

REDSTONE™

EQUITY PARTNERS

November 12, 2014

Vidhi Anderson
Executive Director of Housing & Land Development
Presby's Inspired Life
2000 Joshua Road
Lafayette Hill, PA 19444

**Re: Witherspoon Senior Apartments
Philadelphia, PA**

Dear Vidhi:

Red Stone Equity Partners, LLC ("Red Stone") is pleased to be given an opportunity to submit a proposal on Witherspoon Senior Apartments (the "Project") located in Philadelphia, PA. This letter serves as an outline of the business terms regarding the acquisition of limited partnership interests in a to-be-formed limited partnership (the "Partnership") that will own the Project. Red Stone or its designee (the "Limited Partner") will acquire a 99.99% limited partnership interest (the "LP Interest") and a 0.001% special limited partnership interest (the "SLP Interest") in the Partnership. The terms of this proposal are subject to ratification and countersignature by Red Stone's investment committee as described below. Furthermore, this proposal is neither an expressed nor implied commitment by Red Stone or any of its affiliates to provide equity financing to the Project. Any such commitment shall only be as set forth in a to-be-negotiated agreement of limited partnership (the "Partnership Agreement") and will be subject to, among other things, (i) satisfactory transaction structure and documentation, (ii) satisfactory due diligence, including third party reports and (iii) other standard conditions for transactions of this type as described more fully in Paragraphs 13 and 14 below.

1. **Project Information.** The Partnership will be formed to acquire, own, develop and operate the Project, which is anticipated to be eligible to claim Low Income Housing Tax Credits ("Housing Credits") under Section 42 of the Internal Revenue Code. The Project will consist of 60 residential units for rent to low-income elderly individuals located in the City of Philadelphia, Philadelphia County, within the State of Pennsylvania. Within the Project, 60 of the units are expected to be Housing Credit compliant with 45 units expected to receive operating subsidy through an Annual Contribution Contract ("ACC") and the remaining 15 units expected to receive rental subsidy through a Project-Based Section 8 Contract for a minimum term through the compliance period. The residential unit mix shall reflect the detail below and shall conform to any other set-asides as required by the Pennsylvania Housing Finance Agency. The means for such conformance shall be reviewed by and be acceptable to Red Stone.

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Unit Type	Number of Units	Income Restrictions
1 BR	6	20%
1 BR	30	50%
1 BR	24	60%

The construction and lease-up schedule expected for the Project, and upon which the credit pricing and deal terms are contemplated herein, are as follows:

Closing Date	February 2016
Completion Date	April 2017
First Unit Leased	May 2017
Last Unit Leased	October 2017

2. **Project Ownership.** A to-be-formed entity controlled by Presby's Inspired Life or its affiliate (the "General Partner") will be a taxable, single purpose, bankruptcy remote entity with a 0.009% ownership interest in the Partnership. The General Partner will be owned by a non-profit organization domiciled in the State of Pennsylvania. Any change in the ownership of the General Partner shall be subject to Red Stone's consent. The anticipated ownership structure and other key Project participants are set forth below.

Entity	Name	Ownership Interest
General Partner	To Be Formed	0.009%
Limited Partner	RSEP Holding LP, or its designee	99.99%
Special Limited Partner	Red Stone Equity Manager, LLC, or its designee	0.001%
Developer	Philadelphia Presbyterian Homes, Inc. ("PPHI") or an affiliated entity	
Guarantors ¹	The General Partner, PPHI, and an affiliate of PPHI	
General Contractor	TN Ward Company	
Property Manager	Philadelphia Presbyterian Homes, Inc.	

¹ The Guarantors will guarantee certain of the General Partner's obligations set forth in Paragraph 7 herein, will do so on a joint and several basis, and will be subject to the review and approval of Red Stone.

3. **Tax Credits.** The Project is applying to receive an allocation of 9% Housing Credits from the Pennsylvania Housing Finance Agency (the "Agency") for the year 2015 in an annual amount of \$1,300,000. The total Housing Credits anticipated to be delivered to the Partnership is \$13,000,000 (the "Projected Federal LIHTC").

The following schedule sets forth the assumed delivery of the Projected Federal LIHTC.

