IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

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| In re | : Chapter 11 |
| Fairfield Residential LLC, *et al.*,[1] | : Case No. ________ (____) |
| Debtors. | : (Jointly Administered) |

## AFFIDAVIT OF ANDREW HINKELMAN IN SUPPORT OF FIRST DAY MOTIONS

STATE OF CALIFORNIA )
) ss
COUNTY OF SAN DIEGO )

1. I am a Senior Managing Director of FTI Consulting, Inc. ("FTI"), an internationally recognized restructuring, turnaround advisory and consulting firm.

2. I have played a significant role in numerous chapter 11 restructurings, in an expansive array of industries. Specifically, I have served as the plan administrator for the estates of *Metricom Inc., Lockwood Greene Engineering, Inc.* and *OmniSky Corp.* and

1 The Debtors are the following 15 entities (the last four digits of their respective taxpayer identification numbers follow in parentheses): Fairfield Residential LLC, a Delaware limited liability company (8277), Fairview Homes, Inc., a Delaware corporation (9930), FF Development L.P., a Delaware limited partnership (2310), FF Properties L.P., a Delaware limited partnership (5355), Fairview Residential LLC, a Delaware limited liability company (5416), FF Realty LLC, a Delaware limited liability company (5941), Fairfield Financial A LLC, a Delaware limited liability company (7014), FF Investments LLC, a Delaware limited liability company (7066), Fairview Investments LLC, a Delaware limited liability company (9605), Fairfield Affordable Housing LLC, a Delaware limited liability company (7111), FF Development, Inc., a Delaware corporation (2308), FF Properties, Inc., a Delaware corporation (5354), Fairview Residential L.P., a Delaware limited partnership (9788), Fairview Residential WA LLC, a Delaware limited liability company (9703) and Fairview Residential CA L.P., a Delaware limited partnership (9972). The mailing address of each of the Debtors is 5510 Morehouse Drive, Suite 200, San Diego, California 92121.

as an advisor in the chapter 11 or out-of-court restructurings of various companies in the construction, high technology, automotive, hospitality, professional services, architectural/engineering, retail and manufacturing industries, among others. Prior to joining FTI in 2002, I was a managing director in the U.S. division of PricewaterhouseCooper's Business Recovery Services practice. I earned a B.A. in Business Administration with a concentration in accounting from California State University, San Luis Obispo. I am a CPA (inactive) and a member of the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants and the Association of Insolvency and Restructuring Advisors. I also served on the board of the Northern California chapter of the Turnaround Management Association.

3. As of April 15, 2009, I, along with other members of FTI, have been serving as restructuring advisors to Fairfield Residential LLC ("FFR") and the other above-captioned debtors and debtors in possession (collectively with FFR, the "Debtors"). On April 21, 2009, I began serving in the role of Chief Restructuring Officer of the Debtors, and thus am generally familiar with their day-to-day operations, business affairs and books and records. I submit this affidavit (the "Affidavit") to assist the Court and other parties in interest in understanding (i) the circumstances that led to the filing with this Court of the voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") on December 13, 2009 (the "Petition Date") and (ii) the relief that the Debtors have requested of the Court through several motions (the "First Day Motions") that have been filed by the Debtors.

4. The First Day Motions are intended to enable the Debtors to operate effectively and efficiently during these chapter 11 cases, as well as to avoid certain adverse consequences that might otherwise result from the commencement of such cases. Among other things, the First Day Motions allow the Debtors to (i) stabilize their business operations, (ii) preserve their critical relationships with lenders, joint venture and equity partners, employees and other key stakeholders in the Debtors' business operations, (iii) limit disruption through the continued use of the Debtors' prepetition systems and operations, (iv) continue the Debtors' on-going construction projects so as to eliminate any disruption to both the lenders and contractors on these numerous projects, (v) establish numerous administrative procedures to allow a "smooth landing" into bankruptcy and (vi) perhaps, most critically, allow for a quick and successful emergence from chapter 11. As discussed below, I have reviewed the First Day Motions, and it is my belief that the relief sought in such motions is necessary to: (a) avoid immediate and irreparable harm to, and ensure the uninterrupted operation of, the Debtors' business; (b) maximize and preserve the value of the Debtors' chapter 11 estates and (c) allow for a successful emergence from chapter 11.

5. Except as otherwise indicated, all facts set forth in this Affidavit are based upon my personal knowledge, my review of relevant documents and information, my discussions with the Debtors' management team and its professional advisors and my opinion based upon my experience and knowledge. If called upon, I could and would testify competently to the facts set forth herein. I am authorized to submit this Affidavit on behalf of the Debtors.

6. Part I of this Affidavit provides an overview of the business operations and a summary of financial results. Part II provides a description of the corporate and capital structures. Part III provides a discussion of the events that compelled the commencement of these chapter 11 cases, as well as the Debtors' plan for these cases. Part IV discusses the facts that support the relief requested in the First Day Motions.

## Part I
## Overview of the Debtors' Business

7. FFR traces its roots to 1985, when its current Chief Executive Officer, Christopher Hashioka, and a partner formed the Fairfield Companies. In 1997, the Fairfield Companies and Morgan Stanley Real Estate Fund II formed FFR to better focus on the core strengths of developing, acquiring, building, redeveloping, financing and managing apartment home communities and for-sale attached homes nationwide in markets that offer investors profitable opportunities. Subsequently, the California State Teachers Retirement System ("CalSTRS") (2005) and a wholly-owned subsidiary of Mitsubishi Corporation (2006) invested in and became part of FFR's ownership.

8. Since its founding a little more than a decade ago, FFR has become one of the largest and most successful multifamily developers and managers in the country. FFR is a fully integrated multifamily housing company that through its various subsidiaries provides a diverse mix of services to a wide range of investors, joint venture partners and clients. In addition, FFR either directly or indirectly, acts as a general partner or managing member of, and owns varying stakes in, a number of project level operating companies, none of which is a debtor in these chapter 11 cases. In total, the Debtors, along with wholly owned and certain non-wholly owned non-debtor subsidiaries

(collectively, with the Debtors, the "Company") have an interest in approximately 200 separate multifamily properties in stages varying from "raw land," to under construction and finally to fully operational new construction and redevelopment communities.

9. With approximately 2,000 employees, the Company currently operates in 40 diverse markets across the United States, including Boston, Massachusetts; Washington, D.C.; Charlotte, North Carolina; Atlanta, Georgia; Dallas, Texas; Denver, Colorado; Las Vegas, Nevada; Phoenix, Arizona; Los Angeles, California; San Francisco, California; and Seattle, Washington. For 2008, the Company had total revenues of $952.9 million and $107.5 million in net losses. As of December 31, 2008, the Company had approximately $1.2 billion in total assets and approximately $978 million in total liabilities, exclusive of approximately $3 billion of contingent guaranty liabilities.

10. The Company was built around providing a core group of complementary services to its investors and customers, including:

> ***Development and New Construction*** – Relying upon a skilled team of professionals, the Company is one of the largest developers and builders of market rate and affordable multifamily apartment home properties, as well as student housing properties and for-sale condominium homes. Since inception in late 1997, the Company has started over 200 new construction projects consisting of over 68,000 attached homes and representing approximately $8.5 billion in total project costs.
>
> ***Acquisitions and Redevelopment*** – As a core element of its strategy, the Company has a well-defined program of acquiring and redeveloping multifamily properties in markets that are either supply-constrained or in which redevelopment costs are substantially below new construction costs. In addition, the Company has had a

strategy focused on acquiring properties in markets that appear to be emerging from economic displacement. Since 1997, the Company has acquired nearly 300 properties, consisting of almost 78,000 attached homes and representing approximately $8.2 billion in project costs.

