PETERSON ECONOMICS

EXECUTIVE SUMMARY

A PRELIMINARY MARKET AND FINANCIAL ANALYSIS FOR A PROPOSED NEW SECOND-HOME/RESORT DEVELOPMENT ON THE BROUGHTON LANDING SITE IN THE COLUMBIA RIVER GORGE

PREPARED FOR BROUGHTON LUMBER

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EXECUTIVE SUMMARY

Peterson Economics was retained by Broughton Lumber in November 2005 to complete a preliminary market and financial analysis evaluating resort development potential for the Broughton Landing site, located within the Columbia River National Scenic Area. The 260-acre Broughton Landing parcel was previously a lumber mill. It is situated along the northern bank of the Columbia River, immediately north of Hood River, Oregon, on the Washington side of the river. However, the vast majority of the site consists of steep, rocky slopes, which will not be developed. Development will be concentrated on the flat, low-lying land in the southern portion of the site, which is the location of the old mill operations and consists of about 70 acres. This area is bisected by a state highway and active railroad tracks. Unfortunately, about 50 trains pass through the site each day and night, creating a significant visual and audio impact. However, with careful design, noise from these trains could reportedly be significantly mitigated (through the use of sound walls and the elimination of all grade crossings, which would eliminate train whistles in this area). Moreover, most future development on the site would reportedly enjoy filtered views of the river gorge area, along with dramatic views of the steep slopes to the north. Finally, one small portion of the site offers good river access and could serve as a beach club for the entire resort.

Remaining portions of this Executive Summary include the following: (1) an overview of Peterson Economics' qualifications to complete this assignment; (2) a brief overview of our preliminary market findings; and (3) a summary of our initial development recommendations and financial projections.

PETERSON ECONOMICS' QUALIFICATIONS

Peterson Economics is uniquely qualified to assist Broughton Lumber with this assignment. The firm specializes in evaluating potential market support for proposed new destination resort communities. Although now based in Washington State, Peterson Economics completes market and financial analyses for a large portion of all major new resorts now moving forward throughout the Pacific Northwest, California, Hawaii, Mexico, and the western mountain states. Among others, current and recent clients include:

- Morgan Stanley
- Citigroup
- Dell (MSD Capital)
- Goodfellow Brothers
- Lowe Enterprises
- Jeld-Wen
- Fairmont Hotels
- Beazer Homes
- Centex Destination Properties
- Olympus Real Estate
- Luecadia National
- Plum Creek Timber

- Sealaska Corporation
- Gilbane Properties

Since its inception in 2002, Peterson Economics has been retained to complete more than 135 assignments, including market and financial analyses for more than 60 major new destination resort projects as well as a variety of stand-alone golf courses, lodging facilities, residential communities, and retail centers.

Over the past 13 years, Jon Peterson has completed more than 80 major consulting assignments in the Northwest. Moreover, over the past several years, Peterson Economics has completed the market and financial analyses for the vast majority of major proposed new resorts in Washington and Oregon. Over the past three years alone, Peterson Economics has completed detailed market and financial analyses for:

1. Lowe's new Suncadia Resort in Roslyn (for which Mr. Peterson has completed more than 40 analyses over the past six years, including the original market and financial analysis, a series of analyses used to finalize the development program for this successful new resort, and a series of economic benefit studies and employee housing studies required as part of the Environmental Impact Statement);
2. Brasada Ranch, a new, 1,800-acre golf/spa/equestrian resort community now under construction in Central Oregon, with all 201 Phase 1 lots sold upon release in June 2005 and all 57 Phase 1 cabins sold upon release in September;
3. Lowe's new Caldera Springs resort community in Central Oregon, which sold 203 of its 211 Phase 1 lots upon release in late 2005, setting an all-time sales record for Oregon;
4. A proposed new 2,000-acre resort community near Bend, Oregon, proposed to include three golf courses and over 1,200 second-home units;
5. The new fractional component at Pronghorn in Central Oregon;
6. The proposed redevelopment/repositioning of Rosario Resort in the San Juan Islands, examining a wide variety of potential options;
7. Four new second-home communities planned at Lake Chelan, including three new lakefront communities and Daybreak, a proposed new 1,200-acre private golf club community;
8. A proposed new 500-acre mountain resort community near Snoqualmie Pass;
9. A proposed new resort on the Yakima River;
10. A proposed new golf resort community overlooking vineyards south of Yakima;
11. Several proposed new second-home communities on the Columbia River near Wenatchee and Lake Chelan;
12. The proposed redevelopment/expansion of the Silver Mountain ski area in Kellogg, Idaho;
13. More than eight proposed new resort communities in Montana;
14. A proposed new oceanfront golf resort in Westport, Washington, also proposed to include a major resort lodge and fractional component; and
15. A proposed new oceanfront and ocean-view resort on the Oregon Coast (possibly including up to two 18-hole golf courses and a resort lodge).

Through the course of completing these assignments, Peterson Economics has examined all of the Northwest's top resort markets in detail on numerous occasions, providing a unique historical perspective and depth of market knowledge to draw from. This has included detailed analyses (on numerous occasions) of more than:

1. 30 of the Northwest's top resort lodges (all major properties);
2. 20 of the Northwest's top resort golf courses (all of the top properties); and
3. 30 major resort communities with real estate components (all of the most notable communities), along with all notable second-home areas and dozens of smaller projects.

PRELIMINARY MARKET FINDINGS

The greater Hood River area has emerged in recent years as a popular second-home and retirement destination. It has also begun attracting a notable number of younger buyers, including telecommuters, footloose business owners, trust fund recipients, and others wishing to relocate to the area for lifestyle reasons (extreme sports in particular). As a result, the regional real estate market has become rather robust, despite the weak regional economy. During the past several years, sales prices have escalated and sales volumes have increased slightly for single-family homes, townhomes, condominiums, and homesites in the greater area surrounding Hood River, including properties on the Washington side of the river.

