AMENDED AND RESTATED LEASE AGREEMENT
PARCEL 103T — MARINA DEL REY

THIS AMENDED AND RESTATED LEASE AGREEMENT ("Lease") is made and entered into as of the 20th day of November 2001 ("Effective Date"), by and between the COUNTY OF LOS ANGELES ("County"), as lessor, and MARINA DEL REY COUNTRY CLUB APARTMENTS, a California general partnership (together with its permitted successors and assigns, "Lessee"), as lessee.

WITNESSETH

WHEREAS, the parties hereto or their predecessors in interest, on the 18th day of December, 1968, entered into Lease No. 14341 (as amended prior hereto, the "Existing Lease") whereby Lessee leases from County that certain real property in the Marina del Rey Small Craft Harbor commonly known as Parcel No. 103T and which is more specifically described on Exhibit A attached hereto and incorporated herein by this reference (the "Premises"), the term of which currently extends through March 31, 2022 (the "Existing Expiration Date"); and

WHEREAS, County and Lessee have entered into that certain Option to Amend Lease Agreement dated May 15, 2001 (the "Option Agreement"), pursuant to which County has granted Lessee an option (the "Option") to amend and restate the Existing Lease in its entirety, upon the terms and conditions more specifically provided herein, including, without limitation, an extension of the term of the lease through March 31, 2042; and

WHEREAS, Lessee has exercised the Option in accordance with the terms and provisions of the Option Agreement.

NOW, THEREFORE, in reliance on the foregoing and in consideration of the mutual covenants, agreements and conditions set forth herein, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto and each of them do agree that the Existing Lease is hereby amended and restated in its entirety, as follows:

1. BACKGROUND AND GENERAL

1.1 Definitions. The defined terms in this Lease shall have the meanings as follows:

1.1.1 "ACCOUNTING YEAR" shall have the meaning set forth in Section 14.7.

1.1.2 "ACTUAL COST" shall mean the reasonable cost and expenses incurred by County with respect to a particular activity or procedure, including without limitation (i) expenditures to third party legal counsel, financial consultants and advisors, (ii) costs incurred in connection with appraisals, and (iii) County’s appropriate internal overhead and administrative costs, which include without limitation the value of services provided by County’s in-house counsel, lease administrators and/or lease auditors and other County administrative staff below the level of deputy director (the administrative level which is two levels below the County department head).

1.1.3 "ADA" shall have the meaning set forth in Section 1.2.
1.1.4 "ADJUSTED RENT" shall have the meaning set forth in subsection 4.2.1.

1.1.5 "ADJUSTMENT DATES" shall have the meaning set forth in subsection 4.2.3.

1.1.6 "ADMINISTRATIVE CHARGE" shall have the meaning set forth in Section 4.6.

1.1.7 "AGGREGATE TRANSFER" shall have the meaning set forth in subsection 4.6.3.

1.1.8 "ALTERATIONS" shall have the meaning set forth in Section 5.2.

1.1.9 "ANNUAL MINIMUM RENT" shall have the meaning set forth in subsection 4.2.1.

1.1.10 "APPLICABLE LAWS" shall have the meaning set forth in subsection 1.2.1.

1.1.11 "APPLICABLE RATE" shall mean an annually compounded rate of interest equal to the lesser of (a) ten percent (10%) per annum or (b) the Prime Rate, as defined in subsection 4.4.5, plus three percent (3%) per annum; however, the Applicable Rate shall in no event exceed the maximum rate of interest which may be charged pursuant to Applicable Laws. In the event that the Applicable Rate as determined by the first sentence of this definition exceeds such maximum rate of interest, then the Applicable Rate shall be deemed the maximum rate permissible under Applicable Laws notwithstanding the first sentence of this definition.

1.1.12 "APPROVED APARTMENT LEASE" shall have the meaning set forth in subsection 11.1.2.

1.1.13 "ASSIGNMENT STANDARDS" shall have the meaning set forth in Section 11.2.

1.1.14 "AUDITOR-CONTROLLER" shall mean the Auditor-Controller of the County of Los Angeles, California.

1.1.15 "AWARD" shall have the meaning set forth in subsection 6.1.3.

1.1.16 "BASE VALUE" shall have the meaning set forth in subsection 4.8.1.1.

1.1.17 "BENEFICIAL INTEREST" shall have the meaning set forth in subsection 4.6.4.

1.1.18 "BOARD" shall mean the Board of Supervisors for the County of Los Angeles.

1.1.19 "BUSINESS DAY" shall have the meaning set forth in Section 17.3.

1.1.20 "CALCULATION NOTICE" shall have the meaning set forth in Section 4.7.
1.1.21 "CHANGE OF OWNERSHIP" shall have the meaning set forth in subsection 4.6.1.

1.1.22 "CHANGE OF CONTROL" shall have the meaning set forth in subsection 4.6.1.

1.1.23 "CITY" shall mean the City of Los Angeles, California.

1.1.24 "CONDEMNATION" shall have the meaning set forth in subsection 6.1.1.

1.1.25 "CONDEMNOR" shall have the meaning set forth in subsection 6.1.4.

1.1.26 "CONSUMER PRICE INDEX" shall mean the Consumer Price Index—All Urban Consumers for Los Angeles-Riverside-Orange County, as published from time to time by the United States Department of Labor or, in the event such index is no longer published or otherwise available, such replacement index as may be agreed upon by County and Lessee.

1.1.27 "CORPORATE SERVICED UNITS" shall have the meaning set forth in subsection 4.2.2.9.

1.1.28 "COUNTY" shall have the meaning set forth in the first paragraph of this Lease.

1.1.29 "COUNTY OPTION" shall have the meaning set forth in subsection 11.2.4.

1.1.30 "COUNTY OPTION PRICE" shall have the meaning set forth in subsection 11.2.4.

1.1.31 "COUNTY POOL RATE" shall have the meaning set forth in subsection 4.4.5 of this Lease.

1.1.32 "DATE OF TAKING" shall have the meaning set forth in subsection 6.1.2.

1.1.33 "DEPARTMENT" shall mean the Department of Beaches and Harbors of the County of Los Angeles.

1.1.34 "DIRECTOR" shall mean the Director of the Department of Beaches and Harbors of the County of Los Angeles or any successor County officer responsible for the administration of this Lease.

1.1.35 "DISQUALIFICATION JUDGMENT" shall have the meaning set forth in subsection 16.15.1.

1.1.36 "DOCUMENTED TRANSACTION COSTS" shall have the meaning set forth in subsection 4.8.1.2.

1.1.37 "EFFECTIVE DATE" shall mean the date set forth in the first preamble paragraph of this Lease.

1.1.38 "ENCUMBRANCE" shall have the meaning set forth in subsection 12.1.1.
1.1.39 “ENCUMBRANCE HOLDER” shall have the meaning set forth in subsection 12.1.1.

1.1.40 “ENR INDEX” shall mean the Engineering News Record (ENR) Construction Cost Index for the Los Angeles Area, or such substitute index as the parties may mutually agree upon if such index is no longer published or otherwise available.

1.1.41 “EVENTS OF DEFAULT” shall have the meaning set forth in Section 13.1.

1.1.42 “EXCESS PERCENTAGE RENT PAYMENT” shall have the meaning set forth in subsection 4.2.2.4.

1.1.43 “EXISTING EXPIRATION DATE” shall have the meaning set forth in the preamble to this Lease.

1.1.44 “EXISTING LEASE” shall have the meaning set forth in the preamble to this Lease.

1.1.45 “EXCLUDED TRANSFERS” shall have the meaning set forth in subsection 4.6.2.

1.1.46 “EXTENDED TIME” shall have the meaning set forth in Section 15.15.

1.1.47 “FAIR MARKET RENTAL VALUE” shall have the meaning set forth in subsection 4.4.1.

1.1.48 “FINAL ALTERATION PLANS AND SPECIFICATIONS” shall have the meaning set forth in subsection 5.3.3.

1.1.49 “FINANCING EVENT” shall have the meaning set forth in Section 12.1.

1.1.50 “FORCE MAJEURE” shall mean any inability of a party to perform any non-monetary obligations under this Lease due to fire or other casualty, acts of God, civil riots, embargo, governmental order, industry wide strikes or other similar causes beyond the reasonable control of the party required to perform the subject obligation.

1.1.51 “GROSS ERROR” shall have the meaning set forth in subsection 16.15.4.

1.1.52 “GROSS RECEIPTS” shall have the meaning set forth in subsection 4.2.2.3.

1.1.53 “HOME SERVICES” shall have the meaning set forth in subsection 4.2.2.10.

1.1.54 “IMPROVEMENTS” means all buildings, structures, fixtures, docks, anchorage facilities, fences, fountains, walls, paving, parking areas, driveways, walkways, plazas, landscaping, permanently affixed utility systems and other improvements now or hereafter located on the Premises.

1.1.55 “IMPROVEMENT COSTS” shall have the meaning set forth in subsection 4.8.1.1.
1.1.56 “INITIATING PARTY” shall have the meaning set forth in the first paragraph of Article 16.

1.1.57 “INSTITUTIONAL LENDER” shall have the meaning set forth in subsection 12.1.3.1.

1.1.58 “INSURANCE RENEGOTIATION DATE” shall have the meaning set forth in Section 9.3.

1.1.59 “LATE FEE” shall have the meaning set forth in Section 4.5.

1.1.60 “LEASE” shall mean this Amended and Restated Lease Agreement.

1.1.61 “LEASE YEAR” shall have the meaning set forth in Section 2.1.

1.1.62 “LESSEE” shall have the meaning set forth in the first paragraph of this Lease.

1.1.63 “LESSEE SALE PRICE” shall have the meaning set forth in subsection 11.2.4.

1.1.64 “MAJOR SUBLEASE” shall have the meaning set forth in subsection 11.1.1.

1.1.65 “MAJOR SUBLESSEE” shall have the meaning set forth in subsection 11.1.1.

1.1.66 “MONTHLY MINIMUM RENT” shall have the meaning set forth in subsection 4.2.1.

1.1.67 “NET AWARDS AND PAYMENTS” shall have the meaning set forth in Section 6.7.

1.1.68 “NET PROCEEDS SHARE” shall have the meaning set forth in Section 4.6.

1.1.69 “NET REFINANCING PROCEEDS” shall have the meaning set forth in subsection 4.8.5.

1.1.70 “NET TRANSFER PROCEEDS” shall have the meanings set forth in subsections 4.8.1 and 4.8.2.

1.1.71 “NOTICE OF COMPLETION” shall have the meaning set forth in subsection 5.5.7.

1.1.72 “OPTION AGREEMENT” shall have the meaning set forth in the preamble to this Lease.

1.1.73 “PARTIAL TAKING” shall have the meaning set forth in Section 6.5.

1.1.74 “PAYMENT BOND” shall have the meaning set forth in subsection 5.4.3.2.
1.1.75 “PERCENTAGE RENT” shall have the meaning set forth in subsection 4.2.2.
1.1.76 “PERFORMANCE BOND” shall have the meaning set forth in subsection 5.4.3.1.
1.1.77 “PERMITTED USES” shall have the meaning set forth in Section 3.1.
1.1.78 “PREMISES” shall have the meaning set forth in the preamble to this Lease.
1.1.79 “PRIME RATE” shall have the meaning set forth in subsection 4.4.5.
1.1.80 “PROPOSED TRANSFER” shall have the meaning set forth in subsection 11.2.4.
1.1.81 “PUBLIC WORKS DIRECTOR” shall mean the Director of the Department of Public Works of the County of Los Angeles.
1.1.82 “PURCHASE MONEY NOTE” shall have the meaning set forth in subsection 4.7.2.
1.1.83 “REDEVELOPMENT WORK” shall have the meaning set forth in Section 5.1.
1.1.84 “RENEGOTIATION DATES” shall have the meaning set forth in Section 4.4.
1.1.85 “RENOVATION FUND” shall have the meaning set forth in Section 5.9.
1.1.86 “REPLY” shall have the meaning set forth in Section 16.5.
1.1.87 “REQUIRED RENOVATION COMPLETION DATE” shall have the meaning set forth in Section 5.1.
1.1.88 “RESPONDING PARTY” shall have the meaning set forth in the first paragraph of Article 16.
1.1.89 “REVERSION AMENDMENT” shall have the meaning set forth in Section 5.1.
1.1.90 “SECTION” shall mean a section of this Lease.
1.1.91 “SECURITY DEPOSIT” shall have the meaning set forth in Section 7.1.
1.1.92 “SHALL” and “WILL” are mandatory and the word “MAY” is permissive.
1.1.93 “STATE” shall mean the State of California.
1.1.94 “STATEMENT OF POSITION” shall have the meaning set forth in subsection 16.6.
1.1.95 “SUBLEASE” shall have the meaning set forth in subsection 11.1.1.
1.1.96 “SUBLESSEE” shall have the meaning set forth in subsection 11.1.1.
1.1.97 "SUBSECTION" shall mean a subsection of a Section of this Lease.

1.1.98 "TERM" shall have the meaning set forth in Section 2.1.

1.1.99 "TIME OF THE ESSENCE" shall have the meaning set forth in Section 15.2.

1.1.100 "UNINSURED LOSS" shall have the meaning set forth in Section 10.2.

1.1.101 "WRITTEN APPRAISAL EVIDENCE" shall have the meaning set forth in subsection 16.7.

1.2 Lease. For and in consideration of the payment of rentals and the performance of all the covenants and conditions of this Lease, County hereby leases to Lessee, and Lessee hereby leases and hires from County, an exclusive right to possess and use, as tenant, the Premises for the Term (as hereinafter defined) and upon the terms and conditions and subject to the requirements set forth herein.

1.2.1 As-Is. Lessee acknowledges that (1) it is currently in possession of the Premises, (2) Lessee or its predecessors-in-interest have continuously occupied and/or managed and operated the Premises since 1962, and (3) the Improvements now existing on the Premises were constructed by Lessee or its predecessors with contractors selected by them. Except as provided in subsection 1.2.2, Lessee accepts the Premises in their present condition notwithstanding the fact that there may be certain defects in the Premises, whether or not known to either party to this Lease, at the time of the Effective Date and Lessee hereby represents that it has performed all investigations necessary, including without limitation soils and engineering inspections, in connection with its acceptance of the Premises "AS IS WITH ALL FAULTS". Lessee hereby accepts the Premises on an "AS IS WITH ALL FAULTS" basis and, except as expressly set forth in this Lease, Lessee is not relying on any representation or warranty of any kind whatsoever, express or implied, from County or any other governmental authority or public agency, or their respective agents or employees, as to any matters concerning the Premises and/or any Improvements located thereon, including without limitation: (i) the quality, nature, adequacy and physical condition and aspects of the Premises and/or any Improvements located thereon, including, but not limited to, the structural elements, foundation, roof, protections against ocean damage, erosion, appurtenances, access, landscaping, parking facilities and the electrical, mechanical, HVAC, plumbing, sewage and utility systems, facilities and appliances, and the square footage of the land and within the Improvements and within each space therein, (ii) the quality, nature, adequacy and physical condition of soils, geology and any groundwater, (iii) the existence, quality, nature, adequacy and physical condition of utilities serving the Premises and/or any Improvements located thereon, (iv) the development potential of the Premises, and the use, habitability, merchantability or fitness, or the suitability, value or adequacy of the Premises and/or any Improvements located thereon for any particular purpose, (v) the zoning or other legal status or entitlement or lack thereof of the Premises or any other public or private restrictions on use of the Premises, (vi) the compliance of the Premises and/or any Improvements located thereon with any applicable codes, laws, rules, regulations, statutes, resolutions, ordinances, covenants, conditions and restrictions of County, City, State, the United States of America, the California Coastal Commission and/or any other governmental or quasi-governmental entity ("Applicable Laws") or of any other person or entity (including, without limitation, relevant provisions of the Americans with Disabilities Act ("ADA"), (vii)
the presence of any underground storage tank or hazardous materials on, under or about the Premises or the adjoining or neighboring property, (viii) the quality of any labor and materials used in any Improvements, (ix) the condition of title to the Premises, and (x) the economics of the operation of the Premises and/or any Improvements located thereon.

1.2.2 Title. County represents that County owns fee title to the Premises and that County has authority to enter into this Lease. Lessee hereby acknowledges the title of County, in and to the Premises, and covenants and agrees never to contest or challenge the extent of said title, except as is necessary to ensure that Lessee may occupy and use the Premises pursuant to the terms and conditions of this Lease.

2. TERM.

2.1 Term. Unless terminated sooner in accordance with the provisions of this Lease, the term of this Lease (the “Term”) shall continue until and expire at 11:59 p.m. on March 31, 2042. Each twelve (12) month period during the Term from April 1 through March 31 of the succeeding calendar year is referred to herein as a “Lease Year.”

2.2 Appraisal of Extension of Original Term. The parties hereto agree and acknowledge that prior to the Effective Date, County has conducted an appraisal of the twenty (20) year extension of the Term from April 1, 2022 to March 31, 2042 as provided herein, and that the Extension Fee payable under the Option Agreement is not less than the appraised value of the Lease extension provided herein.

2.3 Ownership of Improvements During Term. Until the expiration of the Term or sooner termination of this Lease and except as specifically provided in Section 2.4 below, Lessee shall own all Improvements now existing and constructed by Lessee or its predecessors or hereafter constructed by Lessee upon the Premises, and all alterations, additions, or betterments made thereto by Lessee.

2.4 Reversion of Improvements. Upon the expiration of the Term or sooner termination of this Lease, whether by cancellation, forfeiture or otherwise:

2.4.1 County’s Election to Receive Improvements. At the election of County, all structures, buildings, Improvements and all alterations, additions, and betterments thereto, and all other Improvements made to or upon the Premises shall remain upon and be surrendered with the Premises as part thereof and title thereto shall vest in County without compensation therefor to Lessee. Nothing contained herein shall be construed to deny or abrogate the right of Lessee to receive any and all proceeds which are attributable to the Condemnation of business installations, Improvements, structures and buildings belonging to Lessee immediately prior to the taking of possession by the Condemnor as said rights are set forth in Article 6 of this Lease, or to remove any furniture or equipment not intended to be permanently affixed to the Premises, any signage identifying Lessee or the Oakwood name (as opposed to other signage used in the operation of the Premises and associated Improvements), or any personal property, upon the expiration of the Term or earlier termination of this Lease or at any time during the Term, subject to Lessee’s obligations under this Lease to use the Premises for the Permitted Uses.

2.4.2 Duty to Remove. No earlier than eleven (11) years, and no later than ten (10) years prior to the expiration of the Term, Lessee shall deliver to County a report prepared by
a construction and demolition expert approved by County, such approval not to be unreasonably withheld or delayed, which report details and estimates the cost of removing all Improvements on the Premises at the expiration of the Term. County may give written notice at any time, no later than seven (7) years prior to the expiration of the Term or concurrently upon any earlier termination, of County’s election to require Lessee to remove, at the sole cost and expense of Lessee, not later than one hundred twenty (120) days (or such shorter period as may be reasonably required in light of the required removal) following the expiration of the Term or earlier termination of this Lease, all or any portion of the at grade, above grade and below grade structures, buildings and Improvements of any kind whatsoever placed or maintained on the Premises, whether placed thereon or maintained by Lessee or others, including, but not limited to, concrete foundations, pilings, structures and buildings; and if such structures are required to be removed by Lessee, then Lessee shall, within one hundred twenty (120) days (or such shorter period as may be reasonably required in light of the required removal) following the expiration or termination of this Lease, restore, and quit, and peacefully surrender possession of, the Premises to County in good, usable and buildable condition, consisting of a level, graded buildable pad with no excavations, hollows, hills or humps. If Lessee has received written notice of County’s election to require Lessee to remove Improvements hereunder, Lessee shall, no later than the date which is ninety (90) days after the date upon which Lessee received such notice from County, provide County with a letter of credit, bond or other security, in form, issuer and amount satisfactory to County, or alternatively, establish and commence monthly deposits to a sinking fund (which shall be projected to reach the necessary balance not later than three (3) years prior to the expiration of the Term), to secure the discharge of Lessee’s removal and restoration obligations pursuant to this subsection. The amount of the letter of credit, bond or other security or sinking fund projected balance shall be equal to the greatest of (i) one hundred fifty percent (150%) of the estimated cost to remove the Improvements as set forth in the report described above (the “Estimated Costs”), or (ii) the Estimated Costs adjusted to reflect the percentage change in the ENR Index over the five (5) year period immediately preceding the date of Lessee’s delivery of the letter of credit, bond, or other security or initial establishment of the sinking fund. If County fails to elect to require Lessee to remove the buildings, structures and Improvements on the Premises as provided above, then upon the expiration of the Term, or earlier termination of the Lease, Lessee shall turn over the Premises to County in good and workmanlike condition, consistent with the condition of other buildings, structures and Improvements of comparable age and construction quality.

2.4.3 **County’s Right to Remove Improvements.** Should Lessee fail to so remove said structures, buildings and Improvements and restore the Premises, County may sell, remove or demolish the same, in event of which sale, removal or demolition Lessee shall reimburse County for any cost or expense thereof in excess of any funds received by County through the security above provided and any consideration received by County as a result of such sale, removal or demolition.

2.4.4 **Duty to Remove Equipment, Etc.** No later than the expiration of the Term or sooner termination of this Lease, Lessee shall in any event remove at its cost and expense such furniture, equipment and personal property as are not permanently affixed to said structures, buildings and Improvements. Should Lessee fail to so remove said furniture, equipment and personal property within said period, and said failure continues for twenty (20) days after written notice from County to Lessee, Lessee shall lose all right, title and interest in and thereto, and County may elect to keep the same upon the Premises or to sell,
remove, or demolish the same, in event of which sale, removal, or demolition Lessee shall reimburse County for its Actual Costs incurred in connection with such sale, removal or demolition in excess of any consideration received by County as a result of said sale, removal or demolition.

2.4.5 Title to Certain Improvements Passes to County; Lessee to Maintain. As between County and Lessee, title to all utility lines, transformer vaults and all other utility facilities constructed or installed by Lessee upon the Premises shall vest in County upon construction or installation to the extent that they are not owned by a utility, and shall be considered a part of the Premises leased by County to Lessee hereunder. Notwithstanding the foregoing sentence, as between Lessor and Lessee such utility lines, transformer vaults and all other utility facilities, shall be maintained, repaired, and replaced, if and as needed, by Lessee during the Term (or Lessee shall cause such maintenance, repair or replacement to be performed by the utility). Any co-generation, telecommunication or wireless communication equipment or facilities permitted to be installed on the Premises pursuant to this Lease may be owned by a third party provider and either leased to Lessee or operated on the Premises pursuant to a license or other contract; provided, however, if any such equipment or facilities are permanently affixed to the Premises or Improvements, or are otherwise necessary for the operation of the Improvements, then such equipment and facilities must be owned by Lessee and title thereto shall vest in County upon the expiration or earlier termination of the Lease. If Lessee is permitted to operate such equipment or facilities by lease, license or other contract, then at the expiration or earlier termination of this Lease Lessor shall have the right, at its option, to require Lessee to assign to Lessor all of its rights and interests under the applicable lease, license or contract. This subsection 2.4.5 shall not be interpreted to grant Lessee any right to make Alterations to, or conduct uses upon, the Premises that are not otherwise permitted under this Lease, or to do so without satisfying any conditions thereto otherwise required under this Lease. Without limiting the foregoing, Lessee shall have no right to install or operate co-generation facilities on the Premises without first obtaining the prior approval of Director, which approval shall be granted or withheld in Director’s good faith discretion.