***Affordable Housing*** – Since its inception, the Company has been developing, building, redeveloping and managing affordable and workforce housing. The Company is an experienced authority in the intricacies of using Low Income Housing Tax Credits (LIHTCs) and tax exempt municipal bonds to finance affordable apartment home communities.

The Company has created/managed over 12,000 affordable apartment homes in over 100 properties throughout the U.S. including almost 6,400 apartment homes in 28 properties financed through LIHTCs.

***Property Management*** – The Company is also one of the largest, full service property management companies in the United States and was ranked by the National Multi Housing Council as the 11th largest apartment manager and 17th largest apartment owner in the country as of year end 2008. As of November 1, 2009, the Company managed over 55,000 apartment homes in new construction, stabilized, turnaround properties and fee-managed properties.

***Asset Management and Disposition*** – The Company's internal Asset Management group is responsible for the execution and monitoring of the full business plan of an asset, from the point of acquisition to the sale and realization of the maximum value of the asset and, in turn, the returns to investors. The Company maintains an in-house sales team that, in conjunction with selected brokerage firms, markets and sells properties to maximize the return to the Company's investors.

Since inception, including assets in which it had an ownership interest and those in which it did not, the Company has sold over 360 properties totaling more than 102,000 attached homes for a sales value in excess of $11.7 billion.

## Summary of Recent Financial Results

11. For the nine months ending September 30, 2009, the Company had total revenues of $506.7 million and total net losses of $48.7 million. As of September 30, 2009, the Company had approximately $958.0 million in total assets and $834.9 million in total liabilities, excluding contingent guaranties.

## Part II
## Corporate and Capital Structure of the Debtors

### A. Corporate Structure

12. The Debtors are a unified series of limited liability companies and limited partnerships with an integrated approach to value maximization in the multifamily housing arena. By design, the Debtors' diverse business lines, which operate with centralized management, have historically allowed the Debtors to pursue a wide range of opportunities and have allowed them to respond quickly to the changing business environment. Indeed, because the Debtors operate throughout all of the relevant business cycles, from development to management to disposition, they have incorporated every business unit as part of a complete investment objective with a focus on investment profitability.

13. A comprehensive organization chart that shows the relationship among the Debtors is attached hereto as Exhibit A. A brief description of each of the Debtors' business activities or business functions is set forth below.

(a) FFR is a holding company that owns, directly or indirectly, 100% of the membership, partnership interests or stock in each of the Debtors.

(b) FF Development, Inc. owns a 1% general partnership interest in FF Development L.P. FF Development, Inc. has no business operations of its own.

(c) FF Development L.P. ("Development") provides construction and construction management services to real estate joint ventures and holds most of the Debtors' contractor licenses.

(d) FF Properties, Inc. owns a 1% general partnership interest in Properties and serves as the non-member manager for FF Realty, Financial A, FF Investments and Affordable (all as defined below) as well as numerous joint venture entities and funds.

(e) FF Properties L.P. ("Properties") provides property management, asset management, asset acquisition and disposition services to affiliates of FFR and some third-party entities. Properties also holds certain of the Debtors' real estate brokers licenses.

(f) Fairview Residential LLC ("Fairview") is a holding company for the condominium development, construction and construction management subsidiaries.

(g) Fairview Homes, Inc. owns a 1% general partnership interest in Fairview Residential L.P. and Fairview Residential CA L.P. and is the non-member manager of Fairview Residential WA LLC and Fairview Investments LLC.

(h) Fairview Residential L.P. was formed to provide development, construction and construction management services to condominium for-sale ventures in the State of Nevada and holds a contractor license in the state of Nevada. Fairview Residential L.P. has never had any business operations.

(i) Fairview Residential CA L.P. was formed to provide development, construction and construction management services to condominium for-sale ventures in the State of California and holds a contractor license in the State of California. Fairview Residential CA L.P. has never had any business operations.

(j) Fairview Residential WA LLC provides development, construction and construction management services to condominium for-sale ventures in the State of Washington and holds a contractor license in the state of Washington. Fairview Residential WA LLC developed and constructed one condominium project in the State of Washington, but has otherwise had no business operations.

(k) FF Realty LLC ("Realty") executes option and purchase agreements for real property purchased by the Debtors and holds deposits on real estate.

(l) Fairfield Financial A LLC ("Financial A") indirectly, through subsidiaries, currently holds investment interests in real estate joint ventures.

(m) FF Investments LLC ("FF Investments") indirectly, through subsidiaries, holds investment interests in real estate joint ventures.

(n) Fairview Investments LLC ("Fairview Investments") indirectly, through subsidiaries, holds investment interests in real estate joint ventures for condominium for-sale projects.

(o) Fairfield Affordable Housing LLC ("Affordable") indirectly, through subsidiaries, holds investment interests in affordable housing (LIHTC) real estate joint ventures.

14. In addition to the Debtors, FFR has indirect ownership stakes in hundreds of land and apartment investments ("Real Estate Investments"). FFR has majority or wholly owned ownership of approximately 14 Real Estate Investments, but it shares ownership in the majority of the Real Estate Investments with third-party investors. Under FFR's well-established equity partner model, each indirect Real Estate Investment is made through a special purpose entity ("SPE") formed as either a limited liability partnership ("LLP") or a limited liability company ("LLC"). In those LLP SPEs, a FFR subsidiary has a minority ownership interest and serves as the general partner of the LLP while third-party investors have a majority ownership interest and act as limited partners. In those LLC SPEs, a FFR subsidiary has a minority ownership interest and serves as the managing member of the LLC while one or more third-party investors hold the remaining membership interests as members of the LLC.

## B. Capital Structure

15. The Debtors' outstanding loan obligations are concentrated at two different and distinct tiers within the corporate structure: the parent level and the project level. FFR, the parent company, is the named borrower for a term loan and two revolving credit facilities, which were used to fund working capital and various land acquisitions by project-level joint venture entities. On the project level, non-Debtor operating subsidiaries obtain loans secured by real property for construction, acquisition or redevelopment activities.

*Parent Level - Capmark Facility*

16. On December 7, 2005, FFR entered into an agreement (the "Capmark Agreement") with Capmark Finance, Inc. ("Capmark") as lender and agent establishing a $25 million revolving credit facility ("Revolver") and a $50 million term note ("Term Note"), both of which are fully guaranteed by Development, Fairview, Properties, Realty, Financial A, FF Investments, Fairview Investments, Affordable, FF Development, Inc. and FF Properties, Inc. (collectively, the "Guarantors"). A series of amendments to the Capmark Agreement (the "Amendments") added several parties as participating lenders (together with Capmark, the "Capmark Lenders") and increased the Revolver to $75 million. Initial interest on the loans was a fixed rate of 7.2% on the Term Note and a variable rate of LIBOR + 2.5% on the Revolver. The Term Note was originally scheduled to be paid in quarterly installments with a final maturity date of December 7, 2010, and the Revolver was set to expire on December 7, 2008. Pursuant to the Amendments, however, the Capmark Lenders changed the final maturity date of both the

Revolver and Term Note to the earlier of December 11, 2009 or the occurrence of certain other events, and increased the interest rate for the period beyond February 9, 2009 to a fixed rate of 9% on the Term Note and a per annum rate equal to the sum of LIBOR plus 4% with a minimum LIBOR floor of 3.5% on the Revolver. As of the Petition Date, the Debtors had outstanding balances of approximately $33.7 million on the Revolver, approximately $45.8 million on the Term Note and were current on payments under both the Revolver and the Term Note.

