

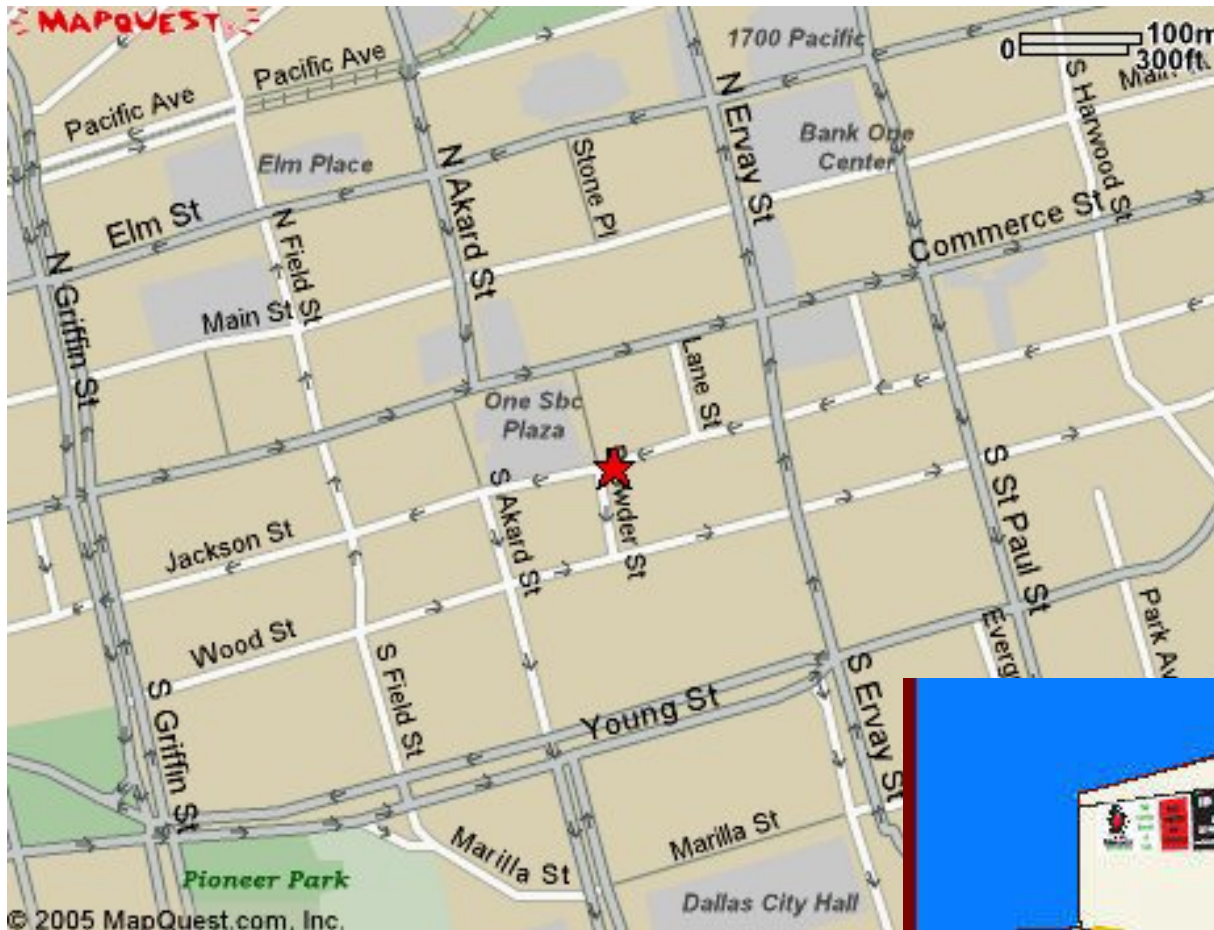


Urban

Market



URBAN MARKET



Address:

1500 Jackson Street
Dallas, TX 75201

Hours:

7am – 10pm Mon-Fri.
8am – 10pm Sat-Sun.

Size:

20,000 square feet
grocery store and cafe



Urban Market

- Purpose
 - Describe the current status of the Urban Market
 - Review the projected operations of the grocery over the next two years, with consideration given to moving towards downtown's critical mass goals
 - Detail solution for supporting the grocery store until critical mass can make facility self-sufficient

URBAN MARKET

Current Shareholders:

Key Shareholder of Urban Market, Inc. (operator of Urban Market and Café, Dallas, Texas) is Ray Baldwin, executor of the estate of Hiram B. (Chip) Johnson, Jr. (51%).

