PHOENIQ INVESTMENTS
Real Estate Development
November 2013

Phoeniq Investments is re-establishing a Real Estate Investment fund to capitalize on the resurgent market conditions in mature upper income neighborhoods within the Atlanta metro area. The investment strategy includes proprietary methods designed to capitalize on the remaining anomalies in the market, to enhance turn-over and accelerate growth.

MARKET CONDITIONS

Real Estate Sales

The real estate market has recently shifted from a buyer's market to a seller's market within the mature high income neighborhoods, and resulted in a very brisk rise in values for specific market segments.

Mature neighborhoods in northern Metro Atlanta have mostly been spared the mass foreclosures that plagued much of the nation and large segments of Atlanta. However, those neighborhood were still substantially effected by overall market conditions, resulting in stagnating and reduced values. Furthermore, problems within the financial sector, and resultant changes in lending processes and appraisals also had a negative market effect.

At this juncture, several factors have converged to create ideal market conditions for development and investment in those neighborhoods, where demand has outstripped supply.

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- The bulk of foreclosure and distressed sales are behind us, allowing for return to conditions approaching normal market valuation.
- Low levels of new construction over the past five years has substantially reduced the supply of homes on the market.
- Pent up demand has been building among those who had foregone purchasing homes when values were at risk.
- Interest rates are rising along with prices, creating a sense of urgency to purchase.

The latest indicators show home prices nationally rising by 11% between the third quarter of 2012 and the third quarter of 2013. The indicators all show certain market segments, including the neighborhoods we target, have seen price increase of more than 20%.

The indicators project a continued price appreciation, as prices remain relatively low in comparison to construction costs.

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Banks and Financial Institutions
Banks and financial institutions are gradually easing their lending standards, particularly to upper income households. However, many strict regulation continue to hamper the real estate market. This is particularly true for construction loans and HELOC, where appraisals are harder to define, and risks are higher.

The secondary market for mortgages remains almost non-existent, which makes almost all mortgages subject to the strict rules of Government backed institutions, such as Freddie Mac and Genie Mae.

Appraisals and Valuations
The changes in real estate appraisal process, introduced after the market crash continue to plague the market, and hamper proper valuations and constrain market growth.

The new process includes foreclosures and short sales in the comparative analysis, which often require large investments to bring properties to livable standards. This greatly reduces appraised values and the resultant loans banks are willing grant.

These rules effect older smaller houses more severely than newer ones, as they include large numbers of properties that lack modern upgrades, as well as are more likely to have been sold in foreclosure.

Furthermore, the low levels of foreclosures within the upper income neighborhoods, particularly the higher end properties has shielded those properties from the negative effect of distressed sales.

Investment and Development
Investors remain largely focused on lower end neighborhoods, where foreclosures continue to sell well below normal valuations. Those properties require smaller investments, with value primarily created through low cost basic repairs.

Mature neighborhoods with a mixture of newer expensive properties and older less expensive properties requires larger investments per property, and until very recently did not represent a good potential for value creation

As such, very little investment has returned to middle and upper income mature neighborhoods. However, as market conditions improve, investment in those neighborhoods is rapidly increasing.

Large Builders
Large Builders are generally focused on developing multi-home sub-divisions. Many are holding empty lots in unfinished subdivisions and are primarily focused on developing those lots, where their income includes recuperating the price of the lots they have held for years.

Large builders generally do not operate on single home sites, particularly when the project involves the expansion of older homes and requires specific design and engineering. Those companies prefer multi-home sites with pre-designed layouts, which they deem more efficient.

Market Disparity

These conditions have created a disparity in market valuations, whereby values of larger more modern houses are rising faster than their older smaller neighbors, even on the same block.

In many neighborhoods, values of newer properties have returned to historic highs, while older properties remain well below those highs.

This creates a wider than normal margin between the two categories, and represents a unique opportunity for profit, whereby smaller properties can be expanded and modernized at a cost much lower than the price deferential.

This disparity is not expected to last long. As investors step in to capitalize on wider margins, they are destined to raise the prices of older homes and empty lots.

PHOENIQ'S OPERATIONS

Phoeniq purchases older lower priced properties, which are dispersed between newer larger houses in mature neighborhoods. Those houses often sell at or below the value of an empty lot and represent a profitable development opportunity.

The company shall expand and modernize those properties for resale.

Phoeniq has extensive experience in modernizing and expanding older homes. The company's experience allows for seamless expansions that result in homes indistinguishable from houses build from the ground up.

