



Good Neighbors

San Diego
Housing Commission

- 1625 Newton Avenue
- San Diego, California 92113-1038
- 619/231 9400
- FAX: 619/544 9193

REPORT

DATE ISSUED: July 1, 2005

ITEM 104

REPORT NO.: HCR05-59
For the Agenda of July 8, 2005

SUBJECT: Final Authorization to Issue Multifamily Housing Revenue Bonds for Sagewood Apartments (formerly known as “Sycamore Estates Apartments”) (Council District 7)

SUMMARY

Issue: Should the Housing Commission recommend that the Housing Authority take the final step to issue tax-exempt multifamily housing revenue bonds to finance the acquisition and construction by Fairfield Affordable Housing, LLC of Sagewood Apartments, located in the master planned community of Stonebridge Estates in the City’s Future Urbanizing Area (FUA)?

Recommendation: That the Housing Commission recommend Housing Authority authorization of the issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed \$10,928,000 for the acquisition and construction of the 106-unit Sagewood Apartments by Fairfield Affordable Housing, LLC in the community of Stonebridge Estates in the FUA.

Fiscal Impact: The issuance and sale of the bonds will not financially obligate the City, the Housing Authority or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources. All costs of the financing, including compensation for staff efforts in preparing the bonds, will be borne by the developer. The Housing Commission's origination fee as well as the annual administrative fee under the financing will be up to \$25,134 (0.23 percent of the bond amount).

Housing Affordability Impact: Under the requirements for bond financing, the project will restrict 10% of the apartments (11) for occupancy by families earning no greater than 50% Area Median Income (AMI) (\$34,250 for a family of four) and 90% (95) of the apartments for families earning no greater than 60% AMI (\$41,100 for a family of four) for a minimum of 55 years.



Environmental Impact: This activity is covered under LDR No. 99-1094. The activity is adequately addressed in the environmental document and there is no change in circumstance, additional information, or the project to warrant additional environmental review. Because the prior environmental documents adequately covered this activity as part of the previously approved project, the activity is not a separate project for purposes of CEQA review per CEQA guidelines section §15060(c)(3).

Previous Related Action: On December 10, 2004, HCR04-98, the Housing Commission approved the project's financing team (Bond Counsel and Financial Advisor) and recommended the following actions, which were approved by the Housing Authority and City Council on February 15, 2005:

- Housing Authority Bond inducement resolution number 1258 declaring the Housing Authority's "Official Intent" to issue up to \$12,000,000 in tax-exempt bonds;
- City Council resolution R-300140 approving the Housing Authority's issuance of tax-exempt bonds.

Future Related Action(s): If recommended by the Housing Commission, the Housing Authority will be asked to authorize the issuance of bonds for the project on August 2, 2005.

BACKGROUND

On March 18, 2005, the Housing Authority, on behalf of the developer, submitted an application to the California Debt Limit Allocation Committee (CDLAC) for a bond allocation in the amount of \$10,928,000 for the Sagewood Apartments. On May 18, 2005, CDLAC awarded the requested bond allocation to the project. The project's bond allocation will automatically revert to CDLAC unless the bonds are issued by August 16, 2005.

A general description of the Housing Commission's Multifamily Bond Program and actions that must be taken by the Housing Authority and by the City Council to initiate and finalize the proposed financing are described in Attachment 1.

DISCUSSION

The Developer

The developer for the proposed project is Fairfield Affordable Housing LLC ("Fairfield"), headquartered in San Diego, California. Fairfield is involved in the acquisition, construction, development, redevelopment and property management of multifamily housing projects across the nation. Fairfield currently manages over 53,500 apartment homes nationwide and in 2003 the company completed 11 new construction transactions consisting of 4,100 apartments and \$570

million in total project costs. Currently, Fairfield holds ownership interests in nearly 40,000 apartment homes nationwide. In San Diego alone, Fairfield owns 1,272 apartment homes. The developer's Statement for Public Disclosure and audited financials are included as Attachment 2.

The San Diego Housing Commission and Housing Authority have worked successfully with Fairfield in the past on several projects to issue a total of \$198 million in multifamily housing revenue bonds for six developments totaling 2,265 units:

Project Name	Council District	Bond Amount	Number of Units	Restricted Units
Paseo Point Apartments	1	\$14,250,000	250	50
La Cima Apartments	1	\$43,640,000	514	103
Nobel Court Apartments	1	\$50,915,000	685	137
Canyon Rim Apartments	1	\$32,440,000	504	352
Lucera	1	\$36,850,000	256	52
Stratton Apartments	6	\$19,825,000	312	218
Total	N/A	\$197,920,000	2,521	912

Fairfield will act as administrative general partner in a partnership that will be created to own and operate the project. Wakeland Housing and Development Corporation (“Wakeland”), an experienced California nonprofit public benefit corporation with which Fairfield has partnered on several projects, will serve as the managing general partner. The tax credit investor, Paramount Financial Group, will be the limited partner of the partnership.

Since forming in 1999, Wakeland has been involved in the development and ownership of over 3,500 units. Wakeland has a board and staff with a strong background in the development and operation of affordable housing projects. Most recently Wakeland began construction on Beyer Boulevard Apartments, a 60-unit project located in San Ysidro. The project was financed in part through the issuance of \$7.4 million in multifamily housing revenue bonds by the Housing Authority. Wakeland, and its partner, San Diego Interfaith Housing Foundation, have begun construction on Lillian Place, a 74-unit project in downtown San Diego. Wakeland has also completed numerous projects in partnership with Fairfield.

The Project

Sagewood Apartments is a new construction project that will create a total of 106 units. The development will be located east of Pomerado Road, west of the Sycamore Canyon County Open Space Preserve, south of Beeler Canyon Road, and north of MCAS Miramar in the FUA. The location map is included as Attachment 3. The affordable site will be adjacent to a four-acre community park and a private school.

The project is part of the master planned community of Stonebridge Estates being developed by McMillin Land Development and Brookfield Homes. Stonebridge Estates was approved by the

City Council in August of 2001 with the condition that 106 units of affordable housing be included in the project.

The project will include nine two-story residential buildings, a community recreation room of approximately 1,200 square feet, a tot lot, and a pool with a patio. The project will consist of eight one-bedroom, one-bath apartments; 44 two-bedroom, two-bath apartments; and 54 three-bedroom, two-bath apartments. The units will be air-conditioned and include refrigerators, dishwashers, gas ranges, and balconies or patios.

Under the requirements for bond financing, the project will restrict 10% of the units for households earning no greater than 50% of AMI (\$34,250 for a family of four) and 90% of the units to households earning no greater than 60% of AMI (\$41,100 for a family of four) for a minimum of 55 years, subject to customary financing conditions.

Rent and Income restrictions for the project are outlined in the chart below:

Type	Square Footage	AMI	Number of Units	Restricted Rent (net of utility allowance)	Market Rate	Monthly Savings per unit
1 Bedroom	743	50% AMI	1	\$611	\$1,064	\$453
1 Bedroom	743	60% AMI	7	\$741	\$1,064	\$323
2 Bedroom	948	50% AMI	4	\$732	\$1,379	\$647
2 Bedroom	948	60% AMI	40	\$887	\$1,379	\$492
3 Bedroom	1,161	50% AMI	6	\$808	\$1,683	\$875
3 Bedroom*	1,161	60% AMI	48	\$980	\$1,683	\$703
Total			106	N/A	N/A	\$3,493
Total Annual Savings						\$767,712

* Includes one manager's unit.

Financial Structure

Up to \$10,928,000 in tax-exempt bonds will be issued for the project. Approximately, \$9.1 million in senior bonds (the "Senior Bonds") will be credit enhanced by Fannie Mae and sold through a public offering. The Senior Bonds will be initially issued in minimum \$100,000 denominations and bear interest at a variable rate. The Senior Bonds will be rated "AAA" by Standard and Poor's Corporation.

In addition to the Senior Bonds, approximately \$1,828,000 in a single subordinate bond (the "Subordinate Bond") will be issued as a mechanism to reimburse McMillin Homes, the master developer of Stonebridge Estates, for an upfront contribution necessary to finance and build the project. The Subordinate Bond will be tax-exempt, unrated, and sold through a private placement with McMillin Homes.

It is anticipated that the interest rate payable on this Subordinate Bond will be 5% per annum and the Underwriter or Financial Advisor will be deliver a certificate verifying that this rate is not in excess of a fair market rate for the Subordinate Bond.

The Subordinate Bond is not amortized like most of the bonds; it will be repaid from 75% of excess revenues, and may be converted to Senior Bonds over time as the operating revenues of the project increase and the borrower is able to increase the size of the Senior Bonds. The Subordinate Bond will mature 90 days after the maturity date for the Senior Bonds (30 years from the date when the project is completed and occupied). The proforma for the project indicates that payments on the Subordinate Bond will be made when due. Any interest or principal not paid when due will be payable when revenues are available.

As part of the Subordinate Bond financing, McMillin will be required to sign an investor letter certifying that they are a sophisticated investor and understand the risks associated with the purchase of the Subordinate Bond. The transfer of the bond by McMillin or any subsequent bondholder will be restricted to transferees who would purchase the entire bond amount (to maintain ownership by a single bondholder), and who would represent to the Authority and the Commission that they are sophisticated investors, are buying for investment and not for resale, and have made due investigation of the information they would deem material in connection with the purchase of the bonds. Finally, McMillin must agree that should a mortgage default occur, there would not be a bond default.

The bonds will not constitute a financial liability of the Housing Authority (other than from the pledged revenues related to the bond-financed loans to the project), the City or the Housing Commission. Neither the faith and credit nor the taxing power of the City or the Authority would be pledged to the payment of the bonds. Security for Senior Bond payments is provided by the Fannie Mae credit enhancement and security for the Subordinate Bond payments is limited to the value of the property and its revenue sources. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee.

The project has an estimated total development cost of approximately \$20,100,000. In addition to bonds, the project will also be financed with tax credits (\$7,600,000) and income during lease-up and interest earnings (\$1,600,000). The master developer has also donated the land for the project. Sources and uses of funds are shown in Table 1 of Attachment 5.

Public Disclosure and Bond Authorization

If the bond issuance is authorized, the following primary documents will be executed on behalf of the Housing Authority: Official Statement, Senior and Subordinate Trust Indentures and Loan Agreements, Regulatory Agreement, Intercreditor Agreement, and Bond Purchase Agreement. At the time of docketing, all bond documents in substantially final form will be presented to members of the Housing Authority.

The Official Statement will be used to market the Senior Bonds to investors. The Official Statement will contain limited information about the Housing Authority as the issuer. This information verifies that the Housing Authority is an appropriate issuer of the bonds and that there is no existing or threatened litigation that would jeopardize the validity of the bonds. Furthermore, it is necessary for members of the Housing Authority to disclose any knowledge, not available to the general public, about the feasibility of the project. Attachment 4 contains the language regarding the Housing Authority that will be used in the Official Statement.

The bonds will be issued pursuant to the Trust Indentures between the Housing Authority and the trustee. Based upon instructions contained in the Trust Indentures, the trustee will hold all bond funds and other collateral to secure payment of the bonds.

Under the terms of the Loan Agreements, the Housing Authority will loan the proceeds of the bonds to the borrower in order to acquire and construct the project. The Loan Agreements set out the terms of repayment and the security for the loans, and the Housing Authority assigns its rights to receive repayments under the loans to the trustee for the benefit of the holders of the related bonds.

The Regulatory Agreement will be recorded against the property in order to ensure the long-term use of the project as affordable housing. The Regulatory Agreement will also ensure that the project complies with all applicable federal and state laws.

The Bond Purchase Agreement outlines the terms under which the Housing Authority will issue and the underwriter will purchase the Senior Bonds. The Bond Purchase Agreement is executed and delivered by the Housing Authority, the developer, and the underwriter.

Since the bonds will not be repaid using any City, Housing Authority, or Commission funds, it is not appropriate to provide any information about the City's, the Housing Authority's or the Commission's finances. In addition, the bonds will be exempt from the continuing disclosure requirements of SEC Rule 15c2-12.

Staff has been working with Public Financial Management, the Housing Commission's Financial Advisor, to perform due diligence concerning the proposed financing and to formulate a recommendation for the Housing Authority. After evaluating the terms of the proposed financing and the public benefits to be achieved, it is the Financial Advisor's recommendation that the bond issuance for the project be authorized. The Financial Advisor's analysis and recommendation to proceed are included as Attachment 5.

Staff is also working with the City's Disclosure Practices Working Group to assure that the issuance of Housing Authority bonds is in conformance with the City's requirements.

In anticipation of a memorandum from the City Attorney to Housing Authority members regarding their disclosure responsibilities, Attachment 6 addresses these issues as they pertain to this project.

ALTERNATIVES

Do not authorize the issuance of the bonds at this time. If the bonds are not issued, the bond allocation will automatically revert to the State and the project will not be able to benefit from tax-exempt below-market financing.

Respectfully submitted,

Cissy Fisher
Director of Housing Finance & Development

**Signature on File
With Original Document**

Approved by,

Elizabeth C. Morris
President & Chief Executive Officer

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- Attachments:
1. Multifamily Bond Program Summary
 2. Developer's Disclosure Statement and Financial Statement*
 3. Location Map
 4. Issuer Disclosure Statement
 5. Financial Advisor's Letter
 6. Due Diligence and Disclosure Information

* Distribution of the attachment is limited. A copy is available for review at the Housing Commission office located at 1625 Newton Avenue.

ATTACHMENT 1

HOUSING COMMISSION MULTIFAMILY HOUSING REVENUE BOND PROGRAM

Summary

General Description: The multifamily housing bond program provides below-market financing (based on bond interest being exempt from income tax) for developers willing to set aside a percentage of project units as affordable housing. Multifamily housing revenue bonds are also known as “private activity bonds” bonds because the projects are owned by private entities, often including nonprofit sponsors and for-profit investors.

Bond Issuer: Housing Authority of the City of San Diego. There is no direct legal liability of the City, the Housing Authority or the Housing Commission in connection with the issuance or repayment of bonds; there is no pledge of the City’s or the Housing Authority’s faith, credit or taxing power. The bonds do not constitute a general obligation of the issuer because security for repayment of the bonds is limited to specific private revenue sources, such as project revenues. The developer is responsible for the payment of costs of issuance and all other costs under each financing.

Affordability: The minimum requirement is that at least 20% of the units are affordable at 50% of Area Median Income (AMI). Alternatively, a minimum of 10% of the units may be affordable at 50% AMI with an additional 30% of the units affordable at 60% AMI. The Housing Commission requires the affordability restriction to be in place for a minimum of 15 years. In practice, projects financed by multifamily housing bonds are affordable for a minimum of 30 years. Bonds may also be combined with other financing sources to create deeper affordability and longer terms of restriction.

Rating: Generally “AAA” or its equivalent with a minimum rating of “A” or, under conditions that meet IRS and Housing Commission requirements, bonds may be unrated for private placement with institutional investors (typically, large banks). Additional security is normally achieved through the provision of outside credit support (credit enhancement) by participating financial institutions that underwrite the project loans and guarantee the repayment of the bonds. The credit rating on the bonds reflects the credit quality of the credit enhancement provider.

Approval Process:

- **Inducement Resolution:** The bond process is initiated when the issuer (Housing Authority) adopts the Inducement Resolution to establish the date from which project costs may be reimbursable from bond proceeds (if bonds are later issued) and to authorize staff to work with the financing team to perform a due diligence process. The

Inducement Resolution does not represent a commitment by the Housing Commission, the Housing Authority, or the developer to proceed with the financing.

