

BUSINESS PROPOSAL FOR JPO REAL ESTATE, LLC

by
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A practicum thesis submitted to Johns Hopkins University in conformity with
the requirements for the degree of Master of Science in Real Estate

Baltimore, Maryland
May, 2010

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Introduction and Purpose

The goal of this practicum project is to create a detailed business plan that will develop the basis for a new start up real estate investment company which I seek to launch upon graduation. The business model will be modest, yet detailed. It is my objective to create a small business to hold a portfolio of real estate assets that I look to acquire and manage in order to create a secondary source of income. This is to be accomplished over the next 10-15 years, while I maintain my current fulltime employment. The goal is to purchase undervalued residential properties, improve them as necessary, and then rent the properties and hold them as a long term investment asset. The objective of acquiring residential properties is to generate positive monthly cash flow income, as well as to fully capitalize on the market value appreciation over the long term.

This business plan will be the instrument that I will use to communicate my plans, strategies, and tactics to investors and lenders. It will clearly identify my goal of being able to launch and manage this company, while maintaining my current employment. The goal is to slowly build a real estate portfolio over the next 10-15 years that would generate additional income to supplement, or become an integral component of larger retirement portfolio. Additionally, as the portfolio of assets grows to sufficient size, there will be the opportunity for me to retire from my current position and focus my time on managing these and other retirement assets.

The business plan will identify the business model, proposed financing, marketing studies, operation and implementation plans, and risk assessment. It will project initial start-up costs and include three year financial projections as well as a pro forma of a sample investment property. I have completed research and interviewed business professionals in various disciplines to provide insight and counsel necessary to create and implement a solid business plan and strategies necessary to execute this business goal.

The resources used to complete this business plan include the following:

	Resource/Interviewee	Firm	Date of Interview/publication
1	Roger Staiger II	JHU Academic Advisor	3/8/10, 3/22/10, 4/7/10, 4/22/10
2	Business Plan for Singer Real Estate	JHU - Practicum	2002
3	Carey Smith – Manger	Comstar Federal Credit Union	3/5/10
4	Brian Kurtyka Esq.	Kurtyka & Associates, LLC	3/21/2010
5	Tim O'Boyle (no relation to author)	MacIntosh Realty	3/23/2010
6	Debra Henry	JHU-Fellow Student	3/29/2010
7	Debra Jones	Community Consultants, LLC	4/14/2010
8	Brian Creamer	Creamer Insurance	4/19/2010
9	Kyle Speece	JHU - Fellow Student	4/23/2010

Confidentiality Agreement

The undersigned acknowledges that the information provided by _____ in this business plan is confidential; therefore, reader agrees not to disclose it without the express written permission of _____.

It is acknowledged by reader that information to be furnished in this business plan is in all respects confidential in nature, other than information which is in the public domain through other means and that any disclosure or use of same by reader, may cause serious harm or damage to _____.

Upon request, this document is to be immediately returned to _____.

Signature

Name (typed or printed)

Date

This is a business plan. It does not imply an offering of securities.

Table of Contents

1.0 Executive Summary 5

1.1 Mission Statement..... 5

1.2 Objectives..... 5

1.3 Keys to Success..... 5

1.4 Executive Summary 6

1.5 Sales Forecasts..... 7

2.0 Company Summary 8

2.1 Start-up Summary 8

2.2 Start-up Funding..... 9

Table: Start-up Funding (cont.)..... 10

Chart: Start-up..... 11

3.0 Business Model..... 11

4.0 Investment Criteria..... 11

5.0 Source of Equity & Debt 13

6.0 Products and Services..... 14

7.0 Market Analysis Summary 15

7.1 Real Home Price vs. Rent..... 17

7.2 Market Segmentation 18

Table: Market Analysis 20

7.3 Service Business Analysis 20

8.0 Risk Assessment 21

8.1 Management Plans and Competitive Edge..... 22

8.2 Marketing Strategy 22

8.3 Sales Strategy 22

9.0 Milestones 23

10.0 Financial Plan..... 23

10.1 Underlying Assumptions 23

10.2 Sensitivity Analysis 24

10.3 Source of Funds..... 24

10.4 General Assumptions..... 24

10.5 Profit and Loss Statements 25

10.6 Cash Flow Analysis..... 26

10.7 Balance Sheet..... 27

11.0 Conclusion 28

12.0 Appendix..... 29

12.1 10 Year DCF for Sample Investment Property:#8013 Hollow Reed Ct 29

12.2 Start-up & Pro forma: Sample Investment Prop.:#8013 Hollow Reed Ct... 30

1.0 Executive Summary

1.1 Mission Statement

The mission of JPO Real Estate, LLC is to create a portfolio of income producing real estate assets over the next 10-15 years that will produce supplemental retirement income to the two principal owners. A conservative approach will be taken that will permit the company to be managed by means which will allow the principals of JPO Real Estate, LLC to maintain current full time employment. The company will seek to invest in one or two properties per year.

Initially, JPO Real Estate, LLC will seek to purchase residential properties that have the potential to generate immediate return on investment upon completion of renovation or rehabilitation and then will be resold. JPO Real Estate, LLC will then take proceeds from sale to supplement equity investment of second residential property that will be held and rented as an income producing asset, while seeking long term appreciation.

1.2 Objectives

The following are the main objectives for JPO Real Estate LLC:

- To invest in undervalued residential real estate properties for the purpose of renovating or rehabilitation and then immediate resale, or to hold and rent properties, generating monthly income while obtaining market value appreciation over a longer period.
- To manage real estate investments from identifying potential properties, to evaluating, to acquisition, and to final sale or disposition.
- To manage the renovation or rehabilitation activities of newly acquired residential properties.
- To manage the residential properties that are rented and held for the longer term.
- To manage the portfolio of real estate assets.

1.3 Keys to Success

The keys to success of JPO Real Estate, LLC will be:

- Acquisition of undervalued residential properties. The greater the discount that properties can be purchased, the greater the upside for short term or long term gains will be.

- Complete the renovation or rehabilitation work within the scheduled time and within the budgeted amount.
- Recognize buying opportunities on specific properties that would provide the option to immediately resell selected renovated or rehabilitated properties upon completion for short term gain.
- Find rental occupants for the selected properties before renovations are completed, or at the first opportunity after completion.
- Generate cash flow from rental income sufficient to cover debt and expenses and provide funding for new property acquisitions.
- Maintain an average 92% occupancy rate each year on rental properties.
- Provide projected overall 5%-6% cash-on-cash return on the portfolio of assets.

1.4 Executive Summary

JPO Real Estate, LLC is a real estate investment company that is being launched as a vehicle to produce an additional income stream for the two principals. The object of this start-up company is to purchase one to two residential properties per year, over the next 10-15 years. The purpose is to create a portfolio of real estate assets, that when rented, will provide a positive monthly stream of income. The investment goal is to provide an unleveraged cash-on-cash return between 5%-6%.

The start-up company will be managed by the two principals as a secondary means of employment. This approach will allow the partners to maintain their current employment. JPO Real Estate, LLC will not have any employees and will not provide any salary to partners. Initially, all profit will be reinvested in the company and used to purchase additional properties.

Given the recent economic recession and depressed housing prices, there is an opportunity to purchase residential properties for 30% or more below what houses were selling for at their peak in 2006. The acquisition strategy will be to purchase properties at a deep discount whose values are reduced below market value due to foreclosure or short sale. Additionally, homes will be acquired at values which can be significantly increased through renovation or rehabilitation. JPO Real Estate, LLC will use the expertise of the principals to seek to identify and exploit opportunities to create value.

The primary investment criterion is that the properties purchased must be capable of renting and producing a positive cash flow. JPO Real Estate, LLC may purchase undervalued homes and improve for immediate resale, but the underwriting criteria will be that the homes must be capable of being rented and producing a positive income stream. No properties will be purchased with the speculation that a profit can only be made by means of flipping the home. This type of speculation is too risky and does not meet the investment criteria of the retirement portfolio.

