

October 29, 2014

Ms. Candice Allbaugh
Florida Housing Finance Corporation
227 North Bronough Street, Suite 5000
Tallahassee, FL 32301-1329

Re: Grace Estates Senior Living, #2013-510C

Dear Ms. Allbaugh:

Grace Estates Palatka LLC. ("Applicant"), has applied for Four Percent (4%) Non-Competitive Housing Credits ("HC") to be used for Tax-Exempt Bond-Financed Developments where the bonds are issued by a County Housing Finance Authority ("HFA") established pursuant to Section 159.604, F.S. from Florida Housing Finance Corporation ("FHFC" or "Florida Housing") to finance Grace Estates Senior Living ("Grace Estates"). Grace Estates is a proposed 62 unit complex with sixteen (16) residential, one-story buildings situated on approximately 9.86 acres. The development is proposed to be located on the south side of St. Johns Avenue, just west of Zeagler Drive and about 1.35 miles west of State Road 19 in the city of Palatka, Putnam County, Florida 32177. The development is proposed to contain fifty-two (52) one-bedroom/one-bathroom units and two (2) two-bedroom/one-bathroom units. The subject development's proposed HC set-asides are 83% (52 units) at 60% or less of the Area Median Income ("AMI") for an affordability period of 30 years. The remaining 17% of the units will be at market rates. Grace Estates is proposed new construction of an Independent Living Facility with an elderly demographic.

Unit amenities will include carpet and vinyl flooring, standard grade cabinets and countertops, a ceiling height of nine (9) feet, ceiling fans, dishwasher, garbage disposal, and a security alarm with monitoring included in the rent. Common amenities include a clubhouse with a social area with a fireplace, a kitchenette, library, and laundry. A community green and rose garden are also included.

Applicant is a limited liability company registered with the State of Florida on September 17, 2013. The managing member of the applicant is Prime Housing Development LLC ("PHD"), a Wyoming limited liability company with a 100% ownership interest in the Applicant. An investor, to be arranged through Emerald Capital Funding of Los Angeles, California, will purchase 99% of Applicant at closing and PHD will reduce its ownership to 1%.

PHD is also the developer. The members of PHD are Affordable Housing Preservation LLC ("AHP"), a Wyoming limited liability company. AHP is the managing member and has a 50% ownership interest in PHD. Misty Dempsey holds the remaining 50% ownership interest. The members of AHP are the managing member, Ray Rappold, with a 45% ownership interest, and members, Robert Rafael, with a 45% ownership interest and Earl Gilson with a 10% ownership interest.

A market study prepared by a disinterested party approved by the credit underwriter is required to be obtained. The credit underwriter must consider the market study and the proposed development's impact on developments in the area previously funded by FHFC. In addition, the credit underwriter must determine whether there will be a negative impact to Guarantee Fund Developments within the primary market area or within five (5) miles of the proposed

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development, whichever is greater. The credit underwriter is tasked to determine if a market exists to support both the demographic and income restriction set-asides committed to within the Application. Initial consideration for funding is conditioned that the sub-market for the proposed development has an average occupancy of 92% or greater for the same demographic population. In addition, for developments with new construction units, an average market rental rate, based on unit mix and annualized rent concessions, of 110 percent or greater of the applicable maximum HC rental rate is required.

In accordance with required guidelines, a market study (the "study") was prepared for the subject property by Meridian Appraisal Group, Inc. ("Meridian" or the "Appraiser"), dated July 30, 2014. The study was engaged by SMG.

Putnam County is a slowly growing moderate income area that is predominantly rural. Unemployment is higher than state levels but has been declining since 2010. As of 2013, the population in the county was 74,538 people and had grown 5.84% over the last 13 years but is projected to decrease over the next five (5) years to 73,819 people. The subject neighborhood has a total population of 32,057 people and grew 2.57% over the last 13 years. Neighborhood population is expected to decrease over the next five (5) years to 31,563 for an anticipated decrease of 1.54%. The subject neighborhood has had a slower population growth rate than Putnam County as a whole, indicative of a mature, slowing, contracting neighborhood.

