Turnkey F.A.Q.

1) How does Turnkey differ from a typical real estate transaction?

Each client works with a transition coordinator to assist with all aspects of the transaction process. We'll have a licensed agent draft your contract, inspection and appraisals completed, get earnest money held in escrow and close the sale with attorneys and title companies. However, this is where you'll find Turnkey provides a unique experience. In a typical real estate transaction, buyer and seller goals are not aligned. Our goal is complete client satisfaction as we want you to be so happy you can't wait to rave about the experience to your friends and family.

In a typical real estate transaction, the buyer tells the seller what they want repaired. In our real estate transaction, we will mark up the inspection report and fix, on average, 90% of the report—we insist! After the sale, in a typical real estate transaction, buyers and sellers may never see each other again. We seek to develop long-term relationships after the sale through our in-house property management company. We take a hands-on approach during the entire process with the end goal of a win-win transaction.

2) What is your company's strategy?

In addition to offering excellent customer service, standing by our products, and desire to develop long-term relationships, we adhere to our simple, proven strategy: buy the Right Property in the Right Market with the Right Property Manager.

- **The Right Property** is located in areas we know will position our clients to be successful and renovated in a manner where immediate and deferred maintenance is addressed on the front end so our clients are not getting buried in maintenance cost. The right property is rehabbed to be the best-looking house on the street, attracting prospective tenants so it rents quicker and starts cash flowing quicker.
- **The Right Markets** are our specialties: Little Rock, Arkansas, and Memphis, Tennessee. Both markets provide time-tested cash flow, have thriving economies, affordable housing, and most important, demand for quality housing.
- **The Right Property Management** means people are at the heart of the business. We help owners create better homes for tenants, and we take great pride in managing properties in a turnkey, professional way so that tenants feel at home, and owners feel confident their property is managed by the best. We are a product of the management companies we have put together and our clients are too.

3) Does your company own the turnkey properties you sell or are you simply a middleman marketer?

We take ownership of the properties we sell in both Memphis and Little Rock.

4) How long have you been in business?

We have been selling homes to investors since 2009. Most companies who started before 2010 are no longer in the business. We attribute our success to providing an excellent service to our clients, running a business with our client's best interest in mind, standing by our product and being business-savvy owners with a long-term vision that adapts to meet market changes.

5) Do you own rentals yourself?
Yes. Between Memphis and Little Rock ownership, we own more than 50 single family, multi-family and commercial properties in both markets. Not only do we own properties as a company, our property management staff collectively owns eight as individuals. We all continue to add properties each year to our portfolio.

6) How do you stand by your product?
This is one of many reasons we have had longevity in the business. We offer an in-house warranty after the purchase once the tenant moves into the home.

7) What does your in-house warranty include?
We offer a 90-day warranty for what's within the four walls of the house that begins once the tenant moves into the property, and a 180-day warranty for the HVAC. Keep in mind, most times, the HVAC systems in our house are new. Between our renovation, your property inspection and the tenant living and using the house, most glitches are caught. This removes most of the risk of negative cash flow due to excessive maintenance. Our goal is for you to have such little maintenance the first few years that you cash flow above your projections.

8) Should I order a home inspection?
Yes. We can recommend inspectors, or you can choose one on your own. We work the home inspectors we recommend and know personally that they provide easy-to-read reports with clear pictures of the items need addressing.

9) Will the inspection report have items to repair and who marks up the items to be addressed?
Yes, the inspection reports will have a punch list of issues to be addressed. An inspector's jobs is to find issues with the home, if you were to receive a report with only a few items to address, you should be worried. We are glad to make repairs and review the report, addressing about 90% of the issues on the list. Our goal is to deliver a well-rehabbed property.

10) If I have a home inspection, why would I need a warranty?
Although we do a large rehab on each property and the home is inspected, often the home is vacant during the inspection. When a tenant occupies the home, they may find something that needs to be addressed. This is why starting the warranty period upon tenant move-in date is so important. Between our rehab, your inspection, and our warranty, we have collectively positioned this property to avoid excessive maintenance.

