Real Estate Syndication:
A Business Plan for The Dragonetti Group Ltd.

by

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Executive Summary

For most people, investment in real estate is restricted to simply owning their primary residence, despite the fact that real estate has been one of the most successful investment vehicles over the long-term. For instance, according to economists Holt and Djeric, house prices in Canada have gained more than 100 per cent over the past decade. (Babad, 2011). However, the considerable time and expertise required to find, buy, and manage investment real estate, as well as the large amount of capital required, constitute significant barriers to most individuals. The Dragonetti Group breaks down these barriers and makes investing in real estate a viable option for those people. The company aggregates investors' capital and forms a joint venture syndication to buy and hold multi-family residential real estate. The business generates on-going operating profits through leasing and capital gains when it sells property.

The Dragonetti Group is a well-planned new venture with a thoroughly researched business plan that provides information about real estate in general, different forms of joint venture syndications, and how The Dragonetti Group will use this information to generate wealth for its investors.

Currently in an initial concept stage, the company will move forward by approaching potential investors, asking them to sign letters of commitment if they want to participate in the partnership, and finding attractive investment properties. With letters of commitment the company can move forward with formalizing the partnership with an Offering Memorandum, Partnership Agreement, seeking lender financing, and incorporating the General Partner – The Dragonetti Group Ltd.

Beyond formalities the business includes an innovative growth strategy that provides growing returns for investors by building a diverse property portfolio of multi-family residential rental apartments and townhomes. The company will begin as a Limited Partnership and when it reaches a critical mass, restructure into a private Real Estate Investment Trust (REIT) in order to benefit from scale economies and a new growth strategy. Pursuing an innovative Umbrella Partnership REIT structure (UPREIT) model, the company will consolidate its holdings in a tax efficient manner as well as benefit from a new strategy to attract other real estate investors who want to divest of their own properties in exchange for units in the Trust. The final step in the company's growth model is to become a publically traded REIT. This offers new sources of capital and provides investors with the highest level of liquidity.

The analysis and strategies that form the foundation of The Dragonetti Group's business plan are described in the following pages.

Why Real Estate

Everyone is affected by real estate. From where we live to whether we own, rent, or sublet, our lives are impacted by real estate. The real estate business is a massive industry whose lucrative potentials are widely recognized. Real estate moguls like Donald Trump, Conrad Hilton, Sam Zell, and McDonalds are but a few examples of individuals and corporations who have amassed great fortunes in the form of real estate.

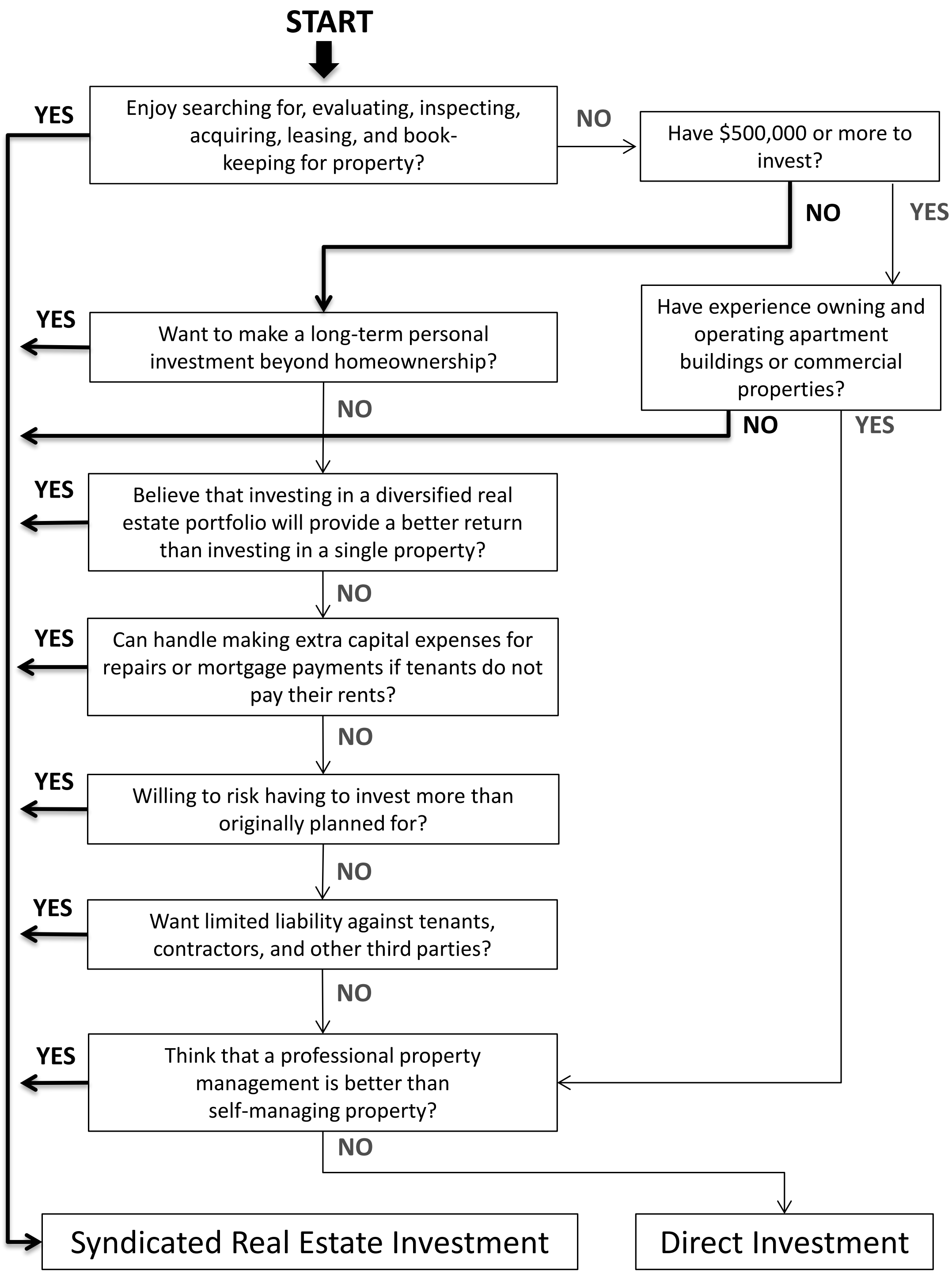
The combination of multiple profit centres, the power of leverage, preferential tax treatment, and lower volatility make real estate an attractive investment.

Table 1: Benefits of Investing in Real Estate

Multiple profit centres
▪ Stable monthly cash flow from leasing property ▪ Capital gains as property appreciates over time ▪ Increase in equity as tenants pay down the mortgage
The ability to use leverage
▪ Example: $25K in stocks versus using as a down payment to invest in a $100K property ▪ If both investments go up 10%, stocks make $2,500 and real estate makes $10,000 ▪ Leverage turns an ROI of 10% into 40% on the same cash invested
Preferential tax treatments
▪ Joint venture structures can minimize taxes through exemptions, deferrals, and a large non-cash depreciation expense ▪ Properties can be refinanced without triggering a taxable event
Control
▪ If the property is falling apart, it can be fixed ▪ Have control over the tenants you allow into the building

An important decision when investing in real estate is whether to go at it alone or with partners. The decision tree in Figure 1 will help with this question. Based on capital available, experience, and expertise the result is either investing with a partner syndicate or self-directed investing.

Figure 1: Real Estate Investment Decision Tree



The outcome of the decision tree for The Dragonetti Group is for syndicated real estate investing so it seeks other investors to partner with. The following sections explain how the company plans to find investment opportunities, attract investors, structure its joint venture business, and manage its real estate portfolio. This decision tree also demonstrates the motivations for partners and becomes a useful sales device.

Background

This section provides an overview of limited partnerships and real estate investment trusts, including a historical account of their evolution. It also provides an analysis of the real estate investment industry and concludes with an investment thesis that describes how the business generates value for its investors.

Throughout the remainder of this plan, historical information is presented for things like mortgage rates, capitalization rates, population growth, housing starts, and GDP. The Dragonetti Group believes that it is important to analyze information about the past in order to recognize patterns, trends, and understand the factors that make for successful investments in real estate. The company's focus, however, is on the future. That is, the company seeks to identify cities, towns, and neighborhoods that have a future, not a past. The Dragonetti Group avoids speculating on the market's direction based on past performance, instead opting to make its investment decisions based on a set of fundamental criteria and thorough research.

Brett Wilson, co-founder of FirstEnergy Capital Corp., managing director of Prairie Merchant Corp., and panelist on the popular television program, Dragon's Den, elaborates on the difference between investing and speculating:

> "Anyone investing while chasing the peaks of a real estate cycle shouldn't be investing. That's called speculating. Ideally you want to sell at the peak and buy at the bottom. But I don't know anyone smart enough to strategically and consistently determine when the peak or bottom is."

The Dragonetti Group shares Wilson's general outlook and approach. He summarizes it nicely:

> "The market has cycled several times in the last 10 years, and sure, we've sold a few properties if there was an opportunity to profit. But I'm a long-term investor and it always comes down to buying well."
>
> \- *Canadian Real Estate Magazine*

An Overview of Limited Partnerships

A limited partnership (LP) is a common and well-established approach to syndicated real estate investing. Unlike an incorporated company, an LP is not a legal entity. It is merely a description of the structure of a joint business venture.

An LP must be comprised of a General Partner and one or more limited partners. The Limited Partners contribute capital and the General Partner typically contributes the time and expertise to organize the deal and manage the partnership.

Unlike General Partnerships that can be formed inadvertently through two or more parties simply working together with the intent of earning a profit, an LP only exists once its declaration is filed with the provisional corporate registrar.

The following information is required to register a partnership:

- The name of the partnership
- The province or territory where the partnership is to be situated
- The business address of the partnership
- The mailing address of the partnership
- The name and home address of each partner
- The purpose or nature of business of the partnership
- If any partner is a company then the company’s corporate number.

Liability

As the name implies, the liability of Limited Partners is restricted to the amount of their original contribution. In contrast, the liability of the General Partner is unlimited. However, an incorporated company can also be the General Partner, which limits the personal liability of its principal. Further protection for the General Partner can be obtained in the form of director’s and officer’s insurance.

Control

In order to maintain the “limited” status, a Limited Partner cannot be involved in managing or operating the business. Decisions about buying, selling, and operating properties rest with the

General Partner. However, the General Partner is governed by the partnership agreement that will spell out in detail the operating parameters.

Limited Partners do have certain rights with respect to the partnership, including the right to:

- offer advice on the management of the LP
- be given a complete account of the LP's affairs
- share in profits generated by the LP, subject to the partnership agreement and the BC Partnership Act
- inspect and copy the books of the LP
- return of their investment, subject to the provisions in the BC Partnership Act.

Taxation

LPs are flow-through entities, meaning they do not pay business income taxes. The individual investor pays taxes on the distributions received at his marginal tax rate. If the LP makes a loss during the fiscal year, this is also passed through to investor which they may use to offset other sources of income. LPs are not RRSP eligible.

Profit Distribution

There are three main sources of profit for the LP: operating profits, increases in equity in a property as tenants pay down the mortgage, and capital gains. Through efficiently leasing property, monthly operating profits are generated and when properties are sold for a net profit, capital gains are earned.

The Limited Partners receive a proportional number of units in the partnership for their contributions of capital and accordingly a proportional amount of the profits. Between 5% and 10% is a typical annualized return for a joint real estate venture. (Cohen & Dube, 2010).

The General Partner earns a monthly fee for managing the property and also shares in capital gains. Fees for managing the property typically range from 3% to 10% of the gross monthly revenue. A typical profit distribution arrangement on capital gains is 20:80 for the General Partner-to-Limited Partners. (Cohen & Dube, 2010).

An Overview of REITs

The term REIT is an acronym for Real Estate Investment Trust. It describes a structure for collective investment in real estate. (Kothari, 2009). In Canada, a REIT is either a closed or open-ended mutual fund trust that invests in real estate through owning and operating property or through financing mortgages. Investors can purchase units in REITs thereby indirectly owning part of the underlying real estate assets. The profits generated by the REIT are distributed proportionately among unit holders.

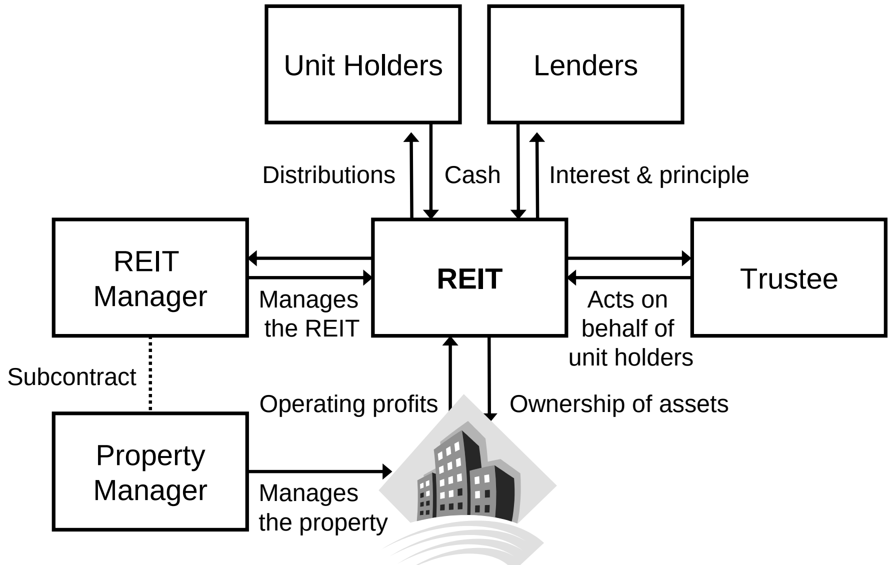
Closed and open-ended funds differ primarily in the way they raise capital. A closed-ended fund only takes investment capital during its initial setup. In essence, after their initial startup, their offering is “closed”. In contrast, an open-ended fund will accept investment capital both during its startup as well as afterwards. It is “open” to receiving additional capital and issuing more shares, or units. (Wikianswers.com, 2011).

The concept of a REIT is similar to that of a mutual fund: investors contribute capital to a collective pool managed by a fund manager who chooses the assets to buy and sell. Instead of buying and selling equities like a mutual fund, a REIT buys property. Like mutual funds, public REITs are traded on open exchanges.

REITs have some unique characteristics as well. Their main appeal comes from their tax treatment. REITs are a flow-through entity meaning they do not pay business income taxes, provided they adhere to regulator's conditions pursuant to its trust status. Further, REITs can be RRSP-eligible meaning investors can further defer taxes on the profits earned from investing in a REIT. Lastly, a REIT's distributions are prescribed in its trust indenture.

The typical structure of a REIT is shown in Figure 2. In short, unit-holders and lenders provide the cash necessary to purchase property and receive interest and a share of profits in return. The REIT manager carries out the business of the REIT including working with the property management company who is normally subcontracted. The Trustee oversees the operation of the REIT and represents the unit-holders.

Figure 2: Typical Structure of a REIT



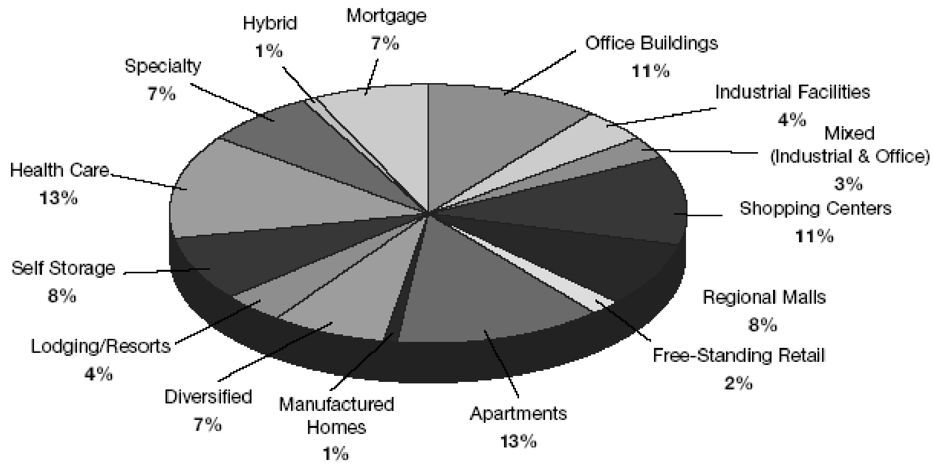
Source: Introduction to Real Estate Investment Trusts, Vinod Kothari, 2009

REITs are categorized according to the type of real estate they invest in:

- Hotel
- Mortgage
- Retirement
- Industrial
- Office
- Residential
- Retail
- Diversified

Figure 3 below shows a detailed breakdown of the US public REITs by property type. The breakdown in Canada is assumed to be similar although specific data is difficult to obtain.

