

# Business Plan for ABC Investment Group, LLC



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## **Business Plan for Real Estate Investors**

### Introduction

Congratulations for taking a step towards building your real estate investment business! If you are like most new or novice investors, you may not have thought about creating a professional business plan for your investing. Perhaps you have but have but have not known where to start. Whether you did not know where to start, or the ones you have looked at before were not specific enough for your business you have come to the right place. The information contained in this template is generic enough for most real estate investors.

A business plan is similar to a map - it gives you a location of where you are, where you want go and how to get there. The biggest difference is that YOU have to create your own map! If you follow along with this template, you will create a living document for achieving arriving at your destination AND for repeating your success. You may have read how many small businesses go out of business within the first three years. The reason for their failures will vary but majority are due to lack of proper planning. It is impossible to build any significant structure, such as a house, without architect's drawings of the property. No bank would lend on it and no builder would accept an assignment so poorly planned. Therefore, why would you start or continue to run a business that is going to be your lifeline without a detailed, organized and mapped out plan?

The business plan you create can be used to set specific goals, apply for funding from lenders both private and public, measure competition, analyze a specific geographic area, and track your progress. Most individuals and banks are reluctant to lend money (especially to a business) without looking at a business plan that has clear objectives and realistic expectations. Even if you plan is to use your own funds to start the business you may have a need for additional funding down the road for gap funding or expansion. In real estate, whether your strategy is buy properties for long term rentals, develop raw land, convert existing structures, wholesale properties or buy/restore/retail them, a professional business plan will be extremely important to your success.

### **The Plan**

A successful real estate investor's business plan should include the following information:

- Company information including officer's background & experience
- Marketing strategy including demographics, competition, & obstacles
- Acquisition strategy for finding deals, processing, & compensation
- Implementation plan including operations, management & bookkeeping
- Sales strategy for sales, rentals, and any co-op agreements or plans
- Projected sales figures for quarterly, annual, three & five year projections
- Profit and loss including balance sheets (present and future)
- Overall financial plan (summary of current status and projections)
- Summary of business

The plan should be prepared in such a way that anyone reading it could clearly understand the purpose and the strategy for success. This means you need to address who, what, and how questions. You cannot be too specific. Often times, people are at a loss, because the details are all “best guesses”...well, that IS what a business plan is, your best guess! The good new is, that most bankers know this.

### **Step 1:**

Provide background information on the company in an executive summary. You will address why and when the company was formed, who owns and operates it and where it is located. A summary of each executive, their experience, background, and title is equally important. If you can form a board of directors, that is a plus. Often, executives who run their own company's enjoy helping other similar-minded people. Don't be afraid to ask the most successful person you know if they would like to be on your board. Go into more detail in describing the company's objective. If it is a start-up then identify all the start-up costs and state them along with a chart you create in a spreadsheet.

### **Step 2:**

List the target market for your properties, how you plan to acquire the target properties, and whether your plan is to focus on wholesaling and how much rental, development, or rehabbing you plan on doing. You also need to address how your company will differentiate itself from others in the business. A thorough analysis of your competition is important to research. How you differentiate yourself from them will be paramount to growing your business in spite of someone else already serving the marketplace. You should be keenly aware of the local economy and real estate trends in your area.

**Step 3:**

Explain your wholesaling and/or rehab process in enough detail to educate the reader who may or may not be familiar with this aspect of the real estate business. This process is just as important as the acquisition and sales strategies. It is important to have a plan to buy the properties but without a well thought out and organized process for liquidation, development, sales or rental, you could be sitting on a property for a long time and lose money. State specifically how the style, quality, and affordability of your properties will give you the competitive advantage.

**Step 4:**

Every business needs a believable sales & marketing plan. Your goal should be to realize the most revenue from your property in the shortest period. Therefore, you need to put together an effective sales team and a well thought out plan to meet your goals. Even when you become a buy and hold investor, you need to complete the remodeling, if necessary, as soon as possible and put a tenant in the property ASAP.

**Step 5:**

Provide financial information including sales projections and profit and loss forecast. Use charts and graphs to make your point. If you are a buy and hold investor then provide projections for rent, expenses, and vacancy. For the buy and hold investor, a key measure of success is cash flow, so include a cash flow table in the plan.

Finally, list all assumptions and close with a summary. The sample plan that is attached is for a business that has been around for over a year. Make sure you adjust your plan to reflect the relevant information such as start-up costs for new business and past performance data.

