

ZABEL LAW, LLC

55 WEST MONROE • SUITE 3330 • CHICAGO, ILLINOIS 60603 • TELEPHONE: 312/201-9800 • FAX: 312/201-1436

JAY ZABEL

E-mail Address: jayzabel@zabellaw.com

May 30, 2025

**Re: Second Home Vacation Rental Beachwood Subdivision
Financing and Approximate Rate of Return**

To whom it may concern:

I have acted as counsel to the members of BEACHWOOD DEVELOPMENT GROUP, LLC, an Indiana limited liability company, pursuant to their request for an approximate rate of return for potential investors in connection with the purchase of a 5 bedroom unit within Beachwood Subdivision.

In rendering this opinion, I have examined examples of Second Home Vacation Rental's Full Year Proforma Analysis including information on estimated total rent, occupancy, and income, along with such other documents and records pertaining to our clients as in our judgment are necessary or appropriate to enable us to render the opinions expressed below. This opinion is based on the documents, records, and assumptions provided by Beachwalk Vacation Rentals, neither I nor my partners, agents, or assigns represent the accuracy of this statement. Prospective buyers should seek professional guidance in order to determine their own rental criteria performance metrics.

Assumptions provided by Members of Beachwood Development Group, LLC:

1. Estimates are based on projected figures for the period from January 1, 2026, through December 31, 2026. Estimated figures for year ten are based on projections for the period of January 1, 2035, through December 31, 2035.
2. Estimates are based on a purchase price of \$950,000 (land: \$220,000; building: \$700,000; improvements: \$30,000) and a fixed mortgage interest rate of 6.5%.
3. Estimates are based on estimated rental income and occupancy for a 5-bedroom resort home in Beachwood Subdivision.
4. Rental estimates are based on figures provided by Beachwalk Vacation Rentals for 2025. The 2025 rental rates reflect a 6% increase over 2024 rates.

5. Depreciation is calculated using the straight-line method. The building is depreciated over a 27.5-year useful life. Improvements, including furnishings and golf carts, are depreciated over a 7-year useful life.

6. Current estimates indicate that the fair market value of rents will increase at a rate of 5% per year.

7. Current estimates indicate that the value of the building will increase at a rate of 4% per year.

8. Current estimates indicate that operation expenses will increase at a rate of 5% per year.

The estimated figures represent a very conservative approach; real estate taxes on the property will likely be 3-4% lower than estimated, and the rental income and growth rate will likely be higher based on the rate of increase in value seen over the last decade. Please note that depreciation carryover may be available, consult your taxpayer for more information.

Based upon the foregoing, I have calculated the following approximate rates of return:

Year One:

1. Cash Buyer (no mortgage)

| | |
|---|-------------|
| Estimated Total Gross Rent: | \$101,577 |
| Management Fees: | -25,394 |
| Real Estate Taxes: | -19,000 |
| Expenses (association fees, utilities, insurance, maintenance): | -12,500 |
| <hr/> | |
| Cash Flow: | \$44,683 |
| Unrealized Gain from Appreciation | \$36,800 |
| Rate of Return | 8.6% |

Tax Consequences:

Taxable Income (Cash – Deductions)

| | |
|---------------|-----------------|
| Cash Flow | \$44,683 |
| Depreciation: | |
| Furniture: | -4,286 |
| Building: | -25,455 |
| | \$14,942 |

Tax Liability \$3,586.08

**assumes tax rate of 24%*

2. 50% Down, 50% Mortgage at 30-year fixed mortgage rate of 6.5%

| | |
|---|-----------|
| Estimated Total Gross Rent: | \$101,577 |
| Management Fees: | -25,394 |
| Real Estate Taxes: | -19,000 |
| Expenses (association fees, utilities, insurance, maintenance): | -12,500 |
| <hr/> | |
| Cash Flow Before Mortgage Payments; | \$44,683 |

| | |
|--|----------|
| Mortgage Payment (interest & principal): | - 36,028 |
| Cash Flow After Mortgage Payments: | \$8,655 |
| Unrealized Gain from Appreciation | \$36,800 |
| Equity / Pay Down of Loan Principal | \$5,309 |
| Rate of Return | 10.69% |

Tax Consequences:

Taxable Income (Cash – Deductions)

| | |
|--------------------|--------------|
| Cash Flow | \$44,683 |
| Deductions: | |
| Mortgage Interest: | -30,719 |
| Depreciation: | |
| Furniture: | -4,286 |
| Building: | -25,455 |
| | \$(15,777)** |

***Loss will yield tax benefit in current or future year*

3. 20% Down, 80% Mortgage at 30-year fixed mortgage rate of 6.5%

| | |
|---|------------|
| Estimated Total Gross Rent: | \$101,577 |
| Management Fees: | -25,394 |
| Real Estate Taxes: | -19,000 |
| Expenses (association fees, utilities, insurance, maintenance): | -12,500 |
| Cash Flow Before Mortgage Payments: | \$44,683 |
| Mortgage Payment: | - 57,645 |
| Cash Flow After Mortgage Payments: | \$(12,962) |
| Unrealized Gain from Appreciation | \$36,800 |
| Equity / Pay Down of Loan Principal | \$8,496 |
| Rate of Return | 17% |

Tax Consequences:

Taxable Income (Cash – Deductions)

| | |
|-------------------|--------------|
| Cash Flow | \$44,683 |
| Deductions: | |
| Mortgage Interest | -49,150 |
| Depreciation: | |
| Furniture: | -4,286 |
| Building: | -25,455 |
| | \$(34,208)** |

