

F&H Corp. –Housing Development

Note: Most of the material below is summarized from the F&H Internal Operation Manual version 1.3.

Introduction – Housing Assessment and Acquisition

SAE F&H is currently involved in the most ambitious, hands-on housing program in its history. Following are a few of the drivers:

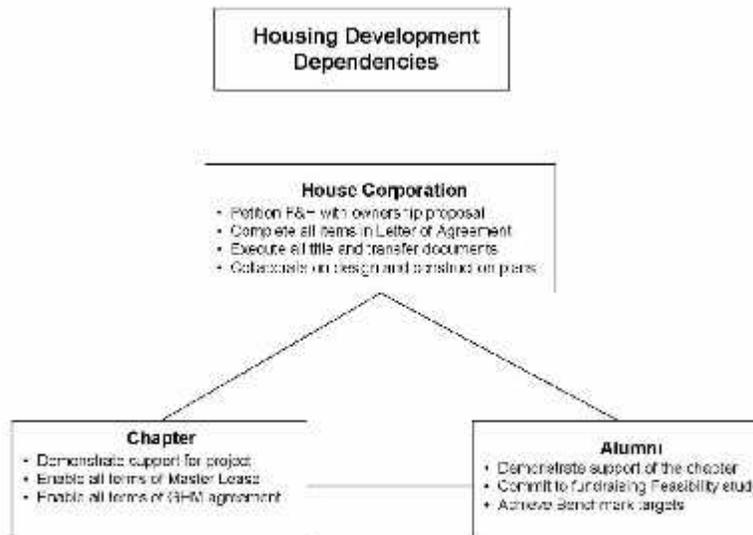
- Changes in on-campus housing programs that provide competitive “suite-like” accommodations,
- Housing needs generated by the re-establishment of closed chapters and newly chartered chapters;
- House Corporations struggling to find new energy in younger members and /or that have burned out;
- Changes in local building codes and issues associated with risk management requiring additional housing investment.

Collectively, all of these make F&H’s involvement critical to the longevity and success of many chapters. A major part of the F&H program is that which provides assistance, information, and support for chapters and house corporations.

Housing Development Business Model

As of 1Q2012, F&H has created its housing development business model to more effectively and efficiently manage each potential housing acquisition. This current and evolving F&H process is used to engage, assess and implement a housing development opportunity.

The process begins with a joint assessment of all aspects of the housing opportunity by F&H and the chapter’s house corporation. Aside from the physical and financial attributes, the assessment evaluates the House Corporation’s, the alumni’s, and the chapter member’s support for the project. The unqualified support of all three entities is a major dependency on the success of the project and, therefore, F&H’s willingness to go forward.



If the assessment phase produces a mutually beneficial opportunity for F&H to manage the project, the result can be a transfer of title followed by a renovation of the property.

Key to the assessment is the financial costs projections as well as the involvement and financial commitment of alumni. When the assessment indicates a large financial commitment by alumni, the engagement of a fund-raising firm (e.g. Pennington) is essential. The fund-raising potential of the body of alumni is validated through the firm's feasibility study.

Experience through May 2012 dictates that the entire project can hinge on the success of the entire fund-raising initiative.

A renovated or ground-up new chapter house generally includes all the modern features of university housing and is the conclusion of a successful Housing Development engagement. GHM terms and conditions, as described in the lease documents are engaged to manage the property

