MAP Lender Underwriter's Narrative
New Construction / Substantial Rehabilitation
Summary
June 2015 Closing

1. Executive Summary

The proposed loan is to provide construction and permanent financing for the construction of a portion of a 4-story apartment building. The property will contain 103 units, of which 100% will be designated as low income (60% at 60% AMI, 20% at 50% AMI and 20% at FMR). There will be underground parking for 61 cars and surface parking for 96 cars. Of the 96 stalls, 42 will be 100% designated to the residential component, while the other 54 will be set aside for the retail component. In addition, there will be approximately 19,000 square feet of commercial space, which will be separately owned and not part of the proposed HUD loan. The security for the proposed HUD-insured loan will include the underground parking and all residential components on floors one thru four, including the 103 rental apartment units, the common areas on level one for exclusive use by the residents, fitness center, meeting room and leasing office. The first floor commercial space will not be included as security for the subject loan. A registered land survey will be prepared to legally identify and separate the vertical components of the improvements such that there will be a new legal description for the parcel that will be secured by the HUD loan. Appropriate easements for access, maintenance, etc. will be drafted such that the improvements can be successfully operated. Legal approval by HUD and OGC counsel of the final agreements will be a condition of the HUD's initial endorsement.

Transaction Overview.

Program eligibility:
The HUD/FHA 221(d)4 program for a project with affordable units requires minimum debt service coverage equal to 1.15x or debt supportable by 87.0% of net operating income and a maximum loan-to-replacement cost of 87.0%. The proposed loan of $8,830,200 meets these requirements, with a projected DSC of 1.15x for the real estate portion of the loan and 1.00x for the TIF portion of the loan with a loan-to-replacement cost ratio of 46.77%. Based on the program requirements, 87.0% of NOI available for debt service ($407,601) results in a supportable mortgage amount attributed to property cash flow of $7,665,900. An additional $77,453 of annual tax increment proceeds for the residential portion of the property results in a supportable mortgage amount of $1,164,300 (based on a 25-year term, and a 3.80% interest rate) at a 1.0x coverage. It should be noted that the City Tax Increment Note was finalized with a principal balance of $1,424,000 as it includes the tax increment revenue of both the retail and residential portion of the project. The Lender will receive a collateral assignment of the entire $1,424,000 TIF note. Since we will not have a mortgage associated with the retail portion of the property, for underwriting purposes, we only underwrote the revenue associated with the residential portion of the property. But the Borrower will benefit from the TIF revenue generated from both the residential and retail properties. The sum of these two amounts results in the $8,830,200 debt-service supported loan amount.

The maximum replacement cost mortgage is the sum of 87.0% of the total HUD development cost of $18,215,540, and 87% of the land market value of $665,000. The maximum replacement cost mortgage amount is calculated at $16,417,800. The statutory mortgage limit for the proposed development (Criterion 4) is calculated at $19,030,300. The requested mortgage amount of $8,830,200 is the lower of these three calculations.

Project Overview:
The "Project" – Case One Apartments is a proposed new construction 100% LIHTC multi-family development that will consist of 103 apartment units located at (address) in Minneapolis, MN. The site area is estimated at 80,671

square feet or 1.85 acres. Of the 103 LIHTC tax credit eligible units, twenty (20) will be limited to 50% AMI rents, twenty-one (21) will be limited to Fair Market Rents (FMR) and sixty-two (62) units will be limited to at or below the 60% AMI rent levels. The Project will consist of 10 studio units, 78 one-bedroom units and 15 two-bedroom units. The building will consist of a four-story wood-frame building with underground parking. There will also be covered/surface parking and approximately 19,000 square feet of commercial space on the first floor of the building. The commercial space will not be financed by this HUD loan, but will share a common owner with the residential space in Sponsor 1 and Sponsor 1. A term sheet has been provided for the commercial space from _____ Bank along with supplemental discussions and e-mail correspondence. Please note that the HUD loan will not close until an acceptable commitment is reviewed and approved by HUD and the Lender from _____ Bank, or any other capital provider. Please see below "Financing of Commercial Development."

Each unit contains a living area, dining area, kitchen, bath and bedrooms (excluding studio units). Unit amenities include range/oven and refrigerator, microwave, dishwasher, carpet at tile and blinds. Project amenities include a community room laundry facility, lobby area and fitness room.

Planning & Zoning - The Project is zoned C3A, Community Activity Center District with Pedestrian Oriented Overlay District. The Pedestrian Oriented Overlay District adds regulations regarding the plan of the Project. The Project meets these zoning requirements and was approved by the City of Minneapolis on December 6, 2013.

The community living in the area strongly support this Project. The City of Minneapolis, Hennepin County and the Metropolitan Council are committed to the development of housing and affordable housing in transit zones, and to optimizing the links between housing, jobs and the means of mass transit, and are very supportive of this Project. This is demonstrated by $6.0 million in public funds that have been committed to the project:

Subordinate Financing A	$ 2,000,000
Subordinate Financing B	$ 750,000
Subordinate Financing C	$ 300,000
Subordinate Financing D	$ 1,900,000
Subordinate Financing E	$ 150,000
Subordinate Financing F	$ 600,000
Subordinate Financing G	$ 300,000

*The Council Grant for $500,000 has received Council Approval on January 14, 2015, but other than the minutes confirming approval, no specific term sheet has been provided.

In addition, the Project is located in a Tax Increment District and the City of Minneapolis will provide a Tax Increment Financing Note that will help fund the Project. Proceeds generated from the TIF Note are estimated at $1,424,000 million. The TIF note provided by the City incorporates the tax increment revenue stream from both the residential portion of the project and the retail portion of the project. However, we have sized our loan using only the tax increment revenue from the residential portion.

Improvements Description:

Case One is proposed to have a total of 103 rental units in one building consisting of four stories. The building will be mixed-use with underground parking and covered/surface parking on the first level, 19,000 square feet of commercial space with the rest consisting of affordable rental units. The commercial space will not be financed with the HUD loan. In addition to the parking and commercial space, the first floor will include a management office, community room and lobby. The proposed wood-frame building will contain four floors of wood-frame construction along with the below-ground garage. The exterior will consist of a variety of siding to include stucco, brick and block exterior. The Project will be fully sprinkled and each unit will have hard-wired smoke detectors. The building will have green/sustainability features including green roof elements over the building entrances, low VOC materials, Low E glass, storm water management, controlled lighting, energy star appliances and water saving

appliances. The gross building area is estimated at 151,819 square feet. Approximately 106,536 square feet consist of above-grade residential space, and 18,426 square feet consists of commercial space.

The building will have 61 parking spaces located in an enclosed underground parking garage for an estimated rent of $50 (assuming 10% vacancy) per month per stall. The Project will also have 96 surface spaces, of which 42 will be designated for residential preference and 54 dedicated to retail use. The 42 surface stalls will also be rented out at $25 per month (assuming a 25% vacancy). Excluding the retail spaces, the parking ratio is 1.00. In addition, the Borrower has entered into an agreement with the neighboring church that will allow the Project and the Church to share parking spaces. The shared use arrangement gives the Project access to over 50 of the Church's surface spaces on weekdays/evenings. The Church would then have similar access to 50 of the Project's surface spaces on Sundays. This parking ratio is adequate given this project's urban location, its adequate public transportation and the shared use arrangement with the Church next door. The parking garage will also be designed so that each parking stall will have its own wall mounted bike rack in addition to an inside bike storage area (estimated to hold 38 bikes).

The building will have two elevators and three stairwells providing vertical access throughout the building. The following common area amenities will be incorporated into the building design:

- Two elevators in North end of the building;
- Lobby and management office;
- Conference/Meeting room;
- Fitness centers;
- Common area laundry rooms and trash chutes;
- Storage lockers on the 2nd Floor; and
- Underground garage stalls for vehicle and bicycles.

All units will contain full kitchens with a stove/range, refrigerator, microwave and dishwasher. Additionally, each unit will have individual gas heat and air conditioning systems ("magic pak") and mini-blinds. Kitchen countertops will be of a plastic laminate and bathroom countertops will be a cultured marble. Floor covering will be comprised of vinyl plank in the kitchen and living rooms (to look like wood), tile in the bathrooms and broadloom carpet in the bedrooms.

Additional unit features and amenities at the property include:

- Walk-in closets in many of the units;
- Wood fiber composite frame windows with low-e insulated glass;
- Maple kitchen cabinetry;
- Peninsula style kitchen counters with eat-in component in most of the units;
- Walkout patio/balconies for approximately 27 units.

The Borrower has added the following security measures to the Property.

- Secured entrances from outside, including the parking garage.
- Additional lighting has been added to the outside parking lot and around the perimeter of the building.
- The Property will have cameras and monitors in the parking garages.

Unit Mix:

The proposed unit mix is detailed below. Note that the units at 55% of AMI are underwriting levels. Actual restrictions are 60% of AMI.

