# CONSULTING REPORT

DUBLIN TERRACE TOWNHOMES
16 lots along Emerald Isle Heights
Colorado Springs, El Paso County, Colorado  80923
CBRE, Inc. File No. 15-277DN-0005

*Andrew Checkley*
*President*
*MLP REVIEVERSHIIP, LLC AS RECIEVER FOR*
*HERITAGE HOMES DBA TODAYS HOMES*
*AND ALPERN, MYERS, STUART, LLC*
*14 North Sierra Madre Street, Suite A*
*Colorado Springs, Colorado  80903*

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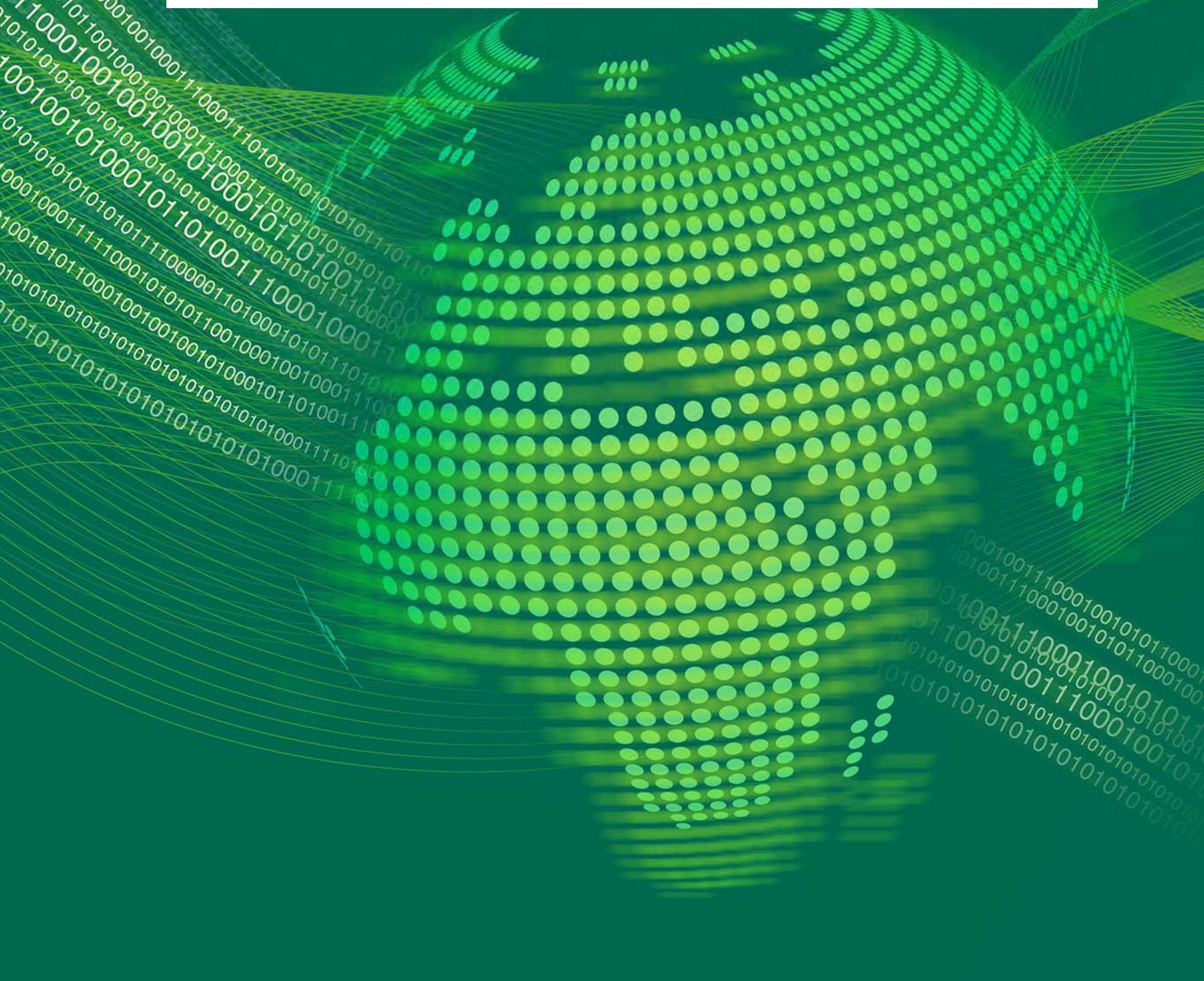
CBRE



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January 28, 2015

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Colorado Springs, Colorado 80903

RE: Consulting Assignment of the Dublin Terrace Townhomes
16 lots along Emerald Isle Heights
Colorado Springs, El Paso County, Colorado
CBRE, Inc. File No. 15-277DN-0005

Mr. Checkley:

At your request and authorization, CBRE, Inc. has prepared a consulting assignment relating to market conditions and economic characteristics impacting the referenced property.

The subject represents 16 partially completed lots located along Emerald Isle Heights. The larger Dublin Terrace Townhome subdivision totals 142 lots that include 59 finished and occupied residences, 67 vacant lots ready for construction and the 16 subject units. A summary of the subject units is below:

3 units - Lots 57-59 –Partially Finished and Conforming Units

10 units - Lots 65-73 –Partially Finished and Non-Conforming (Too Tall) Units

3 units - Lots 106-108 –Foundations

The city issued a stop work order in February 2012 as 10 units were determined to be non-conforming and exceeded height approvals. No construction has been completed in the development since February 2012. The subject units and vacant lots are owned by related entities that have terminated operations and the parent company filed bankruptcy in Canada. The receiver of the subject units has initiated legal action to obtain a variance to allow the units to remain.

We have analyzed and estimated the economic and neighborhood impacts on the subject ownership, lienholders, government (taxing authority), Dublin Terrace HOA, and property owners in the Dublin Terrace Townhomes and adjoining single family Sundown subdivision. The analysis considers the following scenarios:

1. The subject's non-conforming buildings are allowed to remain intact (with a variance)
2. The subject's non-conforming buildings are required to be removed.

The analyses, opinions and conclusions were developed based on, and this report has been prepared in conformance with, the guidelines and recommendations set forth by the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

The intended use and user of our report are specifically identified in our report as agreed upon in our contract for services and/or reliance language found in the report. No other use or user of the report is permitted by any other party for any other purpose. Dissemination of this report by any party to non-client, non-intended users does not extend reliance to any other party and CBRE will not be responsible for unauthorized use of the report, its conclusions or contents used partially or in its entirety.

It has been a pleasure to assist you in this assignment. If you have any questions concerning the analysis, or if CBRE can be of further service, please contact us.

Respectfully submitted,

CBRE - VALUATION & ADVISORY SERVICES

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# Executive Summary

| EXECUTIVE SUMMARY - DUBLIN TERRACE TOWNHOMES | |
|---|---|
| **Dublin Terrace Townhome Subdivision** | **142 Units** |
| **Completed Occupied Townhomes** | **59 Units** |
| **Vacant Finished Lots** | **67 Units** |
| **Subject Units - Partially Completed** | **16 Units** |
| Non Conforming (Too Tall) | 10 Units |
| Conforming | 3 Units |
| Foundations | 3 Units |
| **Subdivision Completion** | |
| Estimated Subject Completion and Sale (16 Units) | 12 Months |
| Estimated Subdivision Build-out and Absorption (83 Units) | 36 Months |
| Concluded Sales Rate | 2.3 per month |

| Summary of Economic Impact | |
|---|---|
| **Estimated Current Values** | |
| Variance Approved | $1,450,000 |
| No Variance Approved | $350,000 |
| Existing Debt and Liens | ($2,068,000) |
| **Estimate of Current Economic Loss** | |
| Lender and Lienholders | ($618,000) |
| Homeowners Association | ($184,000) |
| Property Taxes | ($78,000) |
| **Total Current Loss** | **($880,000)** |
| **Added Loss with No Variance (tear down)** | **($1,100,000)** |
| **Potential Current Loss** | **($1,980,000)** |
| **Added Annual Loss (with no variance and/or additional delay)** | |
| Annual Property Value Decline | ($100,000) |
| Lender and Lienholders | ($207,000) |
| Homeowners Association | ($52,000) |
| Property Taxes | ($47,000) |
| **Ongoing Annual Loss** | **($406,000)** |

Source: Various sources compiled by CBRE

The chart above summarizes the economic impacts to the owner of the subject, lender and lienholders, government (taxing authority), and Dublin Terrace HOA.

## HOMEOWNER IMPACT IN SUBJECT AND ADJOINING SUBDIVISIONS

### Single Family Homes - Sundown and Sundown North Subdivisions

We researched sales in the larger Sundown and Sundown North Subdivisions and compared the data from the larger neighborhood to a smaller selection of sales along Many Springs Drive and Whereabout Court, and properties that directly adjoin the subject development.

The analysis indicated no discernible difference in the pricing, days on market or rate of sales between the larger neighborhood and the subset of the properties closer to the subject. Properties directly adjoining the subject's non-conforming units sold for near full asking price, which is also at the upper end of sales amounts for the neighborhood.

### Completed Townhomes - Dublin Terrace Subdivision

Based on our research of sales in the subject development and competing townhome subdivisions, there is no noted impact on pricing or rate of sales. Days on market appear to be slightly longer than average for units in the Dublin Terrace Subdivision.

Based on our analysis of the HOA budgets and depleted operating and reserves accounts, the HOA could become insolvent if revenue is not improved by adding additional homes or further increasing dues. The existing homeowners could experience a notable impact on the pricing or marketability if the HOA were to become insolvent.

### Qualitative Analysis

The subject buildings, including the too tall units, conform to the larger townhome development and surrounding neighborhood in terms of design, style and quality.

Market participants indicate that the uncertain status of the unfinished subject units is more of a concern than the height. Respondents indicate that most questions from property owners/potential buyers of homes outside the development are the uncertainty and timing of the resolution. The status did not adversely alter home purchase/sale decisions.

Within the Dublin Terrace development, additional concerns were noted about overall health of the HOA, fewer offers for homes (considering the number of inquiries) and potential of properties not appraising for the contract amount.

## ASSUMPTIONS

The following assumptions were used in the report analysis.

- The analysis assumes that a variance is issued without undue delay to allow the buildings to remain with proposed landscaping and other remediation.
- The second scenario considers that existing conditions remain, no variance is issued and the non-conforming units are required to be removed.
- We assume that provided financial details are accurate. The receiver provided lien and debt information, construction budgets and estimates to complete build-out for the subject units. The data provided appears reasonable when compared to other subdivision development costs we have reviewed.