- TEFRA Hearing and Resolution (Tax Equity and Fiscal Responsibility Act of 1982): To assure that projects making use of tax-exempt financing meet appropriate governmental purposes and provide reasonable public benefits, the IRS Code requires that a public hearing be held and that the issuance of bonds be approved by representatives of the governmental unit with jurisdiction over the area in which the project is located (City Council). This process does not make the City financially or legally liable for the bonds or the project.

[Note: It is uncommon for the City Council to be asked to take two actions at this stage in the bond process---one in their capacity as the City Council (TEFRA hearing and resolution) and another as the Housing Authority (bond inducement). Were the issuer (Housing Authority) a more remote entity, the TEFRA hearing and resolution would be the only opportunity for local elected officials to weigh in on the project.]

- Application for Bond Allocation: The issuance of these “private activity bonds” (bonds for projects owned by private developers, including projects with nonprofit sponsors and for-profit investors) requires an allocation of bond issuing authority from the State of California. To apply for an allocation, an application approved by the Housing Authority and supported by an adopted inducement resolution and by proof of credit enhancement (or bond rating) must be filed with the California Debt Limit Allocation Committee (CDLAC). In addition, evidence of a TEFRA hearing and approval must be submitted prior to the CDLAC meeting.
- Final Bond Approval: The Housing Authority retains absolute discretion over the issuance of bonds through adoption of a final resolution authorizing the issuance. Prior to final consideration of the proposed bond issuance, the project must comply with all applicable financing, affordability, and legal requirements and undergo all required planning procedures/reviews by local planning groups.
- Funding and Bond Administration: All monies are held and accounted for by a third party trustee. The trustee disburses proceeds from bond sales to the developer in order to acquire and/or construct the housing project. Rental income used to make bond payments is collected from the developer by the trustee and disbursed to bond holders. If rents are insufficient to make bond payments, the trustee obtains funds from the credit enhancement provider. No monies are transferred through the Housing Commission or the Housing Authority and the trustee has no standing to ask the issuer for funds.

Bond Disclosure: The offering document (typically a Preliminary Offering Statement or bond placement memorandum) discloses relevant information regarding the project, the developer, and the credit enhancement provider. Because the Housing Authority is not responsible for

bond repayment, there are no financial statements or summaries about the Housing Authority or the City included as part of the offering document. The offering document includes a paragraph that states that the Housing Authority is a legal entity with the authority to issue multifamily housing bonds and that the Housing Commission acts on the behalf of the Housing Authority to issue the bonds. The offering document also includes a paragraph stating that there is no pending or threatened litigation that would affect the validity of the bonds or curtail the ability of the Housing Authority to issue the bonds. This is the extent of disclosure required of the Housing Authority, the Housing Commission, or the City. However, it is the obligation of members of the Housing Authority to disclose any material facts known about the project, not available to the general public, which may have an impact on the viability of the project.



DEVELOPER'S STATEMENT FOR PUBLIC DISCLOSURE
(add extra **sheets** if you need more **space**)

1. Name of developer:

Fairfield Affordable Housing LLC

2. Address, phone number and ZIP Code:

**5510 Morehouse Drive, Suite 200
San Diego, CA 92121
858-457-2123**

3. IRS Number of Developer:

Federal Tax I.D. Number (FIN): 33-077-8277

4. If the developer is not an individual doing business under his own name, the developer has the status indicated below and is organized or operating under the laws of California as:

_____ A corporation

_____ A nonprofit or charitable institution or corporation

A partnership known as: **N/A**

_____ A business association or a joint venture known as _____

_____ A Federal, State or local government or instrumentality thereof.

_____ Other (explain)

5. If the developer is not an individual or a government agency or instrumentality, give date of organization:

June 7, 2000

6. Names, addresses, phone numbers, title of position (if any) and nature and extent of the interest of the officers and principal members, shareholders, and investors of the developer, other than a government agency or instrumentality, are set forth as follows:



DISCLOSURE STATEMENT: PAGE 2

- a. If the developer is a corporation, the officers, directors or trustees, and each stockholder owning more than 10% of any class of stock.

N/A

- b. If the developer is a nonprofit or charitable institution or corporation, the members who constitute the board of trustees or board of directors or similar governing body.

NA

- c. If the developer is a partnership, each partner, whether a general or limited partner, and either the percent of interest or a description of the character and extent of interest.

Fairfield Affordable Housing LLC is 100% owned by Fairfield Residential LLC, which is jointly owned by James Bosler and Christopher Hashioka (51%) and the Morgan Stanley Real Estate Fund - II (49%).

- d. If the developer is a business association or a joint venture, each participant and either the percent of interest or a description of the character and extent of interest.

NA

- e. If the developer is some other entity, the officers, the members of the governing body, and each person who has an interest of more than 10%.

		Position Title (if any) and percent of interest or description of character and extent of interest
<u>Name, Address & Zip Code</u>	<u>Phone Number</u>	

- 7 Name, address and nature and extent of interest of each person or entity (not named in response to Item 6) who has a beneficial interest in any of the shareholders or investors named in response to Item 6 which gives such person or entity more than a computed 10% interest in the developer (for example, more than 20% of the stock in a corporation which holds 50% of the stock of the developer; or more than 50% of the stock in a corporation which holds 20% of the stock of the developer):

<u>Name, Address and Zip Code</u>	<u>Description of character and extent of interest</u>
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N/A

DISCLOSURE STATEMENT: PAGE 3

8. Names (if not given above) of officers and directors or trustees of any corporation or firm listed under Item 6 or Item 7 above:

NA

9. Is the developer a subsidiary of or affiliated with any other corporation or corporations or any other firm or firms? If yes, list each such corporation or firm by name and address, specify its relationship to the developer, and identify the officers and directors or trustees common to the developer and such other corporation or firm.

NA

10. The financial condition of the developer, as of September 2004 is reflected in the attached financial statement.

(Sent under previous cover)

11. If funds for the development are to be obtained from sources other than the developer's own funds, a statement of the developer's plan for financing the development:

The development will be financed with tax-exempt private activity bonds credit enhanced by either Fannie Mae or Freddie Mac through Berkshire Mortgage (DUS Underwriter and loan servicer). Fannie/Freddie will hold a letter of credit from a qualified financial institution during the construction period until completed. A Fairfield Residential LLC ("Fairfield") related entity will provide a guarantee of the letter of credit to the institution during the construction period. Equity for the transaction will be provided by a qualified tax credit investor through the purchase of tax credits generated from the property. The projected tax credit equity is subject to receiving an allocation of private activity bonds from the California Debt Limit Allocation Committee.

12. Sources and amount of cash available to developer to meet equity requirements of the proposed undertaking:

- a. In banks:

<u>Name, Address and ZIP Code of Bank</u>	<u>\$ Amount</u>
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Refer to Financial Statement

- b. By loans from affiliated or associated corporations or firms:

Name, Address and ZIP Code of Source

\$ Amount

Refer to Financial Statement

- c. By sale of readily salable assets:

Description

Market Value

Mortgages or Liens

Refer to Financial Statement

13. Name and addresses of bank references:

See attached schedule - #13

14. Has the developer or any of the developer's officers or principal members, shareholders or investors, or other interested parties been adjudged bankrupt, either voluntary or involuntary, within the past 10 years? Yes ____ No **X**____

If yes, give date, place, and under what name.

NA

15. Has the developer or anyone referred to above as "principals of the developer" been indicted for or convicted of any felony within the past 20 years? Yes ____ No **X**____

If yes, give for each case (1) date, (2) charge, (3) place, (4) Court, and (5) action taken. Attach any explanation deemed necessary.

NA

16. Undertakings, comparable to the proposed project, which have been completed by the developer including identification and brief description of each project and date of completion:

See attached schedule - #16

17. If the developer or a parent corporation, a subsidiary, an affiliate, or a principal of the developer is to participate in the development as a construction contractor or builder:

- a. Name and address of such contractor or builder:

**FF Development
5510 Morehouse Drive, Suite 200
San Diego, CA 92121**

858-457-2123

b. Has such contractor or builder within the last 10 years ever failed to qualify as a responsible bidder, refused to enter into a contract after an award has been made, or failed to complete a construction or development contract? Yes _____ No **X**_____ If yes, explain:

c. Total amount of construction or development work performed by such contractor or builder during the last three years: **\$1,363,080,979**

2001 \$470,390,863
 2002 453,112,797
 2003 242,928,461
 2004 196,648,858 (through 10/31/04)

General description of such work:

Fairfield's housing serves various economic groups: our product types range from new construction of high-end luxury apartments and affordable housing to redeveloping urban neighborhoods, and from university student housing to tax credit properties. We have a strong history of building multistory, garden style apartment homes with attached and detached garages, single level structures with subterranean parking, mid-rise and high-rise apartments, and mixed use, transit-oriented developments.

d. Construction contracts or developments now being performed by such contractor or builder:

<u>Identification of</u>		<u>Date to be</u>	
<u>Contract or Development</u>	<u>Location</u>	<u>Amount</u>	<u>Completed</u>

See attached schedule - #17d

e. Outstanding construction-contract bids of such contractor or builder:

<u>Awarding Agency</u>	<u>Amount</u>	<u>Date Opened</u>
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NA

18. Brief statement respecting equipment, experience, financial capacity, and other resources available to such contractor or builder for the performance of the work involved in the proposed project, specifying particularly the qualifications of the personnel, the nature of the equipment, and the general experience of the contractor:

In the past five years, Fairfield has constructed or redeveloped over \$4.8 billion of multifamily housing consisting of 50,642 apartment homes, which includes 17,000 with an affordable housing component. In fact, Fairfield has provided multifamily affordable housing since 1985.

Fairfield is an ongoing concern that is financially strong: we are partnered with Morgan Stanley & Company, the global banking firm, and we have consistently ranked among the top three multifamily construction companies nationwide. Year ended 2003, we reported record GAAP net income for the sixth consecutive year.

We have:

- **66 lenders in our current portfolio**
- **\$3.1 billion in total project commitments**
- **34 active equity partners**
- **\$1.1 billion investor equity in 148 assets**

Fairfield directly employs over 2,000 people nationwide (over 800 in California), and we also employ numerous local subcontractors in the communities in which we build and manage properties.

Fairfield's own development team secures entitlements for our apartment communities and our construction organization acts as our own general contractor.

Fairfield has over 150 people employed who deal with our construction projects in roles ranging from property development to construction management to construction accounting.

Fairfield will act as general contractor for Sycamore Estates and heading Fairfield's construction team is Jay S. Walker, Construction Vice President. Mr. Walker is responsible for all construction-related activities for Fairfield's Western division. Jay has directed the construction of over 25,800 multifamily units, development of several, single-family and condominium communities as well as the construction activities of the 400-acre master planned community, Ivy Ranch. He holds Contractors Licenses in the States of California, Arizona, Nevada, Washington and Oregon.

19. Does any member of the governing body of the San Diego Housing Commission, to which the accompanying proposal is being made, or any officer or employee of the San Diego Housing Commission who exercises any functions or responsibilities in connection with the carrying out of the project covered by the developer's proposal, have any direct or indirect personal financial interest in the developer or in the proposed contractor? Yes _____ No **X**_____

DISCLOSURE STATEMENT: PAGE 7

If yes, explain.

NA

20. Statements and other evidence of the developer's qualifications and financial responsibility (other than the financial statement referred to in Item 10) are attached hereto and hereby made a part hereof as follows:

NA

CERTIFICATION

I (We) Michelle Lord certify that this Developer's Statement for Public Disclosure and the attached evidence of the developer's qualifications and financial responsibility, including financial statements, are true and correct to the best of my (our) knowledge and belief.

Date: 12-3-04

Date: _____

Michelle Lord
Signature

Signature

Title: Vice President

Title: _____

Address & ZIP Code

5510 Morehouse Dr., Ste. 200
San Diego, CA 92121

BANK REFERENCES

Schedule #13

Bank of America
Cindy Wright
VP Global Treasury Management /Real Estate
(213) 621-4956
lucinda.wright@bankofamerica.com

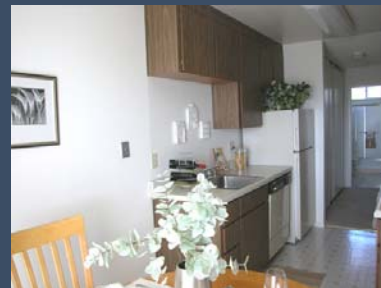
Union Bank of California
Pamela Regnery
VP Senior Relationship Manager
(619) 230-3787
pamela.regnery@uboc.com

Wells Fargo
Linda Schneider
Vice President Commercial Banking
(619) 699-3042
lschneid@wellsfargo.com

US Bank
Josephine Bennett
VP Commercial Banking
(858) 597-8867
josephine.bennett@usbank.com

FF Development L.P. - Western Region
General Contract Summary as of October 31, 2004

Project Name	Location	Total Contract Amount	Estimated Completion Date
Ironhorse @ Tramonto	Arizona	16,669,128	08/2005
Talus (Sonoran Foothills-Ph1)	Arizona	13,863,155	03/2006
Sansol (Sonoran Foothills-Ph2)	Arizona	13,748,548	03/2006
Mill Creek @ Windemere (San Ramon So)	California	37,048,046	10/2005
Canyon Oaks @ Windemere (San Ramon No)	California	23,414,562	06/2005
Canyon Park (Van Buren)	California	17,672,727	01/2005
Brickyard Place (Third Street)	California	19,389,605	03/2005
Esplanade (La Sierra)	California	41,099,902	07/2005
Muirlands (Creekview)	California	28,514,129	10/2005
NoHo Commons	California	54,198,585	06/2006
Verona @ Towne Square	California	36,232,751	02/2006
Cambay West Apartments (Medici Apts)	California	15,871,233	08/2005
Solaire Apartments	California	51,485,078	05/2006
Meritage @ Victoria Arbors (Ph I)	California	28,533,327	04/2006
Chambray @ Victoria Arbors (Ph II)	California	22,352,860	02/2006
Dixon/Bristols Apts	California	9,951,797	10/2005
Waterstone (Tracy)	California	14,205,938	01/2006
Total		444,251,371	





BAYCLIFF

Baycliff consists of 342 apartments and is in Richmond, CA, a growing, maritime, industrial and residential community with a thriving and changing economy. The garden-style apartment community was originally built in 1975 and was acquired by Fairfield in January 2004. The property enjoys an unrivaled view of the San Francisco skyline, Bay Bridge, Mount Tamalpais and San Pablo Bay, and is conveniently located next to the Hilltop Shopping Mall. Baycliff is easily accessible to Interstate 80, connecting tenants with Oakland, San Francisco and all major Bay area business centers.

Baycliff Apartments encompasses 23 buildings and offers five one and two bedroom apartment home designs. The property also boasts a sparkling swimming pool, a fitness center and tennis courts overlooking the San Francisco Bay area. Interior amenities include private balconies and decks, refurbished baths, generous storage and closet space, as well as refinished kitchens. As part of scheduled renovations budgeted to over \$4.2 million, almost half of all plumbing will be replaced. Landscaping surrounding Baycliff will be updated, irrigation systems will be repaired and a new pool fence will be erected. Interior renovations will include replacing most major appliances and window coverings, adding new flooring, refurbishing bathroom countertops and cabinets, and replacing damaged doors, light fixtures, wiring and windows. In keeping with the high-tech Bay Area environment, high speed DSL access is available to Baycliff residents.

