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October 15, 2015

*VIA EMAIL*

Mr. Todd Fowler
Florida Housing Finance Corporation
227 North Bronough Street
Tallahassee, Florida 32301

Re: Lenox Court Apartments
SAIL 2002-053S/HC 2001-023C
Transfer of Ownership/Release of Guarantors

Dear Mr. Fowler:

On your behalf, Seltzer Management Group, Inc. (“SMG”, “Seltzer” or “Servicer”) has reviewed a request dated September 29, 2015, from representatives of Lenox Court Associates, Ltd. (“Borrower”) requesting Florida Housing Finance Corporation (“FHFC” or “Florida Housing”) to consent to the transfer of the General Partner, Limited Partner and Special Limited Partner interests (collectively “Current Partnership Interests”) to corresponding, to be formed, entities (the “New GP” and “New LP”) affiliated with or controlled by John D. Rood. Mr. Rood is the principal owner of The Vestcor Companies, Inc. (“Vestcor”). The Borrower also requests the release of the current Guarantors from all Guarantees. Specifically, SMG has been requested to determine that the New GP has the prerequisite financial strength and experience to successfully own and operate the subject.

For the purposes of this analysis, SMG has reviewed the following:

1. Correspondence seeking Florida Housing’s consent of the request outlined above
2. FHFC 9% Housing Credit (“HC”) Credit Underwriting Report (“CUR”), dated February 13, 2003, and State Apartment Incentive Loan (“SAIL”) CUR, dated April, 29, 2003
3. SAIL Promissory Note, Mortgage and Security Agreement, dated May 9, 2003
4. SAIL Land Use Restriction Agreement, dated May 9, 2003
5. Extended Low-Income Housing Agreement (“ELIHA”) between FHFC and Borrower, recorded on November 25, 2003
6. FHFC Refinancing Recommendation Letter, dated February 23, 2006
7. FHFC Transfer of Partnership Interests Recommendation Letter, dated September 3, 2009
8. Audited Borrower Financial Statements for the years ended December 31, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, and 2014, respectively
9. SMG Annual Compliance Review and Physical Inspection Reports for years 2006 through 2015
10. FHFC Occupancy Reports

11. FHFC Past Due Report dated August 21, 2015
12. FHFC Noncompliance Report dated August 21, 2015
13. John D. Rood, the sole member with 100% ownership in the New GP and the New LP
    - Internally prepared Statement of Financial Condition as of August 31, 2015
    - Multifamily Ownership and Loan History including Schedules A and B
    - Statement of Financial / Credit Affairs
    - Statement of REO/Cash Flows as of August 31, 2015
    - Statement of Contingent Liabilities as of August 31, 2015
    - Explanation of Short Sales, Defaults and Friendly Foreclosures as of August 31, 2015
    - 2012 and 2013 Federal Tax Returns
    - 2014 Application for Automatic Extension of Time to File U.S. Individual Income Tax Return
    - Tri-merged credit report dated September 29, 2015

In addition, SMG has had various conversations with FHFC staff and the Borrower's representative concerning the requests described above.

Our findings are as follows:

<u>Background</u>

Lenox Court Apartments, located in Jacksonville, Duval County, Florida, consists of 360 rental apartment units in 15 residential buildings plus an office/clubhouse building, laundry/maintenance building and two mail kiosks.

The original managing general partner and co-general partner of the Borrower wereTCG Lenox, Inc. ("TCG"), and Shelter Investment Group, Inc., respectively. TCG was a Carlisle Development Group ("Carlisle") affiliate. Centerline Housing Partnership V, L.P ("Centerline LP"), the HC equity investor, was the 99.98% investor limited partner. The principal owner of the Centerline LP was an affiliate of J. P. Morgan Chase ("JPMC").

The HC equity investor was admitted into the limited partnership in March 2002, concurrent with the closing of a Wachovia National Bank ("Wachovia") first mortgage construction loan in the amount of $12,800,000. Subordinate loan financing from Jacksonville Electric Authority ("JEA") and the Jacksonville Housing Finance Authority ("JHFA") in the amounts of $419,720 and $1,400,000, respectively, also closed at that time. In May 2003, the Borrower closed on a subordinate $2,000,000 SAIL from FHFC.

