



THE GOVERNORS CLUB

Brentwood, Tennessee

FINAL CLIENT UPDATE

July 2002

Note to the reader...

The Governors Club is a non-resort private Arnold Palmer golf community with 400 homes built from the \$650's - \$4mm price range. It is the most expensive private gated country club new home community in the Nashville market. www.thegovernorsclub.com

We were hired by the lender to help turn the project around. A takeover by the lender from the local developer resulted in bad publicity and the project had stalled. Only 14 sales were transacted in 2000. We were hired the day before 9/11/ 2001. From September 2001 to December 2002, 52 transactions were completed with a budget under \$400,000 spent. The attached document is the Final Client Update we presented that summarized the completion of our goals and responsibilities we set forth in our Consultation Agreement. We also included the recommendations we felt were necessary to ensure that the Community continued to operate at the same level of professionalism and momentum we achieved during our contract. We have been hired by this lender 3 times since then and are active in a high profile project in southern California for the client today www.experiencevellano.com.

I. Staff Streamlined and Attitudes Adjusted About The Community

As you well remember, one of our first goals was to make certain that everyone involved in the development team was being utilized to their fullest capabilities. Plus we soon realized that we needed everyone on the team to project the right positive attitude about the Community and its success in the market place. Something we felt was sorely lacking when we toured the community on our first visit.

To accomplish this we rearranged the chain of command for the development team and provided assistance with the creation of job descriptions. This way people who could handle more responsibility and bigger positions in the community were able to do so. Then we custom designed and held an aggressive sales training program with the entire development team, sales team and golf staff to realign their attitudes and help them see the project's tremendous potential as we saw it. "Never to be repeated". – "One of the Best Private Communities not only in Nashville but the Southeast".

It is our strong recommendation that there be no turnover or as little turnover as possible. Turnover does not play well in the publicity of the community. We also realized that there needed to be an attitude adjustment with the internal staff about the Governors Club. We feel it was important that everyone understood what a golden opportunity a community of this caliber would enjoy if everyone would just realize how special it truly was. The fact that it was only 438 lots with infrastructure well worth a community two to three times this size was something that we knew if the staff and the sales team understood this, they would project a stronger sense of confidence in their community and its success. This, in turn, would be an important factor in gaining the consumer's confidence as well as the co-op programs when the club was completely back on track with new product and new sales opportunities.

II. Operating Procedures

We also knew that regardless of how much responsibility we were able to adjust for any one member of the staff, if procedures were not in place to empower them, any job restructuring would be ineffective. Therefore we implemented extensive reporting procedures and day-to-day activities to support the new structure of command.

We set up weekly conference calls so everyone asked to perform tasks would be accountable. We implemented a community To Do List, better sales reports, a more comprehensive advertising and marketing budget plus written memos for expenditures that must be properly posted. We set up that all requests for funds or expenditures we put into writing and pre-approved. We created a more comprehensive Community Activity Master Calendar - so each staff member always know what the Community's activities are at any given time. These policies implemented should be maintained throughout the project's operations or cost control and accountability will lessen.

We knew Zeitlin needed to be more intimately involved in the Community's programs and more hands on with the sales team.

The Governors Club

We feel we solved this by requiring them to be involved in the weekly conference calls and following up on the sales report program we set up for them. In addition, we required them to hold monthly community sales agents meetings and weekly sales meetings with Keith and Mary.

III. Sales Operation

Even though the sales operation was professionally set up and did appear to be run well – we sensed that the builder program and sales procedures were too loose and ungoverned.

We corrected this by setting up a stronger registration program and co-op program as well as a stricter builder program, which required the builders to list all their homes with The Governors Club sales team. This way our agents were in total control of all phone calls, web hits and traffic generated to the Community as it should be. No one should buy a home or lot without the transaction being overseen by a Governors Club agent.

We also observed that the front gate security guards needed to be more responsible in encouraging the visitors or guests to go to the sales facility.

We do feel we accomplished this by providing hangtags whereby the customer feels more responsible to stop by the sales and information center. We also provided hang tags for co-op agents so they knew they were a part of our team and that our sales team was here to serve them.

IV. Sales Displays

In our initial visit we saw that one of the major handicaps for the sales team in presenting the lifestyle story to prospects was the correct critical path in the sales displays. The sales environment was polished and well done but not effective in telling the true Governors Club exceptional lifestyle. In addition, some displays contained incorrect information, which was frustrating to the agents during their lifestyle presentations.

We corrected the displays, laid out the critical path and taught the agents how to use them during our training sessions. We let them see how the displays show just how much the Governors Club stands alone in the market place and how it is unequalled in the Nashville market.

