



THE HABITAT COMPANY

June 5, 2006

The Honorable Marvin E. Aspen
United States District Court Northern District of Illinois
Everett McKinley Dirksen Building
219 South Dearborn Street
Chicago, Illinois 60604

RE: West End (Rockwell Gardens) Phase I

Dear Judge Aspen:

I am writing to give you an update on the progress of the for-sale component of the Rockwell Gardens redevelopment about which you entered an order last year. Your order of August 22, 2005 (the "2005 Order") authorized the Receiver to cause the development of "57 new non-elderly public housing units in a mixed-income development" on land formerly occupied by the Rockwell Gardens housing development. This authorization had two conditions: (1) that an additional 53 affordable units and 98 market rate units (including 116 affordable or market rate homeownership units) "are built and marketed roughly simultaneously so that public housing units constitute no more than 28% of the total number of residential units to be constructed pursuant to [the] Order"; and (2) that the public housing units "are and remain well distributed among the new units to be constructed on the block." A copy of the 2005 Order is enclosed.

Construction of the rental development that includes the 57 public housing units (plus 35 affordable units) commenced in January 2006 and should be complete in early 2007. Additionally, a closing that will permit the development of at least 57 for-sale units is currently scheduled for this Wednesday, June 7. These units will be interspersed with the foregoing rental units so that the public housing units will be "well distributed" pursuant to the 2005 Order. Although there has been a lag of several months in beginning construction of the for-sale units (in part due to the need for the Developer to conclude enough "pre-sales" of those units to satisfy its lender's financing conditions), the imminent commencement of construction of the for-sale units after this week's closing

means that the construction of public housing and other units will now proceed "roughly simultaneously" pursuant to the 2005 Order. BPI, the CHA and the Receiver support the immediate development of these for-sale units and look forward to their construction following this week's closing.

That's the good news. Unfortunately, the development of the remaining 59 home-ownership units (of the 116 total) contemplated by the 2005 Order has not progressed as anticipated last August. After considerable discussion among the pertinent parties and the Receiver, there is now serious doubt as to whether it is possible or desirable to construct all of the 116 for-sale units within the limited boundaries described in the 2005 Order. The reasons include the following:

1. Neither the CHA nor the Developer has site control of all of the land required for the remaining 59 for-sale units. Land for nine of these units is expected to be acquired. This land is owned by the City of Chicago, but requires the City Council's approval for it be transferred to the for-sale development entity. That approval may not occur until October. Last summer, the Developer had received City Council approval for the transfer to the Developer of the lots needed for the nine units, but the Developer has since changed its plan substantially enough to require new City Council approval. The City's Department of Planning and Development is working with the Developer and has not objected to the change. Provided that the City lots are deeded to the Developer, the 9 additional for-sale units can be developed, bringing the total to 66 for-sale units.
2. Gaining site control of the land needed to develop the remaining 50 for-sale units is more problematic. Much of the necessary property is privately owned. The owner of the private property has rejected the purchase offers that have been made, which were based on the appraised value of the property. The City—through private counsel—is pursuing the acquisition of this land through eminent domain. This litigation could take at least a year. Even so, if the ultimate acquisition price is too high, the feasibility of developing the for-sale units on those sites may be imperiled.
3. Even if the land can be acquired at a price that is affordable to the redevelopment, the parties have come to appreciate that, for several reasons, it may not be desirable to build all 50 of the remaining for-sale units within the limited geographic area prescribed by the 2005 Order. (That area is outlined in the attached Exhibit A.)

The parties expect and agree that these 50 for-sale units contemplated in the 2005 Order should ultimately be developed. The principal questions that remain are the location of those units and whether they should be developed in conjunction with additional public

housing and affordable units. Planning discussions on these subjects have been occurring and will continue.

