I. Introduction

The purpose of this white paper is to request Executive Committee approval of a contract to sell approximately 30 acres to Ikea Property, Inc. for $9,060,000.00 and for Phase I funding for the site. The Ikea, 30-acre site is part of an existing 163.65-acre tract (105 useable acres) owned by Crescent Resources at the intersection of and fronting on I-85 and City Boulevard in northeast Charlotte.

B. Executive Summary

Crescent Resources has owned the overall tract since 1997 and has a historical book value of $9,650,000(?) and MSREF value of $15,000,000(?). The majority of the site is presently zoned I-1, which allows for office, industrial and retail up to 100,000 square feet per parcel along with restaurants. Presently we are only seeking rezoning of the land associated with Ikea, to a Planned Development District which will allow Ikea’s 350,000 square foot building and their required site and building signage. The remainder of the overall tract will keep its present zoning classification.

Based on obligations in the Ikea Contract, and in anticipation of future sale/development opportunities associated with this development, Crescent Resources is seeking Phase I authorization of $14,747,000.00 from the Executive Committee to accomplish two things:

1) Work required under the Ikea contract:
   • extend and create a new road network around the existing City Boulevard and I-85 interchange, grade and,
   • extend utilities and build the detention pond for the Ikea parcel, as shown on Exhibit__.

2) Requested Additional Work to benefit Crescent adjacent parcels that front on the Ikea-required road extension.
   • Grade adjacent Crescent tracts and,
   • extend utilities to the adjacent tracts.

Of this $14,747,000 request, Crescent Resources will be reimbursed from Ikea approximately $3,100,000.00 for grading, dirt import and retaining wall work and approximately $2,000,000 from the City of Charlotte as reimbursement for the extension of City Boulevard past the Ikea entrance towards a future connection point at City Boulevard and State Highway 29. The City reimbursement will come from an already funded capital bond project.
Thus, when the Ikea sales price of $8,464,000.00 (net of closing costs) is considered with the approximate $5,100,000.00 reimbursement, Crescent will receive $13,560,000.00 of funds so that only a net $1,200,000.00 of additional capital is required to prepare the adjacent parcels for sale. The total sales associated with the adjacent sales are approximately $16,000,000.00 over a four year period.

The Ikea contract calls for the site and road improvements to be completed within a certain number of days from Crescent Resources’ receipt of the required permits in order to meet Ikea’s proposed opening schedule of Spring 2009. Crescent Resources development and contractor team, which includes two Charlotte, site-work contractors and Kimley Horn Engineers, have analyzed these timeframes and are confident these dates can and will be met.

The pertinent construction item deadlines are as follows:

1. Site grading and temporary utilities for Ikea tract – 8 months from permitting
2. City Blv. extension – 11 months from permitting
3. Connector road construction to Ikea truck exit – 11 months from permitting, and
4. Permanent utilities, master plan signage and detention ponds – 10 months from permitting

If these dates are not met, subject to extensions allowed for by force majeure and adverse weather, Crescent Resources will be subject to daily fines that could reach $30,000 per day. Consequently, Crescent has undertaken intensive up-front analysis.

The contract also calls for the obligation by Crescent to complete the remainder of the Connector Road to McCullough Blvd. by the later of a) one year from Ikea’s opening or b) one year from all permits required to construct the remainder of this portion of road. This obligation is further defined to be required only if one of the following conditions exists:

1.) An additional 300,000 square feet above and beyond the Ikea building is constructed within the overall tract, or
2.) Crescent Resources and the City of Charlotte enter into a development/reimbursement agreement whereby the City agrees to reimburse Crescent Resources for no less than 50% of the cost of the Connector Road portion to McCullough.

The anticipated City-reimbursement mechanism is a synthetic tax increment financing (“TIF”) tool, where the City will reimburse Crescent Resources using 90% of the City’s portion of property taxes received above the existing tax revenues presently being collected. The reimbursement period is will be a minimum of 10 years.

The costs associated with the Connector Road extension all the way to McCullough Boulevard and site work associated with the additional parcels fronting on the connector...
The road is estimated at $9,500,000 and would be presented to the Executive Committee for approval when the timing is appropriate.

The unleveraged internal rate of return for Phase I is 35.29, and the unleveraged internal rate of return for the overall project is 20.87 assuming an imputed market land value of $10,000,000.00.

In addition, Crescent has the strategic opportunity available to purchase a 40-acre site across City Boulevard for $6,750,000.00 which Crescent Resources has contracted for and has tied-up through November 2007 with monthly purchase options. This purchase request is presented as a separate Executive Committee agenda item. Crescent Resources management feels this tract can benefit greatly from the Ikea traffic and would like to control the direct competition for the same retailers Crescent Resources will be pursuing for the tracts adjacent to Ikea.

The remaining White Paper will focus on property specifics, the development team, market conditions, project risks and returns, and an investment recommendation.