V. Sales Collateral

As with the sales displays although the sales collateral was professionally produced, it did not give the sales team the critical path or support as to what how much The Governors Club stands out from the rest in the Nashville market. Plus the collateral was inconsistent. We learned from our Realtor Advisory Board what pieces they needed and what they wanted them to say or do.

We solved this issue by designing the needed sales collateral pieces and made them consistent with the sales displays. The website will need to be adjusted as well.

The Governors Club

Every piece of the sales collateral needs to be utilized including the upscale home fliers we added since most of the homes are in excess \$1mm. We do feel that it is important that the mini-brochures continue. It may be best to repeat the direct mail sales program that was created for fall 2001 and that there be a second wine tasting that could be entitled the Second Annual Governors Club Wine Tasting. This way you will kick off the inventory of the new spec homes and continue to build the brand of the Governors Club in the market place. However, it would be most beneficial if the wine tasting was held after the first of the year when the weather is a little better, and the inventory is further along in its delivery.

The Parade of Homes will be the Fall event for 2002. This event alone will carry you through the fall market and give you the momentum you need. New spec homes must be in flier form and ready for distribution during the Parade. The sales team must be extremely visible and unencumbered during the entire parade as well, so that they may bond with prospects.

VI. Sales Commissions

Another very strong issue in the sales operation was the sales commission program. We knew that if we were to convince the builders to provide us with all of their listings that the sales commission should reflect an opportunity for us to keep top-notch agents. The best way to keep superstars is to set up a compensation program that allows them to generate the paycheck they deserve. We do feel that this was vital in securing Mary Ray into the sales program. She needed to know the listings were all hers and that the compensation would be there if she performed.

We also set up a very effective co-op agent commission program. We announced this at our 2002 Video Premier so that once again the co-op community would know that we meant it when we said we wanted them to feel confident we were behind them 100% in selling our homes and lots. We wanted the co-op agents and brokers to know we were willing to do whatever it took to make them successful and have a very positive experience working with the sales team at The Governors Club. This certainly had not been the case in the past.

VII. Co-op Program

In addition to providing good sales commissions for the co-op program, we also knew that we needed to set up a co-op Outreach Program that could re-introduce and re-brand The Governors Club in their minds. That is why we created the Premiere 2002 special event held in April. Any agent attending this event would know that we as a team and Community were not only the best in the business and market but also totally committed to them being treated as business professionals and served by the sales team of The Governors Club.

The co-op program needs to continue which includes the ongoing hosting of co-op sales meetings at The Governors Club. Active co-op agents in The Governors Club should be featured in each quarterly newsletter. There should be a president's awards breakfast at the end of the year and a photograph of all of the agents in attendance at this breakfast sent out in the newsletter.

We created a specific Co-op Outreach Program. This should be reviewed quarterly and Zeitlin should follow the recommendations as laid out. Everything should be done to maximize the percentage of co-op sales in the community. However, one of the biggest detriments to having high co-op participation is the lack of product. Our Builders should be carefully managed to make certain there is always a good inventory of spec homes under review and construction for the sales team to pre-sell. This will in fact bring more co-op traffic to the community and higher percentage of co-op sales.

VIII. Sales Reporting

The sales program had lost control of the community. Most of the new homes were being listed with either outside brokers or the builders' wives who were "partime agents". We negotiated with the builders to re-enact the Mater Builder Program and bring all of the listings back in-house. Builder who did not buy into this program were terminated and replaced with builders who would work as a team. There is a waiting list today of builders wanting in to the community.

In addition to re-structuring the sales operation and empowering the onsite Governors Club agents, we knew that there should be better accountability of their activities. The weekly sales reports should be reviewed by Phillip or Patty each week until the agents feel confident that they are gaining all of the support they need to maximize the traffic they are receiving and that there is an accountability for profiling every traffic unit that does enter the gate.

The agent should be encouraged to cruise the community more often. We do feel that it is very important that one agent or hostess staff the sales center on the weekends while the other cruises the community finding prospects who may have not visited the information center. We also feel that there should be a hostess on the weekends so that the staff is able to visit and present to prospects quietly without the interruption of the phones ringing. If these procedures are not followed, there will be a lack of the sales capabilities of the team, and it will in the long run eventually suffer in the sales program.

XI. ARB

After touring the product in the Governors Club we realized that not all of the homes were of the caliber for a community of this elite and private. It was obvious that the architecture review board was not enforcing the design guidelines of the community and that several homes were not cohesive in the streetscapes, and the floor plans were not providing the targeted market what they wanted in the executive home market.

We corrected the ARB by hiring a new architect who is very people friendly and better skilled. We also put the agents in charge of choosing new spec home plans with the builder. We hand selected a group of favorite home plans for the builders to review. We changed the submittal process and put Victoria in charge of policing it.

