

Property Package
171 N Merton St,
Memphis, TN 38112

64 Units
\$2.175M



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EXECUTIVE SUMMARY

Merton Manor, LLC, a Delaware Limited Liability company, is arranging for the acquisition of undivided real estate interests in the above properties by a limited number of accredited and qualified investors. The property consists of 64 units. The purchase price is \$2.175M

We are seeking a total investment of \$700,000. Investors receive 68% equity with projected average annual returns of 15%+ and first-year cash on cash return of 10%+ (this means that for every \$100,000 invested, \$10,000 would be distributed at the end of each calendar year).

Please note: These rates of return are only projections, and are not guarantees of any sort. Actual returns may vary widely, due to many economic and marketplace factors beyond our control.

Investors should be prepared to leave their money in for 10 years, even though there is a possibility to re-finance and repay the investor's principal before then. Investors have the option of getting cashed out of their investment after 5 years at 90% of fair market value of their shares if they so wish and if other investors would like to purchase their shares. If we re-finance or sell the property, investors first receive their principal back, then receive 68% of any profits.

Please see below for more information about the property, its current performance, our strategy to increase income and our financial projections.

ABOUT THE PROPERTY

The subject property is a 64-unit multifamily walk-up apartment building located at 171 N Merton St, Memphis, TN 38112. The building is comprised of 49 Two Bedroom/One Bath and 15 Three Bedroom/Two Bath units. The property was built in 1964 and has been maintained extremely well over the years owing to care of previous owners and a low-maintenance brick exterior and concrete foundation.

The property inspection revealed no major issues except for minor repairs. The roofs were replaced with 20-year shingles in 2008, and the parking lot is in good condition. About 40 of the AC units have reached the end of their useful life and will be fixed and replaced as necessary. We have allocated capital reserves to replace all 40 units over the next 5 years. We've allocated reserves to re-surface the parking lot in 10 years (before we sell).

Security has been a focus by the previous owner. The entire property is enclosed in either wood fencing or steel security fencing with electronic doors and entries. Exterior lights and cameras cover every part of the property. We will maintain and possibly even increase the level of security.

The current owner has been very involved with the local community, such as the Caritas Community Center just two blocks away. Art produced by some of the children adorn the fence of the property. We have met the executive director (a wonderful woman), and she lives right across the street. The property next door is used as a neighborhood garden. We will continue to focus on community involvement.

Please watch a short Youtube video tour of the property [here](#).

THE OPPORTUNITY AND BUSINESS PLAN

This property offers an opportunity to acquire an already stabilized asset in a rising market (see commentary about the Memphis in the next section) and to improve the property's bottom-line through professional management and rent increases which are in-line with the current market.

There are 3 ways we intend to increase the Net Operating Income:

- **Raise Rents:** The property has demonstrated consistent occupancy at around 95%. The rents for the 2 bedrooms range from \$525 to \$595, and we will raise the rents of ALL 2 bedrooms to \$595 over the course of the next 12-18 months. In order to do so, we've allocated funds to make minor cosmetic upgrades to 37 units that have not yet been upgraded (the renovated units are getting the \$595 rents). We've reflected the increase in rent from an average of \$591 currently to \$618 in Year 2 of our Pro Forma.
- **Charge Back Utilities:** The current owner is paying for water and gas for 20 units because they are not separately metered like the other units. However, he is not charging anything for those utilities, even though the other tenants are all paying for their own. The utilities cost the owner about \$50 per month per unit, and our property manager thinks we can charge back at least \$25 per month. We've reflected this increase in Year 2 of our Pro Forma.
- **Reduce Operational Expenses:** The current owner employees a full time manager and maintenance person plus a part-time security guard, for a total annual payroll of nearly \$90,000, which is excessive for a property this size. Our property management company will handle leasing and repair calls from their central office (just 5 minutes from the property), regular property walk-throughs, and an on-site resident manager (who will live for free in return for walking every unit once per month, picking up trash, talking with the tenants, and reporting issues). The property management company uses cutting-edge software called "AppFolio" which provides real-time visibility in all collections, expenses and repairs.

This approach will increase the Net Operating Income by about \$28,000 per year over the previous ownership. In Year 2 of our Pro Forma, the projected income will increase by about \$25,000 due to the increased rents and utility charge-backs.

Security is of the utmost importance, and we are evaluating a camera system called "Sky Cop" that is used by law enforcement and large companies. We've allocated \$10,000 in reserves for this state-of-the-art security system.

THE NEIGHBORHOOD AND GREATER MEMPHIS

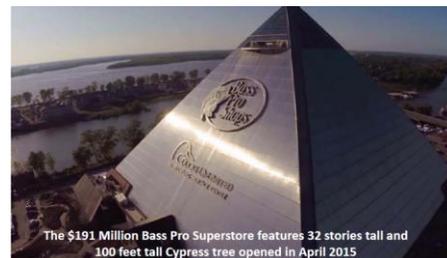
About Memphis



There are many things we like about Memphis, primarily its diversified employer base that has and is projected to increase jobs at about 1.5% per year. The Memphis multifamily market is in what is referred to as the “Early Expansion” market cycle, which means that it has recovered from the recession, vacancy rates are increasing, and rents are increasing. Yet, Memphis has a very low new apartment construction (around 1300 units in a population of 1.3M). Both of these drivers are continuing to drive demand for affordable rental housing.

