

The Milestone Real Estate Group, L.P.

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This brochure provides information about the qualifications and business practices of The Milestone Real Estate Group, L.P. (“TMREG”). If you have any questions about the contents of this brochure, please contact us at (214) 561-1200. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about The Milestone Real Estate Group, L.P. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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TMREG is a newly registered investment adviser with the United States Securities and Exchange Commission (the “SEC”). As such, this is the initial version of TMREG’s Form ADV Part 2A, (the “Brochure”). There is no prior version of the Brochure and no material changes to be noted.

TMREG will amend its Brochure at least annually. Upon making material changes to the Brochure, TMREG will identify and discuss those changes as compared to the previous version of the Brochure. TMREG will provide the date of the last annual update of its Brochure. A summary of the material changes will appear on this page or as a separate document accompanying the Brochure.

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## **Item 4: Advisory Business**

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### Description of Advisory Business

Established in 2004, TMREG is a real estate investment management firm. Affiliates of TMREG act as the general partner of limited partnerships that are pooled investment vehicles (“the Funds”). The purpose of the Funds is to invest in, manage and operate multifamily real estate properties and assets in the United States. TMREG and its affiliates provide discretionary investment advisory services to the Funds and certain co-investment vehicles.

### Principal Owners

TMREG is wholly owned by The Milestone Group, LLC (“Milestone”), a Texas limited liability company. Milestone is a real estate investment and management firm managing in excess of 35,000 multifamily units. Milestone is owned by its Managing Partners Jeffrey L. Goldberg and Robert P. Landin.

### Types of Advisory Services

TMREG provides investment management services exclusively to the Funds whereby the Funds invest in multifamily real estate assets. TMREG has broad discretion in making investments for the Funds. TMREG offers no other advisory services.

All investors should refer to the relevant Fund offering documents in conjunction with this brochure for complete information on investment objectives, fees, strategies, and restrictions. There is no assurance that the Funds will meet their performance objectives.

TMREG does not tailor its advisory services to the individual needs of Fund investors, and such investors cannot impose restrictions on TMREG’s ability to invest in certain types of investments.

The Funds offer interests only to certain qualified investors and admission to the Funds is only via a “private offering” (i.e. is not open to the general public.) Fund interests are sold only to qualified investors who are “accredited investors” under Rule 501 of Regulation D of the Securities Act of 1933, as amended, and “qualified purchasers” as such term is defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended.

The Funds are exempt from registration as an investment company under the Investment Company Act of 1940, as amended, pursuant to Section 3(c)(7).

### Assets Under Management

As of December 31, 2011, TMREG managed \$1,245,280,000 of assets on a discretionary basis.

## **Item 5: Fees and Compensation**

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While the fees and method for calculating the fees vary by Fund, TMREG Funds may pay the following types of fees for advisory services:

- 1 Asset Management Fees - The Funds will pay TMREG or an affiliate an annual asset management fee. Fees vary by Fund and are paid on either the first business day of each quarter or the last.
- 2 Acquisition Fees - An affiliate of TMREG will provide services in connection with the Fund's real estate acquisitions. In addition to any third party brokerage fees payable by the Funds, the Funds will pay TMREG or an affiliate an acquisition fee equal to a percentage of the gross purchase price of each real estate investment.
- 3 Disposition Fees - An affiliate of TMREG will provide services in connection with the Fund's sale of real estate assets. In addition to paying any third party disposition fees, the Funds will pay TMREG or an affiliate a disposition fee equal to a percentage of the gross sales price of each real estate investment.

The Funds may engage third parties to provide reasonable and customary services provided by brokers or other agents, the costs of which will be borne by the Funds. The Funds may engage affiliates of TMREG to provide such services, provided that the fees for such services shall be at competitive market rates. Services provided by affiliates may include, but are not limited to, property management, construction management and accounting services. To the extent that there are affiliate transactions or fees payable to affiliates of TMREG, the Funds will disclose such transactions and fees to the limited partners in the Fund's annual audited financial statements.

An affiliate of TMREG may also earn a performance-based fee (for more information on performance-based fees, see Item 6).

### Expenses

The Funds will pay organizational and offering expenses, including legal fees, marketing fees and expenses and other out-of-pocket expenses of the general partners, incurred in the formation of the Funds. The Funds will pay expenses incurred in connection with the acquisition, management and disposition of real estate investments, including, but not limited to, legal, accounting and consulting fees, travel, quarterly and annual meetings of the limited partners and other operating and extraordinary expenses of the Funds. The Funds will also bear third-party expenses incurred in connection with transactions not consummated.