Figure 3: Breakdown of US Public REITs by Property Type



Source: National Association of Real Estate Investment Trusts (NAREIT)

REITs originated in the US and have since also become popular in Canada. They are also gaining popularity in the rest of the world as more and more countries adopt legislation to allow them. Table 2 below shows the total number of public REITs worldwide in 2006 and 2008.

Table 2: Total Number of REITs by Country, 2006 & 2008

Global Region	Country	2008	2006
North America	United States	148	253
	Canada	33	33
Europe, Middle East, and Africa	Netherlands	8	9
	Belgium	14	13
	Germany	2	NA
	France	48	30
	Turkey	13	NA
	United Kingdom	19	NA
	South Africa	6	7
Pacific	Australia	64	58
	New Zealand	8	6
Asia	Japan	42	38
	Hong Kong	7	4
	South Korea	6	11
	Malaysia	13	11
	Singapore	20	11
Total		**451**	**484**

Source: Introduction to Real Estate Investment Trusts, Vinod Kothari, 2009

REITs were a recent introduction in the UK and in France they were introduced with the Finance Act of 2006 which had provisions that allowed for companies to transform into REITs. In Australia REITs have existed for several years and are known as Listed Property Trusts. China does not formally allow REITs as yet but is growing more amenable to them (Kothari, 2009).

Typically REITs are larger and more vertically integrated than partnerships. There are some further important distinctions between public REITs, private REITs, and LPs which are summarized below in Table 3.

Table 3: Differences Among REITs and LP

	Public REIT	Private REIT	Limited Partnership
Liquidity	High Public REITs trade on stock exchanges. Can be sold as soon as a matching bid is found	Low Takes long to sell. Private REITs typically have buy-back or redemption clauses	Low Units in a partnership do not trade on stock exchanges and are more difficult to sell to other investors
Volatility	High Similar to stocks, can shift with varied market sentiment	Low Like investing in a real piece of property, slower moving	Low
Minimum investment	None	Typically $5,000 - $10,000	Typically $5,000 or more
Reinvestment plans	Yes Occasionally at a discount, i.e. dividend reinvestment programs	Same as public REIT	No Nothing formal
Investor control / corporate governance	High Investors elect the Trustee of public REITs	Low Investors have less control in a private REIT since they do not elect the Trustee	Low Partnership is managed by the General Partner who cannot be easily removed
Independent directors	Yes Securities rules typically require that the majority of owners be independent of management	Same as public REIT	No, the General Partner acts as the trustee and manages the business of the partnership
Ability to grow by additional public offerings of stock or debt	Yes, done regularly	Same as public REIT	Possible but rare because it causes ownership dilution issues
Ability to pass losses on to investors	No	No	Yes
Tax treatment	REITs avoid company income tax and investors are taxed at preferred dividend tax rates. Can be RRSP eligible.	Same as public REIT	Partnerships avoid company income tax but investors are taxed at their marginal tax rate on their earned income. Are not RRSP eligible.

Source: National Association of Real Estate Investment Trusts (NAREIT) and Canadian Real Estate Magazine

For more details on the benefits of investing in LPs and REITs, see the *Investment Thesis* section.

History of REITs in Canada

The first public REIT was listed on the Toronto Stock Exchange (TSX) in 1993. There were eighteen more REIT initial public offerings (IPOs) over the next ten years. These were the result of the economic downturn in the late 1980s and early 1990s during which open-ended real estate funds ran into financial difficulties. The early open-ended real estate mutual fund had redemption rights for investors based on appraised values. Dramatic price decreases in the real estate market in the late 1980s and early 1990s led to myriad problems for REITs. Investors worried by falling real estate prices sought to divest of their REIT units and exercised their redemption rights. The REITs did not have enough cash to satisfy the flood of redemptions so they were forced to start selling their properties. The resulting glut of commercial real estate on the market further depressed market values such that properties were selling for below their appraised values leading to insolvency issues. The REITs eventually sought permission from securities regulators to suspend their redemption obligations while they reassessed their options.

In 1994, the Income Tax Act was amended to enable a REIT to continue to qualify as both a mutual fund trust and a closed-ended trust. These amendments confirmed that a trust could hold real property. REITs were no longer required to provide redemptions rights. Instead, they were required to be listed on a recognized Canadian stock exchange.

History of REITs in the U.S.

The REIT structure was created by the U.S. Congress in 1960. The intent was to give small-scale investors the opportunity to invest in large income-producing properties. Their popularity with investors, however, was limited until in 1986 Congress passed the Income Tax Reform Act that scaled back the tax shelter advantages of the REITs' main competitive investment vehicle – the Limited Partnership. This Act also eliminated a restriction on REITs that did not allow them to operate their own properties. These changes combined with prolific failures of public Limited Partnerships in the late 1980s, resulted in REITs attracting more attention and increasing in popularity ever since.

Liability

Similarly to an LP, REITs offer investors limited liability. That is, investors are only liable for the REIT's debts up to the amount they invested. The Trustee who manages the REIT, however, has unlimited liability in the same way that the General Partner in an LP has unlimited liability.

To guard the personal assets of the person(s) acting as the Trustee, an incorporated company is typically established and made the Trustee and director's and officer's insurance is obtained.

Control

The Trustee of the REIT has full control over its operation but must act in accordance with the trust indenture that spells out its operating parameters. Like LPs, unit holders in the REIT cannot take an active role in managing the business or they risk losing their limited liability status.

Taxation

Similarly to an LP, a REIT is considered a flow-through entity so it can avoid business level income taxes by following certain securities regulations. However, in contrast with an LP, a REIT may only flow through profits, not losses. Any operating losses are kept at the REIT level and may only be used to offset future profits.

A portion of the profit distributions from a REIT is classified as return of capital so the investor does not pay taxes on it. It reduces the adjusted the cost basis of the investment, leading to a higher capital gain when the REIT units are sold. This essentially acts as a tax deferral, much like an RRSP. Furthermore, because REITs are RRSP-eligible, the taxes on profit distributions can be deferred entirely until such time that they are withdrawn from the RRSP.

Profit Distribution

REITs offer an additional benefit over and above LPs when it comes to income tax payable by investors. Namely, profit distributions from a REIT are treated as dividends and therefore qualify for a tax credit. This makes them subject to a lower effective tax rate than regular income.

Business Economics Analysis

There are several profitability drivers and measures commonly used in the real estate industry; capitalization rate, funds from operations, cash on cash return, rent per unit, and occupancy rates. Each of these is described further in the following sections.

Capitalization Rate

The capitalization rate (cap rate) of a property is a measure of profitability. It is calculated by dividing the annual net operating income by the asset's book value, or purchase price:

$$\textit{Cap rate} = \frac{\textit{net operating income}}{\textit{book value}}$$

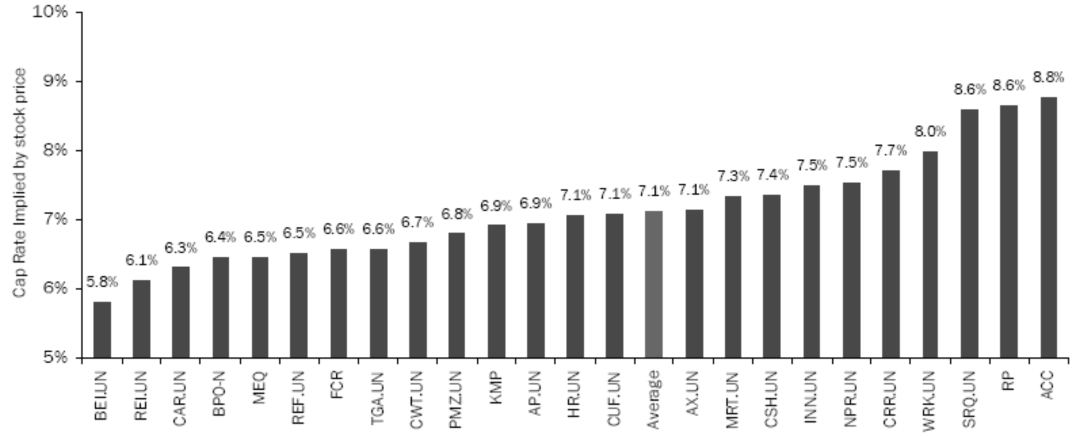
The cap rate can also be used to determine a property's market value based on the income it generates by rearranging the formula:

$$\textit{Market value} = \frac{\textit{net operating income}}{\textit{cap rate}}$$

When valuing properties, selecting the appropriate cap rate and net operating income are obviously very important elements to determining the property's market value. An appropriate cap rate can be obtained by looking at comparable properties and the net operating income can be supplied by the seller and validated through close inspection of their financial statements. These are obviously very important factors in determining the market value so great care must be taken to ensure that appropriate values are used.

Cap rates for Canadian public REITs are shown below. These range from 5.8% to 8.8% with an average of 7.1%.

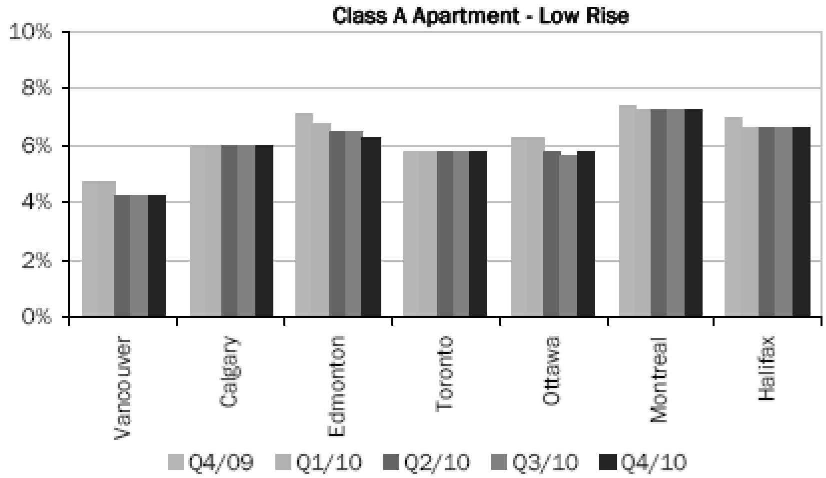
Figure 4: Implied Capitalization Rates



Source: The REIT Review, Canaccord Genuity

These provide a benchmark for The Dragonetti Group since REITs are an alternative investment option for investors although it should be noted that cap rates vary between types of real estate as well as by geographic location. The cap rate for low-rise apartment building in some of Canada's major cities is shown in Figure 5. These provide a more refined benchmark since they focus exclusively on the same type of property that The Dragonetti Group targets. Typically, cap rates range from 5 to 10%. The highest cap rates in Q4 of 2010 were found in Montreal. The lowest were in Metro Vancouver due to strong demand and high purchase prices.

Figure 5: Capitalization Rates for Class "A" Low-rise Apartments



Source: The REIT Review, Canaccord Genuity

Funds From Operations

Funds From Operations (FFO) is the net income excluding non-cash expenses, such as depreciation, and non-recurring items, such as the sale of property. It is a measure of cash flow and gauges the business's ability to make an operating profit.

REITs and similar trusts typically disclose FFO in the footnotes of their financial statements and are required to show their calculations. The calculation is typically:

$$FFO = \text{net operating income} + \text{depreciation} - \text{gains on sale of property}$$

Some analysts go further and calculate AFFO (Adjusted Funds From Operations), which adjusts FFO for rent increases and certain capital expenditures.

Cash on Cash Return

Cash-on-cash return measures the annual return on the property in relation to the down payment. It is the cash income on the cash invested as a percentage and is calculated as:

$$\textit{Cash-on-cash return} = \frac{\textit{annual net operating income}}{\textit{total dollars invested}}$$

Rent Per Unit

A key driver of profitability is the rental revenue earned per unit. The ideal scenario is naturally to charge premium rents and maintain a full occupancy rate. With a thorough understanding of the local rental markets, optimal rents can be achieved. This requires market research and monitoring competitors. Specific criteria to consider are:

- Rental rates for comparable apartments
- Competitors' incentives and promotions
- Feedback from prospective tenants about the suites
- Geographic location including views, and proximity to public transportation and other community amenities
- Other amenities (such as in-suite laundry, presence of security cameras, air conditioning, etc.)

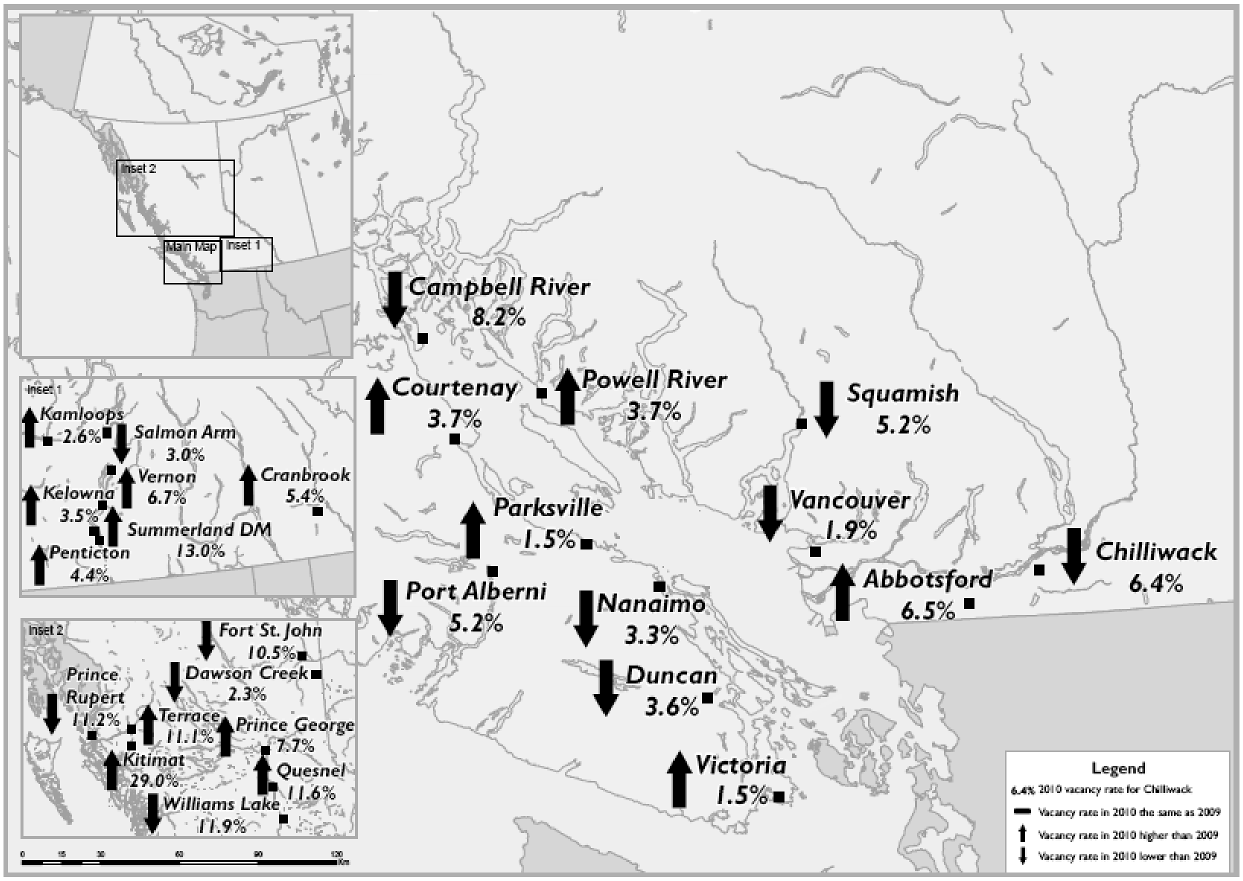
Proper screening of prospective tenants is also very important. Troublesome tenants can be costly through late or missed rent, damage to the property, and the costly eviction process. Bad tenants can also lower a property's value. The provincial Landlord and Tenancy Acts are notoriously slanted in tenants' favour meaning they could continue to stay in a unit for an extended time while the management company follows the evictions procedures. The importance of implementing a diligent application process for prospective tenants in an attempt to minimize these types of issues and its bad debt expense cannot be understated.