11) How many out-of-state owners do you work with?
As of February 2018, we work with more than 300 investors from around the U.S. and foreign investors from Canada, China, Singapore, New Zealand, Australia, France, Japan, and the Czech Republic.

12) What type of neighborhoods do you purchase your turnkey properties?
We invest in strong, proven areas where we have a footprint of success through personal ownership or property management presence. We absolutely do *not* invest in low-income, low-rent areas, which typically have a higher crime rate. These areas are often referred to as "C" class, but really are "D" class. While success can be found in those areas, we feel

these are best-owned locally, as management of these type of properties is completely different.

13) How do you distinguish between A, B, C and D class properties?

"A" class are located in areas with higher rents, and higher property values relative to the market. In these areas, the majority of properties are owner occupied. These are areas where you can expect appreciation, but because homes are higher in value, cash flow is lower because property taxes are higher and acquisition cost is higher. Exit of the investment would likely be retail. Rents in most cases would be $1,150 and up for a 3-bed, 2-bath home in our markets.

"B" class properties yield high rents, but below what you can expect for "A" class. There is a mix of owner-occupied and investor sales. These are stable areas, but appreciation in our markets will be relatively small and even flat some years. Exit of the investment can be either retail or investor. Rents would be $900 and above for a 3-bed, 2-bath home in our markets.

"C" class markets are mostly driven by investor sales, but still a few owner occupant sales. These are good areas for individuals qualifying for rents in the $795 to $895 rents for a 3-bed, 2-bath. Both of our markets have "C" class properties that make great cash flow investments with a high level of success.

"D" class. These properties offer lower rents, lower income, and higher chances of issues during tenant occupancy and also when vacant, due to vandalism. We do not invest in these areas. Some investors, who follow popular sites like Biggerpockets, put "D" class in the same category as "C" class, but there is a distinct difference.

14) How much do you normally spend on your renovation and what does that rehab include?

Cutting corners on the front end will lead to cash flow problems sooner than later. We go the extra mile in our typical rehab projects. This involves replacing the roof, hot water tank, HVAC system, installing vinyl plank in high traffic areas and updating the electrical service box. These item replacements happen when they are past their useful life. This generally comes to $25,000 to $30,000, depending on the size of the home. Our largest rehab to date was $65,000. We rehab our homes to retail ready, well above the stereotypical rental home.

If you go to our www.TurnkeyInvestProperties.com site, you will notice the homes all have a beautiful, well-finished appearance. Our goal is to create a property that attracts prospective tenants and addresses deferred maintenance items so you avoid high maintenance costs. Again, our goal is for you to cash flow, have a great experience and tell your friends so that we can pay you referral fees!

15) Wouldn't it make sense to sell the house for less if the older roof, hot water tank and HVAC are functioning?

Perhaps if you are a cash buyer. Since most of our investors leverage their purchase with a 30-year fixed rate loan with 20 to 25% down, it makes sense to replace those critical systems. On average, the cost of a roof, hot water tank and HVAC system is $10,000.

Imagine the roof, hot water heater, and HVAC went out within the first seven years of your investment. If you are netting $200 a month cash after expenses, that would be 50 months of lost cash flow with a fixed rate loan. That 50 months of lost cash flow could be more with routine maintenance and a tenant turn.

Our turnkey model makes every attempt to avoid deferred maintenance. Another reason to replace on the front end is with 20% down, you are getting those $10,000 worth of capex items for $2,000 out of pocket instead of $10,000. Also, those items if replaced at the time of purchase is in today's cost. With raw material increases, $10,000 today could be $11,000 in seven years.

16) Do you offer any rental guarantees?
We guarantee we will underwrite each tenant to our approval standards. If we make an error on our underwriting, we will place the next tenant for free. We do not provide a guarantee that the tenant will stay the entire 18 months, as there are to many factors out of our control.

