



To: Jan Rayboun
Florida Housing Finance Corporation

From: Tammy Haylock-Moore, Vice President
Senior Credit Underwriter
First Housing

Date: September 30, 2004

Subject: Horizon Place Apartments - \$12,470,000 Florida Housing Finance Agency,
Multi-Family Guaranteed Mortgage Revenue Bonds – 1983 Series F

At the request of the Florida Housing Finance Corporation (“FHFC”), First Housing has reviewed the request for transfer of ownership and replacement of the existing credit enhancement of the above referenced development.

The scope of the analysis includes the following items:

1. Overview
2. Purchase Contract
3. Existing and/or Proposed MMRB Program Structure
4. Proposed Ownership Structure
5. Financial Capability/Credit Worthiness of Purchaser
6. Sources and Uses of Funds
7. Economics of the Subject Property
8. Proposed Management/Leasing Company
9. Status of Project Compliance
10. Recommendation
11. Conditions

This report shall address each of the items in turn following a brief synopsis of the transaction.

Overview

The subject development, known as Horizon Place Apartments is located along the south side of West Hillsborough Avenue, east of Himes Avenue; with a physical address of 3350 West Hillsborough Avenue, Tampa, Hillsborough County, Florida 33614.

The property is a 304-unit multi-family rental 3-story garden style apartment complex that was

constructed during 1984, consisting of 15 apartment buildings, one recreational facility and a clubhouse situated on a 12.82-acre site.

The unit mix is as follows:

| Bedrooms | Baths | No. of Units | Unit Size (SF) |
|-----------------|--------------|---------------------|-----------------------|
| 1 | 1 | 76 | 570 |
| 1 | 1 | 76 | 746 |
| 1 + Den | 1 | 38 | 915 |
| 2 | 1 | 14 | 915 |
| 2 | 2 | 100 | 1,080 |
| Totals | | 304 | 255,596 |

On-site amenities include controlled access gates, indoor racquetball court, fitness center, swimming pool, tanning deck, car care center, and two laundry facilities, surrounded by a large retention pond that stretches throughout the property. There are approximately 426 parking spaces that are located around the perimeter of the property.

First Housing was provided with a Property Conditions Report dated August 30, 2004 by Building Diagnostics, Ltd. According to this report, there is approximately \$48,500 in minor deferred maintenance outstanding; including broken paving, cracked sidewalks, tree trimming, and deteriorated retaining walls. Overall, the property was in good condition. The proposed owners are including the noted repairs as part of their proposed renovation process, which is acceptable.

First Housing was provided with a Phase I Environmental Assessment dated August 30, 2004 by Building Diagnostics, Ltd. in conformance with the scope and limitations of ASTM Practice E 1527-00. This assessment has revealed no evidence recognized environmental conditions or significant environmental issues in connection with the property. Therefore, no further action or investigation was recommended at this time.

Purchase Contract

The purchaser, Kings Acquisition, LLC (“Purchaser”), or its assigns, a Florida limited liability company, has entered into a Real Estate Sale Agreement (the “Purchase Agreement”) dated August 16, 2004, with Horizon Place Associates (“Seller”), a Florida general partnership. Pursuant to the latest (Second) Amendment (dated September 22, 2004) to the Real Estate Sale Agreement, Purchaser has agreed to purchase from Sellers the subject property at an indicated consideration in the amount of \$16,832,000, or \$55,368 per unit. This purchase amount is supported by an Appraisal Report dated September 20, 2004 from Oxtal Real Estate Advisors, Inc., which indicates that the current “as is” market value of the subject property with market financing is in the amount of \$17,400,000, or \$57,237 per unit, and the current “as is” market value, with favorable bond financing is in the amount of \$21,000,000 or \$69,079 per unit, resulting in favorable loan to value ratios of 69% and 58%, respectively.

Existing and/or Proposed MMRB Program Structure

The property is currently financed via an issue of tax-exempt bonds, 1983 Series F in the aggregate amount of \$12,470,000, dated as of December 1, 1983, to mature on December 1, 2005. Note that the bonds were reduced to \$12,090,000 during a remarketing that took place on June 1, 1995. The Bonds are subject to a non-amortizing loan structure with a current outstanding balance of \$12,090,000. The current owners acquired this property during April 1, 1998, and on February 1, 2000, the Bonds were adjusted from a fixed rate to a variable rate structure, which is currently in effect. At present, the Bonds are credit enhanced by Freddie Mac Mortgage via a Direct Pay Letter of Credit, which provide an AAA rating for the bonds.