Terms of the SAIL Loan include a maturity of December 31, 2022. The loan bears interest at 3% per annum in which annual interest payments are due June 30 from available cash flow. There is contingent interest of 6% per annum payable based on achievement of certain operating cash flow benchmarks. Additionally, up to 75% of the deferred contingent interest (4.5% per annum) shall be forgivable at maturity. All outstanding unpaid interest and principal are due at maturity. All required servicing fees are due annually.

The Partnership received an annual allocation of HC in the amount of $1,500,000 for a ten-year period. The Subject had an initial placed-in-service date of 2003 and received a partial allocation of HC for that year. The Partnership received a final allocation of HC in 2014.

Set-asides for HC are 15.04% of the units (55 units) for tenants earning 28% or less of the Area Median Income ("AMI"), 5.01% of the units (19 units) for tenants earning 50% or less of the AMI, and 79.95% of the units (remaining units) for tenants earning 60% or less of the AMI for 50-years. Set-asides for SAIL are 15.04% of the units (55 units) for tenants earning 30% or less of the AMI, 5.01% of the units (19 units) for tenants earning 50% or less of the AMI, and 79.95% of the units (remaining units) for tenants earning 60% or less of the AMI for 50-years.

The construction loan was scheduled to mature on March 22, 2004, and be replaced by a first mortgage loan from PW Funding, a Federal National Mortgage Association ("FNMA") Designated Underwriter Servicer ("DUS") lender. However, FNMA conversion requirements were not met and the construction loan was extended until October 2005 and subsequently extended again until February 2006.

In 2006, the Borrower received its final "stabilization" HC equity installment in the amount of $921,122 as downwardly adjusted from $1,207,000 per the Partnership Agreement. Also In 2006, the Borrower replaced the permanent Fannie Mae loan with permanent first mortgage financing from Sun America Affordable Housing, LLC ("Sun") in the amount of $10,100,000. Terms of the Sun loan include a fixed interest rate of 7.35%, monthly interest and principal payments based on a 30-year amortization schedule and a July1, 2021, maturity. At December 31, 2015, the outstanding principal balance was reported at $9,024,518.

As detailed in the Borrower's Audited Financial Statements for the year ended December 31, 2007, in Footnote #10 - Recurring Losses, the "Partnership has experienced occupancy issues over the last few years, which have resulted in recurring losses from operations and have adversely affected the liquidity of the Partnership. In addition to the decline in occupancy levels, the problem is further compounded by increased costs of operations." No "going concern" statements were noted in the 2007 audit.

As noted in the Borrower's Audited Financial Statements for the year ended December 31, 2008, in Footnote #2 – Going Concern, the Partnership has "suffered significant operating losses in recent years. This factor raises substantial doubt about the Partnership's ability to continue as a going concern." Advances to fund operating deficits totaled $398,911. Also in 2008, the Carlisle related property management company was replaced by an unrelated third party property manager, American Management Services East, LLC ("AMS"). AMS is an affiliate of Pinnacle Property Management Services, LLC.

In September 2009, the managing general partner, general partner, limited partner and special limited partner were removed and replaced with affiliates of JPMC. Affiliates of the JPMC general partner funded operating deficits totaling $978,587 in 2009.

Since the JPMC takeover, the Partnership has continued to generate significant operating deficits. For the years ended December 31, 2010, 2011, 2012, 2013 and 2014, affiliates of the JPMC general partner funded operating deficits of $997,358, $701,401, $700,310, $416,868, and $467,544, respectively. As of December 31, 2014, payables to affiliated entities related to the funding of operating deficits total $4,660,979. Going Concern disclosures are included in each of the above referenced audits.

Other significant events since the JPMC takeover include the following:

- On December 14, 2010, a shooting death occurred on the Subject property. In January 2012 a lawsuit was filed against the Partnership related to the incident. Litigation is ongoing.
- The Partnership's net rental property value was written down as of December 31, 2011, to its estimated fair value of $9,660,000. The write down resulted in an impairment expense of $9,801,831.
- In April 2012, the AMS property management company was replaced by LEDIC Management Group, Inc. ("LEDIC")
- During 2013, the Subject property sustained damages from a fire and gas explosion totaling $121,883. All repairs were made.
- In July 2015, several media outlets reported a large brawl at the Subject property involving approximately 50 people including some juveniles that was described as gang related. Several people were arrested and one officer was taken to the hospital with "serious but not life threatening" injuries.

