Jamboree

Emerald Cove Apartments

The Emerald Cove Apartments ("Emerald Cove") is an existing 164 unit apartment community located at 18191 Parktree Circle in Huntington Beach, CA. Built in 1985 by the Redevelopment Agency of the City of Huntington Beach, Emerald Cove provides affordable housing to seniors in a 4.14 acre residential campus setting. The community consists of nine (9) two-story residential buildings and one single story clubhouse. The residential buildings are garden style walk-ups with frame and stucco construction on a reinforced slab. There are 32 studio units and 132 one bedroom/one bath units, each with private outdoor space and a washer/dryer connection. The 3,125 s.f. clubhouse building is also frame and stucco construction and includes multipurpose space, administrative offices, a kitchen, restrooms, and a laundry facility. Parking at Emerald Cove is provided along the interior private streets in 134 uncovered spaces.

Jamboree Housing Corporation is proposing to acquire and rehabilitate the Emerald Cove Apartments. The rehabilitation will include replacement of roofing, windows, and doors. Other site improvements include repair of paving, fencing, stucco, wood siding, and landscaping. Unit renovations will include updates to electrical wiring, replacement of water heaters, complete renovation of all kitchens and bathrooms, installation of air conditioning, and an updating of fixtures for greater energy efficiency.

After renovation, Emerald Cove will be maintained as affordable housing for seniors earning no more than 60% of the Orange County area median income for an additional 60 years. Housing with Heart, an affiliate of Jamboree, will offer comprehensive services to the residents free of charge including social outings, exercise classes, access to a computer lab, transportation and assistance with daily living activities.

The acquisition and rehabilitation of Emerald Cove will be financed with Low Income Housing Tax Credits, Tax-Exempt Bonds issued by the County of Orange, and a loan from the City of Huntington Beach.

Redevelopment Agency of the City of Huntington Beach

The Redevelopment Agency of the City of Huntington Beach has approved the sale of Emerald Cove to Jamboree for several reasons, including:

Provision of high quality affordable housing to its senior citizens for a minimum of 60 years
Emerald Cove does not currently have an affordability covenant on title that ensures rents at the property are maintained at a level is affordable to very low income seniors. By selling the property to a qualified non-profit like Jamboree, the RDA can record a regulatory agreement that keeps rents affordable for at least 60 years. Without this regulatory agreement and deed restriction in place, the property could be sold at any time to a for profit entity that could legally increase rents to market rates. For some seniors, this would mean their rent could jump from $435 per month to over $1,000 per month nearly overnight.

Existing rent protection
Many of the households at Emerald Cove pay rents that are well below the maximum rents allowed under the various financing agreements that will be put in place in connection with the rehabilitation. In order to allow households sufficient time to adjust to the new rent schedule, the RDA has demanded that Jamboree limit rental increases for all existing residents to no more than 3% annually for the first five years after the rehabilitation is complete.

Housing Element & Regional Housing Needs Assessment (RHNA) Compliance
By recording a regulatory agreement on title to the Emerald Cove Apartments that ensure rental rates will remain affordable for low income seniors over the next 60 years, the City of Huntington Beach can count the 164 units at the property towards satisfaction of the goals outlined in the Housing Element of their General Plan and toward their RHNA targets.

Property Renovation
By selling Emerald Cove to Jamboree and providing seller financing, the RDA is enabling Jamboree to access multiple sources of funds that will pay for the renovation of the property. Under the proposed financing plan, the project will benefit from access to tax exempt bonds and low income housing tax credits. These funding sources will pay for the acquisition and nearly $4 million renovation of the property. In these times of shrinking tax receipts and increased fiscal restraint, the City and RDA do not have the resources available to pay for the renovation alone. The property is now over twenty five years old and has deferred maintenance items that need to be addressed immediately. Jamboree will completely renovate the units, replace roofs, windows and doors, upgrade the clubhouse, and address the deferred maintenance. The renovation will present a marked increase in the quality of living for the residents.

Quality Social Services
Housing with HEART, Jamboree's affiliate, will provide high quality resident services at the property. Currently there is very minimal programming on site. Housing with HEART will bring educational classes, assistance with daily living, senior counseling and social activities to Emerald Cove. They will also create links with other senior focused agencies and organizations within the City of Huntington Beach. The City and RDA believe that bringing Housing with HEART to the property will enhance the sense of community among the residents and provide for a greater and more diverse delivery of resources tits citizens.

