

It is the policy of Morrison Homes to carefully consider all risks associated with the purchase of land and to avoid undue exposure to planning and environmental risks. While all land acquisitions involve some level of risk, it is the responsibility of management to ensure that all risks are identified, evaluated and, to the extent possible, mitigated.

This policy is intended to ensure that appropriate due diligence is performed in connection with all land acquisitions and that each land acquisition receives the critical study that is warranted for such a key aspect of the Company's business.

This policy does not set forth every issue that should be considered in performing due diligence. This policy merely provides a due diligence framework by identifying major areas for consideration. Division management should develop procedures and checklists within this framework to ensure that all risks are identified, evaluated and mitigated. Division management should pay particular attention to local issues that are not considered in this policy.

### **RESPONSIBILITY:**

Division Presidents and Vice Presidents of Land Resources (or ranking land manager) are responsible for ensuring that appropriate due diligence is performed in connection with all land acquisitions. At the time a Land Purchase Exercise ("LPE") is submitted to the Land Expenditure Committee as set forth in Policies Nos. 4.01 and 4.03, the status of due diligence must be reported through completion of a Land Acquisition Feasibility form (Exhibit B to Policy No. 4.01). Division Presidents and Vice Presidents of Land Resources (or ranking land manager) are required to confirm that due diligence has been satisfactorily completed when the Company commits non-refundable funds under a land purchase contract and, again, prior to closing.

The appropriate Division Vice President of Finance and the Company's Chief Financial Officer are responsible for ensuring that a Land Acquisition Feasibility form has been completed and submitted prior to, as applicable, (i) the funding of any non-refundable funds under a land purchase contract, or (ii) the closing of a land acquisition.

### **FEASIBILITY AND DUE DILIGENCE ISSUES**

The following issues, among others, should be considered in performing feasibility studies and due diligence in connection with land acquisitions (some items pertain only to particular types of transactions – e.g., finished lot purchases):

- Market Analysis
  - ◆ Target buyer
  - ◆ Competition
  - ◆ Projected selling prices
  - ◆ Projected absorptions
- Product
  - ◆ Type
  - ◆ Standard specifications

- ◆ Availability
- ◆ Development timeline
- ◆ Site specific considerations
- ◆ Construction costs
- ◆ External approvals
  
- Title
  - ◆ Ownership
  - ◆ Liens (including potential mechanics' liens)
  - ◆ Leases
  - ◆ Easements (including prescriptive easements)
  - ◆ Taxes and assessments
  - ◆ Other encumbrances
  - ◆ Covenants, conditions and restrictions
  - ◆ Mineral rights (including drilling rights)
  - ◆ Survey
  - ◆ Transfer fees
  - ◆ Special districts
  - ◆ Spite strips
  
- Access
  - ◆ Public or private
  - ◆ Easements
  - ◆ Off-site easements
  - ◆ Off-site improvements
  
- Surrounding Property/Area
  - ◆ Access to transportation corridors
  - ◆ Land use for adjoining property
  - ◆ Power lines
  - ◆ Landfills
  - ◆ Waste Facilities
  - ◆ Railroads
  - ◆ Airports and flight patterns
  - ◆ Noise issues
  - ◆ Screening requirements
  - ◆ Hazardous substances
  - ◆ Presence or Proximity of restricted habitat
  - ◆ Presence or Proximity of endangered species
  - ◆ Objectionable odors
  - ◆ Negative visual impacts
  - ◆ Drainage issues
  - ◆ Necessity for easements
  - ◆ Reciprocal grading easements
  - ◆ School districts