Current Board of Directors:

The Board of Directors of Urban Market, Inc. includes Charles Acklen, and Ray Baldwin.

URBAN MARKET

Ray Baldwin is the executor of Hiram B. Johnson's estate. Mr. Baldwin is President of Swain and Baldwin Insurance, Inc. and was Chairman and CEO of Perry Brothers, Inc., a regional general merchandise variety store chain.

Charles Acklen's role in Urban Market is to mitigate the negative cash flow, to build whatever inventory management systems necessary, to redirect people and payroll to a more profitable structure, and to put the entire operation on a path of profitability. Based in Luftkin, Texas, Mr. Acklen is president of Perry Brothers, Inc.

URBAN MARKET

Background

For the past year, Urban Market has established itself as downtown Dallas' only full service grocery store.

The Interurban Building shareholders have invested over \$2.5 million in the Urban Market to keep the doors open, including a first year operating shortfall of \$1.2 million.

Despite consistent improvement, operating deficits are expected to continue at a diminishing level until enough residential critical mass is achieved to sustain grocery operations.

Urban Market

Background

Urban Market's second quarter 2006 shortfall (net of unpaid rent) was \$136,000, or \$45,000 per month

The City of Dallas, through the retail incentives program, and Interurban investors each contributed \$100,000 in July 2006 to provide interim support until a more permanent solution could be crafted.

The longer term goal is to sustain the grocer until residential critical mass is sufficient to support operational breakeven (estimated at 18-24 months).

URBAN MARKET

Background

Interurban shareholders cannot continue subsidizing the grocery without outside help.

The financial gap to operational breakeven over an 18-24 month period is estimated at \$1.1 million.

URBAN MARKET

Why Help?

Urban Market is a key urban amenity

1. Downtown momentum is maintained and the Urban Market helps support high occupancy rates and improved rental rates
2. 2002 Downtown Improvement District resident survey names grocery store, parks and open space as most desired amenities
3. Important to achieving the critical mass goals (residential retention and growth)