3. USE OF PREMISES.

3.1 Specific Primary Use. The Premises shall not be used by Lessee for any use other than the operation and management of (i) a residential apartment project, including Corporate Serviced Units, and (ii) such other related and incidental uses as are specifically approved by County (collectively, the foregoing shall be referred to herein as the “Permitted Uses”). County acknowledges that it has approved as related and incidental uses the uses pursuant to the Subleases presently in effect for the Premises which have been disclosed to County (none of which is a Major Sublease). Except as specifically provided herein, the Premises shall be used for no other purpose without the prior written consent of County. County makes no representation or warranty regarding the continued legality of the Permitted Uses or any of them, and Lessee bears all risk of an adverse change in Applicable Laws.

3.2 Prohibited Uses. Notwithstanding the foregoing:

3.2.1 Nuisance. Lessee shall not conduct or permit to be conducted any private or public nuisance on or about the Premises, nor commit any waste thereon. No rubbish, trash, waste, residue, brush, weeds or undergrowth or debris of any kind or character shall ever be
placed or permitted to accumulate upon any portion of the Premises, except in appropriate receptacles intended for such purposes, nor shall any portion of the Premises be maintained so as to render said Premises a fire hazard or unsanitary, unsightly, offensive, or detrimental nor shall any similar activity be permitted on any other portion of the Premises or by Lessee, any SUBLessee, or their respective employees, agents, contractors, invitees or licensees on any adjacent public street or adjacent property.

3.2.2 Restrictions and Prohibited Uses. Without expanding upon or enlarging the Permitted Uses of the Premises as set forth in this Lease, the following uses of the Premises are expressly prohibited:

3.2.2.1 The Premises shall not be used or developed in any way which is inconsistent with any Applicable Laws;

3.2.2.2 The Premises shall not be used or developed in any way in a manner inconsistent with the Permitted Uses. Without limiting the foregoing, no part of the Premises shall be used by any person for any adult entertainment purposes, as such term refers to graphic, explicit and/or obscene depictions of sexual activity;

3.2.2.3 No improvement on the Premises shall be permitted to fall into disrepair and all Improvements shall at all times be kept in good condition and repair consistent with the requirements of Section 10.1 of this Lease;

3.2.2.4 No condition shall be permitted to exist upon the Premises which shall induce, breed or harbor infectious plant diseases, rodents, or noxious insects and Lessee shall take such measures as are appropriate to prevent any conditions from existing on the Premises which create a danger to the health or safety of any persons residing or working at, or persons patronizing, the Premises;

3.2.2.5 Without the prior written approval of Director, no antennae or other device for the transmission or reception of television signals or any other form of electromagnetic radiation shall be erected, used or maintained by Lessee outdoors above ground on any portion of the Premises, whether attached to an improvement or otherwise; provided that the foregoing requirement to obtain Director’s approval as to any antennae or other transmission or reception devices shall be inapplicable to the extent such requirement violates Applicable Law; and provided further, Director hereby acknowledges its approval of the three (3) satellite dishes existing on the Premises as of the date of the Option Agreement;

3.2.2.6 No tools, equipment, or other structure designed for use in boring for water, oil, gas or other subterranean minerals or other substances, or designed for use in any mining operation or exploration, shall hereafter be erected or placed upon or adjacent to the Premises, except as is necessary to allow Lessee to perform its maintenance and repair obligations pursuant to this Lease or to perform investigation and testing;

3.2.2.7 During the Term of the Lease Lessee shall not generate, treat, store, dispose of, or otherwise deposit, nor permit to be generated, treated, stored, disposed of, or otherwise deposited, any toxic or hazardous wastes in, on or under the Premises or any portion thereof, including, without limitation, into the subsurface waters
thereof, in violation of Applicable Laws; provided, however, that toxic or hazardous substances may be stored or used, so long as such storage and use is (a) ancillary to the ordinary course of business of an otherwise Permitted Use with the intent that such substances will be used in the ordinary course of business, and (b) conducted in compliance with all Applicable Laws; and

3.2.2.8 The following uses shall not be permitted: (a) fuel sales; (b) boat or vehicle repair, other than minor servicing or owner maintenance; or (c) live bait sales.

3.3 Active Public Use. The parties acknowledge that the ultimate objective of this Lease is the complete and continuous use of the facilities and amenities located in Marina del Rey by and for the benefit of the public, without discrimination as to race, gender or religion, along with the generation and realization of revenue therefrom. Accordingly, Lessee agrees and covenants that, subject to Force Majeure, it will operate the Premises fully and continuously (subject to temporary, partial interruptions reasonably required for periodic maintenance and repair) in light of these objectives, consistent with the operation of a residential apartment project, and that it will use commercially reasonable efforts so that County may obtain maximum revenue therefrom as contemplated by this Lease. In the event of any dispute or controversy relating hereto, this Lease shall be construed with due regard to the aforementioned objectives.

3.4 Signs and Awnings. Any and all art, displays, identifications, monuments, awnings, advertising signs and banners which are hereafter placed on, or are visible from, the exterior of the Premises shall be only of such size, design, wording of signs and color as shall have been specifically submitted to and approved by Director (and to the extent required under then applicable Law, the Design Control Board), whether pursuant to Article 5 of this Lease or otherwise, in writing, prior to the erection or installation of said art, sign, display, identification, monument, awning or advertising sign. Director shall not unreasonably withhold its approval of the matters described in this Section 3.4. Any dispute as to whether Director has unreasonably withheld its approval of a matter described in this Section 3.4 shall be submitted to arbitration pursuant to Article 16 of this Lease.

3.5 Compliance with Regulations. Lessee shall comply with all Applicable Laws and shall pay for and maintain any and all licenses and permits related to or affecting the use, operation, maintenance, repair or improvement of the Premises.

3.6 Rules and Regulations. Lessee agrees to comply with such other reasonable rules and regulations governing the use and occupancy of the Premises as may be promulgated by County from time to time for general applicability on a non-discriminatory basis to other residential apartment facilities in Marina del Rey, and delivered in writing to Lessee. Any dispute as to whether County has acted unreasonably in connection with the matters described in this Section 3.6 shall be submitted to arbitration pursuant to Article 16 of the Lease.

3.7 Reservations. Lessee expressly agrees that its leasehold title under this Lease shall be subject to all prior encumbrances, reservations, licenses, easements and rights of way existing as of the date hereof or otherwise referenced in this Lease in, to, over or affecting the Premises for any purpose whatsoever.

Without limiting the foregoing, Lessee expressly agrees that this Lease and all rights hereunder shall be subject to all prior matters of record and the right of County or City existing as of the Effective Date, as their interests may appear, to install, construct, maintain, service and operate
sanitary sewers, public roads and sidewalks, fire access roads, storm drains, drainage facilities, electric power lines, telephone lines and access and utility easements across, upon or under the Premises, together with the right of County or the City to convey such easements and transfer such rights to others.

4. **PAYMENTS TO COUNTY.**

4.1 **Net Lease.** The parties acknowledge that the payments to be made by Lessee under this Lease are intended to be absolutely net to County. The rent and other sums to be paid to County hereunder are not subject to any demand, credit, set-off or other withholding, except for the credits expressly provided in subsection 4.2.2.4 and Section 4.3. Except as specifically set forth herein, Lessee shall be solely responsible for all capital costs (including, without limitation, all structural and roof repairs or replacements) and operating expenses attributable to the operation and maintenance of the Premises, including without limitation the parking areas included within the Premises.

4.1.1 **Utilities.** In addition to the rental charges as herein provided, Lessee shall pay all utility and service charges for furnishing water, power, sewage disposal, light, telephone service, garbage and trash collection and all other utilities and services, to said Premises.

4.1.2 **Taxes and Assessments.** Lessee agrees to pay before delinquency all lawful taxes, assessments, fees, or charges which at any time may be levied by the State, County, City or any tax or assessment levying body upon any interest in this Lease or any possessor right which Lessee may have in or to the Premises covered hereby or to the Improvements thereon for any reason, as well as all taxes, assessments, fees, and charges on goods, merchandise, fixtures, appliances, equipment, and property owned by it in, on or about the Premises. Lessee’s obligation to pay taxes and assessments hereunder shall include but is not limited to the obligation to pay any taxes and/or assessments, or increases in taxes and/or assessments arising as a result of the grant to Lessee of the Option or Lessee’s exercise thereof. Lessee shall have the right to contest the amount of any assessment imposed against the Premises or the possessor interest therein; provided, however, the entire expense of any such contest (including interest and penalties which may accrue in respect of such taxes) shall be the responsibility of Lessee.

The parties acknowledge that the Premises are and shall continue to be subject to possessor interest taxes, and that such taxes shall be paid by Lessee. This statement is intended to comply with Section 107.6 of the Revenue and Taxation Code. Lessee shall include a statement in all Subleases (other than Approved Apartment Leases) to the effect that the interests created therein may also be subject to possessor interest taxes, and that the Sublessee shall be responsible for any and all possessor interest taxes on the Sublessee’s interest; however, Lessee acknowledges that the payment of such possessor interest taxes is the ultimate responsibility of Lessee.

4.2 **Rental Payments.** Throughout the Term, for the possession and use of the Premises granted herein, Lessee shall pay County a monthly amount equal to the greater of (a) Monthly Minimum Rent or (b) Percentage Rent.

4.2.1 **Annual Minimum Rent and Monthly Minimum Rent.** Lessee shall pay to County the minimum rent described in this subsection 4.2.1 (subject to adjustment pursuant to Sections 4.2.3 and 4.4 below) during each year of the Term (the “Annual Minimum
Rent”). Annual Minimum Rent shall be payable by Lessee to County on a monthly basis in equal installments of one-twelfth (1/12th) of the Annual Minimum Rent (the “Monthly Minimum Rent”). During the period from the Effective Date through the day preceding the third (3rd) anniversary of the Effective Date, the Annual Minimum Rent shall be equal to the product of (a) the average of the total Adjusted Rent (as defined below) for the three (3) year period preceding the Effective Date, multiplied by (b) .75. From and after the third (3rd) anniversary of the Effective Date, the Annual Minimum Rent shall be as set forth in Sections 4.2.3 and 4.4 below. The “Adjusted Rent” for each of the three (3) years preceding the Effective Date shall mean the sum of (i) the minimum annual square foot rental which was payable by Lessee for such year pursuant to Section 12 of the Existing Lease, plus (ii) the amount of percentage rental (in excess of the minimum annual square foot rental described in clause (i) above) which would have been payable by Lessee for such year if the new percentage rates set forth in Section 4.2.2 of this Lease had been applicable to the Gross Receipts for such year. County shall give notice to Lessee of changes in the Annual Minimum Rent; provided that County’s failure to give such notice shall not relieve Lessee of the obligation to pay any increased Annual Minimum Rent and shall only relieve Lessee of the obligation to pay any Late Charge or interest with respect to the increased amount prior to the giving of such notice.

4.2.2 Percentage Rent. For the purposes of this Lease, “Percentage Rent” for any given month or year shall be defined as the sum of the amounts set forth in this Section. Gross Receipts (as defined herein) from each transaction, sale or activity of Lessee and/or any sublessee shall be reported without duplication under the percentage categories set forth below in this subsection 4.2.2, as applicable, which percentage categories shall be effective on and after the date of the Option Agreement. It is understood that Article 3 of this Lease provides for the Permitted Uses of the Premises and that the percentage categories listed below are not all applicable to this Lease and are in no way intended to expand or modify the Permitted Uses. Director, by Policy Statement and with the approval of Lessee, Auditor-Controller and County Counsel, has interpreted and may further interpret the percentage categories as set forth in this subsection 4.2.2, with such determinations and interpretations to be a guideline in determining the appropriate categories. Within fifteen (15) days after the close of each and every calendar month of the term hereof, Lessee shall file a report of Gross Receipts and pay to County a sum equal to the total of the following percentages of Gross Receipts for said previous month, less the amount of Monthly Minimum Rent paid for said previous month as provided herein:

(a) TWENTY FIVE PERCENT (25%) of Gross Receipts or other fees for the rental or use of boat slips, anchorages, moorings, dockside storage space, and such other facilities and services ancillary thereto as are generally provided in common to tenants thereof, including receipts obtained from persons who live on their boats;

(b) TWENTY PERCENT (20%) of Gross Receipts from the rental or other fees charged for the use of dry storage facilities, landside storage space, boats, motors, tackle, recreational equipment, tools, equipment, launch and retrieving of small boats and from the sale of live bait;

(c) TEN AND ONE-HALF PERCENT (10.5%) of Gross Receipts or other fees charged for the occupancy of structures and other facilities including but not limited to (1) apartments, (2) hotel and/or motel accommodations, (3) house trailers, (4) meeting rooms,
and (5) rental of land and/or water or facilities for activities not otherwise provided for in this section such as but not limited to television and/or motion pictures; provided, however, the applicable percentage for Gross Receipts or other fees charged for the occupancy of Corporate Serviced Units (as defined in subsection 4.2.2.9 below) shall be nine percent (9%);

(c1) TEN PERCENT (10%) of Gross Receipts or other fees charged for the occupancy of (1) offices utilized for banking, financial or investment activities, internal clerical or administrative activities, business enterprises, real estate and insurance brokerage, legal, medical, engineering, travel agencies, yacht club purposes, or similar uses; or (2) restaurants, stores, shops, or other commercial establishments; provided that, except as provided in subsection 4.2.2.5, Gross Receipts or other fees charged for the occupancy of restaurants, stores, shops or other commercial establishments shall not be included in the calculation of Percentage Rent under this subsection (c1) if the Gross Receipts from the operation of such businesses are required to be reported under other subsections of this Section;

(d) __________ PERCENT (__, %) [INTENTIONALLY LEFT BLANK] of Gross Receipts from the sale of new or used boats, boat trailers, house trailers and trailer cabanas including credits for used items taken in trade as part payment for new items, as reflected in the bill of sale. However, the trade-in allowance for such used item taken in trade may be deducted from the sale price of said used item, provided said used item is sold within one hundred twenty (120) days of the date of the bill of sale which established said trade-in allowance;

(e) TWENTY FIVE PERCENT (25%) of commissions or other fees earned from boat brokerage, car rental agencies, marine insurance commissions where the sale of insurance is conducted in conjunction with boat sales and/or boat brokerage, laundry and dry cleaning commissions and other similar activities where earnings are normally on a commission basis when said activity is approved in advance by Director;

(f) FIVE PERCENT (5%) of Gross Receipts received by Lessee or sublessee, or TWENTY PERCENT (20%) of any commissions or fees collected by Lessee from third (3rd) party providers, from service enterprises, including, without limitation, cable, internet, satellite, telecommunication or other antennae fees, telephone, electricity co-generation and other utility services, valet parking services and Home Services (as defined in subsection 4.2.2.10 below) provided to the occupants of apartment units;

(g) SIX PERCENT (6%) of Gross Receipts received by Lessee or sublessee, or TWENTY PERCENT (20%) of any commissions or fees collected from commercial boating activities including, but not limited to, charter boat, bareboat charters and sportfishing boats;

(h) FIVE PERCENT (5%) of Gross Receipts received by Lessee or sublessee or TWENTY-FIVE PERCENT (25%) of any commissions or other fees collected for the installation and/or operation of coin-operated vending or service machines, including pay telephones;

(i) TEN PERCENT (10%) of Gross Receipts from the operation of a bar, tavern, cocktail lounge, discotheque, night club or other facilities engaged primarily in the on-premises sale of alcoholic beverages except as provided for in subsection (i);
(j) THREE AND ONE-HALF PERCENT (3 1/2%) of Gross Receipts from the operation of restaurants, restaurant/cocktail lounge combination, coffee shops, beach and theater food facilities, except that Gross Receipts from facilities established and operated as a take-out food operation shall be reported under subsection (s); a “take-out food operation” shall mean a restaurant or other food operation a majority of the Gross Receipts from which are derived from the sale of food or beverages to be consumed off-site;

(k) Intentionally omitted;

(l) Intentionally omitted;

(m) FIFTEEN PERCENT (15%) of Gross Receipts from club dues, initiation fees, and assessments, except that separate assessments for capital improvements may be exempted; provided that to qualify for such an exemption Lessee must comply with the “Criteria for Eligibility for Exemption of Special Assessments from Gross Receipts” issued by the Director;

(n) __________ PERCENT (___ %) [INTENTIONALLY LEFT BLANK] of Gross Receipts or other fees charged from the operation of sightseeing boats, tour boats or water taxis;

(o) Intentionally omitted;

(p) __________ PERCENT (___ %) [INTENTIONALLY LEFT BLANK] of Gross Receipts or other fees charged by authorized boat repair yards, including repair, painting, tugboat, salvage and boat pump-out services and similar activities;

(q) FIVE PERCENT (5%) of Gross Receipts of cover charges or other fees charged for admission to facilities featuring entertainment, excluding movie theaters, whose Gross Receipts shall be reportable under subsection (s);

(r) TWENTY PERCENT (20%) of Gross Receipts from parking fees, except that (1) parking fees or charges, if any, which are collected in conjunction with an activity the Gross Receipts from which are required to be reported in a percentage category higher than twenty percent (20%) shall be included in Percentage Rent at such higher percentage; and (2) valet parking charges, fees and tips shall not be included in Percentage Rent under this subsection, but instead shall be included in Percentage Rent under subsection (f) above;

(s) FIVE PERCENT (5%) of Gross Receipts from the sale of miscellaneous goods and services consistent with the Permitted Uses but not specifically provided for elsewhere in this Section;

(s1) FIVE PERCENT (5%) of the Gross Receipts from the operation of all stores, shops or boutiques selling items at retail; and,

(t) The specific percentages set forth above apply to those Permitted Uses of the Premises which are applicable as of the Effective Date. Where a specific percentage in the foregoing schedule has not been provided, then, concurrent with County or Director’s approval of a specific additional or related use, Director and Lessee shall negotiate in good faith with Lessee to establish the specific percentage to be applied to such usage. Such percentage shall be the Fair Market Rental Value for such particular use. If after good faith
negotiations for a thirty (30) day period the Director and Lessee are unable to agree on such Fair Market Rental Value, the determination of the appropriate percentage applicable to such use shall be submitted to arbitration pursuant to Article 16 of this Lease in the manner prescribed herein for the resolution of disputes concerning Fair Market Rental Value. The percentage rent for the additional or related use as determined pursuant to this subsection (t) shall remain in effect until the next Renegotiation Date.

4.2.2.1 Other Activities. If Director or Lessee determine that a percentage of Gross Receipts is not suitable or applicable for a particular activity not described above, although permitted hereunder, Director and Lessee shall mutually establish a minimum monthly payment to County as payment for the privilege of engaging therein, which shall remain effective until the next Renegotiation Date. Said minimum monthly amount shall be reasonable in accordance with the revenue generated by such activity and shall be included in Percentage Rent, as determined hereunder, in lieu of a percentage of Gross Receipts therefor.

4.2.2.2 Accounting Records and Procedures. Lessee agrees to and shall comply with, and shall cause all of its sublessees, licensees, permittees and concessionaires to agree to and comply with, the recordkeeping and accounting procedures, as well as the inspection and audit rights granted to County, set forth in Article 14 of this Lease.

4.2.2.3 Gross Receipts. Except as herein otherwise provided, the term “Gross Receipts” as used in this Lease means all money, cash receipts, or other things of value, including but not limited to gross charges, sales, rentals, common area maintenance payments, operating expense reimbursements, fees and commissions made or earned by Lessee and/or all its assignees, Sublessees, licensees, permittees or concessionaires, whether collected or accrued from any business, use, occupation or any combination thereof, originating, transacted, or performed in whole or in part, on the Premises, including but not limited to rentals, the rendering or supplying of services and the sale of goods, wares or merchandise.

(1) Except as otherwise set forth herein, there shall be no deduction from Gross Receipts for any overhead or cost or expense of operation, such as, without limitation, salaries, wages, costs of goods, interest, debt amortization, rent credit, collection costs, discounts from credit card operations, insurance and taxes.

(2) Gross Receipts shall not include direct taxes imposed upon the consumer and collected therefrom by Lessee such as, without limitation, retail sales taxes, excise taxes, or related direct taxes paid periodically by Lessee to a governmental agency accompanied by a tax return statement.

(3) Gross Receipts reported by Lessee and its Sublessees, assignees, licensees, Lessees and permittees must include the usual charges for any services, goods, rentals or facilities provided by Lessee or its Sublessees, assignees, licensees, concessionaires or permittees. Bona fide bad debts actually accrued by Lessee for amounts owed by subtenants, assignees, licensees concessionaires or permittees may be deducted from Gross Receipts to the extent that such amounts have been previously reported as Gross Receipts; however, there shall be no deduction for bad debts based on past experience or transfer to a bad debt reserve. Subsequent collection of bad debts
previously not reported as Gross Receipts shall be included in Gross Receipts at the time they are collected.

(4) Gross Receipts shall not include any of the following items:

a. goods returned to suppliers or which are delivered for resale (as opposed to delivery) to another retail location or to a warehouse or to any retailers without profit to Lessee, where such returns or deliveries are made solely for the convenient operation of the business of Lessee or sublessee and not for the purpose of consummating a sale made in, about or from the Premises;

b. an amount equal to the cash refunded or credit allowed on merchandise returned by customers and accepted by Lessee, or the amount of cash refunded or credit allowed thereon in lieu of Lessee’s acceptance thereof, but only to the extent that the sales relating to such merchandise were made in, about or from the Premises; provided that whenever Lessee accepts a credit slip as payment for goods or services, the amount of credit shall be included in Gross Receipts;

c. sales of fixtures, equipment or property which are not Lessee’s stock in trade;

d. receipts from insurance claims other than rental interruption or business interruption insurance;

e. interest earned by Lessee on funds arising from the Premises or the use thereof, deposited or maintained by Lessee in banks or similar financial institutions;

f. the Cost of Lessee’s subtenants’ submetered electricity, provided (1) each subtenant’s obligation to reimburse Lessee for such subtenant’s electrical charges is separate and apart from such tenant’s obligation to pay rent for its occupancy of the Premises; (2) the reimbursed sum is in an amount equal to the Cost of the subtenant’s electricity; and, (3) the receipt is actually credited against the cost of the subtenant’s electricity; For the purpose of the foregoing sentence, the “Cost” of the subtenant’s electricity shall mean the actual costs incurred by Lessee, exclusive of overhead and general and administrative expenses, in paying the portion of the respective utility’s electric bill that is allocable to the subtenant based on such subtenant’s submetered consumption of electricity, and in paying the portion of any third party submeter reading and service charge to each submeter that is actually read and a direct allocation of the submeter service charge to each such submeter that is serviced; County shall have the right to approve all submeters and to challenge the legitimacy or amount of any Cost, and all disputes regarding such County approvals or challenges, if not resolved by the parties within thirty (30) days after notice to Lessee of such disapproval or challenge, shall be resolved by arbitration pursuant to Article 16 of this Lease; notwithstanding any contrary provision of this Paragraph f, Gross Receipts shall include any gross amounts received by Lessee, any Sublessee, licensee, permittee or concessionaire for electricity generated at the Premises; and

g. receipts of the Sublessee or other occupant of a residential apartment unit in connection with the operation by such Sublessee or occupant of an
in-home business in such apartment unit, as long as the primary purpose of the use of such apartment unit is for residential occupancy and such in-home business is an incident to such residential use.

4.2.2.4 Excess Payments Credit. If rent payments actually made by Lessee in a particular Lease Year exceed the total rentals actually due for that year as computed on an annual basis at the end of each Lease Year, Lessee shall be permitted to credit that excess amount ("Excess Percentage Rent Payment") against the succeeding monthly installments of Percentage Rent otherwise due under this subsection 4.2.2 until such time as the entire Excess Percentage Rent Payment has been recouped. If Lessee makes an Excess Percentage Rent Payment in the final Lease Year of the Term, County shall refund such amount to Lessee within thirty (30) days of its discovery and verification of such overpayment.