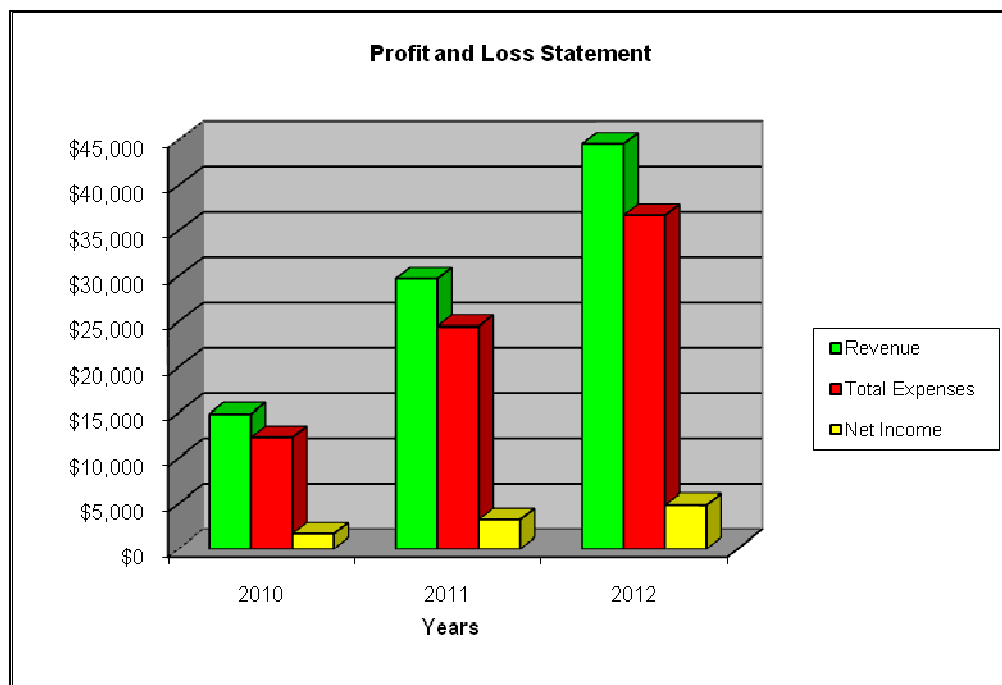
The initial equity required to purchase the first investment property will be raised from the two principals. The goal will be to invest in a residential town house with a purchase price under \$200,000. It is projected that the initial equity investment is to be \$40,000 (\$20,000 by each principal).

The strategy is to minimize outside equity investment. This may be accomplished by capitalizing on the principals' initial investment by flipping the first property purchased, after improvements, and applying the proceeds of the sale as the equity contribution on the second investment property. This methodology can be continued as long the available depressed housing market supports the underwriting and produces the sufficient short term return.

JPO Real Estate, LLC is a real estate investment and operating company and will provide its own research for property acquisitions, financing, asset management, property management, and dispositions. However, it may become feasible at some point, as the portfolio grows, to outsource the property management services. Or it may be that after 10-15 years that the portfolio grows to a level that produces enough income that would justify that the properties be manage fulltime by one of the principals.

1.5 Sales Forecasts

JPO Real Estate, LLC projects to purchase one to two rental properties a year. The below conservative financials reflect the purchase of one rental property over each of the next three years.



2.0 Company Summary

JPO Real Estate, LLC will be engaged in the residential real estate investment and management business and will act as the Acquisition & Restoration Manager, Property Manager, and Portfolio Asset Manager. The company's focus will be on acquiring undervalued or depressed residential properties, improving, and reselling, or holding and renting at an attractive price. This business plan will comprise of the following seven key components:

1. Business Model
2. Investment Criteria
3. Source of Equity and Debt
4. Products and Services
5. Market Analysis Summary
6. Risk Assessment
7. Personnel and Expertise

Also included will be the marketing plan, financial plan, and the pro forma for two example properties. The pro formas provided include the maximum acquisition prices, use of funds, services, operating budget, residual value and investor return.

2.1 Start-up Summary

JPO Real Estate LLC will engage in the real estate investment and rental property business. As a start-up company it will initially seek to manage all the day-to-day activities of the company, but will seek outside professional legal and accounting services.

The business model is set up so that the two principals will maintain their current fulltime employment. As such, they will not be dependent on compensation, but instead with the focus expansion and on the long term property value appreciation.

The company has located two properties that will be used as examples for underwriting. The equity and debt sourcing strategy will seek an equity investment of 20% of the acquisition price, closing costs and fees and seek debt financing for the balance. The pro forma for sample properties is provided later in the business plan.

Other costs associated with the start-up of a new company will be kept to a minimum as the business model is to have the company run by the two principals, operated from home offices, and while maintaining current employment. No salaries are to be drawn from the company, but dividends will be paid as assets are sold or at which time the monthly income generated from rents are no longer needed to be applied towards the purchase of additional properties. Included in the associated start-up costs

are professional fees in establishing the LLC, minimum office supplies, and insurance. Initially, these costs are to be raised by the principals and will later be paid as expenses from rental income.

The two principals have some, but limited equity for each investment. Some additional equity may need to be raised depending on the size and extent of improvements required for each deal. The strategy is to minimize outside equity investment and to retain as much of the principals' working capital as possible. An example of this purchasing strategy may include the following scenario:

Step	Property	Task/Goal
1	Property #1	Invest equity (20% down payment) into severely undervalued or depressed properties with values under \$200,000. Obtain debt financing for balance.
2	Property #1	Renovate or rehabilitate as necessary for immediate re-sale.
3	Property #2	Take equity proceeds from sale of Property #1 and for use as down payment on purchase of next undervalued or depressed property.
4	Property #2	Renovate or rehabilitate as necessary, but instead of putting on the market for re-sale upon completion, the property will be rented to generate monthly cash flow and held for long term value appreciation.
5	Property #3	Repeat Steps #1 & #2.
6	Property #4	Repeat Steps #3 & #4.

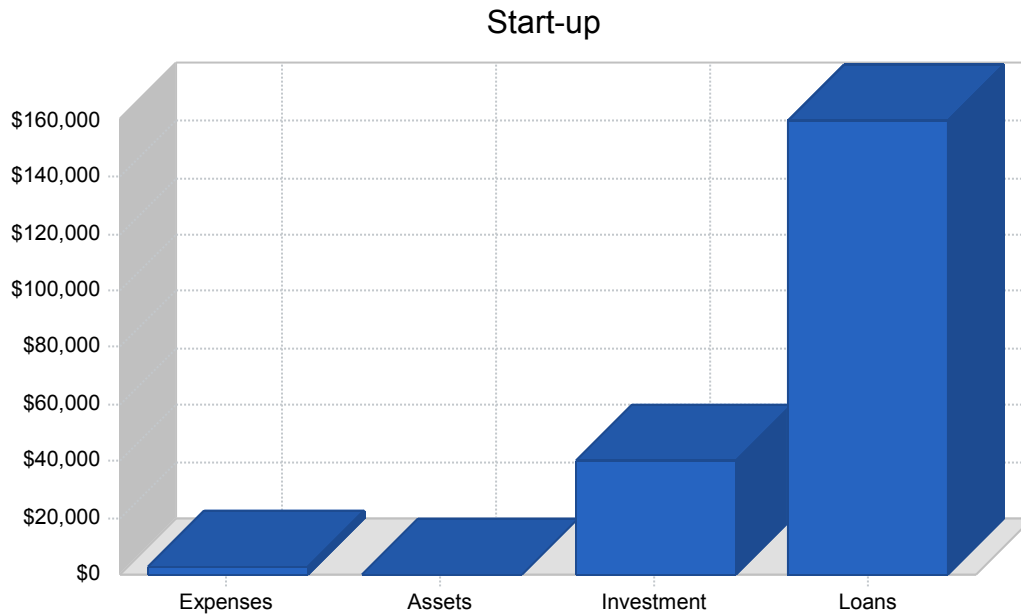
2.2 Start-up Funding

Start-up (funding of LLC)	
Start-up Expenses	
Legal	\$1,000
Stationery etc.	\$100
Insurance	\$400
Expensed Equipment (computer & software)	\$0
Other	\$0
Accounting	\$1,000
Total Start-up Expenses	\$2,500
Total Requirements	\$2,500

Table: Start-up Funding (cont.)

