

Explanation of the Distressed Realty Fund I, LLC Pro Forma

The financial information provided by the Distressed Realty Fund I, LLC Pro Forma is based on the best estimates of the possible results from the Managing Member. The forecasts are based on assumptions that may not prove to be reasonable, and are subject to significant economic and operational uncertainties. The Pro Forma assumes the Fund will initially purchase and renovate up to approximately 32 Properties at an average renovated cost of \$85,000 with the net investment capital of \$2,760,000, after the Offering Expenses of 8% (\$240,000) of the \$3,000,000 Offering.

The Pro Forma anticipates the Fund will be able to purchase the average distressed REO / foreclosed Property for approximately \$55,000 and provide the necessary renovations for approximately \$30,000, for an average renovated cost of \$85,000 per Property. The average sold Property is expected to sell for approximately \$120,000 gross sales price, or \$110,000 net of selling costs. The average sold Property is estimated to produce a net profit to the Fund of approximately 20% to 40% (\$20,000 to \$30,000). The Pro Forma assumes the Fund will purchase up to 16 new Properties each year as the renovated Properties are sold. The Managing Member anticipates the Fund will purchase between 100 and 150 Properties during its estimated operating life of five to six years.

The Pro Forma anticipates the Fund will rent up to 16 Properties each year and sell up to 16 Properties each year to produce the estimated average annual return to Investors of 9.84%. The average rented Property is anticipated to rent for \$950 gross rents, or \$600 net per month after expenses. The rental income distribution will start once the Fund has purchased, renovated and rented sufficient Properties, which is expected to take four to six months after the Fund has raised sufficient capital. The Fund expects to pay the Investor all of the net rents, which is estimated to be approximately 3.84% annually.

The Fund also expects to pay the Investors 75% of the net profits generated from the sale of Properties, while the Managing Member will receive 25% of the net profits until the Investors receive a combined total return of 8% for the year. Thereafter, all additional net profits during the year will be split 50% paid to the Investors and 50% paid to the Managing Member. The Fund will recover \$48,000 of the Offering Expenses from the net profits produced by the sale of Properties each year for the first five years for a total of \$240,000, assuming the Fund raises the \$3,000,000 Offering amount. In addition, the Fund will recover any losses each year, and the yearly management fees (estimated to be approximately \$82,000 per year) based on the net investment capital of \$2,760,000. The Pro Forma assumes it will require the net profits of five sold Properties each year, or approximately \$130,000, to recover these necessary expenses. If the Fund uses leverage on the Properties, it will purchase additional Properties that could produce additional net profits. If the Fund can turnover (purchase, renovate and sell) Properties in less than 12 months, it could produce additional net profits. If the Fund can raise the additional green shoe over-allotment of \$2,000,000, it will be able to purchase additional Properties that could produce additional net profits. If the Fund cannot rent 16 Properties each year and/or cannot sell 16 Properties each year, the Fund will produce less rental income and/or less net profits for the Investors than forecasted in the Pro Forma.

Distressed Realty Fund 1, LLC Pro Forma

1) Average purchase price of each Property	\$ 55,000.00
2) Average cost of each Property including renovations	\$ 85,000.00
3) Average profit per sale of each Property	\$ 25,000.00
4) Average monthly net rental income per rental Property	\$ 600.00
5) Offering Expenses to raise Capital	8.00%
6) Management Fee - Per each service	1.25%