You may be wondering why you need a business plan if you are only a part-time investor. Whether you are a part-time or full-time investor, you will need to raise funding. As you acquire more properties, funding can become a challenge. Only an investor with a professional plan for acquiring the properties, marketing them, and making profit will be taken seriously. The difference between getting funding for growth and being a stagnant investor is that you have a documented plan to refer to, point to what is or what is not working, then make the necessary adjustments. In other words, you have accountability. If you have been around the real estate business for sometime, you probably know of at least one individual who ran out of money before the rehab was finished or got into trouble with a rental property due to unexpected vacancy or bad tenants. I have purchased several properties from investors who either ran out of money or mismanaged their way into the “motivated seller” column. Do not let this happen to you! This is a very common occurrence with investors who started investing without a plan. The resulting consequences are usually drastic such as liquidating the property under renovation for a loss, foreclosure, loss of good credit, and even loss of personal property to name a few.

By writing out YOUR PLAN, you have decided you needed to make a change and run your real estate business like a professional with a plan and accountability. Congratulations! Now

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go to the sample plan. After you finish reviewing the sample plan, return to this section to get some information on what you will need to prepare your own plan.

## **The Data**

Before you get started with your own plan, ask yourself the following questions, assemble the necessary documents, biographies, graphs, and raw data:

- 1) What type of investing will you be doing? ( Wholesale, buy and hold, buy and retail, development, or a combination of several strategies)
- 2) What name and business structure will you be utilizing. Are you an S corporation, LLC, or Limited Partnership? Decide the type and file the necessary paperwork to incorporate. Go to <http://www.mycorporation.com/affiliate.asp?resellid=12000057>
- 3) What geographic areas will you be targeting?
- 4) How many deals would you like to do per year? What is your desired profit per deal?
- 5) How will you achieve those goals? Where will your funding come from?
- 6) Who is going to be on your team? Identify all the team members such as Realtors, attorneys, contractors, etc. and list each member's role to ensure you have identified and addressed any gaps. If you do not have any names get leads from other investors
- 7) What challenges must you overcome? How will you overcome them?
- 8) What is your exit strategy? How and when will you liquidate the company?
- 9) Summarize your business and dress up the plan without "embellishing."
- 10) Package it in an attractive binder and have it ready BEFORE you need it.

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April 15, 2005

To Whom It May Concern:

Enclosed is a Business Plan for ABC Investment Group, LLC a real estate investment company. The company buys, repairs, and sells homes in Sample City and surrounding counties. We have been in business for a year and a half. We are looking to expand our business over the next three years. In order to achieve those goals we need additional funding. We are requesting a Line Of Credit in the amount \$500,000. As detailed in the attached plan the funds will be used to buy distressed properties, repair then retail them

Should you need additional information you can reach me at (440) 555-1234. Thank you in advance for your consideration.

Sincerely,

John Q Investor  
ABC Investment Group, LLC

**Business Plan**

**ABC Investment Group, LLC**

**April 2005**

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### **I. Executive Summary**

#### **A. Company Information**

**ABC Investment Group, LLC** was formed in July 2004 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. ABC Investment Group, LLC is solely owned and managed by John Q Investor. ABC Investment Group, LLC is located at 123 Main Anytown, OH 44140.

#### **B. Company Objective**

**ABC Investment Group, 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

\$120,000 to \$220,000. While our main objective is to quickly sell each property to our targeted, and qualified database of clients, we are also in the position to rehab 25% of these properties and make a minimum of 15+% profit based on the After Repair Fair Market Value on each deal. We appreciate our role in the community, as well. Therefore, we always make it a point to work with the local building and zoning departments to keep a neighborhood consistent.