Year	Housing Credits
2017	\$595,333
2018	\$1,300,000
2019	\$1,300,000
2020	\$1,300,000
2021	\$1,300,000
2022	\$1,300,000
2023	\$1,300,000
2024	\$1,300,000
2025	\$1,300,000
2026	\$1,300,000
2027	\$704,167

Any decision to delay the commencement date of the Housing Credit period beyond 2017 is subject to Red Stone's consent.

4. **Capital Contribution.** Red Stone will acquire its Limited Partner Interest in the Partnership for a total capital contribution of \$13,648,635, subject to adjustment in Paragraph 5 below. This capital contribution is based on the following pricing:

Credit Type	Total amount	LP amount	Pricing Factor	Equity
Projected Federal LIHTC	\$13,000,000	\$12,998,700	\$1.05	\$13,648,635
			Total	\$13,648,635

The above pricing assumes 100% of residential depreciation (\$14,159,703) being taken over 27.5 years; 100% of depreciation on site improvements (\$50,000) being taken over 15 years; and 100% of depreciation on personal property (\$234,000) being taken over 5 years. The allocation of the depreciable line items is subject to Red Stone's review and approval.

Red Stone will fund its capital contribution pursuant to the following schedule:

- A. 15% (\$2,047,295) shall be paid upon the later of (a) the execution of the Partnership Agreement, (b) receipt and approval of all due diligence items on Red Stone's due diligence checklist, (c) receipt of commitments of the additional financing sources described in Paragraph 11, and (e) closing and initial funding of the construction loan.
- B. 50% (\$6,824,318) upon the later of (a) satisfaction of the funding conditions described in (A) above, (b) receipt of final certificates of occupancy or temporary certificates of occupancy (provided such conditions are acceptable to the Special Limited Partner and any such conditions will be outlined/defined in the Partnership Agreement), (c) receipt of an architect's certificate of lien-free substantial completion, and (d) July 1, 2017.
- C. 31.34% (\$4,277,022) upon the later of (a) satisfaction of the funding conditions described in (B) above, (b) repayment of the construction loan, (c) achievement of 93% physical and economic occupancy, (d) receipt of the final cost certification from an independent certified public accountant, (e) calculations of the preliminary adjusters have been prepared, and (f) November 1, 2017.
- D. 3.66% (\$500,000) shall be paid upon the later of (a) satisfaction of the funding conditions described in (C) above, (b) achievement of three consecutive months of a 1.05 income to expense ratio with such calculation beginning no earlier than the first month after the Third Capital Contribution above has been funded, (c) continued achievement of 93% physical and economic occupancy, (d) achievement of 100% qualified occupancy, (e) receipt of IRS Form 8609s and a recorded extended use agreement, (f) receipt and review of an acceptable initial tenant file audit, and (g) calculations of final adjusters have been prepared.

5. Adjusters.

- A. Increase or Decrease in Housing Credits. In the event that actual Housing Credits as determined by the cost certification and 8609s exceeds Projected Federal LIHTC, Red Stone will pay an additional capital contribution equal to the product of (i) \$1.05 multiplied by (ii) the difference between the actual Federal LIHTC and the Projected Federal LIHTC. In the event that actual Housing Credits as determined by the cost certification and 8609s are less than Projected Federal LIHTC, Red Stone's capital contribution will be reduced by an amount equal to the product of (i) \$1.05 multiplied by (ii) the difference between the Projected Federal LIHTC and the actual Federal LIHTC ("Adjustment Amount"). If the Adjustment Amount exceeds the total of all unfunded capital contributions, then the General Partner will make a payment (which payment shall be guaranteed by the Guarantors) to the Partnership equal to the amount of such excess, and the Partnership will immediately distribute such amount to Red Stone as a return of its capital contribution.
- B. Timing of Credit Delivery. In addition to the Adjustment Amount, Red Stone's capital contribution will be similarly reduced in the event that the actual delivery of Housing Credits is slower than the anticipated schedule set forth in Paragraph 3. The amount (the "Late Delivery Adjustment") of this reduction will equal the product of (i) \$0.75 multiplied by (ii) the difference in the Projected Federal LIHTC and actual Housing Credits for such years are less than the amounts shown in Paragraph 3. Conversely, in the event that the actual delivery of Housing Credits exceeds the anticipated schedule set forth in Paragraph 3, Red Stone will pay an additional capital contribution (the "Early Delivery Adjustment") equal to the product of (i) \$0.50 multiplied by (ii) the difference between actual Housing Credits and the Projected Federal LIHTC. Red Stone will pay such additional capital contribution at the funding of its final capital contribution installment.