Furthermore, Phoeniq's experience and expertise allows for a high level of efficiency in design and implementation, completing projects faster than industry standards. The average project is completed in less than six months from acquisition to move-in.

Furthermore, modernizing older homes represents several advantages

- Older building materials – pre-1970 - are of a much better quality.
- Incorporating the older structure into the new design substantially reduces construction costs, and increases profits.
- Expansion and modernization reduces construction time and increases turn-over.

TARGET MARKET

The company shall focus on purchasing and rebuilding older homes in mixed mature markets within the core metro Atlanta neighborhoods.

Each property shall be individually assessed to determine profitability. The assessment shall evaluate the total cost of purchasing and rebuilding in comparison to the target sales price.

Property Sources

The primary target properties for purchase are:

- Homes with little or no upgrades, preferably in need of substantial repairs, which sell at the lowest rates.
- Structurally sound homes, where the majority of the structure can be integrated into the new design.
- Close proximity to larger more modern homes in high demand neighborhoods, which allows for the largest profit margin.

Cash purchases will allow Phoeniq to obtain the best value for its investment, and reduce operating time.

Phoeniq plans to establish long term relations with real estate brokers and its bank sources to reduce costs and establish a continuous supply of properties.

Those properties currently range in price from the low $100 thousand to $250 thousand, depending on size and neighborhood. The higher priced properties are generally larger and in higher end neighborhoods.

Geographic Location

Initial the company shall focus its operations in northern metro Atlanta within the parameter. Those neighborhoods are experiencing the largest price resurgence with plenty of older homes scattered among the newer higher priced homes.

The company shall continue to monitor the market and adjust its target market according to new developments. There is a high potential that adjoining neighborhoods, just outside the parameter, will experience similar market conditions in the coming year.

Target Sales Market

The target market for resale shall be the move-up category, which in the target market represents newer homes in the $600 thousand to $1 million price range.

Those homes 3,200-5,000 sf, with modern amenities and proximity to the city's prime business, shopping and entertainment centers.

Tables 1 and 2 list the latest sales of newer homes in the target market. Newer homes are now selling at an average price exceeding $200/sf. with new construction sales averaging more than $220/sf.

Profitability
The construction costs for those homes is $100-$110 per sf. At that size, the original acquisition costs of the older houses represents $25-$75 per finished sf.

Those costs allow for average gross margins of 15%-25% per property, depending on the particular property, after deducting real estate sales commissions, and other costs..

The six month completion time and less than 60 days on the market, would allow for annual investment turnover of more than 1.5 times, and annual growth of 15% and 30%.

Additional Profits
Phoeniq also offers custom construction to end users, which will reduce expenditures and investment time frames and increase profit margins.

Phoeniq plans to offer custom to end users, while offering the buyer an alternative to the hard to come by construction loans.

Customers who desire to a custom home will deposit the purchase down payment with Phoeniq, and define the desired design. Phoeniq will construct the home at its own expense and then finalize a sale of a finished product, which the the customer will finance with a standard mortgage.

The down payment reduces Phoeniq's investment by up to 20%, while the custom delivery reduces the turnaround by an estimated two months. This will double the profit margins on those properties in comparison to spec homes.

Leveraging
Leveraging the investment fund with 70% mortgages on purchase prices alone will allow for a large increase in turnover and a 60% increase in profitability and growth.

Leveraging is only used for purchasing of older properties. All other costs are covered by the investment fund to insure maximum operating flexibility.

FINANCIAL CALCULATIONS

The financial calculations in tables 4 & 5 are based on average construction costs, utilities, taxes and insurance for properties in Georgia.

The model assumes a starting fund of $5,000,000. However, the same growth results can be achieved with different fund levels, as long as the fund is capable of processing multiple properties per year, staggering purchases and sales.

Cost Estimates

For the purpose of the financial model carrying costs are as follows.

- Construction costs are estimated at an average of $100 per sf.
- Operating Costs are assumed at 1% of the property's purchase cost and 5% of construction costs.
- Real estate Commissions are assumed at 6% of sales price.

Sales Prices

To account for potential fluctuations in the costs, sales income is assumed at 15% above purchase and construction costs, before deducting operating costs, which is the lower end of the margins projected for the sample properties currently available.

Market Price Assumptions

The financial calculations assume market conditions will continue to improve with sales prices increasing 5% per year. However, given the lower than normal construction activity, construction costs are assumed to remain steady over the next 3 years.

Fund Growth

The financial calculations assume that all income is re-invested in the fund for the first 3 years.

Table 4 shows profit and growth in an all cash operation with no leveraging. The fund is estimated to grow by 147% by the end of the third year.