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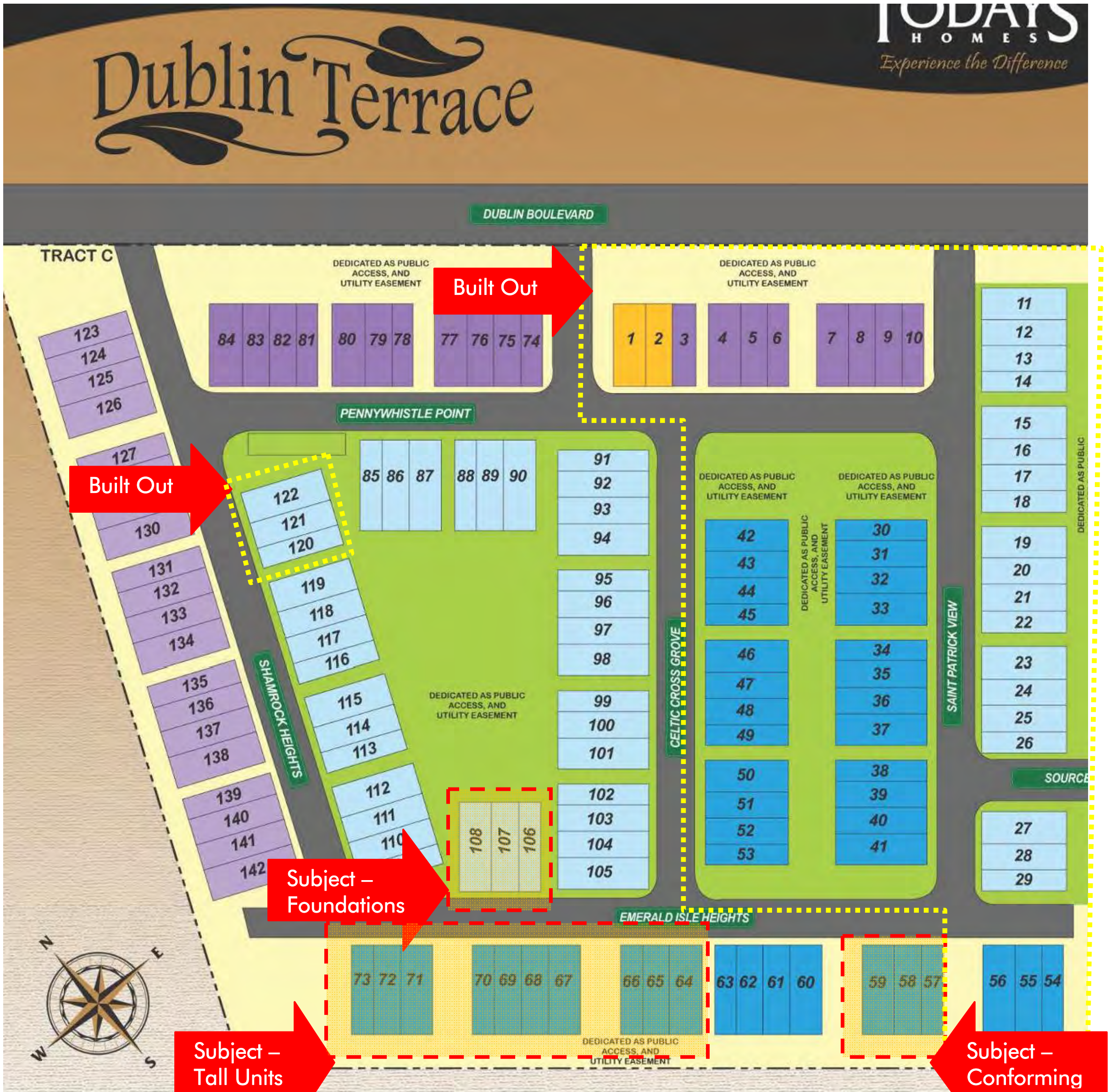
# Development Map




Aerial View

# Subject Photographs


Aerial View

Non-Conforming (Too Tall) Buildings

Non-Conforming (Too Tall) Buildings

Non-Conforming (Too Tall) Buildings

Conforming Buildings

Typical Dublin Terrace Townhomes

Typical Dublin Terrace Townhomes

Typical Sundown Subdivision Cul-de-sac

Whereabout Court – Subject in Back

Many Springs Drive – Subject Behind

Many Springs Drive – Typical View

Subject in Front – Many Springs in Rear

Many Springs Drive – Subject in Rear

# Introduction

## OWNERSHIP AND PROPERTY HISTORY

The subject represents 16 partially completed lots located along Emerald Isle Heights. The larger Dublin Terrace Townhome subdivision totals 142 lots that include 59 finished and occupied residences, 67 vacant lots ready for construction and the 16 subject units. A summary of the subject units is below:

3 units - Lots 57-59 –Partially Finished and Conforming Units

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3 units - Lots 106-108 –Foundations

The city issued a stop work order in February 2012 as 10 units were determined to be non-conforming and exceeded height approvals. No construction has been completed in the larger development since February 2012. The receiver has initiated legal action to obtain a variance to allow the units to remain.

The subject units are owned by Heritage Homes dba Todays Homes (has terminated operations) and are currently controlled by MLP Receivership, a court appointed receiver. The vacant lots are owned by a related entity (Springs Creek Construction, LLC) and the parent company of both ownership groups filed bankruptcy in Canada.

## INTENDED USE OF REPORT

This consulting assignment is to be used for exhibits for possible litigation, and no other use is permitted.

## INTENDED USER OF REPORT

This consulting assignment is to be used by MLP Receivership, LLC as receiver for Heritage Homes and Alpern, Myers, Stewart, LLC, and no other user may rely on our report unless as specifically indicated in the report.

## PURPOSE OF THE REPORT

The purpose of this assignment is to estimate the economic and neighborhood impacts based on the scenarios:

1. The subject's non-conforming buildings are allowed to remain intact (with a variance)
2. The subject's non-conforming buildings are required to be removed.

## SCOPE OF WORK

The analyses, opinions and conclusions were developed based on, and this report has been prepared in conformance with, the guidelines and recommendations set forth by the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. The scope of the assignment relates to the extent and manner in which research is conducted, data is gathered and analysis is applied. CBRE, Inc. completed the following steps for this assignment:

### Extent to Which the Property is Identified

The property is identified through the following sources:

- assessor's records
- legal description

### Extent to Which the Property is Observed

Gregory Baker, MAI viewed the exterior of the subject, as well as the surrounding neighborhood on January 2, 2015.

### Type and Extent of the Data Researched

CBRE reviewed the following:

- Applicable property tax data
- MLS comparable data
- Metrostudy homebuilding research
- HOA budgets and statements
- Construction cost estimates
- Lien and debt statements

### Type and Extent of Analysis Applied

Our analysis considers the impacts on the ownership, lienholders, government (taxing authority), Dublin Terrace HOA, and property owners in the Dublin Terrace Townhomes and adjoining single family Sundown subdivision. CBRE, Inc. analyzed the data gathered through the use of appropriate and accepted appraisal methodology to arrive at probable estimates for each calculation.

### Data Resources Utilized in the Analysis

**DATA SOURCES**

| *Item:* | *Source(s):* |
|---|---|
| **Site Data** | |
| Size | El Paso County Records |
| **Improved Data** | |
| Building Area | El Paso County Records |
| No. Bldgs. | Development Map, Site Visit and El Paso County Records |
| Building Costs | Budgets provided by receiver |
| HOA Statements | Haley Realty - Community Manager |
| Sales Comparison | MLS, Metrostudy and El Paso County Records |
| Taxes | El Paso County Assessor and Treasurer |

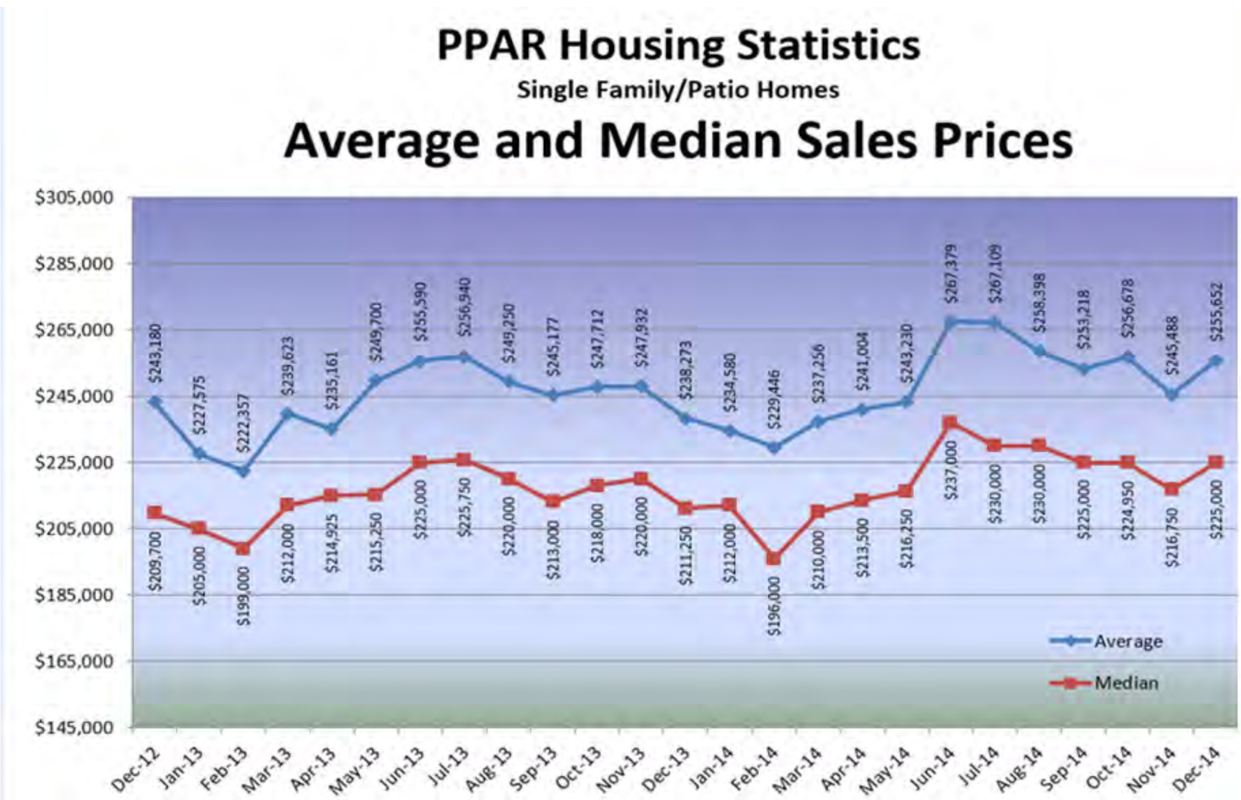
Compiled by CBRE

# Market Analysis

We have provided an overview of the residential market for the larger Colorado Springs area. In preparing this residential analysis, we have relied on local market reports prepared by Metro Study (3rd Quarter 2014) and the Pikes Peak Association of Realtors (4th Quarter 2014). The Metro Study data is considered the most comprehensive housing data available in the Colorado Springs area. In addition to the Metro Study data, we have performed primary research and interviewed brokers, developers, and builders on current market conditions regarding the metro-Colorado Springs residential housing market. The subject property is located in the Northeast Submarket of Colorado Springs, as defined by PPAR.