UNIT MIX AND SQUARE FOOTAGE

Number of Units	Unit Type	Gross Average Sq. Ft.	Total Sq. Ft.
2	Studio / 1 Bath 50%/FMR	532	1,064
1	Studio / 1 Bath 55%	532	532
1	Studio / 1 Bath 50%/FMR	597	597
2	Studio / 1 Bath 55%	597	1,194
1	Studio / 1 Bath 50%/FMR	677	677
3	Studio / 1 Bath 55%	677	2,031
3	1 BR / 1 Bath 50%/FMR	707	2,121
3	1 BR / 1 Bath 50%/FMR	707	2,121
8	1 BR / 1 Bath 55%	736	5,888
9	1 BR / 1 Bath 50%/FMR	736	6,624
16	1 BR / 1 Bath 50%/FMR	736	11,776
33	1 BR / 1 Bath 55%	767	25,311
3	1 BR / 1 Bath 55%	817	2,451
3	1 BR / 1 Bath 55%	866	2,598
1	2 BR / 1 Bath 50%/FMR	942	942
2	2 BR / 1 Bath 50%/FMR	943	1,886
3	2 BR / 1 Bath 50%/FMR	1,041	3,123
6	2 BR / 1 Bath 55%	1,140	6,840
3	2 BR / 1 Bath 55%	1,143	3,429

Rent Restrictions **-** The Subject is a proposed 103-unit LIHTC development. Twenty (20) units will be restricted at or below the 50% AMI rents, sixty-two (62) units will be restricted at or below the 60% AMI rent level and twenty-one (21) units will be restricted to Fair Market Rents (FMRs). The Project will consist of 10 studio units, 78 one-bedroom units and 15 two-bedroom units

The estimated monthly cost of utilities that will be paid by the tenant ranges from $10 for a studio unit to $17 for a two-bedroom unit, based on City of Minneapolis utility allowance data for affordable rental units. The utility structure at the property is as follows:

Electric range and stove;	Tenant pays
Individual electric meters;	Tenant pays
Electric air-conditioning;	Tenant pays
Gas heating;	Landlord pays
Gas hot water;	Landlord pays
Municipal water and sewer services;	Landlord pays
Cable TV, Phone and Internet:	Tenant pays

Sources and Uses of Funds:
The Borrower has secured several additional funding sources from the City of Minneapolis (AHTF Loans), Hennepin County (TOD Grant), MHFA (Super RFP Loan) and the Met Council (LCDA/TBRA and LCDA/HIF). The maturity dates on all subordinated debt will be required to be coterminous or beyond the term of the HUD first mortgage. Payment of these subordinate notes will be available only from excess cash flow. The priority of the additional debt

service payments – to the extent they are available through excess cash flow – will be governed by a Master Disbursing and Subordination Agreement.

Sources of Funds:

First Mortgage Proceeds	$8,830,200
Subordnate Loan	$1,400,000
Subordnate Loan	$2,000,000
Subordnate Loan	$750,000
Subordnate Loan	$300,000
Subordnate Loan	$300,000
Subordnate Loan	$150,000
Subordnate Loan	$600,000
Subordnate Loan	$500,000
LIHTC Equity	$7,950,826
Deferred Developer Fee	$263,623
Total Sources of Funds:	**$23,044,649**

Uses of Funds:

Total HUD Development Cost	$18,880,540
HUD Required Deposits (WC)	$176,604
Funded Reserves	$240,600
Developer Fee	$1,549,300
Initial Operating Reserve (CREA Requirement)	$240,600
Other Non-Mtg Costs	$1,957,005
Total Uses of Funds:	**$23,044,649**

Note: The HUD requirement of a 2% construction contingency is satisfied by the Syndicator requiring an $800,000 construction contingency amount that is included in the Other Non-Mortgage Costs. This equates to 3.5% of Total Uses of Funds.

Financing of Commercial Development

A preliminary letter of intent from [Bank] has been received and reviewed and is also included in the HUD application. Although this LOI presents the basic framework for the commercial loan, since funding is not available until after the cold shell of the commercial space is complete, it does not meet the lender's criteria. As indicated above, an acceptable commercial loan from [Bank] or another lender will be a condition to the HUD commitment.

Please note that included in this application (including the Financing Plan) are only the development costs of the land improvements and residential space. It does not include the construction of the shell for the commercial space. However, a separate HUD-2328 was prepared for the commercial space and included in the Architectural and Cost review prepared by EMG.

A reciprocal use agreement acceptable to OGC and HUD will be entered into for both construction and operational purposes.

Stress Test

Rent Trend Assumption	102%	102%	102%	102%	102%	102%	102%	102%	102%	102%
Expense Trend Assumption	103%	103%	103%	103%	103%	103%	103%	103%	103%	103%
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Effective Gross Income	$1,039,758	$1,060,554	$1,081,765	$1,103,400	$1,125,468	$1,147,977	$1,170,937	$1,194,356	$1,218,243	$1,242,608
Expenses (including R4R)	$571,017	$586,135	$601,697	$617,716	$634,206	$651,180	$668,654	$686,642	$705,159	$724,220
NOI (incl TIF if applicable)	$546,194	$551,871	$557,521	$563,137	$568,715	$574,250	$579,735	$585,166	$590,537	$595,840
Annual Debt Service (incl. MIP)	$485,051	$485,051	$485,051	$485,051	$485,051	$485,051	$485,051	$485,051	$485,051	$485,051
Net Cash Flow	$61,143	$66,820	$72,469	$78,086	$83,664	$89,198	$94,684	$100,115	$105,485	$110,789
Debt Service Coverage Ratio	1.13x	1.14x	1.15x	1.16x	1.17x	1.18x	1.2x	1.21x	1.22x	1.23x

STRENGTHS, RISKS and MITIGANTS

<u>Market / Value</u>

Strengths

- Vacancy in the Twin Cities market is currently very low. Market Study and Appraiser: 2.7% (1st Qtr 2014); GVA Marquette: 2.6% (2nd Qtr 2014).
- Given the property is new construction, an appraised value was not provided. However, given the LIHTC and various soft debt included in this transaction, the LTC is a low 46.77%

Risks and Mitigating Factors

- North Minneapolis historically has been a less attractive neighborhood and has been a topic of revitalization for many years. However significant redevelopment and transformation has yet to occur.
  - There have been several recent investments in the community, including the newly constructed $40 million Minneapolis Public School headquarters and the $18.7 million newly build regional headquarters for LifeSource.
  - There are also several initiatives instituted by the City to help drive business and development, including the Grow North Program and Green Homes Project.
  - The property will offer a new high quality housing development that is professionally managed and will help service the low to moderate income households in the area.
  - Given the quality and affordability of the development along with the recent improvements in the area, it may attract tenants that might not otherwise consider this market or neighborhood.

<u>Property / Site / Neighborhood / A&E / Environmental</u>

Strengths

- The property is located on a heavy transit oriented commercial corridor and is at the nexus of a significant Bus Rapid Transit (BRT) expansion under the Metropolitan Council's 2020 Transit Plan.
- The property is closely located to several employers such as the Minneapolis Board of Education complex, North Point, University of Sponsor 1esota at Plymouth & ________ and North Memorial Hospital.
- Finishes throughout the property, including tile bathrooms, stainless steel or black appliances, dishwashers, vinyl wood plank floors and walk in closets which will help attract and retain tenants.

Risks and Mitigating Factors

- The Registered Land Survey risk is potentially greater with the fragmented ownership in the event of a foreclosure as it would be more difficult to dispose of the asset.
  - There will be common ownership between the residential owners and commercial owners.
  - The majority of the commercial space will include a liquor store which has a proven track being in business in the neighborhood for many years.

- HUD is familiar with the RLS structure and has approved it for other HUD insured transactions.

Affordability issues

Strengths

- The subject meets the definition of affordable housing, where 100% of the units will be restricted to 50% and 60% of AMI and FMR. Also, the units restricted to 60% of AMI have been underwritten at rent levels equal to 55% of AMI.
- According to the market study, 78.2% of households located in the Housing Market Area are income-qualified for this property.
- The market study calculated an Annual Capture Rate of Appropriately Sized Households of 24.2%. This rate is determined by dividing the 103 unit property by the number of households appropriately sized households looking for similar housing within the HMA, less existing housing stock.
- The market study calculated a LIHTC capture rate of 2.1%. The LIHTC capture rate is determined by dividing the 103 unit property by the number of age, size and income qualified renter households in the HMA.

Risks and Mitigating Factors

- None

Programmatic or General Underwriting Issues

Strengths

- The UW gross rents on a weighted average are 18% below appraised market rents. Underwritten 50% rents range from $716 (studio) to $916 (2 BR), underwritten 55% rents range from $783 (studio) to $1,010 (2 BR) and underwritten FMR rents range from $745 (1 BR) to $929 (2 BR).
- As stated as a mitigant below, rents for the 60% of AMI units are UW to 55% AMI, although the appraisal confirms that the property should be able to collect the full LIHTC rents for the 60% of AMI units.
- The Borrower will pledge the full TIF Note of $1,424,000 while the loan is sized using a TIF Note amount $1,164,300. This is due to the fact we underwrote only the residential tax increment revenue when sizing the Note to a 1.0x coverage even though the Borrower will receive both the residential and retail tax increment revenue. If the TIF revenue tied to the retail portion of the property is included in the debt service coverage rate, the TIF portion of the loan would result in a DSCR of 1.46x.