*Parent Level - Wachovia Facility*

17. On December 14, 2007, FFR entered into a two-year agreement with Wachovia Bank, National Association ("Wachovia") establishing a $25 million revolving line of credit to be used solely for the purpose of purchasing, constructing or developing real property. The advances made pursuant to the Wachovia Facility are secured by liens on certain properties held indirectly by FF Investments and Fairview Investments LLC. As of the Petition Date, approximately $18.2 million of the Wachovia Facility had been drawn upon by FFR.

*Project Level Financing*

18. Virtually all of the project-level affiliates finance their new construction, acquisition or redevelopment projects with loans secured by real property. While none of the Debtors is a borrowing party to these project-level loans, certain of the lenders (the "Project Lenders") hold payment, completion or other guarantees from FFR or the Guarantors. The aggregate amount of such guarantees is approximately $3 billion.

## Part III
## Events Leading to the Commencement of These Cases and the Debtors' Chapter 11 Plans and Strategies

19. Given that the Debtors focused their business on the construction, development, management and sale of multifamily real property, the unprecedented collapse in the real estate and capital markets have dramatically affected the Debtors. Although their core service businesses have continued to perform well, the collapse of the financial markets has made it difficult, if not impossible, for the Debtors to continue with their normal operations.

### A. The Collapse of Real Estate Finance Markets Leaves the Debtors Unable to Refinance Existing Obligations

20. Like other significant participants in their industry, the Debtors' investments in real estate joint ventures have traditionally been dependent upon a steady source of asset-backed financing to complete their new development projects. These investments in new construction property were typically financed with a three- to five-year construction loan. These construction loans were not disbursed in a lump sum, but amounts were drawn on each loan based on general contractor and subcontractor billings, an agreed budget and compliance with certain debt covenants. Similarly, for each acquisition of existing property, financing was obtained through the collateralization of the property itself for approximately 5 to 7 years.

21. The Debtors, like most real estate developers, were particularly dependent upon the ability to either refinance or sell investment properties. Beginning in the fourth quarter of 2008, supply for commercial backed mortgage securities ("CMBS") dried up and other significant sources of capital for the real estate capital markets became much

more difficult to obtain. By the third quarter of 2009, only $1.8195 billion of CMBS issuances had been made, an 85% reduction from the dollar volume issued in the first three quarters of 2008 and a 99.1% reduction from the 2007 issuances for the same time period.[2] This collapse of the mortgage market coincided with and contributed to the general economic downturn that has resulted in the conservatorship of Freddie Mac and Fannie Mae, the failure of Bear Stearns, the use of federal money to bail out AIG and the bankruptcies of Lehman Brothers and hundreds of smaller banks.

22. The extraordinary collapse of the capital markets and the economic decline suffered by the real estate industry rendered the Debtors unable to refinance their existing obligations or sell their investment properties despite their strong and diversified business model. The inability to find lenders willing to refinance their existing obligations or suitable buyers left the Debtors with numerous near-term maturities. The following chart summarizes the debt maturities of the Debtors' real estate investment properties through 2010:

| **Property / Debt Obligation** | **Maturity Date** | **Outstanding Principal Amount** | **Debtor (Creditor(s) and/or Guarantor(s))** |
|---|---|---|---|
| **New Construction** | | | |
| Ridgestone Apartments<br>Lake Elsinore, CA<br>352 Units | 06/01/09 | $39,116,000 | U.S. Bank |

2 Approximately $12.1 billion of CMBS were issued in the first three quarters of 2008, and $196.9 billion were issued for the same time period in 2007. See Commercial Mortgage Securities Association, Compendium of Statistics, July 20, 2009, *available at* http://www.cmsaglobal.org/uploadedFiles/CMSA_Site_Home/Industry_Resources/Research/Industry_Statistics/CMSA_Compendium.pdf.

| Property / Debt Obligation | Maturity Date | Outstanding Principal Amount | Debtor (Creditor(s) and/or Guarantor(s)) |
|---|---|---|---|
| Stonegate at Marlborough<br>Marlborough, MA<br>332 Units | 08/01/09 | $46,334,625 | Webster Bank |
| Ashton at Dulles Corner Apts<br>Herndon, VA<br>171 Units | 08/25/09 | $33,024,937 | Compass Bank |
| Exchange at Statesboro Apts<br>Statesboro, GA<br>288 Units | 10/10/09 | $22,957,082 | Capital One |
| Vista at the Park Apartments<br>Cary, NC<br>434 Units | 10/10/09 | $34,197,365 | Bank of Texas, N.A. |
| Milan Apartments<br>Houston, TX<br>360 Units | 10/20/09 | $21,237,353 | Regions Bank |
| Exchange at Ole Miss (Oxford)<br>Oxford, MS<br>300 Units | 11/01/09 | $25,008,355 | Key Bank, N.A. |
| 15777 Quorum Apartments<br>Addison, TX<br>414 Units | 11/15/09 | $40,716,504 | Compass Bank |
| Carillon Apartments<br>Woodland Hills, CA<br>264 Units | 11/21/09 | $63,153,628 | Bank of America |
| Villas at Centerview Apartments<br>Raleigh, NC<br>374 Units | 12/08/09 | $30,372,304 | J.P.Morgan Chase Bank |
| Presidio Apartments<br>Denver, CO<br>398 Units | 12/21/09 | $44,640,556 | Bank of America |
| Beaumont Apartments<br>Woodinville, WA<br>344 Units | 12/21/09 | $57,244,939 | Bank of America |

| Property / Debt Obligation | Maturity Date | Outstanding Principal Amount | Debtor (Creditor(s) and/or Guarantor(s)) |
|---|---|---|---|
| West Village Apartments<br>Mansfield, MA<br>200 Units | 12/22/09 | $31,119,005 | Bank of America |
| Chateau Woods Apartments<br>Woodinville, WA<br>114 Units | 12/31/09 | $30,255,391 | Bank of America |
| Exchange at Huntsville<br>Huntsville, TX<br>288 Units | 01/04/10 | $24,403,410 | Frost Bank |
| Ballantyne Apartments<br>Englewood, CO<br>219 Units | 01/05/10 | $25,585,744 | Bank of Montreal/Harris Bank |
| Lakeland Estate Apartments<br>Stafford, TX<br>264 Units | 01/25/10 | $15,415,502 | Sovereign Bank, N.A. |
| Exchange at Athens Apartments<br>Athens, GA<br>340 Units | 02/09/10 | $30,468,917 | Regions Bank |
| Sanctuary Apartments<br>Renton, WA<br>440 Units | 04/01/10 | $62,971,682 | U.S. Bank |
| Lunaire Apartments<br>Goodyear, AZ<br>240 Units | 05/15/10 | $24,073,810 | Wells Fargo Bank |
| Serafina<br>Goodyear, AZ<br>268 Units | 05/15/10 | $25,753,042 | Wells Fargo Bank |
| 6515 Union Apartments<br>Denver, CO<br>270 Units | 07/18/10 | $37,052,869 | Bank of Montreal / Harris Bank |
| Belara Apartments<br>Phoenix, AZ<br>307 Units | 09/01/10 | $35,302,633 | U.S. Bank |