What we like best is the economic outlook for the area, primarily the influx of jobs. Here are some of the highlights:

- St. Jude’s Hospital \$9 billion expansion to grow the Memphis campus. \$84 million is already underway as it expands its research into Sickle Cell Anemia.
- Nike New North American Logistics Center: Nike’s North America Logistics Campus in North Memphis completed it’s second expansion in June 2015 totaling \$301 million. Spanning more than 2.8 million square-foot (49 football fields), the state-of-the-art facility —with its 33 miles of conveyor belt, 73 outbound doors, and 96 receiving spurs and operates with 1900 employees, 24-hours a day, seven days a week
- Electrolux, 1250 new jobs
- UT Baptist BioMedical Center, thousands of new jobs
- IKEA, 175 jobs
- ServiceMaster moving its corporate headquarters to Downtown Memphis transforming the Peabody Place mall into a Class A and LEED-certified office space bringing 1,200 employees to downtown by end of 2017.
- Elvis Presley Enterprises announced its biggest expansion since Graceland opened with what will soon become the 200,000 sq. ft. “Elvis: Past, Present & Future” entertainment complex and the soon to be opened \$92 million Guest House and Hotel represents a \$137 million expansion.



- Bass Pro: One of the largest retail in the world consisting of 535,000 SF in Memphis, TN and 600 employees. The \$191 Million Bass Pro Superstore features 32 stories tall and 100 feet tall Cypress tree opened in April 2015.
- Plus, Memphis is the America's Distribution Center: All roads, rail, and planes pass through Memphis: Home to the busiest air cargo airport in North America since 1992. I-40 (3rd busiest trucking corridor in the U.S.) is one of three major interstates in Memphis. Memphis is home to five Class I railroads - BNSF, CSX, Union Pacific, Norfolk Southern and Canadian National. The Port of Memphis is the fourth largest inland port in the United States.

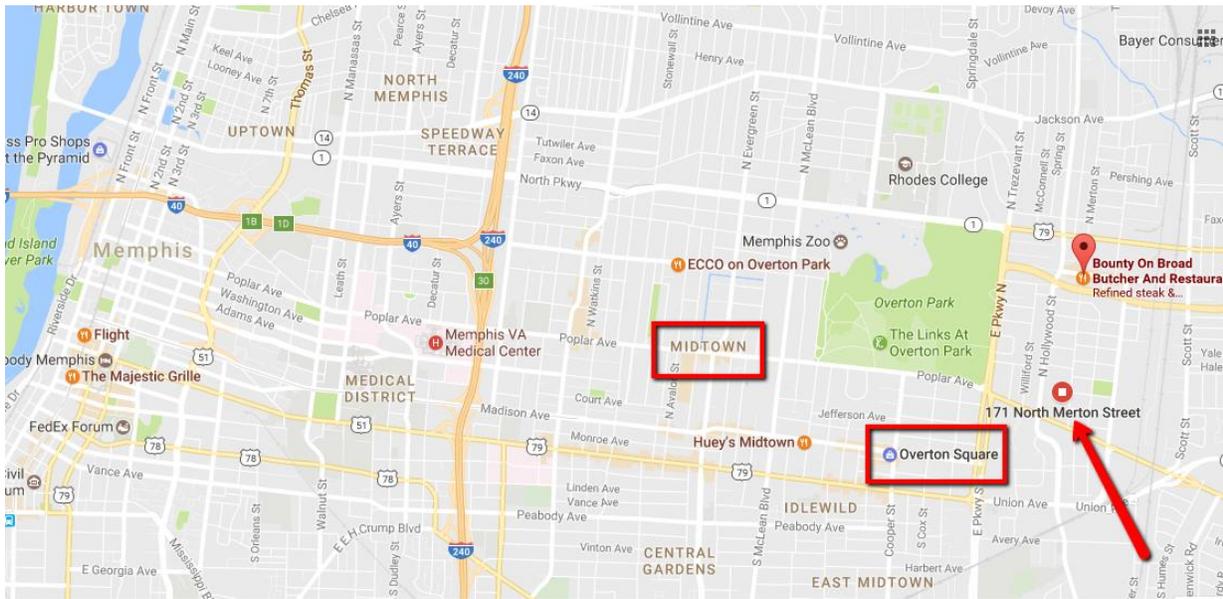
About the Neighborhood

MEMPHIS Overton Square, a \$24 Million Revitalization



The subject property is located within Binghampton, a neighborhood that sits between Midtown Memphis and East Memphis, and only about a mile away from Overton Square, a \$24M Revitalization Area of shops, restaurants and nightlife.

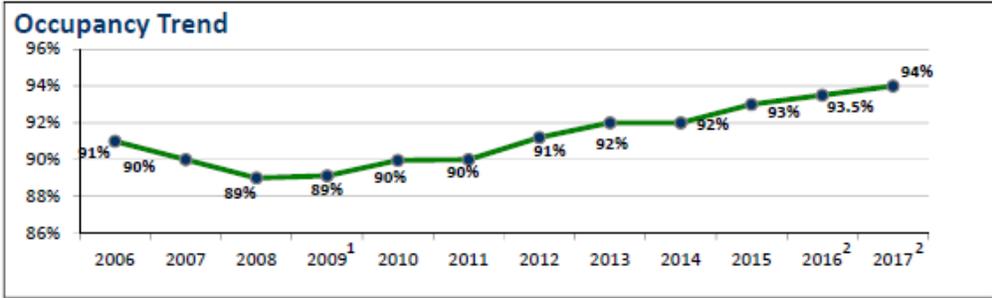
The subject property is situated between two major thoroughfares in the city, Poplar Avenue and Sam Cooper Blvd. These streets are less than a tenth of the mile away from the property on either side and allow tenants immediate access to employment, shopping and offer easy travel to employers Downtown.



In recent years, there has been a significant Midtown revitalization effort undertaken by local government which has generated an uptick in local employment and a rise in rental rates. The significant developments occurring in the area coupled with the property's access to transit make this an ideal investment to capitalize on the area's momentum.