Start-up Funding (with debt at time of 1st property purchase)	
Start-up Expenses to Fund LLC	\$2,500
Start-up Assets to Fund	\$0
Total Funding Required	\$2,500
Assets	
Non-cash Assets from Start-up	\$0
Cash Requirements from Start-up	\$0
Additional Cash Raised	\$197,500
Cash Balance on Starting Date	\$197,500
Total Assets	\$197,500
Liabilities and Capital	
Liabilities:	
Current Borrowing	\$0
Long-term Liabilities	\$160,000
Total Liabilities	\$160,000
Capital:	
Planned Investment	
Principal 1 - John O'Boyle	\$20,000
Principal 2	\$20,000
Other	\$0
Additional Investment Requirement	\$0
Total Planned Investment	\$40,000
Loss at Start-up (Start-up Expenses)	(\$2,500)
Total Capital	\$37,500
Total Capital and Liabilities	\$197,500
Total Funding	\$200,000

Chart: Start-up



3.0 Business Model

The ownership structure of the new startup company, JPO Real Estate will be a privately held Limited Liability Company (LLC). JPO Real Estate, LLC shall be registered in the state of Maryland. It will be jointly owned by two principals, John O'Boyle and for purpose of this paper, a silent equity partner.

JPO Real Estate, LLC will be set up as the holding company to manage the real estate assets acquired. Assets purchased jointly by both partners will be held in JPO Real Estate, LLC. Any properties purchased that involve outside investors will have a separate limited liability company created which will be managed by JPO Real Estate, LLC. The purpose of establishing individual LLC's for each property asset is to keep each deal separate and to simplify ownership in which outside equity partners can participate, while still offering the pass thru tax benefits and limited liabilities.

4.0 Investment Criteria

JPO Real Estate, LLC will seek to invest in existing stable residential rental properties or undervalued properties that provide an opportunity to achieve an unleveraged 5%-6% cash-on-cash return and a long term Internal Rate of Return (IRR) of 10%-15%. The goal will be to invest in residential town houses or single-family homes in the Frederick, MD market area with a purchase price under \$200,000. Investment goals and criteria will be to seek acquisitions of properties

which typically have one or more issues related that can be resolved by utilizing the principals' expertise.

The acquisition strategy will be to purchase properties at a deep discount due to foreclosure, short sale, or homes whose values are depressed and can be significantly increased through renovation or rehabilitation. With use of JPO Real Estate, LLC's expertise, the company will seek to identify and exploit opportunities to create value. Properties that can be purchased due to foreclosure or short sale may not require much more than cosmetic improvements, such as new paint and floor coverings. These properties could then be resold over the short term, or held and rented to generate a positive monthly cash flow. Other properties purchased through foreclosure, short sale, or those severely depressed physical condition may require renovation or rehabilitation. Such opportunities can also be exploited and improved to create value. Such opportunities will be sought through developing relationships with banks and lenders who directly hold the mortgages or properties. Developing these relationships will be important in order to become aware of properties before they become widely known, or marketed. This effort will allow JPO Real Estate, LLC to get a first look and to make a pre-emptive offer on the property. Such opportunities will help reduce competition and acquisition costs which will help achieve the targeted returns.

All proposed properties will be underwritten with the criteria that the properties will be purchased, improved, and rented to produce a positive monthly cash flow. The underwriting will require that properties purchased could rent, upon any necessary improvements, generating a positive cash flow with the minimum criteria: 20% equity investment, debt financing amortized over 30 years, taxes, insurance, reserve repair/replacement funds (possible capital improvements), HOA fees, realtor or brokerage fees, settlement and transaction fees, downtime, and unclaimed tenant payments. Underwriting will account for escalation rates in rent, taxes, management, or realtor fees that will conform with what the market has historically accepted. Regardless of whether or not the properties are purchased with the intent of resale over the short or long term, each property must meet the underwriting criteria. No property purchase will be made solely on the speculation that the properties can be resold immediately simply for a profit, without being able to be self-sustaining as a rental property.

Addressing some of these issues takes considerable effort, expertise, and time and must be included in underwriting, which will have an impact on the overall return. This business model is based upon a modest approach that will allow the principals of JPO Real Estate, LLC to perform the acquisition and management of properties while keeping each's full time current employment. As such, it is anticipated that the two to three properties' deals could be completed over the first 24 months. The critical elements that will lead to the success of this business are to understand the issues, the process, and market place.

5.0 Source of Equity & Debt

The strategy to acquire property for JPO Real Estate, LLC's portfolio is a two step process that will require both equity and debt financing. The process to acquire a residential property to rent and/or hold for the long term will take a conservative and methodical approach, but if followed, will capitalize on the minimum amount of equity that the principals have to invest without taking on unnecessary debt liabilities or seek outside investors. The two step property acquisition process necessary to obtain one portfolio asset would be as follows:

Step 1:

The goal for the first property purchase is to take full advantage of the current depressed housing market and to aggressively seek the purchase of a severely undervalued townhouse property, in the \$200,000 price range. This may be purchased through a bankruptcy or short sale. The property will be improved as necessary for immediate resale, with an estimated return of 10% -20% net profit. The initial investment by the principals will be returned and the profit to be retained reinvested as described in Step 2.

Principals of JPO Real Estate, LLC have sufficient funds to meet the 20% equity down payment that is anticipated for purchase of the first residential property. The balance of the monies necessary to fund renovations and purchase of the first property is to be debt. The debt financing is to be raised through banking institutions and/or mortgage brokers. It is likely in today's market that lenders will require a personal guarantee by both principals in order to secure the debt financing. This is not preferred, but the principals are willing to comply until enough assets can be generated as collateral to otherwise meet the lenders' requirements.

Step 2:

The proceeds from the sale of the first property will be applied towards the 20% equity down payment of the purchase of a second residential property. The purchase of the second residential property will be in the same price range and through the same method followed in Step 1. By using the profit that was generated from the sale of the first property, the amount of out of pocket equity investment from the principals, and/or outside investors, will be reduced or possibly eliminated. Debt financing will be required for the balance of the 80% of the acquisition. The property purchased in Step 2 will be rented and held as a long term investment and will become an asset of JPO Real Estate, LLC's portfolio.

This two step process will be followed in order to capitalize on the amount of equity that the principals have to invest. This strategy will help retain the principals' investment as working capital without taking on unnecessary debt liabilities or having to seek outside investors. Each two properties purchased will keep one asset being generated for the portfolio.

6.0 Products and Services

JPO Real Estate, LLC is a real estate investment and operating company and will provide property acquisition, financing, asset management, property management, and disposition service.

The company will manage all acquisitions. It will seek residential investment opportunities that will produce a long term return between 8%-15%. The principals will meet with real estate brokers and agents, owners, and other participants in the real estate community to secure opportunities that will meet the return requirements. Pro formas will be prepared for each property acquisition seriously being considered. Meeting with contractors and third party companies will be performed as necessary to complete each due diligence.

JPO Real Estate, LLC will seek to diversify the risk to the portfolio by acquiring properties in areas of Frederick that may attract tenants from different employers and establish different timing of cash flows. An example of this would be the purchase of a property near Fort Detrick that may attract tenants in the military or in the science research field versus a property purchased near the Wells Fargo and State Farm Insurance headquarters that may attract tenants in financial industry.

The company will work with mortgage brokers and directly with lenders to achieve the most favorable financing terms and rates for new acquisitions, as well as any refinance options of existing mortgages. The principals will be responsible for preparing loan applications, discounted cash flow projections and other financial analyses.

Asset management will be performed by JPO Real Estate, LLC on all properties included in its portfolio. The principals will perform yearly buy and sell analysis for each asset in the portfolio. Additionally, market reviews will be performed to determine if all asking monthly rentals are comparable to other properties to ensure that maximum returns are being achieved. JPO Real Estate, LLC will enlist professional services for accounting/financial tax filings and legal issues as necessary.