4.2.2.5 Effect of Sublessee, etc. Doing Business. Except as specifically provided to the contrary in this Lease, where a sublessee, licensee, or permittee is conducting a business or engaged in any use or occupation or any combination thereof on Lessee's leasehold except for those uses or occupations delineated under Item (1) of subsection (c)(1) of subsection 4.2.2, Lessee shall report whichever of the following results in the greater percentage rental: (1) the Gross Receipts of each sublessee under one or more of the appropriate subsections of this Section; or (2) Lessee's receipts from each sublessee under subsection (c) or (c)(1) of this Section.

4.2.2.6 Interest, Etc. Interest, service or late charges collected in conjunction with a transaction, sale or activity of Lessee or Sublessee shall be reported in the same percentage category as the transaction, sale or activity is reported.

4.2.2.7 Percentage Rent Does Not Affect Permitted Uses. It is understood and acknowledged by Lessee that Section 3.1 of this Lease sets forth the Permitted Uses of the Premises by Lessee; thus, the Percentage Rent categories listed in subsection 4.2.2 are not all necessarily applicable to this Lease and are in no way intended to expand the Permitted Uses.

4.2.2.8 Policy Statements. Director, by Policy Statement and with the approval of Lessee, Auditor-Controller and County Counsel may further interpret the definition of gross receipts, with such interpretations to be a guideline in implementing the foregoing subsections of this Lease.

4.2.2.9 Corporate Serviced Units. For purposes of this Lease, "Corporate Serviced Units" shall mean those apartment units which meet all of the following criteria:

1. units have full kitchen facilities and are furnished (furniture to include all or substantially all of the following: sofa, chair, coffee table, end table, lamp, dining table and chairs, bed and mattress/box springs, bedside table, chest or dresser, writer's desk and chair);

2. units are offered with a services/furnishings package (from a single service provider) that includes at least nine of the following: (1) maid service; (2) linens (sheets, pillow cases, towels, bath mat, bedspread, blanket(s), clothes
hangers); (3) dishes and flatware; (4) cookware and cooking utensils; (5) small kitchen appliances in addition to coffee maker and toaster or toaster oven (microwave oven, electric can opener, blender, food processor, etc.); (6) television and VCR; (7) stereo or home theater system; (8) clock radio(s); (9) telephone(s), answering machine, fax machine and computer; (10) housekeeping equipment (vacuum, broom, dust pan, brush, iron, ironing board, etc.); (11) decorator accessories, plants and pictures; (12) special furniture items (roll-away bed, baby crib, baby high chair); (13) connection/disconnection of telephone, cable and utilities available (i.e., tenant orders turn-on through property manager/service provider and does not have to deal directly with telephone company, cable company or utility company).

3. Project amenities include at least three of the following four: (1) exercise facilities (e.g., aerobic equipment (treadmills, stair climbers, stationary bikes)), weight machines and free weights; (2) recreational facilities (pool, tennis courts, basketball courts, etc.); (3) recreational, exercise, general interest classes, programs or activities (aerobics, tennis, swimming, dance, martial arts, cooking, education, computer skills); and (4) conference/meeting room/party facilities; and project includes at least 2,000 square feet of space devoted to retail/service providers (convenience mart, gift shop, sports pro shop, restaurant/cafe/deli, dry cleaners, car rental, video rental, etc.).

4. At least eighty-five percent (85%) of the Corporate Serviced Units are rented with lease terms of six (6) months (or 182 days) or less and average tenant occupancy for all Corporate Serviced Units is ninety (90) days or less during each Accounting Year; and

5. Units are offered through a national reservations system which markets on a national or regional basis or has a national or regional sales staff and corporate (business) customers account for at least 50% of the Corporate Serviced Units leases.

4.2.2.10 Home Services. For purposes of this Lease, “Home Services” shall mean the following services/furnishings and substantially similar services/furnishings which are offered as a package (although the tenant is not required to take any or all of the services/furnishings) by a single service provider: (1) maid service; (2) linens (sheets, pillow cases, towels, bath mat, bedspread, blanket(s), clothes hangers); (3) dishes, flatware; (4) cookware and cooking utensils; (5) small kitchen appliances in addition to coffee maker and toaster or toaster oven (microwave oven, electric can opener, blender, food processor, etc.); (6) television and VCR; (7) stereo or home theater system; (8) clock radio(s); (9) telephone(s), answering machine, fax machine and computer; (10) housekeeping equipment (vacuum, broom, dust pan, brush, iron, ironing board, etc.); (11) decorator accessories, plants and pictures; (12) special furniture items (roll-away bed, baby crib, baby high chair); (13) connection/disconnection of telephone, cable and utilities available (i.e., tenant orders turn-on through property manager/service provider and does not have to deal directly with telephone company, cable company or utility company). “Home Services” shall expressly exclude furniture and furnishings that are typically included with a furnished apartment rental, such as a sofa, chair, coffee table, end table, lamp, dining table and chairs, bed and mattress/box springs, bedside table, chest or dresser, and writer’s desk and chair.
4.2.3 **Adjustments to Annual Minimum Rent.** As of the third (3rd), sixth (6th) and ninth (9th) anniversaries of the Effective Date until the first Renegotiation Date, and thereafter as of each third (3rd), sixth (6th) and ninth (9th) anniversaries of each Renegotiation Date (each an “Adjustment Date” and collectively the “Adjustment Dates”), the Annual Minimum Rent shall be adjusted as provided in this subsection 4.2.3. The Annual Minimum Rent shall be adjusted as of each Adjustment Date to the amount which equals seventy five percent (75%) of the average of the total annual rent (i.e., the total Annual Minimum Rent and Percentage Rent), payable by Lessee to County under Section 4.2 of this Lease during the thirty six (36) month period immediately preceding the Adjustment Date.

4.3 **Extension Fee/Overpayment Credit.** In consideration of the extension of the Term as provided herein, Lessee shall be required to pay to County the Extension Fee described in Section 4.2 of the Option Agreement. Concurrently herewith, Lessee has paid to County the entire remaining unpaid amount of the Extension Fee as offset by the Overpayment Credit to which Lessee is entitled under Section 4.3 of the Option Agreement. Lessee acknowledges receipt in full of the Overpayment Credit in the form of such offset. County reserves the right to audit Lessee’s allocation of apartment rental receipts between Corporate Serviced Units and non-Corporate Serviced Units for those portions of the Base Credit Period described in the Option Agreement that have not yet been audited by County. As provided in the Option Agreement, if a subsequent audit by County results in a reduction in the amount of the Overpayment Credit to which Lessee is entitled under the Option Agreement, then the excess amount of the Overpayment Credit taken by Lessee as a credit against the Extension Fee shall be repaid to County as additional rent under this Lease after the recomputed Overpayment Credit is established. In no event shall there be any increase in the Base Credit described in the Option Agreement as a result of any such audit.

4.4 **Renegotiation of Annual Minimum and Percentage Rents.** Effective on the tenth (10th) anniversary of the Effective Date, and each subsequent tenth (10th) anniversary thereafter, except any tenth (10th) anniversary falling within the last two (2) years of the Term (each a “Renegotiation Date” and collectively, the “Renegotiation Dates”), the Annual Minimum Rent and Percentage Rent shall be readjusted to the Fair Market Rental Value (as defined below) of the Premises.

4.4.1 **Fair Market Rental Value.** As used herein, “Fair Market Rental Value” shall mean, as of each Renegotiation Date, the fair market rent (with annual minimum rent), expressed as respective percentages of Gross Receipts in accordance with the categories enumerated in subsection 4.2.2, for the Premises (with any and all utility and other infrastructure improvements existing thereon deemed to be owned by County as of the Renegotiation Date), on an absolute net basis, taking into account the Permitted Uses, all relevant and applicable County policies and all of the other terms, conditions and covenants contained in the Lease, if the Premises were exposed for lease for a reasonable time on an open and competitive market to a lessee for the purpose of the Permitted Uses, where County and the respective tenant are dealing at arms length and neither is under abnormal pressure to consummate the transaction.

4.4.2 **Renegotiation Period.** Not more than one (1) year nor less than nine (9) months prior to the Renegotiation Date, Lessee shall deliver to County written notice setting forth Lessee’s determination of the Fair Market Rental Value of the Premises. Lessee’s notice shall include a list of comparable properties and/or complete copies of any appraisals.
which it has utilized in its determination, together with such other information regarding such comparable properties or the Premises as Lessee deems relevant or as may be reasonably requested by County, to the extent available to Lessee. Within one hundred twenty (120) days after receipt of Lessee’s notice, if County disagrees with Lessee’s determination, County shall deliver to Lessee written notice of such disagreement, together with County’s determination of Fair Market Rental Value and a list of comparable properties and/or complete copies of any appraisals which it has utilized in its determination, together with such other information regarding such comparable properties or the Premises as County deems relevant or as may be reasonably requested by Lessee, to the extent available to County. If County fails to deliver to Lessee notice of its disagreement within the aforementioned period and such failure continues for fifteen (15) days after receipt of written notice from Lessee, then Lessee’s determination of Fair Market Rental Value shall be binding on County as of the Renegotiation Date; provided, however, that Lessee’s notice to County shall conspicuously state in bold faced type that such determination of Fair Market Rental Value shall be binding on County unless County delivers notice of its disagreement within such fifteen (15) day period.

If Lessee fails to deliver the notice described in the first sentence of this subsection, setting forth Lessee’s determination of Fair Market Rental Value, and such failure continues for fifteen (15) days after receipt of written notice from County, then County shall submit its determination of Fair Market Rental Value to Lessee within one hundred twenty (120) days thereafter (which determination shall be accompanied by the comparable property and appraisal information described above), and Lessee shall have thirty (30) days to deliver to County written notice of Lessee’s agreement or disagreement with County’s determination. If Lessee fails to deliver notice of such disagreement, then County’s determination of Fair Market Rental Value shall be binding on Lessee as of the Renegotiation Date.

4.4.3 Negotiation of Fair Market Rental Value. If County (or Lessee, as the case may be) does not notify Lessee (or County, as the case may be) of its disagreement as provided in subsection 4.4.2, County and Lessee shall have sixty (60) days from the end of the applicable response period in which to agree upon the Fair Market Rental Value for the Premises. County and Lessee shall negotiate in good faith during said sixty (60) day period. If the parties do so agree, they shall promptly execute an amendment to this Lease setting forth the Fair Market Rental Value so jointly determined, to be effective upon the Renegotiation Date. Director shall be authorized to execute any such amendment on behalf of County. During the period of negotiation, Lessee shall abide by all of the terms and conditions of this Lease, including but not limited to the obligation to pay to County Annual Minimum Rent and Percentage Rent at the level existing for the last year of the ten (10) year period then completed.

4.4.4 Arbitration. If County and Lessee fail to reach agreement during the sixty (60) day period set forth in subsection 4.4.3, then, unless the parties agree otherwise, the Fair Market Rental Value of the Premises shall be determined by arbitration as set forth in Article 16 of this Lease and the parties shall execute an amendment to this Lease setting forth the Fair Market Rental Value as determined by arbitration. In order to determine the Fair Market Rental Value of the Premises, the arbitrator shall take into consideration all of the terms, conditions and covenants of this Lease. During the period of arbitration, County and Lessee shall abide by all of the terms and conditions of this Lease, including but not limited to

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Lessee’s obligation to pay to County Annual Minimum Rent and Percentage Rent at then existing levels.

4.4.5 Retroactivity. No delay in the submittal of Fair Market Rental Value determinations or in the resolution of any disagreement as to Fair Market Rental Value shall affect the adjustment of the Annual Minimum Rent and Percentage Rent as of each Renegotiation Date, and any resolution of such Fair Market Rental Value after the Renegotiation Date shall be retroactive to the Renegotiation Date. In the event that, pursuant to subsections 4.4.3 or 4.4.4 hereof, the parties execute an amendment to this Lease setting forth the Fair Market Rental Value and the Annual Minimum Rent, such amendment, if executed prior to the Renegotiation Date, shall be effective as of the Renegotiation Date; if executed after the Renegotiation Date, such amendment shall be retroactive to the Renegotiation Date. In the event that such amendment is executed after the Renegotiation Date, then, within thirty (30) days after such execution, Lessee shall pay to County, or County shall at its election pay or credit to Lessee, the difference, if any, between (a) such Fair Market Rental Value for the Premises and (b) the actual Annual Minimum Rent and Percentage Rent paid by Lessee to County, for the period of time from the Renegotiation Date until the date of such payment. Lessee (with respect to overpayments) or County (with respect to underpayments) shall further be entitled to interest on each portion of such payment from each date on which the applicable rental payments were payable under this Lease to the date paid or credited, whichever is applicable, at the following rates:

1. The interest rate applicable to the first six (6) months following the Renegotiation Date shall be equal to the average daily rate for the non-restricted funds held and invested by the Treasurer and Tax Collector of Los Angeles County during that period, computed by the Auditor-Controller (“County Pool Rate”); and,

2. The interest rate applicable to any period of time in excess of six (6) months following the Renegotiation Date shall be the average prime rate of interest published in the Wall Street Journal (the “Prime Rate”) plus one percent (1%) for the period between the date which is six (6) months after the Renegotiation Date and the date of payment.

4.5 Payment and Late Fees. Monthly Minimum Rent shall be paid by Lessee in advance. Payments of Minimum Monthly Rent shall be received by County on or before the first day of each calendar month of the Term. Percentage Rent shall be paid by Lessee in arrears. Percentage Rent due, if any, for a given month of the Term shall be received by County on or before the fifteenth day of the calendar month following such month, calculated as follows: the Lessee shall calculate the total Percentage Rent owed to County for the relevant month of the Term; it shall deduct from said amount the total Monthly Minimum Rent paid to County for that same month; if the resulting amount is a positive number, Lessee shall pay that amount to County; if that amount is a negative number, no Percentage Rent shall be paid to County for that month but nevertheless the Monthly Minimum Rent shall be paid every month of the Term hereof. Percentage Rent payments shall be reconciled annually at the end of each Lease Year, and shall be calculated on an annual basis with any excess Percentage Rent Payments credited as provided in subsection 4.2.2.4. Payment may be made by check or draft issued and payable to The County of Los Angeles, and mailed or otherwise delivered to the Department of Beaches and Harbors, Los Angeles County, 13483 Fiji Way, Trailer No. 2, Marina del Rey, California 90292, or such other address as may be provided to Lessee by County. Lessee acknowledges that County shall have no obligation to issue monthly rental

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statements, invoices or other demands for payment, and that the rental payments required herein shall be payable notwithstanding the fact that Lessee has received no such statement, invoice or demand. In the event any payment is not received by County by the date due, Lessee acknowledges that County will experience additional management, administrative and other costs that are impracticable or extremely difficult to determine. Therefore, a fee ("Late Fee") of six percent (6%) of the unpaid amount shall be added to any amount unpaid when due and payable; provided that not more than once per Accounting Year, a Late Fee shall not be charged to Lessee if Lessee pays the unpaid amount within one (1) business day of its receipt of notice from County that the unpaid amount was not paid when due. In addition to any Late Fee, any unpaid rent due shall additionally bear interest at an annual rate equal to the Prime Rate plus three percent (3%), computed from the date when such amounts were due and payable, compounded monthly, until paid. Lessee acknowledges that such Late Fee and interest shall be applicable to all identified monetary deficiencies under this Lease, whether identified by audit or otherwise, and that interest on such amounts shall accrue from and after the date when such amounts were due and payable as provided herein (as opposed to the date when such deficiencies are identified by County).

4.6 Changes of Ownership and Financing Events. Except as otherwise provided in this Section 4.6, each time Lessee proposes either (a) a Change of Ownership or (b) a Financing Event, County shall be paid (1) an Administrative Charge equal to the Actual Cost incurred by County in connection with its review and processing of said Change of Ownership or Financing Event ("Administrative Charge") and (2) a Net Proceeds Share, in the event County approves such proposed Change of Ownership or Financing Event and such transaction is consummated. "Net Proceeds Share" shall mean the applicable amount determined pursuant to Section 4.8 of this Lease. Changes of Ownership and Financing Events are further subject to County approval as provided in Articles 12 and 13 of this Lease.

4.6.1 Change of Ownership. "Change of Ownership" shall mean (a) any transfer by Lessee of a five percent (5%) or greater direct ownership interest in this Lease or in any Major Sublease, (b) Lessee's granting of a Major Sublease or (c) any transaction or series of related transactions not described in clauses (a) or (b) of this subsection 4.6.1 which constitute an Aggregate Transfer of fifty percent (50%) or more of the beneficial interests in, or a Change of Control of, Lessee, this Lease or a Major Sublease. For the purposes of this Lease, "Change of Control" shall refer to a transaction whereby the transferee acquires a beneficial interest in Lessee, this Lease or a Major Sublease which brings its cumulative beneficial interest in Lessee, this Lease or a Major Sublease, as appropriate, to over fifty percent (50%).

4.6.2 Excluded Transfers. Notwithstanding anything to the contrary contained in this Lease, Changes of Ownership resulting from the following transfers ("Excluded Transfers") shall not be deemed to create an obligation to pay County a Net Proceeds Share or an Administrative Charge:

4.6.2.1 a transfer by a partner of Lessee, as of the Effective Date, to any other partner of Lessee as of the Effective Date, or to a controlling person of any partner of Lessee as of the Effective Date;

4.6.2.2 a transfer to a spouse in connection with a property settlement agreement or decree of dissolution of marriage or legal separation, as long as such
transfer does not result in a Change in Control of Lessee or a change in the managing general partner of Lessee;

4.6.2.3 a transfer for estate planning purposes of ownership interests in Lessee or in constituent entities of Lessee to a member of the immediate family of the transferor (which for purposes of this Lease shall be limited to the transferor’s spouse, children, parents, siblings and grandchildren), or to a trust for the benefit of a member of the immediate family of the transferor, whether such transfer is the result of gift, devise, intestate succession or operation of law;

4.6.2.4 a transfer of a beneficial interest resulting from public trading in the stock or securities of an entity, where such entity is a corporation whose stock is traded publicly on a national stock exchange or is traded in the over-the-counter market and whose price is regularly quoted in recognized national quotation services; provided, however, that this exclusion shall not apply to a single transaction or series of related transactions whereby fifty percent (50%) or more of the beneficial interests in such entity are transferred, or which otherwise effects a Change of Control in such entity;

4.6.2.5 a mere change in the form, method or status of ownership (other than a transfer of beneficial interests between or among individuals and/or entities controlled by such individuals); provided that this exclusion shall not apply to a single transaction or series of related transactions whereby an Aggregate Transfer of fifty percent (50%) or more of the beneficial interests in Lessee, this Lease or a Major Sublease has occurred; or

4.6.2.6 any transfer resulting from a Condemnation by County.

4.6.3 Aggregate Transfer. "Aggregate Transfer" shall refer to the total percentage of the shares of stock, partnership interests, membership interests or any other equity interests (which constitute beneficial interests in Lessee, this Lease or a Major Sublease, as appropriate) transferred in all transactions (other than those enumerated in subsection 4.6.2, and without double counting of successive transfers of the same interest) occurring since the later of (a) the Effective Date, (b) the execution by Lessee of this Lease or a Major Sublease, as appropriate, or (c) the most recent Change of Ownership upon which an Administrative Charge was paid to County.

4.6.4 Beneficial Interest. As used in this Lease, the "beneficial interest," "beneficial interest in this Lease," or "beneficial interest in a Major Sublease" shall refer to the interests of the natural persons who comprise the ultimate owner or owners of Lessee’s interest in this Lease or a Major Sublease, or a Major Sublessee’s interest in a Major Sublease, whichever is appropriate, regardless of the form of such ownership and regardless of whether such interests are owned through corporations, trusts, partnerships, limited liability companies or layers thereof; provided, however, that if an entity with an ownership interest in the Lease or a Major Sublease is a partnership, corporation or limited liability entity (a) whose beneficial interest in this Lease or a Major Sublease, whichever is appropriate, comprises less than fifteen percent (15%) of its total assets or (b) in which no ten (10) shareholders, partners or members together own more than thirty percent (30%) of the partnership interests, shares, membership interests or other equity interests in the entity, then for the purposes of Sections 4.6 through 4.8 hereof, the entity itself shall be deemed to be the ultimate owner of the
beneficial interest in this Lease or a Major Sublease, as appropriate, and the owners of such entity shall not be treated as the ultimate owners of such beneficial interest.

4.6.4.1 Interests Held By Entities. Except as otherwise provided herein, an interest in Lessee, this Lease or a Major Sublease held or owned by a partnership, limited liability company, corporation or other entity shall be treated as owned by the partners, members, shareholders or other equity holders of such entity in proportion to their respective equity interests, determined by reference to the relative values of the interests of all partners, members, shareholders or other equity holders in such entity. Where more than one layer of entities exists between Lessee or a Major Sublessee, as appropriate, and the ultimate owners, then the foregoing sentence shall be applied successively to each entity in order to determine the ownership of the beneficial interests in Lessee, this Lease or a Major Sublease, as appropriate, and any transfers thereof.

4.6.4.2 Ownership of Multiple Assets. The proceeds of any event constituting or giving rise to a Change of Ownership shall be apportioned to this Lease or a Major Sublease, whichever is appropriate, and to any other assets transferred in the same transaction in proportion to the relative fair market values of the respective assets transferred. The Net Proceeds Share shall be calculated only by reference to the amount of such proceeds apportioned to this Lease, a Major Sublease or the beneficial interests therein, whichever is appropriate.

4.7 Calculation and Payment. A deposit of Fifteen Thousand and 00/100 Dollars ($15,000) toward the Administrative Charge shall be due and payable upon Lessee’s notification to County of the proposed Change of Ownership or Financing Event and request for County’s approval thereof. If the transaction is approved, the balance of the Administrative Charge, if any, and the Net Proceeds Share shall be due and payable concurrently with the consummation of the transaction constituting the Change of Ownership or Financing Event giving rise to the obligation to pay such fee, regardless of whether or not money is transferred by the parties in connection with such consummation. If County disapproves the proposed transaction then, within thirty (30) days after notice of its disapproval, County shall deliver to Lessee a written notice setting forth the Administrative Charge, together with a refund of the amount, if any, of the deposit in excess of the Administrative Charge otherwise allowable under Section 4.6. In the event that the Administrative Charge exceeds the deposit, then Lessee shall pay County the balance of the Administrative Charge otherwise allowable under Section 4.6. within thirty (30) days after receipt of the notice from County setting forth the Administrative Charge and any supporting documentation reasonably requested by Lessee within five (5) business days after its receipt of such notice. Together with its request for County approval of the proposed transaction, Lessee, a Major Sublessee or the holder of a beneficial interest in this Lease or a Major Sublease, whichever is appropriate, shall present to County its calculation of the Net Proceeds Share (if any) anticipated to be derived therefrom, which shall include the adjustment to Improvement Costs, if any, which may result from the payment of such Net Proceeds Share ("Calculation Notice"). Each Calculation Notice shall contain such detail as may be reasonably requested by County to verify the calculation of the Net Proceeds Share. Within thirty (30) days after the receipt of the Calculation Notice and all information or data reasonably necessary for County to verify the calculations within the Calculation Notice, County shall notify the party giving the Calculation Notice as to County’s agreement or disagreement with the amount of the Net Proceeds Share set forth therein or the related adjustment of Improvement Costs, if any. Failure of County to approve the Calculation Notice in writing within such thirty (30) day period
shall be deemed to constitute County’s disapproval thereof. Failing mutual agreement within thirty (30) days after the expiration of said thirty (30) day period, the dispute shall be resolved by arbitration as set forth in Article 16 of this Lease in the manner prescribed herein for the resolution of disputes concerning Fair Market Rental Value. In the event County approves a Change of Ownership or Financing Event but a dispute exists as to the Net Proceeds Share in respect thereof or the related adjustment, if any, in Improvement Costs, then the transaction may be consummated after County has disapproved Lessee’s Calculation Notice; provided, however, that (i) Lessee shall remit to County as otherwise required hereunder the undisputed portion of the Net Proceeds Share and (ii) Lessee shall deposit the disputed portion of the Net Proceeds Share into an interest bearing escrow account at the closing of the transaction, which portion shall be distributed in accordance with the arbitration of the dispute pursuant to Article 16 of this Lease, in the manner prescribed herein for the resolution of disputes concerning Fair Market Rental Value.

