

HONOLULU AFFORDABLE HOUSING PARTNERS, LLC

745 Fort Street, Suite 1400

Honolulu, Hawaii 96813

January 23, 2014

VIA HAND-DELIVERY AND CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Mr. Nelson H. Koyanagi Jr., Director
Department of Budget and Fiscal Services
Honolulu Hale
530 South King Street, Suite 208
Honolulu, Hawaii 96813

Re: Honolulu Affordable Housing Preservation Initiative

Dear Director Koyanagi:

This letter concerns the Honolulu Affordable Housing Preservation Initiative transaction (i.e., the so-called “Preservation Initiative transaction”) between the City and County and Honolulu Affordable Housing Partners, LLC (“HAHP LLC”), as set forth in that certain Purchase And Sale Agreement, dated October 18, 2012, as amended, between the City and County and HAHP LLC.¹

As you know, on Tuesday, January 14th, the City and County delivered to HAHP LLC a letter asking that we provide to the City and County, by the following Friday (i.e., January 17th), the specific details that HAHP LLC would propose concerning the seller-financing that the City and County has indicated that it might be willing to provide in order to allow the Preservation Initiative transaction between the City and County and HAHP LLC to close by March 31, 2014. Then, a couple of days later, on Thursday, January 16th, before we had responded to the January 14 letter, the City and County delivered to us another letter (dated January 16th) informing us of certain terms and conditions that the City and County deemed to be essential features and would need to be included as provisions of any seller-financing that the City and County might provide. In order to allow time for us to consider the City and County’s requirements, we requested and the City and County agreed

¹ Capitalized terms not otherwise defined herein shall the meanings set forth in the Purchase And Sale Agreement.

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that the time for us to respond to the City and County's letters of January 14 and 16 would be extended until today, January 23rd.

This letter will serve as our response to both the letter of January 14 and the letter of January 16 received from the City and County.

As set forth in the City and County's January 16th letter, in order for the transaction to proceed, the \$5 million Deposit that HAHP LLC has made pursuant to the Purchase And Sale Agreement must become non-refundable by March 31, 2014, which would be prior to the time that HAHP LLC specified in the Purchase And Sale Agreement when HAHP LLC would have secured commitments for and closed its long-term/permanent financing for the Preservation Initiative transaction. Further, as also set forth in the City and County's January 16th letter, in order for the transaction to proceed, no less than \$35 million of the lease-premium Purchase Price (inclusive of the Deposit) would need to be paid and also become non-refundable by March 31, 2014. Additionally, if we could not secure all of the necessary long-term/permanent financing required to pay off substantially all of the City and County's seller-financing within six months after March 31, 2014, our leases to the properties involved in the Preservation Initiative transaction would be cancelled and the \$35 million would be forfeited.

While it may be possible to develop a workable seller-financing solution to allow closing of the transaction by March 31, 2014, after spending the last week considering the various requirements specified by the City and County in its letter of January 16th, and analyzing these requirements as they relate to the transaction as a whole, we have determined that there simply is no reasonable possibility that HAHP LLC can secure commitments from any investors, lenders, or other capital sources between now and March 31st that would enable HAHP LLC to make a non-refundable and forfeitable payment in the amount of \$35 million to the City and County by March 31, 2014. Even if given more time, we do not believe it is possible to find an investor willing to put \$35 million at risk prior to the "Permanent Financing Closing" described in the City and County's January 16th letter.

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Therefore, we have concluded that it is also not possible for HAHP LLC to satisfy the City and County's requirements for the seller-financing that the City and County has proposed in order for the transaction to close by March 31st of this year. Accordingly, in the circumstances, and having concluded that HAHP LLC cannot satisfy the Financing Contingencies of the Purchase And Sale Agreement or satisfy the City and County's requirements for the seller-financing that the City and County might provide, HAHP LLC has no choice other than to advise the City and County that the transaction must be terminated.

We will proceed with instructing Escrow to immediately return to HAHP LLC the full amount of the Deposit, plus all interest earned thereon. Based on the terms of the Purchase And Sale Agreement as well as our recent prior correspondence and discussions with the City and County, including the City and County's letter of January 7th, we will expect the City and County's cooperation in this regard.

In connection with the termination of the transaction and the return of the Deposit, and the interest on the Deposit, there will remain other matters that the City and County and HAHP LLC will need to address and resolve, including without limitation the claims and defenses of the parties set forth in certain of our prior correspondence over the last few weeks. As we have previously advised you and as you know, HAHP LLC has invested substantial amounts of money (around \$4 million) in the transaction to date, and has done substantial due diligence on the properties involved in the Preservation Initiative transaction. Once the Deposit has been returned to HAHP LLC, with the interest thereon, HAHP LLC remains open to discussing with the City and County possible arrangements for an orderly disposition of these matters in connection with the termination of the transaction.

Please be advised, however, that, subject to and pending any mutually acceptable arrangements for the disposition of such matters, nothing in this letter nor the return and receipt thereof by HAHP LLC of the Deposit with the interest is intended or should be deemed to waive or prejudice HAHP LLC's rights or claims.

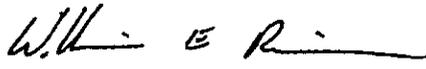
Sincerely,

HONOLULU AFFORDABLE HOUSING PARTNERS, LLC
a Hawaii limited liability company

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By **Highland Property Development LLC**
A California limited liability company
Its Manager and Member

By: 
William E. Rice
Its Authorized Manager

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cc: Department of Community Services
715 South King Street, Suite 311
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Attention: Director

Department of Corporation Counsel
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Attention: Gordon Nelson, Esq.

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Attention: Scott B. Gomes

Via Email:
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Honolulu Affordable Housing
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