



Project Name Entitlement & Development Status Report

Project Name

Tentative Tract #

City, State

Date

*Project Description: XXX Residential
Units*

*Assignment Scope: Preliminary Due
Diligence Review*

Random Investment, Inc.

Investment Manager

Address

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Project: City

Development Team

Builder
Address
City, State, Zip

Interviews and Resources

The following people were interviewed regarding the status of the PROJECT and their statements were crosschecked among each other and verified.

1. **Name, Title, Company.** XXX-XXX-XXXX
2. **Name, Title, Company.** XXX-XXX-XXXX
3. **Name, Title, Company.** XXX-XXX-XXXX
4. **Name, Title, Company.** XXX-XXX-XXXX
5. **Name, Title, Company.** XXX-XXX-XXXX

The following resources were utilized to verify project status and researched for information that may or may not impact the entitlement or development feasibility of the Project.

1. **City Planning & Zoning.** Address, City, State. Tel. XXX-XXX-XXXX Website:
2. **Phase I Environmental Site Assessment.** Prepared for Developer Name and dated Month XX, 200X. Prepared by Consultant Name, Address, City, State ZIP. Tel: XXX-XXX-XXXX
3. **Soil Investigation.** Prepared for Developer Name and dated Month XX, 200X. Prepared by Consultant Name, Address, City, State ZIP. Tel: XXX-XXX-XXXX
4. **Master Drainage Report.** Prepared for Developer Name and dated Month XX, 200X. Prepared by Consultant Name, Address, City, State ZIP. Tel: XXX-XXX-XXXX
5. **Traffic Impact Analysis Report.** Prepared for Developer Name and dated Month XX, 200X. Prepared by Consultant Name, Address, City, State ZIP. Tel: XXX-XXX-XXXX
6. **Environmental Impact Report.** Prepared for Developer Name and dated Month XX, 200X. Prepared by Consultant Name, Address, City, State ZIP. Tel: XXX-XXX-XXXX

Purchase & Sale Agreement Summary

The Builder Agreement and Escrow Instructions between COMPANY and BUILDER to purchase PHASES 1, 2, and 3, and PHASE 4 became effective December, 2005.

At the time the agreement was made, COMPANY had obtained the following approvals from the CITY: an amendment to the General Plan, re-zoning of the land, a Specific Plan for the project, authorizing the development of approximately 1,250 residences, an Environmental Impact Report, and a Vesting Tentative Tract Map in accordance with the California Subdivision Map Act.

The agreement states that escrow shall close, with respect to each Stage Closing, 10 business days following the satisfaction of the Blue Top Conditions. The agreement defines "Blue Top Conditions" as the following: "with pad tolerance to within one-tenth of a foot accuracy vertically and with horizontal tolerance to 0.5' accuracy for the tops and toes of slopes substantially in accordance with all rough grading plans (but excluding precise grading) approved by all applicable governmental agencies and with grading of pads and slopes certified by COMPANY'S civil engineer with respect to line and grade and COMPANY'S soils engineer with respect to compaction and stability." The First Stage Closing involves PHASE 1 (112 units on approximately 5.56 acres), PHASE 2 (36 units on approximately 2.4 acres), and PHASE 3 (46 units on approximately 2.47 acres), and the Second Stage Closing involves PHASE 4 (129 units on approximately 8.85 acres). The agreement sets the latest closing date for the First Stage Closing as August 31, 2006 and the latest closing date for the Second Stage Closing as November 30, 2006; however, "if all of the conditions to the close of escrow for a stage closing have not been satisfied or waived by the party for whose benefit such condition has been created, then each party that is not in default shall have the right to extend the close of escrow for the applicable stage closings for a period not to exceed 180 days..."

The conditions to the close of escrow are listed in the Important Seller and Developer Pre Closing chart within this report. In addition to these conditions for the close of escrow, COMPANY will be held to the following master developer obligations which they have agreed to complete "using diligent efforts" in a timely matter following the close of escrow, (if they are not part of the pre-closing work listed in the Important Seller and Developer Pre Closing chart), so as to enable BUILDER to obtain building permits for the Models in PHASE 2 by the close of escrow for the First Stage Closing, and certificates of occupancy for the residences to be constructed on the land within nine months after the close of escrow for the First Stage Closing:

- Professional services including civil engineering plan preparation of backbone plans, survey control for the construction of backbone underground and street improvements, landscape architecture for open space lots not within the subject property boundary, including all Promenade and backbone street parkways up to sidewalk (but not behind sidewalk), and soils engineering for field controls during rough grade, backbone utility backfill compaction and final reports.
- Fees and assessments, including plan check fees and inspection fees in conjunction with backbone improvements as required by the conditions of approval, and subdivision and improvement bonds for backbone improvements.
- Land clearing and grading, including site clearing, grading, and compaction in accordance with all grading plans approved by the applicable government agencies, with the grading certified by a civil engineer as to line and grade, with all lots constructed to Blue Top Condition. The grading will be certified by a soils engineer as to compaction and stability and retaining walls constructed per the rough grading plan, which shall be designed by COMPANY to match BUILDER'S site plan tentative map. COMPANY will also be responsible for initial erosion control measures as may be required at the completion of rough grade.
- Sewer system, including installation of backbone public sanitary sewer collection system per the approved plans including two points of connection at lot property line to the sewer main in "A" Street and "G" Street. Points of connection will coordinate with BUILDER'S site plan.