4.7.1 Transfer of Less Than Entire Interest. Where a Change of Ownership has occurred by reason of the transfer of less than all of an owner’s beneficial interest in Lessee, this Lease or a Major Sublease, the Net Proceeds Share shall be due and payable with respect to those portions of such beneficial interest that have been acquired by the transferee since the latest of (a) the Effective Date, (b) the date of the execution of this Lease (or a Major Sublease) by Lessee, (c) the most recent event creating Lessee’s obligation to pay a Net Proceeds Share (including without limitation an approval by County of a transfer at a price which falls below the threshold for paying a Net Proceeds Share) with respect to this Lease (or a Major Sublease), or (d) the date which is twelve (12) months prior to the transfer which constitutes the Change of Ownership.

4.7.2 Purchase Money Notes/Stock Consideration. If the transferor of an interest accepts a note made by the transferee of such interest in payment of all or a portion of the acquisition cost (a “Purchase Money Note”), the Net Proceeds Share shall be payable by Lessee in cash at the time of the consummation of the transaction notwithstanding the deferred nature of the consideration. In such case, the face amount of the Purchase Money Note shall be treated as sale proceeds; provided that if the interest rate on such Purchase Money Note is in excess of a market rate, then the value of such note shall be increased to reflect such above-market rate. If the transferor of an interest accepts stock or other non-cash consideration in payment of all or a portion of the acquisition cost, the fair market value of the stock or other non-cash consideration shall be treated as having been received in the form of cash.

4.7.3 Obligation to Pay Net Proceeds Share and Administrative Charge. With respect to a Change of Ownership giving rise to the Administrative Charge and Net Proceeds Share, the obligation to pay the Administrative Charge and Net Proceeds Share shall be the joint and several obligation of the transferor and transferee. In the event that the Administrative Charge or Net Proceeds Share is not paid when due with respect to the beneficial interest in this Lease, then County shall have the remedies set forth in Section 13.3 hereof.

4.7.4 No Administrative Charge. Notwithstanding any contrary provision hereof, no Administrative Charge shall be payable by Lessee in connection with a Condemnation.

4.8 Net Proceeds Share. In the event of a Change of Ownership, the Net Proceeds Share shall be a sum equal to the greater of (a) five percent (5%) of the gross sale or transfer proceeds or
other consideration given for the interests transferred (but in the case of a transfer to a party affiliated with or otherwise related to the transferor, such consideration shall in no event be deemed to be less than the fair value of the interests transferred), or (b) twenty percent (20%) of the Net Transfer Proceeds from such transfer. With respect to a Financing Event, the Net Proceeds Share (if any) shall be equal to twenty percent (20%) of the Net Refinancing Proceeds from such Financing Event. Notwithstanding any contrary provision of this Section 4.8, in the calculation of Net Transfer Proceeds and Net Refinancing Proceeds derived from a Change of Ownership or Financing Event, as applicable, pursuant to the remaining provisions of Section 4.8 below, there shall be no duplication of any amounts to be subtracted from the total consideration received in connection with such transaction even if a particular amount qualifies for subtraction under more than one category.

4.8.1 Transaction by Original Lessee. In the case of a transfer by Lessee (but not a successor or assignee of Lessee) constituting a Change of Ownership, “Net Transfer Proceeds” shall mean the total cash and other consideration received (but in the case of a transfer to a party affiliated with or otherwise related to the transferor, such consideration shall in no event be deemed to be less than the fair value of the interests transferred), less the following costs with respect to Lessee (but not its successors or assignees):

4.8.1.1 Seventy Eight Million Two Hundred Thousand Dollars ($78,200,000) (the “Base Value”), plus the final actual out-of-pocket construction, architectural, design, planning, permitting and engineering, title and escrow, legal and other transaction costs paid by Lessee in connection with the construction of physical Improvements or Alterations to the Premises in accordance with Article 5 herein, including future capital redevelopment and rehabilitation work, but excluding the Redevelopment Work and excluding periodic maintenance and repair (“Improvement Costs”). As a condition to qualification as Improvement Costs, all of the foregoing costs incurred by Lessee during a calendar year shall be submitted to Director within ninety (90) days following the end of such calendar year, accompanied by back-up invoices or other evidence of payment reasonably acceptable to Director, along with a certification from Lessee that such costs were incurred.

4.8.1.2 Commissions, title and escrow costs, documentary transfer taxes, reasonable attorneys’ fees, prepayment penalties and other bona fide closing costs actually paid to third parties and documented to the satisfaction of County, which costs were directly attributable to the consummation of the particular transaction giving rise to the obligation to pay County a Net Proceeds Share (collectively, “Documented Transaction Costs”).

4.8.1.3 That portion of the principal amount of any Financing Event after the Effective Date that constituted Net Refinancing Proceeds on which Lessee paid County a Net Proceeds Share.

4.8.2 Transfer by Lessee’s Successor. In the case of a transfer by a Lessee other than the original Lessee (except to the extent there has been a Change in Control and the original Lessee remains the Lessee), “Net Transfer Proceeds” shall mean the total cash and other consideration received by that successor Lessee (but in the case of a transfer to a party affiliated with or otherwise related to the transferor, such consideration shall in no event be deemed to be less than the fair value of the interests transferred), minus the following costs with respect to such successor Lessee:
4.8.2.1 The greatest of (a) the sum of the Base Value plus Improvement Costs incurred subsequent to the effective date of the appraisal establishing the Base Value, but prior to the acquisition of the leasehold interest by such successor, (b) the purchase price such successor paid to Lessee or such successor's seller for the interest acquired or (c) the principal amount of any subsequent refinancing by Lessee in connection with which County was paid a Net Proceeds Share;

4.8.2.2 Improvement Costs actually paid by such successor Lessee after such successor Lessee’s acquisition of its leasehold interest in the Premises, and not subsequently repaid with Net Refinancing Proceeds, provided that such costs have been submitted to and approved by County to the extent provided in subsection 4.8.1.1 with respect to Lessee; and,

4.8.2.3 Documented Transaction Costs with respect to the transfer of the interest by the successor.

4.8.3 Transfers of Major Sublessee's Interest. With respect to any Change of Ownership described in subsection 4.6.1(b), subsections 4.8.1 and 4.8.2 shall apply, except that any rents or other amounts received by Lessee from the Major Sublessee and with respect to which a percentage is passed through to County under any provision of this Lease (other than payment of Net Proceeds Share) shall be disregarded in the computation of Net Transfer Proceeds.

4.8.4 Other Transfers. With respect to any Change of Ownership not described in subsections 4.8.1 through 4.8.3 (i.e., a transfer of an interest in an entity holding a direct or indirect ownership interest in this Lease or in a Major Sublease), subsections 4.8.1 and 4.8.2 shall apply to such Change of Ownership, except that in lieu of deducting the amounts described in subsections 4.8.1.1 or 4.8.2.1 and 4.8.2.2, as applicable, in determining Net Transfer Proceeds, the cost to the transferor of the interest being transferred (which shall in no event be deemed to be less than the fair market value of the interest based on the amounts described in subsection 4.8.1.1 or 4.8.2.1 and 4.8.2.2, as applicable) shall be deducted. Furthermore, in the event that any such Change of Ownership produces a Net Proceeds Share, the then existing Improvement Costs shall be increased by an appropriate amount to reflect the gross amount on which such Net Proceeds Share was calculated, as if it had been realized by Lessee upon a transfer of a comparable interest in this Lease or in a Major Sublease, as appropriate.

4.8.5 Net Refinancing Proceeds. “Net Refinancing Proceeds” shall mean the gross principal amount of any Financing Event after the Effective Date, minus (i) the greatest of (a) the Base Value, (b) the principal amount as of the Effective Date of Lessee’s existing financing as of the Effective Date (as refinanced concurrent or substantially concurrent with the execution and delivery of this Lease), or (c) the original principal amount of any subsequent refinancing by Lessee in connection with which County was paid a Net Proceeds Share (including any portion of the proceeds of such refinancing that were used for Improvement Costs), (ii) any portion of the proceeds of the Financing Event that shall be used for Improvement Costs, (iii) other Improvement Costs incurred by Lessee and not paid for or repaid with the proceeds of any Financing Event, and (iv) Documented Transaction Costs with respect to such Financing Event and Documented Transaction Costs with respect to any previous refinancing to the extent such previous refinancing did not produce sufficient
Net Refinancing Proceeds against which such Documented Transaction Costs could be offset. Notwithstanding the foregoing, Net Refinancing Proceeds shall not include: (1) the portion of loan proceeds applied by Lessee to repayment of the cost of qualified work performed in accordance with the Renovation Plan pursuant to Section 5.1 of this Lease after May 1, 1999 and prior to the closing of the loan; and (2) the portion of loan proceeds applied to repayment of loans previously made by R&B Realty Group to Lessee. The exclusion from Net Refinancing Proceeds of loan proceeds described in the immediately preceding sentence shall in no event exceed an aggregate amount of $1,505,000 and shall be subject to the review and confirmation by Director that such amounts were invested in the project and qualify for exclusion.

4.8.6 Transfers to which Sections 4.6 through 4.8 Apply. The provisions of Sections 4.6 through 4.8 hereof shall apply to all transfers of beneficial interests in this Lease or a Major Sublease which constitute a Change of Ownership, unless such transfers are otherwise excluded pursuant to this Lease. Furthermore, the provisions of Sections 4.6 through 4.8 of this Lease, and the principles set forth therein, shall apply to any transfer or series of transfers which County can demonstrate was primarily structured for the purpose of avoiding the obligation to pay Net Proceeds Share set forth in Sections 4.6 through 4.8 of this Lease and which, viewed together, would otherwise constitute a Change of Ownership.

4.8.7 Payment. Net Proceeds Share shall be due and payable concurrently with the transfer giving rise to the obligation to pay such fees and shall be the joint and several obligation of the transferee and transferor. Net Proceeds Share not paid when due shall be subject to a late fee of six percent (6%) of the amount due, together with interest on such Net Proceeds Share and late fee at the Applicable Rate from the date due until paid; provided that in the case of a dispute as to the correct amount of the Net Proceeds Share there shall be no late fee payable as long as Lessee timely pays to County the undisputed portion of the Net Proceeds Share and deposits the disputed portion thereof in an interest bearing escrow account at the closing of the transaction. In the event that the proceeds of the transaction giving rise to the obligation to pay Net Proceeds Share are comprised, in whole or in part, of assets other than cash, then the cash payment of the Net Proceeds Share shall reflect the fair market value of such non-cash assets as of the date of the Change of Ownership, which shall be set forth in the Calculation Notice. Notwithstanding the foregoing, in the case of a Change of Ownership described in subsection 4.6.1(b), the Net Proceeds Share shall be payable to County as and when the Net Transfer Proceeds are received, with the Net Proceeds Share being equitably apportioned to the payments derived by Lessee from said Change of Ownership (other than any payments passed through to County under this Lease).

4.8.8 Shareholder, Partner, Member, Trustee and Beneficiary List. Prior to the Effective Date, prior to each subsequent Change of Ownership or Financing Event and upon the request of County (which requests shall be no more frequent than once per year), Lessee shall provide County with an updated schedule listing the names and mailing addresses of (i) all shareholders, partners, members and other holders of equity or beneficial interests in Lessee, this Lease or the Major Sublessee under any Major Sublease, and (ii) all shareholders, partners, members and other holders of equity or beneficial interests in any of the constituent shareholders, partners, members or other holders of equity or beneficial interests in Lessee or any Major Sublessee under any Major Sublease, if such interest exceeds a five percent (5%) or greater beneficial interest in Lessee, its first tier constituent shareholders, partners, members or other interest holders, as applicable, or the Major
Sublessee under a Major Sublease. In the event that such shareholder, partner, member or other interest holder is a trust, Lessee shall include in such schedule the name and mailing address of each trustee of said trust, together with the names and mailing addresses of each beneficiary of said trust with greater than a five percent (5%) actuarial interest in distributions from, or the corpus of, said trust; provided, however, that to the extent that Lessee is prevented by Applicable Laws from obtaining such information regarding the beneficiaries of said trust(s), Lessee shall have complied with this provision if Lessee uses its best efforts to obtain such information voluntarily and provides County with the opportunity to review any such information so obtained. Lessee agrees to use its best efforts to provide County with any additional information reasonably requested by County in order to determine the identities of the holders of five percent (5%) or greater beneficial interests in Lessee or its constituent shareholders, partners, members or other interest holders, this Lease or a Major Sublease.

5. REDEVELOPMENT WORK; ALTERATIONS.

5.1 Redevelopment Work. Following the Effective Date Lessee shall continue the renovation of all existing apartment units, building facades, interior common areas (including, without limitation hallways and lobbies), exterior common areas (including, without limitation, all hardscape, pool deck areas, walkways, parking areas and other exterior common areas), and landscaping on and about the Premises in accordance with the Renovation Plan attached to this Lease as Exhibit B (the "Renovation Plan"). The renovation work described in the immediately preceding sentence is referred to herein as the "Redevelopment Work." The Redevelopment Work shall also include the replacement of all windows and sliding glass doors. There shall be no material changes, modifications or exceptions to the Renovation Plan, except as expressly approved in advance in writing by the Director. The design, layout, construction materials, landscaping, hardscaping and other improvement specifications pertaining to the Redevelopment Work shall be subject to County’s approval as set forth in this Section 5, and shall be subject to the receipt by Lessee of all required governmental (including, without limitation, County, Coastal Commission and Design Control Board) planning and entitlement approvals. Lessee shall be solely responsible for all costs and expenses incurred in connection with the design, entitlement and construction of the Redevelopment Work. Lessee shall expend not less than $9,200,000 (plus the cost of the window and sliding glass door replacements) for the cost of the Redevelopment Work (the "Required Investment"), which expenditures shall be subject to verification and reasonable approval by County. Lessee shall receive credit against the Required Investment for costs incurred for renovation work performed by Lessee in accordance with the Renovation Plan on or after May 1, 1999 (subject to demonstration by Lessee and verification by County of the amount and qualification of such costs as satisfying Renovation Plan requirements). Lessee shall comply with all time deadlines and schedules described in this Section 5 relating to the completion of the design and construction of the Redevelopment Work. Lessee’s failure to do so shall, if not cured within the applicable cure period set forth in subsection 13.1.2, constitute an Event of Default. Lessee shall perform the construction of the Redevelopment Work on a phased basis in accordance with the construction schedule set forth as a part of the Renovation Plan. All of the Redevelopment Work shall be substantially completed in accordance with the Final Redevelopment Work Plans and Specifications on or before that date (the "Required Renovation Completion Date") which is three (3) years following the date of Lessee’s exercise of the Option pursuant to the Option Agreement; provided, however, that the replacement of the concrete walkways shall not be required to be completed until the fifth (5th) anniversary of the Effective Date and the window and sliding glass door replacements shall not be required to be completed until December 31, 2013. Notwithstanding the foregoing, if Lessee shall be delayed in
the completion of the Redevelopment Work by the Required Renovation Completion Date due to the occurrence of a casualty that causes substantial damage to the Improvements, then the Required Renovation Completion Date shall be extended by the period of delay in the completion of the Redevelopment Work resulting from such casualty; provided, however, that for purposes of the determination of the length of any such extension, no such period of delay shall be considered to have commenced until Lessee has provided written notice to County of the occurrence of the casualty. Lessee acknowledges that the principal inducement to County to enter into this Amended and Restated Lease Agreement and to extend the Term as provided herein is the timely completion of the Redevelopment Work. In the event that Lessee fails to substantially complete on or before the Required Renovation Completion Date that portion of the Redevelopment Work required to be completed by such date, and fails to cure such breach within thirty (30) days after written notice from County, then in addition to any other right or remedy which County may have in connection therewith, this Lease shall be automatically amended such that the terms and provisions of this Lease revert back to the terms and provisions of the Existing Lease (including, without limitation, the Existing Expiration Date), as modified by the “Non-Exercise Amendment” described in the Option Agreement (the “Reversion Amendment”); provided, however, if as of the Required Renovation Completion Date, ninety percent (90%) of the Redevelopment Work required to be completed by the Required Renovation Completion Date is in fact completed (with such ninety percent (90%) completion standard to be calculated on a work cost basis), and if as a result of Force Majeure Lessee cannot reasonably complete the remaining required work within thirty (30) days following the Required Renovation Completion Date, then such thirty (30) day period shall be extended by the number of days that Lessee continues to be prevented from completing the remaining required work as a result of Force Majeure. No period of delay resulting from Force Majeure shall commence until after Lessee shall have given County written notice of the circumstances constituting such Force Majeure delay.

5.2 Application of Article 5 to Redevelopment Work. The remaining sections of this Article 5 pertain to the construction of the Redevelopment Work and to any other Alterations (as defined below) which Lessee may desire to make to the Premises during the Term. For purposes of this Lease, Alterations shall mean the construction of any alterations or material modifications to the Improvements located on the Premises or the construction of any new Improvements. The Redevelopment Work shall be considered to be an Alteration. Accordingly, except as expressly provided in this Article 5, all of the terms and provisions of Article 5 of this Lease which are applicable to Alterations shall be applicable to the Redevelopment Work.

5.3 Plans and Specifications for Alterations. Lessee shall make no Alterations without the prior written approval of the Director. Prior and as a condition precedent to the construction of any Alterations, Lessee shall submit to Director, for Director’s approval, the plans, specifications and other materials described in this Section 5.3 pertaining to such Alterations (except to the extent such submittals and approvals have been previously completed with respect to Redevelopment Work pursuant to the Option Agreement). All Alterations must be consistent with the Permitted Uses set forth in Article 3 of this Lease.

5.3.1 Schematics and Narrative. Lessee shall submit to the Director six (6) sets of schematic plans together with a narrative description and construction cost estimate summary clearly delineating the nature, size, configuration and layout of the Alterations. Such plans shall, among other things, clearly delineate the architectural theme or motif of the Alterations and shall identify and illustrate the boundaries of the Premises and all rights-of-way or other areas reserved to County or third parties which are located thereon. Director shall have sixty
(60) days within which to approve or disapprove such submission. Failure of Director to approve such submission in writing within said sixty (60) day period shall be deemed disapproval of said submission. After approval of schematic plans (or subsequent approval of preliminary or final plans) by Director, if changes in such plans are required by conditions of approval of the Alterations imposed by the California Coastal Commission or other governmental agency having jurisdiction thereover, Lessee shall promptly advise Director in writing of such changes and Director shall not disapprove the changes required by the California Coastal Commission or other governmental agency, as appropriate, unless such changes materially prejudice County’s ability to enjoy the rights and benefits granted to County pursuant to this Lease.

5.3.2 Preliminary Plans and Specifications. After Director’s approval of the materials submitted pursuant to subsection 5.3.1, Lessee shall submit to Director six (6) sets of preliminary plans, outline specifications and construction cost estimates for the Alterations. The preliminary plans, outline specifications and construction cost estimate shall conform to, expand upon and reflect a natural evolution from the descriptions and estimates set forth in the approved schematic plans and narrative. Any difference in the scope, size, configuration, arrangement or motif of the Improvements from those described in the approved schematics and narrative shall be separately identified and described. Director shall have twenty-one (21) days within which to approve or reasonably disapprove such submission, and Director may disapprove said preliminary plans on the grounds that they do not reflect a natural evolution from the approved schematic plans or that they materially differ from the approved schematic plans and narrative. Failure of Director to disapprove said preliminary plans within twenty one (21) days after Director’s receipt thereof shall be deemed Director’s approval thereof; provided, however, that in the event that the preliminary plans, outline specifications and construction cost estimates contain substantial changes from the approved schematics and narrative, then Director shall have sixty (60) days in which to approve said submission, which approval shall be deemed withheld if not granted in writing within such sixty (60) day period; and provided further, that together with the submission of the preliminary plans, outline specifications and construction cost estimates, Lessee must deliver to Director a transmittal letter containing the following text prominently displayed in bold faced type:

"PURSUANT TO SUBSECTION 5.3.2 OF THE AMENDED AND RESTATED LEASE AGREEMENT, IF THESE MATERIALS CONTAIN NO SUBSTANTIAL CHANGES FROM THE MATERIALS PREVIOUSLY SUBMITTED TO YOU, YOU HAVE TWENTY ONE (21) DAYS AFTER RECEIPT OF THESE MATERIALS IN WHICH TO APPROVE OR DISAPPROVE THEM. FAILURE TO DISAPPROVE THESE MATERIALS IN WRITING WITHIN TWENTY ONE (21) DAYS OF YOUR RECEIPT OF THESE MATERIALS SHALL CONSTITUTE YOUR APPROVAL OF THEM."

5.3.3 Final Plans and Specifications. After approval of the preliminary plans, Lessee shall submit for approval by Director six (6) complete sets of final plans, detailed specifications and a construction cost statement for the Alterations, together with one (1) set of appropriate structural computations (if applicable), identical to those requested or required by the County Director of Public Works incident to the issuance of building permits under the relevant provisions of the Los Angeles County Building Code. Lessee shall file duplicate copies of the final plans, detailed specifications and construction cost statement required by this Section with the County Director of Public Works, together with the necessary and
appropriate applications for building permits. Any difference in the scope, size, configuration, arrangement or motif of the Alterations from those described in the approved preliminary plans and specifications shall be separately identified and described. Director shall have twenty one (21) days within which to approve or disapprove such submission, and Director may disapprove such submission on the grounds that they do not reflect a natural evolution from or that they materially differ from the approved preliminary plans, outline specifications and construction cost estimates. Failure of Director to disapprove said materials within twenty one (21) days after Director’s receipt shall be deemed Director’s approval thereof; provided, however, that in the event that the final plans, detailed construction specifications and construction cost statement contain substantial changes from the preliminary plans, outline specifications and construction cost estimates, then Director shall have sixty (60) days in which to approve said submission, which approval shall be deemed withheld if not granted in writing within such sixty (60) day period; and provided further, that together with the submission of the final plans, detailed construction specifications and construction cost statement, Lessee must deliver to Director a transmittal letter containing the following text prominently displayed in bold faced type:

“PURSUANT TO SUBSECTION 5.3.3 OF THE AMENDED AND RESTATE LEASE AGREEMENT, IF THESE MATERIALS CONTAIN NO SUBSTANTIAL CHANGES FROM THE MATERIALS PREVIOUSLY SUBMITTED TO YOU, YOU HAVE TWENTY ONE (21) DAYS AFTER RECEIPT OF THESE MATERIALS IN WHICH TO APPROVE OR DISAPPROVE THEM. FAILURE TO DISAPPROVE THESE MATERIALS IN WRITING WITHIN TWENTY ONE (21) DAYS OF YOUR RECEIPT OF THESE MATERIALS SHALL CONSTITUTE YOUR APPROVAL OF THEM.”

Director’s approval shall not be unreasonably withheld; provided, however, that it shall be deemed reasonable to disapprove any submission not in substantial conformity with the approved preliminary plans and specifications. No material modification shall be made to the Alterations described in the approved final plans, specifications and costs (the “Final Alteration Plans and Specifications”) without the prior written approval of Director, which shall not be unreasonably withheld.

5.4 Conditions Precedent to the Commencement of Construction. No Alterations shall be commenced until each and all of the following conditions have been satisfied:

5.4.1 Permits and Other Approvals. Lessee shall have received and furnished the Department with copies of all permits, licenses and other governmental approvals necessary for commencement of the Alterations.

