does not purchase earthquake insurance coverage because of the high cost and deductibles. Most investments of the Finance Funds will be debt instruments, in which case the Finance Funds shall take commercially reasonable efforts to require borrowers to properly insure the underlying assets. In general, losses related to terrorism are becoming harder and more expensive to insure against. Some insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total cost of casualty insurance for a property. As a result, it is possible that not all of the investments of the Funds will be insured against damages attributable to acts of terrorism. If a major uninsured loss were to occur with respect to a portfolio investment, the Funds could lose both invested capital and anticipated profits related to such portfolio investment.

Competitive Nature of the Business of the Fund. The business of Prime Group and the Funds is highly competitive. The Funds may be competing for suitable investments with other prospective purchasers that have greater resources, or that have better relationships with sellers of assets, lenders and brokers. These competitors may have different investment objectives than the Funds, enabling them to accept more risk or pay higher prices than Prime Group deems reasonable or appropriate for the Funds. These competitors may also enjoy government backing and/or financing through the U.S. government's or another state, local or non-U.S. government's stimulus program, which may provide such competitors with a lower cost of capital or greater access to certain investments than what is available to the Funds.

Troubled Origination. Certain of the Fund's investments or financings for investments may have been originated by financial institutions that are insolvent, undercapitalized, in serious financial difficulty or no longer in existence. As a result, the standards by which such investments were originated, the recourse to the selling institution or the standards by which such investments are being serviced or operated may be adversely affected.

Servicer/Trustee. Certain of the Funds' investments may comprise securities collateralized by real estate, subordinate loans, pools of loans or receivables for which certain management functions – such as, for example, payment collection and deposit, record-keeping and/or reporting with respect to payment collections and deposits – are performed by asset servicers or trustees. In the event that a servicer or trustee for one of the Funds' assets experiences operational or financial difficulties, such Fund's investment could experience asset deterioration or payment delay, reduction or suspension, thereby compromising the asset's value.

Structured Finance Securities. “Structured Finance Securities” are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from or sale proceeds of a specified pool of assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely

distribution of proceeds to holders of such securities. Structured Finance Securities in which the Funds may invest include CMBS and real estate CDO Securities. Holders of Structured Finance Securities bear various risks: credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Structured Finance Securities are subject to the significant credit risks inherent in the underlying collateral and to the risk that the servicer or trustee fails to perform.

CMBS. The Structured Finance Securities in which the Funds may invest are expected to consist primarily of CMBS or CDO Securities. “CMBS” are, generally, securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein (“Commercial Mortgage Loans”) having multi-family or commercial uses. In addition to the risks described above, the Commercial Mortgage Loans underlying CMBS are subject to particular risks, including lack of standardized terms, shorter maturities than residential mortgage loans and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. Additional risks may be presented by the type and use of a particular commercial property. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property is subject to various risks, including changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; weather and other acts of God; terrorist threats and attacks and social unrest and civil disturbances. Commercial Mortgage Loans underlying CMBS may provide for no amortization of principal or may provide for amortization based on a schedule substantially longer than the maturity of the mortgage loan, resulting in a “balloon” payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default. As a result, the related CMBS could experience delays in cash flow and losses. There may be occasions when the General Partner will seek to dispose of selected holdings of a Fund. Non-rated or below investment grade CMBS generally are not actively traded and may not provide such Fund with liquidity of investment. Therefore, it may be difficult or impossible to sell such Fund’s securities at a price that the General Partner deems acceptable.

CDO Securities. A portion of the Structured Finance Securities in which the Funds may invest may consist of both investment grade and subordinate real estate-related CDO Securities. “CDO Securities” are, generally, limited recourse obligations of the issuer thereof payable solely from the collateral owned by such issuer or the proceeds thereof. The holders of CDO Securities must rely solely on distributions on the underlying collateral or proceeds thereof for payments in respect thereof. If distributions on the underlying collateral are insufficient to make payments on the CDO Securities, no other assets will be available for the payment of such deficiency and, following realization of the collateral debt securities, the obligations of such issuer to pay such deficiency shall be extinguished. The underlying collateral of the CDO Securities is expected to consist of real estate-related assets such as CMBS, REIT debt securities and interests in real estate and is subject to credit, liquidity and interest rate risks. Such assets may consist of loans, structured finance securities and other debt instruments, which may be rated either as investment grade or below investment grade (or of equivalent credit quality). The lower rating of below

investment grade loans reflects a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal or interest. There is no established, liquid, secondary market for real estate CDO Securities which the Funds may purchase and the lack of such an established, liquid, secondary market may have an adverse effect on the market value of such real estate CDO Securities and the Funds' respective abilities to dispose of them.