Occupancy Rates

The degree to which a building is occupied directly impacts its profitability. Maintaining a high occupancy rate is a top priority in managing property. In addition, competitive rents and an attractive building are necessary to attract good quality tenants. The Dragonetti Group will ensure its tenancy applications are duly processed and a close record of move-outs is kept. Feedback from tenants will be asked for to try and identify patterns and spot issues with the building or the way it is managed. Regular building inspections by the General Partner will also spot issues with property management staff.

In order to set realistic expectations for occupancy rates, the broader market wherein the property is located should be considered. In addition, understanding how vacancy rates are changing will help to set appropriate rental rates and predict how they may change in the near term. To aid with this, Rental Market Reports from the CMHC can be used. These are published twice a year on both a provincial and municipal level. Specifically, these reports show how vacancy rates have changed over the previous period and comment on the underlying factors for the changes. For example, the changes in vacancy rates from the CMHC's Fall 2010 Report for BC are shown graphically in figure 6.

Figure 6: BC Apartment Vacancy Rates (October, 2010)

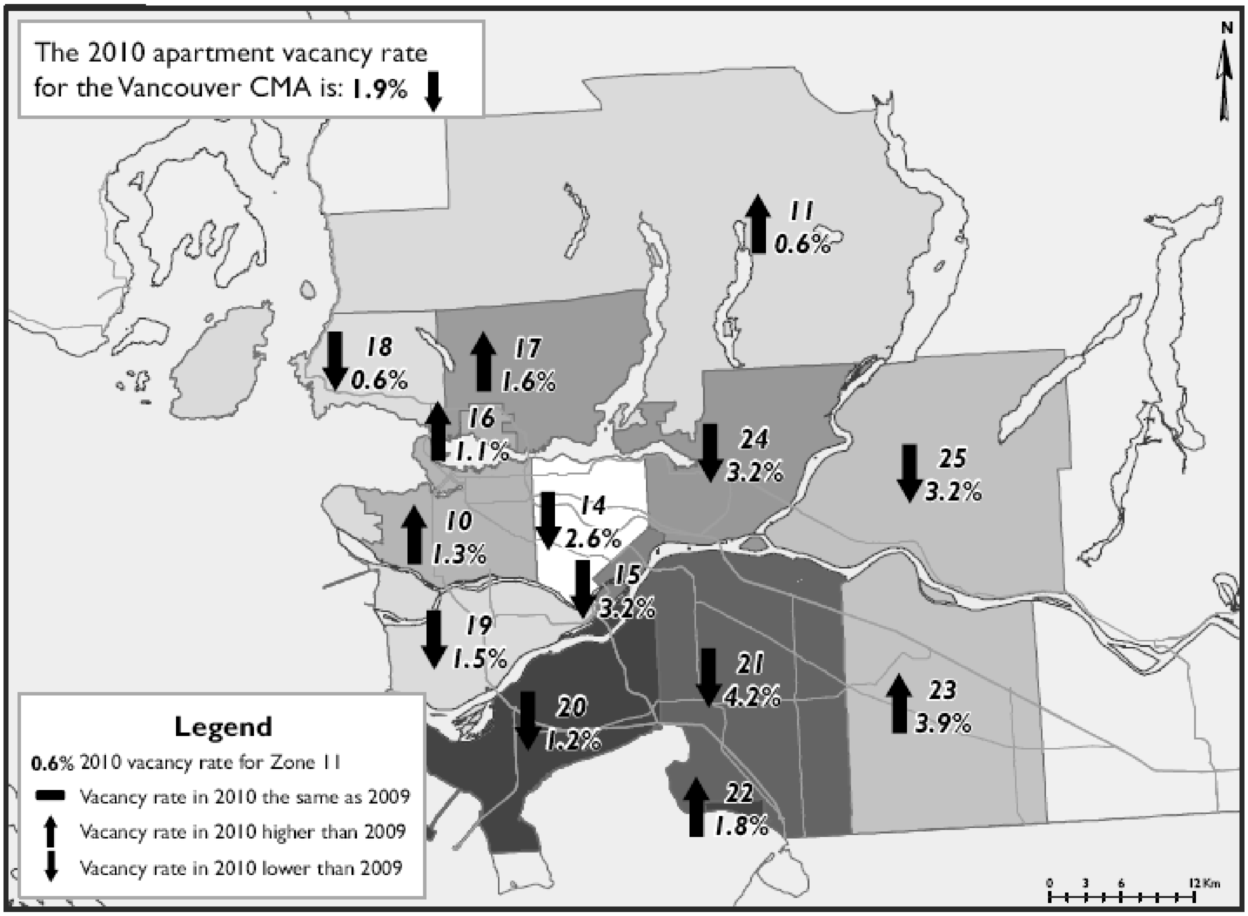


Source: CMHC

Notably, Vancouver and Victoria have some of the lowest vacancy rates in the province and hence the highest rental rates.

As additional example is figure 7 that shows the vacancy rates in the Metro Vancouver area at an even greater resolution.

Figure 7: Apartment Vacancy Rates in Metro Vancouver(October, 2010)



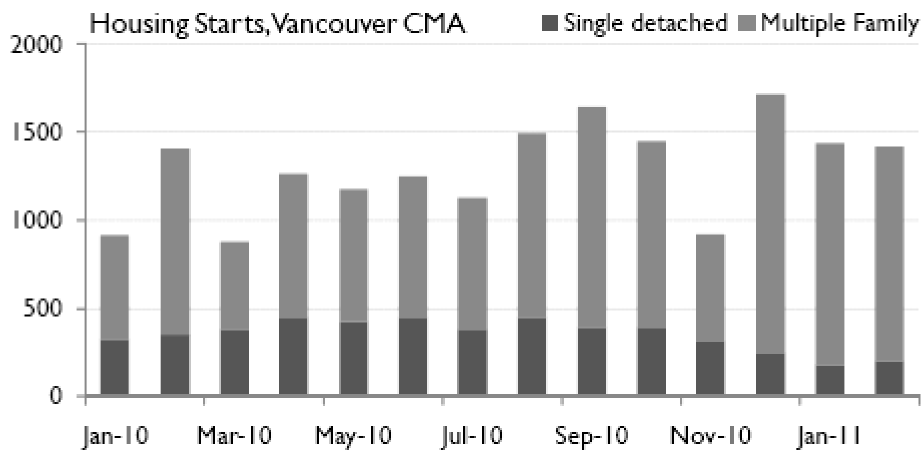
Source: CMHC

These figures have important implications when developing financial forecasts. They provide a realistic vacancy allowance as well as an indication of whether rental rates are likely to rise.

Industry Analysis

The Dragonetti Group believes that the lucrative potential of real estate is widely recognized and that there are a large number of people who want to invest in real estate. But the real estate investment industry is broad and diverse. More specifically, company ABC chooses to compete in the *multi-family residential rental property* industry. This constitutes a niche focus within the broader real estate industry with a number of important characteristics. First, this is distinct from the single-family home market. The Dragonetti Group has no interest in acquiring and managing single-family homes primarily because they do not allow for operational scale efficiencies. Instead, The Dragonetti Group focuses on the multi-family market that is in fact much larger. The figure below compares the number of single-family and multi-family housing starts in Vancouver and shows that multi-family housing starts greatly exceed single-family housing starts, supporting the fact that it is a much larger market.

Figure 8: Multi-Family Housing Starts



Source: Housing Now Vancouver and Abbotsford CMAs, CMHC

The Dragonetti Group further narrows its industry by choosing to focus on "B" class buildings, a classification it borrows from the Building Owners and Managers Association's (BOMA). BOMA has developed a system for classifying buildings consisting of three classes, described below.

Table 4: BOMA's Building Classification System

Class A	The most prestigious buildings competing for premier office users with rents above average for the area. These buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence
Class B	Buildings that compete for a wide range of users with rents in the average range for the area. Class B buildings have adequate systems and finishes that are fair to good for the area, but not in competition with Class A buildings for the same prices.
Class C	Class C buildings are aimed towards tenants requiring functional space at rents below the average for the area.

Source: Wikipedia

Another important distinguishing characteristic for defining The Dragonetti Group's industry is the intended use of a property after it is acquired. The Dragonetti Group has a buy-and-hold strategy, whereas property developers choose to buy, build, and sell. By and large, development companies target home-buyers interested in home ownership, not renters. This indicates that they target a different end-user of the property than The Dragonetti Group, as well as look to acquire different types of property. Developers are looking for either vacant land or land with a building that can be demolished. The Dragonetti Group looks for land with an existing building with the intent of merely improving it, not demolishing and rebuilding.

The table below summarizes housing activity for the greater Vancouver area and shows that in each category there is far more development intended to be owner-occupied instead of tenant-occupied. Most telling is the absorption rate in 2010. The number of units of ownership condominiums absorbed (i.e. sold) to the market was 1,993 compared with 35 for rental apartments.

Table 4: Housing Activity Summary for Vancouver

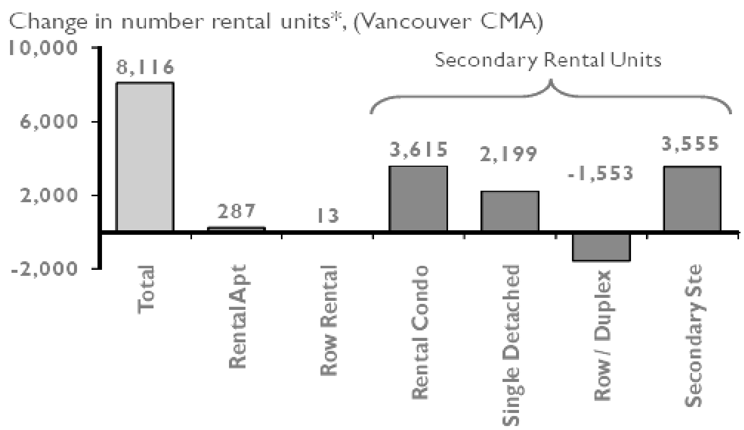
	Ownership						Rental		Total*
	Freehold			Condominium					
	Single	Semi	Row, Apt. & Other	Single	Row and Semi	Apt. & Other	Single, Semi, and Row	Apt. & Other	
STARTS									
February 2011	178	20	102	2	265	609	23	215	1,414
February 2010	348	26	86	0	160	526	4	252	1,402
% Change	-48.9	-23.1	18.6	n/a	65.6	15.8	**	-14.7	0.9
Year-to-date 2011	337	48	184	3	539	1,335	43	361	2,850
Year-to-date 2010	670	52	282	1	293	675	9	337	2,319
% Change	-49.7	-7.7	-34.8	200.0	84.0	97.8	**	7.1	22.9
UNDER CONSTRUCTION									
February 2011	2,958	206	1,120	19	2,133	9,273	190	1,099	16,998
February 2010	2,870	218	903	21	1,938	8,561	18	776	15,305
% Change	3.1	-5.5	24.0	-9.5	10.1	8.3	**	41.6	11.1
COMPLETIONS									
February 2011	242	14	47	4	81	300	11	113	812
February 2010	271	8	50	2	184	570	0	20	1,105
% Change	-10.7	75.0	-6.0	100.0	-56.0	-47.4	n/a	**	-26.5
Year-to-date 2011	507	34	137	14	272	579	21	175	1,739
Year-to-date 2010	512	24	88	7	336	2,956	1	214	4,138
% Change	-1.0	41.7	55.7	100.0	-19.0	-80.4	**	-18.2	-58.0
COMPLETED & NOT ABSORBED									
February 2011	726	84	152	6	430	1,648	7	180	3,233
February 2010	515	52	81	3	223	1,671	0	23	2,568
% Change	41.0	61.5	87.7	100.0	92.8	-1.4	n/a	**	25.9
ABSORBED									
February 2011	288	25	43	14	109	655	5	7	1,146
February 2010	304	12	54	2	208	399	0	21	1,000
% Change	-5.3	108.3	-20.4	**	-47.6	64.2	n/a	-66.7	14.6
Year-to-date 2011	531	44	123	14	252	973	15	38	1,990
Year-to-date 2010	555	37	90	7	384	1,993	1	35	3,102
% Change	-4.3	18.9	36.7	100.0	-34.4	-51.2	**	8.6	-35.8

Source: Housing Now Vancouver and Abbotsford CMAs, CMHC

So while there are many buyer and sellers in the broader real estate market, many of them are transacting in primary residences. The market for multifamily residential rental real estate is distinct and property developers are notably not part of this market. The data underscores the need to find quality *existing* buildings due to the marked low volume of new construction intended for rental.

In addition to competing for quality property, The Dragonetti Group also competes for quality tenants. The CMHC Rental Market Report for Vancouver provides another important insight on the source of competition in this regard. This report highlights that a main source of competition for renters comes from the “secondary” rental market as opposed to the “purpose built” market. That is, property owners who rent their property although this may not have been the intended purpose when the property was developed. In contract, purpose-built rentals are properties that were originally constructed for rental purposes, as discussed above. The Rental Market Report for Vancouver shows that while purpose-built rental developments are on the decline, the number of rental units available in the secondary market is increasing.

Figure 9: Rental Stock Increases from Secondary Market



Source: CMHC

The CMHC report points out that, “nearly one-quarter of the apartment condominium stock is rented out by investors”. It goes on to say that “with less than five per cent of all new residential construction so far this year being purpose-built market rental apartments, investor-owned condominiums are an important addition to the supply of rental housing”.

Threat of New Entrants

To buy and sell real estate is not beyond the means of a large segment of society. Entering the market is fairly easy with a little bit of capital and some basic knowledge.

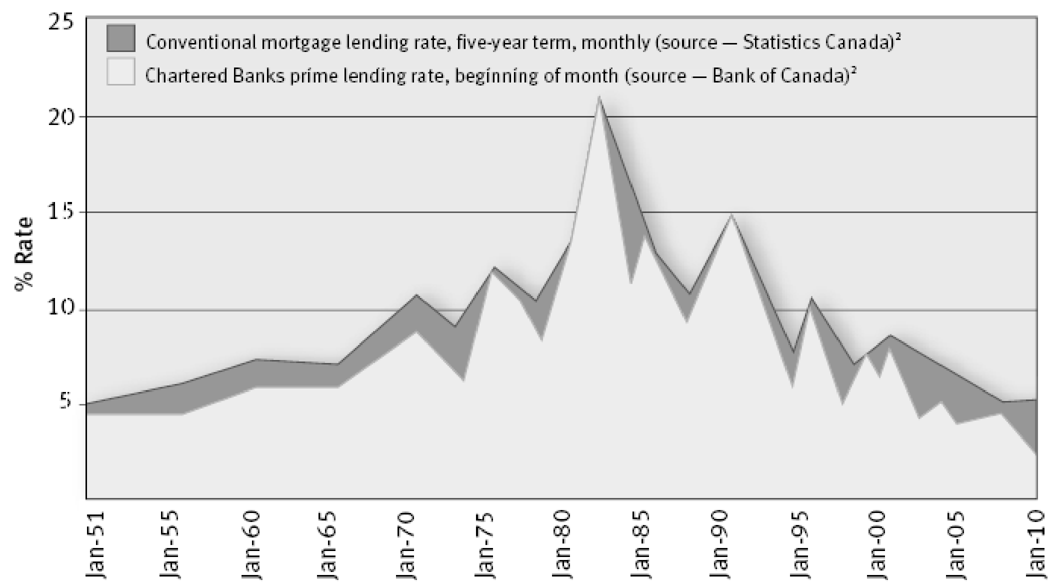
There are also many sources of information available to would-be buyers and investors which reduce barriers to entry. Both the University of British Columbia and Simon Fraser University offer educations in urban economic development and business. Along with local investment clubs these can be a likely origin for new entrants to the industry. Further, a vast array of books and "real estate gurus" espouse their real estate strategies and philosophies. Don R. Campbell and Ozzie Jurock, each with several published books, are but two Canadian examples. However, a review of this literature shows that it is primarily targeted to individuals looking to add a single investment property to their portfolio, or add a "mortgage helper" to their existing home. While these small scale real estate investors do not compete for the same properties as The Dragonetti Group, they do provide an alternate form of investing in real estate and in that sense, are still a form of competition for investment capital. As such, existing homeowners who are seeking to buy investment property or add a mortgage helper are another source of potential entrants to the broader real estate investment industry.

Important factors affecting the rate of new entrants into the market are the prevailing mortgage rates. Today, interest rates are low which entices people into the market. First-time buyers, as well as, new and seasoned investors all benefit from cheap credit. The dramatic drop in recent years has certainly increased the threat of new entrants from first-time homebuyers, small scale investors, other small and large joint ventures, and institutional investors including REITs. However, it should be recognized that while these various groups of real estate buyers may compete for investment capital, they target different types of property with different price ranges.

