THE RELIANT GROUP®

QUINTESSA APARTMENTS

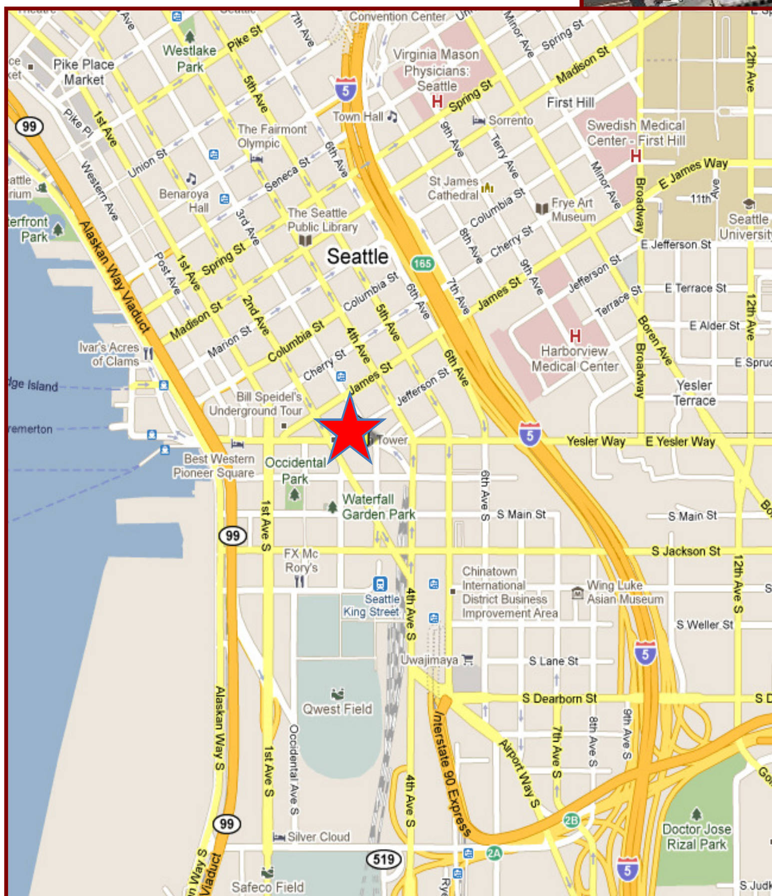
Foreclosure Acquisition and Tax Credit Restructuring