Notwithstanding the above, in no event will the net additional Capital Contribution to be paid by Red Stone exceed 5% of the total original Capital Contribution amount, and Red Stone will pay such additional Capital Contribution at the funding of its final capital contribution. Such additional Capital Contribution will be used to pay any outstanding fees owed to Red Stone and then will be distributed in accordance with the provisions of Paragraph 10(B), below.

6. **Reserves.** The Partnership will fund the following reserves:
- A. **Operating Reserve.** The Partnership will fund and maintain an Operating Reserve to be funded from the Third Capital Contribution in an amount of \$165,496. Any release of funds from the Operating Reserve will be subject to Red Stone's consent. Pursuant to Paragraph 10(B), the Operating Reserve will be replenished up to \$165,496 (the "Minimum Balance") from cash flow to the extent withdrawals are made. No withdrawals may be made from the Operating Reserve until the Maximum ODG Amount (as defined in Paragraph 7(B) below) is funded by the General Partner, as required pursuant to Paragraph 7(B)(ii) below. To the extent the balance of the Operating Reserve is less than the Minimum Balance at the expiration of the ODG Period as described in Paragraph 7(B)(ii) below, the General Partner shall cause the Operating Reserve to be replenished back to the Minimum Balance and the ODG Period shall be extended until such Operating Reserve has been replenished. The Operating Reserve shall remain an asset of the Partnership and shall be subject to distribution in accordance with Paragraph 10(C) below, subject to the approval of any Project lenders.
 - B. **Replacement Reserves.** The Project operating expenses will include the funding of a Replacement Reserve in the amount of \$375 per unit or such other amount specified by the project lenders increasing by 3% per annum with the funding to commence concurrently with the making of the Third Capital Contribution. Any release of funds from the Replacement Reserve will be subject to Red Stone's consent.
 - C. **ACC and Section 8 Transitional Reserve.** The Partnership will fund and maintain a Transitional Reserve to be funded from the third capital contribution in an amount equal to \$297,000. This reserve will be used to fund any shortfalls due to the reduction in the ACC operating subsidy or the Section 8 HAP contract rents or the loss of the ACC operating subsidy or the Section 8 HAP contract. Any release of funds from the Transitional Reserve will be subject to Red Stone's consent.
7. **Guarantees.** The Guarantors will guarantee the following obligations of the General Partner.
- A. **Construction Completion Guarantee.** The Guarantors shall guarantee the General Partner's obligation of lien-free completion of the Project in accordance with the plans and specifications approved by Red Stone for the amount set forth in the approved project development budget. The Construction Completion Guarantee will provide that the Guarantors shall pay any amount in excess of the approved project development budget as well as any Project deficiency arising prior to Stabilized Operations (as defined in Paragraph 7(B) below). Payments made under this guaranty will not constitute loans to the Partnership or capital contributions and no Guarantors will have any right to receive any repayment on account of such payments.