| Property / Debt Obligation | Maturity Date | Outstanding Principal Amount | Debtor (Creditor(s) and/or Guarantor(s)) |
|---|---|---|---|
| Reserve Apartments<br>Renton, WA<br>440 Units | 09/01/10 | $52,088,974 | U.S. Bank |
| Loreto Apartments<br>Las Vegas, NV<br>406 Units | 09/26/10 | $41,625,595 | Bank of America |
| Palacio Apartments<br>Las Vegas, NV<br>333 Units | 09/26/10 | $34,683,030 | Bank of America |
| South Park Meadows Phase I<br>Austin, TX<br>670 Units | 10/04/10 | $51,395,269 | Compass Bank |
| Station 250 Apartments<br>Dedham , MA<br>285 Units | 10/17/10 | $51,389,625 | Sovereign Bank |
| Exchange at Auburn II<br>Auburn, AL<br>312 Units | 11/15/10 | $27,971,834 | Bank of America |
| Asbury Village Apartments<br>Raleigh , NC<br>350 Units | 12/13/10 | $29,895,281 | Regions Bank |
| Encantada Apartments<br>Peoria, AZ<br>271 Units | 12/18/10 | $26,727,636 | Wells Fargo Bank |
| **Land** | | | |
| The Verdant Apartments<br>San Jose, CA | 02/11/09 | $24,490,900 | Landesbank Hessen-Thüringen |
| Latitude 88 Apartments<br>San Jose, CA | 02/11/09 | $17,019,100 | Landesbank Hessen-Thüringen |
| Northridge - Kmart Apartments<br>Los Angeles, CA | 03/01/09 | $30,370,559 | U.S. Bank |
| Fairfield at Kingwood<br>Kingwood, TX | 05/05/09 | $2,782,807 | Bank of Texas, N.A. |

| Property / Debt Obligation | Maturity Date | Outstanding Principal Amount | Debtor (Creditor(s) and/or Guarantor(s)) |
|---|---|---|---|
| Cerano at Murphy Road Apts<br>Milpitas, CA | 06/12/09 | $10,724,185 | Wells Fargo Bank |
| Aqua and Virtu at Murphy Ranch<br>Milpitas, CA | 06/12/09 | $19,758,811 | Wells Fargo Bank |
| Woodmark Apartments<br>Las Vegas, NV | 11/01/09 | $7,449,000 | City National Bank |
| Aqua and Virtu at Murphy Ranch<br>Milpitas, CA | 12/14/09 | $7,000,000 | Wells Fargo Bank |
| Clairmont Donnies<br>Atlanta, GA | 12/14/09 | $2,700,000 | Wells Fargo Bank |
| Clairmont Fairfield Phase 2<br>Atlanta, GA | 12/14/09 | $8,467,517 | Wells Fargo Bank |
| Kaiser 152 Towns<br>Santa Clara, CA | 3/08/10 | $94,538,762 | Compass Bank |
| **Redevelopment** | | | |
| Foxwood Place Apartments<br>Alexandria, VA<br>228 Units | 9/14/09 | $31,180,000 | Nationwide Life Insurance Company |
| The Regent at Bellevue Way<br>Bellevue, WA<br>114 Units | 10/01/09 | $35,000,000 | Cigna |
| Kendalwood<br>Fredericksburg, VA<br>140 Units | 01/01/10 | $12,350,000 | Principal Financial |
| Amesbury<br>Dallas, TX<br>225 Units | 01/18/10 | $12,400,000 | Wells Fargo Bank |
| Fisherman's Landing<br>Coconut Creek, FL<br>268 Units | 03/10/10 | $16,000,000 | Principal Financial |

| Property / Debt Obligation | Maturity Date | Outstanding Principal Amount | Debtor (Creditor(s) and/or Guarantor(s)) |
|---|---|---|---|
| Bainbridge Apartments<br>Johnston, RI<br>132 Units | 04/01/10 | $10,420,000 | Principal Financial |
| Bellingham<br>Marietta, GA<br>201 Units | 04/01/10 | $14,830,000 | Principal Financial |
| Stoney Brook Apartments<br>North Providence, RI<br>180 Units | 04/01/10 | $16,830,000 | Principal Financial |
| Rancho Corrales Apartments<br>Simi Valley, CA<br>229 Units | 05/01/10 | $21,000,000 | Wells Fargo Bank |
| Glen Park at West Campus<br>Federal Way, WA<br>464 Units | 05/11/10 | $33,000,000 | Wells Fargo Bank |
| Arabella<br>Denver, CO<br>156 Units | 06/01/10 | $13,015,000 | Cigna |
| La Terraza<br>Ontario, CA<br>142 Units | 07/01/10 | $18,111,000 | Allstate Life Insurance Company |
| The Towers at Wyncote<br>Wyncote, PA<br>1,095 Units | 07/01/10 | $137,500,000 | JP Morgan |
| Carson Tower<br>Boston, MA<br>153 Units | 09/01/10 | $23,900,000 | Cigna |
| Atria at Crabtree Valley<br>Raleigh, NC<br>268 Units | 09/01/10 | $18,000,000 | Allstate Life Insurance Company |
| Hillcroft at Danbury<br>Danbury, CT<br>192 Units | 10/01/10 | $25,000,000 | Cigna |

| Property / Debt Obligation | Maturity Date | Outstanding Principal Amount | Debtor (Creditor(s) and/or Guarantor(s)) |
|---|---|---|---|
| Laurels at Morgan Falls<br>Sandy Springs, GA<br>232 Units | 11/21/10 | $18,000,000 | Wells Fargo Bank |
| Cornerstone at Bedford<br>Stamford, CT<br>368 Units | 12/01/10 | $37,200,000 | Fannie Mae |
| Cornerstone at Bedford<br>Stamford, CT<br>368 Units | 12/01/10 | $15,250,000 | Fannie Mae |
| Forest Hill Gardens<br>West Palm Beach, FL<br>276 Units | 12/01/10 | $16,910,000 | Nationwide Life Insurance Company |
| Sorrento<br>Mesa, AZ<br>226 Units | 12/01/10 | $14,000,000 | Bank of America |
| Emerald Bay Club<br>Boca Raton, FL<br>448 Units | 12/02/10 | $8,000,000 | Prudential Asset Resources |
| Emerald Bay Club<br>Boca Raton, FL<br>448 Units | 12/02/10 | $22,000,000 | Prudential Asset Resources |
| Arbors of Hickory Ridge Apts.<br>Memphis, TN<br>348 Units | 12/21/10 | $13,752,000 | Bank of America |

## B. Lender and Facility Defaults

23. Concurrently with the collapse of the real estate capital market, property values fell markedly, particularly in Arizona, California, Nevada and Florida, where the Debtors have numerous multifamily investments. The Debtors have suffered significant loss in the value of their investment in properties in the past year, in many cases resulting in assets being valued below their loan balances. This decline triggered defaults with

respect to the Debtors' investment properties. In some cases such defaults released the lenders of their obligation to fund any further draws. Furthermore, some equity partners declined capital call funding requests resulting in project level debt defaults. The Debtors' inability to place properties with equity investors together with the loss in value on the investment properties caused significant year end write-offs resulting in breaches of certain financial covenants within the Capmark and Wachovia facilities. As a result, the Debtors are currently exposed to up to $1.5 billion in payment, completion and other guarantees.

