

Hammock Dunes Owners Association - 25th of March 2013 Annual Meeting

Asset Purchase Presentation - Questions & Answers

Question 1: Will the HDOA assume all liabilities and obligations of the Declarant as part of the purchase?

Answer: Only the purchase of the Declarant Rights is pertinent to this question. All activities and actions by E2M up to the closing date remain their responsibility, and all accounting for expenses and revenue will be adjusted to this date. After closing, the HDOA would accept all rights and obligations. In July 2011, the HDOA retained Holland and Knight LLP, a major Florida licensed Homeowner Association Law Firm, to assess Declarant liabilities and obligations. The Firm determined that the Declarant Rights (By Laws, Master Declarations and CCRs) and Florida Statutes protect and restrict legal action against the Declarant. The Firm further determined that the Declarant cannot be held liable or responsible for any violation of these Declarant Rights. The HDOA does not anticipate any legal issues arising from this asset purchase, and maintains liability insurance plus two Legal Firms on retainer to protect both the HDOA Board of Administrators and you, the HDOA owners.

Question 2: If lots are combined is one connection fee charged per lot if only one home is built?

Answer: No. Each lot in the Declarant Rights Master Declarations is plotted as an individual homeowner unit. Unless the Declarant allows re-plotting of multiple lots into a single lot, both annual dues and connection fees are required to be paid for each plotted lot, as designated in the Master Declarations. As Declarant, the HDOA does not anticipate allowing re-plotting of multiple lots into a single lot to avoid paying the annual dues and connection fees associated with each individually plotted lot.

Question 3: Would you allow a retail operation in the Front Gate Sales Office?

Answer: No. The HDOA Board position is to only lease the Front Gate Sales Office to a "Hammock Dunes Friendly" enterprise to: 1) ensure a professional and inviting look to our Main Entrance, 2) provide either a direct service to Hammock Dunes Owners or 3) potentially help sell and grow our "Premier Oceanfront Community". The HDOA is currently finalizing a multi-year lease agreement with Southern States Management Group as the primary tenant of this property.

Question 4: Is the Front Gate Sales Office protected as part of the A1A Ocean Shore Scenic Highway?

Answer: No. Only Florida State Road A1A falls within the A1A Ocean Shore Scenic Highway jurisdiction.

Question 5: Can the Connection Fees be increased?

Answer: No. We have discussed future connection fees with the DCDD Board of Supervisors and they have stated that they will neither increase nor decrease the \$4,500 water/sewer

connection fee for new construction units. We have also requested and DCDD has provided a legal agreement that states that the DCDD will continue to honor this Connection Fee Agreement, once the HDOA acquires this agreement as part of the asset purchase. Therefore, the DCDD will continue to charge \$4,500 for each new connection, and disburse \$3,500 to the HDOA. We feel that is fair for both current and future owners.

Question 6: What percentage of owners is needed for approval?

Answer: The By-Laws and Master Declarations require a simple 51% majority “Yes” vote. We asked Taylor & Carls, P.A., one of our two retained legal firms, to review the By-Laws and Master Declarations to ensure that we properly announce the Member Meeting, scheduled for the 20th of May, and distribute the Proxy Ballots, both mailed via USPS, with all votes counted at this 20th of May Member Meeting.

Question 7: Why does E2M think this four package deal is worth \$1.875 million?

Answer: The total price is a risk versus reward tradeoff, as presented in our presentation. Remember, we started negotiations with E2M, last November 2011, with E2M asking \$3 million for these same four assets. E2M is a major developer in Texas and in the southwest portion of the United States. They are actively developing shopping centers, commercial real estate and single family home developments, similar to Hammock Dunes. From E2M’s perspective, these four remaining assets are an insignificant component of their balance sheet, and they would just as easily retain them, until the economy continues to improve, and then sell these assets at a later date to achieve their initial a\$3 million asking price. The HDOA Board of Administrators does not wish to accept the risk of a future non-friendly Declarant. The HDOA firmly believes that we have negotiated a fair market price for these four assets at this time, with the sole objective of protecting Hammock Dunes and owner property values from the risk of a future non-friendly Declarant, with a realistic “return-on-investment” plan for all four of these assets.