Midtown is home to many cultural attractions, institutions of higher education, and noteworthy pieces of architecture. The district is an anchor in Memphis' arts scene, including the Playhouse on the Square, the Hattiloo Theater, the Brooks Museum of Art, the Memphis College of Art, and the Levitt Shell. The annual Cooper-Young Arts Festival draws over 120,000 visitors to the district. Midtown also plays host to multiple universities and colleges, including Memphis College of Art, Rhodes College, and Christian Brothers University.

About the Rental Market



¹ Apartment Association of Greater Memphis includes foreclosures and out of service apartments for the first time
² Woodyard Realty Corp.'s projections

ACQUISITION SUMMARY

| PURCHASE | | | |
|--------------------------------------|-------------|-------|--|
| # Units | 69 | | |
| Asking Price | \$2,300,000 | | |
| Purchase Price | \$2,350,000 | | |
| Price Per Unit | \$34,058 | | |
| Earnest Money Deposit (EMD) | \$23,500 | 1% | |
| Down Payment | \$470,000 | 20.0% | |
| 1st Mortgage | \$1,880,000 | | |
| Interest Rate | 4.76% | | |
| Term / Amortization | 30 | | |
| 2nd Mortgage | \$0 | | |
| Interest Rate | 0.00% | | |
| Term / Amortization | 0 | | |
| Closing Costs and Lender Reserves | \$115,334 | 4.9% | |
| Acquisition Fee | \$70,500 | 3.0% | |
| Repairs and Capital Reserves | \$92,075 | | |
| Total Member Capital Needed to Close | \$747,909 | | |

The under writing changed somewhat since the first version of this Investor Package. While the first version was sound and represents our “most likely” scenario, I wanted to revise it with a more “worst-case” scenario.

The updated purchase price and unit count include the purchase of the 5-unit building. This also increased the loan amount from \$1.74M to \$1.88M.

Closing Costs and Lender Fees: includes origination fees, appraisal, property inspection, legal fees, recording fees, transfer taxes; legal fees for entity creation and SEC-required disclosures; and lender reserves for real estate taxes and reserves. The acquisition fee is payable to Merton Manor, LLC at closing. Repair escrows are kept in the operating account until needed.

Repairs: We increased the repairs from \$64,000 to \$92,000 to make the underwriting more conservative and to incorporate lender-required repairs. Here is an overview of the capital expense break-down:

| Repairs To Be Made After Closing | | | |
|---|-----------|----------------|-----------------|
| | # | Unit Amount | |
| Upgrade 2 bedroom units | | | |
| Replace cabinets | | \$150 | |
| Add island? | | \$350 | |
| Wrap Show er | | \$175 | |
| Replace show er faucets | | \$100 | |
| Replace sink and hardw are | | \$150 | |
| Replace doors and hardw are | | \$150 | |
| SUB-TOTAL | 37 | \$1,075 | \$39,775 |
| Convert Office to Bedroom | 1 | \$3,000 | \$3,000 |
| SkyCop | 2 | \$5,000 | \$10,000 |
| Cost Segregation Analysis | 1 | \$10,000 | \$10,000 |
| Asphalt Repair (Per Lender) | 1 | \$15,000 | \$15,000 |
| Repair Cracked Sidew alk (Per Lender) | 1 | \$5,000 | \$5,000 |
| Paint Siding (Per Lender) | 1 | \$9,300 | \$9,300 |
| TOTAL REPAIRS & IMPROVEMENTS | | | \$92,075 |

SELLER-DISCLOSED FINANCIALS VS. PRO FORMA

The first column contains the financials provided by the seller for actual income and expenses last year; we have largely verified these numbers to be true.

The second column is the Pro Forma for Year 1 using Kismet Property Management.

The yellow highlighting indicate the increase in expenses due to the addition of the 5-unit house.

The green highlighting indicates an increase in vacancy from 5% to 10% and a \$10,000 increase in expenses to show the impact of more conservative / worst case underwriting.

| INCOME | 2016 Financials | | 4. First Year ProForma | |
|--|------------------|-------|------------------------|----------------------|
| Average Monthly Rent | \$591 | | \$584 | |
| Gross Scheduled Income | \$453,552 | | \$483,552 | Includes 165 N Merto |
| - Vacancy | (\$14,592) ▼ | 3.22% | (\$24,178) | 5.00% |
| - Concessions, Loss to Lease, Bad Debt | \$0 | 0.00% | (\$24,178) | 5.00% |
| Effective Gross Income | \$438,960 | | \$435,197 | |
| Other Income | \$20,000 | | \$20,000 | |
| Total Net Income | \$458,960 | | \$455,197 | |

| EXPENSES | | Per Unit | | | Per Unit | |
|--|------------------|----------|---------------|------------------|----------|---------------|
| Real Estate Taxes | \$31,692 | \$495 | 6.91% | \$68,376 | \$1,068 | 15.02% |
| Insurance | \$12,554 | \$196 | 2.74% | \$10,791 | \$169 | 2.37% |
| Water and Sewer | \$7,795 | \$122 | 1.70% | \$8,309 | \$130 | 1.83% |
| Electric | \$10,550 | \$165 | 2.30% | \$11,246 | \$176 | 2.47% |
| Gas | \$3,856 | \$60 | 0.84% | \$4,110 | \$64 | 0.90% |
| Trash Removal | \$2,570 | \$40 | 0.56% | \$2,740 | \$43 | 0.60% |
| Management Fees | \$0 | \$0 | 0.00% | \$22,760 | \$356 | 5.00% |
| Legal Fees | \$9,987 ▼ | \$156 | 2.18% | \$6,396 | \$100 | 1.41% |
| Contract Services | \$271 | \$4 | 0.06% | \$3,838 | \$60 | 0.84% |
| Repairs and Maintenance/Supplies/Equipment Maintenance | \$42,925 | \$671 | 9.35% | \$51,168 | \$800 | 11.24% |
| General/Admin/Office Expense | \$13,928 | \$218 | 3.03% | \$3,966 | \$62 | 0.87% |
| Payroll | \$88,309 ▼ | \$1,380 | 19.24% | \$6,396 | \$100 | 1.41% |
| Other / Advertising | \$0 | \$0 | 0.00% | \$19,070 | \$298 | 4.19% |
| Replacement Reserves (\$350) | \$0 | \$0 | 0.00% | \$24,150 | \$377 | 5.31% |
| Total Expenses | \$224,437 | | 48.90% | \$243,315 | | 53.45% |
| Net Operating Income (NOI) | \$234,523 | | | \$211,881 | | |