Risks and Mitigating Factors

- Obtaining underwritten rental rates.
  - Oak Grove underwrote unit rental rates to conform to the affordability requirements, with rents not exceeding 50% and 55% of the Area Median Income, when the property has the ability to charge rents not exceeding 50% and 60% of the Area Median Income. According to the Appraisal and Market Study, absorption of units and underwritten rents will be obtainable. The average underwritten rent for Studio, 1 BR and 2 BR units are $788, $844 and $1,010 compared to the average maximum LIHTC rent of $861, $922 and $1,103, respectively. The average market rent for Studio, 1 BR and 2 BR units are $821, $990 and $1,220, respectively.
- Underwritten Effective Gross Income used a 5% vacancy rate.
  - Underwritten rents for the 60% of AMI units are set at 55% AMI. We feel the market can support the full 60% of AMI rents, as supported by the appraisal. However, at the request of HUD Minneapolis, we have established underwritten rents at 55% of AMI. Total DSC would increase from 1.13x to 1.27x assuming 60% AMI rents, a 7.0% vacancy, both residential and retail TIF revenue and an $8,830,200 loan.

- 31% of the units have underwritten rents that are 20% below the appraised market rents, while 80% of the units have underwritten rents that are 15% below the appraised market rents.
- The UW gross rents on a weighted average basis are 18% below appraised market rents. Underwritten 50% rents range from $716 (studio) to $916 (2 BR), underwritten 55% rents range from $783 (studio) to $1,010 (2 BR) and underwritten FMR rents range from $745 (1 BR) to $929 (2 BR).
- The appraisal assumes a 5% vacancy rate. The overall vacancy rate of the comparable properties used in the appraisal was 2.63%.
- There is an additional $35,500 in projected TIF income from the retail portion of the project that the Borrower will receive. While this revenue will be part of the project, based on HUD guidelines, it was not included in underwriting the loan.
- Between the HUD Working Capital Reserve ($176,604), LIHTC SYNDICATOR Operating Reserve ($240,600) and LIHTC SYNDICATOR Lease-Up and Marketing Reserve ($125,000), there is $542,204 in reserves that could be used to fund operations.

Waiver Requests

1. OGCM respectfully requests a waiver of Section 8.10.B.1.b. of the MAP Guide regarding submission of a commitment letter for grants / loans from an authorized agent of the government agency. As of the submission date of the application, MHFA has not been unable to provide letters of intent or commitment letters as described in the above mentioned section of the MAP Guide. This is applicable to the tax exempt bonds and 4% tax credits and secondary soft financing in the amount of $500,000 from the _____ Grant. The sponsor has provided evidence that the loan is under consideration. As soon as stronger commitment letters are received, they will be forwarded to HUD-Minneapolis.

2. OGCM respectfully requests a waiver of Section 7.16 of the HUD Housing Notice dated November 23rd, 2011 that requires the Underwritten Effective Gross Income use a 7% vacancy rate. OGCM recommends underwriting the Effective Gross Income to a 5% vacancy factor given the following risk mitigants:

    - Underwritten rents for the 60% of AMI units are set at 55% AMI. We feel the market can support the full 60% of AMI rents, as supported by the appraisal. However, at the request of HUD Minneapolis, we have established underwritten rents at 55% of AMI. Total DSC would increase from 1.13x to 1.27x assuming 60% AMI rents, a 7.0% vacancy, both residential and retail TIF revenue and an $8,830,200 loan.
    - 31% of the units have underwritten rents that are 20% below the appraised market rents, while 80% of the units have underwritten rents that are 15% below the appraised market rents.
    - The UW gross rents on a weighted average basis are 18% below appraised market rents. Underwritten 50% rents range from $716 (studio) to $916 (2 BR), underwritten 55% rents range from $783 (studio) to $1,010 (2 BR) and underwritten FMR rents range from $745 (1 BR) to $929 (2 BR).
    - The appraisal assumes a 5% vacancy rate. The overall vacancy rate of the comparable properties used in the appraisal was 2.63%.
    - There is an additional $35,500 in projected TIF income from the retail portion of the project that the Borrower will receive. While this revenue will be part of the project, based on HUD guidelines, it was not included in underwriting the loan.
    - Between the HUD Working Capital Reserve ($176,604), LIHTC SYNDICATOR Operating Reserve ($240,600) and LIHTC SYNDICATOR Lease-Up and Marketing Reserve ($125,000), there is $542,204 in reserves that could be used to fund operational shortfall.

3. OGCM respectfully requests a waiver of Section 7.13.G of the MAP Guide regarding interest during construction. A waiver request will be presented to allow for the lower budgeted capitalized interest of $182,453, which is based on the current financing plan. The capitalized interest included in the budget ($182,453) and various HUD forms, including the 92264, is less than the capitalized interest as calculated by HUD ($223,698) per MAP Guide Section 7.13.G. According to the MAP Guide, capitalized interest should be the greater of the two options above.

   - The primary reason for this circumstance is that there is a significant amount of LIHTC Equity / Subordinate Debt in the amount of $7.5 million that will be funded before the majority of proceeds from the HUD insured loan are drawn. This funding schedule greatly reduces the amount of HUD proceeds being drawn upon early in the loan, thus reducing the amount of capitalized interest during construction.
   - The potential risks for budgeting an amount less than HUD's required calculation for capitalized interest are i) construction draws come in faster than anticipated and ii) the construction process takes longer than anticipated.
   - However, OGCM believes there are mitigants that should alleviate any concerns HUD may have. They are as follows:
     - ➢ There is a $240,600 Operating Reserve and $176,604 Working Capital Reserve as part of this transaction.
     - ➢ The Borrower has added an additional $800,000 Construction Cost Contingency line item into the budget that was not a requirement of HUD.

4. OGCM respectfully requests a waiver of Section 6.3.E of the MAP Guide regarding the annual replacement reserve deposits for new construction projects. A waiver request will be presented to allow for a lower annual replacement reserve of $500 per unit per year instead of the UW guideline of 0.6% of project costs, which calculates to a replacement reserve of $731/unit per unit per year. The reduction to the required replacement reserve will be mitigated because of the following:

   - The exterior materials will consist of concrete, brick veneer and block, which should lead to a longer life than other materials used in construction. Given the quality of material, other than typical appliances and carpeting, no major repairs are expected in the first 10 years of the properties life.
   - The appraisal concluded to $500 per unit per month replacement reserve as being acceptable in the market.
   - EMG, the third party architect & cost reviewer compiled a 20 year replacement reserve table for this property which is included in the cost report. Based on EMG's estimated replacements, a $500 per unit per year, with an assumed increase to the reserve deposits in year 11 to $640 per unit (inflated annually at 2.5%) reserve deposit projects that the balance in the reserve account will not drop below the required minimum balance (5% of un-inflated balance, adjusted for 2.5% inflation annually) for the first 20 years of the loan term. A high level review of EMG's tables appeared to show they were conservative in estimating various replacements throughout the 20 year analysis.

The Borrower will receive Tax Increment Financing from Hennepin County. A summary of the value of the annual tax increment used in the underwriting follows. Please note that the following analysis incorporates only the assessed value of the residential space and excludes the assessed value of the commercial space to determine the Net Tax Increment Financing and the Mortgage Amount associated with the TIF. The analysis below was provided by the City of Minneapolis.

Tax Increment Funding Analysis

Projected Net Tax Capacity per City		59,250
Projected Extension Rate per City		150.000%
Projected Real Estate Tax Amount		*88,875*
Real Estate Tax Amount		88,875
Less: Original Net Tax Capacity		(2,508)
Subtotal Real Estate Tax Amount		86,369
Less: Market Value Tax and Sold Waste Mgmt Fee		-
Real Estate Tax Base		86,369
Less: State Auditor Fee	0.36%	(311)
TI Distributed to MCDA		86,058
Less: City Admin Fee	10.00%	(8,606)
Net Tax Increment Financing		*77,453*

Please see below for restrictions on uses. Generally, there will be a disbursing agreement with each agency, of which each agreement will provide eligible expenses. Depending on timing, these eligible expenses will be advanced from general funds identified below. The Borrower will then apply for reimbursement of those paid expenses from the other sources of funds and applied to the cost of complete the project when received.

The City of Minneapolis, Hennepin County and the Metropolitan Council are committed to the development of housing and affordable housing in transit zones, and to optimizing the links between housing, jobs and the means of mass transit, and are very supportive of this Project. Several sources of subordinate funding have been procured by the Borrower to pay for the additional costs of the development. Additional costs are generally incurred for projects that involved the redevelopment of vacant sites in urban in-fill locations. The redevelopment of this area of Minneapolis is a top priority and an extensive amount of effort and financial commitment has been provided from the public sector for this project. The following are the public funds that have been earmarked for this project:

SOURCES	USES	Amount	Status
	Soil remediation, vapor barrier and environmental monitoring. Land acquisition, storm-water management, transit shelters, alley realignments, demolition, share parking structure, holding costs and geotechnical work.	$ 2,000,000	Approved
	General Project Funds available at closing.	$ 750,000	Approved
	General Project Funds available at closing.	$ 300,000	Approved
	$1.2 MHFA General Project Funds. $200K MET Council LIHRA General Funds	$ 1,400,000	Approved
	Reimbursed Funds specific to Temp. & Prem. Utility relocation.	$ 300,000	Approved
	Soil, Utility Relocation, and some soft costs.	$ 500,000	Approved
	Site Improvements.	$ 150,000	Approved
	TOD – Site Improvements. AHIF – General Project Funds available at closings.	$ 600,000	Approved
TOTAL		$ 6,000,000	

Please see Section 6-1 of the Application package for evidence of approval. All of the public funding sources will be subordinate to the HUD-insured first mortgage. The funds will be disbursed in accordance with a Master Disbursing Agreement approved by HUD and OGC.