Tenants have life situations that cause them to move, such events as getting married, divorced, losing their job, job transfer, promotion (where they want to upgrade to a better home), demotion (where they can't afford the home), get sick or disabled, die, etc. We have seen all of that. Anything can happen with tenants.

17) Will the home be occupied upon sale?
Not always, but 80% of the time homes are occupied upon sale. More often than not, if the home is vacant at the time of closing, a tenant will be in place by the time the first mortgage payment is due.

18) Do you provide appliances?
We provide dishwashers and ranges most of the time. We do not supply refrigerators or washers and dryers. That is the tenant's responsibility, and normal expectation within our markets.

19) If you all are active investors, why do you not keep everything you buy?
We are active investors, but just like anyone else, we simply do not have the capital to provide down payments on all the homes we buy, which was 120 homes in the year 2017.

20) What is the average cash flow on your property?
For $950 rent home, after taxes, insurance, maintenance and management, cash flow is around $300 a month. Each investor accounts for different vacancy and maintenance costs. Those costs should be accounted for. The key to making money in the rental home business is low vacancy and keeping tenants in place. It is not maintenance that kills cash flow, it is vacancy.

21) What is the average price ratio?
Very close to 1:1 in Memphis and a little higher than 1:1 in Little Rock. However, Little Rock taxes are about 25% cheaper than in Memphis.

22) **What if the appraisal comes in low?**
Out of 120 sales last year, this happened only five times. You are not obligated to buy the property and the contracts are contingent on appraisal. Before we acquire our properties, we make sure the house has comparable sales. During the marketing process, we share those comparable sales with you. All that said, appraisals are subjective and simply opinions. We have seen two appraisals on the same house within a few days of each other come back with a value split of 10%.

23) **Do you have preferred lenders and are we required to use those lenders**?
Yes, we do have preferred lenders, but you are not obligated to use them. However, we will make the contracts not contingent on the appraisal and if the loan does not close on time, we will charge the first tenant placement as part of our turnkey process.

Why? We have vetted our lenders, who we feel confident will provide the customer service we expect to our clients. These lenders specialize in investor loans, which helps create an on-time close. They routinely work with local market investors to make sure the most qualified appraisers are on their list and to eliminate the less qualified appraisers.

24) **Do you provide in-house management or outsource?**
In both Little Rock and Memphis, we provide locally owned, in-house property management.

25) **Are you locally owned?**
Even more, these markets are where we were born and raised. Our connections between Little Rock and Memphis are tied to family, so yes, we're locally and family-owned.

26) **Do prospective clients visit you all before they buy?**
About half of our clients visit us to meet the team. While we recommend that, and love showing off our buildings and staff, it is not required. We do recommend if you are coming to town ready to buy, that you put a property under contract before you come, so you can see the property and the areas you are about to purchase. Most of the time when investors visit us, the properties they have toured are no longer available when they return home. We think the market visit experience is better when you get to see your property.

27) **Can you assist with asset protection?**
Yes, we can refer you to local attorneys to set up your LLC.

28) **How much is earnest money and where is it held**?
Earnest money is $2,000 and held at the local title/attorney's office.

29) **Do I need a real estate agent?**
No, but feel free to utilize your own real estate agent or attorney to review our contracts. We utilize an in-house agent to draft our sales contracts on standard Realtor© Purchase and Sales Agreement Contracts, which are local to the state where the home is being purchased.

30) **Do you buy multi-family units?**
Yes, especially in Little Rock. Anything larger than a single-family home in Memphis is taxed at a commercial rate, which is almost twice as high. The areas where the mutli-

family cash flows tends to be lower-income, “D” class areas. In Memphis, it has to be The Right Property in The Right Area so it cash flows and will perform. In Little Rock, we purchase as much as we can. The properties are in better areas and not taxed at a commercial rate, thus cash flowing much better.