



Azalea Bay Resort Holdings, LLC

Manager's Analysis

September 4, 2015

To: Members of Azalea Bay Resort Holdings, LLC ("Azalea Bay Resort" or the "Company")

From: Azalea Bay Management, LLC (the "Manager")

Thank you for your investment in Azalea Bay Resort!

Following the closing of the offering (which occurred on August 21, 2015), Azalea Bay Resort acquired a 95% interest in Azalea Bay Resort, LLC, which owns approximately 269.41 acres of unimproved real estate located in Horry County, South Carolina (the "Property"), as further described in the Company's Private Placement Memorandum, dated June 1, 2015 (the "PPM"). As stated in the PPM, the members of Azalea Bay Resort (the "Members") now have the opportunity to elect one of the following investment options for the Property:

- 1) Develop the Property into as many as 2,156 residential units consisting of multi-family residential units, for sale to the public either by itself or in conjunction with others or the sale of the Property in the future (the "Development Option"); or
- 2) Donate a conservation easement (the "Conservation Option") on the Property; or
- 3) Defer action on the Property and continue to hold the Property for investment (the "Deferral Option").

The purpose of this memo is to a) provide the Members with the Manager's Analysis of the options available to pursue (the "Manager's Analysis"), and b) provide the Members with their ballot and instructions on how to vote for the option that they wish to pursue.



Manager's Analysis of the Development Option

The Development Plan prepared on behalf of Management for the Property calls for the development of 2,156 residential units consisting of multi-family residential units, for sale to the public with an estimated completion time of approximately 11 years.

Conceptual Development Plan

<u>Category</u>	<u>Type</u>	<u># Units</u>
Multi-Family	Two-Bedroom Whole	436
Multi-Family	Three-Bedroom Whole	436
Multi-Family	Four-Bedroom Whole	184
Multi-Family	Two-Bedroom Fractional	500
Multi-Family	Three-Bedroom Fractional	500
Multi-Family	Four-Bedroom Fractional	100

Assumptions and Anticipated Return Profile

The current Development Plan Pro Forma anticipates an approximate eleven-year time frame to complete all phases of the development, generating approximately \$118.6 million in aggregate distributions to the Members over that period of time. This Pro Forma specifically anticipates the following:

- * The development plan contemplated under the Development Option (the "Development Plan") currently contemplates a total expense budget of approximately \$462.1 million, \$29.3 million of which is expected to be incurred in the first two years of development of the Property pursuant to the Development Plan. This includes \$800k to acquire three acres from Carolina Bay Resort, LLC pursuant to an option agreement exercisable until February 21, 2017. If acquired, the property will be developed as an amenity center to serve future homeowners located at the Property.
- Azalea Bay Development Company, LLC the Company's developer for the Property (the "Developer") expects to realize the first revenues from the pre-sales of residential units in an amount of \$17.5 million in the second year after commencing development, with a total of \$649.2 million of revenue realized over an eleven-year period.
- * If the Development Option is chosen, the \$3.9 million of working capital available to the company is expected to be sufficient to complete the



necessary “pre-planning” activities (architecture, construction site planning, permitting, engineering etc.) required to (1) put in place the mezzanine and bank financing necessary to fund construction and (2) complete all activities necessary for the Developer to be able to begin construction of the physical buildings and related infrastructure on the Property pursuant to the Development Plan.

- * An additional \$3.1 million of capital is required to fund the development and construction expenses incurred in connection with the Development Plan prior to the start of revenue realization. Subsequently, the Development Plan contemplates the need for additional financing of \$10.1 million, for a total additional capital requirement of \$14.0 million, to fund additional development and construction expenses incurred over the first five years of development of the Property pursuant to the Development Plan.

If the Development Option is chosen, the Company intends to seek debt financing to pursue the completion of the Development Plan in its entirety. As of the date of the Manager’s Analysis, the Company is uncertain of its sources for capital funding to fully develop the Property pursuant to the Development Plan, and the Company and/or Azalea Bay Resort, LLC will require additional resources in the future to continue to operate. The proceeds of the offering are insufficient to complete the full development of the Property pursuant to the Development Plan without additional capital or financing.