Table 5 shows profits and growth when property acquisition is leverage with 70% loans at 6% annual interest, while building costs are all cash. This will allow the fund to grow by an estimated 247% by the end of the third year.

Custom building for end users will further increase the growth potential.

Table 1 REAL ESTATE EXISTING HOME SALES IN TARGET AREA						
Zip Code	**2013 Sale**	**Previous sale Year**	**Previous Sale**	**Size**	**Price per SF**	**Percentage Change**
30345	$1,235,000	2006	$1,040,000	5268	$234.43	18.75%
30345	$1,100,000	2008	$1,180,000	4082	$269.48	-6.78%
30345	$1,020,000	2001	$869,000	4904	$207.99	17.38%
30345	$980,500	2004	$906,000	4934	$198.72	8.22%
30345	$940,000	2007	$1,032,500	5301	$177.33	-8.96%
30345	$879,000	2008	$974,000	4161	$211.25	-9.75%
30345	$845,000	2008	$819,000	4600	$183.70	3.17%
30345	$830,000	2001	$920,000	4730	$175.48	-9.78%
30345	$810,000	2004	$720,000	4041	$200.45	12.50%
30345	$730,000	2002	$795,000	4287	$170.28	-8.18%
30345	$705,000	2005	$685,000	3468	$203.29	2.92%
30345	$625,000	2003	$600,000	3390	$184.37	4.17%
30345	$618,000	2000	$468,500	3372	$183.27	31.91%
30345	$600,000	2007	$595,000	2900	$206.90	0.84%
30345	$575,000	2004	$645,000	3655	$157.32	-10.85%
30319	$1,299,000	2004	$1,135,000	4705	$276.09	14.45%
30319	$1,175,000	2006	$1,195,000	5225	$224.88	-1.67%
30319	$1,085,000	2006	$1,200,000	4028	$269.36	-9.58%
30319	$1,070,000	2001	$1,025,000	5440	$196.69	4.39%
30319	$889,000	2007	$895,000	4597	$193.39	-0.67%
30319	$910,000	2007	$800,000	3676	$247.55	13.75%
30319	$790,000	2007	$775,000	3767	$209.72	1.94%
30319	$775,000	2008	$735,000	3350	$231.34	5.44%
30319	$770,000	2009	$745,000	4022	$191.45	3.36%
30319	$718,500	2002	$690,300	3943	$182.22	4.09%
30319	$716,500	2007	$735,000	3156	$227.03	-2.52%
30319	$715,000	2007	$666,000	3724	$192.00	7.36%
30319	$702,000	2002	$673,000	3563	$197.02	4.31%
30319	$699,000	2008	$700,000	3587	$194.87	-0.14%
30319	$675,000	2003	$540,000	4124	$163.68	25.00%
30319	$672,000	2008	$685,000	3232	$207.92	-1.90%
30319	$650,000	2012	$567,500	3741	$173.75	14.54%
30319	$648,000	2002	$539,500	3206	$202.12	20.11%
30319	$647,800	2006	$620,000	3658	$177.09	4.48%
30319	$643,700	2006	$740,000	3126	$205.92	-13.01%
Average					**$202.02**	**2.34%**

Table 2 REAL ESTATE NEW CONSTRUCTION SALES IN TARGET AREA			
	2013	**Size**	**Price**
	Sale	**SF**	**per SF**
30319	$788,000	3157	$249.60
30319	$766,500	3460	$221.53
30319	$760,000	3100	$245.16
30319	$725,000	3320	$218.37
30319	$709,500	3380	$209.91
30319	$701,020	3505	$200.01
30319	$700,600	3505	$199.89
30319	$695,000	3205	$216.85
30319	$686,000	3039	$225.73
30319	$647,500	2713	$238.67
Average Price per SF			**$222.57**

Table 3 SAMPLE AVAILABLE PROPERTIES								
Original		Target	Building	Total	Sale at	RE Comm.	Overhead	Profit
Size - sf	Price	Size - sf	Cost	Cost	$220 per SF	at 6%	at 5%	
1078	$189,900	3500	$350,000	$539,900	$770,000	$46,200	$38,500	26.93%
978	$200,000	3500	$350,000	$550,000	$770,000	$46,200	$38,500	24.60%
1848	$230,000	3500	$350,000	$580,000	$770,000	$46,200	$38,500	18.16%
2738	$249,000	3500	$350,000	$599,000	$770,000	$46,200	$38,500	14.41%
2372	$169,000	3500	$350,000	$519,000	$770,000	$46,200	$38,500	32.04%
1541	$199,900	3500	$350,000	$549,900	$770,000	$46,200	$38,500	24.62%
Land	$189,900	3500	$350,000	$539,900	$770,000	$46,200	$38,500	26.93%
Land	$215,000	3500	$350,000	$565,000	$770,000	$46,200	$38,500	21.29%