As such, they do not compete when acquiring property and competition for good properties is largely confined to within these groups.

Figure 10 shows the history of fixed and variable mortgages rates over time which is closely correlated with the threat of new entrants to The Dragonetti Group's industry. Clearly then, interest rates also constitute a risk factor to the business. For a discussion about this, please refer to the Risk Analysis section.

Figure 10: Fixed vs. Variable Mortgage Rates



Source: Home Financing, RBC

To establish an LP does not entail significant expense. Legal fees would be approximately $5,000 which is not beyond the means of most people. What is less achievable by most people, however, is either saving or attracting the capital required to purchase property. An individual or two may be able to buy a single small 4-plex, as properties get larger and more capital is needed, the number of competitors decreases. For most people, attracting the significant amount of capital required to buy even medium size apartment building requires significant time, effort, and a well-developed plan. So while entry to small-scale syndicated real estate deals may not be beyond reach for the ambitious investor, growing to a large scale is certainly a challenge. In addition, arranging real estate deals and being a good trustee takes considerable skill and expertise. There are a considerable number of legal and tax considerations that must be considered. These may also constitute a barrier for the average homebuyer or small scale investor who might not have the business acumen to navigate the complex legalities and accounting implications that come with real estate syndication.

On a bigger scale, there is also a threat of international REITs entering into the Canadian real estate market. Canada's real estate market has performed well in recent years in relation to many international markets, in particular the U.S. As such, numerous American REITs have begun to acquire real estate in Canada. There is also considerable interest in the Canadian real estate market from Chinese investors. *(British Columbia Multi-Family Investment Report, Avison Young, Winter/Spring 2011)*

The conclusion of considering the above dynamics and sources is that the overall threat of new entrants ranks initially as moderate and decreases as The Dragonetti Group grows and its business model evolves. While there are certainly many players in the broader real estate industry, the number of players in the niche multi-family residential rental industry is limited.

Threat of Substitutes

At a macro level, any investment vehicle is a substitute to what The Dragonetti Group offers. The range of investment vehicles is huge, consisting of an almost limitless number of options. In addition to their underlying assets, investment vehicles differ primarily in their risk-to-reward ratio. At one of the spectrum are risk-free investments, such as government-backed bonds, and at the other end high risk investments, such as high-tech startups.

Compared to traditional investments like stocks and equity funds, investments in real estate can be considered lower risk. This is because the real estate market is generally less volatile since people will always need a place to live regardless of the state of the economy. For instance, Cohen and Dube found that, “during the last global recession in 2008-2009, the Canadian housing market dipped about 10% across the country on average [which] pales in comparison to the 40% drop in the S&P/TSX Composite Index”.

On a micro level, The Dragonetti Group competes in the *multifamily residential rental property* industry. That is, it competes with other companies that offer income-producing investment opportunities in residential apartments or townhouse complexes.

The online business directory, Manta, lists 189 companies in Canadian real estate investment trusts category. In Canada, there are 32 public REITs so it follows that there must be approximately 157 private REITs in Canada which includes both public and private equity and mortgage REITs.

In the U.S., the Internal Revenue Service shows that there were about 1,100 REITs in total that filed tax returns in 2010. There are approximately 200 public REITs in the U.S. so it follows that there are approximately 900 private REITs.

Unfortunately, information on the number of limited partnerships in Canada is extremely limited and difficult to obtain although the following table lists some examples of competitive limited partnerships and private and public REITs in Canada. Note that this is not an exhaustive list.

Table 5: Examples of Competitors

LPs and Other Real Estate Investment Companies	Private REITs	Public REITs
▪ Platinum Properties Group Inc. ▪ Prestigious Properties ▪ Oasis Properties ▪ 20|20 Properties ▪ Highgate Property	▪ League Investment Services Inc. ▪ Centurion Apartment REIT ▪ Skyline Apartment REIT ▪ Winchester Financial Group	▪ Canadian Apartment Properties Real Estate Trust ▪ Canadian Real Estate Investment Trust ▪ RioCan ▪ Whiterock REIT

Buyer Power

For this analysis, investors assume the buyer role because they are purchasing units in the REIT.

Investors in a private REIT have considerably more negotiating power than investors in public REITs. When buying units in publicly traded REITs, an investor has almost no bargaining power since the units are traded on public exchanges that highly efficient. Investors can only purchase units at the going market rate. There is little room to negotiate.

Investors in private REITs, however, have considerably more negotiating power since their units are traded privately. In private negotiations, investors are free to make more demands on the REIT although industry standards exists that place a practical limit on investor demands. For instance, the average yield of public REITs is between 7% and 13% which provides a benchmark for investor expectations. (Deloitte, 2004).

Seller Power

Suppliers to limited partnerships and REITs are the sellers of real estate. Their negotiating power varies with the underlying real estate market which has shown to be cyclical in nature.

Additionally, suppliers of goods and services can be considered sellers. Generally speaking, they do not have a high degree of bargaining power since there are many of them in the market, although this also varies somewhat with the underlying real estate market. During a real estate boom, trades people might be harder to find because they are busy constructing new buildings meaning they are less likely to take on smaller renovation or maintenance work. During a bust cycle, good quality sub trades are usually easier to find and charge cheaper rates due the lower availability of work in the new construction industry.

Rivalry

The degree of rivalry in any industry is a constraining factor on the potential profitability of companies that compete in it. In the broader real estate industry, there are many active buyer and sell and the barrier to entry are relatively low at a small scale. At a macro level, the real estate industry appears highly rivalrous.

However, based on its industry definition and the preceding analysis, The Dragonetti Group concludes that the degree of rivalry in its niche market is only moderate. Its narrow focus on specific types of property, the size of the business, and the price range of target properties all lead to many other players to being excluded as direct competition. For instance, The Dragonetti Group does not compete for property with homebuyers, most self-directed investors, or large scale partnerships or REITs. All these players have a different focus. Similarly, The Dragonetti Group does not compete with property developers because they have a different business model and target different types of properties. The Dragonetti Group only competes with other small to medium investment firms, or individual investors, who target multi-family residential rental property.

In summary, the ability to profit in numerous ways combined with a moderate level of rivalry in the niche industry defined by The Dragonetti Group gives the company a unique opportunity in an industry that has great potential for profit.

Business Plan

The Dragonetti Group believes it can successfully compete in the multi-family residential rental property industry by having a targeted value-adding strategy and developing core competencies in property acquisition, property management, and financial management. The specific ways in which the company generates value for its investors is described in the *Investment Thesis* section that follows.

Investment Thesis

The Dragonetti Group allows investors to hold real estate in their portfolios without committing the significant amount of time required to actually find, purchase, manage, and sell the underlying property. Additional benefits include the opportunity to invest in larger deals, a greater degree of diversity among holdings, limited personal liability, and beneficial tax treatment.

The Dragonetti Group's properties will have positive cash-flow after all expenses are paid, including mortgage payments, professional fees, property management expenses, and taxes. To achieve this requires benefiting from scale efficiencies that are generally only achievable in larger properties, such as multi-unit apartment buildings, because they accommodate a higher density of people.

The investment strategy that The Dragonetti Group follows is to locate under-valued and under-managed apartment buildings in areas that show long-term promise. Then through effectively acquiring, financing, and managing, The Dragonetti Group generates regular operating profits as well as capital gains when it sells property.

The Dragonetti Group further generates value for investors through its tax efficiency. The increase in the equity portion of the property, which is the combination of paying down the mortgage, improving the property, and appreciation over time are tax deferred – like an RRSP. But unlike an RRSP, equity gains are taxed at only 50% of income tax, yielding potential higher after-tax returns than RRSPs.

To summarize, the benefits realized by investors in The Dragonetti Group include:

- Access to the potentially lucrative real estate market
- Hassle-free investing in rental property
- Regular income
- Long-term capital appreciation
- Beneficial tax treatment compared to other investments

- Portfolio diversification
- Professional property management
- A diligent and hard-working General Partner with strong moral values and a policy of transparency.

Investor Demographics and Behaviour

Table 6 below lists the characteristics of The Dragonetti Group's target investor in its different growth phases.

Table 6: Investment Characteristics

LPs and Other Real Estate Investment Companies	Private REITs	Public REITs
▪ Medium scale investors ▪ Size of investments range from $10,000 to $500,000+	▪ Small to medium scale investors ▪ Size of investments range from $1,000 to $100,000+	▪ A range in scale of investors from small to large ▪ Size of investments range from $1 to unlimited

The decision tree presented earlier in Figure 1 can also be used to characterize a typical investor. Someone who reaches the 'partner' outcome is someone who wants to invest in real estate but does not want to spend the time and effort to find, acquire, finance, insure, maintain, and manage property. It is also someone who does not have enough cash to purchase medium to large investment grade properties themselves and is not willing to risk unforeseen operating expenses.

Business Strategies

The Dragonetti Group's business strategies are macro-level strategies that take a long-term perspective. They answer the questions of "which businesses should the company be in?" and "how does being in these businesses create synergy and/or add to the competitive advantage of the business as a whole?" Specifically, they encompass the company’s strategic positioning, mission, vision, values, entry and growth strategy, basis for competing, and governance.

Generally, The Dragonetti Group pursues a value-add strategy that entails turning underperforming or non-investor grade assets into stable, cash flowing, investor quality assets. Key success factors in this strategy are buying the right property for the right price, maximizing rental revenue, and controlling operating and overhead costs. The Dragonetti Group’s business and functional strategies are aligned with these success factors.

Strategic Positioning

The company focuses on providing a competitive risk-adjusted ROI through investing in multifamily residential rental property. It differentiates itself from many other investment vehicles through its focus on specific types of properties. Namely, The Dragonetti Group focuses on existing “B” class apartment buildings in Canada. The company will also consider existing “C” class buildings that show the potential to be improved into a “B” class building.

The Dragonetti Group competes for capital with other real estate investment vehicles ranging from other limited partnerships, REITs, and other investment companies. The company feels that in order to do so, it must provide an annual ROI in a range from 5% to 10%. The total return can vary with the length of time the units are held but a target benchmark range is 25 - 100% over a 5-year partnership venture that includes the disposition of the underlying property.

Mission

The mission of The Dragonetti Group is simple:

"To build wealth for investors by offering Canadian real estate investment opportunities with exceptional return"

Vision

The Dragonetti Group strives to be one of the best real estate investment companies in Canada based on earning a superior risk-adjusted return for its investors. The company wants to have a reputation for providing high quality investment opportunities and for being a model of integrity through strong corporate governance and a set of values that represents its commitment to corporate social responsibility.

The Dragonetti Group will provide hassle-free investments that let both its investors and management sleep soundly and worry-free at night. The company will strive to be an innovation pioneer by staying abreast of the latest technologies, industry trends, and new developments in the field of management. The company is particularly open to leveraging the latest technology to gain a competitive edge. Specifically, the company will look for new and innovative technology that improves communication between stakeholders, superior tracking of operational and financial metrics, and accurate and easy-to-use reporting.

Values

The Dragonetti Group is steadfast in its commitment to adhere to a strict moral code. It holds dear the following values:

- Integrity
- Honesty
- Doing it right
- Value for money
- Superior execution and market intelligence

These values are meant to be taken as a whole. That is, they are each parts of a more general operating philosophy that complements its mission and vision. To build wealth, one must create value. To create value, one must provide a good product. To provide a good product, one must invest capital. To attract capital, one must be honest and act with integrity. To act honestly and with integrity requires that you do things right. The company believes that taking a long-term perspective to profit maximization is the best way to be a socially responsible corporate citizen.

Integrity

The Dragonetti Group holds its reputation very dear because a bad reputation could severely hamper the company’s ability to attract new investment capital; obtain top-notch professional services such as legal, accounting, and brokerage services; and build working relationships local trades.

In order to both build and maintain its reputation, The Dragonetti Group expects its employees and agents to conduct themselves with the utmost integrity. Specifically, this includes, but is not limited to, always being respectful to others, following through on promises, not being misleading or deceptive, fair contractual terms, and prompt payment. The policy of transparency will help to reinforce the commitment to acting with integrity.

Honesty

The Dragonetti Group believes strongly in being forthright and honest in its business dealings. This is to say that it expects its employees and agents not to deliberately mislead people or knowingly make false statements or empty promises. This is not to say that The Dragonetti Group will divulge any and all information. A distinction must be recognized between being honest and maintaining the confidentiality of sensitive information. For example, due to the high degree of competition for good quality properties, The Dragonetti Group expects that its acquisition activities remain confidential until such time that any deals are sufficiently concrete and senior management authorizes its disclosure to the public. The performance of buildings after they are acquired, however, is reported openly and transparently to stakeholders.

Doing It Right

The Dragonetti Group firmly believes that an important first step to business success is to have a great product and/or service. In order to build a great product, The Dragonetti Group is committed to providing both investments and living accommodations that are safe, secure, and adhere to securities laws and building codes.

Value For Money

The value of "Doing It Right" is tempered with "Value For Money". If time and money were not limitations, we could do everything could be done to the pinnacle of excellence. But that is not the world we live in. The Dragonetti Group strives to provide the best product and service possible within its real-world time and budget constraints. In the construction and renovation industries, the optimal approach from a design or engineering perspective is often not practical when time and money are factored in. Often creative compromises must be found which The Dragonetti Group understands and expects. However, the company will not compromise the health and safety of residents or take unnecessary or reckless risks with investors' money. The company may compromise on things like aesthetics if necessary.

In short, the "Doing It Right" and "Value for Money" principles aim to reinforce the need to balance adherence to building codes and other rules and regulations with the practicality of time and money constraints.

The Dragonetti Group whole-heartedly understands that it is responsible for its investors' money and that it must spend it wisely. It is not policy to select the cheapest alternative of accomplishing something, however, it is policy to select the approach that provides the overall best value beyond immediate short term considerations. Investments are viewed as longer term value investments for which an expedient, short term view is not appropriate. An example is tenancy decisions. A short term view is to accept any tenant. A longer term value view is to spend the time and resources to select tenants who will reduce turn over and other costs. All expenditures must be evaluated with these principles in mind.

Competitive Advantage

The Dragonetti Group aims to earn a competitive advantage through building particular skill and expertise in property acquisition, property management, and financial management.

Financial Management

The business leverages the analytical and financial modeling skills of the General Partner's principal who has many years of experience developing both project and operating budgets, and performing corporate financial analysis in addition to a comprehensive business education. The company also adds to its financial management prowess by consulting with the best and brightest accountants and lawyers it can find. The General Partner has an extensive network of contacts who are involved with the business of real estate.

Property Acquisition

A well-developed property acquisition will be used by The Dragonetti Group including detailed financial and physical property evaluation and a thorough due diligence process. A competitive advantage in this field will come through developing superior business intelligence through staying extremely well-informed about developments in the industry and being involved with prominent real estate networks and associations. Appendix A provides a list of such groups.

Magazines, such as Canadian Real Estate Magazine and Western Investor, and newsletters by "real estate gurus", such as Ozzie Jurock and Don Campbell, will also be relied upon to stay well-informed about industry developments and trends. In addition, market report such as the CMHC Rental Market Reports will be looked at to provide additional information and insights. For instance, information from these reports presented earlier in the Industry Analysis highlighted that the secondary rental market constitutes a source of competition for tenants. It follows then, that while it is not part of The Dragonetti Group’s strategy to acquire newly built buildings, it should stay apprised of these projects since they can be another alternative for tenants seeking accommodations and can influence the local vacancy and rental rates, both important profitability drivers.

For more information The Dragonetti Group’s specific acquisition criteria, see the *Functional Strategies* section.

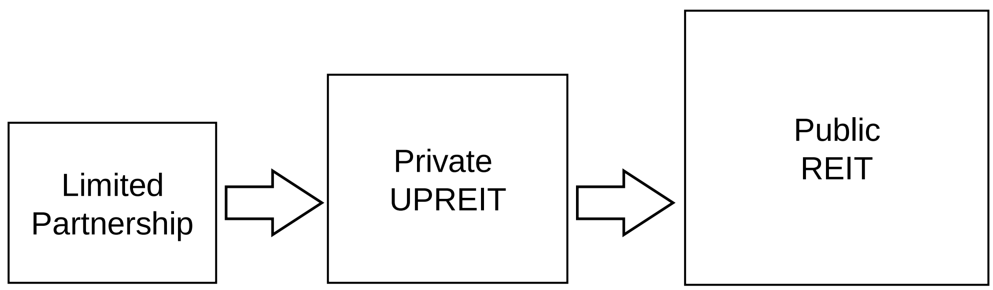
Entry & Growth Strategy

The business starts with the General Partner promoting the business venture and seeking to obtain letters of commitment from interested investors. When sufficient financial commitments have been secured, the company will proceed with an Offering Memorandum and Partnership Agreement. When these have been reviewed, agreed upon, and signed, the partnership will be formally established and the General Partner incorporated. Then the company can proceed with acquiring property. It is important that all partners agree on the Partnership Agreement because it forms the basis for the operating parameters of the partnership. The General Partner will be completely transparent in regards to this Agreement and its various terms, including compensation, profit distribution, and liability.