Litigation at the Property Level. The acquisition, ownership and disposition of real properties carry litigation risks. Litigation may be commenced with respect to a property acquired by a Fund or its subsidiaries in relation to activities that took place prior to such Fund's acquisition of such property. In addition, at the time of disposition of an individual property, a potential buyer may claim that it should have been afforded the opportunity to purchase the asset or alternatively that such potential buyer should be awarded due diligence expenses incurred or statutory damages for misrepresentation relating to disclosure made, if such buyer is passed over in favor of another as part of such Fund's efforts to maximize sale proceeds. Similarly, successful buyers may later sue such Fund under various damage theories, including those sounding in tort, for losses associated with latent defects or other problems not uncovered in due diligence.

Potential Environmental Liability. Under various U.S. federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such enactments often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. For example, the current owner of a parcel of land may be liable for environmental problems at, or emanating from, the parcel of land that were caused by a past owner or current operator of the site. The cost of any required remediation and the owner's liability therefore as to any property is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral. In addition, remediated property may attract a limited number of potential purchasers because of the property's history of contamination, which might also adversely affect the owner's ability to lease and/or sell the property. Further, a transfer of property does not relieve from liability a person who owned the property at a time when hazardous or toxic substances were disposed of on, or released from, such property. In addition, noncompliance with environmental regulations may allow a governmental authority to order the owner/operator to cease operations at the property or to incur substantial costs and expenses to bring the property into compliance through the implementation of burdensome remediation or prophylactic measures. To reduce the possibility of liability under environmental laws, the Funds, where feasible, will hire environmental consultants to evaluate properties prior to acquisition in any foreclosure proceeding or undertake such examination or testing as Prime Group deems prudent prior to making an investment. Review of environmental issues will be conducted in accordance with customary industry standards applicable to such matters. Finally, there can be no assurance that environmental laws relating to real estate transactions will not be amended in the future in ways that could adversely affect investments made by the Funds.

Government Regulation. The real estate industry is extensively regulated and subject to frequent regulatory change, which could adversely affect the Funds' investments after a decision to invest

is made. The adoption of new legislation or changes in existing laws or new interpretations of existing laws can have a significant impact on methods of doing business, costs of doing business and amounts of reimbursement from governmental and other agencies. The real estate industry is and will continue to be subject to varying degrees of regulation and licensing by federal, state and local regulatory authorities in various states and localities.

Licenses. Failure to obtain required approvals and/or state licenses necessary to operate the Funds' real estate investments or mortgage-related activities may adversely impact its investment strategy. Prime Group may be required to obtain various approvals and/or licenses from federal or state governmental authorities, government sponsored entities or similar bodies in connection with some or all of its real estate investments, property management or mortgage-related activities. There is no assurance that Prime Group can obtain any or all of these approvals and licenses or that it will avoid experiencing significant delays in seeking such approvals and licenses. Furthermore, Prime Group will be subject to various disclosure and other requirements to obtain and maintain these approvals and licenses, and there is no assurance that those requirements will be satisfied. Failure to obtain or maintain licenses will restrict the Funds' investment options and respective abilities to engage in desired activities, and could subject it to fines, suspensions, terminations and various other adverse actions if it is determined that Prime Group has engaged without the requisite approvals or licenses in activities that required an approval or license.

Lack of Diversification. Investments made by the Funds may not be sufficiently diversified by type, geographic region or number of assets. If a Fund makes an investment in a transaction with the intent of refinancing or selling a portion of the investment, there is a risk that the Funds will be unable to successfully complete such a financing or sale. This could lead to increased risk as a result of the Funds having an unintended long-term investment and reduced diversification. A portfolio of investments that contains large investments in relatively few properties or in even a single property may be subject to greater change in value (losses or gains, as the case may be) than a portfolio composed of smaller investments in a greater number of properties.

Difficulty of Locating Suitable Investments. No assurance can be made that a sufficient number of attractive opportunities to meet the investment objectives of the Funds will be identified. There are numerous investment funds with strategies similar to the Funds. Accordingly, the Funds will be competing for investments with such other real estate investment vehicles, as well as individuals, financial institutions (such as mortgage banks, pension funds and real estate operating companies) and other institutional investors. Further, over the past several years, many real estate funds and publicly traded vehicles have been formed and others have consolidated (resulting in larger funds and vehicles). No assurance can be made that a sufficient number of attractive opportunities to meet the investment objectives of the Funds will be identified. Further, to the extent suitable investments are identified and available, there can be no assurance that if such investments are made, the objectives of the Funds will be achieved.