- Storm drain system, including installation of backbone storm drainage systems per the approved plans, including any retention and/or detention basins. Storm drain point of connection is to be located in southwest corner of subject property.
- Water system, including installation of an operational public water distribution system to lot property line in accordance with the conditions of approval and approved plans. Point of connection will coordinate with BUILDER'S site plan.
- Street improvements, including installation of backbone streets, curbs, gutter, and sidewalk on "A" Street, "B" Street, "C" Street, and "I" Street, as well as handicapped ramps at intersections, striping, street signs and lighting on backbone streets.
- Dry utilities, including installation of backbone dry utilities to each property boundary.
- Landscaping, walls, and fences, including the installation of median and roundabout landscaping on Promenade Street.

If BUILDER does not believe that COMPANY has satisfied their pre-closing work, they must notify COMPANY in writing describing the punch list work that needs to be completed. Once the notice has been delivered, COMPANY must "immediately commence" and "diligently prosecute to completion" the punch list work on or before the close of escrow. In this case, COMPANY can cause the stage closing to occur provided that they fund 125% of the estimated cost of the punch list work in a hold back escrow with the escrow holder.

Settlement Agreement

Developers Research reviewed the Settlement Agreement for the Specific Plan. The CITY certified the Environmental Impact Report (EIR) for the PROJECT on February 3, 2003, at which time the NEIGHBORING CITY expressed concerns about the potential negative impacts on hydrology and drainage, traffic, noise, and railroad crossing. NEIGHBORING CITY asserted their right to challenge the certification of the EIR in court. In response, the CITY incorporated the following Project Conditions to address the NEIGHBORING CITY'S concerns: Master Plan of Drainage, Drainage Study, Memorandum of Understanding with the NEIGHBORING CITY, STREETS intersection studies, Grade Separation at STREETS, Cemetery, and the Intersection of STREETS. The Project Conditions do not affect BUILDER directly, as explained in the following checklist:

- Master Plan of Drainage and Drainage Study – Complete.
- Memorandum of Understanding with the NEIGHBORING CITY for the design and installation of detention basins– The master developer is responsible for the design and installation of the detention basins. This is a condition to the issuance of a subdivision map, which has already been approved for the entire property.
- STREET intersection studies - This is a condition to the issuance of a subdivision map, which has already been approved for the entire property.
- Grade Separation at STREETS – The site is mass graded to superpads and COMPANY is responsible for the construction of STREETS.
- Cemetery – The Cemetery is not located on the BUILDER property.
- The Intersection of STREETS – COMPANY is responsible for the construction of the STREETS intersection. Traffic studies have been completed.

The NEIGHBORING CITY dropped their objections to the EIR due to the incorporation of these Project Conditions.

Developers Research Site Inspection

The site was visited on September 14, 2006. At the time of our visit, the grading of superpads for PHASES 1, 2, and 3 had been completed but was not certified. Grading of PHASE 4 was in progress. Water had been installed along 9th Street, and sewer had been installed along the Promenade. See enclosed photos.

CITY

Developers Research reviewed a Report to the Planning Commission dated September 27, 2006 addressing the Tentative Map XXXX and spoke with JOHN SMITH in the CITY Planning Department regarding the staff report.

The following is a list of the comments/requirements that were noted in the staff report, along with the status:

- The east main access street of the PHASE 1 neighborhood needs a parkway. (The details have been worked out with BUILDER.)
- Additional architectural detailing should be provided along the Promenade frontage for PHASE 1 to set it apart from the rest. (The details have been worked out with BUILDER.)
- The Sage Court central east-west paseo and the PHASE 3 central north-south paseo do not meet the average width of 30 feet. (A variance was processed.)
- The distribution of guest parking in the PHASE 1 neighborhood needs to be adjusted. There are four internal on-street parking spaces located at the entry points that should be removed and relocated to the public street. (The details have been worked out with BUILDER.)
- In the PHASE 2 neighborhood, the four parking spaces proposed at the main entry should be relocated to the public street. (The details have been worked out with BUILDER.)
- For the PHASE 3 neighborhood, the two spaces at the entry point should be relocated to the public street as well. (The details have been worked out with BUILDER.)
- While the Specific Plan allows tandem parking, a condition of approval of the original entitlements requires the preparation of a parking study to determine if the usage of such parking will create parking conflicts in the surrounding neighborhood. (The parking study has been prepared and submitted by COMPANY.)
- The sides of the Sage Court and Gardenia buildings need to be modified to add single-story elements where located adjacent to public streets, in order to comply with the Specific Plan. (The details have been worked out with BUILDER.)
- For the Gardenia four-plex, a dividing wall must be installed in order to provide separate entries to the units, in accordance with the Specific Plan. (The details have been worked out with BUILDER.)
- The rear elevations and alleyways of both Sage Court and Gardenia must be enhanced. Suggestions are varying garage door treatments, large specimen trees, gates designed consistently with the architecture and decorative pavement along the periphery of the alleyways, to break up the expanse of asphalt. (Details have been worked out with BUILDER.)
- A fountain should be featured in front of the Recreation Building on the Promenade side. (The CITY has dropped this requirement.)
- An acoustical analysis report is required. (This report has been prepared.)
- A site-specific geologic investigation must be conducted for the property. The report must be prepared in regards to potential earthquake induced liquefaction. (This report has been prepared.)
- The developer must prepare a covenant, subject to City Engineer's approval to allow for cross lot drainage. (Mr. SMITH does not foresee a problem obtaining approval from the CITY for cross-lot drainage.)
- A construction waste management plan must be approved prior to the issuance of building permits. The CITY is required to reduce the waste stream to the County Landfills by 50%.