- B. Operating Deficit Guarantee. The Guarantors will agree to advance to the Partnership any amounts required to fund operating deficits arising after the expiration of the Construction Completion Guarantee, if needed, as follows:
- (i) The guarantee shall be unlimited until the Project achieves "Stabilized Operations". Stabilized Operations is to be defined as the later to occur of (i) construction loan payoff and conversion to approved non-recourse permanent financing; and (ii) rental income generated from the Project is sufficient to pay all operating expenses of the Project, including, without limitation, all actual or anticipated mandatory debt service; real estate taxes; insurance premiums; management fees; and replacement and operating reserve deposits and maintain an income to expense ratio of not less than 1.05 to 1.00 for three consecutive months beginning no earlier than the making of Red Stone's Third Capital Contribution. To the extent applicable, if Project income is insufficient to enable the Project to attain the required debt service coverage necessary for the closing or conversion of all permanent loans, the Guarantors will agree to pay down the construction loan in an amount necessary to allow the Project to cause the closing or conversion of all permanent loans by the conversion date required by the lender(s). Payments made under this guarantee will not constitute loans to the Partnership or capital contributions and no Guarantors will have any right to receive any repayment on account of such payments.
 - (ii) Following (i) above, for a period of 60 months following the achievement of Stabilized Operations (the "ODG Period"), the amount shall be limited to \$500,000 (the "Maximum ODG Amount"), and will be released provided the Project maintains a minimum of 1.05 to 1.00 income to expense ratio over each of the last consecutive 6 months of the ODG Period. Any amounts so advanced will constitute interest-free loans ("Operating Deficit Loan") repayable out of future available cash flow or out of available proceeds of a sale or refinancing described in Paragraph 10.
- C. Repurchase Guarantee. The Guarantors will repurchase Red Stone's interest upon the occurrence of certain events described in the Partnership Agreement.
- D. Housing Credit Shortfall and Recapture Guarantee. In addition to the Housing Credit and Timing Adjusters set forth in Paragraph 5, if the actual amount of Housing Credits for any year is less than Projected Federal LIHTC set forth in Paragraph 3, as adjusted by Paragraph 5, the Guarantors will guarantee payment to the Limited Partner of an amount equal to the shortfall, or recapture amount, plus all applicable fees, penalties or other costs incurred by the Partnership and/or Red Stone as a result of such shortfall or recapture. The Guarantors will pay, on an after-tax basis, the Limited Partner \$1.00 for each dollar of Housing Credits lost, plus any related interest or penalties. Notwithstanding the foregoing, the Guarantors shall not be responsible for loss or recapture of Housing Credits attributable to changes to the Code after the achievement of Stabilized Operation.

- E. Environmental Indemnification. The Partnership and the Guarantors, jointly and severally, shall indemnify and hold harmless the Limited Partner from and against all claims, actions, causes of action, damages, costs, liability and expense incurred or suffered based upon a violation of environmental laws, or respecting the presence of environmental hazards.
- F. Guarantors. The Guarantors will guarantee all of the General Partner's obligations including those set forth above. The Guarantors will maintain a minimum liquidity and a minimum net worth to be outlined in the Partnership Agreement. The Guarantors will provide Red Stone with annual financial statements evidencing compliance with the liquidity and net worth covenants above.
8. Construction. The General Partner will arrange for a fixed or guaranteed maximum price construction contract. The General Partner shall cause lien-free completion to occur and shall provide either a payment and performance bond or letter of credit to secure the contractor's obligations. Red Stone may, in its sole discretion, engage a construction consultant to review plans and specifications and evaluate the construction progress by providing monthly reports to the Partnership. The cost of the construction consultant shall be borne by the Partnership.
9. Fees. The following fees will be paid by the Partnership for services rendered in organizing, developing and managing the Partnership and the Project.
- A. Developer Fee. The Developer will earn a developer fee of \$1,500,000. The portion of the developer fee that will not be paid out of the Capital Contributions will be deferred and payable by the Partnership to the Developer as a distribution of net cash flow in accordance with Paragraph 10(B). The deferred amount is projected to be \$450,826 and will accrue interest at the rate of 5% per annum, or such other interest rate acceptable to tax counsel, in effect as of the placed-in-service date of the project. The balance of the developer fee that is not projected to be permanently deferred is projected to be \$1,049,174 ("Cash Development Fee") will be paid out of the Capital Contributions in amounts not to exceed the following (each stated as a percentage of Cash Development Fee):

Capital Contribution #	Cash Development Fee %
First Capital Contribution	30%
Second Capital Contribution	20%
Third Capital Contribution	25%
Fourth Capital Contribution	25%

The deferred amount will be payable out of available cash flow and will mature on the 13th anniversary of the placed-in-service date ("Maturity Date"). If the deferred portion of the developer fee has not been repaid upon the Maturity Date, the General Partner will be required to advance the Partnership the amount equal to the unpaid balance of the deferred amount.

- B. Property Management Fee. The property management fee will not exceed a total of 9% of gross collected rents. The appointment of, and terms of the property management agreement, are subject to the prior approval of Red Stone.
- C. Asset Management Fee. The Partnership will pay Red Stone an annual asset management fee as an operating expense in an amount equal to \$5,000 per annum. The asset management fee will be paid annually and such fee shall accrue beginning on initial closing, with the first payment due and payable on March 1, 2018, and each anniversary thereafter. The asset management fee will increase annually by 3%.
- D. Incentive Management Fee. An incentive management fee may be payable to the General Partner on an annual basis in an amount equal to 80% of net cash flow, or such other amount as determined by and acceptable to tax counsel to Red Stone.

