Year 15: Transition Strategies for Expiring LIHTC Properties

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National LIHTC Stock: nearly 3 million units

- Urban, suburban and rural markets across the country
- Housing for families, seniors, people with special needs
- Deep affordability: 64% of residents are at or below 40% of AMI, according to HUD
- Extended use expiration is approaching, will be a rising wave in coming years
ENTERPRISE’S EXPERIENCE TO DATE

814 Projects transferred through 10/15/17

- 18 Lease purchases (Primarily Cleveland)
- 14 Consulting projects (all early exits)
- 21 Re-syndications

38 more Projects pending through 2017

- Projecting in excess of 100/year over the next 5 years.
OBJECTIVES OF THE TRAINING

- Understand background on Year 15
- Discuss key exit options, including ROFR and buyout options
- Understand perspectives of stakeholders
- Resyndication
- Capital Accounts and exit taxes
- Learn how to develop an action plan
- Review Case Studies
THE YEAR 15 PROCESS

- Step 1: Know the Property
- Step 2: Know your partners and stakeholders
- Step 3: Know your documents
- Step 4: Develop your plan
THE STAKEHOLDERS

- Residents
- General Partners/Sponsors/Developers
- Investors
- Syndicators
- Private Lenders
- Public Lenders
- Allocating Agencies
- The IRS
Investor

Equity Fund
LP = Investor(s) 99.99%
GP = .01%

Project
LP = Equity Fund 99.99%
GP = Developer/Sponsor .01%
STRUCTURE OF LIHTC INVESTMENTS

- Investments are sold through Limited Partnerships and LLC’s

- Partnership Agreements control dispositions, providing:
  - Transfer restrictions and price
  - Consent requirements
  - Distribution of Proceeds
  - Liquidation and Dissolution
Types of Investor vary:
- Direct Investors
- Syndicators ("Intermediaries")
  - Single Corporate Investor Funds
  - Multiple Corporate Investor Funds
  - Multiple Individual Investor Funds

Types of Syndicators vary:
- National for-profit
- National nonprofit
- Regional (mostly nonprofit)
ENTERPRISE’S GOALS

- Deliver Expected Investor Benefits
- Exit investor in Year 16
- Transfer to Sponsors
- Works with the sponsor to develop its Year 15 transition plan
- Preserve affordability
- Minimize displacement of low-income residents
- Preserve project viability
- Can provide equity to resyndicate the project with new tax credits
- Can provide debt to refinance the project
**Initial compliance period expires at the end of Year 15**

- Can transfer ownership in year 16 without recapture
- Tax credit transactions are envisioned by investors as 15-year investments
- Most investors are ready to dispose of their interest in year 16
DETERMINING YEAR 15

Tax Credit Compliance Ends:

- The last day of the 15\textsuperscript{th} year since credits were first taken
- May be different for different buildings
- Plan disposition in Year 16 for the last building placed in service
Example:

- Tax Credits allocated in 1999
- Building Placed in Service (PIS) in 2000
- Elected to begin taking credits in 2001
- Tax Credit Compliance Period expires 12/31/15
- Year 15 is 2015; Year 16 is 2016
EXIT STRATEGIES: POSSIBLE SCENARIOS

- Right of First Refusal to purchase property
- Buyout option to purchase partnership interest
- Qualified Contract
- Bargain Sale
- Purchase within compliance period ("Early Exit")
- "Puts": Obligation to Purchase
- Sale to 3rd party
RIGHT OF FIRST REFUSAL

Formula Price = Debt plus Exit Taxes
(Parties may agree to add an adjuster for unpaid benefits)

Formula Price is available to:
- Tenants
- Resident management corporations
- Qualified nonprofits
- Government agencies
Issues with Right of First Refusal:

- Is a bona-fide 3rd party offer required?
- Reserves not included
- Transaction costs
- Formula Price may exceed fair market value
Typically, option price is greater of:

- Fair Market Value of Partnership Interest (capitalized term = defined in agreement)

Or

- Unpaid Benefits plus Exit Taxes
On day 1 of Year 15, owner may submit a request to the Allocating Agency to sell the property (unless owner previously waived right)