- The developer must obtain approval for an Urban Water Quality Management Plan (SUSMP). (This has been completed by COMPANY.)

Mr. SMITH confirmed that the CITY will no longer be requiring an increased density for PHASE 4. Planting pocket requirements and the building to building paseo set-backs were processed in a variance, which was evaluated and approved at the Planning Commission meeting on October 9, 2006.

Mr. SMITH informed us that an environmental site inspection requirement has been completed for the site and no toxins were found to exceed Health Based Cleanup Levels. Mr. SMITH stated that CC&R's for the maintenance facility are currently under review for the master planned community, but BUILDER has not submitted articles for an intract maintenance facility.

Developers Research confirmed with Mr. SMITH that the improvement plans for the PHASE 2 model complex are in the 1st plan check, and the intract grading plans have recently been submitted for the 1st plan check. Conceptual plans for the retaining wall along 9th Street have been completed, and engineering plans are in progress.

Developers Research confirmed with JOHN SMITH that the variance for all of the requirements in question was approved at the October 9, 2006 Planning Commission meeting.

Status of Maps, Plans & Permits

| Plats/Maps & JURISDICTIONAL APPROVALS | Status | Actual/ Estimated Complete Date | Issues & Risks |
|---|----------|---------------------------------|--|
| Zoning, Annexation & General Plan Amendment | Complete | | |
| Preliminary Tract Map | Approved | | |
| Master Site Plan | Approved | | |
| Master Drainage Study | Complete | | |
| Master Traffic Study | Complete | | Completed with the EIR |
| Environmental Impact Report | Complete | February 3, 2003 | Per the Builder Agreement and Escrow Instructions |
| Archaeological | Complete | | According to JOHN SMITH with the CITY, an Archaeologist will not be required from this point on. |
| Concurrency Certificate | Complete | | |
| Hazardous Materials | | | According to the Builder Agreement and Escrow Instructions, to the knowledge of COMPANY, no Hazardous Substances have been used, generated, manufactured, treated, stored, or disposed of in violation of the law on the site, and no underground storage tanks were previously located or remain upon the site. Mr. SMITH with the CITY informed us that an environmental assessment of the site was completed and the site did not exceed acceptable Health Based Cleanup Levels. |
| Army Corp & Jurisdictional Wetland Permits | Complete | | |

| Plats/Maps & JURISDICTIONAL APPROVALS | Status | Actual/ Estimated Complete Date | Issues & Risks |
|---|-------------------------------|--|--|
| FEMA Flood Zone Determination | Complete | | Per the Builder Agreement and Escrow Instructions, COMPANY has stated that the project area is not located within a 100-year flood plain. |
| NPDES | Complete and Renewed Annually | | Grading of all sites has commenced; NPDES permits have been obtained. |
| Special Zone Permits (Coastal, Redevelopment, Etc.) | N/A | | |
| Final Map | Not Yet Recorded | 4/20/2007 | |
| Municipal Development Agreement | Approved for Development | | The Development Agreement between the CITY and the ORIGINAL OWNER was made to eliminate uncertainty in planning and to determine responsibilities for necessary improvements. The agreement ensures that the CITY will “cooperate with and actively assist the Owner in securing any and all entitlements, authorizations, permits or approvals.” The term of the agreement is 10 years and shall be extended an additional five years upon certain conditions. |
| CDD / CFD Bonds & Agreements | Complete | | |
| Recorded Final Plat/Map | Not Yet Recorded | 4/20/2007 | |
| HOA Documents | | | Developers Research was not provided with HOA documents to review. Mr. SMITH at the CITY stated that CC&R’s for a maintenance facility for the master planned community are currently under review and BUILDER has not submitted any articles for the formation of an intract maintenance facility. According to PROJECT MANAGER, the City is responsible for maintenance of all landscaping within the public street right-of-way which includes the Promenade. |

| CIVIL PLANS & PERMITS | Status | Issues & Risks |
|---|--|---|
| ALTA/ACSM Survey (boundary verification and easement impact): | Complete | |
| Demolition and Clearing | Complete | BUILDER is buying pads in blue top condition; it can be assumed demolition and clearing will be complete. |
| Grading and Drainage | PROJECT MANAGER anticipates that the precise grading plans for PHASE 2 will come out of the 2 nd plan check with the CITY mid-November 2006 and will not need to be submitted for a 3 rd plan check. He anticipates obtaining a grading permit for PHASE 2 in early December 2006. | |