10. Distribution of Tax and Cash Benefits.

- A. Tax Benefits. Tax profits, tax losses, and tax credits arising prior to the sale or other disposition of the Project will be allocated 99.99% to the Limited Partner, 0.001% to the Special Limited Partner and 0.009% to the General Partner. The Limited Partner will have the right in its sole discretion to undertake a limited deficit restoration obligation at any time during the term of the Partnership.
- B. Net Cash Flow Distributions. Distributions of net cash flow, as defined in the Partnership Agreement, but generally all cash receipts less cash expenditures (e.g., payment of debt service and property management fee), will be made as follows:
 - (i) to the Limited Partner in proportion to any tax liability incurred by such partner;
 - (ii) to the Limited Partner, to make any payment of any unpaid tax credit adjuster or any tax credit shortfall or other debts owed to the Limited Partner;
 - (iii) to the Limited Partner as payment of any unpaid Asset Management Fee;
 - (iv) to replenish the Operating Reserve account to the Minimum Balance;
 - (v) to the payment of any unpaid developer fee, until such fee has been paid in full;
 - (vi) to the payment of any debts owed to the General Partner;
 - (vii) to the payment of any soft loans, if applicable;
 - (viii) 80% to the payment of any incentive management fee, or such other amount as determined by and acceptable to tax counsel; and

- (ix) the balance, 50% to the General Partner, 0.001% to the Special Limited Partner, and 49.99% to the Limited Partner, or such other amount determined by and acceptable to tax counsel.

C. Distributions upon Sale or Refinance. Net proceeds resulting from any sale or refinance will be distributed as follows:

- (i) in accordance with subparagraphs 10B(i) through (iii) above;
- (ii) in accordance with subparagraphs 10B(v) through (vii) above;
- (iii) to the Limited Partner in an amount equal to any projected exit taxes; and,
- (iv) the balance, 90% to the General Partner, 9.99% to the Limited Partner, and 0.001% to the Special Limited Partner, or such other amount as determined by and acceptable to tax counsel

11. **Debt Financing.** As a condition to funding the capital contribution described in Paragraph 4, the General Partner will deliver the loan commitments and/or financing sources described below. The terms of these loans and/or financing sources are subject to Red Stone’s consent and all loans will be made directly from the lenders to the Partnership.

A. Permanent Loan. The Partnership expects to receive non-recourse permanent loan commitments in the maximum amounts, and with the terms set forth below:

Name	Hard / Soft Debt	Interest Rate	Term (mos.)	Amort. (mos.)	% of cash flow
OHCD Loan (\$1,500,000)	Soft	0%	360	N/A	0%
Presby Loan (\$1,200,000)	Soft	3%	360	N/A	TBD

B. Bridge Loan. In addition to the permanent financing sources described above, it is expected that the project will be financed with a first-lien position bridge loan in the projected amount of \$10,400,000 with a variable interest rate (projected to be no greater than 3%) and a term of no less than 24 months. It is anticipated that the bridge loan will be repaid with proceeds from Red Stone’s Capital Contributions.