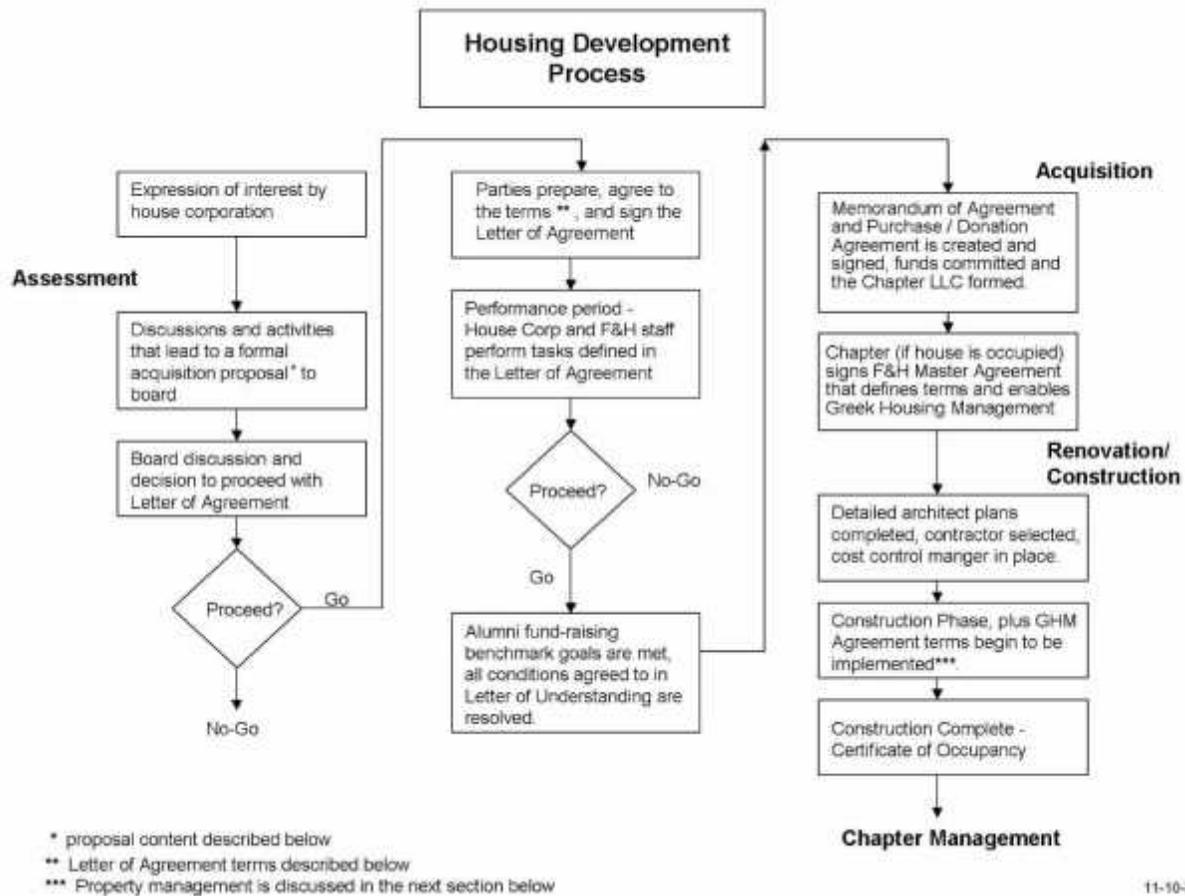
In all cases, a Housing Development engagement is followed by a Housing Management engagement and long-term relationship with the House Corporation and chapter.

Housing Development Assessment and Acquisition Process

The F&H Housing Development assessment and acquisition process ensures the following;

- Viable and financially sound housing plan
- Involvement and financial commitment by the chapter alumni.
- Chapter governance enabled and undergraduate member commitment to the terms of the GHM agreement.

A summary of the F&H Housing Development assessment and acquisition process follows:



11-10-2011

Housing Development Evaluation Process (2011)

The F&H Process for assessment, acquisition and re-development follows.

Assessment – The F&H Corp. – Housing Program provides for an orderly assessment of a proposed chapter house. Whether the chapter house is being donated, offered for purchase by the current owner, or simply managed by GHM, F&H staff personnel will assess the physical viability and financial implications of the property as follows.

1. Engage in preliminary discussions with the chapter house corporation leaders to discuss their objectives and to obtain assessment information on which to base a go or no-go decision.

From experience, we know that each chapter, house, and alumni group is unique. There are key variables related to each that when assessed will, in aggregate, determine the relative strength or weakness of a potential F&H proposal and engagement. During the assessment, F&H will provide feedback to the alumni on steps they can take to increase their rating from relatively weak to strong. At the conclusion, where the overall assessment is relatively weak, F&H will be compelled to not engage. Conversely, when the assessment is relatively strong, F&H will be predisposed to take the next step.

The following chart is intended to indicate some of the variables and how they contribute to the overall weakness or strength of a chapter’s F&H assessment.

Housing Development Assessment Variables		
	Relative Weakness	Relative Strength
House and House Corporation		
• Ownership	3rd party	House Corp
• Equity	Large Mortgage	No Mortgage
• Strategy	Sell property to F&H	Donate to F&H
Chapter		
• Colony or Chapter	Colony	Mature Chapter
• Quality of governance (bylaw)	Dated, not robust	Robust By-law
• Risk management record	Issues with Fraternity and/or School	No RM issues
Alumni		
• Support of the chapter	Small, unorganized, not engaged	Strong, faithful, and engaged
• Fundraising	No large donors identified	Key large donors identified
• Target house requirements	Unrealistic, no consensus	Reasonable and affordable

2. Prepare a report containing:
 - o Description of the school, its administration and attitude toward ΣAE and the Greek community.
 - o Description and profile of the chapter’s history, legacy, core values, GPA, leadership school participation, meal plan and status of the kitchen, etc.
 - o Current alumni involvement and potential financial commitment to a fund-raising initiative and the proposed F&H engagement.