5.4.2 Copies of Construction Contracts. Lessee shall have furnished County with copies of any contract(s) entered into between Lessee and any general contractor(s) employed for the purpose of constructing the Alterations.

5.4.3 Performance and Payment Bonds. Lessee shall, at its own cost and expense, have furnished County with the following separate corporate surety bonds not less than ten business (10) days prior to the commencement of construction, which bonds must be in form and content reasonably satisfactory to County:
5.4.3.1 A corporate surety performance bond ("Performance Bond") issued by a surety company licensed to transact business as such in the State of California, in an amount not less than one hundred percent (100%) of the amount of all hard construction costs approved by County in conjunction with the approved work. The Performance Bond and its issuer shall be in all material respects reasonably satisfactory to County. It shall name Lessee as principal and said issuer as surety, and County as obligee, assuring full and satisfactory performance by Lessee of Lessee’s obligations herein to build, construct and otherwise complete the Improvements described in the approved final plans and specifications.

5.4.3.2 A corporate surety payment bond, issued by a surety company licensed to transact business as such in the State of California, with Lessee as principal, said company as surety and County as obligee, in a sum equal to one hundred percent (100%) of the total construction cost anticipated to be incurred in connection with the approved work, guaranteeing payment for all materials, provisions, supplies and equipment used in, upon, for or about the performance of said construction work or for labor done thereon of any kind whatsoever and protecting County from any and all liability, loss or damages arising out of or in connection with any failure to make such payment (the “Payment Bond”). The Payment Bond shall be in form and content reasonably satisfactory to County.

In the event that construction is performed by a licensed general contractor on behalf of Lessee, provided that such contractor provides County with a bond or bonds compliant with this subsection, and in all material respects reasonably satisfactory to County and otherwise complying with this subsection, County will accept such contractor’s bonds in lieu of the Performance Bond and/or Payment Bond by Lessee required by this subsection 5.4.3.

5.4.4 Alternative Security. In lieu of providing the Payment and Performance Bonds, Lessee may provide any of the following alternative security: (i) a certificate of deposit, cash or United States governmental security, (ii) a letter of credit, or (iii) a Set Aside Letter from Lessee’s construction lender. The foregoing security shall be in an amount equal to one hundred percent (100%) of the construction contract price, and shall permit County to draw thereon to complete the construction of the Improvements if an Event of Default has occurred under this Lease with respect to the completion of the construction of the Improvements. A condition precedent to Lessee’s right to provide the alternate security described in this subsection 5.4.4 shall be delivery by Lessee to County of an opinion of counsel from a law firm and in a form acceptable to County to the effect that the construction work does not constitute a public work of improvement requiring the delivery of the bonds described in subsection 5.4.3 above. Director shall have the authority, in his discretion, to modify, waive or reduce the amount of any bonds or alternate security required hereunder.

5.4.5 Evidence of Financing. Lessee shall have provided evidence satisfactory to County of its having sufficient financial resources, as determined by Director, to complete the Alterations. Lessee shall furnish Director with copies of all final notes, guarantees, partnership, shareholder or limited liability company agreements, construction loan and/or permanent loan commitments, documents evidencing equity contributions, documents creating and/or perfecting security interests, and all documents and exhibits referred to in any of the foregoing, together with any and all recorded documents affecting an interest in the Premises, within seven (7) days after such document or instrument becomes effective.
5.5 Manner of Construction.

5.5.1 General Construction Standards. All construction, alteration, modification or repairs permitted herein shall be accomplished by Lessee with due diligence. Lessee shall take all reasonable steps to minimize any damage, disruption or inconvenience caused by such work and make adequate provisions for the safety and convenience of all persons affected thereby. Lessee shall repair, at its own cost and expense, any and all damage caused by such work, and shall restore the area upon which such work is performed to a condition which is at least equal to or better than the condition which existed before such work was commenced. Additionally, Lessee shall pay or cause to be paid all costs and expenses associated therewith and shall indemnify, defend and hold County harmless from and against all damages, costs, expenses, losses or claims arising out of or in connection with the performance of such work, except to the extent that such damages, costs, expenses, losses or claims are caused by County. Dust, noise and other effects of such work shall be controlled using accepted measures customarily utilized in order to control deleterious effects associated with construction projects in well populated and developed areas of southern California.

5.5.2 Utility Work. Any work performed by or on behalf of Lessee or any occupant of the Premises to connect to, repair, relocate, maintain or install any storm drain, sanitary sewer, water line, gas line, telephone conduit, or any other utility service shall be performed in a manner that minimizes interference with the provision of such services to the Premises and other persons.

5.5.3 Construction Safeguards. Lessee shall erect and properly maintain at all times, as required by the conditions and the progress of work performed by or on behalf of Lessee, all necessary safeguards for the protection of workers and the public.

5.5.4 Compliance with Construction Documents and Laws; Issuance of Permits. All Improvements on the Premises shall be completed in substantial compliance with any construction documents approved by County and also in compliance with all applicable local, state and federal laws and regulations. Lessee shall have the sole responsibility for obtaining all necessary permits and shall make application for such permits directly to the person or governmental agency having jurisdiction thereover.

5.5.5 Notice to Director; Damage to County Improvements. Lessee further agrees to keep Director apprised of the progress of the work to the end that Director may timely inspect the Premises to assure proper safeguarding of any County-owned improvements existing on or around the Premises, including but not limited to seawalls, underground conduits and utility lines. If any such County-owned improvement is damaged in connection with said construction activity, Lessee agrees to repair such damage immediately at no cost or expense to County or, in the event that Lessee fails to effectuate such repair within five (5) business days after written notice from County (or such longer period as may be reasonably required to complete such repair so long as Lessee commences such repair within five (5) business days and thereafter diligently prosecutes same to completion), County may enter upon the Premises to make such repairs, the Actual Cost of which shall be paid by Lessee within two (2) business days after demand by County.

5.5.6 Rights of Access. Representatives of the Department of Beaches and Harbors of the County shall, upon reasonable notice and at reasonable times, have the right of
reasonable access to the Premises and the Improvements thereon without charges or fees, for
the purpose of ascertaining compliance with the terms and conditions of this Lease, including
but not limited to the inspection of the construction work being performed. Such access shall
be reasonably calculated to minimize interference with Lessee’s construction and/or
operations. Lessee shall have the right to have a representative present to accompany the
representatives of the Department of Beaches and Harbors of the County in connection with
such access. In the event of any emergency which is life-threatening or which involves the
threat of potential substantial damage, County shall have the right to enter the Premises
immediately and without notice to or accompaniment by Lessee.

5.5.7 Notice of Completion. Upon completion of the Redevelopment Work or any
other Alterations, Lessee shall file or cause to be filed in the Official Records of the County
of Los Angeles a Notice of Completion (the “Notice of Completion”) with respect to the
Improvements and Lessee shall deliver to County, at no cost to County, two (2) sets of
conoflex or mylar final as-built plans and specifications of the Improvements.

5.6 Use of Plans. Contracts between Lessee and any architect, design professional or
licensed contractor in connection with the construction, alteration or modification of Improvements
on the Premises shall provide, in form and content reasonably satisfactory to County, for the
assignment thereof to County as security to County for Lessee’s performance hereunder, and County
shall be furnished with a copy of any such contract, together with the further agreement of the parties
thereto, that if this Lease is terminated by County due to Lessee’s default, County may, at its
election, use any plans and specifications created by such architect, design professional or contractor
in connection with the contract, upon the payment of any sums due to any party thereto. County’s
right to elect to use plans and specifications as described above shall not include the unauthorized
right to use any trade marks, trade names or logos of Lessee or any such architect, design
professional or contractor.

5.7 Where Director Approval Not Required. Notwithstanding the foregoing, and
notwithstanding anything to the contrary in this Article 5, Lessee shall not be required to seek or
obtain the approvals of Director described in this Article 5 (including those set forth in Section 5.3)
for Alterations (other than the Redevelopment Work) where all of the following conditions are
satisfied: (i) the total cost of the project is less than Fifty Thousand Dollars ($50,000), adjusted
annually to reflect the increase or decrease in the ENR Index from and after the Effective Date
(provided, however, that in no event shall such adjustment result in a reduction of the threshold for
Director approval to less than Fifty Thousand Dollars ($50,000); (ii) no material portion of the
proposed construction activity is structural in nature; and (iii) none of the proposed construction,
additions, modifications or changes affect or are visible from the exterior of the Premises; provided,
however, that whenever Lessee makes or constructs or permits any improvements in or to the
Premises, Lessee shall (a) give written notice thereof (including a description of the work to be done
and the permits obtained for such work), and (b) furnish a copy of “as-built” plans upon completion
of such work to County.

5.8 Protection of County. Nothing in this Lease shall be construed as constituting the
consent of County, express or implied, to the performance of any labor or the furnishing of any
materials or any specific Improvements, alterations or repairs to the Premises of any part thereof by
any contractor, subcontractor, laborer or materialman, nor as giving Lessee or any other person any
right, power or authority to act as agent of or to contract for, or permit the rendering of, any services,
or the furnishing of any materials, in any such manner as would give rise to the filing of mechanics’ liens or other claims against the Premises or County.

5.8.1 Posting Notices. County shall have the right at all reasonable times and places to post and, as appropriate, keep posted, on the Premises any notices which County may deem necessary for the protection of County, the Premises and the Improvements thereon from mechanics’ liens or other claims. Lessee shall give County at least ten (10) business days prior written notice of the commencement of any work to be done on the Premises, in order to enable County timely to post such notices.

5.8.2 Prompt Payment. Lessee shall make, or cause to be made, prompt payment of all monies due and owing to all persons doing any work or furnishing any materials or supplies to Lessee or any of its contractors or subcontractors in connection with the Premises and the Improvements thereon. Lessee shall have the right to contest any such amount; provided, however, the entire expense of any such contest (including interest and penalties which may accrue) shall be the responsibility of Lessee.

5.8.3 Liens; Indemnity. Subject to Lessee’s rights to contest the same prior to payment, Lessee shall keep the Premises and any Improvements thereon free and clear of all mechanics’ liens and other liens arising out of or in connection with work done for Lessee and/or any parties claiming through Lessee. Lessee agrees to and shall indemnify, defend and hold County harmless from and against any claim, liability, loss, damages, costs, expenses, attorneys’ fees incurred in defending and all other expenses on account of claims of lien(s) of laborers or materialmen or others for work performed or materials or supplies furnished to Lessee or persons claiming under it.

In the event any lien is recorded, Lessee shall, within fifteen (15) business days after demand, furnish the bond described in California Civil Code Section 3143, or successor statute, which results in the removal of such lien from the Premises, together with any other evidence requested by County to evidence that such claim will be paid, removed or discharged as a claim against the Premises and/or County.

5.9 Renovation Fund. Commencing on the Required Renovation Completion Date and continuing during the remaining Term of the Lease, Lessee shall establish and maintain a reserve fund (the “Renovation Fund”) in accordance with the provisions of this Section 5.9 for the cost of capital renovations to the Premises. Lessee and County agree and acknowledge that the purpose of the Renovation Fund shall be to provide funds for the ongoing revitalization of the Improvements on the Premises after the completion of that portion of the Redevelopment Work required to be completed by the Required Renovation Completion Date, through the renovation, upgrading, addition and installation of physical Improvements to the Premises. Notwithstanding any contrary provision herein, the Renovation Fund shall not be used to fund any portion of the cost of the Redevelopment Work, including without limitation, that portion of the Redevelopment Work that is not required to be completed until after the Required Renovation Completion Date. In addition, the Renovation Fund shall not be utilized to fund the cost of periodic, recurring or ordinary expenditures, repairs or replacements (as opposed to major capital replacements) to keep or maintain the Improvements in a good, operating condition, nor for any necessary repairs to remedy any broken or damaged Improvements, all of which costs shall be separately funded by Lessee. By way of example, set forth on Exhibit E attached to this Lease are categories of capital expenditures that qualify as proper costs to be funded from the Renovation Fund. All specific purposes and costs for which Lessee desires to utilize amounts from the Renovation Fund shall be subject to Director’s
approval, which approval shall not be unreasonably withheld. The Renovation Fund shall be held in an account established with a reputable financial institution (including Lessee’s Mortgagor) acceptable to Director into which deposits shall be made by Lessee pursuant to this Section 5.9. Lessee shall have the right to partly or fully satisfy the Renovation Fund obligations of this Section 5.9 with capital improvement reserves required by Lessee’s Mortgagor, as long as such capital improvement reserves are in all material respects administered in accordance, and otherwise comply, with the terms, provisions and requirements of this Section 5.9.

Commencing on the fifteenth (15th) day of the month during which the Required Renovation Completion Date occurs and continuing on or before the fifteenth (15th) day of each month thereafter during the remaining Term, Lessee shall make a monthly deposit to the Renovation Fund in an amount equal to three percent (3%) of total Gross Receipts for the previous month. Lessee shall receive credit against the required Renovation Fund deposits described in this Section 5.9 for costs actually expended by Lessee on and after the completion of the Redevelopment Work for capital renovations for the purposes for which the Renovation Fund may be utilized, to the extent such costs are not reimbursed to Lessee by withdrawals from the Renovation Fund and such costs are approved by Director as qualifying Renovation Fund expenditures. All interest and earnings on the Renovation Fund shall be added to the Renovation Fund, but shall not be treated as a credit against the Renovation Fund deposits required to be made by Lessee pursuant to this Section 5.9. Disbursements shall be made from the Renovation Fund only for costs which have been approved by Director and which satisfy the requirements of this Section 5.9. For the purpose of obtaining Director’s prior approval of any Renovation Fund disbursements, Lessee shall submit to Director on an annual calendar year basis a renovation plan for the upcoming year which details the amount and purpose of anticipated Renovation Fund expenditures for which Lessee requests Director’s approval, which approval shall not be unreasonably withheld. Any anticipated expenditure set forth in such renovation plan which is approved by Director as an acceptable Renovation Fund disbursement shall be considered pre-approved by Director (but only up to the amount of such expenditure set forth in the annual renovation plan) for the duration of the upcoming year. Lessee shall have the right during the course of each year to submit to Director for Director’s approval revisions to the then current renovation plan in effect for such year or individual expenditures not noted on the previously submitted renovation plan. Prior to the disbursement of any amounts from the Renovation Fund, Lessee shall furnish to Director applicable invoices, evidence of payment and other back-up materials reasonably acceptable to Director concerning the use of amounts from the Renovation Fund. If County elects to require Lessee to remove the Improvements at the end of the Term and requires Lessee to provide security to secure its obligation to perform such removal obligations in accordance with subsection 2.4.2 of this Lease, then upon the funding or delivery of such security or the commencement of sinking fund deposits, in accordance with subsection 2.4.2, Lessee’s obligation to continue to fund the Renovation Fund shall terminate. Any then remaining balance in the Renovation Fund may be used for the purpose of partially or fully satisfying Lessee’s Improvement removal security funding obligation under subsection 2.4.2 of this Lease.

5.10 Furnishings Fund. Commencing on the Effective Date and continuing during the remaining Term of the Lease, Lessee shall establish and maintain a reserve fund (the “Furnishings Fund”) in accordance with the terms and provisions of this Section 5.10 to fund the cost of the replacement of furniture and other furnishings leased by Lessee to tenants as part of its lease of Corporate Serviced Units (the “Furnishings”). On the Effective Date and on or prior to each subsequent anniversary thereof, Lessee shall make an annual deposit to the Furnishings Fund in accordance with the Furnishings Replacement Plan attached to this Lease as Exhibit D (the “Furnishings Replacement Plan”). The annual Furnishings Fund contribution amounts shall be
adjusted annually to take into consideration (i) any variation in the increases in the Household Furnishings and Operation Index component of the Consumer Price Index from the assumed 2.5% annual increase set forth on Exhibit D, (ii) any variation in the actual interest earned on the balance of the Furnishings Fund from the assumed 4.0% interest rate set forth on Exhibit D, and (iii) any change in the number of Corporate Serviced Units and the bedroom mix of such Corporate Serviced Units as described on Exhibit D. The Furnishings Fund shall be held in an account established with a reputable financial institution (including Lessee’s Mortgagee) acceptable to Director. Lessee shall receive credit against the required Furnishings Fund deposits described in this Section 5.10 for costs actually expended by Lessee for replacements of Furnishings in accordance with the Furnishings Replacement Plan, to the extent such costs are not reimbursed to Lessee by withdrawals from the Furnishings Fund. All interest and earnings on the Furnishings Fund shall be added to the Furnishings Fund and shall be taken into account in the determination of the required amount of the Furnishings Fund deposits required hereunder, in accordance with Exhibit D. Disbursements shall be made from the Furnishings Fund only in such amounts and for such purposes as described in the Furnishings Replacement Plan. Prior to the disbursement of any amounts from the Furnishings Fund, Lessee shall furnish to Director applicable invoices, evidence of payment and other back-up materials reasonably acceptable to Director concerning the use of amounts from the Furnishings Fund. If County elects to require Lessee to remove the Improvements at the end of the Term and requires Lessee to provide security to secure its obligation to perform such removal obligations in accordance with subsection 2.4.2 of this Lease, then upon the funding or delivery of such security or the commencement of sinking fund deposits, in accordance with subsection 2.4.2, Lessee’s obligation to continue to fund the Furnishings Fund shall terminate. Any then remaining balance in the Furnishings Fund may be used for the purpose of partially or fully satisfying Lessee’s Improvement removal security funding obligation under subsection 2.4.2 of this Lease.

6. CONDEMNATION.

6.1 Definitions.

6.1.1 Condemnation. “Condemnation” means (1) the exercise by any governmental entity of the power of eminent domain, whether by legal proceedings or otherwise, and (2) a voluntary sale or transfer to any Condemnor (as hereafter defined), either under threat of Condemnation or while legal proceedings for Condemnation are pending.

6.1.2 Date of Taking. “Date of Taking” means the date the Condemnor has the right to possession of the Premises being condemned.

6.1.3 Award. “Award” means all compensation, sums or anything of value awarded, paid or received from a total or partial Condemnation.

6.1.4 Condemnor. “Condemnor” means any public or quasi-public authority, or private corporation or individual, having the power of eminent domain.

6.2 Parties’ Rights and Obligations to be Governed by Lease. If, during the Term of this Lease, there is any taking of all or any part of the Premises, any Improvements on the Premises or any interest in this Lease by Condemnation, the rights and obligations of the parties shall be determined pursuant to the provisions of this Article 6.

6.3 Total Taking. If the Premises are totally taken by Condemnation, this Lease shall terminate on the Date of Taking.
6.4 Effect of Partial Taking. If a portion of the Premises or the Improvements thereon are taken by Condemnation, this Lease shall remain in effect, except that Lessee may elect to terminate this Lease if the remaining portion of the Premises are rendered unsuitable (as defined herein) for Lessee’s continued use for the purposes contemplated by this Lease. The remaining portion of the Premises shall be deemed unsuitable for Lessee’s continued use if, following a reasonable amount of reconstruction (to the extent that funds therefor are available from the anticipated Award), Lessee’s business on the Premises could not be operated at an economically feasible level. Lessee must exercise its right to terminate by giving County written notice of its election within ninety (90) days after the Date of Taking. Such notice shall also specify the date of termination, which shall not be prior to the Date of Taking. Failure to properly exercise the election provided for in this Section 6.4 will result in this Lease’s continuing in full force and effect, except that Annual Minimum Rent shall be abated pursuant to Section 6.5, below.

In the event that Lessee does not elect to terminate this Lease as provided above, then Lessee, whether or not the Awards or payments, if any, on account of such taking shall be sufficient for the purpose, shall, at its sole cost and expense, within a reasonable period of time, commence and complete restoration of the remainder of the Premises as nearly as possible to its value, condition and character immediately prior to such taking, taking into account, however, any necessary reduction in size or other change resulting from the taking; provided, however, that in case of a taking for temporary use, Lessee shall not be required to effect restoration until such taking is terminated.

6.5 Effect of Partial Taking on Rent. If any portion of the Premises is taken by Condemnation and this Lease remains in full force and effect as to the portion of the Premises not so taken (a "Partial Taking"), the Annual Minimum Rent shall be reduced as of the date of the Partial Taking to an amount equal to the Annual Minimum Rent multiplied by the ratio of the fair market value of the portion of the Premises not so taken to the fair market value of the entire Premises immediately prior to the Partial Taking. Upon the next Adjustment Date, as described in subsection 4.2.3 above, if any, for the purposes of adjusting the Annual Minimum Rent, all Annual Minimum Rent and Percentage Rent paid by Lessee to County prior to the date of the Partial Taking shall be adjusted, for the purposes of this calculation only, to the proportion that the fair market value of the portion of the Premises which remains after the taking bears to the fair market value of the entire Premises immediately prior to the taking. If the parties cannot agree upon the appropriate Annual Minimum Rent, the matter shall be settled through arbitration in the manner set forth in Article 16 hereof. All other obligations of Lessee under this Lease, including but not limited to the obligation to pay Percentage Rent, shall remain in full force and effect.

6.6 Waiver of Code of Civil Procedure Section 1265.130. Each party waives the provisions of Code of Civil Procedure Section 1265.130 allowing either party to petition the Superior Court to terminate this Lease in the event of a Partial Taking of the Premises.

6.7 Payment of Award. Awards and other payments on account of a taking, less costs, fees and expenses incurred in the collection thereof (“Net Awards and Payments”), shall be applied as follows:

6.7.1 Partial Taking Without Termination. Net Awards and Payments received on account of a Taking other than a total Taking or a Partial Taking which results in termination hereof or a taking for temporary use shall be held by County and shall be paid out to Lessee or Lessee’s designee(s), in progress payments, to pay the cost of restoration of the Premises. The balance, if any, shall be divided between County and Lessee pro rata, as nearly as
practicable, based upon (1) the then value of County's interest in the Premises (including its interest hereunder) and (2) the then value of Lessee's interest in the remainder of the Term of this Lease including bonus value. Notwithstanding the foregoing, if County is the condemning authority and thus the taking pertains to only Lessee's interest, then Lessee shall be entitled to the entire amount of the Net Awards and Payment.

In case of a taking other than a total taking or a taking for temporary use, Lessee shall furnish to County evidence satisfactory to County of the total cost of the restoration required by Section 6.4.

6.7.2 Taking For Temporary Use. Net Awards and Payments received on account of a taking for temporary use shall be paid to Lessee; provided, however, that if any portion of any such award or payment is paid by the Condemnor by reason of any damage to or destruction of the Improvements, such portion shall be held and applied as provided in the first sentence of Section 6.7.1, above.

6.7.3 Total Taking and Partial Taking with Termination. In the case of a total taking or a Partial Taking by an entity other than County that results in the termination of the Lease, then County shall be entitled to receive a Net Awards and Payment equal to the greater of (a) the sum of (1) the present value of all Annual Minimum Rent, Percentage Rent and other sums which would become due through the expiration of the Term if it were not for the taking less, in the event of a Partial Taking, an amount equal to the present value of the fair rental value of the portion of the Premises (with the Improvements thereon) not subject to the Partial Taking, from the date of the Partial Taking through the expiration of the Term and (2) the present value of the portion of the Premises (with the Improvements thereon) subject to the taking from and after the expiration of the Term or (b) in the event of a Partial Taking, the present value of the fair market rental value of the portion of the Premises (with the Improvements thereon) subject to the Partial Taking, from and after the expiration of the Term. County shall be responsible for all costs and expenses incurred by County in connection with the receipt of its award. In the case of a total taking or a Partial Taking that results in the termination of the Lease, Lessee shall have the right to separately seek and receive an award equal to the value of Lessee's interest in the remainder of the Term of this Lease (assuming that there had been no termination of the Lease under this Article 6), including the value of the ownership interest in and use of the Improvements constructed on the Premises, determined as of the date of such taking. For such purposes, the Term of this Lease shall not be deemed to have terminated even if Lessee so elects under Section 6.4. Lessee shall be responsible for all costs and expenses incurred by Lessee in connection with the receipt of its award. If County is the condemning authority in connection with a total taking or a Partial Taking that results in the termination of the Lease, and thus the taking pertains to only Lessee's interest, then Lessee shall be entitled to the entire amount of any Net Awards and Payment. All condemnation awards payable to Lessee shall be payable to any then existing Encumbrance Holder.