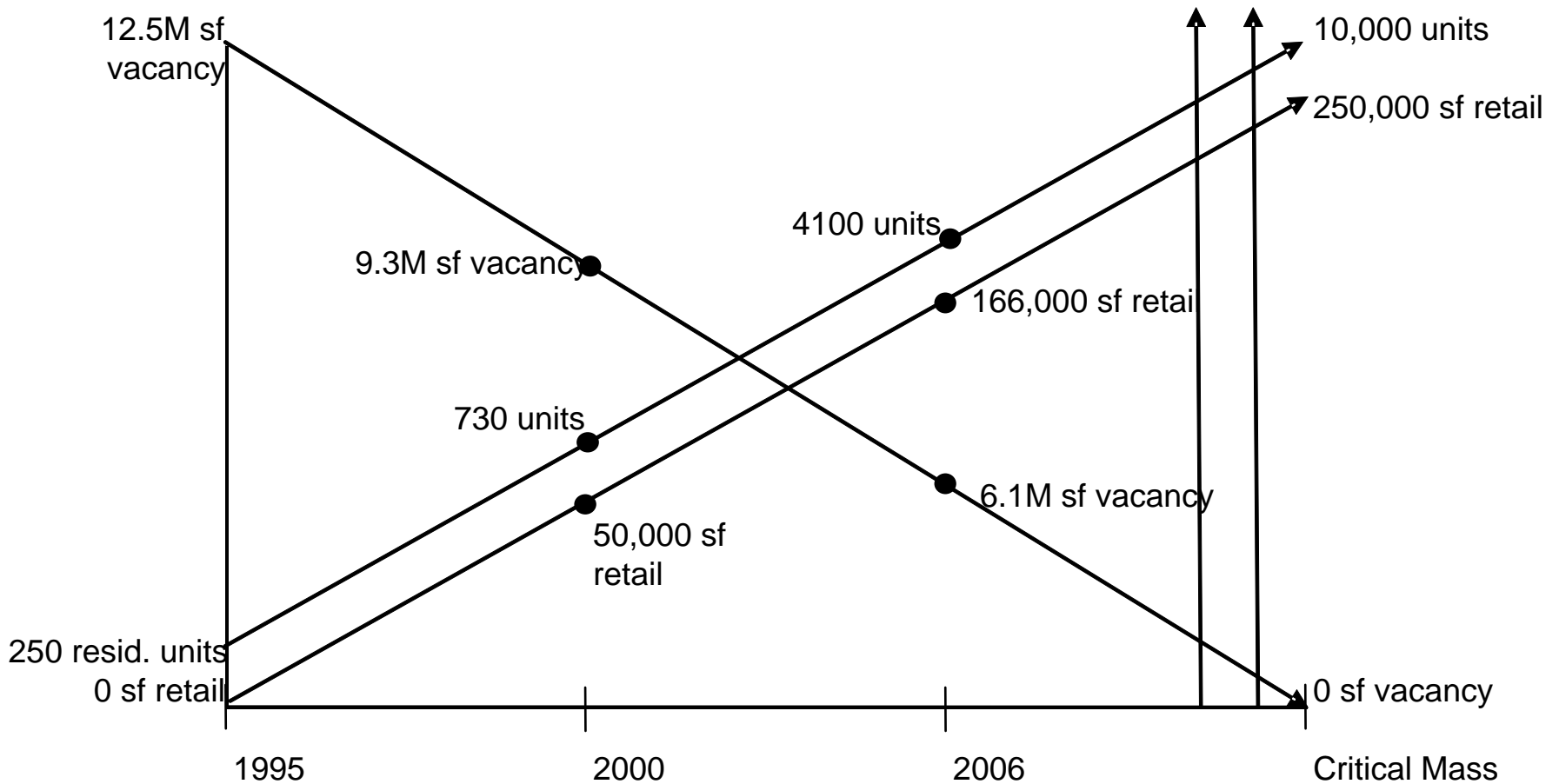
URBAN MARKET

Why Help?

4. The residential growth with buildings under construction drives projected operating breakeven within 18-24 months.
5. The \$1.1 million pledge is contingent on the Interurban's ownership guarantee that Urban Market remains open for 24 months.

Critical Mass Goals

Why Help?



Note: Primarily for conceptual use. Note 2: Retail square footage does not include Neiman Marcus

URBAN MARKET

Assistance Request

The City of Dallas will match funds, subject to City Council approval, with downtown Dallas stakeholders to sustain Urban Market for a 24 month period (\$550,000 from each sector).

Strong stakeholder support has already been evidenced.

URBAN MARKET

Mechanisms for principal recapture by potential Urban Market investors have yet to be finalized, but may include:

- A fully subordinated, unsecured non-interest bearing loan to Urban Market, Inc., which could be serviced pari-passu with obligations to existing owners once the operation begins generating positive cashflow.
- For downtown stakeholder participation, a partial principal recapture through “frequent shopper” rebate cards that could be made available to use as a tenant incentive.

Pledged funding will be disbursed in month 1 and month 13, subject to a 12 month operational review.

Marketing and Operating Assumptions Urban Market, Inc.

	<u>FY '06-'07</u>	<u>FY '07-'08</u>
Gross Sales	\$4,311,006	\$5,340,580
Cost of Goods Sold	\$2,837,391	\$3,383,641
Payroll	\$1,220,427	\$1,295,317
Operating Expenses	<u>\$665,293</u>	<u>\$712,319</u>
Profit/Loss	-\$412,105	-\$50,697
Operating Reserve	<u><u>\$99,794</u></u>	<u><u>\$106,848</u></u>

REQUIRED ASSISTANCE:

Operating Losses	\$462,801
Aged Payables	\$300,000
Operating Reserve	\$206,642
September Deficit	<u>\$100,000</u>
	\$1,069,443 (say \$1.1 million)

See Appendix A for backup data.

Market Validation

Downtown Market Area - Population Growth

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Main Street Core	1,655	2,594	3,877
1 Mile Radius	13,190	13,592	15,272
Downtown Employees	125,000	125,000	125,000

See Appendix B for back up growth calculations and individual property data.

Notes: The Main Street Core Area generally encompasses the historic core within the downtown freeway loop and excludes the Arts District, Farmers Market, and the West End.

Residential counts assume 1.2 persons per household and 5% vacancy rate.