Limited Operating History. Certain Finance Funds consists of newly-formed entities with no direct operating history upon which to evaluate the likely performance of such Funds. While the Senior Managers have substantial experience in operating a real estate investment company, investing primarily in multi-family housing projects, and originating and securitizing large, complex real estate secured loans, their experience in organizing and managing the Finance Funds

dates back only to 2008. The performance of past investments, investment funds and programs of Prime Group, is not necessarily indicative of the results that will be achieved by any Fund. In considering any prior performance information provided to Investors or prospective Investors, Investors and prospective Investors should bear in mind that past performance is not necessarily indicative of future results. There can be no assurance given that any Fund will achieve results comparable to other Funds and there can be no assurance given that investments made by any Fund will be profitable or achieve targeted returns or that capital loss will not occur.

Lack of Liquidity of Investments. The investments to be made by the Funds could be illiquid over time. Illiquidity may result from the absence of an established market for the investments, market disruptions, cash flow disruptions, lack of available capital for potential purchasers or legal, contractual or other restrictions on their resale. Dispositions of investments may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms that could be obtained upon any disposition thereof, and therefore, the possibility of a partial or total loss of capital exists.

Risks Upon Disposition of Investments. In connection with the disposition of an investment, the Funds may be required to make representations about the investment typical of those made in connection with the sale of any property. Although the Funds will attempt to structure transactions so that they do not have to do so, the Funds may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be incorrect, inaccurate or misleading. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the Investors to the extent of their unfunded capital commitments, or, in some cases, the Funds may have to reserve for such contingencies.

Third-Party Involvement. The Funds may co-invest with third parties through joint ventures or other entities. Such investments may involve risks not present in investments where a third party is not involved, including the possibility that a co-venturer or partner of a Fund may at any time have economic or business interests or goals that are inconsistent with those of such Fund, which may necessitate the unwinding of the vehicle or triggering the buy-sell provisions of the governing document of such vehicle. In addition, such Fund may be liable for actions of its co-venturers or partners. To reduce the possibility of liability, the Funds will seek to hold their properties through limited liability entities and, where appropriate, obtain indemnities from joint venture partners.

Lack of Limited Partner Control Over the Policies of the Funds. The acquisition, management, financing and disposition policies of the Funds and their policies with respect to certain other activities, including their distributions and operating policies, are determined by the General Partner. In order to safeguard their limited liability from the liabilities and obligations of the Funds, the Investors must rely entirely on the General Partner to conduct and manage the affairs of the Funds. Any change to the policies of a Fund could be detrimental to the value of the assets of such Fund.

Absence of Recourse to the General Partner. The Governing Fund Documents limit the circumstances under which the General Partner can be held liable to the Funds. As a result, the Investors may have a more limited right of action in certain cases than they would in the absence of such provisions.

No Market for Interests in the Funds. Interests in the Funds have not been registered under the Securities Act, or any other applicable securities laws. There is no public market for the Interests and none is expected to develop. In addition, such interests are not transferable except with the consent of each Fund's respective General Partner, which generally may be withheld by it in its sole discretion, and are subject to the terms and conditions of the Governing Fund Documents. Investors generally may not withdraw capital from the Funds. Consequently, Investors may not be able to liquidate their investments prior to the end of the term of each Fund. Each Investor or permitted transferee acquiring an interest in a Fund may be required to represent that it is purchasing such interest for its own account for investment purposes and not with a view to resale or distribution, and shall agree not to sell all or any part of its interest without registration under applicable federal and state securities laws, unless there are available exemptions thereunder. Subject to any transfer requirements in any Governing Fund Documents, an Investor may be able to transfer its interest in a Fund. However, the liquidity of the interests is limited. Accordingly, prospective Investors should be aware that they may be required to bear the financial risk of their investment in a Fund for an extended period of time.

Capital Not Yet Drawn. The Funds may not have drawn down or received any or all of the capital commitments on the date their operations commence. Although the General Partner believes that all Investors will have the financial ability to meet their capital commitments, there can be no assurance that all capital commitments will be honored. To the extent that some Investors do not honor their capital commitments or are excluded from or elect to opt out of a particular investment, the General Partner may make drawdowns from the remaining Investors to a larger extent or earlier than it otherwise would. In addition, to the extent an Investor fails to fund a drawdown on its capital commitment, a Fund may, in certain circumstances, be forced to increase its leverage or breach its contractual obligations and may be subject to liability stemming from potential breach of contract and tort claims.

