



RED TAIL ACQUISITIONS, LLC

COMMERCIAL REAL ESTATE INVESTMENTS

4685 MacArthur Court, Suite 410
Newport Beach, California 92660

October 6, 2014

Mr. Steve McGrath
Harbor Manager
Harbor Terrace Development
Box 249
3950 Avila Beach Drive
Avila Beach, CA 93424

**RE: DEVELOPMENT AGREEMENT PROPOSAL
HARBOR TERRACE RESORT
AVILA BEACH, CALIFORNIA**

Dear Mr. McGrath:

This Proposal sets forth the terms and conditions upon which Red Tail Acquisitions, LLC, a Delaware limited liability company, will purchase the above-referenced property. This Proposal constitutes an expression of our intent only and any final and binding agreement shall be subject to the execution of definitive legal documents, including a Development and Lease Agreement. It is the intention of the parties hereto to enter into a Development and Lease Agreement (the "Agreement") that contains the following terms and conditions:

1. **LESSEE:** Red Tail Acquisitions, LLC, a Delaware limited liability company, and/or its assigns.
2. **LESSOR:** Port San Luis Harbor District.
3. **PROPERTY DESCRIPTION:** The property is known as Harbor Terrace Development Project, located at the corner of Avila Beach Drive and Diablo Canyon Road, in Avila Beach California. The project consists of a development site of approximately 32 acres of land.
4. **DEVELOPMENT AND LEASE AGREEMENT:** Within five (5) days after Lessor has accepted this Proposal, the two parties shall enter into an Exclusive Right to Negotiate ("ERN"). Lessee will then have 75 days to work with District staff to reach consensus on costs, scope, contract terms and other salient parameters of the project.
5. **CONDITIONS TO AGREEMENT:** The Development and Lease Agreement shall provide that the following conditions precedent to the obligation of Lessee to perform under the Agreement:
 - (a) **Lease Term:** Fifty (50) Years, commencing upon the issuance of grading permit.
 - (b) **Base Minimum Rent:** The Base Rent shall be approximately Five Hundred Eighty Two Thousand Dollars (\$582,000 annually paid in monthly installments). For the first five (5) years, the Base Rent will be increased by One Hundred Thousand (\$100,000), as reimbursement for the EIR costs.
 - (c) **Adjustment to Base or Minimum Rent:** The base rent will be adjusted annually either by averaging the previous three years gross rent payments or by the percentage change in Consumer Price Index (CPI), whichever is greater.
 - (d) **Percentage Rent:** The percentage rent of Eight Percent (8%) of Gross Sales less the Base Rent plus adjustments to Base Rent.

- (e) **Revenue Smoothing:** A mutually agreeable smoothing structure will be included in the Development and Lease Agreement that will allow the District to continue uninterrupted collection of their current revenue on the property, any short fall that occurs due to the interruption of the Lessee will be paid by Lessee.

- 6. **DEPOSIT/CLOSING:** An earnest money deposit of Fifty Thousand Dollars (\$50,000.00) (the "Deposit") will be made at time of proposal submittal, which shall be refundable if Lessee is not selected. Twenty Five Thousand Dollars (\$25,000) of the Deposit shall become non-refundable upon execution of the Exclusive Right to Negotiate Agreement ("ERN"). The balance of the Deposit shall become non-refundable upon execution of the Development and Lease Agreement and receipt of the Coastal Development Permit.

- 7. **ESCROW AGENT/TITLE COMPANY:**

Chicago Title Insurance Company
2001 Bryan Street
Suite 1700
Dallas, Texas 75201
Attention: Shannon Bright

- 8. **REPRESENTATION AND WARRANTIES:** The Development and Lease Agreement shall contain customary covenants, agreements, representations and warranties.

- 9. **ASSIGNMENT:** Lessee shall have the right, after giving written notice to Lessor, to assign its rights and obligations under this Development Proposal and the Development and Lease Agreement to any entity controlled by, or under common control of, Lessee.

It is understood that the foregoing outline of the Development and Lease Agreement is not, nor is it intended to be, a binding Development and Lease Agreement. Furthermore, it is understood that the purpose of this outline is to work toward acceptable terms by which to draft a Development and Lease Agreement that will be mutually acceptable to both parties.

If the above terms are acceptable to Lessor, please so indicate by executing the below and returning the enclosed copy by the close of business on December 9th 2014.

AGREED AND ACCEPTED:

PURCHASER:
Red Tail Acquisitions, LLC,
A Delaware limited liability company



By: Ben Ketel
Its: Managing Partner

SELLER:

By:
Its: