



August 28, 2016

Dear Clients:

I want to outline the situation regarding your investment property purchased from Sterling through Premier.

For purposes of getting this information out timely, I am primarily focusing on these three location although much of this situation is carried through to all the Houston area properties.

5625 Antoine Drive  
Houston TX 77091  
Aka Oakwood Gardens Condos

6200 W. Tidwell  
Houston TX 77092  
Aka Asbury Park Condos

8600-8799 Village of Fondren  
Houston Texas 77071  
Aka Las Palmas Condos

I will address the other locations more specifically in the upcoming weeks. The situation on all of these properties are quite similar. It is time consuming to produce this much detail and the supporting documents that we are collecting, therefore time is required to add additional locations specifically.

We have experienced several telephone calls and emails of disgruntlement around these properties. I am hereby documenting all I know about what we refer to as the Sterling/Premier Portfolio.

**How Catalyst got Involved:**

**I first need you to know that Catalyst was not a part of this transaction. We did not know of Sterling or Premier at the time you purchased your property.** (Sterling Income is the name of the parent company that sold you all each of the various properties under several different LLC names). Instead our acquaintance occurred because Catalyst purchased a small management company, called Hot



**The Real Asbury Park 2013**

Ocean and took over the management of these properties in late **2014**. We eventually took over the management of the condo owner's association between **January - March 2015** (dates varied by location) with a goal to improve the situation. We are the fifth management company to be involved in these properties.

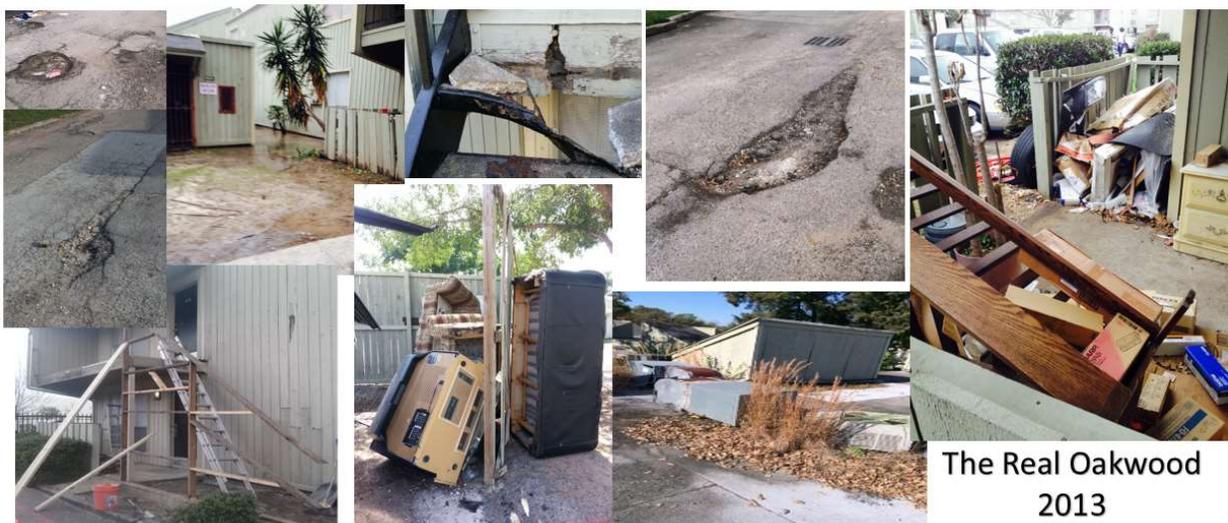
The properties were in very poor condition but we were determined to turn them around. We have a proven track record for turning around distressed properties, so this was not something that alarmed us.

**THE BIG SURPRISE:**

With all these complications, what has been our biggest surprise, was realizing was that many (maybe all) of you as foreign investors did not know the condition of the property you purchased or the value of the property when you purchased. How could this happen?

It was not until the guarantee period ended when more and more of you came to tour the properties and questioned why the drop in payment or the need to fund your account that we became aware of this and started asking questions as well.

**The Property Condition:** The properties were C class properties in C neighborhoods when you purchased. The brochure pictures you were given were not a true representation of the property condition (See pictures provided to us by prior management).



Additionally, these properties were plagued with a crime and deferred maintenance, lack of adequate funds to make repairs, nearly bankrupt and comprised of a very low income demographics.

We have collected a great deal of information and should have more information coming our way from prior management, public records, the police and residents who have lived at these properties since 2012.



The properties were not capable of generating an 8% return at a \$50,000+ purchase price and in some cases not producing any income after expenses due to the property condition and location. The guarantee payments were clearly subsidized from inflated sale proceeds and misled the buyer to believe this would be a reasonable return expectation.

**The Price:** The next surprise was when some of you told us that you paid prices ranging from \$58,000; \$60,000 and \$90,000 for these condos. Despite what you may have been told, Zillow.com does not support the sale price you paid in 2013 (study the details carefully, lot size, age, location).

- I have an email from a witness who knew these properties well in 2013. She describes these properties as “deplorable”.
- I have recently been forwarded emails with photos from the prior condominium association manager going back to May 2013 and the first half of 2014 when many of you purchased these properties proving the actual condition.

**Property Value:** These purchase prices were well more than the local market would support and well more than the revenue stream supported as income producing property. The only comparable sales of these properties were to foreign investors who paid all cash and who were not accurately informed about the true condition of the properties because they trusted the representation of their agent. *“Market value” is defined by what the “market is willing to pay in in arm’s length transaction after proper marketing ad where in the buyer acted with knowledge and prudently and without urge or impulse”.*

- These were not arm’s length transaction because your agent was paid by you but also by the seller without disclosure;
- You purchased without knowledge – sight unseen, no appraisal report and no third party property condition inspection report.
- You acted with impulse under the pressure of urgency from your agent.

I have attached a 5 year property value report for these referenced properties. Please note that "assessed value" is not the same as market value. This can only be used as a rough estimate. Typically "Assessed Value" is within 30%-40% of market value. See websites, [www.hcad.org](http://www.hcad.org) (Harris County Appraisal District); [www.har.com](http://www.har.com) (Houston Area Real Estate) and Trulia.com to estimate the value of your property. Be careful to notice "lot size" and age or property when determining true comparable.

Harris County Appraisal District 4 Year Assessed Value					
	Size / SQFT	2012	2013	2014	2015
Oakwood	1027	\$10,478	\$10,478	\$12,263	\$15,764
Asbury	1134	\$16,127	\$16,127	\$16,127	\$16,127
Las Palmas	1184	\$15,857	\$15,857	\$15,857	\$15,857
Greensbrook	1188	\$20,289	\$20,289	\$24,142	\$50,000
Westbury	1343	\$38,730	\$38,730	\$43,730	\$48,100
Ridgemont	1311	\$50,461	\$46,154	\$51,963	\$53,982
Brookglade	1054	\$8,400	\$8,400	\$12,180	\$23,761
Camden	1051	\$14,100	\$14,100	\$14,100	\$14,100
Remington	946	\$12,291	\$12,358	\$12,358	\$17,189

*Market Value is typically 20%-30% higher than the "Assessed Value"*

Interestingly, we were told by a local Oakwood investor that Sterling purchased the condominium properties in 2013 for price ranges of approximately \$18,000 per unit and we have the deed records in the Dropbox link showing that they paid around \$20,500 per unit at Las Palmas in July 2013. This is the value that was vetted out to multiple potential buyers with Sterling placing the best offer. There is nothing wrong or dishonest about this to my knowledge however, considering that the condominium association records reveal that minimal capital repairs were completed prior to the time you that purchased your condo, we are confident that the value did not change much by the time you purchased your property..

See below the Pricing Sheet and Proforma prepared by you Premier. There is a great deal of inaccurate information provided here in.