State must locate a buyer at formula purchase price
- Outstanding debt secured by the property
- Plus capital invested adjusted by the Cost of Living Factor up to 5%
- Less any distributions and funds available for distribution

If buyer is not found within one year, extended use restrictions are TERMINATED
Concept: Part sale, part donation

- Applies where market value of property exceeds amount of debt on property
- Will offset exit taxes for the Investor
- But: Investor may prefer cash proceeds
Investor can dispose of its interest prior to Year 16, provided:

- LIHTC compliance is maintained

- Early exits may not be feasible for multiple investor funds

- An indemnity agreement is required to protect the exiting investor and syndicator may retain rights to access property and files through Year 15
Is Resyndication an Option?
RESYNDICATION

- Makes sense where rehab is needed
- Minimum rehab:
  - 20% of acquisition basis or
  - $6,000 investment per low-income unit
  - BUT, usually north of $30k per unit
- Structure to preserve Acquisition Credit
  - Problems if buyers and sellers are related parties
  - Related party means holding more than 50% interest prior to and after sale
  - Must comply with 10 year Look-back rule (exception for nonprofit buyer and/or projects substantially financed, assisted or operated under HUD, USDA or state program)
Beware of:

- Existing LURA
  - Income and Rent Restrictions
  - 3 year protection for existing residents
  - Equitable Remedy
- Vacant Unit Rule (initial compliance pd.)
  - Previous qualified units offline for rehab may trigger recapture
- Find out who your original LIHTC deal investors were (the actual investors in the fund)
- Focus on appropriate appraisals for acquisition credit purposes with total value split between land and building.
Beware of (cont’d):

- Amending existing loans
  - Forgiving soft debt before new investor comes into the deal
  - Original Issue Discount challenge when amending loans
- Passing the 50% test
  - Building by Building basis
  - Challenge when rehab light and assumed/amended debt is high – can be solved on a portfolio basis
- Minimum “market pricing” for LIHTCs with a $500k annual allocation, so bundle co-located deals
RESYNDICATION (cont’d)

- Beware of (cont’d):
  - Portfolio deals are not easier, just bigger and slightly more efficient
  - Consider FHA tax-exempt to taxable structure with collateralized bonds.
    - Equity funds earlier so the equity pricing is lower unless bridge arranged
    - Borrowing capacity is much higher currently
  - Will have to keep an eye on the true-debt analysis as well as manage capital accounts
  - Choose your debt and equity providers early and negotiate. Structure the deal together for reliable placement.
CAPITAL ACCOUNTS AND EXIT TAXES
LP CAPITAL ACCOUNT

- Balance is comprised of:
  - Capital Contributions
  - Less: Distributions
  - Less: Taxable losses
  - Less: Historic Credits (if applicable)
  - Less: syndication cost

- By definition, LP Capital cannot be negative unless Minimum Gain exists
  - Nonrecourse debt
  - Less net book value of assets

- Tax basis, not GAAP
- Must zero out upon transfer of interest
- If the ending balance is positive, a loss will be recorded as the investment is written off
- If the ending balance is negative, a gain will be recorded as the benefits exceeded the investment
  - Triggers “exit taxes”
  - Time value of money
Remains positive through compliance period – an expense/deduction will be taken by the LP
CAPITAL ACCOUNT: EXAMPLE #2

Goes negative after the end of the credit period; before the end of the compliance period.

Losses may or may not be taken by the LP
Goes negative before the end of the credit period.

Credits follow depreciation, if the LP cannot take the losses, they may lose the credits.
EXIT TAX EXAMPLE

- Sales price equal debt + exit taxes
- LP has a capital account balance of ($500,000)
- Exit tax = $500,000 x 35% (federal rate) = $175,000
- The payment of the exit taxes by the GP creates another taxable event
  - $175,000 x 35% = $61,250
  - Total exit taxes $175,000 + $61,250 = $236,250 OR
- Apply “gross up” factor: 1 + tax rate ($175,000 X 1.35 = $236,250)
WAYS TO MANAGE EXIT TAXES