- Physical specifications of the property, including the plat plan, house drawings, mechanical room, title, etc.
- Details of the current house corporation financial parameters, including outstanding mortgages, loans, appraisal, taxes, utilities, etc.
- Current house corporation issues, including problems they are attempting to solve, assistance they need and their rationale for F&H involvement.
- Chapter alumni plan to engage and financially support the chapter. This usually involves ensuring a committed Chapter Advisor, a five member Alumni Advisory Board and a professionally managed alumni fund-raising campaign.
- Proposed financial structure including, appraisal, mortgages and loans, alumni fund-raising contribution, construction plans and costs, etc.

A completed proposal will result in a F&H Board vote at a regularly scheduled meeting to proceed with an F&H generated Letter of Understanding, that when signed by all parties authorizes F&H staff to take the next steps.

3. Go / No Go – the decision by the F&H board to proceed is contingent on each party, F&H staff, chapter house corporation, and chapter alumni successfully fulfilling the prerequisites and commitments outlined in the letter. Proposals that are not approved generally are those which are not financially viable, lack adequate alumni support, or have a failed or failing chapter.
4. Prepare a joint Letter of Understanding with the chapter house corporation that describes the scope of a feasibility study and that contains the following commitments.

- Fundraising Study - The house corporation will organize the chapter's alumni and engage a professional fund-raising firm (e.g. Pennington & Company) to do a feasibility study assessing the alumni fund raising opportunity.

How the campaign goals and the expectations of the alumni set and the way the entire campaign is managed is critical to the overall project. Usually, the size and scope of the project is negotiated during this phase. Communication is key and there should be a single management lead identified for each party, F&H and the alumni.

This will include an approx. goal of \$____k in pledges and \$___ in cash. (Generally, the amount of alumni fund-raising will be determined by the scope of the renovation project, the post construction appraisal, the mortgage amount required to achieve a 60% cost to value ratio and of course the perceived giving capability of the chapter alumni .

- Fundraising Benchmarks. F&H and the House Corporation will need to agree on fundraising benchmarks in order to proceed with Project construction drawings, contractor bids, and commencement of construction. The fund-raising target amount in pledges will usually be accompanied with a required amount (e.g. 25%) in cash before beginning drawings and (e.g. 75%) before commencing construction.
- Conceptual Design & Scope of Work. F&H and the House Corporation must agree on the conceptual design for the Project as well as the scope of the renovation work including interior and exterior renovations (i.e., a broad outline of the key features of this Project). The parties will agree to engage an architect, (optionally paid for by F&H), to prepare conceptual design of planned renovation or re-construction. The conceptual design will incorporate state of the art university housing concepts that will make the space for each member highly desirable and promote academic success.
- Appraisal of Property (Post Renovation). F&H staff will acquire a property appraisal and have it run with post renovation assumptions. F&H staff will then compare the appraisal with the debt assumption to ensure 60-65% loan to value

- Construction Budget. F&H and the House Corporation must agree on the proposed construction budget for the Project after giving effect to the conceptual design and scope of work addressed above. The proposed construction budget will be prepared by F&H using its standard budget templates and financial assumptions based on other fraternity house properties that it owns.
- Annual Operating Budgets. F&H and the House Corporation must agree on the pro forma annual operating budgets for the Property, both before and after the Project. The proposed annual operating budgets will be prepared by F&H using its standard budget templates and financial assumptions based on other fraternity house properties that it owns as well as past experiences with this Property. F&H staff will look at cash flow for following 3 years using the F&H dash-board model sharing same with the House Corp.
 Moreover, the parties acknowledge that the Property should positively cash flow each year of operation as needed to fully fund a capital reserve account while simultaneously providing F&H a return on its cash investment of 10-15% per annum.
 Finally, the rents, food service fees and other income sources collected from the Collegiate Chapter and its members should be competitive to comparable room and board charges of the host university (i.e., within 5-10% of the comparable host university charges).
- Collegiate Chapter Support. F&H must obtain satisfactory evidence that the Collegiate Chapter supports both the Project as well as the subsequent management of the Property by F&H. After acquisition, F&H will manage the property in accordance with the standard operating procedures it uses at all other F&H-owned properties. F&H will agree to meet with the Collegiate Chapter as needed to educate them about the requirements of our housing program.
- Other Due Diligence. Depending on the pace of the above items and questions that may arise during this Feasibility Process, F&H may pursue other due diligence on the Property, all of which must be satisfactory to F&H. While not exhaustive, such due diligence may include environmental studies, property condition reports, surveys, title examination reports, market research and so forth. All such due diligence will be at the sole cost and expense of F&H.

The progress that is required by the F&H board toward completing the fund-raising commitments in the Letter of Understanding is referred to as Benchmark One. The progress made by all parties involved on Benchmark One commitments is monitored by F&H staff throughout the process.

