



ESTRELLA DEL MAR
Mazatlan, Mexico

OBSERVATIONS AND RECOMMENDATIONS
March 2000

Note to the reader ...

Estrella Del Mar was an existing beach front golf resort master planned community with 800+ homes and condominiums in the \$200's - \$1mm price range to be built. The community featured an 18-hole golf course designed by Robert Trent Jones. Sales were flat and even though there was sufficient traffic, the sales were not happening.

On turn around projects we always prefer to visit the project and the area to determine what had caused its lack of acceptance or sales success. Once we determine the basic issues and what it would take to turn it around, we draft an Observations and Recommendations report. We present this report to the ownership entity to make certain they embrace the actions and necessary budget needed for a successful turn around. This way we all start on the same page with the same goals and expectations.

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COMMUNITY EVALUATION

Each of the following topics evaluated are ranked on a scale of 1 – 5, 1 being the lowest ranking and 5 being the highest with the highest possible perfect score of 45.

1. COMMUNITY LOCATION

RANKING: 4.0

I was pleasantly surprised at how close the Community's entrance is to the airport of Mazatlan. However, as we have discussed, the Community is in fact remote from the city of Mazatlan, as well as any services such as shopping, dining, medical facilities and food stores. This means that the kind of guests we should appeal to, until such time that these services are available, would be those who enjoy the remoteness of the Community and have no problem preparing for that.

Obviously, we would not be appealing to guests who like to be in the 'hub' of activities when they are either on vacation or enjoying their second home residence. I found the remoteness, of Estrella del Mar, very appealing and as long as I was able to have the creature comforts I am looking for such as a wonderful environment, fabulous beachfront vista, fine service from a friendly accommodating staff, then I do not see the lack of proximity as a problem.

We are, however, the ground breaking Community for Mazatlan when it comes to upscale Resort accommodations. This means travelers traditionally going to Mazatlan were comfortable with accommodations such as El Sid or Pueblo Bonito. It is my opinion that we are appealing to a very different type of buyer or guest than these types of Resorts traditionally attract. I do believe the Community and its location is extremely viable for being in upscale Resort whose guests would enjoy remote beachfront living.

Recommendations: Create a sense of upscale elegance in the advertising campaign and printed materials that turns the negative of the remoteness of the Community into a positive. This way, buyers who are attracted by the ad will, in fact, get what they expect, which is a quality, top notch Resort in a secluded beachfront setting.

2. ENTRANCE & INITIAL PRESENTATION

RANKING: 3.5

My first impression of arriving, at Estrella de Mar, is that the fence design that secures visitors and guests is not as upscale as it should be. The sign, which appears to be wood of the logo and name, is too understated and gives the impression of non-permanence or lack of funding from the developer/owner.

It would be my opinion that you would have a much better first impression of the fencing off of the main road if it was heavily landscaped and built more in keeping with the gated entry 100 yards beyond this point. Beyond the main entrance, the guard and the gate are very well done. They are in keeping with the style and

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essences of the Property, which is a timeless, understated resort elegance. The vistas once you have entered the gate are relaxing and panoramic. Seeing green grass after witnessing the views typical for Mexico gives you a sense of elegance and detailed grooming that is expected in an upscale property. However, as you travel the property, the attention to detail falls short in various entryways into the interior villages of the Community. It feels as though they are not completed yet and the Property is still under development, when in fact this is not necessarily the case.

Recommendation: I would suggest that the gated area, off of the main road prior to the guarded entrance, be landscaped and enhanced to meet the design and style of the Community since this is the buyers' first impression. I would also suggest that the intersections for arteries into the villages of the Community be landscaped and marked with permanent signage that brings the whole concept of multiple structures of the Community into play. I would change the logo monument at the entrance to match the style of the gate and make it a more predominate part of this gated/fenced area. I believe it is best to look at all of the components of the Community, so that the entry monuments are cohesive and in keeping with the architectural style set by the guarded gate entrance, itself.

3. STREETSCAPES & MONUMENTS

RANKING: 2.5

As mentioned above, I do believe that the monuments for the Hotel, the Villas, the Condominiums, the Nursery, the Turtle Camp, and the Clubhouse/Pro Shop should be built in keeping with the architectural style of the Community and have lush landscaping and architectural lighting.

