

Carowill Partners, LLC

Atlantic City Area Investment Opportunities

Carowill Partners, LLC (CP) is a New Jersey-based real estate company that purchases, redevelops, manages, and sells multi-unit residential and commercial properties in the Atlantic City, New Jersey area. CP's units provide a unique combination of safety, convenience, cleanliness, quality, and affordability that is severely lacking in the Atlantic City area.

I. Vision

Carowill Partners' vision is to become the recognized leader in redeveloping underutilized real estate assets into safe, clean, convenient, and affordable housing in the Atlantic City area.

II. Company Summary

Carowill Partners, LLC is an enterprise that is involved in providing convenient, quality housing at affordable prices in Atlantic City. CP's primary experience and expertise is in the redevelopment and management of high-quality, lower cost living units.

Carowill Partners, LLC has purchased and redeveloped 7 properties over the last 2 years. Currently, CP owns and manages 9 investment properties encompassing over 100 residential units and 4 commercial units.

III. Strategy

Carowill Partners, LLC focuses its efforts on two types of properties that satisfy the needs of our target market.

Underutilized Rooming Houses and Hotels

Carowill Partners, LLC is currently buying and redeveloping existing properties that are zoned as hotels or rooming houses but are currently underutilized. Despite the growing need for these types of housing units, there are many properties that are zoned for this use that are either underutilized, or not being used at all. This underutilization of valuable assets is due mainly to their location within the RSC (resort commercial) zone. Many of these underutilized assets are old hotels that are located near the boardwalk and casinos, yet lack basic amenities such as private bathrooms, air conditioning, adequate parking, and elevators. These shortcomings make the buildings unattractive candidates to be updated and reopened as non-casino hotels; however, these shortcomings have very little impact on the buildings' value as rooming houses. Because these buildings are located in the RSC zone, many owners of these buildings expect that the buildings will eventually be purchased by casino developers and razed, and are therefore reluctant to spend any capital redeveloping these properties.

Once the properties are purchased, each unit will be brought up to code so that the buildings may be used as rooming houses. Each room will either have a private or semi-private (share with 1 other resident) bathroom. The rooms will be outfitted with new carpet, furniture, and windows. CP's experience has shown that these conditions are a drastic improvement over CP's competition, and that rooms with these features have extremely low vacancy rates and higher rents than the competition.

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Underutilized Multifamily and Mixed Use Rental Properties

CP purchases and renovates multifamily properties in Atlantic City that are in need of renovation. Atlantic City is home to hundreds of multifamily properties that are either vacant or underutilized. Many of these properties are in locations that make them prime candidates for redevelopment. CP recognizes the strong demand for affordable housing in these areas, and purchases, redevelops, and manages these types of properties.

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IV. Company Ownership

Carowill Partners, LLC is a Limited Liability Company based out of Allentown, New Jersey. It is owned and operated by its founder, Rob Scheffey.

When CP finds a property suitable for purchase and redevelopment, CP partners with investors who provide funding for that project. In return for their investment, the investors receive an 80% share of the profits for the specific project they fund. Carowill, as the project manager, receives 20% of the profits.

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All projects will be managed by Rob Scheffey. Rob is a licensed contractor and currently owns and operates 4 rooming houses in Atlantic City, as well as several other residential investment properties in the Atlantic City area. As a real estate investor and contractor, he has bought, redeveloped, and either sold or continues to manage many properties, including multifamily buildings, rooming houses, mixed use properties, single family homes and vacation homes. He has also worked for 12 years in the banking and information technology industries.

As the owner, redeveloper, and manager of many investment properties in and around Atlantic City, Rob is knowledgeable about the rental market and uniquely qualified to oversee the redevelopment of these properties. Rob has also developed an extensive referral network made up of casino human resource departments, government public assistance agencies, and private non-profit and for-profit welfare agencies who recognize the value of Rob's rental units and refer their clients and employees to him.

The company expects to acquire and redevelop 8 properties over the next 2 years. Half of the properties will be sold, and half will be retained and managed by the company, adding 150 residential units to its inventory.

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V. Market Analysis

Carowill Partners, LLC will target four distinct customer segments.

Lower income casino employees

The largest segment CP will service consists of individuals employed full time in the hospitality/tourism industry, earning between \$15,000 and \$35,000 per year. According to the New Jersey Casino Control Commission, there were slightly more than 42,000 people employed by Atlantic City casinos at the end of June, 2006. The size of this market segment has remained remarkably steady from 2001 to 2006, with total casino employment peaking at around 47,000 every summer, and declining to around 45,000 every winter. Total casino employment then declined around 10% in December 2006 when the Sands Casino Hotel ceased operations in preparation for demolition and redevelopment.

