
Cynthia K. McCahon, MBA

The Top Small Business Plans



PDF



WORD

**Real Estate
Investing**

Sample Business Plan

How You Can Use This Sample Business Plan to Launch Your Business

Planning the launch of a business is almost as difficult as launching the business itself – almost. Luckily, the process of developing a business plan is greatly simplified when one can look at—and adapt— a comprehensive sample that lays the framework without having to reinvent the wheel. From a practical standpoint, sample business plans are an excellent resource for understanding how any business is run, along with serving as a primer for what one might expect from the day-to-day operations of a business. A good example also uses the correct layout and presentation of a formal business plan. That’s not saying it’s the only way – just a tried and true way of presenting quite a lot of necessary information.

The Hardest Part – Planning the Financial Forecasts

By far the most challenging aspect of launching a new venture is forecasting its financial return. Planning is essential – and intimidating. A business plan with thorough financial forecasting is a required component for the venture’s funding efforts—loan officers and savvy investors require detailed financial plans. Simply, it’s the only way to know if the owners and investors will see a net profit. Developing financial forecasts is an exercise that answers the most important question of all: Is the financial return worth the effort of starting the business? A venture should not be undertaken without investigating the financial risk and reward. The data presented in this document is meant to be representative of the industry and must be modified to reflect your business and financial situation. I strongly recommend that your financial forecasts be prepared by an accountant or business plan professional.

Bear in mind that this document is a comprehensive sample. It provides a roadmap for you to follow in developing your own plan. Only you can adapt the document to truly reflect your business.

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I wish you the best of success in your ventures –

Cynthia K. McCahon
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The Top Small Business Plans

Real Estate Investing Sample Business Plan

2008/2009 Edition

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1. Executive Summary

The company is a start-up business venture developed by two individuals for the sole purpose of investing in residential real estate. This business plan lays out a simple strategy for developing a long-term real estate investment company by leveraging an initial investment of \$43,000.

Our business model is to market the company to a consistent stream of motivated sellers that are willing to accept discounted wholesale prices for their property. The properties are primarily resold at retail prices to generate working capital for the company. We pay all closing costs and do not use real estate agents to execute the transaction, thus eliminating agent's fees.

Often, there is not a substantial difference between our offer and the net cash an owner would receive by listing their property with an agent. When listing with an agent, the owner will pay 6% of the sales price in agent's fees and 4% in closing costs. We can close on a property in as little as seven days, while the average days on the market for a house listed with an agent is fifty to sixty in our region, in addition to a thirty-day escrow. Our value proposition of an all-cash offer with a fast escrow close is often a good option for the owner/seller who recognizes the benefit of speed to cure their financial situation.

As home prices rose dramatically in the past several years, individuals who were only marginally qualified to purchase increasingly expensive homes resorted to zero-down and low-down mortgages, along with adjustable rate mortgages made available by the mortgage industry. The result was an affordable, low monthly payment on properties that had little or no equity. As interest rates rise and balloon payments come due, marginally qualified property owners are less able to meet their mortgage obligations. It's these property owners that become motivated sellers and the primary focus of our marketing efforts.

The financial goal is to leverage \$43,000 in seed money into a stable company with a Balance Sheet in excess of \$1 million in assets after the first three years of operations. To achieve this goal, we intend to buy twenty-four properties by the end of our third year, generating net revenue of \$532,000 from the sale of nineteen properties and equity of \$150,000 from holding five rental properties. Primarily, revenue is forecast from two streams of income:

- Net Profits from Buying and Selling Property
- Rent from Long-Term Rental Property

The company's revenue for the first twelve months is \$112,000, consisting of net sales from the sale of four of four properties acquired in that year. Revenue increases to \$242,292 in the second year based on acquiring an additional eight properties, selling six of the properties and retaining two as long-term rental properties. Revenue rises only moderately in the third year to \$296,822 based on acquiring an additional twelve properties, selling nine of the properties and retaining three as long-term rental properties.

The company's net profit in the first year is \$94,680 in the first year, decreasing to \$44,792 in the second year due to payroll and benefit costs and decreasing slightly again in the third year to \$11,692.

The company's Total Liabilities and Capital for its first three years of operations are \$138,018, \$517,529, and \$1,107,697 respectively.

1.1. Corporate Status and Ownership

The company consists of two partners, with each partner owning 50% of all outstanding shares of the company. Each partner is investing 50% of the cash needed to operate the company and fund our initial property acquisitions. To limit liability and optimize tax benefits, the company is formed as a Limited Liability Corporation

As an LLC, the company passes on its profits or losses to each shareholder. At the end of each tax year, each partner receives a tax form from the corporation listing their individual share of the profit or loss for the company. Each shareholder is responsible for reporting the profit or loss on their personal taxes. As part of our team of professionals, we always seek the guidance of an accountant well-versed in real estate accounting and tax matters.

We've established corporate Operating Procedures detailing how the company functions, which can be modified to adopt or revise procedures as the company grows. The Operating Procedures specify the company's tax year and method of accounting; membership provisions; voting procedures; member percentage interest; tax classification; annual income tax returns and reports; bank accounts; title to assets; capital contributions; allocation of profit, losses, and cash; and general provisions for the company including exit procedures for the transfer or liquidation of the company.

2. Business Model and Value Proposition

The business model of the company is to buy residential properties at discounted prices and resell the properties at retail prices. We market our services to property owners who are highly motivated to sell their property. When a property owner contacts us, we evaluate their property and determine whether to make an offer to purchase the property. Our offers are based on wholesale pricing with a fast escrow closing. The value proposition to the owner is that they be willing to accept less net profit for their property in exchange for a fast escrow to quickly relieve their financial situation.

Because we pay all closing costs and don't charge an agent's commission, we're able to demonstrate to the owner that they're not giving up a substantial amount of net profit in the end. We often buy properties 'as-is', further relieving the owner from the burden of properly staging the property. If the owner were to pursue a more traditional sales path and engage a real estate agent to represent the property, the owner would pay a substantial commission of up to 6% plus closing costs, generally totaling 10% of the property's sales price. Often, the net cash difference to the owner is not dramatically different from our offer.

Additionally, if the property is listed with an agent, the owner must wait for the property to sell and close escrow. In our region, we are currently experiencing fifty to sixty days on the market for properties listed on the regional Multiple Listing Service. In conjunction with a standard thirty-day escrow, the owner may not relieve their financial distress for as much as ninety days. We can often close escrow in seven to fourteen days. Our value proposition of an all-cash offer with a fast escrow close is often a good option for the owner who recognizes the benefit of speed to cure their financial situation.

2.1. Parameters and Guidelines

This business plan defines a long-term strategy for development of a real estate investment company. We recognize that investing in real estate is an opportunity to build substantial company wealth over the long-term and have set the following parameters to achieve our goals.

- **Buy properties only from highly motivated sellers**
- **Buy properties at wholesale prices; resell properties at retail prices**
- **Make purchase offers based on a Maximum Purchase Price worksheet**
- **Maintain adequate cash reserves within the company**
- **Establish and follow a goal-based timeline**
- **Build and rely on a team of professionals**
- **Develop and follow exit strategies for each property and for the company**

Buy properties only from highly motivated sellers: Through the company's marketing efforts, we actively seek out motivated sellers with an identifiable, distressing problem that forces them to sell their property at discounted prices. Common types of distress are personal financial pressures; unemployment; relocation; divorce; health problems; and inheritance of unwanted property.

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Buy properties at wholesale prices; resell properties at retail prices: The key to the company's investment strategy is in purchasing properties at wholesale prices. At the heart of the company's strategy is the ability to identify and secure good deals, targeting properties that can be purchased for at least 20-25% less than retail value. If targeted correctly, purchasing discounted, below-market properties can immediately provide positive returns. We can either assign the sales contract to another investor (for a profit) without taking possession of the property; rehab and resell the property at a retail price; or hold the property as a long-term rental investment.

Make offers based on our Maximum Purchase Price worksheet: To consistently achieve positive net profits, the company has developed a spreadsheet to forecast each property's net cash profit opportunity. The formula is based on determining the bottom line amount of net profit the company can expect from purchasing a property. Every offer to buy is based solely on whether the investment is a sound business decision. Simply, if the numbers suggest the property may prove to be a successful investment, then an offer is made for the property. The offer price is determined by the formula – which limits our risk in estimating the properties net worth to the company. We limit the number of offers on the table at any given time to the amount of liquid cash accessible; any investor or partnering opportunities present; and the amount of credit we have available.

Maintain adequate cash reserves within the company: Debt management and cash flow is of paramount concern for the company. We carefully manage the company's cash flow situation, never allowing our cash reserves to fall below a predetermined level.

Establish and follow a goal-based timeline: Setting goals and then following through with each goal is imperative for planning our business. We recognize that investing in real estate cannot be entirely planned, as the actual speed at which properties are purchased and resold is not something we can accurately predict. Nor can we predict market conditions. Following a goal-based timeline keeps us moving forward in achieving our objectives.

Build and rely on a team of professionals: We actively build and proactively use a team of professionals with deep experience in real estate investing. The team includes an attorney skilled in real estate; an accountant; several contractors that work consistently with real estate investors; several mortgage brokers and private money lenders; a title company; and a network of like-minded real estate investors. We enthusiastically participate in our local real estate investment association, taking advantage of the educational opportunities as well as the opportunity to meet other investors.

Develop and follow exit strategies for each property and for the company: We have a clear strategy for the intent of each property before we make an offer to buy. Just as importantly, we've developed an internal Operating Agreement that clearly defines how the company functions, including specific methods regarding how to cease all company operations, close the company, pay all debts and divide the company's assets between the owners.

3. Buying, Holding and Selling Properties

We follow a straight-forward process for identifying, buying, holding, and selling property. The process includes:

- Lead Generation
- Researching Properties
- Determining the Maximum Purchase Price
- Making Offers
- Financing
- Rehabbing
- Holding Properties as Rentals
- Selling Properties

3.1. Lead Generation

Key to the company's strategy is a marketing plan designed to attract motivated sellers into our lead generation program. The plan is based primarily on generating leads from regional Internet advertising; maintaining a property database; developing a letter-writing campaign targeting preforeclosure property owners; displaying signs prominently in our targeted neighborhoods; and networking within our local real estate investment community. We've included a detailed marketing plan within this business plan.