| CIVIL PLANS & PERMITS | Status | Issues & Risks |
|----------------------------|---|----------------|
| | The precise grading plans for PHASE 3 were submitted for the 1 st plan check on October 20, 2006. PROJECT MANAGER anticipates these plans only needing 2 plan checks and receiving the grading permit for PHASE 3 by January 10, 2007. A grading permit for PHASE 4 is anticipated to be obtained by February 6, 2007. | |
| Water and Sewer | Improvement plans for PHASE 2 Sage Court were submitted August 23 rd for the 1 st plan check with the CITY and have been returned to the developer with comments. The improvement plans for PHASE 2 Gardenia were submitted September 14 th for the 1 st plan check. PROJECT MANAGER anticipates the improvement plans for PHASE 2 to be approved by January 25, 2007. The improvement plans for PHASE 3 were submitted for the 1 st plan check on October 20, 2006 and are anticipated to take 3 plan checks for approval. PROJECT MANAGER anticipates improvement plans for PHASE 3 will be approved by February 7, 2007. PROJECT MANAGER anticipates improvement plans for PHASE 4 to be approved by February 27, 2007. | |
| Storm Drain | (See Water and Sewer Current Status) | |
| Paving | (See Water and Sewer Current Status) | |
| Landscape & Amenities | (See Water and Sewer Current Status) | |
| Electrical & Street Lights | Service to be provided by CITY Light and Water. Will serve letters have been obtained. | |
| Natural Gas | Service to be provided by California Gas Company. Will serve letters have been obtained. | |
| Telephone | Service to be provided by Verizon. Will serve letters have been obtained. | |
| Cable | Service to be provided by Charter Communications. Will serve letters have been obtained. | |

| CONSULTANTS | Status | Issues & Risks |
|-----------------------------------|--|--|
| CFD Consultant | Complete | Per our conversations with PROJECT MANAGER, the first bond offering for Improvement Area 2 is scheduled for the third quarter of 2006 and the second bond offering, which will apply to the PROJECT, is scheduled for the third quarter of 2007. Following the second bond offering, BUILDER will be subject to Undeveloped Land Special Taxes A and B in the third quarter of 2008 unless certificates of occupancy have been issued. BUILDER will be responsible for the Undeveloped Land Special Taxes A and B for the acreage of unsold units. Once certificates of occupancy have been issued, the homeowner will be responsible for Developed Land Special Taxes. BUILDER is planning to absorb the cost of any Special Taxes that may be incurred. |
| HOA Documents/Consultant | Not Complete: Developers Research was not provided with HOA documents to review. Mr. SMITH at the CITY stated that CC&R's for a maintenance facility for the master planned community are currently under review and BUILDER has not submitted any articles for the formation of an intract maintenance facility. According to PROJECT MANAGER, the City is responsible for maintenance of all landscaping within the public street right-of-way which includes Promenade. | |
| Other Consultants required by EIR | Complete | According to Mr. SMITH with the CITY, no additional consultants should be required. |

Important Zoning, Plat/Map & Permit Stipulations

| Approval Condition | Tied to... | Status | Risks |
|--------------------|---------------|--------------|---|
| Final Map | Fire Approval | Not Complete | According to COUNTY Fire Department, sprinklers will most likely be required. Per the California Uniform Building Code Section 904.2.9 & Title 24 of COUNTY Code and the planning staff at the COUNTY Fire Department, a residential building of three or more stories or five or more attached units requires sprinklers. It is referred to as a R1 Occupancy. |

| Approval Condition | Tied to... | Status | Risks |
|--------------------|---|---|-------|
| Final Map | Approval of capacities and locations for electrical and water connections | Complete | |
| Final Map | Approval of intract improvement plans | Not Complete: According to the schedule provided by BUILDER, improvement plans for all tracts are anticipated to be approved by the end of February 2007. | |
| Building Permits | Payment of fees to CITY Light and Water | Not Complete | |
| Building Permits | Assessment District Financing Plan | Complete | |
| Building Permits | Acoustical Analysis Report | XXXX XXXXX, a Building Official at the CITY, commented that an acoustical study has not been submitted to the Building Department to date, but it will be required prior to the issuing of building permits. Developers Research received the Noise Impact Analysis from BUILDER on 10/05/06. | |
| Building Permits | Geologic Investigation of Liquefaction | Mr. XXXX commented that the geologic investigation report has not been submitted to the Building Department to date, but it will be required prior to the issuing of building permits. | |

| Approval Condition | Tied to... | Status | Risks |
|--------------------|---|--|--|
| Building Permits | Underground utility installation | Not Complete | |
| Building Permits | Public and private roadway lighting facilities installed | Not Complete | |
| Building Permits | Fire Department approval of fire lanes, hydrants, and submission of a Combustible Construction Letter | Not Complete | |
| Building Permits | Construction Security Plan in consultation with CITY Police Department | | |
| Building Permits | Design of Intersection of STREETS Ave. by COMPANY | According to the Vesting TTM Conditions Status, this requirement is complete. Design plans are approved and improvement plans are in plan check. | |
| Building Permits | Landscaping Plan approval | Not Complete | |
| Building Permits | Public Park Dedication by COMPANY | According to the Vesting TTM Conditions Status chart provided by PROJECT MANAGER, COMPANY is in the process of satisfying this requirement. | Mr. SMITH confirmed that none of COMPANY’S master improvements will be tied to the issuance of building permits to BUILDER. In a formal letter signed by Mr. SMITH, the CITY confirmed that no master improvements or obligations will prevent or delay the issuance of building permits to BUILDER other than those improvements that directly affect Tract XXXXX. |

| Approval Condition | Tied to... | Status | Risks |
|---------------------------|---|--|-------|
| Building Permits | Mr. SMITH stated that the master traffic mitigation measures previously required by the CITY have been waived due to COMPANY paying an in lieu fee. The CITY is now responsible for these improvements and the mitigation measures are no longer tied to the issuance of building permits. | | |
| Certificates of Occupancy | All Public Area Landscaping and Private Common Area Landscaping on a tract by tract basis must be completed and certified. | | |
| Certificates of Occupancy | Subdivider must provide evidence to the Community Development Director that the project is subject to CFD and subject to special taxes. | In Process | |
| Certificates of Occupancy | Compliance with CITY Light and Water | In Process | |
| Certificates of Occupancy | Fire hydrants and street markings must be installed and approved | Usually follows completion of vertical construction | |
| Certificates of Occupancy | Fuel Modification shall be completed and CC&Rs must include provisions for maintenance of fuel modification and triennial inspections | The CC&Rs currently include an HOA obligation for maintenance and inspections of fuel modification planting. | |
| Certificates of Occupancy | Detention basin safety fencing | | |
| Certificates of Occupancy | Drainage improvements must be approved by the CITY Engineer. | | |

