FIRST HOUSING
SERVICE • FINANCE • COMPLIANCE

To: Todd Fowler, Director of Special Assets
Florida Housing Finance Corporation

From: Stephanie Petty, Credit Underwriter
First Housing Development Corporation

Date: March 9, 2017

Subject: Lexington Club at Renaissance Square fka Tuscany Apartments
SAIL 1999-067S / 4% Housing Credits 2000-512C

First Mortgage Refinancing / Transfer of Ownership / Release of Guarantors / Assumption and Subordination of the State Apartment Incentive Loan ("SAIL"), SAIL Land Use Restriction Agreement ("LURA") and Housing Credit ("HC") Extended Low Income Housing Agreement ("ELIHA")

At the request of Florida Housing Finance Corporation ("FHFC" or "Florida Housing"), First Housing Development Corporation ("FHDC", "First Housing", or "Servicer") has reviewed a letter from a representative of Clearwater Phase I Partners, Ltd. ("Borrower" or "Seller"), dated January 18, 2017, requesting that FHFC approve the sale of Lexington Club at Renaissance Square fka Tuscany Apartments ("Development") to Lexington Club Apartments LLC ("Buyer"). The Buyer intends to assume the SAIL loan, SAIL LURA and HC ELIHA. Additionally, the current guarantors will be released from any existing guarantees. First Housing has been requested to determine that the Buyer has the prerequisite financial strength and experience to successfully own and operate the Development.

First Housing has also reviewed a request, dated February 27, 2017, from a representative of the Buyer, requesting that Florida Housing approve the refinancing of the existing first mortgage loan and execute Subordination Agreements of the SAIL loan, SAIL LURA, and HC ELIHA, all of which are requirements of the new first mortgage lender. The Buyer intends to refinance the first mortgage with a new first mortgage in the amount of $5,000,000 from USAmeriBank. These proceeds, along with cash from the Buyer, will be utilized to purchase the property, pay closing costs, and pay accrued interest and principal on the SAIL loan, if applicable.

On behalf of FHFC, First Housing has reviewed the requests, performed certain due diligence, and formulated recommendations and conditions which are contained at the end of this report. For the purposes of this analysis, First Housing has reviewed the following:

- Rule 67-48.010(15) F.A.C. and 67-48.0105(5) – (6) F.A.C.
- Audited Financial Statements for the years ended December 31, 2014 and December 31, 2015 for the Borrower.
- Year-to-Date Income Statement, dated December, 31, 2016.
- SAIL Credit Underwriting Report ("CUR"), dated November 22, 1999.
- SAIL Promissory Note, dated May 2, 2000 and Amended Promissory Note, dated April 12, 2005.
- SAIL Second Amended and Restated Promissory Note, dated February 6, 2017.
- Sources and Uses of Funds Schedule.
- Real Estate Purchase and Sale Agreement with Escrow Instructions, dated January 11, 2017.
- Term Sheet from USAmeriBank, dated February 7, 2017.
- FHFC Past Due Report, dated February 13, 2017.
- FHFC Asset Management Noncompliance Report, dated January 5, 2017.
- SAIL LURA, dated May 2, 2000.
- HC ELIHA, dated October 23, 2000 and First Amendment to ELIHA, dated February 14, 2002.
- Property Rent Roll, dated January 15, 2017.
- FHFC's Occupancy Reports.
- Annual Management Review and Physical Inspection Report, conducted on May 13, 2016.
- 2014 and 2015 Tax Returns for Benjamin Mallah.
- Credit Report for Benjamin Mallah, dated February 8, 2017.
- Unaudited Financial Statements for Benjamin Mallah, dated December 31, 2016.

- Appraisal, prepared by Property Valuation Specialists, dated March 1, 2017.

Background

Lexington Club at Renaissance Square fka Tuscany Apartments consists of 240 units located at 1200 South Missouri Avenue, Clearwater, Pinellas County, Florida. The Development was originally financed with $8,250,000 in Pinellas County tax-exempt bonds and $1,250,000 in taxable bonds, a SAIL loan in the amount of $2,400,000, and an allocation of Housing Credits. The Development was also financed with a mortgage note payable to Pinellas County in the amount of $276,625 and a mortgage note payable to the City of Clearwater in the amount of $250,000. The Pinellas County note was paid off on December 1, 2015 and the other note will be paid off with the sale of the property.