3.2. Researching Properties

Once leads are established, we research the properties to determine whether we should present an offer to the owner. We use two primary means of researching properties. First, we use a proprietary Maximum Purchase Price worksheet to help us determine whether to pursue a property. The worksheet is a vital component in deciding to make offers on properties, as it helps determine several important factors: the retail value of the property; the maximum wholesale price we can offer for the property; the amount of cash required for buying, rehabbing, and reselling the property; and the likely net profit for the company when we resell the property. We review the worksheet in detail in the following section.

Additionally, we research the property by accessing the County Assessor and Treasurer's records. Specifically, we're looking for how much equity the owner has in the property and if any liens are recorded against the property.

3.3. The Maximum Purchase Price Worksheet

The decision to buy and sell any property is based on an evaluation using the company's Maximum Purchase Price worksheet. Using the worksheet for each property allows the company to apply a formula-like approach in our effort to consistently generate positive net profits. The worksheet breaks down the decision-making process into a simple

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formula. Applying this formula to each property we consider purchasing provides a framework for the company to make its real estate investing decisions. In this section, we'll break down the worksheet and explain how each part functions. Of course, as with all of our forecasts, this example is based on ballpark estimates. Actual numbers always vary for each property.

How the Worksheet Works

The worksheet is a formula-based MS Excel file consisting of thirteen simple areas, labeled as Sections A through L. The premise of the worksheet is straightforward. First, we estimate the price at which we realistically could resell the property. We refer to this as the *retail* value of the property. After estimating the retail value, we then forecast the property's net profit potential by subtracting all costs associated with acquiring, rehabbing, reselling, and profiting from the resale of the property. The number we come up with is the maximum amount we would pay for a property, which we refer to as the *wholesale* price. Again, the business model of the company is to only buy properties for wholesale prices, then either resell the properties at retail prices or hold the properties as long-term rentals.

Section A: Property Address

In the first section, we simply note the address of the property:

| | |
|------------------------------------|-----------------------|
| Section A: Property Address | 5808 Any Street 00000 |
|------------------------------------|-----------------------|

Section B: Comparable Property

The next section notes the best comparable property that's sold in the neighborhood in the last few months. This information is generally found in the regional Multiple Listing Service (MLS), which can be accessed by a Realtor. The information includes the comparable property's address; the square footage; the price for which the property sold; and the subsequent cost per square foot. The cost per square foot is the price the property sold for divided by the square footage of the property.

| | |
|---------------------------------------|-----------------------|
| Section B: Comparable Property | |
| Best Comparable Sold Property: | 5381 Any Street 00000 |
| Comp Sq. Ftg. | 2,200 |
| Sold Price | \$330,000 |
| Cost/Sq. Ft. | \$150.00 |

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Section C: Estimated Retail Price

The Estimated Retail Price is the price at which we expect to resell the property. We multiply the target property's square footage by the cost per square foot of the comparable property to find our target property's cost per square foot and likely retail price. In this example, we multiply the target property's square footage of 2,000 by the comparable property's cost per square foot to find the target property's likely retail value of \$300,000.

| Section C: Estimated Retail Price | |
|--|-----------|
| Target Property Square Footage | 2,000 |
| Target Property's Cost per Square Foot | \$150.00 |
| Current Est. Retail Value Based On Comparable Cost per Sq. Ft. | \$300,000 |

Section D: Costs to Purchase

We then estimate the costs to purchase the property. We do not include the actual down payment or earnest money deposit. We'll include that later in our out-of-pocket expense. Again, these numbers are estimates and will vary for each property.

| Section D: Escrow Cost to Purchase | Cost |
|---|----------------|
| Loan Points | \$1,500 |
| Application Fee | \$100 |
| Closing Costs (Title Abstract, Title Ins., Credit Report) | \$700 |
| Appraisal | \$450 |
| Insurance (Impound Account) | \$100 |
| Taxes (Impound Account) | \$200 |
| Termite Inspection Report | \$100 |
| Processing Fee | \$800 |
| Inspection | \$300 |
| Interest Fee | \$400 |
| Recording Fee | \$50 |
| Escrow Company Fee | \$300 |
| Seller's Closing Costs | \$1,000 |
| Subtotal | \$6,000 |

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Section E: Rehab Costs

In the next section we estimate rehab costs, based on our initial walk-through of the property.

| Section E: Rehab Costs | <u>Cost</u> |
|-------------------------------|----------------|
| Cleaning | \$500 |
| Landscaping | \$600 |
| Roof | \$0 |
| Flooring | \$300 |
| Kitchen | \$500 |
| Bath #1 | \$0 |
| Bath #2 | \$0 |
| Bath #3 | \$0 |
| Bedroom #1 | \$250 |
| Bedroom #2 | \$250 |
| Bedroom #3 | \$0 |
| Bedroom #4 | \$0 |
| Living Room | \$50 |
| Dining Room | \$50 |
| Office | \$0 |
| A/C & Evaporative Cooler | \$100 |
| Furnace | \$0 |
| Electrical | \$400 |
| Plumbing | \$0 |
| Water Heater | \$0 |
| Pool | \$0 |
| Hot Tub | \$0 |
| Windows | \$0 |
| Fixtures & Hardware | \$400 |
| Interior Doors | \$0 |
| Entry | \$0 |
| Laundry Room | \$0 |
| Appliances | \$0 |
| Other | \$0 |
| Subtotal | \$3,400 |

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Section F: Holding Costs

We then estimate the holding costs for the amount of time we'll own the property.

| Section F: Holding Costs | <u>Cost</u> | <u>Months</u> | <u>Total</u> |
|-----------------------------------|-------------|---------------|----------------|
| Mortgage (Principal and Interest) | \$1,200 | 2 | \$2,400 |
| Utilities | \$25 | 2 | \$50 |
| Insurance | \$50 | 2 | \$100 |
| Taxes | \$100 | 2 | \$200 |
| Subtotal | | | \$2,750 |

Section G: Resale Costs

Then we include the costs associated with reselling the property.

| Section G: Resale Costs | <u>%</u> | <u>Expected Sales Price</u> | <u>Cost</u> |
|--------------------------------|----------|-----------------------------|-----------------|
| Buyer's Agent | 3.00% | \$300,000 | \$9,000 |
| Seller's Agent | 0.0% | \$0 | \$0 |
| Closing Costs | | | \$1,000 |
| Subtotal | | | \$10,000 |

Section H: Contingency

We always plan a contingency to help cover unexpected expenses. The contingency becomes part of the net profit if it isn't used.

| | |
|-------------------------------|-------|
| Section H: Contingency | \$300 |
|-------------------------------|-------|

Section I: Profit Requirement

Most importantly, we include the amount of net profit we require to make pursuing the property worthwhile.

| Section I: Profit Requirement | <u>Expected Sales Price</u> | <u>Cost</u> |
|--------------------------------------|-----------------------------|-------------|
| <u>% Profit</u> | | |
| 9.3% | \$300,000 | \$28,000 |

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Section J: Maximum Purchase Price

We refer to the Maximum Purchase Price as the wholesale price of a property. After subtracting each cost from the expected retail value, we arrive at our maximum purchase price. This is the amount we offer to the seller and never more.

| Section J: Maximum Purchase Price | |
|--|------------------|
| Section C: Estimated Retail Price | \$300,000 |
| Section D: Escrow Costs To Purchase | - \$6,000 |
| Section E: Rehab Costs | - \$3,400 |
| Section F: Holding Costs | - \$2,750 |
| Section G: Resale Costs | - \$10,000 |
| Section H: Contingency | - \$300 |
| Section I: Profit Requirement | - \$28,000 |
| Maximum Purchase Price | \$252,300 |

Section K: Out-of-Pocket Costs

We estimate the Out-of-Pocket costs to acquire the property.

| Out-Of-Pocket Expenses | % | |
|---------------------------------------|----------|-----------------|
| Down Payment | 10% | \$25,230 |
| Earnest Money Deposit | | \$500 |
| Escrow Costs To Purchase The Property | | \$6,000 |
| Rehab | | \$3,400 |
| Contingency | | \$300 |
| Holding Costs | | \$2,750 |
| Subtotal | | \$38,180 |

Section L: Investor Payback and Company Net Profit

We then determine the investor's payback and the Company's net profit. Until the company has a positive cash flow, we provide the out-of-pocket expenses for each property acquisition through loans from the owners to the company. We repay the loans when the property is resold for a profit. The money left over after we pay ourselves back remains in the company to be used toward the next acquisitions.

| Section L: Investor Payback and Company Net Profit | |
|---|-----------------|
| Sales Price | \$300,000 |
| less Resale Cost | - \$10,000 |
| less Payback #1 | - \$19,090 |
| less Payback #2 | - \$19,090 |
| less Mortgage Payoff | - \$227,070 |
| Company Net Profit | \$24,750 |

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3.4. Making Offers

After a property's profit potential has been determined using the Maximum Purchase Price worksheet, the next step is to make an offer to the property owner. Offers are made to the owners in a face-to-face, sit-down presentation. We carefully outline the financial benefits of the offer and make the offer through a sales offer contract. Additionally, we fully disclose to the owner/seller that we are in the business of making a profit from the transaction, that the owner/seller will have no future interest in the property, and that we are not representing them as real estate agents in the transaction.

Our business model focuses our marketing efforts toward motivated sellers. Generally, motivated sellers that must sell their properties quickly are the likely candidates to accept our discounted wholesale offers. A motivated owner is often in a distressed financial situation that forces them to sell their property at a discount to a company that can quickly close escrow and provide the seller with a solution for their situation.