The subject neighborhood is comprised of the city of Palatka and surrounding areas, which is generally rural and oriented to retirees. The study analyzed demographic information for three-, five-, and ten-mile rings centered on the subject property. The data used in the analysis is from a Household Trend Report performed by Claritas, Inc. which reflects 2010 Census data.

There are thirteen (13) market rate and affordable properties containing over 50 units within a ten-mile radius of the subject. The current vacancy rate of 6.1% is higher than the five (5) year average of 3.7%. The current asking rental rates are higher for the two- and three or more bedroom units and unchanged for the one-bedroom units. Concessions are slightly higher in the ten-mile ring. Occupancy and rental rates have been erratic since 2012 with both having recently declined.

Of the total properties in the county, the study identified eleven (11) properties with 79% of the total units in the county to be within a three-mile radius of the subject site. The current vacancy rate of 6.7% is higher than the five-year average of 3.7%. The current asking rental rates are higher for some unit types with the studio and one-bedroom rents declining. Concessions are currently higher in the three-mile ring than in the county. No new units have been added over the past five (5) years. Occupancy and rental rates have been erratic since 2012 with both having recently declined.

Since the subject will have a demographic commitment for elderly residents age 55 and older and will operate under the HC and HFA tax-exempt bond programs, the study provided an in-depth analysis of developments with similar age and income restrictions that operate under similar affordable housing programs in the county. While the subject property will have 83% of the units set aside for households at 60% or less of AMI and 17% at market rates, none of the units will have rental assistance.

Household growth was highest in the three-mile ring between 2000 and 2013 followed by the county. Projected household growth trends indicate Putnam County followed by the ten-mile ring will show the strongest rates of growth. There will, however, be positive household growth in all of the market areas. All of the ring market areas have a relatively high number of senior households in the lower income categories. A propensity of renter-occupied housing of 23.6% for Putnam County was used by Meridian based on the 2008 American Community Survey which estimated tenure characteristics by income. The result is the number of income-qualified households in each ring.

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- Three-mile ring: There are 2,735 total households age 55 and older in the three-mile ring. Of these households, 14.8% are considered to be within the 60% AMI or lower income band resulting in 405 age and income qualified households in the three-mile ring. When this number is multiplied by the propensity for renter-occupied housing of 23.6%, the result is 95 age and income qualified renter households in the subject's three-mile ring.
- Five-mile ring: There are 3,870 total households age 55 and older in the five-mile ring. Of these households, 14.7% are considered to be within the 60% AMI or lower income band resulting in 569 age and income qualified households in the five-mile ring. When this number is multiplied by the propensity for renter-occupied housing of 23.6%, the result is 134 age and income qualified renter households in the subject's five-mile ring.
- Ten-mile ring: There are 8,003 total households age 55 and older in the ten-mile ring. Of these households, 14.1% are considered to be within the 60% AMI or lower income band resulting in 1,128 age and income qualified households in the ten-mile ring. When this number is multiplied by the propensity for renter-occupied housing of 23.6%, the result is 266 age and income qualified renter households in the subject's ten-mile ring.

The subject's Primary Market Area ("PMA") is defined by the Appraiser as a ten-mile ring centered on the subject development. The PMA determination is based on data gathered in the Small Area Data ("SAD") Case Study that can be found on the FHFC website. The SAD Case Study indicates that most affordable family developments receive about 2/3 to 3/4 of their residents from within ten miles. The Competitive Market Area ("CMA") for the subject is defined as those developments lying in closest proximity to the subject with similar income demographic commitments.

The study identified twelve (12) affordable developments comprised of 787 units located in the subject's CMA and having an elderly or an elderly and family demographic designation: Lakeview Grove; Westwood Village; Barry Manor; Cherry Tree Apartments; Cherry Tree II; Rosa Ragdale; St Johns River Apartments; Sugar Mill Woods; two (2) separate Public Housing Scattered Sites; Grand Pines and Holly Ridge Senior. All of the properties had reasonably similar set asides. Of these properties, ten (10) were excluded because they are public housing units and/or receive rental assistance. Therefore, the subject's CMA, for the purpose of determining a like-kind inventory of competitive units, consists of two (2) like-kind properties with a total of 198 units: Grand Pines (78 units) and Holly Ridge Senior (120 units).