### Premier's Offering Memorandum Provided to Clients

Noted with Catalyst Translations

Asbury Park Apartments 雅仕豪园 Stage III  
6200 W TIDWELL ROAD, HOUSTON TX 77092

Unit #	Floor Plan	Type	Floor	#Bed	#Bath	Size (m <sup>2</sup> /ft <sup>2</sup> )	Price
205	4	Condo	1st	3	2	1181/274	\$74,300
301	4	Condo	1st	3	2	1181/274	\$74,300
302	4	Condo	2nd	3	2	1181/274	\$74,300
304	4	Condo	2nd	3	2	1181/274	\$74,300
501	4	Condo	1st	3	2	1181/274	\$74,300
502	4	Condo	2nd	3	2	1181/274	\$74,300
2004	4	Condo	2nd	3	2	1181/274	\$74,300
2402	4	Condo	2nd	3	2	1181/274	\$74,300
2505	4	Condo	1st	3	2	1181/274	\$74,300
701	5	Condo	1st	3	2	1271/373	\$76,600
703	5	Condo	1st	3	2	1271/373	\$76,600
704	5	Condo	2nd	3	2	1271/373	\$76,600
707	5	Condo	1st	3	2	1271/373	\$76,600
708	5	Condo	2nd	3	2	1271/373	\$76,600
2603	5	Condo	1st	3	2	1271/373	\$76,600
2605	5	Condo	1st	3	2	1271/373	\$76,600
2608	5	Condo	2nd	3	2	1271/373	\$76,600
2708	5	Condo	2nd	3	2	1271/373	\$76,600
805	6	TH	N/A	2	1.5	105/133	\$75,300
1503	6	TH	N/A	2	1.5	105/133	\$75,300
1617	6	TH	N/A	2	1.5	105/133	\$75,300
1710	6	TH	N/A	2	1.5	105/133	\$75,300
1902	6	TH	N/A	2	1.5	105/133	\$75,300
1903	6	TH	N/A	2	1.5	105/133	\$75,300
2103	6	TH	N/A	2	1.5	105/133	\$75,300
2104	6	TH	N/A	2	1.5	105/133	\$75,300
2205	6	TH	N/A	2	1.5	105/133	\$75,300
2206	6	TH	N/A	2	1.5	105/133	\$75,300
2405	6	TH	N/A	2	1.5	105/133	\$75,300
2502	6	TH	N/A	2	1.5	105/133	\$75,300
1501	7	TH	N/A	2	1.5	105/134	\$75,400
1709	7	TH	N/A	2	1.5	105/134	\$75,400

- 1 以上面积只作参考用途
  - 2 會理與業主
  - 3 買家7天內簽署正式買賣合約及電匯售價20%美元首款到FIRST AMERICAN TITLE
  - 4 同時支付手續及过户費US\$2,500到GUIDAR INTERNATIONAL
  - 5 1個月內成交并電匯余款80%美元到FIRST AMERICAN TITLE
  - 6 物業管理公司提供2年8%淨回報
  - 7 包租期后預計每月收入及支出如下:
- |   | Rental | HOA | Property Tax | Prop Mgmt |
|---|--------|-----|--------------|-----------|
| 4 | 840    | 217 | 44           | 12%       |
| 5 | 880    | 234 | 46           | 12%       |
| 6 | 850    | 193 | 38           | 12%       |
| 7 | 850    | 194 | 38           | 12%       |

- (The above price is for reference only)
- (Hong Kong)
- (Cool down)
- (Paid also the "Handling charge and transaction fee" US\$2,500 to GUIDA INTERNAIONAL, Premier)
- (Closing within 1 month and telegraph transfer 80% USD reming balance to AMERICAN TITLE COMPANY)
- (The Developer provid 8% net income return for 2 years)
- (Expected monthly expense after guarantee rental return period as follow:)

8 以上價格如有任何變動,恕不另行通知

(No further notification if above price has been changed)

制于2013-11-28

(Created on 28th November 2013)

## Review of Premier Rents

DATE PROVIDED BY PREMIER						DATA PROVIDED BY CATALYST				
						Based on Random Units Studied (Margin +/- 5%)			Actual Numbers 8/2016	
Rental	SQFT	HOA	Property Tax	Prop Mgmt	Average rent at time of sale	Range at time of sell		Today's Average Rent of Existing Leases	Today's New Move-in Rents	
						Lowest	Highest			
4	\$840	1274	217	44	12%	\$705	\$669	\$740	\$732	\$825
5	\$880	1373	234	46	12%	\$722	\$679	\$765	\$760	\$825
6	\$850	1133	193	38	12%	\$623	\$545	\$700	\$685	\$775
7	\$850	1134	194	38	12%	\$643	\$550	\$735	\$666	\$755
<b>Average</b>	<b>\$855</b>					<b>\$673</b>			<b>\$711</b>	<b>\$795</b>

Variance from Premier Rents versus Actual Rents    -21%                  Rental Rate Growth Produced by Catalyst                  18%

Please note, Catalyst, et al has increase rental rates by 18%

## CORRECTIONS FOR EXPENSE ESTIMATE AND RENTAL RATES WITH VALUE ASSUMPTION

Premier Provided Data						Data Provided by Catalyst This data will be supported by Industry Expert as the Low Estimate of Expenses									
Rental	SQFT	HOA	Property Tax	Prop Mgmt	Premier Total	Lease Bonus (Prorated over 12 Months)	General Liability Insurance	Property Insurance portion not covered by HOA	Vacancy Loss (at 5% Estimate)	Bad Debt (5% Minimum on this Property Class)	Maintenance - Industry Average (Industry Average for Multi-Family B Class, This Product will be more)	Make Ready (Industry Average for Multi-Family B Class, This Product will be more) - Assumes 70% Turn Over Rate	Administrative Marketing Legal Eviction Bank	Amounts not Included	
4	\$840	1274	217	44	12%	362	\$67	15	21	42	42	33	105	10	325
5	\$880	1373	234	46	12%	386	\$70	15	21	44	44	33	105	10	332
6	\$850	1133	193	38	12%	333	\$67	15	21	43	43	33	105	10	326
7	\$850	1134	194	38	12%	334	\$67	15	21	43	43	33	105	10	326
Average	\$855		209.5	41.5	102.6	354									Expenses Estimate Not Provided by Premier \$327

### CASH FLOW PROFORMA

	Premier with Expense Correction	Premier with Rent and Expense Correction	Catalyst with Today's New Move-in Rates and Expense Correction
Average Rent Provided by Premier	\$855		
Average Rent Based on Actuals		\$673	
Today's Average Asking Rent for New Move-Ins			\$795
Expense Item not Provided by Premier	(\$327)	(\$327)	(\$327)
Plus HOA, Tax and Mgmt Provided by Premier	(\$354)	(\$354)	(\$354)
<b>Net Antipated Cash Flow from Rental Activity</b>	<b>\$174</b>	<b>(\$8)</b>	<b>\$114</b>

### ESTIMATE OF VALUE USING CAPITALIZATION RATE METHOD

Estimated Value at a 8% Capitalization Rate			
	\$26,107	N/A	\$17,107

### Starting to Understand

As we have learned more about this situation, we are finally understanding why there are so many questions and why many of you have been so hostile. It does seem more reasonable that you would trust the familiar voice instead of the person from another country. Being over sensitive, we were getting our feelings hurt and did not understand why there was no appreciation for what we were trying to do.

### The Blame Game Lies

Now the new surprise came to us when some of our clients advised us that Premier is trying to blame Catalyst for the property conditions to hide the fact that they sold their clients a bad investment. It has been reported to us that Premier is claiming that the property values have declined because of "Catalyst". If this is true, a 60%+ reduction in value in less than two years, in an improving market caused by management. These properties are comparable in value with some. You purchased these properties at inflated prices.