| Approval Condition | Tied to... | Status | Risks |
|---------------------------|---|--------|-------|
| Certificates of Occupancy | Mr. SMITH stated that to his knowledge, no other conditions are tied to BUILDER issuing C of Os. He is confident that the requirements listed above will be fulfilled by the time BUILDER reaches this milestone. In a formal letter signed by Mr. SMITH, the CITY confirmed that no master improvements or obligations will prevent or delay BUILDER from issuing certificates of occupancy other than those improvements that directly affect Tract XXXXX. | | |

Important Developer & Seller Pre Closing Obligations

| Obligation | Status | Risks |
|--|---|-------|
| COMPANY must complete construction of all weather access and temporary utilities in order for BUILDER to be capable to begin construction of the infrastructure and improvements and to obtain building permits for model homes. | According to PROJECT MANAGER, the all weather access roads are complete. | |
| The A-Map shall have been recorded. | Complete | |
| The TTM and CEQA Documents shall have been approved | Complete | |
| COMPANY must complete all site clearing, grading and compaction in accordance with all approved grading plans. | Blue top superpads are complete for PHASE 2 and PHASE 3. Blue top superpads are scheduled to be completed by December 24, 2006 for PHASE 4A and 4B and January 15, 2007 for PHASE 1. According to PROJECT MANAGER, all site clearing and grading Blue Top Pads will be complete by each respective closing date. | |

| Obligation | Status | Risks |
|--|--|---|
| COMPANY must complete the construction of Blue Top Pads. Pads must be certified prior to close. | Blue top superpads are complete for PHASE 2 and PHASE 3. Blue top superpads are scheduled to be completed by December 24, 2006 for PHASE 4A and 4B and January 15, 2007 for PHASE 1. Soils Reports are scheduled to be completed prior to closing dates for the respective lots. | |
| COMPANY must install all wet and dry utilities up to the property line in the designated locations. | Sewer and Storm Drain installation up to the property line is complete for all lots. Water installation up to the property line is complete for PHASES 1, 2, and 3 and is scheduled to be completed for PHASE 4A and 4B by January 26, 2007. | |
| COMPANY shall have caused the CITY (and all other Governing Agencies Applicable) to approve all plans and specifications relating to Palm Drive, the bridge, and the under-crossing and COMPANY shall have commenced construction of these improvements. | Mr. SMITH confirmed that the plans for the bridge and undercrossing have been approved. The COUNTY Metro Blue Line required changes in the widths of the sidewalks on Palm Drive and the plans should be approved once sidewalks are adjusted. Palm Drive is scheduled to be completely paved by January 15, 2007 and permanent dry utilities are scheduled to be completed for Palm Drive by January 31, 2007. | Mr. SMITH does not foresee an issue with the approval of the plans for Palm Drive COUNTY Metro Blue Line is on board with the improvement of this road and have agreed to expedite the approval process. |
| Per the Builder Agreement and Escrow Instructions, COMPANY must complete the portion of their pre-closing work so as to enable BUILDER to obtain building permits for the models. | PROJECT MANAGER is confident that COMPANY will be able to complete their pre-closing work by the updated closing dates. | Mr. SMITH confirmed that none of COMPANY's master improvements will be tied to the issuance of building permits to BUILDER other than those that directly affect Tract XXXXX. |
| If BUILDER does not believe that the pre closing work has been completed in accordance with the approved plans and specifications, they must notify COMPANY, describing the Punch List Work that must be completed prior to the expiration of the inspection period. | | PROJECT MANAGER does not anticipate having to create a Punch List for COMPANY of pre-closing work to be completed following closing. He anticipates that all pre-closing work will be completed by COMPANY prior to respective closing dates. |

Important Developer & Seller Post Closing Obligations

| Obligation | Status |
|--|--|
| COMPANY is responsible for completing all backbone improvements. | Ninth Street is paved and permanent dry utilities are scheduled to be completed by November 24, 2006. CITY Veterans Way (from STREET to STREET) is scheduled to be paved and have dry utilities installed by December 22, 2006. STREET Ave. is scheduled to be paved by December 15, 2006 and is scheduled to have dry utilities installed by December 24, 2006. STREET Ave. is scheduled to be paved by January 15, 2007 and is scheduled to have dry utilities installed by January 31, 2007. STREET is scheduled to be paved by December 15, 2006 and is scheduled to have dry utilities installed by December 24, 2006. STREET is scheduled to be paved by December 29, 2006 and is scheduled to have dry utilities installed by January 31, 2007. |
| BUILDER will be responsible for building a loffel wall along the southern border of the property. BUILDER will be reimbursed through a negotiated credit to construction costs. | Following close of escrow. |
| BUILDER is responsible for all improvements within individual parcels, installing all public parkway landscaping and driveway approaches, constructing all perimeter walls on individual parcels including all retaining walls, and landscaping slopes on parcels. | Following Close of Escrow. |

Offsite Improvements & Easements

BUILDER will be responsible for the construction of a loffel wall along 9th Street. According to PROJECT MANAGER, they will be reimbursed by COMPANY through a credit to construction costs.

