

December 29, 2023

Resort Property Nuevo Vallarta LLC

Important Message & Cash Call

Hello Partners,

We hope you are enjoying this holiday season and wish you a wonderful new year.

Background:

Over the years we have been concerned about the structural integrity and safety of our beautiful Mexico beach house. Last April we mentioned to you in our Partner letter that we were reviewing this issue with a structural engineer and would get back to you regarding the findings. We now have information for you to review and a recommendation for action.

You may recall that in June 2021, a Surfside, Florida condominium partially collapsed and 98 people lost their lives. Following this sad disaster, it was determined that the cause was a combination of factors, including the degradation and corrosion of the reinforced concrete structural support. We noticed at our beach house several similar degradations of steel reinforcing rebar. Earlier this year our pool equipment roof collapsed, and more large cracks were noticed around the house. We engaged a structural engineer to evaluate the probability of severe structural damage in the event of a strong earthquake with its epicenter nearby, or a strong hurricane or even a tsunami. Puerto Vallarta is located in an active earthquake zone. During our September/October 2022, maintenance period we experienced a major earthquake (7.6 magnitude) with its epicenter near Michoacan, Mexico, over 200 miles south of Puerto Vallarta. The house shook, a few cracks were noticed and repaired, and we lost over 6 inches of pool water as the abrupt earth movement caused water to slosh out for over a minute. It was a scary experience. We rushed out of the house and the shaking continued; we were scared out of our wits that the house was about to crumble. The painters were on ladders and scampered down as fast as they could. They were afraid to return to their work during some small aftershocks. We had no idea of the magnitude or how near the earthquake epicenter was at the time. This event brought us to be even more concerned about the safety of our families and guests while staying at our beach house. So, we posed the question to the structural engineer: "Would this nearly 40-year-old house on the beach withstand a major earthquake (7+ magnitude) with a nearby epicenter?" At his request, and under his direction we chiseled into a few of the support columns holding up the west side of the house. We found that columns did not have the steel structural integrity to support a large earthquake with an epicenter nearby, or a strong category 5 hurricane or a tsunami. We then ask the engineer to provide us with a seismic enhancement plan. He provided this information to our contractor who in turn shared it with us.

Recommendations from the Board:

While we are unable to determine when an earthquake or major hurricane might occur, it seems prudent to prepare for the unexpected challenges that Mother Nature may send our way. The last thing we want to hear is that our house did not withstand a major hurricane or earthquake and heaven forbid we have partners with sad experiences, including death or injuries. It is proposed that we, as owners and partners approve a **Cash Call** that will allow all of us to continue to enjoy our beach house and protect the occupants as best we can from death or injury that could occur at any time. The following is a summary of the project as proposed by the structural engineer:

1. Nine (9) structural columns will be required to have new footing and material structural steel installed in each column with concrete covering.
2. The size of the footings (one for each column) may vary and will be determined once a soil engineer determines the underground nature of the sand and soil below.
3. Proper bracing will be installed per the engineering specifications.
4. The billiard room over the TV room would be removed due to its lack of seismic stability and would be replaced with a more comfortable TV room. We will have to find a suitable place for the billiard table (assuming the partners wish to keep it).
5. The contractor and engineers will oversee the construction process to ensure compliance with the seismic enhancement plan.
6. The house will not be able to be habitable during the construction period of approximately 3 months.
7. A construction permit will be required from the local municipality. The permitting approval process could take about 3+ months.
8. Construction can begin as early as April 30, 2023, assuming the construction permit has been issued.

Cost of the Proposed Seismic Retrofit Project:

The total estimated cost of the proposed construction, including some other proposed enhancements to the house with today's Mexico Peso Exchange Rate (17 pesos to 1 US\$) is **US\$408,200**. This amount includes a 16% Mexican IVA tax and a built-in 10% cost-overrun estimate. It also includes new tile flooring (footings around the columns will destroy the tile and we are unable to match the existing tile), and pending maintenance items that include window seals, cupula waterproofing, painting, and electrical and plumbing and kitchen repairs. **The total amount of all projects equates to US\$8,500 for each week owned, or US\$4,250 for each ½ week owned.** (\$408,200 divided by 48 = \$8,500)

Those partners whose weeks fall between April 30 and July 30, 2024, will not have to pay their annual Maintenance Fees of \$2,500 for this year. All other partners will be assessed \$2,500 for the use of the property in a separate billing, as is customary for our annual maintenance fees.

Partner Vote is Required to Proceed:

Before engaging our contractor and obtaining a building remodel permit to proceed with our seismic retrofit project our Operating Agreement requires a yes vote of greater than 50 percent of the Partners.

Accordingly, we request this vote via email or US Mail letter response no later than January 15, 2024.