24. The following chart summarizes property level defaults:

| Project Name | Guaranty amount | Loan Balance as of 10/31/2009 | Lender | Default Date | Trustee Sale | Notice of Default |
|---|---|---|---|---|---|---|
| Latitude 88/Verdant | $41,510,000 | $41,510,000 | Helaba | 2/11/2009 | — | 2/11/2009 |
| Northride – Kmart | $31,500,000 | $30,370,559 | US Bank | 4/14/2009 | 11/14/2009 | 4/3/2009 |
| Palo Verde | $0 | $17,197,118 | Nationwide | 4/14/2009 | — | 4/10/2009 |
| Ridgestone | $19,558,000 | $39,116,000 | US Bank | 4/20/2009 | — | 4/20/2009 |
| Vista at the Park | $17,274,155 | $34,197,365 | Bank of Texas | 6/1/2009 | — | 5/1/2009 |
| Kingwood | $2,782,807 | $2,782,807 | Bank of Texas | 5/5/2009 | — | 5/7/2009 |
| Regent at Bellevue Way | $15,000,000 | $35,000,000 | Cigna | 5/19/2009 | 12/18/2009 | 5/12/2009 |
| Aqua and Virtu at Muphy Ranch | $20,253,293 | $19,758,811 | Wachovia | 7/14/2009 | — | 5/18/2009 |
| Aqua and Virtu at Muphy Ranch | $7,000,000 | $7,000,000 | Wachovia Line of Credit | — | — | 5/29/2009 |
| Clairmont Donnies/Clairmont Fairfield Phase II | $11,167,517 | $11,167,517 | Wachovia Line of Credit | — | — | 5/29/2009 |
| Caton's Ridge | $32,475,268 | $23,851,166 | JP Morgan Chase | — | — | 6/10/2009 |
| Mountain Gate | $39,800,000 | $25,032,772 | JP Morgan Chase | — | — | 6/10/2009 |
| Villas at Centerview | $16,716,134 | $30,372,304 | JP Morgan Chase | — | — | 6/10/2009 |

| Project Name | Guaranty amount | Loan Balance as of 10/31/2009 | Lender | Default Date | Trustee Sale | Notice of Default |
|---|---|---|---|---|---|---|
| Bexley | $10,469,000 | $33,000,000 | Citigroup | — | — | 7/6/2009 |
| Avanti | $51,177,887 | $32,741,031 | Wachovia | — | — | 7/13/2009 |
| Cameron | $96,687,842 | $50,693,667 | Wachovia | — | — | 7/13/2009 |
| Towers at Wyncote | $0 | $135,894,004 | Bear Stearns | — | — | 7/13/2009 |
| Amesbury | $12,400,000 | $12,400,000 | Wachovia | — | — | 7/14/2009 |
| Cerano at Murphy Ranch | $10,848,202 | $10,724,185 | Wachovia | 7/14/2009 | — | 7/14/2009 |
| Dakota | $29,179,624 | $25,856,843 | Wachovia | — | — | 7/14/2009 |
| Lunaire | $24,218,109 | $24,073,810 | Wachovia | — | — | 7/14/2009 |
| Rancho Corrales | $5,000,000 | $21,000,000 | Wells Fargo | — | — | 7/14/2009 |
| Serafina | $26,844,448 | $25,753,042 | Wachovia | — | — | 7/14/2009 |
| Encantada | $30,581,293 | $26,727,636 | Wells Fargo | — | — | 7/14/2009 |
| Centrado | $5,212,375 | $14,000,000 | RBC | — | 1/6/2010 | 7/28/2009 |
| Mosaic | $57,140,000 | $31,252,298 | California Bank & Trust | — | — | 7/29/2009 |
| Ballantyne | $26,639,000 | $26,639,000 | Bank of Montreal | — | — | 8/6/2009 |
| Beaumont | $59,168,942 | $57,244,939 | Bank of America | — | — | 8/6/2009 |
| Carillon | $63,395,528 | $63,153,628 | Massachusetts Mutual Life | — | — | 8/6/2009 |
| Chateau Woods | $31,661,493 | $30,255,391 | Bank of America | — | — | 8/6/2009 |
| Cortona / Fairview Phase I – Podium | $33,500,000 | $9,656,624 | Bank of America | 11/1/2009 | — | 8/6/2009 |
| Loreto | $53,802,061 | $41,625,595 | Bank of America | — | — | 8/6/2009 |
| Palacio | $43,827,038 | $34,683,030 | Bank of America | — | — | 8/6/2009 |
| Presidio | $49,452,807 | $44,640,556 | Bank of America | — | — | 8/6/2009 |
| Exchange at Auburn II | $30,898,548 | $27,971,834 | Bank of America | — | — | 8/6/2009 |
| Sorrento | $14,000,000 | $14,000,000 | Bank of America | — | — | 8/6/2009 |
| Station 250 | $51,500,000 | $51,389,625 | Sovereign Bank | — | — | 8/17/2009 |

| Project Name | Guaranty amount | Loan Balance as of 10/31/2009 | Lender | Default Date | Trustee Sale | Notice of Default |
|---|---|---|---|---|---|---|
| Casa Santa Fe | $7,226,000 | $21,500,000 | Principal Financial | — | — | 9/11/2009 |
| Foxwood Place | $8,418,600 | $31,180,000 | Nationwide | — | — | 9/14/2009 |
| Asbury Village | $36,657,414 | $29,895,281 | Regions Bank | — | — | 9/15/2009 |
| Exchange at Athens | $15,807,500 | $30,468,917 | Regions Bank | — | — | 9/15/2009 |
| Exchange at Lawrence | $33,745,236 | $25,614,967 | Regions Bank | — | — | 9/15/2009 |
| Milan | $10,718,740 | $21,237,353 | Regions Bank | — | — | 9/15/2009 |
| Cabrillo | $6,765,000 | $18,100,000 | Principal Financial | — | — | 10/5/2009 |
| Atria at Crabtree Valley | $4,500,000 | $18,000,000 | Allstate Life Insurance Company | — | — | 10/8/2009 |
| Henry on the Park | $12,400,000 | $51,650,000 | Cigna | — | — | 11/4/2009 |
| Ashton at Dulles Corner II | $54,500,000 | $51,571,839 | Fifth Third Bank | — | — | 12/2/2009 |
| Cielo | $26,844,397 | $17,504,311 | Charter One Bank/RBS | — | — | 12/7/2009 |

25. The Debtors have reached out to each of their property and parent level lenders to obtain financing accommodations through these challenging times and, as detailed below, the Debtors have been able to reach an agreement on a limited number of loans. Certain other lenders, however, have been unable to reach accommodation agreements, or have threatened to commence litigation with respect to the underlying joint venture properties. To the extent these lenders are able to obtain a default judgment, the Debtors' guarantor liability will likely be triggered with respect to many of the loans.

## C. The Debtors Have Implemented Extensive Out-of-Court Restructuring Efforts

26. The Debtors recognized early on the need to actively respond to what would become an unprecedented upheaval in the real estate markets. The Debtors therefore proactively sought to: (i) implement cost reductions/cash conservation measures, (ii) increase efforts with respect to project sales and re-financings and (iii) begin negotiations with the Debtors' key stakeholders toward a comprehensive restructuring.

***Cost Reduction/Cash Conservation Measures***

27. The Debtors responded quickly to limit their exposure to worsening economic conditions. They began layoffs in the first quarter of 2008 and, throughout that year and 2009, cut overhead, corporate salary expenses and general and administrative expenses for a total reduction of 55% as compared to 2007. Further reductions in cash flow requirements were achieved by postponing or foregoing new construction projects in the Debtors' pipeline. These changes have enabled the Company to substantially maintain its overall cash balance for the first 11 months of 2009.

***Project Sales and Re-Financings***

28. Despite the steep economic slide, owing to its strong relationships and proven track record, the Company has had some success in both continuing to sell certain investment properties and refinancing other investment properties. Specifically, since December 31, 2008, the Company has sold 5 properties comprising 869 units for a total price of $138.8 million and is in negotiations with buyers for 4 additional properties representing 207 units and $34.8 million in the aggregate revenue. In March and April of

2009, the Company closed the sales of general partnership interests in 5 affordable housing properties in Washington and California for a price of $11.5 million to an operating venture of Cascade Affordable Housing. Also, since December 2008, the Company has sold 28 condominiums for a total sales volume of $8.2 million.