COMPANY will be responsible for completing all backbone street improvements per the Builder Agreement and Escrow Instructions. Pave dates for the backbone streets are scheduled for November and December 2006.

Power poles must be under-grounded by COMPANY on the PHASE 1 site before the close of escrow. BUILDER has updated the scheduled closing dates so that PHASES 1 and 3 will be the last to close on February 1, 2007.

Per the Builder Agreement and Escrow Instructions, COMPANY can request BUILDER to grant any easement to a public utility or entity at the expense of BUILDER.

Jurisdictional Waters and Wetlands

Jurisdictional waters and wetlands issues have been resolved and all sites are mass graded. BUILDER will be closing on blue top superpads.

Wet Utilities – Water Resources

The Builder Agreement and Escrow Instructions state that all utilities will be installed up to the property lines at specified locations. PROJECT MANAGER at BUILDER commented that the utility stub locations are adequate connection points for the project. Based on the site inspection, utilities are in the process of being installed to the property line. PROJECT MANAGER is confident that utility installation by COMPANY will be completed by the first closing date.

Geotechnical Report (Soil, Seismic & Topography)

It can be assumed that the soils are adequate for residential development due to the surrounding development of MASTER PLAN and the current grading operation on the project site.

Developers Research reviewed geotechnical reports prepared by GMU Geotechnical. According to the Due Diligence Level Geotechnical Investigation, the development area is flat to gently sloping and is underlain by alluvial soils. Corrective grading was anticipated to create a relatively uniform blanket of fill approximately 7 to 10 feet thick beneath the entire development area.

While the report's assessment of seismic issues concluded that the site is not currently located within an Alquist-Priolo Earthquake Fault Zone or other active fault zone, it indicates that the northern portion of the Rosedale Master Plan may end up within an Alquist-Priolo Earthquake Fault Zone due to the mandatory width of this fault zone. This could result in a disclosure in the future for the northern portion of the Master Development, however, it will not affect Tract XXXXX. The MASTER DEVELOPMENT is located less than 2 kilometers from the Sierra Madre fault, a B-type fault, which will require the use of higher near source factors in UBC seismic design.

According to the Preliminary Foundation Design Criteria investigation, it is probable that the onsite soils are corrosive to metals and suggests that appropriate precautions to protect post-tension cable end caps should be incorporated into the design by the PT designer. A moisture vapor retarder is recommended to be constructed below the entire slab area of the foundation system.

GMU states that the retaining walls should be constructed to provide for subdrainage at the back of the walls. The back side of all retaining walls should be waterproofed prior to placing subdrains or backfill.

Budget & Schedule Review

Bidding & Contract Status: Developers Research did not review bids or contracts.

Budget Comments: Per conversations with BUILDER ENGINEER, BUILDER will be responsible for the loffel/retaining wall construction along 9th Street. According to PROJECT MANAGER, COMPANY will issue a credit based on the BUILDER estimate of the construction cost for this wall. This cost is not represented in the BUILDER estimate. BUILDER ENGINEER anticipates the cost of the wall to be approximately \$750,000, and Developers Research has estimated the wall to cost approximately \$1.4 million. PROJECT MANAGER stated that he anticipates plans for the wall to be submitted the week of October 9, 2006 and to get real bids for the construction of the wall before the discount to the purchase price is negotiated. According to BUILDER ENGINEER, BUILDER will also receive a credit from COMPANY to install the four-foot city sidewalks. The BUILDER cost estimate has been crosschecked for accuracy and unit prices. In general, Developers Research is comfortable with the costs represented by BUILDER.

| Improvement | BUILDER Estimate 9.29.06 |
|--|---------------------------------|
| Consultant Fees and Services | \$1,896,096 |
| Planning Fees, Deposits, Permits | \$325,000 |
| Impact Fees | \$0 |
| Bonds | \$48,450 |
| Site Preparation | \$48,450 |
| Rough Grading | \$576,624 |
| Erosion Control | \$435,000 |
| Wet Utilities | \$1,888,962 |
| Street Improvements – Concrete and Asphalt | \$1,250,771 |
| Fencing and Walls | \$91,360 |
| Landscaping | \$508,762 |
| Common Costs | \$4,298,594 |
| Repairs For Bond Release | \$175,000 |
| Dry Utilities | \$839,800 |
| Indirect - Offsite | \$57,800 |
| Overhead and Supervision | \$38,000 |
| Contingency (7.5%) | \$443,546 |
| Total | \$12,922,215 |

SCHEDULE OVERVIEW

Developers Research reviewed the Builder schedule shown below. Our Onsite Construction Specialist concluded that the scheduling for grading and construction of improvements, once adjusted for the updated order of takedowns, seems relatively adequate, as long as either multiple subcontractors are hired for the improvements, or a subcontractor with a group large enough to complete work in three different site areas on the same day is hired.

*Updated closing dates according to PROJECT MANAGER (Construction dates will change according to the order of closing.)