As you can see, as is often the case, reality sometimes intrudes upon plans and requires that adjustments be made. At this time, there is uncertainty with respect to critical site-acquisition issues, and resolution of those issues will very likely require planning adjustments. However, none of the stakeholders, nor the Receiver, want this uncertainty to delay progress on developing the land that we do control. Our experience in recent years is that the redevelopment process is itself a substantial engine of revitalization. As new units are rented and sold, the neighborhood improves and the prospects for further development and revitalization are enhanced. Accordingly, as noted above, the pertinent parties agree that the closing of this week, which will permit construction of the 57 (and, ultimately, 66) for-sale units as to which site control exists or is imminent, should proceed. Meanwhile, the parties plan to move forward on a parallel track through a collaborative process to plan the location and mix of the remaining 50 for-sale units. Combined with the rental units previously constructed on an adjacent parcel as Phase I-A, the rental units under construction and the 66 units of for-sale housing will result in a mixed-income development, even without counting the 50 additional for-sale units. However, the delay in developing the remaining 50 for-sale units, as well as the possibility that they may be developed on sites other than those previously anticipated and in conjunction with additional rental units, means that it will become necessary to seek your approval of a modification of the 2005 Order, which had provided that the public housing units would not exceed 28% of the total residential units. After this week's closing and the completion of Phase I-B, public housing units will at that time constitute 35.5% of the new units in Phase I. It should be noted that the Phase I-B area encompasses a number of existing, privately-owned structures. Those buildings are a mix of rental and owner-occupied units disbursed in the blocks on which the new housing is planned. The enclosed site plan shows the location of pre-existing units within the 2005 Order area. (See Exhibit A).

The final percentage of public housing units is unknown for the reasons stated above, but the Receiver desires that the percentage of public housing units for the entire redevelopment does not exceed 33%. The following chart illustrates the unit mix expected after completion of Phase I and prior to the development of the 50 additional for-sale units:

Type	Rental	For-Sale	Total Units	%
CHA	71	0	71	35.5%
Affordable	53	0	53	26.5%
Market Rate	10	66	76	38%
Total Units	134	66	200	
%	67%	33%		100%

We considered seeking a modification of the 2005 Order before this week's closing. However, because there are open questions regarding site control and the final unit mix, we do not yet have an alternative plan to present to you. Rather than modify the 2005 Order in a piecemeal fashion, we thought it made more sense to provide you this status report, to proceed with the closing forthwith, and to defer the formal modification of the 2005 Order until such time as we can present an agreed motion that will include a comprehensive refined plan prepared after resolution of the uncertainties. We hope to present such an agreed motion at some point before closing the rental portion of Phase 2 of this redevelopment, which is currently expected to occur in the third quarter of 2007.

We believe that Phase I as it is being currently executed is a significant step in the revitalization of the former Rockwell Gardens site and that commencing the construction of the 66 market-rate for-sale units while continuing with a thoughtful planning process for future development of for-sale units will advance Gautreaux objectives. If you are agreeable with this approach, we would appreciate a brief response so acknowledging. If you would prefer that the parties submit a formal motion at this time to modify the 2005 Order, we can ask the parties to do so.