In our regional market, properties are currently listed an average of fifty to sixty days on the market for retail pricing. After combining fifty days on the market with a traditional thirty-day escrow, the seller can expect an eighty-day wait to close escrow. The core of our value proposition relies on the seller's need for a fast escrow, which we can generally provide in seven to fourteen business days. The motivation for the seller is speed.

In our example, the owner/seller is able to close in fourteen days with our offer of \$252,300, rather than a potential net profit of around \$275,000 by listing with an agent. We pay all closing costs and do not use real estate agents to execute the transaction, thus eliminating agent's fees. The net difference to the owner/seller is only \$22,700. We provide this information to the seller in a numbers-driven presentation, including comparables, and let the seller decide which is the better choice for their situation.

| If Owner Lists With Agent | |
|----------------------------------|------------------|
| Retail List Price | \$300,000 |
| Agent Fees (6%) | - \$18,000 |
| Escrow Costs | - \$2,000 |
| Repair Cost | - \$5,000 |
| Net | \$275,000 |
| Avg. Days on Market | 53 |
| Avg. Days in Escrow | 30 |
| Total Days to Close | 83 |
| Our Offer | \$252,300 |
| Company's Days to Close: | 7-14 |
| Net Difference to Owner | \$22,700 |

The offer is made in writing using a proprietary sales contract template written for the company by a real estate attorney for the sole purpose of buying real estate directly from owner/sellers. Generally, the sales contract for buying properties specifies that the offer is good for three days. We also specify that all offers are contingent upon inspection of the property and that the owner must allow access. The cost of the inspection is

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included in the acquisition cost, as noted on the Maximum Purchase Price worksheet. If the inspection reveals flaws in the property, we may elect to adjust the offer price or cancel the contract.

When the owner/seller signs the contract, we immediately open escrow with a title company of our choosing and provide the title company with the signed sales contract and our earnest money deposit. The title company's job is to provide title insurance; a search for title claims on the property; and to see the transaction through to the close of escrow. The sales contract specifies that the offer is contingent upon the property having a clear title.

Once the contract is recorded, we may elect to assign the contract to another buyer. If the contract is not assigned to another buyer, we generally begin preparing the property for resale as soon as escrow is closed. This includes rehabbing the property, as budgeted in the Maximum Purchase Price worksheet, and marketing the property for resale.

3.5. Financing

We use the following sources of financing when purchasing properties at wholesale prices directly from owners:

Preforeclosure Techniques: One of our preferred forms of financing is to use preforeclosure techniques. If the owner doesn't have equity in the property, we try to assume the existing financing by contacting the lending institution and requesting that the existing loan be modified to allow our company to assume the loan. We may cure any outstanding debt, negotiate with any junior lien holders, and pay all fees associated with the transaction. Costs associated with the transaction, which can range from \$0 to \$50,000, are included in the Maximum Purchase Price worksheet and the sales price reduced accordingly. We review each transaction with our real estate attorney to limit our liability, as using preforeclosure techniques requires a substantial amount of legal knowledge and preforeclosure experience.

Owner Financing: Another of our preferred forms of financing is to arrange for the owner to carry some or all of the financing. When arranging owner financing, the company uses a loan servicing company to ensure that all payments are made.

Conventional Financing: In cases where existing loans on the property cannot be assumed and the owner cannot or will not carry the financing, the company uses prearranged conventional loan financing, typically with 10%-20% down payments. We can also bring in private investors to provide funds in the form of short-term loans for our out-of-pocket expenses. As a rule of thumb, we assume that fees associated with conventional loans and closing costs are 10% of the loan amount and include these costs in the Maximum Purchase Price worksheet.

As a conservative approach, putting 10%-20% down on a property limits the risk of becoming 'upside down' on a loan if the property decreases in value. Generally, we use either mortgage brokers or hard money lenders for funding properties using conventional financing. Mortgage brokers can provide better financing terms than hard money lenders, but often require at least 10%-20% down for investment properties. A hard money lender can finance a property for little or no money down in exchange for high fees. If we've identified a property that has substantial equity or net profit potential and financing with a hard money lender is our only option, then we'll consider going forward

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with a hard money loan. If we intend to hold the property as a rental, we may wait six-months for the loan to become 'seasoned', refinance the loan at a lower rate, and take equity out of the property at the refi closing. These proceeds can be used as a down payment for the next property.

We carefully monitor each property's loan-to-value ratio (LTV). LTV is the amount of money borrowed against a property compared to the actual value of that property. The amount is expressed as a percentage. Also, investor loans are usually made at 65% to 85% Loan-to-Value. For example: if the loan amount is \$275,000 and the value of property is \$325,000, then $\$275,000/\$325,000 = .85$ (or 85% LTV)

Additionally, we avoid signing notes that include a prepayment penalty. The only way to avoid a prepayment penalty is to hold the property until the prepayment period is over. If a property with a prepayment penalty is sold or refinanced during that period, the property's net profit potential is reduced by the amount of the penalty.

As a start-up, the company itself doesn't possess the credit history necessary to secure funding for the properties. Initially, financing is in our personal names and we record the deed to the LLC. As the company gains in financial strength and credit worthiness, we can secure funding in the company's name.

3.5.1. Managing Cash Flow

Before we purchase a property we know what our cash outlay should be, based on our Maximum Purchase Price worksheet projections. We'll fund properties and expenses with personal loans that are repaid when the properties are resold. After the company begins to build cash reserves, we can fund the property acquisitions and expenses through the company.

We carefully monitor our cash flow so as to never fall below a certain percentage of cash-on-hand. To monitor our cash flow, we update and review our projected Cash Flow forecast (see the Financial Plan section of this business plan) on a weekly basis. The owners can provide short-term loans to the company if we fall below an acceptable amount of cash-on-hand. The short-term loans are repaid when the properties are sold and the company is again has positive cash flow. We make every effort to accurately project the actual cash-on-hand needs for every acquisition, as the margin of error is slim. A miscalculation can mean reselling the property for a negative net profit. In the event we sell a property for a negative net profit, we carefully review why the Maximum Purchase Price projections were inaccurate and incorporate this knowledge into our next acquisitions.

Additionally, we maintain lines of credit that we can tap at any given time. We only use a line of credit when there is a clear payback for the debt. For example, we'll tap a line of credit to use as a down payment for a property, but only when we've identified the property as one that we can quickly resale for a likely net profit (including the line of credit payback). Using credit to finance purchases is a high-risk proposition. Before we use any line of credit, we establish a payoff plan to quickly eliminate the debt, based on our Cash Flow forecast.

3.5.2. Turnaround Time

Our goal is to quickly rehab and resell each property. We keep each property's holding costs to a minimum, maximizing our net cash profit as quickly as possible. Net cash profits are used to purchase additional properties. The longer our cash is held up in one property, the less money we'll make over the long term.

We keep a percentage of our property acquisitions as long-term rentals, intentionally targeting properties that can provide positive cash flow and that are likely to substantially appreciate in value. If the property is identified as a long-term rental that we want to keep in our inventory, then the property is quickly prepared and rented after we sign the sales contract. The rental income is recognized in our sales forecast and rents are used to offset the mortgage on the property.

3.6. Rehabbing Properties

The company's approach to rehabbing properties starts when the property is initially considered for purchase. Based on a physical inspection, we identify each component of the property that requires rehabbing and estimate the individual costs for all repairs and the time required for each repair. This allows us to incorporate rehab costs into our overall net profit forecast and gives us a clear picture of the timeframe necessary to rehab the property.

Also, each purchase offer is contingent on a physical inspection. If the inspection reveals that the property requires additional repairs, we'll renegotiate the purchase price based on the estimated cost of each repair.

Estimating the cost of repairs is one of our biggest challenges. Our philosophy is to hire contractors for rehabbing the properties rather than perform the repairs ourselves. Our time is best spent negotiating for properties and we recognize that it's in our best interest to leave the rehabbing to the experts. We bring in our trusted contractors to provide a cost estimate for each area requiring repairs.

We hire only licensed, insured, and bonded contractors. Doing so limits our liability and helps ensure that the repairs are guaranteed and professional. Our rule of thumb is to get three written estimates for each repair, which should include a total estimated cost, a breakdown of deliverables, payment terms, and a finish date. We generally provide the contractor with a small advance and then pay incrementally based on the percentage completed. We have the contractor specify a payment schedule in the estimate.

Our initial focus for rehabbing a property is to present the property in the best light, which translates into a thorough cleaning inside and out, new carpet and paint for the interior, and basic landscaping for the exterior. Beyond the basics, we'll rehab sections of the house based on the expected return for the effort. This means focusing on the house's curb appeal, the kitchen, the bathrooms, the master bedroom, and the mechanical systems. Once the rehab is complete and ready to be placed back on the market, we'll often 'stage' the property using the services of a staging company. A staging company decorates the interior to provide the most appeal to potential buyers.

3.7. Selling Properties

We begin to market each property for resale as soon as we control the property through a sales contract. The sales contract includes a clause that allows us to place signs on the property and have access for the purpose of showing the property to potential buyers and investors.

To market the property, we generally utilize the services of a flat fee Multiple Listing Service. We actively market the property through local newspaper and Internet advertising, along with placing signage on the property.

The listing price is predetermined by our initial Maximum Purchase price worksheet forecasts. We use a proprietary seller's contract when we sell property, written by our real estate attorney. The contract states that the buyer pays all closing costs, including title insurance.

4. Marketing Plan

We have one primary goal in our marketing efforts: to generate leads from motivated property owners that result in our purchasing their properties for wholesale prices.

We use several strategies to generate leads from motivated property owners. A marketing budget for each strategy is included in the Profit and Loss forecast in the Financial Plan section of this business plan. Our six primary marketing strategies include:

- Maintaining a Property Database
- Creating an Automated Letter-Writing Campaign
- Website and Internet Advertising
- Signs
- Investor Networking
- Marketing Collateral

Maintaining a Property Database: We maintain a database of all leads generated, allowing us to manage information for a large number of properties and maintain contact with the property owners. The database includes detailed information on each property that we collect from the property owners. We also subscribe to a local foreclosure service and import their weekly reports into the database. Each property entered into the database includes all relevant information regarding the property, including the Maximum Purchase Price worksheet and information on any offers we've made on the properties.