Pro Forma Notes

- **Real Estate Taxes:** Real estate taxes in 2016 were \$31,692 but the building is appraised at \$1M for tax purposes. Once we close, the tax appraisal will likely be tied to the sales price (\$2M), which means it could double. That's why we're using \$63,384 in our Pro Forma, even though it's likely not going to be that high. Regardless of what happens, we've been advised to appeal the appraisal. Therefore, the Pro Forma figure is worst case insurance.
- **Insurance:** This is based on a quote by the current insurance provider, Erie Insurance.
- **Utilities:** We have adopted the actual utility expenses from 2016 in our Pro Forma.
- **Trash Removal:** The Pro Forma is equivalent to the actual expenses in 2016.

- **Management Fees:** Per Kismet Property Management, this is what they will charge for managing the property.
- **Legal Fees:** We're not sure why the 2016 legal fees were as high as they were reported. Per Kismet, if we assume 2 evictions per month (this is a high estimate), it would cost \$250 per eviction or a total of \$6,000 per year.
- **Contract Services:** This is for lawn service an average of twice per month at \$300 per month or \$3,600 per year. Pest control once per quarter is estimated at \$960/yr.
- **Repairs:** Kismet estimates \$48,000 all-in (vs. \$42K in 2016), making this a more conservative estimate.
- **General/Admin:** Phone \$520, Internet: \$50/month = \$600, Tax Prep: \$2,500 (\$800 for return, \$150 for each K-1 x 12 = \$1800 = \$2600 Total
- **Payroll:** None. All leasing and maintenance calls will be handled out of the central office 5 minutes from the property. Maintenance labor is included in the Repairs estimate. The only "payroll" we're projecting is the free rent for the resident manager (\$500/month).
- **Advertising:** Advertising \$,1608. Leasing Fees (half months rent): $\$575/2 \times 24 = \$6,900$
- **Replacement Reserves:** \$350/unit per year to replace 40 AC units in the next 5 years and to re-surface the parking lot in 10 years. Roof has at least another 15 years of life.

RENT ROLL ANALYSIS

Rent Roll (January 2017)

| Unit Number | Unit Type | Rent |
|-------------|-----------|-----------|
| 171-01 | 2 Bedroom | \$ 550.00 |
| 171-02 | 2 Bedroom | \$ 595.00 |
| 171-03 | 2 Bedroom | \$ 575.00 |
| 171-04 | 2 Bedroom | \$ 575.00 |
| 171-05 | 2 Bedroom | \$ 550.00 |
| 171-06 | 2 Bedroom | \$ 595.00 |
| 171-07 | 2 Bedroom | \$ 575.00 |
| 171-08 | 2 Bedroom | \$ 575.00 |
| 171-09 | 2 Bedroom | \$ 575.00 |
| 171-10 | 2 Bedroom | \$ 550.00 |
| 181-01 | 2 Bedroom | \$ 550.00 |
| 181-02 | 2 Bedroom | \$ 550.00 |
| 181-03 | 2 Bedroom | \$ 550.00 |
| 181-04 | 2 Bedroom | \$ 550.00 |
| 181-05 | 2 Bedroom | \$ 550.00 |
| 181-06 | 2 Bedroom | \$ 550.00 |
| 181-07 | 2 Bedroom | \$ 550.00 |
| 181-08 | 2 Bedroom | \$ 550.00 |

| | | |
|--------|-----------|-----------|
| 181-09 | 2 Bedroom | \$ 550.00 |
| 181-10 | 2 Bedroom | \$ 550.00 |
| 181-11 | 2 Bedroom | \$ 550.00 |
| 181-12 | 2 Bedroom | \$ 550.00 |
| 181-13 | 2 Bedroom | \$ 550.00 |
| 181-14 | 2 Bedroom | \$ 550.00 |
| 185-01 | 2 Bedroom | \$ 550.00 |
| 185-02 | 2 Bedroom | \$ 550.00 |
| 185-03 | 2 Bedroom | \$ 550.00 |
| 185-04 | 2 Bedroom | \$ 550.00 |
| 185-05 | 2 Bedroom | \$ 550.00 |
| 185-06 | 2 Bedroom | \$ 550.00 |
| 185-07 | 2 Bedroom | \$ 550.00 |
| 185-08 | 2 Bedroom | \$ 550.00 |
| 185-09 | 2 Bedroom | \$ 550.00 |
| 185-10 | 2 Bedroom | \$ 550.00 |
| 185-11 | 2 Bedroom | \$ 550.00 |
| 185-12 | 2 Bedroom | \$ 550.00 |
| 185-13 | 2 Bedroom | \$ 550.00 |
| 185-14 | 2 Bedroom | \$ 550.00 |
| 185-15 | 2 Bedroom | \$ 550.00 |
| 185-16 | 2 Bedroom | \$ 550.00 |
| 197-02 | 3 Bedroom | \$ 695.00 |
| 197-03 | 3 Bedroom | \$ 695.00 |
| 197-04 | 3 Bedroom | \$ 695.00 |
| 197-05 | 3 Bedroom | \$ 695.00 |
| 197-07 | 3 Bedroom | \$ 695.00 |
| 197-08 | 3 Bedroom | \$ 900.00 |
| 197-1A | 2 Bedroom | \$ 600.00 |
| 197-1B | 2 Bedroom | \$ 500.00 |
| 199-10 | 2 Bedroom | \$ 550.00 |
| 199-11 | 2 Bedroom | \$ 525.00 |
| 199-12 | 2 Bedroom | \$ 575.00 |
| 199-13 | 2 Bedroom | \$ 525.00 |
| 199-14 | 2 Bedroom | \$ 550.00 |
| 201-17 | 3 Bedroom | \$ 695.00 |
| 201-18 | 3 Bedroom | \$ 695.00 |
| 201-19 | 3 Bedroom | \$ 695.00 |
| 201-20 | 3 Bedroom | \$ 695.00 |
| 201-21 | 3 Bedroom | \$ 695.00 |
| 201-22 | 3 Bedroom | \$ 695.00 |
| 201-23 | 3 Bedroom | \$ 695.00 |
| 201-24 | 3 Bedroom | \$ 695.00 |

