

REAL ESTATE BUSINESS PLAN

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Business Plan

Sample Investments, LLC

August 9, 2010

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I. Executive Summary

A. Company Information

Sample Investments, LLC was formed in July 2001 to invest in distressed properties that require rehabbing for retail or rental. The investment in distressed properties will be in Sample City and surrounding suburbs. Sample Investments, LLC is solely owned and managed by Jane Investor. Sample Investments LLC is located at 123 Main Anytown, Anystate 12345.

B. Company Objective

Sample Investments, LLC purchases residential real estate in Sample City, Sample State and neighboring suburbs. We target properties that can be acquired at 70% or below of the current fair market value after repairs. These properties generally need moderate to major renovations to go into the retail or rental market. The resale value of the properties after repair ranges from \$75,000 to \$150,000. While our main objective is to make a minimum of 15% profit based on the After Repair Fair Market Value on each deal, we are also aware of our responsibility to the communities we do business in, and our role in the betterment of these communities. Therefore, we always make every effort to provide products that are of good quality and will blend in well with the neighborhood.

C. Company Summary

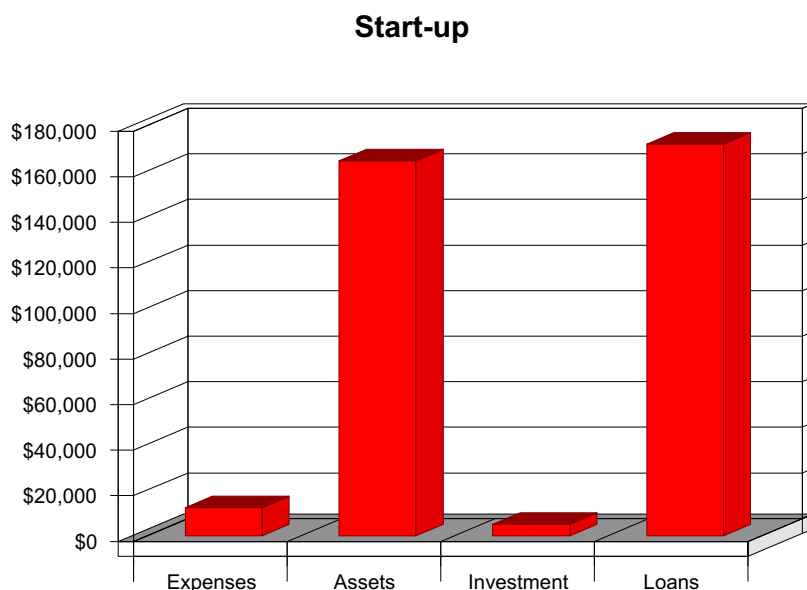
Sample Investments, LLC invests in residential real estate by purchasing distressed properties below 70% of fair market value. Our strategy is based

solely on making sure the profit is made going in and not on speculative appreciation months or years down the road.

Our profit margin over the past year has been on the lower end of our target but volume has been higher. This is to be expected in the early stages of the business cycle. As the business matures we foresee reducing the number of transactions and increasing the profit margin. As we develop our business we have put in place a solid group of people with defined roles that will ensure our success such as Realtors, settlement attorneys, contractors, and bankers. As with any business we will continually evaluate each member's role and contribution and make necessary changes.

D. Start-up Summary (If new company)

Sample Investments, LLC will receive initial funding from its principal in the form of capital contribution and short-term loans. The start-up expenses will be approximately \$10,000. These expenses are related to legal services, stationary, equipment and working capital.



II. Market Analysis Summary

Sample Investments, LLC invests in distressed residential real estate. The main target areas will be those areas that are in high demand by first time homebuyers and those looking to upgrade into modern renovated homes. These areas are Sample Village and Sample Gardens just to name a few. They have stable resale values yet provide a sufficient amount of opportunity. Once the target property is acquired, it is renovated to match or exceed current market standards for retail or rental whichever the case then marketed. The process from start to finish takes six months on the average.

A. Market Segmentation

Sample Investments, LLC plans to retail 90% of the properties and keep 10% per year as rental after the renovations have been completed. This percentage will change in the second and third year as we shift our strategy more to “buy and hold” to build passive income and create wealth.

B. Marketing Strategy

The properties targeted by our company are affordable single-family homes and duplexes in predominantly first time homebuyer neighborhoods located in Sample City and neighboring areas. The resale value of the homes ranges from \$75,000 to \$150,000.

C. Acquisition Strategy

We find the properties through a variety of sources including the Multiple Listing Service (MLS), short sales, foreclosure auctions and through our relationships

with local. These properties are typically owned by banks and government through foreclosures. The condition of these properties at the time of acquisition will range from badly in need of repair to ones only needing minor cosmetic repairs. The repair cost will range from \$5,000 to \$45,000 depending on the type of work required. The properties usually are all in need of paint, carpet, new kitchen and bath. Since most of these properties have been neglected for some time they almost always need landscaping as well as major system checks. We pass up on properties with major foundation problems, extensive roof damage, odd floor plans and those that require lead paint, asbestos, or radon abatement that could result in significant cost overrun.