Automated Letter-Writing Campaign: We actively utilize the database in our on-going marketing efforts by generating letters to property owners that have contacted us and to property owners in the region that are in preforeclosure or foreclosure.

If we've identified a target property and submitted an offer to the property owner which was not accepted, we continue to pursue the property through an automated letter writing campaign. The letters are a reminder to the owners that we are still interested in the buying the property and are available to discuss the property at any time.

Additionally, we generate letters to local property owners that are in preforeclosure or foreclosure. These property owners are highly motivated to protect their credit ratings and rid themselves of a property they cannot afford. Typically, these property owners have been notified of default by their mortgage lenders. We locate these property owners through a list provided for a fee by a local preforeclosure service. The list is imported into our database and we send letters to the properties owners on the list, typically one per month for three months during the preforeclosure and foreclosure period. We target property owners in specific neighborhoods that fall within the median to above-median house prices in our region.

All marketing letters are automatically generated from the database, triggered by predetermined mailing dates based on the preforeclosure and foreclosure timelines specified in our state. Letters are automatically personalized for each property owner and mailed directly to the owner.

Website and Internet Advertising: The company maintains a website that's primary purpose is to generate leads. The website generates leads by driving highly targeted traffic from keyword searches on primary search engines, such as Google, and through regional

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Pay Per Click (PPC) advertising programs. When motivated property owners arrive at the website, the owner is encouraged to fill out a simple online questionnaire that provides the company with essential property and contact information. The form is then automatically mailed to the company and recorded in the company's property database. We immediately contact the owner, research the property, and determine whether an offer is appropriate.

Signs: We place signs in targeted neighborhoods to constantly remind the community that our company is available to help them sell their home quickly for cash should the need arise. The signs are left in place and checked once a month. Before paying for and installing the signs, we checked our city's sign ordinance to make sure we complied with the city's signage codes.

Investor Networking: We believe that our competition can also be one of our strengths. By actively networking with the investor network in our community, we've built a list of investors to whom we can market our properties. We seek out good deals on buying properties and tap the network when we're marketing properties to sell. Additionally, because we have an 'and/or assigns' clause in our sales contracts, we can assign any sales contract to another investor without ever taking possession of the property. We are active members of our community's real estate investor association and take advantage of their education courses and industry contacts.

Collateral: We maintain printed marketing collateral that supports our marketing efforts, including business cards and brochures. We freely distribute our marketing collateral at every opportunity. All of our marketing collateral prominently displays the company's website address, which is our least expensive and most productive source of leads.

4.1. Competition

We've identified at least six local companies that are positioned similarly to our company. Each appears to have varying levels of active involvement in the wholesale property acquisition process. Additionally, we've identified at least two national franchises operating in our region. We do not see these competitors as highly threatening, as the nature of buying real estate for wholesale pricing is such that motivated property owners are a continually replenished market.

The most pressing competitor situation involves motivated property owners seeking out the best deal from several wholesale buyers in the region by engaging the buyers in a bidding war. We do not engage in bidding wars, as our offers are based on realistic market conditions and resale pricing expectations. Our bottom line numbers are driven by locking in a net profit for the company and cannot accommodate the pricing pressure of a bidding war. Our feeling is that bids priced lower than ours either won't allow for much of a net profit for the bidder or the bidder can turn the property for less than us. Either way, bidding wars inevitably disregard the basis for our forecasts and are contrary to the company's best interests and business model. We focus on volume lead generation and our value proposition of providing a viable, fast solution for the property owner.

5. Industry Review

We believe that residential real estate market conditions are increasingly straining marginally qualified property owners, both nationally and regionally. The market is undergoing a

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dramatic shift as it turns to a buyer's market. The result has been an increase in the amount of available homes on the market, which in turn increases the number of days a house is on the market. With more inventory to choose from, buyers are no longer willing to pay top dollar for a property and properties are increasingly more difficult to sell.

As home prices rose dramatically in the past several years, individuals who were only marginally qualified to purchase increasingly expensive homes resorted to zero-down and low-down mortgages, along with adjustable rate mortgages made available by the mortgage industry. The result was an affordable, low monthly payment on properties that had little or no equity. As interest rates rise and balloon payments come due, marginally qualified property owners are less able to meet their mortgage obligations. It's these property owners that become motivated sellers and the primary focus of our marketing efforts.

Regional Review

According to RealtyTrac Inc, foreclosures rose 27% over the past year in our regional market. The median price of a home in our region was \$220,000, increasing only 2% to \$225,000. The number of properties listed in the region's Multiple Listing Service increased 120% over the previous year. The average number of days on the market for homes was fifty three, an increase of four days over the previous month. One year previously, the number of days on the market for a listing was twenty six. Clearly, a buyer's market makes selling difficult for property owners that must sell their property quickly.

In the long-term, we are located in a region of the country that has experienced strong appreciation in real estate during in the past several years. Despite a current downward trend in the residential real estate market, our region is anticipating strong population growth over the next twenty years. Additionally, the region maintains an excellent infrastructure to accommodate growth; a strong job market; a world-class university; major medical centers; a large military base; and a growing technology sector.

The county's current population is 955,800 and is projected to climb to 1,174,900 by 2015. Passing the one million mark is a strong milestone in the growth of the region, having gained the attention of institutional investors. At least ten new shopping centers are being planning or are in construction. Buying properties now at wholesale prices and holding a percentage of these as long-term rentals while the population grows and the market strengthens is a strong component of our business strategy.

5.1. Key Industry Benefits

We recognize several benefits from investing in real estate:

- **Using Limited Cash To Finance Properties**
- **Leverage**
- **Appreciation**
- **Depreciation**

Using Limited Cash To Finance Properties: We take advantage of several opportunities to purchase properties for small amounts of cash out-of-pocket, including traditional low-down bank loans; investor loans; seller financing options whereby the

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owner carries some or all of the loan; 'Subject To' financing in which the company takes over existing financing; and short sale techniques.

We generally provide at least a 10%-20% down payment on each property, which reduces the company's risk in the property by building in a limited amount of equity. In the rising housing market of the recent past, investors often purchased properties for little or no money down. This method works only in a rapidly appreciating market, where rising property values can quickly build equity in the property. In the current market, lenders often require 20% down. Moreover, the 'zero down' method is not a sound, long-term business practice. If the property is highly leveraged with no equity and the value of the property falls, we may not be able to sell the property for what is owed on it. The company is then upside down on the property and has little choice but to either sell the property for a loss or hold the property for the long-term as a rental and wait for property prices to increase. The company risks defaulting on the financing if we cannot manage the cash flow required to hold the property.

Leverage: We can leverage a property by taking equity out of it. We do this either by taking cash out through a refinance or establishing a line of credit on the property and using those funds to purchase another property. The company uses leverage to increase net profits and carefully manages the risk inherent in leveraging real estate.

Appreciation: Real estate appreciates, or increases in value, over time. The strength of appreciation is one of the most powerful tools of buying and holding income properties. While properties are appreciating in actual value, tenants are paying down the mortgage with their rent checks. And as tenants are paying down the mortgage, equity in property is increasing -- which means the company's net worth is increasing with every rental property. The value of the property also increases through rent appreciation. Even if initially the property is a break-even proposition every month, over time the rents will increase, resulting in increased cash flow for the company. Being able to write-off expenses and depreciate the property can result in tax-free cash flow. Ideally, we search for properties that produce a positive cash flow. The property also appreciates through property improvements, which additionally increases the equity in the property.

Depreciation: To make the situation even better, while the property is appreciating in value, the IRS allows the company to depreciate the asset for tax purposes. We discuss each property with our accountant to determine its annual depreciation deduction for tax purposes. When we sell a property, our accountant provides us with information on recapturing the depreciation; the basis for the property; and whether the property is subject to capital gains.

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6. Implementation

Like the stock market, the direction of the real estate market is difficult to predict. Our projections and forecasts are candidly ballpark, at best, as we cannot realistically predict the volume or actual profits from buying and selling properties in the future. We can, however, establish manageable business goals based on a structured timetable to achieve our short-term and long-term objectives, which allows us to systematically build the company.

We've developed the following goal-based, five-month timeline to launch the company and acquire our first property.

| Milestones | | |
|--|------------|----------|
| | Start Date | Budget |
| Write Business Plan | 1/2 | \$100 |
| Meet with Attorney | 1/5 | \$250 |
| Incorporate | 1/7 | \$100 |
| Attorney Writes Operating Agreement | 1/9 | \$150 |
| Attorney Writes Sales Contract | 1/11 | \$150 |
| Meet with Accountant | 1/12 | \$0 |
| Print Business Cards | 1/13 | \$50 |
| Create Website | 1/14 | \$100 |
| Create Regional Pay-per-Click Internet Advertising | 1/21 | \$250 |
| Print and Distribute Neighborhood Signs | 1/27 | \$300 |
| Join Foreclosure Finder Service | 2/1 | \$300 |
| Create Property Database | 2/3 | \$400 |
| Create Templates for Letter-Writing Campaign | 2/9 | \$0 |
| Establish Investor Relationships | 2/14 | \$0 |
| Establish Mortgage Banker Relationships | 2/21 | \$0 |
| Secure Financing for Property #1 | 3/1 | \$0 |
| Begin Making Offers | 3/1 | \$0 |
| Establish Flat Fee MLS Service Relationship | 3/2 | \$0 |
| Open Bank Account | 3/5 | \$100 |
| Establish Title Company Relationship | 3/7 | \$0 |
| Put Property #1 Under Contract & Open Escrow | 4/1 | \$500 |
| Property Inspection | 4/2 | \$250 |
| Contractor Bids for Rehab | 4/5 | \$0 |
| Assign Contract or Close Escrow | 4/15 | \$1,000 |
| Rehab Property #1 | 4/16 | \$4,000 |
| Market, Sell & Close Escrow on Property #1 | 4/16 | \$2,000 |
| Search for Property #2 | 5/1 | \$0 |
| Totals | | \$10,000 |

6.1. Future Services

Our future plans involve developing the company into a full-service real estate investing entity. The goal is to evolve into a comprehensive company that services our own in-house needs for real estate investing and additionally offers these services for a fee to real estate investors as a one-stop solution for all of their investment needs. As a full-service real estate investing company, we'll investigate creating the following individual divisions within the company:

- **Property Acquisition**
- **Investor Participation Opportunities**

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- **Property Management**
- **Real Estate Brokerage**
- **Mortgage Financing**
- **Complete Investment Services and Consulting**

Property Acquisition: We've launched the company with the development of the Property Acquisition division. The role of the division is to acquire, hold, and resell residential real estate properties. The properties are viewed as inventory assets of the company, purchased for the purpose of bringing net profits into the company when the properties are resold or refinanced.