| | | |
|--|--------------------------|---------------------|
| | TOTAL | \$ 35,975.00 |
| | | |
| | 59 Units Occupied | |
| | 5 Vacancies | |

The property has a strong history of collections, with about 3% physical vacancy and only 2% delinquencies over the past 24 months. We have verified this via the rent rolls and bank deposits. Here is a summary of the Trailing 12-Month Collections based on Rent Roll:

| DATE | AMOUNT | OCCUPIED | |
|--------------------------|--------------|----------------------|---------------|
| | | UNITS | % |
| 2/28/2016 | \$ 36,920.00 | 63 | 98.44% |
| 3/31/2016 | \$ 36,225.00 | 62 | 96.88% |
| 4/30/2016 | \$ 37,880.00 | 63 | 98.44% |
| 5/31/2016 | \$ 37,880.00 | 63 | 98.44% |
| 6/30/2016 | \$ 36,780.00 | 61 | 95.31% |
| 7/31/2016 | \$ 36,120.00 | 61 | 95.31% |
| 8/31/2016 | \$ 37,770.00 | 64 | 100.00% |
| 9/30/2016 | \$ 35,925.00 | 61 | 95.31% |
| 10/31/2016 | \$ 35,190.00 | 60 | 93.75% |
| 11/30/2016 | \$ 35,925.00 | 61 | 95.31% |
| 12/31/2016 | \$ 35,975.00 | 61 | 95.31% |
| 1/30/2017 | \$ 35,020.00 | 59 | 92.19% |
| Trailing 12 month | | \$ 437,610.00 | 96.35% |

Here is the Current Gross Scheduled Rent:

| Gross Scheduled Rent | | | |
|----------------------|----------|-------|---------|
| # | Avg Rent | Total | |
| 49 | \$ 554 | \$ | 27,148 |
| 15 | \$ 695 | \$ | 10,425 |
| 64 | | | |
| | Monthly | \$ | 37,573 |
| | Average | \$ | 587 |
| | Annual | \$ | 450,877 |

The 2-bedroom rents range from \$500 to \$595. If we increased the low rents to the high rents consistently, it would increase the current overall average rents from \$591 to \$618. This would be the new Pro Forma Gross Scheduled Rents:

| Gross Scheduled Rent | | | |
|----------------------|----------|-------|---------|
| # | Avg Rent | Total | |
| 49 | \$ 595 | \$ | 29,155 |
| 15 | \$ 695 | \$ | 10,425 |
| 64 | | | |
| | Monthly | \$ | 39,580 |
| | Average | \$ | 618 |
| | Annual | \$ | 474,960 |

FINANCIAL PROJECTIONS

Here are the assumptions for the 10-Year Projections (in particular, the first two years):

- In the first year, the real estate taxes and insurance are half of what they normally would be due to the reserves required by the lender at closing, i.e. half of these expenses will be pre-paid at closing.
- In Year 2, we are projecting that we have raised the rents for the 2 bedroom units to \$595, raising the average rents from \$591 to \$618.
- Also in Year 2, we are projecting \$6,000 in additional income due to charging back \$25 to 20 units for gas and water.
- The remainder of the numbers increase by 2% each year.
- We are asking for a 10-year hold even though there might be an opportunity to refinance (though we may not want to since our current loan is at a 4.76% interest rate!)

Years 1 – 5

| FINANCIAL ASSUMPTIONS | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--------------------------|--------|--------|--------|--------|--------|
| Annual Rent Escalator | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Annual Expense Escalator | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |

| INCOME | 1 | 2 | 3 | 4 | 5 |
|--|------------------|------------------|------------------|------------------|------------------|
| Average Monthly Rent | \$584 | \$618 | \$630 | \$643 | \$656 |
| Gross Potential Income | \$483,552 | \$511,704 | \$521,938 | \$532,377 | \$543,024 |
| - Vacancy | (\$24,178) 5.00% | (\$25,585) 5.00% | (\$26,097) 5.00% | (\$26,619) 5.00% | (\$27,151) 5.00% |
| - Concessions, Loss to Lease, Bad Debt | (\$24,178) 5.00% | (\$25,585) 5.00% | (\$26,097) 5.00% | (\$26,619) 5.00% | (\$27,151) 5.00% |
| Effective Gross Income | \$435,197 | \$460,534 | \$469,744 | \$479,139 | \$488,722 |
| Other Income | \$20,000 | \$26,000 | \$26,520 | \$27,050 | \$27,591 |
| Total Net Income | \$455,197 | \$486,534 | \$496,264 | \$506,190 | \$516,313 |