Market Validation

Gross Sales Projections

	<u>2006 Adjusted Population</u>	<u>Market Penetration</u>	<u>Avg Annual Purchase/person</u>	<u>Gross Sales Forecast</u>
Main Street Core	1,655	61%	\$1,584	\$1,599,398
1 Mile Radius	13,190	3%	\$1,056	\$417,853
Downtown Employees	125,000	1%	\$1,584	<u>\$1,980,000</u>
				\$3,997,251
	<u>2007</u>			
Main Street Core	2,594	61%	\$1,584	\$2,506,117
1 Mile Radius	13,592	3%	\$1,056	\$430,588
Downtown Employees	125,000	1%	\$1,584	<u>\$1,980,000</u>
				\$4,916,706
	<u>2008</u>			
Main Street Core	3,877	61%	\$1,584	\$3,745,958
1 Mile Radius	15,272	3%	\$1,056	\$483,830
Downtown Employees	125,000	1%	\$1,584	<u>\$1,980,000</u>
				\$6,209,788

See Appendix C for market penetration assumptions.

Conclusions

- Population based gross sales estimates and market penetration analysis support Urban Market management sales projections.

Calendar Year Comparison

	2007	2008
Urban Market Management	\$4,549,111	\$5,634,317
Population Based Estimate	\$4,916,716	\$6,209,788

- Ample opportunity exists to improve penetration in all three submarkets

Conclusions

- A downtown grocery store is a high resident priority.
- Support of a downtown critical mass objective is a strategic imperative.
- Urban Market investors/management team is actively resolving past operational issues.
- Private stakeholder financial support underscores downtown commitment and merits a public funding match.

Summary and Recommendation

- ✓ To sustain the market for 18-24 months, while the critical mass grows to a level that will make it self-sufficient, it will require an estimated \$1.1 million.
- ✓ It is recommended that the City of Dallas and private stakeholders each contribute \$550,000 to ensure that this important urban asset remains in operation.

Appendix A

	4th Quarter, 2006 Projected	1st Quarter, 2007 Projected	2nd Quarter, 2007 Projected	3rd Quarter, 2007 Projected	FY '06-'07 Total	4th Quarter, 2007 Projected	1st Quarter, 2008 Projected	2nd Quarter, 2008 Projected	3rd Quarter, 2008 Projected	FY '07-'08 Total
Gross Income	\$992,801	\$1,047,405	\$1,105,012	\$1,165,788	\$4,311,006	\$1,229,906	\$1,297,551	\$1,368,916	\$1,444,207	\$5,340,580
Cost of Goods Sold	\$663,222	\$693,067	\$724,255	\$756,847	\$2,837,391	\$790,905	\$826,495	\$863,688	\$902,554	\$3,383,641
Payroll Expense	\$298,327	\$302,802	\$307,344	\$311,954	\$1,220,427	\$316,633	\$321,383	\$326,204	\$331,097	\$1,295,317
Adjusted Rent	\$25,266	\$25,266	\$25,266	\$25,266	\$101,064	\$25,266	\$25,266	\$25,266	\$25,266	\$101,064
CAM/Parking	\$23,018	\$23,018	\$23,018	\$23,018	\$92,072	\$23,018	\$23,018	\$23,018	\$23,018	\$92,072
Other Operating Expenses	\$113,782	\$116,592	\$119,444	\$122,339	\$472,157	\$125,277	\$128,260	\$131,287	\$134,359	\$519,183
Operating Expenses	\$162,066	\$164,876	\$167,728	\$170,623	\$665,293	\$173,561	\$176,544	\$179,571	\$182,643	\$712,319
Cash Flow	-\$130,814	-\$113,340	-\$94,315	-\$73,636	-\$412,105	-\$32,927	-\$8,605	\$17,720	\$46,179	-\$50,697
Aged Payables	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000	\$37,500	\$37,500	\$37,500	\$37,500	\$150,000
Reserve (15% op. expense)	\$24,310	\$24,731	\$25,159	\$25,593	\$99,794	\$26,034	\$26,482	\$26,936	\$27,397	\$106,848

PROFORMA NOTES/ASSUMPTIONS:

1. Gross Income is projected to increase at the rate of 5.5% per quarter.
2. Cost of Goods Sold is projected to increase at the rate of 4.5% per quarter. This assumes a 22% average gross margin including spoilage losses and shrink.
3. Payroll Expense is projected to increase at the rate of 1.5% per quarter.
4. Operating Expenses are projected to increase at the rate of 1.5% per quarter.