Based on an Amended Promissory Note, dated April 12, 2005, the SAIL loan shall bear interest computed at the rate of nine percent (9%) per annum on the outstanding principal balance. The Seller executed a Second Amended and Restated Promissory Note with Florida Housing, dated February 6, 2017, which reduced the interest rate to three percent (3%) per annum with a maturity date of January 1, 2032, and brought the Development under Rule 67-48 effective as of September 15, 2016.

Operation of the Development is restricted by terms and conditions detailed in various loan documents, including but not limited to the LURA and the ELIHA.

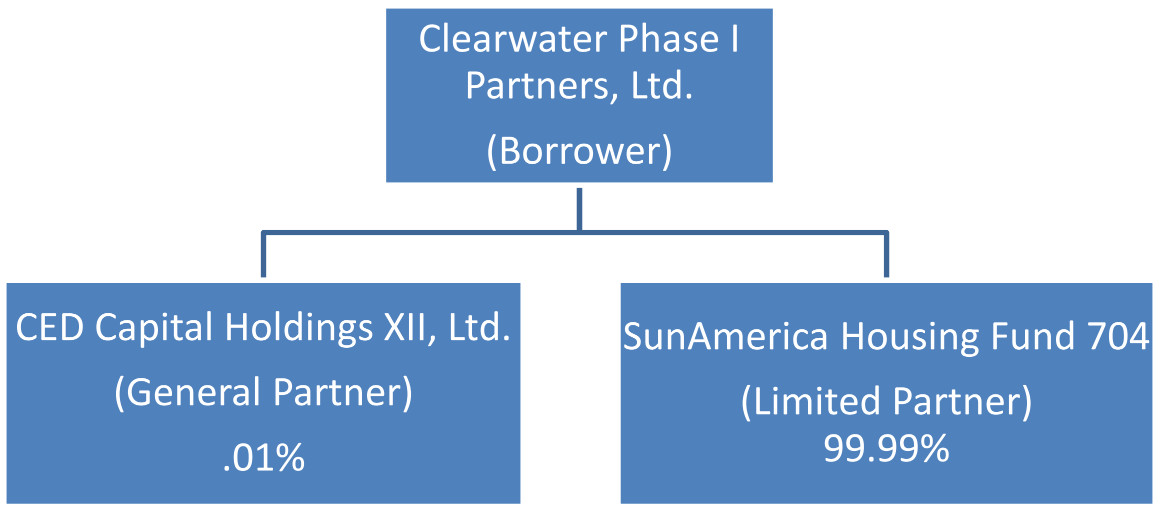
A recorded LURA dated May 2, 2000 requires the following set asides for a term of fifty (50) years:

- 100% of the units set aside at or below 60% Area Median Income (“AMI”)

A recorded ELIHA dated October 23, 2000 and amended February 14, 2002 requires the following set asides for a term of fifty (50) years:

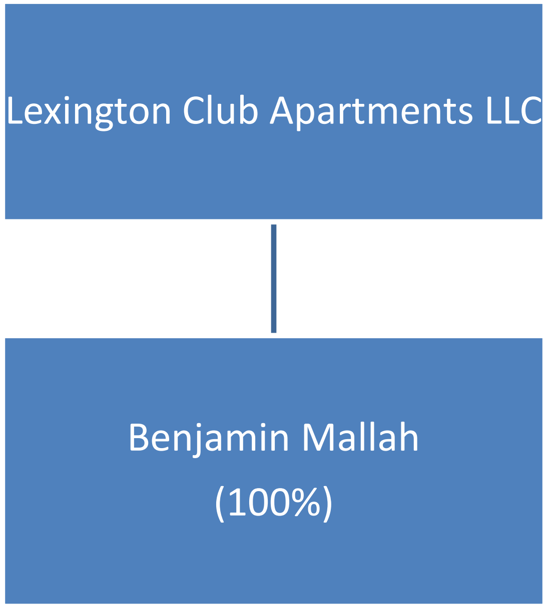
- 100% of the units set aside at or below 60% AMI

Current Ownership Structure



The Borrower is a Florida limited partnership formed to own and operate the Development. The general partner, with 0.01% ownership interest, is CED Capital Holdings XII, Ltd. The Borrower, CED Construction, Inc., Alan H. Ginsburg, and Harriet Ginsburg, will be released from all existing guarantees. Lexington Club Apartments LLC and Benjamin Mallah will be required to sign any existing guarantees for the SAIL loan.