29. Even after the collapse of the financial markets in September 2008, the Company has been able to extend or refinance the loans on a number of their investment properties, some of which are detailed below:

| Property | Loan Amount / Maturity Date | Result | New Maturity Date | Total Property Paydown |
|---|---|---|---|---|
| **New Construction** | | | | |
| NoHo Commons<br>Hollywood, CA<br>438 Units | $68,682,635<br>3/26/2009 | Received a 12 month extension. | 3/26/2010 | $0 |
| Stonegate at Marlborough<br>Marlborough, MA<br>332 Units | $46,672,952<br>4/30/2009 | Received a 3 month extension. | 8/1/2009 | $0 |
| Talavera<br>Denver, CO<br>240 Units | $38,520,314<br>6/8/2009 | Received a 24 month extension | 6/9/2011 | $1,500,000 |
| Clairmont Phase I Apartments<br>Atlanta, GA<br>353 Units | $36,380,000<br>2/23/2011 | Restructure - $4MM of additional equity contributed with like reduction in original loan commitment. This $4MM is not technically a paydown as no dollars were outstanding on the loan. | 12/23/2012 | $0 |
| NoHo Commons<br>Hollywood, CA<br>438 Units | $68,682,635<br>3/26/2010 | Sale closed 09/17/2009 | N/A | $0 |

| Property | Loan Amount / Maturity Date | Result | New Maturity Date | Total Property Paydown |
|---|---|---|---|---|
| Exchange at Huntsville Apartments Huntsville, TX 288 Units | $25,127,046 10/4/2009 | Received a 3 month extension. | 1/4/2010 | $0 |
| Lakeland Estate Apartments Stafford, TX 264 Units | $16,524,348 10/27/2010 | Received a 3 month extension. | 1/25/2010 | $0 |
| **Land** | | | | |
| Signature Pointe (Lovers Lane) Dallas, TX 332 | $19,222,000 3/13/2009 | Received a 6 month extension. | 9/2/2009 | $0 |
| Parthenia Northridge, CA | $23,975,000 1/30/2009 | Received a 12 month extension | 1/30/2010 | $5,225,000 |
| Rivers Landing West Sacramento, CA | $2,812,500 5/13/2009 | Received a two year extension, plus an additional one year extension option. | 5/13/2011 | $1,096,500 |
| Kaiser 152 Towns Apartments Santa Clara, CA | $113,530,058 9/8/2009 | Loan was extended with no paydown or release of guaranty. | 3/8/2010 | $0 |
| **Redevelopment** | | | | |
| Alcazar Washington, DC 114 | $15,800,000 3/1/2009 | Refinanced loan through Columbia National Real Estate Finance LLC. New Loan commitment is $15,000,000 | 1/1/2016 | $0 |
| Montelano Phoenix, AZ 432 | $24,616,000 5/1/2011 | Negotiated a Discounted Loan Payoff with lender. Fairfield and CalSTRS retain ownership. | N/A | $14,675,000 |
| Mayflower Seaside Virginia Seaside, VA 265 | $30,615,000 9/1/2012 | Finalized deal with CIGNA. Paydown with reduced interest rate. Escrow remaining construction fund equity in order to complete original renovation. | N/A | $1,000,000 |

| Property | Loan Amount / Maturity Date | Result | New Maturity Date | Total Property Paydown |
|---|---|---|---|---|
| Hillcroft at Danbury Apartments Danbury, CT 192 | $25,000,000 10/1/2009 | Lender agreed to 1 year extension. | 10/1/2010 | $0 |
| Carson Tower Apartments Boston, MA 153 | $23,900,900 9/1/2009 | Lender agreed to 1 year extension. | 9/1/2010 | $0 |
| **Tax Credit** | | | | |
| Brentwood Apartments Manassas, VA 285 | $24,000,000 | Tax Credit conversion. Permanent debt financing placed and LOC released. $2,280,000 Loan Shortfall | 1/15/2039 | $0 |
| Baycliff Apartments Richmond, CA 342 | $32,000,000 | Tax Credit conversion. Permanent debt financing placed and LOC released. $3,200,000 Loan Shortfall | 8/15/2037 | $0 |
| Sutterfield Apartments Providence, RI 143 | $7,000,000 | Tax Credit conversion. Permanent debt financing placed and LOC released. | 4/1/2039 | $0 |
| University Heights Providence, RI 349 | $26,700,000 | Tax Credit conversion. Permanent debt financing placed and LOC released. | 4/1/2039 | $0 |
| Ridgemoor Apartments Golden, CO 253 | $16,000,000 | Tax Credit conversion. Permanent debt financing placed and LOC released. $3,360,533 Loan Shortfall | 1/15/2037 | $0 |
| Timberleaf Lakewood, CO 200 | $13,850,000 | Tax Credit conversion. Permanent debt financing placed and LOC released. $2,933,842 Loan Shortfall | 7/15/2037 | $0 |
| Oakfield Wheaton, MD 102 | $38,000,000 | Tax Credit conversion. Permanent debt financing placed and LOC released. | 1/15/2040 | $0 |

***Negotiations with Key Stakeholders***

30. Early on, the Debtors recognized the critical importance of negotiating with the Capmark Lenders toward a restructuring of the Capmark Facility. These efforts began in the fourth quarter of 2008, when the Debtors began regular meetings with the Capmark Lenders to discuss the effect of the economic downturn on their business. Over the next year, the parties agreed to a series of amendments altering the payment schedule and maturity dates of the Term Note and the Revolver. The final amendment extended the maturity date of both loans to December 11, 2009.

31. In addition to the considerable negotiations with the Capmark Lenders, the Debtors and their management team, along with their financial advisors and counsel, have had substantive negotiations with virtually all of the Debtors project lenders, and each of their joint venture and equity partners. These discussions have led to the formation of the ad hoc steering committee of project lenders (the "Steering Committee"). The Steering Committee is comprised of Bank of America, Wells Fargo Bank/Wachovia, Fannie Mae, Compass Bank, Royal Bank of Canada and Principal Life Insurance Company. The Debtors and the Steering Committee have also engaged in substantive discussions regarding the a restructuring of the Debtors, and as a result of extensive multi-party negotiations, the Debtors, the Capmark Lenders and the Steering Committee have been able to agree upon the framework of a consensual plan of reorganization (the "Plan") which is described below and is set forth in greater detail in the Plan which was filed concurrently with this affidavit.

32. Finally, recognizing that reorganization of the Company would require substantial new capital, the Company, together with their advisors began a process to raise new capital. A select target list of investors was contacted, including leading private equity funds, hedge funds and strategic real estate investors. Out of this group, approximately 35 potential investors executed confidentiality agreements and conducted extensive due diligence, including detailed management presentations. The Company and its advisors, FTI Consulting, Inc. and Imperial Capital, LLC, further narrowed this list to four potential investors. The Debtors expect to shortly amend their Plan to include the new money investment necessary to complete their restructuring efforts.