Appendix B

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Main Street Core			
Base # of Units	1,452	1,452	3,016
Vacancy x.95	1,379	1,379	2,865
# of People x1.2	1,655	1,655	3,438
Annual Increment	-	1,564	731
Vacancy x.50	-	782	366
# of People x1.2	-	938	439
Total	1,655	2,594	3,877
1 Mile Radius			
Base # of Units	11,570	11,570	12,260
Vacancy x.95	10,992	10,992	11,647
# of People x1.2	13,190	13,190	13,976
Annual Increment	-	670	2,160
Vacancy x.50	-	335	1,080
# of People x1.2	-	402	1,296
Total	13,190	13,592	15,272
Downtown Employees	125,000	125,000	125,000

Vacancy Rate in 2007 and 2008 accounts for the fact that not all projects will be open by January 1.

Appendix B

PROJECT	UNITS	COMPLETION DATE
<u>Main Street Core Area - COMPLETED</u>		
Manor House	252	
1900 Elm (Titché-Goettinger)	129	
Santa Fe Terminal	205	
The Kirby - Residences on Main	157	
Wilson Building	143	
1611 Main Street Lofts	8	
Residences at Jackson	8	
Davis Building	183	
1505 Elm Street Condominiums	67	
Interurban Building	134	
Dallas Power & Light	158	
Miscellaneous Units	8	
	1,452	
<u>Main Street Core Area - UNDER CONSTRUCTION</u>		
The lofts at 400 N. Ervay	92	2007
Gulf States Building	64	2007
Gables at Republic Center	227	2007
Fidelity Union Life Towers (Mosaic)	440	2007
1407 Main Street	85	2007
1414 Elm Street	8	2007
1200 Main Street	273	2007
Mercantile Complex	375	2007
	1,564	
<u>Main Street Core Area - ANNOUNCED</u>		
Santa Fe IV	48	2008
Forest City additional projects	355	2008
500 S. Ervay	320	2008
Miscellaneous Units	8	2008
	731	
	3,747	

Appendix B

WITHIN ONE MILE OF DOWNTOWN FREEWAY LOOP - COMPLETED

2220 Canton Lofts	48	Cedar Springs Condos	12
312 S. Harwood	3	Treymore North	70
Camden Farmers Market - Phase 1	620	Cabell & Haskell Townhomes - Phase 1	5
Camden Farmers Market Townhouses	17	Mayor's Way	17
Harlan Building	5	Live Oak Lofts	114
Camden Farmers Market Phase 1B, Pt 1	284	AMLI @ Bryan Place - Phase 1	420
The Meridian	133	The Gallery	34
2639 Elm	10	Park at Turtle Creek	305
2105 Commerce	4	The Linden Intown	170
Walton St. Studio Apts	12	Post Heights - Phase 2	170
2511 Swiss	8	Turtle Creek Villas	331
The Worthington	332	Fairmount Mews	4
2508 State	6	Bryan Heights	40
Magnolia Station	69	Cambrick & Cole Townhomes	14
4118 Commerce	14	Bryan Place Commons	7
Gables at Turtle Creek Cityplace	232	Futura Lofts	88
Uptown Village	300	Mitchell Lofts	79
2504 State	3	Cole & Bowen Townhouses	5
Gables at Pearl Street	108	Peak & Munger Homes	16
1519 Beaumont	5	Lofts at 588	127
3600 Commerce	10	Uptown Village - Phase 2	196
2910 Commerce	3	Post Commons	158
Carriage House in State Thomas	24	Post Residences	196
The Abbey	34	Post Parkwood	96
Post Square	218	Quarters at Cityplace	244
The Vineyard	116	Belvedere	104
3612 Commerce	3	Pecos Brownstones	4
3809-11 Eastside	3	Southside on Lamar	450
3813-17 Eastside	3	Allen Street Brownstones	5
Frank's Neon Sign	6	Drexel Court	18
Liberty @ San Jacinto	4	Travis Terrace Townhomes	17
Citi Lofts - Phase 1	25	Park Townhomes at The Belvedere	6
Farm & Ranch Lofts	35	Gables State Thomas Townhomes	177
The Murray	28	Howard Wolf Building	71
The Continental	61	3711 Holland	18
Gables Mirabella	126	2011 Cedar Springs	45
Adam Hats	90	West Village	160
Gaston Yard	480	Jefferson @ Kessler Park	336
4130 Commerce	21	1999 McKinney	62
Eban Village	110	Drexel Manor	28
Treymore @ Cityplace	180	Eban Village Phase 2	75
Cole's Corner	186	Exall Park Brownstones	16
Magnolia Hill	20	Georgetown Court	19
China Alley Lofts - Phase 1	20	The Bryson at City Place	232
Colby Row	6	Gables State Thomas Ravello	290
Post Heights - Phase 1	198	Drexel Grand	28
American Beauty Mill	80	Urban Woods on Commerce	8
Piggly Wiggly Building	20	Brownstones on Pecos - Phase 2	5
Jefferson at the North End	540	Marquis on McKinney	145
Maple Villas	252	Villas of Bryan Place	24
Five Seven Nine Townhomes	13	Jefferson at Texas Street	302
7-Up Bottling Company	13	Jefferson at Kessler Park - Phase 2	338
Uptown Dallas Townhouses	9	Drexel Montane	30
China Alley Lofts - Phase 2	22	The Mondrian	218
1601 S. Ervay	26	W Residences	94
Porto Bello by the Creek	30	Sundance Row	41
Homes of Thomas Court	25	ZaZa Condominiums	33
			11,570