Question 8: What is the DCDD connection fee for water rights to the two condo pads?

Answer: Each of the two remaining undeveloped condo pads includes 64 units for a total of 128 units. WCI previously paid the \$4,500 connection fees for each of the 64 units associated with the northern vacant pad, but they still owe \$4,500 for each of the 64 units associated with the southern vacant pad. The referenced remaining 240 available new construction connection fees, therefore, include the remaining 64 southern condo pad units.

Question 9: Unless the HDOA owns and leases the Front Gate Sales Center property forever, can the HDOA restrict its use if it sells this property this property at some time in the future.

Answer: If the HDOA decided to sell the Front Gate Sales Office at a later date, it could attach certain restrictions to the deed associated with both its use and architecture. However, if that future owner either ignored these restrictions, defaulted on the mortgage, declared bankruptcy, or for other reasons just failed to maintain the appearance of this front entrance property, the only recourse for the HDOA would be to take legal action in the courts. As we have seen with similar situations, with neglected or abandoned properties within Hammock Dunes, the extended court

process still leaves a very visible “property eye sore” within the community while any legal action works its way through the courts. Therefore, the HDOA does not envision selling this property, as it both complements and protect the inviting front entrance to our “Premier Oceanfront Community”.

Question 10: How will the loan amortize on a 10 year period?

Answer: We have modeled several alternatives associated with amortization and interest rate. As an example, a 15 year amortization at 4.5% interest is one of these alternatives. We have also modeled other schedules up to 25 years. At a 4.5% interest rate over 15 years, the P&I was about \$124,000 per year. We will not know the exact terms and condition, including interest rate, until we complete our negotiations with the several financial institutions that we have contacted.

Question 11: How much rent can be charged at the current Front Gate Sales Center?

Answer: Current rental rates for this size building range between \$65,000 - \$75,000 per year based square footage, useable interior office space and lease maintenance terms and conditions. As mentioned in Question 3 above, the HDOA is currently finalizing a multi-year lease agreement with Southern States Management Group (SSMG) at \$72,000 per year. Conditions of this lease also include SSMG assuming sole responsibility for paying all Flagler County real estate taxes, building insurance and general maintenance (interior, exterior and landscape), thus relieving the HDOA from these annual expenses. This \$72,000 per year lease, including its “Triple Net” taxes, insurance and maintenance terms, is an extremely good deal for the HDOA, and provides convenient access for HDOA owners to SSMG.

Question 12: How long is the existing lease on the commercial property and do we have to honor it?

Answer: The existing lease agreement between E2M and SSMG terminates on the date that we formally conclude the purchase of these remaining assets. We have already coordinated with both E2M and SSMG and they have agreed to modify this existing lease agreement with a date of sale termination clause. As a result, the lease terms addressed in the answer to Question 11 above, take effect the day immediately after we have concluded the asset purchase.

Question 13: Does this purchase include the condo pads next to the Tuscany condominium?

Answer: No. These condo pads are currently owned by WCI Communities Inc., not E2M, and are not part of the four assets discussed in the presentation. As stated in the answer to Question 8, WCI is still responsible for paying the connection fees on 64 units once they initiate construction on the southern condo pad.

Question 14: The A1A South Billboard is an income producing item. Why not keep it and rent it out to the new Caldwell Banker that took over Luxury Team?

Answer: The A1A South Billboard currently generates \$275 per month net revenue to E2M, after the commission paid to Clear Channel, the leasing agent. This yearly lease agreement will

transfer to the HDOA on the date of asset purchase closing. The HDOA does not intend to immediately terminate this lease, as the annual lease term is January to December each year. The HDOA Board will honor our commitment to the Hammock Dunes community, as described in the presentation, to remove this billboard and replace it with South Gate/ Island Estates entrance signage, but we will need to assess and budget the cost of this project in either our 2014 or 2015 budgets, based on other infrastructures priorities. In the interim, we will continue to lease through Clear Channel, while retaining the \$275 per month net revenue.