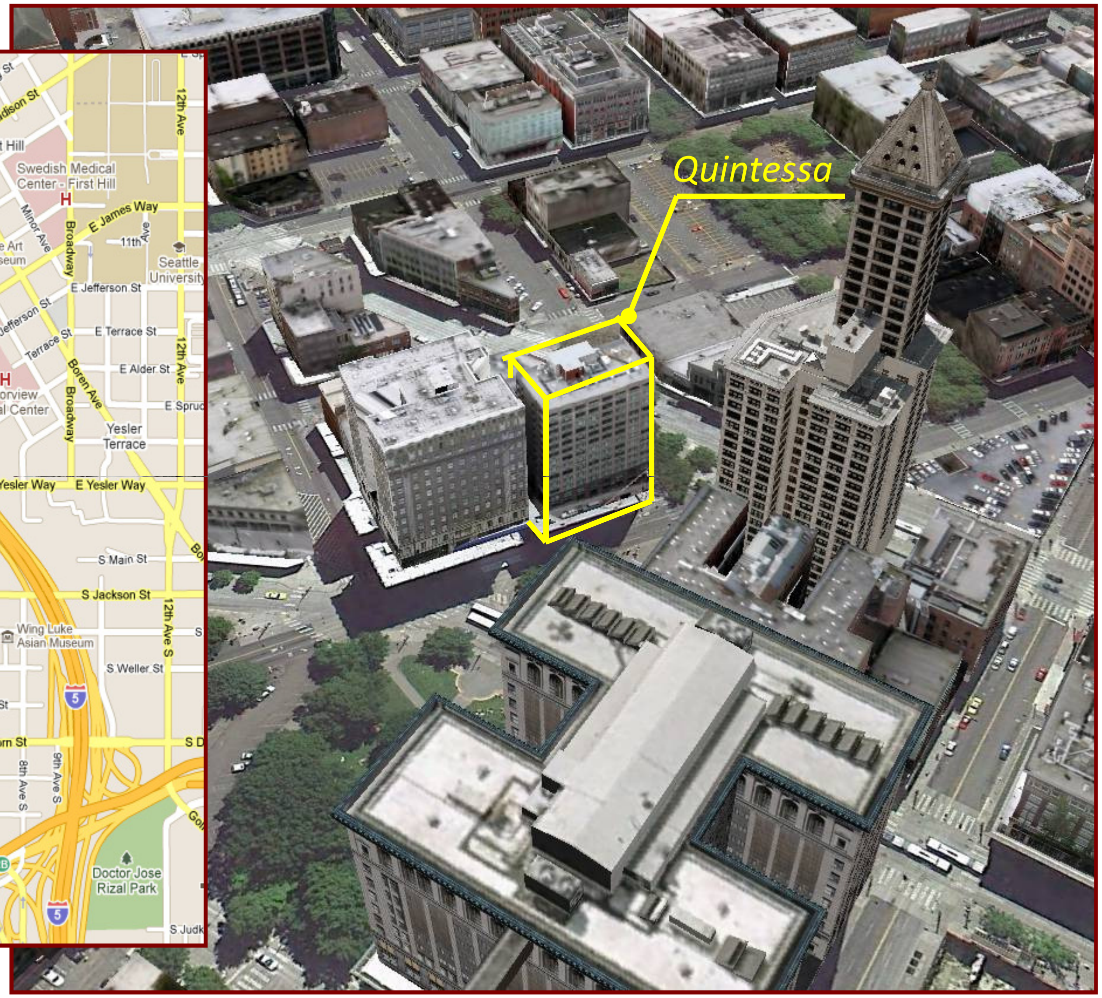
275 Battery Street
Suite 500
San Francisco, CA 94111
Phone 415-788-0700
www.reliantgroup.com

Overview

- **132-Unit 13-story high rise** located in the Pioneer Square neighborhood of downtown Seattle.
- **2007 - Newly Constructed** with a total development cost of approximately $25.7 million financed by tax exempt bonds and low income housing tax credit equity.
- **2008 - Stabilized Bond Debt** of approximately $11.7 million.
- **2009** / **2010 - Operating Deficits** of approximately $250,000 per year in 2009 and 2010 relative to original bond debt service. Senior loan in monetary default after operating reserves depleted in 2010.
- **2011 – Foreclosure Scheduled**

Location


Seattle
Pike Place Market
Westlake Park
Pike St
Convention Center
Virginia Mason Physicians Seattle
Spring St
Madison St
First Hill
Town Hall
The Fairmont Olympic
Sorrento
Swedish Medical Center - First Hill
E James Way
Union St
Seneca St
Benaroya Hall
St James Cathedral
Columbia St
Frye Art Museum
Seattle University
The Seattle Public Library
E Jefferson St
Alaskan Way Viaduct
Cherry St
Jefferson St
E Terrace St
Terrace St
E Alder St
Madison St
Marion St
James St
Harborview Medical Center
Ivar's Acres of Clams
Yesler Terrace
Bill Speidel's Underground Tour
Tower
Yesler Way
E Yesler Way
Best Western Pioneer Square
Occidental Park
Waterfall Garden Park
S Main St
S Jackson St
FX Mc Rory's
Chinatown International District Business Improvement Area
Wing Luke Asian Museum
Seattle King Street
S Weller St
Uwajimaya
S Lane St
S Dearborn St
Qwest Field
Interstate 90 Express
Airport Way S
Alaskan Way S
Occidental Ave S
4th Ave S
7th Ave S
8th Ave S
9th Ave S
12th Ave S
Silver Cloud
Doctor Jose Rizal Park
Safeco Field
Broadway
Boren Ave
1st Ave
2nd Ave
3rd Ave
4th Ave
5th Ave
6th Ave
7th Ave
9th Ave
12th Ave
Western Ave
Post Ave
1st Ave S
6th Ave S