From years 11-15:
- Forgive debt
- Reduce LP interest by 1/3
- Relate qualified non-recourse debt and/or add security to debt
- Capitalize rather than expense repairs
- Improve operations

In year 16:
- Bargain Sale
OPTIONS FOR PAYING EXIT TAXES

- New loan sufficient to pay off existing debt and pay exit taxes
- Resyndication with purchase price by new Partnership sufficient to pay exit taxes
- Apply cash reserves to payment of exit taxes
- Apply back-end adjuster, adjuster proceeds used to pay exit tax
- Investor absorbs the exit tax
GP ACTION PLAN – WHAT TO DO STARTING IN YEAR 10?
YEARS 10-13:
- Develop strategic plan:
  - Through Year 15
  - After Year 15
- Determine when compliance period ends
- The GP Perspective
  - Does the GP have the desire and capacity to purchase the project?
- Investor Perspective
  - Is the Investor flexible with sale or transfer?
  - Were Investor benefits realized?
YEARS 10-13:

- Review current performance and develop projections
  - Will cash flow be sufficient to sustain future operations?
  - Are there any anticipated changes in the budget, such as loss of rental subsidies or tax abatements?

- Market Conditions
  - Is the project marketable?
  - Is there competition from other projects?
YEARS 10-13:

- **Review capital needs**
  - Is there a Capital Needs Assessment (CNA)?
  - Consider a Green CNA
  - What are reserve balances and restrictions?

- **Review and project capital account and exit taxes**
  - If there are exit taxes, are there sufficient funds to pay exit taxes?
YEARS 13-14:

- **Analyze Partnership Debt:**
  - Are balloon loans or deferred interest payments due at or immediately after Year 15?

- Does existing debt exceed fair market value?

- Can loans be assumed, forgiven or restructured?

- Lender affordability restrictions

- Lender approval rights
YEAR 13-14:

- **Determine Likely Purchase Price**
  - Per Buyout Option or Right of First Refusal
  - Does the price make sense?

- **Explore Sources of Funds to Meet Purchase Price and Capital Needs:**
  - Resyndication
  - Refinance: Conventional debt or soft loans
  - Reserves
  - Combinations
  - Weatherization
  - Grants
YEARS 14-15:

- Consult with Accountant and Attorney
- Meet with Syndicator
- Negotiate Purchase Price
- Sign Letter of Intent
- Obtain Lender Approvals
- Draft Legal Agreements
YEAR 16:

- Close on purchase in 1st quarter of year 16
- File amended Certificate of Limited Partnership (if applicable)
- File tax return and provide final K-1 to Limited Partner(s)
- Execute an amendment to the Partnership Agreement, signed by withdrawing and new partners
YEAR 1 – BACK TO THE FUTURE

- **Determine goals at the outset**
  - Financing can extend the restriction period
  - How long will rent subsidies last?
  - Ability to pay ballooning debt
  - Extent and durability of improvements
  - Clarify transfer provisions in pertinent documents
  - Review impact of state agencies scoring criteria

- **Structure and review projections**

- **Consider exit tax**
  - Slower depreciation elected or required
  - Source of funds for exit tax
Exit of Limited Partner: Alternative Strategies

1. Negative Partnership Value
2. For-profit with Value
3. Non-profit with Value
PROJECT OVERVIEW

- 54 units
- Located in suburbs of Baltimore, MD.
- Serving seniors 62 and over
- 30%, 50% and 60% AMI
- PIS 4/30/2002
- LIHTC compliance period expired 2016
- Extended Use Restrictions expire 2041
STAKEHOLDERS

- General Partner – Established Non Profit
- Limited Partner – Single Investor Fund
- Syndicator – Enterprise
- Lenders:
  - 1st. Federal Home Loan Bank,
  - Susquehanna Bank
  - 2nd Maryland DHCD
- State Allocating Agency – Maryland DHCD
- Residents
NEGO TI AT IO N PO I NT S

- GP holds the Right of First Refusal to purchase property for debt + exit taxes. LP potentially would receive $111,857.