The following affordable developments submitted applications to Florida Housing for funding for new construction in Palatka in 2013 and 2014: the subject (62 units), Sunswept Village (56 units) and Azalea Gardens (84 units). Meridian reports that the developer for Sunswept Village said the development will not go forward. The Appraiser advised that the developer for Azalea Gardens intends to move forward and the city planning officials for Palatka indicate there has been one meeting on the development with the developer. However, Meridian advised that they have been unable to obtain further verification that Azalea Gardens will move forward with development and therefore, have not included its units in the market study analyses.

In order to evaluate the subject's Levels of Effort ("LOE") and Capture Rates ("CR") within the subject CMA, total supply was calculated to include the 198 units in the two (2) developments in the CMA plus the projected 52 affordable units in the subject for a total supply of 250 units at the 60% AMI or less set aside. The resultant LOE and CR in each of the rings is:

- Three-mile ring: LOE = 262.0%
 CR = 54.5%
- Five-mile ring: LOE = 186.5%
 CR = 38.8%

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- Ten-mile ring: LOE = 94.1%
CR = 19.6%

The study compared the subject's LOE and CR for each ring to other markets throughout Florida. The three-mile ring LOE for the comparison counties range from 13.0% to 78.4% compared to the subject's three-mile ring LOE of 262.0%. The five-mile ring LOE for the comparison counties ranged from 6.3% to 52.8% compared to the subject's five-mile ring LOE of 186.5%. The ten-mile ring LOE for the comparison counties range from 3.3% to 21.6% compared to the subject's ten-mile ring LOE of 94.1%. Meridian advises that the subject's high LOE suggest inadequate market depth considering the size of the existing and funded supply relative to the number of age and income qualified renter households in the market areas.

The study also compared the CR for the comparison counties to the subject's CR. The three-mile ring CR for the comparison counties range from 16.7% to 64.3% compared to the subject's CR of 54.5%. The five-mile ring CR for the comparison counties range from 8.0% to 35.5% compared to the subject's five-mile ring CR of 38.8%. The ten-mile ring CR for the comparison counties range from 3.5% to 18.1% compared to the subject's ten-mile ring CR of 19.6%. The study concludes that the subject's CR are at or above the high end of the ranges for all of the market areas. The Appraiser states that a high capture rate suggests that a property will offer too many units for the depth of the market area.

Remaining Potential Demand ("RPD") is the number of income-qualified renter households that are not housed in existing or funded affordable units. Residents of these households may live in housing developments funded under other programs or other forms of housing. The RPD for the subject for each of the rings is:

- Three-mile ring RPD = -155 households (95 potential households minus 250 potential units available)
- Five-mile ring RPD= -116 households (134 potential households minus 250 potential units available)
- Ten-mile ring: RPD= 16 households (266 potential households minus 250 potential units available)

The three-mile ring RPD for the comparison counties range from 90 to 491 compared to the subject's three-mile ring RPD of -155. The five-mile ring RPD for the comparison counties range from 297 to 1,209 compared to the subject's five-mile ring RPD of -166. The ten-mile ring RPD for the comparison counties range from 816 to 3,132 compared to the subject's ten-mile RPD of 16. The Appraiser opines that the subject's RPD for each ring is lower than for the comparison counties. Further, the performance of existing developments indicates sufficient demand for existing product, but the subject market does not have adequate depth for additional product.

Meridian also considered projected household growth within the subject's income band. The demographic data indicates that the median household income in Putnam County is expected to change by about 5.6% between 2013 and 2018. From the number of income qualified renter households projected for 2018, the study subtracted the income-qualified renter households in 2013 to indicate the number of potential residents for the subject based on household growth. Potential demand from household growth over the next five years is expected to be 3 households in the three-mile ring; 8 households in the five-mile ring and 21 households in the ten-mile ring. This analysis indicates an annual increase in the number of age and income qualified renter households in the subject's income band as follows:

- Three-mile ring = 1 household
- Five-mile ring = 2 households

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- Ten-mile ring = 4 households.