Baycliff Apartments is located on nearly 16 acres of prime property in the heart of this thriving community with larger cities, such as Oakland and San Francisco, less than 45 minutes away. Contra Costa Community College is conveniently located and public transportation is available for Baycliff residents.

Richmond enjoys a dynamic business environment and a strong potential for further growth. The city's major manufacturers such as Chevron and Zeneca (formerly Stauffer Chemical) have continued to upgrade their Richmond facilities, making major investments to modernize, and expand their facilities and employment levels.

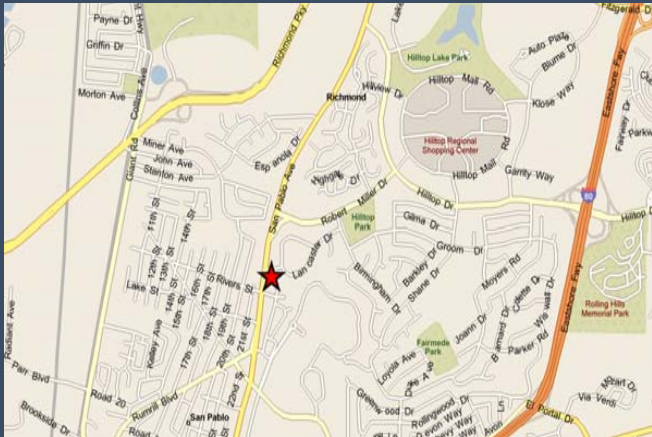
Baycliff Apartments offers easy access to Interstate 80 making Oakland, San Francisco and all Bay Area business centers assessable. It is convenient to BART and other public transportation, as well as Contra Coast Community College. It is adjacent to shopping, theaters and restaurants.

Amenities

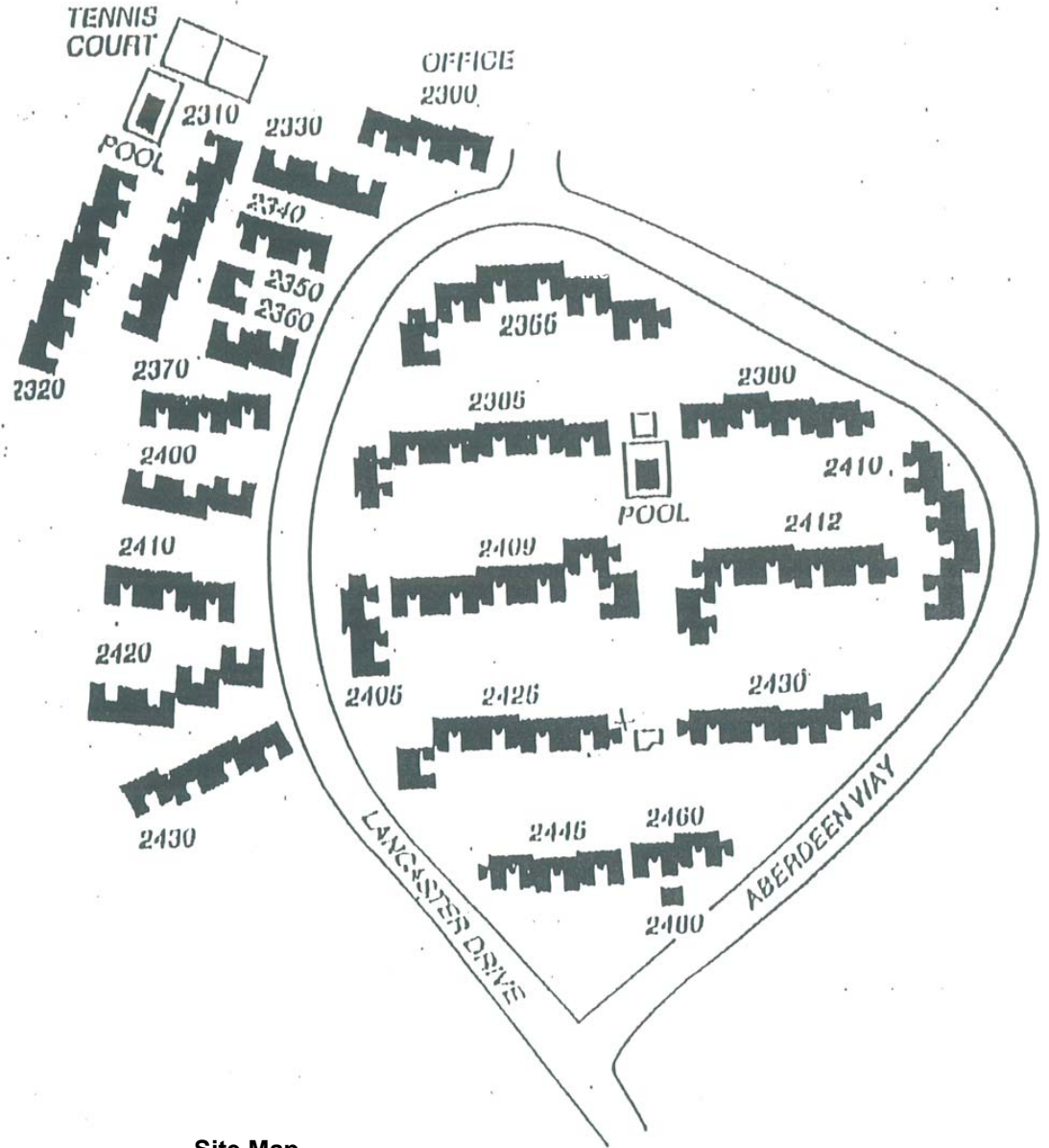
redesigned interiors including new paint and blinds
new carpeting and vinyl
refinished kitchens, many with new appliances
refurbished baths
private balconies and decks
generous storage and closet space
DSL internet access service available
cats welcome
reserved covered parking
sparkling pool and fitness center
tennis court overlooking the Bay Area

Community Highlights

fantastic views of surrounding areas
minutes from shopping, restaurants and entertainment
near Contra Costa Community College
convenient to I-80, Richmond Parkway, BART and public transportation



Location Map



Site Map





BRISTOL

APARTMENT HOMES

Bristol is Fairfield's newest affordable housing construction project and is located in Dixon, California. Fairfield acquired the property in July 2004, and just recently hosted a groundbreaking ceremony to celebrate the start of construction. The architecture will compliment the style of the nearly 840 proposed single-family homes in the neighborhood with a stucco finish and a 40-year acoustic roofing material. The firm of Rodriguez and Simon Design Associates designed the development by incorporating ideas from the Valley Glen Specific Plan.

Bristol will consist of 102 one, two and three bedroom homes designed by award-winning architects who have significant experience with workforce and affordable housing. Bristol's future residents will enjoy all the luxuries of a newly constructed apartment community with walk-in closets, ample storage space, balconies, Energy Star utilities and tiled entryways.

Construction, itself, includes major earthwork, underground utilities, reinforced concrete slab, structural steel, wood framing, wood frame pitched roofs with concrete tile and stucco finishes. We will be installing artistic exterior lighting and lush landscaping.

There will be sufficient parking to allow two spaces per apartment within the complex and some carport spaces. Visitor parking will be clearly identified, and the property will benefit from a 5 acre veteran's park located in the center of the master planned development.

From its beginnings, Dixon has been a commercial and transportation hub in California's Sacramento Valley. Today Dixon is a business-friendly city in Solano, the fastest growing of the nine San Francisco Bay Area counties. The area is ideally situated along the growing Interstate 80 corridor with new corporate offices, branch operations and manufacturing facilities being developed. Dixon maintains its small town charm while providing easy access to the attractions of Sacramento and San Francisco, the Napa and Sonoma wine regions, the rugged Northern California Coast and Lake Tahoe. Located five miles away are the academic and cultural resources of the University of California at Davis. Fairfield's Bristol apartments will offer residents the high quality of life that is associated with strong business performance, convenient location and beautiful natural surroundings.

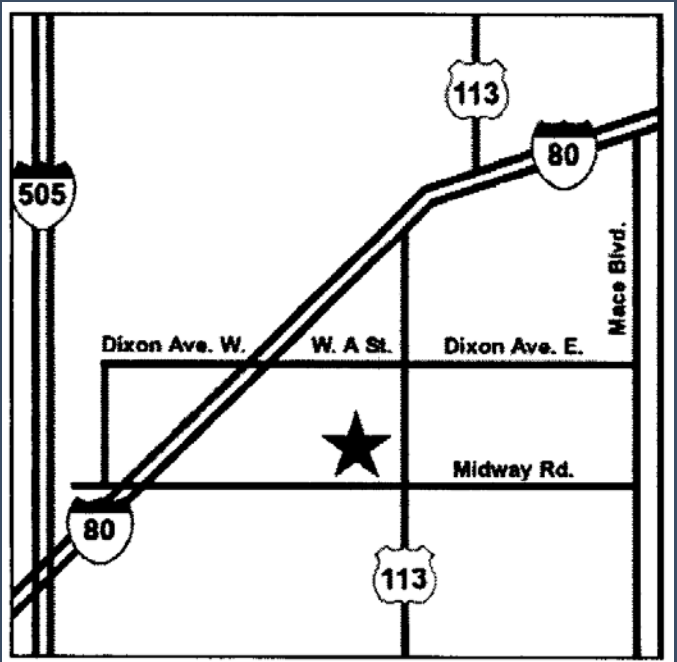


Amenities

- new two and three bedroom garden apartments
- tiled entryways
- Energy Star utilities
- on site laundry facilities
- walk-in closets
- community room with resident services

Community Highlights

- newest apartment community in Dixon
- located along the I-80 corridor
- near the new Veteran's Park
- five miles to University of California
- close to annual Dixon May Fair



Location Map





MUIRLANDS

AT WINDEMERE

Muirlands at Windemere is a 350-unit luxury affordable housing apartment property developed in the over 2,300 acre Windemere Master Planned Community near the city of San Ramon, California. Windemere and the nearby Gale Ranch Master Plan will have a combined total of 11,000 housing units by 2020.

When complete, Muirlands will consist of 350 apartment homes with one, two and three bedroom designs. Located just 3.5 miles east of Interstate 680 and 5 miles north of Interstate 580 in Contra Costa County, the property is within minutes of Bishop Ranch Office Park, which offers 5.9 million square feet of office space and employs over 30,000 people. The office park is currently home to more than 350 companies including such Fortune 500 companies as Pacific Bell, AT&T, Toyota, ChevronTexaco, and United Parcel Service.

Muirlands at Windemere was designed to allow for ample open space and park like settings consistent with the community's master plan. The development clusters around area parks and community facilities that provide a sense of neighborhood through visual and physical connections. Apartment home amenities include walk-in closets, patios and balconies, Energy Star appliances and tiled entryways.

This new apartment complex will include eight apartment buildings, a separate leasing building, a luxurious resident clubhouse, resort style pool and cabana room, and mail kiosks. Construction requires major earthwork and concrete work, underground utilities, slab-on-grade construction, structural steel, wood framing and trusses, composition and built-up roofing, and stucco finishes. Irrigation and

San Ramon is an attractive, expanding city that expects to add over 16,000 jobs within the next 15 years, which represents a 58% increase over the number of jobs currently in the area. The city is an affluent community with an average household income in 2000 of \$95,856, resulting in higher average market rents and further increasing the need for affordable housing. San Ramon is at the heart of the San Ramon valley and is surrounded by the prosperous communities of Alamo, Blackhawk, Danville, and Diablo.

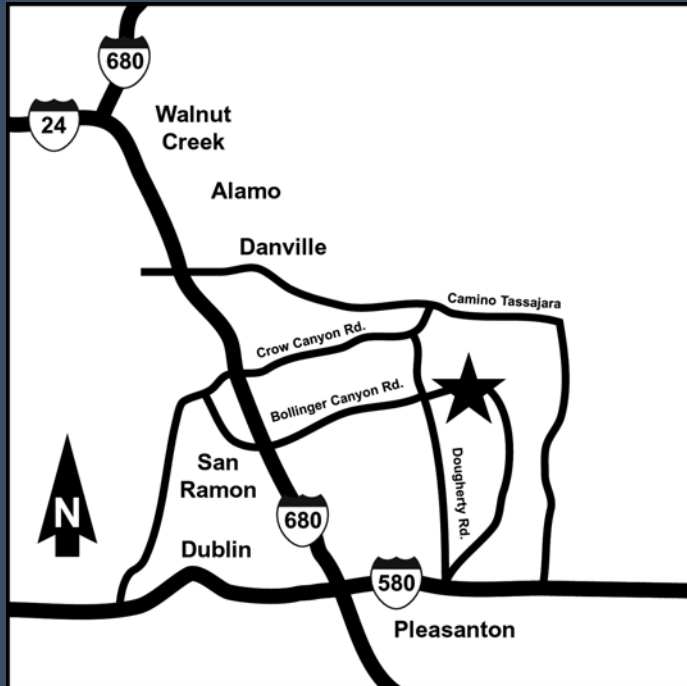


Amenities

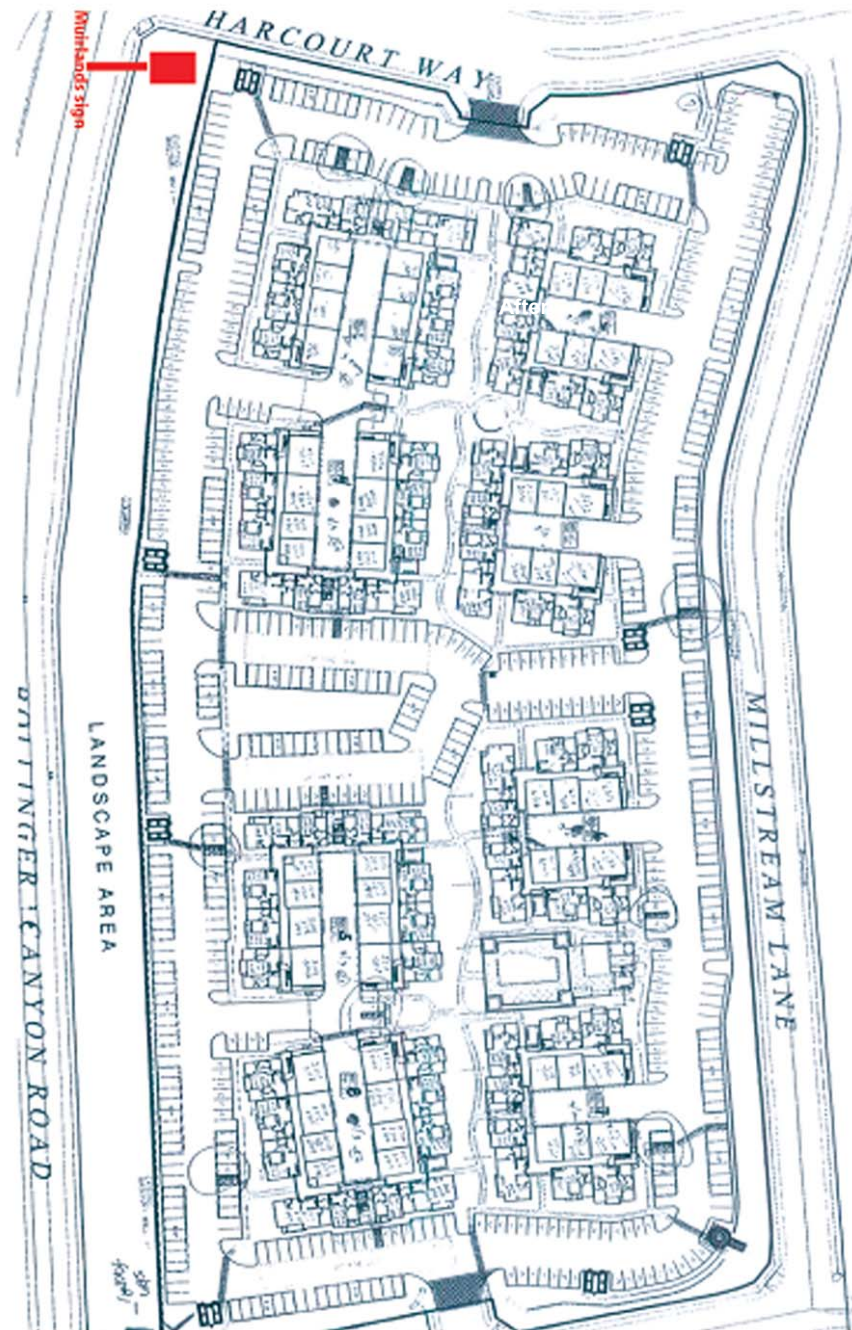
- resort style pool
- on site laundry facilities
- luxurious resident clubhouse
- pet friendly
- professional on site management and maintenance
- professionally managed quality after school & family support programs by Wakeland Housing