| EXPENSES | | | | | | | | | | |
|--------------------------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| Real Estate Taxes | \$34,188 | 7.51% | \$69,744 | 14.33% | \$71,138 | 14.33% | \$72,561 | 14.33% | \$74,012 | 14.33% |
| Insurance | \$5,396 | 1.19% | \$11,007 | 2.26% | \$11,227 | 2.26% | \$11,452 | 2.26% | \$11,681 | 2.26% |
| Contract Services | \$3,838 | 0.84% | \$3,914 | 0.80% | \$3,993 | 0.80% | \$4,072 | 0.80% | \$4,154 | 0.80% |
| Trash Removal | \$2,740 | 0.60% | \$2,794 | 0.57% | \$2,850 | 0.57% | \$2,907 | 0.57% | \$2,965 | 0.57% |
| Electric | \$11,246 | 2.47% | \$11,471 | 2.36% | \$11,701 | 2.36% | \$11,935 | 2.36% | \$12,173 | 2.36% |
| Gas | \$4,110 | 0.90% | \$4,193 | 0.86% | \$4,277 | 0.86% | \$4,362 | 0.86% | \$4,449 | 0.86% |
| Water and Sewer | \$8,309 | 1.83% | \$8,476 | 1.74% | \$8,645 | 1.74% | \$8,818 | 1.74% | \$8,994 | 1.74% |
| Legal | \$6,396 | 1.41% | \$6,524 | 1.34% | \$6,654 | 1.34% | \$6,787 | 1.34% | \$6,923 | 1.34% |
| Management Fee | \$22,760 | 5.00% | \$24,327 | 5.00% | \$24,813 | 5.00% | \$25,309 | 5.00% | \$25,816 | 5.00% |
| Repairs and Maintenance | \$51,168 | 11.24% | \$52,191 | 10.73% | \$53,235 | 10.73% | \$54,300 | 10.73% | \$55,386 | 10.73% |
| General/Admin | \$3,966 | 0.87% | \$4,045 | 0.83% | \$4,126 | 0.83% | \$4,208 | 0.83% | \$4,292 | 0.83% |
| Payroll | \$6,396 | 1.41% | \$6,524 | 1.34% | \$6,654 | 1.34% | \$6,787 | 1.34% | \$6,923 | 1.34% |
| Other / Advertising | \$19,070 | 4.19% | \$19,451 | 4.00% | \$19,840 | 4.00% | \$20,237 | 4.00% | \$20,641 | 4.00% |
| Deposit to Replacement Reserve | \$24,150 | 5.31% | \$24,150 | 4.96% | \$24,150 | 4.87% | \$24,150 | 4.77% | \$24,150 | 4.68% |
| Total Expenses | \$203,732 | 44.76% | \$248,810 | 51.14% | \$253,304 | 51.04% | \$257,887 | 50.95% | \$262,561 | 50.85% |

| Net Operating Income (NOI) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| Net Operating Income (NOI) | \$251,465 | \$237,723 | \$242,961 | \$248,303 | \$253,752 |

| Debt Service | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---------------------------|------------------|------------------|------------------|------------------|------------------|
| Principal | \$28,958 | \$30,367 | \$31,844 | \$33,394 | \$35,018 |
| Interest | \$88,862 | \$87,453 | \$85,975 | \$84,426 | \$82,801 |
| Total Debt Service | \$117,820 | \$117,820 | \$117,820 | \$117,820 | \$117,820 |

| Cash Flow available for Distribution | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|------------------|------------------|------------------|------------------|------------------|
| Cash Flow available for Distribution | \$133,645 | \$119,903 | \$125,141 | \$130,483 | \$135,932 |

| Distributions from Cash Flow | | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---------------------------------------|-----|-----------------|-----------------|-----------------|-----------------|-----------------|
| Management Fee (3% of NOI) | 3% | \$7,544 | \$7,132 | \$7,289 | \$7,449 | \$7,613 |
| Members Preferred Return Paid | 0% | \$0 | \$0 | \$0 | \$0 | \$0 |
| Excess Cash Flow to Members | 68% | \$85,749 | \$76,685 | \$80,139 | \$83,663 | \$87,257 |
| Excess Cash Flow to Mgr | 32% | \$40,352 | \$36,087 | \$37,713 | \$39,371 | \$41,062 |
| Total Distributions to Members | | \$85,749 | \$76,685 | \$80,139 | \$83,663 | \$87,257 |

| Capital Account Balance (End of Year) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|------------------|------------------|------------------|------------------|------------------|
| Capital Account Balance (End of Year) | \$747,909 | \$747,909 | \$747,909 | \$747,909 | \$747,909 |

| Member Cash on Cash Return | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Member Cash on Cash Return | 11.47% | 10.25% | 10.72% | 11.19% | 11.67% |