<b>STUDY OF THE CATALYST DIFFERENCE - AVERAGE \$ PER CONDO</b>				
Using Las Palmas, Oakwood and Asbury comparing Combined Numbers				
	PRIOR MANAGEMENT	CATALYST	Change	% Change
Combined				
<i>Revenue per Unit</i>	\$554	\$610	\$56	10%
<i>Expenses per Unit</i>	\$399	\$334	-\$64	-16%
<i>Cash Flow per Unit</i>	\$155	\$277	\$122	78%

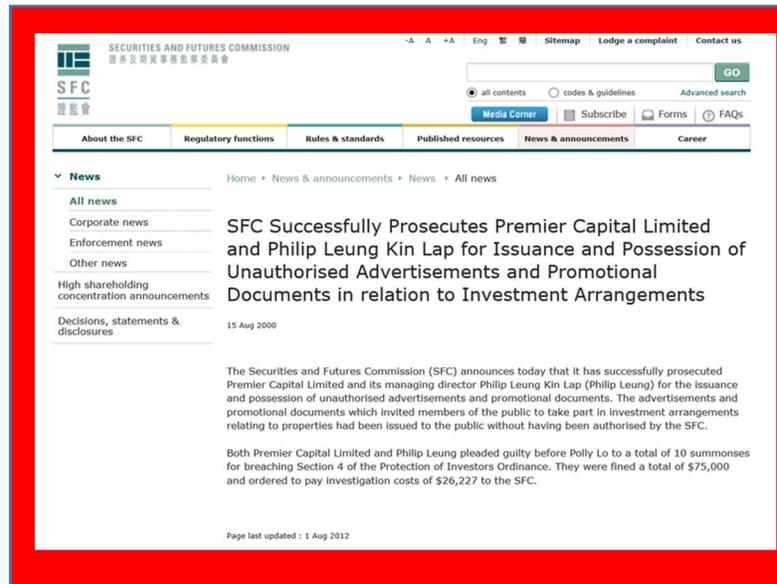
*\*Averages are from actual data but are not weighted*

**78% Increase in Cash  
Flow  
Generated by Catalyst  
comparing 2014 to  
2015**

The properties were in very poor condition when you purchased them. For almost a year now, Philip led me to believe that Sterling had promised to renovate these properties. I have asked Philip to send me this agreement but he claimed he looked and could not find this information. I met with Sterling to inquire but they deny that they made any such promise instead showed me a contract stating that they sold the property "As Is", Where Is".

What has come to my mind, if this were true and the properties were in good condition, why did Philip have me chasing Sterling asking about renovations they were expected to be completed.

**The Agent:** On Friday, August 26, 2016 Philip Premier advised me that he has no responsibility for the bad investments his clients made because they were only acting as a commissioned agent. In May 2016, I held a meeting at my office with Premier and Sterling. I was hoping to get the seller and agent to contribute some money in to fix up the properties. I asked Premier to give back some of the 25% commission that Sterling told me they paid to Premier or Philip. Sterling acknowledge this in the meeting but there was not willingness to contribute to help our mutual clients. A client provided me with a copy of his closing statement, this commission was not disclosed, **as required by law**. I recommend you check your statements as well. This client also paid Premier's affiliate, Guida International a commission. This would be that the agent worked for both the seller and the buyer. This is not legal in the United States without full disclosures.



### New Information:

We recently have learned that Asbury and Oakwood have deed restrictions that limit the number of condos that can be leased to tenants (as opposed to owner occupied) to 20% of the total units. Premier sold 74%, a total of 227 of these condos as investment property in an association that limits this to 20% of the total condos. This could be a major problem if the Board of Directors should ever decide to enforce this requirement and will inhibit the re-sell ability of the condominium once a buyer reads the Declarations.

Philip ask me not to mention this to you while he seeks a resolution. As your managing agent we have a duty to disclose this to you. We assume that you do not know this since none of you ever brought this to our attention. I will work to get this resolved for my clients.

**4.19 Leasing of Units. No more than twenty percent (20%) of the Units may be leased at any one time by Unit Owners exclusive of leases entered into by Declarant or any Declarant affiliate. Unit Owners are solely responsible to check with the Association before making the Unit available for lease to ensure that the lease will not cause the Condominium to be in violation of the foregoing twenty percent (20%) maximum lease restriction. No Unit Owner may lease less than his entire Unit. All leases shall be subject to the terms of the lease shall be subject in all respects to the provisions of**

**Crime:** These locations are well known high crime locations to avoid (murders, theft, prostitution, drug trafficking). This is a matter of the neighborhoods, not just your condominium association.

See the article written in October 2012 listing the areas that Premier clients purchased the properties and the "Most Dangerous Areas in Houston." <http://houston.cbslocal.com/2012/10/17/the-most-dangerous-areas-in-houston/>

We have filed an "Open Records Request" with the Houston Police Department to give our clients the facts regarding the crime history in these areas. It will take us another 2-3 weeks to get this information back. In the meantime, I have secured some documents from the management that was in place during 2013-2014 to prove evidence of a crime concern.

This is a news release published by our local news, October 17, 2012. It can be found on line at:

<http://houston.cbslocal.com/2012/10/17/the-most-dangerous-areas-in-houston/>

## The Most Dangerous Areas In Houston

By TONI SIMS, CBS Houston

October 17, 2012 4:50 PM

Filed Under: crime



credit: John L/Getty Images

According to NeighborhoodScout, Houston has one of the highest crime rates in America compared to all communities of all sizes – from the smallest towns to the very largest cities. With a crime rate of 87 per one thousand residents, One's chance of becoming a victim of either violent or property crime here is one in 15. Within Texas, more than 97% of the communities have a lower crime rate than Houston. In fact, after researching dangerous places to live, NeighborhoodScout found Houston to be one of the top 100 most dangerous cities in the U.S.A.

NeighborhoodScout has also found that a lot of the crime that takes place in Houston is property crime. Property crimes that are tracked for this analysis are burglary, larceny over fifty dollars, motor vehicle theft, and arson. In Houston, your chance of becoming a victim of a property crime is one in 18, which is a rate of 56 per one thousand population. Additionally, violent offenses tracked included forcible rape, murder and non-negligent manslaughter, armed robbery, and aggravated assault, including assault with a deadly weapon. According to NeighborhoodScout's analysis of FBI reported crime data, your chance of becoming a victim of one of these crimes in Houston is one in 93.

Based on the statistics above, the following list reveals the parts in Houston with the highest crime rates.

- 2nd Ward
- 3rd Ward
- 4th Ward
- 5th Ward
- Sunnyside
- Studewood
- Acres Home
- South Park
- Hiram Clarke
- Shapstown
- Cloverland
- Homestead/Tidwell Area
- Alief
- Missouri city
- Greater Greenspoint Area
- Hillcroft

The highlighted locations are in the vicinity of the following properties, Brookgate, Oakwood, Asbury, Las Palmas, Ridgemont, Westbury, Camden and Remington. Greensbrook is not included in this report but remain a high crime neighborhood.

### **Tenant Demographics and Texas Tenant Laws:**

We understand that worried clients want someone to blame. Why does their tenant not pay rent (this is a problem with this class of tenant). Why do we “let my condo get vandalized”? Why does my air conditioner not work, etc.?

Probably much like you see in China, properties in this condition and location attract a very rough clientele. A tenant that takes pride in their home environment and a tenant that was not accustomed to living in these crime ridden neighborhoods would not live at these properties. We deal with a high incident of tenant turnover, evictions, lease breaks, resident problems, etc. It is even hard keeping staff that is willing to work on these properties, a common nuisance in managing these type of properties. Again good tenants would not live here. We screen for criminal records, we do have modified credit criteria to get the property leased, and we attempt to get extra deposit where we can. It is a matter of supply and demand, we have to appeal to the clientele that will lease this product.

Yet when a tenant does not comply with the lease, our “Landlord Tenant” laws require us to go through the legal process to give written notice, then file suit for eviction, wait for legal service, go to court, which often results in yet another legal process if the tenant files an appeal claiming they will be homeless if evicted (called a Pauper’s Affidavit), and after all this, we often have to file one more court pleading to the police come out and physically move the tenant out to the parking lot because they refuse to move.

An even more frustrating issue is that you are required to make repairs to the home even if the tenant has not paid their rent. Many judges will not grant the eviction if the tenant shows up in court claiming repairs need to be made. We had one eviction delayed because the tenant claimed there as a gas leak in her house. The judge ordered us to address this and rescheduled the hearing. This house was all electric. It did not even have a gas line in it.

This is how many of them live and an example of why clients have to pay for trash out or to haul off items left behind in the home



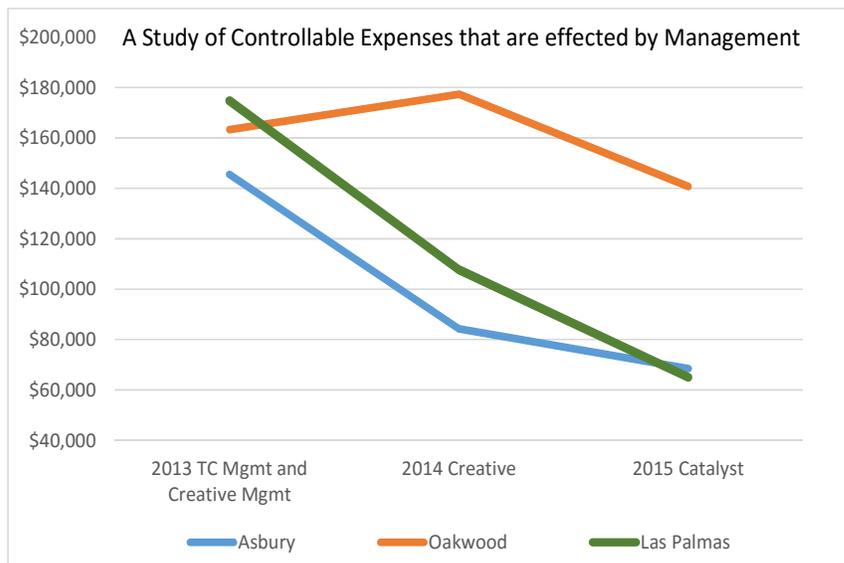
### Condominium Association Monthly Assessment Fees:

I realize that many of you have been told that the condo fees are very high for these properties. However, please study the statements I have provided in Dropbox. The fact is that most of the fees are to pay fixed costs such as, utilities (water/sewer, trash, gas, and common area electric), insurance, management, security, very little discretionary spending for repairs comparatively.