6.7.4 Disputes. Any dispute under Section 6.7.1 concerning the fair market value of the Premises or any portion thereof, computation of present value or the determination of the amount of Annual Minimum Rent or Percentage Rent or other sums which would have become due over the Term of this Lease which are not resolved by the parties, shall be submitted to arbitration pursuant to Article 16 of this Lease.

7. SECURITY DEPOSIT.
7.1 **Amount and Use.** Lessee shall deliver to and maintain with County a security deposit (the “Security Deposit”) in an amount equal to the sum of three (3) times the Monthly Minimum Rent in effect from time to time during the Term (i.e., adjusted to reflect any change in the Monthly Minimum Rent as of each Adjustment Date and Renegotiation Date). The Security Deposit shall secure Lessee’s obligations pursuant to this Lease, and may be drawn on by County, in whole or in part, to cover (a) delinquent rent not paid by Lessee within any applicable notice and cure period, and (b) any other Events of Default of Lessee under this Lease. The Security Deposit shall be applied at the discretion of County for the purposes described in the preceding sentence. Lessee shall have the right to maintain the Security Deposit in form of cash or in the form of a certificate of deposit, letter of credit or other approved investment instrument acceptable to County with respect to form, content and issuer. As long as no Event of Default by Lessee exists under the Lease, Lessee shall be entitled to any interest or other earnings which are actually earned on any unapplied portions of the Security Deposit delivered to County in the form of a certificate of deposit or other approved investment instrument (as opposed to cash, on which Lessee shall not be entitled to interest).

Provided that no Event of Default then exists under the Lease, at the end of each Lease Year Lessee shall be entitled to a credit for all unexpended interest accruing to Lessee’s benefit with respect to the Security Deposit during such Lease Year pursuant to the immediately preceding sentence. Notwithstanding any contrary provision hereof, County shall have the right at any time to apply any accrued but uncredited interest (which accrued during non-Event of Default periods) against delinquent rents and other amounts owed by Lessee under the Lease.

7.2 **Replacement.** In the event that some or all of the Security Deposit is drawn against by County and applied against any delinquent rent not paid by Lessee within any applicable notice or cure period, or against other Events of Default of Lessee hereunder, Lessee shall, within five (5) business days after receipt of written notice of the amount so applied and the reasons for such application, deposit sufficient additional funds with County, or cause the issuer of any letter of credit to reinstate the letter of credit to its full face amount, so that at all times that this Lease is in effect (other than between the date of the application of funds by County and the expiration of said five (5) business day period), the full amount of the Security Deposit shall be available to County. Failure to maintain and replenish the Security Deposit, if not cured within the time period set forth in subsection 13.1.3, shall constitute an Event of Default hereunder.

7.3 **Renewal.** Any letter of credit procured by Lessee and delivered to County shall provide for notice to County by the issuer thereof no less than sixty (60) days prior to the expiration of the term of such letter of credit in the event that the issuer thereof is not irrevocably committed to renew the term of such letter of credit. In the event that, thirty (30) days prior to the expiration of such letter of credit, Lessee has not provided County with satisfactory evidence of its renewal or replacement, or has not provided County with adequate replacement security, County may draw down upon the letter of credit and hold the funds as security for Lessee’s obligations as set forth in this Lease and may apply the funds to cover delinquent rent not paid by Lessee within any applicable notice and cure period and/or any other Event of Default of Lessee under this Lease.

8. **INDEMNITY.**

Except to the extent caused by the gross negligence or willful misconduct of any such indemnitee, Lessee shall at all times relieve, defend, indemnify, protect, and save harmless County and its respective Boards, officers, agents, consultants, counsel, employees and volunteers from any and all claims, costs, losses, expenses or liability, including expenses and reasonable attorneys’ fees incurred in defending against the same by an attorney selected by Lessee and reasonably satisfactory.
to County, for the death of or injury to persons or damage to property, including property owned or controlled by or in the possession of County or any of its Board, officers, agents, employees or volunteers, to the extent that such arises from or is caused by (a) the operation, maintenance, use, or occupation of the Premises by Lessee or its agents, officers, employees, licensees, concessionaires, permittees or Sublessees, (b) the acts, omissions, or negligence of Lessee, its agents, officers, employees, licensees, concessionaires, permittees or Sublessees, or (c) the failure of Lessee, its agents, officers, employees, licensees, concessionaires, permittees or Sublessees to observe and abide by any of the terms or conditions of this Lease or any applicable law, ordinance, rule, or regulation. The obligation of Lessee to so relieve, indemnify, protect, and save harmless County and each of its respective Boards, officers, agents, consultants, counsel, employees and volunteers, shall continue during any periods of occupancy or of holding over by Lessee, its agents, officers, employees, licensees, concessionaires, permittees or Sublessees, beyond the expiration of the Term or other termination of this Lease.

9. INSURANCE.

Lessee shall maintain at all times during the Term of this Lease policies of liability, worker's compensation and property insurance from companies authorized to transact business in the State of California by the Insurance Commissioner thereof.

9.1 Property Insurance. The policy of property insurance shall provide fire insurance with extended coverage, insuring against loss or damage by fire, lightning and the additional perils included in the standard extended coverage endorsement, as well as those included in the "all risk" policy, and burglary and theft insurance, on the structures, Improvements, inventory, trade fixtures, furnishings and equipment used or to be used by Lessee on the Premises. Such insurance shall be in an amount sufficiently adequate to enable the resumption of the leasehold operations by Lessee following the occurrence of any of the risks covered by said insurance. The policy shall provide standard fire and extended coverage insurance, and shall cover vandalism, malicious mischief, and those risks ordinarily defined in "All-Risk coverage." The policy shall also contain "business interruption", "rental interruption" and/or continuous operation coverage payable to County equal to one (1) year's Annual Minimum Rent. During periods of substantial construction on the Premises, Lessee or Lessee's contractor will provide completed value builder's risk insurance reasonably satisfactory to County, together with (i) broad form liability and breach of warranty coverages by endorsement; and (ii) non owned, non hired automotive liability coverage with a policy limit of Two Million and 00/100 Dollars ($2,000,000). Such insurance shall be in an amount equal to one hundred percent (100%) of the full replacement value of said buildings, structures, equipment, and Improvements, with a deductible not greater than five percent (5%) of such replacement value) (as such replacement value is determined by such insurance company and approved by County's risk manager), and shall be placed and maintained with such insurance company or companies and in such form as shall be reasonably satisfactory to County.

9.2 Form of Policy. All such insurance policies, along with their endorsements, shall name the Major Sublessee, if any, County and its respective Board of Supervisors and members thereof, and County's officers, agents, employees and volunteers, as additional insureds and any Encumbrance Holder as loss payee. Upon the occurrence of any loss, the proceeds of such insurance shall be held by County in trust for the named insureds as their interests appear, and shall be disbursed by County on a monthly basis to pay for work completed in accordance with then-prevailing industry custom and practice. In the event of such loss Lessee shall be obligated to rebuild or replace the destroyed or damaged buildings, structures, equipment, and Improvements, in accordance with the procedures set forth in Article 5 of this Lease, except as otherwise provided in
Article 10 hereof. Any surplus or proceeds after said rebuilding or replacement shall be distributed to Lessee.

Subject to the immediately following grammatical paragraph, a duplicate policy or policies evidencing such insurance coverage, in such form as shall be reasonably acceptable to County, shall be filed with Director no later than five (5) business days after the Effective Date, and such policy or policies shall provide that such insurance coverage will not be canceled or reduced without at least thirty (30) days prior written notice to Director or ten (10) days in case of cancellation for failure to pay the premium. At least ten (10) business prior to the expiration of such policy, a certificate showing that such insurance coverage has been renewed shall be obtained by Lessee and filed with Director.

In lieu of submitting a copy of the policy or policies evidencing the above insurance, Lessee may submit in a form reasonably acceptable to County a certificate of insurance.

Any such policy may be issued in the form of a blanket policy insuring other properties, in form, amount and content reasonably satisfactory to County, taking into account any additional protection that County reasonably deems prudent to provide for losses related to such other properties.

9.3 Liability Insurance. Lessee shall maintain in full force and effect during the Term of this Lease, commercial general liability insurance together with premises operations, products, completed operations, advertising, independent contractor and contractual liability coverages, including liquor liability, with a combined single limit (including umbrella coverage that meets the requirements of this Section 9.3) of not less than Ten Million Dollars ($10,000,000) per occurrence, Twenty Million Dollars ($20,000,000) annual aggregate. Lessee agrees that County and its respective Board of Supervisors and members thereof, and County’s officers, agents, employees and volunteers, shall be named as additional insureds under such liability insurance policy or policies.

Subject to Lessee’s option to provide a certificate of insurance as set forth below, a duplicate policy or policies evidencing such insurance coverage shall be obtained by Lessee and filed with Director no later than five (5) business days after the Effective Date, and said policy shall provide that such insurance coverage shall not be canceled or reduced without at least thirty (30) days prior written notice to Director or ten (10) days in case of cancellation for failure to pay the premium. At least ten (10) business days prior to the expiration of any such policy, a policy showing that such insurance coverage has been renewed or extended shall be filed with Director.

The amounts of liability insurance required by this Section shall be subject to renegotiation as of each fifth (5th) anniversary of the Effective Date (each, an “Insurance Renegotiation Date”). If County and Lessee cannot agree upon the amount of insurance by the sixtieth (60th) day preceding an Insurance Renegotiation Date, the matter shall be resolved by binding arbitration in accordance with Article 16. In no event shall the amounts of liability insurance be decreased below the initial standards described above in this Section 9.3 as a result of such arbitration. Following such renegotiation or arbitration, the parties shall execute an amendment to this Lease setting forth the renegotiated insurance provisions or the arbitration judgment, as appropriate.

In lieu of submitting a copy of the policy or policies evidencing the above insurance, Lessee may submit in a form reasonably acceptable to County a certificate of insurance.

Any such policy may be issued in the form of a blanket policy insuring other properties, in form, amount and content reasonably satisfactory to County, taking into account any
additional protection that County reasonably deems prudent to provide for losses related to such other properties.

9.4 Worker’s Compensation Insurance. Lessee shall maintain in force during the Term of this Lease, in an amount and with coverage in compliance with applicable California law or, if no such law exists, then reasonably satisfactory to Director, Worker’s Compensation Insurance.

9.5 Required Provisions. Lessee’s insurance policies required by this Article 9 shall be for a term of not less than one year and shall additionally provide:

(a) that the full amount of any losses to the extent insurance proceeds are available shall be payable to additional insureds notwithstanding any act, omission or negligence of Lessee which might otherwise result in forfeiture of such insurance;

(b) in any property insurance policy, a waiver of all right of subrogation against County and its respective Board of Supervisors and members thereof, and County’s officers, agents, employees and volunteers with respect to losses payable under such policies;

(c) in any property insurance policy, that such policies shall not be invalidated should the insured waive, prior to a loss, any or all right of recovery against any party for losses covered by such policies;

(d) that the policies shall provide coverage on a “primary basis” with respect to the additional insureds, regardless of any other insurance or self-insurance that such additional insureds may elect to purchase or maintain;

(e) that losses, if any, shall be adjusted with and payable to Lessee, County and Encumbrance Holders, if any, pursuant to a standard mortgagee clause;

(f) that such policies shall not be suspended, voided, canceled, reduced in coverage or in limits or materially changed without at least thirty (30) days prior written notice to County and all Encumbrance Holders or ten (10) days in case of cancellation for failure to pay the premium;

(g) that the insurance shall apply separately to each insured against whom a claim is made, except with respect to the overall limits of said insurer’s liability, and,

(h) that such policies shall contain no special limitations on the scope of protection afforded to the additional insureds, and no failure to comply with the reporting provisions of such policies shall affect the coverage afforded to such additional insureds.

9.6 Failure to Procure Insurance. Failure of Lessee to procure or renew the herein required insurance shall, if not cured within two (2) business days after written notice from County, constitute a default hereunder. In the event of such failure, in addition to the other rights and remedies provided hereunder, County may, at its discretion, procure or renew such insurance and pay any and all premiums in connection therewith and all monies so paid by County shall be repaid by Lessee, with interest thereon at the Applicable Rate, to County upon demand.

10. MAINTENANCE AND REPAIR; DAMAGE AND DESTRUCTION.

10.1 Lessee’s Maintenance and Repair Obligations. Lessee shall maintain the Premises, including paved or unpaved ground surfaces and Improvements thereon, in conformance with such reasonable rules and regulations regarding the use and occupancy of residential apartment buildings in Marina del Rey (such as the Premises) as may be promulgated by County from time to time for
general applicability on a non-discriminatory basis, as revised from time to time. Without limiting
the foregoing, at Lessee’s sole cost and expense, but subject to the terms and conditions of this
Lease, Lessee shall keep and maintain the Premises and all equipment, Improvements or physical
structures of any kind which may exist or be erected, installed or made on the Premises in good and
substantial repair and condition, including without limitation capital improvements and structural
and roof repairs and replacement, and shall make all necessary repairs and alterations and
replacements thereto, except as otherwise provided in this Article 10. Lessee shall undertake such
repairs, alterations or replacements in compliance with Applicable Laws, or as reasonably required
in writing by Director to Lessee incident to the provisions of this Article 10. Lessee shall maintain
all Improvements on the Premises in a safe, clean, wholesome and sanitary condition, to the
reasonable satisfaction of Director and in compliance with all Applicable Laws. Lessee shall, at its
own cost and expense, install, maintain and replace landscaping between the streets abutting the
Premises and the building footprints on the Premises as is reasonably necessary to create a pleasing
development to the reasonable satisfaction of Director. Lessee specifically agrees to provide proper
containers for trash and garbage which are screened from public view, to keep the Premises free and
clear of rubbish and litter. County in its proprietary capacity shall have the right to enter upon and
inspect the Premises at any reasonable time for cleanliness, safety and compliance with this Section
10.1, as long as such entrance is not done in a manner which would unreasonably interfere with the
operation of the Premises.

10.2 Option to Terminate for Uninsured Casualty. In the event of any damage to or
destruction of the Premises, or any Improvements located thereon, Lessee shall, except as otherwise
expressly provided in this Section 10.2, promptly (taking into consideration the necessity of
obtaining approvals and permits for such reconstruction) repair and/or restore such Improvements to
their condition existing prior to the damage or destruction. Except as otherwise expressly provided
in this Section 10.2, such obligation to repair and restore is absolute, and is in no way dependent
upon the existence or availability of insurance proceeds. Repair and restoration of any damage or
destruction shall take place in accordance with the provisions of Article 5. Notwithstanding the
foregoing, Lessee shall have the option to terminate this Lease and be relieved of the obligation to
restore the Improvements on the Premises where there is substantial damage to the Improvements on
Premises and such damage or destruction resulted from a cause not required to be insured against by
this Lease (an “Uninsured Loss”), and where all of the following conditions are satisfied:

10.2.1 Either (i) the Uninsured Restoration Cost (as defined below) must exceed
twenty percent (20%) of the Repaired Leasehold Value Before Debt Service (as defined
below), or (ii) the Uninsured Restoration Cost must exceed the Repaired Leasehold Value
After Existing Debt Service (as defined below). For purposes hereof, the “Uninsured
Restoration Cost” means the total cost of the repair of the damage to the Improvements
resulting from the casualty less the greater of the amount of insurance proceeds that are
available for the repair work or the amount of insurance proceeds that would have been
available for the repair work if Lessee had carried the insurance coverage required under this
Lease. All insurance proceeds shall be considered to be available for repair work regardless
of whether any then existing Encumbrance Holder asserts a right to retain any such insurance
proceeds. For purposes hereof, the “Repairs Leasehold Value Before Debt Service” shall
mean the discounted present value as of the estimated date of the restoration of the
Improvements of all future net revenues (after operating expenses, but before debt service
and taxes) projected to be received by Lessee from the Premises and Improvements over the
remaining Term of the Lease from and after the estimated date of the restoration of the
Improvements. For purposes hereof, the “Repairs Leasehold Value After Existing Debt
Service” shall mean the discounted present value as of the estimated date of the restoration of the Improvements of all future net revenues (after operating expenses and debt service on any Encumbrance existing as of the date of the casualty, but before taxes and before any debt service on Encumbrances originated after the date of the casualty). The discounted present values described in this subsection 10.2.1 shall be calculated using a discount rate equal to the then fair market capitalization rate for determining the purchase price of comparable residential projects (after reconstruction of the Improvements) on a fee title basis.

10.2.2 If Lessee desires to terminate the Lease pursuant to this Section 10.2, then no more than ninety (90) days following the Uninsured Loss, Lessee shall notify County of its election to terminate this Lease. Such notice shall include a statement as to the Uninsured Restoration Cost, the Repaired Leasehold Value Before Debt Service and the Repaired Leasehold Value After Existing Debt Service, a complete copy of any appraisals or market studies that Lessee has utilized in its determination, along with such other information as Lessee deems relevant or as may be reasonably requested by County. To be effective, Lessee’s notice must also include both a copy of Lessee’s notification to the Encumbrance Holder, if any, of Lessee’s intention to exercise this option to terminate and Lessee’s certification under penalty of perjury that Lessee has delivered or mailed such notification to the Encumbrance Holder in accordance with this subsection 10.2.2. County shall be entitled to rely upon the foregoing notice and certification as conclusive evidence that Lessee has notified the Encumbrance Holder regarding Lessee’s desire to terminate this Lease. Any disagreement as to whether Lessee has the right to terminate the Lease pursuant to this Section 10.2 shall, at the election of either party, be settled by arbitration pursuant to Article 16 of this Lease.

10.2.3 No more than sixty (60) days (or such longer time as may be reasonable under the circumstances) following the giving of the notice required by subsection 10.2.1 (or following the resolution of any disagreement or review by County regarding Lessee’s right to terminate the Lease if County notifies Lessee that it disagrees with Lessee’s determination that it has the right to terminate the Lease or that County desires to review such determination), Lessee shall, at Lessee’s expense: remove all debris and other rubble from the Premises; secure the Premises against trespassers; and, at County’s election, remove all remaining Improvements on the Premises.

10.2.4 By the date described in subsection 10.2.3 above, Lessee shall deliver to County a quitclaim deed to the Premises in recordable form, in form and content satisfactory to County and/or with such other documentation as may be reasonably requested by County or any title company on behalf of County, terminating Lessee’s interest in the Premises and reconveying such interest to County free and clear of any and all Encumbrances and Subleases.

10.2.5 Within thirty (30) days following the County’s receipt of the notice referred to in subsection 10.2.2, County has received written notice from the Encumbrance Holder, if any, consenting to such termination.

10.3 No Option to Terminate for Insured Casualty. Lessee shall have no option to terminate this Lease or otherwise be relieved of its obligation to restore the Improvements on the Premises where the damage or destruction results from a cause required to be insured against by this Lease.
10.4 **No County Obligation to Make Repairs.** County shall have no obligation whatsoever to make any repairs or perform any maintenance on the Premises.

10.5 **Repairs Not Performed by Lessee.** If Lessee fails to make any repairs or replacements as required, Director may notify Lessee of said failure in writing, and should Lessee fail to cure said failure and make repairs or replacements within a reasonable time as established by Director, County may make such repairs or replacements and the cost thereof, including, but not limited to, the cost of labor, overhead, materials and equipment, shall be charged against Lessee as provided in Section 13.5.

10.6 **Other Repairs.** Although having no obligation to do so, County may, at its own cost and at its sole discretion, perform or permit others to perform any necessary dredging, filling, grading or repair of water systems, sewer facilities, roads, or other County facilities on or about the Premises; provided, however, that such activities shall be performed in a manner that does not unreasonably interfere with the use of the Premises by Lessee for the Permitted Uses.

10.7 **Notice of Damage.** Lessee shall give prompt notice to County of any fire or damage affecting the Premises from any cause whatsoever.

10.8 **Waiver of Civil Code Sections.** The parties’ rights shall be governed by this Lease in the event of damage or destruction. The parties hereby waive the provisions of California Civil Code Section 1932 and any other provisions of law which provide for contrary or additional rights.

11. **ASSIGNMENT AND SUBLLEASE.**

11.1 **Subleases.**

11.1.1 **Definition.** The term “Sublease” shall mean any lease, license, permit, concession or other interest in the Premises, or a right to use the Premises or a portion thereof, which is conveyed or granted by Lessee to a third party, and which constitutes less than the unrestricted conveyance of the entire Lessee’s interest under this Lease. “Sublessee” shall be the person or entity to whom such right to use is conveyed by a Sublease. A Sublease which grants or conveys to the Sublessee the right to possess or use all or substantially all of the Premises is sometimes referred to in this Lease as a “Major Sublease” and the Sublessee under such agreement is sometimes referred to in this Lease as a “Major Sublessee”.

11.1.2 **Approval Required.** At least thirty (30) days prior to the proposed effective date of any Sublease that is not a Major Sublease or an Approved Apartment Lease (as defined below), or of any amendment or assignment of such Sublease, Lessee shall submit a copy of such Sublease, amendment or assignment to Director for approval, which approval shall be given or withheld at Director’s sole and absolute discretion; provided, however, that with respect to any Sublease for a use necessary to satisfy the Corporate Serviced Unit requirements applicable to residential units under this Lease, Director’s approval shall be given or withheld in Director’s reasonable discretion. To the extent practical, Director shall approve or disapprove said proposed Sublease, amendment or assignment within thirty (30) days after receipt thereof. In no event, however, shall any such Sublease, amendment or assignment be made or become effective without the prior approval of Director. Each such Sublease shall specifically provide that the Sublessee shall comply with all of the terms,
covenants, and conditions of this Lease applicable to the portion of the Premises subject to
the Sublease.

Notwithstanding any contrary provision of this Article 11, Lessee shall not be
required to obtain County's approval of any Sublease of an individual apartment unit in the
ordinary course to a person or persons who will physically occupy the subleased unit, or of a
Sublease of up to thirty (30) Corporate Serviced Units to a single Sublessee, as long as in
each case such Sublease is in substantially the form of the standard residential apartment
lease hereafter submitted to and approved by County and the term of such Sublease does not
exceed one (1) year (each, an "Approved Apartment Lease"). The terms and provisions of
Sections 11.2 and 11.3 of this Lease shall not be applicable to Approved Apartment Leases.
Upon request by County, Lessee shall furnish County with a current rent roll respecting the
Approved Apartment Leases and the opportunity to inspect and copy all of such Approved
Apartment Leases.

11.1.3 Major Sublease. Lessee shall enter into a Major Sublease only with a
reputable owner or manager of comparable residential apartment facilities such as exist on
the Premises. In light of the inherent detailed nature of a Major Sublease, Lessee shall
deliver to County a copy of any proposed Major Sublease, or any sub-sublease or any other
document pursuant to which an interest is proposed to be transferred in all or substantially all
of the Premises, not less than sixty (60) days prior to the proposed effective date of such
proposed Major Sublease or other document, for County's review and approval pursuant to
the procedures and requirements specified in Section 11.2.