Proposed Ownership Structure



Lexington Club Apartments LLC is a newly formed single purpose entity incorporated on January 6, 2017. Therefore, there is no history of real estate owned, audited financial statements, or tax returns. Benjamin Mallah is the sole owner of the Buyer and the principal/founder of Equity Management Partners, Inc., the proposed Management Company for the Development. Mr. Mallah has had extensive experience throughout his twenty-five year career in the ownership, rehabilitation and operation of retail, hotel, and multifamily properties. Mr. Mallah has the experience and a proven track record in managing and rehabilitating multifamily properties. Mr. Mallah has a history of working alongside governmental and quasi-governmental bodies in successfully rehabilitating distressed properties throughout the State of Florida. Lexington Club Apartments LLC and Benjamin Mallah will be required to sign any existing guarantees as a condition to close.

First Housing reviewed Benjamin Mallah's tax returns for 2014 and 2015, a credit report, and four bank statements. They were found to be satisfactory.

First Housing reviewed the executed Real Estate Purchase and Sale Agreement with Escrow Instructions ("Agreement"), between the Seller and the Buyer, dated January 11, 2017. According to the terms of the Agreement, the purchase price is $15,000,000 (subject to adjustments set forth in the Agreement) and has a closing date of April 1, 2017 but no later than April 14, 2017. The Agreement indicates the Buyer may elect to assume all or a portion of the SAIL loan and the Buyer must notify Seller in writing on whether it will elect to assume all or a portion of the indebtedness. Based on a letter, dated February 27, 2017, from the Buyer's representative, the Buyer will be assuming the full SAIL loan.

Refinancing Overview

The refinancing of the existing first mortgage loan is permitted under the underlying SAIL loan documents. However, FHFC Board approval is required. Rule 67-48.010(15) F.A.C. states that the "Board shall approve requests for mortgage loan refinancing only if Development Cash Flow is improved, the Development's economic viability is maintained, the security interest of the Corporation is not adversely affected, and the Credit Underwriter provides a positive recommendation."

First Housing reviewed a term sheet from USAmeriBank for acquisition financing in an amount up to $10,000,000, dated February 7, 2017. The final loan amount shall not exceed 65.5% of cost or total value. The term of the loan will be three (3) years, with the first 24 months of interest only, followed by 12 monthly payments of principal and interest based on a 25-year amortization schedule. During the interest only period, the rate would be floating at LIBOR + 300 basis points ("bps"). The rate would then convert to a fixed rate of 325 bps over the 1 year SWAP rate, subject to a 4.00% floor. The Buyer will have the option to keep the rate floating at LIBOR + 300 bps during the final 12 months. Based on the Sources and Uses of Funds, the Buyer anticipates the USAmeriBank loan will be in the amount of $5,000,000.

USAmeriBank will require that Subordination Agreements for the SAIL, SAIL LURA, and HC ELIHA, if applicable, be executed by FHFC, to certain First Mortgage Documents.

Annual debt service for the Development after the refinance is estimated to be $201,000 which is $426,660 less than the $627,660 current first mortgage debt service payment. Cash flow will be improved or maintained and the subject's economic viability will be maintained. The underwriter will verify the SAIL pay down calculation after confirmation of the new first mortgage loan amount prior to closing.

The combined loan to value ("LTV") in the original CUR was 93%, based on the First Mortgage of $8,250,000, a SAIL of $2,400,000, and a market value of $11,400,000. Rule 67-48.10(15) requires that the original combined loan to value ratio for the superior mortgage and SAIL loan is maintained or improved. The underwriter reviewed a satisfactory appraisal as prepared by Property Valuation Specialists, dated March 1, 2017. The appraisal revealed a market value of $25,660,000, resulting in a new loan to value of 28.8% based on the new first mortgage of $5,000,000, which satisfies this requirement in the rule.

Overall Sources and Uses of Funds

The Buyer has provided First Housing with an estimate of the overall sources and uses of funds.

Sources	
New 1st Mortgage Loan	$5,000,000
Assumption of SAIL	$2,400,000
Cash from Buyer	$7,652,650
Total Sources	**$15,052,650**
Uses	
Purchase Price	$15,000,000
Closing Costs	$52,650
Total Uses	**$15,052,650**

These costs are based on estimates provide by the Buyer, which appear reasonable at this time.