Of these 42,000 individuals, we estimate that 30,000 of them earn wages that place them in our target market. This includes individuals working primarily in housekeeping, cashiering, food service, sanitation, and security, and not those working as dealers, pit bosses, cocktail servers, or in professional positions. In other words, this segment of our target market works mainly in non-casino-related positions of the casino hotels. Because of this, the size of the market is more dependent on the number of hotel rooms in Atlantic City, and less dependent on revenue from casino operations or casino floor space.

There are currently 14,500 hotel rooms in Atlantic City casino resorts. The Borgata, Harrah's, and Trump Taj Mahal have projects currently under construction that will expand the number of casino resort hotel rooms by 1500 rooms, or 13%, by September, 2008. This should add close to 4,000 new employees to this segment of our target market.

There are also 3 new casino resorts scheduled to begin construction in 2008 and open by 2012. These new projects are expected to add 9,000 rooms, which will increase the size of this segment of our target market by about 60%.

Lower Income Non-casino Hospitality Industry Employees

The second segment of our target market consists of Atlantic City residents employed full-time outside of the casino resorts. This includes hospitality, food service, and security workers who are employed by non-casino hotels, restaurants, and the many condominium buildings in Atlantic City. While definitive numbers regarding the size of this market are difficult to obtain, we estimate that there are about 5,000 people in this category. The size of this market segment will grow as more full-service condo buildings are built. Several large condominium complexes have been unveiled within the last 12 months. While none of these projects have yet broken ground, there has been significant construction of non-casino hotels in Atlantic City in the last 2 years. Several buildings have been purchased by branded hotel chains such as Courtyard by Marriot, and are set to open after renovations are complete.

Government Assisted Non-working Poor

The third piece of our target market consists of individuals who are not employed and rely upon government benefit programs, such as social security or welfare assistance programs as their primary means of support. Like all cities, Atlantic City is home to a significant number of people who are either functionally unemployable or retired and living below the poverty level. While the

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size of this market segment is hard to quantify, our experience indicates that it consists of about 3,000 people.

These 3 segments of Carowill Partners, LLCs' target market generally share the following characteristics:

- They have a net worth of zero or below.
 - They rely on public transportation.
 - They do not earn enough to be able to afford to buy a house of their own.
 - They have credit issues that prevent them from getting traditional financing.
 - They can not rent traditional apartments due to their inability to save the necessary funds for security deposits, furniture, etc.
 - They have problems getting utility service placed in their own names.
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To satisfy the demand for housing of these 3 market segments, CP operates and is seeking to acquire properties that are zoned for single room occupancy hotels or rooming houses.

Young professionals

Due to the recent building spurt by casino resort operators and the tremendous lack of land suitable for such a purpose, the supply of quality rental apartments has not kept up with demand. The financial returns available to casino operators makes building new units uneconomical due to high land acquisition costs, and many existing rental units are being demolished to make room for new casinos and condominium complexes. This has left an extreme shortage of quality affordable rental apartments suitable for young professionals.

As the casinos and other hospitality providers expand, the demand for apartments in Atlantic City will only grow over the next many years. Cities all across the country are witnessing a renewed interest in urban living by young, educated professionals. CP will meet this demand by redeveloping existing underutilized properties that are conveniently situated near employment, entertainment, and transportation centers.

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VI. Competitive Analysis

Industry Overview

There are currently about 21,000 housing units in Atlantic City, of which about 14,500 are rental units. With casino employment alone of 42,000 and growing rapidly, it is easy to see that the City is in desperate need of more housing units. Our experience of being able to maintain extremely low vacancy rates and ever-increasing rents in our rooming houses and apartments also bears this out. Our experience also demonstrates that the need is most acute in the rooming house market segment, and in the central business district.

Nature of Competition

Currently, the rooming house and apartment rental markets are very fragmented. Recent nationwide census data show that over 80% percent of all rental units are owned by individuals. Even among large rental buildings (over 5 units), census numbers show that less than 50% are owned by real estate corporations or partnership. With very few large privately owned housing complexes, we believe the property rental market in Atlantic City is even more fragmented than these national census numbers would suggest.

This market fragmentation provides an enormous opportunity for Carowill Partners. Our extensive experience allows us to react more quickly and efficiently than our competition to the needs of our customers. Our size also provides economies of scale that are not available to most of our competition. We also hold the advantage of being one of the few property owners in the area that can accommodate large numbers of tenants quickly. This leads to a large volume of business gain through referrals from local employers and government agencies that often need to place clients and/or employees in seasonal long-term housing on short notice.

Changes in the Industry

The lower income rental market has undergone drastic change in the last five years, and we expect even more substantial change during the next five years. While quantitative estimates are difficult to find, our experience indicates a tremendous increase in demand for clean, safe, quality, and affordable rental units in the central business district and near the boardwalk. With recent increases in local employment and even larger increases on the way, the tenant quality in this market has improved dramatically. Rooming houses are no longer strictly the domain of hustlers, drug users, and prostitutes. At CP, we maintain nearly 100% occupancy even while requiring security deposits, background checks, and proof of employment from our tenants. Applicants who can not produce paystubs or other proof of employment are denied residency.