The Funds may pay fees to placement agents for placing investors in the Funds. The placement fee will be in an amount equal to a percentage of each relevant limited partner's pro rata share of the capital commitments. The Funds will pay the placement fees from amounts that are available to be distributed to the relevant limited partners.

**For more detailed information and a complete description regarding each Fund's fees and expenses refer to the applicable Fund's offering memoranda.**

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

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As mentioned in Item 5 above, TMREG or an affiliate may receive performance-based compensation from the Funds. It should be noted that the possibility of TMREG or an affiliate receiving performance-based compensation creates a potential conflict of interest in that it may create an incentive to make investments that are riskier or more speculative than in the absence of such performance-based compensation.

TMREG recognizes that it is a fiduciary and as such must act in the best interests of the Funds and its investors. Further, TMREG recognizes that it must treat all Funds and their respective investors fairly and must refrain from favoring one client's interests over another's.

Potential investors are encouraged to carefully review the Fund's offering memoranda for a detailed discussion of how the performance-based compensation is calculated and the risks associated with such performance-based compensation prior to making an investment.

**Item 7: Types of Clients**

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TMREG provides investment advice to pooled investment vehicles operating as private investment funds. Each investor in the Funds must meet the eligibility requirements discussed in Item 4 above.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

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### Investment Strategies

Generally, the investment objectives of the Funds are to (i) acquire, redevelop and/or reposition multifamily real estate assets in primary and secondary markets in the United States; (ii) maximize operating cash flow; (iii) preserve, protect and return investor's capital; and (iv) generate capital appreciation. TMREG seeks to create a diversified, multi-asset portfolio of multifamily investments. TMREG believes a multi-asset portfolio will provide the Funds diversification with respect to geographic locations, economic drivers and market dynamics while limiting the impact to the Funds from any single property.

TMREG or its affiliates may, for strategic, diversification or other appropriate reasons, make available co-investment opportunities to one or more limited partners in their individual capacities or other strategic investors. Milestone intends to be the operating partner for any co-investment opportunity, and the Funds will have a suitable equity stake and protective rights as determined by TMREG or its affiliates.

In its targeted markets, TMREG seeks assets where it can create value and enhance investor returns. TMREG will target assets that include:

- Properties held by motivated sellers facing balance sheet and liquidity challenges;
- Underperforming loans and real estate owned by lenders and servicers;
- Properties that could benefit from capital upgrade programs;
- Failed condominiums projects that can be repositioned as rental properties; and
- Properties with undermanaged operations or failed business plan executions where the opportunity exists to improve performance.

TMREG intends to use Milestone's nationwide relationships and experience in identifying and acquiring multifamily assets where Milestone's vertically integrated operating platform can create value and maximize asset performance. TMREG believes that Milestone's asset and property management experience permits it to improve the performance of multifamily properties once acquired.

While exact terms vary by Fund, TMREG seeks to structure its investment strategies to align investor and sponsor interests, mitigate downside, and create diversification. Investors should refer to offering documents for a more complete description of a Fund's strategy, terms, considerations, and restrictions.

### Methods of Analysis

TMREG utilizes a research-driven investment process which it believe enables it to identify and select attractive multifamily investments. This investment process utilizes Milestone's vertically integrated platform at every stage. The process includes the following:

- 1 Deal Sourcing - TMREG intends to utilize its management team to determine, through its research-driven strategies, target markets and investments, and then proactively seek out



opportunities which meet these objectives. TMREG leverages Milestone's relationship network and market intelligence, which have produced a steady pipeline of multifamily investment opportunities. Changing market fundamentals nationwide are continuously evaluated in order to focus on investments located in the strongest targeted multifamily markets positioned for growth. To augment these research strategies, in-house proprietary research capabilities coupled with third party research sources are utilized.

