

Development Opportunity Summary – Eureka Canyon

Based on the findings reported in our market studies, it is the opinion of Vogt Santer Insights that a market exists for the proposed Eureka Canyon development in Eureka, Nevada. The town of Eureka, the county seat of Eureka County, is the commercial, residential and government center for the county and the region.

The proposed Eureka Canyon project involves the new construction of single-family small lot homes, multifamily rentals and commercial/retail development. Overall, the Eureka Canyon development encompasses 164 acres along U.S. Highway 50 just north of downtown Eureka. It is our opinion that the Eureka Canyon Subdivision will serve to set a new overall standard for future development throughout the area, and for housing quality standards in general within Eureka County in the future.

The current real estate market, both local and national, does not provide an opportunity for development without a cooperative relationship between public and private entities to get a project like Eureka Canyon to fruition. Based on our review of the market and existing demand factors, it is our opinion that the Eureka Canyon project can support an initial development of up to 50 rental units and 30 single-family homes for local residents and existing mining community members. Development of additional multifamily rental units and up to 30 single-family homes will occur over the next few years without the construction of the Mount Hope Mine. This additional development will be supported by local household growth and transient workers who currently commute 2+-hours each way after working in the area.

The subject site will draw some support from existing tenants or miners at the Ruby Hill Mine facility looking for a high-quality rental opportunity, which is currently unavailable in the county. A small portion of support may come from employment opportunities from some of the other outlying rural areas, or even from as far away as Elko. Nonetheless, we have not considered a secondary market area in this report. Out-of-area residents are not likely to consider a move to Eureka unless they are working in the area. The growth of the Mount Hope Mine is considered separately within the overall demand projections.

The final stages of development at the project will be supported by mine workers and families relocating to the area in response to proposed area mining projects, including the General Moly mine. If the projected new growth for the Eureka area does occur, and based on our analysis it appears at this time that it most likely will, the proposed subdivision project, if built out as planned, in and of itself, will not be capable of providing enough housing and commercial space to meet all of the projected housing and business demands of the future.

Following is our projection of development timetables for the residential alternatives within the Eureka Canyon Subdivision:

DEVELOPMENT ALTERNATIVE	DEVELOPMENT TIMETABLE			
	YEAR ONE (2011)	YEAR TWO	YEAR THREE	YEAR FOUR
<u>MULTIFAMILY</u> 1-, 2- & 3-Bedroom units renting from \$700 to \$1,000 per month	50 Units September opening Absorption of 6- to 8-units monthly	30 Units* January opening Absorption of 5- to 6-units monthly	30 Units* January opening Absorption of 4- to 5-units monthly	-
<u>SINGLE-FAMILY</u> 3-Bedroom homes averaging 1,500 square feet. Sales prices of \$150,000 to \$220,000	20, up to 30 Homes September opening Sales of 1.8- to 2.5-units monthly	30 Homes* June opening Sales of 1.5- to 2.0-units monthly	30 Homes* June opening Sales of 1.5- to 2.0-units monthly	15, up to 20 Homes* June opening Sales of 1.0- to 1.2-units monthly

*Adjust based on market demand

The initial phase of development of the Eureka Canyon project should include an information center with parking. The center will also be used as a sales center for the proposed single-family home development and leasing the proposed multifamily units. Future development at Eureka Canyon will include a commercial/retail center aligned along the US Highway 50 frontage. We anticipate that this will involve new alternatives for Eureka, as well as the possible realignment of existing area businesses to the new commercial/retail area. We anticipate that the local market can support up to 40,000 square feet. With new residential alternatives and the opening of Mount Hope Mine, commercial and retail development at the subject site could include nearly 100,000 square feet.

It is our recommendation that the development incorporate recreational amenities that would be available to residents of Eureka Canyon as well as the community. The subject site is adjacent to the Eureka County Fairgrounds. The developer is in discussion with a nationally known designer of disc golf courses about adding an 18-hole course, pro shop and practice ranges to the project. Other recreational amenities that could be developed should include park and playground areas, horse shoe pits, sports court, ball fields, jogging and biking trails, an amphitheater, etc. These features should be within the development but integrated to existing community amenities, and will help establish the subject development as a community gathering area.

The Primary Market Area (PMA) is the geographical area from which most of the support for the proposed development is expected to originate. The Eureka Site PMA includes the community of Eureka and surrounding unincorporated areas of Eureka County. Eureka is an isolated rural market. Outside of town there are no community services, and the home locations become more and more remote; most are cattle ranches or farms.

The Eureka and Eureka County community derives its economy primarily from mining and agriculture segments. Within Eureka County are commercial quality geothermal, oil and mineral resources and North America's largest gold mines are currently located in the north part of the county. The mining sector of the economy is a bright spot in Nevada's otherwise poor economy.