A review of Florida Housing's Annual Occupancy Reports reflect average annual occupancy for the Subject as follows:

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Average Occupancy | 79% | 85% | 79% | 79% | 84% | 79% |

SMG conducted an Annual Compliance Review and Physical Inspection on April 8, 2015. No file discrepancies or physical deficiencies were noted and the review was subsequently closed out. Occupancy was reported at 78% which SMG noted as being below acceptable levels.

Florida Housing's Past Due and Noncompliance Reports, dated August 21, 2015, reflect no past due or noncompliance items for the Partnership or other JPMC related entities.

Ownership Transfer

- The New GP and New LP are anticipated to be Florida Limited Liability Companies with Mr. Rood being the sole member of each.
- Mr. Rood is an experienced affordable housing real estate developer who, through affiliated entities, has been involved in the acquisition or development of over 100 apartment communities and 11,000 units (including over 4,500 affordable units) over the course of his career. Mr. Rood began his real estate career in 1983 as founder of Vestcor. Under his direction, the company focused on brokerage of multifamily properties and then expanded into real estate investments, development, and construction. As the managing partner for over fifty-nine (59) investment partnerships, Mr. Rood was responsible for acquisition or development, management and disposition of the properties in the portfolio. Mr. Rood is relied upon for his experience and financial capacity in this transaction.
- Mr. Rood's internally prepared Statement of Financial Condition, dated August 31, 2015, were reviewed by SMG and found to be satisfactory. SMG also received and reviewed Mr. Rood's 2012 and 2013 tax returns. An extension was received for his 2014 tax return.
- Mr. Rood provided a Schedule of Real Estate Owned dated as of August 31, 2015 consisting of twenty-three (23) multifamily assets located in Florida (16), Texas (4), North Carolina (2) and Georgia (1) with a total of 4,737 units. Seventeen (17) of the properties

are affordable, four (4) are student housing and two (2) are historic. Average occupancy for the portfolio was reported at 98%. Additional real estate is comprised of six (6) parcels of land in Florida (5) and Georgia (1).

- An Experian credit report for Mr. Rood, dated September 20, 2015, was reviewed by SMG and found to be satisfactory.
- The FHFC Noncompliance Report dated August 21, 2015 does not list any properties in noncompliance for the New GP or its principal. The FHFC Past Due Report dated August 21, 2015 identifies one past due property for the New GP and its principal:

  a. Riley Chase (MR1999L 1&2 / 2000-510C) – Foreclosure completed/loan charged off November 9, 2009. Additional information: November 28, 2009 – FHFC II was the successful bidder at the foreclosure sale. Sold on January 29, 2010. HUD Settlement documents submitted February 25, 2010, received final HUD approval for 50/50 split of Net Claim Amount ($3,493,402.26) resulting in a loss to the Guarantee Program of approximately $1,746,701. A supplemental settlement was acknowledged by HUD in the amount of $65,720.06 (additional income) decreasing the Net Claim Amount to $3,427,682.20.

Seltzer has reviewed the affordable housing prior and recent performance history of Mr. Rood pursuant to Rule 67-48. In reviewing the above, Seltzer considered instances involving a foreclosure, deed-in-lieu of foreclosure, financial arrearage, or other event of material default in connection with any affordable housing development or the documents governing financing or operation of any such development. In considering all affordable housing developments in which Mr. Rood has been involved, there are two (2) specific criteria that need to be evaluated:

b. If, during the period prior to August 1, 2010, five percent (5%) or more of that party's developments have been the subject of a foreclosure or deed-in-lieu- of foreclosure, or in financial arrearage or other material default and such arrearage or material default remained uncured for a period of sixty (60) days or more; or

c. If, during the period beginning on or after August 1, 2010, any of that party's developments have been the subject of a foreclosure or deed-in-lieu of foreclosure, or in financial arrearage or other material default and such arrearage or material default is uncured at the present or, if cured, remained uncured for a period of sixty (60) days or more.