Years 6 – 10

| Year 6 | | Year 7 | | Year 8 | | Year 9 | | Year 10 | |
|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| 2.00% | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% |
| 2.00% | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% | 2.00% | 0.00% |
| SALE! | | | | | | | | | |
| 6 | | 7 | | 8 | | 9 | | 10 | |
| \$669 | | \$682 | | \$696 | | \$710 | | \$724 | |
| \$553,885 | | \$564,963 | | \$576,262 | | \$587,787 | | \$599,543 | |
| (\$27,694) | 5.00% | (\$28,248) | 5.00% | (\$28,813) | 5.00% | (\$29,389) | 5.00% | (\$29,977) | 5.00% |
| (\$27,694) | 5.00% | (\$28,248) | 5.00% | (\$28,813) | 5.00% | (\$29,389) | 5.00% | (\$29,977) | 5.00% |
| \$498,496 | | \$508,466 | | \$518,636 | | \$529,008 | | \$539,589 | |
| \$28,143 | | \$28,706 | | \$29,280 | | \$29,866 | | \$30,463 | |
| \$526,640 | | \$537,172 | | \$547,916 | | \$558,874 | | \$570,052 | |
| | | | | | | | | | |
| \$75,493 | 14.33% | \$77,002 | 14.33% | \$78,543 | 14.33% | \$80,113 | 14.33% | \$81,716 | 14.33% |
| \$11,914 | 2.26% | \$12,153 | 2.26% | \$12,396 | 2.26% | \$12,644 | 2.26% | \$12,896 | 2.26% |
| \$4,237 | 0.80% | \$4,322 | 0.80% | \$4,408 | 0.80% | \$4,496 | 0.80% | \$4,586 | 0.80% |
| \$3,025 | 0.57% | \$3,085 | 0.57% | \$3,147 | 0.57% | \$3,210 | 0.57% | \$3,274 | 0.57% |
| \$12,417 | 2.36% | \$12,665 | 2.36% | \$12,918 | 2.36% | \$13,177 | 2.36% | \$13,440 | 2.36% |
| \$4,538 | 0.86% | \$4,629 | 0.86% | \$4,722 | 0.86% | \$4,816 | 0.86% | \$4,912 | 0.86% |
| \$9,174 | 1.74% | \$9,358 | 1.74% | \$9,545 | 1.74% | \$9,736 | 1.74% | \$9,931 | 1.74% |
| \$7,062 | 1.34% | \$7,203 | 1.34% | \$7,347 | 1.34% | \$7,494 | 1.34% | \$7,644 | 1.34% |
| \$26,332 | 5.00% | \$26,859 | 5.00% | \$27,396 | 5.00% | \$27,944 | 5.00% | \$28,503 | 5.00% |
| \$56,494 | 10.73% | \$57,623 | 10.73% | \$58,776 | 10.73% | \$59,951 | 10.73% | \$61,150 | 10.73% |
| \$4,378 | 0.83% | \$4,466 | 0.83% | \$4,555 | 0.83% | \$4,646 | 0.83% | \$4,739 | 0.83% |
| \$7,062 | 1.34% | \$7,203 | 1.34% | \$7,347 | 1.34% | \$7,494 | 1.34% | \$7,644 | 1.34% |
| \$21,054 | 4.00% | \$21,475 | 4.00% | \$21,905 | 4.00% | \$22,343 | 4.00% | \$22,790 | 4.00% |
| \$24,150 | 4.59% | \$24,150 | 4.50% | \$24,150 | 4.41% | \$24,150 | 4.32% | \$24,150 | 4.24% |
| \$267,330 | 50.76% | \$272,193 | 50.67% | \$277,154 | 50.58% | \$282,214 | 50.50% | \$287,376 | 50.41% |
| | | | | | | | | | |
| \$259,310 | | \$264,979 | | \$270,762 | | \$276,660 | | \$282,676 | |
| | | | | | | | | | |
| \$36,722 | | \$38,509 | | \$40,382 | | \$42,347 | | \$44,407 | |
| \$81,098 | | \$79,311 | | \$77,438 | | \$75,473 | | \$73,413 | |
| \$117,820 | | \$117,820 | | \$117,820 | | \$117,820 | | \$117,820 | |
| | | | | | | | | | |
| \$141,490 | | \$147,159 | | \$152,942 | | \$158,840 | | \$164,856 | |
| | | | | | | | | | |
| \$7,779 | | \$7,949 | | \$8,123 | | \$8,300 | | \$8,480 | |
| \$0 | | \$0 | | \$0 | | \$0 | | \$0 | |
| \$90,923 | | \$94,663 | | \$98,477 | | \$102,368 | | \$106,336 | |
| | | | | | | | | | |
| \$42,788 | | \$44,547 | | \$46,342 | | \$48,173 | | \$50,040 | |
| \$90,923 | | \$94,663 | | \$98,477 | | \$102,368 | | \$106,336 | |
| | | | | | | | | | |
| \$747,909 | | \$747,909 | | \$747,909 | | \$747,909 | | \$747,909 | |
| | | | | | | | | | |
| 12.16% | | 12.66% | | 13.17% | | 13.69% | | 14.22% | |

NOTE: The rates of return displayed on this page are only projections, and are not guarantees of any sort. Actual returns may vary widely, due to many economic and marketplace factors beyond our control.

EQUITY RETURN AT RESALE

We assume we will be able to sell the building at the now going cap rate of 10% for a well-performing and well-maintained asset in this area of Memphis, TN. All investor capital is returned first before the remaining proceeds are split according to the investors' equity share.

Disposition End of Year → **10**

| | | |
|---|------|------------------|
| Net Operating Income | | \$282,676 |
| Cap Rate | | 10.00% |
| Sales Price | | \$2,826,761 |
| Sales Cost | 6.5% | (\$183,739) |
| Outstanding Loan Balance | | (\$1,518,052) |
| Total Equity | | \$1,124,970 |
| Return of Member Capital | | \$747,909 |
| Net Proceeds/Profit from Sale | | \$377,061 |
| Principal Reduction | | \$361,948 |
| Appreciation | | \$15,113 |
| Capital Transaction Fee to Mgr | 1% | \$28,268 |
| Net Proceeds/Profit Paid to Members | 68% | \$237,179 |
| Net Proceeds/Profit Paid to Manager | 32% | \$111,614 |
| (Initial Capital + Appreciation) | | \$985,088 |

Here are the Projected Returns for Members over 10 years.