Community Highlights

- convenient to shopping, entertainment & dining
- located within the San Ramon Unified School District
- minutes from Bishop Ranch Business Park, industrial parks & BART station



Location Map



Site Map

FAIRFIELD RESIDENTIAL LLC

Consolidated Financial Statements

Years ended December 31, 2004 and 2003 with Report of Independent Auditors

Fairfield Residential LLC

Consolidated Financial Statements

Years ended December 31, 2004 and 2003

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Report of Independent Auditors

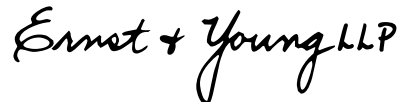
The Members
Fairfield Residential LLC

We have audited the accompanying consolidated balance sheets of Fairfield Residential LLC as of December 31, 2004 and 2003, and the related consolidated statements of income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fairfield Residential LLC at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The consolidating balance sheets and consolidating statements of income are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



February 11, 2005

Fairfield Residential LLC

Consolidated Balance Sheets

	December 31,	
	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 69,333,556	\$ 42,179,334
Restricted cash	9,755,765	2,432,019
Short-term investments	6,000,000	11,965,974
Due from affiliates (net of allowance for doubtful accounts of \$1,878,492 and \$1,454,800, respectively)	50,505,323	35,574,575
Accounts and other receivables	5,853,784	3,014,384
Pre-acquisition costs, deposits and other	28,754,547	19,728,812
Costs and estimated earnings in excess of billings on uncompleted construction contracts	6,826,088	9,166,662
Total current assets	177,029,063	124,061,760
Investments in and advances to unconsolidated entities	57,820,198	48,991,937
Real estate under development	191,390,222	75,068,801
Pre-acquisition costs, deposits and other	8,110,572	9,881,424
Furniture, equipment and leasehold improvements, net	2,511,640	2,571,181
Deferred costs, net	1,568,818	1,610,328
Goodwill, net	13,690,409	13,690,409
Total assets	\$ 452,120,922	\$ 275,875,840
Liabilities and members' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 62,438,266	\$ 28,856,680
Due to affiliates	–	21,411
Billings in excess of costs and estimated earnings on uncompleted construction contracts	1,613,596	3,714,660
Current portion of notes payable – secured	55,357,218	7,596,406
Current portion of notes payable – unsecured	3,120,000	2,800,000
Total current liabilities	122,529,080	42,989,157
Notes payable – secured	117,949,951	60,391,909
Notes payable – unsecured	34,962,419	36,959,184
Total liabilities	275,441,450	140,340,250
Minority interest	16,514,679	1,762,533
Commitments and contingencies (<i>Note 10</i>)		
Members' equity	160,164,793	133,773,057
Total liabilities and members' equity	\$ 452,120,922	\$ 275,875,840

See accompanying notes.

Fairfield Residential LLC

Consolidated Statements of Income

	Years ended December 31,	
	2004	2003
Revenue		
Construction contracts	\$ 277,057,824	\$ 242,928,461
Management fees	15,780,647	15,640,681
Development fees	16,766,464	11,421,440
Redevelopment fees	5,970,041	4,076,697
Incentive management fees	3,245,785	2,272,761
Acquisition fees	6,592,821	4,311,852
Disposition fees	6,245,870	4,810,197
Equity in earnings of unconsolidated entities, net	33,356,509	23,770,485
Gain on real estate sales	7,987,048	–
Other income	6,680,415	7,117,893
	379,683,424	316,350,467
Expenses		
Cost of construction contracts	265,320,655	229,413,802
Payroll and related	44,722,671	32,678,480
General and administrative	23,956,315	17,579,444
Depreciation and amortization	2,263,185	1,111,326
Interest	–	465,724
	336,262,826	281,248,776
Income before minority interest	43,420,598	35,101,691
Minority interest	2,070,815	33,212
Net income	\$ 45,491,413	\$ 35,134,903

See accompanying notes.

Fairfield Residential LLC

Consolidated Statements of Members' Equity

	Class A		Class B		Note Receivable from FF MEF	Other Comprehensive Income	Total
	FF Investments		FF MEF	FF MEF			
	LLC	MSREF					
Balance at December 31, 2002	\$ 70,424,855	\$ 53,481,317	\$ -	\$ -	\$ -	\$ -	\$ 123,906,172
Contributions	-	-	3,000,000	(2,250,000)	-	-	750,000
Distributions	(13,518,607)	(12,206,683)	(292,728)	-	-	-	(26,018,018)
Net income	20,142,207	14,066,294	926,402	-	-	-	35,134,903
Balance at December 31, 2003	77,048,455	55,340,928	3,633,674	(2,250,000)	-	-	133,773,057
Payments on note receivable	-	-	-	28,728	-	-	28,728
Distributions	(9,732,711)	(8,993,096)	(459,007)	-	-	-	(19,184,814)
Net income	26,378,196	17,869,163	1,244,054	-	-	-	45,491,413
Other comprehensive income	-	-	-	-	-	56,409	56,409
Balance at December 31, 2004	\$ 93,693,940	\$ 64,216,995	\$ 4,418,721	\$ (2,221,272)	\$ -	\$ 56,409	\$ 160,164,793

See accompanying notes.

Fairfield Residential LLC

Consolidated Statements of Cash Flows

	Years ended December 31,	
	2004	2003
Operating activities		
Net income	\$ 45,491,413	\$ 35,134,903
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,263,185	1,111,326
Minority interest	(2,070,815)	(33,212)
Equity in earnings of unconsolidated entities, net	(33,356,509)	(23,770,485)
Gain on real estate sales	(7,987,048)	-
Changes in operating assets and liabilities:		
Due from affiliates	(14,930,748)	16,122,788
Accounts and other receivables	(2,839,400)	(302,150)
Pre-acquisition costs, deposits and other	(7,254,883)	(10,878,462)
Costs and estimated earnings in excess of billings on uncompleted construction contracts	2,340,574	(2,191,629)
Deferred costs	(266,219)	(484,555)
Accounts payable and accrued liabilities	33,581,586	(12,780,015)
Due to affiliates	(21,411)	(68,156)
Billings in excess of costs and estimated earnings on uncompleted construction contracts	(2,101,064)	1,340,980
Net cash provided by operating activities	12,848,661	3,201,333
Investing activities		
Purchase of furniture, equipment and leasehold improvements	(1,895,915)	(869,524)
Purchases of short-term investments	(10,978,367)	(16,950,079)
Sales of short-term investments	16,944,341	4,984,105
Contributions and advances to investments in unconsolidated entities	(39,073,083)	(19,491,046)
Distributions and repayments from investments in unconsolidated entities	60,066,112	45,015,958
Proceeds from real estate sales	11,522,267	-
Additions to real estate under development	(113,527,268)	(35,532,104)
Net cash used in investing activities	(76,941,913)	(22,842,690)
Financing activities		
Proceeds from notes payable	144,399,941	78,445,801
Principal payments on notes payable	(43,545,897)	(38,757,289)
Increase (decrease) in restricted cash	(7,323,746)	2,794,468
Payments on note receivable from Class B member	28,728	750,000
Contributions from minority partners	17,847,928	534,732
Distributions to members	(19,184,814)	(26,018,018)
Distributions to minority partners	(974,666)	-
Net cash provided by financing activities	91,247,474	17,749,694
Net increase (decrease) in cash and cash equivalents	27,154,222	(1,891,663)
Cash and cash equivalents at beginning of year	42,179,334	44,070,997
Cash and cash equivalents at end of year	\$ 69,333,556	\$ 42,179,334
Noncash financing activities		
Debt discount amortization on participating loans	\$ 2,788,045	\$ -

See accompanying notes.

Fairfield Residential LLC

Notes to Consolidated Financial Statements

December 31, 2004

1. Organization and Summary of Significant Accounting Policies

Formation and Principles of Consolidation

Fairfield Residential LLC (the “Company”), a Delaware limited liability company, was formed on November 18, 1997, by FF Investments LLC (“Fairfield”) and The Morgan Stanley Real Estate Fund II, L.P. and its affiliates (“MSREF”).

The operating agreement of the Company was amended and restated as of September 1, 2003 (the “operating agreement”), providing for the admission of a Class B Member of the Company. The Class B Member, FF MEF LLC (“FF MEF”), was formed as a vehicle through which certain executives of the Company indirectly acquired ownership interests in the Company pursuant to the Fairfield Residential Equity Buy-In Incentive Plan (the “Equity Buy-In Plan”). During 2003, FF MEF contributed \$3,000,000 to the Company comprising of cash of \$750,000 and a note receivable of \$2,250,000 (see Note 9).

Profits and losses are allocated and cash is distributed in accordance with the operating agreement. The Company’s operating agreement provides for a promoted interest for Fairfield and FF MEF after MSREF achieves a target return. During 2004 and 2003, net income is allocated on the basis of MSREF achieving its target return and Fairfield and FF MEF receiving its promoted interest.

Each member’s liability is limited pursuant to the Delaware Limited Liability Company Act. The term of the Company shall continue until December 31, 2055, unless sooner terminated or further extended pursuant to the provisions of the operating agreement.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Formation and Principles of Consolidation (continued)

The consolidated balance sheets include the accounts of the Company and the following wholly owned limited partnerships and limited liability companies and their majority-owned and controlled subsidiaries that are not considered variable interest entities (VIEs):

- FF Properties L.P. (“FFP”)
- FF Development L.P. (“FFD”)
- FF Realty LLC (“FFR”)
- Fairfield Financial LLC (“FFIN”)
- Fairfield Financial A LLC (“FFIN A”)
- Fairfield Financial B LLC (“FFIN B”)
- Fairfield Financial C LLC (“FFIN C”)
- FF California Housing Fund LLC (“FF CHF”)
- Fairfield Affordable Housing LLC (“FAH”)

FFP provides property management, leasing, asset acquisition and disposition services. FFD is a general contractor specializing in multifamily housing and provides development and construction services. FFR acquires options on real property and enters into purchase agreements for real property. FFIN holds general partner and managing member interests in partnerships and companies engaged in real property ownership. FFIN A, B, C and FF CHF hold general partner and managing member interests and/or limited partner and nonmanaging member interests in partnerships and companies engaged in real property ownership. FFIN, FFIN A, B, C, and FF CHF are collectively referred to as Fairfield Financial LLC. FAH holds general partner and managing member interests in partnerships and companies engaged in ownership of real property that are to be placed in service as affordable housing.

In addition, the consolidated financial statements include the accounts of certain VIEs for which the Company is the primary beneficiary (see Note 5).

All significant intercompany transactions have been eliminated in consolidation. The outside owner of a consolidated entity is accounted for as minority interest (see Note 6).

The Company earns significant revenue from affiliates (see Note 9).

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the revenues and expenses for the periods then ended. Due to uncertainties inherent in the estimation process, it is reasonably possible that the actual amounts could differ materially from these estimates in the near term.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Restricted Cash

Restricted cash consists of funds on deposit with lenders, primarily related to tax credit limited partnerships, to be used as security for payment of principal and interest on loans.

Short-term Investments

Short-term investments consist of investments in government securities, certificates of deposit and commercial paper with maturities greater than three months when purchased.

Consolidation of Variable Interest Entities

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which was revised in December 2003 ("FIN 46"). Under FIN 46, arrangements that are not controlled through voting or similar rights are accounted for as VIEs. An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE. FIN 46 applied immediately to arrangements created after December 31, 2003, and, with respect to arrangements created before December 31, 2003, the interpretation will apply to the Company beginning January 2005.

Under FIN 46, a VIE is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity through voting or similar rights, (b) are not obligated to absorb expected losses of the

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Consolidation of Variable Interest Entities (continued)

entity or (c) do not have the rights to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses or residual returns of the VIE is considered the primary beneficiary and must consolidate the VIE.

Based on the provisions of FIN 46 the Company has concluded that under certain circumstances when the Company (i) enters into option agreements for the purchase of land from an entity and pays a nonrefundable deposit or (ii) enters into arrangements with a financial partner for the formation of joint ventures which engage in multifamily real estate projects, a VIE may be created under condition (ii) in the previous paragraph. For each VIE created, the Company will compute expected losses and residual returns based on the probability of future cash flows. If the Company is determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE will be consolidated with the Company's financial statements (see Note 5).

At December 31, 2004, certain tax credit limited partnerships created after December 31, 2003, have been determined to be VIEs under FIN 46 in which the Company is considered the primary beneficiary. Accordingly, the assets, liabilities and operations of these limited partnerships have been consolidated with the Company's financial statements as of December 31, 2004, and for the year then ended.

Investments in and Advances to Unconsolidated Entities

Investments in and advances to unconsolidated entities consist principally of noncontrolling interests of 50% or less in entities formed to develop and hold multifamily real estate projects for operation or sale. The equity method of accounting is used for these investments because the Company has the ability to exercise significant influence. Under the equity method, the Company recognizes its share of the net earnings or losses of the investees as earned or incurred, and increases or reduces the carrying value of its investment by the amount of contributions and advances made or distributions received. Profits earned from fees on these investments have been eliminated to the extent of the Company's interest in the investees, and interest costs are capitalized to the investment balance during the period the investee's real estate is under development. Estimated losses relating to the Company's investments in and advances to unconsolidated entities are included in equity in earnings of unconsolidated entities, net.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Furniture, Equipment and Leasehold Improvements

Furniture and equipment are recorded at cost and are depreciated using accelerated methods over three to seven years. Leasehold improvements are recorded at cost and are depreciated using the straight-line method over the terms of the underlying leases.

Deferred Costs

Deferred costs consist of loan fees which are recorded at cost and amortized over the terms of their respective loans.

Real Estate Under Development

The real estate projects are recorded at cost. The cost of land, land improvements, construction, and construction period interest and real estate taxes are capitalized until the real estate project is substantially complete and ready for its intended use.

Goodwill

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. In accordance with SFAS No. 142, goodwill is no longer amortized, but subject to periodic tests for impairment of recorded values. At December 31, 2004 and 2003, management believes there have been no indicators of impairment related to goodwill.