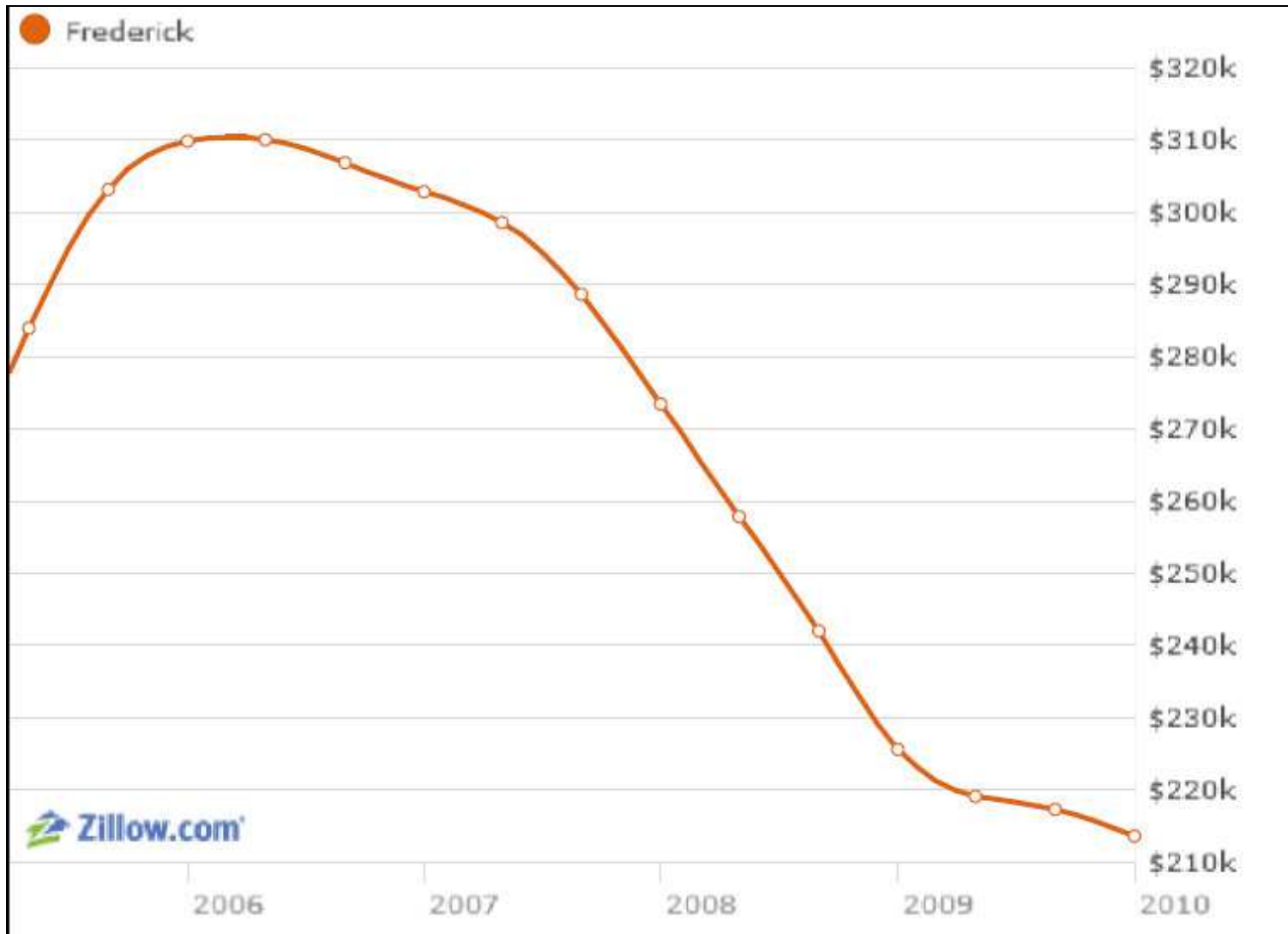
During the early years of being in business, JPO Real Estate, LLC will perform the necessary property management. This activity will continue until which point the tasks becomes overwhelming in managing multiple properties (likely to be when five or more properties are acquired) or if at some point it makes more financial sense to outsource such services. The principals will inspect properties regularly and meet with tenants periodically to ensure that overall satisfaction is being met. The company will coordinate all repairs or improvements to the properties with third parties and tenants as necessary.

As the company seeks to sell properties it will perform financial analysis to evaluate the current market to ensure that the sale would produce the expected return on the asset. The principals will meet with potential real estate brokers and agents to understand their valuation approach of the property and marketing approach and budgeting. As dispositions of properties proceed, the principals will review all marketing material, evaluate purchase offers, negotiate sales contracts, and closing documents. The principals will be responsible for obtaining all legal reviews and representation on contract matters.

7.0 Market Analysis Summary

Frederick, MD is considered to be a sub-market of the greater Washington, D.C. market area. While the median home price increased in Frederick (61%), from 2000 to 2006, on average this is approximately the same rate of increase as of the Washington Metro area (62%). However, the average decrease in home values in Frederick over the last four years have depreciated at a greater rate than that experienced in the Washington Metro market area. Since 2006, the median home values across the Washington Metro area have decreased by 26.5%.

According to the Zillow Home Value Index (chart below), as of January 2010, the median price for a house in Frederick City was at \$213,600 which is down approximately 31% from its peak of \$310,000 in 2006. Home values plummeted 22% over a 16 month period, alone between the 3rd quarter of 2007 through January 2009. The year-over-year home values from January 2009-January 2010 were down approximately 5.3%.



The rental housing market in Frederick is a greater percentage than that of the U.S. average. Renters make up 40.41% of the Frederick population compared to 21.45% of the U.S. average. (See housing breakdown charts below). This may be contributed to the higher cost of living than the U.S. average. According to Sperling's *Best Places 2010*, the cost of living (as of 10/07) in Frederick is 10 basis points above the national average. Additionally the Frederick median home price is 27% higher than that of the U.S., while the household income in Frederick (\$54,895) is only 18.6% higher than that of the U.S. (\$44,684).

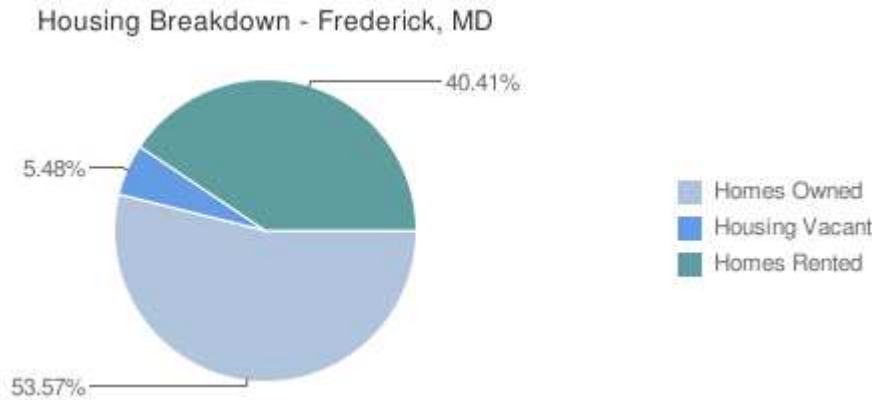


Chart Data: "Sperling's Best Places 2010"
(<http://www.bestplaces.net/city/Frederick-Maryland.aspx>)