### **C. Company Summary**

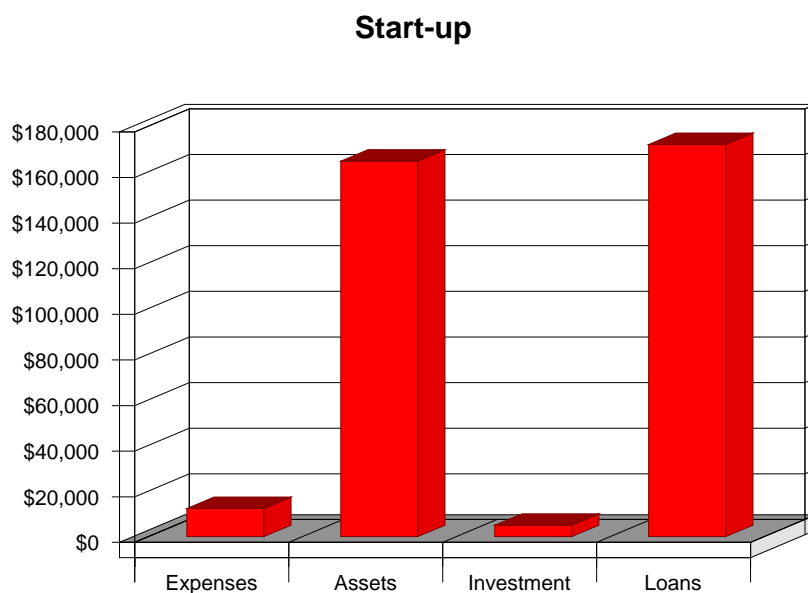
**ABC Investment Group, LLC** invests in residential real estate by purchasing properties from motivated sellers at or below 70% of fair market value. Our strategy is based on insuring the profit is established upon purchase, and realized upon the sale of the property. Any appreciation is categorized as a bonus for the company.

Our profit margin over the past year has been within our target and our volume has been 10% higher than expected. This was anticipated due to our early stage of our business startup. 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 growing group of experienced professionals with clearly defined roles that will ensure our success. Our executive team of Realtors, attorneys, contractors, and bankers has grown by 14% in the past 2

quarters alone. 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)

**ABC Investment Group, 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 \$25,000. These expenses are related to legal services, equipment, and working capital. (Specify exact amounts in financials)



## II. Market Analysis Summary

**ABC Investment Group, LLC** invests primarily in 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. Lake

County including approximately 12 miles south and 25 miles west of Lake County is our primary geographic target. This area has shown an annual population growth of over 12% and an increase in home sales of over 22%. They have stable resale values yet provide a sufficient amount of opportunity. Once target properties are acquired, they are renovated to match or exceed current market standards for retail or rental whichever the case then marketed. The process from start to finish takes an average of 4.5 months from closing to liquidation.

#### **A. Market Segmentation**

ABC Investment Group, LLC plans to wholesale 70% of our projects, rehab, and retail 20% 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 \$120,000 to \$220,000. (Give plenty of details on media, networking

connections and co-op opportunities with attorneys, bankers, mortgage officers, hair salon stylists, etc.)

### **C. Acquisition Strategy**

We find the properties through a variety of sources including but not limited to the Multiple Listing Service (MLS). Our primary Realtor, Bob Jones, with XYZ Brokerage Firm, has been effective in locating ideal properties that match our client's needs. Over 20% of last years acquisitions in the foreclosure process or were owned by banks. We anticipate an increase of our inventory by over 20% in this market niche. The condition of these properties at the time of acquisition ranged from badly in need of repair to ones only needing minor cosmetic repairs. The repair cost this year will range from \$15,000 to \$30,000 depending on the type of work required. The properties usually are all in need of paint, carpet, new kitchen, and bath. (See addendum A for sample property rehab material and labor list)

A major factor to our company's success is purchasing the property at a price that leaves our margins intact and affords us a 10% cushion. We determine the Fair Market value after renovation by reviewing recent comparable sales for the area. Over 40% of our wholesale deals were sold to our client database with an appraisal. The first formula takes into account (in the 30%) all acquisition costs, holding costs, selling costs and profit (See complete descriptions below).

#### 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 cash flow) is \$100 or \$1200 annually. Expenses would include such costs as taxes, insurance, utilities, maintenance, management, advertising, reserves, leasing, repairs, and debt service.

#### **D. Competitive Edge**

Our contracts are accepted even when they are lower than the competition because we are able to eliminate 80% of the traditional contingencies. After our next infusion of capital, we anticipate eliminating all mortgage contingencies, even if our clients require one. We will be able to accomplish this after our volume increases by an additional 50%. This will allow closing in as little as 10 business days, if the project requires it.

Our current acceptance rate is 22%. This rate is expected to stabilize around 15% as our business matures and our margins increase.

### **III. Implementation Plan**

#### **A. The Rehab Process**

The rehab process plays a minor role in the success of our business because the majority of our transactions are wholesale deals. We are aware that no matter what we paid for the property our profit will be in jeopardy if we do not have more than one exit strategy for each property, along with accurate estimates and the right contractors to do the work. Our timeframe for completing an average rehab is 45 days.

