



To: Jan Rayboun, Loan Closing Coordinator
Florida Housing Finance Corporation

From: Mark Foushee, Senior Credit Underwriter *M. F.*
First Housing

Date: September 30, 2004

Subject: Huntington Place Apartments - Sarasota - \$12,700,000 Florida Housing Finance Agency, Multi-Family Housing Revenue Bonds – 1985 Series GGG.

At the request of the Florida Housing Finance Corporation ("FHFC"), First Housing has reviewed the request for transfer of ownership and substitution of the credit enhancer of the above referenced development.

The scope of the analysis includes the following items:

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

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

Overview

The Project, known as Huntington Place Apartments is located on a 21.68-acre tract at 3201 Huntington Place Drive, Sarasota, Sarasota County, Florida 34237.

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The property was constructed in 1986, and consists of 19 two-story apartment buildings, a leasing office/clubhouse, fitness building and a maintenance building. In 1999, the property was sold and the credit enhancement was changed to Credit Lyonnais providing a Letter of Credit guarantee. The unit mix is as follows:

Type	No. of Units	Avg. Sq. Ft.
1 Bd/ 1 Ba	40	684
1 Bd/ 1 Ba	72	718
2 Bd/ 2 Ba	52	846
2 Bd/ 2 Ba	56	974
2 Bd/ 2 Ba	32	1074
TOTAL	252	211,960

On-site amenities include a swimming pool, fitness center, two racquetball courts, two tennis courts, playground, car wash area, and picnic areas. The parking lot contains 513 open spaces, or 2.04 spaces per unit, which is adequate.

The property is currently financed via an issue of tax-exempt bonds, 1985 Series GGG, in the original aggregate amount of \$12,700,000. Currently, there are approximately \$12,700,000, in bonds outstanding and the rate on the bonds floats based on the 7 day floater bond rate. The interest rate will continue to float after the transfer of ownership. The Bonds are to be credit enhanced by Freddie Mac through their designated underwriter, Berkshire Mortgage. The Underwriter was provided a credit enhancement commitment letter dated August 6, 2004 from Berkshire. Berkshire is underwriting the mortgage at a 1.25 debt service coverage using a 5.75% rate, which includes a 200 basis point stress rate, with amortization of 30 years.

An appraisal dated September 15, 2004 was completed by Oxtal Real Estate Advisors for the property. The Appraisal indicated an "as is" market value for the property of \$17,800,000. With the \$12,700,000 in bonds outstanding, the loan-to-value ratio is 71.34%.

Purchase Contract

The contract is dated July 13, 2004, between JRC D.I. Properties Limited Partnership, JRC Huntington Southfield/Enterprises, LLC and JRC Huntington Drake/Georgia LLC (collectively the "Seller"), and Jackson Square Properties, LLC, a California LLC, (the "JSP") of the subject property. This contract will be assigned to a newly formed single asset Delaware Statutory Trust before closing ("DST").

Proposed Ownership Structure

The subject property will be acquired by a single asset entity that is being formed as a Delaware Statutory Trust ("Borrower"). The Borrower will be 100% owned by various limited liability corporations which have not been identified as of the date of this report. The Borrower will then triple net lease the property to Jackson Square Properties under a 7 year lease with automatic annual renewals at the end of the initial lease term. The Borrower will be owned by passive investors. The

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principals of Jackson Square Properties, Thomas Coates and Curtis Gardner, will manage the property and provide the necessary guarantees for the first mortgage and credit enhancement.

The contact person for the proposed ownership is as follows:

Jeffrey E. Jaeger, Director
Jackson Square Properties, LLC
500 Washington St., Suite 700
San Francisco, CA 94111

P (415) 354-9900
F (415) 544-9134
E jjaeger@jspllc.com

Proposed Management/Leasing Company

The proposed management/leasing company is WRH Realty Services, Inc ("WRH"). The Purchaser has provided First Housing information on the management company and a draft unexecuted management agreement with a 3% management fee. WRH was founded in 1968. WRH manages approximately 7,300 units in 5 states, including Florida. This report is conditioned upon WRH Realty Services, Inc., being approved by Florida Housing prior to the transfer of ownership and the execution of a property management agreement acceptable to Florida Housing, their counsel and the Underwriter.