The company recognizes that it must start small and build a strong reputation to grow successfully in the long run. A track record of success on its initial project will be very important in attracting additional investment capital and obtaining credit from lenders. Therefore, there is considerable pressure and incentive for the Partnership to succeed from day one. With a sound Partnership Agreement that aligns the General and Limited Partners' interests, the company will be well on its way to successful future. Furthermore, a sound Partnership Agreement eliminates the potential for any principal-agent problems.

As the company grows, it will seek new partners for its next acquisition. The company will also allow existing investors to re-invest their profits at preferential terms when it is financially feasible. The basic growth strategy is depicted in Figure 11 below.

Figure 11: Evolution of The Dragonetti Group's Structure



The company will grow by establishing a new limited partnership for each acquisition opportunity. The General Partner will be the same for each partnership and the Limited Partners may or may not be the same. A separate limited partnership for each property is the preferred structure because it provides its investors with limited liability that is restricted to a single property. In addition, this structure simplifies accounting and profit distribution. The alternative is for a single limited partnership to own multiple properties. However, this structure, spreads liability over the entire portfolio. For example, if a contractor or creditor sues the partnership, all of its assets would be at risk instead of just the assets of one building. Furthermore, a single partnership would require multiple unit issues leading to dilution concerns for existing investors or alternatively different series of shares. Each of these approaches adds complexity to the financial and accounting requirements and, it is estimated, more overall costs than establishing a new partnership for each acquisition.

That said, as the business grows and establishes more and more partnerships, it will eventually reach a point where the limited partnership model becomes cumbersome. The company expects that this will occur with approximately 6 partnerships. At this point, the business will attempt to restructure into a private Umbrella Partnership Real Estate Investment Trust (UPREIT), also known as an Operating Partnership. The term “UPREIT” comes from the U.S. and it is still not determined with 100% certainty whether it can be replicated in Canada. However, initial research and consultations seem to indicate that it can.

The benefits of an UPREIT structure are that investors may contribute property instead of capital in exchange for units in the trust without triggering a capital gain which is a taxable event. If determined to be possible in Canada, then The Dragonetti Group can efficiently restructure itself by contributing each of its properties that it jointly owns with investors under the limited partnership model to a newly formed UPREIT and issue units in the new trust to investors in return.

In addition to being a more efficient model for accounting purposes, there is another benefit of restructuring into an UPREIT. Under this structure, The Dragonetti Group can approach building owners who are no longer interested in managing their property but still want to hold real estate in their portfolio. The company offers these individuals an opportunity to trade their property for units in a trust that owns an entire portfolio of properties. The benefit to these individuals is that they no longer need to take an active role in managing their property while they still share in the profits generated by the entire portfolio of the trust. They also benefit from a greater diversity of properties held by the trust which reduces the risk profile of their investment.

The Dragonetti Group recognizes that it must carefully screen any new properties that it adds to its portfolio in this manner. Properties must show the potential to be at least as profitable as the existing portfolio of properties; otherwise, adding the new property will dilute the profitability of the trust. The same thorough analysis that The Dragonetti Group uses to screen new properties will be applied to properties acquired this way.

The final phase of The Dragonetti Group's growth strategy would be to transition from a private UPREIT to a public UPREIT. This provides the company will an entirely new avenue to raise capital. It also offers its investors the highest degree of liquidity. The company will take this final step when it has reached a size that private equity is no longer sufficient to fund its growth and it can afford the considerable expense of an initial public offering and the reporting requirements of being listed on a public exchange. The exact timing of this final step would be refined in consultation with legal and accounting experts.

Short-Term Goals

In its first three years, The Dragonetti Group has the following goals:

1. Identify 6 attractive properties for purchase in Western Canada
2. Raise enough capital for a down payment on two properties
3. Establish a Limited Partnership and General Partner company

4. Purchase first small apartment building (15-20 units) in year 1
5. Purchase another small apartment building in year 2
6. Find third parties to work with; lawyer, accountant, mortgage brokers, real estate agents, bankers, insurance agent, engineering firm, suppliers, contractors
7. Implement a computer system to handle accounting and financial needs
8. Return at least 5% profits to investors on annualized basis

Medium-Term Goals

Goals for years three to five years are to:

1. Expand network of third parties to work with, in particular; IT & software provider, designers, marketing firm
2. Find two more attractive properties for purchase in Western Canada
3. Complete 2 additional rounds of raising equity and purchase 3 more small apartment building (<20 units) in next 2 years
4. Acquire 2 more small apartment buildings (20-50 units)
5. Create marketing material; website, Facebook page, LinkedIn page, Twitter account, etc.

Long-Term Goals

Goals for years five to ten years are to:

1. Continue to find attractive properties for purchase (nation-wide and in the U.S.)
2. Complete additional rounds of raising equity for each purchase
3. Buy progressively larger buildings
4. For the group principal to transition to full-time occupation
5. Further explore benefits of establishing a private or public REIT and UPREIT

6. Procure office space
7. Hire employees (accountant, property manager, receptionist / assistant)

Governance

Governance and administration of an LP is handled by the General Partner in accordance with the offering of memorandum and partnership agreement. Governance over a REIT is handled by a Trustee. The Dragonetti Group act as the General Partner in an LP model and the Trustee in a REIT model.

Like all companies who seek funding from external sources, The Dragonetti Group must assure its investors of the proper and efficient use of their invested money and of the fact that the management acts in the best interest of the company. Such assurance is provided through a system of transparent reporting, clear partnership agreements, and corporate governance that provides protection for investors. This should provide assurance that they can expect a fair and proper return on their investments.

The Dragonetti Group will also establish an Advisory Board when it is financially feasible to do so. It will also join real estate associations and groups to stay abreast of the latest developments in the industry as they pertain to governance.

Functional Strategies

This section describes The Dragonetti Group’s functional strategies. These are distinct from corporate strategies in that they are operational in nature and have a short-term view whereas business strategy focuses on long-range planning.

Promotion

Initially, the General Partner will not have much of a track record managing and presiding over a partnership, so the pitch to investors will be based primarily on the knowledge, skills, and experience of the General Partner. Specifically, this includes the fact that the principal has:

Experience managing property

- Over 5 years of managing a 4-unit property on a personal level
- Oversaw the property management companies for large apartment buildings as a representative of the owner

Project management expertise

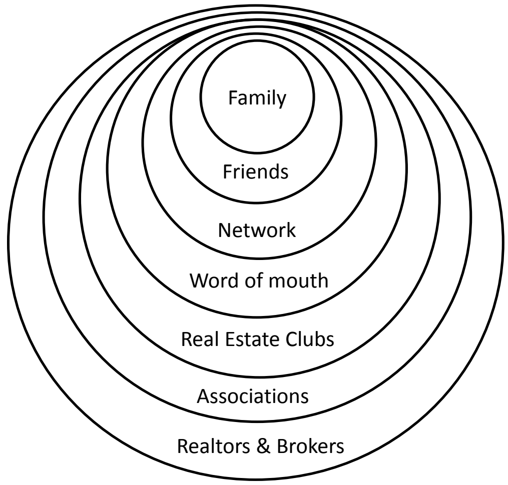
- Managed both small and large residential renovations in Western Canada and Ontario
- Managed small to large municipal water metering projects across the country.

Education

- Executive MBA Degree at Simon Fraser University
- Bachelor of Commerce and Bachelor of General Studies degrees at the University of Calgary
- Project Management Professional (PMP) and Six Sigma Green Belt certified.
- Numerous other training and certifications including courses from the Construction Safety Association and the Canadian Board Diversity Council

Initially, The Dragonetti Group will look to friends, family, and its professional network connections to solicit partners. The progression of the target market for The Dragonetti Group's promotion is depicted in the figure below.

Figure 12: Promotion Plan Target Segments



The General Partner will approach each potential investor personally. If interested, many of the topics included in this document will be discussed, such as:

- the mission, vision, and values of the company
- business and functional strategies
- the company's acquisition strategy
- the company's offering
- sample properties
- potential risks.

It is anticipated that this will yield sufficient investors to make the company's first acquisition. Thereafter, the company will broaden its reach to attract more investors to make its next acquisition. The company will look to real estate investment clubs and associations for new potential investors. It will also take an innovative and unconventional strategy by approaching realtors and brokers who may have clients who would be more interested in the investment opportunities that The Dragonetti Group offers instead of owning real property. The company would pay a commission to realtors and brokers for successful referrals to compensate for their lost commission on forgoing a sale.

If its current investors are satisfied with the performance of their investment, the company expects that they spread the word to their friends and family who will ideally want to join in the company's next acquisition and partnership. The company also expects that some existing investors will want to re-invest their profits into the next partnership. Through these methods, The Dragonetti Group expects that it will be able to fund its next acquisition.

After its first two acquisitions, the company plans to begin advertising to attract new investors. Its advertising initiatives will include print and online advertisements.

Investor Relations

In fitting with its values, The Dragonetti Group will maintain a high degree of transparency in its operations and a high standard of reporting to its investors. The company aims to regularly keep investors informed of the overall performance of their investment through regular reporting on financial performance indicators as well as operational performance metrics.

Table 7: Reported Performance Metrics

Financial Performance Metrics	Operational Performance Metrics
▪ Cap rate	▪ Occupancy rate
▪ Cash-on-cash return	▪ Average rent per unit
▪ ROI	▪ Operating costs

The company will benchmark its performance to provide an honest assessment of its performance. Each of the above measures will be presented compared to what the company forecasted. Further benchmarks will be provided so investors may gauge their investment against other non-real estate investments. Specifically, the partnership's ROI will be benchmarked against the S&P/TSX Composite Index and a 5-year Government of Canada Bond. The company will communicate this information through a quarterly newsletter.

The company will also keep investors informed about the upcoming opportunities of the business through social media sites, such as Facebook, Twitter, and LinkedIn.

Acquisitions

When choosing a target property to acquire, the first step is to identify a geographic area where property values are expected to increase. Markets are localized in nature and need to be analyzed on a regional basis. Real estate markets vary provincially and regionally, and even differ from one neighborhood to another.

The Dragonetti Group's geographic focus for acquiring property will initially be restricted to Canada. From there, the company prefers to purchase property in Western Canada because the company is located in Vancouver, BC so it is more familiar with the Western Canadian markets. That said, the company will still consider opportunities in Central and Eastern Canada if they fit with its acquisition strategy.

The Dragonetti Group borrows in part from the ACRE system approach to real estate investing developed by Don Campbell. The factors that it uses to evaluate a town or city are described in the following sections.

GDP Growth

Gross domestic product (GDP) is a fundamental driver of any economy. It is defined as the total market value of all finished goods and services produced in a geographic area over a given timeframe (i.e. total consumer, investment, and government spending), plus the value of exports, minus the value of imports. GDP is important because is spurs many other economic drivers.

Don Campbell from the Real Estate Investment Network has derived this model:

GDP growth = brings job growth = brings population growth
= increased rental demand (12 months later) = increased rents
= property purchase demand and (18 months later)
= leads to property price increases

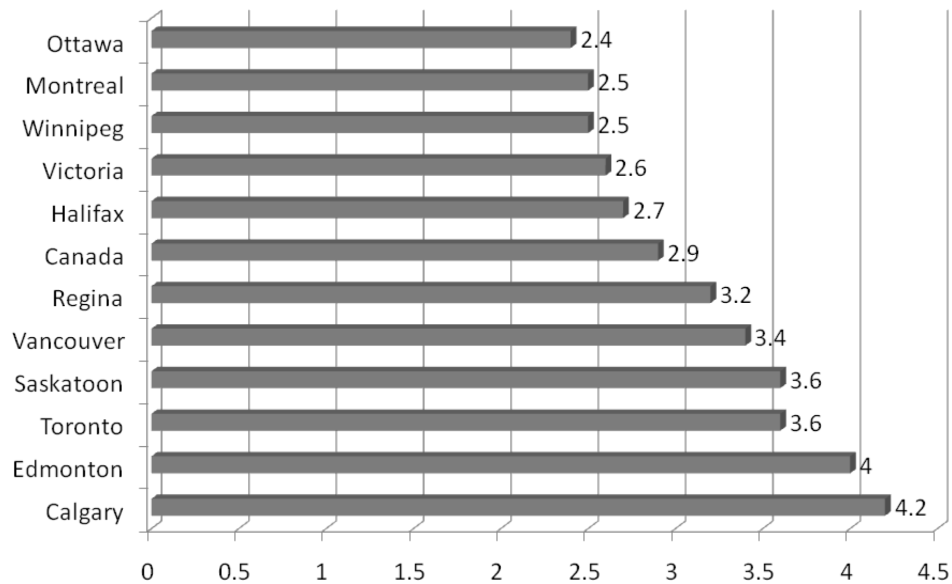
The illustration below shows how the progression of the economy eventually affects the real estate market.

Figure 13: Long-term Real Estate Formula

Source: Real Estate Investment Network

GDP figures are available from a variety of sources. Below is a graph from Morguard Investments that shows for the forecasted GDP growth in several major Canadian cities.

Figure 14: Real GDP Growth 2010 - 2013



Source: Morguard Investments. Canadian Economic Outlook and Fundamentals, 2011

The average GDP growth among these cities is 3.13, implying that any city with forecasted GDP growth above this figure is potentially an attractive place to invest. Notably several Western Canadian cities make the list. That said, GDP growth alone is not a sufficient factor in itself on which to base investment decisions. It should be considered jointly with the other factors described below.

Average Incomes

When a city's average income rises faster than the provincial average, real estate prices are bound to increase. As people earn more money, they are able to contribute a large portion towards their housing costs which invariably increases property values. The focus, however, is to find property that will outperform the market so it is not enough for average incomes to be increasing – they must be increasing at a faster rate than the provincial average.

Campbell offers a particular cautionary note about cities where increasing real estate prices are increasing due to demand but average incomes are falling. This usually indicates a town that is attracting retirees which might create a good short-term investment, but without an increase in residents' incomes, real estate prices will inevitably start to decline in the long-term.

Statistics Canada releases an annual publication called "Income in Canada" that contains detailed provincial income information. StatsCan describes the report as an examination of "the income of families and unattached individuals, along with information related to low income in Canada, on a yearly basis. It is based on income information provided by the participants in the Survey of Labour and Income Dynamics". A summary of the changes in average incomes for Canada's Western Provinces compared to the national average is shown below.

Table 8: Changes in Average Income for Western Provinces

Avrg Income Increase (%)	Canada	BC	AB	Sask
2003	-0.70%	-2.15%	-1.27%	0.77%
2004	1.77%	2.93%	4.19%	-0.38%
2005	1.39%	3.20%	4.33%	4.23%
2006	2.41%	2.76%	7.42%	4.43%
2007	3.69%	4.03%	4.97%	4.95%
2008	1.62%	4.52%	2.63%	7.07%
5-year average	2.18%	3.49%	4.71%	4.06%

Source: Statistics Canada

This data shows that in recent years, as well as on a 5-year average, the average income for residents of all three western provinces has outpaced the national average.

