

**Project Report to Crescent Resources Board of Managers**  
**Crescent Resources, LLC**  
**Crosstown Center I - Office Project**  
**October, 2006**

**I. Proposed Project/Property**

**A. Description**

Crescent proposes to develop a three story 90,000 (90,000 rentable) square foot class “A” office building on land currently owned by Crescent in the East/I-75 submarket of Tampa Florida. The property is known as The Crosstown Center office park. Crescent purchased the property in 2001 and installed the infrastructure in 2002. Crescent developed a 380 unit multifamily complex in 2003 and sold five acres for two hotels. We recently amended the development order (2005) adding 380 multifamily units to the project and extending the build out dates until 2014. The market has matured significantly and Crosstown has become prime location for commercial development. We sold 20 acres to MacDill Federal Credit Union for their corporate headquarters in 2003. MacDill has set the tone for the property and developed a 150,000 SF Class “A” building with a one level parking deck. MacDill chose this location because of the quality of the infrastructure and the superb location. The property is bordered by State Road 301 on the west, Faulkenburg and I-75 on the east and above the “Crosstown Center Expressway” to the south. There is an on/off ramp to the expressway at 301 and expressway. Construction on the sixth building would start in mid 2007 is expected to last 15 months.

**Exhibit 1 – Oblique Aerial Photo**

**Exhibit 2 – Site Plan**

**Exhibit 3 – Building Rendering**

**2. Market Information**

The Tampa overall office market consists of 28,342,000 square feet. Vacancy is 10.3 % for Class A office space. Overall absorption is 602,116 square feet as of 3<sup>rd</sup> quarter 2006

Crosstown Center is in the Interstate 75 submarket consisting of 5,697,300 square feet. Class a vacancy is 7.4%. Absorption is a positive 101,471 square feet as of 3<sup>rd</sup> quarter 2006

Tampa is 5<sup>th</sup> in the country for Job Growth with a 3.3% annual growth rate.

**Exhibit 4 – Tampa Office Market Fundamentals**

**Exhibit 5 – I-75 Market Highlights**

### **3. Team/Development**

Crescent will manage the construction process with in house personnel . Construction risk will be mitigated by contracting the work on a fixed price basis with qualified contractors with whom we have had experience. We will probably hard bid the project to 3 qualified general contractors.

Lease up and the Operations of the building will be controlled by utilizing experienced Crescent staff to manage the project upon completion of construction.

### **4. Risk and Return**

#### **RISK**

Key areas of risk include: construction, leasing, operations, increased insurance costs and eventual sale valuation. Environmental risk was assessed and resolved prior to acquisition of the land on which the project will be constructed.

#### **Market and Lease-up Risk**

Leasing risk will be a function of the balance of supply and demand for space in the submarket in which the project competes. Current indicators suggest a very healthy outlook for office space in this submarket as evidenced by the leasing success of the other properties including the releasing of the Enron project totaling 800,000 square feet and the current Class "A" vacancy rate of 7%. We have assumed a rental rate of \$23.50 psf in our proforma. This rate is supported by the rates paid by new products being brought to the market by competitors.

#### **Insurance Costs**

The past 36 months of hurricane activity in Florida have caused insurance companies to quote higher than normal builder's risk rates. We will mitigate the price increases by allowing the general contractor to provide builder's risk throughout their existing relationships.

#### **RETURNS**

#### **Cost and Financing**

Project costs including land basis are expected to be \$15,075,000. For the levered analysis, we have assumed project specific financing with a loan to value ratio of 64%.

We expect to spend approximately 2/3 of the project costs in 2007 with the remainder being spent in 2008.

### **Exhibit 4 – Underwriting Assumptions and Project Costs**

### **Quantifiable Benefits**

While we expect the project to generate attractive current returns during the holding period, the expected sale of the property will provide a significant increment to the return on capital invested. We have calculated the expected internal rate of return (IRR) based on 2010 (year two of operations) as the most likely year of sale. The pretax leveraged IRR is expected to be 25.70% and the pretax unlevered IRR is expected to be 13.44%.

### **Exhibit 5 – Cash Flow Summary**

### **Sale at Completion**

The potential results of sale will be a function of the balance of supply and demand for investment real estate, which balance is in part affected by capital market conditions. Current capital markets for office real estate are very favorable. We have underwritten the project sale with a 7.00% spot cap rate. Further, our quality of construction, our typical long term leases and the strength of our corporate capital structure allow us to hold the project through any turbulence in capital markets while still generating attractive current returns from operations.

### **Exhibit 9 – Cap Rate/IRR Sensitivity**