

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU
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DIRECTOR

GARY T. KUROKAWA
DEPUTY DIRECTOR

January 16, 2014

**VIA CERTIFIED MAIL – RETURN RECEIPT REQUESTED
AND FACSIMILE ((626) 294-9270)**

Honolulu Affordable Housing Partners, LLC
c/o Highland Property Development LLC
250 W. Colorado Boulevard, Suite 210
Arcadia, California 91007
Attn: Mr. William E. Rice

Dear Mr. Rice:

Re: Honolulu Affordable Housing Preservation Initiative (“HAHPI”)

This is a further follow-up to the January 10, 2014 meeting between the City and County of Honolulu (the “City”) and Honolulu Affordable Housing Partners, LLC (“HAHP”).

While the City has asked HAHP to provide, by noon tomorrow, its written proposal for specific amendments that will be requested to the transactional documents in connection with the Purchase and Sale Agreement, including any “seller financing” (deferred lease rent payments) proposal, the City believes that it would facilitate the negotiation process to provide you with specific terms that the City deems essential for inclusion in your proposal. These are:

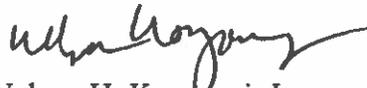
- HAHP’s \$5 million deposit must become non-refundable upon HAHP’s notification to the City that it has waived the financing contingency and has elected to proceed to close on the transfer of leasehold title to the properties, which must occur on or before March 31, 2014 (the “Property Closing”);
- No less than \$35 million of the lease premium must be paid at the Property Closing. This payment is necessary because of tax consequences arising from the defeasance of the City’s bond debt, which will be triggered by the Property Closing and which is required to be paid by the City within 90 days after the Property Closing, and includes the \$5 million non-refundable deposit that will be paid to the City at the Property Closing;

- The parties anticipate a second closing (the “**Permanent Financing Closing**”) in which HAHP will record documents in connection with its permanent financing package, to take out the City’s interim “seller financing.” The Permanent Financing Closing must occur within six months after the Property Closing;
- HAHP must pay a reasonable rate of interest, to be negotiated by the parties, on the “seller financing” carried by the City during the period from the Property Closing to the Permanent Financing Closing, and during any period in which any financing carried by the City remains unpaid by HAHP. This rate of interest may be addressed as increases in the lease rent payments;
- At the Property Closing, HAHP will take title to the Marin Tower and Chinatown Manor properties subject to the existing commercial leases. Prior to the Permanent Financing Closing, HAHP shall cause those commercial leases to be cancelled and terminated, such that they no longer encumber those properties; and
- In the event HAHP fails to pay to the City at the Permanent Financing Closing substantially all of the “seller financing” in an amount to be agreed to by the parties, the leases to HAHP from the City shall be cancelled and terminated. None of the \$35 million paid at the Property Closing shall be refunded by the City.

While we continue to look forward to seeing your proposal tomorrow, we thought it best to convey to you before then what the City deems essential in order for the parties to proceed towards closing.

Please do not hesitate to contact me with any questions.

Sincerely,



Nelson H. Koyanagi, Jr.
Director

cc: William E. Rice (via hand delivery and e-mail: b.rice@highlandcompanies.com)
Richard W. Gushman, II (via certified mail, return receipt requested and e-mail: dgush@dgmgrp.com)
Stephen M. Gelber, Esq. / Joseph A. Dane, Esq. (via hand delivery and e-mail: sgelber@gelberlawyers.com and jdane@gelberlawyers.com)
Ember Lee Shinn, Managing Director
Pamela A. Witty-Oakland, Director of Community Services
Donna Y. L. Leong, Corporation Counsel