Question 15: When the vote happens can there be absentee votes?

Answer: Yes. Owners may vote either in-person or by mail-in proxy. As described in the answer to Question 6 above, we will formally announce the Member Meeting, scheduled for the 20th of May, and distribute the Proxy Ballots, both mailed via USPS, with all votes counted at this 20th of May Member Meeting.

Question 16: Could the Declarant put Clicker Beach up for sale?

Answer: No. Clicker Beach is considered common property that has been turned-over to the HDOA, so an "un-friendly" Declarant cannot sell Clicker Beach, without HDOA owner approval.

Question 17: Please explain why DCDD would agree to take over the maintenance of the road between Hammock Dunes and Ocean Hammock, but will not use their excess Bridge reserve funds to buy the Connection Fee Agreement.

Answer: As stated in the presentation, E2M is requiring that the HDOA purchase the Connection Fee Agreement as part of the Asset Package. According to the DCDD's legal opinion, the DCDD Bridge reserves can only be used for "outside the gate" purposes that benefit all users of the Bridge. After, the HDOA completes the asset purchase; we will consider selling this agreement if the price is right.

Question 18: How much time has E2M given you to accept this deal?

Answer: We have until June 30 to close on the deal. After June 30, a penalty clause kicks in that increases the price by \$50,000 dollars and we then have until September 30 to close the deal. After September 30, E2M walks away and they put these four assets up for sale with a Commercial Broker.

Question 19: What's the chance that E2M might back out of this whole deal before settlement?

Answer: Very minimal risk. We have developed a mutual, professional trust with E2M. They are a very ethical and highly respected firm in Texas, who is looking forward to a graceful exit from Hammock Dunes. We are confident that they are not going to back away from this deal.

Question 20: If the current structure of the dues is sufficient to generate extra reserve, why do you need an increase the monthly dues?

Answer: We have not negotiated the final terms of the loan, but are targeting less than a \$5 increase in monthly dues for the asset purchase.

Question 21: Why wouldn't you try to retire the debt in 3 years?

Answer: Retiring the debt from this purchase in three years would require a significant increase in monthly dues, and such a 3-year financial strategy would neither be realistic nor fair for current versus future owners of Hammock Dunes property.

Question 22: Does the HDOA Board have the talent and money, beyond the acquisition, to re-energize the build-out of Hammock Dunes?

Answer: Yes. Hammock Dunes includes a large pool of active and retired financial and legal professionals and developers, many of whom are members of HDOA committees or have already volunteered to help the HDOA move forward. The HDOA welcomes volunteers who wish to add value as we move forward with this exciting purchase.

Question 23: The Declarant has the right to "add" property to Hammock Dunes. Why was this not mentioned in the presentation?

Answer: The presentation actually addressed this fact.

Question 24: Lots that have been platted and also all property that has been turned over to the HDOA cannot be changed by any Declarant. Is it the development of the vacant WCI condo pads and additions of land to Hammock Dunes that is the risk?

Answer: Current platted property turned over to the HDOA cannot be changed by the Declarant. However, the Declarant has the authority to change the development vision of the vacant condo pads, in coordination with the current or future vacant condo pads developer, or other outside property that the Declarant wishes to annex into Hammock Dunes.

Question 25: Are there any other future potential liabilities arising from past developer ownership of Hammock Dunes?

Answer: See our response to Question 1 above.

Question 26: What is the estimated annual reserve requirement necessitated by this purchase?

Answer: The only asset associated with this purchase that will require an annual reserve contribution is the Front Gate Sales Office. Since the HDOA Annual Budget includes dedicated reserve contributions for all community infrastructure assets, the 2014 Budget will also include a reserve line for this new Front Gate Sales Office. We estimate that the remaining useful life of the Front Gate Sales Office is 30⁺ years and will, therefore, start setting aside approximately \$25,000 in replacement reserves per year starting with the 2014 Budget.

