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
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.

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)

Determine Value of Properties and Net Cash Potential to HCC
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.