SCHEDULE OVERVIEW

| Critical Path Items | Engineer's Estimate |
|--|----------------------------|
| Submit Master Plan Package | 3/14/2006 |
| Close Escrow PHASE II | 12/2/2006* |
| Close Escrow PHASE III | 1/15/2007* |
| Close Escrow PHASE 4A | 4/15/2007* |
| Close Escrow PHASE 4B and PHASE 1 | 11/15/2007* |
| Master Site Plan Approval | 9/27/2006 |
| Final Map Recorded | 4/20/2007 |
| Submit Production Grading Plan, PHASE I | 10/09/2006 |
| Improvement Plans Approved, PHASE I | 1/26/2007 |
| Final Map Recorded, PHASE I | 4/20/2007 |
| Start Grading, PHASE I | 12/28/2006 |
| Infrastructure Complete, PHASE I | 3/30/2007 |
| Submit Production Grading Plan, PHASE 4 | 10/30/2006 |
| Grading Plan Approved, PHASE 4 | 1/19/2007 |
| Improvement Plans Approved, PHASE 4 | 2/23/2007 |
| Start Grading, PHASE 4 | 1/19/2007 |
| Complete Blue Top Pads, PHASE 4 | 4/23/2007 |
| Infrastructure Complete, PHASE 4 | 7/26/2007 |
| Model Grading Plan Approved, PHASE II | 11/06/2006 |
| Start Grading @ PHASE II | 11/07/2006 |
| Complete Blue Top Pads – Models, PHASE II | 12/06/2006 |
| Submit Production Grading Plan, PHASE II | 9/12/2006 |
| Production Grading Plan Approved, PHASE II | 11/30/2006 |
| Improvement Plans Approved, PHASE II | 12/29/2006 |
| Infrastructure Complete, PHASE II | 3/30/2007 |
| Submit Production Grading Plan, PHASE III | 10/30/2006 |
| Grading Plan Approved, PHASE III | 1/19/2007 |
| Improvement Plans Approved, PHASE III | 2/16/2007 |
| Start Grading, PHASE III | 1/19/2007 |
| Infrastructure Complete, PHASE III | 5/11/2007 |
| Start Models | 12/27/2006 |
| Models Open | 6/09/2007 |
| Sales Release | 6/16/2007 |
| Start Production Homes | 4/27/2007 |
| 1 st Occupancy | 12/13/2007 |
| REC Center Construction Complete | 6/05/2007 |

CFD/CDD Bond & Municipal Cost Reimbursements

| Reimbursement Item | Reimbursement Amount | Engineer Estimated Cost | Estimated Reimbursement Date | Reimbursement conditions |
|--------------------|---|--|------------------------------|--|
| In tract sidewalks | Credit to improvement costs | According to the BUILDER offsite budget dated 3/27/2006, the cost of in tract four-foot sidewalks was estimated to be \$323,883. | Close of Escrow | Per our conversations with PROJECT MANAGER, COMPANY is reimbursing BUILDER for the cost of all intract sidewalk construction by a credit to improvement costs. |
| Retaining wall | Credit based on the estimated cost of the wall construction | BUILDER ENGINEER anticipates the cost of the wall to be approximately \$750,000, and Developers Research has estimated the wall to cost approximately \$1.4 million. PROJECT MANAGER stated that wall plans have been completed and submitted for the first plan check in late October 2006. These plans have been sent out to bid and BUILDER has started to receive estimates for the bids for construction. He anticipates to get real bids for the construction of the wall before the credit to improvements is negotiated. | Close of Escrow | Per our conversations with PROJECT MANAGER, COMPANY is reimbursing BUILDER for the construction cost of the loffel wall along 9 th Street by issuing BUILDER a credit to improvement costs. |

Status of District Formation: The CITY Community Facilities District No. XXXX-X has been formed. The CFD documentation prepared for the CITY by David Taussig and Associates is dated May 24, 2006.

Status of Bond Offering: Per our conversations with PROJECT MANAGER, the first bond offering for Improvement Area 2 is scheduled for the third quarter of 2006 and the second bond offering, which will apply to the PROJECT, is scheduled for the third quarter of 2007. Following the second bond offering, BUILDER will be subject to Undeveloped Land Special Taxes A and B in the third quarter of 2008 unless certificates of occupancy have been issued. BUILDER will be responsible for the Undeveloped Land Special Taxes A and B for the acreage of unsold units. Once certificates of occupancy have been issued, the homeowner will be responsible for Developed Land Special Taxes. **BUILDER is planning to absorb the cost of any Special Taxes that may be incurred.**

According to the CITY Community Facilities District No. XXXX-X document, the Special Taxes for Undeveloped Land in 2006 are as follows (on July 1 of each year following 2006, the Special Taxes A and B will be increased by an amount equal to 2% of the amount in effect for the previous fiscal year):

Special Tax A

\$184,872.95 per Acre

Special Tax B

\$1,773.46 per Acre

Other Significant Reimbursements: Per our conversations with PROJECT MANAGER, COMPANY is reimbursing BUILDER for the cost of all intract sidewalk construction and the loffel wall by issuing BUILDER a credit negotiated prior to the close of escrow. PROJECT MANAGER informed Developers Research that he anticipates submitting improvement drawings for the loffel wall the week of October 9, 2006. He is planning on negotiating the credit based on real construction bids.