Question 27: Does the 240 unit connections, at \$3,500 per connection, include the two condo pads?

Answer: See our response to Question 8 above. The 240 number includes 64 of the 128 condo pad units, since WCI previously paid for the first 64 units.

Question 28: Assuming the purchase goes through, are there any other remaining rights, or assets that would keep the community from controlling its own destiny going forward?

Answer: Once the HDOA completes the purchase of these four remaining developer assets, including the Declarant Rights, the HDOA and you as owners have total control over the future destiny of Hammock Dunes.

Questions 29: If the members approve the purchase, is the deal done?

Answer: The deal is contingent on two conditions: 1) a 51% simple majority "Yes" vote and 2) a financial viable loan. Assuming both these conditions are met, we will move immediately to close this purchase no later than 30 June 2013.

Question 30: Has there been a fair market appraisal by an outside firm and what was the appraisal?

Answer: In November 2011, we retained a professional commercial appraiser, Cooksey Associates, to assess the value of the Front Gate Sales Office. Cooksey appraised the Building and Land Parcel replacement value at \$1 million. We recently contacted Cooksey and discussed current value to that of a year and a half ago, when he completed the appraisal. Based on both land and construction cost increases over this year and a half, Cooksey Associates estimates that the current replacement value is in the range of \$1.1 - \$1.2 million.

Question 31: Could the DCDD renegotiate their agreement to retain more than \$1,000 for themselves?

Answer: No. See our response to Question 5 above.

Question 32: Do the permits that relate to the 240 connection fees expire?

Answer: No. The Connection Fee Agreement remains active until all units are built-out and all 240 units are charge the \$4,500 per unit fee.

Question 33: If we do not buy the Declarant Rights, can a developer create apartments homes on the condo pads?

Answer: Yes. Whoever owns the Declarant Rights can change the Master Declarations and the Covenants, Conditions, and Restrictions (CCRs) that define and/or restrict property lease or rent frequency and number of guests permitted to stay in a unit at any given time. An "un-friendly"

Declarant would also have the authority to tailor these documents, as desired, for any additional “outside the gate” property that this Declarant may want to annex into Hammock Dunes.

Question 34: Can we charge additional development fees? Can we increase the connection fees from \$4,500 to \$8,000? Can we charge developer fees on the condos to come?

Answer: Regarding Connection Fees, see our response to Question 5 above. Although as Declarant the HDOA could charge additional development fees, we do not view this as a positive strategy that would encourage developers to accelerate and complete the build-out of our “Premier Oceanfront Community”.

Question 35: If we buy these Declarant Rights, could we assume that we will benefit financially if we generate income from selling the condo pads?

Answer: The condo pads are not part of this acquisition, as they are independently owned by WCI Communities Inc. However, as referenced in our response to Question 8 above, once construction begins on the southern condo pad, the HDOA will gain the revenue from 64 new connection fees at \$3,500 for each of the 64 connections.

Question 36: If purchase is allowed by the HDOA owners, what stops HDOA from total control over everyone and everything in the community, like a big brother?

Answer: The Declarant Rights define the obligations, authority and responsibility of the HDOA and your HDOA Board of Administrators. Although an “un-friendly” Declarant can make significant changes to these documents without an HDOA Board or owner vote, once the HDOA assumes the role of Declarant, the HDOA Board cannot significantly change these documents without an approval vote of the owners.

Question 37: Can anyone obtain an employee ID and gain access to Hammock Dunes?

Answer: The only employees granted Hammock Dunes IDs are Club employees. The Club controls the issuing of these IDs and only issues them to active employees. When the employee resigns or is fired, the Club retrieves and destroys the employee ID.

Question 38: Do we really need a Hammock Dunes ID for Club employees?

Answer: Working jointly with the Club, the HDOA supports issuing IDs to Club employees for gate access in lieu of driver licenses. Requiring Club employees to carry a Hammock Dunes ID, ensures that only authorized individuals have frequent access to Hammock Dunes.