Project Report to Crescent Resources Board of Managers
Ocean Isle Landing – Ocean Isle Beach, North Carolina
January 2006

I. Proposed Project

A. Description

Crescent proposes to develop a shopping center including a 47,000 square foot Lowes Foods and 23,000 square feet of shop space on land to be acquired in Ocean Isle Beach, North Carolina. Crescent would purchase 122 acres in March 2006 and sell 102 acres within 60 days of closing to DR Horton and an investor.

In addition to developing the shop space, Crescent would sell (or potentially ground lease) seven outparcels. There has been a high level of tenant interest in the shop space and outparcels.

Construction on the shops would begin in late 2006.

B. Cost and Financing

Project costs including land basis are expected to be $14,055,700, of which $9,600,000 could be market financed with debt. Therefore, this project is being underwritten as 70% non-recourse financed, even though it will likely be funded 100% by Crescent's parent.

The 2006 capital required for this project is included in Crescent's current 2006 plan and totals approximately $4,860,000 which consists of $3,360,000 for the land acquisition ($15,645,000 purchase price less $11,285,000 sale to DR Horton and $1,000,000 sale to an investor) and $1,500,000 of project costs. The remainder of the project costs will be spent in 2007.

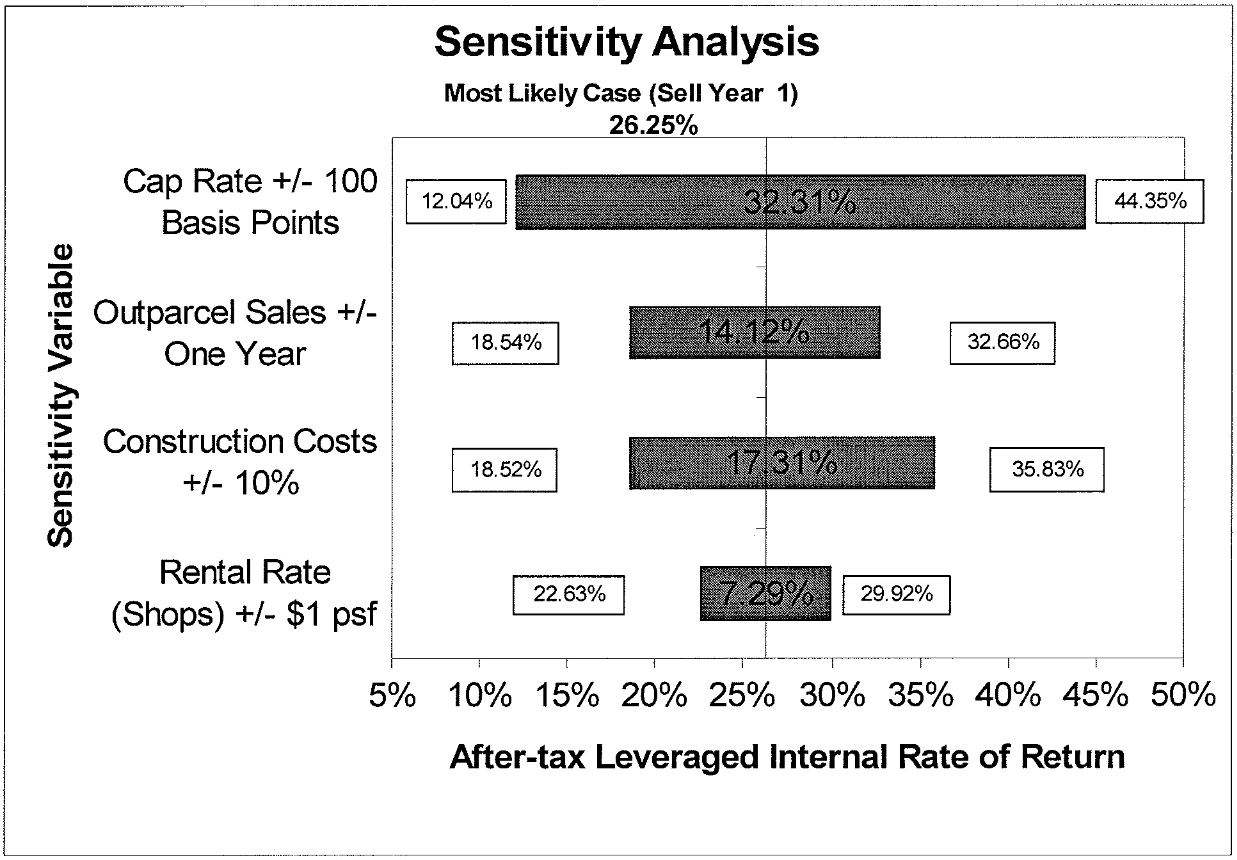
II. Quantifiable Benefits

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) for each year of the potential holding period assuming a sale at the end of each year. The results at the end of Years 1-2, the most likely years of sale, show a range of 21.75% to 26.25% exceeding our leveraged hurdle rate of 14.25%. The cumulative

EBIT contribution totals $2,949,798 and $4,110,211, for years 1 and 2 respectively.

III. Risk and Sensitivity

Key areas of risk include: construction, leasing, operations, and eventual sale valuation. Environmental risk was assessed through a Phase I audit completed prior to the acquisition of the land. The following diagram details the key areas of risk and their effect on the project assuming a sale of the property at the end of the first year of operations.



Construction risk will be mitigated by bidding and contracting the work on a fixed price basis with bondable, qualified contractors.

Leasing risk will be a function of the balance of supply and demand for space in the submarket in which the project competes. Leasing momentum should be established by the Lowes Foods. We have had significant pre-lease interest in the outparcels from several retail prospects.

Operating risk will be controlled by utilizing experienced Crescent staff to manage the project upon completion of construction.

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. Grocery anchored centers are currently trading around an 7.0% cap rate. This project is being underwritten with an overall 7.5% cap rate.

IV. **<u>Other Corporate Support Groups</u>**

There are no unusual legal or tax issues expected from this project which would require input from any corporate support groups. Business Unit Finance concurs that the project is readily financable on a non-recourse basis, but plans to sell it make such financing impractical at this time.