LIHTC and Tax Exempt Bonds

Of the 103 LIHTC tax credit eligible units, twenty (20) will be limited to 50% AMI rents, twenty-one (21) will be limited to Fair Market Rents (FMR) and sixty-two (62) units will be limited to at or below the 60% AMI rent levels.

Tax Exempt Private Activity Bonds will be issued and sold at loan closing in an amount necessary to satisfy the 50% test to receive an allocation of 4% Low Income Housing Tax Credits. The Bonds will be 100% funded/advanced at closing with the proceeds being deposited with a trustee. The Bonds will be short term with an approximate term of 24 months. The Bonds will be 100% cash collateralized by the proceeds from the HUD insured loan and Secondary Financing sources. The Bond Proceeds deposited with the trustee will be used to fund construction of the property. This structure allows for the automatic allocation of Low Income Housing Tax Credits, which will be sold to a related party entity of the Borrower in order to generate additional equity proceeds for the project.

As the Bond Proceeds are advanced for construction draws, a like amount of funds from the HUD Loan or Secondary Financing sources will be deposited with the Trustee, ensuring the project meets the 50% test for tax credit purposes, and that the Bonds will remain 100% Collateralized. Upon construction completion, the Trustee will be holding HUD Loan Proceeds as 100% Collateral for the Bonds and zero Bond Proceeds. These funds will be used to retire the Bonds.

According to the Borrower's Investment Banker, the City of Minneapolis has approved the issuance of up to $_________ of Tax-Exempt Multi-family Housing Entitlement Revenue Bonds, which automatically qualifies the project for 4% LIHTC's. LIHTC SYNDICATOR has agreed to fund the 4% LIHTC and become the Limited Partner member of the Borrower. The Limited Partner's Capital Contribution is set forth below:

1) 20% will be funded upon admission of the Limited Partner into the Limited Partnership.
2) 30% will be funded upon 50% lien-free completion of construction.
3) 20% will be funded upon 80% lien-free completion of construction.
4) 15% will be funded upon certificate of occupancy.
5) 12.5% will be funded upon achievement of stabilized operations and;
6) 2.5% will be funded upon satisfaction of IRS Form 8609.

Market Analysis

The Near North community of Minneapolis, more commonly known as North Minneapolis, has been the topic of revitalization conversations for many years. Numerous initiatives have been undertaken to revitalize that part of the city, including the City's involvement in purchasing homes and sites that were damaged by the tornado in 2011 in order to prepare for redevelopment. The City also has the Grow North Program, with plans to create at least 1,000 jobs by 2018 by offering forgivable loans and tax breaks to companies that bring at least 40 jobs to North Minneapolis. Minneapolis Public Schools and Life Source each recently constructed headquarters in North Minneapolis to the tune of $56.7 million in development. Lastly, the Green Homes Project is also planning to make an impact in North Minneapolis by building 100 energy efficient homes in the area in the next few years.

Comparables from Market Analysis and EMAS

[MAP Removed]

Project Name	Year Built	Number of Units	Occupancy Rate	Units Offered	Tenant Profile
1.East Bank Village Apartments	2002	30	100%	1BR / 1BA 2BR / 1BA 3BR / 2BA	LIHTC – 50%, 60%
2.Gateway Lofts	2011	46	100%	Studio 1BR / 1BA 2BR / 1BA	LIHTC – 50%, 60%, Market
3.Homewood Apartments	2006 (renovation)	35	100%	1BR / 1BA 2BR / 1BA	LIHTC – 60%
4.Ripley Gardens	2007 (21 units renovation / 31 units new construction)	52	100%	Studio 1BR / 1BA 2BR / 1BA 3BR / 1.5BA	LIHTC – 50%, Market
5.Saint Anthony Mills Apartments	2006	93	100%	Studio 1BR / 1BA 2BR / 1BA	LIHTC – 50%, 60%
6.Bell Building	1985 (renovation)	25	84.0%	1BR / 1BA 2BR / 1BA 3BR / 1.5BA	Market
7.Eitel Building City Apartments	2008 (renovation)	212	92.9%	Studio 1BR / 1BA 2BR / 1BA 2BR / 2BA 2.5BR / 2BA	Market
8.Haverhill Apartments	1990's (renovation)	68	98.5%	Studio 1BR / 1BA 2BR / 1BA	Market
9.Mill City Apartments	2000	43	100%	Studio 1BR / 1BA 2BR / 2BA	Market

Economic & Market Analysis - According to the Market Study, the apartment market remains strong, with an estimated vacancy rate in the first quarter of 2014 2.7 percent, down from 2.8 percent a year ago.

The lowest average hourly wage in the Twin Cities area is $10.21 per hour and the highest average hourly wage is $54.80. The qualifying incomes for the subject's tenants will range from $24,891 to $44,820 which encompasses a large portion of the employment in the area. Utilizing the lower end of the mean wage range of $24,891 per year at 2,080 annual hours equates to a per hour wage of $11.97. The higher end of $44,820 would equate to $21.55 per hour.

Total employment in the MSA increased from April 2013 to April 2014 by 0.7 percent, which is 1.8 percentage points higher than that of the nation over the same time period. Unemployment decreased from 2004 to 2006, then increased

annually from 2007 to 2009. The unemployment rate decreased a total of 1.8 percentage points in 2010 and 2011 and continued to decrease through June 2013. The unemployment rate as of June 2013 represents a 0.8 percentage point decrease from the June 2012 level. Historically, unemployment rates in the MSA have remained below the nation. Currently, the 2014 year-to-date unemployment rate is 4.1 percent and remains 180 basis points below the nation. It appears the MSA is faring better relative to the nation as a whole in terms of both unemployment and total employment gains.

In 2013, renters comprised 42.5 percent of total households, and owners comprised 57.5 percent. The renter percentage is estimated to decrease slightly by 2018 in the Housing Market Area ("HMA"); however the number of renter households is projected to increase by 913.

The minimum income limit for the subject property's LIHTC/market rate units will be $24,891 and the maximum income limit will be $44,820. This range encompasses a good portion of the renter households in the HMA. It appears that the majority of households in the HMA are between one and two persons, which bodes well for this project, as 85 percent of the project will consist of studio and one-bedroom units.

The overall population and households for both the MSA and HMA are projected to increase from 2013 to 2018. Population is expected to grow at a slightly slower rate in the MSA than the HMA and nation through 2018. Between 2000 and 2013, households increased in the HMA by approximately 0.1 percent annually and are expected to increase at a slightly faster rate over the next five years. It is anticipated that the population in the HMA will increase through 2018 at a nearly identical rate when compared to the MSA and the nation. The positive demographic trends are considered strong for an urban area and are an indication of growing demand for housing of all types.

Absorption – The Market Study obtained absorption information from Gateway Lofts and Ripley Gardens, both LIHTC developments targeting families at the 60 percent AMI level. Gateway Lofts was built in 2011 and contains 46 units while Ripley Gardens was renovated in 2007 and contains 52 units. Gateway Lofts absorbed approximately 15 units per month while Ripley Gardens absorbed 7 units per month.

The market analyst estimated a stabilized 95% occupancy level within seven months for the subject property, or an absorption rate of approximately 15 units per month.

Vacancy and Turnover - The vacancy rates among the comparables ranged from 0% to 16.0% with an average of 3.0%. The 16.0% vacancy was at a 25 unit market-rate property, so it accounts for a total of only 4 vacant units. Overall, both the LIHTC and market rate comparables illustrate strong occupancy rates. The analyst projects that the Project will maintain a vacancy rate of 3.0% or less upon after the lease-up stage given the performance of comparables in the market.

Turnover rates among 16 comparable reporting properties range from 10% to 40%, with an average turnover rate of 25%. Based on this information, the project is assumed to experience a turnover rate of 20% or less, annually.

Concessions - None of the comparables are offering concessions at this time. Occasional concessions such as rental discounts are generally consistent with ongoing marketing strategies during periods of increased tenant turnover and above average vacancy rates. Concessions are not anticipated for the Project, as they do not appear common within this rental submarket.

Waiting Lists – Only one comparable, East Bank Village, reported a waiting list for all of its units, with approximately 10 households on the waiting list. Further, Mill City Apartments, a market rate property, reported a waiting list for its two-bedroom units. The Market Study believes the Subject may be able to maintain a waiting list given its excellent condition and low set asides.

Projects under construction or proposed – The Market Study identified 3 multifamily projects (164 units) in the proposed and planning stages or under construction. The properties, Hawthorn Eco Village Apartments, ________ at

the Commons and West ________ Curve, all include LIHTC. This is no change from the original market study, although the 3 projects seem to include an addition 34 units compared to the original market study. There are other properties in the HMA under construction, but they appear to fill a different demographic, such as seniors and homeless tenants, and do not directly compete with the subject Property. According to the Market Study, the area is experiencing stable occupancy levels; with an average vacancy rate of 3.3%. According to market participants, demand for good quality affordable rental housing is always high in the city of Minneapolis.