Management Company

The current management company is Signature Multi-Family Management Corp d/b/a Signature Management ("Signature Management"). Once the transfer of ownership takes place, Signature Management will be replaced with Equity Management Partners, Inc. ("EMP"). EMP is a premiere property management company, with more than 25 years of experience buying, selling, leasing and managing multi-family and commercial property. EMP's portfolio of income properties range from offices, commercial properties, shopping centers, hotels and restaurants to large multi-unit apartment communities, student housing, LIHTC properties and Senior housing communities. EMP has been an approved management company by Florida Housing's Asset Management Department. First Housing received a draft Management Agreement between Lexington Club Apartments LLC and EMP, which reflects a management fee of 3%. Florida Housing's approval of the Buyer's selection of Management Company is a condition of closing.

Status of Development Noncompliance/Past Due

First Housing is currently the Compliance Monitoring agent for the Development. An Annual Management Review and Physical Inspection was conducted on May 13, 2016 which found the property to be in compliance.

According to FHFC's Asset Management Noncompliance Report, dated January 5, 2017, the Development Team does not have any non-compliance items outstanding.

According to FHFC's Past Due Report, dated February 13, 2017, the Development Team does not have any past due items outstanding.

Per the December 31, 2016 rent roll, the Development was 96.6% occupied. Based on FHFC's Occupancy Reports, the property's occupancy averaged 97.7% and 96.5% for 2015 and 2016, respectively.

Development Economics

	FINANCIAL COSTS:	2014 AFS Analysis	Per Unit	2015 AFS Analysis	Per Unit	12/31/2016 Income Statement	Per Unit	Buyer's Projected Proforma	Per Unit	Underwriter Projected Proforma	Per Unit
	OPERATING PRO FORMA										
INCOME:	Gross Potential Rental Income	**$2,049,523**	**$8,540**	**$2,042,627**	**$8,511**	**$2,050,558**	**$8,544**	**$2,040,000**	**$8,500**	**$2,091,570**	**$8,715**
	Other Income										
	Miscellaneous	$189,887	**$791**	$185,092	**$771**	$137,669	**$574**	$9,600	**$40**	$140,422	**$585**
	Gross Potential Income	**$2,239,410**	**$9,331**	**$2,227,719**	**$9,282**	**$2,188,227**	**$9,118**	**$2,049,600**	**$8,540**	**$2,231,992**	**$9,300**
	Less:										
	Physical Vac. Loss	$121,194	**$505**	$86,979	**$362**	$66,106	**$275**	$81,600	**$340**	$89,280	**$372**
	Concessions and Collection Loss	$11,756	**$49**	$18,140	**$76**	$0	**$0**	$48,000	**$200**	$22,320	**$93**
	Total Effective Gross Income	**$2,106,460**	**$8,777**	**$2,122,600**	**$8,844**	**$2,122,121**	**$8,842**	**$1,920,000**	**$8,000**	**$2,120,392**	**$8,835**
EXPENSES:	Fixed:										
	Real Estate Taxes	$166,330	**$693**	$170,683	**$711**	$180,767	**$753**	$220,000	**$917**	$186,190	**$776**
	Insurance	$108,311	**$451**	$113,302	**$472**	$67,706	**$282**	$84,000	**$350**	$69,737	**$291**
	Variable:										
	Management Fee	$105,294	**$439**	$83,726	**$349**	$81,693	**$340**	$57,600	**$240**	$63,612	**$265**
	General and Administrative	$74,519	**$310**	$80,291	**$335**	$62,233	**$259**	$26,700	**$111**	$64,100	**$267**
	Payroll Expenses	$237,214	**$988**	$242,070	**$1,009**	$241,079	**$1,004**	$192,000	**$800**	$248,312	**$1,035**
	Utilities	$454,654	**$1,894**	$498,593	**$2,077**	$484,932	**$2,021**	$406,800	**$1,695**	$499,480	**$2,081**
	Marketing and Advertising	$29,251	**$122**	$16,585	**$69**	$13,573	**$57**	$14,400	**$60**	$13,980	**$58**
	M&R/Decorating/Grounds	$261,209	**$1,088**	$210,149	**$876**	$138,835	**$578**	$92,700	**$386**	$143,000	**$596**
	Reserve for Replacements	$78,100	**$325**	$90,552	**$377**	$90,563	**$377**	$48,000	**$200**	$48,000	**$200**
	Total Expenses	**$1,514,882**	**$6,312**	**$1,505,951**	**$6,275**	**$1,361,382**	**$5,672**	**$1,142,200**	**$4,759**	**$1,336,412**	**$5,568**
	Net Operating Income	**$591,578**	**$2,465**	**$616,649**	**$2,569**	**$760,739**	**$3,170**	**$777,800**	**$3,241**	**$783,981**	**$3,267**
	Debt Service Payments										
	First Mortgage	$627,660	$2,615	$627,660	$2,615	$627,660	$2,615	$187,500	$781	$201,000	$838
	Second Mortgage - FHFC SAIL	$72,000	$300	$72,000	$300	$72,000	$300	$72,000	$300	$72,000	$300
	Third Mortgage	$22,920	$96	$22,920	$96	$0	$0	$0	$0	$0	$0
	Fourth Mortgage	$16,632	$69	$16,632	$69	$16,632	$69	$0	$0	$0	$0
	Other Fees	$103,318	$430	$115,294	$480	$0	$0	$0	$0	$7,600	$32
	Total Debt Service Payments	**$842,530**	**$3,511**	**$854,506**	**$3,560**	**$716,292**	**$2,985**	**$259,500**	**$1,081**	**$280,600**	**$1,169**
	Cash Flow after Debt Service	**-$250,952**	**-$1,046**	**-$237,857**	**-$991**	**$44,447**	**$185**	**$518,300**	**$2,160**	**$503,381**	**$2,097**
	Debt Service Coverage Ratios										
	DSC - First Mortgage and Fees	**0.81**		**0.83**		**1.21**		**4.15**		**3.90**	
	DSC - First & Second Mortgages & Fees	**0.74**		**0.76**		**1.09**		**3.00**		**2.87**	