Years 1 – 5:

| | 1 | 2 | 3 | 4 | 5 |
|---|-----------|-----------|-----------|-----------|-----------|
| Beginning Member Capital Account Balance | \$747,909 | \$747,909 | \$747,909 | \$747,909 | \$747,909 |
| Member Cashflow | \$85,749 | \$76,685 | \$80,139 | \$83,663 | \$87,257 |
| Cash on Cash Return | 11.47% | 10.25% | 10.72% | 11.19% | 11.67% |
| Net Proceeds/Profits from Refinance or Sale | | | | | |
| Average Annual Return to Date | 11.47% | 10.86% | 10.81% | 10.90% | 11.06% |
| Return of Member Capital | | | | | |
| Ending Member Capital Account Balance | \$747,909 | \$747,909 | \$747,909 | \$747,909 | \$747,909 |
| Total Return in Investment | | | | | |
| Average Annual Return | | | | | |
| IRR | | | | | |

Years 6 – 10:

| 6 | 7 | 8 | 9 | 10 | Return \$ | Return % |
|-----------|-----------|-----------|-----------|-----------|-------------|---------------|
| \$747,909 | \$747,909 | \$747,909 | \$747,909 | \$747,909 | | |
| \$90,923 | \$94,663 | \$98,477 | \$102,368 | \$106,336 | \$906,260 | |
| 12.16% | 12.66% | 13.17% | 13.69% | 14.22% | | |
| | | | | \$237,179 | \$237,179 | |
| 11.24% | 11.44% | 11.66% | 11.88% | 15.29% | | |
| | | | | \$747,909 | | |
| \$747,909 | \$747,909 | \$747,909 | \$747,909 | \$0 | | |
| | | | | | \$1,143,440 | 152.88% |
| | | | | | | 15.29% |
| | | | | | | 13.42% |

MANAGEMENT AND ADVISORS



Michael Blank, President, Managing Member. Michael Blank is a full-time entrepreneur, investor and coach who's passionate about helping others do their first apartment building deal and get out the rat race. Michael has raised \$1.6M for 35 residential and multifamily projects valued at over \$7.5M. He continues to actively invest in apartment communities in multiple states throughout the East Coast and Mid West. Michael's asset management partners control over \$58 million in performing multifamily assets all over the United States. In addition to his own investing activities, Michael provides training and consulting services via www.TheMichaelBlank.com and has helped students acquire over 300 units valued in excess of \$11,000,000. He's the host of the popular podcast "Apartment Building Investing with Michael Blank" and writes regularly for the Bigger Pockets and Flipnerd's REI Classroom. Michael lives in Northern VA with his wife and 4 children.

Patrick Duffy, Managing Member. Patrick Duffy is a full-time real estate private equity professional that has recently begun working with Michael Blank on the acquisition of multifamily properties in emerging markets throughout the United States. Mr. Duffy engaged Mr. Blank for the first time in January 2017 on the purchase of a 64-unit property in Memphis, TN which is expected to close in March 2017. Mr. Duffy began his career in real estate after graduating from Harvard University in May 2013 with a position as a CMBS analyst at Opus Bank in Irvine, CA. During his time at Opus, Mr. Duffy underwrote and performed all closing related activities associated with over \$200M in CMBS financing for multifamily, office and self-storage properties across the United States. Following Opus Bank, Mr. Duffy was a Senior Associate with 5 Arch Group, a real estate private equity firm focused on providing short and long-term financing solutions for single family investors engaged in the acquisition of flip and rental properties across the United States. During this time, Mr. Duffy negotiated, underwrote and performed all closing related activities associated with over \$150M in short and long term financing for single family investors. Currently, Mr. Duffy works for Wedgewood, the largest single family investor in the western United States. Since 1985, the firm has acquired and sold 30,000 single family assets. Additionally, Mr. Duffy's family owns a 12-unit building in Arcadia, CA which he has assisted in the management of since 2009.



Kevin and Daniella Dhillon, Co-Sponsors. Kevin and Daniella are an Australian husband and wife team who have been investing in real estate since 2006. They began acquiring SFH, duplexes and triplexes in Australia and relocated to the US in 2011 to extend their property portfolio. The Dhillons are passionate about wealth creation through real estate, which has enabled them to quit their jobs while still in their 20s and focus on investing full-time, for the past 6-7 years. They currently self-manage their three MFH communities in SE Florida, still hold onto their Australian portfolio, totaling 100+ units, and look forward to continually growing and expanding their property portfolio in the US. They have had experience in a variety of real estate strategies including owner financing, developments, add-value projects and syndication. Kevin and Daniella are currently based in Houston, Texas with their 2 year old son and enjoy spending their time with their family both locally and in Australia.

Bo Jordan, Kismet Property Management. Bo has 13 years of experience in progressive management, and an additional 10 as an investor/manager. He began buying investment properties in 2004. As a hands-on investor, he rehabbed his own properties, and found an affinity for the work. In 2008, he bought Kismet, which now manages about 700 units in and around Memphis. Bo takes great pride in his staff, which he trusts completely. He says he works hard to establish personal relationships with his clients, which shows in his rock-solid reputation in the Memphis area. We have found Kismet to have the right scale, technology and processes to provide the absolute best management for Merton Manor.



Mark Grai, Real Estate Attorney. Mr. Gross handles all legal matters related to the real estate transaction and has completed hundreds of transactions within the Memphis market.

Steven Rinaldi, SEC Attorney. Mr. Rinaldi handles all legal matters related to SEC compliance. Mr. Rinaldi has completed two transactions with Mr. Blank.

CONTACT

Questions should be directed to Merton Manor LLC c/o Michael Blank (571-445-0532, michael@themichaelblank.com).