Options of Partners Regarding this Proposal:

1. **Do nothing and reject the proposal (a “No” Vote) to move forward with the proposed seismic retrofit project.**
 - a. If the majority of the owners select this option, then we will request our legal counsel to prepare a “Release and Hold Harmless Agreement” to be signed by all partners, and all others who occupy the house. Why do we need a Release and Hold Harmless

document? We all want to avoid tragedy and if there is a tragedy (loss of life or serious accident) we want to avoid any lawsuits. The Surfside, Florida tragedy that killed 98 people was settled with a class action lawsuit of over one billion dollars.

- b. If the majority of the Partners vote “No”, then a second vote may be taken at the request of any Partner who wishes to Sell the property. If the vote to sell the property receives a majority vote, we will proceed to engage a professional real estate company and place the house on the market.

1. Vote “Yes” to move forward with the proposed seismic retrofit project as proposed by the Board of Directors and agree to provide the required Cash Call amount of \$8,500 per week of ownership no later than March 31, 2024.

- a. We will work with Mexican and tax counsel to increase the value of the house so that the expense for the seismic retrofit will be included in the cost basis. This would allow us to pay less Mexican capital gains taxes, if and when we decide to sell the house at a later date.

Questions and Answers:

- 1. Q. What if the project ends up costing less or more than the estimated proposed amount?
 - a. Answer: If there are not enough funds collected, we will require a second Cash Call to cover the shortfall. If the project costs less than the estimated amount the excess funds will be used to fund future house projects or annual maintenance fees. If the project cost is materially less than the estimate, then the partners can vote to receive a refund.
- 2. Q. Why does this seismic retrofit project seem so important and urgent after the house has been standing for nearly 40 years?
 - a. Answer: Once a serious and potentially dangerous problem comes to one's attention it is only prudent and proper to call out that problem so it can be resolved. We know now due to professional investigation that our house is at risk should a large earthquake or hurricane occur near Puerto Vallarta. Our beach house is in a seismic zone, with major earthquakes occurring frequently to the south. The latest earthquake was in Las Juntas earlier this year with a magnitude of 5.8. Having felt the earth move in a major earthquake and observing the damage that can be caused, it seems prudent to move forward to do our best to keep everyone safe. Imagine how we would feel if we did nothing, and an earthquake caused the pool room to fall on some little children watching TV, crushing them to death. Once a serious and potentially life-threatening problem is known it should be addressed and resolved as soon as possible. The Surfside condo tragedy took 98 lives. The management and owners knew they had a problem and did not take quick action to resolve it. They regret not acting sooner. Our beach house so close to the sea has taken a toll on structural integrity over the past 40 years. Our original architect supports this proposal and understands the severity of the issue.
- 3. Q. Why does this cost so much?
 - a. Answer: Our cost estimates are based on the current cost of steel, cement, and other related materials, plus a labor component, professional oversight, and other related costs,

including compensating partners for non-use of the house. It is also based on the experience of the engineering and construction teams to complete the work within the anticipated timeframe and budget. We will negotiate a contract that is cost-based. We built in a 10% contingency amount just in case the cost of steel, cement, and other materials fluctuate. We also know that the Mexican Peso has been strengthening and this element could add to the cost. These costs could go down or up depending on market conditions, including the foreign exchange rate. We are required to pay a 16% Mexican IVA tax as well. This is a big project involving nine (9) support columns at our house that currently are at risk of failing. Since the house is not being occupied for 90 days it seems prudent to include the minor items in this project. These items only add a small amount to the total cost – less than \$400 per week owned. We will pay for these items in the future anyway, and they include mostly the water damage repair areas caused by the last hurricane in October 2023. We also need to improve our water usage irrigation and purification system. This will save us money over time.

4. Q. Doesn't insurance cover the repair costs in the event of an earthquake or hurricane?
- a. Answer: We have had earthquake and hurricane insurance covering the house for many years. Our insurance policy was in the process of annual renewal last September and was abruptly canceled. The reason stated was "lacking sufficient documentation as required by new Mexican laws". We intend to pursue insurance and obtain the needed documentation. There is no assurance we can do so and may require professional assistance. Earthquake insurance is costly, with very low coverage with a very high deductible. Insurance does not save lives. It only provides some monetary coverage.
5. Q. What if the majority of owners vote Yes and I don't want to proceed? What are my options?
- a. Answer: If you do not want to proceed with the project and a majority voted Yes, then you can sell your week to another owner as outlined in the Operating Agreement. If you do not pay the amount of the Cash Call you cannot use the property and may be assessed late charges. Please refer to the Operating Agreement for more details.

Best Regards, Your Board of Directors, Russ Haycock, Steve Edgren, Bob Taylor

----- **Please Reply by January 15, 2024**

Partner's Name: _____ Number of Weeks Owned: _____

Please Circle One: **No Vote** **Yes Vote**

Signature _____ Date: _____

Mail to Russ Haycock or Vote via email to: Rhaycock@hotmail.com

Russ Haycock

4005 North Chieftain Street

Las Vegas, NV 89129

Please call with any questions

Tel. 510-697-7078