

April 25, 2008

Executive Summary – The Peninsula

Project Name	The Peninsula
Location	Lago Vista, Texas on Lake Travis, which is the largest closest lake to Austin, the state capital
Project Type	<p>Up to 225 waterfront condominiums approved (current project designed for 150 units), 200-slip dry stack marina, on-shore restaurant/bar, meeting rooms, spa/medical, retail, & floating restaurant/bar, boat tie-ups, & 50-slip floating marina all approved by the City of Lago Vista.</p> <p>The legal form of the approval is a Planned Development District (PDD) zoning. The PDD map identifies the above uses by zone and sets forth the specific project development standards.</p>
Approvals	<p>The PDD zoning was approved February 2007, third party studies, preliminary engineering, boundary/topo/tree survey, & architectural renderings are all complete. Architectural marketing packages (vignettes, etc.) are complete. The 3D Fly About model is also complete and has been posted to the web. The Plat & Site Plan have been approved by the City of Lago Vista and will be filed upon posting of fiscal.</p> <p>The vertical developer to complete the construction drawings to their specifications. These final construction drawings will be submitted to city for their review, approval, & issuance of a building permit, which should take 60 days or less.</p> <p>Sale of property will convey with a site development permit, so builder can commence site work while construction drawings and a building permit are being approved by the city.</p>
Proposal	Sell the entitled project with, plat, preliminary engineering, site development permit, & plans to a vertical builder/developer.
Asking Price	MAI appraisal of \$16,675,000, will sell the 40 acre PDD for cash for \$9.5 million cash, sell the entire 58 acres for \$10 million cash, or Joint Venture at terms TBD. The project consists of 40 acres approved for up to 225 condos plus 18 acre excess site, site engineering, site development permit, and building plans – see page 8 for Sale & Development options, including Joint Venture terms.

Property

Beautiful 58 acre natural peninsula on the main body and a cove of Lake Travis. Main body frontage of 700 lineal feet will never go dry. Out of the 58 acres, 4 acres is located above the new FEMA flood plain level for Lake Travis of 722 feet msl. This is sufficient site area for the 150 - 225 unit waterfront condominium project.

The PDD covers the south 40 acres of the 58 acre site, which includes the 4 acre peninsula tip located above the flood plain. The 150 unit condo project will be constructed on this 4 acre peninsula tip.

The 18 acre excess site is located adjacent to, and north of, the 40 acres and is suitable for trails, recreational uses, and possibly future development, subject to city approvals.

Public utilities available to the project include electricity, telephone, water, wastewater, cable television, & Roadrunner high speed Internet. An on-site gas system can be constructed if desired by the developer.

The old existing hotel is closed and the city has approved demolition of this structure to facilitate construction of the new condominium project.

The property is located in the Lago Vista ISD.

Amenities

- 200-slip dry stack marina (the "Boat House") with proposed The Peninsula Boat Club, exclusive only to condo owners
- On-site clubhouse which will include on-shore restaurant & bar, meeting rooms (conference center), spa, medical, retail shops, lobby, & offices, swimming pool, hot tubs, & extensive decks
- Cascades Spa in the clubhouse offering full spa services
- Floating restaurant & bar with boat tie-ups
- Central courtyard/plaza with lush landscaping, waterfalls, Zen gardens, Koi pond, & sunken grotto
- Two tennis courts with central tennis cabana
- Family swimming pool with Kiddie pool and extensive decks
- Plenty of covered parking plus open surface guest & overflow parking
- Plenty of storage for individual units, both in the garage and on each floor
- Security gated community

- Hiking trails & recreational on the adjacent 18 acres
- Two 18-hole golf courses in Lago Vista and numerous area golf courses
- BCCP Balcones Canyonlands Refuge just 15 minutes from Lago Vista
- Lake Travis – swimming, skiing, tubing, fishing, sailing, kayak, canoe, camping, parks, & much more
- City of Austin, the State Capital, surrounded by the Hill Country – sight seeing, eating, shopping, sports, recreation, & fun

Plans

Marley Porter & Mark Winford, AIA, both of Living Architecture Austin, Inc., have designed a set of plans for 150 residential condominiums constructed in six buildings, a clubhouse on the point, dry stack building, community gazebo, tennis courts, swimming pool, & other associated site amenities.

