

Starrett City (Spring Creek Towers)

Recapitalization and preservation

When the proposed sale of Starrett City was blocked in mid-2007, Recap was retained to find a solution that would allow the owners to realize their equity while maintaining affordability for the existing residents. In pursuit of these objectives, we first developed a Memorandum of Understanding (MOU) as a framework for a transaction that could be supported by the owner and the four government housing agencies regulating the property. We then represented the owner in designing, negotiating, and completing a successful transaction.

While originally planned as a sale, the property was ultimately refinanced as a result of the dislocation in the financial markets that intensified in late 2008. The Starrett City transaction represents the largest single-property financing ever completed by Freddie Mac. Closing was achieved in December, 2009.

Services provided

- Achieving agreement between competing interests in the form of a public Memorandum of Understanding (MOU) between the property owners and federal, state, and local housing agencies
- Sale process design, bid solicitation and qualification, and management of offering
- Renegotiation of MOU to permit refinancing when collapsing credit markets prevented sale
- Analytical support and advocacy for specific Federal and State legislative initiatives to ensure successful preservation as affordable housing
- Lender selection, negotiation of underwriting and loan terms, and closing support for refinancing
- Negotiation of federal and state regulatory agency approvals for the transaction
- Consent solicitation support for refinancing and land donation (approximately 150 limited partners)

Outcomes

- \$531 million refinancing in difficult credit market
- Housing affordability preserved for 30 years
- Over \$67 million in new reserves capitalized for building renovations, power plant, and other anticipated needs
- Successful cash-out refinancing at attractive loan terms and four-fold increase in annual distributions
- Valuable real estate tax exemption maintained
- Section 236 IRP decoupling to support transaction goals
- Non-residential parcels deeded out of sale, increasing value and opportunity

Contact

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Recap Real Estate Advisors

We optimize the value of your interests in multifamily real estate, whether your assets are performing or distressed, market-rate or affordable.

Capital planning services are provided by On-Site Insight, a Recap Real Estate Advisors company.



Property Summary

- Brooklyn, New York
- Largest federally-assisted rental property in the United States
- 5,881 apartments in 46 residential high-rise buildings
- Total site of 140 acres, including 8 parking garages, community center, Sports Club, and power plant
- 124,000 square feet of retail and 24 acres of undeveloped land separated out at closing

Citi

Acquisition of a tax-exempt lender and its bond portfolio

Citi wished to acquire a \$1.5 billion portfolio of tax-exempt bonds from an entity controlled by KKR. In the course of the acquisition, Citi was presented with a further option, preferred by the seller, that Citi also acquire the debt-origination platform, the former Newman and Associates. Acquiring the debt originator was an opportunity to increase business, both in capacity and geographic reach, but presented challenges in pricing and negotiation. Recognizing its lack of internal capacity, Citi engaged Recap as a special advisor in its bid process.

Recap evaluated and priced the portfolio and arrived at a valuation that supported a strong buy recommendation for both origination platform and portfolio. Of the four consultants involved in the due diligence, Recap was the only one to express a strong opinion. Since accepting Recap's recommendation, Citi has smoothly operated the platform, increased in loan activity, and cemented itself as a premier multifamily bond originator.

Services provided

- Valuation of a complex portfolio of varied tax-exempt real estate assets
- Assessment of high-risk assets and identification of non-property sources, such as LIHTC investor equity, that could reduce bondholder risk
- Training and guidance to Citi staff on tax-exempt bond financing of affordable housing
- Advice on tactics in purchase negotiation

Outcomes

- Purchase of platform and portfolio at a favorable price
- Improvement of debt origination capacity by acquisition of Fannie Mae and Freddie Mac multifamily origination licenses
- Geographic expansion into Northeast
- Good returns since purchase

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Acquisition summary

- \$1.5 billion tax-exempt bond portfolio
- Nation's third-largest tax-exempt bond originator

TD Banknorth

Portfolio optimization

An expanding regional bank had a collection of affordable housing investments, many acquired by predecessor institutions, that were mature and post-mature. Tax credits and CRA credit had been effectively exhausted, but the bank's limited partner interests remained. The bank wished to:

- Fulfill CRA targets
- Maximize financial returns
- Minimize exposure to potential losses
- Efficiently deploy capital

Recap's portfolio optimization plan analyzed each of 24 affordable assets representing more than 2,400 apartments to provide a risk and value profile to enable dependable disposition or retention planning and the pursuit of additional subsidies.

Services provided

- Discussion with the client to specify financial, CRA, and risk tolerance goals
- Financial evaluations of each asset, using individual financial models that cumulate to a portfolio summary
- Baseline value estimates, predicated on a passive, status quo view of the assets
- Evaluation of risk exposure and value opportunities for each asset, including outreach to local general partners to evaluate existing plans for the asset
- Action plans for each asset including realistic benchmarks for probable results, issues to confront and address, and a recommended sequence of actions

Outcomes

- Low-value assets with risk exposure but little or no upside potential identified and disposition plans arranged
- Assets with little risk exposure but significant long-term value tied to the local real estate market identified, and potential for additional affordability resources flagged
- Additional capital for new CRA-eligible investments generated

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Portfolio summary

- Portfolio of 24 affordable assets representing more than 2,400 apartments
- Regional footprint in MA, VT, CT, ME, and NH
- Primary subsidies were LIHTC and federally-subsidized mortgages

Harvard Private Capital

Valuation of partnership interests

Harvard Private Capital, the equity investment arm of Harvard University's endowment fund, had the opportunity to take the lead role in a private consortium purchase of a controlling interest in NHP, Inc., the nation's largest owner and manager of affordable housing. Harvard wanted a solid valuation of NHP's ownership interests in its affordable portfolio.

The affordable portfolio consisted of general and limited partner ownership interests in roughly 450 properties totaling 58,500 apartments, including all relevant regulatory and subsidy programs and encompassing resyndications and pre-preservation opportunities. The ownership interests represented a large fraction of NHP's market value. These interests were owned by entities controlled by NHP, then itself owned by Berkshire Hathaway, controlled by Warren Buffett.

Within three weeks of engagement, Recap had developed an estimated value for the NHP affordable portfolio. The final accepted offer was less than five percent above Recap's suggested opening offer.

Services provided

- Initial education of Harvard executive team
- Identification of high-value subset of NHP Affordable Portfolio for further study
- Development of proprietary owner interest value algorithm and creation of accompanying financial model
- Assessment of assets
- Estimate of aggregate value to NHP
- Financial advice regarding pricing

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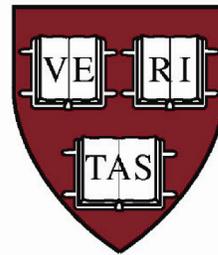
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Client Summary

- Cambridge, Massachusetts
- Equity investment arm of Harvard University's endowment fund (now Charlesbank Capital Partners)
- \$20+ billion under management