

PURCHASE OPTION AGREEMENT
(Arrowhead Grove Apartments Phase II)

This PURCHASE OPTION AGREEMENT (the “**Agreement**”) is made and entered into as of [_____, 2019], among WATERMAN GARDENS PARTNERS 2, L.P., a California limited partnership (the “**Partnership**”) and the HOUSING AUTHORITY OF THE COUNTY OF SAN BERNARDINO, a public body, corporate and public (“**Optionee**”), and is consented to by WG PARTNERS 2 MGP, LLC, a California limited liability company (the “**General Partner**”), WATERMAN AFFORDABLE 3 LLC, a California limited liability company (the “**HA Limited Partner**”), WG 2 DGP LLC, a Massachusetts limited liability company (the “**Clancy Limited Partner**”), BANK OF AMERICA, N.A., a national banking association (the “**Investor Limited Partner**”), BANC OF AMERICA CDC SPECIAL HOLDING COMPANY, INC., a North Carolina corporation (the “**Special Limited Partner**”). The General Partner, the HA Limited Partner, the Clancy Limited Partner, the Investor Limited Partner and the Special Limited Partner are sometimes collectively referred to herein as the “**Consenting Partners**”.

Recitals

A. The Partnership, pursuant to its Amended and Restated Agreement of Limited Partnership dated as of [_____, 2019] by and among the Consenting Partners (the “**Partnership Agreement**”), is engaged in the ownership and operation of a 184-unit apartment complex located in San Bernardino, California known as Arrowhead Grove Apartments Phase II (the “**Project**”). The real property comprising the Project is legally defined on **Exhibit A**.

B. The Project is or will be subject to an extended use agreement (the “**Extended Use Agreement**”) with the Credit Agency restricting the Project’s use to low-income housing (such use restrictions under the Regulatory Agreement and the Extended Use Agreement being referred to collectively herein as the “**Use Restrictions**”);

C. The Optionee is an affiliate of the HA Limited Partner and is instrumental to the development of the Project;

D. The Optionee desires to have the right to acquire the Project upon termination of the Compliance Period.

E. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Partnership Agreement.

NOW, THEREFORE, in consideration of the execution and delivery of the Partnership Agreement and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

Section 1. Grant of Option

The Partnership hereby grants to the Optionee an option (the “**Option**”) to purchase the real estate, fixtures, and personal property comprising the Project or associated with the physical operation thereof and owned by the Partnership at the time of purchase (the “**Property**”), for a period of twelve (12) months (the “**Option Period**”) following the close of the Compliance

Period as determined under Section 42(i)(1) of the Internal Revenue Code of 1986, as amended (the “**Code**”), on the terms and conditions set forth in this Agreement and subject to the conditions precedent to the exercise of the Option specified herein.

Section 2. Purchase Price Under Option

The purchase price for the Property pursuant to the Option (the “**Option Price**”) shall be the greater of the following amounts, subject to the provision set forth hereinbelow:

A. Price Formula. An amount, determined by the Partnership’s Accountants, which is equal to the sum of (1) the outstanding principal, accrued interest, any prepayment penalty and any other amounts due under all mortgage documents relating to the Property, whether or not such amounts are due upon sale, and the total amount of all other indebtedness of the Partnership as of the date of the closing hereunder; and (2) an amount sufficient to assure receipt by the Investor Limited Partner of the Partnership from the proceeds of the sale of the Property (when distributed pursuant to Section 10.1B of the Partnership Agreement) of an amount not less than the sum of all federal, state and local taxes, including without limitation, all income taxes due upon sale, incurred or to be incurred by the Investor Limited Partner (or its constituent partners or members) as a result of such sale plus the amount of any theretofore unpaid Tax Credit Shortfall Payments to which the Investor Limited Partner is entitled under the Partnership Agreement. Notwithstanding the foregoing, however, the amount described in the foregoing sentence shall never be less than the amount of the “minimum purchase price” as defined in Section 42(i)(7)(B) of the Code. In computing such price, it shall be assumed that each of the Partners of the Partnership (or their constituent partners or members) has an effective combined federal, state and local income tax rate equal to the maximum of such rates in effect on the date of closing hereunder; or