Impairment of Long-Lived Assets

Real estate projects, furniture, equipment and leasehold improvements, and investments in unconsolidated entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets to be held and used or, for assets to be disposed of, to the extent the carrying amount of the assets exceeds the fair value of the property less selling costs.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Construction contract revenue is recognized on the percentage-of-completion method based on actual costs incurred and management's estimates of the total cost to complete. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determinable.

Contract costs include all direct materials, labor and subcontract costs and those indirect costs related to contract performance such as indirect labor, insurance and supplies.

Construction, management, development, redevelopment, incentive management, acquisition and disposition fees are recognized when services are performed and realization is assured. Fees that are contingent upon the occurrence of certain events, such as the results from the sale or refinancing of a project or the attainment of specific levels of stabilization or cash flow, are deferred until such time as realization is assured.

The Company generally leases its rental property under six-month to one-year operating leases. Rental income is recognized as earned on a monthly basis.

Real estate sales are recorded using the full accrual method, and profit is recognized when title to the real estate sold is passed to the buyer and the buyer has made an adequate financial commitment.

Income Taxes

The consolidated financial statements contain no provision for income taxes since the income or loss of the Company flows through to the Members, who are responsible for including their share of the taxable results of operations on their respective tax returns.

Financial Instruments

The Company believes that the carrying values of its financial instruments reflected in the consolidated balance sheets reasonably approximate the fair values for short-term investments, receivables and all liabilities. In making such assessments, the Company used estimates and market rates for similar instruments.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Financial Instruments (continued)

Derivative financial instruments are carried on the balance sheet in other assets or liabilities at fair value, with changes in fair value recorded in earnings, or other comprehensive income, depending on the nature of the instrument. The Company is exposed to fluctuations in interest rates that can affect its cost of financing and at times addresses this risk by entering into an interest rate swap agreement.

Concentration of Credit Risk

Cash is held in demand deposit accounts at banks, which, at times, exceed federally insured limits. Additionally, short-term investments in certificates of deposit and commercial paper are unsecured obligations of the issuer. No losses have been experienced related to such amounts.

A significant portion of the Company's receivables are due from affiliates engaged in the real estate business. The Company does not require collateral for such receivables.

Reclassification

Certain amounts within the prior year financial statements have been reclassified to conform to the current year presentation.

2. Costs and Billings on Uncompleted Construction Contracts

Information with respect to uncompleted construction contracts is as follows:

	December 31,	
	2004	2003
Costs incurred on uncompleted contracts	\$ 492,223,083	\$ 765,506,738
Estimated earnings	22,420,422	34,360,895
	514,643,505	799,867,633
Less billings to date	(509,431,013)	(794,415,631)
	\$ 5,212,492	\$ 5,452,002

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

2. Costs and Billings on Uncompleted Construction Contracts (continued)

These amounts are included in the accompanying consolidated balance sheets under the following captions:

	December 31,	
	2004	2003
Costs and estimated earnings in excess of billings on uncompleted construction contracts (including affiliates of \$6,825,522 in 2004 and \$6,786,202 in 2003)	\$ 6,826,088	\$ 9,166,662
Billings in excess of costs and estimated earnings on uncompleted construction contracts (including affiliates of \$1,396,008 in 2004 and \$3,714,660 in 2003)	(1,613,596)	(3,714,660)
	\$ 5,212,492	\$ 5,452,002

3. Pre-acquisition Costs, Deposits and Other

Pre-acquisition costs, deposits and other consist of the following:

	December 31,	
	2004	2003
Pre-acquisition costs	\$ 18,950,596	\$ 15,594,367
Earnest money deposits	16,067,602	12,804,200
Other	1,552,899	1,211,669
	36,571,097	29,610,236
Other – VIEs	294,022	–
	36,865,119	29,610,236
Less current portion	(28,754,547)	(19,728,812)
	\$ 8,110,572	\$ 9,881,424

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

4. Real Estate Under Development

Real estate under development consists of the following:

	December 31,	
	2004	2003
Land	\$ 47,680,271	\$ 26,061,415
Rental properties under development	59,801,533	49,007,386
	107,481,804	75,068,801
Rental properties under development – VIEs	83,908,418	–
	\$ 191,390,222	\$ 75,068,801

Real estate under development consists of land parcels and rental property under development which the Company intends to develop or contribute, at its cost, to affiliated joint ventures which will develop apartments.

5. Consolidation of Variable Interest Entities

During 2004, the Company became the general partner in five limited partnerships in which the Company has little or no direct financial investment. The limited partnerships which have been determined to be VIEs are all engaged in the development of multifamily apartment projects designated for occupancy by individuals of low to moderate income. Each building of the project has qualified for and is entitled to low-income housing credits pursuant to Internal Revenue Code Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Limited partners in the investment partnerships are most often corporations which are able to utilize the tax benefits, which are comprised of operating losses and the low-income housing credits.

The Company has concluded that, as the general partner for these types of investments, and because the partners do not have the right to remove the Company as such, the Company is the primary beneficiary as defined by FIN 46 because the Company absorbs the majority of the expected income and loss variability, which is disproportionate to any actual ownership interest. The Company has consolidated the assets and liabilities of these entities in the balance sheet and has recorded their results of operations in the statement of income as of December 31, 2004, and for the year then ended. Prior period information has not been restated to conform to the presentation in the current period.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

5. Consolidation of Variable Interest Entities (continued)

Additionally, the Company enters into option agreements for the purchase of land for development of multifamily real estate projects. Under such option agreements, the Company will fund a stated deposit in consideration for the right, but not the obligation, to purchase land at a future point in time, typically less than one year, with predetermined terms. Under the terms of the option agreement, many of the Company's option deposits are non-refundable. Certain non-refundable deposits are deemed to create a variable interest in a VIE under the requirements of FIN 46.

In applying the provisions of FIN 46, the Company evaluates those land option agreements with VIEs to determine whether the Company is the primary beneficiary based upon an analysis of the variability of the expected gains and losses of the land. If the Company is determined to be the primary beneficiary, the VIE is consolidated.

The Company has determined that it is not the primary beneficiary of VIEs created by non-refundable option deposits since it is not subject to a majority of the variability of the expected losses. The Company's maximum exposure to loss in these VIEs is limited to the amount of the Company's non-refundable option deposits which totaled approximately \$5.1 million with a total land purchase price of approximately \$124.7 million as of December 31, 2004.

6. Investments in and Advances to Unconsolidated Entities

The limited partnerships and limited liability companies in which the Company is an investor are generally engaged directly or indirectly in the acquisition, development and ownership of residential real estate. The accounting principles of these entities are substantially the same as those of the Company. Summarized unaudited financial information for aggregate total assets, liabilities and net income of these investees on a combined basis, as of December 31, 2004 and 2003 and for the years then ended is as follows:

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

6. Investments in and Advances to Unconsolidated Entities (continued)

	December 31,	
	2004	2003
	<i>(Unaudited)</i>	
Current assets	\$ 117,680,122	\$ 165,076,480
Noncurrent assets, primarily real estate under development	3,391,402,314	3,089,927,993
Total assets	<u>\$ 3,509,082,436</u>	<u>\$ 3,255,004,473</u>
Current liabilities	\$ 109,873,575	\$ 132,489,166
Long-term advances payable to the Company	4,780,064	8,551,717
Long-term debt	2,354,850,052	2,215,731,417
Total liabilities	<u>2,469,503,691</u>	<u>2,356,772,300</u>
Capital	1,039,578,745	898,232,173
Total liabilities and capital	<u>\$ 3,509,082,436</u>	<u>\$ 3,255,004,473</u>
The Company's share of capital	<u>\$ 61,452,049</u>	<u>\$ 43,148,807</u>
Net income	<u>\$ 171,381,358</u>	<u>\$ 114,965,653</u>
The Company's share of net income, as adjusted	\$ 33,356,509	\$ 23,770,485

Included in the Company's share of earnings for 2004 and 2003 is \$45,601,173 and \$29,128,640, respectively, of income attributable to the disposition of residential real estate by the unconsolidated entities.

The Company assesses the recoverability of its investments in and advances to unconsolidated subsidiaries. Net losses were not significant for the years ended December 31, 2004 and 2003.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

6. Investments in and Advances to Unconsolidated Entities (continued)

The difference between the Company's investments in and advances to unconsolidated entities of \$57,820,198 and \$48,991,937 at December 31, 2004 and 2003, respectively, and its share of the underlying capital of the unconsolidated entities and long-term advances payable to the Company is attributable to the following items which are included in the Company's investments in and advances to unconsolidated entities: certain additional long-term advances to the unconsolidated entities, estimated losses relating to the Company's investments and advances, the allocation of fair value in excess of historical cost recorded upon formation of the Company, capitalized interest, and intercompany profit elimination adjustments. These differences are recognized by the Company in its share of net income and upon the sale of the projects held by the unconsolidated entities.

In October 2002, the Company adopted the Fairfield Residential Co-Investment Plan (the "Plan"), to allow selected employees and affiliates of the Company to co-invest with the Company in multifamily real estate projects. Since inception, pursuant to the Plan, affiliated entities ("CIF I and CIF II, known collectively as CIF") were formed to effectively co-invest in projects formed after September 1, 2002. As of December 31, 2004 and 2003, CIF had invested \$4,241,162 and \$1,795,746 in 61 and 30 projects, respectively. Pursuant to the Plan, CIF invested, on the same basis as the Company, 9.5% of the total capital contributions required from the Company for these investments. The interest of the Company's employees and affiliates in CIF is accounted for as minority interest.

7. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements consist of the following:

	December 31,	
	2004	2003
Furniture and equipment	\$ 2,313,426	\$ 2,008,381
Computer equipment	4,797,187	3,409,043
Leasehold improvements	1,370,820	1,170,869
	8,481,433	6,588,293
Accumulated depreciation	(5,969,793)	(4,017,112)
	\$ 2,511,640	\$ 2,571,181

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

8. Notes Payable

Notes payable consist of the following:

Secured	December 31,	
	2004	2003
Note payable to a bank with a maximum commitment of \$45,544,749, secured by real property in Atlanta, GA, interest accrues monthly at the greater of 4.75% or LIBOR plus 2% (4.39% at December 31, 2004), unpaid principal and interest due December 30, 2005.	\$ 38,452,200	\$ 18,846,344
Note payable to a bank with a maximum commitment of \$25,000,000, secured by real property in San Jose, CA, interest payable monthly at the Prime Rate plus .25% (5.50% at December 31, 2004), unpaid principal and interest due May 6, 2006.	18,996,318	6,672,518
Note payable to a corporation with a maximum commitment of \$11,396,000, secured by restricted cash of \$444,530 at December 31, 2004, and by real property in Atlanta, GA, interest payable monthly at a fixed rate of 10% per annum, with participation features, unpaid principal and interest due January 1, 2008.	11,747,267	11,396,000
Note payable to a corporation with a maximum commitment of \$6,305,852, secured by restricted cash of \$202,650 at December 31, 2004, and by real property in San Jose, CA, interest payable monthly at a fixed rate of 10% per annum, with participation features, unpaid principal and interest due June 1, 2008.	8,742,630	6,305,852
Note payable to a third party with a maximum commitment of \$6,416,544, secured by real property in San Diego, CA, interest payable monthly at 6%, unpaid principal and interest due July 15, 2005.	6,416,544	–
Note payable to a bank with a maximum commitment of \$5,383,877, secured by real property in Coral Gables, FL, interest payable monthly at LIBOR plus 2.5% (4.89% at December 31, 2004), unpaid principal and interest due November 5, 2005.	5,383,977	–

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

8. Notes Payable (continued)

Secured (continued)	December 31,	
	2004	2003
Note payable to a bank with a maximum commitment of \$3,804,497, secured by real property in Lake Elsinore, CA, interest payable monthly at Prime Rate (5.25% at December 31, 2004), unpaid principal and interest due September 15, 2005.	\$ 3,804,497	\$ —
Note payable to a bank with a maximum commitment of \$1,300,000, secured by real property in Georgetown, TX, interest payable quarterly at the Prime Rate plus 1.0% (6.25% at December 31, 2004), unpaid principal and interest due May 14, 2005.	1,300,000	1,300,000
Note payable to a bank with a maximum commitment of \$23,144,675, secured by real property in Thornton, CO, interest accrues monthly at LIBOR plus 2% (3.12% at December 31, 2003), unpaid principal and interest due March 1, 2005.	—	9,900,195
Note payable to a corporation with a maximum commitment of \$7,271,000, secured by restricted cash of \$353,191 at December 31, 2003, and by real property in Thornton, CO, interest payable monthly at a fixed rate of 10% per annum, with participation features, unpaid principal and interest due October 1, 2007.	—	7,271,000
Note payable to a third party with a maximum commitment of \$4,514,662, secured by real property in Germantown, MD, interest payable quarterly at a fixed rate of 6%, unpaid principal and interest due September 30, 2004.	—	4,514,662
Note payable to a bank with a maximum commitment of \$1,856,250, secured by real property in Austin, TX, interest payable quarterly at LIBOR plus 2.5% (3.62% at December 31, 2003), unpaid principal and interest due November 19, 2004.	—	1,781,744
	94,843,433	67,988,315

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

8. Notes Payable (continued)

Secured – VIEs	December 31,	
	2004	2003
Note payable to a city with a maximum commitment of \$28,800,000, financed by tax-exempt bonds, interest payable monthly at a variable rate (2.02% at December 31, 2004), unpaid principal and interest due August 20, 2037.	\$ 28,800,000	\$ —
Note payable to a city with a maximum commitment of \$17,450,000, financed by tax-exempt bonds, interest payable monthly at a variable rate (2.02% at December 31, 2004), unpaid principal and interest due November 15, 2037.	17,450,000	—
Note payable to a city with a maximum commitment of \$9,500,000, financed by tax-exempt bonds, interest payable monthly at a variable rate (2.02% at December 31, 2004), unpaid principal and interest due August 1, 2037.	9,500,000	—
Note payable to a city with a maximum commitment of \$7,325,000, financed by tax-exempt bonds, interest payable monthly at a variable rate (2.04% at December 31, 2004), unpaid principal and interest due March 1, 2037.	7,325,000	—
Note payable to a city with a maximum commitment of \$7,000,000, financed by tax-exempt bonds, interest payable monthly at a variable rate (4.0% at December 31, 2004), unpaid principal and interest due May 1, 2037.	7,000,000	—
Note payable to a city with a maximum commitment of \$28,800,000, financed by tax-exempt bonds, interest payable monthly at a variable rate (2.47% at December 31, 2004), unpaid principal and interest due August 15, 2037.	3,200,000	—
Note payable to a city with a maximum commitment of \$3,000,000, financed by tax-exempt bonds, interest payable monthly at a variable rate (4.43% at December 31, 2004), unpaid principal and interest due May 1, 2037.	3,000,000	—

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

8. Notes Payable (continued)

Secured – VIEs (continued)	December 31,	
	2004	2003
Note payable to a city with a maximum commitment of \$1,300,000, financed by tax-exempt bonds, interest payable monthly at a fixed rate of 4.0%, unpaid principal and interest due April 15, 2037.	\$ 1,288,736	\$ –
Note payable to a city with a maximum commitment of \$900,000, financed by tax-exempt bonds, interest payable monthly at a variable rate (2.47% at December 31, 2004), unpaid principal and interest due August 1, 2037.	900,000	–
	78,463,736	–
	173,307,169	67,988,315
Less current portion	(55,357,218)	(7,596,406)
Long-term notes payable – secured	\$ 117,949,951	\$ 60,391,909

Unsecured	December 31,	
	2004	2003
Note payable to a corporation, payable quarterly in 20 payments each equal to 2% of the principal amount commencing December 31, 2003, with the balance due at maturity; interest payable in arrears at a fixed rate of 7.39%; unpaid principal and interest due September 30, 2008.	\$ 22,500,000	\$ 24,500,000
Note payable to a corporation, payable quarterly in 20 payments each equal to 2% of the principal amount commencing December 31, 2003, with the balance due at maturity; interest payable in arrears at a fixed rate of 7.32%; unpaid principal and interest due December 31, 2008.	12,920,000	9,800,000
Notes payable to a limited partnership, unsecured, principal and interest due upon the receipt of and to the extent of distributions from certain investments in joint ventures as provided in the promissory notes.	2,662,419	5,459,184
	38,082,419	39,759,184
Less current portion	(3,120,000)	(2,800,000)
Long-term notes payable-unsecured	\$ 34,962,419	\$ 36,959,184

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

8. Notes Payable (continued)

Certain loan agreements require the Company to meet certain financial covenants including minimum net worth and debt service coverage ratios.