Appendix B

WITHIN ONE MILE OF DOWNTOWN FREEWAY LOOP - UNDER CONSTRUCTION

Urban Innovations Townhomes	28
West End Complex	204
Clay Alley Row Houses	5
Glen Vista @ Bryan Place	30
Up East Townhomes	18
Hanover Uptown	250
Bryan Street Station	56
Cityville at Live Oak	240
Place Prevot	13
The Metropolitan	14
Azure	375
Gables Villarosa Phase I	311
Gables West Village	75
Lakecliff Tower	142
Ritz-Carlton	70
The Vista	125
The Terrace	95
Cirque	260
Gables Cityplace West	103
Valencia	54
West Side Townhomes	62
Hall & Thomas Townhomes	12
The House be Starck and Yoo	150
Mandarin Oriental	90
The Buzz	48
Under 100 Units (2007)	670
Over 100 Units (2008)	2,160

Note: no announced projects within the 1 mile radius of the Main Street Core are counted.

Appendix C

Market Penetration Assumptions

2nd quarter actual gross sales \$891,984

Average sale per trip \$11

Sub-market components trips/quarter

Main Street Core (3x/week) 39

1 Mile Radius(2x/week) 24

Downtown Employees (3x/week) 39

Quarterly purchase/person

Main Street Core 3 x \$11 = \$33 x 4 = \$132 x 3 \$396

1 Mile Radius 2 x \$11 = \$22 x 4 = \$88 x 3 \$264

Downtown Employees 3 x \$11 = \$33 x 4 = \$132 x 3 \$396

Annual Purchase/person

\$1,584

\$1,056

\$1,584

Estimated Market Share/Penetration by Sub-Market

<u>Sub-Market</u>	<u>Market Share</u>	<u>Amt Spent</u>	<u>2006 Population</u>	<u># of people shopping</u>	<u>% Penetration</u>
Main Street Core	45%	\$401,393	1,655	1,014	61%
1 Mile Radius	10%	\$89,198	13,190	338	3%
Downtown Employees	45%	\$401,393	125,000	1,014	1%
	100%	\$891,984			

APPENDIX D

BUSINESS PLAN FOR 2006-2008

Regulatory Permits and Licenses:

Urban Market, Inc. has all necessary licenses and permits to enable it to continue to operate the store.

There are no environmental concerns existing on the property.

Urban Market is in compliance with all Federal, State, and Local Requirements.

APPENDIX D

BUSINESS PLAN FOR 2006-2008

Key Vendors/Issues:

The primary vendors providing product to Urban Market, Inc. are Affiliated Foods Inc., American Foods, Kehe Foods, United Foods, Rogers Produce, and Schepps, as well as numerous local wine, beer, and soft drink distributors.

Service Contracts and Major Suppliers:

Urban Market, Inc. has Service Contracts with Duncan Disposal (trash removal), Almcoe Refrigeration, and several other minor vendors and suppliers.

Technology:

Urban Market and Café employs state of the art Point of Sales Systems by Cash Register Systems and Micros. 27

APPENDIX D

BUSINESS PLAN FOR 2006-2008

Inventory/Inventory Control:

During the last several months, the inventory in the store (excluding the Café) has been reduced by nearly 15%.

Payroll cost has also been reduced by nearly 15%.

Both of the reductions have resulted in improved alignment with available cash from operations.

Further reductions are currently being sought to minimize loss, waste, and shrinkage.