The 2000 Census reported 792 people in 317 households within the Site PMA. The estimate for population and households in 2010 was 759 people in 304 households. Based on projections from ESRI, by 2014, the population is expected to increase to 771. The number of households is also expected to increase 1.9% to 309 over the total households in 2009. Notably, these projections do not include the potential increase in area employment and resulting increase to area population and households as a result of the opening of the new General Moly Mount Hope Mine, and other proposed/planned mines and other employment opportunities in or near the county.

Demand Projections

There are an estimated 4,500 employees working in Eureka County. Approximately 800 are estimated to be Eureka County residents based on current employment trends. Therefore, there are an estimated 3,700 workers that live outside the county and commute into the area for employment.

Not all of these workers however, work in the southern area of the county. Excluding an estimated 95% of these workers who work in the north area of the county, there is still a conservative base of approximately 185 (rounded) southern Eureka County area mine workers. The majority of these workers work at the Barrick Ruby Hill Mine and many commute to the area for employment due to the lack of housing alternatives.

Based on updated information on mine employment detailed in the *Major Mines of Nevada 2008* report from the University of Nevada, Reno, there are other employment sites in nearby areas of adjacent counties which are closer or have a more convenient drive to Eureka compared to their current residential alternatives. We have conservatively estimated these employers include 300 workers that commute to work from outside the area. This is estimated from a base of Bald Mountain Mine (200 workers) and miscellaneous mine, oil field and mineral workers (100 workers) in the area. These workers will provide an additional base of potential renters and homeowners for the proposed development.

It is within this base of regional mining and mineral industry workers that the potential

“out-of-area” worker support for the proposed Eureka Canyon development is expected to originate. We have considered only a 20% capture of this potential demand source for the rental segment of the project (60 households) and 10% (30 households) for the for-sale homes within the Eureka Canyon Subdivision. Coupled with local move-up households, these households support the majority of the units proposed for the Eureka Canyon development without considering the impact from the speculative Mount Hope Mines.

Without quality housing, the Eureka area is currently not considered as a residential alternative for these workers. In addition, without modern residential alternatives, existing area residents may move from the area when seeking quality residential alternatives. New residential alternatives and commercial/retail development will enhance the perception and potential of the area as an option for these workers. The perception of the area schools, with a quality public education and small class sizes, is another reason to consider Eureka when moving to an area that reduces 2+-hour commutes for employment.

Multifamily Units

Based on current area household growth trends, *which do not consider the opening of the Mount Hope Mine*, the Eureka rental housing market has a deficit of rental units among nearly all rent categories when considering the potential for rental alternatives among out-of-area workers and local residents currently living in moderate or lower quality alternatives. Given the lack of better quality housing options and the lack of available rental units, it is our opinion that 10 to 15 units would be appropriate for replacement and/or upgraded housing in this market. These units would provide a housing alternative to improve the housing continuum for households currently living in the area. When considering the support potential from a capture of up to 20% of the currently estimated out-of-area workers who are commuting into the county for employment, the Site PMA market can support nearly 100 additional rental units.

The proposed one-, two- and three-bedroom rental units are expected to rent for \$700 to \$1,000 per month. The quality of the proposed development is expected to improve the general aesthetic appeal of the area and will enhance the project’s overall marketability. In addition, the quality of the Eureka Canyon development will improve the overall perception of housing alternatives in the area.

It is our opinion that the proposed subject Eureka Canyon Townhomes development will capture a better-than-fair-share of demand and experience an average absorption rate of 6 to 8 units per month following a September 2011 opening. Initial absorption could be even higher due to pent-up demand from the workers commuting into the area. We expect the initial 50 rental units to be fully leased within six to eight months of opening.

It is our expectation that area population and households will increase significantly from the opening of the new mine. Continued planning and development of the Mount Hope

Mine will provide additional rental demand in the market. Based on employment projections for the mine, it is our opinion that nearly 150 additional rental units could be supported within the Eureka area once the Mount Hope Mine begins operations.

Single-family Homes

Given the lack of better quality housing options and the lack of available quality units, it is our opinion that up to 20 homes will be for replacement and/or upgraded housing for existing homeowners in the Eureka market. These units would provide a housing alternative to promote a housing continuum for households currently living in the area.

When considering the support potential from a capture of only 11% of the currently estimated out-of-area workers who are commuting into the county for employment, the Site PMA market could support up to 55 additional owner-occupied homes for moderate- and high-income households.

If approved, permitted and constructed, the proposed Mount Hope Mine is projected to increase the local employment base by over 400 workers. General Moly has been in Eureka for approximately five years working on permitting and development for the Mount Hope Mine. It is our expectation that area population and households will increase significantly following the opening of the new mine.

Although Eureka is the closest venue to the new mine operation, we conservatively estimate about one-tenth of the Mount Hope Mine employees would be attracted to the subject development. This results in a potential support base of new Mount Hope Mine workers that range from five new homeowners at the start of mine construction (50 Mount Hope Mine workers X 10%) to 40 in early 2013 at the start of mine operations (400 X 10%).

The following table summarizes the demand potential from the opening of the proposed Mount Hope Mine.