Consequences of Default/Fund Assets Exposed to Fund Liabilities. In the event that an Investor fails to fund any portion of its capital commitment when due, such Investor may forfeit all or a portion of its interest in a Fund and be subject to other default provisions of the Governing Fund Documents. The assets of the Funds, including any investment made by the Funds and any capital held by the Funds, are available to satisfy all liabilities and other obligations of the Fund. If a Fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the assets of the Fund generally and will not be limited to any particular asset, such as the investment giving rise to the liability. To help mitigate such potential liability, the Funds may acquire assets through limited liability entities, and, if the limited liability of these entities is respected, the potential liability of the Funds should be minimized.

Liability of Investors. Generally, Investors in the Funds will not be personally liable for the debts of the Funds except as provided in the Governing Fund Documents and except that, in the event that a Fund is otherwise unable to meet its obligations, each Investor may be obligated to repay amounts previously received by such Investor to the extent that such amounts are deemed to have been wrongfully distributed to such Investor.

Absence of Regulatory Oversight. None of the Funds are expected to be required to, nor does any intend to, register as an investment company under the Investment Company Act. Accordingly, investors are not expected to be accorded the protections of the Investment Company Act.

However, the Advisor is registered as an investment adviser under the Advisers Act. The costs and expenses of registering the Funds, if so required, and the costs and expenses of complying with the Advisers Act will be borne by such Funds.

Follow-on Investments. The Funds may be called upon to provide follow-up funding for investments or have the opportunity to increase their investment in such investments. Such follow-up funding may include funds required to cure or satisfy a senior loan where a Fund holds an interest in a junior loan. There can be no assurance that such Fund will wish to make follow-on investments or that it will have sufficient funds or authority to do so. Any decision by a Fund not to make follow-on investments or its inability to make them may have a substantial negative impact on such investment or may diminish the ability of the Fund to influence the investment's future development and operation.

Distributions in Kind. Although, under normal circumstances, Funds will only make distributions in cash, it is possible that, upon liquidation of a Fund, or under certain other circumstances, distributions to Investors may be made in kind and could consist of assets for which there is no readily available public market.

Dilution from Additional Closings. Investors that are admitted or increase their capital commitment to a Fund at subsequent closings of such Fund will generally participate in existing investments of such Fund, diluting the interest of the other existing Investors in such Fund.

Recycling; Reinvestment. Under certain circumstances, proceeds distributable (or previously distributed) to Investors that constitute a return of capital contributions may be retained by the Funds and reinvested (or recalled for reinvestment) by the General Partner or used (or recalled for use) by the General Partner for any purpose permitted under the Governing Fund Documents. Accordingly, Investors may be required to fund an aggregate amount in excess of their capital commitment during the term of the Funds (but at no time will an investor have aggregate capital at risk in excess of its Capital Commitment), and to the extent such recalled or retained amounts are reinvested in investments, Investors will remain subject to investment and other risks associated with such investments.

Costs and Expenses. Although Prime Group will endeavor to pay all costs and expenses attributable to the Funds out of sums distributable to the Investors (or from reserves established to pay anticipated costs and expenses), there can be no assurance that such distributions or reserves will be sufficient to pay all such costs and expenses. To the extent that such distributions or reserves are not sufficient to pay all costs and expenses, Prime Group may need to call upon the Investors' unfunded capital commitments, and/or sell or increase the leverage upon all or some of the Funds' investments, to pay such costs and expenses.

Capital Expenditures. Real property requires ongoing renovations and other capital improvements, including periodic replacement or refurbishment of fixed structures, furniture, fixtures and equipment. If capital expenditures exceed expectations, there can be no assurance that sufficient sources of financing or cash will be available to fund such expenditures. Renovation of office, apartment and other types of buildings in which the Funds invest involves numerous risks, including the possibility of environmental problems, construction cost overruns and delays, the impact on current demand, uncertainties as to market demand or deterioration in

market demand after renovation commences and the emergence of unanticipated competition from other similar properties.

Phantom Income. There can be no assurance that the Funds will have sufficient cash flow from other sources to permit them to make annual distributions in the amount necessary for the Investors to pay all tax liabilities resulting from such Investors' ownership of interests.

Location. The particular locations of properties held or underwritten by the Funds expose Prime Group's business to various economic conditions, competition and state and local tax rates. Natural disasters, such as earthquakes, storms, mudslides, floods and fires, could directly affect any property. The economy and local industry in any particular property location, in comparison to other parts of the country, could be negatively affected to a greater extent by changes and downturns in certain industries, including the real estate, construction, office or retail leasing and housing industries. Adverse developments specific to these industries or the local economy could reduce the Funds' revenue or increase their operating expenses associated with the underlying properties.