Principal payments on notes payable are due as follows:

	VIEs	Wholly Owned	Total
2005	\$ —	\$ 58,477,218	\$ 58,477,218
2006	—	23,653,237	23,653,237
2007	—	3,120,000	3,120,000
2008	—	46,549,897	46,549,897
2009	78,463,736	1,125,500	79,589,236
	\$ 78,463,736	\$ 132,925,852	\$ 211,389,588

In connection with its construction loan on the San Jose property, the Company entered into an interest rate swap agreement that obligates the Company to either pay or receive the amount, if any, by which the one-month LIBOR is greater than or less than 2.09%. The swap agreement expires in September 2005 and the swap counterparty is a rated financial institution. The interest rate difference paid or received is included in interest costs as a yield adjustment. The notional amount of the swap agreement fluctuates based on a predetermined schedule in the agreement, which represents the Company's estimate of the amount of principal outstanding on the construction loan. Changes in the fair value of the interest rate swap are included in other comprehensive income. At December 31, 2004, the fair value of the swap agreement was not significant.

In conjunction with the secured notes payable with participation features, the Company incurred a participating interest obligation of \$5,009,381. At December 31, 2004, the remaining debt discount is \$2,221,336, which, together with the participating interest obligation, is reflected net against the related secured notes payable.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

8. Notes Payable (continued)

Interest incurred and capitalized consists of the following:

	Years ended December 31,	
	2004	2003
Interest incurred	\$11,264,258	\$ 5,328,179
Interest capitalized to:		
Real estate under development	\$ 5,749,510	\$ 2,719,131
Investments in and advances to unconsolidated entities	4,689,014	2,143,324
	\$ 10,438,524	\$ 4,862,455

The Company paid interest of \$10,493,875 and \$4,715,554 during 2004 and 2003, respectively.

9. Transactions with Affiliates

Due from affiliates includes the following:

	December 31,	
	2004	2003
Construction contract revenue receivable	\$ 34,584,714	\$ 20,231,625
Management fees receivable	911,047	1,460,462
Development and disposition fee revenue receivable	821,236	513,994
Reimbursable expenses, short-term advances and other	16,066,818	14,823,294
Allowance for doubtful accounts	(1,878,492)	(1,454,800)
	\$ 50,505,323	\$ 35,574,575

The note receivable from FF MEF LLC is secured by the Class B members interest, accrues interest at 5.75%, and requires quarterly payments of principal and interest of \$39,462 with unpaid principal and interest due September 1, 2010. The note receivable may be forgiven in the event of a change in control pursuant to the terms of the Equity Buy-In Plan. Interest income was recognized on this note receivable of \$129,160 and \$15,554 during 2004 and 2003, respectively.

The Company acts as a general contractor under construction contracts with affiliated entities. The Company recognized construction contract revenue of \$250,225,489 and \$227,972,084 under agreements with these affiliated entities during 2004 and 2003, respectively.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

9. Transactions with Affiliates (continued)

The Company performs property management and leasing services under management agreements with affiliated entities. The Company recognized management fees from affiliates, ranging between 2.5% – 5% of the gross receipts of the apartment complexes, totaling \$12,231,902 and \$11,333,562 for 2004 and 2003, respectively.

The Company recognized development fees of \$16,430,416 and \$11,171,985, redevelopment fees of \$5,825,047 and \$4,076,697, incentive management fees of \$3,245,785 and \$2,272,761, asset acquisition fees of \$6,342,821 and \$4,311,852, and disposition fees of \$6,045,870 and \$4,080,098 under agreements with affiliated entities during 2004 and 2003, respectively. During 2004 and 2003, the Company received reimbursements from related parties, which are included in other income of \$5,896,266 and \$6,561,674, respectively.

The Company leases office space from an affiliated entity under an operating lease that expires in April 2008. Future minimum lease payments for the years ending December 31 are as follows:

2005	\$ 632,254
2006	663,246
2007	704,161
2008	178,598
	<u>\$ 2,178,259</u>

The Company recognized rent expense to an affiliate of \$667,548 and \$670,523 for the years ended December 31, 2004 and 2003, respectively.

10. Commitments and Contingencies

The Company leases office space and equipment from unrelated entities under noncancelable operating leases that expire through November 2009. Future minimum lease payments for the years ending December 31 are as follows:

2005	\$ 2,569,488
2006	2,288,727
2007	712,200
2008	445,066
2009	293,639
	<u>\$ 6,309,120</u>

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingencies (continued)

Rental expense was \$1,726,516 and \$1,350,829 for the years ended December 31, 2004 and 2003, respectively.

The Company is involved in litigation on certain matters arising in the ordinary course of business. Management, after taking into consideration the information furnished by counsel, is of the opinion that the outcome of these matters will not have a material adverse effect on the financial position of the Company.

Commitments and contingencies also include the usual obligations of contractors and developers for the completion of contracts and those incurred in the ordinary course of business. At December 31, 2004 and 2003, the Company had commitments on uncompleted construction contracts totaling approximately \$504,000,000 and \$344,000,000, respectively.

As a common practice required by commercial lenders, the Company is obligated to repay loans guaranteed for unconsolidated subsidiaries should the subsidiary be unable to pay its debt. All such arrangements require the borrower to pledge collateral in the form of a deed of trust on the real estate projects which is deemed adequate to recover amounts the Company may be required to pay. The term of the obligation corresponds with the term of the loan and is limited to the outstanding loan balance. To the extent affiliates of the Company have guaranteed debts for unconsolidated subsidiaries, the Company has also agreed to indemnify such affiliates under such guarantees.

The Company provides completion guarantees to certain lenders who provide loans to the Company's unconsolidated entities. These guarantees obligate the Company to complete construction as contemplated by the loans. Provided the Company is in compliance with these completion obligations, the lenders would be obligated to fund any undisbursed loan amounts to pay for required construction. The term of the guarantee corresponds with the term of the loan and such obligation is limited to the outstanding loan balance.

The loan balances subject to both financial and performance guarantees total approximately \$3.3 billion, of which \$2.5 billion is outstanding as of December 31, 2004.

As of December 31, 2004 and 2003, approximately \$18,000,000 and \$22,000,000, respectively, of performance bonds were issued on behalf of the Company. The beneficiaries of these bonds are certain municipalities. The beneficiary may draw upon these bonds in the event required improvements are not completed.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingencies (continued)

The Company's unconsolidated entities are in the form of limited partnerships or limited liability companies of which a subsidiary of the Company is the general partner or managing member. As the general partner or managing member, the Company's subsidiary is potentially responsible for all liabilities and indebtedness of these unconsolidated entities.

The Company has provided unsecured environmental indemnities to certain lenders, investors in unconsolidated entities and land sellers. In each case, the Company has performed due diligence on the potential environmental risks including obtaining an independent environmental review from outside environmental consultants. These indemnities obligate the Company to reimburse the guaranteed parties for damages related to environmental matters. There is no term or damage limitation on these indemnities; however, if an environmental matter arises, the Company could have recourse against other previous owners.

During the years ended December 31, 2004 and 2003, the Company has not had to perform under any of the guarantee arrangements described above. Based on the Company's historical experience and management's internal projections, the estimated fair value of contingent payments under the guarantee arrangements was not material to the Company's financial position at December 31, 2004.

11. Employee Benefit Plan

Substantially all of the Company's employees are eligible to participate in the Company's 401(k) deferred compensation plan after one year of service. Employees vest in discretionary contributions by the Company over six years of service. Amounts charged to operations for contributions to the plan total \$640,159 and \$523,645 for the years ended December 31, 2004 and 2003, respectively.

Fairfield Residential LLC

Notes to Consolidated Financial Statements (continued)

12. Deferred Fees (Unaudited)

The Company defers recognition of development and construction fees until they are earned and realization is assured. Deferred fees, including amounts relating to services and activities which have not yet been performed are as follows:

	December 31,	
	2004	2003
Development fees	\$ 5,504,422	\$ 8,003,666
Construction fees	367,510	1,633,520
	\$ 5,871,932	\$ 9,637,186

Due to the contingent nature of these fees and uncertainties inherent in the estimation process, it is reasonably possible that the actual amounts could differ from these estimates.

Other Financial Information

Fairfield Residential LLC Consolidating Balance Sheet

December 31, 2004

	Consolidated Balance	Eliminating Entries	Fairfield Residential LLC	FF Properties L.P.	FF Development L.P.	FF Realty LLC	Fairfield Financial LLC	Fairfield Affordable Housing LLC	Variable Interest Entities
Assets									
Current assets:									
Cash and cash equivalents	\$ 69,333,556	\$ -	\$ 24,153,887	\$ 1,372,174	\$ 36,784,714	\$ 51,812	\$ 6,543,623	\$ 43,843	\$ 383,503
Restricted cash	9,755,765	-	-	-	-	-	647,180	-	9,108,585
Short-term investments	6,000,000	-	6,000,000	-	-	-	-	-	-
Due from affiliates (net of allowance for doubtful accounts of \$1,878,492)	50,505,323	-	-	4,612,499	45,745,773	-	147,051	-	-
Intercompany receivables	-	(14,175,449)	2,022,505	2,835,689	4,781,050	1,185,567	1,457,993	1,892,645	-
Accounts and other receivables	5,853,784	-	-	1,311,140	3,684,494	800,000	11,043	-	47,107
Pre-acquisition costs, deposits and other	28,754,547	-	117,263	1,139,649	15,981,086	11,042,600	179,927	-	294,022
Costs and estimated earnings in excess of billings on uncompleted construction contracts	6,826,088	-	-	-	6,826,088	-	-	-	-
Total current assets	177,029,063	(14,175,449)	32,293,655	11,271,151	113,803,205	13,079,979	8,986,817	1,936,488	9,833,217
Investments in and advances to unconsolidated entities	57,820,198	(66,439,599)	9,322,072	-	-	-	115,106,066	(168,341)	-
Investment in subsidiaries	-	(152,512,440)	152,512,440	-	-	-	-	-	-
Real estate under development	191,390,222	(882,744)	275,052	-	-	-	108,089,496	-	83,908,418
Pre-acquisition costs, deposits and other	8,110,572	-	-	-	3,085,570	5,025,002	-	-	-
Furniture, equipment, and leasehold improvements, net	2,511,640	-	-	1,579,317	932,323	-	-	-	-
Deferred costs, net	1,568,818	-	1,334,990	-	-	-	233,828	-	-
Goodwill, net	13,690,409	-	-	5,088,379	8,602,030	-	-	-	-
Total assets	\$ 452,120,922	\$(234,010,232)	\$ 195,738,209	\$ 17,938,847	\$ 126,423,128	\$ 18,104,981	\$ 232,416,207	\$ 1,768,147	\$ 93,741,635
Liabilities and members' equity									
Current liabilities:									
Accounts payable and accrued liabilities	\$ 62,438,266	\$ -	\$ 153,416	\$ 8,929,281	\$ 45,594,796	\$ 100,000	\$ 5,230,968	\$ 2,724	\$ 2,427,081
Due to affiliates	-	-	-	-	-	-	-	-	-
Intercompany payables	-	(14,175,449)	-	1,095,202	3,656,002	1,290,242	8,122,641	11,362	-
Billings in excess of costs and estimated earnings on uncompleted construction contracts	1,613,596	-	-	-	1,613,596	-	-	-	-
Current portion of notes payable – secured	55,357,218	-	-	-	-	-	55,357,218	-	-
Current portion of notes payable – unsecured	3,120,000	-	3,120,000	-	-	-	-	-	-
Total current liabilities	122,529,080	(14,175,449)	3,273,416	10,024,483	50,864,394	1,390,242	68,710,827	14,086	2,427,081
Notes payable – secured	117,949,951	-	-	-	-	-	39,486,214	-	78,463,737
Notes payable – unsecured	34,962,419	-	32,300,000	-	-	-	2,662,419	-	-
Total liabilities	275,441,450	(14,175,449)	35,573,416	10,024,483	50,864,394	1,390,242	110,859,460	14,086	80,890,818
Minority interest	16,514,679	244,129	-	-	-	-	3,399,672	-	12,870,878
Commitments and contingencies (Note 10)									
Members' equity	160,164,793	(220,078,912)	160,164,793	7,914,364	75,558,734	16,714,739	118,157,075	1,754,061	(20,061)
Total liabilities and members' equity	\$ 452,120,922	\$(234,010,232)	\$ 195,738,209	\$ 17,938,847	\$ 126,423,128	\$ 18,104,981	\$ 232,416,207	\$ 1,768,147	\$ 93,741,635

See accompanying notes and report of independent auditors.

Fairfield Residential LLC
Consolidating Statement of Income

December 31, 2004

	Consolidated Balance	Eliminating Entries	Fairfield Residential LLC	FF Properties L.P.	FF Development L.P.	FF Realty LLC	Fairfield Financial LLC	Fairfield Affordable Housing LLC	Variable Interest Entities
Revenue									
Construction contracts	\$ 277,057,824	\$ (17,384,497)	\$ –	\$ –	\$ 294,442,321	\$ –	\$ –	\$ –	\$ –
Management fees	15,780,647	–	–	15,780,647	–	–	–	–	–
Development fees	16,766,464	(64,500)	–	–	15,082,617	–	–	1,748,347	–
Redevelopment fees	5,970,041	(92,000)	–	–	6,062,041	–	–	–	–
Incentive management fees	3,245,785	–	–	–	–	–	–	3,245,785	–
Acquisition fees	6,592,821	(67,500)	–	6,660,321	–	–	–	–	–
Disposition fees	6,245,870	–	–	6,245,870	–	–	–	–	–
Equity in earnings of unconsolidated entities, net	33,356,509	(67,519,945)	46,007,088	–	–	1,393,112	56,336,595	(2,860,341)	–
Gain on real estate sales	7,987,048	(5,491,368)	–	–	–	–	13,478,416	–	–
Other income	6,680,415	–	263,012	2,989,847	3,212,984	29,410	59,287	125,875	–
	<u>379,683,424</u>	<u>(90,619,810)</u>	<u>46,270,100</u>	<u>31,676,685</u>	<u>318,799,963</u>	<u>1,422,522</u>	<u>69,874,298</u>	<u>2,259,666</u>	<u>–</u>
Expenses									
Cost of construction contracts	265,320,655	(16,508,104)	–	–	281,828,759	–	–	–	–
Payroll and related expenses	44,722,671	–	–	19,526,538	24,912,247	–	–	283,886	–
General and administrative	23,956,315	–	470,958	9,077,315	11,645,426	9,706	2,717,700	15,449	19,761
Depreciation and amortization	2,263,185	–	307,729	1,462,189	493,267	–	–	–	–
Interest expense	–	–	–	–	–	–	–	–	–
	<u>336,262,826</u>	<u>(16,508,104)</u>	<u>778,687</u>	<u>30,066,042</u>	<u>318,879,699</u>	<u>9,706</u>	<u>2,717,700</u>	<u>299,335</u>	<u>19,761</u>
Income before minority interest	43,420,598	(74,111,706)	45,491,413	1,610,643	(79,736)	1,412,816	67,156,598	1,960,331	(19,761)
Minority interest	2,070,815	2,070,815	–	–	–	–	–	–	–
Net income (loss)	<u>\$ 45,491,413</u>	<u>\$ (72,040,891)</u>	<u>\$ 45,491,413</u>	<u>\$ 1,610,643</u>	<u>\$ (79,736)</u>	<u>\$ 1,412,816</u>	<u>\$ 67,156,598</u>	<u>\$ 1,960,331</u>	<u>\$ (19,761)</u>

See accompanying notes and report of independent auditors.