In a preliminary commitment provided by ARCS Commercial Mortgage, Co., LP (“ARCS”), dated September 17, 2004, ARCS, as DUS lender for Fannie Mae, intends to provide permanent financing credit enhancement for the outstanding tax-exempt bonds currently issued by FHFC (the “Bonds”), upon closing of the referenced transaction. This proposed Fannie Mae structure will consist of a non-amortizing 10-year loan, under a variable rate structure based upon the 52-week average Bond Market Association Municipal SWAP Index, plus annual fees. The underwritten “all in” rate of this loan is currently estimated in the amount of 6.02%. The terms and condition of this loan is reflected in our projected proforma. This Fannie Mae enhancement will provide AAA rating to the bonds.

Proposed Ownership Structure

It is anticipated that, simultaneously with closing of this transaction, Purchaser will be assigning their real estate rights under the Purchase Agreement to Kings Horizon Place Apartments, LLC (“Borrower”), a Delaware limited liability company (an affiliate of Purchaser), whose member is Kings Horizon Place Realty, LLC. Kings Horizon Place Apartments, LLC is a single-asset Delaware limited liability company that is 100% owned by Kings Horizon Place Associates, LP, whose limited partners are Daniel E. Lubeck, FLSD Associates, Fred Hirt, Lowe Investments III, LC, Joseph G. Lubeck, Marlu Associates, Ltd. and MP Florida, Inc.. The General Partner of this LP is Kings Horizon Place Realty, LLC, which is owned by Kings General Partners III, LLC. The Borrower will be the sole beneficiary of a Florida Land Trust with City National Bank of Florida, as Trustee. This structure is similar to other affiliated FHFC-MMRB Program transactions, including Regency at Waterford, and Wood Forest Apartments, which closed during 2003.

The contact person for the proposed ownership is as follows:

Mr. Joseph Lubeck, (Co-Managing Partner)
Landmark Residential
825 Parkway St. - Suite 4
jlubeck@landmarkresidential.com
Jupiter, Florida 33477

Telephone: (561) 745-8545
Fax Number: (561) 745-8745
E-Mail:

Financial Capability/Credit Worthiness of Purchaser

The principals of the Borrower specialize in the acquisition, management and improvement of troubled real estate projects. They have purchased 11 multi-family developments over the past 5

years, and have utilized its team concept of developers, management, architects, attorney's and other professionals to engineer a successful turnaround. These principals have significant experience and a successful track record of property improvement with over 7,500 units in their portfolio and asset management services for over 5,000 units owned by third party clients. First Housing did not review a credit report for the Borrower, since this is a newly formed entity.

First Housing did not review banking references, since this is a newly formed entity.

The Borrower will be formed expressly to own and operate the Horizon Place Apartments. The guarantors provided copies of 2003-Tax Return extension forms, and a 2002 tax return was provided form Mr. Denberg. This report is subject to receipt and satisfactory review of 2001 and 2002 tax returns for Mr. Lowe, and Mr. Lubeck; as well as 2001 tax returns for Mr. Denberg. In addition, First Housing reviewed the financial background of the guarantors who are key members of the proposed ownership; namely, Michael B. Denberg, Sheldon Lowe, and Daniel E. Lubeck

The most current statements provided are summarized as follows:

Daniel Lubeck:

Year-to-Date (Unaudited) 6/02/04

Cash and Cash Equivalents: [REDACTED]
Total Assets: [REDACTED]
Total Liabilities: [REDACTED]
Total Equity: [REDACTED]

Sheldon Lowe:

Year-to-Date (Unaudited) 9/30/03

Cash and Cash Equivalents: [REDACTED]
Total Assets: [REDACTED]
Total Liabilities: [REDACTED]
Total Equity: [REDACTED]

Michael Denberg:

Year-to-Date (Unaudited) 9/5/03

Cash and Cash Equivalents: [REDACTED]
Total Assets: [REDACTED]
Total Liabilities: [REDACTED]
Total Equity: [REDACTED]

These statements are outdated. Therefore, this report is subject to receipt and satisfactory review of updated financial statements from the guarantors, dated within the past 90days. An alternative option to this requirement is receipt and satisfactory review of audited, compiled or reviewed

statements by a third party CPA dated within the past year. As noted, the Borrower is a limited liability company that will be newly formed to own the subject property. In order to evaluate the experience, financial capability and credit worthiness of the Borrower, the guarantors of the Borrowing entity, Michael B. Denberg, Daniel E. Lubeck, and Sheldon J. Lowe, were reviewed as to each of these factors. Based on the information provided, the principals were found to be adequate in each of these respects.