The units are laid out as four stories of living over two levels of hillside/underground parking on the main body of the lake (the south units) and two stories of living over one level of hillside/underground parking on the cove (the north units).

These plans will convey to the buyer. The buyer may utilize these plans or create their own design for this project.

The PDD allows the vertical developer to construct almost any building style (façade, floor plans, unit mix, etc.) within the PDD guidelines. Floor plan sizes and unit mixes are up to the developer, subject to a combined maximum of 270,000 SF of residential condos and the point clubhouse, and subject to a maximum of 225 residential condos.

Comparables

The Island (Lago Vista) sold approximately 175 condos out of 210 condos in 14 months starting from their initial March 2005 launch. These were 20-year old remodeled condos and brokerage was using an on-site staff and not an IMI model. Price range of \$210 – \$300/SF with some of the last units selling for more than \$325/SF. No dry stack, some wet slips available. Confirmation: Larry Henegar, The Island (512) 610-3022.

Centex The Hollows (Jonestown) presold 100% of their condo units, 40 at a time in their Marina Condos project, and their latest pricing was \$325 - \$350/SF. These condos were built as fourplexes, fair design & appeal only, no dry stack, no wet slips. Confirmation: Philip Jalufka, Centex Destination Properties – Telephone number on file.

Winston Capital just recently started development of Waterstone, a 71 unit condo development in Waterford, located between Lago Vista & Jonestown. Included in the Newspaper Articles tab is a brief ABJ article on Waterstone, followed by a summary of a current condo listing, \$492,000 for a 2 BR/2 Bath 1,470 SF unit (\$335/SF).

Waterscape Villas, a condominium project in Jonestown, is planned but the buildings have not been constructed as of April 2008. The developers are a local real estate group. A typical 3 bedroom unit of 1,760 SF 3 BR is priced at \$585,000 or \$332/SF with an HOA fee of \$440/month.

There are few new waterfront condo projects on Lake Travis, and none that will compete directly with The Peninsula, other than Waterstone, which is considered inferior in quality, location, finish-out, & amenity package.

Based on the recent Island & Hollows sales and the current Waterstone project, demand for waterfront condominiums on Lake Travis is considered high and an average price point range of \$335/SF - \$350/SF is a reasonable target retail price point for The Peninsula.

Downtown Austin condos are the second best set of comparable sales to compare to the subject project and downtown lakeview condos are currently selling in the \$350 - \$500/SF range. No true waterfrontage condos are available in the downtown Austin market, as all projects are CBD or located on the shore side of the hike & bike trail.

The success of downtown condo projects is mainly a function of implementing an IMI type of marketing & brokerage company, using either outside marketing specific to the condo industry or an in-house staff specifically trained in IMI marketing.

Quality of construction and finish-out, amenities, service, and proper design with adequate parking and storage are all important characteristics of successful downtown projects and all of these characteristics should be implemented in the design, construction, & operation of The Peninsula project.

As of April 2008, the new W project was reportedly having excellent sales success due to the branding, the high level of finish-out, and the superior service offered by staff. As of April 2008, the 360 project was almost sold out, due to a superior in-house marketing & brokerage program.

Bob Burton, Attorney, with Armbrust & Brown, LLP, is the owner's condominium attorney and is in the process of preparing condominium documents for the subject project. Mr. Burton can elaborate on the various condominium projects in the Austin community and will make significant contributions to the success of The Peninsula project.

Target Market

- Second home buyer
- Families & couples
- Professional, executive, middle upper to upper income brackets
- Primary Texas markets are Houston (oil money), Dallas, San Antonio, & Austin
- Out-of-state buyers and national buyers
- Many Texas buyers have spent time in Austin, and some attended the University of Texas when they were younger, and now want to return or have a second home in Austin on Lake Travis
- Other buyer characteristics to be determined by market study

Marketing & Brokerage Plan

Based on the above comparable sales, the retail price point for the subject condos is concluded to be \$335/SF - \$350/SF and a single point of \$335/SF is used in the Pro Forma. See Unit Pricing Matrix in Tab 27.