- C. ACC Rental Assistance Subsidy. It is anticipated that the Partnership through the Philadelphia Housing Authority will be applying to receive ACC operating subsidy for 45 units, which shall generate additional annual operating subsidies for the benefit of the Partnership in an amount not less than the minimum amount provided by HUD, and which shall be subject to an annual reconciliation. In the event the Partnership receives ACC operating subsidy, the General Partner shall use its reasonable efforts to maintain and preserve such ACC operating subsidy throughout the compliance period in addition to seeking out any additional operating subsidies that may be available. In the event the ACC operating subsidy is insufficient to cover the costs of operating the public housing units, the Partnership shall have the ability to increase the rent levels on all of the subsidized units, provided such rent levels do not exceed the rent restriction levels approved by HUD, the Agency, Philadelphia Housing Authority, and/or the Project lender(s).
- D. Project Based Section 8 Rental Subsidy. It is anticipated that the Partnership will be applying to receive a Section 8 HAP contract which shall generate additional rental income for the benefit of the Partnership, and further be subject to HUD requirements and consent. The Project will be applying to receive a new Section 8 HAP contract on 15 units, whose term will be for a minimum of 15 years. The General Partner shall use its best efforts to maintain and preserve such Section 8 rental assistance subsidy beyond the expiration of the initial term and throughout the compliance period, in addition to seeking out any additional rental subsidies that may be available. In the event the Section 8 HAP contract is terminated and/or not renewed on an annual basis, the Partnership shall have the ability to increase the rent levels on all of the subsidized units, provided such rent levels do not exceed the rent restriction levels approved by HUD, the Agency and/or the Project lender(s). No later than Initial Closing, the Partnership shall enter into a new Section 8 HAP contract with HUD or have other similar documentation evidencing the receipt of rental subsidy over the compliance period as determined by and acceptable to Red Stone.
12. Purchase Option and Right of First Refusal. For a period of two years following the credit period, the General Partner shall have an option to purchase the Project at the end of the compliance period for a purchase price equal to the greater of (i) fair market value or (ii) the sum of the amount of indebtedness secured by the Project, which indebtedness may be assumed by the General Partner at its discretion, the amount of the federal, state, and local tax liability that the Limited Partner would incur as a result of the sale and any amount of credits below the amount stated in Paragraph 3. If the General Partner is a not for profit entity, the purchase price shall be the amount required pursuant to Section 42(i) of the Code.

13. **Due Diligence, Opinions and Financial Projections.** The General Partner will satisfy all of Red Stone's due diligence requirements, including an acceptable local law opinion. The Limited Partner's tax counsel will provide the tax opinion. The Partnership will reimburse the Limited Partner an amount equal to \$60,000 toward the costs incurred by the Limited Partner in conducting its due diligence review and for the costs and expenses of Red Stone's counsel and in connection with the preparation of the tax opinion, and for the costs of Red Stone's other third party reports. Red Stone will deduct this amount from its first Capital Contribution and such amount will be payable to Red Stone in the event the General Partner elects not to close the transaction for any reason. The financial projections to be attached to the Partnership Agreement and that support the tax opinion will be prepared by Red Stone based on financial projections provided by the General Partner. The General Partner financial projections will include eligible basis calculations, sources and uses, and cash flow statements.
14. **Partnership Closing.** Final Partnership closing will be contingent upon Red Stone's receipt, review and approval in its sole discretion of all due diligence including the items set forth on its due diligence checklist to be delivered to the General Partner. Final Partnership closing also is contingent upon (i) a satisfactory site visit conducted by Red Stone to determine overall market feasibility, including an analysis of proforma rents and expenses and (ii) Red Stone's review and approval of all third party reports. Red Stone's agreement to acquire the LP Interest on the pricing, terms and conditions contained in this letter are further based on the assumption that the Partnership closing will occur on or before the Closing Date set forth in Paragraph 1. Terms and credit pricing herein shall be valid until the Closing Date. Red Stone will use reasonable efforts to keep the tax credit pricing and terms outlined in this letter constant through such date, but Red Stone reserves the right in its sole discretion to modify the tax credit pricing or other terms to be consistent with market conditions.
15. **Exclusivity.** Upon the execution of this Letter of Intent, the General Partner agrees to cease its efforts to obtain financing from other sources. This exclusive arrangement shall terminate should Red Stone notify the General Partner in writing that it does not intend to proceed with this investment any time prior to ratification by the Red Stone investment committee.
16. **Other Matters.** The Limited Partner has predicated this proposal on the financial projections it has prepared which are based upon the financial and other information furnished by the General Partner or its agents, as well as certain assumptions of the federal income tax consequences of this transaction. Changes in tax regulations or other assumptions could affect the financial projections and thus, the amount and terms of the Capital Contribution

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Please confirm your acceptance of the terms described in this letter by signing the enclosed counterpart and returning to us at the address set forth on the first page of this letter. The terms of this letter are not binding until countersigned and accepted by an authorized officer of Red Stone.

Sincerely,

By: Bryan Kilbane
Name: Bryan Kilbane
Title: Director-Acquisitions