Rent vs. Buy Analysis - The Market Study provided an analysis on the financial feasibility of renting versus buying a home in the area. The Subject's proposed affordable rents provide an advantage when compared to the cost of home ownership. The Subject's highest proposed LIHTC two-bedroom rent is $1,018 whereas the monthly cost of an average two-bedroom starter home in the area is estimated at $1,746 per month. Their calculations indicate renting a two-bedroom unit is more financially feasible option, providing a monthly advantage of $715 over buying a two-bedroom home near the Subject. However, it should be noted that first time homebuyers typically have difficultly securing the ten percent that is required for a down payment. As such, we believe there will be limited competition from the home ownership arena.

Valuation

The following table outlines the rent conclusions between the Market Study, Appraisal and Underwriting.

	Unit Type	Appraiser's Market Rent	Novogradac Achievable Rent	Underwritten Rent	Market v. UW	Appraisal v. Market	Appraisal v. UW
2	Studio / 1 Bath 50%/FMR	$ 783	$ 700	$ 716	$ (16)	$ 83	$ 67
1	Studio / 1 Bath 55%	$ 783	$ 775	$ 783	$ (8)	$ 8	$ -
1	Studio / 1 Bath 50%/FMR	$ 815	$ 700	$ 716	$ (16)	$ 115	$ 99
2	Studio / 1 Bath 55%	$ 815	$ 775	$ 789	$ (14)	$ 40	$ 26
1	Studio / 1 Bath 50%/FMR	$ 855	$ 700	$ 716	$ (16)	$ 155	$ 139
3	Studio / 1 Bath 55%	$ 855	$ 775	$ 789	$ (14)	$ 80	$ 66
3	1 BR / 1 Bath 50%/FMR	$ 970	$ 767	$ 745	$ 22	$ 203	$ 225
3	1 BR / 1 Bath 50%/FMR	$ 858	$ 767	$ 767	$ -	$ 91	$ 91
8	1 BR / 1 Bath 55%	$ 985	$ 825	$ 844	$ (19)	$ 160	$ 141
9	1 BR / 1 Bath 50%/FMR	$ 985	$ 767	$ 767	$ -	$ 218	$ 218
16	1 BR / 1 Bath 50%/FMR	$ 985	$ 767	$ 745	$ 22	$ 218	$ 240
33	1 BR / 1 Bath 55%	$ 1,000	$ 825	$ 844	$ (19)	$ 175	$ 156
3	1 BR / 1 Bath 55%	$ 1,025	$ 825	$ 844	$ (19)	$ 200	$ 181
3	1 BR / 1 Bath 55%	$ 1,050	$ 825	$ 844	$ (19)	$ 225	$ 206
1	2 BR / 1 Bath 50%/FMR	$ 1,151	$ 929	$ 916	$ 13	$ 222	$ 235
2	2 BR / 1 Bath 50%/FMR	$ 1,151	$ 929	$ 929	$ -	$ 222	$ 222
3	2 BR / 1 Bath 50%/FMR	$ 1,200	$ 929	$ 916	$ 13	$ 271	$ 284
6	2 BR / 1 Bath 55%	$ 1,250	$ 975	$ 1,010	$ (35)	$ 275	$ 240
3	2 BR / 1 Bath 55%	$ 1,251	$ 975	$ 1,010	$ (35)	$ 276	$ 241
	Weighted Average Rent	$1,007	$819	$827			

The Market Study's average achieved rent is slightly less than our underwritten rent by 1.0%. Both Underwritten rent and the Market Study's rent is considerably less than the market rent estimated by the Appraisal. The Appraisal selected more comparable market rate properties in the area and/or locations similar to the subject property, while the market study used comparable affordable properties near the subject property. The Appraisal appropriately adjusted comparable rents using the HUD 92273 rent grid. The Market Study applied no such adjustments to the comparable properties and concluded to rents so long as they were within the range of comparable rents. While the Appraisal and Market Study rents are different, we are comfortable with the Underwritten rents since they are substantially lower than the Appraisal's market rent and are near the achievable rents, and within the rental range established by the Market Study.

Of the six comparable properties selected by the appraiser, five properties had some form of mixed income associated with the property. The other property was 100% market rate.

The appraisal included HUD Form 92264-T for the 60% AMI units and 50% AMI units. The form concluded that market rents for the 1 Bedroom and 2 Bedroom units exceed the max rents under the 60% AMI restriction. The market rent for the studio units was less than the max rents under a 60% AMI restriction, therefore the appraiser used market rents in their conclusions. OGC elected to reduce the 60% AMI rents below the maximum rents allowed (underwritten to 55% AMI) to provide an additional mitigant to the property. Therefore two of the three studio unit's restricted rents were below the appraiser's market rents, while the third floor plan had lower market rents than the 55% restriction. The market rents estimated in the appraisal exceeded the max rents at 50% AMI for all unit types, therefore underwritten rents reflected the maximum rents restricted by 50% of AMI.

- The comparables are well occupied and have maintained stable occupancies. The overall vacancy rate of the comparable properties used in the appraisal was 2.63% (part of the No Material Change Letter). Heritage Park's vacancy prior to the No Material Change letter was 14.1%, but vacancy has improved dramatically, currently posting a 3.4% vacancy rate at the time of the Letter. According to the appraisal, the Heritage Park asking rents were higher than the other comparables at the time of the full report. So in their rent tables, they added a one month concession to their asking rents. The appraiser utilized a 5.0% vacancy rate in his projection. OGCM used a 5.0% vacancy rate for the underwritten NOI in sizing the proposed loan. This is slightly lower than the standard 7.0% vacancy rate typically used for HUD transactions. A lower vacancy rate is justified for various reasons.

- Underwritten rents for the 60% of AMI units are set at 55% AMI. We feel the market can support the full 60% of AMI rents, as supported by the appraisal. However, at the request of HUD Minneapolis, we have established underwritten rents at 55% of AMI. Total DSC would increase from 1.13x to 1.27x assuming 60% AMI rents, a 7.0% vacancy, both residential and retail TIF revenue and an $8,830,200 loan.

- 31% of the units have underwritten rents that are 20% below the appraised market rents, while 80% of the units have underwritten rents that are 15% below the appraised market rents.

- The UW gross rents on a weighted average basis are 18% below appraised market rents. Underwritten 50% rents range from $716 (studio) to $916 (2 BR), underwritten 55% rents range from $783 (studio) to $1,010 (2 BR) and underwritten FMR rents range from $745 (1 BR) to $929 (2 BR).

- The appraisal assumes a 5% vacancy rate. The overall vacancy rate of the comparable properties used in the appraisal was 2.63%.

- There is an additional $35,500 in projected TIF income from the retail portion of the project that the Borrower will receive. While this revenue will be part of the project, based on HUD guidelines, it was not included in underwriting the loan.

Between the HUD Working Capital Reserve ($176,604), LIHTC syndicator Operating Reserve ($240,600) and LIHTC syndicator Lease-Up and Marketing Reserve ($125,000), there is $542,204 in reserves that could be used to fund operational shortfall.

Other income is generated from rent for the 61 underground and 42 surface stalls and miscellaneous income from sources such as laundry, NSF fees, late fees and application fees. Miscellaneous income of $145 per unit/year including a 5% vacancy was assumed in the HUD sizing analysis and is equivalent to the appraiser's estimate. To analyze the garage income, the appraiser obtained garage and surface parking counts for three of the four expense comparables. These three

comparables had 60% to 80% of their total parking in their garages while the subject has 62% of its parking in the underground garage. The comparables supported a $50 per space per month charge for heated underground parking and $25 per space per month of surface parking. Parking revenue of $430 per unit, after a vacancy of 10% was derived and compared well to similar properties with revenues of $404, $468 and $433 per unit. Given the market and comparables, OGC adjusted the vacancy rate of the surface parking to 25%, down from the appraiser's 10% estimate. We concluded to a similar 10% vacancy for the garage parking.

The following table compares the Borrower's Budget to the Appraisal Conclusions to Oak Grove's Underwriting. Explanation follow the tables.