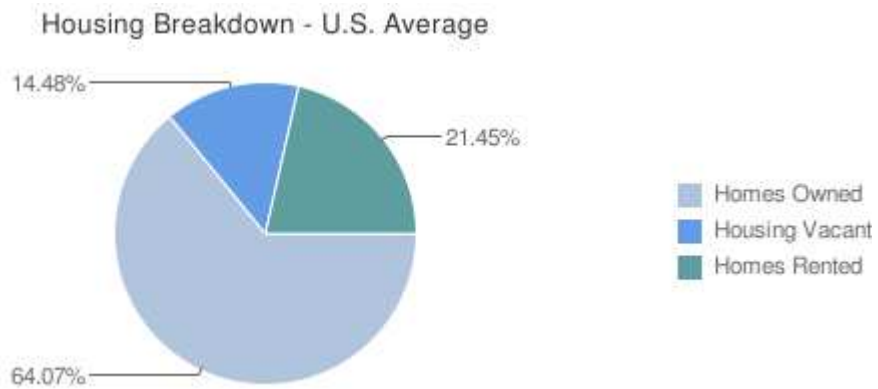
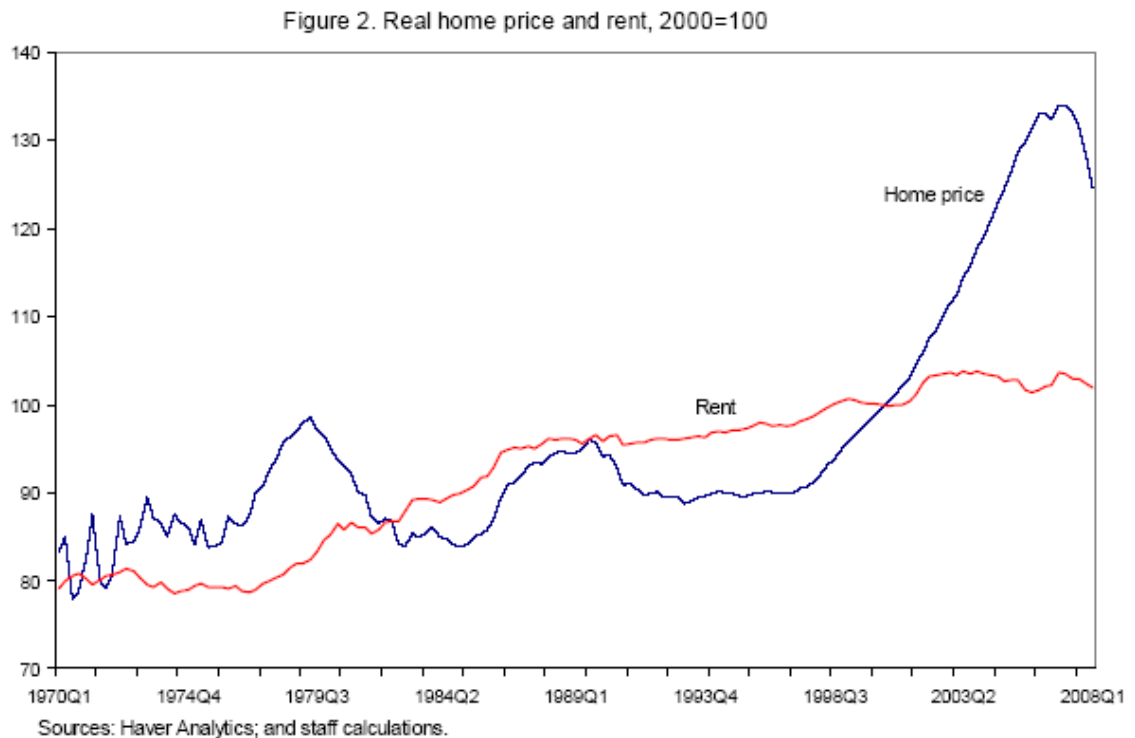


Chart Data: "Sperling's Best Places 2010"
(<http://www.bestplaces.net/city/Frederick-Maryland.aspx>)

7.1 Real Home Price vs. Rent

The spread between rent and home prices has been significant since 2000 and more so than any other time during the 38 year period between 1970- 2008. This is shown

below on the Haver Analytics chart of real home prices and rent. If history repeats itself, as it did after home prices spiked in 1979 and again in 1989, there is a likely probability that rental rates and home prices will intersect again in the coming years. It is during this period that JPO Real Estate, LLC looks to take advantage of the buying opportunity of falling house prices, while rental rates hold constant, or increase. This opportunity will improve the likelihood of achieving the goal of generating positive cash flow from rental units.



7.2 Market Segmentation

JPO Real Estate, LLC will be targeting middle income households to rent or purchase its properties. Per U.S. Bureau of Labor Statistics, unemployment was still climbing in Frederick County (7.3 %) as of April 4, 2010. With unemployment still growing and while those employed the household income is holding level, it is anticipated that the rental market will remain strong.

DEMOGRAPHICS - FREDERICK CITY

According to the *Site to do Business (STDB)* and the *United States Census Bureau*, the total population of this area has increased approximately 2.6% annually. Although it is anticipated that this upward trend will continue, it is expected to slow to an anticipated 1.74% annual increase through 2014.

	Population
2000	56,998
2009	69,182
2014	75,398

The population is predominantly Caucasian, with Black and Hispanic races being the next to largest portions of the population mix. From 2000 to 2009, the Caucasian population decreased, while the black population had a slight increase, and the Hispanic population showed large growth. This trend is expected to continue through 2014. This allows for additional market share to be targeted and captured among the increasing diversification of the demographics.

Projection of Diversification

	2000	2009	2014
<i>White alone</i>	81.50%	75.40%	71.70%
<i>Black alone</i>	10.60%	13.10%	14.60%
<i>American Indian alone</i>	0.30%	0.30%	0.30%
<i>Asian or Pacific Islander alone</i>	3.40%	4.90%	5.70%
<i>Some other race alone</i>	2.10%	3.30%	4.00%
<i>Two or more races</i>	2.20%	3.10%	3.60%
<i>Hispanic Origin</i>	4.50%	7.20%	8.80%

Table: Market Analysis

<i>Market Analysis</i>		2010	2011	2012	2013	2014	
Potential Customers	Growth						CAGR
Under 5 years olds	1.74%	3,944	4,013	4,082	4,153	4,226	1.74%
5-9 years olds	1.74%	3,931	3,999	4,069	4,140	4,212	1.74%
10-14 years olds	1.74%	3,516	3,577	3,639	3,703	3,767	1.74%
15-19 years olds	1.74%	3,159	3,214	3,270	3,327	3,385	1.74%
20-24 years olds	1.74%	3,641	3,704	3,769	3,834	3,901	1.74%
25-34 years olds	1.74%	9,323	9,485	9,650	9,818	9,989	1.74%
35-44 years olds	1.74%	9,275	9,436	9,601	9,768	9,938	1.74%
45-54 years olds	1.74%	6,521	6,634	6,750	6,867	6,987	1.74%
55-59 years olds	1.74%	2,012	2,047	2,083	2,119	2,156	1.74%
60-64 years olds	1.74%	1,500	1,526	1,553	1,580	1,607	1.74%
65-74 years olds	1.74%	2,787	2,835	2,885	2,935	2,986	1.74%
75-84 years olds	1.74%	2,243	2,282	2,322	2,362	2,403	1.74%
85 years and older	1.74%	915	931	947	964	980	1.74%
Total	1.74%	52,767	53,685	54,619	55,570	56,537	1.74%

7.3 Service Business Analysis

Below are figures based on the 2000 U.S. Census Data on the Frederick City housing market. If trends in the housing market remain similar, the vacancy rate of 8 % proposed by JPO Real Estate, LLC is a conservative estimate.

City of Frederick Housing Breakout:

Vacancy Rate:	5.3%
Owner-Occupied:	11,624
Renter Occupied:	9,267
Average Household Size of Owner-Occupied:	2.59
Average Household Size of Renter-Occupied:	2.22

(Source: 2000 U.S. Census.)

8.0 Risk Assessment

The various risks associated with this business plan can be grouped into three categories: Business Risk, Property Investment Risk, and Market Risks.

Business Risk could be viewed as the issues associated with the assumptions made for JPO Real Estate, LLC. These may include the following:

- John O'Boyle cannot identify an appropriate principal partner.
- The principals do not have sufficient equity to fund property purchases for JPO Real Estate, LLC.
- Estimated start-up costs are greater than what is projected.
- The necessary time frame to acquire properties is greater than estimated and cannot be performed as a part time job.
- The necessary time frame to manage the rental properties is greater than anticipated and cannot be performed as a part time job.
- JPO Real Estate, LLC does not properly manage the portfolio of properties and, as such does not meet its projected returns and or obligations.

Property Investment Risk could be viewed as the issues related to the acquisition assumptions and projected returns. These risks may include the following:

- Property acquisitions cannot be made as projected.
- Rental rates are less than projected.
- Operating expenses are greater than projected.
- Renovations/improvements costs are greater than projected.
- Vacancy periods are greater than projected.
- Lease transactions are greater than projected.
- Tenant vacates property early.
- Late rental payments.
- Unexpected capital improvements.

Market Risk could be viewed as issues related to housing market in general or specific to the Frederick region. These risks may include:

- Interest rates increase, thereby making financing cost greater than projected and either reducing cash flow or making deals unobtainable.
- Supply of rental housing increases, which could lead to lower rents.
- Government policy initiatives that enhances opportunity for homeownership and lure away would-be renters.
- Frederick area is impacted by negative events that causes major shift with large employers, such as Bechtel, Wells Fargo, or State Farm Insurance.
- Frederick area is impacted by negative events, such as an act of terrorism or change in government policy that impacts military employment at Fort Detrick (e.g. Base Realignment And Closure)

The risks identified could affect JPO Real Estate, LLC's performance or ability to meet its financial obligations or targeted return; however, that the long-term benefits of real estate investment combined with the principals' expertise reduce these risks

and will produce the projected returns and meet the obligations of JPO Real Estate, LLC.