Sources and Uses of Funds

The Purchaser has provided First Housing with an estimate of the sources and uses of funds, which is summarized as follows:

| Sources | | Uses | |
|--|---------------------|---------------------------|---------------------|
| MMRB Program - Tax-Exempt Bonds | \$12,090,000 | Purchase Price | \$16,832,000 |
| Fannie Mae Supplemental ARM Loan | \$1,390,000 | Closing Costs | \$205,000 |
| GP Line of Credit or Investor's Equity | \$5,372,000 | Legal & Accounting | \$75,000 |
| | | Capital Improvements | \$1,368,000 |
| | | Credit Enhancement Fees | \$140,000 |
| | | Tax/Insurance Escrow Fund | \$152,000 |
| | | 3rd Party Reports, etc. | \$80,000 |
| Total | \$18,852,000 | Total | \$18,852,000 |

As noted, the proposed sources of funds include the assumption of the existing outstanding tax-exempt loan, as well as a new Fannie Mae Supplemental ARM Loan, in the amount of \$1,390,000. According to ARCS' commitment, this proposed ARM tail shall be a Fannie Mae Cash or MBS transaction. The initial interest rate for this transaction is estimated at 4.56%, which is based upon the 90-day LIBOR rate in effect as of a specified date, prior to closing, plus associated fees, and the capital markets spread. The interest rate shall be adjusted every 90 days, and this loan shall have a similar 10-year term as the proposed MMRB Program enhancement, with principal and interest payments based upon a 30-year amortization schedule. This loan will constitute a subordinating second mortgage. In addition to the previously described financing structure, the principals are proposing to cover any shortfalls with the ownership's existing Line of Credit, and/or principals' equity loan; which can be provided, based upon the current liquidity of the guarantors.

As noted, the proposed uses of funds will include the Purchase Price, closing costs, escrows/reserves, third party reports, etc.; as well as a budget for future capital improvements, which is typical for this investor; and based upon their previous history, will generally result in an increase in occupancy levels.

Overall, the sources and uses of funds appear reasonable, as compared to other transactions of this type.

Economics

FHDC

First Housing has reviewed a rent roll dated August 16, 2004, which indicated that 23 units or 8% of the complex is vacant, plus a Model Unit. The rent roll indicates total monthly net rental revenues of \$199,896 or \$2,398,752 annually.

Following is an estimated proforma for the subject, which is based upon review of historical information provided by the Purchaser, as well as upon the projections provided by the Appraiser.

| DESCRIPTION | 2002 Actual Proforma | 2003 Actual Proforma | 2004 Annualized Proforma | Per Unit |
|---|-------------------------|-------------------------|--------------------------------|----------|
| Revenue | | | | |
| Gross Potential Rental Revenue | \$2,492,370 | \$2,520,996 | \$2,653,240 | \$8,728 |
| Other Income | | | | |
| Ancillary Income 8.0% | \$149,103 | \$121,550 | \$212,800 | \$700 |
| Gross Potential Income | \$2,641,473 | \$2,642,546 | \$2,866,040 | \$9,428 |
| Less: | | | | |
| Vacancy & Collection Loss @ 7% of GPRR | (\$390,254) | (\$494,987) | (\$185,727) | (\$611) |
| Total Effective Gross Revenue | \$2,251,219 | \$2,147,559 | \$2,680,313 | \$8,817 |
| | | | | |
| Total Expenses | \$1,047,942 | \$1,079,412 | \$1,209,244 | \$3,978 |
| | | | | |
| Net Operating Income | \$1,203,277 | \$1,068,147 | \$1,471,069 | \$4,839 |
| | | | | |
| Debt Service Payments | | | | |
| First Mortgage - MMRB Tax-Exempt Loan | \$236,332 | \$187,668 | \$871,694 | \$2,867 |
| Second Mortgage - Fannie Mae ARM Loan | \$0 | \$0 | \$85,111 | \$280 |
| Total Debt Service Payments | \$236,332 | \$187,668 | \$956,805 | \$3,147 |
| | | | | |
| Operating Income After Debt Service - Before Tax | \$966,945 | \$880,479 | \$514,264 | \$1,692 |
| Cash Flow | | | | |