	Borrower's Budget		Appraisal Conclusion		Lender's Underwriting	
	Total	PU/Yr.	Total	PU/Yr	Total	PU/Yr.
Income						
Gross Potential Rent	1,080,636	10,492	1,081,479	10,500	1,022,772	9,930
Less: Concessions	-	0.00%	-	0.0%	-	0.0%
Less: Vacancy	(54,032)	5.00%	(54,074)	5.0%	(51,139)	5.0%
Less: Bad Debt		0.00%	-	0.0%	-	0.0%
Net Rental Income	1,026,604	9,967	1,027,405	9,975	971,633	9,433
Laundry/Vending Income	17,242	167	10,300	100	10,300	100
Parking (Underground)	44,226	429	32,940	320	32,940	320
Parking (surface)	7,830	76	11,340	110	9,450	92
Storage Income	10,379	101	10,800	105	10,800	105
Tenant Fees	-	-	4,635	45	4,635	45
Water & Sewer	-	-	-	-		-
Miscellaneous Income	-	-		-	-	-
Total Other Income	79,677	774	70,015	680	68,125	661
Effective Gross Income	1,106,281	10,741	1,097,420	10,655	1,039,758	10,095
Expenses	Total	PU/Yr.	Total	PU/Yr.	Total	PU/Yr.
Management (%EGI)	50,763	4.59%	54,871	5.00%	46,789	4.50%
Administration	46,359	450	40,531	394	52,356	508
Payroll	92,700	900	92,700	900	92,872	902
Utilities (incl Trash Removal)	74,675	725	68,495	665	74,675	725
Water/Sewer	41,200	400	33,475	325	41,200	400
Repair & Maintenance	79,825	775	79,825	775	79,825	775
Insurance	28,840	280	18,540	180	27,800	270
R.E. Taxes	104,000	1,010	113,300	1,100	104,000	1,010
Subtotal	518,362	5,033	501,737	4,871	519,517	5,044
Capital Impr./Replacement Res.	51,500	500	51,500	500	51,500	500
Total Expenses	569,862	5,533	553,237	5,371	571,017	5,544
% of EGI		52%		50%		55%
Net Operating Income	536,419	5,208	544,183	5,283	468,741	4,551

Management Expense – The appraisal conducted a survey of several management companies in the area that indicated management fees typically are between 3% and 5% of effective gross income. Being that this is an affordable property, which can lead to additional housing regulations, the appraisal concluded to a 5% management fee. Underwritten Management Expense was based on a 4.5% management fee, which ties directly to the executed management agreement.

Additional reasoning for the 4.5% management fee is explained in the Administration section below as some of the Management Companies costs are billed back and accounted for in that line item.

Administration – Administration consists of both Advertising/Marketing and Other Administrative. Comparable per unit expenses for Advertising were $10, $0, $0 and $56 dollars per unit per year. Typically, affordable properties require less adverting and are easier to lease up. Since all four comparables have an affordable component, the appraiser gave equal weight to each comparable and concluded to a per unit expense of $20. Underwritten Advertising concurs to the same estimate.

For the Administrative expense, comparables came in at $256, $150, $276 and $263 per unit per year. Again, the appraiser gave equal weight to all comparables, concluding to Administrative expenses of $225 per unit per year. Underwriting concurred with this estimate. We were told from the Borrower that the (Borrower or Affiliate) bills back administrative expenses for the property, in addition to the management fee. This typically equates to 3.38% of EGI. Therefore, underwritten Administration (excluding Legal/Audit) plus the Management Fee is estimated to be no less than 7.88% of EGI, or approx. $80,000. Underwriting needed to increase its Administration expense to $52,356 in order to appropriately account for the combination of Management Fee and Administration expense according to the agreement between Management Company and the Borrower.

Also included in Administration is Legal/Audit. The projection is outside of the analysis described above. Comparable expense data equaled $68, $119, $209 and $374. Considering annual accounting fees and audit fees for the subject Property, more weight was given to comparables #1 and #2. The appraiser concluded to $100 per unit per year. OG concurs with this estimate.

Payroll – Payroll expense includes all annual salaries, benefits and payroll taxes. The comparable expense data was equal to $1,340, $755, $956 and $1,000 per unit per year. The appraiser assumed the property would require one full time leasing agent/manager and one full-time maintenance person. Their conclusion was $900 per unit per year for payroll. The Borrower provided a payroll analysis and assumed one full time manager, one full time maintenance staff and 16 hours for a part time leasing agent. Based on their table, total payroll expense will be $91,686 or $890 per unit per year. Underwritten payroll concurred with the appraisal and concluded to $900 per unit per year.

Utilities – The above utilities include Lighting and Power, Water and Sewer and Heat/Gas. Below is a tab summarizing the per unit expense for each line item for the comparables, appraisal and underwriting.

	Comparables	Appraisal	Underwritten
Gas	$118, $139, $162 and $253	$425	$425
Electricity	$142, $164, $196 and $392	$140	$200
Water & Sewer	$320, $476, $499 and $694	$325	$400
Trash	$103, $112, $154 and $155	$100	$100

It should be noted that the Borrower conducted an Energy Design Analysis through the Weidt Group. This report included energy usage for both the residential and commercial space, along with any energy usage that will be the responsibility of the tenant. The analysis provided the Borrower with three “Bundles” of energy savings which the Borrower could select in which a certain amount of energy savings would be achieved. The Borrower selected Bundle 2, which concludes to an overall energy savings of approximately 27.3%.

Gas – All expense comparables require the tenant to pay the monthly heating expense, while the subject property will include heat in the monthly rent. Therefore, the unit expense for Gas above for the comparable properties excludes unit heat. The appraisal concluded that the average expense per month for in-unit heat would be $25, or $300 per year. This assumption was based off the Minneapolis Public Housing Authority's one-bedroom heating allowance, which was lowered for the subject's new construction with modern windows, better insulation and more efficient furnaces. Based on this information, the appraiser concluded to $425 per unit per year for heat, which includes all common areas and in-unit heat. Our underwriting concurs with the appraisers analysis, therefore used the same $425 per unit per year estimation.

Electricity – This expense projection represents the total electricity costs for common areas and vacant units. Units are separately metered for both the subject and the expense comparables. Please note that the expense comparable of $392 per unit does have a commercial component, which likely is causing an increase in such expense. Further, the subject will incorporate Energy Star appliances, LED lighting and controlled lighting (sensors) that will reduce electricity expense in the common areas and vacant units. With more weight given to the lower three comparables and the knowledge of energy saving features, the appraiser concluded to $140 per unit per year, which underwriting agrees with. The Borrower budgeted for $200 per unit in electrical, therefore our underwritten expense of $200 is higher than the appraisals estimate.

Water & Sewer – When determining the projected Water & Sewer expense for this subject, the appraiser noted the property will have low-flow plumbing fixtures, energy efficient central water heaters, and smaller unit sizes. The cost per square foot was taken into account for the four comps when arriving at the estimated per unit cost of $325 per unit per year. The Borrower estimates the Water & Sewer expense to be $400 per unit per year. Therefore, our underwritten expense takes weighs more towards the Borrower budget and estimates $400 per unit.

Trash – There will be a shared use agreement with the commercial space for garbage pickup at the subject property. This is expected to reduce trash costs compared to the other apartment comparables. Therefore, the appraisal conclude to $100 per unit per year, which is at the low range of the comparables. OGC believes this estimate to be reasonable.

Repair & Maintenance – This line item includes Decorating, Repairs and Maintenance, Exterminating, Grounds and Elevator expense. The four expense comparables data for these line items totaled $836, $791, $774 and $1,227 per unit per year. The appraiser concluded to a Repair & Maintenance expense $775 per unit per year. While on the lower side of the range, the $775 per unit per year appears reasonable for a few factors including i) the units are on the smaller side compared to the comps, keeping the decorating costs lower, ii) the building will be completely new, reducing the amount of repairs and maintenance completed at the property and iii) the residential component of the property is expected to share on a 50/50 basis the grounds expenses of the building, further reducing such expense as if it was a residential building only, the commercial component was part of the project. Oak Grove's underwriting estimate concurs with that of the appraisal's estimate of $775 per unit per year.

Insurance – The comparable data was $184, $134, $180 and $416 per unit per year for insurance expense. Giving less weight to the last comparable because of its commercial component, the appraiser concluded to $180 per unit per year. Oak Grove reached out to the Borrower's insurance agent to try and get an estimate for Liability and Property once the property is complete. While no final quotes could be obtained because the construction is not complete, we obtained some important information from the agent. In order to estimate the Premium we were told *you need to add the value of the building, the contents to be insured and the loss of rents, divide by $100 and multiply by 18 cents.* This estimate is based on typical coverages that the Borrower has used on previous packages and is reasonable to assume here. Based on insurable value of $14,183,908, $260,000 in FF&E and $1,000,000 in annual rents, we assumed underwritten premiums would be $27,800 or $270 per unit.

Real Estate Taxes – The appraisal provides the estimated real estate calculation for the property. Such analysis included an estimated assessed value of $8,549,000. The appraiser's assessed value was slightly higher than the $7,900,000 assessed value that the City of Minneapolis estimated for the residential portion of the project when completely its TIF

analysis. OGC elected to use the City's estimate of $7,900,000 and after applying the current tax capacity rate of 176.6853%, estimated the property tax at $104,000.

Land Valuation – The appraiser surveyed the market for sales of similar sites and adjusted for their differences as compared to the subject to provide a value indication for the land. The appraiser analyzed five land sales and concluded a rounded land value of $1,065,000, or $10,340 per unit. The sales comparables indicate a range of $8,292 to $11,811 per unit and generally reflect difference in location, zoning/density, and size/number of units.

While the land was appraised at $1,065,000 the budget accounts for the land on a "cost" basis of $665,000. Therefore, no land draw is contemplated for this transaction. The largest parcel, ________ West ________, was assigned a value by the

Borrower of $680,000. According to the Borrower's allocation of costs below, the current owner, (Sponsor No 1) Development will be contributing over $400,000 into the partnership. The remaining $292,816 will be used to pay of the outstanding debt and accrued interest on the property. Below is chart the Borrower provided outlining the acquisition of the various parcels of land:

Replacement Cost – The appraiser calculated the replacement cost value in conjunction with the cost analyst who supplied the actual construction numbers. The contractor has taken into consideration the current Davis Bacon Commercial Wage scale for completing the form HUD-2328. The construction period is 14 months and the owner and general contractor intend to use a lump sum contract. EMG Corp reviewed the architectural documents and construction costs for compliance with applicable codes and HUD regulations. The appraiser concluded to a Replacement Cost of $16,319,597, which concurs with the arch & cost reviewer.