## RESIDENTIAL HOME PRICE TRENDS

The following graph was published by PPAR through December 2014 for the larger El Paso, Elbert, Chaffee, Custer and Douglas County area.



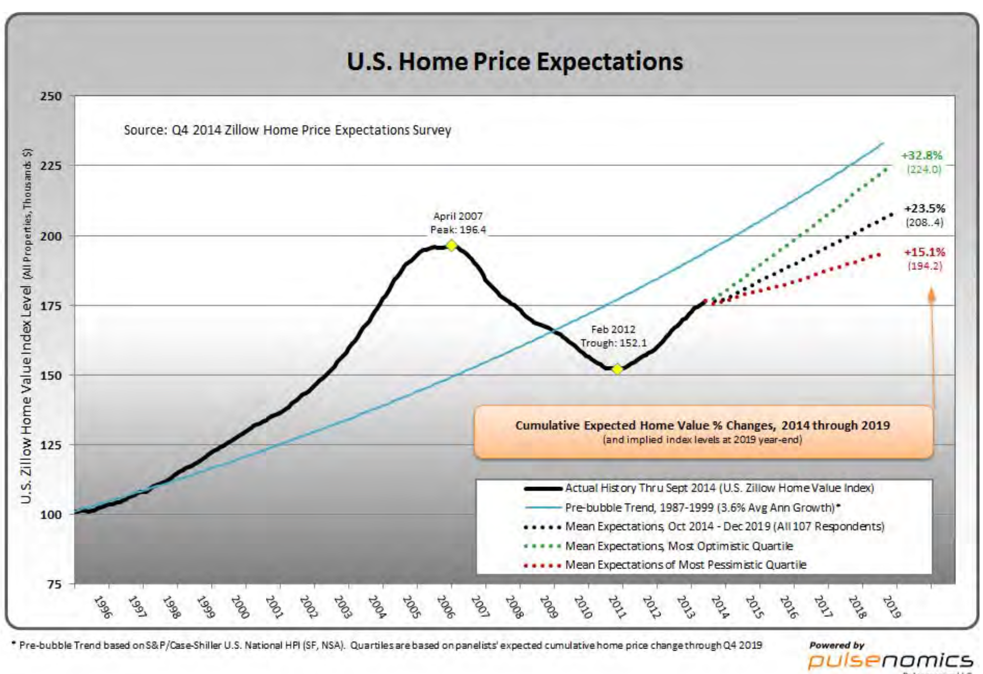

The median sale price for single family and patio homes had been generally flat to slightly decreasing in 2011, though recovering strongly into 2012 and during the summer months of 2013 and 2014. Recent term records were recorded in June of 2014 for both median and average pricing levels at $267,379 and $237,000, respectively. The chart below details price trending from 2005 through 2014 for all residential housing types in the larger Colorado Springs market:

| RESIDENTIAL AVERAGE BASE PRICE TRENDS | | |
|---|---|---|
| Year | Townhome & Condominium | Single-Family Detached |
| 2005 | $159,748 | $246,097 |
| 2006 | $166,566 | $261,925 |
| 2007 | $167,589 | $261,775 |
| 2008 | $137,098 | $242,867 |
| 2009 | $147,804 | $219,481 |
| 2010 | $143,422 | $231,504 |
| 2011 | $143,718 | $220,858 |
| 2012 | $149,466 | $233,591 |
| 2013 | $162,932 | $246,113 |
| 2014 | $167,796 | $252,432 |
| Annual % Change (2013 vs. 2014) | 3.0% | 2.6% |
| Annual $ Change (2013 vs. 2014) | $4,864 | $6,319 |
| Source: Pikes Peak Association of Realtors (December 2014) | | |

Average base price trends had increased continually since 2002 for all categories of residential housing product types through 2006/2007. Prices fell substantially in 2008 and remained relatively flat through the end of 2011. Notable increases have been experienced since 2012.

## National Home Price History and Expectations

The following graph was published by Zillow (4Q 2014) and is based on Case-Shiller data and surveys of national economists, as well as real estate and investment professionals.




The graph illustrates that local trends follow national data. Projected price growth generally aligns with long term historic indications.

## SUBMARKET TRENDS

Of the data sources available, the Real Estate Information Service (REIS) published by the Colorado Springs Realtor Services Corp., Inc. is the only known source that provides statistical data by market area. It is noted that this data is reflective primarily of home re-sales. The table below illustrates sales activity for single family detached housing by submarket in El Paso County.

**SINGLE-FAMILY DETACHED SALES ACTIVITY BY HOUSING SUBMARKET - YEAR END 2011, 2012, 2013 & 2014**

| Submarket | Number of Units Sold | | | | Average Days on Market | | | | Median Sale Price | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 | 2011 | 2012 | 2013 | 2014 |
| Black Forest | 168 | 187 | 176 | 204 | 130 | 112 | 92 | 102 | $349,975 | $360,000 | $371,250 | $376,500 |
| Briargate | 530 | 611 | 768 | 790 | 88 | 76 | 64 | 91 | $275,000 | $285,000 | $295,000 | $298,500 |
| Calhan/Ramah | 27 | 32 | 41 | 46 | 105 | 86 | 156 | 135 | $126,200 | $108,450 | $155,000 | $181,500 |
| Central | 537 | 593 | 717 | 691 | 81 | 73 | 66 | 78 | $138,000 | $148,000 | $154,900 | $169,500 |
| East | 513 | 593 | 684 | 720 | 73 | 74 | 59 | 67 | $165,000 | $160,000 | $174,950 | $179,900 |
| Ellicott/Yoder/Rush | 50 | 52 | 77 | 64 | 120 | 105 | 103 | 117 | $130,000 | $124,250 | $154,900 | $175,125 |
| Falcon | 81 | 90 | 122 | 120 | 101 | 95 | 70 | 98 | $145,000 | $169,000 | $163,100 | $183,000 |
| Falcon North * | 349 | 384 | 546 | 519 | 97 | 83 | 79 | 105 | $240,000 | $244,431 | $254,903 | $268,500 |
| Fountain Valley | 975 | 1,155 | 1,446 | 1,549 | 70 | 71 | 65 | 84 | $163,000 | $175,000 | $185,700 | $192,000 |
| Manitou Springs | 58 | 62 | 66 | 67 | 123 | 132 | 58 | 108 | $307,000 | $274,500 | $295,250 | $314,000 |
| Marksheffel * | 126 | 115 | 168 | 192 | 100 | 71 | 74 | 100 | $203,000 | $205,000 | $220,000 | $253,000 |
| **Northeast** | **650** | **829** | **792** | **867** | **74** | **71** | **55** | **69** | **$200,000** | **$196,000** | **$213,500** | **$216,000** |
| Northgate | 303 | 345 | 344 | 356 | 113 | 81 | 73 | 101 | $330,000 | $335,000 | $365,097 | $358,000 |
| Northwest | 299 | 324 | 394 | 424 | 84 | 82 | 65 | 94 | $295,000 | $292,200 | $307,500 | $315,000 |
| Old Colorado City | 171 | 184 | 229 | 240 | 72 | 80 | 57 | 85 | $150,000 | $152,000 | $179,500 | $183,750 |
| Peyton | 40 | 52 | 67 | 51 | 121 | 118 | 96 | 97 | $210,775 | $242,500 | $287,900 | $275,000 |
| Powers | 867 | 898 | 1,115 | 1,159 | 71 | 73 | 54 | 74 | $190,000 | $197,000 | $210,000 | $219,000 |
| Southeast | 535 | 510 | 590 | 618 | 63 | 67 | 64 | 76 | $132,000 | $125,000 | $135,000 | $144,500 |
| Southwest | 432 | 487 | 565 | 563 | 85 | 97 | 78 | 88 | $233,350 | $268,000 | $260,000 | $257,250 |
| Tri-Lakes | 434 | 456 | 537 | 568 | 106 | 110 | 81 | 95 | $350,432 | $365,450 | $386,500 | $375,000 |
| Ute Pass | 35 | 39 | 36 | 49 | 79 | 107 | 70 | 133 | $215,000 | $183,000 | $212,000 | $224,900 |
| West | 160 | 177 | 219 | 178 | 83 | 73 | 64 | 74 | $192,250 | $210,000 | $215,000 | $220,000 |
| **El Paso County Totals** | **7,340** | **8,175** | **9,699** | **10,094** | **93** | **88** | **79** | **88** | **$196,950** | **$204,950** | **$200,000** | **$224,900** |

*** New categories as of January 2009**

Source: Pikes Peak Multiple Listing Services (4th Quarter 2014)

The median sale price for all types of homes in the Northeast Submarket is near the midpoint for the larger metro area. The Northeast Submarket is well established in the southern and western portions, newer homes and the remaining developable land are toward the northeast (Woodmen Road and Powers Boulevard). The number of sales is consistently in the top three of all submarkets. Sales activity, pricing and days on market has generally followed metro trends.