Investor Participation Opportunities: We plan to seek passive investors to provide working capital for each acquisition, with payback of the initial investment and a percentage return-on-investment to the investor when the property is sold.

Property Management: The Property Management division will be responsible for managing all properties that the company holds as long-term rentals. Additionally, the company can provide property management services to real estate investors for a fee.

Real Estate Brokerage: We may establish a full-service real estate brokerage to handle all internal transactions for buying and selling the company's properties, along with providing brokerage services to real estate investors and individual home buyers and sellers.

Mortgage Financing: We'll investigate developing a division specializing in investment financing for investors and individuals seeking real estate financing, primarily through private money loans.

Complete Investment Services and Consulting: The company may create a division that advises real estate investors in their long-term investment strategies and provides comprehensive services for their investment needs. The goal is to provide a one-stop solution for an investor through a combined packaging of our divisions and resources: Property Acquisition; Investor Participation Opportunities; Property Management Services; Real Estate Brokerage Services; and Mortgage Financing.

7. Financial Plan

The company's goal is to increase its net worth through real estate investing by following a carefully planned set of guidelines. Real estate investing is a volatile, risky business. We lower our risk by analyzing data on properties, allowing us to make informed business decisions.

We've set a goal of acquiring four properties in the first year; eight in the second year; and twelve in the third year. We expect to loan the company a total of \$43,000 in seed money to use as working capital to purchase the first properties.

To generate working capital, we intend to resell most of the properties we acquire in the first few years and use the net profits to purchase an increasing number of long-term rentals. We believe that to create long-term growth and stability, we need to buy and hold a portion of the properties as rentals.

The financial goal of the company is to leverage this seed money into a substantial company with a Balance Sheet in excess of \$1 million in assets after the first three years of operations. To achieve this goal, we intend to buy twenty-four properties by the end of our third year, generating net profits of \$532,000 from the sale of nineteen properties and equity of \$150,000 from holding five rental properties. After the third year, we plan to continue increasing our acquisition and sales volume each year, using the working capital to buy long-term rental properties in addition to buying and selling properties.

Primarily, revenue is forecast from two streams of income:

- Net Profits from Buying and Selling Property
- Rent from Long-Term Rental Property

At the end of the first year of operations, after having purchased and resold four properties with \$43,000 in seed money from the owners, the company's Cash Balance is \$186,018. In the second year, our Cash Balance falls to \$117,529 due to repayment of the owners seed money loan, and decreases to \$35,600 in the third year. This decrease is due primarily to an increase in the number of properties acquired for holding as long-term rentals. Without payback of our investments through the sale of these properties, we do not realize the same rate of cash infusion as in our first two years of operations.

The company's revenue for the first twelve months is \$112,000, consisting of net sales from the sale of four of four properties acquired in that year. Revenue increases to \$242,292 in the second year based on acquiring an additional eight properties, selling six of the properties and retaining two as long-term rental properties. Revenue rises only moderately in the third year to \$296,822 based on acquiring an additional twelve properties, selling nine of the properties and retaining three as long-term rental properties.

The company's net profit in the first year is \$94,680 in the first year, decreasing to \$44,792 in the second year due to payroll and benefit costs and decreasing slightly again in the third year to \$11,692.

The company's Total Liabilities and Capital for its first three years of operations are \$138,018, \$517,529, and \$1,107,697 respectively.

7.1. Important Assumptions

We expect to loan the company a total of \$43,000 in seed money to purchase the first properties. These loans can be repaid when the company no longer needs that amount for working capital.

Although it's difficult to predict the exact number of properties the company will buy and sell, for the purpose of business planning we've set a goal of acquiring twenty-four properties in the next three years: four in the first year; eight in the second year; and twelve in the third year.

We recognize the volatility inherent in the real estate market. Current market indicators show a falling market with prices decreasing, inventories increasing, and interest rates rising. As the market falls, properties owned by the company may not continue to have strong equity positions that might have been tapped for down payments on future acquisitions. We also recognize that real estate is an illiquid market and selling our inventory of properties may be difficult in a buyer's market.

The company may purchase more or less than this number of properties depending on market conditions, the availability of profitable properties, and the availability of working capital required to purchase each property. We always seek guidance from a qualified CPA to review each property's profit potential based on future market conditions and the company's profit, risk, and tax situation.

Tax Issues

As an LLC, we're subject to "pass-through" taxation, meaning that the income of the LLC is passed through to the owners and taxed at our personal income tax rates. As the owner's individual tax situations are different, we defer to our accountants for taxation guidance on all properties we buy and sell.

Short-Term Capital Gains: Property held for one year or less is considered to be held on a short-term basis. If we sell a short-term capital asset, any related gains will 'flow through' to the individual owners, which are taxed at our individual tax rate.

Self-Employment Tax: All business income generated by the LLC is subject to self-employment tax for the owners.

We use a Cash Basis accounting method with a fiscal year of January through December.

7.2. Exit Strategy

Exit Strategies for Properties

The owners have designed this business plan to allow for specific exit strategies for all properties acquired. We may sell each property as market conditions allow and will seek guidance from our accountants to review each property's profit based on future market conditions and our personal tax situations. If market conditions continue downward, we may not be able to sell a property for our required net profits. In this case, we'll attempt to hold the property as a long-term rental, assuming our cash flow situation allows. As a last resort, we'll sell the property as a net loss and attempt to manage the loss through tax benefits for capital gains and losses.

Exit Strategies for the Company

We're aware that many small business fail. Although we hope for the best, we've planned for the worst in creating an Operating Agreement that dictates how the company's assets will be divided, in addition to planning for how debts are to be paid, should the company be dissolved. The Operating Agreement is a legally binding contract between the owners, written by a real estate attorney well versed in what can happen should the company need to close.

7.3. Sales Forecast

Revenue is forecast from two primary streams of income:

- Net Profits from Buying and Selling Property
- Rent from Long-Term Rental Property

Net profits from the acquisition and sale of property allows us to create working capital. However, only buying and selling property limits our long-term growth as that activity only provides for a one-time cash infusion. To create long-term growth and stability, we plan to use the working capital generated from buying and selling properties to buy and hold a portion of the properties as long-term rentals. Holding long-term rentals provides the company with a means of building equity and cash flow for the future.

7.3.1. Net Profits from Buying and Selling Properties

Net Profits from Buying and Selling Property

For forecasting purposes, we're assuming that we'll buy each property for a wholesale price of \$240,000, spend \$32,000 on escrow fees and rehab costs, and sell each property for a retail price of \$300,000 for an average net profit goal of \$28,000 per property. The net profit from the sale of each property is used as working capital to acquire the next sequential properties.

To generate working capital, we intend to resell all properties acquired in the first two years. In the first year, our goal is to create \$112,000 in working capital from buying and reselling four properties at a net profit of \$28,000 each ($4 \times \$28,000 = \$112,000$). In the second year, our goal is to buy and sell eight more properties and sell six, generating \$168,000 in working capital from net profits for that year ($6 \times \$28,000 = \$168,000$). In the third year, our goal is to buy twelve properties and sell nine of these properties while holding the remaining three properties as long-term rentals. Selling nine properties in our third year will generate \$252,000 in net profit from sales for that year ($9 \times \$28,000 = \$252,000$).

In this manner, our goal is to buy twenty-four properties by the end of our third year, generating net profits of \$532,000 from the sale of nineteen properties and equity of \$150,000 from holding five rental properties. After the third year, we plan to continue increasing our acquisition and sales volume each year, using the

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working capital to buy long-term rental properties in addition to buying and selling properties.

7.3.2. Net Profits from Rental Income

Beginning in our second year, we'll have generated sufficient working capital to begin funneling cash toward buying and holding long-term rental properties. In the second year, our goal is to acquire eight properties, keeping two as long-term rentals. In the third year, our goal is to acquire twelve properties, keeping three as long-term rentals. As we anticipate providing 10%-20% down payments for each of the properties, we expect to have \$150,000 in equity for properties held as rentals. We plan to increase the percentage of properties we acquire each year, as cash flow and available working capital allow.

Average rent in our region for a three-bedroom house is \$1,076, which results in total rental income of \$18,292 in the second year for our two rental properties and \$44,822 for the third year for five rental properties. We expect to increase rents annually for all rental properties by 5% and allow for a one-month per year vacancy of each unit. We assume that each property is rented within sixty days of acquiring the property.