TMREG relies on its extensive relationships to gain exposure to the largest number of transaction opportunities which fit its investment parameters. Typically, TMREG and its affiliates have accessed opportunities for the Funds in the following ways:

- through its asset and property management relationships, including properties Milestone manages for third parties, including servicers and lenders;
  - through its regional offices and national presence;
  - through institutional owners and their advisors;
  - through local real estate professionals; and
  - through the traditional brokerage community.
- 2 Preliminary Due Diligence - The acquisition team subjects potential transactions to rigorous due diligence and analysis. Team members analyze rent rolls and operating statements, inspect the property, review in-house and independent third-party market research, review comparable transactions and develop models and sensitivity analyses. During the preliminary due diligence process, current property performance is analyzed and an acquisition's potential risks and opportunities are identified and assessed. The underwriting and deal structuring process evaluates potential investments based upon their fundamental merits and potential risks, utilizing both qualitative and quantitative analysis.
  - 3 Preliminary Investment Committee Approval - A preliminary Investment Committee memorandum is prepared, and Investment Committee members then review the opportunity with the acquisitions and asset management teams. A comprehensive list of potential due diligence inquiries is identified in the process. The acquisitions officer then oversees the resolution of identified issues. If these issues are resolved and the opportunity is preliminarily approved to put under contract, the acquisitions officer will work with legal to proceed to facilitate a purchase and sale agreement.
  - 4 Due Diligence - Upon execution of a purchase and sale agreement, the team performs additional in-depth due diligence. Third party consultants are engaged to examine the physical integrity, environmental status and legal and financial standing of the asset. The asset management team works with the acquisitions team to refine a final operating budget. An optimal capital structure is targeted, and financing terms are finalized with lenders. The acquisitions team consults the Investment Committee as needed regarding structure, pricing and timing and also provides progress updates.
  - 5 Final Investment Committee Approval and Closing - A detailed Investment Committee memorandum is prepared and circulated to the Investment Committee for discussion and final approval. Upon approval, the acquisitions officer then has the authority, in conjunction

with legal counsel, to close the transaction subject to any material changes, which would again require Investment Committee review.

- 6 Exit - Investments are typically held for periods ranging from four to six years, and are structured to offer multiple exit options. These exit alternatives could include, but are not limited to, asset sales, portfolio sale(s) and public market placements, including in the form of a publicly-traded real estate investment trust. Investment exits are sought once business plan objectives for a particular investment have been achieved, and all criteria on a periodic sell/hold analysis have been met.

### Risk of Loss

Real property investments are subject to various risks, many of which are unique to the asset class. The following section discusses pertinent risks that investors should consider prior to investing with TMREG. ***The risks described below should not be considered an exhaustive list of all potential risks. Investors should review offering documents carefully for a more detailed discussion of these and other considerations. There is no guarantee that investments will perform as described within the offering agreement and the risk of loss should be considered.***

*General Risks of Real Estate Ownership:* Real estate investments are subject to risks generally incident to ownership of real property. Real estate values can be affected by a number of factors, including, but not limited to, uncertainty of cash flow; adverse changes in local market conditions or general economic conditions; competition from other properties; changes in interest rates, real estate tax rates, and/or fiscal policies; environmental risks; uninsured losses; eminent domain; and other factors outside the control of TMREG, its affiliates, and investors.

*Risks Associated with Property Acquisitions:* TMREG primarily invests through the acquisition of real estate properties. Real estate acquisitions are subject to liabilities such as state of title, environmental conditions, physical conditions, and compliance with zoning laws, building codes or other legal requirements.

*Competitive Market for Investment Opportunities:* TMREG competes for investment opportunities with other real estate investors. As a result, TMREG may be unable to complete and exit a sufficient number of attractive investment opportunities to meet a Fund's return, investment, and diversification objectives.

*Liquidity Risk:* Investments in real estate are highly illiquid and subject to industry cycles, downturns in demand, oversupply of competitive properties, market disruptions and the lack of available capital from potential lenders or investors. Accordingly, there can be no assurance that TMREG or its affiliates will be able to finance, refinance or dispose of portfolio properties in a timely manner and/or on favorable terms.

*Leverage Risk:* The Funds may leverage their investments. Although the use of leverage can enhance returns, there can be no assurance that investments will be able to meet their associated debt service obligations. To the extent that investments cannot, returns to investors could be reduced and/or capital could be lost.

*Investments in Debt Instruments:* The Funds may hold direct or indirect investments in mortgages. Adverse changes to the financial condition of a mortgagor with respect to a mortgage held directly or indirectly by the Funds could have an adverse impact on the Fund's ability to collect principal and interest payments from such mortgagor and therefore cause a reduction in the dividends from the Funds and in the value of that investment.