Fund Year:	<u>Raise Capital</u>			<u>Operations</u>			<u>Liquidate Fund</u>	<u>Totals</u>
	<u>One</u>	<u>Two</u>	<u>Three</u>	<u>Four</u>	<u>Five</u>	<u>Six</u>	<u>Seven</u>	
7) Cash Available to Invest - Start of Year	\$ -	\$ 2,080,000.00	\$ 1,448,000.00	\$ 1,496,000.00	\$ 1,544,000.00	\$ 1,592,000.00	\$ 1,640,000.00	
8) Total Fund Offering Capital Raised:	\$ 3,000,000.00							
9) Offering Expenses - 8% of the Capital Raised	\$ (240,000.00)							
10) Recovery of Offering Expenses from Profits	\$ -	\$ 48,000.00	\$ 48,000.00	\$ 48,000.00	\$ 48,000.00	\$ 48,000.00	\$ -	
11) Yearly Management Fee	\$ (40,800.00)	\$ (78,300.00)	\$ (79,740.00)	\$ (81,180.00)	\$ (82,620.00)	\$ (84,060.00)	\$ -	
12) Recovery of Management Fees from Profits	\$ 40,800.00	\$ 78,300.00	\$ 79,740.00	\$ 81,180.00	\$ 82,620.00	\$ 84,060.00	\$ -	
13) Total Fund Capital - End of Year	\$ 2,760,000.00	\$ 2,808,000.00	\$ 2,856,000.00	\$ 2,904,000.00	\$ 2,952,000.00	\$ 3,000,000.00	\$ 3,000,000.00	
Properties Purchased/ Rented/ Sold for the Year								
14) Total Properties Purchased during the Year	16.00	24.00	16.00	16.00	16.00	16.00	-	104.00
15) Total Rental Properties owned during the Year	8.00	16.00	16.00	16.00	16.00	16.00	-	
16) Total Properties Sold during the Year	8.00	16.00	16.00	16.00	16.00	16.00	16.00	104.00
17) Net Profit from Sale of Properties in Year	\$ 200,000.00	\$ 400,000.00	\$ 400,000.00	\$ 400,000.00	\$ 400,000.00	\$ 400,000.00	\$ 400,000.00	\$ 2,600,000.00
Profit Split to Investors / Managing Member								
18) Profit Split to Investors	\$ 119,400.00	\$ 178,450.02	\$ 177,730.02	\$ 177,010.02	\$ 176,290.02	\$ 175,570.02	\$ 280,000.04	\$ 1,284,450.14
19) Profit to the Managing Member	\$ 39,800.00	\$ 95,249.98	\$ 94,529.98	\$ 93,809.98	\$ 93,089.98	\$ 92,369.98	\$ 119,999.96	\$ 628,849.86
20) Percentage return to Investors from Sales	3.98%	5.95%	5.92%	5.90%	5.88%	5.85%	9.33%	42.82%
21) Net yearly rental income to Investors	\$ 57,600.00	\$ 115,200.00	\$ 115,200.00	\$ 115,200.00	\$ 115,200.00	\$ 115,200.00	\$ -	\$ 633,600.00
22) Percentage return to Investors from Rental Income	1.92%	3.84%	3.84%	3.84%	3.84%	3.84%	0.00%	21.12%
23) Total Return to Investors per Year	\$ 177,000.00	\$ 293,650.02	\$ 292,930.02	\$ 292,210.02	\$ 291,490.02	\$ 290,770.02	\$ 280,000.04	\$ 1,918,050.14
24) Total Percentage Return to Investors per Year	5.90%	9.79%	9.76%	9.74%	9.72%	9.69%	9.33%	63.94%
25) Average Annual Return to Investors	<u>9.84%</u>							

**** FOOTNOTES TO LINE ITEMS ****

- 4) The average monthly net rental income is based on an average \$950 gross rent per property, minus \$350 for property taxes, insurance, maintenance, property management fee, and vacancies.
- 6) A Management Fee is charged for each service provided by the Managing Member, specifically, an acquisition fee of 1.25% to purchase each Property, a renovation fee of 1.25% per Property, and an annual rental fee of 1.25% per rental Property.
- 9) The Offering Expenses are \$240,000 on a fully subscribed \$3 million Offering, or 8% of the Capital Raised.
- 10) The Recovery of Offering Expenses occurs from Year 2 through Year 6 at a rate of \$48,000 per year, and is deducted from the Net Profits generated in those years.
- 13) Total Fund Capital - End of Year is the sum of the Cash Available to Invest, plus the Recovery of Offering Expenses and Management Fees, plus the value of current rental and resell Properties.
- 17) Net Profit from Sale of Properties in Year is equal to the number of Properties Sold during the Year times an average profit of \$25,000 per property.
- 18) The Fund will split the annual Net Profits 75% to Investors and 25% to the Managing Member until the Investors receive an 8% total return. Thereafter, all additional net profits during that Year will be split 50% to the Investors and 50% to the Managing Member.
- 21) The Net yearly rental income to Investors is equal to the number of Rental Properties owned during the Year times the average monthly net rental income of \$600 per rental times 12 months.
- 23) The Total Return to Investors per Year is the sum of the Profit Split to Investors plus the Net yearly rental income to Investors, and represents the Investors expected annual cash return.
- 24) The Total Percentage Return to Investors represents the Investors expected annual return as a percent of their Capital. The full \$3 million Capital Raise is returned to Investors in Year Seven.
- 25) Average Annual Return to Investors assumes the purchase of Units at the middle of Year One to participate in all distributions.