The following table represents our Sales goals for the first three years including revenue from buying and selling properties and rental income. A 12-month detail is provided in the Appendix.

| Sales Forecast | | | |
|----------------------------------|------------------|------------------|------------------|
| | Year 1 | Year 2 | Year 3 |
| Sales | | | |
| Sale of Property #1 | \$28,000 | \$0 | \$0 |
| Sale of Property #2 | \$28,000 | \$0 | \$0 |
| Sale of Property #3 | \$28,000 | \$0 | \$0 |
| Sale of Property #4 | \$28,000 | \$0 | \$0 |
| Property Sales Year Two | \$0 | \$224,000 | \$0 |
| Property Sales Year Three | \$0 | \$0 | \$252,000 |
| Rental Income | \$0 | \$18,292 | \$44,822 |
| Other | \$0 | \$0 | \$0 |
| Total Sales | \$112,000 | \$242,292 | \$296,822 |

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7.3.3. Rental Property Income

The following tables represent how rental revenue is received in the second and third years.

| <i>Rental</i> | Mo. 13 | Mo. 14 | Mo. 15 | Mo. 16 | Mo. 17 | Mo. 18 | Mo. 19 | Mo. 20 | Mo. 21 | Mo. 22 | Mo. 23 | Mo. 24 | <i>Subtotal</i> |
|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------------|
| 1 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$11,836 |
| 2 | | | | | | | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$6,456 |
| | | | | | | | | | | | | | \$18,292 |

| <i>Rental</i> | Mo. 25 | Mo. 26 | Mo. 27 | Mo. 28 | Mo. 29 | Mo. 30 | Mo. 31 | Mo. 32 | Mo. 33 | Mo. 34 | Mo. 35 | Mo. 36 | |
|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|
| 1 | x | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$12,430 |
| 2 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | \$1,076 | | x | \$1,130 | \$1,130 | \$1,130 | \$12,052 |
| | | | | | | | | | | | | | \$24,482 |
| 3 | | | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$11,300 |
| 4 | | | | | | | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$1,130 | \$6,780 |
| 5 | | | | | | | | | | | \$1,130 | \$1,130 | \$2,260 |
| Subtotal | | | | | | | | | | | | | \$20,340 |

7.4. Personnel Plan

For the first year, the owners plan to manage the day-to-day operations of the company. Administrative functions, such as accounting, are outsourced and listed as line items in the Profit and Loss forecast. The owners waive their salaries in the first year in order to funnel all available cash into property acquisitions. They begin taking a salary with benefits in the second year, along with an annual dividend distribution of the net profits.

We anticipate sufficient sales activity and positive cash flow to hire an Office Manager and an Acquisition Manager in the second year. Each position is noted in the following Personnel table as starting at \$35,000 per year, with 5% annual increases. Payroll Burden (payroll taxes, and employee benefits) are accounted for in the Profit and Loss table under General and Administrative Expenses at 15% of the total Payroll Expense. Additionally, we plan to create a Defined Benefits retirement plan for the primary employees in the second year of operations, or as the company's cash flow allows.

Total Payroll in the second year is \$140,000, increasing to \$147,000 in the third year.

The following table represents our Payroll forecast for the first three years. A 12-month detail is provided in the Appendix.

| <i>Personnel Plan</i> | | | |
|----------------------------|--------|-----------|-----------|
| | Year 1 | Year 2 | Year 3 |
| Office Manager | \$0 | \$35,000 | \$36,750 |
| Acquisition Manager | \$0 | \$35,000 | \$36,750 |
| Owner #1 | \$0 | \$35,000 | \$36,750 |
| Owner #2 | \$0 | \$35,000 | \$36,750 |
| Total Payroll | \$0 | \$140,000 | \$147,000 |

7.5. Projected Profit and Loss

The company's Profit & Loss forecast provides a detail of expenses for the company.

The following is a discussion of each line item listed in the Profit & Loss table. The table immediately follows this section.

Sales: The company's sales revenue for the first twelve months is \$112,000, consisting of net sales from the sale of four properties acquired in that year. Revenue increases to \$242,292 in the second year based on acquiring an additional eight properties, selling six of the properties and retaining two as long-term rental properties. Revenue rises only moderately in the third year to \$296,822 based on acquiring an additional twelve properties, selling nine of the properties and retaining three as long-term rental properties.

Direct Cost of Sales: All expenses associated with sales are accounted for as line items in the Profit and Loss forecast as operating expenses and in the Cash Flow table as capital expenditures, resulting in no direct costs of sales.

Advertising and Promotion: In the first two months of operations, we allocate \$700 toward initial marketing for items detailed in the marketing plan. These items include website development; business cards; signs; joining a regional foreclosure finder service; creating a property database; and postage for direct mailings. After this initial funding, we allocate \$200 per month for marketing, increasing to \$10,000 per year for each subsequent year.

General and Administrative Payroll: Payroll is based on salaried positions listed in the Personnel table. In the first year, we maintain no employees. We bring on employees in the second year, including an Office Manager and Acquisitions Manager, along with providing payroll for the owners. In the second year, payroll totals \$140,000, increasing to \$147,000 in the third year. The company's Payroll Burden (payroll taxes and employee benefits) begin in the second year at 15% of payroll. We additionally plan to fund a Defined Benefit Retirement plan beginning in the second year.

Depreciation: As the company intends to hold properties only for a short duration in the first few years, we do not include depreciation for any of the properties. After the second year we'll begin to depreciate our long-term assets. The company does not own any other depreciable assets other than its rentals during the first three years.

Corporate Office Rent and Utilities: The company does not anticipate requiring corporate office space until its second year of operations. Rent is allocated at \$400 per month, totaling \$4,800 per year. Utilities are estimated at \$100 per month, totaling \$1,200.

Corporate Liability Insurance: Costs for an umbrella liability insurance policy are allocated at \$50 per month. We plan to increase our insurance coverage as we increase our revenue.

Auto Expense: A portion of the owner's auto expenses are paid by the company as reimbursement for mileage accumulated during the course of company business.

Total Operating Expenses: For the first year, the company's Total Operating Expenses are \$5,800, increasing to \$178,000 in the second year primarily due to employee payroll

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costs and benefits. In the third year, the company's Total Operating Expenses increase to \$224,650.

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA): In the first year, the company's EBITDA is forecast at \$106,200, decreasing to \$63,692 in the second year primarily due to payroll costs. EBITDA rises again in the third year to \$72,172 because of the large increase in sold properties in that year.

Interest Expense: Consisting entirely of interest payments for mortgages held on all properties, the company's interest expense is \$11,520 for the first year, \$18,720 in the second year and \$60,480 in the third year.

Taxes Incurred: As an LLC, the company's profits and losses pass directly to the owners. The LLC does not pay taxes directly; therefore the tax rate is set at 0%.

Net Profit and Net Profit/Sales: The company's net profit in the first year is \$94,680 in the first year, decreasing to \$44,792 in the second year due to payroll and benefit costs and decreasing again in the third year to \$11,692.

The following table represents our Profit and Loss forecast for the first three years. A 12-month detail is provided in the Appendix.

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| Pro Forma Profit and Loss | | | |
|---|-----------|-----------|-----------|
| | Year 1 | Year 2 | Year 3 |
| Sales | \$112,000 | \$242,292 | \$296,822 |
| Direct Cost of Sales | \$0 | \$0 | \$0 |
| Other Sales | \$0 | \$0 | \$0 |
| | ----- | ----- | ----- |
| Total Cost of Sales | \$0 | \$0 | \$0 |
| Gross Margin | \$112,000 | \$242,292 | \$296,822 |
| Gross Margin % | 100.00% | 100.00% | 100.00% |
| Expenses | | | |
| Payroll | \$0 | \$140,000 | \$147,000 |
| Marketing/Promotion | \$3,400 | \$10,000 | \$10,000 |
| Depreciation | \$0 | \$0 | \$0 |
| Corporation Office Rent | \$0 | \$0 | \$4,800 |
| Corporation Office Utilities | \$0 | \$0 | \$1,200 |
| Liability Insurance | \$600 | \$1,200 | \$1,200 |
| Payroll Taxes and Benefits | \$0 | \$15,000 | \$22,050 |
| Retirement Benefit | \$0 | \$0 | \$25,000 |
| Key Emp. Life Insurance | \$0 | \$1,200 | \$2,400 |
| Legal and Accounting | \$1,000 | \$5,000 | \$5,000 |
| Incorporation Fees | \$100 | \$100 | \$0 |
| Bank Opening Balance | \$100 | \$100 | \$0 |
| Auto Expense | \$600 | \$3,600 | \$3,600 |
| Telephones | \$0 | \$1,200 | \$1,200 |
| Other Gen. and Admin. Expenses | \$0 | \$1,200 | \$1,200 |
| | ----- | ----- | ----- |
| Total Operating Expenses | \$5,800 | \$178,600 | \$224,650 |
| Profit Before Interest and Taxes | \$106,200 | \$63,692 | \$72,172 |
| EBITDA | \$106,200 | \$63,692 | \$72,172 |
| Interest Expense | \$11,520 | \$18,720 | \$60,480 |
| Taxes Incurred | \$0 | \$0 | \$0 |
| Net Profit | \$94,680 | \$44,972 | \$11,692 |
| Net Profit/Sales | 84.54% | 18.56% | 3.94% |

7.6. Projected Cash Flow

The company's Cash Flow forecast shows how cash flows in and out of the company. This cash flow includes down payments for properties purchased; acquiring and paying off loans for all properties as they're purchased and resold; escrow fees for properties purchased and resold; rehab costs for each property; and net profits for properties sold. All costs associated with acquiring properties are shown here in the Cash Flow (specifically under Purchase Other Current Assets) because these costs are treated as capital expenditures and not considered a general company expense in the Profit and Loss table.

At the end of the first year of operations, after having purchased and resold four properties with \$43,000 in seed money from the owners, the company's Cash Balance is \$186,018. In the second year, our Cash Balance falls to \$117,529 due to repayment of the owners seed money loan, and decreases again to \$35,600 in the third year. This decrease is due primarily to an increase in the number of properties acquired for holding as long-term rentals. Without payback of our out-of-pocket expenses through the sale of these properties, we do not realize the same rate of cash infusion as in our first two years of operations.

The following sections provide a detailed discussion of each line item in the Cash Flow table:

Cash from Operations: These figures are taken directly from the Sales Forecast, representing net revenue from the sale of nineteen properties and rental income from five properties at the end of three years.