### Permit Activity

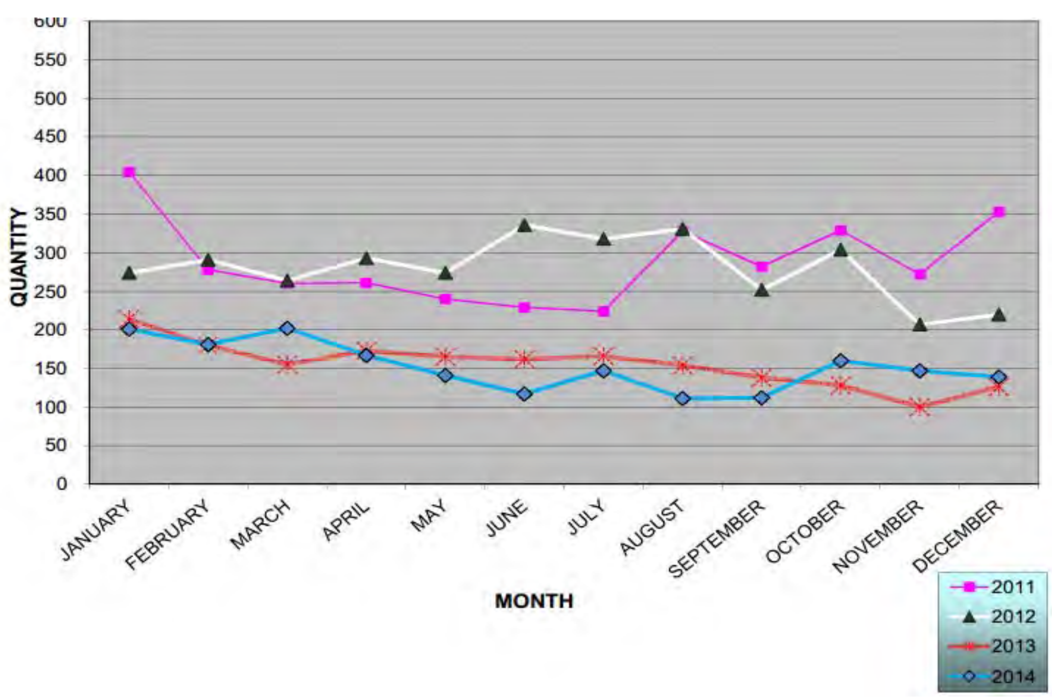
The ratio of permits for new single-family homes to job growth increased beginning in 2001, although 2006 data indicated a significant decrease in activity (4,129). That trend continued into 2008, as overall building permits for 2008 were down approximately 42.1% in comparison to the year-end 2007 total. Activity declined further into 2009, as the year-end permit totals were near 20-year lows. For the Colorado Springs MSA, population trends had increased at higher rates from 1990 through 2000. This had resulted in positive demand for housing units dating back to 1994. A slight decrease in annual demand occurred in 2002. A larger decrease occurred in 2003 due to the significant decline in attached townhome and condominium housing developments, while single family activity remained strong. The table below illustrates trends in residential building permits over the previous 10-year period.

| BUILDING PERMIT ACTIVITY | | | | |
|---|---|---|---|---|
| Year | Single-Family | All Others | Annual % Change (Single-Family) | Annual % Change (All Types) |
| 2004 | 6,452 | 314 | --- | --- |
| 2005 | 6,451 | 532 | 0.0% | 3.2% |
| 2006 | 4,300 | 295 | -33.3% | -34.2% |
| 2007 | 2,824 | 405 | -34.3% | -29.7% |
| 2008 | 1,644 | 422 | -41.8% | -36.0% |
| 2009 | 1,353 | 16 | -17.7% | -33.7% |
| 2010 | 1,676 | 84 | 23.9% | 28.6% |
| 2011 | 1,616 | 659 | -3.6% | 29.3% |
| 2012 | 2,410 | 601 | 49.1% | 32.4% |
| 2013 | 2,885 | 702 | 19.7% | 19.1% |
| YTD November 2013 | 2,696 | 702 | N/A | N/A |
| YTD November 2014 | 2,458 | 1,011 | -8.8% | 2.1% |
| 10-Year Average | 2,874 | 366 | | |
| Source: US Bureau of the Census/Real Estate Center at Texas A&M | | | | |

The 2007 through 2013 year-end indications illustrate a notable decline in overall permit activity in comparison to the record highs experienced in 2004 and 2005. The number of permits issued in 2009 was the lowest experienced since the 741 figure recorded in 1990. As shown, the market bottomed in 2009 and remained stagnant until 2012 when a sizable uptick in single-family permits were issued. Single family permits fell in 2014 and the increase in other housing units is from new apartment construction.

## Foreclosures

The following table and graph were prepared by the El Paso County Trustee's Office and illustrates deeds released in foreclosure from January 2011 through December 2014:



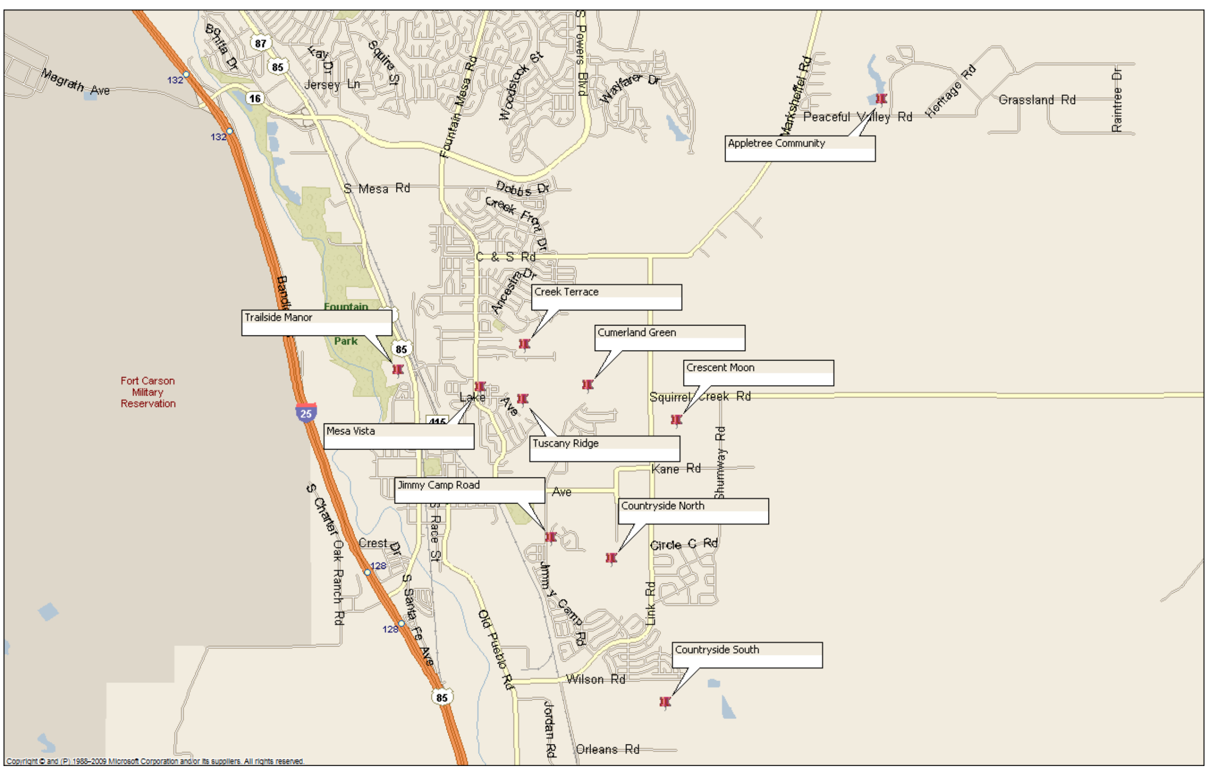
In the local market, foreclosures of 3,556 homes in 2007 were higher than that of 2006 (2,570) and eclipsed a 19-year record set in 1988 (3,476). The 2008 total of 4,602 foreclosures surpassed the 2007 record of 3,556. In addition, the El Paso County Public Trustee's Office reported that 5,470 new foreclosures were filed in 2009, which represented a record high for the third straight year. However, that figure dropped to 4,828 in 2010, though still marking the second largest number of foreclosure filings in County history. That trend was subsequently reversed in 2011, as the annual total of 3,603 foreclosures marked a 25.4% decline in comparison to the 2010 indication. Year-end figures for 2012 indicated that the expected downturn in activity had not been realized, as there were only 97 fewer foreclosures in comparison to 2011. Foreclosures declined by 45.0% in 2013 as compared to 2012. Total foreclosure filings in 2014 fell slightly from 2013.

It should be noted that the number of new foreclosures starts in 2013 was the lowest since late 2006 (pre-recession). The historical average of new foreclosure actions over the past 30-years is about 200 per month. The 2014 average rate was 152 per month. Experts predict this trend will continue as long as the employment rate is stable and we mortgage rates stay low. According to the Colorado Division of Housing, serious mortgage delinquencies in Colorado fell from the fourth quarter of 2013 to the fourth quarter of 2014, dropping to the lowest level recorded since 2008. The percentage of loans in foreclosure is reported to be far lower than the national average.

In the local market, the peripheral locations of Falcon/Peyton, Security/Widefield, Fountain and other eastern areas of unincorporated El Paso County contain the highest percentages of foreclosures. The lowest foreclosure rates have historically occurred in the northeastern and southwestern portions of Colorado Springs.

The significant decrease in demand for new residential homes had also resulted in the default, bankruptcy (reorganization) and/or foreclosures of a number of planned residential developments in the northern portions of Colorado Springs, Monument, and unincorporated areas of El Paso County. The following map illustrates a majority of those projects:


The following map illustrates projects that have foreclosed upon in the southern portions of the larger Colorado Springs area.




There had also been a number of in-fill sites/projects located in the central and southern portions of Colorado Springs that have been foreclosed upon in the past, though relatively nominal in magnitude due to the built-out nature of that area. The projects illustrated above range from undeveloped land to finished, or partially completed developments. The decreased demand for new residential product and foreclosures of the above projects has resulted in a significant decrease in achievable sale prices for raw land, which has been exacerbated by the lack of capital for that type of property. Due to the over-supply of paper, platted and finished lots, land speculators had been taking a "wait and see" approach before committing their available supply of resources and capital. A significant supply of the platted and finished lots will need to be absorbed before most investors and developers become active in the local market for new properties once again. Developers and homebuilders have been active in purchasing the previously planned and partially finished subdivisions since the beginning of 2012. Select projects have since been built-out, though notable raw land development is not expected in the near term.