***The Plan***

33. Contemporaneously with the filing of these cases, the Debtors have filed the Plan. As detailed above, the Debtors formulated the Plan through extensive discussions with the Capmark Lenders, the Steering Committee and many of their individual Project Lenders, While a more comprehensive overview of the Plan is contained in the disclosure statement (the "Disclosure Statement") that will be filed in support of the Plan, the salient terms are as follows:[3]

| | |
|---|---|
| *New Fairfield* | Newco ("Newco") will be formed as a new entity, which will hold, directly or indirectly, all of the equity interests of reorganized Properties (together with Newco, "Reorganized Fairfield"). Reorganized Fairfield will assume certain executory contracts and operating liabilities of Properties and its affiliates associated with the employees of the Debtors. As of the Effective Date, Reorganized Fairfield's reasonably projected expenses would not exceed its reasonably projected revenues.<br><br>On the Effective Date, if no New Money Investment has been obtained, then |

[3] Capitalized terms used in the table and not otherwise defined herein shall have the meanings attributed to them in the Plan.

| | |
|---|---|
| | the Management Group (as defined below) shall be issued 15% of the Membership Interests in Newco in exchange for the Management Investment and the Holders of General Unsecured Claims shall be issued 85% of the Membership Interests in Newco in exchange for a contribution of $9 million in cash, replacing the existing members. If a New Money Investment is consummated on the Effective Date, then (i) Management will make the Management Investment in exchange for their proportionate share of the Membership Interests and a promote interest as agreed between management of Fairfield and the New Money Investors and (ii) the New Money Investors and the Holders of Class 2B General Unsecured Claims that elect the Investment Option shall receive their proportionate share of Membership Interests (based upon the amount of the New Money Investment and the number of Holders of Class 2.B General Unsecured Claims electing the Investment Option). |
| *Substantive Consolidation* | FFR and its first tier subsidiaries shall be substantively consolidated, but the second tier subsidiaries shall not be substantively consolidated. |
| *New Money Investment* | New Fairfield has the right to acquire new money investments ("New Money Investment") on the effective date or at any time thereafter. The new money investment must be at least $15 million. |
| *Management Co-Investment* | Regardless of whether there has been a New Money Investment, certain members of senior management (the "Management Group") would make a cash equity investment in New Fairfield in an aggregate amount not less than $1.25 million, in consideration of their receipt of 15% initial membership interests in New Fairfield. |
| *Administrative General Partner* | A new entity will be formed by the Management Group to be available to act as the new administrative general partner (or administrative member) of the existing joint ventures in which the Trust (as defined below) has an indirect interest. |
| *Liquidating Trust* | Those assets that are not transferred to New Fairfield will be transferred to a liquidating trust (the "Trust"), which will liquidate such assets for the benefit of holders of allowed unsecured claims. |
| *Asset Management Agreement* | In furtherance of the ability of the Trust to realize the economic benefit of its real estate assets, the Trust will enter into a market-based asset management agreement with New Fairfield pursuant to which New Fairfield will provide appropriate management services to the Trust. |
| *Treatment of Capmark Facility* | The Capmark Lenders will receive: (A) 60% of the Effective Date Distributions of cash in excess of the Effective Date Minimum Cash Balance until the aggregate amount distributed pursuant to this clause (A) and clause (A) under "Treatment of Unsecured Claims" equals $38.2 million; (B) 40% of the Effective Date Distributions of cash in excess of the Effective Date Minimum Cash Balance thereafter until the aggregate amount distributed pursuant to this clause (B) and clause (B) under "Treatment of Unsecured Claims" equals $43.2 million; (C) 60% of the Effective Date Distributions in excess of the Effective Date Minimum Cash Balance thereafter; (D) 60% of the Subsequent Distributions of Excess Cash by the Trust until the Capmark Lenders receive an aggregate of $39.75 million; and (E) 55% of the Excess Cash distributed by the Trust until the Capmark Lenders have received in the aggregate the allowed amount of the obligations owed to them under the Capmark Facility. "Excess Cash" means the amount of available cash in the Trust that exceeds the applicable Minimum Cash Balance. The "Minimum Cash Balance" shall be (i) $30 million beginning on the effective date of the Plan through December 20, |

| | |
|---|---|
| | 2010; (ii) \$25 million beginning on December 21, 2010 through December 20, 2011; (iii) \$15 million beginning on December 21, 2011 through December 20, 2012; and (iv) \$10 million thereafter. |
| *Treatment of Wachovia Facility* | The claims relating to the Wachovia facility would be satisfied by either (i) a sale of the collateral securing the Wachovia facility to a third party or (ii) a return of that collateral to Wachovia. Wachovia would have a general unsecured claim under the Plan for the difference between (x) the outstanding balance under the Wachovia facility on the Petition Date and (y) the value, as determined by the Bankruptcy Court (or as otherwise mutually agreed between the Debtors and Wachovia, and as may be reasonably acceptable to the Capmark Lenders and the Committee), of the collateral securing the Wachovia facility. |
| *Treatment of Unsecured Claims* | The holders of general unsecured claims against FFR, FF Development, Inc., Development, FF Properties, Inc., Properties, Fairview, Realty, Financial A, Investments, Fairview Investments, and Affordable shall receive:<br><br>(A) 40% of the Effective Date Distributions of all Cash on hand in excess of the Effective Date Minimum Cash Balance until an aggregate of \$38.2 million has been distributed pursuant to Article II(D)(2)(b)(i)(A) and this Article II(D)(2)(b)(ii)(A) collectively;<br><br>(B) thereafter, 60% of the Effective Date Distributions of all Cash on hand in excess of the Effective Date Minimum Cash Balance until an aggregate of \$43.2 million has been distributed pursuant to Article II(D)(2)(b)(i)(B) and this Article II(D)(2)(b)(ii)(B) collectively;<br><br>(C) thereafter, 40% of the Effective Date Distributions of all Cash on hand in excess of the Effective Date Minimum Cash Balance as of such Effective Date;<br><br>(D) 40% of Subsequent Distributions of Excess Cash by the Fairfield Trust until the Holders of Capmark General Unsecured Claims have received an aggregate of \$39.75 million;<br><br>(E) 45% of all Subsequent Distributions of Excess Cash by the Fairfield Trust (provided, however, that such percentage shall increase to 100% when the aggregate value of all Distributions made to the Holders of Capmark General Unsecured Claims equals the allowed amount of the obligations owed to the Holders of Capmark General Unsecured Claims).<br><br>Notwithstanding the foregoing, if there is no New Money Investment on the Effective Date, then the aggregate amount distributed under clauses (ii)(A) through (ii)(C) above shall be reduced by \$9 million and the Holders of Class 2.B Claims shall instead receive 85% of the Membership Interests. If there is a New Money Investment on the Effective Date, (x) with respect to the Holders that elect the Cash Option (if any), such Holders of shall receive their pro rata share of \$9 million in cash (such pro rata share shall be calculated by including in the denominator both Holders that elect the Cash Option and Holders that elect the Investment Option), and (y) with respect to those Holders that elect the Investment Option (if any), such Holders shall receive their pro rata share of \$9 million, payable in the form of |

| | |
|---|---|
| | Creditor Membership Interests (such pro rata share shall be calculated by including in the denominator both Holders that elect the Cash Option and Holders that elect the Investment Option).<br><br>Each holder of a general unsecured claim against Fairview Homes, Inc., Fairview Residential L.P., Fairview Residential CA L.P. or Fairview Residential W.A. LLC shall receive a pro rata distribution in cash of the proceeds received from the liquidation of the estate against which such holder has a claim.<br><br>The Plan will create a convenience class in the amount of $1,000 per claim. |
| *Treatment of Intercompany Claims* | Intercompany claims and intercompany avoidance actions (excluding the equity of the Debtors) will be released and discharged. |
| *Treatment of Existing Equity Interests in the Debtors* | Existing equity interests in each of the Debtors, will be extinguished or transferred to the Trust if necessary; and the holders of such equity interests will receive no distribution on account thereof. |

34. As the Debtors have not solicited votes on the Plan, they will not be requesting approval of the Plan under the procedures for a prepackaged chapter 11 plan. They do, however, intend to seek early approval of the Plan and Disclosure Statement so that they can emerge from chapter 11 on an expedited basis. The Debtors believe that they have made great progress toward reaching a confirmable plan that is acceptable to all of their stakeholders, and they are hopeful that they will conclude negotiations on the Plan and submit an amended version shortly after the Petition Date.