8.1 Management Plans and Competitive Edge

JPO Real Estate, LLC is to be managed by John O'Boyle in a part time capacity. John will continue with his current full time employment at Richter & Associates. John has been employed with Richter & Associates, an engineering firm, since 1992 and has 28 years of experience in utility design and construction. While at Richter & Associates, he has managed the design and installation of dry utilities on behalf of builders and developers in the Washington Metropolitan area. Prior to this, John worked for a contractor as a project manager and estimator for the installation of utilities. He has a Bachelor of Science in Business from Mount St. Mary's University, and upon completion of this Practicum project, will graduate from Johns Hopkins University with a Master of Science in Real Estate.

The management necessary to launch JPO Real Estate, LLC and maintain its operation will be typically conducted outside normal business hours. However, flexibility with John's current full time employment allows for him to attend the occasional meeting and/or attend to the occasional property management coordination issues that may need to be performed.

The company's competitive edge is the expertise of the two principals. Both individuals have strong business backgrounds and have been working in the in construction and engineering field or in the financing discipline related to real estate for 20-30 years. This expertise combined with education that John has obtained through the Johns Hopkins University will launch JPO Real Estate, LLC and lead to the success of the company.

8.2 Marketing Strategy

The marketing for JPO Real Estate, LLC will be limited, since the company will be outsourcing the leasing and sales of the real estate properties through a realtor. Marketing will be focused on Multiple Listing Services (MLS) through the realtor, but may also include promoting rental property through local newspaper advertisements, and/or on alternative websites, such as Craig's List.

8.3 Sales Strategy

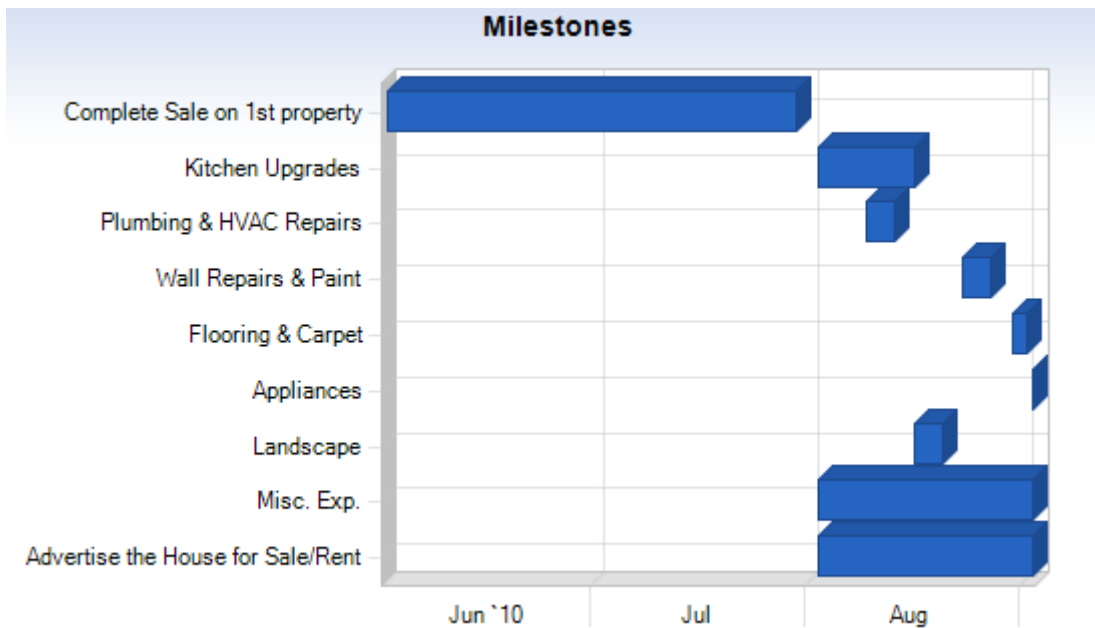
JPO Real Estate, LLC will be particular about who they will accept as tenants. References, proof of employment, good credit history, and a criminal record background check will be required. Also, one month's rent will be requested as a deposit on signing of the lease.

Sales of properties will be based upon the purchaser’s ability to obtain financing. Prequalifying for mortgage will be a condition of accepting contract offers.

Rent-to-own purchase program may also be introduced as it is anticipated that new financing regulations will make homeownership more difficult for many first-time buyers and/or others potential buyers who have difficulty in saving the minimum down payment that many lenders will soon require.

9.0 Milestones

The following Milestones table illustrates the key steps that JPO Real Estate, LLC will achieve in an effort to launch this venture.



10.0 Financial Plan

10.1 Underlying Assumptions

JPO Real Estate, LLC has based its pro forma financial statements on the following:

- The Company will purchase one to two properties a year.

- The principals are to invest \$40,000 of equity funds to develop the business. (Actual amount of investment may vary depending on acquisition price of first property)
- Each property acquisition over the next two years will obtain debt financing with a 30 year term with a 5.75% interest rate.

10.2 Sensitivity Analysis

The Company’s revenues are sensitive to the overall condition of the financial markets. A sudden and dramatic increase in the rate of inflation or real interest rates can have a significant impact on the overall revenue of the business. The stabilization of home prices projected over the next two to three years will provide purchasing opportunities that will support positive cash flow. Should home prices quickly appreciate back to 2006 levels, the projected return of 5%-6% cash-on-cash return may diminish as current rent levels do not support such property values and require debt financing.

10.3 Source of Funds

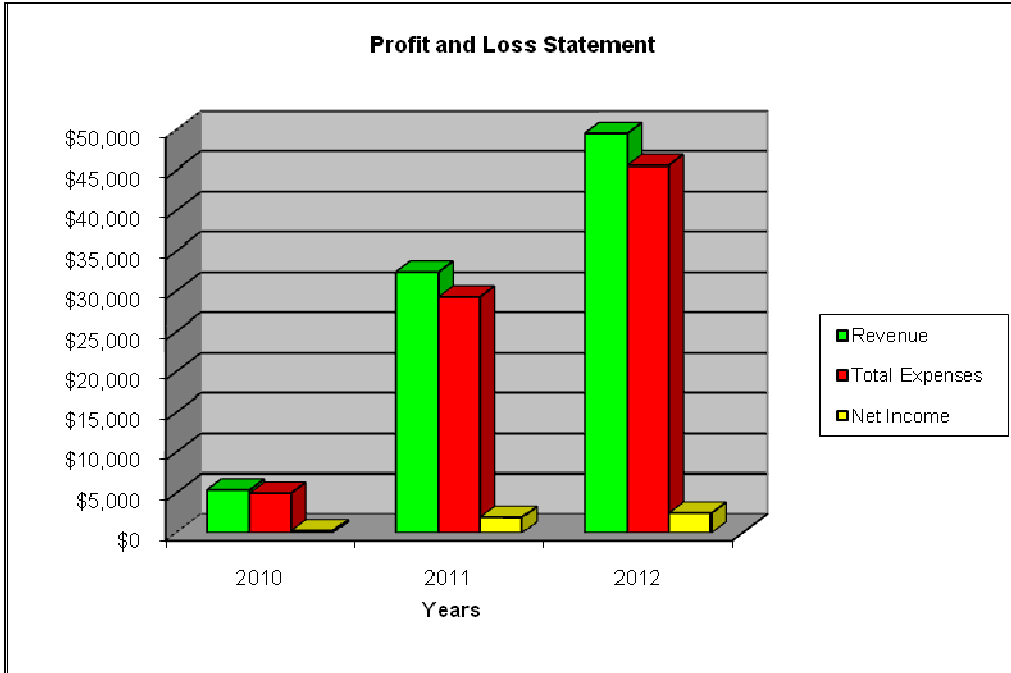
Financing (1 st Property Investment)	
Equity Contributions	
Management Investment	\$40,000.00
Total Equity Financing	\$40,000.00
Banks and Lenders	
Banks and Lenders	\$160,000.00
Total Debt Financing	\$160,000.00
Total Financing	\$200,000.00