Provided that the above Feasibility Process is accomplished to the complete satisfaction of F&H, as evidenced by the affirmative vote of the F&H Board of Directors to accept the donation or the purchase of the Property, then F&H would be willing to enter into a binding Donation or Purchase Agreement with the House Corporation as needed to acquire the Property. The terms of the Donation or Purchase Agreement would be negotiated at that time using the F&H standard form of agreement and incorporating those terms agreed upon pursuant to the above Feasibility Process. Until such a Donation or Purchase Agreement is executed, neither party shall be obligated to any agreement with respect to the donation of the Property or the Project, and each party may withdraw from the above described Feasibility Process at any time upon notice to the other.

The Letter of Understanding, Donation or Purchase Agreement and any Corporate Resolutions are sent to be reviewed by the house corporation. A meeting of the house corporation with a vote by its membership is required for the acceptance and signing of the documents.

The house corporation signs the Memorandum of Agreement which may include a future gift deed of its real estate, personal property and cash to a Single Asset LLC Subsidiary of SAE F&H. The house corporation will return the signed original documents to SAE F&H and retain a copy for its records.

5. The performance period follows providing time for the terms of the Letter of Understanding to be fulfilled. Regular monthly progress reports are prepared by F&H staff and presented to all parties.

SAE F&H initiates the following:

- o Environmental Phase I report,
- o Zoning Report,
- o Confirmation of Good Standing of Local House Corporation,
- o Review of the House Corporations Articles of Incorporation and Bylaws
- o Title Commitment,
- o UCC Search,
- o ALTA and topographical survey,
- o Appraisal, and
- o Confirmation of municipal licensing requirements

An on-site chapter visit may be necessary to resolve some issues and to complete the physical property assessment. Additionally, a discussion with the chapter's leadership will identify issues they may have with the property management processes. Generally, the task that requires the most time is the alumni fund-raising.

During this period F&H and the house corporation will refine the property requirements, using the architects rendering, assess, qualify and modify every aspect of the house plan, including number of beds, room rental rates, size and use of common areas, kitchen and dining accommodations as well as other detailed requirements that the chapter and house corporation have. Changes in projected costs are reflected in the financial model and may require an adjustment in the fund-raising target so it is appropriate to iron this potential change out in advance of establishing the financial goals.

As other tasks that satisfy the terms of the letter are performed, F&H will engage and qualify contractors.

6. Go / No Go – When the alumni fund raising goal is approached, all other issues related to the Letter of Understanding and the development plan (e.g. chapter GPA, chapter size, alumni loan forgiveness, etc.) must be either resolved or have a plan in place to resolve them.

The commitments agreed to in the Letter of Understanding as well as other issues identified and assigned for resolution is referred to as Benchmark Two. The progress made by all parties involved on Benchmark Two commitments is monitored by F&H staff throughout the process.

The F&H board will vote to proceed when it is satisfied that all terms of Benchmark Two have been met and all issues are resolved.

At this point the likelihood of a proposal failing is low, however, there are extenuating circumstances that could cause either party to decide to not proceed. Most of the issues that would cause the joint F&H and house corporation plan to fail relate to the chapter's lack of performance or unwillingness to make required cultural changes.

Acquisition – When the fund raising goal is achieved, F&H will commit agreed funds, including any bank funding, the appropriate contractual documents are prepared and signed and the [Chapter Name] Housing, LLC is formed. The architect will be instructed to prepare detailed drawings and F&H will proceed with the Acquisition phase as detailed below.

7. When the F&H Board acquires the property the [Chapter Name] Housing LLC that holds title to the property is created. The individual [Chapter Name] Housing, LLC, a wholly owned subsidiary of SAE F&H Corp., then leases the property to the chapter.
8. Development Agreement – F&H and the house corporation sign all appropriate agreements facilitating property title transfer plus any contracts necessary to proceed. Additionally, the agreements engaging GHM will be signed.

Renovation or Construction – Having all the necessary documents signed and executed the Renovation or Construction phase follows as detailed below.

9. Construction – F&H staff will select the contractor and engage any needed engineers as well as a cost control manager. The completed house will include all new furniture, adequate HVAC and WI-FI.

The chapter will complete all tasks related to their compliance with the terms of the GHM agreement, including signing of the master lease agreement and submittal of the previously agreed upon number of signed sub-leases. The search for a Housing Director will begin and hiring of same will take place based on the logistical capabilities of chapter and GHM but always prior to occupancy.

10. Certificate of Occupancy

The move-in and follow-on activities will be performed under the terms of the GHM agreement.

Details of each of the Standard Process follow in the next sub-sections.