We have provided a Year-Over-Year Comparison that allocates the line item expenses to the same categories for each year (financial statement formats changed with the changes in managers. I have summarized the “Catalyst Difference” by graphing the “Controllable Expense” over the past three fiscal years.

- You will also notice that after Catalyst got involved in the Condo Association management in 2015 that controllable expenses went down significantly even though we were in a period of inflation in the U.S. **26% Reduction in Expense**
- Please also notice from the pictures the improvements made to the property.
- Fact is Catalyst got more work done for less money. Any claim that Catalyst is making “fake” expenses has no merit. It is our job to save money anywhere we can, and we take pride in doing this.

Keep in mind that Catalyst, aka HOA Solutions did not get involved in the condominium association management until 2015. You will see that we cut expenses. We need to do more repairs but we operated within the control of the Board of Directors and the approved budget. We accomplished this with the use of in-house and affiliated company Blue Marlin when available to save the expense of general contractors.



There is bad situation for owners of the one bedroom condos at the Oakwood and Asbury associations because the condominium fees are the same for all size condos. It does not matter if the condo is a one bedroom renting for \$500-\$600 or a three bedroom condo renting for \$800-9000, you pay the same allocation of the association overhead/fees. The fees on these properties are not on a graduated scale as listed in the Premier sales package. See your Association Declarations for explanation. There is nothing we can do about this at this point because it would be seemingly impossible to get a majority vote of the association members since the owners of the larger units would have no interest in paying a higher fee so that the owners of the smaller condos could pay a lessor fee.

**Sterling, as Board of Director:** Please read carefully your Condo Association Declaration and Bylaws. The condo association manager, (i.e. Catalyst) has no authority without the approval of the Board. I believe many of you have been led to believe that “Catalyst was making the decisions”. This is not the case as it applies to managing the association. The Board of Directors, are responsible for running the business of the condo owner’s association. It is the Board that establishes the operating budget.

The problem that I see in this situation is that the Board of Directors/Owners are elected by the association members. You gave Sterling the authority to elect themselves on the board with your Power of Attorney. It is reasonable to assess that Sterling who served as your 2 year rental guarantor had no long term interest in the association and had every reason to allow the association to run without sufficient funds and to not address anything other than minimal repairs.

The Board is obligated to establish a reserve by conducting third party inspections and writing this into the budget so that fees could be adequately established. I believe they did not do this because it would have affected the sums they pay out. Catalyst appealed to the Board a several times to request additional funds and a special assessment just as the prior manager Creative did before us. If a reserve had been in place it would have avoided the need for a special assessment.

At the time of your purchase, the Condominium association did not have sufficient cash flow to preserve the asset and did not have a reserve account in place for major capital improvements as required in the association Declarations. These associations were insolvent and nearing bankruptcy (see the financial statements in Dropbox). They were kept alive only by “loans” from Sterling, a resource we no longer have available to us since they are outside of the guarantee period (other than just a few locations at Asbury and Ridgemont).

Please understand that all association members have a duty to pay their monthly assessment regardless if the tenant pays their rent. Failure to pay your assessment has the association at risk. Oakwood and Asbury association are barely able to pay their utilities and insufficient funds to make repairs with Las Palmas becoming at risk. As condo owners, many of you need to correct this.

Note: In the case of Las Palmas a Reserve is available, however funds should have been deployed to complete the capital needs and the reserve build back up with monthly contributions to the reserve. The new Board of Directors are working on a plan to get this going.

**7.15 Reserves.** The Assessments shall include a reasonable amount for reserves as determined by the Board of Directors for the future periodic maintenance, repair or replacement of all or a portion of the Common Elements, or any other purpose as determined by the Board of Directors. All amounts collected as reserves, whether pursuant to this Section 7.15, Section 7.11, Section 7.3, or otherwise, shall be deposited by the Board of Directors into two separate bank accounts, namely, a short term reserve account and a long-term reserve account. (the “Reserve Accounts”). All funds in the

Declaration of Condominium  
H Declaration of Condominium - Oakwood Gardens Condominium LLC v4(122978\_6)(3)

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Reserve Accounts shall be held in trust for the purposes for which they are collected and are to be segregated from and not commingled with other Association funds. Such reserves shall be deemed a contribution to the capital account of the Association by the Members and, as trust funds segregated from the regular income of the Association, shall be accounted for in such manner as will prevent such funds from being taxed as income of the Association as authorized by Internal Revenue Service regulations. The Board of Directors shall not expend funds from the Reserve Accounts for any other purpose other than those purposes for which they are collected, with the short term Reserve Account funds to be used for items of repair and replacement anticipated to be required within the calendar year and for unanticipated emergency items and long term Reserve Account funds to be used for capital improvements and held for a period in excess of one year, with higher investment interest rates to be paid on the long term Reserve Account funds whenever possible. Unless otherwise reasonably determined by a Reserve Account study pursuant to this Section 7.15, ten percent of the total Reserve Account funds shall be held in the short term Reserve Account, with the balance to be held in the long term Reserve Account. Special Assessments, if any, shall be deposited into the short term Reserve Account. Withdrawal of funds from the Reserve Account shall require the signatures of two members of the Board of Directors or one member of the Board and an officer of the Association who is not also a Board member. The Board of Directors shall obtain a reserve study at least once every seven years, which study shall at a minimum include: (a) identification of the major components of the Common Elements having a remaining useful life of less than thirty (30) years as of the date of the study and their estimated probable remaining useful life; (b) an estimate of the cost of maintenance, repair, replacement, restoration of such Common Elements during and at the end of their useful life; (c) an estimate of the annual contribution to the Reserve Account necessary to defray such costs, after subtracting the funds in the Reserve Account as of the date of the study. The Board of Directors shall modify the budget in accordance with the findings of the reserve study.

### **Premier and TREP:**

We believe that Premier is now acting in concert with a group called “The Real Estate People” (aka TREP), a U.S. real estate brokerage and management group to misrepresent the facts by alleging mismanagement in order to avoid the truth about the property conditions, lack of funds, crime history at time of purchase and to replace management so that Catalyst is silenced.

Furthering this concern, Catalyst was confronted by a convicted felon last week who works with TREP, Curtis Lucas (related to the owner, Misty Lucas of TREP). This man was sentenced to two years in prison for assault in 2014, after serving some of this time his sentence was reduced to 10 years’ probation. He appeared at our office demanding your financial records with a Power of Attorney in hand from Philip. He threatened and physically intimidated staff members by approaching them up close - chest to chest, with his loud demands. This disrupted our entire office as staff ran lobby to provide aid for their colleagues he was intimidating. Mr. Lucas eventually left our office after other staff members assisted with calling the police.

### **HISTORY**

**The Leasing Management Duties:** These properties have a high tenant turn over percent. We lease to people who have had good rental history but they break this to move short of their lease term because of concerns about the area. These properties are only going to attract low income tenants with less than desirable credit histories. Many people in the U.S. live paycheck to paycheck, they cannot pay large security deposits and to demand it would mean the housing unit will sit vacant too long. Managing delinquencies will continue to be an issue with properties in this condition. People only live in these conditions because they do not have other choices. Obviously more desirable tenants would choose to make their home in a nicer community and take better care to stay there.

We are not perfect and I do not want to imply that we do not make some mistakes or miss something from time to time. I will say however, that we make it right with our clients. If we drop the ball, we will fix it. This is a matter of integrity and is important to me and my staff knows they have my support - take responsibility and make it right. With this in mind, it makes no sense to have Premier blaming instead of explaining that their property sits vacant too long because we do not have the money to make it ready.