The most critical factor to our company's success is buying the property at the right price. We determine the Fair Market value after renovation by reviewing recent comparable sales for the area. This data comes from the Realtor as well as other online sites such as realtor.com. The first formula takes into account (in the 30%) all acquisition costs, holding costs, selling costs and profit (See complete descriptions below). This formula works better on properties that would retail for more than \$100,000. For lower end properties we use the second formula. That sets a minimum profit margin and allows for holding costs. We determine the price of all properties using a unique formula (courtesy: Wholesaling for Quick Cash- Steve Cook):

Example: Fair Market Value is \$100,000, Repair Costs \$30,000

$$1) \$100,000 * .70 = \$70,000 - \$30,000 = \$40,000$$

or

$$2) \$100,000 - \$25,000 = \$75,000 - \$30,000 = \$45,000$$

The lower of the two figures is the maximum purchase price we would be willing to pay. Generally, we make our offer \$2000 or lower from our target price to give us some negotiating room.

Description

Acquisition Costs – typical closing expenses etc.

Holding Costs - utilities, interest payments, taxes, etc.

Rehab Costs - materials and labor

Insurance Costs – property protection (General liability where needed)

Selling Costs – Real Estate commission

Miscellaneous Costs – for unexpected expenses and contingency

Profit - compensation for our time and effort

For rental properties we take our annual income then subtract annual expenses and one month's rent (for vacancy) then divide by twelve. The target minimum figure (monthly cashflow) is \$200 or \$2400 annually. Expenses would include such costs as taxes, insurance, utilities, maintenance, management, advertising, and debt service.

D. Competitive Edge

Our contracts get accepted even when they are lower than the competition because they have none of the contingencies that are typically associated with

real estate contracts. In addition, we offer quick settlement usually less than 30 days.

Since our offers tend to be on the low end we have to make several offers to get one accepted. That is especially true now in this hot real estate market. Our current acceptance rate is 10 to 20%. This rate is expected to improve as our business matures and our team becomes more cohesive. We pride ourselves on performing as agreed. This goes a long way when dealing with team members who frequently see others who don't perform.

III. Implementation Plan

A. The Rehab Process

The rehab process plays a major role in the success of our business both in the front end and the back end. On the front end, we are careful to make sure that we do not underestimate the repair costs and pay too much for the property. We are careful to not purchase homes beyond our capabilities. On the back end we must watch the budget to ensure that we do not have cost overruns and/or that the rehab process does not take too long to impact our holding costs. We are acutely aware that no matter what we paid for the property our profit will be in jeopardy if we do not have the right estimates and the right people to do the work. Just as we rely on good Realtors to locate great deals, we rely upon good contractors to provide us with a fair estimate, reasonable

timeline to complete the job, and to actually deliver quality work on time and on budget. Our targeted timeframe for completing the rehab is one to two months.

B. The Rehab Plan

We divide our scope of work such that we do exterior- roofing, siding, windows, doors, landscape, etc., Systems- electrical, plumbing, heating and cooling, Interior- bathroom, kitchen, drywall, paint and carpet. The exterior work is done first to attract potential buyers with the curb appeal as well as to take care of roof leaks that will have impact on interior work. We then take care of electrical and other systems work so that we do not have to make repairs to the walls a second time. Once the major repairs are out of the way we proceed with drywall repairs, paint, kitchen, bath and finally carpet. We do all the demolishing at one time so that we can minimize our costs for trash removal. We always replace items that will increase the appeal and give our properties an edge over others' such as switch outlets, light fixtures, mailboxes etc. We also use colors that are neutral and will appeal to the masses. The house is generally listed two to three weeks prior to completion of all renovations to generate leads.

IV. Sales Strategy

We work closely with Jane Realtor to make sure the property receives maximum exposure, other realtors bring only qualified buyers, and all the necessary follow-up takes place so that the sale will close as scheduled. We

tend not sell the properties ourselves and instead rely upon Jane Realtor and all the agents that have access to the Multiple Listing Service to bring us qualified buyers. Our goal is to sell the property quickly to lower our holding costs and maximize profits. Market conditions have made this strategy very attractive for us. For this reason, we will offer incentives to move properties on a case-by-case basis. We prefer to defer to Realtors who are experts in their field to sell the home quickly and list on MLS for maximum exposure, rather than trying to sell the property ourselves and possibly end up holding the property longer thus reducing our profit. We feel that our time is better spent on finding deals. However, should market conditions change, we are equipped to market the homes ourselves using classified ads, yards signs, etc. to generate leads.

While we have been successful in selling properties with an average holding days of less than 180, we understand we may come across a handful of properties we cannot sell to a retail buyer within a reasonable timeframe. In such cases we have several exit strategies in place that will allow us to recoup our investment over time.