B. Fair Market Value. An amount equal to (i) one hundred percent (100%) of the fair market value of the Property, appraised as low-income housing to the extent continuation of such use is required under the Use Restrictions, any such appraisal to be made in accordance with the procedures described in Section 5 below (the “**Appraised Fair Market Value**”) plus (ii) an amount sufficient to assure receipt by the Investor Limited Partner of the Partnership from the proceeds of the sale of the Property (when distributed pursuant to Section 10.1B of the Partnership Agreement) of an additional amount equal to any theretofore unpaid Tax Credit Shortfall Payments to which the Investor Limited Partner is entitled under the Partnership Agreement together with any amounts owed by the Partnership to the Optionee or its Affiliates (whether as loan repayments, accrued fees, or a return of Capital Contributions). If the proceeds from the sale that are distributed to the Investor Limited Partner pursuant to clause (i) above are not sufficient to assure receipt by the Investor Limited Partner of the sum of all federal, state and local taxes payable by the Investor Limited Partner (when distributed pursuant to Section 10.1B of the Partnership Agreement), then the purchase price will be increased by an amount sufficient to allow the Investor Limited Partner to pay all federal, state and local taxes due upon sale including additional taxes due as a result of receiving an increased distribution under this provision. If the Optionee decides that it does not want to exercise the Option after receiving the appraisal of the Property pursuant hereto, the Optionee shall have the right upon notice to the Partnership to declare the exercise of the Option null and void without prejudice to the Optionee’s right to exercise the option at a later date during the Option Period.

[Note – additional price to compensate National Core / Clancy entities to be confirmed]

If the Optionee desires that existing Reserves held by Lenders or the Partnership be transferred to Optionee in connection with the transfer of the Property, the Option Price shall be increased by the fair market value of such Reserves (which shall be calculated considering the nature of the Reserves and any existing restrictions on use or availability thereof).

Section 3. Conditions Precedent; Termination

A. Notwithstanding anything in this Agreement to the contrary, the Option granted hereunder shall be contingent on the following being true and correct at the time of exercise of the Option and any purchase pursuant thereto: neither the Optionee nor any Affiliate of the Optionee is in material default under the Partnership Agreement or any agreement with the Partnership, the Investor Limited Partner or the Special Limited Partner (including, without limiting the generality of the foregoing, any failure to make Tax Credit Shortfall Payments to the Investor Limited Partner pursuant to Section 5.2 of the Partnership Agreement). If such condition precedent is not satisfied, the Option shall not be exercisable and the Agreement shall be of no further force and effect.

B. This Agreement shall automatically terminate upon the occurrence of any of the following events and, if terminated, shall not be reinstated unless such reinstatement is agreed to in a writing signed by the Optionee and each of the Consenting Partners:

(i) the transfer of the Property to a lender in total or partial satisfaction of any loan; or

(ii) removal of the Optionee as a general partner of the Partnership pursuant to Section 7.7 of the Partnership Agreement.

Section 4. Exercise of Option

The Option may be exercised by the Optionee by (a) giving prior written notice of its intent to exercise the Option to the Partnership and each of its Partners in the manner provided in the Partnership Agreement during the period commencing one (1) year prior to the expiration of the Compliance Period and terminating at the end of the Option Period (the “**Option Exercise Notice**”), and (b) complying with the contract and closing requirements of Sections 6 and 7 hereof. If the foregoing requirements are not satisfied as and when provided herein, the Option shall expire and be of no further force or effect.

Section 5. Determination of Option Price

Upon delivery of the Option Exercise Notice, the Partnership and the Optionee shall determine the Option Price utilizing the Appraised Fair Market Value of the Property determined as follows. As soon as practicable following the delivery of the Option Exercise Notice, the Optionee and the Special Limited Partner shall select a mutually acceptable Independent Appraiser. In the event that the parties are unable to agree upon an Independent Appraiser within fifteen (15) business days following the date of delivery of the Option Exercise Notice, the Optionee and the Special Limited Partner each shall select an Independent Appraiser within the

next succeeding five (5) business days. If either party fails to select an Independent Appraiser within such time period, the determination of the other Independent Appraiser shall control. If the difference between the Appraised Fair Market Values set forth in the two appraisals is not more than ten percent (10%) of the Appraised Fair Market Value set forth in the lower of the two appraisals, the fair market value for purposes of Section 2B(i) above shall be the average of the two appraisals. If the difference between the two appraisals is greater than ten percent (10%) of the lower of the two appraisals, then the two Independent Appraisers shall jointly select a third Independent Appraiser whose determination of Appraised Fair Market Value shall be deemed to be binding on all parties as long as the third determination is between the other two determinations. If the third determination is either lower or higher than both of the other two appraisers, then the average of all three appraisals shall be the Appraised Fair Market Value for purposes of Section 2B(i). The Partnership and the Optionee shall each pay one-half of the fees and expenses of any Independent Appraiser(s) selected pursuant to this Section 5.