We have experienced many rooming house owners and operators who have not picked up on this trend, and are therefore still reluctant to upgrade their units in an effort to attract a higher quality tenant. By recognizing this trend, we are able to maintain lower vacancy rates and charge higher rents by providing small upgrades such as new furniture, televisions, and refrigerators in our rental units.

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Opportunities

The rapid pace of change in the residential real estate market in and around Atlantic City has created tremendous opportunities for Carowill Partners. Many low income rental property owners have not picked up on the improved quality of prospective tenants. This has prevented them from improving their properties to meet the demands of the market, leaving their properties with higher vacancies and lower rents than Carowill Partners experiences. These underutilized properties represent prime candidates for purchase and redevelopment by Carowill Partners.

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VII. Becoming Part of Carowill Partners, LLC

Choice of investment opportunities

Carowill Partners is continually searching the market for promising investment opportunities. The company inspects, researches, and negotiates price and terms on many properties. Once CP reaches a basic agreement with a seller, investors are offered the opportunity to join the project before going under contract. Once investor financing has been arranged, CP then signs a legal contract to purchase the property.

Carowill Partners, LLC is currently in the process of acquiring the following properties:

Property A

Property A is an 85-unit former hotel located less than 200 yards from the boardwalk in Atlantic City. It is located between the former Sands Casino Hotel and Resorts International, which makes it within walking distance to all Atlantic City Casinos on the Boardwalk. It is a ten-minute bus or Jitney ride to all non-boardwalk casinos.

Total acquisition costs for property A will be approximately \$2,000,000. Once the acquisition costs are raised from investors, the property will be purchased. CP will then take out a \$2,200,000 construction loan to pay for the redevelopment of the property. Redevelopment of the property will take approximately one year, after which time the property will be operated as a rooming house. CP expects to reach full capacity (10% vacancy rate) six months after opening. Annual net income for property A is estimated to be \$380,000 and based on its cash flow, the fair market value for property A would be \$5,700,000.

Once property A is operational, the investors can expect to begin receiving income distributions. All income distributions will be split 80% to the investors, and 20% to the project manager. Once the property is sold, the profits from the project will again be split 80% to the investors and 20% to the project manager.

Property B

Property B is a 4,500 square foot commercial building with 2 commercial spaces and 6 residential apartments in Atlantic City. The commercial spaces are currently rented for \$2000 per month each, and the 6 apartments are vacant and in need of rehabilitation. There are 4 one-bedroom units and 2 three-bedroom units. The building is situated less than 2 blocks from the Atlantic City boardwalk, in the center of Atlantic City's commercial district, it is within walking distance of the city/county office complex and all boardwalk casinos, and it is a short bus ride to non-boardwalk casinos.

Total acquisition costs will be approximately \$583,000. Once the acquisition costs are raised from investors, the property will be purchased. CP will then take out a \$150,000 construction loan to pay for the redevelopment of the residential units. The 2 commercial units are currently occupied and will have long term leases in effect upon acquisition of the property. Redevelopment of the residential units will take approximately six months, after which time the apartments will be made available for rent. CP expects to reach 100% occupancy two months

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after opening. Annual net income for property B is estimated to be \$88,000 and based on its cash flow, the fair market value for property B would be \$1,029,000.

Once the redevelopment is complete, the investors can expect to begin receiving income distributions. All income distributions will be split 80% to the investors, and 20% to the project manager. Once the property is sold, the profits from the project will be again be split 80% to the investors and 20% to the project manager.

Minimum investment

The minimum investment for any project is \$200,000. Additional investments may be made in \$50,000 increments. Carowill Partners is registered as an Alternative Investment with the brokerage Charles Schwab and Company, which allows investors to purchase interests in the company through their accounts at Charles Schwab, including IRA accounts.

Project Ownership

Investors will maintain an interest in Carowill Partners, LLC Project that entitles them to a proportional share of 80% of the profits of the project. For example, an investor who contributes half the funds necessary for a project will be entitled to 40% (half of 80%) of the profits of that particular project.

All decisions regarding the acquisition, redevelopment, operation, and disposition of real estate assets will be made solely by the project manager.

CONTACT:

To receive financial details on a Carowill Partners, LLC project or discuss these projects in detail, please contact Sherri Lilienfeld, REALTOR® Associate, Keller Williams Realty® – Jersey Shore at (609) 287-1795 (cell) or (609) 487-9996 (direct). If you prefer, you can e-mail your inquiries to: Sherri@NJ-ShoreRealEstate.com.