Migration

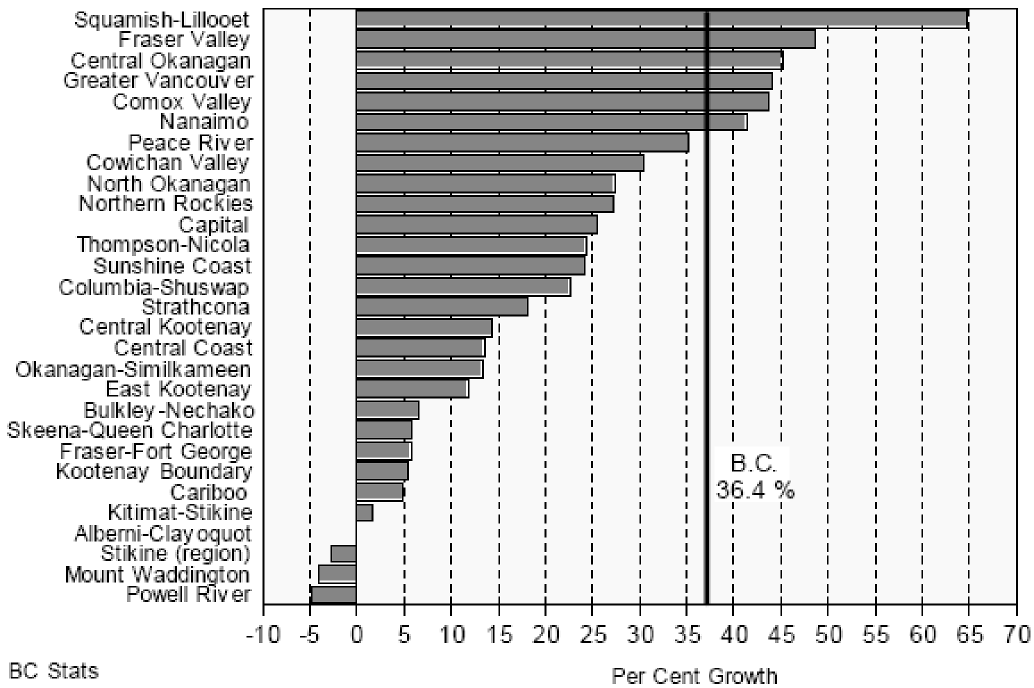
As more people migrate into a city or town, demand for housing increases. Without a corresponding increase in supply, this puts upward pressure on both real estate prices and rental rates.

Similarly to the average income factor, migration should be compared against the provincial average. A city becomes more attractive for investment when the in-migration exceeds the provincial average.

Employment conditions greatly affect peoples' migration patterns, so it is important to monitor unemployment rates. Particular attention should be paid to announcements about new jobs or major businesses moving into an area.

Provincial governments typically publish a variety of population and demographic information and forecasts, including population growth estimates. For example, the graph below shows the population growth by region as forecast by the Government of British Columbia.

Figure 15: 35-year olds Population Growth in BC 2009 - 2036



Source: BC Stats

Vacancy rates can also provide a clue about migration patterns. Declining vacancy rates can be a result of migration and make a region attractive. The table below shows the vacancy rates in some major urban centres in October 2009 and 2010.

Table 9: Vacancy Rates in Major Canadian Cities

	October 2009	October 2010
Abbotsford	6.1%	6.5%
Calgary	5.3%	3.6%
Edmonton	4.5%	4.2%
Kelowna	3.0%	3.5%
Regina	0.6%	1.0%
Saskatoon	1.9%	2.6%
Toronto	3.1%	2.1%
Vancouver	2.1%	1.9%
Victoria	1.4%	1.5%
Winnipeg	1.1%	0.8%

Source: CMHC

Ripple Effect

The ripple effect refers to how increases in real estate prices in a particular area spill-over to neighboring areas. For example, when a big city experiences increasing real estate prices, suburbs near the city also subsequently experience increases.

This phenomenon also occurs on a smaller scale. For example, when a neighborhood experiences gentrification, the older untouched surrounding neighborhoods also experience increases in property values.

Attractive areas for investment can be found by looking for neighborhoods, towns, or cities where redevelopment or gentrification are occurring and looking outward to neighboring areas that will experience this ripple effect.

Political Climate

As with all businesses, a hospitable political climate is a key factor when choosing where to invest. In real estate this equates to regions with minimal taxation and fair landlord-tenant legislation.

The broader business environment should also be considered since it can dramatically affect the movement of people who are highly mobile in today's world. People generally go where they can find jobs so the extent to which cities and towns can attract new business is an important consideration when choosing where to invest.

Transportation

New transportation initiatives improve accessibility which in turn increases population inflow, or in-migration. This in turn increases demand for both housing and rental units which leads to higher property values and decreases vacancy rates.

Particular attention needs to be paid to announcements about new transportation initiatives. However, an announcement itself is not sufficient to base an investment decision on since they can easily be rescinded. Only when work actually commences should this factor be given credence. A local example in Vancouver includes the Evergreen Line – a light rail system connecting Coquitlam to Vancouver via Port Moody and Burnaby. This project has been talked about for years but construction has yet to begin.

Transitional Areas

Transitional areas should be considered when comparing neighborhoods. A transitional area can best be described as an area that is moving up from one economic class to the next. They tend to be older areas that get "rediscovered" because they have character. They can often be characterized by a mixture of run-down buildings and ones that have been fixed up or re-built entirely. These types of areas may have a more challenging mix of tenants and below average rents, but over time these are bound to improve along with the neighborhood.

Property Management

Effective and efficient property management is essential to maximizing profits from a rental property. Ideally, The Dragonetti Group would perform the property management functions in-house, however, since the company does not restrict itself to purchasing property that is geographically close to its head office, it becomes necessary to outsource this function to a third-party property management company. The company is located in Vancouver, British Columbia so it would unfeasible to manage property from its office that is not within driving distance. Effectively managing property requires spending time on-site at the building to identify and deal with repair and maintenance issues, resolve any residents' concerns or complaints, and collect rent payments. As such, a local company will be hired to take on the property management function. That said, The Dragonetti Group will closely monitor its chosen property management company to ensure it is acting in the best interest of the company, such as diligently advertising and showing vacant units, effectively handling repairs and suite renovations, and obtaining good value for money from subtrades.

A key responsibility of the Property Management company is screening potential tenants. Having good tenants that pay their rent on time and do not damage the property is a key driver fort he profitability of the business. As such, The Dragonetti Group expects its property management company to perform its due diligence when screening applicants. As a minimum standard, this must include:

- Verification of employment information
- References checks
- A credit report
- Personal interview

Through a diligent tenant screening process, individual real estate investment companies can outperform the market by minimizing management expenses, repairs, bad debt expenses, eviction costs, and tenant turnover costs.

Gulf Pacific, Warrington PCI, Epic Realty Partners, and Mayfield Management have been identified as potential providers of property management services.

Advertising & Leasing

Advertising and leasing are a primary responsibility of the property management company. A variety of avenues can be used to advertise vacancies including:

- Online advertisements (Craigslist, Kijiji, GottaRent)
- Newspapers
- On-site signage
- Postings with university housing offices
- Magazines (Renter’s Guide)

The Dragonetti Group wants to lease its property to good tenants who pay the rent on time and do not cause damage to the property. To this end, a thorough tenancy application process will be adhered to. The Dragonetti Group will work with the property management company to set specific criteria for each building dependent on its location and positioning in the market. At a minimum, however, prospective tenants must show proof of sufficient income to afford the rent and have a good credit history with no history of defaults.

Rental rates will be set in collaboration with the property management company. The Dragonetti Group expects the property management company to understand their local market and have knowledge of what comparable properties rent for. They should be able to make rent and incentive recommendations although the General Partner has final approval.

Building Maintenance

The Dragonetti Group believes that regular and diligent maintenance is a crucial component to its operating strategy because a well-maintained building is both easier to rent and earns higher rents. In addition, replacing things like roofs, elevators, and boilers can be very expensive so regular maintenance is essential to prolonging the life of these systems.

Building maintenance is a primary responsibility of the Property Management company. However, in light of its high degree of importance, The Dragonetti Group will also conduct regular inspections of its properties to ensure nothing is overlooked and that the Property Management company is meeting its responsibilities. It will also set spending limits for the Property Management company on individual expenses as well as cumulative totals.

Rent Collections & Evictions

The rental business is a cash flow game. Along with minimizing vacancies, collecting rents on time is the top priority for The Dragonetti Group, and so should also be for its property management company. To facilitate this, The Dragonetti Group expects its property management company to have different payment options available to tenants including post-dated cheques, pre-authorized withdrawals, and online payments.

The property management company is expected to aggressively pursue overdue rents and follow the necessary steps to evict and prosecute for unpaid balances in accordance with the respective provincial tenancy laws.

Contractor Management

Building maintenance and repairs will be conducted primarily by contractors and managed by the property management company. As such, The Dragonetti Group expects its property management company to have a network of reliable subtrades. In addition, obtaining competitive pricing is crucial to controlling ongoing maintenance and repair costs so The Dragonetti Group will expect detailed reporting on expenditures by the Property Management company and will monitor these to ensure they remain competitive and legitimate.

As the company grows, it intends to hire its own property manager who will be responsible for working with the third-party management company. Property management companies are notorious for taking quotes at face-value and not negotiating since they have no vested interest in obtaining the best value for money – they collect their monthly management fee regardless. As such, when The Dragonetti Group can afford to hire its own in-house property manager, this position's responsibilities will include taking over the procurement of services and negotiating the best possible pricing.

Administration

The Dragonetti Group intends to maintain active involvement in the management of its properties. As such, the company has several reporting requirements of the property management company. On a monthly basis, the company would like to receive reports on the following:

- Income & cash-flow statements
- Outstanding rents & in-progress evictions
- Occupancy rates
- Tenant applications received, approved, and rejected
- A summary of service requests received from tenants
- Detailed expense register.

Finance

The following sections describe The Dragonetti Group's approach to various finance-related functions. Specifically, how the company deals with accounting, legal matters, insurance, and mortgage rules are discussed.

Accounting

The Dragonetti Group intends to handle basic bookkeeping but outsource more significant accounting functions such as the preparation of financial statements and filing income tax returns. However, when The Dragonetti Group has grown to a size where it can afford to hire an in-house accountant to handle these functions, it will do so. The company may start with hiring a part-time accountant as an intermediary approach until there is enough work to sustain a full-time position.

In line with its strategy to build a distinct competence in financial management, The Dragonetti Group will seek the best and brightest accounts it can find, using its network to do so. Accountants working with The Dragonetti Group must be well versed in the rules and regulations for limited partnerships and subsequently with REITs. The firm Deloitte & Touche has been identified as an example of a firm who possess these specific skills.

Legal

Similarly to its approach to accounting services, The Dragonetti Group seeks to work with the best and brightest real estate lawyers, experienced in limited partnerships and REITs. The firm Clark Wilson has been identified as an example of a firm who possess these specific skills.

Good legal counsel is important because it will assist with creating the right partnership structure and drafting a sound Partnership Agreement. This helps to ensure that the company stays compliant with securities rules and regulations.

Insurance

Insurance premiums constitute a significant expense for property owners, so The Dragonetti Group has a specific strategy to control this. While recognizing the importance of being properly insured, The Dragonetti Group's general approach is to minimize its premiums by accepting a high deductible. While this may seem risky to some, with good property management and diligent building maintenance, The Dragonetti Group minimizes its insurable risks and accepts the trade-off of lower premiums for slightly higher financial risk. The company believes that over the long-run, this is the best approach to keep costs down.

Mortgage Rules

Staying abreast of mortgage rules will be a primary responsibility of the General Partner in The Dragonetti Group's business. Governments' and banks' lending policies obviously greatly impact the company's ability to grow through acquiring new property and must therefore be closely monitored. Currently, Canada's mortgage rules include the following important points:

- Investment properties require a minimum 25% down payment
- Banks' internal policies typically require a Debt Service Coverage Ratio (DSCR) of 1.25. The formula to calculate the DSCR is:

$$DSCR = \frac{\textit{(Annual Net Income + Depreciation + other non-cash and discretionary items)}}{\textit{Principal Repayment + Interest payments + Lease payments}}$$

Banks commonly ask for personal guarantees when a company does not have a lot of assets and/or track record. In The Dragonetti Group's case, this guarantee would come from the General Partner's principal.

Human Resources

This section describes the various roles within The Dragonetti Group's business as well as the company's general approach to recruiting and HR management.

General Partner or Trustee

Strategic and operating decisions must be made on a regular basis to ensure the smooth running and profitability of the partnership. These decisions are made by the General Partner in a limited partnership model and the trustee in a REIT model.

The responsibilities of the General Partner and trustee include:

- The acquisition and disposition of property
- Entering into agreements for goods and services on behalf of the partnership

- Obtaining loans and other forms of credit on behalf of the partnership
- Opening and maintaining bank accounts
- Retaining legal counsel and other professional services
- Employing people for the conduct of the business
- Commencing and defending any legal action in connection with the partnership.

Other Roles

There are numerous other roles that must be filled in The Dragonetti Group's business. These include:

- Project management (property improvements)
- Accounting
- Legal
- Property management

Initially The Dragonetti Group will outsource these roles. That said, the company will take a proactive approach to ensuring its best interests are always kept top-of-mind by its agents. For example, the company expects monthly reporting from its chosen property management company on a monthly basis. The details of these reporting requirements will be spelled out in its contract with the management company.

As the company grows, it will consider taking on some roles in-house, specifically the property management and accounting functions. As the volume of work increases, the company can benefit from scale efficiencies making it viable to take on these responsibilities internally. In-sourcing property management, however, will only be possible for larger buildings that can accommodate an on-site resident manager who reports directly to the property management department at The Dragonetti Group's head office. A building would need at approximately 50 units at a minimum to be able to sustain an on-site resident manager.

Human Resources Management Approach

The Dragonetti Group firmly believes that one of the biggest determinants of its success is the expertise and motivation of the people who work for the company – both internally and externally. As such, The Dragonetti Group endeavours to find and work with the best people possible in their respective fields. The company is willing to spend considerable time if necessary to find the right staff, suppliers, vendors, and other service providers.

On a scale of relative compensation, the company is willing to pay at the upper range if it means securing the services of someone who is exceptional at what they do. That said, the company emphasizes getting value for money, as this is a fundamental operating principle of the company. The company will not pay upper range compensations merely as a default policy – only when it receives exceptional service in return. This would come into effect for highly important matters such as legal, accounting, and engineering services.

The importance and value of technology is also recognized by the company. The Dragonetti Group strives to use technology innovatively in any capacity where it may contribute toward its competitive advantage or decrease operating costs. For instance, The Dragonetti Group will aim to keep overhead costs minimal by allowing for telecommuting by employees which reduces the need for permanent office space. Through remote email access and video conferencing, the company will facilitate the much-needed communication between stakeholders while keeping operating and office costs to a minimum.

Risk Analysis

The following sections describe some of the main risks to the profitability of the business.

Changing Regulatory Requirements

The regulatory environment can and does change. For example, on October 31, 2006 the Canadian government announced – just after an election in which it promised to keep Canadian trust funds tax free – that beginning in 2011 Canadian trust funds would be taxable. For now, however, REITs are still excluded from this and will remain flow-through entities and avoid business income taxes.

These changes can have significant implications for real estate investment companies. Since the tax-treatment change for trust companies, many of them have changed their structure to incorporated companies. Having to pay taxes where none was due before can obviously have a big impact on a firm's profitability and investors' ROI.

Mortgage Rates & Rules

Lending rates and rules can and do change regularly. For instance, the federal government recently announced changes to the mortgage rules in Canada:

- Mortgage amortization periods will be reduced from 35 years to 30 years.

- The maximum amount Canadians can borrow to refinance their mortgages will be lowered from 90 per cent to 85% of the value of their property.
- The government will withdraw its insurance backing on lines of credit secured on homes.

An important implication to understand is that the majority of secondary lenders (i.e. non-bank lenders) use these rules for their conventional mortgages as well. It follows then that the General Partner must stay abreast of lending rules and rates for accurate financial forecasting.

The Bank of Canada reviews its overnight lending rate every 2 months and may adjust its rate as it sees fit. Table 8 below shows some notable interest rate observations about the Bank of Canada's overnight rate and how it has changed.

Table 10: Notable Canadian Interest Rate Observations for the Last 10 Years

Average Prime Rate in Canada: **4.42%** Highest Prime Rate observed: **6.75%** on Wednesday, March 7th 2001. Lowest Prime Rate observed: **2.25%** on Wednesday, April 22nd 2009.
Average 1-Year Fixed Mortgage Rate in Canada: **5.26%** Highest 1-Year Rate observed: **7.35%** on Wednesday, December 26th 2007. Lowest 1-Year Rate observed: **3.20%** on Wednesday, October 20th 2010.
Average 3-Year Fixed Mortgage Rate in Canada: **5.90%** Highest 3-Year Rate observed: **7.55%** on Wednesday, December 26th 2007. Lowest 3-Year Rate observed: **4.00%** on Wednesday, October 20th 2010.
Average 5-Year Fixed Mortgage Rate in Canada: **6.47%** Highest 5-Year Rate observed: **7.75%** on Wednesday, May 23rd 2001. Lowest 5-Year Rate observed: **5.19%** on Wednesday, November 17th 2010.