#1 Rent

We would keep the property as rental for long-term investment drawing positive cashflow. The threshold for this type of long-term investment is a minimum of \$200 a month positive cash flow using the formula provided earlier. We would refinance the property to payoff liabilities such as mortgage or line of credit and

other expenses incurred during the rehab process and take some of the profit then if possible.

#2 Lease Option or Rent to Own

While the overall conversion rate (lessee to owner) in the Sample City area is below 25%, this method is still a viable alternative due to its popularity with first time homebuyers who have less than perfect credit or small down payment, and self employed individuals who have cash but not the required work history. This method will provide us with cash upfront, higher rent, and an opportunity to sell the property sooner without additional expenditures on such things as advertising.

We have not had to exercise either option thus far as we have been successful in selling the properties quickly to retail buyers. The reason for our success has been the quality of renovations, affordability of the homes by the masses, and special incentives.

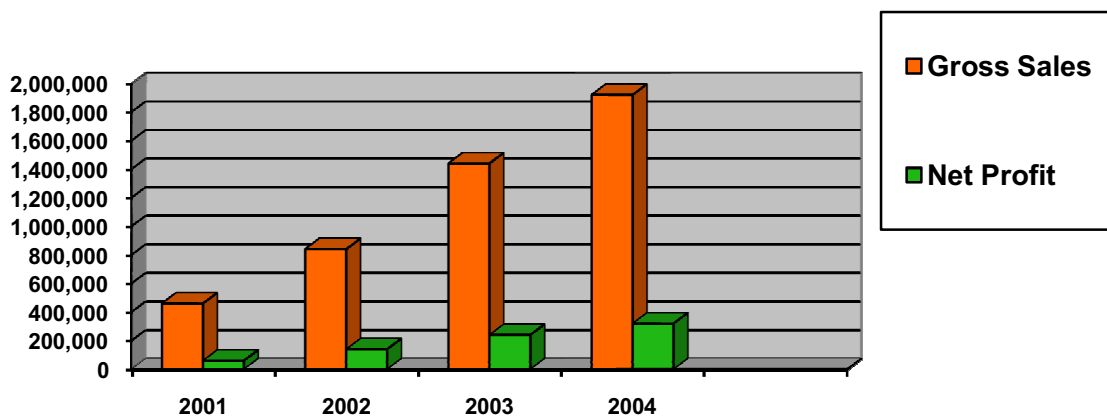
Quality of Renovations: We have learned what features make a difference with potential buyers. With that in mind we almost always replace kitchens and baths, apply fresh paint, replace carpet and do some landscaping. Our homes have the feel and look of a new home when they are completed.

Affordability: Our average sale price ranges from \$75,000 to \$150,000. This is within the range of the first time homebuyer and those looking to upgrade to homes with modern features such as central air.

Incentives: We offer incentives to the agents as well as closing costs assistance to the buyer as allowed by the lender.

V. Sales Projection

We completed 4 transactions in 2001 and are looking to end this year with 7 transactions. The projections for 2003 are for one completed deal per month. For 2004 we are projecting one more per quarter over 2003 projections for a total of sixteen per year. We will also need to work on multiple properties at one time to achieve this goal.



The above goals will require us to work on multiple properties at any given time at various stages- one under contract to purchase, one under rehab, one under

contract to retail. The average sales price after renovation will be \$120,000 with a \$20,000 average net profit per deal for all years. We expect to exceed the net profit figures in future years due to more experience and name recognition in the field.

Our plan calls for 10% of the properties to remain as rental units as long-term investments. We will determine which ones qualify for rental as part of our initial assessment of each deal.

VI. Projected Profit and Loss

Sample Investments, LLC has been in business for 16 months and has purchased and retailed 10 homes since its inception. Our average purchase price has been \$45,000 with a resale price of \$120,000 and net profit of \$20,000 per deal. The net profit margin is 16%. During the past 16 months we have looked at several properties and learned how to spot good deals and the need act fast and get creative to make the deal. We have also redefined everyone's role on the team to address gaps in the process.

VII. Financial Plan

We will seek additional financing from investor friendly lenders. We will apply for a line of credit in the amount of \$350,000, the amount required to do the number of deals we are projecting for 2003. This assumes that we turnover each property within 180 days. Until we receive the line of credit we will

continue to use private or hard money lenders to do deals. It is very important to have access to cash for deals that require quick closing. For that reason we keep a list of private money lenders who can provide such funding on short notice. The acquired properties will serve as collateral for the line of credit.

VIII. Management Summary

The management team consists of Jane Investor. Jane Investor will handle all day-to-day operations while outsourcing services such as accounting, legal, marketing and all renovation related work.

IX. Important Assumptions

We assume the real estate market will continue to grow and interest rates will stay low. If the climate changes we will acquire more properties for buy and hold versus for retail. Another assumption is that the market for homes with deferred maintenance will continue to grow.

X. Summary

It is our goal to establish a good name as soon as possible so that deals will come to us through other investors, individuals, and realtors. Our expansion

plans are realistic and achievable. We are confident that we have the right people on our team and right process in place to achieve our goals.