There are also those cases where in the owner funded their account, we leased the condo, the tenant became delinquent and we have to start the process all over again; or the unit was made ready and then vandalized; or we move the tenant in to find out that the 30 year old air conditioner will not keep up with the heat demands. Things that we obviously cannot control and trust me, my staff does not like being the bearer of bad news. It is painfully unpleasant for them.

**The Leasing Season:** It is helpful to understand that the leasing season is slow here from November through February of each year. If a tenant vacates during this time of year it will likely take a couple months to lease back if a tenant becomes delinquent during this time of year and we have to go through the eviction process, then the time required to make it ready and lease could take several months. This is reality for every management company. We get some leasing traffic it’s just not the volume and they are often looking to move further out in the spring.

**Understanding the Repair costs of the Rental Property:** There are so many complications. For example, outside temperature conditions in our area are 100F+ degree heat index. We have been dealing new U.S. laws and old air conditioning units because Freon which is the coolant cannot be manufactured in the U.S. A drum of Freon that once was \$30 is now over \$500 (we call it liquid gold). We can no longer advise our clients to just keep filling leaks or changing compressors because the cost of Freon dictates replacing the system with the new 410a air conditioning units. Our industry knew about this problem back in 2012 and 2013 and began budgeting for these replacement needs with acquisitions. Air Conditioning replacement with 2-5 years should have been considered in your purchase price offering.

Many of you do not understand this and it is complicated and time consuming to explain, and getting bids after bids is a further distraction (we know the market price and have secured prices well below market) but it keeps us all honest for you to check every so often.

These properties are old. Most have not been updated in the last 10 years. The cabinets are in bad shape, the hardware sticks, doors are out of plumb, the floors sag and crack. They have the cheap vinyl blinds that are easily damaged, etc. Many of these are over 30 years old with the original air conditioners, appliances, fixtures, etc., well beyond their useful life. We look for good repairmen and question replacements frequently. Some folks call themselves a maintenance person but they replace too much instead of repair. We know the questions to ask, we invest in our people, we keep up with the market solutions, we send personnel to technical classes and we monitor results. These properties are old and the residents are hard on them. There will be repair needs.

Many of the guys that work for Blue Marlin have worked for Catalyst for years on the multi-family properties. They are some of the best in the business and their labor is much cheaper because they like the stability, the educational benefits, and insurance benefits. Labor with benefits is very expensive in the U.S. For those of you who have had to replace an air conditioner and have called to check pricing with labor (especially the roof top units), you have found that our prices are unbeatable. This is because there is such a huge mark-up with air conditioner contractors that we do not accept for our clients. Our prices on air conditioner replacements are about 40% less than market; painting and make ready is about 20% less than market; new appliances about 10% below market. However, on these properties, we try to use good used appliances when we find good quality. When replacing carpet, we often get good quality used carpet also but when the flooring is new, our prices are 20-22% below market installed. It takes more time because we have to double inspect to make sure it is acceptable, but it is The Catalyst Difference. Check our prices. You cannot know for sure until you check. It may be a hassle to collect the information but it motivates the team, when you guys check and send them a thank you note, and some have even sent cookies! Many nice things our clients have done to encourage my team to be the best they can be. We cannot control that it broke, but we can get you a good price. I will promise you this, we teach our staff to manage their properties as if their "mother owned it". They have heard this from me many times.

**Pricing:** We post the invoice detail on-line because we want our clients to see the good prices we get, we use in-house and affiliate company Blue Marlin Maintenance and Services for repairs as much as we can but is often more work than they can handle and with time being of the essences we must have back up vendors. However, we have negotiated discounted pricing much lower than our competitors

can secure. We take the credit risk and have not adequately mark-up invoices for these services until our clients become profitable. We provide the vendor information so that owners can use this detail to call around to check our prices. Some have asked for the actual invoice, we can provide these, it just takes more time but in reality, the only difference is the form the invoice is on. You have the invoice number, vendor information, work performed, etc. We are happy for our clients to do this. We encourage this. Check up on us. It is a good thing. We want you to appreciate the extra mile we go for our clients.

**Insurance:** We encourage our clients to secure their own insurance if they can beat our prices for coverage. I am certain, we have the best prices in the market for the value of the coverage because we have a great track record for minimizing losses and because we hire experts to shop pricing for us. We created the self-insured pool (actually was Philip's good idea initially and our insurance broker agreed) to cut costs for our clients to lower deductibles and cover "walls in". No one has yet to come up with a better price, only less coverage. It is easy enough to get prices, call around, and check us out. It would be nice to hear from you good things.

**The Economy:** We experience some decline in the Houston economy with the falling oil prices. A number of low income jobs were lost in the fall of 2015. Delinquents reached an all-time high. The eviction courts were back logged with processing evictions and executing the Writ of Possession (the forced move-out of residents by law enforcement officers). This problem has leveled out as we concluded the eviction and as others found alternate jobs and paid their past due rent. Occupancy rates are not as strong as they were but are coming back up in the market. Please understand, no matter how discouraging it is, this is not in the control of management or a real estate broker but instead macro-economics.

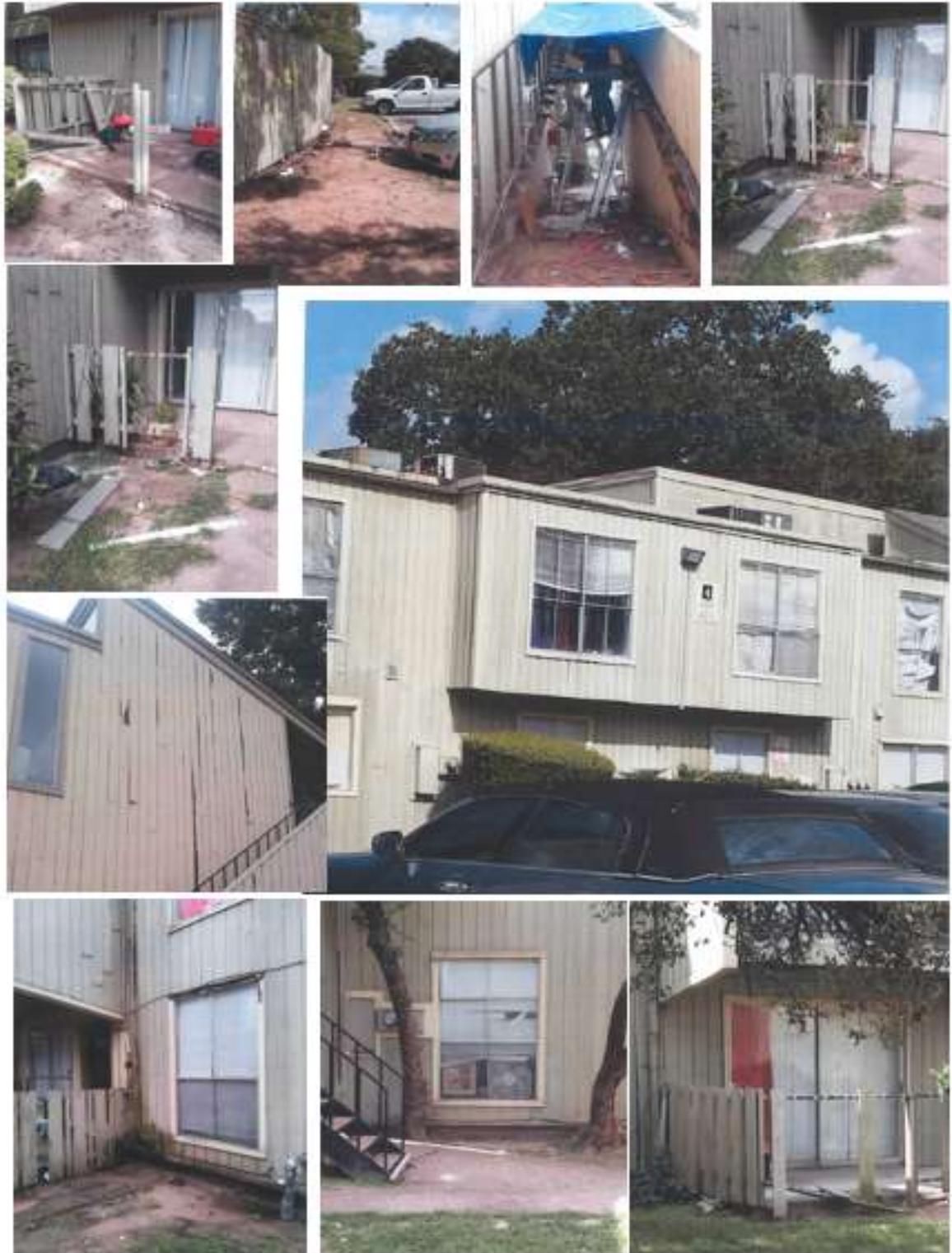
**Fall 2015 Delinquents:** With all this being said, I will also take responsibility in that I feel we were slow to file some of the evictions last fall. We considered the cost of the make ready, the time of the year and the tenant's promise to pay. This worked well in many cases as we collected back rent and prevented the loss of rents and the cost of make ready for our clients. But in some cases the tenant never paid we had to proceed with evictions and this only made cause for more rent loss for our client. I do not consider this a bad decision. It worked more than it lost but on an individual basis you may have been one of those vocal few that lost. But you likely would have sat vacant anyway.

