Denbar READY L.C.

(Denbar Real Estate Assets Diversified Yield)

September 1

2015

Preferred equity proposal to secure 10 LLC Units of $30,000 each to purchase debt and equity in real estate projects in multiple states

An Investment Proposal by Denbar Properties

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Summary of Offering

Denbar READY (herein after called "Company") will be formed to purchase and manage debt and equity investments that are backed by diversified real estate properties in multiple states in the US. The Company is offering 10 Membership Units of ownership interest (herein after called "Units") at $30,000 for a total raise of $300,000.

Investors have to receive a Preferred Equity distribution of 7% per year before the Sponsor is paid any distribution. Any available profits from operations or capital gains available for distribution above the 7% will be split 50% to the Member and 50% to the Sponsor.

The Company

The Company will be a Limited Liability Company organized in Iowa and will elect to be treated as a partnership for tax purposes. Preferred Equity returns will flow directly to the Members in proportion to their respective ownership interests.

In the future, the Company may offer additional investment opportunities in the form of debt or equity. However, any such offers will be subject to the unanimous approval of all Members.

The minimum amount of equity needed for this offer to move forward is $200,000. If this minimum equity amount is not reached by October 31, 2015, the Sponsor may cancel the investment, in which case the entire investment amount will be returned to investors. Investment funds will be held in a Company-owned bank account and will not earn any interest.

The Sponsor

This venture is being developed by Denbar Properties, a division of Denbar Enterprises, Inc. (herein after called "Denbar"), which is a company incorporate in Iowa in October 1997. The Principals of Denbar Enterprises, Inc. are Julia Correa and Steven Correa.

Denbar will be the initial Manager for the Company and will be the only entity authorized by the Company to enter into any agreements on behalf of the Company. A majority vote of Membership units are needed to replace the Manager.

Goals of the Company

- Preserve Shareholders' capital
- Achieve at least the minimum Preferred Equity hurdle rate every year
- Prudently manage investments such as to balance returns received by annual yield versus increasing Owners' equity
- Offer investors an alternative to single purpose property investments (such as purchasing a single apartment complex, gas station, strip mall, etc.)
- Offer investors geographical diversity from a (relatively) small investment amount

Definition of Preferred Equity

Preferred Equity is a way to maintain alignment between investors and Promotors. It also ensures that the Promoter gets paid for performance around the same time as the investor instead of deriving much of their income from fees that are payable regardless of how successful the transaction turns out.

There are various definitions of Preferred Equity. Basically, it refers to how profits are distributed between investors and the project Sponsor. With real estate investments, it is typically structured such that the investors receive a certain return on their funds before the Sponsor receives any return from the project. This return that the investors must make before the Sponsor receives anything is called the Preferred Equity Return or Rate. Any funds available for distribution above this amount are then split in some proportion between the investor and Sponsor.

The Preferred Equity Rate for this project is 7% per year, which is $2,500 per $30,000 Unit. Funds available for distribution over this 7% return will be distributed as 50% to the investor and 50% to Denbar.

Background to Forming the Company

We understand the concern expressed by some of our potential investors about most of Denbar's investments being in the central Iowa area, and especially recognize that our repeat investors are more affected by this because they have multiple investments in the same geographical area. Although we do have a few investments elsewhere within the US and even in other countries, those are more challenging and costly to manage.

We, therefore, decided to work on something a little different that achieves both geographical and investment diversity. Geographic diversity is self-explanatory, and by investment diversity, we are referring to different types of properties (single family, multifamily, commercial, etc.) as well as different types of investments is those properties – specifically, multiple forms of debt or equity.

It is not cost effective for us at this point to open offices in the different states/cities we have identified as being our preferred locations. In addition, with around $200,000 - $300,000 in equity, we still will be back to the single purpose investment, because we probably could only purchase one or two properties with that amount. Therefore, this Company will be investing smaller amounts in locally managed projects in other states with firms that have a very good track record, many of which we have known or have done business with for years.

Lastly, we will select only those projects that conform to Denbar's investment standards. Hence, the acronym Denbar READY!

What are Denbar Properties' Investment Standards?

Over the years, we have learned a lot about investing in real estate including, financing, due diligence, management, technology, contracts, tenants and investors – just to name a few. So, like many businesses we have developed our own set of best practices, dos and don'ts, contract verbiage, templates, etc. During the last year, we have been working to document these to make them more usable. Our investment standards consist of this collection of information acquired over 20+ years. It may not be technically proprietary in a legal sense, but we do consider this confidential work product and do not disclose these details.