Section 6. Contract and Closing

Upon determination of the purchase price, the Partnership and the Optionee shall enter into a written contract for the purchase and sale of the Property in accordance with the terms of this Agreement and containing such other terms and conditions as are standard and customary for similar commercial transactions in the geographic area which the Property is located, providing for a closing not later than the date specified in the Option Exercise Notice or thirty (30) days after the Option Price has been determined, whichever is later. In the absence of any such contract, this Agreement shall be specifically enforceable upon the exercise of the Option.

Section 7. Conveyance and Condition of the Property

The Partnership's right, title and interest in the Property shall be conveyed by quitclaim deed, subject to such liens, encumbrances and parties in possession as shall exist as of the date of Closing and the deed covenant described in Section 8 below. The Optionee shall accept the Property "**AS IS, WHERE IS**" and "**WITH ALL FAULTS AND DEFECTS**," latent or otherwise, without any warranty or representation as to the condition thereof whatsoever, including without limitation, without any warranty as to fitness for a particular purpose, habitability, or otherwise and no indemnity for hazardous waste or other conditions with respect to the Property will be provided. It is a condition to Closing that all amounts due to the Partnership and the Investor Limited Partner from the Optionee or its Affiliates be paid in full. The Optionee shall pay all closing costs, including, without limitation, the Partnership's attorney's fees. Upon closing, the Partnership shall deliver to the Optionee, along with the deed to the property, an ALTA owner's title insurance policy dated as of the close of escrow in the amount of the purchase price, subject to the liens, encumbrances and other exceptions then affecting the title.

Section 8. Use Restrictions

A. In consideration of the Option granted hereunder at the price specified herein, the Optionee hereby agrees that the deed granting the Property to the Optionee shall contain a covenant running with the land, restricting the use of the Property to low-income housing to the extent required by those Use Restrictions contained in the Regulatory Agreement and the

Extended Use Agreement. Such deed covenant shall include a provision requiring the Optionee to pay any and all costs, including attorneys' fees, incurred by the Investor Limited Partner in enforcing or attempting to enforce the Use Restrictions, and to pay any and all damages incurred by the Investor Limited Partner from any delay in or lack of enforceability of the same. All provisions relating to the Use Restrictions contained in such deed and in this Agreement shall be subject and subordinate to any third-party liens encumbering the Property.

B. The deed to the Optionee shall be subject to the prior written approval of the Investor Limited Partner. In the absence of a deed conforming to the requirements of this Agreement, the provisions of this Agreement shall run with the land. In the event that the Option is not exercised, or the sale pursuant thereto is not consummated, then, upon conveyance of the Property to anyone other than the Optionee hereunder, the foregoing provisions shall terminate and have no further force or effect.

Section 9. Alternative Purchase of Partnership Interests

Notwithstanding the foregoing, the Optionee may, at its election, in lieu of a direct acquisition of the Property pursuant to the Option, acquire the partnership interests (but not less than all of such interests) of all the partners in the Partnership for a purchase price to each of them equal to the amount which would be distributable to each such partner upon liquidation of the Partnership following any sale of the Property under the Option at the Option Price as calculated under this Agreement.