Please note, the current first mortgage lender requires a higher monthly escrow payment into replacement reserves than what is required by Florida Housing. The underwriter's Projected Proforma is based on the December 31, 2016 Income Statement. The underwriter increased rental income by 2% and operating expenses by 3%. However, vacancy and collection loss is based on 5% and the management fee is based on 3% of Effective Gross Income.

Projected Operating Pro-Forma

FINANCIAL COSTS:		Year 1	Year 2	Year 3	Year 4 (Sensitivity Analysis)
OPERATING PRO FORMA					
INCOME:	Gross Potential Rental Income	$2,091,570	$2,133,401	$2,176,069	$2,219,590
	Other Income	$140,422	$143,231	$146,095	$149,017
	Gross Potential Income	**$2,231,992**	**$2,276,632**	**$2,322,164**	**$2,368,608**
	Less:				
	Physical Vac. Loss Percentage: 4.00%	$89,280	$91,065	$92,887	$94,744
	Collection Loss Percentage: 1.00%	$22,320	$22,766	$23,222	$23,686
Total Effective Gross Income		**$2,120,392**	**$2,162,800**	**$2,206,056**	**$2,250,177**
EXPENSES:	Fixed:				
	Real Estate Taxes	$186,190	$191,776	$197,529	$203,455
	Insurance	$69,737	$71,829	$73,984	$76,203
	Variable:				
	Management Fee Percentage: 3.00%	$63,612	$64,884	$66,182	$67,505
	General and Administrative	$64,100	$66,023	$68,004	$70,044
	Payroll Expenses	$248,312	$255,761	$263,434	$271,337
	Utilities	$499,480	$514,464	$529,898	$545,795
	Marketing and Advertising	$13,980	$14,400	$14,832	$15,277
	Maintenance and Repairs/Pest Control	$143,000	$147,290	$151,709	$156,260
	Reserve for Replacements	$48,000	$48,000	$48,000	$48,000
Total Expenses		**$1,336,412**	**$1,374,428**	**$1,413,572**	**$1,453,877**
Net Operating Income		**$783,981**	**$788,372**	**$792,484**	**$796,300**
Debt Service Payments					
	First Mortgage - USAmeriBank	$201,000	$201,000	$342,070	$609,330
	Second Mortgage - SAIL	$72,000	$72,000	$72,000	$72,000
	Other Fees	$7,600	$7,600	$7,600	$7,600
Total Debt Service Payments		**$280,600**	**$280,600**	**$421,670**	**$688,930**
Cash Flow after Debt Service		**$503,381**	**$507,772**	**$370,814**	**$107,370**
		Annual	Annual	Annual	Annual
Debt Service Coverage Ratios					
	DSC - First Mortgage	**3.90**	**3.92**	**2.32**	**1.31**
	DSC - First & Second Mortgage	**2.87**	**2.89**	**1.91**	**1.17**
	DSC - First and Second Mortgage plus fees	**2.79**	**2.81**	**1.88**	**1.16**

During the interest only period, the underwriter has calculated interest at 4.02%, which includes; 1-Month LIBOR rate of 0.77%, a 3.00% spread, and an underwriting cushion of 0.25%. Starting in year 3, principal and interest payments will be required. The underwriter has calculated the interest rate at 4.75%, which reflects a 1-Year SWAP rate of 1.25%, a 3.25% spread, and an underwriting cushion of 0.25%.