The Net Present Value (NPV) of the anticipated \$118.6 million in aggregate Member distributions using a 12.0% discount rate is approximately \$43.0 million. The net profit amount over the eleven year time frame utilized in the pro-forma is approximately 11.4x the amount of money raised in the offering and represents an internal rate of return (IRR) of approximately 32%.¹

Additional Resources Available for Review of the Development Optionⁱⁱ

- Conceptual Plan – DDC Engineers / LANDART Company
- Engineer’s Letters – DDC Engineers
- Artists Renderings – J.K. Tiller Associates, Inc.
- Market Analysis Report – Ralph Stewart Bowden, Inc. Real Estate Counselors
- Development Plan Pro Forma – EcoVest/Teal



Manager's Analysis of the Conservation Option

The Conservation Option for the Property calls for the donation of a conservation easement on the Property. The Internal Revenue Code of 1986, as amended (the "Code"), has established specific "Conservation Purposes" that, if perpetually protected through the donation of a qualified conservation easement, are anticipated to render the Members eligible for a charitable contribution deduction. North American Land Trust ("NALT"), a qualified 501(c)(3) charitable organization, has agreed to accept the donation of a conservation easement on the Property should it be approved by the Members. NALT would have the legal right to and responsibility for enforcing the terms of the conservation easement in perpetuity.

NALT has identified the following "Conservation Purposes" on the Property (which is referred to as the "Conservation Area") in the Baseline Documentation (by law, only one Conservation Purpose is required to be eligible for a charitable contribution deduction):

1. Preservation of the Conservation Area as a relatively natural habitat of fish, wildlife, or plants or similar ecosystem.
2. Preservation of the Conservation Area as open space which provides scenic enjoyment to the general public and yields a significant public benefit.
3. Preservation of the Conservation Area as open space which, if preserved, will advance a clearly delineated federal, state or local government conservation policy and will yield a significant public benefit.

Assumptions and Anticipated Return Profile

The determination of the value of a charitable contribution deduction for the Property under the proposed Conservation Option is required to be determined by an independent qualified appraisal prepared by a qualified appraiser. The Company has obtained an appraisal for the Property that was completed by Claud Clark, III of Clark-Davis, PC on March 3, 2015 (the "Appraisal"). The Manager believes that Claud Clark, III is a qualified appraiser and that he will update the Appraisal to a date within 60 days of grant of the proposed conservation easement to confirm the conclusions reached therein to make it a qualified appraisal.

This Appraisal was independently reviewed by a second qualified appraiser, Raymond Veal of Integra Realty Resources, as well as by independent legal counsel at Sirote &



Permutt, PC, who issued a letter to the Company's sponsor, EcoVest Capital, Inc., along with the review appraisal stating that they "do not see any reason to consider the appraisal prepared by Clark-Davis, PC to be compromised or inadequate in its assumptions and conclusions and therefore I believe you can proceed in reliance on that appraisal."

The Appraisal established the value of the charitable contribution deduction to the owners in the event of a grant of the proposed conservation easement on the Property to be approximately \$45,138,000, of which the Members would receive approximately \$42,655,410 ($\$45,138,000 \times 94.50\%$ ownership) in charitable contribution deduction on a pro-rata basis.* Note that if the Conservation Option is selected, the final issued qualified appraisal, which must be completed within 60 days of the date that the easement is recorded, could contain a change in the value of the charitable contribution deduction based on changes in market conditions. As of the date of the Manager's Analysis, the Manager does not expect that any change in valuation from the updated appraisal would be significant.

If the Conservation Option is selected, and based on the Appraisal, it is expected that the Members would receive a charitable contribution deduction approximately 4.1 times their gross investment in the Company ($\$42,655,410 / \$10,403,505 = 4.10$).

EACH MEMBER SHOULD CONSULT WITH HIS, HER OR ITS FINANCIAL ADVISOR AND/OR TAX PROFESSIONAL IN ORDER TO DETERMINE THE POTENTIAL RETURN ON HIS, HER OR ITS INVESTMENT RESULTING FROM THE CHARITABLE CONTRIBUTION DEDUCTION SHOULD THE CONSERVATION OPTION BE SELECTED. THE MANAGER IS NOT A TAX ADVISOR AND NOTHING CONTAINED WITHIN THIS DOCUMENT SHOULD BE CONSIDERED AS TAX ADVICE. THE FOLLOWING EXAMPLE ASSUMES NO STATE TAX BENEFIT SAVINGS AND FEDERAL INCOME TAX SAVINGS WITHIN THE HIGHEST INCOME TAX BRACKET BY MEANS OF A SIMPLE ILLUSTRATION OF THE POTENTIAL BENEFITS OF THE CONSERVATION OPTION.

Should the Conservation Option be selected, and assuming the deduction value is maximized for Members for federal income tax purposes (i.e., assuming a 39.6% tax rate), Members are expected to realize a charitable contribution deduction of approximately \$42.7 million resulting in federal income tax savings of approximately \$16.9 million ($\$42,655,410 \times 39.6\%$) for calendar year 2015. **However, a Member's ability to realize tax savings may be limited by other provisions of the Code and that Member's own particular circumstances. The Manager's Analysis is based on**



the assumption that all of the charitable contribution deduction would be utilized by the Members on their respective tax returns for 2015 and would not be subject to any limitation. That assumption might not be accurate with respect to any given Member.