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

Mr. James Miller
WRH Realty Services
100 Second Avenue South, Suite 904
St. Petersburg, Florida 33701-4386

Telephone: (727) 892-3006
Fax: (727) 892-3001

Financial Capability/Credit Worthiness of Purchaser

The Purchaser is assuming the first mortgage/bonds in the amount of \$12,700,000 and is providing equity of \$5,176,230. The Purchaser will then lease the property to Jackson Square Properties, ("JSP") which was formed in 1991 to purchase value-added multifamily properties. JSP is controlled by Thomas Coates and Curtis Gardner. Mr. Coates and Mr. Gardner will provide guarantees. They have over 50 years of combined apartment investment experience. They have acquired over 5,000 apartment units and currently have an ownership interest in 4,000 apartment units. Mr. Coates co-founded Arroyo & Coates in 1987 which has brokered over 75,000 apartment units. Since January, 1994, Mr. Gardner has brokered over 29,317 apartment units. 2002 and 2003 tax returns were provided for Mr. Coates and Mr. Gardner. In addition, financial statements for the two principals were provided:

Thomas J Coates

Unaudited August 4, 2004

Cash
Assets
Liabilities
Net Worth



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Curtis Gardner

Unaudited August 11, 2004

Cash
Assets
Liabilities
Net Worth



Based upon the review of these statements by First Housing, it would appear that the principals of the JSP have adequate financial capacity to serve as guarantors in this transaction.

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:

Source	Amount	Use	Amount
Assumed Bond	\$12,700,000	Purchase Price	\$17,300,000
Equity Contribution	\$5,176,230	Closing Costs, Loan Fees	\$67,000
		Renovation	\$224,230
		Bond Related Cost	\$165,000
		Underwriting Fees	\$120,000
Total	\$17,876,230	Total	\$17,876,230

The first mortgage will be assumed by the purchaser with the remaining equity coming from the Purchaser. The Purchaser plans \$224,230 in repairs over the next 12 months including \$51,130 in immediate repairs outlined in the Property Condition Report.

Economics

First Housing has received a current rent roll dated July 31, 2004, which indicated that the complex was 94% occupied. The rent roll indicates total monthly rental revenue of \$261,152 or \$3,133,824 annually.

Below are the property's 2003 income and expenses and underwriter's proforma for 2004, which was developed from the actual un-audited operating statements from the property for the first 6 months of 2004 annualized. The underwriter used a 5% management fee for proforma purposes. Also, the insurance expense at \$350 per unit is lower than last year's actual expense. However, the Purchaser has a quote that equates to \$287 per unit. The Underwriter used \$350 per unit given our experience with other developments in the market. The Underwriter used a reserve of \$288 per unit which was recommended in the Property Condition Report and will be required by the Credit Enhancer.

For analytical purposes, and in order to derive a "current" Debt Service Coverage, First Housing has applied the debt service used by Berkshire to underwrite the property. The historical and annualized operating statements are summarized as follows:

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	Unaudited Year End 2003	Per Unit	Unaudited Thru 6/04 Annualized	Per Unit
REVENUE				
Gross Potential Rent	\$2,238,460	\$8,883	\$2,266,258	\$8,993
Other Income				
Utility Reimbursements	\$119,482	\$474	\$114,052	\$453
Miscellaneous Income	\$129,431	\$514	\$119,440	\$474
Total Gross Potential Revenue	\$2,487,373	\$9,871	\$2,499,750	\$9,920
Less				
Vacancy	\$185,680	\$737	\$109,842	\$436
Concessions/Employee Units	\$40,830	\$162	\$53,370	\$212
Bad Debt Expense	\$3,800	\$15	\$24,728	\$98
Effective Gross Income	\$2,257,063	\$8,957	\$2,311,810	\$9,174
EXPENSES				
Real Estate Taxes	\$273,898	\$1,087	\$299,936	\$1,190
Insurance	\$108,468	\$430	\$88,200	\$350
Payroll	\$241,290	\$958	\$240,128	\$953
Marketing	\$35,038	\$139	\$25,476	\$101
Repairs/Maintenance	\$95,487	\$379	\$81,684	\$324
Utilities	\$179,423	\$712	\$179,422	\$712
Outside Maintenance	\$53,507	\$212	\$54,522	\$216
Administrative Expenses	\$30,525	\$121	\$27,984	\$111
Property Management (5%)	\$90,283	\$358	\$92,472	\$367
Reserves	\$72,576	\$288	\$72,576	\$288
Total Expenses	\$1,180,495	\$4,685	\$1,162,400	\$4,613
Net Operating Income	\$1,076,568	\$4,272	\$1,149,410	\$4,561
First Mortgage Debt Service	\$659,235		\$889,365	
Operating Income After Debt Service	\$417,333		\$260,045	
Debt Service Coverage First Mortgage	1.63		1.29	