Consequently, the Appraiser concludes that even though the annual increase in the number of age and income qualified households is positive in all three areas, there is virtually no growth. Annual growth greater than the size of the subject property is considered a positive factor. The higher the annual growth in age and income qualified renter households relative to the development size, the less the development has to rely on cannibalizing residents from existing properties. The subject's annual growth rate of age and income qualified households of four (4) in the ten-mile ring PMA, is much smaller than the subject's number of units (62). Therefore, this is a negative demographic factor. Overall, Meridian's demographic analysis indicates an unfavorable environment for the subject's units.

There are no Guarantee Fund properties located in the subject's PMA. There are two existing affordable properties in the subject's CMA: Holly Ridge and Grand Pines. Meridian concluded that in the short-term, defined as the period it takes the subject to lease to stabilized occupancy, there is a strong case for impact to the properties in the CMA, due to their close proximity (within a 2.75 mile radius of the subject); similar product offering (all have an elderly demographic commitment); and the lack of depth in the market area. Any impact beyond the subject's lease-up would be considered long-term. The Appraiser opined that for the same reasons, and due to slow projected growth in age and income qualified elderly households, there is also a strong case for negative impact to the properties in the CMA over the long term.

The study concluded a weighted average occupancy for the CMA of 97%. Weighted average occupancy is based on the total units occupied divided by the total number of units for all of the developments included in the CMA.

The Appraiser advised that the subject's design is consistent with most other neighborhood properties but is not typical of newer senior properties. The study advises that it is not typical of other new senior affordable properties in Palatka or throughout Florida, which generally have all units within one multistory building with interior corridor unit access and amenities, including elevators. Given the hot and humid climate in Florida for at least six months out of the year and the physical limitations of many seniors, this is a desirable design that has met with good acceptance. The subject's 16 single-story buildings disbursed over an approximate ten (10) acre site could appeal to active seniors, but would have a narrower range of potential residents than a single building.

Meridian opined that the subject's unit mix is also atypical of newer comparable properties due to the fact there are only two (2) two-bedroom units. A unit mix of mostly one- and two-bedroom units is typical of senior properties. However, most properties include more two-bedroom units than the subject. In addition, the study said that unit features are generally similar to other product, although most newer properties, including the two (2) in the subject's CMA, include patios/balconies and washer/dryer connections in the units. The subject units have neither patios/balconies or washer/dryer connections in the units. The subject will also offer several services for a fee through a nearby Assisted Living Facility ("ALF"). The study stated that this is not a typical practice of senior properties in Florida.

SMG has reviewed the study and performed independent due diligence related to the underlying data utilized by the appraiser. Seltzer's due diligence included a comparison of the study's property description to those in the application, identification of affordable housing properties located in the vicinity of the subject and comparison to those properties included in the PMA and CMA, a review of FHFC occupancy information (including SMG internal monitoring sources) and comparison of that data to occupancy data utilized by the Appraiser, and the testing of various occupancy calculations included in the study. Seltzer's review and due diligence reports findings consistent with those presented in the study indicating that the underlying data relied upon by the Appraiser and the conclusions rendered by the Appraiser are reasonable and logical.

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Accordingly, SMG finds the study to be satisfactory for purposes of establishing the average occupancy of the subject's sub-market.

The study states that the proposed development will be able to attain the maximum HC rents for all of its units. In addition, the study states that the subject benefits from a spread of 47% between market and restricted rents. The Appraiser projects average absorption of 10 units per month and notes that the subject will face considerable competition and will likely draw residents from existing properties.

A copy of the market study was provided to the Applicant. The Applicant has been asked to provide written comments to Seltzer and has been provided with the procedural steps to object to the market study. To date, no written comments have been received from the Applicant regarding the market study.

Based on the information presented in the study and its own due diligence, SMG concludes that while sub-market average occupancy rate for the subject meets the minimum requirement of 92%, the negative impact the subject will have on the current FHFC financed developments located within close proximity of the subject and the lack of depth in the market, SMG does not recommend the developer proceed with credit underwriting.

If you have any questions regarding this preliminary credit underwriting letter please do not hesitate to call me at (850) 233-3616, ext. 238.

Sincerely,

SELTZER MANAGEMENT GROUP, INC.



Wanda Greggo
Credit Underwriter