10.4 General Assumptions

General Assumptions			
Year	2010	2011	2012
Long Term Interest Rate	5.75%	5.75%	6.5%
Federal Tax Rate (LLC offers flow thru taxes at Principal’s individual rate)	33.0%	33.0%	33.0%
State Tax Rate(LLC offers flow thru taxes at Principal’s individual rate)	5.0%	5.0%	5.0%

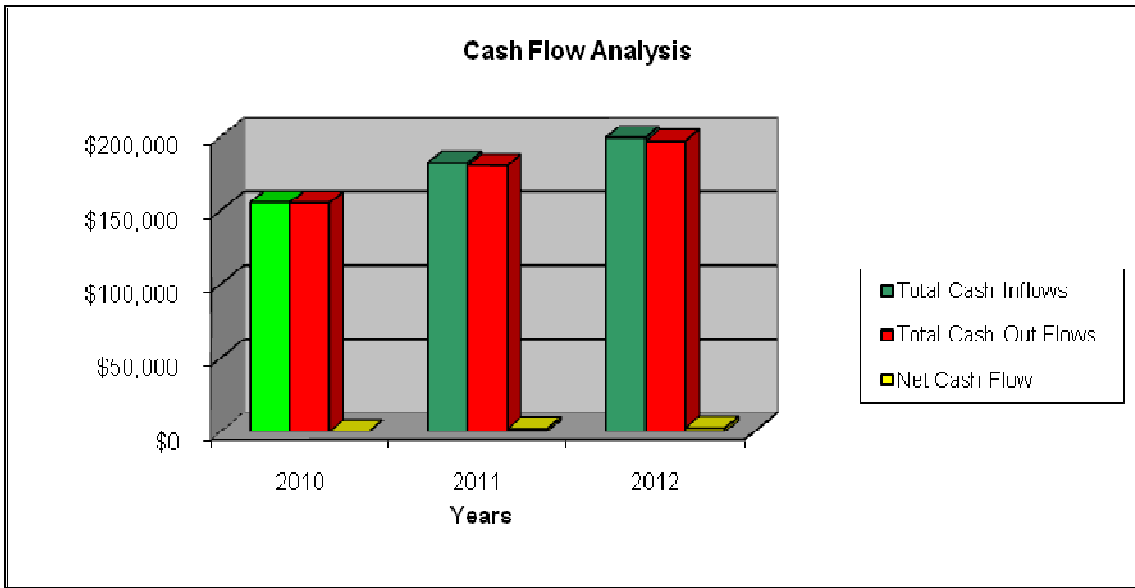
10.5 Profit and Loss Statements

Proforma Profit and Loss Statements			
Year	2010	2011	2012
Revenue	\$5,400	\$32,400	\$49,572
Operating Income	\$5,400	\$32,400	\$49,572
Operating Expenses			
Payrolls		\$0	\$0
Insurance	\$167	\$1,000	\$1,545
Utilities	\$83	\$500	\$773
HOA fees	\$224	\$1,344	\$2,076
Property Taxes	\$833	\$5,000	\$7,725
Professional fees	\$333	\$2,000	\$3,090
Maint Allowance	\$400	\$2,400	\$3,708
Leasing Comm	\$450	\$2,025	\$4,172
P&I	\$2,498	\$14,990	\$22,484
Total Expenses	\$4,989	\$29,259	\$45,573
EBITDA	\$411	\$3,141	\$3,999
Federal Taxes	\$136	\$1,037	\$1,320
State Taxes	\$21	\$157	\$200
Net Income	\$255	\$1,948	\$2,479
Profit Margin (%)	4.72%	6.01%	5.00%
Cash-on-Cash Return of \$40,000	0.64%	4.87%	6.20%
2010-Assumes only 4 month of rent (Sept-Dec)			



10.6 Cash Flow Analysis

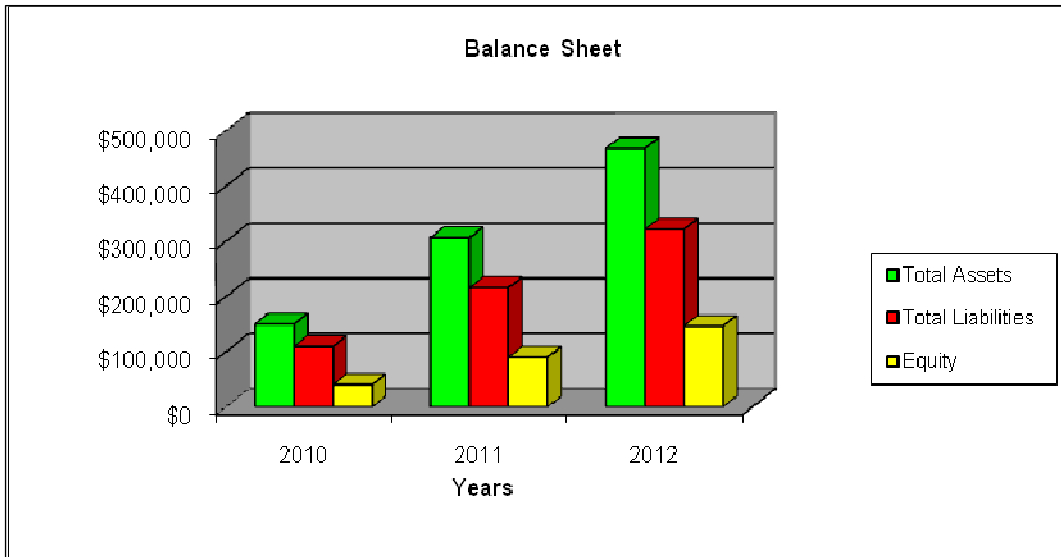
Proforma Cash Flow Analysis			
Year	2010	2011	2012
Cash Inflows			
Cash Inflow from Rent	\$5,400	\$32,400	\$49,572
Equity Investment	\$40,000	\$40,000	\$40,000
Increased Borrowings	\$110,000	\$110,000	\$110,000
Total Cash Inflows	\$155,400	\$182,400	\$199,572
Cash Out Flows			
Rental Expenses	\$2,491	\$14,269	\$23,088
Repayment of P&I	\$2,498	\$14,990	\$22,484
Income Taxes	\$156	\$1,194	\$1,520
Asset Purchases	\$150,000	\$150,000	\$150,000
Total Cash Out Flows	\$155,145	\$180,452	\$197,093
Net Cash Flow	\$255	\$1,948	\$2,479
Cash Balance	\$255	\$2,203	\$4,682
2010-Assumes only 4 month of rent (Sept-Dec)			



10.7 Balance Sheet

Proforma Balance Sheet			
Year	2010	2011	2012
Assets			
Cash	\$255	\$2,203	\$4,682
Property Assets	\$150,000	\$304,500	\$463,635
Total Assets	\$150,255	\$306,703	\$468,317
Liabilities			
Long Term Liabilities	\$109,515	\$216,524	\$321,883
Other Liabilities	\$0	\$0	\$0
Total Liabilities	\$109,515	\$216,524	\$321,883
Equity	\$40,740	\$90,178	\$146,434

2010-Assumes only 4 month of rent (Sept-Dec)



11.0 Conclusion

The above business plan fully supports JPO Real Estate, LLC as a start-up company and will produce the projected income stream for the two principals. The goal of providing an unleveraged cash-on-cash return between 5%-6% is a conservative and achievable approach given the current depressed home values.

The management approach that allows the principals to run the company from home offices and maintain their current employment while managing JPO Real Estate, LLC is viable and maintains a low overhead expense.

The expertise and experience of the principals will lead to the success of the company. Their knowledge and understanding of the market area, as well as identifying and exploiting purchasing opportunities that keep cost basis low, ability to assess and diversify risk, prepare qualified cash flow pro formas, and the ability to obtain financing will all lead to achieving the projected return on the portfolio of real estate assets. These returns will achieve the goal of providing supplemental retirement income to the principals of the JPO Real Estate, LLC.