Financing Plan

Acquisition & Construction Period

Funding for the acquisition and rehabilitation for the Emerald Cove Senior Apartments will come from four sources:

1. *Tax Exempt Bonds issued by the County of Orange*
   Based on the approval of the application submitted by the County of Orange in July 2009, the California Debt Limit Allocation Committee ("CDLAC") has transferred $7,775,000 of private activity bond allocation to the County of Orange for the Emerald Cove Apartments. These private activity tax-exempt bonds, issued by the County of Orange, will be purchased by U.S. Bank in a private placement transaction. U.S. Bank will lend these funds to the development through a conventional construction loan structure.

   The construction loan will be secured by a first lien position deed of trust on the property, assignments of rents, tax credits, and partnership interests, as well as assignments of the general contractor's contract, the architect's contract, and the plans and specifications. Construction completion will be fully guaranteed by Jamboree Housing Corporation.

2. *Seller Note from the Redevelopment Agency of the City of Huntington Beach*
   On September 21, 2009 the Huntington Beach Redevelopment Agency ("RDA") approved the sale of the Emerald Cove Senior Apartments to Jamboree and to carry back an $8,000,000 seller note. The note will accrue at 3% simple interest, has a 60 year term, and

will be repaid through a share of residual receipts. $6,332,245 of the seller note will be recorded at acquisition, with the balance coming in at conversion to permanent financing.

3. *Tax Credit Equity*
Jamboree has secured a reservation for 4% Low Income Housing Tax Credits for the development from the California Tax Credit Allocation Committee ("TCAC"). These credits will be purchased by an investor at $0.75 per $1.00 of tax credits and will generate $3,599,978 in equity for the project. $718,648 or twenty percent (20%) of the equity will be used during the construction period.

4. *Deferred Fees & Costs*
A total of $331,900 in deferred fees and costs will make up the balance to the total project budget during construction. The majority of this funding source is deferred developer fee.

Permanent Financing
At completion of the rehabilitation and project stabilization, the construction loan will be paid down to $3,234,000 and will convert to a conventional permanent mortgage loan.

Sources of repayment of the construction loan will come from the balance of tax credit investor equity and the $1,667,755 balance of the seller note from the Huntington Beach RDA. Developer fee of $323,815 will remain deferred and is payable out of residual cash flow.

1. *Tax Exempt Bonds issued by the County of Orange*
The $3,234,000 permanent loan, funded with the outstanding proceeds of the tax-exempt bond issue will be fully amortizing under a 30- year amortization schedule. The permanent loan will carry a fixed interest rate, indexed on the U.S. Bank CIP rate, estimated at 6.75%. The US Bank permanent loan will be secured by a first priority deed of trust on the property. The permanent loan has been sized to a 1.20 debt service coverage ratio.

2. *Seller Note from the Redevelopment Agency of the City of Huntington Beach*
The $8,000,000 note from the RDA will be in second position and is structured as a residual receipts note. The note accrues 3% simple interest and has a term of 60 years. Repayment will be made from 75% of available project cash flow after the payment of operating expenses, hard debt service, deferred developer fees and approved asset management fees. It should be noted that in connection with the seller financing, the RDA will record a Regulatory Agreement that requires the property to be operated as affordable housing for low income seniors for a period of 60 years. These affordability covenants will not be subordinated to the US Bank loan, so that in the unlikely event of foreclosure, the rental rates at the property will remain affordable.

3. *Tax Credit Equity*
The $2,881,330 balance of the equity generated by the sale of the low income housing tax credits will come in at project stabilization. In connection with the access to equity, Jamboree will provide the tax credit investor will a full completion guaranty, a recapture guaranty on the full amount of the tax credits, as well as a guaranty to restore and operating deficits for a period of five years.

Project Operations

The Emerald Cove Apartments will offer rental rates to low income senior households earning between 30% and 60% of the Orange County Area Median Income for a period of not less than

60 years. As detailed in the RDA Regulatory Agreement, Jamboree is required to operate the property as safe decent housing in good condition and repair and in compliance with all applicable laws, rules, ordinances, orders and regulations of governmental agencies having jurisdiction over the property. The RDA has approval rights over annual budgets and has the ability to approve or remove any property manager over the 60 year term to ensure that the property continues to operate as high quality housing.

In each of the scenarios that will be explained in greater detail below, the financial model incorporates the following underwriting assumptions:

- Rent Growth at 2.5% per year
- Vacancy Rate of 5%
- Expense Growth at 3.5% per year
- Operating Expenses in Year 1 of $4,264 per unit
- Replacement Reserve Deposit of $300 per unit per year
- Debt Service Coverage of 1.20x on first mortgage
- Full Tax Exempt Bond Repayment in 30 years

As a condition of the sale of the property by the RDA to Jamboree, the rental rates of current tenants will be honored for a period of five years. During this five year period, annual rental rate increases for those households are limited to a maximum 3%. Apartment units that are vacant at acquisition or subsequently become vacant will be rented at the maximum rents as allowed under the most restrictive regulatory agreement associated with the Tax Exempt Bond financing, the Low Income Housing Tax Credits and the financing from the RDA. As detailed in Exhibit A, current rents are as low as $325 per unit per month for studio units, whereas allowable rent for those same units ranges from $488 to $895 per month.