***Loss will yield tax benefit in current or future year*

Rate of Return Estimate in Year Ten (2035):**4. Cash Buyer (no mortgage)**

| | |
|---|-----------|
| Estimated Total Gross Rent: | \$157,579 |
| Management Fees: | -39,395 |
| Real Estate Taxes: | -29,475 |
| Expenses (association fees, utilities, insurance, maintenance): | -19,392 |
| <hr/> | |
| Cash Flow: | \$69,317 |
| Unrealized Gain from Appreciation | \$52,378 |
| Rate of Return | 12.8% |

Tax Consequences:

| | |
|---|-----------------|
| <u>Taxable Income (Cash – Deductions)</u> | |
| Cash Flow | \$69,317 |
| Deductions: | |
| Depreciation: | |
| Building: | -25,455 |
| | \$43,862 |
| <u>Tax Liability</u> | \$10,527 |

assumes tax rate of 24%*5. 50% Down, 50% Mortgage at 30-year fixed mortgage rate of 6.5%**

| | |
|---|-----------|
| Estimated Total Gross Rent: | \$157,579 |
| Management Fees: | -39,395 |
| Real Estate Taxes: | -29,475 |
| Expenses (association fees, utilities, insurance, maintenance): | -19,392 |
| <hr/> | |
| Cash Flow Before Mortgage Payments: | \$69,317 |
| Mortgage Payment (interest & principal): | - 36,028 |
| <hr/> | |
| Cash Flow After Mortgage Payments: | \$33,289 |
| Unrealized Gain from Appreciation | \$52,378 |
| Equity / Pay Down of Loan Principal | \$9,515 |
| Rate of Return | 20% |

Tax Consequences:

| | |
|---|-----------------|
| <u>Taxable Income (Cash – Deductions)</u> | |
| Cash Flow | \$69,317 |
| Deductions: | |
| Mortgage Interest | -25,876 |
| Depreciation: | |
| Building: | -25,455 |
| | \$17,986 |

| | |
|----------------------|---------|
| <u>Tax Liability</u> | \$4,317 |
|----------------------|---------|

**assumes tax rate of 24%*

6. 20% Down, 80% Mortgage at 30-year fixed mortgage rate of 6.5%

| | |
|---|-----------|
| Estimated Total Gross Rent: | \$157,579 |
| Management Fees: | -39,395 |
| Real Estate Taxes: | -29,475 |
| Expenses (association fees, utilities, insurance, maintenance): | -19,392 |
| Cash Flow Before Mortgage Payments: | \$69,317 |
| Mortgage Payment (interest & principal): | - 57,645 |
| Cash Flow After Mortgage Payments: | \$11,672 |
| Unrealized Gain from Appreciation | \$52,378 |
| Equity / Pay Down of Loan Principal | \$15,224 |
| Rate of Return | 41.7% |

Tax Consequences:

Taxable Income (Cash – Deductions)

| | |
|-------------------|----------------|
| Cash Flow | \$69,317 |
| Deductions: | |
| Mortgage Interest | -41,401 |
| Depreciation: | |
| Building: | -25,455 |
| | \$2,461 |

| | |
|----------------------|-------|
| <u>Tax Liability</u> | \$591 |
|----------------------|-------|

**assumes tax rate of 24%*

Cumulative Totals Over Ten-Year Investment Term:

| | |
|---|-------------|
| <u>Total Rents Collected</u> | \$1,277,625 |
| <u>Cumulative Unrealized Gain from Appreciation</u> | \$441,825 |
| <u>Management Fees:</u> | (\$319,406) |
| <u>Real Estate Taxes</u> | (\$238,980) |
| <u>Expenses:</u> | (\$157,224) |
| Cash Flow & Unrealized Gain from Appreciation | \$1,003,840 |

My opinion is qualified as follows:

A. Wherever I indicate my opinion with respect to the existence or absence of facts, my opinion is based solely on (i) the current actual knowledge of the attorneys currently with the firm who have represented BEACHWOOD DEVELOPMENT GROUP, LLC in connection with the estimated rate of return for the purchase of a 5-bedroom unit in Beachwood Subdivision. I have made no independent investigation as to such factual matters. However, I know of no facts which lead me to believe the factual matters are untrue or inaccurate.

B. Enforcement of your rights and remedies may be limited by general principles of equity, regardless of whether such enforcement is considered in a proceeding in equity or at law,

and in this regard, I have assumed that you will exercise your rights and remedies under any Purchase and Sale Agreement in good faith and in circumstances and a manner which are commercially reasonable;

C. My opinion is limited to the laws of the United States (except as set forth below) thereof in effect on the date hereof as they presently apply. I shall have no continuing obligations to inform you of changes in law or fact subsequent to the date hereof or of facts of which I become aware after the date hereof.

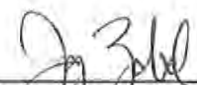
I express no opinion as to matters of title or priority or perfection of liens or security interests with regard to real and personal property. I understand that, with respect to the real and personal property security interests and the priority of the liens thereof, you will rely on a title insurance policy and such Uniform Commercial Code and other searches as you deem adequate, and, accordingly, I express no opinion to such matters.

I have not reviewed and do not opine as to: (i) compliance by the Project with applicable zoning, health, safety, building, environmental, land use or subdivision laws, ordinances, codes, rules or regulations, (ii) ERISA laws, rules and regulations, or (iii) Federal or state taxation, banking, securities or "blue sky" laws, rules or regulations.

This opinion is limited to the matters set forth herein. No opinion may be inferred or implied beyond the matters expressly contained herein. This opinion is rendered solely for your benefit and no other person or entity shall be entitled to rely on any matter set forth herein without the express written consent of the undersigned.

Very truly yours,

ZABEL LAW, LLC

By: _____
Jay Zabel, Attorney