Quintessa

The Parties and Their Positions

- The **Original Developer and General Partner** had satisfied all guarantee obligations and elected not to make any further operating advances when capitalized operating reserves were depleted.
- The **Original Tax Credit Syndicator** ceased corporate operations and management of the tax credit limited partnership interest was transferred to a successor asset manager.
- The **Original End Investors** had varying interests and could neither agree to sell the asset nor to advance funds to support operating deficits.
- The appraisal of the **Original Senior Lender** valued the property above the amount of its debt if the property were taken to market after foreclosing out the tax credit and bond regulatory agreements.
- The **State Tax Credit Regulator** understood that the property was at risk of exiting the program and was willing to accommodate parties interested in preservation of affordability.

Opportunity in Remaining Value of Tax Credits

		Tax Credits Claimed	Tax Credits Remaining	Potential Recapture plus Interest
Year 1	2008	1,055,407		296,373
Year 2	2009	1,157,298		422,324
Year 3	2010	1,157,298		383,628
Year 4	2011	95,907	1,061,391	31,969
Year 5	2012		1,157,298	
Year 6	2013		1,157,298	
Year 7	2014		1,157,298	
Year 8	2015		1,157,298	
Year 9	2016		1,157,298	
Year 10	2017		1,157,298	
Year 11	2018		101,891	
		$3,465,910	**$8,107,070**	**$1,134,294**

Acquisition Timeline

- January 31, 2011 – Senior Lender accelerates indebtedness which, under the policies of the Bond Issuer, forces cancellation of tax exempt bond, and effectively commits all parties to proceed with foreclosure.
- February 1, 2011 – Engage State Tax Credit Regulator with plan to preserve tax credit compliance and affordability.
- February 9, 2011 – Purchase Note from Senior Lender.
- February 10, 2011 – Notify Existing Owner of intention to preserve tax credit compliance and affordability.
- February 11, 2011 – Foreclosure and Simultaneous Ratification of Tax Credit LURA with State Tax Credit Regulator.
- April 2011 – Complete admission of Boston Financial fund as new tax credit investor and refinance with Fannie Mae senior mortgage through Citibank.

Restructured Tax Credit Investment - Pros

- No Construction Risk
- Immediate Credit Delivery
- High Barriers to Entry / Purchase Below Replacement Cost
- Excellent Access to Downtown and Regional Transit
- Strong Metropolitan Market
- Superior Product for Submarket
- Original Equity Investment of $11.5 Million Effectively Converted to Subsidy

Restructured Tax Credit Investment - Cons

- Uneven Historical Operations
- New Senior Mortgage Immediate Funding without Future Resizing
- Investor Concerns about a "Story Transaction"
- Non-Standard Investment Structure Requires Significant Explanation

Takeaways on Distressed Tax Credit Preservation

- **Understand the Positions of the Original Parties.** As implied by the word "distressed," at least some of the original parties have or will suffer some loss in restructured transaction. However, any party that can minimize its losses through a restructuring may become an ally.
- **Engage the Tax Credit Regulator.** Open and early communication with the tax credit regulator is important to a smooth transaction. If the proposed transaction will preserve affordability or provide other public benefit, the regulator may be able to expedite its normal processes.
- **Conduct Thorough Due Diligence.** A restructured tax credit transaction will rely heavily upon the past actions of other parties. Answer three basic questions:
  - (1) Property originally properly qualify for tax credits?
  - (2) Tax credit status of the property preserved through the transfer/restructuring?
  - (3) Documentation sufficient that future tax credits are saleable to a new investor?
- **Pay Special Attention to Tax Credit Structure and Compliance.**