Source: http://www.canequity.com/mortgage_rate_history.stm

Inflation & Interest Rates

Inflation and interest rates are two factors that have a big impact on the real estate industry. They have both positive and negative effects. The government's response to increasing inflation is generally increasing interest rates. This keep inflation in check and drives down home sales as the cost of borrowing goes up. However, in turn this increases the demand for rental housing and as vacancy rates go down, rents are driven up.

With respect to acquisitions, interest rate hikes are tempered by decreases in selling prices. As financing costs go up, buying activity goes down, and so too do prices.

Another effect of inflation is to drive up the prices of goods and services including the price of utilities. This increases the costs of repairs and maintenance. However, this is tempered with increases in rents. Overall, it is generally accepted that the real estate rental industry is well-insulated against inflation.

Financial Plan

The Dragonetti Group plans to raise capital for its first purchase and then sustain itself through ongoing profits generated from leasing the property. The company plans to maintain a minimum cash balance for operating costs and scheduled and unscheduled maintenance. The remainder of profits will be distributed to unit-holders.

The company will actively seek additional properties and allow investors to re-invest their profits into the business. An incentive, such as the dividend reinvestment programs offered by REITs, may be offered when it becomes feasible. This is contingent on the specifics of the deal and the number of new investors that The Dragonetti Group is able to attract. If existing investors are to get incentives for re-investing, then there must be new investors to compensate and make up for the incentives.

The Dragonetti Group aims to provide an ROI that is comparable to those of other real estate investment vehicles such as other limited partnerships and REITs. Research shows that the average ROI for private REITs is 7-10%. (Westcourt Capital, 2011). The investment timeframe is expected to be 5 years, including the sale of the property. The company targets a 5-year ROI ranging from 25% to 100%.

Company Offering

The following describes what The Dragonetti Group is seeking and what it is offering in return.

The company offers investors an opportunity to participate in syndicated real estate investment opportunities. Specifically, it sells units in a Limited Partnership that buys and manages multi-family residential rental property. The partners in this business venture stand to earn operating profits on the rental revenue earned, as well as capital gains when the property is sold, or re-financed.

It is a fundamental responsibility of the General Partner to find and purchase property on behalf of the partnership. Specifically, the General Partner will seek a small to medium apartment building consisting of approximately 15-20 units. The building will probably be a 3-storey walkup and will not have an elevator. The specific property to be purchased, however, will be identified by the General Partner and will not necessarily be reviewed with the other partners.

Prior to issuing units in the partnership, The Dragonetti Group will provide an Offering Memorandum as is required under BC Securities Law. This following describes the essence of the company's offering although the Offering Memorandum will contain additional details and more in-depth descriptions of the legal implications. A formal Partnership Agreement would also be drafted by with the assistance of a real estate lawyer. All parties would be required to agree to and sign the partnership agreement prior to the partnership being formalized.

The partners of the partnership will include the General Partnership and two or more limited partners. The General Partner will be an incorporated company – The Dragonetti Group Ltd.

The partnership will be formed under the laws of the province of British Columbia by filing a Certificate of Limited Partnership with the registrar of Companies of British Columbia.

The General Partner will also invest as Limited Partner and contribute approximately 10% of the financing sought. This aligns the interests of investors and the General Partner and should give investors an additional sense of comfort knowing that the General Partner's equity is at equal risk alongside theirs.

The General Partner will receive compensation for managing the partnership, including finding other investors, seeking out attractive properties, and sourcing professional services, such as legal, accounting, brokerage, and property management services. The compensation amount will be comprised of an acquisition fee of 1% of the amount of money raised plus a monthly management fee of 1% of gross revenue.

The General Partner also has a carried interest in the partnership. That is, after Limited Partners have received their original invested amount plus a preferred return, the remaining profits will be split by the General Partner and Limited Partners at 20:80. The preferred return or hurdle rate, for The Dragonetti Group's partnership is 5% for operating profits (FFO) and 25% on capital gains.

Risks

Investment in the partnership involves a certain degree of risk. This includes the inherent risks in the business of real estate, such as the ups and downs in the overall market, damages to property, refinancing risks due to changed mortgage rates, the potential of loss of limited liability, income tax considerations, the lack of a resale market for partnership units, and the risks resulting from various conflicts of interest.

Many of these risks can be managed through sound business practices, The Dragonetti Group mitigates them to the best of its ability.

Desired Financing

The Dragonetti Group is seeking investment capital to fund its first real estate purchase. This will be funded through a fixed-rate mortgage and with a 25 – 35% down payment. The exact amount of the down payment will be dependent on the lender and the details of the purchase. The company seeks a residential apartment building for a total purchase price, including required upgrades, of no more than $2,000,000. This means The Dragonetti Group requires $500,000 – $600,000 of investment capital.

Investor's Return

In exchange for every dollar contributed, each investor receives one unit in the partnership. Profits are distributed to investors in proportion to how many units they own.

The company aims to keep a minimum cash balance to cover operating expenses, scheduled, and unscheduled maintenance. The General Partner, in consultation with the legal counsel and accountant(s) for the partnership, will determine the amount of distributable cash. The company expects to provide an annual cash-on-cash return of 5-10%. The ROI for the entire partnership, including the disposition of the property, will depend greatly on the length that the property is held. As a general guide, for a 5-year partnership, the company expects a minimum ROI of 25%.

Sample Offering

Appendix B shows a sample property that is representative of the types of properties that would interest The Dragonetti Group. Note that this property is merely an illustrative example and would need more thorough investigation to make a final purchase decision.

The key assumptions for this analysis are shown below.

ASSUMPTIONS			
$1,395,000	Property value	12	Rental units
20%	Down payment (%)	$1,200	Rent per unit
$279,000	Down payment ($)	4%	Vacancy allowance
5%	Interest rate	$1,000	Turnover cost / unit
30	Amortization (years)	20.0%	Annual turnover rate
2%	Annual property appreciation	4.0%	Property management fee
2%	Annual rent appreciation	1.5%	Partnership management fee
6%	Closing costs on sale	2%	Annual inflations (expenses)

Appendix C shows the pro-forma financial statements for this investment. A summary of financial performance metrics of the partnership is shown below.

FINANCIAL METRICS (after 5 years)	
$1,082,981	Funds from operations
25.8%	Cash on cash return
$630,629	Net income
310.2%	ROI
5.7%	Asset capitalization rate
$234,794	Equity gain

Summary

Successful ventures into the real estate industry can be lucrative if well-planned and diligently executed. For individuals who do not want to spend time and effort to acquire, finance, and manage property, The Dragonetti Group offers an alternative opportunity for investors to hold real estate in their portfolios.

The company operates in the multi-family residential rental industry and employs a value-adding strategy comprised of buying, improving, and holding B class apartment buildings. The Dragonetti Group has a thorough and well-developed acquisition strategy that is based on economic fundamentals and avoids speculating on the market.

The company has strong moral values including honest, integrity, doing it right, and value for money. The company also believes in transparency and aims to provide investors with regular updates on the performance of their investment.

The company expects to produce an ROI of 25% to 100% on a 5-year limited partnership venture that includes the sale of the property at the end of the term. On an annual basis, the company expects to generate a minimum 5% operating profit in addition to the capital appreciation of its assets and the accumulation of equity in its property as tenants pay down the mortgage.

After its first partnership venture The Dragonetti Group will replicate the model several times before restructuring to a more efficient trust model. As a Real Estate Investment Trust, the

company benefits from additional tax benefits and streamlined accounting and administration. In the long-term, the company plans to go public providing a new source of investment capital and liquidity for investors.

In short, The Dragonetti Group provides individuals a long-term opportunity to increase their wealth through well-researched, well-managed, and tax-efficient investments in multi-family real estate.

Appendix A: Groups and Associations for the Real Estate Investor

REIN (Real Estate Investment Network)
www.reincanada.com

REAG (Real Estate Action Group)
www.reag.ca

UDI (Urban Development Institute)
www.udi.bc.ca

REIBC (Real Estate Institute of BC)
www.reibc.org

UBC Real Estate Club
http://www.ubcrealestateclub.com

National Association of Real Estate Investment Trusts (NAREIT)
http://www.nareit.com

Appendix B: Sample Property

Purchase Info	
Initial Market Value	$1,395,000
Purchase Price	$1,395,000
- First Mortgage	($1,116,000)
- Second Mortgage	($0)
= Downpayment	**$279,000**
+ Buying Costs	$83,700
= Initial Cash Invested	**$362,700**

Income	Monthly	Annual
Gross Rent	$14,400	$172,800
Vacancy Loss	($576)	($6,912)
Laundry	$75	$900
Storage	$25	$300
Operating Income	**$13,924**	**$167,088**

Expenses	Monthly	Annual
Management Fees	$3,865	$46,380
Operating Expenses	**$3,865**	**$46,380**

Net Performance	Monthly	Annual
Net Operating Income	$10,059	$120,708
- Mortgage Payments	($5,956)	($71,472)
- Year 1 Improvements	($0)	($0)
= Cash Flow	**$4,103**	**$49,236**

Mortgages	First	Second
Loan-To-Value Ratio	80%	0%
Loan Amount	$1,116,000	$0
Loan Type	Amortizing	
Term	30 Years	
Interest Rate	5%	
Payment	**$5,955.99**	**$0.00**

Financial Metrics	
Monthly Rent to Value Ratio	1.03%
Annual Gross Rent Multiplier	8.1
Capitalization Rate	8.7%
Debt Coverage Ratio	1.69
Cash on Cash Return	13.6%

Assumptions	
Appreciation Rate	2%
Vacancy Rate	4%
Income Inflation Rate	2%
Expense Inflation Rate	2%
LTV for Refinance	70%
Selling Costs	$83,700

Appendix C: Pro-Forma Financial Statements for Sample Property

PRO-FORMA INCOME STATEMENT
For 1st year of operations (January 1 - December 31, 2012)

REVENUE	January	February	March	April	May	June	July	August	September	October	November	December	TOTAL
Rents	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	**$ 165,888.00**
Laundry	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	**$ 900.00**
Parking	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
Other (late fees, fines)	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	**$ 300.00**
Gain on sale of property	$ (279,000.00)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ (279,000.00)**
TOTAL	**$ (265,076.00)**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ (111,912.00)**
EXPENSES													
Interest	$ 4,650.00	$ 4,644.41	$ 4,638.83	$ 4,633.22	$ 4,627.58	$ 4,621.92	$ 4,616.24	$ 4,610.54	$ 4,604.81	$ 4,599.06	$ 4,593.28	$ 4,587.48	$ 55,427.38
Property management fee	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 6,635.52
Partnership management fee	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 2,488.32
Legal fees	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 1,200.00
Accounting services	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 1,200.00
Other professional fees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Insurance	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 2,400.00
Bank charges	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 300.00
Office expenses	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 300.00
Heating	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 6,000.00
Electricity	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 4,800.00
Water & sewer	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 800.00
Air conditioning	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Common area repairs (interior)	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 2,400.00
Common area repairs (exterior)	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 2,400.00
Cleaning & maintenance	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	
Landscaping & snow removal	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 1,200.00
Elevator	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Site manager	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Security	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fire prevention	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 300.00
Exterminator	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 300.00
Waste removal	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 300.00
Intercom	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 4,650.00	$ 55,800.00
Property taxes	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 9,768.00
Contingency	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 1,200.00
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	**$ 13,165.99**	**$ 13,160.40**	**$ 13,154.81**	**$ 13,149.20**	**$ 13,143.57**	**$ 13,137.91**	**$ 13,132.23**	**$ 13,126.53**	**$ 13,120.80**	**$ 13,115.05**	**$ 13,109.27**	**$ 13,103.47**	**$ 155,219.22**
Net income	**$ (278,241.99)**	**$ 763.60**	**$ 769.19**	**$ 774.80**	**$ 780.43**	**$ 786.09**	**$ 791.77**	**$ 797.47**	**$ 803.20**	**$ 808.95**	**$ 814.73**	**$ 820.53**	**$ (269,531.22)**
Funds From Operations	**$ 5,408.01**	**$ 5,413.60**	**$ 5,419.19**	**$ 5,424.80**	**$ 5,430.43**	**$ 5,436.09**	**$ 5,441.77**	**$ 5,447.47**	**$ 5,453.20**	**$ 5,458.95**	**$ 5,464.73**	**$ 5,470.53**	**$ 65,268.78**
Capilization Rate	**0.39%**	**0.39%**	**0.39%**	**0.39%**	**0.39%**	**0.39%**	**0.39%**	**0.39%**	**0.39%**	**0.39%**	**0.39%**	**0.39%**	**4.68%**

PRO-FORMA INCOME STATEMENT
For 5 years of operations

REVENUE	**2012**	**2013**	**2014**	**2015**	**2016**	**TOTAL**
Rents	$ 169,206	$ 172,590	$ 176,042	$ 179,563	$ 183,154	**$ 880,554**
Laundry	$ 918	$ 936	$ 955	$ 974	$ 994	**$ 4,777**
Parking	$ -	$ -	$ -	$ -	$ -	**$ -**
Other (late fees, fines)	$ 3,900	$ 3,978	$ 4,058	$ 4,139	$ 4,221	**$ 20,296**
Gain on sale of property	$ (279,000)	$ -	$ -	$ -	$ 561,218	**$ 282,218**
TOTAL	**$ (104,976)**	**$ 177,504**	**$ 181,054**	**$ 184,675**	**$ 749,587**	**$ 1,187,844**
EXPENSES						
Interest	$ 55,427	$ 54,589	$ 53,707	$ 52,781	$ 51,807	**$ 268,311**
Property management fee	$ 6,768	$ 6,904	$ 7,042	$ 7,183	$ 7,326	**$ 35,222**
Partnership management fee	$ 2,538	$ 2,589	$ 2,641	$ 2,693	$ 2,747	**$ 13,208**
Legal fees	$ 1,200	$ 1,224	$ 1,248	$ 1,273	$ 1,299	**$ 6,245**
Accounting services	$ 1,200	$ 1,224	$ 1,248	$ 1,273	$ 1,299	**$ 6,245**
Other professional fees	$ -	$ -	$ -	$ -	$ -	**$ -**
Insurance	$ 2,400	$ 2,448	$ 2,497	$ 2,547	$ 2,598	**$ 12,490**
Bank charges	$ 300	$ 306	$ 312	$ 318	$ 325	**$ 1,561**
Office expenses	$ 300	$ 306	$ 312	$ 318	$ 325	**$ 1,561**
Heating	$ 6,000	$ 6,120	$ 6,242	$ 6,367	$ 6,495	**$ 31,224**
Electricity	$ 4,800	$ 4,896	$ 4,994	$ 5,094	$ 5,196	**$ 24,979**
Water & sewer	$ 800	$ 816	$ 832	$ 849	$ 866	**$ 4,163**
Air conditioning	$ -	$ -	$ -	$ -	$ -	**$ -**
Common area repairs (interior)	$ 2,400	$ 2,448	$ 2,497	$ 2,547	$ 2,598	**$ 12,490**
Common area repairs (exterior)	$ 2,400	$ 2,448	$ 2,497	$ 2,547	$ 2,598	**$ 12,490**
Cleaning & maintenance	$ -	$ -	$ -	$ -	$ -	
Landscaping & snow removal	$ 1,200	$ 1,224	$ 1,248	$ 1,273	$ 1,299	**$ 6,245**
Elevator	$ -	$ -	$ -	$ -	$ -	**$ -**
Site manager	$ -	$ -	$ -	$ -	$ -	**$ -**
Security	$ -	$ -	$ -	$ -	$ -	**$ -**
Fire prevention	$ 300	$ 306	$ 312	$ 318	$ 325	**$ 1,561**
Exterminator	$ 300	$ 306	$ 312	$ 318	$ 325	**$ 1,561**
Waste removal	$ 300	$ 306	$ 312	$ 318	$ 325	**$ 1,561**
Intercom	$ -	$ -	$ -	$ -	$ -	**$ -**
Depreciation	$ 55,800	$ 56,916	$ 58,054	$ 59,215	$ 60,400	**$ 290,385**
Property taxes	$ 9,768	$ 9,963	$ 10,163	$ 10,366	$ 10,573	**$ 50,833**
Contingency	$ 1,200	$ 1,224	$ 1,248	$ 1,273	$ 1,299	**$ 6,245**
Other	$ -	$ -	$ -	$ -	$ -	**$ -**
TOTAL	**$ 155,402**	**$ 156,562**	**$ 157,720**	**$ 158,874**	**$ 160,023**	**$ 788,581**
Net income	**$ (260,378)**	**$ 20,942**	**$ 23,334**	**$ 25,801**	**$ 589,564**	**$ 399,263**
Funds From Operations	**$ 74,422**	**$ 77,858**	**$ 81,388**	**$ 85,017**	**$ 88,746**	**$ 407,431**
Capilization Rate	**5.33%**	**5.58%**	**5.83%**	**6.09%**	**6.36%**	**29.21%**