Just like we use these standards for purchasing and operating our own properties through our LLCs, we will also use them to evaluate third party investments. A few examples of some of the things we will be looking for –

- What does the capital stack look like (i.e., what is the percentage of owner equity, long term financing and mezzanine financing that makes up the total capital invested).
- For a tenant to qualify for a residential rental, what is the maximum rent allowed as a percentage of gross income?
- Does the owner/sponsor get an investment management fee based on asset size versus annual performance?
- Is the owner/sponsor's interests well aligned with our interests?
- Does the owner have much "skin in the game"?
- What kind and amount of insurance is in place? Do we need to increase it?
- Can our investment be affected if some other investment of the Sponsor's goes bad? (e.g., is our investment cross collateralized with other investments?)
- Do financials, both pro and post look reasonable, including all expense categories, vacancy rates, rents, insurance etc.?

Proposed Sources and Uses of Funds

Sources of Funds		
10 Shares of $30,000	$300,000	
Mortgage Loan[1]	$ -	
Total		$300,000
Uses of Funds		
5 Year Equity	$100,000	
Short Term Equity	$100,000	
Mezzanine Financing (Debt)	$50,000	
Short Term Notes	$25,000	
Other – TBD	$23,000	
Working Capital [2]	$ -	
Closing Costs[3]	$2,000	
Total		$300,000

1 – No mortgage on overall project. Individual investments may have a mortgage component.
2 – No Working Capital needed for this venture.
3 – Refers to Company formation and registration when needed in multiple states.

Projected Returns

Returns to investors will come from annual distributions of most of the net income from operations, from capital gains, and from paying down mortgages for the investments that are leveraged with a mortgage loan.

Based on just the initial $300,000 investment, projected total annual distributions to investors is expected to be 7% in the first year and average 10% for the next 5 years.

However, if the Company raises additional capital in the form of short term debt, the initial member's returns are projected to be between 12 and 15% depending on the amount and interest rate on the debit. Note that the Company cannot raise additional capital without the unanimous approval of all Members.

Tax Aspects

As mentioned earlier, the Company will be considered a pass-through entity for tax purposes. This means that any taxable income generated by the Company flows through to individual Members.

Given the short term nature of the projects in which we will be investing, we expect to have minimal depreciation expenses. Depending on the amount of depreciation and/or amortization expense in any year in relation to net income, the pass-through figures might be negative even though there is a positive cash flow. For tax purposes, the loss will also be passed through to each investor in proportion to his ownership interest. The deductibility of such paper losses on an investor's individual tax returns is a complex issue and will be different for each investor. This goes beyond the scope of this document. Therefore, for more information about this, please ask your CPA.

Company Management

Denbar will be the Manger of the Company and will be responsible for the *initial investment selection*, all *ongoing operations* of the Company and *final termination* of Company, including sale of all its assets.

Initial investment selection includes, but is not limited to, researching potential locations, analyzing potential deals, performing appropriate due diligence, and making offers so as to invest Members' capital contributions.

Ongoing operations include, but are not limited to, contracting and retaining local real estate investment firms, representing the Company as an investor/member in other LLCs in which we invest, recommending improvements or other changes to our investment partners, and processing all required paper work on behalf of the Company that may be needed by Federal or State(s) authorities. Ongoing operations also include redeeming, selling and purchasing investments to maintain an appropriate mix of the different types of assets.

Final Termination includes, but is not limited to, disposition of remaining assets and making final distributions to Members before termination of the Company

The Manager will keep all members informed of any major property, banking or investment issues or changes in external factors that may have a material change in the Company's investment goals.

Subscription Information

Investors interested in purchasing one or more shares should complete the attached subscription form and mail it along with a check for the investment amount made out as follows:

Denbar READY L.C.
Attn: Steven Correa
12881 Hazelwood Drive
Clive IA 50325

Note: Share price per one (1) Unit is $30,000. Make check payable for $30,000 x # of shares to purchase additional shares. Only one subscription form is needed to purchase multiple shares.

Types of Ownership

There are two subscription forms attached. Please use **Subscription Form A** (Individual Purchaser) for these types of ownership –

1) Individual Ownership
2) Joint Tenants with Right of Survivorship
3) Tenants in Common
4) Revocable Living Trust

Or, use **Subscription Form B (**Corporate, Partnership or LLC Purchaser) for these types of ownership -

5) Corporation
6) Partnership
7) Limited Liability Company (LLC)

Please contact Denbar if you would like to invest funds from a self-directed retirement account (401k, IRA, Roth IRA, etc.) or if the type of ownership you are interested in is not included above.