It is important that Mary Ray and Keith Sefton be empowered to visit with each builder each quarter and to go over what his or her spec homes will be for the next delivery. It takes the builders two to three months to decide what floor plans they would like to build as well as the interior features for each plan, and to in turn secure the construction loan.

There should be an ongoing list of spec homes in the works for the community as a check-off to keep the delivery of spec homes in line with our sales momentum. If we do not keep the shelves of the store stocked, we will lose momentum. It is something this simple that will affect the long-term success of The Governors Club. We strongly encourage the development team to support Mary's and Keith's efforts in choosing spec homes for lots with the builder program and having the spec homes rendered for the for-sale signs featured in the front of each lot chosen.

XII. Builder Program

Now that the builder program is back on track and operating as a complete Master Builder Program, the only way it will stay on track is to follow all of the rules set forth—there should be no exceptions. The builders should be encouraged to meet each month, no matter what, even if there is not a heavy agenda that should be reviewed. This way the builders feel that there is open communication and that they have a voice and that the voice is united. The agenda should be sent to the builders two to five days before the meeting and there should be an open line of communication so that if they want something added to the agenda or they would like to speak openly at the meeting they should be encouraged to do so.

They should also see that Phillip and the development team is involved in the spec program of the community and understands each builder's home that they are delivering and its features or pricing structure.

XIII. Branding or Positioning

The Community in our opinion was not properly branded or positioned in the market—it was shown in the advertising as buy-now, save-now style campaign. What we felt was important was that The Governors Club simply be portrayed as “the ultimate community to live in in Nashville – Period”. The ad campaign did not reflect this image at all.

We strongly recommend that ad campaign stay as is today true to the style and essence of the program. There is simply no need to be a hard sell in a campaign that is supposed to represent the ultimate community in Nashville. The branding and positioning is everything in making the Governors Club and its targeted market feel confident that the decision to purchase in the Governors Club is the best decision and that the long term value will be returned well above any other community in the market. It is simply unparalleled excellence and the lifestyle that is unattainable anywhere else in Nashville today. In reinforcing the branding or positioning of the market, the ad campaign must remain true to form. Whether it is a media buy or it is a direct mail program, all of the elements of the advertising program should stay high end, upscale, elegant and promote lifestyle first with product secondary.

XIV. Golf Membership Program

In June we presented a complete golf membership program and do feel it is vital that this program be followed in order for you to create a sense of urgency before the clubhouse is delivered. There should be a complete direct mail direct contact membership solicitation program completed before the clubhouse is grand opened.

As recommended there should be cocktail receptions introducing The Governors Club golf program to potential buyers. This networking is absolutely vital in creating the sense of urgency necessary before the clubhouse is completed. Once the clubhouse is completed, the cost of the membership should go up to as near to retail as possible and the membership program should take on a different flavor whereby it is closing out or nearing its completion.

It would be important that the golf membership program be reviewed every couple of weeks to make certain that it is being followed by the golf team, the golf staff, and that the membership prospects are being contacted and encouraged to come see the Governors Club now before the clubhouse is delivered in the community.

XV. Lot Pricing

We have recommended an adjustment in the lot prices as well as the pricing for the new section of lots to be delivered in the fall. We feel that these lot prices should remain consistent for now and if any increases have to be added to the program they should occur sometime after the parade of homes or after the first of the year.

Due to the fact that there is a limited depth in the high-end market, there are only going to be so many absorptions of the million dollar plus homes. However this price point is the dominant price in the product mix of the community. We suggest that the front pod be re-zoned into manor homes so that more homes can be delivered in the \$750 - \$1mm price range. The estate homes remaining are all well over the \$1mm mark.

If possible, it would be our strong recommendation that the pod of lots available near the entrance to the community is readjusted to showcase estate manor product. This way we have estate style carefree living that does not compete with the Turnberry product but simply allows high-end mansion buyers to downsize and still have the estate living they are looking for. This will also increase your absorption since you could, in fact, pull the prices down below the million dollar mark and not have the long-term effect of slow absorptions because the product mix is not diverse enough to reach to the targeted markets. We do feel that the executive seniors are not being targeted and it would be important for that part of the market, seeing that this product is in fact available at the Governors Club while they are able to enjoy the country club living they are looking for.

XVI. Banker Program

It was obvious to us that the banks were not behind the Governors Club when we first initiated our contract in the community. The banks were in fact nervous or leery of allowing too many spec loans to be provided by their banks in the builder program. We do feel that we were successful in the banker outreach program that we recommended and that Shirley Zeitlen and Phillip have done a tremendous job in gaining support of the entire banking community. However, we do feel it would be important to host a private cocktail reception at the end of the year and that all of the bankers who have been invited to the Governors Club be re-invited to once again reinforce the success of the Parade of Homes and the introduction of the million dollar spec inventory that will be provided in Spring 2003.