The USAmeriBank loan is for a period of three years. The underwriter has performed a sensitivity analysis to calculate the refinance in year four. The projection above in year 4 is based on a loan in the amount of $5,000,000, a term of 18 years, amortized over 35 years, and an interest rate of 12.00%. In this scenario the Development's cash flow would still be improved from the original CUR.

Recommendation

First Housing concludes that conditions for refinancing approval, as set forth in Rule 67-48.010(15) and 67-48.0105(5) - (6) F.A.C. have been met, subject to the conditions below. Therefore, FHDC recommends that FHFC consent to and approve the refinancing of the existing first mortgage loan (in an amount up to $5,000,000), and subordination of the SAIL loan, SAIL LURA, and HC ELIHA, all of which meet the requirements of the new first mortgage lender, and modification of any other loan documents as required to effectuate the refinancing.

First Housing's review indicates that the Buyer has the prerequisite financial strength and experience to successfully own and operate the Development. Based upon the review of the information submitted and within the scope of this analysis as described herein; First Housing recommends approval of the transfer of ownership from the Seller to the Buyer and recommends the approval of the assumption of the SAIL loan, SAIL LURA and HC ELIHA.

First Housing also recommends the release of current guarantors from all existing FHFC Guarantees and the replacement with new guarantors. Closing of the transaction is subject to the following conditions:

Conditions

The following is a summary of conditions outlined in this report:

1. Review and approval of all loan documents consistent with the terms outlined above by Florida Housing and its legal counsel.

2. Review of final loan terms and confirmation that all requirements set forth in F.A.C. Rule 67-48.010(15) for approval have been met.

3. Buyer and its entities, Benjamin Mallah, and any other parties, as well as withdrawing entities to execute any assignment and assumption documents FHFC deems necessary to effectuate the ownership change including, but not limited to new and other existing guarantees as determined by FHFC.

4. The Buyer shall agree that through the regulatory period, Florida Housing and their compliance monitoring agent shall have access to the property to perform their management review and physical inspection until the termination of the SAIL LURA and HC ELIHA.

5. Payment of any outstanding arrearages to FHFC, its legal counsel, Servicer or any agent or assignee of FHFC for past due issues applicable to the Development team (Borrower or Developer or Principal, Affiliate or Financial Beneficiary, as described in 67-48.0075 (5) F.A.C., of a Borrower or a Developer).

6. The Buyer shall agree to maintain all set-asides and other requirements of the SAIL LURA and HC ELIHA.
7. Confirmation of approval of the transfer of ownership by all other lenders, if applicable.
8. Confirmation of FHFC Asset Management's approval of the selection of the Management Company.
9. Satisfactory resolution of any outstanding FHFC noncompliance and/or past due items.
10. Receipt of a non-refundable transfer fee equal to one-tenth of one percent of the outstanding SAIL principal balance on the date of closing.
11. Receipt of a non-refundable renegotiation fee equal to one-half of one percent of the outstanding SAIL principal balance on the date of closing, if applicable.
12. Verification that all Insurance Certificates are current and acceptable to Servicer and FHFC.
13. Consent of the HC Equity Provider, if applicable.
14. Confirmation of First Mortgage loan prior to closing, in order to verify the SAIL pay down.
15. USAmeriBank Loan not to exceed $5,000,000.
16. Payment of outstanding SAIL accrued interest, separate from the SAIL pay down, as determined by Servicer and approved by FHFC.
17. Payment of the amount of the SAIL pay down as determined by Servicer and FHFC, if applicable.
18. Prepayment of any required compliance monitoring fees and servicing fees, if applicable.
19. All other due diligence required by FHFC, its legal counsel and Servicer.

Prepared by:

Stephanie Petty

Stephanie Petty
Credit Underwriter

Reviewed by:

Ed Busansky
Senior Vice President

SAIL Pay-Down Calculation

Original First Mortgage	$9,500,000	
Original SAIL	$2,400,000	
Total	$11,900,000	
Original SAIL divided by original total First Mortgage & SAIL =		0.2017
New First Mortgage Loan amount	$5,000,000	
Current First Mortgage outstanding balance	$6,030,000	
Decreased loan amount	($1,030,000)	
Decrease multiplied by 0.2017	N/A	