II. Project Specifics

A. **Location** (narrative to be completed by Dave)

   - Exhibit 1- Location Map
   - Exhibit 2- Master Plan with Site Access
   - Exhibit 3- Ikea Parcel
   - Exhibit 4- Future CDOT Plan
   - Exhibit 5- Future Transit Plan

B. **Physical Description** (narrative to be completed by Dave)

   - Exhibit 6- Tracts
   - Exhibit 7- Alta Boundary Survey (Belk Tract)
   - Exhibit 8- Existing Topography
   - Exhibit 9- Zoning

C. **Development Plan**

   1. **Estimated Development Timeline** (narrative to be completed by Dave)

      - Exhibit 10- Phasing Plan
      - Exhibit 11- Parcel Plan

   2. **Development Costs** (narrative to be completed by Dave)

      - Exhibit 12- Grading Plan
      - Exhibit 13- Scope/Budget Outline
III. People

A. CRESCENT PROJECT TEAM:

- Chris Hack, Vice President-Retail Development: Chris will be responsible for the overall project supervision as well as interactions with IKEA.

- David Niekamp, Director of Retail Development: David will act as overall project manager. His responsibilities will include but not be limited to managing all aspects of permitting, approvals, civil engineering and land sales.

- Mac Barksdale, Leasing Associate: Mac will be responsible for assisting the project manager with the day to day development, including assisting with land sales.

- James Kirkendoll, Vice President Construction: Jim will oversee construction on the site

- Robert Zeiller Vice President Construction: Bobby will take the lead role in negotiating the Development Agreement.

- Miki Eide, Assistant Controller: Financial Manager of Project

- Henry Lomax, Vice President Capital Markets: Manage Letter of Credit Documents/Bonds, oversee the tax increment financing for the connector road.

B. EXTERNAL DEVELOPMENT TEAM:

- Civil Engineering, Zoning Consultant, Traffic Consultant: Kimley Horn and Associates

- Surveying, Geotechnical, Environmental: CESI

- Wetland Permitting, Historical and Endangered Species: Len Rindner and Associates

- Legal Counsel: Robinson Bradshaw and Hinson (Bob Sink and Brent Torstrick)

- Site Marketing: Crescent is presently interviewing three top retail brokerage firms
  1. Shopping Center Group – Charlotte based and the broker for Ikea
  2. Core Properties – Charlotte based and the broker for Target, Kohl’s and The Home Depot.
3. NAI Huffman – Chicago based and broker for successful furniture/design center near an existing Ikea in suburban Chicago.

IV. Market

A. Competitive Overview (narrative to be completed by Chris Hack)

Exhibit 14- Recent Land Sales
Exhibit 15- Demographics
Exhibit 16- Adjacent Retailers

B. Sales/Revenue Projections (narrative to be completed by Chris Hack)

Exhibit 17- Sales Projections
Exhibit 18- Sales Plan

C. IKEA Effect

The Crescent Retail Team has traveled to Phoenix and Dallas to survey the development opportunities that were created adjacent to a new Ikea store. Both locations have spurred adjacent furniture, electronics, restaurant and hotel interest. Retailers such as Rooms To Go and Ashley Furniture have paid over $1,000,000.00 per acre for adjacent sites that feed off the traffic generated from the Ikea store. After Ikea’s Charlotte announcement, Crescent received inquiry from Furniture Row, a Denver, Colorado furniture chain, who has said they will pay over $500,000.00 per acre for an internal 6.5 acre site to accommodate their 60,000 square foot store.

Several Ikea brochures are presented on Appendix A which show Ikea’s sales history, existing and future store locations as well as a brief description of the Ikea shopping experience.

Exhibit 19 – Ikea Dallas/Frisco Aerial
Appendix A – Ikea Brochures

V. Risk/Return

A. Investment Rationale/Overview (narrative to be completed by Chris Hack/Miki Eide)

Exhibit 20- Sales Absorption Schedule and Projected Per-Acre Sales Prices

B. Measures of Profitability (To be completed by Chris and Miki)
   a. Phase I Unlevered IRR

Exhibit 21 – Annual Summary Calculations
Appendix B – Quarterly Projections of the Phase I IRR Calculations

b. Phase Gross Margin (show calculations)
c. Overall Unlevered IRR

Exhibit 22 - Annual Summary of the IRR Calculations
d. Overall Gross Margins (show calculations)

C. Significant Risks (what are the significant risks and how are we dealing with them?) (To be completed by Chris and Miki)

VI. Recommendation:

The opportunity to land the Ikea store and reap the benefits of the nearly 1.75 million yearly customers and the projected $80 million in annual sales creates a built-in draw for the remaining 70+ developable acres on this tract. Adjacent developments found around other Ikea’s around the country include large mixes of retail, restaurants, hotels, multi-family and office, all of which Crescent Resources foresees as potential adjacent uses. We have already received inquiries from furniture retailers, restaurants, fuel centers and multi-family developers. With Ikea’s location decision and Wal-Mart choosing an adjacent site on State Highway 29 to reposition a new Supercenter, the retail market appears to be shifting south away from the existing retail hub at Harris Boulevard and I-85. Based on these favorable market conditions, we respectfully request approval of the $9,000,000.00 sale and the Phase I capital expenditures of $14,747,000.00.