

FOLSOM ECOHOUSING DISCLOSURE OF RISKS

The development process involves a variety of risks. In conventional real estate development, the developer is paid for taking these risks by the potential profit in the project. Thus the greater the risk, the higher the potential profit should be. The individual buyers purchase the completed project at a specific price set according to what the developer thinks the market will bear. In doing so, the buyer has little or no input into the design and planning of the project, but also incurs fewer risks.

As potential homebuyers initiating the development of your homes and neighborhood at this very preliminary stage, you are taking on the role of an investor and developer. The advantage of your early involvement is the opportunity to shape the project from an early stage. The disadvantage is the assumption of risk.

Both D & S Development (D & S) and the Sacramento Suburban Cohousing Group of future residents (the Group) assume particular risks in participating in this project. D & S is taking financial risks by financing the land and agreeing to sign for the construction loan.

The Group also incurs certain risks by participating in the project. Should the project not be completed, for any reason, individual households could lose the funds they have invested up to that point. This disclosure is meant to reduce those risks by encouraging you to evaluate this opportunity to the fullest extent possible. In an ongoing effort to be “up front” with all participants, we have attempted to outline your risks below, although we cannot guarantee that we have included every possible risk.

This is does not constitute an offer to purchase real estate or an interest in an investment entity. Each Group member is encouraged to seek the advice of an attorney to fully advise them of the risks of participating in the Folsom EcoHousing Development Project.

1. Financial Risks to the Cohousing Group

The legal relationship between group members is to be determined by those involved. This leaves the responsibility for how members leave and join the Group with the Group itself. For instance, if a member decides, for whatever reason, that they no longer want to purchase a unit in the community, they may sell their interest share in the development to another household in a manner the Group has agreed upon. If, however, there are not sufficient households to buy out any partner(s) who want to leave, their financial investment(s) may be lost. To the extent that the Group has incurred debts, members may be individually liable for such debts even if they resigned their membership.

2. Development Risks

The complex nature of the development process means that there are a number of factors none of us can control which may affect the successful completion and/or the costs of the project. This includes discretionary approvals of various government agencies, the availability of funds, and the effect of changing real estate markets. These risks could delay or obstruct the project's successful completion. Estimated costs are only estimates and final sales prices cannot be guaranteed. Some of these development risks are:

A) Planning Approvals: The project requires approval of design review, tentative and final maps, and possibly variances. In addition to the Planning Department, the Historic District Commission and the Folsom City Council will be involved in this approval process. There is the possibility that the project will not be approved or that various government agencies require reduction of the number of units or additional design mitigation, making the project financially unfeasible, or taking much longer than expected to review the project, which adds unexpected costs.

B) Financing and Availability of Funds: There is always the possibility of major changes in the economy between now and when the project is completed. Interest rates may rise and therefore reduce the mortgage loan amount you can qualify for, increase the costs of your loan, or increase the size of your down payment. Inflation may increase the costs of building materials and labor beyond our projections. If there is a general downturn in the economy, if interest rates rise substantially, or banks become very conservative in their loan criteria for some other reason, our ability to obtain construction financing and/or your ability to obtain permanent mortgage loans could be affected.

C) Subdivision Approval: The State Department of Real Estate (DRE) must approve the subdivision of the project into individual lots or condominiums. The project could be delayed if the DRE review time takes longer than expected.

D) Toxics & Soils: We will be contracting for Geotechnical and Phase I Toxic Reports. But even after we have the reports, there is always (on any property) the possibility of finding toxic contamination, archeologically significant remains, or soils that require more expensive site work or foundations that could add to the costs of construction and therefore, the costs of completed homes.

E) Acts of God: Fire, earthquakes, war, or any number of other unexpected events could delay or obstruct the successful completion of the Project.

F) Terrorist Acts: While we do not expect terrorist acts in Sacramento County, recent events have certainly increased the possibility of terrorist acts in the United States that could significantly affect the national economy, and therefore affect the financial viability of the Project.