- GP offers to assume limited partners interest citing limitation on value:
  - Large DHCD surplus cash loan
  - The project cannot be recapitalized - Due to age restriction the project is not eligible for 9% credits and is too small for 4% execution
  - The project cannot be refinanced - The first loan currently has a prepayment penalty of $80,000 (which reduces to $0 in 2020)
  - Capital Needs - $700,000
    $200,000 short term (includes roof $100,000)
    $500,000 10 yr.
<table>
<thead>
<tr>
<th>PARTNERSHIP ECONOMICS</th>
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<td>Property NOI</td>
<td>$144,731</td>
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<td>Cap Rate</td>
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<td>Property Value</td>
<td>$2,128,397</td>
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<tr>
<td>Plus</td>
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<td>Operating Reserves</td>
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<td>Replacement Reserves</td>
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<td>T&amp;I Escrows</td>
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<td>Cash in Bank</td>
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<td></td>
<td><strong>$262,162</strong></td>
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<tr>
<td>Less</td>
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<tr>
<td>AP/Current Accruals</td>
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<td>Fees Payable</td>
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<td>Debt</td>
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<td><strong>$2,970,195</strong></td>
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<td>Net Assets</td>
<td><strong>$(579,636)</strong></td>
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## ROFR CALCULATION

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<th>Description</th>
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<td>Property Sale (debt + taxes)</td>
<td>$2,956,748</td>
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<tr>
<td>Less: Closing Costs</td>
<td>25,000</td>
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<tr>
<td>Less: Debt</td>
<td>2,956,748</td>
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<tr>
<td>Equals Sale Proceeds</td>
<td>$(25,000)</td>
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<tr>
<td>Plus Cash &amp; Reserves</td>
<td>262,162</td>
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<tr>
<td>Less: AP/Accruals/Fees</td>
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<tr>
<td><strong>Total Proceeds</strong>*</td>
<td><strong>$223,715</strong></td>
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</table>

*Per liquidation provision, proceeds shall be distributed in accordance with capital accounts.*
PER LIQUIDATION PROVISIONS

TAX CAPITAL ACCOUNTS:
Total Account Balance = $334,637
   GP $167,319 (50%)
   LP  $167,319 (50%)

Total Proceeds: $223,715
   GP’s share (50%) $111,857.50
   LP’s share (50%) $111,857.50
## Study #1: Negative Partnership Value

### Financial Summary

<table>
<thead>
<tr>
<th>Project Economics</th>
<th>Property Value</th>
<th>$2,128,397</th>
<th>Projected Debt</th>
<th>$2,956,748</th>
<th>Other Liabilities</th>
<th>$13,447</th>
<th>Cash &amp; Reserves</th>
<th>$262,162</th>
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<tbody>
<tr>
<td>Capital Account Balances</td>
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<td>Residual Splits (LPA)</td>
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<tr>
<td>GP</td>
<td>$167,319</td>
<td>50%</td>
<td>80%</td>
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<td>LP</td>
<td>$167,319</td>
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<tr>
<td>Total</td>
<td>$334,637</td>
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<td>100%</td>
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### Valuation Summary

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<tr>
<th>Scenario</th>
<th>Property Value</th>
<th>$2,128,397</th>
<th>Assets (sale proceeds + net assets)</th>
<th>$686,056</th>
<th>LP Proceeds per Residual Split</th>
<th>$343,028</th>
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</thead>
<tbody>
<tr>
<td>Sale of Property/Dissolution</td>
<td>$2,128,397</td>
<td>$686,056</td>
<td>-</td>
<td>$343,028</td>
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<tr>
<td>Buyout Option</td>
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<td>$686,056</td>
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<td>$343,028</td>
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<td>ROFR/Dissolution</td>
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<td>$223,715</td>
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<td>$111,857.5</td>
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### Concluded Sale Value

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<tr>
<th>Debit</th>
<th>Credit</th>
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</table>
STUDY#1: NEGATIVE PARTNERSHIP VALUE

VIEW FROM THE FUND

- Business Purpose: includes long term preservation after fund exit
- Investor benefits delivered
- Fund IRR exceeds target
- Partnership Agreement provides ROFR disposition in Y16
- Assign limited partner interest to GP for debt
- GP assumes all assets and liabilities
PROJECT OVERVIEW