11.2 Approval of Assignments and Major Subleases. Except as specifically provided in
this Article 11 or in Article 12, Lessee shall not, without the prior written consent of County, which
shall be based upon factors described in Exhibit C hereto, which is incorporated herein by this
reference ("Assignment Standards"), either directly or indirectly give, assign, hypothecate,
encumber, transfer, or grant control of this Lease or any interest, right, or privilege therein (including
without limitation the right to manage or otherwise operate the Improvements located from time to
time on the Premises), or enter into a Major Sublease affecting the Premises, or license the use of the
all or substantially all of the Premises. Any Change of Ownership that is not an Excluded Transfer
shall for purposes of this Article 11 be treated as an assignment of Lessee's interest under this Lease.
In addition, for purposes of this provision, the following shall require the prior written consent of
County to be effective: (1) the addition, removal or replacement of one or more general partners or
managing members in a Lessee which is a limited partnership or limited liability entity, except (a) by
death, insolvency, incapacity, resignation (except for a sole general partner, if any) or removal of a
general partner or managing member and his replacement by a vote of the limited partners, the
remaining general partners or remaining members, or (b) if any general partner or managing member
owning more than fifty percent (50%) of the interests of the partnership or limited liability entity
acquires the interest of another general partner or managing member owning fifteen percent (15%)
or less of the interests in the partnership or limited liability entity; (2) the sale, assignment, or
transfer of fifty-percent (50%) or more of the stock in a corporation which owns or is a general
partner or managing member of a partnership or limited liability entity owning an interest in this
Lease. Lessee shall provide County with any information reasonably requested by County in order
to determine whether or not to grant approval of the assignment as provided herein. These same
limitations and approval requirements shall apply with respect to the Sublessee's interest under a
Major Sublease.
11.2.1 County’s Use of Discretion and Limitation on Permissible Assignees. In exercising its discretion to approve assignments as provided in this Section 11.2, County shall not unreasonably delay its consent to any proposed assignment, and if County determines that the Assignment Standards are satisfied, County shall consent to such proposed assignment.

11.2.2 Involuntary Transfers Prohibited. Except as otherwise specifically provided in this Lease, neither this Lease nor any interest therein shall be assignable or transferable in proceedings in attachment, garnishment, or execution against Lessee, or in voluntary or involuntary proceedings in bankruptcy or insolvency or receivership taken by or against Lessee, or by any process of law including proceedings under the Bankruptcy Act.

11.2.3 Procedure. Requests for approval of any proposed assignment shall be processed in accordance with the following procedures:

11.2.3.1 Prior to entering into any agreement requiring the approval of County pursuant to Sections 11.1 or 11.2, Lessee (or the entity seeking approval of such assignment) shall notify County and deliver to County all information relevant to the proposed assignment, including without limitation any term sheets, letters of intent, draft Major Subleases, any other documents which set forth any proposed agreement regarding the Premises and the information set forth in subsection 11.2.3.5. County will evaluate the information provided to it and County may request additional information as may be reasonably necessary to act on the request. Under no circumstances will County formally discuss an assignment with any proposed assignee prior to reviewing the proposal with Lessee.

11.2.3.2 In completing its review of the proposal and granting or withholding its consent thereto, County will not be bound by any deadline contained in any proposed assignments, Major Subleases, escrow instructions or other agreements to which County is not a party.

11.2.3.3 Lessee acknowledges that the time needed for County to review a proposed assignment depends on many factors, including without limitation the complexity of the proposed transaction, the financial and other information submitted for review, and the workload of County’s personnel. Notwithstanding the foregoing, County shall act as promptly as governmental processes permit in processing and acting upon a requested approval of an assignment of Lessee’s interest under this Article 11.

11.2.3.4 Lessee shall be required to reimburse County for County’s Actual Costs incurred in connection with the proposed assignment, whether or not County ultimately grants its approval to the proposed assignment. Lessee shall receive a credit toward those costs to the extent that an Administrative Charge is paid in connection with the assignment.

11.2.3.5 Lessee or the proposed assignee shall provide County with sufficient information for County to determine if the proposed transaction is in the public interest. The information that must be provided includes, but shall not be limited to, the following:
(a) **Nature of the Assignee.** Full disclosure is required in accordance with this Lease and County’s applicant disclosure policy then in effect. Additionally, a flowchart identifying the chain of ownership of the assignee and its decision-making authority shall be provided to County. County shall be advised if the proposed assignee, or any other person or entity for whom disclosure is required pursuant to County’s disclosure policy, has had any leasehold or concessionaire’s interest canceled or terminated by the landlord due to the tenant or lessee’s breach or default thereunder;

(b) **Financial Condition of Assignee.** County shall be provided with current, certified financial statements, including balance sheets and profit and loss statements, demonstrating the proposed assignee’s financial condition for the preceding five (5) years, or such shorter period that assignee has been in existence. This requirement shall also apply to any related person or entity which will guarantee the obligations of the proposed assignee or provide any funds or credit necessary to the proposed transaction to such proposed assignee.

(c) **Financial Analysis.** County shall be provided with the proposed assignee’s financing plan for the operation of the Premises and for any contemplated improvement thereof, demonstrating such proposed assignee’s financial capability to so operate the Premises and construct such improvements. Such financing plan shall include, but not be limited to, information detailing (1) equity capital; (2) sources and uses of funds; (3) terms of financing; (4) debt service coverage and ratio; and (5) loan to value ratio. The proposed assignee shall also provide County with documentation demonstrating such proposed assignee’s financial viability, such as letters of commitment from financial institutions which demonstrate the availability of sufficient funds to complete any proposed construction or improvements on the Premises. Further, such proposed assignee shall authorize the release of financial information to County from financial institutions relating to the proposed assignee or other information supplied in support of the proposed assignment.

(d) **Business Plan.** County shall be provided with the proposed assignee’s business plan for the Premises, if applicable, including pro forma financial projections for the Premises for the five (5) year period beginning upon the commencement of the proposed assignment. Such pro forma projections will include capital costs, income and expenses, as well as debt service and all other payments to providers of debt and equity, and will be accompanied by a statement of basic assumptions and an identification of the sources of the data used in the production of such projections.

(e) **Assignor’s Financial Statements.** County shall be provided with certified financial statements, including balance sheets and profits and loss statements concerning the assignor Lessee and its operations for the three (3) most recent years prior to the proposed transaction.
(f) Cure of Defaults. County shall be provided with the proposed assignee’s specific plans to cure any and all delinquencies under this Lease which are identified by County prior to approval of the proposed assignment.

(g) Prospectus Materials. County shall be provided with any materials distributed to third parties regarding the business of the proposed assignee to be conducted on or from the Premises.

(h) Other Information. County shall be provided with a clear description of the terms and conditions of the proposed assignment, including a description of the proposed use of the Premises and any proposed alterations or improvements to the Premises. Additionally, County shall be provided with any and all other information which it reasonably requests of Lessee in connection with its review of the proposed transaction, including without limitation materials pertinent to the issues noted in this subsection to the extent that they exist, such as escrow instructions, security agreements, personal property schedules, appraisals, market reports, lien releases, UCC Statements, preliminary title reports, management agreements affecting the Premises, contracts in excess of $25,000 affecting the Premises, schedules of pending or threatened litigation, and attorneys’ closing opinions relating to Lessee, the proposed assignee or the Premises. County shall endeavor to keep the foregoing materials described in this subsection 11.2.3.5 confidential, subject to the Public Records Act and other Applicable Laws.

11.2.3.6 Nondisturbance. At the request of Lessee, County shall execute a subordination, nondisturbance and attornment agreement on commercially reasonable terms in favor of any Major Sublessee.

11.2.3.7 Final Documents. As a condition to County’s consent to a proposed assignment, County shall be provided with an executed Assignment and Acceptance of Assignment in form and content as approved by the County. Ten (10) copies of each must be submitted to County, of which five (5) shall be signed originals and properly acknowledged.

11.2.4 County Right to Recapture. If Lessee proposes to assign its interest in this Lease or the Premises, proposes to enter into any Major Sublease affecting the Premises or proposes to transfer a Controlling Interest in the leasehold (with any such proposed transaction herein referred to as a “Proposed Transfer”), it shall provide County with written notice of such desire, which notice shall include the sale price (“Lessee Sale Price”) at which it is willing to consummate the Proposed Transfer. For purposes hereof, a “Controlling Interest” in the leasehold shall mean seventy five percent (75%) or more of the direct or indirect beneficial ownership of the capital and profits interests in Lessee, together with or including the interests of the managing general partners of Lessee. Within sixty (60) days after receipt of Lessee’s notice of a Proposed Transfer, County shall provide Lessee with written notification as to whether it has elected to acquire an option to purchase the interest subject to the Proposed Transfer. During said sixty (60) day period, Lessee may continue to market the interest subject to the Proposed Transfer, provided that such interest is offered subject to County’s rights as provided herein. In the event that, prior to the expiration of said sixty (60) day period, County has given notice to Lessee that it has elected to acquire said
option, County shall have an assignable option to purchase the interest subject to the
Proposed Transfer ("County Option") at the Lessee Sale Price. Such County Option shall
have a term of five (5) calendar months from the date of County's notice of its election to
acquire such option. During the term of the County Option, Lessee shall make the Premises
and its books and records reasonably available for inspection by County and third parties as
reasonably requested by County. Subject to the Public Records Act and other Applicable
Laws, and subject to disclosure in connection with its efforts to market Lessee's interest to
third parties, County shall endeavor to keep the foregoing materials confidential. In the event
that County causes Lessee to issue the County Option and subsequently declines to purchase
the interest subject to the Proposed Transfer at the Lessee Sale Price, County shall pay to
Lessee at the expiration of the County Option period (or, at County's election, credit to
Lessee against the next applicable installment(s) of Annual Minimum Rent and Percentage
Rent), a sum (the "County Option Price") which represents (i) three percent (3%) of the
Lessee Sale Price, plus (ii) seven percent (7%) interest per annum on said three percent (3%)
of the Lessee Sale Price, from the date Lessee received notice of County's election to receive
the County Option through the date on which the County Option Price, together with interest thereon, is paid or credited in full. If County either (a) fails to elect to cause Lessee to issue
the County Option within said sixty (60) day period or (b) gives notice that it has elected not
to acquire the interest subject to the Proposed Transfer, then during the ensuing nine (9)
month period after the date (the "Trigger Date") which is the earlier of such notice or the
expiration of such sixty (60) day period, Lessee shall be entitled to enter into an agreement
with a third party for the Proposed Transfer (subject to County's approval rights as otherwise
set forth in this Lease) so long as (1) the Proposed Transfer price is equal to or greater than
the Lessee Sale Price last offered to County and upon no more favorable material other terms
than those offered to County, and (2) the closing of the Proposed Transfer is actually
consummated within twelve (12) months after the Trigger Date (which twelve (12) month
period shall be extended to the extent the closing is delayed due to a delay by County in
approving the transaction within sixty (60) days after County has received a notice from
Lessee requesting County's approval of such transaction and all information required by
County under this Lease to permit County to evaluate the transaction). In the event of a
proposed Major Sublease or other permitted assignment of less than all of the Premises,
County's election shall pertain to such portion of the Premises which is the subject of the
proposed Sublease or assignment and, in the event that County elects to acquire such portion
of Lessee's interest in the Premises, Lessee's Annual Minimum Rent shall be proportionally
reduced and Lessee's obligation to pay Percentage Rent shall pertain only to the amounts
derived from the portion of the Premises retained by Lessee. In the event that County elects
to recapture all or any portion of the Premises as provided herein, Lessee agrees to execute
promptly a termination agreement and such other documentation as may be reasonably
necessary to evidence the termination of this Lease, to set a termination date and to prorate
rent and other charges with respect to the termination. Notwithstanding any contrary
 provision hereof, County's rights pursuant to this subsection 11.2.4 shall not apply to (I)
Financing Events, (II) those events identified in subsection 4.6.2 of this Lease, or (III) a
transaction involving the sale, exchange or transfer of all or substantially all of the residential
properties collectively owned, directly or indirectly, by R&B Realty Group and its affiliates
(the "R&B Portfolio"), if such transaction is consummated prior to March 31, 2022. For
purposes of this subsection 11.2.4, if one or more properties in the R&B Portfolio are
excluded from a sales transaction involving the R&B Portfolio because a person or entity
unaffiliated with R&B Realty Group holds an equity interest in the transferor entity and
disapproves the inclusion of such property in the transaction, then the transaction will

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nonetheless constitute a sale of all or substantially all of the R&B Portfolio if all or substantially all of the other properties in the R&B Portfolio are included in the transaction and in any case not less than seventy-five percent (75%) of the gross value of all properties in the R&B Portfolio (including the gross value of those properties which are excluded from the transaction due to a disapproval of the transaction by a non-R&B Realty Group affiliate) are included in the transaction.

11.2.5 County Credits Toward Purchase Price. In the event that County or its assignee elects to exercise the County Option, it shall receive the following credits toward the Lessee Sale Price: (1) the Net Proceeds Share which would be payable to County in the event that a third party were to purchase the interest offered at the Lessee Sale Price and (2) an amount which represents unpaid Annual Minimum Rent, Percentage Rent, and all other amounts due and payable but unpaid under the Lease (including any additional Percentage Rent that may arise in connection with an audit), if any, with late fees and interest as provided herein, from the end of the period most recently subject to County audit through the date of the purchase of the interest by County. In lieu of the credit described in (2) above, Lessee may provide County with a letter of credit or other security satisfactory to County to secure the payment of such unpaid amounts when finally determined by County. During the term of the County Option, Lessee shall cause to be available to County all books and records reasonably necessary in order to determine the amount of such unpaid Annual Minimum Rent, Percentage Rent, and other amounts payable under the Lease. In the event that County or its assignee exercises the County Option, but the transaction fails to close due to a failure of the parties to agree upon an appropriate allowance for such unpaid Annual Minimum Rent, Percentage Rent, and other amounts or appropriate security for the payment thereof, then County shall have no obligation to pay or credit to Lessee the County Option Price.

11.3 Terms Binding Upon Successors, Assigns and Sublessees. Except as otherwise specifically provided for herein, each and all of the provisions, agreements, terms, covenants, and conditions herein contained to be performed, fulfilled, observed, and kept by Lessee hereunder shall be binding upon the heirs, executors, administrators, successors, and assigns of Lessee, and all rights, privileges and benefits arising under this Lease in favor of Lessee shall be available in favor of its heirs, executors, administrators, successors, and assigns. Notwithstanding the foregoing, no assignment or subletting by or through Lessee in violation of the provisions of this Lease shall vest any rights in any such assignee or Sublessee. Any approved assignment of this Lease shall release the assignor of all liability arising due to actions or omissions on or after the effective date of such assignment, provided the assignee assumes all of such liability, including without limitation the obligation of assignee to cure any defaults and delinquencies under this Lease and to pay County Percentage Rent and any other amounts attributable to the period prior to the assignment, but not discovered by County or the assignee until after the assignment; provided, further, the assignor shall not be relieved of any liability for the payment of the Administrative Charge or the required portion of any Net Proceeds Share or Net Refinancing Proceeds which arise upon such assignment as provided herein.

12. ENCUMBRANCES

12.1 Financing Events. Lessee may, with the prior written consent of Director, which shall not be unreasonably withheld, and subject to any specific conditions which may be reasonably imposed by Director, consummate one or more Financing Event(s) (as defined below). Lessee shall
submit to Director a preliminary loan package and thereafter a complete set of all proposed transaction documents in connection with each proposed Financing Event. The preliminary loan package shall include the loan commitment (or loan application or term sheet if the lender has not yet approved the commitment) and any other documents, materials or other information reasonably requested by Director. Lessee shall have the right, but not the obligation, to include draft or form loan documents in the preliminary loan package. Director shall have sixty (60) days to grant or withhold approval of the preliminary loan package. Director shall have sixty (60) days after receipt of substantially complete loan documents conforming to the approved preliminary loan package in which to grant or withhold final approval of the Financing Event; provided, however, that if the preliminary loan package included draft loan documents then the foregoing sixty (60) day period shall be reduced to thirty (30) days with respect to a subsequent submission of the loan documents. If not approved by Director in writing within the foregoing periods, the proposed Financing Event shall be deemed disapproved by Director (and, if so requested in writing by Lessee, Director shall within thirty (30) days of such request deliver to Lessee a written description of Director’s objections to said proposed Financing Event). Lessee shall reimburse County for County’s Actual Cost incurred in connection with its review of the proposed Financing Event. For the purposes of this Lease, including without limitation the provisions of Sections 4.6 through 4.8 hereof, a “Financing Event” shall mean any financing or refinancing consummated by Lessee, whether with private or institutional investors or lenders, where such financing or refinancing is an Encumbrance (as defined below).

12.1.1 Encumbrances. As used in this Lease, an “Encumbrance” shall be any direct or indirect grant, assignment, transfer, mortgage, hypothecation, grant of control over, or encumbrance of all or any portion of Lessee’s interest under this Lease and the estate so created, including without limitation a direct or indirect assignment of Lessee’s right to receive rents from subtenants, and a pledge of partnership interests or other beneficial ownership interests in Lessee by the principals of Lessee (if an assignment or transfer of such partnership interests or other beneficial ownership interests would have required County’s consent under this Lease), to a lender (upon County approval of the Encumbrance and consummation of the lending transaction, the “Encumbrance Holder”) on the security of Lessee’s interest in the Lease and the Premises, the shares or interests of beneficial ownership in Lessee, or otherwise secured by Lessee’s rights in and to the Premises. One (1) copy of any and all security devices or instruments as finally executed or recorded by the parties in connection with any approved Encumbrance shall be filed with Director not later than seven (7) days after the effective date thereof. These same limitations and approval requirements shall apply with respect to the financing and the Encumbrance Holder of any Major Sublessee’s interest pursuant to a Major Sublease.

12.1.2 Consent Not Required to Transfer Resulting from Foreclosure. The written consent of County shall not be required in the case of:

12.1.2.1 A transfer of this Lease or a Major Sublease at a foreclosure sale or at a judicial foreclosure or voluntary conveyance to the Encumbrance Holder or an affiliate in lieu thereof; or

12.1.2.2 A single subsequent transfer of the Lease or a Major Sublease by an Encumbrance Holder, or an affiliate thereof, who was a purchaser at such foreclosure sale or the transferee in a transfer in lieu thereof, provided the transferee expressly
agrees in writing to assume and to perform all of the obligations under this Lease and, if applicable, a Major Sublease.

12.1.3 Effect of Foreclosure. In the event of a transfer under subsection 12.1.2, the Encumbrance Holder shall forthwith give notice to County in writing of any such transfer setting forth the name and address of the transferee and the effective date of such transfer, together with a copy of the document by which such transfer was made.

12.1.3.1 Any transferee under the provisions of subsection 12.1.2.1 which is a commercial bank, savings and loan institution, insurance company, pension fund, investment bank, opportunity fund, mortgage conduit, real estate investment trust or other similar financial institution which ordinarily engages in the business of making or holding loans secured by collateral similar to the Premises, or an affiliate thereof, including without limitation, Federal Home Loan Mortgage Corporation ("Institutional Lender"), shall be liable to perform the full obligations of Lessee under this Lease until a subsequent transfer of the Lease under subsection 12.1.2.2 or a transfer otherwise approved by County, and shall thereafter be released from any liability subsequently accruing or arising under this Lease.

12.1.3.2 A transferee under subsection 12.1.2.1 which is not an Institutional Lender and any subsequent transferee under the provisions of subsection 12.1.2.2 shall be liable to perform the full obligations of Lessee under this Lease and as a condition to the completion of such transfer must cure, remedy, or correct any Event of Default existing at the time of such transfer or arising thereafter due to an event or occurrence before date of transfer, other than those Events of Default that are not reasonably susceptible of being cured as provided herein.

12.1.3.3 Neither an Administrative Charge nor any Net Proceeds Share shall be payable in respect of or charged against any amount payable under the Encumbrance to or for the benefit of the Encumbrance Holder in connection with a transfer pursuant to subsection 12.1.2.

12.2 Right to Notice and Cure Defaults. All Encumbrance Holders and Major Sublessees shall have the right, at any time during the term of its Encumbrance or Major Sublease, as applicable, but prior to the termination of this Lease, and as further provided in Section 12.4, to do any act or thing required of Lessee in order to prevent termination of Lessee's rights hereunder, and all such acts or things so done hereunder shall be treated by County the same as if performed by Lessee.

12.3 No Subordination. County's rights in the Premises and this Lease, including without limitation County's right to receive Annual Minimum Rent and Percentage Rent, shall not be subordinated to the rights of any Encumbrance Holder. Notwithstanding the foregoing, an Encumbrance Holder shall have all of the rights set forth in the security instrument creating the Encumbrance, as approved by County in accordance with Section 12.1, to the extent that such rights are not inconsistent with the terms of this Lease, including the right to commence an action against Lessee for the appointment of a receiver and to obtain possession of the Premises under and in accordance with the terms of said Encumbrance, provided that all obligations of Lessee hereunder shall be kept current, including but not limited to the payment of rent and curing of all defaults or Events of Default hereunder.
12.4 Delay in Exercising Termination Remedy. County shall not exercise any remedy available to it upon the occurrence of an Event of Default (other than pursuant to Section 13.5), unless it first shall have given written notice of such default to each and every Major Sublessee and Encumbrance Holder that have notified Director in writing of its interest in the Premises or this Lease and the addresses to which such notice should be delivered. Such notice shall be sent simultaneously with the notice or notices to Lessee. An Encumbrance Holder or Major Sublessee shall have the right and the power to cure the Event of Default specified in such notice in the manner prescribed below. If such Event or Events of Default are so cured, this Lease shall remain in full force and effect.

12.4.1 Manner of Curing Default. Events of Default may be cured by an Encumbrance Holder or Major Sublessee in the following manner:

(1) If the Event of Default is in the payment of rental, taxes, insurance premiums, utility charges or any other sum of money, an Encumbrance Holder or the Major Sublessee may pay the same, together with any Late Fee or interest payable thereon, to County or other payee within thirty five (35) days after mailing of the aforesaid notice of default to the Encumbrance Holder or the Major Sublessee. If, after such payment to County, Lessee pays the same or any part thereof to County, County shall refund said payment (or portion thereof) to such Encumbrance Holder or Major Sublessee.

(2) If the Event of Default cannot be cured by the payment of money, but is otherwise curable, the default may be cured by an Encumbrance Holder or Major Sublessee as follows:

(a) If an Encumbrance Holder or Major Sublessee cures, remedies and corrects the default within thirty (30) days after the end of Lessee’s cure period as provided in Section 13.1 hereof; provided, however, if curing of such default requires activity over a longer period of time, such default may be cured if within said thirty (30) day period, such Encumbrance Holder or Major Sublessee commences and thereafter continues to use due diligence to perform whatever acts may be required to cure the particular default; in the event Lessee commences to cure the default within Lessee’s applicable cure period and thereafter fails or ceases to pursue the cure with due diligence, the Encumbrance Holder’s and Major Sublessee’s thirty (30) day period shall commence upon the later of the end of Lessee’s cure period or the date upon which County notifies the Encumbrance Holder and/or Major Sublessee that Lessee has failed or ceased to cure the default with due diligence.

(b) With respect to an Encumbrance Holder, but not a Major Sublessee, if before the expiration of said thirty (30) day period, said Encumbrance Holder notifies County of its intent to commence foreclosure of its interest (whether judicially or under the power of sale or otherwise), and within sixty (60) days after the mailing of said notice, said Encumbrance Holder (i) actually commences foreclosure proceedings and prosecutes the same thereafter with due diligence, said sixty (60) day period shall be extended by the time necessary to complete such foreclosure proceedings, or (ii) if said Encumbrance Holder is prevented from commencing foreclosure proceedings by any order, judgment or decree of any court or regulatory body of competent jurisdiction, and said Encumbrance Holder diligently seeks release from or reversal of such order, judgment or decree, said sixty (60) day period shall be extended by the time necessary to obtain such release or reversal and thereafter to complete such foreclosure proceedings. Within thirty five (35) days after such
foreclosure sale and the vesting of title in the purchaser thereat (whether or not such purchaser is the Encumbrance Holder), said purchaser shall, as a condition to the completion of such transfer, cure, remedy or correct the default, or commence and thereafter pursue with due diligence, the performance of the thing or acts required to be done to cure, correct and remedy said default.