EUREKA CANYON OWNER-OCCUPIED HOMES – Eureka, Nevada			
Eureka Canyon Subdivision			
INCOME RANGE	Less than \$20,000	\$20,000 to \$50,000	\$50,000 and Above
EXISTING SUPPLY AND DEMAND THROUGH 2013/2014			
2011 Area Demand Before Mine Opens	2	30	46
Potential Demand Based on Likelihood to Capture Estimated Fulltime New Mount Hope Mine Employees in 2013	0	24	16
(=) Total Targeted Units Needed Over Projection Period (2009-2013)	2	54	62

With the opening of the Mount Hope Mine in 2013, there is a projected demand for an additional 40 moderate and high-end for-sale units in the market. This reflects the demand generated from a 10% capture of the Mount Hope Mine workers, as the share who would consider living in Eureka. At the start of construction, we anticipate that the demand from new mine employees is minimal. It is our recommendation that marketing of the subject Eureka Canyon development concentrate on the permanent mine employees since a respectable portion of these workers will have a more long term commitment and likelihood to want to live in the area.

The Natural Resource Industry Institute of the University of Nevada-Reno estimates that 3.24 additional jobs are created statewide for every direct mining job. Industry standards estimate that the local economy adds 0.2 workers for every full-time mine worker. Considering 400 full time mine workers at the Mount Hope Mine, this represents a potential for 80 additional jobs within the Eureka County area. Due to the speculative nature of this employment growth, we have not considered these workers within the demand projections for owner-occupied homes.

Retail and Commercial

Due to the limited availability of retail and service establishments in Eureka, significant amounts of purchases are believed to be “leaking” from the local economy. Residents typically choose to shop outside the local area because of limited local selection, often higher local prices, and as a means to “get away” for the day. Often shopping out of the area occurs in conjunction with travel to attend to medical appointments or business activities.

Based on the analysis we have performed at the retail subsector level, we have identified the top retail subsectors that we believe have the best opportunity for success at the site. These subsectors, which exclude auto dealers, include:

- Grocery Stores
- Gas Stations
- Sporting Goods, Hobby, Book and Music Stores
- Limited-Service Eating Places
- General Merchandise
- Clothing Stores

Other retail segments that are underserved in the market could be combined within existing area retail development. These potential market deficits are expected to increase as market demand increases with new households coming to the Eureka market with the introduction of the Eureka Canyon residential developments.

These market segments have a retail gap of at least \$650,000 within the Eureka market. It is important to note that we do not necessarily anticipate a “new” retailer coming to the market to meet all these underserved sectors. Rather, demand could be met by expansion and realignment of existing area businesses. Other segments with at least a \$75,000 retail gap include Building Materials/Garden Equipment & Supplies and the Furniture/Home Furnishings Stores and Electronics/Appliance Stores.

We expect the Eureka Canyon development to offer the highest quality retail space in the area, and become the retail center for the community and continue to serve the region. The Eureka Canyon commercial area will offer modern retail areas with adequate parking, expanded shopping alternatives and consistent hours of operations that will enhance the regional shopping potential of Eureka.

The nearly doubling of area population represents a development opportunity for up to 100,000 square feet of retail space at the subject Eureka Canyon development. It is of note that retail development will rely on the expansion of residential alternatives in the area along with employment growth to drive demand for additional commercial/retail space. Absorption of this space is incumbent on the development of the subject residential sections.

Based on our analysis of the present market, it is our conclusion that, whether or not new business development in the area does occur, the proposed Eureka Canyon development plan allows for the proper infusion of various aspects of new development for the defined area, and therefore serves to enhance the overall economic base of the community at large.

The proposed development plan will serve to set a new standard for retail/office

commercial land use applications along Highway 50 within the Eureka area, thus allowing for a rational redefining of commercial uses in the historical district of the existing downtown area of the township.

Summary

We believe the need for affordable, good quality rental and for-sale housing in the Eureka area will remain high, and that it will increase with the construction and development of the Mount Hope Mine.

The housing supply in Eureka is generally older. The older homes are smaller, lacking space and/or enough bedrooms for prospective buyers and/or renters. According to local sources, many people coming into town are miners, and after interviewing at the mines then come into town looking for a home/apartment to rent. If there are no available rentals many people park “fifth wheels” at the RV parks or on lots for rent in town, double-up with coworkers or stay at motels in town. For this reason, population estimates for the area are likely low.

The proposed Eureka Canyon Subdivision provides, first and foremost, an opportunity to meet existing demand within the Eureka market. While new business growth in the area is anticipated and expected, it is important to note that any future demand placed on the community by new employment opportunities would place a serious burden on the existing housing stock, as well as the general community at large, if not adequately addressed at this time.

If the projected new growth for the Eureka area does occur, and based on our analysis it appears at this time that it most likely will, the proposed subdivision project, if built out as planned, in and of itself, will not be capable of providing enough housing and commercial space to meet all of the projected housing and business demands of the future.