PNC ARCS

A PNC Real Estate Finance Company

***RA8**

March 6, 2008

Mr. Michael J. Ogaz
City Attorney
City of Milpitas
455 E. Calaveras Blvd.
Milpitas, CA 95035

Re: Crossings at Montague

Dear Mr. Ogaz:

Pursuant to our earlier conversation yesterday, PNC ARCS LLC is an approved Seller and Servicer of multifamily loans originated under the Fannie Mae Delegated Underwriting and Servicing (DUS) program. Fannie Mae purchases individual multifamily mortgages which, in most cases, are underwritten, approved and closed by the DUS Lender, without pre-review, under its delegated authority. In return for this delegation, the Lender shares in a percentage of the risk (loss sharing). As a result, the Lender performs its credit analysis applying not only the Fannie Mae underwriting guidelines, but exercises its own prudence in making lending decisions.

In compliance with Fannie Mae and Lender guidelines, the Lender did not obtain a third party prepared appraisal of the property in conjunction with the origination of the supplemental loan. However, the Lender did perform its own research of the market and comparables to determine a reasonable value for loan sizing purposes. This analysis is included in Addendum A, which was previously provided to you, and is again attached for informational purposes only. It should not be considered an appraisal of the property.

Based on the Lender's analysis of historical operations, current project performance and market conditions, the Lender approved a supplemental loan not to exceed $15 million. Assuming a conservative valuation of $100 million to $120 million, this results in a combined loan-to-value ratio (Senior and Supplemental Loan) of 56% to 67% (or 68% inclusive of the City Loan). In 2000 when the loan was originally underwritten, the LTV was estimated to be 67%. At that time, the program guidelines permitted a maximum LTV of 80%. Given the relatively small size of the City Loan, as well as the favorable terms (3% interest, 30 year term), the Lender was satisfied that the additional debt did not pose an adverse risk to the property's ability to repay the Lender's senior and supplemental loans and projected that there would be adequate cash flow to repay the City Loan on a current basis.

I hope the foregoing adequately addresses your questions. Please contact me at 925.648.1377 should you have any further questions.

Sincerely,

PNC ARCS, LLC

Jody Mauch
Vice President / Underwriter

1160 Battery Street, Suite 325 • San Francisco, CA 94111
415-981-9700 x220 (tel) • 415-981-9654 (fax) • jody_mauch@arcscommercial.com

ADDENDUM A-VALUATION ANALYSIS

APPRAISAL SUMMARY

REQUIREMENT FOR THIRD PARTY APPRAISAL WAIVED; LENDER PREPARED ANALYSIS

The Lender has performed its own market research and has determined a valuation for loan sizing purposes. The underwriter utilized sales comparables from similar markets to arrive at a Lender's Underwriting Market Value on an "As Is, As Restricted" basis (20% at 50%; the remainder at market rate) of $100,000,000 for LTV determination. The value determined by applying the selected cap rate to the Lender's Underwritten NOI (for DCR purposes) is also rounded to $100 million.

Market Approach: The lender obtained six sales comparables from CoStar and Reis, all of which were located within 10 miles of the subject, within the San Jose Metro Area. These sales are divided into two categories: sales of larger properties (from CoStar) and recent sales (from Reis). The CoStar comps are similar in vintage (1998 to 2002) whereas the Reis Comps are older in age (1970 to 1985). Similarly, the CoStar comps were larger in overall project size, ranging from 278 units to 637 units. The Reis Comps were all smaller, ranging from 120 units to 248 units. However, the CoStar comps were older (occurring between November, 2004 and January 2006). The Reis comps are very current, occurring in August and September of 2007. The Lender could not locate any sales of larger properties in Milpitas that were Class A properties. Overall, these comparables were deemed to be representative and provided a range from which to conclude a cap rate for the subject.

The Lender considered the Value per Unit, Value per Square Foot and EGIM when concluding a value from this approach. Overall, the ranges in value indications were fairly narrow from each of the indicators. For both the Value per Square Foot and Value per Unit, the Lender first looked at the unadjusted data.