Absorption –Prior to the occupancy date, management will be actively engaged in "pre-leasing" the subject property, it is the appraisers opinion that the property will have 41 units pre-leased (40%). Based on comparable projects which recently leased up, such as Abbott Apartments (14 units per month) and Schmidt Artists Lofts (11 units per month) a hypothetical absorption pace of 12 units per month was estimated which would result in a lease up within five months of the date that construction is complete. The market study identified two other absorption comparables in Ripley Gardens and Gateway Lofts. Ripley Gardens, renovated in 2007 leased up 7 units per month, while Gateway lofts, constructed in 2011, leased up 15 units per month. Given 2007 was nearly 8 years ago and the rental market was in a different phase back then, Ripley would be the least supportive of the subject properties absorption analysis.

Initial Operating Deficit ("IOD") – The appraiser concluded that a cash surplus would be generated during the construction period. This is based on capitalized interest making payments for the first two months of the lease-up state. After those two months, the property is generating enough NOI to service the interest only debt payments for two months. By month 6, the property has reached stabilized occupancy and for months 5 and 6 can service 100% of the principal and interest payments at the property.

Environmental

Past environmental reports reviewed by the environmental engineers follows:

- Modified Phase I Environmental Site Assessment Report, Proposed AutoZone, (address), Minneapolis, Sponsor 1esota, prepared by GME Consultants, Inc. (GME), dated November 24, 2000.
- Petroleum Storage Tank Release Site Tank Removal Verification, Burger King, (address), Minneapolis, LEAK 13727, prepared by the MPCA, dated January 31, 2002.
- Petroleum Storage Tank Release Site Tank Removal Verification, ________ West ________ Site, Minneapolis, LEAK 13727, prepared by the MPCA, dated December 6, 2002.
- Remedial Investigation Report, 13735 Burger King, ________ West ________, Minneapolis, MN 55411, LEAK00013727, prepared by Antea Group (Antea), dated February 1, 2012.
- Phase I Environmental Site Assessment Report, (address), Minneapolis, Sponsor 1esota, prepared by Peer Engineering, dated February 2012.
- Response Action Plan, (address), Minneapolis, Sponsor 1esota (MPCA Project No. LEAK 13727), prepared by Peer for (Sponsor No 1)Development LLC and Sponsor 1 Development Partners, dated February 13, 2012.
- Data Summary including Tables, Figures, Boring Logs and Analytical Data, (address), Minneapolis, Sponsor 1esota, provided by Peer Engineering, dated February and May 2013.
- Phase I Environmental Site Assessment, Proposed Case One Apartments, (address); prepared by Peer for Oak Grove Commercial Mortgage, LLC and U.S. Department of Housing and Urban Development, dated November 7, 2014 (the 2014 Phase I).

The above February-May 2013 Data Summary provides test results similar to tests conducted for a Phase II study. See below.

In addition, Wenck Associates, Inc. prepared an Updated Development Response Action Plan and Construction Contingency Plan dated October 30, 2014. See below.

Questions/Statements about the Environmental Analysis	N/A	Yes	No	Comments
Has the Environmental Report been completed (see MAP Section 9.5)?		X		
If applicable, was the information and activities requested by the HUD Program Center supporting the 8-step process completed?	X			
Does the Phase I ESA conform to ASTM E 1527?		X		Complies with ASTM E 1527-13
Was the effective date of the Phase I ESA within 180 days of the Preapplication or Firm submission?		X		
Does the Phase I ESA incorporate a Vapor Encroachment Screen report that is in compliance with ASTM E 2600?		X		As noted the ERIS report indicates that petroleum and/or hazardous substance contamination has been identified or is suspected at sites located near and/or

				potentially up gradient of the subject property. According to the ERIS report, the petroleum releases have been closed by the MPCA; however, there remains some potential for vapor and/or groundwater impact to the subject property
Did the Phase I Environmental Site Assessment determine there were Recognized Environmental Conditions?		**X**		Please see REC's below.
If applicable, has a Phase II ESA that conforms with ASTM E 1903 been completed?	**X**			
If applicable, has a Remediation Plan and LSTF authority approval of the plan been submitted?		**X**		See RAP and DRAP/CCP studies below.

A summary of the Phase I Environmental Site Assessment dated January 27, 2015 is as follows:

Recognized Environmental Conditions – Phase I

- The ________ West ________ parcel was previously occupied by several gasoline fillings stations and auto repair garages from 1919 through 1978. Up to twenty petroleum storage tanks were previously located on the ________ West ________ parcel. An underground storage tank release (Leak #13727) was reported at the ________ West ________ parcel in 2000 and investigations to determine the extent and magnitude of documented petroleum and non-petroleum soil and groundwater impacts resulted in the MPCA closing the file on the reported release in 2012. Based on the proposed redevelopment of the subject property, the past use of the (address) parcel and the documented soil and groundwater impacts represent a recognized environmental condition.

- Historic data indicates that residential dwellings and commercial buildings previously occupied the subject property. There is a potential for demolition debris and/or fill material to be present at the subject property. The buried demolition debris, if present, could potentially contain asbestos-containing materials and lead-based paint. The potential for buried demolition debris represents a recognized environmental condition.

- The surrounding areas have been developed for commercial uses for over 100 years. It is not uncommon for historically developed commercial areas to have ground water impacts associated with their operational activities. Historical information indicates that printers, dry cleaners, gasoline filling stations, a chemical manufacturer, machine shops, and automobile repair businesses were formerly located on adjoining and/or nearby properties. Government database records indicate that petroleum and/or hazardous substance contamination has been identified or is suspected at sites located near and/or potentially up gradient of the subject property. According to the ERIS report, the petroleum releases have been closed by the MPCA; however, there remains some potential for vapor and/or groundwater impact to the subject property. This represents a recognized environmental condition.

Conclusions / Recommendations – Phase I

The Phase I assessment revealed recognized environmental conditions as indicated above. The identified recognized environmental conditions include documented soil and groundwater impacts at the subject property and the potential for soil vapor impacts from past on-site and/or surrounding land uses.

Based on the proposed redevelopment, Peer recommended that an updated Development Response Action Plan / Construction Contingency Plan (DRAP/CCP) to address the current proposed redevelopment of the subject property. This update has been prepared by Wenck on October 30, 2014. The DRAP/CCP provides a framework for cleanup of any contamination exceeding MPCA standards and to provide procedures for management of contaminated media

encountered during redevelopment. The DRAP/CCP considers the current redevelopment design and is structured to allow implementation concurrent with construction and be submitted to the MPCA for approval. The Users should also request/obtain appropriate available liability assurance letters from the MPCA. Successful implementation of the MPCA-approved actions defined by the revised DRAP/CCP will address the identified recognized environmental conditions.

No HUD "MAP" Guideline concerns were identified with the exception of noise. The subject property is within the specified distances of major roads and an airport which, therefore, requires a more detailed noise assessment. Based on the HUD DNL calculations performed, the expected noise level at the property was determined to be greater than 65 decibels from both ________ Avenue (66.59) and ________ Avenue (65.68). Attenuation calculations for the proposed development should be completed to ensure that building characteristics effectively mitigate noise to acceptable levels.

Summary of the Wenck Report (DRAP/CCP) is as follows:

<u>The response actions will include the following:</u>

- Excavation and disposal of petroleum impacted soil as necessary for construction of the proposed building and the installation of subsurface utilities and storm water retention systems, and landscaping. The excavated material will be transported under manifest directly to an MPCA-permitted landfill facility. Depending on the disposal facility selected and the nature of the material, the material may be used for daily cover, disposed directly in a landfill, or used as a substrate for the creation of specialty soil mixtures (i.e., an appropriate re-use of unregulated fill in accordance with the MPCA's guidance document entitled, "Best Management Practices for the Off-Site Reuse of Unregulated Fill"). This decision will be based on the facility's permit, and may also be subject to local approvals;

- Removal treatment and disposal of petroleum-impacted groundwater during and after construction, as necessary;

- Document through limited sidewall and excavation bottom confirmation sampling, the soil conditions at the extent of the excavation for the foundation footings, utility corridors, and storm water structures constructed on the Site. Select soil samples will be collected and analyzed for GRO and BTEX;

- Environmental monitoring during all significant redevelopment related excavation activities that have the potential to encounter contaminated soil;

- Design and construction of a subgrade vapor barrier and active venting system beneath the entire proposed building footprint. This will include both the underground parking portion, running north/south on the eastern building segment and the slab-on-grade portion running east/west on the southern building segment. A design of the passive venting system will be submitted for MPCA PB Program approval under separate cover.