PRO-FORMA CASH FLOW STATEMENT
For 1st year of operations

SOURCES OF CASH	January	February	March	April	May	June	July	August	September	October	November	December
Rents	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00	$ 13,824.00
Laundry	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00	$ 75.00
Parking	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other (late fees, fines)	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Gain on sale of property	$ (279,000.00)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	**$ (265,076.00)**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**	**$ 13,924.00**
USES OF CASH												
Mortgage	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93
Property management fee	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96	$ 552.96
Partnership management fee	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36	$ 207.36
Legal fees	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Accounting services	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Other professional fees	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Insurance	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00
Bank charges	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Office expenses	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Heating	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00
Electricity	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00	$ 400.00
Water & sewer	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67	$ 66.67
Air conditioning	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Common area repairs (interior)	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00
Common area repairs (exterior)	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00
Cleaning & maintenance	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00	$ 200.00
Landscaping & snow removal	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Elevator	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Site manager	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Security	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fire prevention	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Exterminator	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Waste removal	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Intercom	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Property taxes	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00	$ 814.00
Contingency	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**	**$ 9,856.92**
NET CASH FLOW	**$ (274,932.92)**	**$ 4,067.08**	**$ 4,067.08**	**$ 4,067.08**	**$ 4,067.08**	**$ 4,067.08**	**$ 4,067.08**	**$ 4,067.08**	**$ 4,067.08**	**$ 4,067.08**	**$ 4,067.08**	**$ 4,067.08**
BEGINNING CASH BALANCE	**$ 279,000.00**	**$ 4,067.08**	**$ 8,134.17**	**$ 12,201.25**	**$ 16,268.34**	**$ 20,335.42**	**$ 24,402.50**	**$ 28,469.59**	**$ 32,536.67**	**$ 36,603.76**	**$ 40,670.84**	**$ 44,737.92**
END CASH BALANCE	**$ 4,067.08**	**$ 8,134.17**	**$ 12,201.25**	**$ 16,268.34**	**$ 20,335.42**	**$ 24,402.50**	**$ 28,469.59**	**$ 32,536.67**	**$ 36,603.76**	**$ 40,670.84**	**$ 44,737.92**	**$ 48,805.01**

PRO-FORMA CASH FLOW STATEMENT
For 5 years of operations

SOURCES OF CASH	2012	2013	2014	2015	2016
Rents	$ 169,205.76	$ 172,589.88	$ 176,041.67	$ 179,562.51	$ 183,153.76
Laundry	$ 918.00	$ 936.36	$ 955.09	$ 974.19	$ 993.67
Parking	$ -	$ -	$ -	$ -	$ -
Other (late fees, fines)	$ 3,900.00	$ 3,978.00	$ 4,057.56	$ 4,138.71	$ 4,221.49
Gain on sale of property	$ (279,000.00)	$ -	$ -	$ -	$ 482,966.15
TOTAL	**$ (104,976.24)**	**$ 177,504.24**	**$ 181,054.32**	**$ 184,675.41**	**$ 671,335.06**
USES OF CASH					
Mortgage	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93	$ 5,990.93
Property management fee	$ 6,768.23	$ 6,768.23	$ 6,768.23	$ 6,768.23	$ 6,768.23
Partnership management fee	$ 2,538.09	$ 2,538.09	$ 2,538.09	$ 2,538.09	$ 2,538.09
Legal fees	$ 1,200.00	$ 1,224.00	$ 1,248.48	$ 1,273.45	$ 1,298.92
Accounting services	$ 1,200.00	$ 1,224.00	$ 1,248.48	$ 1,273.45	$ 1,298.92
Other professional fees	$ -	$ -	$ -	$ -	$ -
Insurance	$ 2,400.00	$ 2,448.00	$ 2,496.96	$ 2,546.90	$ 2,597.84
Bank charges	$ 300.00	$ 306.00	$ 312.12	$ 318.36	$ 324.73
Office expenses	$ 300.00	$ 306.00	$ 312.12	$ 318.36	$ 324.73
Heating	$ 6,000.00	$ 6,120.00	$ 6,242.40	$ 6,367.25	$ 6,494.59
Electricity	$ 4,800.00	$ 4,896.00	$ 4,993.92	$ 5,093.80	$ 5,195.67
Water & sewer	$ 800.00	$ 816.00	$ 832.32	$ 848.97	$ 865.95
Air conditioning	$ -	$ -	$ -	$ -	$ -
Common area repairs (interior)	$ 2,400.00	$ 2,448.00	$ 2,496.96	$ 2,546.90	$ 2,597.84
Common area repairs (exterior)	$ 2,400.00	$ 2,448.00	$ 2,496.96	$ 2,546.90	$ 2,597.84
Cleaning & maintenance	$ -	$ -	$ -	$ -	$ -
Landscaping & snow removal	$ 1,200.00	$ 1,224.00	$ 1,248.48	$ 1,273.45	$ 1,298.92
Elevator	$ -	$ -	$ -	$ -	$ -
Site manager	$ -	$ -	$ -	$ -	$ -
Security	$ -	$ -	$ -	$ -	$ -
Fire prevention	$ 300.00	$ 306.00	$ 312.12	$ 318.36	$ 324.73
Exterminator	$ 300.00	$ 306.00	$ 312.12	$ 318.36	$ 324.73
Waste removal	$ 300.00	$ 306.00	$ 312.12	$ 318.36	$ 324.73
Intercom	$ -	$ -	$ -	$ -	$ -
Property taxes	$ 9,768.00	$ 9,963.36	$ 10,162.63	$ 10,365.88	$ 10,573.20
Contingency	$ 1,200.00	$ 1,224.00	$ 1,248.48	$ 1,273.45	$ 1,298.92
Other	$ -	$ -	$ -	$ -	$ -
TOTAL	**$ 50,165.25**	**$ 50,862.61**	**$ 51,573.91**	**$ 52,299.45**	**$ 53,039.49**
NET CASH FLOW	**$ (155,141.49)**	**$ 126,641.63**	**$ 129,480.41**	**$ 132,375.96**	**$ 618,295.57**
BEGINNING CASH BALANCE	**$ 279,000.00**	**$ 123,858.51**	**$ 250,500.14**	**$ 379,980.55**	**$ 512,356.51**
END CASH BALANCE	**$ 123,858.51**	**$ 250,500.14**	**$ 379,980.55**	**$ 512,356.51**	**$ 1,130,652.08**

Appendix D: CCA and Amortization Tables for Sample Property

Appendix B - Amortization Tables									
				11872 LAITY ST					
	Loan amount	$ 1,116,000.00	**Purchase price (market value)**		$ 1,395,000.00		**Down payment**	$ 279,000.00	
	Interest rate	5.00	**Annual Appreciation**		2.00%				
	# of months	360.00							
	Monthly payment	$ (5,990.93)							
Month	**Payment #**	**Start Balance**	**Int. for month**	**Payment**	**End balance**	**Market Value**	**Accum. Equity**	**Percent Equity**	**Available equity**
Jan-12	1	1,116,000.00	4,650.00	(5,990.93)	1,114,659.07	1,395,000.00	280,340.93	20.10%	1,340.93
Feb-12	2	1,114,659.07	4,644.41	(5,990.93)	1,113,318.14	1,397,325.00	284,006.86	20.33%	4,541.86
Mar-12	3	1,113,318.14	4,638.83	(5,990.93)	1,111,971.62	1,399,653.88	287,682.25	20.55%	7,751.48
Apr-12	4	1,111,971.62	4,633.22	(5,990.93)	1,110,619.52	1,401,986.63	291,367.11	20.78%	10,969.78
May-12	5	1,110,619.52	4,627.58	(5,990.93)	1,109,261.81	1,404,323.28	295,061.47	21.01%	14,196.81
Jun-12	6	1,109,261.81	4,621.92	(5,990.93)	1,107,898.46	1,406,663.81	298,765.36	21.24%	17,432.59
Jul-12	7	1,107,898.46	4,616.24	(5,990.93)	1,106,529.45	1,409,008.25	302,478.80	21.47%	20,677.15
Aug-12	8	1,106,529.45	4,610.54	(5,990.93)	1,105,154.77	1,411,356.60	306,201.83	21.70%	23,930.51
Sep-12	9	1,105,154.77	4,604.81	(5,990.93)	1,103,774.38	1,413,708.86	309,934.48	21.92%	27,192.71
Oct-12	10	1,103,774.38	4,599.06	(5,990.93)	1,102,388.26	1,416,065.04	313,676.78	22.15%	30,463.77
Nov-12	11	1,102,388.26	4,593.28	(5,990.93)	1,100,996.39	1,418,425.15	317,428.76	22.38%	33,743.73
Dec-12	12	1,100,996.39	4,587.48	(5,990.93)	1,099,598.75	1,420,789.19	321,190.45	22.61%	37,032.61
Jan-13	13	1,099,598.75	4,581.66	(5,990.93)	1,098,195.30	1,423,157.18	324,961.87	22.83%	40,330.44
Feb-13	14	1,098,195.30	4,575.81	(5,990.93)	1,096,786.03	1,425,529.10	328,743.07	23.06%	43,637.25
Mar-13	15	1,096,786.03	4,569.94	(5,990.93)	1,095,370.92	1,427,904.99	332,534.07	23.29%	46,953.07
Apr-13	16	1,095,370.92	4,564.05	(5,990.93)	1,093,949.93	1,430,284.83	336,334.90	23.52%	50,277.93
May-13	17	1,093,949.93	4,558.12	(5,990.93)	1,092,523.05	1,432,668.64	340,145.59	23.74%	53,611.86
Jun-13	18	1,092,523.05	4,552.18	(5,990.93)	1,091,090.24	1,435,056.42	343,966.18	23.97%	56,954.89
Jul-13	19	1,091,090.24	4,546.21	(5,990.93)	1,089,651.49	1,437,448.18	347,796.69	24.20%	60,307.05
Aug-13	20	1,089,651.49	4,540.21	(5,990.93)	1,088,206.77	1,439,843.93	351,637.15	24.42%	63,668.37
Sep-13	21	1,088,206.77	4,534.19	(5,990.93)	1,086,756.06	1,442,243.66	355,487.61	24.65%	67,038.87
Oct-13	22	1,086,756.06	4,528.15	(5,990.93)	1,085,299.32	1,444,647.40	359,348.08	24.87%	70,418.60
Nov-13	23	1,085,299.32	4,522.08	(5,990.93)	1,083,836.54	1,447,055.15	363,218.61	25.10%	73,807.58
Dec-13	24	1,083,836.54	4,515.99	(5,990.93)	1,082,367.70	1,449,466.91	367,099.21	25.33%	77,205.83
Jan-14	25	1,082,367.70	4,509.87	(5,990.93)	1,080,892.75	1,451,882.69	370,989.94	25.55%	80,613.40
Feb-14	26	1,080,892.75	4,503.72	(5,990.93)	1,079,411.69	1,454,302.49	374,890.80	25.78%	84,030.31

Mar-14	27	1,079,411.69	4,497.55	(5,990.93)	1,077,924.48	1,456,726.33	378,801.85	26.00%	87,456.58
Apr-14	28	1,077,924.48	4,491.35	(5,990.93)	1,076,431.10	1,459,154.21	382,723.11	26.23%	90,892.27
May-14	29	1,076,431.10	4,485.13	(5,990.93)	1,074,931.52	1,461,586.13	386,654.61	26.45%	94,337.38
Jun-14	30	1,074,931.52	4,478.88	(5,990.93)	1,073,425.72	1,464,022.11	390,596.39	26.68%	97,791.96
Jul-14	31	1,073,425.72	4,472.61	(5,990.93)	1,071,913.67	1,466,462.14	394,548.47	26.90%	101,256.04
Aug-14	32	1,071,913.67	4,466.31	(5,990.93)	1,070,395.35	1,468,906.25	398,510.90	27.13%	104,729.65
Sep-14	33	1,070,395.35	4,459.98	(5,990.93)	1,068,870.73	1,471,354.42	402,483.70	27.35%	108,212.81
Oct-14	34	1,068,870.73	4,453.63	(5,990.93)	1,067,339.78	1,473,806.68	406,466.90	27.58%	111,705.57
Nov-14	35	1,067,339.78	4,447.25	(5,990.93)	1,065,802.48	1,476,263.03	410,460.55	27.80%	115,207.94
Dec-14	36	1,065,802.48	4,440.84	(5,990.93)	1,064,258.80	1,478,723.46	414,464.67	28.03%	118,719.97
Jan-15	37	1,064,258.80	4,434.41	(5,990.93)	1,062,708.71	1,481,188.00	418,479.29	28.25%	122,241.69
Feb-15	38	1,062,708.71	4,427.95	(5,990.93)	1,061,152.19	1,483,656.65	422,504.46	28.48%	125,773.13
Mar-15	39	1,061,152.19	4,421.47	(5,990.93)	1,059,589.22	1,486,129.41	426,540.19	28.70%	129,314.31
Apr-15	40	1,059,589.22	4,414.96	(5,990.93)	1,058,019.76	1,488,606.29	430,586.54	28.93%	132,865.28
May-15	41	1,058,019.76	4,408.42	(5,990.93)	1,056,443.78	1,491,087.30	434,643.52	29.15%	136,426.06
Jun-15	42	1,056,443.78	4,401.85	(5,990.93)	1,054,861.27	1,493,572.45	438,711.18	29.37%	139,996.69
Jul-15	43	1,054,861.27	4,395.26	(5,990.93)	1,053,272.19	1,496,061.74	442,789.55	29.60%	143,577.20
Aug-15	44	1,053,272.19	4,388.63	(5,990.93)	1,051,676.51	1,498,555.17	446,878.66	29.82%	147,167.62
Sep-15	45	1,051,676.51	4,381.99	(5,990.93)	1,050,074.22	1,501,052.77	450,978.55	30.04%	150,767.99
Oct-15	46	1,050,074.22	4,375.31	(5,990.93)	1,048,465.28	1,503,554.52	455,089.24	30.27%	154,378.34
Nov-15	47	1,048,465.28	4,368.61	(5,990.93)	1,046,849.66	1,506,060.44	459,210.79	30.49%	157,998.70
Dec-15	48	1,046,849.66	4,361.87	(5,990.93)	1,045,227.33	1,508,570.54	463,343.21	30.71%	161,629.10
Jan-16	49	1,045,227.33	4,355.11	(5,990.93)	1,043,598.28	1,511,084.83	467,486.55	30.94%	165,269.59
Feb-16	50	1,043,598.28	4,348.33	(5,990.93)	1,041,962.46	1,513,603.30	471,640.84	31.16%	168,920.18
Mar-16	51	1,041,962.46	4,341.51	(5,990.93)	1,040,319.86	1,516,125.98	475,806.12	31.38%	172,580.92
Apr-16	52	1,040,319.86	4,334.67	(5,990.93)	1,038,670.44	1,518,652.85	479,982.41	31.61%	176,251.84
May-16	53	1,038,670.44	4,327.79	(5,990.93)	1,037,014.17	1,521,183.94	484,169.77	31.83%	179,932.98
Jun-16	54	1,037,014.17	4,320.89	(5,990.93)	1,035,351.04	1,523,719.25	488,368.21	32.05%	183,624.36
Jul-16	55	1,035,351.04	4,313.96	(5,990.93)	1,033,681.00	1,526,258.78	492,577.78	32.27%	187,326.02
Aug-16	56	1,033,681.00	4,307.00	(5,990.93)	1,032,004.04	1,528,802.54	496,798.51	32.50%	191,038.00
Sep-16	57	1,032,004.04	4,300.02	(5,990.93)	1,030,320.11	1,531,350.55	501,030.44	32.72%	194,760.33
Oct-16	58	1,030,320.11	4,293.00	(5,990.93)	1,028,629.20	1,533,902.80	505,273.60	32.94%	198,493.04
Nov-16	59	1,028,629.20	4,285.95	(5,990.93)	1,026,931.27	1,536,459.30	509,528.03	33.16%	202,236.17
Dec-16	60	1,026,931.27	4,278.88	(5,990.93)	1,025,226.29	1,539,020.07	513,793.77	33.38%	205,989.76

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