

MONARCH BAY LAND ASSOCIATION

Incorporated October 6, 1986

WHAT HAPPENS IN 2020?

This information is provided as a courtesy in connection with the 2006 Annual Meetings. It should not be considered legal, tax or other advice from the Monarch Bay Association, the Monarch Bay Land Association, or from its respective officers/directors.

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Ownership History

- Moulton Ranch (22,000 acres – 1890's) (In the past Ranchers did not like to sell land – same was true with the Irvine Ranch – see Committee of 4000 below)
- July 1, 1960 Ground Lease between the Moulton Family and Laguna Niguel Corporation
- 214 Residential Subleases between Laguna Niguel Corporation and initial Monarch Bay residents

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Ownership History Cont.

- AVCO Community Developers acquires Laguna Niguel Corporation
- 1972 Proposition 20 (Coastal Commission)
- AVCO begins asset divestiture in Laguna Niguel
- 1974 All-Inclusive Sublease between AVCO and Cal Western (presently PF Consultants)

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Ownership History Cont.

- July 24, 2001 Assignment of All Inclusive Sublease between Cal Western and Monarch Bay Association

The Monarch Bay Association is the first tier landlord of all Monarch Bay Residents

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- Option History

- 1960 Ground Lease provides:
- In 1990 for an unusual rent adjustment – “the increase or decrease of rental shall be proportionate to the trend in the purchasing power of the United States dollar” . . . means what?
- In 2020 all residents must vacate Monarch Bay but may remove their “dwelling houses” and “appurtenant improvements”

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- Option History cont.
 - 1977 Committee of 4000 revolts against the Irvine Company
 - In early 1989 the Moultons and MBA agreed to a rental increase based on the increase of the Consumer Price Index from 1960 to 1990 (approximately 450%)
 - In exchange for this rent increase, the Moultons agreed to grant an option to purchase its fee interest in Monarch Bay in 2020 but only if the optionee was an entity other than MBA (Committee of 4000 aversion)

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- Option History cont.
 - October 6, 1986 Monarch Bay Land Association (MBLA) was formed and an Option Agreement was entered into between the Moultons and MBLA
 - Memorandum of Option was recorded on February 6, 1989
 - Why 65% of FMV?

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Option Mechanics

Four \$100,000 Option Payments (credited to Purchase price):

- Upon execution and delivery (completed)
 - * July 1, 1996 (completed)
 - * July 1, 2006 (completed)
 - * July 1, 2016

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Option Mechanics Cont.

- MBLA to give notice of exercise between Jan. 1, 2018 and Jan. 1, 2019
- January 1, 2019 and March 31, 2019 – a Negotiation Period to see if the parties can agree on FMV – if unsuccessful
- Appraisal process on a “finished lot” basis with specific guidance on FMV
- MBLA pays 65% of FMV (aggregate of 214 “finished lot” appraisals)

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Option Mechanics Cont.

- MBLA records CC&R's
- Members of MBLA purchase their lots from MBLA pursuant to the Certificate of Beneficial Interest
- Beach Club conveyed to MBA
- MBLA dissolves

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2020 Hypothetical

Assumptions:

- For ease of calculation, all lots appraise the same FMV – \$2,000,000.
- 214 separate appraisals add up to total FMV of \$428,000,000
- MBLA needs \$278,200,000 cash to close
(65% x \$428,000,000 = \$278, 200,000)
- Only 80% of Monarch Bay residents elect to exercise their options.

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Hypothetical Cont.

- Participating residents contribute \$222,560,000 of the needed \$278,200,000 (80% of \$278,200,000)
- MBLA is short **\$77,440,000** to close !

WHERE DO WE GET THE \$77,400,000 TO CLOSE?

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Potential Solutions

- Be proactive in 2019 in identifying MBA residents who will not exercise and work out individual solutions
- MBLA gets a “bridge” loan to purchase the lots of 20% of residents who did not exercise with time to work out a fair program (i.e. sell the lots)
- An investor group is formed to buy the lots

OR

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BEACH CLUB!

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