

November 5, 2007

Mr. Steve Glueck, Director
City of Golden, Planning Department.
1445 10th Street
Golden, Colorado 80401

Re: Clear Creek Commons

Dear Steve:

Please accept this application for the elimination of our age related growth management exemption and the commercial on site parking requirements for Clear Creek Commons. It is with great disappointment that I am making this request but it appears to be the only way we can avoid a foreclosure on the property and protect the financial and housing interests of our residents.

Since opening Clear Creek Commons in 2003, per the attached summary we have experienced operating losses of \$2,693,815. As you may recall, during our initial entitlement process we had partnered with senior specialist HPD Cambridge (www.urbansenior.com). Following the completion of construction and a two year pre leasing effort that netted less than 50% occupancy, we shifted to local management with Omni Apartment Communities. However, the weakness in the senior and rental markets continued to present challenges throughout the Denver metropolitan region. After two additional years of underperformance we conducted a national search and brought in Leisure Care Senior Housing (www.leisurecare.com) as managers in 2005. Regrettably, they have also failed to stabilize the asset even with their requested PUD amendment to allow studio apartments. Additionally, we are now presented with a new challenge as Rhapsody's restaurant is in default on their lease. As you are aware, we were able to incorporate their Café Touche space into our common area when they closed the doors of the bakery last year. However, the restaurant space presents new and potentially more serious challenges.

The initial development cost for Clear Creek Commons was \$10,000,000 and included substantial contingency, marketing, and operating deficit funding. While our construction costs were very close to budget, the ongoing operating losses far exceeded the budget. This has required the partnership to fund an additional \$1,500,000 through a series of four capital calls bringing the total investment to \$11,500,000. However, per the attached valuation from CBRE Senior Housing Group, the asset has a net value, after combined selling costs of 5%, of approximately \$6,711,000. Given the current turmoil in the capital markets nationwide and the nonperforming commercial space that was not contemplated in the valuation, I believe the true value is even lower. Therefore, our current liabilities of

\$6,829,209 exceed the expected market value and we would be required to bring funds to the closing if we sell. Given that there has been no material improvement in the financials over four years, a continued hold would also require additional funding. Therefore, given the lack of ownership equity and projected future losses, in the absence of modifications to the current entitlement restrictions, foreclosure is the only logical financial option for ownership. However, this would present an enormous financial hardship relative to nine of our residents that we are seeking to avoid.

The concern with a foreclosure is that the partnership's current liabilities include \$929,500 in resident Entry Fee deposits that would be lost in a foreclosure action by the first lien holder. These Entry Fees have been collected in conformance with applicable law, provide for a discounted rent structure to the resident, and are secured by a second lien against the property. While a portion of these funds has been used to fund operating losses, the majority has been used to pay down the first mortgage improving their security position. This is contrary to the original business model that distributed the Entry Fees to ownership but was a more conservative and appropriate approach to follow given the slow leasing performance. Consequently, not a single distribution has ever been made by the partnership at Clear Creek Commons. Given that the Entry Fees were in a senior position to our substantial equity investment, it appeared that their risk was very minor. Obviously, the current market conditions appear to challenge that theory implying a 100% loss for the partnership and the potential of a percentage loss for the residents. While a loss for the partnership is unavoidable, it is our goal to work with the City of Golden through this modification to avoid any loss for the residents and ensure a 100% return of their Entry Fees.

We have studied several exit and management options for the property and have concluded that the current use as senior housing remains the most viable. Given the ongoing weakness in the rental market throughout the Denver metropolitan area, there is no immediate benefit to changing the occupancy to reflect a materially younger demographic. To add licensed Assisted Living services would significantly increase operating expenses but only partially increase income making that approach unattractive as well. Finally, while the condominium sales at Millstone Creek and Gateway Station are encouraging, the absorption statistics of less than one sale per month imply that a condominium conversion would require a four year sales period. Given the severe weakness in the national and regional for sale housing markets this strategy represents enormous additional risk. We would therefore like to retain the occupancy as senior housing but eliminate the government restriction associated with the same and increase the flexibility for management to attract a slightly younger population. While designed as a senior community targeting a median age in the low 70's our median resident age is currently in the low 80's. Given the tremendous urban location of Clear Creek Commons, we believe we can successfully market to a relatively younger demographic if permitted by entitlement and if parking is available. This will allow the community's continued operation as a senior facility short term and potentially long term. However, in the event long term market conditions present further challenges, the elimination of entitlement restrictions are absolutely critical to allow ownership to adjust to those conditions and

prevent further loss. With these changes, we are confident that we can secure the additional investment capital necessary to avoid foreclosure.

The specific request is two fold. The first is to eliminate the senior age restriction that permitted an exemption under the growth management ordinance. We would like to then apply for standard permit allocations retroactively starting in early 2008 with the hope of securing the full complement of 45 allocations by year end 2008. The second request is to eliminate the commercial parking requirement for the restaurant/retail space. The site was granted a parking exemption of a ½ parking space per unit for a total of 23 residential spaces. In addition, 24 spaces were provided for the commercial space that are underutilized by the restaurant patrons. In order to better position the property for long term funding of losses, a parking ratio of one space per residential unit is required. We are therefore seeking the assignment of 100% of the parking to the residential use allowing one space per unit and two visitor spaces. We recognize that this would typically be administered through a cash-in-lieu payment of \$7,500 per space. However, these funds are not available and we are therefore requesting a waiver of this fee.

On a positive note, while our rents are still below opening day pro-forma from five years ago, we have recently reached 90% occupancy for the first time and have a great group of residents. Effective January 1st 2008 we are terminating our relationship with Leisure Care and are excited to be bringing in the services of Riverstone Management that manages four other communities for us and has extensive senior experience within their national portfolio. We have met with the onsite staff and it appears as if the majority, if not all, will be staying on through the transition providing continuity for operations and the residents. Furthermore, the partnership has sufficient funds to cover losses through the next 90 days to avoid a foreclosure during this review process. In the event, the requested approval can be obtained, while the partnership would still be writing off close to, if not 100%, of its investment, I am confident that we can secure additional long term operational funding and protect 100% of the resident Entry Fees.

I thank you for your consideration and am available at your convenience to answer any questions. I have attached back up financial information for your reference.

Sincerely,

T. Amory Host
President

Enclosures.

TAH/af