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

Environmental Assessment

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According to an Environmental Phase II Assessment, by Stantec Consulting, dated August 25, 2004, there were no recognizable environmental concerns with the property. No additional investigation was recommended. The report did note that no asbestos study was done on the property. However, the report noted that it is unlikely there was asbestos used in the construction of the property given its age.

Physical Needs Assessment

The applicant has supplied a Physical Needs Assessment dated August 31, 2004 from Stantec Consulting. The report noted \$51,130 in immediate repairs, which are fumigation of Building 18 for termites, surface drainage correction for Building 12, and repair of exterior wood and stucco around the property.

This report also provided an estimate of reserves for replacement, which is equal to \$288 per unit per year. The Credit Enhancer is requiring a replacement reserve of \$288 per unit. This amount is included in the proforma.

Status of Project Compliance

First Housing is currently the Compliance Monitoring agent for the referenced property. Based on the most recent Program Reports received by the Monitoring Agent and Florida Housing, the property is in compliance with the Land Use Restriction Agreement requirements. The Underwriter is conditioning our recommendation in this report upon the property being in compliance before the transfer of ownership contemplated herein.

The set-aside requirements in the Land Use Restriction Agreement are that at least 20% 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 and Freddie Mac as the credit enhancer for the bonds. 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 property period as well as any additional set-asides.

Conditions

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

1. The form of the applicant and the form of the members of the applicant shall be acceptable to

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Florida Housing, Florida Housing's counsel and the underwriter. It is anticipated that the Applicant shall be a Delaware Statutory Trust (the "Borrower" and/or "Applicant"). The Borrower will be owned by various Limited Liability Corporations.

2. Applicant shall agree that so long as the bonds are outstanding, Florida Housing and their compliance monitoring agent shall have access to the property to perform their compliance audits.
3. Purchase Contract should be assigned to the Applicant before the transfer of ownership.
4. An Environmental Indemnity and a Guarantee of Recourse Obligations will be executed by the Applicant, Thomas Coates, and Curtis Gardner, in forms satisfactory to Florida Housing, its Counsel, and the Underwriter in their sole discretion.
5. The approval of WRH Realty Services, Inc., by Florida Housing and the execution of a property management agreement acceptable to Florida Housing, their counsel and the Underwriter prior to the transfer of ownership.
6. The Applicant shall agree to tax and insurance escrows plus an annual replacement reserve at \$288 per unit to be held in a form satisfactory to Florida Housing, its counsel and the Underwriter if required by the credit enhancer.
7. The Property shall be in compliance before the transfer of ownership contemplated herein.
8. The form and terms of the master lease with Jackson Square Properties shall be acceptable to Florida Housing, its counsel and First Housing. In particular, the lease shall be subordinate in all respects to the first mortgage. In addition, the lease will provide that the payments to the Delaware Statutory Trust shall be sufficient to cover the payments due under the mortgage.
9. Purchaser shall escrow \$51,130 for the immediate repairs outlined in the Property Condition Report or shall provide proof satisfactory to Florida Housing and First Housing that the work has been completed lien-free.
10. As the various reports were issued to the Freddie Mac/Berkshire as Credit Enhancer, Reliance Letters for the Appraisal, Phase 1 Environmental Report and Property Condition Report shall be provided Florida Housing.
11. 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.
12. Expenses for all fees from professional services rendered shall be paid by either the purchaser or the seller.
13. Execution of an assignment and assumption agreement.

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14. Confirmation at closing that all fees due and owing to FHFC are current.