**The Condo Associations:**

As you can see from the pictures, we found that these communities were a mess. These pictures were taken by the prior manager in May-July 2014 time frame. You can clearly see from the pictures that it took years for the roofs to be so deteriorated, the stair pans to be rusting through, balconies at risk of collapsing, the siding rot and long past due a need for a protective paint coating, etc. and years to develop the crime haven reputation.

These photos are primarily Oakwood but all of the properties were similar. Las Palmas being the worst, Oakwood, Asbury, then Greensbrook, Westbury, Brookglade, Ridgemont, Camden, Remington in this order.

**A much different picture than what you were provided in the sales brochures.**



I first saw the properties in July/August 2014. We took on the task of managing for the associations between Jan-Mar 2015, HOA Solutions, a dba of Catalyst.

Some items that are not fully shown in these pictures are:

- The grounds were overgrown with weeds and dirt washouts in other areas (at one point the grass was knee high at Asbury).
- The dumpsters were overflowing with trash and scattered through the properties.
- The crime issues were out of control. In addition to a number of break-ins and armed robbers, there had been three murders reported at Oakwood.
  - The Condo Association manager, Rhonda Hendrix was afraid to walk the properties due to safety concerns.
  - Many vendors refused to work on the property.
- There was raw sewage that had been backing up onto the property repeatedly for so long that the City of Houston filed criminal charges against her. The unfortunate part was that this was caused by lack of funds, not lack of her caring.
- There were pot holes throughout the parking lots that were so bad that areas were impassable by some cars.
- Roof leaks were not being addressed (causing more interior damage and tenant move outs). Notice the pictures taking in 2013 at Oakwood where in trees roots were growing down through the condo ceiling.
- Patio fences were rotten and missing boards; perimeter fencing was in poor condition and was not being maintained.
- Exterior siding was rotten in a number of areas and boards missing from other areas. Not only was this unsightly but this was allowing water penetration inside the condos (We had rain coming in from the roofs and from the siding.).
- We found stair pans so rusted that they were dangerous to step on, in fact, some had already given way.
- The swimming pools were closed and green with algae.
- The mail boxes were in such poor condition that many residents could not receive mail.
- Broken windows throughout the properties.
- The access gates were not working and are now down again due to lack of funds.
- Over 40% of the exterior lighting was not working.
- The property had a plethora of exposed electrical wires (risk of shock and short). The roofs are dangerous to access during and after rain periods to work on the air conditioning units due to the ponding water and exposed electrical wires laying on roof top.
- The residents complained repeatedly that their hot water was barely lukewarm. We found that the pump motors were not working sufficiently. There was and still is a mixet valve problem that requires service by every home owner (we have addressed several but more is still needed).
- Many of the shut off valves on the buildings are so corroded that they were rendered in operable. These are necessary to control damage in the event of a pipe leak.
- The door frames at Las Palmas were so rotten that many condos were boarded up because the doors were falling off at the hinges. Others were boarded up due to vandalism.

**Management Needs:** The reason we became involved in the condo association management was because the Board felt they could take advantage of cost savings with the economies of scale since we were already managing the rental activity and we clearly had a more vested interest in seeing the property improved because it affected our leasing efforts.

We complained repeatedly to the Board about the property condition (aka “Sterling”, Antonio Zuniga and Adam Barker). We attend several calls and/or meetings with the Condo Board of Directors and the association manager, Creative Management. Creative pleaded for funds to make repairs. Sterling appeared genuinely concerned. Creative resigned from managing the condo that were under Sterling’s control from a period beginning in Jan 1, 2015 and ending March 1, 2015.

We agreed to pick up the assignment. In so doing we were given access to the financial statements of the associations. We learned that Asbury and Oakwood association were near bankruptcy going back as far as to 2013. At our insistence, Sterling provided non-recourse loans to pay down the payables, approximately \$110,000. At this point Sterling appeared to be the good guys, chipping in to help out. I now feel we were getting played, led to believe that Sterling wanted to do what is right

**Accomplishments:** We knew that we could operate these condos with less money and we did. We worked fast and furious. We made massive improvements to the properties and spent less money on “Controllable cost items such as payroll, common area repairs and administrative tasks trying to keep these associations from going bankrupt. But please understand this is not enough. The properties remain in poor condition. There are not sufficient funds to make even basic repairs.

- We addressed electrical problems and the most severe life safety issues immediately.
- We replaced non-working exterior lighting (although this now needs addressing again).
- We replaced numerous areas of siding, removed dilapidated patio fencing and repaired others.
- Addressed roof approximately 100 roof leaks although this remains an on-going project.
- We established a crime prevention program, held meetings with residents, the police agencies and the Board of Directors to get additional patrol. We worked closely with off duty police officers hired by the association help them make numerous arrests.
- We saved money by hiring “in-house” staff for the smaller jobs and our affiliate, Blue Marlin for the larger jobs. Repaired mail boxes, replaced siding, replaced broken windows, and cleaned up the grounds for less money spent than the prior two years.
- We worked out a cost effective plan to address the on-going sewer back-up caused by bad underground pipes.
- We repaired the access gates (although now vandalized again and pending funds to repair).
- We temporarily leased surveillance cameras in response to a third murder since 2012.
- We replaced stair steps that were are risk of collapse, rebuilt balconies, repaired some of the fence issues (as money would allow) and many more detailed items.

You will see from the financial statements that we accomplished “**more with less**” money than the prior two years. See on the attached Year-over-Year Financial Comparison for these two associations. Notice the section titled “Controllable Expenses” to confirm we were spending less discretionary spending (Controllable excludes, taxes, insurance, security and management fees).

### **More to Do:**

Despite our efforts, it is not enough.

- The roofs are in very bad shape, repairs cannot be warranted by any vendor because they are in such bad shape; in some areas the trusses are rotten and the roofs are dangerous to walk on. These roof leaks ultimately result in not only the cost of the unwarrantable repair (cost of \$500-\$900) each, but also sheetrock repairs to the interior unit and water extraction. These temporary repairs that do not last is throwing good money after bad.
- The temporary patches we made to the pot holes worked for a while but are giving way because we do not have the money to hire contractors with equipment to roll in the patches properly. Instead we had staff members walk around filling the pot holes to at least make the drives passable.
- Many more fences need repair or replacement, the exterior siding desperately needs to be painted to prevent further decay and to attract a better tenant clientele.
- The access gates need to be made operational with cameras to catch persons who vandalize them and break into the condos. Actually, cameras are needed through-out the property to reduce incident of crime and to cut the on-going cost of security patrol.
- Balconies need repairs and replacements.
- More lights need to be replaced again.
- More personnel is needed to address deed violations.
- The pool has a water leak and had to be closed again.

**The Crime Factor:** Crime in the area is a big problem, violent crime, robberies, vagrants breaking into our vacant units and vandalism. Our employees have been threatened with their lives and had their tires slashed for reporting criminals and serving evictions. They have been ordered by the police to take shelter, lock down with lights out in clubroom on two separate occasions due to shooting incidents on the property until the police could get it contained. Others refused to work on these properties.

Based on information provided by local police officers the crime at these properties have declined but the area remains a concern. We cannot let up on our efforts for fear that the criminals will take over. We spend much of our time repairing problems caused by the perpetrators', meeting with the police and communicating to owners. A significant amount of money is spent responding to vandalism issues such as broken windows, kicked in doors and damaged interior.