- 74 units
- Serving seniors 62 and over
- 30% AMI
- PIS 10/14/2002
- LIHTC compliance period expired 2016
- Extended Use Restrictions expire 2031
STUDY #2: FOR-PROFIT WITH VALUE

NEGOTIATION POINTS

- GP has a Buyout Option to purchase limited partner interest; chose not to exercise.
- GP stepped into the deal in 2012, at the time it was a troubled asset. As inducement to GP, capital proceeds split changed from 10/90 to 90/10 in favor of GP.
- GP improved operations, turned the project into a performing asset – created value.
- GP is a for-profit developer in the business of providing affordable housing.
- GP made an offer of $300K to acquire LP interest. After consideration of buyout price, liquidation value, FMV, history of the project and business purpose of the fund, the final negotiated sale price of the LP interest was $500,000.
<table>
<thead>
<tr>
<th>PARTNERSHIP ECONOMICS</th>
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<tbody>
<tr>
<td>Property NOI</td>
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<tr>
<td>Cap Rate</td>
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<td>Property Value (rounded)</td>
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<td>Operating Reserves</td>
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<td>Replacement Reserves</td>
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<tr>
<td>Debt</td>
</tr>
<tr>
<td></td>
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<tr>
<td>Net Partnership Assets</td>
</tr>
</tbody>
</table>
BUYOUT PRICE:

- Property $3,370,000
- Less: Closing Costs $218,500
- Less: Debt $1,036,710
- Equals Sale Proceeds $2,114,790
- Plus Net Cash & Reserves $345,952
- Total Proceeds*: $2,460,742

*Per liquidation provision, proceeds shall be distributed in accordance with capital accounts.
BUYOUT PRICE PER LIQUIDATION PROVISION

TAX CAPITAL ACCOUNTS:
Total Account Balance = $2,469,744
   GP $100 (.00004%)
   LP $2,469,644 (99.99996%)

Total Liquidation Proceeds: $2,469,744
   GP’s share (.00004%) $1
   LP’s share (99.99996%) $2,469,743
FMV OF LP INTEREST

Residual Splits per Partnership Agreement*
   GP 90%
   LP 10%

Net Partnership Assets $2,679,242
   LP Portion (10%) $267,924

Discounted for lack of Control (25%) $200,943
Discounted for Marketability (25%) $150,707

Fair Market Value of LP interest = $150,707

*Residual splits drive fair market valuation
## PROJECT ECONOMICS

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Value</th>
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<tbody>
<tr>
<td>Property Value</td>
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<tr>
<td>Projected Debt</td>
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<td>Other Liabilities</td>
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<td>Cash &amp; Reserves</td>
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## Capital Account Balances

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<tr>
<th>Capital Account</th>
<th>GP</th>
<th>LP</th>
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<td>Value</td>
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<td>$2,469,644</td>
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<td>Residual Splits (LPA)</td>
<td>0.00004%</td>
<td>99.99996%</td>
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## VALUATION SUMMARY

### SCENARIO

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Property Value</th>
<th>Assets (sale proceeds + net assets)</th>
<th>LP Proceeds per Residual Split</th>
<th>FMV of LP Interest</th>
<th>LP Proceeds per Capital Accounts</th>
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<tr>
<td>Sale of Property/Dissolution</td>
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<td>$2,460,742</td>
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<td>$2,460,741</td>
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<td>Buyout Option</td>
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<td>$2,460,741</td>
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<tr>
<td>Fair Market Valuation</td>
<td>$3,370,000</td>
<td>$2,679,242</td>
<td>$267,924</td>
<td>$150,707</td>
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</table>

| Concluded Sale Value      | $500,000      |                                     |                              |                    |                                 |
STUDY #2: FOR-PROFIT WITH VALUE

VIEW FROM THE FUND

- Business Purpose: includes long term preservation after fund exit
- Investor benefits delivered
- Fund IRR exceeds target
- Captured residual value
- Acknowledged GP contribution to operations, stepping into trouble asset
- **Assign limited partner interest to GP for $500,000**
- GP assumes all assets and liabilities
PROJECT OVERVIEW