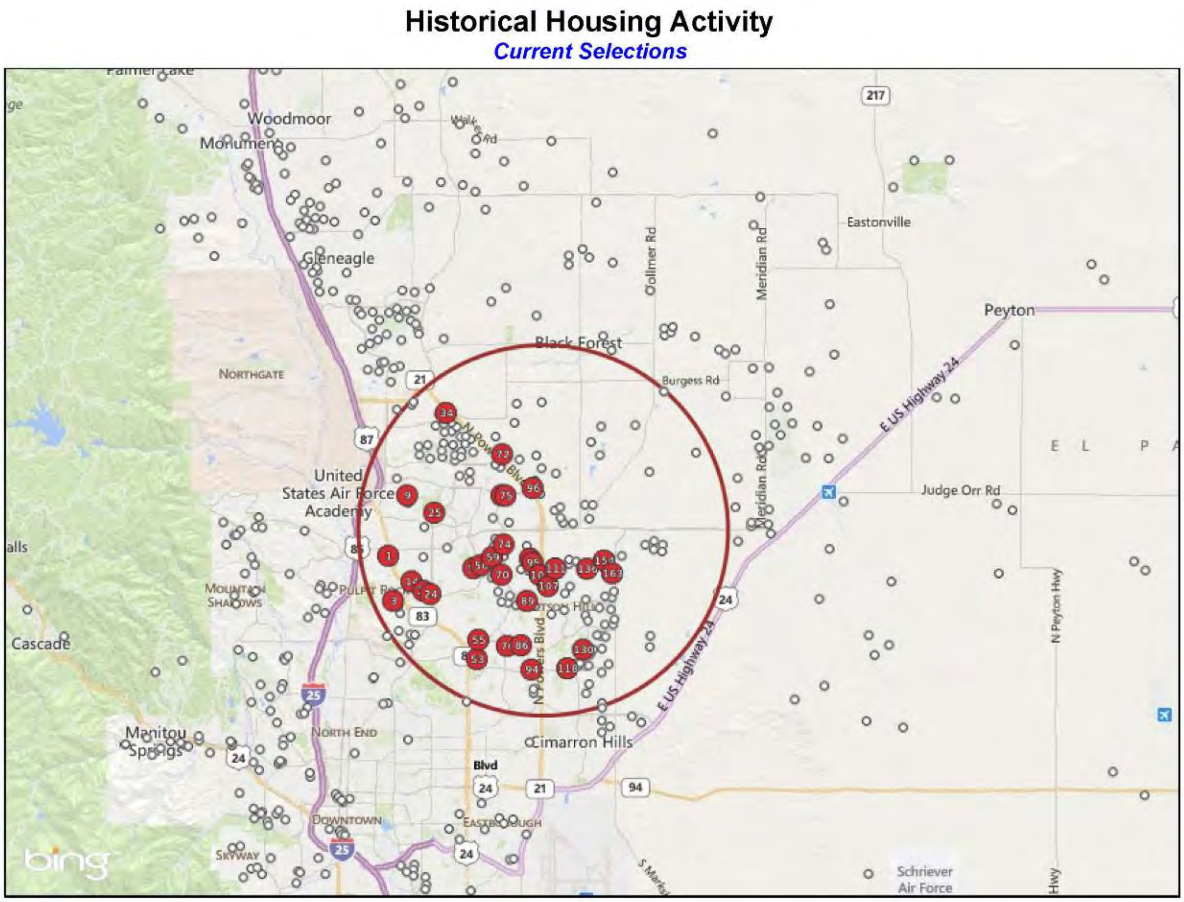
## CONCLUSION

The larger Colorado Springs housing market is constantly changing in response to evolving consumer preferences and purchasing power. The local market had been quite strong up until early-2007, as job growth had been positive, interest rates have remained at historic lows, and new homes had sold at healthy rates. In response to the downturn in residential home sales, most builders reduced their inventories in an effort to weather the down cycle. The downturn in the housing industry continued to impact the local economy, as lower tax sales revenues and reduced employment in affiliated housing sectors depressed commercial growth. However, the local housing market improved in 2012 thru 2014, as the velocity of sales and prices rebounded. Time will tell if said increases are sustainable, as many potential buyers continue to be conservative with respect to discretionary spending. This has resulted in development of a nominal amount of newly developed residential lots in the larger Colorado Springs market since the recession. However, previously failed projects have been built-out and some established projects have been constructing new phases and over the past year or so in response to the increased demand for new housing.

Still, a majority of developers are postponing plans to purchase raw land over the foreseeable future, as they focus on marketing their current supply of lots. Once market participants are convinced the recovery is sustainable, activity for available land zoned for residential use is expected to increase. However, as noted above, significant activity will not likely occur until a good portion of the available supply of completed residential lots is exhausted. Most experts believe that it will be another one-to-two years before a significant amount of new lots are added to the current inventory in Colorado Springs proper, though projects proximate to Fort Carson are benefiting from the return and/or addition of troops and developments in the northern portions of the city are experiencing the highest sales volumes.

## ATTACHED HOME LOT SALES (DEMAND) & INVENTORY (SUPPLY)

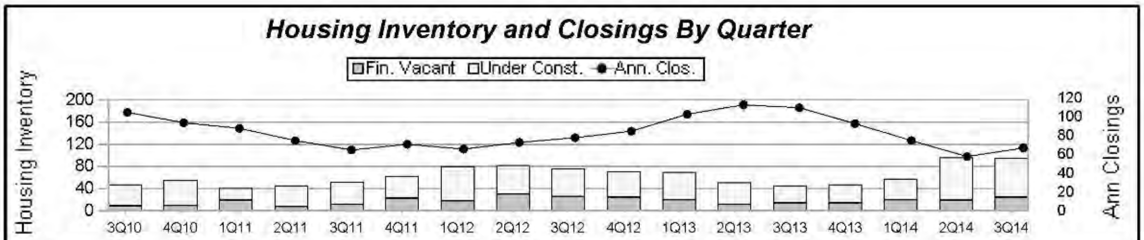
The chart below illustrates the most recent data published by Metro Study (3rd Quarter 2014) regarding the historical inventory of attached lots and their status. The analysis considers projects within a five mile radius of the subject.

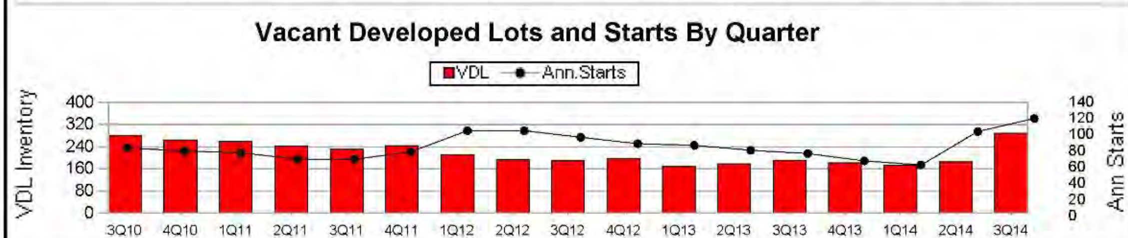


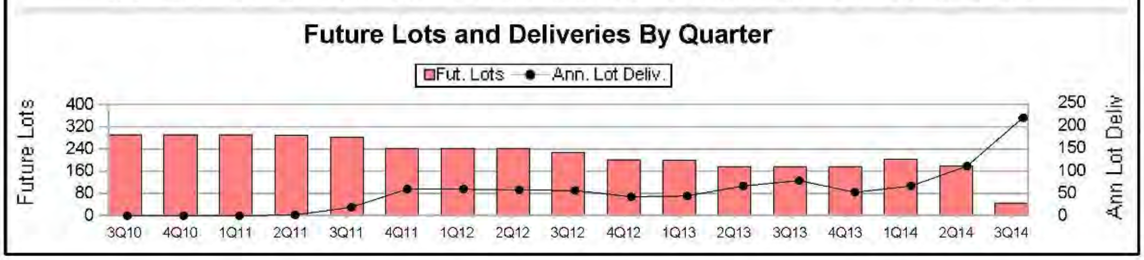
## Historical Housing Activity Summary

### *Current Selections*

| Qtr | Qtr Clos | Ann Clos | Model | FinVac | UC | Total Inv | Total Supply | Qtr Starts | Ann Starts | VDL | VDL Supply | Fut Lots | Ann Lot Deliv |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3Q10 | 31 | 105 | 8 | 9 | 38 | 55 | 6.3 | 28 | 84 | 283 | 40.4 | 291 | 0 |
| 4Q10 | 11 | 94 | 7 | 10 | 45 | 62 | 7.9 | 18 | 80 | 265 | 39.8 | 291 | 0 |
| 1Q11 | 19 | 88 | 8 | 19 | 22 | 49 | 6.7 | 6 | 78 | 259 | 39.8 | 291 | 0 |
| 2Q11 | 14 | 75 | 8 | 8 | 37 | 53 | 8.5 | 18 | 70 | 243 | 41.7 | 289 | 2 |
| 3Q11 | 21 | 65 | 8 | 12 | 40 | 60 | 11.1 | 28 | 70 | 232 | 39.8 | 283 | 19 |
| 4Q11 | 17 | 71 | 8 | 23 | 39 | 70 | 11.8 | 27 | 79 | 245 | 37.2 | 243 | 59 |
| 1Q12 | 14 | 66 | 8 | 18 | 62 | 88 | 16.0 | 32 | 105 | 213 | 24.3 | 243 | 59 |
| 2Q12 | 21 | 73 | 3 | 30 | 52 | 85 | 14.0 | 18 | 105 | 195 | 22.3 | 243 | 57 |
| 3Q12 | 26 | 78 | 3 | 26 | 50 | 79 | 12.2 | 20 | 97 | 191 | 23.6 | 227 | 56 |
| 4Q12 | 24 | 85 | 3 | 25 | 46 | 74 | 10.4 | 19 | 89 | 198 | 26.7 | 201 | 42 |
| 1Q13 | 32 | 103 | 2 | 20 | 50 | 72 | 8.4 | 30 | 87 | 170 | 23.4 | 199 | 44 |
| 2Q13 | 31 | 113 | 2 | 12 | 39 | 53 | 5.6 | 12 | 81 | 180 | 26.7 | 177 | 66 |
| 3Q13 | 23 | 110 | 1 | 14 | 31 | 46 | 5.0 | 16 | 77 | 192 | 29.9 | 177 | 78 |
| 4Q13 | 7 | 93 | 2 | 14 | 33 | 49 | 6.3 | 10 | 68 | 182 | 32.1 | 177 | 52 |
| 1Q14 | 14 | 75 | 2 | 20 | 38 | 60 | 9.6 | 25 | 63 | 173 | 33.0 | 203 | 66 |
| 2Q14 | 14 | 58 | 3 | 19 | 77 | 99 | 20.5 | 53 | 104 | 186 | 21.5 | 180 | 110 |
| 3Q14 | 32 | 67 | 4 | 25 | 70 | 99 | 17.7 | 32 | 120 | 289 | 28.9 | 45 | 217 |



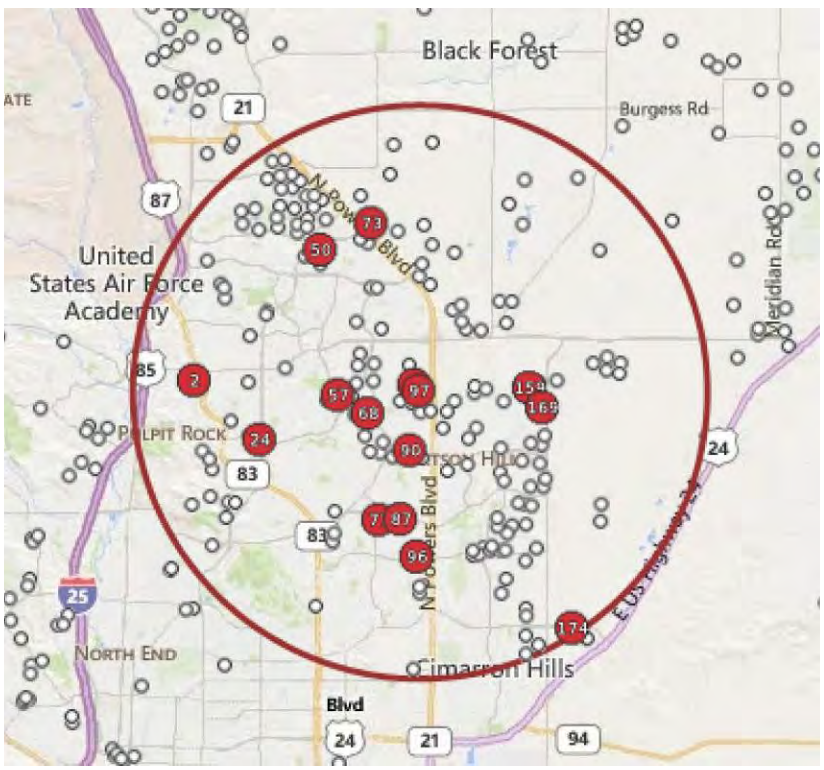




*Denver/Colorado Springs Residential Survey (3Q14)*

- Construction restarted in 2012, which resulted in an increase of closings in 2013. A second construction increase was noted in 2014, which should increase annual closings as homes are completed. Demand does not appear to be a drawback as sales follow housing starts closely and do not lag. The dip in supply has constrained sales, which is due to cautious builders not creating an oversupply until demand was proven.
- The number of vacant developed lots has decreased steadily since 2010 and there is currently few planned for future delivery. One project delivered planned lots to developed status in the third quarter of 2014. The current indication of 289 lots represents a 4.3-year supply.