Compensation and Reimbursement to Sponsors

1. Cash Distributions

The Sponsor will receive cash distributions for the Units that it owns similar to any other shareholder.

2. Performance Compensation

The Performance Compensation covers putting together the initial portfolio of investments, overseeing the projects in which the Company invests, ongoing financial management of the investment and guaranteeing any mortgage loans, if needed.

The Sponsor will receive an annual performance compensation only after the investors receive their Preferred Equity Rate of 7% return on their invested capital in any given calendar year. The term “return” refers to annual distributions of income and capital gains, not taxable net income.

Any distributions above the 7% Preferred Equity Rate will be split equally between the Shareholders and Sponsor. In other words, from the amount available for distribution in any given year, the first priority will be to allocate the initial 7% to Members. 50% of any available funds beyond this amount will be added to the Members’ distribution, and the remaining 50% will be paid to the Sponsor as a performance commission.

In the year of purchase or any time we do not have a full calendar year of operations, the Preferred Equity Rate will be adjusted in proportion to the time we owned the property.

In the event that the Company does a tax deferred exchange of any of its properties (also called a 1031 exchange), the Sponsor's compensation will be calculated on the gain from that sale even though the gain will be deferred for tax purposes.

Risk Factors

The Company will be subject to the risks generally associated with the ownership of real estate and notes, including changes in the general economic or local conditions, changes in supply and demand for similar or competing properties in the area, changes in interest rates and availability of mortgage funds that may render the sale or financing of a property difficult or unattractive, as well as changes in tax, real estate, and zoning laws.

Use of Leverage

The Company may borrow funds from time to time depending on the project or participate in an existing mortgage. Incurring mortgage indebtedness increases the risk of possible loss. If the Company defaults on its secured indebtedness, the lender may foreclose and the Company could lose its investment in the property.

Interest Adjustment

Unlike home loans, the interest rate charged by financial institutions on commercial loans is not fixed over the life of the loan. Therefore, if the Company does borrow, there is a risk that the initial interest rate at which we start could fluctuate.

New Debt Investors

If the Company accepts additional investments in the form of debt from other investors, those investors will have priority over current members when returning funds. (The Company cannot accept additional investments without the unanimous consent of the initial Members.)

Financial Forecasts

The financial forecasts in this document, together with the related assumptions, represent projected future events and, therefore, no representation of warranty can be made that the results can be realized. The financial forecasts have not been audited and may, therefore, not comply with GAAP.

Third Party Investments

The Company will be investing primarily with third party firms, and although the Manager may have had positive experiences with them in the past, and will make every effort to vet the investments and conduct due diligence on future projects, we will not have direct control over day to day running of the projects in which we will be investing.

Being Not Fully Invested

Given that we will be making multiple investments, both initially and ongoing, the Company may have un-invested cash in the bank for periods of time that does not earn anything. Depending on how often and for how long this happens, it can have a negative impact on our overall return even though each individual investment may have exceeded our projections.

Conflicts of Interest

The Manger may own and operate other properties in the area where the Company invests and may purchase others in the future. As such, these other activities of the Manager may compete with the assets owned by the Company. Nevertheless, the Manager has a fiduciary duty to the Company to exercise good faith in resolving any potential conflicts of interest.

Market Interest Rates

Investment property values fluctuate based on current interest rates in the market.

Non-Liquid Investment

There is no public market for the Shares of this Company. Therefore, it may be difficult for investors to liquidate their shares quickly.

FAQs

Why is the projected return for the first year 3% lower than the projected returns in future years?
This is because it will take a while to fully invest all our funds. Our past investments typically involve purchasing predefined properties, therefore *all* our funds start working almost right away.

Does Denbar already have projects identified so that the Company can quickly make use of its funds?
We have firms and locations identified, but these deals move and close so quickly, there is no point identifying a specific project right now, because it will probably not be available when we are ready to invest. However, we will have identified some specific investment options as we get closer to raising the minimum amount needed.

Is the Preferred Equity Rate a guaranteed rate?
No, it is not. It is the minimum rate that an investor has to earn before Denbar makes anything. It is a way to align Denbar's interest with that of our investors.

Between the time you receive the investment amounts and the time you purchase the property, will investors earn any interest on their unutilized funds?
No. However, if those funds are kept in an interest bearing account, the Company will earn whatever interest the bank pays.

Since the Company will be investing in third party projects, isn't this something investors could do on their own?
Yes. It is something you could do on your own as you could with most other investments. However, Denbar's services are targeted at investors who prefers a turnkey solution and does not have the time or inclination to be a hands on investor. As you may have seen on our site, we call it 'arm chair investing". Finding and vetting both the investments and the sponsors is very time consuming. In addition, by investing as part of a group of investors, it gives you the opportunity to diversify and spread your risk much more than you could if you invested the same amount in just one or two projects on your own.