It makes leasing to desirable tenants an overwhelming challenge.....We lease, they move-in, then they move-out due to incidents they see around them. The police take a stand down approach and give us excuses that they are understaffed. They are afraid to get involved due to racial tensions going on across the country over the past two years and climaxing to riots and assassinations of police officers. We have to push them to do their job. We are screening all our residents for felony records and have detailed evidence of this but we do not manage all condos in these properties or all houses in the neighborhoods. This leaves our owners vulnerable to the decisions of adjacent owners.

There is no question that the crime problems have negatively impacted these properties and the tenant quality they attract. However, we can win this battle if only we had adequate support.

**The New Problem:** We were making progress and felt better about the future of these investments until funding responsibilities transitioned away from the guarantor and to various owners as the guarantee period came to an end. Many owners did not fund their accounts and their condo fees could not be paid. Their condos sat vacant subject to vandals because we had no funds to evict, make ready and operate effectively. It is important to understand that Insurance, utilities (gas, common area electric, water/sewer, trash), management, security, common area repairs (pot holes, roof leaks, balconies, etc.... are covered by the condo fees that each owner pays in.

Despite our gains in reducing costs the associations are again at risk but this time due to unpaid condo fees and buildings another year older and deferred maintenance another year accruing.

**Condo Board of Directors/Owners:**

Good news for the investment. There is a new Board of Owners/Directors. They have hired an attorney to address the nonpayment of condo fees.

Please understand that decisions regarding funds available to make repairs are controlled by the Board of Owners, not by the management company. I have attached a copy of our management agreement with the condo association. Please notice the limited authority and power the management company. The management company basically has no authority as it applies to the association/common area oversight of the physical buildings, driveways and walks.

## **Non-Related Fact**

Although not related to this situation, I want to make you aware of this engagement. In August of 2015, Philip hired Catalyst to take over his property management company called Overseas Asset Management in Florida, USA as a sub-management agreement. Our longer term intent was grow our businesses together after I secured consent from my partners or a resolution agreement. My staff and I were initially excited about the idea of expanding our businesses together. We had met each other's sons and it felt good. However, after my attorney and I met with Philip, my attorney had some concerns and advised that I should get to know Philip better before entering into any partnership agreements. I explained this to Philip and agreed to work with him on a contract basis. He accepted and further confessed to me that he had done a poor job managing these properties and was losing too much money.

After my team took over the assets he was managing we found a large number of properties had gone months without collections, houses reported as vacant that were occupied and his agent collecting rent, unresolved maintenance problems, sexual harassment claim filed against his employee, other reports of theft. We found that none of the properties which he was managing for his clients had insurance in place. His clients went from August 2015 until February 2016 without receiving their distribution. Philip appeared distraught over this. So the goal was "just fix it". I am not sure if many clients knew that Overseas Asset Management was owned by Premier/Philip.



**Overseas Asset Management LLC**

His sister's property is one of the locations that had a tenant living there for months without paying rent or filing eviction (we have the facts/documents in our possession). After we secured the eviction, my staff advised Philip that the property needed a lot of work. Philip said get it done, and he would pay for this. Another disappointment, he has yet to provide the funds to pay for the work. Instead, we are only getting paid back month by month from the rental income.

None the less, we turned things around (as a portfolio speaking), and things were starting run pretty good. Until a few weeks ago when I began questioning things and searching more diligently for answers. I listened carefully as he lied to me and denied several things I had concerns and proof about. At that time, I knew we must draw the line and I told him as much. Soon to follow were several nonsense emails claiming inaccurate facts and demanding distributions he was not entitled to. It does not really matter what happens from here as I do not care to work with him in any fashion. I cannot begin to out think such deceit, so I will deal with those claims as they rise. But is any of you have concerns, I will address your concerns.

I have provided a copy of this agreement to provide full disclosure.

## **Blame Game**

Catalyst finds itself in a bad place. We find ourselves in the middle of blame game caught up in the middle of the finger pointing cross fire. Finally, we better understand what has happening here. What started out to be another great turn around for Catalyst, has turned out to be a scape goat for Premier and Sterling. Premier is getting a great deal of pressure from you guys. But instead of telling the truth, Philip is trying to pass the blame on management. We hear that he is aggressively trying to collect Power of Attorneys from you all to take control along with his local colleague, Misty Lucas of The Real Estate People, thereby silencing Catalyst by casting doubt on our intent. Philip can then kick the can down the road to take some pressure off of him. This is wrong.

We spend too much time each day defending ourselves. We did not understand the complaints. But now we understand, obviously you all could not see the Catalyst difference because you have no idea about what you purchased or what we found when we first saw the properties in late 2014. Fact is we have only been involved for a short period of time and are the 3<sup>rd</sup> manager since 2013. There has been a lot of cover up here.

Because most of the owners are out of the country and do not speak the language, we cannot have a group meeting to discuss the property needs, owner concerns, crime issues or even solutions efficiently. Instead, we have to meet with each owner one by one .... Countless hours, provide interpreters when possible, emails after emails. It is so much to keep up with just in communications. Owners are not here to see why the repairs are necessary or know what a reasonable cost is. It feels like we are fighting a losing battle. The condo association is not properly funded and is currently at risk without funds.

With all this in mind, Catalyst has rendered its resignation of serve as manager for the Oakwood and Asbury condo association effective on or before October 30, 2016 or sooner if they find a replacement. We will be following with the others that are related to Premier and Sterling in a staggered time period so that these are smooth transitions. Please understand that I hate to be a quitter. But this has not been a profitable venture and puts us at great reputational risk an association that remains unfunded.

However, we will not be silenced. I know too much now. I am committed to protect my client's interests. It is not about any legal concerns, it is about Pride and Honor to me.

We can decide what you want us to do on a one on one basis regarding the rental management of your property.

## **Regret:**

I am admitting to you that it was mistake for Catalyst to get involved in this mess. We trusted the wrong people. We have allocated too many resources to this project, have hurt our reputation and in the last year for the first time in my 30 year career have unhappy clients. As my family and close friends can attest, I have lost a lot of sleep worrying over this situation. My staff and I have worked countless hours to improve the situation and to turn this around for our clients. It is what we do, make bad situations good again.

Despite all these efforts there is more work needed. Now we find ourselves in a desperate situation with many owners are not funding their accounts to make repairs, to make ready their housing units, to pay their monthly condo assessments needed to pay utilities, insurance, roof repairs etc. These properties get vandalized when they sit vacant and owners can be sued if something bad happens in their property even if it is caused by criminals. It is not a good situation. Premier can bring in Management Company after Management Company to pass the blame (kick the can down the road to take pressure off of Premier for now) but it is not going to help our mutual clients.

Consider this, if our clients had purchased investments with values consistent with sale price, in locations that had not become crime ridden, we would not need to spend hours on hours each day trying explain this situation. Instead, we could spend more time on crime prevention meetings, going to city council meetings demanding solutions, hosting resident pizza parties, marketing and growing rents and we could make a profit on these assets.

You can quickly do the math, we are losing too much money in human capital, overhead opportunity cost and reputational risk. I founded Catalyst with a mission to be the Best. I did not want to be just another management company. We worked tirelessly to earn a GREAT reputation in the industry. But with this portfolio, we risk losing what we worked so hard to create. **I am going to fight hard to turn this around for both Catalyst and for my clients.**

I know for certain that I do not want to be involved in these properties if we cannot come together as owners and manager to make a difference. It is too much reputational risk for Catalyst and too stressful for my team who are very driven to make a difference. I would like to meet with you in person in Hong Kong and maybe another meeting somewhere in Mainland China or we can schedule a Web meeting in the meantime.

Now that we have learned much more about these transactions and as a result prefer not to work through Premier. We have both Cantonese and Mandarin speaking staff, you can make requests on your owner's portal to have one of these persons reach out to you. However, please use English, if you can. If you English is weak, don't worry we will work through this together, but when it is in English, we have more personnel to respond more timely. We do not need Premier to translate for us. Our obligation is to you as our client, not to Premier.

## Summarize:

I have received more purchase documents from our clients. I have and am still receiving documents and photos from the person involved with these properties when they were sold. We are caught up in the middle of something here that is not good.