## ANALYSIS OF UNIT ABSORPTION

In estimating an appropriate absorption period for the lots, we have analyzed Metrostudy data and surveyed builders, associates and other market participants active in competing subdivisions. The results of the Metrostudy search data are provided in the map and table below:



## Current Activity and Profile Report

### *Current Selections*

Sorted by Subdivision

| Map No | Subdivision Name | Sub Area | Status | Lot Size | Price Range | Qtr Starts | Ann Starts | Qtr Clos | Ann Clos | Occ | Inventory Mod | Inventory Fin Vac | Inventory U/C | VDL | Future | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 50 | Briargate / Presidio Condos | CSP-Bgt | Act 4Q06 | 0' | $209-$209 | 0 | 0 | 0 | 0 | 28 | 0 | 11 | 0 | 56 | 0 | 95 |
| 174 | Claremont Ranch (TH) | CSP-Pow | Act 1Q04 | 25' | $160-$170 | 0 | 0 | 0 | 0 | 174 | 0 | 0 | 0 | 45 | 0 | 219 |
| 97 | Dublin Terrace (TH) | CSP-CCSP | Act 4Q07 | 20' | $143-$189 | 0 | 0 | 0 | 0 | 56 | 0 | 10 | 9 | 76 | 0 | 151 |
| 24 | Harvest Ridge (TH) - CS | CSP-CCSP | Act 3Q03 | 23' | $200-$208 | 0 | 0 | 0 | 0 | 84 | 0 | 0 | 0 | 8 | 0 | 92 |
| 96 | Homestead Ridge Heights (TH) | CSP-CCSP | Act 3Q04 | 17' | $185-$245 | 0 | 0 | 0 | 0 | 30 | 0 | 0 | 0 | 6 | 0 | 36 |
| 77 | Iron Horse Villas (TH) | CSP-CCSP | Act 2Q05 | 21' | $190-$240 | 0 | 13 | 2 | 3 | 76 | 0 | 0 | 10 | 0 | 0 | 86 |
| 57 | Nor'wood / Barrington Heights | CSP-CCSP | BO 4Q13 | 20' | $188-$203 | 0 | 0 | 0 | 3 | 126 | 0 | 0 | 0 | 0 | 0 | 126 |
| 68 | Nor'wood / Vistas Condos | CSP-CCSP | Act 2Q07 | 0' | $142-$158 | 0 | 22 | 4 | 19 | 62 | 1 | 3 | 22 | 22 | 0 | 110 |
| 87 | Peak View Villas (TH) | CSP-CCSP | Act 3Q01 | 38' | $245-$350 | 4 | 7 | 0 | 2 | 61 | 0 | 3 | 6 | 25 | 0 | 95 |
| 93 | Reserve @ Oakwood Village | CSP-CCSP | Act 3Q13 | 35' | $214-$237 | 6 | 42 | 20 | 36 | 36 | 1 | 3 | 12 | 2 | 0 | 54 |
| 159 | Silver Hawk (TH) | CSP-CCSP | Act 3Q14 | 20' | $143-$150 | 4 | 4 | 0 | 0 | 0 | 0 | 0 | 4 | 40 | 0 | 44 |
| 169 | Stetson Hills / Indigo Ranch - | CSP-Pow | Act 3Q06 | 45' | $226-$254 | 8 | 28 | 9 | 22 | 86 | 1 | 3 | 12 | 2 | 0 | 104 |
| 90 | Stetson Ridge (TH) | CSP-CCSP | Act 4Q05 | 25' | $180-$190 | 4 | 12 | 0 | 0 | 16 | 1 | 0 | 11 | 44 | 0 | 72 |
| 73 | Wolf Ranch / The Townes | CSP-Bgt | Act 3Q14 | 20' | $186-$230 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 43 | 0 | 43 |
| 2 | Yorkshire Commons (TH) | CSP-CCSP | Act 4Q07 | 20' | $195-$203 | 0 | 0 | 0 | 0 | 8 | 0 | 0 | 0 | 20 | 0 | 28 |
| | ***Selection Totals*** | | | | | 26 | 128 | 35 | 85 | 843 | 4 | 33 | 86 | 389 | 0 | 1,355 |



CBRE

It is noted that the above figures are based upon closing of completed residential dwellings, which are directly proportional to lots sales. As such, the following data regarding the absorption of new homes is directly related to the sale trends of the underlying ground. These developments indicate base price ranges from $143,000 to $350,000. The total number of annual sales and home starts in the past year within all projects is 85, or 7.1 per month and 128, or 10.7 per month, respectively.

The greatest activity is concentrated in Reserve at Oakwood (adjacent north of the subject), Indigo Ranch and Norwood Vista Condos. The recent sales activity in these projects indicate actual absorption/sellout rates of 1.6 to 3.0 homes per month, with a simple average of 2.1 homes per month. Three additional subdivisions reported sales activity in the past year; however the activity is minimal as those projects are now built-out. Demand exists for similar price and style properties and we expect the subject's larger development could likely support sales rates in line with active projects.

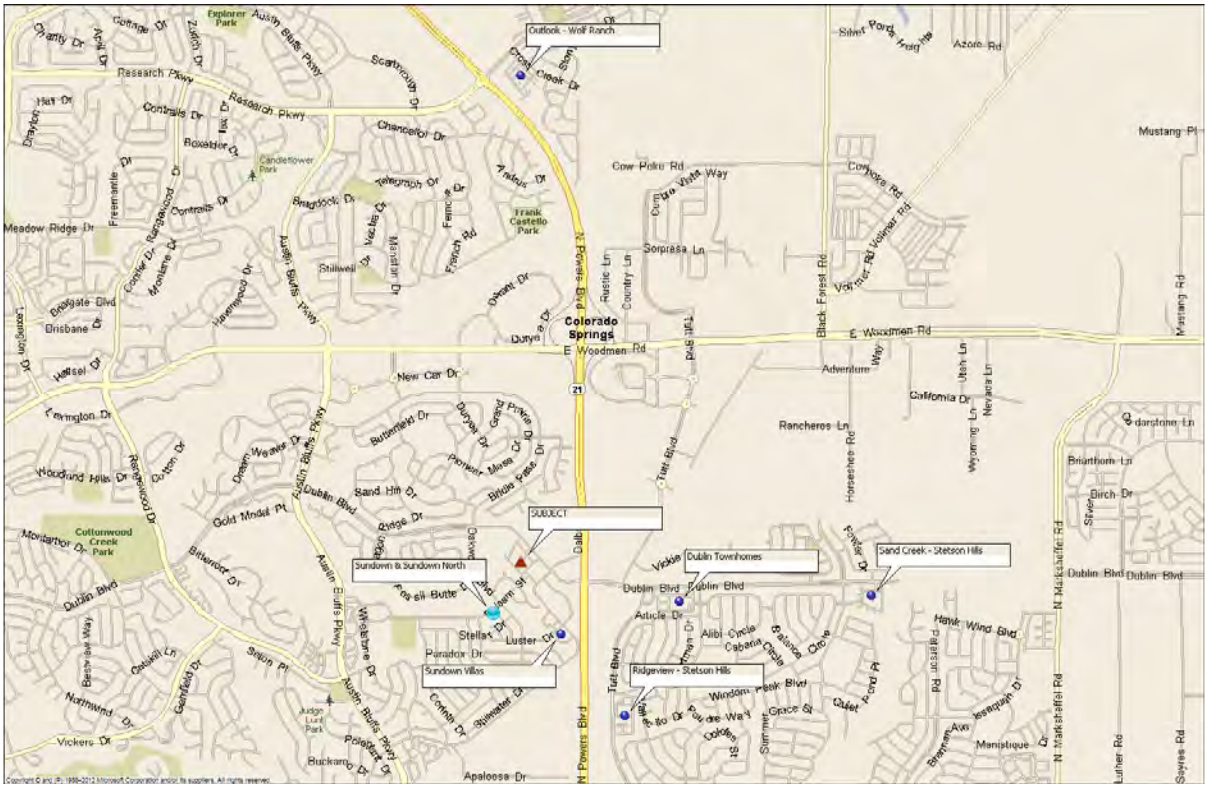
## UNIT ABSORPTION CONCLUSION

We have forecasted that the sellout rate will be near the midpoint of competing projects. The larger subdivision (83 units) could sellout in 36 months, or 2.3-units per month. The subject's 16 units would likely sell out in less than one year and be constrained by delivering finished units rather than demand.

It should be noted that our estimates assume a constant supply of vertical inventory at the previously discussed base price range. While it is difficult to accurately predict future absorptions rates with any degree of certainty, the above assumptions reflect the demand for new residential homes in similar attached projects. The overall sellout period is considered to be reasonable given the product types, pricing and location in Northeast Colorado Springs.

# Neighborhood Sales Analysis

Our research was conducted to determine if townhome units in the Dublin Terrace or single family properties adjoining the subject units were impacted by the current status. The following map and tables summarize the data used in the analysis of existing single family and townhomes.