#### **B. The Rehab Plan**

For our rehab projects, 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. Then we take care of HVAC, electrical and other systems work so that all cosmetic upgrades are done once the major systems are “buttoned up.” Once the major repairs are upgrades or replaced we complete drywall repairs, paint, kitchen,

bath and floor coverings. Demolition is done at one time so that we can minimize refuse removal. Items such as switch outlets, light fixtures, mailboxes etc. or normally replaced regardless of functionality. We also use colors that are neutral and will appeal to the masses. The house is listed two to three weeks prior to completion of all renovations to generate qualified leads.

#### **IV. Sales Strategy**

Bob Jones, our primary realtor recognizes ABC Investors, LLC as his major client and in order to make sure that our properties receives maximum exposure, he attends all of our sales, marketing and strategy sessions. We tend not sell the properties ourselves and instead rely upon Bob 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; lowering our holding costs and maximizing our 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. 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 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 cash flow. The threshold for this type of long-term investment is a minimum of \$100 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 ABC Investment Group, LLC 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 rehabbers and retail buyers. The reason for our success has been the attention to the specific needs of our clients along with the quality of renovations.

Quality of Renovations: We have learned what features make a difference with potential buyers. With that in mind, we usually 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.

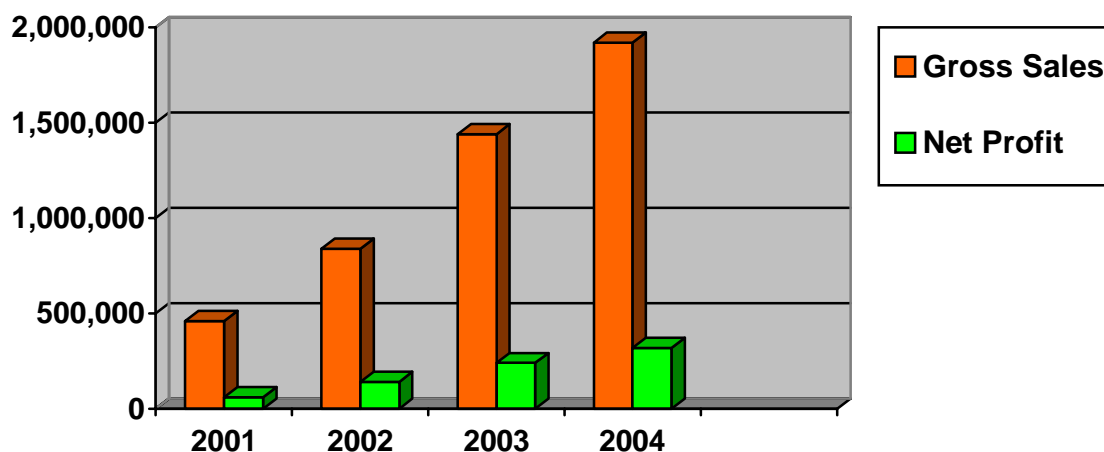
Affordability: Our average sale price ranges from \$120,000 to \$220,000. This is within the range of the first time homebuyer and those looking to upgrade to homes with modern features such as central air.

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 four transactions in 2004 and are looking to end this year with nine transactions. The projections for 2006 are for one completed deal per

month. For 2007, we are projecting one more per quarter over 2006 projections for a total of 20 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 \$220,000 with a \$25,000 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

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**ABC Investment Group, LLC** has been in business for 16 months, has purchased, and retailed eight homes since its inception. Our average purchase price has been \$145,000 with a resale price of \$190,000 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 identify profitable deals and creatively structure them for maximum profit and minimal risk.

## **VII. Financial Plan**

We will seek additional financing from investor friendly lenders. We will apply for a line of credit for \$500,000, the amount required to do the number of deals we are projecting for 2006. This assumes that we turnover each property within 45 days. Until we receive the line of credit, we will continue to use private or hard moneylenders to do deals. For that reason, we keep a list of private moneylenders 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 John Q Investor. John Q 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 slowly increase. If the climate dramatically shifts, we will acquire more properties for buy and hold versus for wholesale or retail as the rental market increases.

## **X. Summary**

It is our goal to establish a sound business image in our industry and community. By under promising and over delivering to our clients, vendors, and peers, our reputation will continue to be perceived in high regard. We are confident that we have the right people on our team and right process in place to achieve our goals.