Scenario A shows an extremely conservative scenario that assumes rental rates for all units grow from their existing rates at a steady two and a half percent (2.5%) per annum for the first fifteen years of the tax credit compliance period. In reality, as units turnover during this first fifteen years, they will be re-rented at the higher rates allowable under the regulatory agreements. In year sixteen, the Scenario A proforma assumes there has been a full turnover of all units and incorporates the maximum allowable rental income in years sixteen (16) through thirty (30). In this Scenario A the RDA Residual Receipts loan begins receiving payments in year eleven (11) and the principal balance will grow from $8,000,000 to $10,370,000 in year thirty (30) due to accrued interest. The first mortgage, financed with the tax exempt bond proceeds, is fully repaid in 30 years. Under this Scenario A, at the end of the sixty year term the RDA Residual Receipts balance will be $5,327,000.

Scenario B shows a less conservative assumption with an average 7.3% of the units (12 units) turning over annually and re-rented at the maximum rents allowable under the various regulatory agreements. As in Scenario A, the Scenario B proforma assumes all units are rented at the maximum rents by year 16.   However, under this Scenario B, the project benefits from the higher rental rates much sooner. In Scenario B, the RDA Residual Receipts loan begins receiving payments in year five (5) and the principal balance only grows from $8,000,000 to $8,542,000 by year thirty (30).   Under this Scenario A, at the end of the sixty year term the RDA Residual Receipts balance will be $16,000.

It should be noted that in both scenarios a five percent (5%) vacancy rate has been incorporated. Over a thirty year term, over $2,8000,000 in rental income is projected to be lost through vacancy in the development proforma. Historically the property operates at full occupancy and any additional rental income generated by operating at greater than 95% occupancy will be distributed through the development cashflow distribution.

Capital Improvements

As required by our various funding sources, $300 per unit per year will be contributed to a replacement reserve to fund capital improvements. This annual replacement reserve deposit will increase three percent (3%) annually. Over a thirty year term, deposits to the replacement reserve will equal $2,340,710 cumulatively.

It should be noted that the replacement reserve does not cover routine repair and maintenance costs such as unit turnover, landscaping maintenance, appliance servicing, interior painting, etc. The operating expense budget includes $195,000 for repair and maintenance in year one and this figure grows by 3.5% annually. Over a thirty year period, over $10 million is projected to be spent on repair and maintenance of Emerald Cove.

Given that nearly all major systems at Emerald Cove Apartments will be replaced as a part of the rehabilitation, major capital improvements are not expected in the near term. A schedule of capital improvements has been provided that incorporates projections from a professionally prepared Physical Needs Assessment report and projections based on Jamboree Housing Corporation's twenty year history of owning and operating residential communities in Orange County. To further support the sufficiency of the replacement reserve deposit amount, a copy of Fannie Mae's guidelines for determining replacement reserve amounts has been provided.

Capital improvements projected over the next thirty years include site work, building exterior upgrades, mechanical and plumbing systems upgrades, and upgrades to interiors and appliances. Total capital improvement expenditures over the thirty year term are estimated at $1,554,000. The reserve replacement account balance at the end of year thirty is projected to be $786,000, which leaves a sizable amount to cover any unanticipated costs.

Recapitalization

At the end of thirty years, the Tax Exempt Bonds will be completely repaid. Over that period the Emerald Cove Apartments, will have benefited from $12.3 million in expenditures for repair, maintenance, and capital improvements. The roof, HVAC units, water heaters, bathroom fixtures, interiors and appliances fans will all have been upgraded or replaced. The site will also have been well maintained with quality landscaping, maintenance of roads, walkways, and perimeter fencing. The capital improvement schedule includes $250,000 for upgrades to underground utilities such as sewer or storm drain systems.

If it is determined that the project needs to be recapitalized to finance additional capital improvements, it will be well positioned to do so. In Year 31, the property's net operating income, after asset management fees will be $688,000. Using the net income, Jamboree could take out a new loan to cover any needed capital improvements. Using underwriting assumptions of a 7.00% interest rate, a 30 year amortization and 1.25 debt service coverage, the property could support over $8.6 million dollars in new financing or approximately 2 times the current rehabilitation hard cost budget. The terms of any new financing would be subject to the review and approval of the RDA.