## Dublin Terrace Townhomes

A survey of sales in the Dublin Terrace development was compared with transactions in nearby competing developments.

| COMPETITIVE TOWNHOME MARKET SUMMARY | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Price Per SF | | | Sold Price | | |
| **Development** | **Units** | **Sales 2013+** | **% Sales/ Year** | **Days on Market** | **% of List** | **Average** | **Low** | **High** | **Average** | **Low** | **High** |
| Dublin Townhomes | 174 | 22 | 6% | 69 | 98.3% | $108.39 | $94.15 | $125.80 | $158,725 | $135,000 | $174,000 |
| Sundown Villas | 70 | 9 | 6% | 70 | 99.0% | $90.83 | $82.54 | $96.70 | $150,167 | $139,000 | $162,500 |
| Wolf Ranch Overlook | 127 | 17 | 7% | 67 | 97.0% | $145.89 | $129.72 | $167.39 | $206,435 | $178,100 | $233,000 |
| Sand Creek Villas | 120 | 15 | 6% | 42 | 98.7% | $105.59 | $85.61 | $116.05 | $161,860 | $135,000 | $174,900 |
| Ridgeview at Stetson Hills | 130 | 19 | 7% | 84 | 98.8% | $103.48 | $89.02 | $115.29 | $150,655 | $124,000 | $172,750 |
| **Total/Summary** | **680** | **90** | **7%** | **70** | **98.6%** | **$110.28** | **$82.54** | **$167.39** | **$168,159** | **$124,000** | **$233,000** |
| **Dublin Terrace** | **59** | **8** | **7%** | **85** | **99.9%** | **$107.47** | **$94.81** | **$121.05** | **$181,113** | **$142,500** | **$209,900** |
| Compiled by CBRE from MLS data | | | | | | | | | | | |

The sales rates, total price and percentage of list amount appear not to be impacted by the existing conditions in the subject development. Days on market are higher, though not significantly, than the competitive set.

## Sundown and Sundown North Single Family

We researched sales trends for the adjoining single family development (Sundown and Sundown North Subdivisions) and compared the trends to a smaller selection of sales along Many Springs Drive and Whereabout Court, and properties that directly adjoin the subject development.

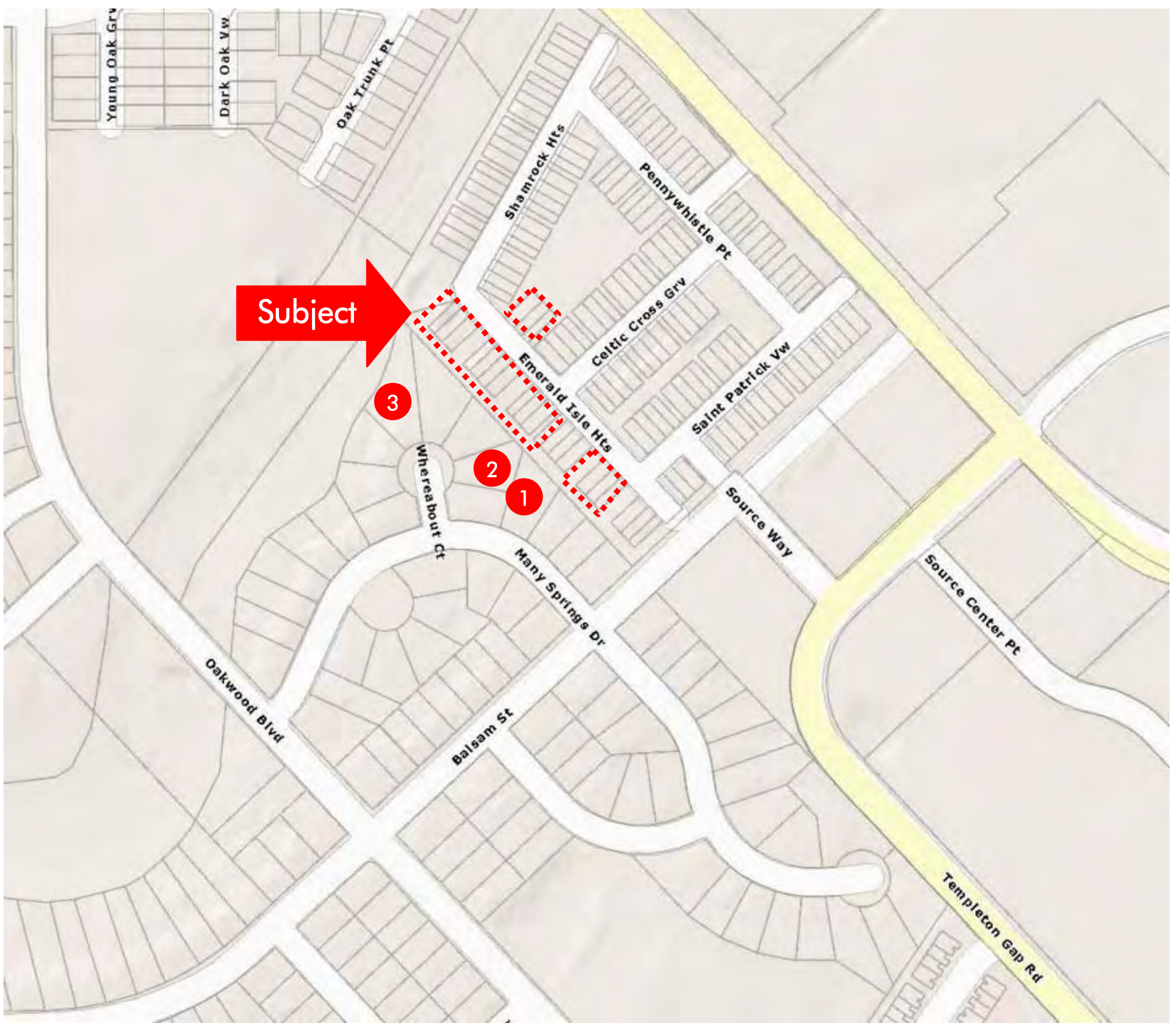
**SUNDOWN SUBDIVISION - SINGLE FAMILY MARKET SUMMARY**

| Development | Units | Sales 2013+, or | % Sales/ Year | Days on Market | % of List | Price Per SF Average | Price Per SF Low | Price Per SF High | Sold Price Average | Sold Price Low | Sold Price High |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sundown & Sundown North | --- | 165 | --- | 68 | 99.1% | $ 104.27 | $64.37 | $162.75 | $197,190 | $115,000 | $257,000 |
| Sundown & Sundown North (4+ Beds) | --- | 74 | --- | 77 | 99.2% | $ 99.45 | $74.65 | $118.27 | $208,484 | $153,000 | $257,000 |
| Many Springs Drive and Wherabout Court | 49 | 11 | 7% | 73 | 99.3% | $ 107.50 | $83.96 | $160.78 | $209,564 | $164,000 | $246,200 |

Compiled by CBRE from MLS data

The analysis of sales in the adjacent subdivision and those on the adjacent streets indicate a relatively stable pattern and that does not significantly differ based on the subset.

The following map and chart exhibits the individual sales of single family homes that adjoin/back to the subject's non-conforming (Too Tall) units.



| SINGLE FAMILY SALES - ADJOINING SUBJECT DEVELOPMENT | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| No. | Name | Date | Year Built | Bed | Bath | Garage | GBA (SF) | Actual Sale Price | Price Per SF [1] | Percent of List Price | Days on Market |
| 1 | 5572 Many Springs Drive | Jul-14 | 1999 | 5 | 4 | 2 | 2,680 | $225,000 | $83.96 | 100.0% | 84 |
| 2 | 6625 Whereabout Court | Mar-14 | 1999 | 5 | 4 | 2 | 2,591 | $225,000 | $86.84 | 100.0% | 169 |
| 3 | 6640 Whereabout Court | Oct-12 | 1999 | 5 | 4 | 2 | 2,591 | $245,000 | $94.56 | 98.8% | 70 |

Compiled by CBRE from MLS data

Agents involved with transactions directly adjoining the subject's non-conforming units stated that both the buyer and seller were aware of the uncertain status of the project. They noted no unusual circumstances regarding the sales and the homes sold for near full asking amount. The sales prices are also at the upper end for the neighborhood. The data indicated no noted impact on pricing, days on market or rate of sales. Our analysis implies that the existing single family homes do not appear to be impacted by the subject development.

## QUALITATIVE ANALYSIS

The subject buildings, including the too tall units, conform to the larger townhome development and surrounding neighborhood in terms of design, style and quality. The added height does not appear to stand out greater than the conforming buildings. The topography of the larger development slopes downward to the northwest, which is the general location of the non-conforming units. The slope lowers the finished height of the Too Tall townhomes with respect to the adjacent units.

### Market Participant Interviews

We discussed perceived impacts from the status of the stalled subdivision and non-conforming units with residential real estate brokers, land developers and brokers, and HOA management.

Market participants indicate that the uncertain status of the unfinished subject units is more of a concern than the height. Respondents indicate that most questions from property owners/potential buyers of homes outside the development are the uncertainty and timing of the resolution. The status did not adversely alter home purchase/sale decisions.

The real estate broker's consensus was that the height of the townhomes did not adversely impact sales prices or ability to market the homes. The larger concern was that a resolution would not happen and the unfinished project would remain unsightly, or possibly dangerous.

Within the Dublin Terrace development, additional concerns were noted including: The overall health of the HOA, sales were slow and there were fewer offers though inquiries were stable. Other statements indicated that properties did not appraise or contracts were cancelled without a specific reason given.

## SUMMARY

Our analysis of sales data indicates that pricing or ability to sell single family or townhomes is not impacted by the status or height of the subject. Larger concerns were noted from market participants regarding the uncertain status of the unfinished units and larger development. The solvency of the HOA was a concern and the economic analysis is detailed in the following section.

# Economic Impact Calculations

The following section details our calculations and estimates of economic losses to the subject, lienholders, government (taxing authority), and homeowners and Dublin Terrace HOA. The analysis considers the following scenarios:

1. The subject's non-conforming buildings are allowed to remain intact (with a variance)
2. The subject's non-conforming buildings required to be removed.

## CURRENT ESTIMATE OF VALUE

We first estimated the value of the subject's 16 units if they were allowed to remain or be required to be removed. The finished home and base lot prices were estimated. The retail price is the estimate if one unit would sell to an end user and does not account for any sales, holding cost or profit.

### Base Model Retail Pricing

The individual units are estimated to achieve prices ranging from $172,000 to $200,000 and $102 to $115 per square foot. The average achievable sale price of the finished units was estimated at $185,500 per unit, or $108 per square foot. The estimate was based on our research of recent re-sales of existing properties in the development, original base model pricing and the individual floorplans.

### Retail Lot Pricing

The individual retail price of the lots are estimated at $30,000 per unit. This estimate is based on our research of recent sales of vacant lots purchased for immediate construction of attached residences. Another method of obtaining a retail lot price is via the allocation method. Based on our research of typical single family attached and detached tract homes in the market, a per lot retail value assumes that the builder can afford to allocate 15% to 20% of the price of the finished units toward the cost of the land. Applying allocation rates of 15% and 20% to the lot estimate amounts equates to a range of retail prices for the end product from $150,000 to $200,000.

