START HERE

Passive Investor Risk Tolerance Worksheet

Understand what you are comfortable with before you evaluate an opportunity.

Every investment involves uncertainty. This worksheet helps you think through liquidity, timing, distributions, downside, concentration, and decision pressure before you are evaluating a specific opportunity.

HOW TO USE THIS WORKSHEET

For each situation, choose the response that best reflects how you feel today. There is no score and there are no right or wrong answers. Be candid - the purpose is to recognize your own boundaries, not to become comfortable with every risk.

COMFORTABLE
I understand the possibility and believe I could accept it.

DEPENDS / NEED MORE INFORMATION
My comfort depends on the circumstances or investment terms.

NOT COMFORTABLE
This would likely make the investment inappropriate for me.

01 LIQUIDITY

How long can your capital remain invested?

Private real estate is generally illiquid. Unlike publicly traded investments, there may be no practical way to sell your interest when you want your money back.

1. My investment capital may be unavailable for the entire anticipated hold period.
   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
2. There may be no active secondary market where I can sell my investment if my circumstances change.
   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
3. I may need to leave the investment untouched even if another attractive investment opportunity arises.
   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
4. Unexpected personal expenses could occur while my investment capital remains unavailable.
   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable

MY LIQUIDITY REFLECTION

How long could I realistically leave this capital invested without needing access to it?

What financial obligations or life events could cause me to need this money sooner?

Would losing access to this capital affect my lifestyle, emergency reserves, tuition plans, retirement needs, home purchase, or other commitments?

A USEFUL DISTINCTION

Being willing to leave money invested and being financially able to do so are not the same. Both deserve consideration.

02 TIMING

What if the plan takes longer?

A projected hold period is an estimate, not a maturity date or promise. Market conditions, property performance, financing markets, interest rates, or buyer demand may make it better - or necessary - to hold a property longer than originally expected.

1. A projected five-year investment could remain invested for six, seven, or more years.
   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
2. The sponsor may decide that selling during a difficult market would destroy value and recommend waiting.
   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
3. A planned refinance may be delayed or may not generate the amount of proceeds originally projected.
   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
4. My original financial plans may need to change because investment proceeds arrive later than expected.
   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable

MY TIMING REFLECTION

Is there a specific date by which I expect or need this capital returned?

If the answer is yes, why?

How would I feel if the investment remained outstanding two years beyond the original projected hold period?

START HERE

When the Investment Does Not Follow the Plan

Use these scenarios to separate inconvenience from a level of risk that would materially affect you.

03 DISTRIBUTIONS

What if cash flow changes?

Projected distributions are estimates. Property performance, expenses, debt requirements, capital needs, or reserves may cause distributions to be lower than expected, delayed, or temporarily suspended.

1. Quarterly or monthly distributions could be lower than originally projected.

   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable

2. Distributions could temporarily stop while the property retains cash for operations, debt requirements, or capital needs.

   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable

3. The investment could ultimately perform well even though cash distributions are uneven during the hold period.

   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable

4. I may receive less current income than expected for an extended period.

   ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable

MY DISTRIBUTION REFLECTION

Which statement best describes me?

☐ I expect distributions to help fund current living expenses.

☐ Distributions are useful, but I do not depend on them.

☐ My primary objective is longer-term growth rather than current income.

☐ I am not yet sure.

If distributions stopped for 12 months, would that affect my personal financial plans?

04 LOSS

How would you respond to a real downside?

Real estate investments can lose money. A thoughtful risk assessment should consider more than whether returns might be lower than projected.

1. The property could decline in value during the investment period.
   - ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
2. A sale could return less capital than originally invested.
   - ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
3. Operating problems, excessive leverage, market weakness, or an unfavorable refinance could materially reduce investor returns.
   - ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
4. In an extreme situation, I could lose all of the capital invested.
   - ☐ I understand and can accept this possibility
   - ☐ I understand it but need to think more about it
   - ☐ I am not comfortable accepting this risk

RISK CAPACITY VS. RISK TOLERANCE

Risk capacity: Could you financially absorb a loss without affecting essential obligations or your financial security?

Risk tolerance: Even if you could absorb the loss, how comfortable would you be experiencing it?

MY DOWNSIDE REFLECTION

What dollar loss would begin to materially affect my financial plans?

____

What type of loss would be most difficult for me to accept?