Potential Conflicts of Interests; Diverse Membership. The Investors are expected to include taxable and tax-exempt entities and may include persons or entities organized in various jurisdictions. As a result, conflicts of interest may arise in connection with decisions made by Prime Group that may be more beneficial for one type of Investor than for another type of Investor. In addition, a Fund may make investments that may have a negative impact on related investments made by the Investors in separate transactions. Prime Group has a fiduciary duty to manage the Funds in the best interests of the Investors and will in good faith attempt to resolve potential conflicts of interest in a manner that it believes is in, or not opposed to, the best interests of the Investors. No assurance can be given that such efforts will be successful. The Funds will indemnify Prime Group, the Senior Managers and their respective affiliates to the full extent permitted under applicable law.

Tax Considerations. An investment in a Fund may involve complex U.S. federal income tax considerations that will differ for each Investor. Under certain circumstances, Investors could be required to recognize taxable income in a taxable year for U.S. federal income tax purposes, even if such Fund either has no net profits in such year or has an amount of net profits in such year that is less than such amount of taxable income. Funds may not make any distributions to their Investors, and an Investor's tax liability attributable to an investment in a Fund may in a given tax year exceed the cash distributed. Funds may invest in entities which would cause them to have to report taxable income for U.S. Federal income tax purposes prior to the time such Fund receives distributions from such Investments.

Lending. Each Fund may engage in lending directly to borrowers. In addition to the risks that apply to debt investments generally, direct lending may entail a heightened risk of default by the borrower. Loans may be subordinate to already-outstanding loans by the same borrower, and may be unsecured or insufficiently secured. Privately negotiated loans may be illiquid and subject to a heightened risk of litigation.

Loan Originations. Recent market conditions may make it more difficult for the Funds to make portfolio investments through loan originations. The success of the Funds which engage in loan

origination will depend, in part, on their ability to effectively analyze potential loan origination opportunities in order to assess the level of risk-adjusted returns to be expected from any such investment. To estimate the value of a particular asset securing such originated loan, such Funds may use historical assumptions that may or may not be appropriate during the current unprecedented and prolonged downturn in the real estate market and general economy. To the extent that historical assumptions are used that are inappropriate under current market conditions, such Funds may permit excessive borrowing and thus overpay for an asset or acquire an asset that it otherwise might not acquire.

Appraisals. Deficiencies in appraisal quality in the property acquisition or mortgage loan origination process may result in reduced profits or losses for the Funds. The quality of these appraisals may vary widely in accuracy and consistency. The appraiser may feel pressure to provide an appraisal in the amount necessary to enable the purchaser to obtain financing or the originator to make the loan, as the case may be, whether or not the value of the property justifies such an appraised value. Inaccurate or inflated appraisals may result in less-than-anticipated proceeds from property dispositions or increases in the severity of losses on the mortgage loans.

Interest Rate Risk. The Funds may seek variable rate financing on their properties when deemed appropriate. Any increase in interest rates would increase the Funds' interest costs on variable rate debt and could impact their ability to refinance debt when it matures. In addition, higher interest rates during the course of the investment period could adversely affect investment returns for Investors.

Repurchase Agreements. The Funds may enter into repurchase agreements and the Funds may unconditionally and irrevocably guarantee all obligations resulting from such agreements.

Hedging. In connection with the financing of certain assets, a Fund may employ hedging techniques designed to protect against adverse movements in currency and/or interest rates. While such transactions may reduce certain risks, such transactions themselves may entail certain other risks. Thus, while a Fund may benefit from the use of hedging mechanisms, unanticipated changes in interest rates, securities prices or currency exchange rates may result in poorer overall performance for such Fund than if it had not entered into such hedging transactions.

Management and Resources of the General Partner. No officer or employee of Prime Group will be required to devote full time to the business of the Funds and conflicts of interest may exist in the allocation of resources between the Funds and other related or unrelated activities of the officers and employees of Prime Group.

Item 9: Disciplinary Information

Neither Prime Group nor any of its officers, directors, employees or other management persons has been involved in any legal or disciplinary events that would require disclosure.

Item 10: Other Financial Industry Activities and AffiliationsPooled Investment Vehicles

Prime Group organizes and sponsors the Funds, which are private investment companies. These pooled investment vehicles managed by Prime Group are controlled by the General Partners. The General Partners will be responsible for all ultimate decisions regarding transactions of the Funds and have full discretion over the management of the Funds' investment activities. The General Partners are not separately registered as investment advisers with the SEC; the Advisor will provide all investment advisory services to the Funds subject to the Advisers Act and the rules thereunder. In addition, employees and persons acting on behalf of the General Partners are subject to the supervision and control of the Advisor. Thus, the General Partners and all of the persons acting on their behalf would be "persons associated with" the registered investment adviser so that the SEC could enforce the requirements of the Advisers Act on the General Partners.