Assuming that a Member wired money into the Company's escrow account during August 2015, the investment was accepted as of August [21], 2015 and that the tax savings are realized in October of 2016, the IRR to the Member would be approximately 56.1%. Assuming that the Member wired money into the Company's escrow account during August 2015, the investment was accepted as of August [21], 2015 and that the tax savings are realized in April of 2016, the IRR to the Member would be approximately 107.1%.

ONCE AGAIN, THIS EXAMPLE ASSUMES NO STATE INCOME TAX SAVINGS RESULTING FROM THE CHARITABLE CONTRIBUTION DEDUCTION AND WILL NOT REPRESENT THE ACTUAL RETURN TO ANY SPECIFIC MEMBER, BUT IS RATHER PROVIDED AS A BASIS OF COMPARISON WITH THE RISK/RETURN PROFILE OF THE DEVELOPMENT OPTION.

IN REALITY, EACH MEMBER WOULD PARTICIPATE IN THIS NON-CASH CHARITABLE CONTRIBUTION DEDUCTION ON A PRO-RATA BASIS BASED ON THEIR PRO-RATA PERCENTAGE OWNERSHIP IN THE COMPANY. EACH MEMBER SHOULD CONSULT HIS, HER OR ITS TAX ADVISOR FOR THE SPECIFIC IMPACT ON HIS, HER OR ITS INCOME TAX RETURNS.

Additional Resources Available for Review of the Conservation Option[†]

- Tax Opinion – Alston & Bird, LLP
- Initial Qualified Appraisal – Clark-Davis, PC
- Initial Qualified Appraisal Independent Review – Integra Realty Resources – Raymond Veal
- Initial Qualified Appraisal Independent Review Legal Opinion – Sirote & Permutt, PC



- Preliminary Baseline Documentation and Draft Deed of Conservation Easement – North American Land Trust
- Azalea Bay Resort Conservation Option Return Calculator – EcoVest

Deferral Option

Under certain conditions, it may be beneficial to the Members to defer any decision with respect to the Property and continue to hold the Property for investment until a future date. Accordingly, the Members could elect to take no action with respect to the Property at the current time and continue to hold the Property for investment in the future. Presently, there are no relevant conditions present that would suggest consideration of the Deferral Option as a better alternative than either the Development Option or the Conservation Option.

ⁱ The anticipated distributions that may become payable to the Members if the Development Option is selected and the anticipated value of the charitable contribution deduction available to the Members if the Conservation Option is selected that are disclosed herein do not include amounts payable or available to EcoVest Azalea Bay, LLC ("EAB") with respect to the five units it received in connection with formation of the Company. EAB will also receive distributions or realize the charitable contribution deduction, as applicable, with respect to those units but these amounts do not impact the Member returns discussed herein.

ⁱⁱ Additional resources are available for review in the electronic data room made available to all Members in connection with the vote to elect one of the investment options described above.

ELECTION OF MEMBER

As referenced in the Manager's Analysis provided simultaneously with this Ballot, the Members of Azalea Bay Resort Holdings, LLC (the "Company") have the opportunity to elect one of the following investment options for approximately 269.41 acres located in Horry County, South Carolina (the "Property"), as further described in the Company's Private Placement Memorandum, dated June 1, 2015:

- 1) Develop the Property into as many as 2,156 multi-family residential units for sale to the public either by itself or in conjunction with others (the "Development Option");
- 2) Donate a conservation easement on the Property (the "Conservation Option") or;
- 3) Defer action and continue to hold the Property for investment (the "Deferral Option").

PLEASE REFER TO THE COMPANY'S PRIVATE PLACEMENT MEMORANDUM AND THE MANAGER'S ANALYSIS, INCLUDING THE SUPPLEMENTAL INFORMATION PROVIDED TO YOU BY MEANS OF THE SECURED VIRTUAL DATA ROOM, FOR ADDITIONAL INFORMATION REGARDING THE PROPERTY AND THE INVESTMENT OPTIONS.

Please indicate your vote by selecting one of the three investment options below. **You may only vote for ONE investment option.**

INVESTMENT OPTION	FOR
1) Development Option	_____
2) Conservation Option	_____
3) Deferral Option	_____

Date: _____

Investor Signature

Print Name

Co-Investor Signature

Print Name

Please sign, date and return this completed ballot to the Company as soon as possible pursuant to the instructions below:

Within five (5) calendar days, scan your ballot and email it to
_____ or fax it to _____