Despite these clearly positive trends and the solid performance of a number of new, fairly small, second-home-oriented communities in the area, it is also critical to stress that the region's real estate market is still quite small, especially in the high end. According to the Multiple Listing Service, the annual sales volume through October 2005 equaled 844 total sales, including sales in Hood River, White Salmon, Bingen, the Dalles, Stevenson, and Goldendale. However, only about six percent of these sales (or about 50 transactions) were for properties priced over $400,000.

Nevertheless, during the last couple of years, about a dozen small projects, often consisting of townhomes or condos, have been developed and readily absorbed by the market. In addition, approximately 100 townhomes are reportedly in the permitting process and planned for 2006. (In contrast, prior to 2003, townhomes and condominiums were extremely difficult to sell.) However, the Columbia Gorge region has not yet seen the development of any larger, upscale resort communities, which are now so common in Central Oregon and many other second-home markets around the western United States.

In contrast to the region's residential market, which has become somewhat robust, due to seasonality issues, potential market support for a destination lodge or other potential resort facilities (e.g., dining, spa, retail) is quite limited. The most relevant destination resort lodging facility in the region is the Skamania Lodge, a highly attractive and generally well-conceived resort hotel in Stevenson. This thoughtfully designed, well-managed facility opened in February 1993. Despite more than 12 years of operations and effective marketing, the resort, which was partially funded through a federal grant, now reportedly operates at an average annual occupancy rate of about 65 percent with an average daily rate of about $130 (projected to be $133 in 2006).

These operating metrics are likely sufficient for the resort to cover ongoing costs of maintenance and operations. However, the level of net operating income generated by this type of facility would not likely be sufficient to cover debt service on a new resort lodge (let alone to generate a reasonable return on investment for a typical profit-oriented investor). Consequently, and based on our detailed industry experience in the Northwest, Peterson Economics does not see strong (or even reasonable) potential for a new lodging property on the Broughton Landing site.

PRELIMINARY CONCLUSIONS AND FINANCIAL PROJECTIONS

Given the location of the Broughton Landing site, its characteristics, and entitlement options, and assuming train noise can be significantly mitigated, Peterson Economics believes that the highest and best use of the site is likely as a moderately upscale, themed, amenitized second-home/resort community. This resort should be oriented primarily toward drive-to buyers from the Portland and Seattle metro areas, though it would also likely attract some buyers from much further afield, particularly avid windsurfers. However, due to the challenging economics of resort lodges, conference centers, retail villages, and other typical resort facilities, and due to the small developable area on the subject site and the limited number of units it will likely accommodate, Peterson Economics recommends avoiding such land uses on the subject property. Instead, Peterson Economics recommends developing the Broughton Landing site to include the following major components:

- A total of at least 250 residential units, including about 100 cabins, 100 townhomes, and perhaps 50 smaller condo units.
- A central building featuring a lobby, administrative offices, and a mid-sized restaurant, for which Peterson Economics has budgeted $1.2 million.
- An upscale, resort-style pool, destination spa, and fitness center, for which Peterson Economics has budgeted $3.0 million.
- A simple beach club area overlooking the Columbia River (with pedestrian access provided by a bridge over the railroad tracks and highway), stocked with windsurfers and other recreation equipment for owner/member use. Peterson Economics has budgeted $500,000 for the beach club and $100,000 for club recreation equipment (also including mountain bikes).
- Attractive trails leading up the hill and elsewhere around the property. Peterson Economics has budgeted $600,000 for trails, landscaping, and other improvements.

The subject resort appears potentially viable with 250 or more units, but would not likely be viable with significantly fewer units. This number of residential units is necessary to: (1) generate sufficient cash flow to justify likely costs of developing project infrastructure and amenities; (2) produce sufficient onsite critical mass to create a vibrant, lively resort atmosphere; and (3) generate sufficient ongoing revenues from Homeowners’ Association fees and club dues to offset costs of maintaining and operating key project amenities. If fewer units were developed, it would likely be necessary to impose exorbitant dues in order to cover the costs of operating and maintaining the resort’s amenities.

In order to keep residential price points somewhat reasonable, Peterson Economics recommends developing fairly small second-home products, with cabins and townhomes averaging about 1,400 square feet of conditioned space, and condos averaging about 1,000 square feet. Peterson Economics' recommended unit prices (unfurnished; expressed in 2005 dollars) are summarized as follows:

1. Detached Cabins – about $425,000 for 1,400 square foot units (or $304 per square foot);
2. Attached Townhome / Duplex Cabin Units – about $395,000 for 1,400 square foot units (or $282 per square foot); and
3. Lodge Condo Units – about $275,000 for 1,000 square foot units (or $275 per square foot).

These prices would be fairly high relative to most existing second-home products in the greater Hood River area, but fairly low compared to new cabins at resorts like Brasada Ranch and Suncadia. These prices reflect the premium that would be generated by this type of master-planned community setting, along with the limitations on price resulting from a small site with limited amenities, the negative impacts of train and highway noise, and significant separation from the river created by train tracks and the highway.

With an attractive design, quality construction, appealing amenities, and active and effective marketing, Peterson Economics believes absorption could total about 32 to 42 units per year, with all 250 units selling out within about seven years of sales.

Based on these assumptions, the project appears capable of supporting a reasonable land value while generating a moderately attractive return on investment. However, in the current market environment, any significant reduction in unit counts from the assumed level would likely make the proposed market positioning non-viable, making it necessary to contemplate non-resort land uses on the site.