### Cost to Complete

The estimated cost to complete the homes, finish the remaining site work and complete other required landscaping was based on receiver budgets and estimates, which totaled $936,000. The direct construction costs to finish the units is $750,000 and $156,000 was estimated for the site costs, overhead, and other fees. The total appears reasonable based on the condition of the project, our review of detailed completion budgets for the individual units and estimates to build similar quality and style homes.

### Cost to Remove Non-Conforming Units

We also considered the cost to remove the non-conforming units and finish only the three conforming properties. The total estimate for this scenario was $300,000.

The potential to move the units to a conforming lot in the development is not considered feasible. The vacant lots are not currently controlled by same ownership and the cost to move and complete the unfinished buildings is greater than the achievable sales prices.

### Analysis of Unit Absorption

We previously discussed/analyzed absorption in detail. Based upon the available data and discussions with builders and brokers, we have estimated the following sellout:

- 2.3 units per month - requiring 36 months to sell out the larger project (83 units)
- The subject's 16 units would likely sell out in less than one year and be constrained by delivering finished units rather than demand.

### Bulk Discount

Typically, builders realize a price discount when purchasing a larger number of lots. Given the number of subject units (16), a discount must be applied to the retail value to reflect the purchase price a single buyer would be willing to pay (bulk discount). Additional deductions are required for the cost to complete the project and allowing for profit to the end buyer.

Discounts ranging from 15% up to 50% or more could be expected for the bulk purchase of multiple residential lots in today's market. Market participants reported that influences to the discount would include: number of lots, stage of development, implied risk, location, sales velocity in the development, availability of financing, etc. The risk to complete the existing homes is significantly lowered if a variance is approved and higher if the units are required to be removed.

### Subdivision Analysis

The subdivision development analysis considers the development costs, absorption (sellout of the individual homes) and expenses associated with the sellout of the units, including all development costs and overhead/profit. After projecting the cash flows to be derived from the development and sellout, a discount rate is applied to produce a net present value indication. The result is the amount, which a single purchaser would be likely (and able) to pay for the acquisition of the subject property. This is based on the assumption that a knowledgeable purchaser would require an adequate return on capital to justify the risk, required expertise and effort to develop the project (entrepreneurial profit).

The subdivision analysis was considered as a crosscheck to the bulk sale estimate, but is not detailed in this analysis. The subdivision analysis produces similar results as the bulk estimate.

## SUMMARY OF VALUES

| BULK VALUE ESTIMATES | | | | |
|---|---|---|---|---|
| **Value with Variance** | | | | |
| **Total Units** | **X** | **Value Per Unit** | **=** | **Value** |
| 16 | X | $185,500 | = | $2,968,000 |
| Less: Cost of Sale | | 8% | | ($237,440) |
| Less: Completion Cost | | | | ($936,000) |
| Subtotal | | | | $1,794,560 |
| Less: Developer Profit | | 20% | | ($358,912) |
| **Bulk Value** | | | | **$1,435,648** |
| **Rounded** | | | | **$1,450,000** |
| **No Variance (Teardown)** | | | | |
| 3 | x | $185,500 | = | $556,500 |
| Less: Cost of Sale | | 8% | | ($44,520) |
| Less: Completion and Removal Cost | | | | ($300,000) |
| **Add: Vacant Lot Value** | | | | |
| 13 | x | $30,000 | = | $390,000 |
| Subtotal | | | | $601,980 |
| Less: Developer Profit | | 40% | | ($240,792) |
| **Bulk Value** | | | | **$361,188** |
| **Rounded** | | | | **$350,000** |
| Compiled by CBRE | | | | |

The bulk value analysis estimates the current values under the scenarios that that project will receive a variance and be allowed to remain and if none is granted the units will be removed. The value difference between the scenarios is $1,100,000.

If the project is further delayed, the annual value decline of the project (with variance) is estimated at $100,000, which is due to added holding costs and discounting the future returns.

## LOSS TO LIENHOLDERS

The following chart details the existing debt and liens.

| LOSS TO LIENHOLDERS | |
|---|---|
| Component | Amount |
| Lender - Bank Debt | $1,372,882 |
| Lien and Receiver Claim | $695,375 |
| **Total Debt and Liens** | **$2,068,257** |
| **Rounded** | **$2,068,000** |
| | |
| Annualized loss @ 10% | $206,826 |
| **Rounded** | **$207,000** |
| Source: Receiver Submission | |

The values estimated in the previous section represent the potential amount that could be used for recovery to the lienholders. The estimated loss to the lienholders is 30% (with a variance). The loss without a variance (teardown) is 85% of the current lien amounts.

The additional annualized loss represents the current lien amounts inflated at 10% per year. That rate is below a typical default interest rate and above the rate a safe investment would require. The estimate is considered reasonable.

## PROPERTY TAX

The following chart details the property tax estimates and loss to government entities.

| PROPERTY TAX ANALYSIS | | | | |
|---|---|---|---|---|
| Parcel Description | Assessor's Market Value | Average Value Per Unit | 2014 Taxes | Average Taxes Per Unit |
| 16 Subject Units (Current) | $649,212 | $40,576 | $3,110 | $194 |
| 59 Improved Units | $10,150,461 | $172,042 | $48,620 | $824 |
| 67 Vacant Lots | $1,041,984 | $15,552 | $18,183 | $271 |
| | | | | |
| **Annual Loss in Tax Collections** | | Units | Per Unit | Total |
| Subject As Is vs Complete | | 16 | $630 | $10,075 |
| Vacant Lots vs Complete | | 67 | $553 | $37,029 |
| **Annual Loss** | | | | **$47,105** |
| **Rounded** | | | | **$47,000** |
| | | | | |
| **Tax Loss Before Stabilization** | Absorbed | Annual Units | Per Unit | Lost Revenue |
| Year 1 - Subject | 16 | 16 | $630 | $10,075 |
| Vacant lots | 12 | 67 | $553 | $37,029 |
| Year 2 | 28 | 55 | $553 | $30,397 |
| Year 3 | 27 | 27 | $553 | $14,922 |
| **Three Year Tax Loss** | | | | **$77,502** |
| **Rounded** | | | | **$78,000** |
| | | | | |
| Source: El Paso County Assessor and Treasurer | | | | |

The Assessor's current values and actual taxes are detailed above. The annual difference taxes collected for the subject units and the vacant lots is $10,075 and $37,029, respectively. The combined annual reduction in tax collections is approximately $47,000.

The annual tax loss is reduced each year as units are completed and the cumulative three year loss is $78,000.

## HOMEOWNER ASSOCIATION

The following chart details the homeowner association budget, dues and loss related to the HOA.

| HOMEOWNER ASSOCIATION IMPACT | | | | | |
|---|---|---|---|---|---|
| | Per Unit | Annual Dues | Reserves | Existing Deficit | Total |
| **Working Capital and Reserves Accounts Deficit** | | | | **$26,000** | |
| | | **ANNAUL LOSS** | | | |
| Existing HOA Members | | 59 | | | |
| Prior Budgeted Dues | $1,320 | $77,880 | $46,653 | | |
| Current Actual Dues | $1,560 | $92,040 | $8,916 | | |
| **Annual Loss to Owners/HOA** | $240 | **$14,160** | **$37,737** | | **$51,897** |
| **Rounded** | | **$14,000** | **$38,000** | | **$52,000** |
| | | **LOSS BEFORE STABILIZATION** | | | |
| Years to complete | 3 | | | | |
| Dues to 59 existing homes | | **$42,480** | | | |
| Add: 28 Homes Per Year | | | | | |
| Year 1 | 28 | **$6,720** | **$37,737** | | |
| Year 2 | 56 | **$13,440** | **$25,158** | | |
| Year 3 | 83 | **$19,920** | **$12,579** | | |
| **Total Loss To Homeowners/HOA** | | **$82,560** | **$75,474** | **$26,000** | **$184,034** |
| **Rounded** | | **$83,000** | **$75,000** | | **$184,000** |
| Source: HOA Budget and Management | | | | | |

The HOA manager provided budgets, dues amounts and deficit amounts. Currently, the HOA includes 59 finished residences paying dues (out of 142 lots). No new residences have been added to the HOA since 2012.

The HOA has a current deficit in the working capital and reserves accounts of approximately $26,000. Operating deficits have been paid from the funds as dues do not cover the annual expenses. The lack of homes being completed and default of the builder have not added to the working capital account. By not increasing HOA membership dues to the current homeowners have increased, the HOA is running at a budget deficit and no payments are being made to the reserves accounts.

The monthly dues per homeowner have increased from $110 to $130 since 2012, which is a combined annual amount of $14,160. The HOA reserves indicate an annual deficit of $38,000. The combined annual loss to the homeowners and HOA association is $52,000.



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The additional loss to the homeowners and HOA was calculated over the estimated completion period of the development (3 years). At build out, the HOA is estimated to be stable and able to replenish reserves and working capital accounts. Our calculations estimate that one-third of the remaining homes are completed and paying dues each year. The homeowners are expected to continue to pay added dues; however, the HOA reserve deficit is reduced each year. The total loss including increased dues, current deficit and continued reserves shortfall is $184,000.

A large potential impact to the HOA and homeowners is if the HOA becomes insolvent. The HOA would be required to increase dues or implement an assessment on the owners. This would increase the annual ownership cost, deter buyers, and likely reduce achievable home sales prices.

## SUMMARY OF ECONOMIC LOSSES

The following chart summarizes the losses and the individual category (impacted group).

**SUMMARY OF ECONOMIC LOSSES**

| Component | Annual | Three Year Estimate |
|---|---|---|
| Property Taxes | $47,000 | $78,000 |
| HOA | $52,000 | $158,000 |
| HOA Deficit | | $26,000 |
| Lender & Lienholders | $207,000 | |
| Ongoing Property Value Decline | $100,000 | |
| **Total** | **$406,000** | **$262,000** |

Source: Compiled by CBRE

The three year total of $262,000 represents the loss to the various entities based on the assumption that a variance is issued to allow the non-conforming (Too Tall) structures to remain.

The annual amount is the potential added loss if a variance is not approved in a timely manner and the project is further delayed, but allowed to continue at a future date. The annual loss with additional delays is $406,000.

The total loss in value to the project was previously estimated at $1.1-million if a variance is not approved and the non-conforming units are required to be removed. In this scenario, the annual loss would continue to impact the respective parties.

## CONCLUSION

The parties impacted the greatest by the approval of a variance are the lienholders (debt and mechanics). The HOA has the second greatest potential loss, which in turn impacts the existing homeowners in the Dublin Terrace development. The homeowner loss could surpass that of the lienholders with additional delay. A 10% reduction in the value of the existing homes would be equal to the value difference of the subject with or without a variance ($1.1-million). The least potential loss is in the tax revenue.