The DRAP/CCP has been prepared to address the handling of suspected petroleum-contaminated soil, as well as any unanticipated wastes during encountered during the implementation of the proposed subsurface construction-related activities. A list of potential waste types is included in the report. If encountered, these materials must be managed consistent with statutes, rules, regulations and guidance from applicable federal, state and local agencies governing the excavation, management, sampling, storage, transportation and disposal of this material. In the event that an unanticipated waste or contaminated soil is encountered, Wenck will conduct a hazard assessment/evaluation to determine health and safety requirements (i.e., assessment of monitoring activities, personal protective equipment [PPE] requirements, etc.).

As indicated above, Peer Engineering prepared a Response Action Plan for the site dated February 13, 2012. On March 14, 2012, Minnesota Pollution Control Agency (MPCA) Petroleum Brownfields Program staff reviewed this RAP, including the MPCA leak site file and associated documents. The RAP was approved with modifications as noted on the

MPCA letter of March 14, 2012. Such modifications included the requirement for a vapor barrier and a vent system to be installed beneath the on-site building.

Taking into account the previous RAP, MPCA's letter of March 14, 2012 and the update scope of the project, the updated DRAP was submitted to the MPCA on December 12, 2014 and the MPCA approved the DRAP on February 1, 2015. A copy of the MPCA approval letter is included in the Firm Application under Section 2-3dii. The conditions/guidelines of the DRAP approval must be implemented during construction with submission of the implementation report to MPCA as described in MPCA's approval letter of February 1, 2015. If necessary, upon completion of the field assessment the Site Health and Safety Plan (SHSP) will be modified within 24¬hours. Safety requirements will then be communicated to all contractors involved in handling the unanticipated waste or contaminated soils. It appears unlikely that unanticipated waste or contaminated soil, beyond that previously identified on the Site, will be encountered based on the subsurface investigations already conducted.

Upon completion of the Site grading and utility activities (i.e., all soil work) related to the construction project, an implementation report summarizing the DRAP / CCP activities, and any laboratory analytical testing results necessary to document Site conditions, will be submitted to the MPCA for review and consideration of appropriate closure documents or regulatory determinations.

As indicated by review of EMG, the Architectural and Cost Reviewer:

- All the assessments have identified evidence of Recognized Environmental Conditions (REC) environmental conditions in the form of petroleum contaminated soils and/or arsenic laced soils.

- All petroleum contaminated soils and arsenic laced soils will be removed prior to start of construction.

- A subgrade vapor barrier and active venting system beneath the entire proposed building footprint will be constructed under this project. This will include both the underground parking portion, running north/south on the eastern building segment and the slab-on-grade portion running east/west on the southern building segment. A design of the passive venting system is being submitted for MPCA PB Program approval under separate cover.
    - Please note that an active venting system is no longer a requirement as presented in the MPCA recent approval letter of February 1, 2015.

Noise Attenuation:

The project architect has completed Figure 19 and has identified the specific wall construction, along with the type of doors and windows that will be used during construction provide for an STC rating of 38.3 and 38.3 for each side of the building facing the roads. The architecture and cost reviewer reviewed Figure 19 along with the plans and specifications and concluded that the noise level has been successfully attenuated to HUD acceptable levels. Figure 19 is included in the loan application to HUD.

Arsenic Findings (Peer Engineering Data Summary of Jan/May 2013) and Follow-up Testing

Arsenic was reported in one sample at a concentration of 32.2 milligrams per kilogram (mg/kg) in excess of the residential Soil Reference Value (SRV) of 9 mg/kg and the Industrial SRV of 20 mg/kg for arsenic. Arsenic was also reported in a separate sample at a concentration of 10.1 mg/kg, which is slightly higher than the residential SRV.

Wenck completed an additional test pit investigation across the Site in November 2014. The investigation activities consisted of the advancement of seven test pits to approximate depths of 7 feet below ground surface (bgs). These test pits were completed to further evaluate the shallow soils at the Site for the potential presence of arsenic. During previous investigation activities, analytical results for two samples were in excess of the residential Soil Reference Value (SRV) for arsenic. No historical activities were identified which may have contributed to the elevated results. Artificially elevated

arsenic concentrations have been found on other sites using the standard EPA Method 6010.

The test pits were advanced with a small track-mounted excavator. Soil samples were collected for field screening for the presence of organic vapors with a photoionization detector (PID). Additionally, two soil samples were collected from each test pit for laboratory analysis for total arsenic.

Two soil samples were collected from each test pit location, typically one shallower sample (0-3') and one deeper sample (4-7'). Fourteen soil samples were collected in total from the test pits. All samples were analyzed for total arsenic by Environmental Protection Agency (EPA) Method 6020. Sample results ranged in concentration from 1.7 to 7.6 milligrams per kilogram (mg/kg). All results are less than the residential SRV of 9 mg/kg for arsenic, and these results are typical of Sponsor 1esota's glacially deposited till or outwash soils.

Concept Meeting Comments

A concept meeting was help at HUD-Minneapolis on May 28, 2014. Oak Grove Capital received an invitation to submit the application via e-mail from Mr. Daniel Buresh on June 5, 2014. Comments included the following:

- All ownership docs (including condo agreements) should be included with the application.
  Answer: Included in Application.
- Provide maintenance agreement for shared storm water filtration system.
  - Also provide any watershed or municipal system maintenance requirements
  - Detail any credits or reduced municipal costs associated with the proposed storm water system

  Answer: The storm water drainage system is addressed in the Purchase Agreement between the Church and (Sponsor No 1)Development (within the Site Control Documents in the HUD Application). Within the Agreement, it states that All such watershed drainage and storage of the Church will be retained by the Church from the existing church parking lot to and including the expansion of such existing lot to the north to 26th Street and east to ________ Avenue, for purposes of expanding the Church's parking, shall be at the sole expense of the Church, and not burden the lands of (Sponsor No 1)Development. All such watershed drainage and storage of (Sponsor No 1)to be retained by (Sponsor No 1)shall otherwise exclude the existing church parking lot, and exclude the expansion of the Church's lot to the north to 26th Street and east to ________ Avenue. Sponsor watershed drainage and storage shall be constructed at the sole expense of (Sponsor No 1)and not burden the lands of the Church. The parties may otherwise parallel and complement the storm water best management practices of each other, on lands of each, for drainage and storage of watershed water as the parties may otherwise agree, but this agreement provides no rights herein to do so.

- Provide a copy of the shared parking arrangement with the neighboring church
  Answer: The terms of the shared parking arrangement are included in the executed Purchase Agreement between the Church and (Sponsor No 1)Development, identified above. It states that Church overflow parking will be on Sundays from 6:00 AM to 9:00 PM. Retail overflow parking will be Monday through Saturday from 9:00 AM to 9:00 PM with no overnight parking. The shared parking arrangement shall be terminable by either party by providing one year's notice. The platting and survey work was completed by the Borrower in early December and drafting of the permanent easements and parking agreement have begun. Review and acceptance by HUD of the final easements and parking agreement will be a condition to loan closing.
- Market study needs to provide adequate support for the project.
  - Underwritten rents should be well supported
  - Comparable projects should be from similar neighborhoods
  - Income band support for the project in the localized area
    - There are significant differences between suburban markets and the market in north Minneapolis. Therefore, in addition to any regional demand analysis, a demand forecast specifically for North Minneapolis is required.

Answer: The Appraisal and Market Study addressed the comments above. The Appraisal did a good job of selecting comparable properties that were in similar neighborhood locations and were properties of new construction. The Market Study narrowed its demand forecast to a specific HMA where the Property resides.

- Provide a detailed preleasing plan.
  Answer: The preleasing plan is included in the Application.
- Provide a copy of the RAP
  Answer: The RAP, dated December 10, 2014 is included in the Application.
- Design and construction will have to comply with the Fair Housing Act
  Answer: The Arch & Cost report raised no concerns regarding the Fair Housing Act.

A follow-up meeting was held at the HUD-Minneapolis office on January 16th, 2015. The purpose of the meeting was to update the HUD staff on the project, including the current status of third party reports. The meeting resulted in HUD staff identifying certain deliverables that needed to be complete prior to submission of the Firm Application. These include:

- Given the previous third party reports have expired, OGCM must provide No Material Change Letters from the each third party. A no material change letter from the Appraiser and Market Study has been included in the firm application and a full update of the Phase 1 environmental report has also been included.
- The Development Response Action Plan ("DRAP") must receive approval from the MPCA prior to Firm Application submission. MPCA's approval letter is included in the Firm Application.

Special Conditions to the Firm Commitment/Comments:

Based on the underwriting analysis, it is concluded that the requested loan amount of $8,830,200 is well supported and qualifies for HUD/FHA insurance and is an acceptable mortgage credit risk for HUD. As noted throughout, the conditions to the Firm Commitment are as follows:

1. Section 50 of the Regulatory Agreement, (exceptions to non-recourse provisions), will be executed by (Borrower or Affiliate) LLC and Sponsor 1.

2. An acceptable loan from ______ Bank or an alternative lender for the financing of the retail portion of the development.

3. The requested loan amount may be adjusted based upon the locked interest rate on the mortgage. Such revision may be an upward or downward adjustment.

4. (Sponsor No 1)Development to provide updated financial statements.

5. As a condition to Final Endorsement, an implementation report, describing the completed response activities, sampling results, soil management and disposal, and imported soil must be submitted to the MPCA for approval