Prime Family Office Advisor, LLC

Prime Group is affiliated with Prime Family Office Advisor, LLC (the "Family Advisor"), which is a family office exempt from registration under the Advisers Act. Family Advisor provides discretionary advisory services to private investment funds, including funds that invest in real estate-related assets. Mr. Atwater is the principal owner of the Family Advisor. Mr. Atwater or his designee acts as the managing member of Family Advisor and is responsible for the management and operation of the Family Advisor. Both Mr. Atwater and Mr. James have interests in the private funds' general partners or interests in the funds as limited partners. Their family members also have interests in the private funds' general partners or interests in the funds as limited partners. The Family Advisor has no clients other than family clients, is wholly owned by family clients and is exclusively controlled (directly or indirectly) by one or more family members and/or family entities, and does not hold itself out to the public as an investment adviser.

It is unlikely that investments suitable for the funds advised by the Family Advisor would also be suitable for the Funds since they have distinct investment objectives. However, a potential conflict could arise because Mr. Atwater may have the potential to personally benefit or cause the funds advised by the Family Advisor to benefit from investments which would have otherwise been appropriate for the Funds. This potential conflict is addressed through the mechanisms for dealing with potential conflicts of interest set forth in the Fund Governing Documents.

Also, a potential conflict of interest could arise because certain advisory employees provide services to both the Advisor and the Family Advisor. These services generally include "back office" services such as investor relations, administrative support, and accounting functions. Thus, certain advisory employees' time will be partially spent providing services to Family Advisor and not entirely on providing services to Prime Group. This potential conflict is addressed through ensuring that these functions have adequate staffing to provide service to both the Advisor and the Family Advisor.

Prime Administration, LLC

Prime Group is affiliated with Prime Administration, LLC (“Prime Administration”), which is an entity that primarily provides property management services to investments held by the Funds. Messrs. Atwater and James are the principal owners of Prime Administration. An entity owned by Mr. Atwater is the manager of Prime Administration and, together with Mr. James, is responsible for the management and operation of Prime Administration. An employee of Prime Administration who oversees Arizona operations and is a licensed Arizona real estate broker is a designated manager of Prime Administration for purposes of oversight of Arizona operations. John Adair and Josh Frieman, principals of Prime Group, are also members of Prime Administration. Thus, a conflict of interest arises because, as discussed above in Fees and Compensation section, Prime Administration provides property management, construction, financing, and operating services/products to the Residential Funds and their underlying real property investments. Messrs. Atwater, James, Adair and Frieman have the potential to personally benefit or cause Prime Administration to benefit from services directed to Prime Administration that would otherwise be directed to third parties. To address this conflict, Prime Group benchmarks property management, construction, and financing fees against fees charged by third parties for comparable services. With respect to operating services/products, a senior executive of Prime Administration reviews all operating expenses for the Residential Funds monthly, in light of its industry knowledge, to ensure fees are in line with industry standards; in light of its industry experience, Prime Group believes that it provides these operating services a cost lower than that of third parties.

Golden Management, L.P.

As described above in the Fees and Compensation section, the Residential Fund Prime Property Fund II, L.P. pays a property management fee of 2.5% of gross rents to the Gateway Manager, an entity in which Mr. Atwater has a 33.33% interest. A conflict of interest arises because Mr. Atwater has the potential to personally benefit from property management services directed to the Gateway Manager that would otherwise be directed to a third party. To address this conflict, Prime Group benchmarks property management fees against fees charged by third parties for comparable services.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Pursuant to Rule 204A-1 of the Advisers Act, the Advisor has adopted a written Code of Ethics (the “Code”) predicated on the principal that Prime Group owes a fiduciary duty to the Funds and its Investors. The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, members, partners or employees of the Advisor involved in the management of the Funds (the “Advisory Employees”). The Advisor requires its Advisory Employees to act in the Funds’ best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper.

The Advisor generally prohibits Advisory Employees from timing their personal trades to precede orders placed for the Funds, if any, and does not permit trading activity that is so excessive as to conflict with the Advisory Employee’s ability to fulfill daily job responsibilities. The Code also requires pre-clearance before purchasing an IPO or limited offerings (e.g., private placements); requires periodic reporting of Advisory Employees’ personal securities transactions and securities holdings; and requires prompt internal reporting of Code violations. The Advisor endeavors to maintain current and accurate records of all personal securities accounts of its Advisory Employees in an effort to monitor all such activity. A copy of the Code is available upon request.