APPENDIX D

BUSINESS PLAN FOR 2006-2008

Debt:

Long Term Debt (see next page)

Aged Payables – There is approximately \$300,000 of trade debt that needs to be eliminated, in order to free up cash to service future vendor purchases and other operational needs of Urban Market.

Receivables – There are no significant receivables for this retail operation. Nearly all credit transactions are settled within a few days.

APPENDIX D

Long Term Debt as of August 31, 2006

2005 Chevrolet Astro Van

Creditor: General Motors Acceptance Corporation

Loan Amount: \$17,761.26

Note Payable: \$13,880.40 (43 remaining monthly payments @ \$322.80)

Promissory Note (Financial Advances plus Unpaid Rental Amounts)

Creditor: Dallas Interurban, Ltd.

Principal Amount: \$1,469,825.94

Interest Accrual: \$104,119.17

NOTE: This listing does not include short term accounts payable and other normal operating expenses of Urban Market, Inc.

Date	Rent	CAM/Parking	Operating Deficit Reserve	Pay-Off Aged Payables	Monthly Totals
Sept.1, 2006	\$16,843.75	\$7,672.50	\$52,928.80	\$300,000.00	\$377,445.05
Oct.1, 2006	\$16,843.75	\$7,672.50	\$50,723.43	\$0.00	\$75,239.68
Nov.1, 2006	\$16,843.75	\$7,672.50	\$48,518.07	\$0.00	\$73,034.32
Dec.1, 2006	\$16,843.75	\$7,672.50	\$46,312.70	\$0.00	\$70,828.95
Jan.1, 2007	\$16,843.75	\$7,672.50	\$44,107.33	\$0.00	\$68,623.58
Feb.1, 2007	\$16,843.75	\$7,672.50	\$41,901.97	\$0.00	\$66,418.22
March 1, 2007	\$16,843.75	\$7,672.50	\$39,696.60	\$0.00	\$64,212.85
April 1, 2007	\$16,843.75	\$7,672.50	\$37,491.23	\$0.00	\$62,007.48
May 1, 2007	\$16,843.75	\$7,672.50	\$35,285.87	\$0.00	\$59,802.12
June 1, 2007	\$16,843.75	\$7,672.50	\$33,080.50	\$0.00	\$57,596.75
July 1, 2007	\$16,843.75	\$7,672.50	\$30,875.13	\$0.00	\$55,391.38
Aug.1, 2007	\$16,843.75	\$7,672.50	\$28,669.77	\$0.00	\$53,186.02
Sept.1, 2007	\$16,843.75	\$7,672.50	\$26,464.40	\$0.00	\$50,980.65
Oct.1, 2007	\$16,843.75	\$7,672.50	\$24,259.03	\$0.00	\$48,775.28
Nov.1, 2007	\$16,843.75	\$7,672.50	\$22,053.67	\$0.00	\$46,569.92
Dec.1, 2007	\$16,843.75	\$7,672.50	\$19,848.30	\$0.00	\$44,364.55
Jan.1, 2008	\$16,843.75	\$7,672.50	\$17,642.93	\$0.00	\$42,159.18
Feb.1, 2008	\$16,843.75	\$7,672.50	\$15,437.57	\$0.00	\$39,953.82
March 1, 2008	\$16,843.75	\$7,672.50	\$13,232.20	\$0.00	\$37,748.45
April 1, 2008	\$16,843.75	\$7,672.50	\$11,026.83	\$0.00	\$35,543.08
May 1, 2008	\$16,843.75	\$7,672.50	\$8,821.47	\$0.00	\$33,337.72
June 1, 2008	\$16,843.75	\$7,672.50	\$6,616.10	\$0.00	\$31,132.35
July 1, 2008	\$16,843.75	\$7,672.50	\$4,410.73	\$0.00	\$28,926.98
Aug.1, 2008	\$16,843.75	\$7,672.50	\$2,205.37	\$0.00	\$26,721.62
TOTALS	\$404,250.00	\$184,140.00	\$661,610.00	\$300,000.00	\$1,550,000.00

APPENDIX D

Urban Market

NOTES:

1. Rent is based on 16,500 square feet x \$12.25 per square foot (annually), and excludes the Café.
2. CAM/Parking is based on 16,500 square feet x \$5.58 per square foot (annually), and excludes the Café.
3. Operating Deficit Reserves is calculated using Proforma Operating Projections, prepared by Urban Market
4. Aged Payables includes any vendor invoices 30 days or older as of August 15, 2006.