The main artery has the appropriate streetscape reinforcing the style of the Community as an understated resort Complex but there are areas left barren where there should be signage or monuments. Signs and elegant markers should be erected indicating some of the fantastic approved future development. A couple of these areas are very visible from the main parkway and left me with a sense of under funding or incomplete land development.

Recommendations: The monuments need to be built marking the different components of the Community, as well as its features and these monuments should be in keeping with the architectural style of the structures of the Property and the guard-gated entrance. The entire monument program should be reviewed as a team effort, including the residential sales team and golf operations staff.

4. PRODUCT MIX

RANKING: 3.5

The Project, as it stands today, offers two product lines. One is the stacked flat condominium units featuring 1, 2 & 3 bedroom floor plans and the other product is the villa single-family estates. The presentation of the

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product in the sales package does not portray the true essence and quality that exists. I was pleasantly surprised at how well the architecture and layout of the condominium project worked in its site location, and how well the flow of the floor plans worked inside the units. These units will definitely appeal to the targeted market in the US.

The brochure and ad campaign does not in any way portray how well the condominiums capture the essences of fun Resort living and super close beachfront proximity that adds tremendous value to these units. The single-family estate villas are also extremely well positioned on the Property, however sales promotions should be halted until there are completed floor plans with the architectural detailing in place. The units did not show well in their current state. A merchandised model will add tremendous value and should be considered at this time. In its current state I was not able to appreciate the true style or essences of this product for its price point.

It would be my recommendation that one of the estate villas be expertly merchandised to show off and capture the spirit of upscale Resort beachfront living. The merchandised model would not only add value to the buyer's perception of the product, it would create an emotional attachment to living in the Community and enjoying the fruits of labor needed for owning a product of this price and caliber.

Plus, the materials created do not, in any way, 'show off' the value of the villas as a location and since there is no heavy Resort style landscaping or signage as yet, all that a buyer has to feel the elegance of the unit is pictures or renderings, which are not available at this time.

Buyers will feel more emotional attachment to the project if they are able to tour a fantastic model and visualize themselves living this lifestyle soon. Merchandised models in today's society truly helps sell and capture the buyer's heart not just their head, when they are shopping Resort property.

Some of the highest expenditures in the Palms Springs resort market are on the merchandising of the model homes. For example, in the Rancho LaQuinta Resort each individual model home received over \$200 per square foot of interior up fittings and merchandising. Stepping into a model, in Rancho LaQuinta, is like stepping into paradise. This is why I feel it is absolutely imperative to merchandise a model home for the type buyer we would be appealing to who could make a decision on a million dollar Property quite easily, whether it is a primary home purchased or secondary home.

It is my opinion, at this time, that this Project promotes secondary home living, since most of the creature comforts are not yet available and is in fact set up as a Resort project for the affluent.

Recommendations: I would not alter the floor plans of the condominiums, nor the Project's architectural detailing. I think it is very well done and has the right feel for the price range that will also increase as the Project progresses and moves forward. However, I would look into rearranging

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some of the interior floor plans of the estate villas, as well as merchandising a model in the estate villa section.

I would also suggest that there be signage possibly capturing a rendering of this area, so that the buyer can feel the Project's 'look' or style, upon its completion. This is basically selling the dream since, as it stands today, there are numerous homes that must be constructed to create and complete the dream of this village or area in the Community.

It is not necessary to do this for the condominiums, since the entire building structure is nearing completion, including the landscaping and the amenities. Plus, the price range of the condominium purchase is much more palatable, therefore, an easier decision and appealing to broader, less targeted market.

5. AMENITY PACKAGE

RANKING: 2.5

Below is the list of amenities that should be considered added to the ones present for creating a complete resort lifestyle in Estrella del Mar. I have also included recommendations for enhancing the programming of the current amenities. It is my feeling that due to the remoteness of the Community there needs to be additional activities programmed for residents or guests. Even though the beauty and elegance of the golf course and the beach is a wonderful package, it is only part of what will make buyers choose Estrella Del Mar over competitive properties. To further entice buyers to live in Estrella del Mar the other amenities listed below should be considered for the community.

Adding these amenities could not only serve to increase sales but make the community more appealing to a broader market. To effectively compete in the non-domestic resort market, there must be a comprehensive recreational lifestyle for all members of the family, whether it is a second home purchase or primary residence.

The beauty of the amenities, as they are presented today, exceeded my expectations not only because of the proximity to the beach, but the ambience and style of the architecture of the Community. In addition to offering additional amenities, it is my belief that one of the best components to a Resort Community is some type of activities director, who has a complete calendar of 'things' to do once a family arrives at its second home or arrives home to their chosen lifestyle.