New Current Borrowing: Represents new property loans for each property purchased. Assumes a \$300,000 property purchased at 20% off (for a total purchase price of \$240,000) with 10% down payment of \$24,000. After subtracting the down payment, each loan is \$216,000 ($\$240,000 - \$24,000 = \$216,000$). New Current Borrowing is forecast at \$864,000 for the first year, based on purchasing four properties ($\$216,000 \times 4 = \$864,000$). New Current Borrowing increases in the second year to \$1,728,000 for the purchase of eight properties ($\$216,000 \times 8 = \$1,728,000$) and increases again in the third year to \$2,592,000 for the purchase of twelve properties ($\$216,000 \times 12 = \$2,592,000$).

Sale of Other Current Assets: Represents the sale of each property that we've acquired. We are basing our projections on an average property retail price of \$300,000, less broker fees and closing costs, for an average sale price of \$272,000. In the first year, Sales of Other Current Assets are \$1,088,000 based on sales of four properties ($4 \times \$272,000 = \$1,088,000$). In the second year, Sales of Other Current Assets are \$1,632,000 based on sales of six properties ($6 \times \$272,000 = \$1,632,000$). In the third year, Sales of Other Assets are \$2,448,000 based on sales of nine properties ($9 \times \$272,000 = \$2,448,000$).

New Investment Received: The owners are funding the company with a seed loan of \$43,000. The loan is scheduled to be repaid during the second year.

Total Cash Received: Reflects the combined cash from Cash Sales; New Current Borrowing; Sales of Other Current Assets; and New Investment Received. In the first year, Cash Received totals \$2,107,000, increasing to \$3,602,292 in the second year and \$5,336,822 in the third year.

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Expenditures from Operations: This amount is taken directly from the Profit & Loss table and represents the company's total operating expenses. In the first year, Expenditures from Operations totals \$16,982, increasing to \$191,781 in the second year and \$279,751 in the third year.

Principal Repayment of Current Borrowing: Represents the cumulative principal payments for all outstanding mortgages. The interest portion of all cumulative mortgages is noted in the Profit and Loss as an Interest Expense, as this is a tax expense. As each property is sold, the accompanying mortgage is paid off. In the first year, Principal Repayment of Current Borrowing totals \$864,000, which is equal to the same amount we borrowed in New Current Borrowing.

In the second year, Principal Repayment of Current Borrowing increases to \$1,296,000 to reflect pay off of mortgages on the six properties we acquired and sold in that year. We plan to keep two properties as long-term rentals, resulting in a difference of \$432,000 between the total amount we pay off in Principal Repayment of Current Borrowing and the amount we still owe in New Current Borrowing during the year (we keep two properties with mortgages of \$216,000, totaling \$432,000).

In the third year, Principal Repayment of Current Borrowing increases to \$1,944,000 to reflect pay off of mortgages on the nine properties we acquired and sold in that year. We plan to keep three properties as long-term rentals, resulting in a difference of \$648,000 between the total amount we pay off in Principal Repayment of Current Borrowing and the amount we still owe in New Current Borrowing during the year (we keep three properties with mortgages of \$216,000 = \$648,000).

Other Liabilities Principal Repayment: Reflects repayment of the owner's \$43,000 in seed money in the second year and principal payments on the properties we hold as rentals. In the second year, we hold two properties for an estimated annual principal payment of \$12,000. In the third year, we hold five rental properties for an estimated annual principal payment of \$25,000.

Purchase Other Current Assets: Represents the company's cash outlay for the purchase of each property. The premise of the forecasts is to locate properties that retail in the \$300,000 range and pay 20% less than that price, resulting in a purchase price of about \$240,000. We pay 10% down (\$24,000), which requires financing of \$216,000 for each property with interest rates of 8%. We also assume \$10,000 in rehab costs. This requires a cash outlay of \$34,000 to acquire each property. The amounts noted in Purchase Other Current Assets for each property are \$250,000 for the initial purchase (\$240,000 purchase price + \$10,000 in escrow and closing costs = \$250,000) plus an additional \$10,000 for rehab costs. Rehab costs are distributed over a two-month period in the first two years, resulting in two entries of \$5,000 each.

Net Cash Flow: Represents the actual amount of net cash flowing in and out of the company. A negative cash flow at any given time is acceptable as long as the Cash Balance, which is the amount of money left in the bank, does not become negative.

The following table represents our Cash Flow forecast for the first three years. A 12-month detail is provided in the Appendix.

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| Pro Forma Cash Flow | | | |
|--|-------------|-------------|-------------|
| | Year 1 | Year 2 | Year 3 |
| Cash Received | | | |
| Cash from Operations | | | |
| Cash Sales | \$112,000 | \$242,292 | \$296,822 |
| Subtotal Cash from Operations | \$112,000 | \$242,292 | \$296,822 |
| Additional Cash Received | | | |
| Sales Tax, VAT, HST/GST Received | \$0 | \$0 | \$0 |
| New Current Borrowing | \$864,000 | \$1,728,000 | \$2,592,000 |
| New Other Liabilities (interest-free) | \$0 | \$0 | \$0 |
| New Long-term Liabilities | \$0 | \$0 | \$0 |
| Sales of Other Current Assets | \$1,088,000 | \$1,632,000 | \$2,448,000 |
| Sales of Long-term Assets | \$0 | \$0 | \$0 |
| New Investment Received | \$43,000 | \$0 | \$0 |
| Subtotal Cash Received | \$2,107,000 | \$3,602,292 | \$5,336,822 |
| Expenditures | Year 1 | Year 2 | Year 3 |
| Expenditures from Operations | | | |
| Cash Spending | \$0 | \$140,000 | \$147,000 |
| Bill Payments | \$16,982 | \$51,781 | \$132,654 |
| Subtotal Spent on Operations | \$16,982 | \$191,781 | \$279,654 |
| Additional Cash Spent | | | |
| Sales Tax, VAT, HST/GST Paid Out | \$0 | \$0 | \$0 |
| Principal Repayment of Current Borrowing | \$864,000 | \$1,296,000 | \$1,944,000 |
| Other Liabilities Principal Repayment | \$0 | \$53,000 | \$25,000 |
| Long-term Liabilities Principal Repayment | \$0 | \$0 | \$0 |
| Purchase Other Current Assets | \$1,040,000 | \$2,080,000 | \$3,120,000 |
| Purchase Long-term Assets | \$0 | \$0 | \$0 |
| Dividends | \$0 | \$50,000 | \$50,000 |
| Subtotal Cash Spent | \$1,920,982 | \$3,670,781 | \$5,418,654 |
| Net Cash Flow | \$186,018 | (\$68,489) | (\$81,832) |
| Cash Balance | \$186,018 | \$117,529 | \$35,697 |

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7.7. Projected Balance Sheet

The company's projected Balance Sheet reflects assets of \$138,018 after the first twelve months of operations, derived primarily from buying and selling four properties. Total assets increase to \$517,529 in the second year from acquiring eight more properties, two of which are held as long-term rentals. Total assets increase in the third year to \$1,107,697 from acquiring twelve additional properties, three of which are held as long-term rentals for a total of five rental units.

Total Liabilities is forecast at \$338 for the first year, as we assume to have paid all of our obligations for properties purchased by reselling the properties. Total Liabilities increases in the second year to \$384,877, based primarily on loan obligations for six properties. In the third year, the company's Total Liabilities increase to \$1,013,353 with the addition of five long-term properties.

The company's Total Liabilities and Capital for its first three years of operations are \$138,018, \$517,529, and \$1,107,697 respectively.

The following table represents our Balance Sheet forecast for the first three years. A 12-month detail is provided in the Appendix.

| <i>Pro Forma Balance Sheet</i> | | | |
|--------------------------------------|------------------|------------------|--------------------|
| | Year 1 | Year 2 | Year 3 |
| Assets | | | |
| Current Assets | | | |
| Cash | \$186,018 | \$117,529 | \$35,697 |
| Other Current Assets | (\$48,000) | \$400,000 | \$1,072,000 |
| Total Current Assets | \$138,018 | \$517,529 | \$1,107,697 |
| Long-term Assets | | | |
| Long-term Assets | \$0 | \$0 | \$0 |
| Accumulated Depreciation | \$0 | \$0 | \$0 |
| Total Long-term Assets | \$0 | \$0 | \$0 |
| Total Assets | \$138,018 | \$517,529 | \$1,107,697 |
| Liabilities and Capital | Year 1 | Year 2 | Year 3 |
| Current Liabilities | | | |
| Accounts Payable | \$338 | \$5,877 | \$11,353 |
| Current Borrowing | \$0 | \$432,000 | \$1,080,000 |
| Other Current Liabilities | \$0 | (\$53,000) | (\$78,000) |
| Subtotal Current Liabilities | \$338 | \$384,877 | \$1,013,353 |
| Long-term Liabilities | \$0 | \$0 | \$0 |
| Total Liabilities | \$338 | \$384,877 | \$1,013,353 |
| Paid-in Capital | \$43,000 | \$43,000 | \$43,000 |
| Retained Earnings | \$0 | \$44,680 | \$39,652 |
| Earnings | \$94,680 | \$44,972 | \$11,692 |
| Total Capital | \$137,680 | \$132,652 | \$94,344 |
| Total Liabilities and Capital | \$138,018 | \$517,529 | \$1,107,697 |
| Net Worth | \$137,680 | \$132,652 | \$94,344 |

| Pro Forma Sales Forecast 12-month detail | <i>Jan</i> | <i>Feb</i> | <i>Mar</i> | <i>Apr</i> | <i>May</i> | <i>Jun</i> | <i>Jul</i> | <i>Aug</i> | <i>Sep</i> | <i>Oct</i> | <i>Nov</i> | <i>Dec</i> | <i>Year 1</i> |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|
| Sales | | | | | | | | | | | | | |
| Sale of Property #1 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$28,000 |
| Sale of Property #2 | \$0 | \$0 | \$0 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$28,000 |
| Sale of Property #3 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$0 | \$28,000 |
| Sale of Property #4 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$28,000 | \$28,000 |
| Property Sales Year Two | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Property Sales Year Three | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Rental Income | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Sales | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$112,000 |