35. In the end, I believe that the filing of these cases and the consummation of the restructuring through the Plan will allow the Debtors to restructure their operations for the benefit for all of their employees, investors, lenders and other stakeholders.

## Part IV
## Facts Relevant to the First Day Pleadings

36. Concurrently with the filing of these chapter 11 cases, the Debtors filed the First Day Motions, which the Debtors believe are necessary to continue their operations with as little disruption as possible. Certain of the First Day Motions request

relief which, according to Bankruptcy Rule 6003 is "necessary to avoid immediate and irreparable harm."

37. I have reviewed each of the First Day Motions filed contemporaneously herewith (including the exhibits thereto and any supporting memoranda) and incorporate by reference the factual statements set forth in the First Day Motions. It is my belief that the relief sought in each of the First Day Motions is tailored to meet the goals described above and, ultimately, will be critical to the Debtors' ability to achieve a successful reorganization.

38. It is my further belief that, with respect to those First Day Motions requesting the authority to pay discrete prepetition claims (e.g., those First Day Motions seeking relief related to the Debtors' construction projects or obligations to their employees, vendors and taxing authorities), the relief requested is essential to the Debtors' reorganization and necessary to avoid immediate and irreparable harm to the Debtors and their lenders, employees, joint venture partners and affected vendors. Impairment of the Debtors' business operations, or of their relationships with their lenders, employees, customers or vendors — at the very time when the smooth operation of those operations and the dedication, confidence or cooperation of those constituencies is most critical — would clearly imperil the Debtors' chances of a successful reorganization. Any diminution in the Debtors' ability to maintain their operations in the ordinary course will have an immediate and irreparable harmful effect on the going concern value of the Debtors' estates to the detriment of all of the Debtors' stakeholder constituencies.

39. In particular, it is vitally important that the Debtors continue their construction projects without interruption. Failure of the Debtors to do so will result in an increase of defaults, thereby increasing the Debtors' guarantor liability, will prevent the Debtors from realizing any profit or return of their investment in such projects, and most importantly, will bring the Debtors' operations to a standstill. In order to ensure that such construction projects continue without interruption it is vitally important that the Debtors be permitted to immediately assume executory contracts related to such construction projects, pay certain critical vendors supplying goods and services for such construction projects and continue all of the Debtors' corporate functions in a business as usual fashion.

40. For the reasons set forth above, the Debtors believe that payment of those selected prepetition claims identified in the First Day Motions will forestall irreparable harm and that all creditors of the Debtors will ultimately benefit from the relief requested therein.

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I declare under penalty of perjury that the foregoing is true and correct.

Dated: December 11, 2009
San Diego, CA

Andrew Hinkelman
Chief Restructuring Officer

Sworn to and subscribed before me, a notary public for the State of California

County of San Diego, this 11 day of December, 2009.

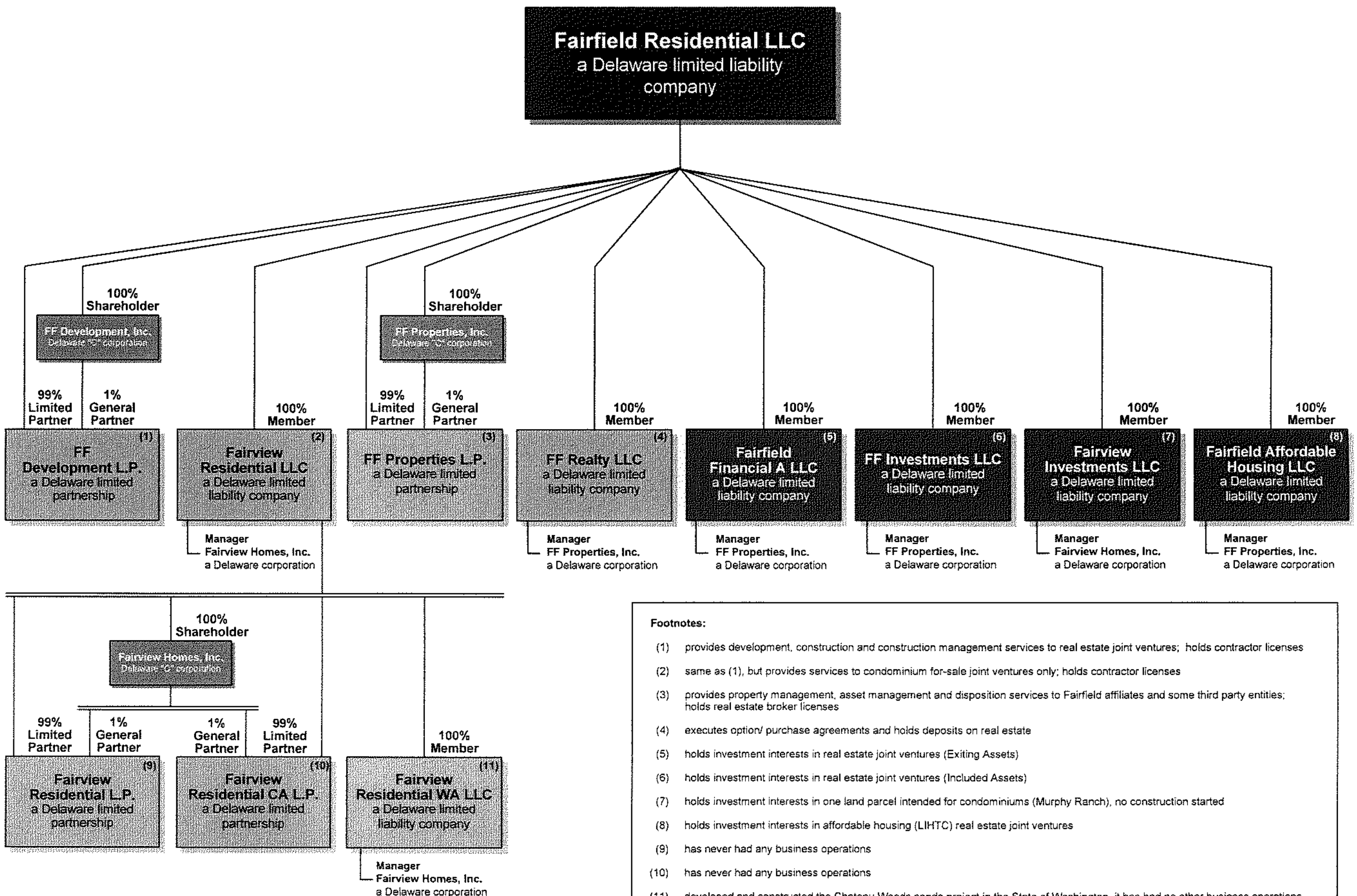
TERESA A. HARDIE
Commission # 1815019
Notary Public - California
San Diego County
My Comm. Expires Oct 21, 2012

**Exhibit A**

**Corporate Organizational Chart**

FAIRFIELD RESIDENTIAL LLC

# Organization Structure




**Footnotes:**

(1) provides development, construction and construction management services to real estate joint ventures; holds contractor licenses

(2) same as (1), but provides services to condominium for-sale joint ventures only; holds contractor licenses

(3) provides property management, asset management and disposition services to Fairfield affiliates and some third party entities; holds real estate broker licenses

(4) executes option/ purchase agreements and holds deposits on real estate

(5) holds investment interests in real estate joint ventures (Exiting Assets)

(6) holds investment interests in real estate joint ventures (Included Assets)

(7) holds investment interests in one land parcel intended for condominiums (Murphy Ranch), no construction started

(8) holds investment interests in affordable housing (LIHTC) real estate joint ventures

(9) has never had any business operations

(10) has never had any business operations

(11) developed and constructed the Chateau Woods condo project in the State of Washington, it has had no other business operations