- Planning Status
  - ◆ Zoning
  - ◆ Timeline for re-zoning
  - ◆ Zoning requirements (density, lot sizes, open space, setbacks, height limitations, parking, landscaping, screening)
  - ◆ Necessity for variances or special use permits
  - ◆ Necessity for environmental impact report
  - ◆ Probable yield
  - ◆ Current map/plat status
  - ◆ Needed approvals (agency, timeline, public input)
  - ◆ Map/plat conditions
  - ◆ Status of engineering plans for infrastructure improvements
  - ◆ Product restraints/architectural controls
  - ◆ Existing commitments to or agreements with governmental agencies, utilities, school districts or owners' associations
  - ◆ Dedication/acceptance of infrastructure (bonds, maintenance, potential reimbursements)
  - ◆ Affordable housing issues
  - ◆ Pending or threatened legislation or moratoria
  - ◆ Availability of building permits
  
- Geological Conditions
  - ◆ Topography (rock, slopes, water table)
  - ◆ Streams
  - ◆ Vegetation
  - ◆ Soils (compaction, density, load-bearing capacity)
  - ◆ Grading (cut/fill, balance)
  - ◆ Approved grading plan
  - ◆ Seasonal grading restrictions
  - ◆ Engineers' certifications
  - ◆ Flood plain
  - ◆ Drainage (detention basins)
  - ◆ Special hazards (e.g., earthquake zones)
  - ◆ Required disclosures
  
- Environmental and Biological Conditions
  - ◆ Phase 1 assessment reviewed
  - ◆ Phase 2 needed
  - ◆ Biological assessment needed
  - ◆ Wetlands
  - ◆ Other protected habitat
  - ◆ Hazardous or toxic substances
  - ◆ Storage tanks (including underground tanks)
  - ◆ Pesticide usage

- ◆ Adjoining property
- ◆ Required disclosures
- Utilities
  - ◆ Availability of water/sewer (provider, capacity, pressure, pumps, lifts, force mains)
  - ◆ Availability of electrical and gas (providers, capacity)
  - ◆ Telephone, cable (providers, joint trenching agreements)
  - ◆ Storm drains (detention facilities)
  - ◆ Fees
  - ◆ Inspections
  - ◆ Installation costs
  - ◆ Special districts (reimbursements)
  - ◆ Reclaimed water uses
  - ◆ Off-site easements
  - ◆ Located at boundary of finished lots
  - ◆ As-builts available
  - ◆ Needed Approvals
  - ◆ Pending or threatened moratoria
- Land Development
  - ◆ Needed approvals
  - ◆ Status of approvals
  - ◆ Timeline
  - ◆ Infrastructure installed per approved plans
  - ◆ Street specifications
  - ◆ Street lights and signs
  - ◆ Sidewalks
  - ◆ Survey controls (monuments, stakes)
  - ◆ Pad elevations and compaction
  - ◆ Development fees
  - ◆ Building permit fees
  - ◆ Acceptance/dedication
  - ◆ Development costs
- Planned Community
  - ◆ Agreements with government agencies
  - ◆ Architectural and site plan controls
  - ◆ Builder agreement
  - ◆ Joint marketing considerations
  - ◆ Signage
  - ◆ Amenities
  - ◆ Entrance monuments
  - ◆ Ability to set-up sales or construction trailers

### **DUE DILIGENCE REPORTS**

All title commitments, environmental reports, biological reports wetlands studies and other material due diligence materials must be addressed or certified to Morrison Homes, Inc. (or applicable subsidiary). If the property is to be self developed, this includes all surveys and soils/geological reports. If finished lots are being purchased, compaction letters must be obtained prior to each takedown.

### **FEASIBILITY AND DUE DILIGENCE APPROVALS**

Exhibit B to Policy No. 4.1 is a Land Acquisition Feasibility Approval form ("Feasibility Approval"). This form is to be completed and submitted as follows:

- The Feasibility Approval form must initially be submitted as part of Appendix IV to each LPE (see Policy No. 4.03). The form requires that management state at that time whether feasibility studies and due diligence have been completed.
- If feasibility studies and due diligence are not complete as of the date of the approval of an LPE, approval of the LPE will be conditioned upon completion of due diligence. At the request of the Company's Chief Financial Officer or Vice President/General Counsel, the Feasibility Approval form must thereafter be completed prior to the commitment of any non-refundable funds.