Pro Forma Profit and Loss 12-Month Detail

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year 1 |
|---|-----------|-----------|----------|-----------|-----------|----------|-----------|-----------|----------|-----------|-----------|----------|-----------|
| Sales | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$112,000 |
| Direct Cost of Sales | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Sales | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Cost of Sales | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Gross Margin | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$112,000 |
| Gross Margin % | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% | 100.00% | 100.00% |
| Expenses | | | | | | | | | | | | | |
| Payroll | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Marketing/Promotion | \$700 | \$700 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$3,400 |
| Depreciation | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Corporation Office Rent | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Corporation Office Utilities | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Liability Insurance | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$50 | \$600 |
| Payroll Taxes and Benefits | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Retirement Benefit | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Key Emp. Life Insurance | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Legal and Accounting | \$1,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$1,000 |
| Incorporation Fees | \$100 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$100 |
| Bank Opening Balance | \$100 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$100 |
| Auto Expense | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$100 | \$100 | \$100 | \$100 | \$100 | \$100 | \$600 |
| Telephones | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Gen. and Admin. Expenses | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total Operating Expenses | \$1,950 | \$750 | \$250 | \$250 | \$250 | \$250 | \$350 | \$350 | \$350 | \$350 | \$350 | \$350 | \$5,800 |
| Profit Before Interest and Taxes | (\$1,950) | (\$750) | \$27,750 | (\$250) | (\$250) | \$27,750 | (\$350) | (\$350) | \$27,650 | (\$350) | (\$350) | \$27,650 | \$106,200 |
| EBITDA | (\$1,950) | (\$750) | \$27,750 | (\$250) | (\$250) | \$27,750 | (\$350) | (\$350) | \$27,650 | (\$350) | (\$350) | \$27,650 | \$106,200 |
| Interest Expense | \$1,440 | \$1,440 | \$0 | \$1,440 | \$1,440 | \$0 | \$1,440 | \$1,440 | \$0 | \$1,440 | \$1,440 | \$0 | \$11,520 |
| Taxes Incurred | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Net Profit | (\$3,390) | (\$2,190) | \$27,750 | (\$1,690) | (\$1,690) | \$27,750 | (\$1,790) | (\$1,790) | \$27,650 | (\$1,790) | (\$1,790) | \$27,650 | \$94,680 |
| Net Profit/Sales | 0.00% | 0.00% | 99.11% | 0.00% | 0.00% | 99.11% | 0.00% | 0.00% | 98.75% | 0.00% | 0.00% | 98.75% | 84.54% |

Pro Forma Cash Flow 12-Month Detail

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year 1 |
|---|-----------|-----------|-----------|------------|-----------|-----------|------------|-----------|-----------|------------|-----------|-----------|-------------|
| Cash Received | | | | | | | | | | | | | |
| Cash from Operations | | | | | | | | | | | | | |
| Cash Sales | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$112,000 |
| Subtotal Cash from Operations | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$0 | \$0 | \$28,000 | \$112,000 |
| Additional Cash Received | | | | | | | | | | | | | |
| Sales Tax, VAT, HST/GST Received | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| New Current Borrowing | \$216,000 | \$0 | \$0 | \$216,000 | \$0 | \$0 | \$216,000 | \$0 | \$0 | \$216,000 | \$0 | \$0 | \$864,000 |
| New Other Liabilities | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| New Long-term Liabilities | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Sales of Other Current Assets | \$0 | \$0 | \$272,000 | \$0 | \$0 | \$272,000 | \$0 | \$0 | \$272,000 | \$0 | \$0 | \$272,000 | \$1,088,000 |
| Sales of Long-term Assets | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| New Investment Received | \$38,000 | \$5,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$43,000 |
| Subtotal Cash Received | \$254,000 | \$5,000 | \$300,000 | \$216,000 | \$0 | \$300,000 | \$216,000 | \$0 | \$300,000 | \$216,000 | \$0 | \$300,000 | \$2,107,000 |
| Expenditures | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | 2007 |
| Expenditures from Operations | | | | | | | | | | | | | |
| Cash Spending | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Bill Payments | \$113 | \$3,350 | \$2,125 | \$298 | \$1,690 | \$1,642 | \$301 | \$1,790 | \$1,742 | \$398 | \$1,790 | \$1,742 | \$16,982 |
| Subtotal Spent on Operations | \$113 | \$3,350 | \$2,125 | \$298 | \$1,690 | \$1,642 | \$301 | \$1,790 | \$1,742 | \$398 | \$1,790 | \$1,742 | \$16,982 |
| Additional Cash Spent | | | | | | | | | | | | | |
| Sales Tax, VAT, HST/GST Paid Out | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Principal Repayment of Current Borrowing | \$0 | \$0 | \$216,000 | \$0 | \$0 | \$216,000 | \$0 | \$0 | \$216,000 | \$0 | \$0 | \$216,000 | \$864,000 |
| Other Liabilities Principal Repayment | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Long-term Liabilities Principal Repayment | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Purchase Other Current Assets | \$250,000 | \$5,000 | \$5,000 | \$250,000 | \$5,000 | \$5,000 | \$250,000 | \$5,000 | \$5,000 | \$250,000 | \$5,000 | \$5,000 | \$1,040,000 |
| Purchase Long-term Assets | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Dividends | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Subtotal Cash Spent | \$250,113 | \$8,350 | \$223,125 | \$250,298 | \$6,690 | \$222,642 | \$250,301 | \$6,790 | \$222,742 | \$250,398 | \$6,790 | \$222,742 | \$1,920,982 |
| Net Cash Flow | \$3,887 | (\$3,350) | \$76,875 | (\$34,298) | (\$6,690) | \$77,358 | (\$34,301) | (\$6,790) | \$77,258 | (\$34,398) | (\$6,790) | \$77,258 | \$186,018 |
| Cash Balance | \$3,887 | \$537 | \$77,412 | \$43,114 | \$36,424 | \$113,782 | \$79,480 | \$72,690 | \$149,948 | \$115,550 | \$108,760 | \$186,018 | \$186,018 |

| | <i>Jan</i> | <i>Feb</i> | <i>Mar</i> | <i>Apr</i> | <i>May</i> | <i>Jun</i> | <i>Jul</i> | <i>Aug</i> | <i>Sep</i> | <i>Oct</i> | <i>Nov</i> | <i>Dec</i> | <i>Year 1</i> |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|
| Assets | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | | |
| Cash | \$3,887 | \$537 | \$77,412 | \$43,114 | \$36,424 | \$113,782 | \$79,480 | \$72,690 | \$149,948 | \$115,550 | \$108,760 | \$186,018 | \$186,018 |
| Other Current Assets | \$250,000 | \$255,000 | (\$12,000) | \$238,000 | \$243,000 | (\$24,000) | \$226,000 | \$231,000 | (\$36,000) | \$214,000 | \$219,000 | (\$48,000) | (\$48,000) |
| Total Current Assets | \$253,887 | \$255,537 | \$65,412 | \$281,114 | \$279,424 | \$89,782 | \$305,480 | \$303,690 | \$113,948 | \$329,550 | \$327,760 | \$138,018 | \$138,018 |
| Long-term Assets | | | | | | | | | | | | | |
| Long-term Assets | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Accumulated Depreciation | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Long-term Assets | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Assets | \$253,887 | \$255,537 | \$65,412 | \$281,114 | \$279,424 | \$89,782 | \$305,480 | \$303,690 | \$113,948 | \$329,550 | \$327,760 | \$138,018 | \$138,018 |
| Liabilities and Capital | <i>Jan</i> | <i>Feb</i> | <i>Mar</i> | <i>Apr</i> | <i>May</i> | <i>Jun</i> | <i>Jul</i> | <i>Aug</i> | <i>Sep</i> | <i>Oct</i> | <i>Nov</i> | <i>Dec</i> | <i>Year 1</i> |
| Current Liabilities | | | | | | | | | | | | | |
| Accounts Payable | \$3,277 | \$2,117 | \$242 | \$1,634 | \$1,634 | \$242 | \$1,730 | \$1,730 | \$338 | \$1,730 | \$1,730 | \$338 | \$338 |
| Current Borrowing | \$216,000 | \$216,000 | \$0 | \$216,000 | \$216,000 | \$0 | \$216,000 | \$216,000 | \$0 | \$216,000 | \$216,000 | \$0 | \$0 |
| Other Current Liabilities | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Subtotal Current Liabilities | \$219,277 | \$218,117 | \$242 | \$217,634 | \$217,634 | \$242 | \$217,730 | \$217,730 | \$338 | \$217,730 | \$217,730 | \$338 | \$338 |
| Long-term Liabilities | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Liabilities | \$219,277 | \$218,117 | \$242 | \$217,634 | \$217,634 | \$242 | \$217,730 | \$217,730 | \$338 | \$217,730 | \$217,730 | \$338 | \$338 |
| Paid-in Capital | \$38,000 | \$43,000 | \$43,000 | \$43,000 | \$43,000 | \$43,000 | \$43,000 | \$43,000 | \$43,000 | \$43,000 | \$43,000 | \$43,000 | \$43,000 |
| Retained Earnings | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Earnings | (\$3,390) | (\$5,580) | \$22,170 | \$20,480 | \$18,790 | \$46,540 | \$44,750 | \$42,960 | \$70,610 | \$68,820 | \$67,030 | \$94,680 | \$94,680 |
| Total Capital | \$34,610 | \$37,420 | \$65,170 | \$63,480 | \$61,790 | \$89,540 | \$87,750 | \$85,960 | \$113,610 | \$111,820 | \$110,030 | \$137,680 | \$137,680 |
| Total Liabilities and Capital | \$253,887 | \$255,537 | \$65,412 | \$281,114 | \$279,424 | \$89,782 | \$305,480 | \$303,690 | \$113,948 | \$329,550 | \$327,760 | \$138,018 | \$138,018 |
| Net Worth | \$34,610 | \$37,420 | \$65,170 | \$63,480 | \$61,790 | \$89,540 | \$87,750 | \$85,960 | \$113,610 | \$111,820 | \$110,030 | \$137,680 | \$137,680 |