*Additional Capital Requirements:* If the cost of operating a property, including debt service, exceeds the rental income earned, the Funds may have to advance funds in order to protect its investment, may default on its debt obligations, or may be required to dispose of one or more of the other properties in the portfolio on disadvantageous terms if necessary in order to raise needed funds. The Funds have not set a minimum amount of working capital reserves, and any such reserves maintained by the Funds from time to time may be inadequate to meet operating deficits or other contingencies which may arise. TMREG and its affiliates are authorized to cause the Funds to raise additional capital by selling additional interests on terms that may be senior or junior to or on parity with the terms of the interests of the existing limited partners. Although the Funds are obligated to provide each existing limited partner with a preemptive right to participate in such sales of additional interests, in such event, limited partners would be required to contribute additional capital in order to maintain their percentage ownership interest in the Funds.

*No Market for Security Interests:* Interests in the Funds are offered privately and have not been registered under the Securities Act of 1933. There is no public market for interests in the Funds and none is expected to develop. Investors may not be able to transfer or encumber interests. Investors also may not be able to withdraw contributions or commitments. Investors should consider an investment in the Funds to be a long-term, illiquid investment.

**Item 9: Disciplinary Information**

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TMREG and its employees and affiliates have no legal or disciplinary events to disclose.

## **Item 10: Other Financial Activities and Affiliations**

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Neither TMREG nor any of its management persons is registered as a broker-dealer or as a registered representative of a broker-dealer. In addition, TMREG and its management persons are not affiliated with any broker-dealer, bank or other financial services firm. Further, neither TMREG nor any of its management persons is registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

### **Conflicts of Interests**

Investors in the Funds should be aware that there may be occasions when TMREG and its affiliates will encounter potential conflicts of interest in connection with the Fund's activities. The following discussion enumerates certain potential conflicts of interest that should be carefully evaluated before making an investment in the Funds.

*Performance Allocation:* The existence of performance-based compensation may create an incentive for the general partner to make more speculative investments on behalf of the Funds than it would otherwise make in an absence of such performance-based compensation. In addition, upon a withdrawal by a limited partner from the Funds (in limited circumstances) and upon the liquidation of the Funds, the general partner may receive performance-based compensation via a distribution in-kind of securities for which market quotations are not readily available. The valuation of such securities for such purposes will be determined by the general partner.

*Allocation of Personnel:* The general partner and its affiliates will devote such time as shall be necessary to conduct the business affairs of the Funds in an appropriate manner. However, TMREG personnel will work on other projects and, therefore, conflicts may arise in the allocation of personnel.

*Fees for Services:* Affiliates of TMREG may receive fees for services provided to the Funds. The fees payable to affiliates of TMREG were not determined by competitive bidding or arm's-length negotiation. The limited partners will not receive the benefit of fees or other compensation received by affiliates of TMREG in connection with the services provided. TMREG seeks to employ affiliates for services only if fees to the affiliate and terms in the service agreement are at the market-rate, however, there can be no assurance that TMREG will be able to achieve this.

*Other Real Estate Funds:* TMREG reserves the right to raise additional real estate investment funds, joint ventures, separate accounts, or similar vehicles, including funds with investment policies substantially similar to the existing Funds. The closing of another real estate fund could result in the reallocation of Milestone personnel, including reallocation of existing real estate professionals, to such other funds.

*Competition:* TMREG or its affiliates may acquire properties which are or may be considered to be competitive with property held by the Funds. These properties may compete for tenants directly against properties owned by the Funds. TMREG or its affiliates will not be restricted

with respect to the distance between competing properties or the number or size of properties in a particular area.

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

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TMREG recognizes and believes that (i) high ethical standards are essential for its success and to maintain the confidence of its investors; (ii) its long-term business interests are best served by adherence to the principle that interests of investors come first; and (iii) it has a fiduciary duty to investors to act in or not opposed to the best interests of the Funds. All TMREG personnel are required to act in accordance with the implied contractual covenants of good faith and fair dealings in respect of their dealings with investors. All TMREG personnel must also comply with all federal securities laws.

TMREG's Code of Ethics (the "Code") governs a number of potential conflicts of interest which exist when providing advisory services to the investors in the Funds it manages. This Code is designed to ensure that TMREG meets its fiduciary obligation to investors and to install a culture of compliance within TMREG. An additional benefit of the Code is to detect and prevent violations of securities laws.