| Debt Service Coverage Ratios | | | |
|---|-------|-------|-------|
| Debt Service Coverage - First Mortgage | 5.091 | 5.692 | 1.688 |
| Debt Service Coverage - First and Second Loan | 5.091 | 5.692 | 1.537 |

Therefore, based on the proposed financing structure, and considering the above noted favorable debt service coverage, the proposed transfer of ownership is considered feasible.

Proposed Management Company

The proposed management/leasing company is Landmark Residential Management, LLC; affiliates of the subject proposed ownership. The Purchaser has provided First Housing information on the management company, which indicates that it manages approximately 3,607 units in Florida including tax-exempt properties like the subject, as well as those properties included in the investment portfolio of properties of corporations owned by the members of the Borrower. Based upon review of its experience, First Housing concludes that the proposed management company has more than adequate experience to manage the subject property. This management company is

currently approved by Florida Housing. Continued approval is subject to ongoing satisfactory approval. An executed copy of the Management Agreement indicates that compensation will be in the amount of 4%, which is reasonable. This agreement will be dated simultaneously with closing of this transaction.

The proposed management contact person, as of the date of this report, is:

Mr. Joseph Lubeck, (Co-Managing Partner)
Landmark Residential
825 Parkway St. - Suite 4
jlubeck@landmarkresidential.com
Jupiter, Florida 33477

Telephone: (561) 745-8545
Fax Number: (561) 745-8745
E-Mail:

Status of Project Compliance

First Housing is currently the Compliance Monitoring agent for the subject development. Based on the most recent Annual Management Review dated August 11, 2004, the property is in compliance with the Land Use Restriction Agreement requirements.

The set-aside requirements in the Land Use Restriction Agreement are that at least 25% of the total units must be occupied by households earning 80% or less of the Area Median Income (“AMI”) and the remainder of the units to households earning 150% or less of the AMI.

Recommendation

Based upon the review of the information submitted by the principals, and within the scope of this analysis as described herein, First Housing recommends the proposed transfer of the property. Should there be a future request of refunding or re-issuance of the tax-exempt bonds, then, said property shall be subject to a full credit underwriting review and subject to all requirements of Florida Housing per the rule in effect at the time of the request. These requirements shall include, but not be limited to, items such as reserves for replacement, resizing of the bonds and an extension of the qualified project period as well as any additional set-asides.

Conditions

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

- The form of the applicant and the form of the members of the applicant shall be acceptable to Florida Housing, Florida Housing’s counsel and the Underwriter.
- Applicant shall agree that through the Qualified Project Period, Florida Housing and their compliance monitoring agent shall have access to the property to perform their compliance audit. A Guarantee of Recourse Obligations and an Environmental Indemnity will be executed by Kings Horizon Place Apartments, LLC, Michael B. Denberg, Daniel E. Lubeck, and Sheldon J. Lowe, in a form satisfactory to Florida Housing, the Underwriter, and its Counsel in their sole discretion

- Confirmation at closing that all fees due and owing to FHFC are current.
- Extension of the set-aside requirement for lower income and eligible tenants by two years in accordance with Rule 67-21.017 (4) (d), if applicable.
- Determination that the subject development is in compliance with the LURA.
- Expenses for all fees for professional services rendered shall be paid by the purchaser or the seller.
- Execution of an assignment and assumption agreement.
- Financing documents must be reviewed and approved by Credit Underwriter and Counsel before executions.
- Receipt and satisfactory review of 2001 tax returns for all guarantors, 2002 tax returns for Mr. Lubeck and Mr. Lowe, updated financial statements for all guarantors dated within the past 90 days. If updated statements are not available, then audited, compiled or reviewed statements prepared by a third party CPA are an acceptable alternative.