Obviously, once the Hilton Hotel is built, there would be extensive opportunities within the Hotel for activities, including such things as spas, workout facilities, health clubs, or water sports, as we have listed below. I would love to have the renderings or design specs of the Hotel to help in determining what amenities would be available long term. This is also a major component to the lifestyle package that is missing in the current presentation. Nowhere on the Property is there signage indicating the Hotel's future

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setting or the package of amenities available, once the Hotel is complete. It is my opinion that this is a very strong component to closing a buyer who is considering purchasing a home in Estrella del Mar. If the hotel is not confirmed yet then other avenues should be considered until such time that a final decision is made with the Hilton organization.

Recommendations: If the decision is made to build the hotel then I would recommend that the design and programming of the Hotel be completely explained in the sales materials, including renderings and a site map of all the different pools and spas that are going to be built as part of the Hotel. I would add the water sports, the excursions, and a confirmed shuttle service to and from the airport and Mazatlan. In all ads and sales promotions it should be obvious how close the resort is to the airport.

I would have better descriptions of the amenities in the materials. There is little or no romance in the brochure or sales collateral. The ads do not showcase the lifestyle strong enough to entice buyers to make the trip to the community. If you were to compare 10 or 15 of the best Resort ads in the marketplace today for beachfront living, you would find that lifestyle and amenities or recreational opportunities is the most dominant component in addition to seclusion and privacy.

6. SALES COLLATERAL

RANKING: 2.0

Probably the weakest aspect of the marketing of the Community is the sales collateral, exceeded only by the sales presentations and sales space not in any way a “gallery”. It is my opinion that the sales collateral does not give the prospective buyer a feeling of just the elegance and quality at which the Resort has been built. It is not specific to the Resort. It feels as though it is any beach property that features a golf course community. There are certain characteristics in Estrella del Mar that to me make it so special and worth the time and energy to get there.

The usage of the logo in all the materials in the Community, such as the hotel paperwork, the menus, the survey when I checked out of my room and the signage are all done very well. In fact, the logo has a nice feel to it. I would not change any of the colors or usages of the logo, at this time. More importantly, focus should be placed on the brochure piece and the inserts.

Recommendations: It is my understanding, at this time, that the brochure is temporary brochure and that a permanent brochure is under way. It would be important to make certain that this brochure capture the feeling of the Community and be emotionally enticing to prospective buyers. Also, that the inserts inside the brochure are more descriptive and of a much higher quality that represents the product and the amenities featured in the Community.

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It would also be important that the materials used to solicit buyers, to visit the Community, be of this same caliber and style and also be emotionally enticing to the buyer. This would be the focus for the next 30 to 60 days to make certain that the brochure and all sales collateral utilized in the solicitation of prospective buyers are much more in keeping with the quality and style of the Community, as well as emotionally connecting the buyer to the Property itself.

7. SALES GALLERY

RANKING: 1.0

Unfortunately, the sales gallery truly does not exist at this time. What is present in the Community is a sales office, which reminds me of a residential real estate broker's office. There is no place for a buyer to be captured and romanced into a sale. Even though the Property is beautiful, there are no lifestyle pictures in the sales sequence to attract a buyer into understanding how the Property will 'live'. The sales office feels messy, disorganized and uncomfortable.

It would be a much better presentation to a buyer if the 'busy office' materials were kept separate from the gallery presentation itself. Visiting any top beach resorts in the market today you will find a very elegant, extremely professional sales gallery presentation that lures the buyer into the sales presentation. This does not seem to be available in Estrella del Mar, at this time.

Recommendations: I would suggest we totally strip the sales office and start over or better yet move the facility to the upstairs office space. Up there is a fantastic view of the ocean and plenty of room to display the lifestyle needed.

We will need to paint the walls a more enticing color that emulates the logo and community's style. We would design a specific layout for this area and make certain that there is a specific sales critical path for the presentation of the materials.

It is my opinion that the photography is sufficient, at this time, to create the images, but that there is a lack of lifestyle photos in the collection. It would be important to make certain, if those photos exist, that they be used in the proper sequence and display area. There is not one photograph of Robert Trent Jones, as the architect of the golf course, nor is there any feeling that this is truly a golfing, beach resort Community in the display materials on the walls. There is not any space dedicated to the sale of the Hilton Hotel's future existence in the Community. To me, this is one of the strongest 'hooks' for choosing to buy now and not later, in Estrella del Mar. It would be important to place this as a centerpiece, along with the golf course, which, in fact, are two of the strongest sales 'hooks' in the Community.