Impact Fees & Permit Cost

| Fee Description | Estimated fee/lot (\$) | Comments |
|--------------------------------|--|---|
| Development Agreement Fee (1) | \$2,800/DU | Already paid by COMPANY at execution of D.A. No need for BUILDER to reimburse COMPANY |
| Development Agreement Fee (2) | \$1,200/DU | BUILDER must notify COMPANY 30 days prior to C. of O.; at this time COMPANY will pay this fee |
| Water Development Fee | \$1,365.62/DU | COMPANY to construct infrastructure in-lieu of this fee |
| Water Annexation Fee | \$595.03/DU | COMPANY to construct infrastructure in-lieu of this fee |
| Transportation Improvement Fee | \$1,132,500 (Total for entire PROJECT) | Paid by COMPANY at first grading permit. Pays for offsite improvements |
| Park Fee | NA | COMPANY to construct and dedicate parks |
| Public School Mitigation Fee | NA | COMPANY to dedicate school site and facilities for a K-8 school. According to the fee matrix documentation provided by BUILDER, COMPANY must also pay high school mitigation fees per School Facilities Agreement dated March 2, 2004 |
| Fire Protection Services Fee | \$.3877/bldg. sq ft | According to the fee matrix documentation provided by BUILDER, COMPANY must dedicate land and construct a new County Fire Station per Fire Mitigation Agreement |
| Community Foundation Fee | \$2,000/unit | According to the fee matrix documentation provided by BUILDER, community foundation fee was paid by ORIGINAL OWNER at first grading permit |

| | | |
|--|--|---|
| Community Foundation Transfer Contribution Fee | (.5%) of the closing price of each DU | According to the fee matrix documentation provided by BUILDER, Community Foundation Transfer Contribution Fee will be paid by BUILDER only on units resold to third parties. COMPANY will record this deed restriction in favor of the Community Foundation |
| New Utility Account Setup | \$36/DU | Payable to CITY Light and Water by BUILDER at Building Permit |
| New Water Meter Installation | \$188 each | Payable to CITY Light and Water by BUILDER at Building Permit |
| Drop Meter Fee (Automatic ¾") | \$363 each | Payable to CITY Light and Water by BUILDER at Building Permit |
| Drop Meter Fee (Automatic 1.5") | \$495 each | Payable to CITY Light and Water by BUILDER at Building Permit |
| Drop Meter Inspection Fee | \$195 each | Payable to CITY Light and Water by BUILDER at Building Permit |
| COUNTY Sanitation District (Condos) | \$1,294/DU | Payable to COUNTY S.D. by BUILDER at Building Permit |

Will Serve Letters & Service Agreements

| Required Service | Status | Date | Issues & Risks |
|------------------|----------------------------|------|---|
| Water | Will Serve Letter Obtained | | Developers Research spoke with XXXX XXXX at CITY Light and Water, who informed us that water, sewer and electricity will be provided by CITY Light and Water. A Will Serve Letter has been obtained from XXXX XXXX, Director of Utilities with the CITY. |
| Sewer | Will Serve Letter Obtained | | As noted above, sewer will be provided by CITY Light and Water and will be connecting to the COUNTY Sanitation District 22 trunk sewer. XXXX XXXX with the COUNTY Sanitation District 22 provided a will service letter for PROJECT. BUILDER is currently working with COMPANY to obtain a Will Serve letter from CITY Light and Water for sewer service. |
| Storm Drainage | Service will be provided | | Per the Builder Agreement and Escrow Instructions, the storm drain point of connection is to be located in the southwest corner of the property. |
| Electric | Will Serve Letter Obtained | | As noted above, electricity will be provided by CITY Light and Water. A Will Serve Letter has been obtained from XXXX XXXX, Director of Utilities with the CITY. |
| Natural Gas | Will Serve Letter Obtained | | XXXXXX XXXXX, Planning Associate for the Southern California Gas Company, provided a will service letter for PROJECT. |
| Phone & Cable | Will Serve Letter Obtained | | According to XXXX XXXX at XXX consulting, phone service is to be provided by Verizon. A Will Serve Letter has been obtained from XXXX XXXX, Senior Engineer with Verizon Wireless. Cable service is to be provided by Charter Communications. A Will Serve Letter for cable service has been obtained from XXXX XXXX with Charter Communications. |

Environmental Audit Review

Biological Resources: Developers Research was not provided with documentation to review.

Noise: The Noise Impact Analysis concluded with the following mitigations: standard construction noise reduction measures and air conditioning requirement for all frontline dwelling units proposed along STREET, STREET, STREET, STREET, STREET and STREET for traffic noise mitigation measures.

Hazardous Substances: Mr. SMITH at the CITY stated that an environmental assessment was completed and the site did not exceed acceptable Health Based Cleanup Levels.

Subjective Rating of Development Difficulty

The conditions of the Development Agreement and the Builder Agreement and Escrow Instructions make the level of risk for the development of this project moderate. JOHN SMITH does not foresee any issues with approvals of plans, permits or services.

Conclusions and Recommendations

The Builder Agreement and Escrow Instructions states COMPANY'S pre-closing responsibilities very clearly and PROJECT MANAGER is confident that they will satisfy their obligations by the updated closing dates. The agreement states COMPANY's pre-closing obligations "must be completed so as to enable [BUILDER] to obtain building permits for the models." **In a formal letter signed by JOHN SMITH, the CITY confirmed that no master improvements or obligations listed in the conditions of approval affecting the MASTER PLAN will prevent or delay the issuance of building permits or certificates of occupancy to BUILDER other than those improvements that directly affect Tract XXXXX.**

Important Post Closing Follow-up Items

- Obtaining real bids for the construction cost of the loffel wall so that BUILDER is properly reimbursed by COMPANY
- Monitoring the progress of COMPANY's pre-closing obligations



**INSERT
PHOTO**



**INSERT
PHOTO**