- 144 units
- 75% serving low-income families
- 60% AMI
- PIS 12/15/2002
- LIHTC compliance period expires 2017
- Extended Use Restrictions expire 2032
STUDY #3: NON-PROFIT WITH VALUE

NEGOTIATION POINTS

- GP has a Buyout Option to purchase limited partner interest for $3,969,409
- GP holds a ROFR to purchase property for debt plus taxes. LP would receive $742,072 under this scenario
- Partnership previously involved in lawsuit over property taxes; investors loaned additional $400K to resolve dispute and cover operations. Investors want to be paid back.
- GP wants to refinance the property and exit the limited partner with a portion of the refinance proceeds.
- Property has deferred maintenance; replacement reserves have not been utilized.
- Large amount of equity in the property. Property tax abatement may impact future value of property.
- Negotiated LP purchase price equal to what LP would receive under the ROFR scenario ($742,072). GP to use refinance proceeds to fund the acquisition price.
- GP captures over $3.5MM in equity in real estate.
## Study #3: Non-Profit with Value

### Partnership Economics

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<td>Cap Rate</td>
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<td>Property Value (rounded)</td>
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<td>Plus</td>
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<td>Operating Reserves</td>
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<td>Replacement Reserves</td>
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<td>T&amp;I Escrows, AR</td>
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<td>AP/Current Accruals</td>
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<tr>
<td>Fees Payable</td>
<td>$9,005</td>
</tr>
<tr>
<td>Debt</td>
<td>$4,025,643</td>
</tr>
<tr>
<td>Net Partnership Assets</td>
<td>$4,439,829</td>
</tr>
</tbody>
</table>
BUYOUT PRICE CALCULATION:

Property $7,608,400
Less: Closing Costs (5%) 380,420
Less: Debt 4,025,643
Equals Sale Proceeds $3,202,337
Plus Net Cash & Reserves 767,072
Total Proceeds*: $3,969,409

*Per liquidation provision, proceeds would be distributed in accordance with capital accounts.
STUDY #3: NON-PROFIT WITH VALUE

BUYOUT PRICE PER LIQUIDATION PROVISION

TAX CAPITAL ACCOUNTS:
Total Account Balance = $1,565,000
  GP $0 (0%)
  LP $1,565,000 (100%)

Total Proceeds: $3,969,409
  GP’s share (0%) $0
  LP’s share (100%) $3,969,409
## ROFR Price Calculation:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Sale (debt + taxes)</td>
<td>$4,025,643</td>
</tr>
<tr>
<td>Less: Closing Costs</td>
<td>25,000</td>
</tr>
<tr>
<td>Less: Debt</td>
<td>4,025,643</td>
</tr>
<tr>
<td>Equals Sale Proceeds</td>
<td>$(25,000)</td>
</tr>
<tr>
<td>Plus Cash &amp; Reserves</td>
<td>805,480</td>
</tr>
<tr>
<td>Less: AP/Accruals/Fees</td>
<td>38,408</td>
</tr>
<tr>
<td><strong>Total Proceeds</strong></td>
<td><strong>$742,072</strong></td>
</tr>
</tbody>
</table>

*Per liquidation provision, proceeds shall be distributed in accordance with capital accounts.*
STUDY #3: NON-PROFIT WITH VALUE

DISTRIBUTED PER LIQUIDATION PROVISION

TAX CAPITAL ACCOUNTS:
Total Account Balance = $1,565,000
   GP $0 (0%)
   LP $1,565,000 (100%)

Total Liquidation Proceeds: $742,072
   GP’s share (0%) $0
   LP’s share (100%) $742,072
Refinance First Mortgage

- Year 16 NOI: $513,567
- Property Value (NOI/6.75 cap rate): $7,608,400

New Mortgage:
- Loan To Value Ratio:
  - $7,608,400 FMV
  - x 70% LTV
  - Maximum loan: $5,325,880
### STUDY #3: NON-PROFIT WITH VALUE