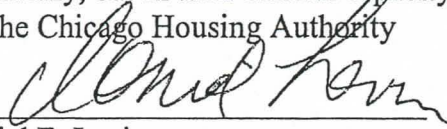
The Honorable Marvin E. Aspen

June 5, 2006

Page 5

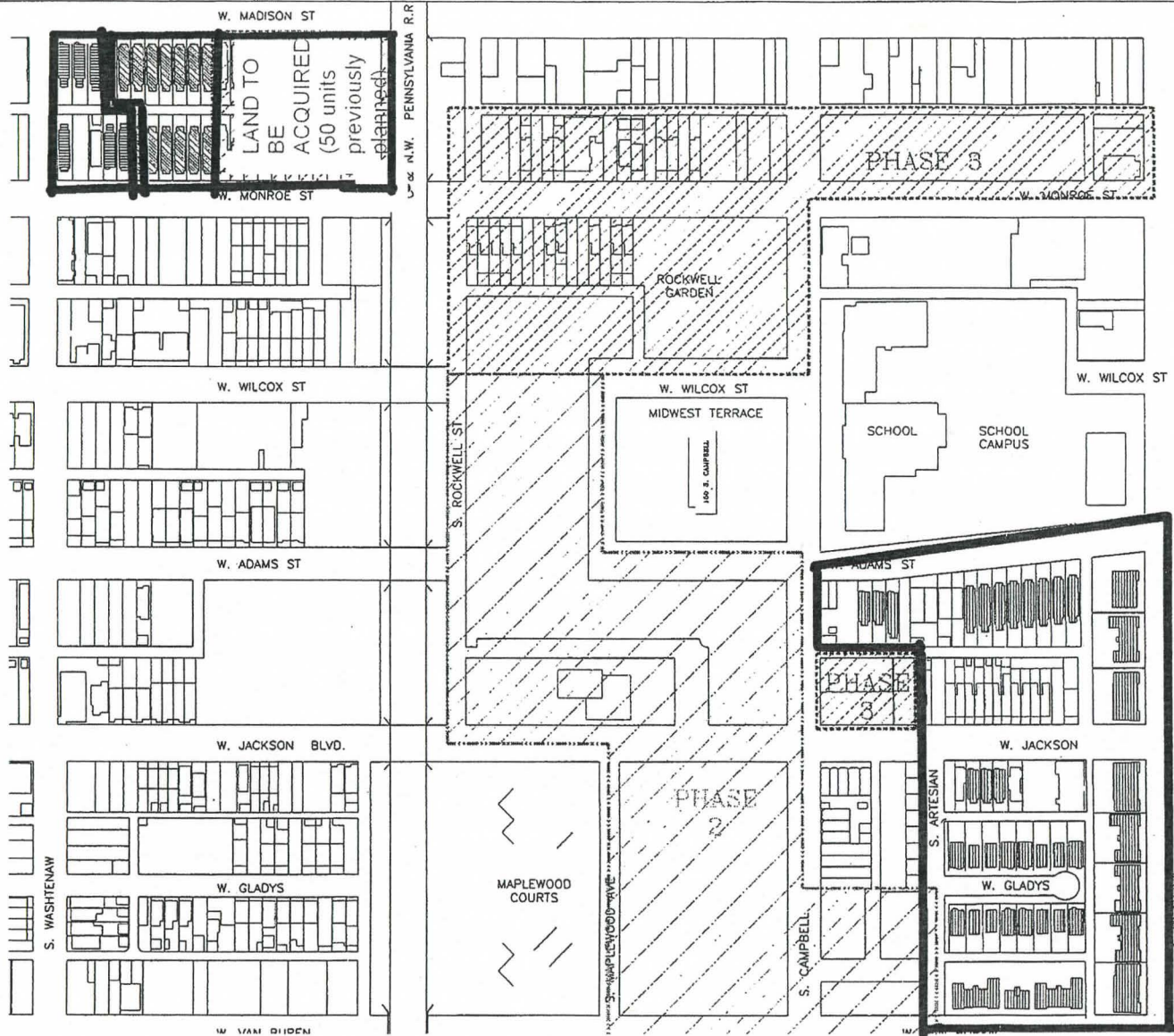
Thank you for your consideration of these matters.

Daniel E. Levin and The Habitat Company LLC, not personally, but in their official capacity as Receiver for the Chicago Housing Authority

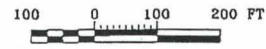


Daniel E. Levin
Chairman

cc: Alex Polikoff, BPI
Julie Elena Brown, BPI
Gail Niemann, CHA
Thomas Johnson
Michael L. Shakman/Edward W. Feldman



ROCKWELL GARDENS REDEVELOPMENT PHASING LOCATION PLAN - 16 FEB 2006



PR-EXISTING HOUSING

LEGEND

- EXISTING PHASE 1A
- APPROVED PHASE 1B
- PROPOSED PHASE 3
- PROPOSED PHASE 2

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