

Portfolio Reorganization & Recapitalization Strategies and Transactional Opportunities

NH&RA Conference
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HIGHRIDGE COSTA COMPANIES – 33 PROPERTY
PORTFOLIO SALE

HCC Portfolio Reorganizational Strategy

- Consolidate National 27,000+ Unit Portfolio to Western US
 - Sell Assets East of the Rockies
 - Re-syndicate Assets West of the Rockies- Acquisition/Rehab Utilizing Bonds/4% LIHTC's
- Choosing the Portfolio of Properties to Sell
 - Control – Lower Tier GP or co-GP w/control – Stepped Into GP Position Due to Problems
 - Properties that had delivered their Credits (beyond year 10/11)
 - Substantially reduce watch listed properties and deficit obligations tied to them
 - Properties that would not waterfall significant cash to the Investor – eased approval from Investor
 - Initially targeted 39 properties – reduced to a 33 Property Offering
- Mix of Assets – Total 33 Properties Totaling 2,768 Units
 - Spread Throughout 15 States – from Nevada to South Carolina (6-NV; 4-KS; 4-CO; 4-AR)
 - 26 Family Communities and 7 Senior Communities
 - 9 Property Management Companies
 - 16 Properties With Below 1.00 DSC (Mixed in some high value properties to offset)
 - 17 Properties on Watch list

Seller's Due Diligence/Marketing/Sale Process

- Obtained High and Low BOV for Each Asset.
- Created Detailed Schedule (64 Columns) Showing Lender, Debt Terms (Hard and Soft), Prepayment Obligations, Ownership (lower tier/upper tier), Investor, Asset Manager, Property Manager, ROFR's, Purchase Options, HAP Contracts, Odd State and Local Regulatory Requirements, ETC.
- Evaluated Sale Waterfall vs Liquidation Waterfall (capital accounts) – Determined potential net cash to Developer, GP, Investor and other parties in the waterfall.

Determine Value of Properties and Net Cash Potential to HCC

Understand All Necessary Approvals to Sell

- HCC responsible for obtaining all approvals from LP's/Investors in 19 Funds. (JPMorgan(5), Wells Fargo (2), Citibank (25) and HCI (1)).
- HCC to obtain internal Board approval.
- Buyer responsible for Lender (3 assumed loans) and regulatory agency consents.

- Determined Offering Price at \$120.96M working with the Broker and began Marketing the 39 Property Portfolio.
- Received 15 offers; 9 for the entire portfolio, 4 for selected regional portions and 2 for a single asset (Northgate).
- The 9 parties interested the entire portfolio were asked to submit best and final offers, 4 responded (only 1 increased).
- Meetings and conference calls were conducted with each of the 4, and 1 was selected.
- 7 Properties were removed from the portfolio leaving 33.

Complete the Marketing, Bid/Offer Process and Choose Buyer(s)

Sale Structure and Closing Results

- Documented in a Two Tier Manner
 - Master Agreement for purchase of the entire Portfolio between HCC and Buyer – established global terms of sale
 - A Separate Agreement and Joint Escrow Instructions for Each Individual Property
- Sale Results
 - Agreed upon price for 39 was \$114.35M, less 7 Properties adjusted price to \$109.2M
 - The 7 properties pulled were subsequently transferred at net \$0 (left in, -\$7.0 M)
 - 33 properties transferred; 17 watch listed, average operating deficits of \$2.5M for last three years of ownership (\$25.0M to \$30.0M value swing)
 - No short sale or principle adjustments to debt, all loans paid in full (very Important to HCC)
 - Net cash distribution to Investors 1.04M, to HCC \$22.4M
 - Able to allocate the purchase price across lower tier partnerships to mitigate capital account issues
 - Tax Compliance/Recapture exposure (max of \$20M) offset through an indemnity from buying entity and personal guaranties from top three principles.