We are easy targets to blame "management". I can tell you that we are certainly not making money off this portfolio. We certainly are not motivated by greed. We have however struggled to keep up with the mass volume of emails, phone calls, and inquiries for documents and appointments for tours (tours with the clients, tours with their realtors, tours with their other agents, etc.) that I have to keep hiring more people.

Please understand that when properties are in good condition, occupied, earning a good rate of return, it is more efficient to manage. We have less tenant turn-over, less employee turn-over, fewer emails and phone calls to manage and quite honestly this make for a profitable business. In this situation, owners' micro-manage their assets because they are worried and let Premier "spin" the truth as translator for many of you. Understandably, owners do not know who to trust and they do not understand why these expenses. We are working out a plan to upload more documents to your portal over the next few weeks, but I cannot hire any more people. The software is great but scanning and uploading documents is a very slow process. In the meantime, if you have specific requests for information, please list this request in your portal and we will get those individual requests scheduled. I suspect after this letter goes out, we will be hit with a large volume questions. Please be patient with us, we will get back to you.

1. I want to get out of the middle of this situation. If you are willing to work directly with Catalyst, we will continue to serve our clients. However, we will not communicate through Premier. We have staff that speaks both Mandarin and Cantonese. I think we are the best equipped to turn this around and can assist you with recovery from Premier and possibly Sterling. My staff is very dedicated to doing what is right, not what is easy. We believe we can continue to turn this around and at a better end result than our competitors. We are determined.
2. If you want to terminate the management, we will work with you through the contract period and plan for a smooth transition.
3. If we advanced funds to make repairs to your condo, you must make arrangements to fund your account. We will work with you as best we can. If you do not, we will have to take action. We will work with you to provide copies of invoices that you need. All I ask is that you give us time. Many invoices are billed to us in bulk. We will have to hide other client information and then scan your information as billed. This process is time consuming. As stated before after this letter goes out, my staff is going to be bombarded with emails and phone calls.

## Recap:

- The conditions of these properties were “deplorable” at the time you purchased. It extends beyond the primary three condos listed here and it includes the houses. I will continue gathering information in the upcoming weeks. I believe these are the three biggest concerns.
- I believe as your agent should have required third party inspections and appraisals before coercing you to purchase properties whom the seller paid large commissions without disclosure.
- I encourage you to require inspection and third party value estimates before buy properties in the U.S. It is little money spent to protect bigger money.
- Philip has been aware of my concerns about the condition of these properties and the crime issues since I first became acquainted with him in 2015.
- I am now convinced that the pictures in the marketing brochure and not indications of the true condition of the property.
- Also different that the brochure I saw with interior pictures at Oakwood, the typical interiors show signs of wear, cabinets and counter top, old appliances, etc. In some cases, the condo or the house sold were not even habitable at the time.
- I believe the pledge of an 8% guarantee may have led many of you to believe these properties were capable of producing an 8% return. They were not capable of producing an 8% return at your purchase price and in fact many operated at a deficit. Because of this, I believe you paid an inflated the price and effectively received merely a rebate on a small portion of your purchase price.
- We believe Sterling paid Premier a large sum money in the form of commissions or profit splits with the seller without proper disclosures. Sterling reported this to be 25% of the sale price. As buyers, you also paid Premier a commission. I believe this to be against to law. Who did Premier work for, the seller or the buyer?
- We believe Premier is now working in concert with The Real Estate People (TREP) to misrepresent the true value of these properties when you purchased them by pointing fingers at management. and to brush this situation under the rug
- We have a number of emails from TREP where the facts are not properly represented by TREP to create this illusion.
- The new story is that the properties dropped in value because of Catalyst. This will prove false. I understand that people may think Catalyst contributed to this only if that person did not that Catalyst has been involved for a relatively short period of time, does not know the cash constraints or the condition of the property in 2014 and even worse 2013.
- I have a moral duty to disclose to my clients what I am uncovering.
- We heard from one client that Philip is now telling his investors that Catalyst created a “fake” billed for services not received (absolutely did not happen). We will work with any of you who have concerns about this to provide documents, resident statements, pictures as may be necessary or available to provide proof. If there is a billing error, it would have to be very limited. If the error was anything substantial, our clients would have pointed this out by now. There pretty good about calling our attention to things. This is much different than a “fake bill” which I will not tolerate.
- I find that the language regarding the requirements of seller during the guarantee period too be very poorly and feel this left many of you vulnerable.
- We do not want to be associated the parties who have contributed to this waste and over pricing and will terminate any loose ends and never to have any business relationship with them going forward.

- I am willing to work with you to come up with solutions instead allowing these lies to continue. My team will work with each of you one on one. We will not work through Premier or The Real Estate People without legal representation.
- If you signed any Power of Attorneys with Premier, I urge you to immediately withdraw this before more damage is done. There is nothing that Premier can do for you that you cannot do for yourself remotely. Any information you want from us, we will work to secure. We will honor any reasonable request. We have Mandarin and Cantonese speaking accountants if you do not speak English.
- I believe you should seek legal counsel. I am willing to meet with you in person as a group in Hong Kong and possibly somewhere in China to go over any questions. Please understand that I will need to do this in a group setting due to the large number of clients. I would need some help figuring out where. Individual questions regarding day to day operations can be handled through your portal, property manager or accountant in the meantime.

In closing, I am immensely grateful to our clients who alerted us about the lies that are being told. I hope to meet with you all in person. This has been another hard lesson in life, very hard lesson, but a lesson I will use to grow and work our way out of. Hearing about the many lies, made the picture much clearer for me, and motivated me not to believe the lies we were being told from the other side. It motivated me to dive in to this situation, to get to the bottom of things and no matter how bad the consequences, I am glad to finally know the truth. I am eager to wash my hands clean of his dirty business dealings as soon as possible.

### **Recommendation:**

For those of you that purchased a house, I believe this situation will turn around much sooner. We have already accomplished a significant improvement in the performance of these locations and are seeing quicker appreciation in values (maybe not yet what you paid but much closer) and most are generating a return.

For the Condominium Owners, my recommendations are not going to be very popular either but it is a solution so here it is:

First, please know that I would not be happy if I had paid \$60,000-\$90,000 for a condo that is valued at \$20,000-\$25,000 today. Yet, understanding the critical needs of Oakwood and Asbury, I can honestly say that I would agree to a special assessment, not to exceed \$2,500 per condo and \$500 per condo at Las Palmas (I am not sure you have a choice if the Board of Owners authorized it anyway) and I would be prepared to invest as much as \$6,000 to replace appliances, air conditioners, flooring, etc. as needed to protect my investment and then believe in the future.

While I do not have a crystal ball either, I have seen properties make astonishing recoveries. In fact, here are some examples:

- We have been a part of driving the value of portfolio of properties in Houston and surrounding cities up by as much as 88% in a 6 month period in 2014.
  - We were instrumental in doubling the value of a property in Baltimore over a 2 year period in 2013 (from \$4,100,000 to \$9,600,000).
  - We increased the value of a property 235 unit property southeast of Houston in Baytown, Texas from \$12,000 per door to \$35,000 a door in 2014.
- What I like about these properties, is that replacement cost is about \$100 per square foot plus land cost. This leads me to believe that in time the values have to come up if you maintain your property.
- I also think these properties will take much longer than the examples I gave you but it diversifies your investment portfolio to have a long range investment in the U.S.
- Some good news is that Houston has new city government. He ran his election on a pledge to put more police officers on the street.
- I feel you have and will have a good board of directors now to oversee these condo associations as Sterling is stepping out. I hope some of you will consider joining the board.

**Bigger Picture Option:** I recommend that you consider rolling your property into a pool as a joint venture LLC. You would appoint a Key Principal to make decisions on behalf of the LLC for a disclosed fee.

By having a pool, we can hire maintenance people that work full time for the LLC and save the expense of third party contractors, we can reduce the management fees without reducing the quality. We could run the managed condos more like an apartment community. We would prepare a quarterly report and have an annual meeting either by teleconference or by Catalyst personnel in Hong Kong once per year. Have your property manager also be the manager of the condo so that the goals are consistent.

Catalyst would be willing to help you all with this accommodation for one year. Then at the end of that year. Catalyst would have the right to withdraw as manager and you guys have the right to bring in another manager.

I want to be clear here, I am not giving you any guarantees. I am only offering a recommendation as to what I would do if I owned a condo at one of these properties and I would be prepared for it to take some time.

We are here for you.

Yours Truly,

*Paula Forshee*