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8. MARKETING STRATEGY / AD CAMPAIGN:

RANKING: 2.5

Although I have not yet seen what marketing is being orchestrated, at this time it is my concern that there is no capture of the local market in any way. Touring downtown Mazatlan, starting from the airport, I only saw one brochure display, no signs, no billboards and only the Pro Shop sales gallery in the downtown market.

It is my understanding that we would have the availability of the Hotel lobbies and certain restaurants in the city because of our connections through Lupe. It would be important to be visible in the Mazatlan marketplace. Estrella del Mar far exceeds El Sid or Puerto Bonito and could be an upgraded choice for their buyers who have enjoyed Mazatlan but want a more upscale lifestyle.

In addition to the lack of presence in the local marketplace, it is my opinion that there should be a targeted direct mail strategy to local resort dwellers as well as all of the upscale real estate sale people in and around Mazatlan. Plus ads should be placed in travel magazines and airline publications. All of this should be prepared for an electronic campaign once the designs are complete and ready to be placed. Relationships should be pursued with the appropriate travel agencies. There are four specific points of purchase opportunities within the marketing of Estrella del Mar and at this time there seems to be a very weak and minimal effort addressing these.

These market opportunities of point of purchase are the following:

1. The local market move up or move around from other Resorts.
2. The visitors to Mazatlan that are tourists.
3. The cruise ships coming in and out of the Mazatlan Port.
4. Targeted database to American cities with buyers that show habits in visiting Mexico or in a position to own second home properties.

I am assuming that the targeted buyers are Americans, as well as Canadians, who can afford second homes or retiring families who are looking for a primary residence in the Mazatlan market, due to the fact that they no longer need to live in the States or are choosing to make Mexico their primary home location. I am also assuming that these buyer profiles range in age from the early 40's to the late 60's. Unless we have discussed and determined that this is a broader market or that a different market would need to be concerned in the marketing strategies, this would be utilized in the marketing of the Community.

Recommendations: The combination of marketing strategies I would use for the Community would be the following:

- *A different style ad for the targeted magazines that capture upper-class travelers to the Mexico market.*

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- *A cohesive direct mail campaign to targeted American cities that contain the buyer profiles we are soliciting.*
- *A much stronger visible presence in the marketplace specifically Mazatlan by utilizing the inside connections we have through Lupe.*
- *A presence in the airport that would allow visitors to obtain brochure information and shuttle bus to the Community, since the proximity is so close.*
- *A collaboration with the golf program that utilizes the database of the golfing participants in the Community, as well as all the inquiries from the downtown Pro Shop office.*
- *We would obtain the names from the downtown Pro Shop office and include them in the direct mail marketing efforts. We would also send to these visitors a survey as to why they choose to buy elsewhere or did not choose to buy in Estrella del Mar.*
- *It is very important that we understand not only why our buyers bought in our Community, but also why our prospective buyers did not buy in our Community or chose to buy elsewhere.*

9. ONSITE SALES TEAM

RANKING: 1.0

It appears that there is a serious level of internal politics amongst the members of the onsite sales team and that it is interfering with the sales production of the Community. It appears that the sales team does not have a strong momentum or sales velocity that one would expect in a Community at this stage of construction completion for the first buildings of beachfront units. Nor do they have the proper sales training for a Community of this caliber.

The dynamics of the male/female sales tag team is a good idea, but it does not seem to be working because of some other personal dynamics present. Within the first 30 minutes of my visit, I was aware of the tension that exists between the golf staff and the sales team. I wonder how many other buyers have felt this and have literally chosen not to consider Estrella del Mar because of the unwelcoming atmosphere. I am also surprised at the lower caliber in the appearance of the sales people and overall sales atmosphere of the Community. I was able to shop the Community, become very serious about buying two units but leave with neither one of the Agents knowing whom I am or how to get in touch with me.

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Nor have I received any follow up phone calls or materials to my address, which could have easily been obtained from my Hotel registration form. The tag team effect is not working either because the approaches from the two Sales Agents are too entirely different. The ability of an agent, who is not living at the resort level, to identify with a resort buyer is very difficult. It would not be the level of agents chosen for a community of this high level. I would also be concerned that the lack of a professional sales training means there is a low closing ability and most likely numerous qualified prospects driven to the community with marketing dollars are not being sold and closed.