Pro Forma

243,591 SF condos x \$335/SF avg price =	\$81,602,985
less 7% brokerage & seller closing costs	(5,712,209) *1
Gross Margin	\$75,890,776
less estimated construction costs	
condos 243,591 SF @ \$145/SF	(35,320,695)
dry stack building/boat storage	(750,000)
parking 350 hillside/underground	(3,500,000) *2
clubhouse w/FFE 10k SF @ \$200/SF	(2,000,000) *3
site work – landscaping, pools, etc.	(2,000,000)
demo/non-friable asbestos remediation	(250,000)
floating restaurant & bar	(500,000)
construction drawings/MEP & struc eng	(350,000)
miscellaneous/contingency	(500,000)
Total Construction Costs	(45,170,695)
Estimated Soft Costs & Closing Costs	(500,000) *4
Net Margin Condo Sales	\$30,220,081

*1 Advertising & marketing expense included in brokerage fee

*2 350 covered parking spaces estimated, final exact count TBD, the preliminary parking calculations indicate that there is more than enough room to meet the city parking requirement (one parking space per bedroom + guest parking + employee parking). There are only 282 bedrooms total in this 150 unit project and the 350 parking spaces well exceeds the minimum required. In addition to the 350 covered spaces, there is additional open surface parking.

*3 10,000 SF clubhouse estimated, final SF of clubhouse TBD

*4 Cash basis shown, no interest expense shown

Profit Summary

Net Margin Condo Sales	\$30,220,081
Boat Storage Free & Clear	750,000
Floating Restaurant/Bar Free & Clear	<u>500,000</u>
Sub-Total Gross Profit	\$31,470,081
less Entitled Land & Plans Package	<u>(9,500,000)</u>
Net Cash Profit & Equity to Vertical Developer	\$21,970,081

Additional Profit Centers

- 1) Increase retail average price over \$335/SF projection using IMI type marketing & brokerage, built-in price increases, and other retail sales techniques which maximize residential condominium absorption & pricing
- 2) Decrease construction costs using competitive bidding, incentives for builder cost savings, other
- 3) Sell boat storage, clubhouse, and/or floating restaurant to third party entities to convert free & clear equities to cash
- 4) Increase SF of condos – the PDD allows a maximum SF for the combined residential condos & clubhouse of 270,000 SF, and if the completed clubhouse is 10,000 SF + 243,591 SF currently proposed residential condos = 253,591 SF currently proposed SF of these two uses, which means the plans could be reworked to create up to an additional 16,409 SF of residential condo space x \$200/SF marginal profit/SF for this incremental increase = \$3,281,800, so realistically this could be a \$1 - \$3 million additional net profit center

- 5) Utilize in-house marketing & brokerage staff to reduce the marketing & brokerage expense
- 6) Implement design-build cost savings using builder & architect collaboration
- 7) Construct smaller boat storage building with a boat club with a smaller number of racks instead of a large boat storage facility or construct no dry stack building and enclose/convert some of the underground parking for boat storage
- 8) Create in-house title company to reduce the title expense
- 9) Create in-house mortgage company to offer superior mortgage products for buyers and create cost savings & profit
- 10) Up to 30% of the condo units can be owned by investors and placed in a rental pool. So, up to 30% of the presales can be to investors. These sales will need to be to long-term investors who do intend to close and place their units in the rental pool.
- 11) Develop spa, medical, & conference center into a resort destination. The rental pool units could form the basis for a hotel type operation.
- 12) The boat storage is shown as an asset retained by the developer and is shown at actual cost of \$750,000. If a public restaurant & bar were incorporated into this facility, public boat sales & rentals allowed by the City Council (this would require a PPD modification, which is possible once the project is under construction), and public retail shops added, this building and associated business value could be worth considerably more than \$750,000.
- 13) The floating restaurant & bar and tie-up boat slips is shown as an asset retained by the developer and is shown at actual cost of \$500,000. This facility is open to the public as allowed by the current PDD. After construction of this marina, this building, the associated marina land, and the business value could be worth considerably more than \$500,000.
- 14) Also note that the PDD does allow a floating marina with permanent covered boat slips, however, the current PDD only allows these boat slips to be leased or sold (as dockominiums) to condo owners. If the PDD were modified to allow a public marina at this location, and it were determined to be economically feasible to construct a public marina, then a public marina could be added, which would add value to this project.