Table 4 - Financial Model Starting with $5,000,000 – No Leveraging							
Mth	Property Cost	Building Cost	Sale Value 115% of Cost	Retained Cash	Property Held Value	Total Value	Value Growth
1	$375,000			$4,621,250	$431,250	$5,052,500	1.05%
2	$375,000	$75,000		$4,163,750	$948,750	$5,112,500	2.25%
3	$375,000	$150,000		$3,627,500	$1,552,500	$5,180,000	3.60%
4	$375,000	$225,000		$3,012,500	$2,242,500	$5,255,000	5.10%
5	$375,000	$300,000		$2,318,750	$3,018,750	$5,337,500	6.75%
6	$375,000	$375,000		$1,546,250	$3,881,250	$5,427,500	8.55%
7	$375,000	$450,000		$695,000	$4,830,000	$5,525,000	10.50%
8	$375,000	$450,000	$1,035,000	$878,750	$4,743,750	$5,622,500	12.45%
9	$375,000	$450,000	$1,035,000	$1,062,500	$4,657,500	$5,720,000	14.40%
10	$375,000	$450,000	$1,035,000	$1,246,250	$4,571,250	$5,817,500	16.35%
11	$375,000	$450,000	$1,035,000	$1,430,000	$4,485,000	$5,915,000	18.30%
12	$500,000	$450,000	$1,035,000	$1,487,500	$4,542,500	$6,030,000	20.60%
13	$500,000	$475,000	$1,080,000	$1,563,750	$4,632,500	$6,196,250	23.93%
14	$500,000	$500,000	$1,080,000	$1,613,750	$4,752,500	$6,366,250	27.33%
15	$500,000	$525,000	$1,080,000	$1,637,500	$4,902,500	$6,540,000	30.80%
16	$500,000	$550,000	$1,080,000	$1,635,000	$5,082,500	$6,717,500	34.35%
17	$500,000	$575,000	$1,080,000	$1,606,250	$5,292,500	$6,898,750	37.98%
18	$500,000	$600,000	$1,080,000	$1,551,250	$5,532,500	$7,083,750	41.68%
19	$500,000	$600,000	$1,080,000	$1,496,250	$5,772,500	$7,268,750	45.38%
20	$625,000	$600,000	$1,080,000	$1,315,000	$6,162,500	$7,477,500	49.55%
21	$625,000	$625,000	$1,080,000	$1,107,500	$6,582,500	$7,690,000	53.80%
22	$625,000	$650,000	$1,080,000	$873,750	$7,032,500	$7,906,250	58.13%
23	$625,000	$675,000	$1,080,000	$613,750	$7,512,500	$8,126,250	62.53%
24	$625,000	$700,000	$1,440,000	$687,500	$7,662,500	$8,350,000	67.00%
25	$625,000	$725,000	$1,500,000	$795,000	$7,850,000	$8,645,000	72.90%
26	$625,000	$750,000	$1,500,000	$876,250	$8,068,750	$8,945,000	78.90%
27	$625,000	$750,000	$1,875,000	$1,332,500	$7,912,500	$9,245,000	84.90%
28	$750,000	$750,000	$1,875,000	$1,662,500	$7,912,500	$9,575,000	91.50%
29	$750,000	$775,000	$1,875,000	$1,966,250	$7,943,750	$9,910,000	98.20%
30	$750,000	$800,000	$1,875,000	$2,243,750	$8,006,250	$10,250,000	105.00%
31	$750,000	$825,000	$1,875,000	$2,495,000	$8,100,000	$10,595,000	111.90%
32	$750,000	$850,000	$1,875,000	$2,720,000	$8,225,000	$10,945,000	118.90%
33	$750,000	$875,000	$1,875,000	$2,918,750	$8,381,250	$11,300,000	126.00%
34	$750,000	$900,000	$1,875,000	$3,091,250	$8,568,750	$11,660,000	133.20%
35	$750,000	$900,000	$1,875,000	$3,263,750	$8,756,250	$12,020,000	140.40%
36	$750,000	$900,000	$1,875,000	$3,436,250	$8,943,750	$12,380,000	147.60%