Fairfield Residential LLC
Consolidating Balance Sheet
December 31, 2003

	Consolidated Balance	Eliminating Entries	Fairfield Residential LLC	FF Properties L.P.	FF Development L.P.	FF Realty LLC	Fairfield Financial LLC	Fairfield Affordable Housing LLC
Assets								
Current assets:								
Cash and cash equivalents	\$ 42,179,334	\$ –	\$ 13,463,022	\$ 1,284,964	\$ 7,555,131	\$ 549,049	\$ 19,285,864	\$ 41,304
Restricted cash	2,432,019	–	–	–	–	–	2,432,019	–
Short-term investments	11,965,974	–	2,995,757	–	8,970,217	–	–	–
Due from affiliates (net of allowance for doubtful accounts of \$1,454,800)	35,574,575	–	–	6,145,670	28,934,565	(24,772)	198,315	320,797
Intercompany receivables	–	(14,846,649)	–	1,084,006	9,356,467	2,939,510	9,290	1,457,376
Accounts and other receivables	3,014,384	–	–	1,671,289	190,095	1,150,000	3,000	–
Pre-acquisition costs, deposits and other	19,728,812	–	31,587	923,579	10,074,446	8,699,200	–	–
Costs and estimated earnings in excess of billings on uncompleted construction contracts	9,166,662	–	–	–	9,166,662	–	–	–
Total current assets	124,061,760	(14,846,649)	16,490,366	11,109,508	74,247,583	13,312,987	21,928,488	1,819,477
Investments in and advances to unconsolidated entities	48,991,937	(32,692,268)	7,464,862	–	–	1,000	74,072,079	146,264
Investment in subsidiaries	–	(143,049,244)	143,049,244	–	–	–	–	–
Real estate under development	75,068,801	(916,297)	–	–	–	–	75,985,098	–
Pre-acquisition costs, deposits and other	9,881,424	–	–	–	5,776,424	4,105,000	–	–
Furniture, equipment, and leasehold improvements, net	2,571,181	–	–	1,678,720	892,461	–	–	–
Deferred costs, net	1,610,328	–	1,205,172	–	–	–	405,156	–
Goodwill, net	13,690,409	–	–	5,088,379	8,602,030	–	–	–
Total assets	\$ 275,875,840	\$(191,504,458)	\$ 168,209,644	\$ 17,876,607	\$ 89,518,498	\$ 17,418,987	\$ 172,390,821	\$ 1,965,741
Liabilities and members' equity								
Current liabilities:								
Accounts payable and accrued liabilities	\$ 28,856,680	\$ –	\$ 136,587	\$ 3,299,985	\$ 21,304,577	\$ –	\$ 4,105,816	\$ 9,715
Due to affiliates	21,411	–	–	–	–	–	21,411	–
Intercompany payables	–	(14,846,649)	–	157,901	4,024,501	660,266	7,705,709	2,298,272
Billings in excess of costs and estimated earnings on uncompleted construction contracts	3,714,660	–	–	–	3,714,660	–	–	–
Current portion of notes payable – secured	7,596,406	–	–	–	–	–	7,596,406	–
Current portion of notes payable – unsecured	2,800,000	–	2,800,000	–	–	–	–	–
Total current liabilities	42,989,157	(14,846,649)	2,936,587	3,457,886	29,043,738	660,266	19,429,342	2,307,987
Notes payable – secured	60,391,909	–	–	–	–	–	60,391,909	–
Notes payable – unsecured	36,959,184	–	31,500,000	–	–	–	5,459,184	–
Total liabilities	140,340,250	(14,846,649)	34,436,587	3,457,886	29,043,738	660,266	85,280,435	2,307,987
Minority interest	1,762,533	406,455	–	–	–	–	1,356,078	–
Commitments and contingencies (Note 10)								
Members' equity	133,773,057	(177,064,264)	133,773,057	14,418,721	60,474,760	16,758,721	85,754,308	(342,246)
Total liabilities and members' equity	\$ 275,875,840	\$(191,504,458)	\$ 168,209,644	\$ 17,876,607	\$ 89,518,498	\$ 17,418,987	\$ 172,390,821	\$ 1,965,741

See accompanying notes and report of independent auditors.

Fairfield Residential LLC
Consolidating Statement of Income

December 31, 2003

	Consolidated Balance	Eliminating Entries	Fairfield Residential LLC	FF Properties L.P.	FF Development L.P.	FF Realty LLC	Fairfield Financial LLC	Fairfield Affordable Housing LLC
Revenue								
Construction contracts	\$ 242,928,461	\$ (21,732,771)	\$ -	\$ -	\$ 264,661,232	\$ -	\$ -	\$ -
Management fees	15,640,681	-	-	15,640,681	-	-	-	-
Development fees	11,421,440	(34,000)	-	-	9,606,940	-	-	1,848,500
Redevelopment fees	4,076,697	-	-	-	4,076,697	-	-	-
Incentive management fees	2,272,761	(23,544)	-	-	-	-	23,544	2,272,761
Acquisition fees	4,311,852	(78,000)	-	4,389,852	-	-	-	-
Disposition fees	4,810,197	-	-	4,810,197	-	-	-	-
Equity in earnings of unconsolidated entities, net	23,770,485	(47,681,741)	36,027,819	-	-	-	35,390,765	33,642
Other income	7,117,893	-	174,480	2,852,066	3,907,535	37,600	53,582	92,630
	<u>316,350,467</u>	<u>(69,550,056)</u>	<u>36,202,299</u>	<u>27,692,796</u>	<u>282,252,404</u>	<u>37,600</u>	<u>35,467,891</u>	<u>4,247,533</u>
Expenses								
Cost of construction contracts	229,413,802	(20,870,474)	-	-	250,284,276	-	-	-
Payroll and related expenses	32,678,480	-	-	13,800,655	18,612,336	-	-	265,489
General and administrative	17,579,444	-	403,347	5,503,472	11,601,046	6,168	54,100	11,311
Depreciation and amortization	1,111,326	-	198,325	628,819	284,182	-	-	-
Interest expense	465,724	-	465,724	-	-	-	-	-
	<u>281,248,776</u>	<u>(20,870,474)</u>	<u>1,067,396</u>	<u>19,932,946</u>	<u>280,781,840</u>	<u>6,168</u>	<u>54,100</u>	<u>276,800</u>
Income before minority interest	35,101,691	(48,679,582)	35,134,903	7,759,850	1,470,564	31,432	35,413,791	3,970,733
Minority interest	33,212	33,212	-	-	-	-	-	-
Net income	<u>\$ 35,134,903</u>	<u>\$ (48,646,370)</u>	<u>\$ 35,134,903</u>	<u>\$ 7,759,850</u>	<u>\$ 1,470,564</u>	<u>\$ 31,432</u>	<u>\$ 35,413,791</u>	<u>\$ 3,970,733</u>

See accompanying notes and report of independent auditors.

Fairfield Residential LLC
Consolidating Balance Sheets before VIEs

	December 31, 2004			December 31, 2003
	Consolidated	VIEs	Consolidated before VIEs	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	\$ 69,333,556	\$ 383,503	\$ 68,950,053	\$ 42,179,334
Restricted cash	9,755,765	9,108,585	647,180	2,432,019
Short-term investments	6,000,000	-	6,000,000	11,965,974
Due from affiliates (net of allowance for doubtful accounts of \$1,878,492 and \$1,454,800 as of December 31, 2004 and 2003)	50,505,323	-	50,505,323	35,574,575
Accounts and other receivables	5,853,784	47,107	5,806,677	3,014,384
Pre-acquisition costs, deposits and other	28,754,547	294,022	28,460,525	19,728,812
Costs and estimated earnings in excess of billings on uncompleted construction contracts	6,826,088	-	6,826,088	9,166,662
Total current assets	<u>177,029,063</u>	<u>9,833,217</u>	<u>167,195,846</u>	<u>124,061,760</u>
Investments in and advances to unconsolidated entities	57,820,198	-	57,820,198	48,991,937
Real estate under development	191,390,222	83,908,418	107,481,804	75,068,801
Pre-acquisition costs, deposits and other	8,110,572	-	8,110,572	9,881,424
Furniture, equipment and leasehold improvements, net	2,511,640	-	2,511,640	2,571,181
Deferred costs, net	1,568,818	-	1,568,818	1,610,328
Goodwill, net	13,690,409	-	13,690,409	13,690,409
Total assets	<u>\$ 452,120,922</u>	<u>\$ 93,741,635</u>	<u>\$ 358,379,287</u>	<u>\$ 275,875,840</u>
Liabilities and members' equity				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 62,438,266	\$ 2,427,081	\$ 60,011,185	\$ 28,856,680
Due to affiliates	-	-	-	21,411
Billings in excess of costs and estimated earnings on uncompleted construction contracts	1,613,596	-	1,613,596	3,714,660
Current portion of notes payable – secured	55,357,218	-	55,357,218	7,596,406
Current portion of notes payable – unsecured	3,120,000	-	3,120,000	2,800,000
Total current liabilities	<u>122,529,080</u>	<u>2,427,081</u>	<u>120,101,999</u>	<u>42,989,157</u>
Notes payable – secured	117,949,951	78,463,737	39,486,214	60,391,909
Notes payable – unsecured	34,962,419	-	34,962,419	36,959,184
Total liabilities	<u>275,441,450</u>	<u>80,890,818</u>	<u>194,550,632</u>	<u>140,340,250</u>
Minority interest	16,514,679	12,870,878	3,643,801	1,762,533
Commitments and contingencies (Note 10)				
Members' equity	160,164,793	(20,061)	160,184,854	133,773,057
Total liabilities and members' equity	<u>\$ 452,120,922</u>	<u>\$ 93,741,635</u>	<u>\$ 358,379,287</u>	<u>\$ 275,875,840</u>

See accompanying notes and report of independent auditors.

Sycamore Estates Apartments

ATTACHMENT 3

Council District: 7



ATTACHMENT 4

Issuer Disclosure Statement

The Issuer of the Bonds is the Housing Authority of the City of San Diego, a public body corporate and politic, organized and operating under the laws of the State. The Issuer is authorized to issue the Bonds and to loan the proceeds thereof to the Borrower for the purpose of financing the Project. The Issuer was created on October 3, 1968, by resolution of the City Council of the City of San Diego (the "City Council"). Members of the City Council serve as members of the Issuer.

In January 1979, a seven-member commission (the "San Diego Housing Commission") took office to administer the functions of the Issuer. The San Diego Housing Commission is responsible for the development of low income rental projects, implementation of financing to promote low income housing production, management of many public housing projects, operation of rent subsidy programs and rehabilitation of existing housing stock. Unless otherwise required, the San Diego Housing Commission will take all actions with respect to the Project and the Indenture, Financing Agreement, Regulatory Agreement and related documents on behalf of the Issuer.

The members of the San Diego Housing Commission are appointed by the Mayor and approved by the City Council. Sal Salas currently serves as Chair of the San Diego Housing Commission. Oversight of the San Diego Housing Commission is provided by the Issuer.

NO LITIGATION

The Issuer

There is not now pending or, to the knowledge of the Issuer, threatened any proceeding or litigation against the Issuer seeking to restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence nor the title of the present officers of the Issuer to their respective offices is being contested.



The PFM Group

Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

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Suite 2300
San Francisco, CA 94111

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ATTACHMENT 5

June 29, 2005

Mr. Peter Armstrong
San Diego Housing Commission
1625 Newton Avenue
San Diego, CA 92113

RE: Proposed actions relating to the proposed issuance of up to \$10,928,000 Housing Authority of San Diego Multifamily Housing Revenue Bonds (the "Bonds") in connection with the acquisition and construction of the Sagewood Apartments

Dear Mr. Armstrong:

You have asked Public Financial Management, Inc. ("PFM") to review the proposed financing and recommend whether, in our judgment, it is reasonable for the Housing Authority to issue tax-exempt revenue bonds for the acquisition and rehabilitation of the 106-unit Sagewood Apartments ("the Project") by Fairfield Affordable Housing, LLC in the community of Stonebridge Estates in the City's Future Urbanizing Area ("FUA"). In preparing this report we have reviewed financial projections and background information provided by the borrower and the Housing Commission.

The specific findings this report addresses are:

- Whether the issuance of the Bonds will achieve a public purpose by creating or preserving affordable housing.
- Whether the Housing Authority will avoid undue financial risk in undertaking the financing.
- Whether the Project will be able to meet debt service payments after the proposed financing.
- Whether the credit enhancer has done sufficient due diligence on the financial feasibility of the Project.

As described below, we find that all of the conditions are met and therefore recommend that the Housing Authority authorize the issuance of the Bonds.

DESCRIPTION OF THE PROJECT

Sagewood Apartments is a new construction project that will create a total of 106 units. The development will be located east of Pomerado Road, west of the Sycamore Canyon County Open



Space Preserve, south of Beeler Canyon Road, and north of MCAS Miramar in the in the FUA. The affordable site will be adjacent to a four-acre community park and a private school.

The Project is part of the master planned community of Stonebridge Estates being developed by McMillin Land Development and Brookfield Homes. Neither McMillin Land Development nor Brookfield Homes is the developer of the project. Stonebridge Estates was approved by the City Council in August of 2001 with the condition that 106 units of affordable housing be included in the Project.

The Project will include nine two-story residential buildings, a community recreation room of approximately 1,200 square feet, a tot lot, and a pool with a patio. The Project will consist of eight one-bedroom, one-bath apartments; 44 two-bedroom, two-bath apartments; and 54 three-bedroom, two-bath apartments. The units will be air-conditioned and include refrigerators, dishwashers, gas ranges, and balconies or patios.

Under the requirements for bond financing, the Project will restrict 10% of the units for households earning no greater than 50% of AMI (\$34,250 for a family of four) and 90% of the units to households earning no greater than 60% of AMI (\$41,100 for a family of four) for 55 years.

THE BORROWER

The developer for the proposed Project is Fairfield Affordable Housing LLC ("Fairfield"), headquartered in San Diego, California. Fairfield is involved in the acquisition, construction, development, redevelopment and property management of multifamily housing projects across the nation. Fairfield currently manages over 53,500 apartment homes nationwide and in 2003 the company completed 11 new construction transactions consisting of 4,100 apartments and \$570 million in total project costs. Currently, Fairfield holds ownership interests in nearly 40,000 apartment homes nationwide. In San Diego alone, Fairfield owns 1,272 apartment homes.