The Code is distributed to each employee at the time of hire and annually thereafter. TMREG also supplements the Code with ongoing monitoring of employee activity. The Code includes a requirement to pre-clear and report certain employee personal securities transactions. On an annual basis, TMREG requires all employees to certify that they are in compliance with the Code.

Related persons of TMREG may invest as limited partners in the Funds. In addition, related persons of TMREG may purchase interests in portfolio investments held by one or more of the Funds. Such purchases are subject to compliance with the Code.

## **Item 12: Brokerage Practices**

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In general, TMREG may select the broker used to effect transactions in real estate. In selecting brokers, TMREG considers the broker's execution capabilities, reputation and access to the markets for the real estate transactions. Although obtaining the lowest fee is a factor in selecting or recommending a real estate broker, TMREG does not necessarily direct transactions to the broker that offers the lowest commissions.

TMREG is committed to allocating potential transactions among the Funds in a fair and equitable manner. In a situation where an investment opportunity is suitable for more than one Fund, TMREG will allocate the investment to the Fund it determines the investment is most suitable, based on secondary factors such as a Fund's available capital or geographic diversity of a Fund's current portfolio.



### **Item 13: Review of Accounts**

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Affiliates of TMREG will provide the limited partners within 45 days after the end of each quarter with a quarterly report of the Fund's business and activities. The Fund shall send to each limited partner within 120 days after the end of each fiscal year financial statements audited by the Fund's independent certified public accountant. Such annual reporting will include a summary description of each acquisition or disposition by the Fund during the fiscal year, and a statement of all distributions made to the limited partner. The annual report will include estimated values of each real estate investment. In addition, it is anticipated that the Funds will hold annual meetings offering limited partners the opportunity to review and discuss the Fund's activities. Investors should refer to the governing documents of each Fund for further information as to reports they can expect to receive.

#### **Item 14: Client Referrals and Other Compensation**

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TMREG or its affiliates may receive fees from portfolio investments in which one or more of the Funds may invest or propose to invest. The potential for TMREG and its affiliates to receive such economic benefits creates a conflict of interest as TMREG and its affiliates may have an economic incentive to invest in portfolio investments that provide such benefits.

TMREG may engage the services of placement agents to assist in obtaining investors in the Funds. Terms may vary, but generally each limited partner will be charged a placement fee payable to the placement agent through which such limited partner subscribed for an interest in the Funds. The placement fee will be paid by each limited partner at the closing directly to the placement agent. The payment of the placement fee will not be considered a capital contribution to the Funds and will not reduce the capital commitment to the Funds of any limited partner.

Any compensation paid to a placement agent will be fully disclosed to each Fund investor consistent with applicable law. All such referral activities will be conducted in accordance with Rule 206(4)-3 under the Investment Advisers Act of 1940, as well as relevant SEC guidance. TMREG endeavors at all times to put the interests of the Funds first as part of its fiduciary duty. Nevertheless, the receipt of compensation by a placement agent creates a potential conflict of interest and may affect the judgment of placement agents when making referrals to the Funds.

**Item 15: Custody**

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TMREG is deemed to have custody of the assets in the Funds. All TMREG Funds are audited by a third-party accounting firm no less than annually. The audited financial statements of the Funds are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). TMREG sends these audited financial statements to all investors within 120 days of fiscal year-end. In the event that a qualified custodian sends quarterly or more frequent account statements directly to investors, the investors should carefully review those statements and compare them to any statements they receive from TMREG.

**Item 16: Investment Discretion**

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Subject to the limitations provided in the limited partnership agreements, TMREG and its affiliates will have exclusive and complete authority and discretion to manage the operations and affairs of the Funds. Individual investors in the Funds do not have the ability to impose limitations on TMREG's discretionary authority.

Investors in the Funds should refer to the relevant Fund offering documents for complete information on investment objectives, strategies, and any restrictions. There is no assurance that the Funds will meet their performance objectives.

**Item 17: Voting Client Securities**

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The TMREG Funds do not hold voting securities. In the event the Funds hold voting securities, TMREG will adopt and implement policies and procedures in the best interest of clients and in a manner that addresses any potential conflicts of interest. Such policies and procedures will be made available to investors upon request by contacting Christopher A. Phillips, TMREG's Chief Compliance Officer, at (214) 561-1200 and it will be provided to you at no charge.

**Item 18: Financial Information**

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TMREG is financially capable of meeting all contractual commitments to its clients.