Unfortunately, in the market today with the economy as strong as it is, many Agents have become very slack or lax in their follow up with prospects, this in fact may be the case with Estrella del Mar. Any Agent worth their weight can demonstrate a Community and its product especially once it is built. The follow up and romancing of the prospect after their visit is the skills a true resort sales professional should have. Plus, the follow up is what caps the deal. This does not seem to exist in the ability of the sales team at this time.

In our experience, we have shopped literally hundreds of Agents and understand that even if an Agent lacks personal dynamics they many times are able to compensate by having the proper sales skills and passion and tenacity to get the job done. I am afraid that the compensation program for the sales team also adds to their lack of persistence in closing their deals and truly motivated to make the numbers.

I would question as to whether or not there is a sales goal or sales quota expected from each Agent as well as from the overall sales team tracked through their individual and team sales closing ratios. It may be that most of the visitors are not even properly registered and entered into a sales database. In successful new home Communities closing ratios can run as low as 1 out of 7 or 1 out of 5.

Recommendations: I would alter the sales team at this time. I would require that any Agent serving the Community would be trained no less than 3, 2-3 hour sessions with tests. I would require that the onsite sales team to submit weekly and monthly registration forms through either an electronic database program and paper form that would be checked for thoroughness. The agents should monitor their closing ratios and all consumer registrations. I would have the onsite sales team mystery shopped every 60 days for the first 12 months. I would require that the sales team report their weekly results, as well as discuss the marketing strategies that are working or not working. It may be possible to train the team that is present, if in fact, both Agents are able to commit to operate at a much higher and more professional level. However I must place a caveat on this recommendation since there are some personal dynamics happening between the sales staff and golf staff that may preclude remedying the current situation.

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<u>Statistical Score Summary</u>	<u>Ranking</u>	<u>Possible Score</u>
1. Community Location	4.0	5.0
2. Entrance & Initial Presentation	3.5	5.0
3. Streetscapes & Monuments	2.5	5.0
4. Product Mix	3.5	5.0
5. Amenity Package	2.5	5.0
6. Sales Collateral	2.0	5.0
7. The Sales Gallery	1.0	5.0
8. Marketing Strategy / Ad Campaign	2.5	5.0
9. Onsite Sales Team	<u>1.0</u>	<u>5.0</u>
TOTAL ESTRELLA DEL MAR SCORE	22.5	45.0

SUMMARY OF RECOMMENDATIONS
(CONFIDENTIAL)

These are my top 11 recommendations:

1. I would totally strip out the sales gallery, move it upstairs and have a high level the interior design firm complete the environment before the sales displays are built and installed.
2. I would redo the sales collateral.
3. I would implement a strong marketing campaign electronically and physically for the next 12 months that includes an intensive direct mail campaign tying the golf leads and the Hotel guest leads into the real estate sales process, as well as the downtown Pro Shop guest leads. I would advertise not only in specific cities in the United States but in the Mazatlan market, where Lupe has the connections such as the Hotels, the hotel concierges, the restaurants, additional signs and billboards to build the image of Estrella del Mar in Mazatlan.
4. I would recruit new sales people and sales director.
5. I would begin an intensive sales training program that would include utilizing the proper sales displays that should be installed in the sales gallery, as well as the proper brochure materials.

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6. I would consider looking at soliciting buyers from neighboring Mexico cities where the high dollar professionals are looking for beachfront vacation homes such as Mexico City.
7. I would merchandise the models in the Estate Villas, in addition to one or two models in the Condominiums with a very upscale professional interior design firm.
8. The community needs a General Manager to oversee the politics and business operations of all the different departments. Attached you will find a flow chart that, in my opinion, explains why it is absolutely necessary that there be a General Manager. It is so unusual that a Community of this caliber does not have a GM to oversee it, and I do believe this may be a very large contributing factor to the problems within the Community.
9. Prospects need to be called to find out what their opinions were of the Property the sales operation, the golf course, the Hotel villas and the presentation of the Community.
10. I would ask the sales team to create a grid of comparison of the top competitive communities in our market not only in Mazatlan, but the other competitive cities. It is my opinion that if buyers are considering a purchase in a Mexican Property they may in fact shop multiple cities, such as Cabo San Lucas, Puerto Vallarta and not just Mazatlan.