- ☐ Temporary decline in value
- ☐ Reduced distributions
- ☐ Longer hold period
- ☐ Loss of some principal
- ☐ Potential loss of all principal
- ☐ Other: ______________________________

05 UNCERTAINTY

How much variability can you accept?

Investment projections rely on assumptions. Actual rents, expenses, occupancy, interest rates, financing terms, property values, and exit timing will differ from initial projections.

1. Actual returns may differ materially from projections even when the sponsor executes the business plan competently.
   - ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
2. I may not know the final investment return until the property is eventually sold.
   - ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
3. Some important decisions may need to be made by the sponsor during changing market conditions without my direct involvement.
   - ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable
4. The investment may encounter problems that were not anticipated when I initially invested.
   - ☐ Comfortable ☐ Depends / Need More Information ☐ Not Comfortable

MY REFLECTION

When an investment is underperforming, which response sounds most like me?

- ☐ I can remain patient if I understand what is happening and believe the plan is reasonable.
- ☐ I become uncomfortable but can remain invested if communication is strong.
- ☐ I would strongly prefer the ability to exit.
- ☐ I am not sure because I have not experienced this before.

START HERE

Define Your Personal Guardrails

The goal is not to eliminate risk. It is to know which risks you can live with, which require more information, and which are outside your boundaries.

06 CONCENTRATION

How much exposure feels appropriate?

Even an attractive investment can create unnecessary risk if too much of your investable capital is concentrated in one property, sponsor, market, or asset type.

1. Would this investment represent a large portion of my available investment capital?

   ☐ No ☐ Possibly ☐ Yes

2. Would I still feel financially secure if this investment produced no distributions for an extended period?

   ☐ No ☐ Possibly ☐ Yes

3. Would I still feel financially secure if I lost a meaningful portion of the capital invested?

   ☐ No ☐ Possibly ☐ Yes

4. Am I already heavily exposed to real estate, one geographic market, one employer, or another concentrated source of financial risk?

   ☐ No ☐ Possibly ☐ Yes

MY DISTRIBUTION REFLECTION

The maximum amount I believe I could commit to one private investment without creating financial stress is:

07 DECISION PRESSURE

Can you say no? An overlooked part of risk tolerance is how an investor behaves when an opportunity is presented.

- ☐ I am comfortable walking away from an investment even if other people are investing.
- ☐ I do not feel that I need to invest simply because an opportunity may close soon.
- ☐ I am willing to ask questions when something does not make sense.
- ☐ I am comfortable saying, "I do not understand this well enough yet."
- ☐ I am comfortable missing a potentially successful investment rather than investing in something I do not understand.
- ☐ I would rather receive an uncomfortable answer to a difficult question than a reasoning answer without supporting information.

A USEFUL PRINCIPLE

Missing an investment is not the same as losing money. There will be other opportunities. Do not let a deadline replace understanding.

08 PERSONAL RISK SNAPSHOT

Summarize what you learned.

The minimum period I should be prepared to leave capital invested is:

My need for regular distributions is:

☐ Important ☐ Not a primary objective ☐ Helpful but not necessary ☐ Unsure

If an investment lasts longer than projected:

☐ I could generally remain patient

☐ It would depend on the circumstances

☐ A significant delay would create a problem for me

The investment outcome I would have the greatest difficulty accepting is:

When performance falls short of expectations, the information I would most want from the sponsor is:

WHAT DID THIS WORKSHEET TELL YOU?

Do not use the number of checked boxes to decide whether you should invest. Look instead for areas where you selected Depends, Not Comfortable, Not Sure, or where you struggled to answer the question. Those are the subjects worth understanding better before evaluating a specific opportunity.

- Liquidity, hold periods, or distributions: Passive Investing Basics
- Debt, leverage, property performance, or business-plan risk: Apartment Deal Fundamentals
- How market conditions affect risk: Market Studies
- Tax or long-term financial planning questions: Tax & Wealth Strategy and your own professional advisers

MY PERSONAL NON-NEGOTIABLES

Identify two or three circumstances that would cause you to say no, regardless of the projected return.

1.
2.
3.

Most important risk-related question I want answered before I consider a private apartment investment:

EDUCATIONAL PURPOSE

This worksheet is for general education only. It does not determine risk tolerance, suitability, financial capacity, or appropriateness for any investment and is not financial, investment, tax, legal, or accounting advice. Private real estate involves risk, including illiquidity and possible loss of principal. Review the governing documents for any specific investment and consult your own qualified professional advisers before making investment decisions.