Certain transactions in which Prime Group engages may require, for either business or legal reasons, that no Advisory Employees trade in the subject securities for specified time periods. Such securities will appear on a list (the “Restricted List”) that will be circulated to all Advisory Employees. No Advisory Employee may engage in any sort of trading activity with respect to a security or a derivative thereof on the Restricted List without obtaining prior written approval from the CCO.

The Advisor, and its Advisory Employees, may execute transactions for their own accounts, subject to restrictions and reporting requirements as may be required by law and any relevant Governing Fund Documents or as otherwise determined from time to time by the Advisor. Execution of such transactions may be a conflict of interest. To mitigate this conflict, the Advisor monitors certain transactions (as described above).

Advisory Employees or related persons of the Advisor may participate in co-investment entities that invest in real estate, real estate debt instruments, and real estate-related assets, which are also invested in by the Funds. Generally, Prime Group will only provide opportunities to co-invest with a Fund when Prime Group has determined that the size or risk of a proposed investment makes it desirable to obtain additional equity for such proposed investment; and, unless otherwise approved by an advisory board, each co-investment Fund will acquire and dispose of its interest in the applicable investment at the same time and on the same terms as the Fund. With respect to the Finance Funds, any co-investment opportunities require the consent of the Advisory Board and the General Partner. With respect to the Residential Funds and the Liquidity Fund, any co-investment opportunities, if any, will require the consent of their respective investment committees.

Prime Group and its related persons (except in the case of parallel investment vehicles) have made personal investments in the Funds alongside the Investors or will otherwise have interests in each Fund (e.g., the General Partner for each Fund is generally 100% owned by Prime Group or its related persons). As previously described in the Fees and Compensation section, Prime Group receives incentive compensation from the Funds, which creates a conflict of interest, and has addressed this conflict. See Fees and Compensation section.

Advisory Employees of the Advisor may make personal investments in real estate related securities or private placements, subject to the restrictions of the Code, as described above.

As described above in the Advisory Business and Fees and Compensation sections, cash reserves held by the Residential Funds are invested in the Liquidity Fund. This may create a potential conflict of interest because Investors in the Residential Funds pay direct management fees to Prime Group for their investments in the Residential Funds as well as indirect management fees to Prime Group for the Residential Funds' investments in the Liquidity Fund. To address this potential conflict, Prime Group does not receive any asset-based management fees or incentive fees from the Liquidity Fund; it receives a flat management fee, which is paid annually in arrears.

In the normal course of business, the Advisor and its Advisory Employees may provide gifts and gratuities to various individuals or entities such as clients, vendors, consultants, and service providers. These gifts, gratuities and contributions are not premised upon any specific client referrals or any expectation of any other type of benefit to Prime Group. The Advisor has adopted detailed procedures requiring reporting and recordkeeping of gifts and gratuities. The Advisor and its Advisory Employees may also make political contributions to persons who may serve or seek to serve in elected capacities with certain public entities. These political contributions are permitted only in compliance with the SEC's rule prohibiting "pay-to-play" activities adopted under Rule 206(4)-5 of the Advisers Act.

Item 12: Brokerage Practices

Prime Group invests the Funds' assets almost exclusively in real estate debt instruments, real estate, real estate-related assets, and, in the case of the Liquidity Fund, private funds and government issued securities. From time to time, Prime Group may also transact in interest rate caps or other interest rate derivatives in connection with current or future loans on real estate investments.

Prime Group recognizes that the analysis of execution and implementation quality involves a number of factors, both qualitative and quantitative. Although Prime Group does not ordinarily engage financial intermediaries in connection with securities transactions for the Funds, other than for the Liquidity Fund, if it does so, Prime Group will take into account a range of applicable factors (depending on the securities transaction) when hiring broker-dealers or other intermediaries for the purpose of completing said transactions. Factors include general expertise and background, the type and size of the transaction involved, the stability or solvency of the service provider or counterparty, settlement capabilities, time required to complete the transaction, and/or any arrangements relating to overall performance in the best interest of the Funds.

Prime Group will seek to obtain best execution. Advisory Employees involved in securities transactions on behalf of the Funds will consider at the time of such transactions local market compensation for and the scope of services provided by financial intermediaries if such intermediaries are used. The CCO will review, at least annually, the brokered securities transactions, if any, effected on behalf of the Funds in order to attempt to assess whether the fees paid by the Funds are reasonable in light of the services received.

Prime Group does not participate in any soft dollar arrangements, and it does not receive research or other products or services other than execution from a broker-dealer or a third party in connection with the Funds' securities transaction.

Prime Group does not aggregate purchase or sale of securities for the Funds, as each Fund has distinct investment objectives and holds distinct investments.