There should be an ongoing list of bankers that are targeted in the market, and there should be continued direct mail of newsletters included in the material sent to the banker program. There should always be an ongoing direct mail program for the project selling high end product. This is simply the most effective way to sell high end product. It is very difficult to create a mass marketing program when 95% of the market simply cannot afford the product you offer. It is better to effectively choose the right buyer profiles and then consistently send them the message and materials to encourage them and motivate them to visit the community and buy the products offered.

XVII. Signage

There is a complete signage program available for the community; however, it is our understanding that there is a lack of payment to the sign maker and that the products for the new designed signs simply will not be installed until the balance owed to the company is paid. There will be a gap in the sales momentum of the project if bills are to be unpaid or are paid late to the sign company. The sign maker has made it very clear to us that they do not need to do business with a customer that is not able to pay bills on time if in fact the signs have been delivered and installed as promised, on time and on budget.

We are uncertain as to why this practice continues; it seems as though we have been misled and that this subject has simply been avoided over the past few months. We cannot understand why the cash flow for something as simple as a sign cannot be allocated properly so that the vendor can in fact be paid and the delivery of the signs continue as set forth in the signage program.

One of the biggest concerns of Mary Ray, our superstar in the sales program, is that the signs in the community are below what they should be or are not available or simply are not on the property installed, as they should be. This does not seem to be an acceptable situation and should be rectified immediately.

XVIII. Publicity

We have laid out a very specific list of events that could be publicized and promoted in the community so that the Governors Club brand will continue to be built. We cannot in any way neglect the publicity opportunities of the community.

The Governors Club

It is our recommendation that the publicity of the Governors Club go hand in hand with the advertising program and that at every possible event there be publicity and attention paid to getting the media to continue to support the Governors Club and just how dynamic it is in the market place.

There may need to be media kits or press kits sent out prior to the Parade of Homes to give every person in the media an update of just how dynamic the Governors Club has become as well as the introduction of the new product if in fact it is available during the time the Parade of Homes premieres in the market place. We think it is important to have a press breakfast prior to the Parade of Homes and invite the press to play 9 holes of golf or a full round of golf before the start of the event. We feel certain this would maximize the media's attention to the parade and give us the thrust that we need for a good, strong marketing program for the fall season.

XIX. Special Event Management

We do feel that it has been an asset for the staff to see and understand how we have forms and procedures for managing a special event that allows for a checklist. This special event management form should be utilized in all events created for the community and there should be a strategic planning session for creating special events at the end of 2002 or the fall quarter to prepare for 2003 and allocate budget dollars accordingly. If in fact the special event form is utilized and it is properly documented or transferred to the actuals on the advertising or marketing budget, you will have an ongoing history of the expenditures and be better prepared to create the upcoming years advertising budget.

XX. Contracts and Listing Packages

The contract and listing packages for the community are complete and comprehensive. The builders are now confident of the ability of the sales team to initiate listings as well as complete contracts on their behalf. We do feel that we have now set in motion a very professional onsite sales program and that there be no need for any of this to change or be altered in the future.

Zeitlin is in complete control of the sales program; Patty is very successful in managing the agents as well as giving them the support that they need to orchestrate ongoing sales contacts with prospects and co-ops. I do think that the sales program as it stands today is a well-oiled machine and should be complimented for their efforts in staying focused on the job they have before them.

XXI. Bill Payments

It is our understanding that several vendors have not been paid within a timely manner. Without a shadow of a doubt, it will in fact dampen the spirits of the staff, which it already has as well as blacken the image of the Governors Club in the market, so much so that all of the efforts that we have made over the last ten months could be futile if payments of bills are not made in a timely manner when they are due. The lack of payment to us seems to be so unprofessional for a community that has worked so hard to reposition itself in the market place. We do not understand why the accounting system cannot be effective and set up in such a way that bills are paid on time.

The Governors Club

We would never allow a client to continue to operate in a market place with payments that are due to vendors.

We can assure you it will truly affect the positioning of the Governors Club if vendors continue to tell other business associates and professionals that they are simply not being paid for the work that they have delivered. We think this is completely unacceptable and want to make certain that the Governors Club team understands just how serious this is at this moment. We have had numerous phone calls from vendors that we had recommended to the Governor's Club that they have outstanding balances due. We, of course, do not take responsibility for this but do feel that it is a problem that the Governors Club should correct and that we would like to encourage everyone to go through the list of unpaid bills and bring every single vendor involved in the Governors Club program current.