12.0 Appendix

12.1 10 Year DCF for Sample Investment Property:#8013 Hollow Reed Ct

Sample Property #3: Assumptions & 10 year DCF w/ Valuation

Property Specifics:	
Address	#8013 Hollow Reed Ct Frederick, MD 20701
Size	1,682 S.F.
Year Built	1988
Rooms	7
Garage	Yes
Sources	
Equity 1	31,173
Equity 2	31,173
Debt	92,000
Uses	
Purchase Price	115,000
Closing Cost (from below)	8,347
Legal (company set up, rent agree)	1,000
Accounting	500
Misc	500
Realtor-Lease Commission	500
Insurance	500
due at Closing	126,347
renovation cost	28,000
total start up cost	154,347

Renovation		28,000
Kitchen Upgrades	8,000	
Plumbing & HVAC Repairs	2,000	
Wall Repairs & Paint	2,000	
Flooring & Carpet	3,000	
Appliances	5,000	
Landscaping	1,000	
Misc./sky light	2,000	
Roof	5,000	

Operating Assumptions	
Rent	1.25%
Rent Escal	2.0%
Vacancy	8.3%

Expenses	
Insurance	\$500 /yr
Maint Allow	\$100 /mo
Prop Taxes	\$2,500 /yr
HOA Fees	\$56 /mo
Utilities	\$300 /mo
Realtor-Lease Commission	1,350
Expense Escal	3.00%

Financing	
Loan-to-Value	80%
Interest Rate	5.50%
Points	0
P/I	537
Tenure	30

Closing Costs		8,347
loan origination fee	-	
loan discount	-	
appraisal	425	
credit report	18	
underwriting fee	375	
Loan Handling/Settlement fee	275	
wire fee	35	
tax service fee	50	
flood certificate	7	

Additional Settlement Charges	
Survey	300
pest inspection	50
tax fee	85

Terminal Cap Rate	6.0%
Sales Cost	5.0%

Title charges	
Settlement Closing Fee	700.00
title search	100.00
title insurance binder	25.00
document prep	
notary fees	
attorney fees	300.00
title insurance	500.00
fed ec	30.00
wiring	15.00
recording fees	70.00

Items to be paid by lender in advance	
Interest 15 days	268.44
Hazard Insurance	600.00

Reserves	
taxes (7 mo)	1,438.33

Gov't Record/Transfer charges	
recording fee	1,560.00
state transfer tax	650.00
state tax/stamp	550.00

Analysis:	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Revenue												
Rent	-	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200
Escalation	-	-	324	648	972	1,296	1,620	1,944	2,268	2,592	2,916	3,240
Rental Income	-	16,200	16,524	16,848	17,172	17,496	17,820	18,144	18,468	18,792	19,116	19,440
Vacancy	(1,350)	(1,377)	(1,404)	(1,431)	(1,458)	(1,485)	(1,512)	(1,539)	(1,566)	(1,593)	(1,620)	(1,620)
Total Revenue	14,850	14,850	15,147	15,444	15,741	16,038	16,335	16,632	16,929	17,226	17,523	17,820
Expense												
Equity Contribution	-	-	-	-	-	-	-	-	-	-	-	-
Insurance	-	504	519	534	550	567	584	602	620	638	657	677
Maintenance Allowance	-	1,209	1,245	1,283	1,321	1,361	1,402	1,444	1,487	1,532	1,577	1,625
HOA Fees	-	677	697	718	740	762	785	808	833	858	883	910
Utilities (renter responsibility except while va	-	101	104	107	110	113	117	120	124	128	131	135
Realtor - Lease Commission	-	500	515	515	515	515	515	515	515	515	515	515
Property Taxes	-	2,519	2,594	2,672	2,752	2,835	2,920	3,008	3,098	3,191	3,286	3,385
Operating Expense	-	5,509	5,675	5,829	5,989	6,153	6,322	6,496	6,676	6,861	7,051	7,247
Net Operating Income	-	9,341	9,472	9,615	9,752	9,885	10,013	10,136	10,253	10,365	10,472	10,573
Financing Costs (P&I)												
Settlement	-	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268
Total Expenses	-	11,778	11,943	12,098	12,257	12,421	12,591	12,766	12,944	13,129	13,319	13,513
Net Operating Income less Financing Expense	-	3,072	3,204	3,346	3,484	3,617	3,744	3,867	3,985	4,097	4,204	4,204
Valuation												
Free Cash Flow	(62,347)	3,072	3,204	3,346	3,484	3,617	3,744	3,867	3,985	4,097	4,204	4,204
Reversion	-	-	-	-	-	-	-	-	-	-	-	91,467
Total Free Cash Flow	(62,347)	3,072	3,204	3,346	3,484	3,617	3,744	3,867	3,985	4,097	4,204	95,671
Analysis												
DCSR (Senior Debt)	1.40	1.51	1.53	1.56	1.58	1.60	1.62	1.64	1.65	1.65	1.67	1.67
Cash-on-Cash Return	62.347	4.0%	5.1%	5.4%	5.6%	5.8%	6.0%	6.2%	6.4%	6.6%	6.7%	6.7%

NPV CF	26,598	25.60%
NPV Reversion	98,290	78.60%
Present Value	112,796	100.00%
CFI	62,347	
NPV	50,449	
IRR	8.83%	

12.2 Start-up & Pro forma: Sample Investment Prop.:#8013 Hollow Reed Ct

Property #1: Start-Up & Pro forma:#8013 Hollow Reed Ct, Frederick MD

Start-Up Period	0	0	0	0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	
Month	0	1	2	3	Summary	Summary	Summary	Summary	Summary	Summary	Summary	Summary	Summary	Summary	Summary	
Revenue																
Rent					16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	16,200	
Escalation					-	324	648	972	1,296	1,620	1,944	2,268	2,592	2,916	3,240	
Rental Income					16,200	16,524	16,848	17,172	17,496	17,820	18,144	18,468	18,792	19,116	19,440	
Vacancy					(1,350)	(1,377)	(1,404)	(1,431)	(1,458)	(1,485)	(1,512)	(1,539)	(1,566)	(1,593)	(1,620)	
Total Revenue					14,850	15,147	15,444	15,741	16,038	16,335	16,632	16,929	17,226	17,523	17,820	
Expense																
Equity Contribution	62,347															
Insurance		42	42	42	504	519	534	550	567	584	602	620	638	657	677	
Maintenance Allowance		-	-	-	1,209	1,245	1,283	1,321	1,361	1,402	1,444	1,487	1,532	1,577	1,625	
HDA Fees		56	56	56	677	697	718	740	762	785	808	833	858	883	910	
Utilities (renter responsibility except whi		8	8	8	101	104	107	110	113	117	120	124	128	131	135	
Realtor - Lease Commission				500	500	515	515	515	515	515	515	515	515	515	515	
Property Taxes		208	208	208	2,519	2,594	2,672	2,752	2,835	2,920	3,008	3,098	3,191	3,286	3,385	
Operating Expense	62,347	314	314	814	5,509	5,675	5,829	5,989	6,153	6,322	6,496	6,676	6,861	7,051	7,247	
Financing Costs (P&I)		522	522	522	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	
Settlement																
Total Expenses	62,347	837	837	1,337	11,778	11,943	12,098	12,257	12,421	12,591	12,765	12,944	13,129	13,319	13,515	
Free Cash Flow	(62,347)	(837)	(837)	(1,337)	3,072	3,204	3,346	3,484	3,617	3,744	3,867	3,985	4,097	4,204	4,305	
Cash Flow																
Inflows																
Equity 1	31,173															
Equity 2	31,173															
Debt	92,000															
Revenue					14,850	15,147	15,444	15,741	16,038	16,335	16,632	16,929	17,226	17,523	17,820	
Total Inflows	154,347	-	-	-	14,850	15,147	15,444	15,741	16,038	16,335	16,632	16,929	17,226	17,523	17,820	
Outflows																
Purchase Price	115,000															
Closing Costs	8,347															
Legal	1,000															
Accounting	500															
Misc	500															
Renovation		9,333	9,333	9,333												
Operating Expense		314	314	814	5,509	5,675	5,829	5,989	6,153	6,322	6,496	6,676	6,861	7,051	7,247	
Financing/Settlement Cost		522	522	522	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	6,268	
Total Outflows	125,347	10,170	10,170	10,670	11,778	11,943	12,098	12,257	12,421	12,591	12,765	12,944	13,129	13,319	13,515	
Cash Balance	29,000	(10,170)	(10,170)	(10,670)	3,072	3,204	3,346	3,484	3,617	3,744	3,867	3,985	4,097	4,204	4,305	
Cumm Cash Balance	29,000	18,830	8,660	(2,010)	1,062	7,339	13,889	20,719	27,819	35,180	42,792	50,644	58,726	67,027	75,535	