15) The clubhouse is not shown as a developer retained asset and the clubhouse building could be deeded to the HOA so the management & maintenance of this asset will be at the expense of the HOA. However, the clubhouse will have profit centers, including the restaurant, bar, spa facilities, meeting rooms, etc. As one option, the developer could retain ownership & control over the clubhouse profit centers and the remaining areas, such as the decks, pool, hot tubs, etc. could be deeded to the HOA.

16) Other profit centers to be identified

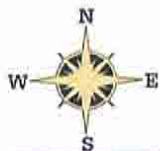
Sale & Development Options

1. Straight cash sale to vertical developer – \$9.5 million cash and seller retains 18 acres or \$10 million cash for all 58 acres
2. Joint Venture (JV) project together and sell and construct one building at a time, JV terms TBD
3. Sell only the condo site at a lower price and seller retains 18 acres, marina site, and commercial buildings – ie, sell condo site for \$8.5 million/225 units allowed = \$37,778/buildable unit/\$355,000 average price condos (225 units @ 1,111 SF avg @ \$320/SF very conservative pricing) = 10.6% land:condo ratio, which is typical to low for this type project, meaning the condo project is feasible at this pricing level

**Projected Total
Vertical Profit**

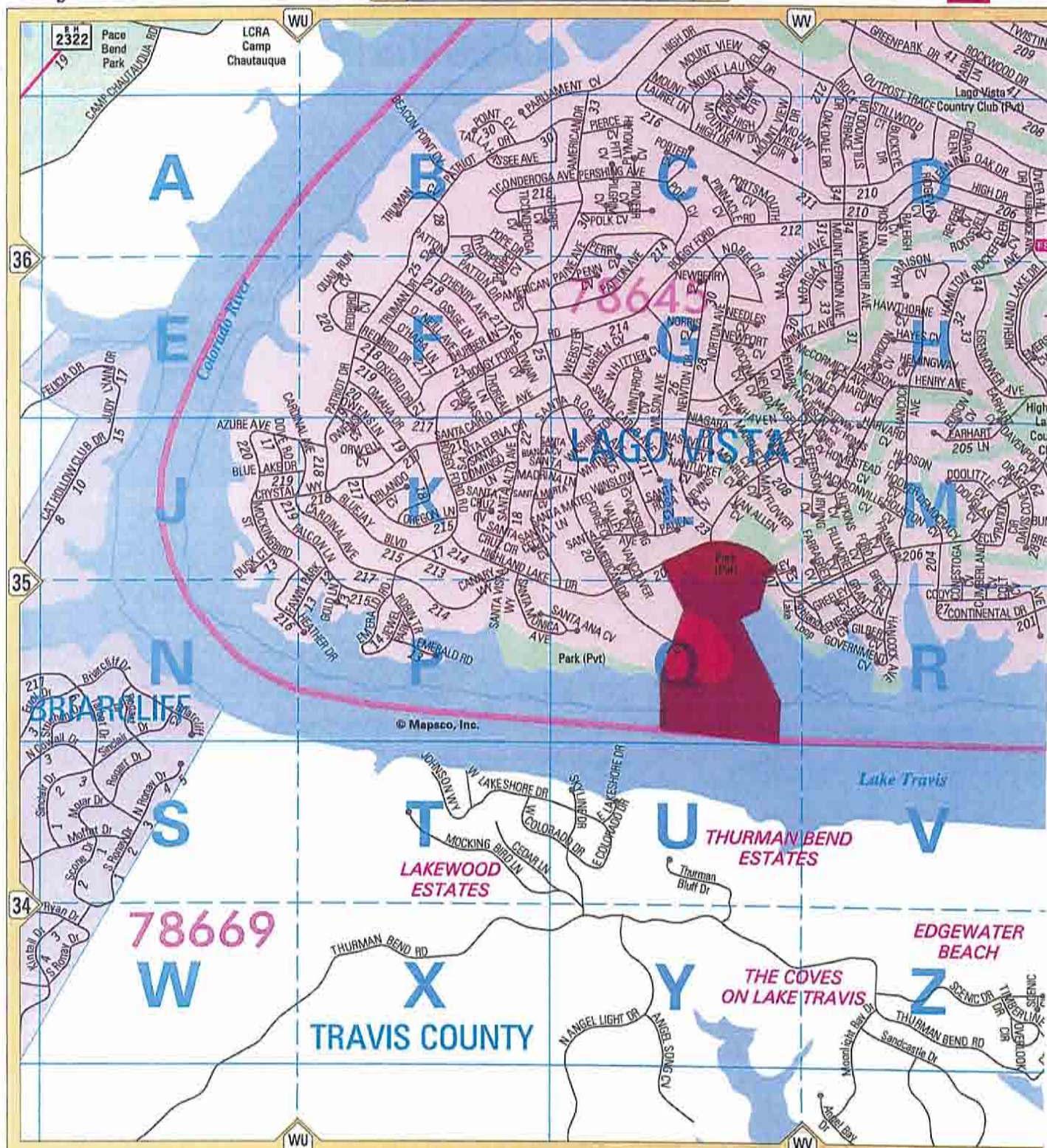
\$20 million *or more* depending upon how the initial land deal is structured and proper implementation of the profit centers