Section 10. Notices

Except as otherwise specifically provided herein, all notices, demands or other communications hereunder shall be in writing and shall be deemed to have been given and received (i) two (2) business days after being deposited in the United States mail and sent by certified or registered mail, postage prepaid, (ii) one (1) business day after being delivered to a nationally recognized overnight delivery service, (iii) on the day sent by telecopier or other facsimile transmission, answer back requested, or (iv) on the day delivered personally, in each case, to the parties at the addresses set forth below or at such other addresses as such parties may designate by notice to the other party:

(i) If to the Partnership, at the principal office of the Partnership set forth in Article II of the Partnership Agreement;

(ii) If to a Consenting Partner, at their respective addresses set forth in Exhibit A of the Partnership Agreement;

(iii) If to the Optionee, 715 East Brier Drive, San Bernardino, California 92408-2841, Attn: Executive Director,

in each case, with copies to Buchalter, a Professional Corporation, 1000 Wilshire Blvd., Suite 1500, Los Angeles, California, 90017-2457, Attn: Michael A. Williamson, Esq. and to Klein Hornig LLP at 1325 G Street NW, Suite 770, Washington, DC 20005, Attn: Chris Hornig, Esq.

Section 11. Severability of Provisions

Each provision of this Agreement shall be considered severable, and if for any reason any provision that is not essential to the effectuation of the basic purposes of the Agreement is determined to be invalid and contrary to any existing or future law, such invalidity shall not impair the operation of or affect those provisions of this Agreement that are valid.

Section 12. Binding Provisions

The covenants and agreements contained herein shall be binding upon, and inure to the benefit of, the heirs, legal representatives, successors and assignees of the respective parties hereto, except in each case as expressly provided to the contrary in this Agreement.

Section 13. Counterparts

This Agreement may be executed in several counterparts and all so executed shall constitute one agreement binding on all parties hereto, notwithstanding that all the parties have not signed the original or the same counterpart.

Section 14. Governing Law

This Agreement shall be construed and enforced in accordance with the laws of the State of California, without regard to principles of conflicts of law.

Section 15. Headings

All headings in this Agreement are for convenience of reference only. Masculine, feminine, or neuter gender, shall include all other genders, the singular shall include the plural, and vice versa as the context may require.

Section 16. Amendments

This Agreement shall not be amended except by written agreement between the Optionee and the Partnership with the consent of each of the Consenting Partners.

Section 17. Time

Time is of the essence with respect to this Agreement, and all provisions relating thereto shall be so construed.

Section 18. Legal Fees

Except as otherwise provided herein, in the event that legal proceedings are commenced by the Partnership against the Optionee or by the Optionee against the Partnership in connection with this Agreement or the transactions contemplated hereby, the prevailing party shall be entitled to recover all reasonable attorney's fees and expenses.

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IN WITNESS WHEREOF, the parties have executed this document as of the date first set forth hereinabove.

PARTNERSHIP:

WATERMAN GARDENS PARTNERS 2, L.P.,
a California limited partnership

By: WG Partners 2 MGP, LLC,
a California limited liability company,
its general partner

By: National Community Renaissance of California,
a California nonprofit public benefit corporation,
its sole member and manager

By: _____
Name: Michael Finn
Title: Chief Financial Officer

OPTIONEE:

**HOUSING AUTHORITY OF THE COUNTY
OF SAN BERNARDINO,**
a public body, corporate and politic

By: _____
Name: _____
Title: _____

The undersigned hereby consent to the foregoing Agreement as of the date first set forth hereinabove.

INVESTOR LIMITED PARTNER:

BANK OF AMERICA, N.A.,
a national banking association

By: _____
Name: Casey Carpenter
Title: Vice President

SPECIAL LIMITED PARTNER:

**BANC OF AMERICA CDC SPECIAL
HOLDING COMPANY, INC.,**
a North Carolina corporation

By: _____
Name: Casey Carpenter
Title: Vice President

The undersigned hereby consent to the foregoing Agreement as of the date first set forth hereinabove.

GENERAL PARTNER:

WG PARTNERS 2 MGP, LLC,
a California limited liability company

By: National Community Renaissance of California,
a California nonprofit public benefit corporation,
its sole member and manager

By: _____
Name: Michael Finn
Title: Chief Financial Officer

HA LIMITED PARTNER:

WATERMAN AFFORDABLE 3 LLC,
a California limited liability company

By: _____
Name: _____
Title: _____ [signature block to be confirmed]

CLANCY LIMITED PARTNER:

WG 2 DGP LLC,
a Massachusetts limited liability company

By: _____
Name: _____
Title: _____ [signature block to be confirmed]

EXHIBIT A

LEGAL DESCRIPTION

[to be inserted]