



MARK DEVELOPMENT, INC.

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September 30, 2014

To: Anthony Ching
Executive Director
Hawaii Community Development Authority
461 Cooke Street
Honolulu, HI 96813

From: Craig Watase
President
Mark Development, Inc.
3615 Waialae Ave #200
Honolulu, HI 96816

Re: Purchase and Sales Agreement
Na Lei Hulu Kupuna

Attached to this cover letter is a signed Purchase and Sales Agreement (PSA) by Mark Development, Inc. (MDI) for the purchase and acquisition of the Na Lei Hulu Kupuna Senior Apartments (Project).

The basic terms of the PSA are as follows:

Date of Offer: September 30, 2014
Sales Price: Two Million Eight Hundred Sixty Nine Thousand Dollars
\$2,869,000

Closing Date: To be Determined as per the PSA

Subject to:

1. Acceptance of the PSA by the General Partner
2. Acceptable Due Diligence findings by MDI

3. Allocation of low income housing tax credits that raises \$3,853,512 of equity to the Buyer by HHFDC by June 30,2015
4. Additional terms of the Purchase and Sales Agreement

Overview of Purchase and Sale of Na Lei Hulu Kupuna:

Na Lei Hulu Kupuna is a valuable resource for the elderly affordable housing inventory for the state. In its present life cycle, the project has run its course of value to different entities and for different purposes. For the Limited Partner Owner the project has used up its useful value of the original tax credits. As an investment asset, the Limited Partner Owner is realizing minimal return on the invested dollars and potential equity. For the General partner there is minimal value on the management fees realized and generally not an efficient use of state resources to manage. For the tenants the Project is worn and in need of substantial rehabilitation of the units and the common areas.

The general partner awarded MDI the property management contract for the project in May of 2012. MDI's initial review of the project made clear several items: 1) the rents for the units were low in comparison to other elderly projects 2) no increases in rents had been made since the project's inception 3) the Project's substantial reserves when the management contract was awarded seemed positive until further review showed the project lacked in improvements, maintenance and was generally in poor condition 4) to date MDI has made \$598,000 in both capital improvements and repairs and maintenance to the Project.

The offered purchase price is based on several factors: 1) the proforma of the project at its current rents 2) the general partner made it clear that in order to consider a sale of the project no current tenants would be displaced by a sale

MDI has committed to no displacement with the sale. At the same time MDI has structured the set asides to meet the allowable rent ranges for the project. In fact, the proposed rents still put current tenants at rent levels substantially below allowable levels.

The lists below details the rehabilitation improvements MDI plans to make for the Project. The estimated dollar amount of interior and exterior

improvements is \$1,700,000 plus another \$266,000 for the cost of tenant relocation during the construction period. MDI has experience in acquiring and rehabbing both for elderly and non-elderly affordable projects. This experience will help mitigate any disruptions for the tenants and enhancing a project for a substantial time.

Benefits to Project:

1. Substantial Rehabilitation of the interior and exterior of the project

A. Project interior improvements at \$1,081,100 or \$14,400 per unit including:

- New flooring
- New appliances
- New air conditioning
- New granite countertops
- New cabinets
- New furniture
- New locks
- New screens
- New window coverings
- New vanity and toilet

B. Projected exterior improvements at \$659,800 or \$10,100 per unit including:

- Elevator modernization
- Rehab of recreation room
- New patio enclosure off recreation room
- Recreation room furniture
- Expanded security system
- Exterior painting
- New project monument signage
- Sub metering for electricity
- Fire Alarm system upgrade
- Unit entry doors
- Security bars on first floor units

Benefit to Tenants:

- No displacement of existing tenants
- Relocation during rehab at no cost to tenants (est. \$266,000)
- Rehabbed Recreation Center
- Additional Security

- New A/C
- Fully rehabbed units
- New Furniture
- New Appliances
- Elevator Modernization
- Upgraded Exterior

Benefit to Owner:

- Realize cash infusion
- Asset has used up its investment value
- Opportunity to reinvest into new assets

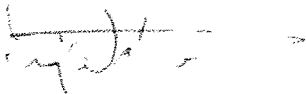
Benefit to State as General Partner:

- No displacement of existing tenants with sale
- Tenants provided with no cost relocation
- Upgraded project
- Additional improvements to Kakaako
- Release of oversight of project as general partner
- Maintaining stock of affordable elderly housing

Na Lei Hulu Kupuna is ready for major changes to assure its continued success as an affordable elderly housing project. The benefits of agreeing to this PSA will be positive to all parties involved.

MDI offers this PSA with the best intentions towards all parties and encourages you to accept this PSA and quickly move the sale through its due diligence, an allocation of tax credits and a successful closing.

Sincerely,



Craig Watase
President
Mark Development, Inc.