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Location Map

CONTINUED ON MAP 428



CONTINUED ON MAP 457

CONTINUED ON MAP 488

CONTINUED ON MAP 459



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This is a detailed plat map of Highland Lake Estates, Section 30. The map shows a large central area labeled '8' and '14' which is highlighted in yellow. To the left, there is a section labeled '3' and '2' which is hatched with diagonal lines. The map includes various roads and water bodies, such as 'HIGHLAND LAKE', 'THE COVE', 'LAGO VISTA', and 'K. BALDWIN SUB. 600, 485-90'. There are also labels for '2ND RESUB OF A PORTION OF HIGHLAND LAKE ESTATES SEC. 30' and 'AMENDED PLAT OF THE COVE AT LAGO VISTA'. A north arrow is located in the upper right corner, and a scale bar is at the bottom. The map is surrounded by other sections, including 'HIGHLAND LAKE ESTATES SEC. 30' and 'K. BALDWIN SUB. 600, 485-90'.

WALLACE IN 1959, INTERVIEW CONDUCTED FOR "HARBINGER" (UNCLASSIFIED), WHICH SHOULD NOT BE
 RELEASED UNTIL 2049. SOURCE "WALLACE" HAS BEEN A PART OF THE "HARBINGER" CASE SINCE 1959.
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AERIAL PHOTOGRAPH

Bird's Eye View Entire 58 Acres in Yellow
Main PDD 40 Acres South Tract
Excess 18 Acres North Tract