Table 5 - Financial Model Starting with $5,000,000 – Loans at 70% of Acquisition Cost								
Mth	Property Cost	Building Costs	Sale Value 115% of Cost	Acquired Loans 70% of Cost	Retained Cash	Property Held Value	Total Value	Value Growth
1	$500,000			$350,000	$4,845,000	$575,000	$5,420,000	8.40%
2	$500,000	$100,000		$350,000	$4,583,250	$1,265,000	$5,848,250	16.97%
3	$500,000	$200,000		$350,000	$4,214,750	$2,070,000	$6,284,750	25.70%
4	$500,000	$300,000		$350,000	$3,739,500	$2,990,000	$6,729,500	34.59%
5	$500,000	$400,000		$350,000	$3,157,500	$4,025,000	$7,182,500	43.65%
6	$500,000	$500,000		$350,000	$2,468,750	$5,175,000	$7,643,750	52.88%
7	$500,000	$600,000		$350,000	$1,673,250	$6,440,000	$8,113,250	62.27%
8	$500,000	$800,000	$1,380,000	$350,000	$1,696,000	$6,555,000	$8,251,000	65.02%
9	$500,000	$800,000	$1,380,000	$350,000	$1,718,750	$6,670,000	$8,388,750	67.78%
10	$500,000	$800,000	$1,380,000	$350,000	$1,741,500	$6,785,000	$8,526,500	70.53%
11	$500,000	$800,000	$1,380,000	$350,000	$1,764,250	$6,900,000	$8,664,250	73.29%
12	$500,000	$800,000	$1,380,000	$350,000	$1,787,000	$7,015,000	$8,802,000	76.04%
13	$500,000	$800,000	$1,440,000	$350,000	$1,869,750	$7,135,000	$9,004,750	80.10%
14	$500,000	$800,000	$1,440,000	$350,000	$1,952,500	$7,255,000	$9,207,500	84.15%
15	$500,000	$800,000	$1,440,000	$350,000	$2,035,250	$7,375,000	$9,410,250	88.21%
16	$500,000	$800,000	$1,440,000	$350,000	$2,118,000	$7,495,000	$9,613,000	92.26%
17	$500,000	$800,000	$1,440,000	$350,000	$2,200,750	$7,615,000	$9,815,750	96.32%
18	$500,000	$800,000	$1,440,000	$350,000	$2,283,500	$7,735,000	$10,018,500	100.37%
19	$500,000	$800,000	$1,440,000	$350,000	$2,366,250	$7,855,000	$10,221,250	104.43%
20	$750,000	$800,000	$1,440,000	$525,000	$2,371,500	$8,275,000	$10,646,500	112.93%
21	$750,000	$850,340	$1,440,000	$525,000	$2,323,018	$8,755,408	$11,078,426	121.57%
22	$750,000	$909,091	$1,440,000	$525,000	$2,211,972	$9,306,318	$11,518,290	130.37%
23	$750,000	$943,396	$1,440,000	$525,000	$2,064,031	$9,898,393	$11,962,424	139.25%
24	$750,000	$1,000,000	$1,440,000	$525,000	$1,855,781	$10,558,393	$12,414,174	148.28%
25	$750,000	$1,041,667	$1,500,000	$525,000	$1,662,906	$11,297,976	$12,960,882	159.22%
26	$750,000	$1,111,111	$2,250,000	$525,000	$2,146,239	$11,374,365	$13,520,605	170.41%
27	$750,000	$1,111,111	$2,250,000	$525,000	$2,453,698	$11,450,754	$13,904,452	178.09%
28	$750,000	$1,111,111	$2,250,000	$525,000	$2,761,156	$11,527,143	$14,288,299	185.77%
29	$750,000	$1,111,111	$2,250,000	$525,000	$3,068,614	$11,603,532	$14,672,146	193.44%
30	$750,000	$1,111,111	$2,250,000	$525,000	$3,376,073	$11,679,921	$15,055,994	201.12%
31	$750,000	$1,111,111	$2,250,000	$525,000	$3,683,531	$11,756,310	$15,439,841	208.80%
32	$750,000	$1,111,111	$2,250,000	$525,000	$3,990,989	$11,832,699	$15,823,688	216.47%
33	$750,000	$1,111,111	$2,250,000	$525,000	$4,298,448	$11,909,087	$16,207,535	224.15%
34	$750,000	$1,111,111	$2,250,000	$525,000	$4,605,906	$11,985,476	$16,591,383	231.83%
35	$750,000	$1,111,111	$2,250,000	$525,000	$4,913,364	$12,061,865	$16,975,230	239.50%
36	$750,000	$1,111,111	$2,250,000	$525,000	$5,220,823	$12,138,254	$17,359,077	247.18%