The range of Value PSF was $239 to $298 PSF. The Lender then compared the NOI at the Subject to the Comparables and calculated an adjusted value per square foot based on the ratio of the subject's NOI PSF to the comparable. The adjusted range was $231.95 to $313.29 (superior comp) per square foot. The Lender concluded to $250 PSF, which is slightly below the adjusted average value of $265 PSF. This leads to a value of $97,560,000 from this indicator.

A similar analysis was performed on a per unit basis. The unadjusted range of values per unit was $172,685 to $302,500. After adjustment the range narrowed to $193,408 to $261,237 per unit, with an average of $232,819 per unit. The Lender concluded to $225,000 per unit, which is at the low to mid point of the range. The resultant value from this indication is $105,300,000.

In addition, the Lender reviewed the EGIMs and noted a range of 11.29 to 15.28, with an average of 12.93. Given that a portion of the subject's units are income and rent restricted, there is limited potential upside for the rents on these units (other than via growth in AMI). However, rents for the other 80% of the units are not restricted and may move freely upward, based on market conditions. As a result, the lender selected an EGIM which takes into consideration the health of the rental market, as well as the rental restrictions in place for some of the units.

Market Conclusion: Based on the three indicators, the calculated values ranged from $97,560,000 to $105,340,000. Applying equal weight results in a value of $102,733,333 for the

Market Approach. The Lender rounded the value per the sales approach to $100,000,000, which is weighted more heavily on the value per unit but falls within the middle of the range of values, and is considered appropriate from a market perspective.

Income Approach:

The Lender's income estimation for the “Underwritten, As-Is” valuation is based on the current rent roll, annualized. The lender then made an adjustment to account for the below market rents required for the set aside units which are occupied by Section 8 voucher holders. The adjustment was made on a pro-rata basis, rather than based on the tenants in place, as this is a fluid condition.

The Appraised “Market” value takes into consideration market rents (street rents) for the 80% unrestricted units, and maximum LIHTC rents for the restricted. The street rents are lower than those reported by the borrower’s competition.

The Expenses in both the As Is and As Restricted Valuations were based on the underwritten values. However, for the “Market Rate” Valuation, real estate taxes were increased to reflect the higher “Market” Value, thus assuming a sale, but adjusted by 20% to reflect the exemption in place. It was noted that the current assessed value is within 5% of the aggregate loan amount (see waiver regarding underwriting of real estate taxes). Overall, the Lender's per unit expenses for both DCR loan sizing ($5,357) and valuation ($6,221) are similar, with the primary variation based on the additional $600 per unit for property taxes. These expenses are within the range suggested by the sales comparables (which range from $5,282 to $8,079), as well as ARCS affordable portfolio loans which averaged $5,464 PUPA, inclusive of reserves.

Capitalization Rate:
The Lender reviewed the capitalization rates for these 6 comparables, which ranged from 4.26% to 5.76% with an average of 5.07%. All were rated as Class A properties by Co Star or Reis The Lender concluded a cap rate of 5.25% in consideration of the average cap rates for both sets of sales, in addition, to the subject’s newer condition, larger project size, high rent structure and convenient location to light rail and free ways access and proximity to major employers.

A Band of Investment Analysis was not performed as investors in this market, do not typically rely upon such a model where sales comparables are available.

When the Lender’s NOI of $5,263,972 is capped at 5.25%, the resulting value is $100,266,000. This is also considered to be the “As Restricted Market Value” for loan sizing (LTV) purposes. Similarly, the Lender’s concluded “Market” Value, based on the application of a 5.25% cap rate to the Market Value NOI of $5,866,827, is $111,750,000 (Income Approach).

Final Value Reconciliation: The lender’s final reconciled value is $100,000,000 which is consistent with both the sales approach and the income approach. It is likely to be somewhat understated as the borrower had received an offer previously in the order of $120,000,000. The Lender did not make an adjustment to reflect the benefit of the tax-exempt financing.