**Sources**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Mortgage</td>
<td>$5,325,880</td>
</tr>
<tr>
<td>Operating Reserve</td>
<td>209,980</td>
</tr>
<tr>
<td>Replacement Reserve</td>
<td>406,520</td>
</tr>
<tr>
<td>Escrow/AR</td>
<td>39,236</td>
</tr>
<tr>
<td>Cash</td>
<td>149,744</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$6,131,090</strong></td>
</tr>
</tbody>
</table>

**Uses**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payoff of Existing Debt</td>
<td>$4,025,643</td>
</tr>
<tr>
<td>Yield Maintenance</td>
<td>285,000</td>
</tr>
<tr>
<td>Closing Costs</td>
<td>450,000</td>
</tr>
<tr>
<td>Replacement Reserve</td>
<td>300,000</td>
</tr>
<tr>
<td>AP/Current Accruals</td>
<td>29,403</td>
</tr>
<tr>
<td>Fees Payable</td>
<td>9,005</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,099,051</strong></td>
</tr>
</tbody>
</table>
**DISTRIBUTION OF PROCEEDS:**

Sources $6,131,090

Uses 5,099,051

Refinance Proceeds $1,032,039

**Negotiated Split of Proceeds**

To the Partners

  - GP $289,967
  - LP* $742,072
  - Total $1,032,039

*Note – via negotiations, this is equal to what LP would receive up execution of ROFR
### PROJECT ECONOMICS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Value</td>
<td>$7,608,400</td>
</tr>
<tr>
<td>Projected Debt</td>
<td>$4,025,643</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>$38,408</td>
</tr>
<tr>
<td>Cash &amp; Reserves</td>
<td>$805,480</td>
</tr>
</tbody>
</table>

### Capital Account Balances

<table>
<thead>
<tr>
<th></th>
<th>GP</th>
<th>LP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>$0</td>
<td>$1,565,000</td>
<td>$1,565,000</td>
</tr>
<tr>
<td>Splits</td>
<td>0%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>LPA</td>
<td>80%</td>
<td>20%</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Residual Splits (LPA)

<table>
<thead>
<tr>
<th>Residual Splits (LPA)</th>
<th>Negotiated Refinance Split</th>
<th>LP Proceeds per Capital Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>GP</td>
<td>0%</td>
<td>$3,969,409</td>
</tr>
<tr>
<td>LP</td>
<td>100%</td>
<td>$3,969,409</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>Total</td>
</tr>
</tbody>
</table>

### SCENARIO

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Property Value</th>
<th>Assets (sale proceeds + net assets)</th>
<th>LP Proceeds per Residual Split</th>
<th>Negotiated Refinance Split</th>
<th>LP Proceeds per Capital Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of Property/Dissolution</td>
<td>$7,608,400</td>
<td>$3,969,409</td>
<td>-</td>
<td>$3,969,409</td>
<td></td>
</tr>
<tr>
<td>Buyout Option</td>
<td>$7,608,400</td>
<td>$3,969,409</td>
<td>-</td>
<td>$3,969,409</td>
<td></td>
</tr>
<tr>
<td>ROFR/Dissolution</td>
<td>$4,025,643</td>
<td>$742,072</td>
<td>-</td>
<td>$742,072</td>
<td></td>
</tr>
<tr>
<td>Refinance</td>
<td>$7,608,400</td>
<td>-</td>
<td>-</td>
<td>$742,072</td>
<td></td>
</tr>
</tbody>
</table>

### Concluded Sale Value

| Concluded Sale Value | $742,072 |
STUDY #3: NON-PROFIT WITH VALUE

VIEW FROM THE FUND
- Business Purpose: includes long term preservation after fund exit
- Investor benefits delivered
- Fund IRR exceeds target
- Investor loan is repaid
- LP captures residual value in excess of loan repayment
- Assign limited partner interest to GP for $742,072
- GP assumes all assets and liabilities
SOME TAKEAWAYS

- Capital account balances may skew distributions to limited partner.
- Capital proceeds split drive refinance distributions and typically fair market valuation of limited partner interest.
- Exits may be delayed by agency/lender consent process.
- Extended-use period drives need for properties to be well capitalized.
- Majority of transfers are to current GP and involve simple transfer of limited partner interest.
Q&A
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For further information, go to the www.enterprisecommunity.com website, and look for Year 15 information under Asset Management.