Prime Group has established policies and procedures regarding the handling of trade errors in the Funds (e.g., the purchase or sale of a security in the wrong amount, or contrary to a Fund's investment objectives). Pursuant to these policies and procedures, Prime Group tries to identify errors as soon as practicable after discovery to help ensure that the Funds do not incur a loss. If a trade error occurs as a result of Prime Group's gross negligence, willful misconduct, or fraud, such error will be corrected as soon as practicable and in such a manner that the Fund incurs no loss. Trade errors resulting from other than a breach of care by Prime Group will be borne by the Fund. To the extent that any trade error results in a gain to the Fund, the Fund will retain any such gain.

Item 13: Review of Accounts

The General Partner for each Fund has ultimate responsibility for all investment decisions, and will continuously review each Fund on an ad hoc basis. The respective investment committees at the Advisor make recommendations to the Residential Funds' and Finance Funds' General Partners, respectively.

In addition, the CCO will review the Finance Funds' and the Liquidity Fund's investment activities at least quarterly to ensure compliance with investment objectives and any investment restrictions set forth in the offering documents. Since the Residential Funds typically do not engage in follow-on investing activity, the CCO's review of those portfolios will generally be limited to the initial investment. For Finance Funds, the investment committee consists of the five Senior Managers. For the Residential Funds, the investment committee consists of Messrs. Atwater and James. For the Liquidity Fund, Mr. Atwater, acting with the advice of outside advisors, is the sole member of such investment committee.

In addition, for investments held by the Residential Funds, internal operating reports are prepared monthly and executive reports quarterly. For investments held by the Finance Funds, the Advisor prepares asset management reports monthly. For the Finance Funds, a risk management report is also prepared quarterly by the Advisor and provides relevant risk metrics and portfolio weightings. Messrs. Atwater, James and Adair, a principal of Prime Group, review Prime Residential operating reports monthly and executive reports quarterly. The five Senior Managers review the monthly asset management reports and quarterly risk management reports for Prime Finance.

For the Liquidity Fund, a third party advisor prepares performance reports quarterly. Mr. Atwater reviews the performance reports quarterly and receives advice from the advisor with respect thereto as needed.

Investors will receive annual audited financial statements for the Fund in which they are invested. Also, Investors will receive information necessary for the preparation of tax returns, as necessary.

Item 14: Client Referrals and Other Compensation

Neither Prime Group nor its related persons engage third party placement agents (e.g., solicitors) to introduce prospective Investors to the Funds. However, should Prime Group determine to utilize a third party placement agent for Investor referrals in the future, it will seek to comply with Rule 206(4)-3 under the Advisers Act (the “cash solicitation rule”).

Item 15: Custody

The Advisor has access to client accounts (i.e., the Funds) because it or an affiliate serves as the General Partner of the Funds. Investors will not receive statements from any custodians. Instead, the Funds are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to each Investor. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of each Fund's fiscal year end (180 days for funds of funds).

Item 16: Investment Discretion

Prime Group has investment discretion over the Funds' assets, in accordance with each Fund's Governing Fund Documents. As noted above, the Funds' General Partners are affiliates of the Advisor. Each Fund's Governing Fund Documents generally set forth certain limitations with respect to the management of the Fund and the activities of the Advisor, among others. Investors may enter into side letters with Prime Group, as described in the Types of Clients section. These agreements may have the effect of limiting certain of Prime Group's activities.

Item 17: Voting Client Securities

Prime Group invests Client assets generally in senior, subordinate or mezzanine loans, portfolios of loans, tranches of loan portfolios, real estate or preferred equity interests in real estate. Proxy voting is generally not applicable for these types of investments. However, the General Partners of the Funds may periodically exercise voting authority with respect to securities held by the Funds or with respect to investments held by the Funds. In those instances, the General Partner or other designated person will vote in the best interest of the Funds and in accordance with their fiduciary duty to the Funds.

If there is an actual or potential material conflict of interest in connection with a prospective vote, such conflict will be resolved in accordance with the governing documents of the Funds. Prime Group will not neglect its voting responsibilities, but Prime Group may abstain from voting in any instance if it deems that such abstention is in a Fund's best interests.

The General Partner for a Fund will determine on a case-by-case basis whether a Fund will participate in class actions.

Investors cannot direct Prime Group's votes. However, they can obtain information on how Prime Group voted by contacting the CCO. They can also obtain a copy of Prime Group's proxy voting and class action policies and procedures by contacting the CCO.

Item 18: Financial Information

Prime Group is not required to provide an audited balance sheet because it does not solicit fees more than six months in advance and does not have a financial condition that is likely to impair its ability to meet contractual commitments to the Funds or Investors. Prime Group has not been subject to any bankruptcy proceeding during the past 10 years.