In 2004, Fairfield projects 26 new construction transactions for the year, consisting of 6,000 apartment homes and representing \$860 million in total project costs. The San Diego Housing Commission and Housing Authority have worked successfully with Fairfield in the past on several projects to issue a total of \$198 million in multifamily housing revenue bonds for six developments totaling 2,265 units

Fairfield will act as administrative general partner in a partnership that will be created to own and operate the Project. Wakeland Housing and Development Corporation ("Wakeland"), an experienced California nonprofit public benefit corporation with which Fairfield has partnered on several projects, will serve as managing general partner. The tax credit investor will be the limited partner of the partnership.



THE FINANCING

Up to \$10.928 million in bonds will be issued for the Project. Approximately \$9.1 million in senior bonds (the “Senior Bonds”) will be credit enhanced by Fannie Mae and sold through a public offering. The Senior Bonds will be issued in minimum \$100,000 denominations and bear interest at a variable rate. The Senior Bonds will be rated “AAA” by Standard and Poor’s Corporation.

In addition to the Senior Bonds, approximately \$1.828 million in a single subordinate bond (the “Subordinate Bond”) will be issued. The Subordinate Bond will be privately placed with McMillin Homes (“McMillin”), the master developer of Stonebridge Estates, and will be unrated. The Subordinate Bond will be repaid over time as the operating revenues of the Project increase and the borrower is able to increase the size of the Senior Bonds.

As part of the Subordinate Bond financing, McMillin will be required to sign an investor letter certifying that it is a sophisticated investor and understands the risks associated with the purchase of the Subordinate Bond. The transfer of the Subordinate Bond by McMillin or any subsequent bondholder will be restricted to transferees who would purchase the entire bond amount (to maintain ownership by a single bondholder), and who would represent to the Authority and the Commission that they are sophisticated investors, are buying for investment and not for resale, and have made due investigation of the information they would deem material in connection with the purchase of the bonds. Finally, McMillin must agree that should a mortgage default occur, there would not be a Subordinate Bond default.

The Bonds will not constitute a financial liability of the Housing Authority the City, or the Housing Commission. Neither the faith and credit nor the taxing power of the City or the Authority would be pledged to the payment of the Bonds. Security for the Bond payments is provided by the FNMA credit enhancement during the life of the bonds and is limited to the value of the property and its revenue sources following Project completion. The developer is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee.

The Project has an estimated total development cost of \$20,071,035. In addition to the Bonds, the Project will also be financed with tax credits (\$7,603,931), income during lease-up (\$1,491,415), and interest earnings (\$47,389). The master developer has also donated the land for the Project. Sources and uses of funds are shown in the Table 1 on the following page.



TABLE 1
SAGEWOOD APARTMENTS
SOURCES AND USES OF FUNDS

SOURCES OF FUNDS

Senior Bonds	\$ 9,100,000
Subordinate Bonds	1,828,000
Paramount (Tax Credits)	7,603,931
Wakeland, Protech & Fairfield	300
Cash Flow From Operations	1,491,415
Interest Earnings	<u>47,389</u>
TOTAL SOURCES OF FUNDS	\$ 20,071,035

USES OF FUNDS

Total Acquisition Cost:	\$ 10
Total Building Cost:	14,102,358
Developer Fee:	2,375,000
Non-Profit Developer Fee:	125,000
Debt Service:	1,544,925
Loan Closing Costs:	719,500
Tax Credit Costs:	179,688
Bond Costs of Issuance:	437,040
Organizational / Legal:	90,000
Working Capital:	<u>497,514</u>
TOTAL USES OF FUNDS	\$ 20,071,035

ACHIEVING PUBLIC PURPOSE

Under the requirements for bond financing, the project will restrict 10% of the units for households earning no greater than 50% of AMI (\$34,250 for a family of four) and 90% of the units to households earning no greater than 60% of AMI (\$41,100 for a family of four) for 55 years.



MEETING DEBT SERVICE AFTER THE FINANCING

As shown in Table 2, the Project will have ample cash flow to meet debt service upon completion of construction and rent-up. Based upon the developer's initial cash flow estimates, there would be about \$825,489 of net operating income available for both Senior Bond and Subordinate Bond debt service in the first full year of stabilization (2007). This amount would provide bond debt service coverage of 1.46 times on the Senior Bonds and 1.20 times total debt service coverage. By the fifth year, assuming a 2.5% annual increase in gross income and a 3.5% annual increase in expenses, net operating income of \$893,043 would provide debt service coverage of 1.59 times on the Senior Bonds and 1.30 times total debts service coverage.

TABLE 2
SAGEWOOD APARTMENTS
ESTIMATED CASH FLOW

	Year				
	1	2	3	4	5
Principal Amount of Senior Bonds:	\$ 9,100,000				
Principal Amount of Subordinate Bonds:	\$ 1,828,000				
Net Property Revenue*	\$ 1,240,548	\$ 1,271,562	\$ 1,303,351	\$ 1,335,935	\$ 1,369,333
Less: Total Operating Expenses*	<u>(415,059)</u>	<u>(429,586)</u>	<u>(444,622)</u>	<u>(460,183)</u>	<u>(476,290)</u>
Net Operating Income	\$ 825,489	\$ 841,976	\$ 858,729	\$ 875,751	\$ 893,043
Less: Senior Debt Service**	<u>(564,975)</u>	<u>(564,975)</u>	<u>(564,975)</u>	<u>(564,975)</u>	<u>(564,975)</u>
Cash Flow for Subordinate Debt Service:	\$ 260,514	\$ 277,001	\$ 293,754	\$ 310,776	\$ 328,068
Subordinate Debt Service***	<u>(121,403)</u>	<u>(121,403)</u>	<u>(121,403)</u>	<u>(121,403)</u>	<u>(121,403)</u>
Cash Flow	139,111	155,597	172,351	189,373	206,665
Senior Debt Service Coverage	1.46	1.49	1.52	1.55	1.58
Total Debt Service Coverage	1.20	1.23	1.25	1.28	1.30

* First stabilized year cash flow as estimated by owner, income assumed to increase at 2.5% per year and expenses assumed to increase at 3.5% per year

** Amortized over 30 years at 4.679%, including an assumed 3% variable rate on the bonds and annual expenses of 1.679%

*** Amortized over 30 years at 5.270%, including a 5.0% tax exempt bond rate, annual expenses of 0.230%, and trustee fees of .04%

FINANCIAL RISKS

There will be no undue risk to the Housing Authority. The Bonds are expected to receive a rating of AAA by Standard and Poor's Corporation. The borrower has agreed to pay all costs of issuance for the financing and to indemnify the City, the Housing Authority and the Housing Commission regarding matters relating to the financing. It should be noted that the borrower will have no



significant assets or sources of income other than the Project and is not required under most circumstances to make up any cash flow shortfalls.

DUE DILIGENCE

Deutsche Bank Berkshire Mortgage, as the servicer of the Fannie Mae credit enhancement, is conducting due diligence required by the Fannie Mae DUS Guide. This includes, but is not limited to, the following items: 1) Reviewing third party reports including appraisal, market study, environmental report and architect's report on the plans and specifications; 2) Evaluation of economic feasibility including developing an underwritten net operating income for the completed property and determining its ability to service the proposed permanent loan debt; 3) Evaluation of the financial capacity and expertise of the borrower sponsor to complete the proposed development; 4) Review of the sources and uses for the development; 5) Coordination with the construction lender to determine acceptability of the Project budget and proposed construction timing.

Deutsche Bank Berkshire Mortgage and Fannie Mae are not related to the developer, and they are assuming the risk that the Project is able to make debt service payments. They are experienced at underwriting housing projects. The Housing Commission has relied upon them to undertake the appropriate due diligence concerning the financial feasibility of the Project.

CONCLUSION

Based upon our review, we recommend that the Authority proceed with the issuance of the Bonds. This recommendation is based upon the following findings:

- The Bonds would achieve a public purpose by providing 106 affordable units. 10% of the units will be designated for households earning no greater than 50% of AMI (\$34,250 for a family of four) and 90% of the units to households earning no greater than 60% of AMI (\$41,100 for a family of four) for 55 years.
- The owner has agreed to indemnify the City, the Housing Authority and the Housing Commission regarding any matters relating to the financing. The owner will pay all costs of the financing.
- Based upon estimates by the owner that have been reviewed and confirmed by the credit enhancer, there are sufficient funds to complete the Project, and the Project provides adequate debt service coverage.
- The credit enhancer has performed adequate due diligence on the financial feasibility of the Project.

Peter Armstrong
June 29, 2005



If there is any additional information you require concerning this matter, we will be glad to provide it as a supplement to this report.

Sincerely yours,

Joe C. Litten
Senior Managing Consultant
Public Financial Management, Inc.

THE HOUSING AUTHORITY OF THE CITY OF SAN DIEGO

MEMORANDUM

Draft

Date: June 30, 2005
To: Chair and Members of the Housing Authority
From: Elizabeth C. Morris, Executive Director
RE: Proposed Bond Issuance for Sagewood Apartments

The purpose of this memorandum is to help guide members of the Housing Authority through the questions posed in the City Attorney memorandum concerning due diligence and disclosure obligations under federal securities law.

What is the purpose of the bond issuance?

Up to \$10,928,00 in bonds are being issued to finance the acquisition and construction of a 106-unit multifamily rental project known as the Sagewood Apartments (the “Project”). The Project and its financing have been structured in order to be an eligible use of tax-exempt bond proceeds under the Internal Revenue Code.

What is the method of selling the bonds?

The bonds will be issued in two series. Approximately \$9.1 million in senior bonds (the “Senior Bonds”) will be credit enhanced by Fannie Mae and sold through a public offering with Newman & Associates acting as the underwriter. The Senior Bonds will bear interest at a variable rate determined weekly and will be issued in the minimum denominations of \$100,000. The Senior Bonds are expected to receive a rating of AAA by Standard and Poor’s Corporation.

In addition to the Senior Bonds, approximately \$1,828,000 in a single subordinate bond (the “Subordinate Bond”) will be issued through a private placement with McMillin Homes (“McMillin”), the master developer of the larger Stonebridge Estates community.

As part of the Subordinate Bond financing, McMillin will be required to sign an investor letter certifying that they are a sophisticated investor and understand the risks associated with the purchase of the Subordinate Bond. The transfer of the bond by McMillin or any subsequent bondholder will be restricted to transferees who would

purchase the entire bond amount (to maintain ownership by a single bondholder), and who would represent to the Authority and the Housing Commission that they are sophisticated investors, are buying for investment and not for resale, and have made due investigation of the information they would deem material in connection with the purchase of the bonds. Finally, McMillin must agree that should a mortgage default occur, there would not be a bond default.

Who are the principals of the project sponsor? Does the project sponsor have experience with projects similar to the project?

Fairfield Sagewood L.P., a California limited partnership, will own and operate the Project. Fairfield Affordable Housing LLC (“Fairfield”) will act as the administrative general partner of the partnership. The San Diego Housing Commission and Housing Authority have worked successfully with Fairfield in the past on several projects to issue a total of \$198 million in multifamily housing revenue bonds for six developments totaling 2,265 units.

Wakeland Housing and Development Corporation (“Wakeland”), an experienced California nonprofit public benefit corporation with which Fairfield has partnered on several projects, will serve as the managing general partner.

The limited partner of the partnership will be Paramount Financial Group (“Paramount”). Paramount will act as the tax credit equity investor.

What is the source of repayment for the bonds?

The bonds are special, limited obligations of the Housing Authority payable solely from the operating revenues and assets comprising the Project. The issuance of bonds will not constitute a debt or liability of the City or the Housing Commission. Neither the faith and credit nor the taxing power of the City or the Housing Authority would be pledged to the repayment of the bonds. The borrower is responsible for the payment of all costs under the financing, including the Housing Commission's annual administrative fee.

Payments of principal of and interest on the Senior Bonds will also be secured by a Direct Pay Irrevocable Transferable Credit Enhancement Instrument (the “Credit Instrument”) provided for the benefit of the bondholders by Fannie Mae. The primary security for bondholders is the Credit Instrument. The Credit Instrument is the basis for the ratings and interest rate on the Senior Bonds. In the event of a project default, Fannie Mae maintains the responsibility to pay the bondholders principal and interest. Should the Fannie Mae foreclose on the property, generally it will keep the bonds outstanding, since that is the means of providing the highest value for the property. Fannie Mae may also redeem the bonds in foreclosure, and pay bondholders all due interest and principal payments.

What are the risks to the bondholders?

The purchase of the bonds involves certain investment risks, described below.

Loss of Tax Exemption

As stated above, the project and its financing have been structured so that the interest on the bonds is excludable from gross income for state and federal income tax purposes. In addition, the borrower has agreed to comply with all requirements of the Internal Revenue Code and the financing documents contain provisions and procedures designed to assure compliance with the Internal Revenue Code. However, the borrower's covenant to comply with the requirements of the Internal Revenue Code is non-recourse to the borrower, and the borrower's liability is limited to the revenues and assets comprising the Project. As a result, failure of the borrower to comply with the requirements of the Internal Revenue Code could result in a loss of tax exemption on the bonds and there is no guarantee that the available remedies will be sufficient to compensate the bondholder for any adverse economic consequences. However, bond counsel believes that all customary remedies to protect bondholders' interests in case of a loss of tax exemption have been provided for in the bond documents for this transaction.

Performance of the Project

No assurances can be given as to the future performance of the Project. The operating revenues of the Project may be insufficient to make interest and principal payments when due. The value of the Project may not be enough to fully compensate the bondholders for losses due to inadequate performance of the Project. However, Fannie Mae's designated loan servicer has underwritten the Project's risks and Fannie Mae is willing to provide the Credit Instrument to assure that payments are made to bondholders on the Senior Bonds.

The Subordinate Bonds will be privately placed with McMillin. Although the Subordinate Bonds will be unrated and not be secured by a Credit Instrument, McMillin has underwritten the risks and financial feasibility of the Project and is willing to accept the risk that the Project may not be able to make future payments on the Subordinate Bonds when due.

Is all relevant information about the transaction being disclosed to the market?

An official statement will be used by the underwriter to market and sell the Senior Bonds. The official statement will contain a summary of relevant information on the Project, borrower, credit enhancement provider, and the risks to bondholders. The official statement will also include limited information about the Housing Authority as the issuer. This information verifies that the Housing Authority is an appropriate issuer of the bonds and that there is no existing or threatened litigation that would jeopardize the validity of the bonds. Furthermore, it is necessary for members of the Housing Authority to disclose any knowledge, not available to the general public, about the feasibility of the project. Disclosure information regarding the finances of the City, the Housing Authority, and the Housing Commission is not required.

Since the Senior Bonds will bear interest at a variable rate reset weekly and contain a feature by which bondholders can demand the repurchase of their bonds, the bonds are exempt from the continuing disclosure requirements of Securities Exchange Commission Rule 15c2-12(b)(5). Accordingly, no continuing disclosure with respect to the bonds, the borrower, the letter of credit provider or the Housing Authority will be provided to bondholders on a continuing basis.

In addition, since McMillin will be the only bondholder of the Subordinate Bonds, an official statement will not be used to market the Subordinate Bonds. There will also be no annual continuing disclosure requirements associated with the Subordinate Bonds.