Mr. Rood had one affordable housing development, Riley Chase, foreclosed in 2009. This was a 312 unit LIHTC community constructed in 2009 in North Port, FL. It was financed by the Guarantee Fund. To the best of Seltzer's knowledge, Mr. Rood has not experienced any other affordable housing foreclosures. Based on Mr. Rood's Statement of Financial Condition dated August 31, 2015 including a Schedule of Real Estate Owned, Mr. Rood has ownership in seventeen (17) affordable properties. This does not include Riley Chase (foreclosure) or Madalyn Landing, Mayfair Village, Courtney Manor and Kendall Court which have been sold. Including these five (5) developments, Mr. Rood had 22 affordable developments and would have less than 5% of his affordable housing developments during the period prior to August 1, 2010 subject to foreclosure or deed-in-lieu of foreclosure. However, he did report the following eight (8) properties had material defaults or arrearages prior to August 1, 2010:

| | Property | Lender | DATE | Current DSC | Funding |
|---|---|---|---|---|---|
| 1 | Riley Chase | FHFC | Oct-08 | n/a | $1,325,034 |
| 2 | Madalyn Landing | CMBS/LNR | Sep-09 | n/a | $5,327,265 |
| 3 | Gregory Cove | CMBS?CW Capital | Oct-09 | 1.36 | $1,408,149 |
| 4 | Kendall Court | PNC/FNMA | Oct-09 | n/a | $1,462,430 |
| 5 | Lindsey Terrace | PNA/FNMA | Oct-09 | 1.68 | $631,695 |
| 6 | Noah's Landing | FHFC | Dec-08 | 2.45 | $1,364,111 |
| 7 | Jordan Cove | CharterMac | Nov-09 | 1.06 | $5,050,884 |
| 8 | Leigh Meadows | FHFC | Dec-09 | 3.19 | $153,195 |
| | | | | Total | $16,722,763 |

The underwriter has considered mitigants pursuant to the Rule which allows for a positive recommendation. Seltzer believes it is important to note that these events occurred prior to 2010 and were primarily the result of the recession of 2007. Since that time, all but Riley Chase and Jordan Cove have been refinanced or sold. Mr. Rood has funded $16.7 million to support these transactions as provided in the chart above. As far as Seltzer is aware, there are no other arrearages or material defaults outstanding at this time. The DSC for these developments range from 1.06 to 1.00 to 3.19 to 1.00. Mr. Rood's affordable housing portfolio has an average DSC of 1.98 to 1.00, with the lowest DSC for any property being 1.06 to 1.00.

- To date, none of the guarantees have been released and the audited financial statements for the development reflect that it has been a going concern since 2011. Therefore, Seltzer recommends that the New GP, the New LP and John D. Rood, individually assume the outstanding guarantees.

Summary and Recommendation

Seltzer's review indicates that the New GP through its principal John D. Rood has the prerequisite financial strength and experience to successfully own and operate the subject.

Therefore, SMG recommends that FHFC consent to and approve the transfer of the Current Partnership Interests to the New GP and New LP and release current Guarantors from all Guarantees, subject to the following:

- The New GP, New LP and John Rood as well as the withdrawing entities to execute any and all assignment and assumption documents FHFC deems necessary to effectuate the ownership change including, but not limited to new and existing guarantees as determined by FHFC
- Payment of any outstanding arrearages to the Corporation, its legal counsel, Servicer or any agent or assignee of the Corporation for past due issues applicable to the development team (Applicant or Developer or Principal, Affiliate or Financial Beneficiary, as described in 67-48.0075 (5) F.A.C., of an Applicant or a Developer)
- Receipt of a non-refundable transfer and assumption fee equal to one-tenth of one percent of the SAIL loan principal balance on the date of closing.
- Consent of Sun, JHFA and JEA, as applicable

- Review and approval of all loan documents consistent with the terms outlined above by Florida Housing's legal counsel
- Prepayment of any required compliance monitoring fees and servicing fees, as applicable
- Satisfactory resolution of any noncompliance or past due items
- Any other requirement of FHFC, its legal counsel and servicer

I hope this correspondence has been helpful and please do not hesitate to contact me if I can be of further assistance.

Sincerely,

SELTZER MANAGEMENT GROUP, INC.

Benjamin S. Johnson
President