AERIAL PHOTOGRAPH

Oblique View of The Peninsula
Existing Old Hotel Approved for Demolition

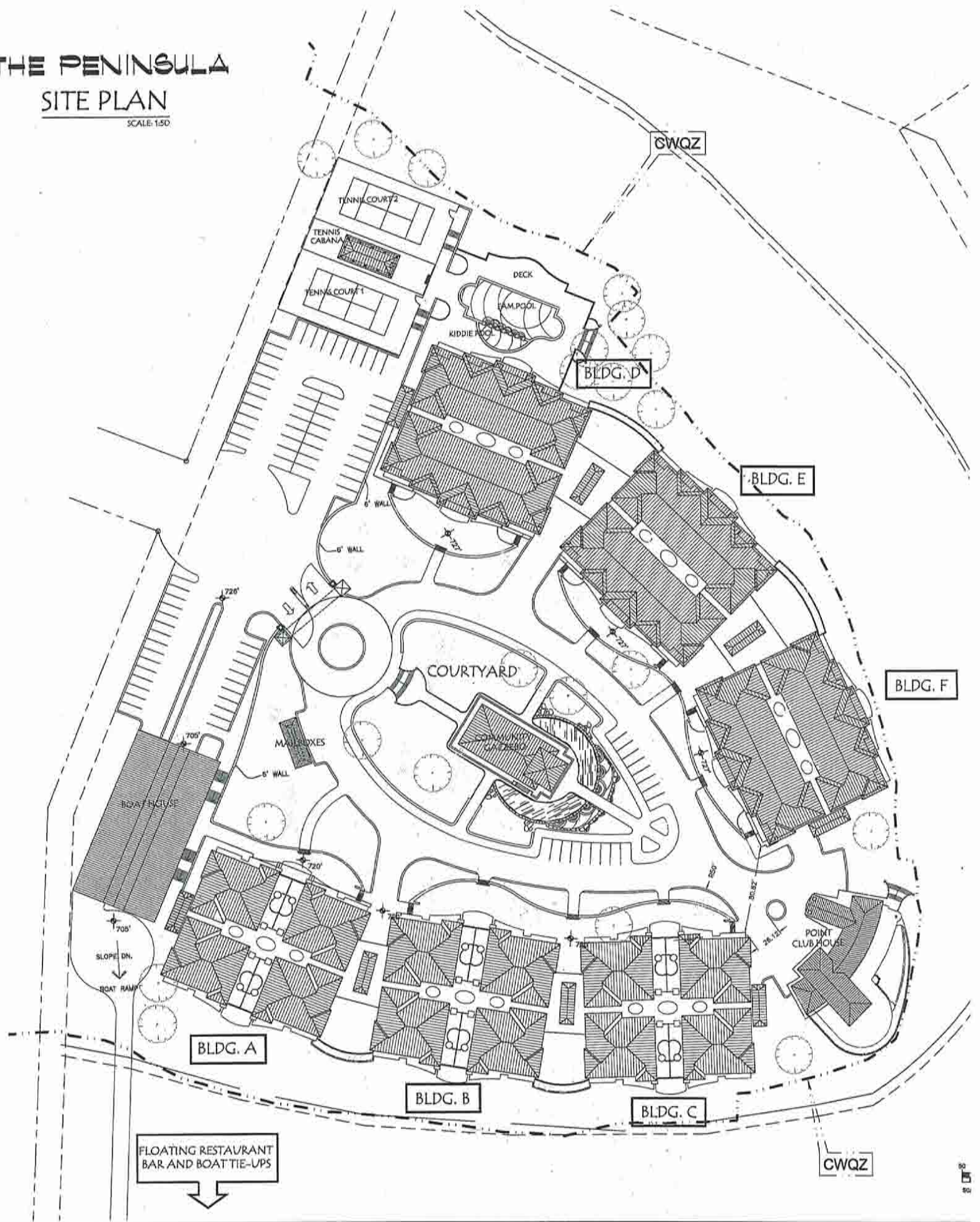


THE PENINSULA
SITE PLAN
SCALE 1/8"



THE PENINSULA SITE PLAN

SCALE: 1:50





SCALE: 1" = 200'

APPROXIMATE SIZE

- (A) RECREATION AREA PARCEL 1.0 Ac.
- (B) DRY BOAT STORAGE FACILITY PARCEL 0.8 Ac.
- (C) MARINA PARCEL 11.6 Ac.
- (D) CONDOMINIUM PARCELS 6.0 Ac.
- (E) GARDENS PARCEL 4.3 Ac.
- (F) COVE PARCEL 16.9 Ac.

AREA SUBJECT TO CHANGE FOR FINAL DESIGN AND GRADING.

THE PENINSULA
PDD ZONE MAP

JANUARY, 2007

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