Will each investor hold joint title to any of the properties purchased?
No. The Company will hold title to properties, either directly or through membership units in the investment vehicle that owns the property.

Isn't it better for the investor to hold title directly to the property?
If an investor held title directly to the property, they would be personally liable for anything that happens on the property or to the property. By having the Company hold title, the liability is limited to the assets of the Company. We, therefore, think it is more beneficial for the investor to own Membership Units in the Company versus holding direct title to the property.

What is the meaning of the terms LLC Manager, Member, and Units?
LLCs use different terminology than corporations. The LLC Manager is the equivalent to the President of a corporation. An LLC Member is the same as a Shareholder in a corporation and LLC Units are like shares in a corporation.

Can I invest in the Company using my 401K or IRA funds?
You can invest in the Company using funds from many types of retirement plans. It is best to have an account with a custodian trustee that specializes in self-directed retirement plans. Not all banks and brokerage houses offer this service, but if you are interested in this, we can refer you to companies we have used in the past.

I have a Revocable Living Trust. Can I invest in the Company using this trust?
Yes, you can. Please use the Individual Purchaser subscription form and enter the name of your trust instead of your name.

Will I receive some version of a 1099 from the Company to use when filing my personal taxes?
Yes, you will receive a K-1 from the Company, which is similar to a 1099 but with more information on it. You will use the information from this K-1 to complete your personal taxes.

Will the Company's books be audited by an independent auditor on a yearly basis?
No. Given the financial size of the Company (i.e., small) in relation to the cost of auditing its books, it is not cost effective to pay for external audits. However, if an investor or group of investors wants to do an external audit, they can do so at their own personal cost.

Does the Company have an exit strategy or is it open ended?
We have not committed to a sale or exit strategy. Given the nature of the investments that will be made by the Company, we anticipate a holding period of 5 years. If you think you may need your capital earlier than 5 years, this may not be an appropriate investment for you, because, although we will help you sell your interest should the need arise, we cannot guarantee that will happen.

If for any reason I need to sell my share, and the other investors are not ready to sell the *property, do I have a way out? Has this situation happened before?*
You always have the option to sell your share. Should this need arise, we suggest talking to the LLC Manager who may already have a list of investors with whom you can talk.

Is there some kind of formula or method to know the value of my share on an annual basis?
At the end of the year, we will calculate the basis of each share which represents the share's book value. However, this may not be the same as the market value of your share.
We do not estimate market value of shares on any regular basis, but we can provide you with any information needed for you to value your share on your own.

When entering a K-1 from another company, my tax software asks if I am an "active participant" and/or a "material participant" in the LLC. Why does it ask this and what does this mean for the K-1 from this investment?

There are a lot of IRS rules that determine active or material participation (material participation being the higher standard to meet). In real estate, if you meet the active participant test, there is a higher dollar amount of loss that you can deduct from your ordinary income. It's best to talk to a CPA about this. I can't speak for other LLCs, but in my opinion, none of our investors qualify as active participants in Denbar-sponsored LLCs.

Will you work with people who want to do a tax-free exchange?

Sorry, you will not be able to do a 1031 tax-free exchange into this project for a few reasons. We will be investing in multiple debt and equity projects through the Company. One cannot sell a property and roll the funds into a debt investment. Regarding equity, our equity project properties will be owned through other investment vehicles (e.g., an LLC owns the property), but you (or the entity you own), need to take title to a new property directly in order to complete a 1031 exchange.

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Denbar READY LC

Subscription Form A

Individual Purchaser

Date _____________ Total Subscription $___________ Number of Units (shares) ______

SSN: _________ - ________ - _________

Signature ____________________________________

Full Name (Printed) __________________________

Address __________________________

____

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Joint Investor (if any)

SSN: _________ - ________ - __________

Signature ____________________________________

Full Name (Printed) __________________________

Address __________________________

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Type of joint ownership (select only if there is a joint investor)

( ) Joint Tenants with Right of Survivorship
( ) Tenants in Common
( ) Community Property

Denbar READY LC

<u>Subscription Form B</u>

Corporate, Partnership or LLC Purchasers

Date _____________ Total Subscription $___________ Number of Units (shares) ______

TIN _______ - _______________

Signature of Authorized Person ____________________________________

Full Name (Printed) __________________________

Business Name and Address

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Please include Certified Company Resolution authorizing signature.