12.5 Amendment; Voluntary Termination or Surrender. This Lease shall not be amended or voluntarily or consensually terminated or surrendered by Lessee without the prior written consent of the Encumbrance Holder.

12.6 New Lease. In the event that this Lease is terminated by County at any time by reason of an Event of Default by Lessee which shall be incurable by Encumbrance Holder, or by a surrender, cancellation or termination by Lessee, or if Lessee shall have rejected or otherwise terminated this Lease pursuant to Applicable Law, then, at Encumbrance Holder’s election, County shall enter into a new lease with Encumbrance Holder or an affiliate thereof for the then remaining Term of this Lease on the same terms and conditions as shall then be contained in this Lease, provided that Encumbrance Holder shall, as a condition to such new lease cure all Events of Default which may have existed which can be cured by the payment of money, and agree to cure within such period of time as reasonably considered by Director to be appropriate given the nature of the default, all other Events of Default which may have existed which are reasonably susceptible of being cured as provided herein. Encumbrance Holder’s election shall be made by giving County written notice of such election within ten (10) days after the event giving rise to Encumbrance Holder’s election. Within a reasonable period after request therefore, County shall execute and return to Encumbrance Holder any and all documents reasonably necessary to secure or evidence Encumbrance Holder’s interest in the new lease or the Premises. From and after the effective date of the new lease, Encumbrance Holder (or its affiliate) may on one occasion assign or transfer its interest to any person or entity without obtaining County’s or Director’s consent thereto, and Encumbrance Holder (or its affiliate) shall be thereupon relieved of all further liability under the Lease or the new lease accruing after the date of such transfer, and such assignee or transferee shall expressly assume all of the Lessee’s obligations thereunder; provided that Encumbrance Holder shall remain liable to cure the defaults which existed as of the date of the termination of the prior lease, the cure (or agreement to cure) of which was a condition to the grant of the new lease. Any other subsequent transfer or assignment of such lease shall be subject to all of the requirements of Article 11 of this Lease. If there are multiple Encumbrance Holders, this right shall inure to the most junior Encumbrance Holder in order of priority; provided, however, if such junior Encumbrance Holder shall accept the new lease, the priority of each of the more senior Encumbrance Holders shall be restored in accordance with all terms and conditions of such Encumbrances(s). If a junior Encumbrance Holder does not elect to accept the new lease within ten (10) days of receipt of notice from County, the right to enter into a new lease shall be provided to the next most senior Encumbrance Holder, under the terms and conditions described herein, until an Encumbrance Holder either elects to accept a new lease, or no Encumbrance Holder so elects.

13. DEFAULT.

13.1 Events of Default. The following are deemed to be “Events of Default” hereunder:

13.1.1 Monetary Defaults. The failure of Lessee to pay the rentals due, or make any other monetary payments required under this Lease (including, without limitation, deposits to the Renovation Fund and/or Furnishings Fund), within five (5) days after written notice that
said payments are overdue. Lessee may cure such nonpayment by paying the amount overdue, with interest thereon and the applicable Late Fee, within such five (5) day period.

13.1.2 Failure to Comply with Construction Obligations. The failure of Lessee to comply with the obligations and timeframes set forth in Article 5 of this Lease if not cured within ten (10) business days after written notice of such failure, if no other notice of such failure is otherwise required hereunder.

13.1.3 Maintenance of Security Deposit. The failure of Lessee to maintain and/or replenish the Security Deposit required pursuant to Article 8 of this Lease if not cured within ten (10) days after written notice of such failure.

13.1.4 Failure to Perform Other Obligations. The failure of Lessee to keep, perform, and observe any and all other promises, covenants, conditions and agreements set forth in this Lease, including without limitation the obligation to maintain adequate accounting and financial records, within thirty five (35) days after written notice of Lessee’s failure to perform from Director; provided, however, that where Lessee’s performance of such covenant, condition or agreement is not reasonably susceptible of completion within such thirty five (35) day period and Lessee has in good faith commenced and is continuing to perform the acts necessary to perform such covenant, condition or agreement within such thirty five (35) day period, County will not exercise any remedy available to it hereunder for so long as Lessee uses reasonable due diligence in continuing to pursue to completion the performance such covenant, condition or agreement and so completes performance within a reasonable time.

13.1.5 Nonuse of Premises. The abandonment, vacation, or discontinuance of use of the Premises, or any substantial portion thereof, for a period of thirty five (35) days after written notice of Lessee’s breach of this Section 13.1.5, except when prevented by Force Majeure or when closed for renovations or repairs required or permitted to be made under this Lease.

Any notice required to be given by County pursuant to subsections 13.1.1 through and including 13.1.5 shall be in addition to, and not in lieu of, any notice required under Section 1161 of the California Code of Civil Procedure.

13.2 Limitation on Events of Default. Lessee shall not be considered in default as to any provision of this Lease when such default is the result of or pursuant to, any process, order, or decree of any court or regulatory body of competent jurisdiction, or any other circumstances which are physically impossible to cure provided Lessee uses due diligence in pursuing whatever is required to obtain release from or reversal of such process, order, or decree or is attempting to remedy such other circumstances preventing its performance.

13.3 Remedies. Upon the occurrence of an Event of Default, and subject to the rights of any Encumbrance Holder or Major Sublessee to cure such Event of Default as provided in Section 12.4 hereof, County shall have, in addition to any other remedies in law or equity, the following remedies which are cumulative:

13.3.1 Terminate Lease. County may terminate this Lease by giving Lessee written notice of termination. On the giving of the notice, all Lessee’s rights in the Premises and in all Improvements shall terminate. Promptly after notice of termination, Lessee shall
surrender and vacate the Premises and all Improvements in broom-clean condition, and County may re-enter and take possession of the Premises and all remaining Improvements and, except as otherwise specifically provided in this Lease, eject all parties in possession or eject some and not others, or eject none. Termination under this subsection shall not relieve Lessee from the payment of any sum then due to County or from any claim for damages against Lessee as set forth in subsection 13.4.3, or from Lessee's obligation to remove Improvements at County's election in accordance with Article 2. County agrees to use reasonable efforts to mitigate damages.

13.3.2 Keep Lease in Effect. Without terminating this Lease, so long as County does not deprive Lessee of legal possession of the Premises and allows Lessee to assign or sublet subject only to County's rights set forth herein, County may continue this Lease in effect and bring suit from time to time for rent and other sums due, and for Lessee's breach of other covenants and agreements herein. No act by or on behalf of County under this provision shall constitute a termination of this Lease unless County gives Lessee written notice of termination. It is the intention of the parties to incorporate the provisions of California Civil Code Section 1951.4 by means of this provision.

13.3.3 Termination Following Continuance. Even though it may have kept this Lease in effect pursuant to subsection 13.3.2, thereafter County may elect to terminate this Lease and all of Lessee's rights in or to the Premises unless prior to such termination Lessee shall have cured the Event of Default or shall have satisfied the provisions of Section 13.2, hereof. County agrees to use reasonable efforts to mitigate damages.

13.4 Damages. Should County elect to terminate this Lease under the provisions of the foregoing Section, County shall be entitled to recover from Lessee as damages:

13.4.1 Unpaid Rent. The worth, at the time of the award, of the unpaid rent that had been earned at the time of termination of this Lease;

13.4.2 Post-Termination Rent. The worth, at the time of the award, of the unpaid rent that would have been earned under this Lease after the date of termination of this Lease until the date Lessee surrenders possession of the Premises to County; and

13.4.3 Other Amounts. The amounts necessary to compensate County for the sums and other obligations which under the terms of this Lease become due prior to, upon or as a result of the expiration of the Term or sooner termination of this Lease, including without limitation, those amounts of unpaid taxes, insurance premiums and utilities for the time preceding surrender of possession, the cost of removal of rubble, debris and other above-ground Improvements, attorney's fees, court costs, and unpaid Administrative Charges, Net Proceeds Shares and Net Refinancing Proceeds.

13.5 Others' Right to Cure Lessee's Default. County (and any Encumbrance Holder or Major Sublessee, as provided in the last sentence of this section), at any time after Lessee's failure to perform any covenant, condition or agreement contained herein beyond any applicable notice and cure period, may cure such failure at Lessee's cost and expense. If, after delivering to Lessee two (2) or more written notices with respect to any such default, County at any time, by reason of Lessee's continuing failure, pays or expends any sum, Lessee shall immediately pay to County the lesser of the following amounts: (1) twice the amount expended by County to cure such default and (2) the amount expended by County to cure such default, plus one thousand dollars ($1,000). To the
extent practicable, County shall give any Encumbrance Holders or Major Sublessees the reasonable opportunity to cure Lessee's default prior to County's expenditure of any amounts thereon.

13.6 Default by County. County shall be in default in the performance of any obligation required to be performed by County under this Lease if County has failed to perform such obligation within thirty (30) days after the receipt of notice from Lessee specifying in detail County's failure to perform; provided, however, that if the nature of County's obligation is such that more than thirty (30) days are required for its performance, County shall not be deemed in default if it shall commence such performance within thirty (30) days and thereafter diligently pursues the same to completion. Lessee shall have no right to exercise any remedy as a result of any default by County until Lessee gives thirty (30) days notice to any person having a recorded interest pertaining to County's interest in this Lease or the Premises. Such person shall then have the right to cure such default, and County shall not be deemed in default if such person cures such default within thirty (30) days after receipt of notice of the default, or such longer time as may be reasonably necessary to cure the default. Notwithstanding anything to the contrary in this Lease, County's liability to Lessee for damages arising out of or in connection with County's breach of any provision or provisions of this Lease shall not exceed the value of County's equity interest in the Premises and its right to insurance proceeds in connection with the policies required under Article 9 hereof.

14. ACCOUNTING.

14.1 Maintenance of Records and Accounting Method. In order to determine the amount of and provide for the payment of the Annual Minimum Rent, Percentage Rent, Administrative Charge, Net Proceeds Share, Net Refinancing Proceeds and other sums due under this Lease, Lessee and all Sublessees shall at all times during the Term of this Lease, and for thirty six (36) months thereafter, keep, or cause to be kept, locally, to the reasonable satisfaction of Director, true, accurate, and complete records and double-entry books of account for the current and five (5) prior Accounting Years, such records to show all transactions relative to the conduct of operations, and to be supported by data of original entry. Such records shall detail transactions conducted on or from the Premises separate and apart from those in connection with Lessee's (or sublessee's or licensee's, as appropriate) other business operations, if any. With respect to its preparation of the reports and maintenance of records required herein, Lessee shall utilize either: (i) the accrual method of accounting, or (ii) a modified accrual method of accounting, modified in that (A) delinquent rents due from individual tenants (but not corporate tenants) is not accrued, (B) expenses are accrued on an approximate basis (i.e., materiality) each month during the fiscal year with full accrual treatment for the full fiscal year financial statements, and (C) depreciation is calculated on a tax basis rather than a GAAP basis.

14.2 Cash Registers. To the extent retail sales are conducted on the Premises, or other cash or credit sales of goods or services are conducted, all such sales shall be recorded by means of cash registers or computers which automatically issue a customer's receipt or certify the amount recorded in a sales slip. Said cash registers shall in all cases have locked-in sales totals and transaction counters which are constantly accumulating and which cannot, in either case, be reset, and in addition thereto, a tape (or other equivalent security mechanism) located within the register on which transaction numbers and sales details are imprinted. Beginning and ending cash register readings shall be made a matter of daily record.

Lessees shall cause to be implemented point of sale systems which can accurately verify all sales for audit purposes and customer review purposes, which system shall be submitted to
the Director in advance of installation for his approval, which approval will not be unreasonably withheld.

Lessee’s obligations set forth in this Section 14.2 include Lessee’s obligation to insure that Lessee’s sublessees, licensees, permittees, concessionaires and any other occupants of any portion of the Premises keep records sufficient to permit County and County’s auditors to determine the proper levels of Annual Minimum Rent, Percentage Rent, Administrative Charge, Net Proceeds Share, Net Refinancing Proceeds and other sums due under this Lease.

14.3 Statement: Payment. No later than the fifteenth (15th) day of each calendar month, Lessee shall render to County a detailed statement showing Gross Receipts during the preceding calendar month, together with its calculation of the amount payable to County under Sections 4.2 through 4.8 inclusive, and shall accompany same with remittance of amount so shown to be due.

14.4 Availability of Records for Inspector’s Audit. Books of account and records hereinafore required shall be kept or made available at the Premises or at another location within Los Angeles County, and County and other governmental authorities shall have the right at any reasonable times to examine and audit said books and records, without restriction, for the purpose of determining the accuracy thereof and of the monthly statements of Gross Receipts derived from occupancy of the Premises and the compliance of Lessee with the terms of this Lease and other governmental requirements. This Section 14.4 shall survive the expiration of the Term or other termination of this Lease for thirty six (36) months after such expiration or termination.

14.4.1 Entry by County. County and its duly authorized representatives or agents may enter upon the Premises at any and all reasonable times during the Term of this Lease for the purpose of determining whether or not Lessee is complying with the terms and conditions hereof, or for any other purpose incidental to the rights of County.

14.5 Cost of Audit. In the event that, for any reason, Lessee does not make available its (or its sublessee’s or licensee’s) original records and books of account at the Premises or at a location within Los Angeles County, Lessee agrees to pay all expenses incurred by County in conducting any audit at the location where said records and books of account are maintained. In the event that any audit discloses a discrepancy in County’s favor of greater than two percent (2%) of the revenue due County for the period audited, then Lessee shall pay County audit contract costs, together with the amount of any identified deficiency, with interest thereon and Late Fee provided by Section 4.5.

14.6 Additional Accounting Methods. County may require the installation of any additional accounting methods or machines which are typically used by major residential management companies and which County reasonably deems necessary if the system then being used by Lessee does not adequately verify sales for audit or customer receipt purposes.

14.7 Accounting Year. The term “Accounting Year” as used herein shall mean each calendar year during the Term.

14.8 Annual Financial Statements. Within six (6) months after the end of each Accounting Year or, at Lessee’s election, after the completion of Lessee’s fiscal year, Lessee shall deliver to County a set of audited and certified financial statements prepared by a Certified Public Accountant who is a member of the American Institute of Certified Public Accountants and is satisfactory to County, setting forth Lessee’s financial condition and the result of Lessee’s operations for such
Accounting Year and shall include a certification of and unqualified opinion concerning Lessee’s Gross Receipts (including a breakdown by category). All financial statements prepared by or on behalf of Lessee shall be prepared in a manner that permits County to determine the financial results of operations in connection with Lessee’s activities at, from or relating to the Premises, notwithstanding that Lessee may have income and expenses from other activities unrelated to its activities on the Premises. Upon request by Lessee, Director shall have the authority in Director’s discretion, but not the obligation, to accept the financial statements described in this Section 14.8 in a form certified by an officer or employee of Lessee who is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. If at any time Director accepts certified financial statements, Director shall have the right at any time thereafter to reimpose the requirement that Lessee’s financial statements be delivered in audited form as described above.

14.9 Accounting Obligations of Sublessees. Lessee shall cause all sublessees, licensees, concessionaires and others conducting business operations on or from the Premises to comply with all terms of this Article 14 with respect to the maintenance, form, availability and methodology of accounting records, but with respect to Section 14.8, such subleases, licensees and concessionaires (other than a Major Sublessee) shall be required to provide only books and accounting records (including a Gross Receipts Statement) certified by an officer or employee of such sublessee, licensee or concessionaire, and shall not be required to deliver audited financial statements. Upon request of County, Lessee shall certify to County as to whether its sublessees, licensees and concessionaires are in compliance with this Article 14.

14.10 Inadequacy of Records. In the event that Lessee or its sublessees, licensees or concessionaires, as appropriate, fails to keep the records required by this Article 14 such a Certified Public Accountant is unable to issue an unqualified opinion as to Gross Receipts, such failure shall be deemed a breach of this Lease by Lessee. In addition to the other remedies available to County at law or equity as a result of such breach (subject to the limitations of this Section 14.10 pertaining to a Sublessee Breach, as defined below), County may prepare a calculation of the Percentage Rent payable by Lessee during the period in which the accounting records were inadequately maintained. Such calculation may be based on the past Gross Receipts levels on or from the Premises, the past or present level of Gross Receipts experienced by tenants of comparable leaseholds in Marina del Rey with comparable business operations, or any other method as determined by Director and shall utilize such methodology as Director deems reasonable. Within five (5) days after receipt of County’s determination of Percentage Rent due, if any, Lessee shall pay such Percentage Rent, together with a late fee of six percent (6%) and interest to the date of payment at the Applicable Rate from the date upon which each unpaid installment of Percentage Rent was due, together with County’s Actual Cost in connection with the attempted audit of the inadequate records and the reconstruction and estimation of Gross Receipts and the calculation of Percentage Rent due. Lessee may cure the failure of any Sublessees, licensees or concessionaires to keep the records required by this Article 14 (a “Sublessee Breach”) by paying to County the amount of County’s estimate of Percentage Rent due as determined above, together with a late fee of six percent (6%) and interest to the date of payment at the Applicable Rate from the date upon which each unpaid installment of Percentage Rent was due, together with County’s Actual Cost in connection with the attempted audit of the inadequate records and the reconstruction and estimation of Gross Receipts and the calculation of Percentage Rent due, within five (5) days after receipt of County’s determination of such Percentage Rent due. As long as Lessee cures a Sublessee Breach as provided above, such cure shall be County’s sole remedy for the Sublessee Breach.
15.1 Quiet Enjoyment. Lessee shall have the quiet and undisturbed possession of the Premises throughout the Term of this Lease, subject, however, to the terms and conditions of this Lease.

15.2 Time is of the Essence. Except as specifically otherwise provided for in this Lease, time is of the essence of this Lease and applies to all times, restrictions, conditions, and limitations contained herein.

15.3 County Costs. Lessee shall promptly reimburse County for the Actual Costs incurred by County in the review, negotiation, preparation and documentation of this Lease and the term sheets and memoranda that preceded it. The parties acknowledge that Lessee has deposited the sum of One Hundred Forty Thousand Dollars ($140,000) toward those costs. County shall deliver to Lessee a report detailing such expenditures within ninety (90) days after the Effective Date.

15.4 County Disclosure and Lessee’s Waiver.

15.4.1 Disclosures and Waiver.

15.4.1.1 “AS IS”. Lessee acknowledges that it is currently in possession of the Premises and that Lessee or its predecessor-in-interest has continuously occupied and/or managed and operated the Premises since 1962. Lessee accepts the Premises in their present condition notwithstanding the fact that there may be certain defects in the Premises, whether or not known to either party to this Lease, at the time of the execution of this Lease by Lessee and Lessee hereby represents that it has performed all investigations necessary, including without limitation soils and engineering inspections, in connection with its acceptance of the Premises “AS IS”.

15.4.1.2 Lessee acknowledges that it may incur additional engineering and construction costs above and beyond those contemplated by either party to this Lease at the time of the execution hereof and Lessee agrees that, it will make no demands upon County for any construction, alterations, or any kind of labor that may be necessitated in connection therewith.

15.4.1.3 Lessee hereby waives, withdraws, releases, and relinquishes any and all claims, suits, causes of action (other than a right to terminate as otherwise provided in this Lease), rights of rescission, or charges against County, its officers, agents, employees or volunteers which Lessee now has or may have or asserts in the future which are based upon any defects in the physical condition of the Premises and the soil thereon and thereunder, regardless of whether or not said conditions were known at the time of the execution of this instrument.

15.4.1.4 California Civil Code Section 1542 provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.
By initializing this paragraph, Lessee acknowledges that it has read, is familiar with, and waives the provisions of California Civil Code §1542 set forth above, and agrees to all of the provisions of subsection 15.4.1.3 above.

Lessee's Initial

15.4.2 Right of Offset. Lessee acknowledges that the rent provided for in this Lease has been agreed upon in light of Lessee's construction, maintenance and repair obligations set forth herein, and, notwithstanding anything to the contrary provided in this Lease or by applicable law, Lessee hereby waives any and all rights, if any, to make repairs at the expense of County and to deduct or offset the cost thereof from the Annual Minimum Rent, Monthly Minimum Rent, Percentage Rent or any other sums due County hereunder.

15.5 Holding Over. If Lessee holds over after the expiration of the Term for any cause, with or without the express or implied consent of County, such holding over shall be deemed to be a tenancy from month-to-month only, and shall not constitute a renewal or extension of the Term. During any such holdover period, the Minimum Monthly Rent and Percentage Rent rates in effect at the end of the Term shall be increased to one hundred fifty percent (150%) of such previously effective amounts. Such holdover shall otherwise be subject to the same terms, conditions, restrictions and provisions as herein contained. Such holding over shall include any time employed by Lessee to remove machines, appliances and other equipment during the time periods herein provided for such removal.

Nothing contained herein shall be construed as consent by County to any holding over by Lessee, and County expressly reserves the right to require Lessee to surrender possession of the Premises to County as provided in this Lease upon the expiration or other termination of this Lease. The provisions of this Section 15.5 shall not be deemed to limit or constitute a waiver of any other rights or remedies of County provided at law or in equity. If Lessee fails to surrender the Premises upon the termination or expiration of this Lease, in addition to any other liabilities to County accruing therefrom, Lessee shall protect, defend, indemnify and hold County harmless from all losses, costs (including reasonable attorneys' fees), damages, claims and liabilities resulting from such failure, including, without limitation, any claims made by any succeeding tenant arising from such failure to surrender, and any lost profits to County resulting therefrom.

15.6 Waiver of Conditions or Covenants. Except as stated in writing by the waiving party, any waiver by either party of any breach of any one or more of the covenants, conditions, terms, and agreements of this Lease shall not be construed to be a waiver of any subsequent or other breach of the same or of any other covenant, condition, term, or agreement of this Lease, nor shall failure on the part of either party to require exact full and complete compliance with any of the covenants, conditions, terms, or agreements of this Lease be construed as in any manner changing the terms hereof or estopping that party from enforcing the full provisions hereof, nor shall the terms of this Lease be changed or altered in any manner whatsoever other than by written agreement of County and Lessee. No delay, failure, or omission of County to re-enter the Premises or of either party to exercise any right, power, privilege, or option, arising from any default, nor any subsequent acceptance of rent then or thereafter accrued shall impair any such right, power, privilege, or option or be construed as a waiver of or acquiescence in such default or as a relinquishment of any right. No notice to Lessee shall be required to restore or revive "time of the essence" after the waiver by County of any default. Except as specifically provided in this Lease, no option, right, power,
remedy, or privilege of either party shall be construed as being exhausted by the exercise thereof in one or more instances.

15.7 Remedies Cumulative. The rights, powers, options, and remedies given County by this agreement shall be cumulative except as otherwise specifically provided for in this Lease.

15.8 Authorized Right of Entry. In any and all cases in which provision is made herein for termination of this Lease, or for exercise by County of right of entry or re-entry upon the Premises, or in case of abandonment or vacation of the Premises by Lessee, Lessee hereby irrevocably authorizes County to enter upon the Premises and remove any and all persons and property whatsoever situated upon the Premises and place all or any portion of said property, except such property as may be forfeited to County, in storage for the account of and at the expense of Lessee.

Lessee agrees to indemnify, defend and save harmless County from any cost, expense, loss or damage arising out of or caused by any such entry or re-entry upon the Premises and the removal of persons and property and storage of such property by County and its agents.

15.9 Place of Payment and Filing. All rentals shall be paid to and all statements and reports herein required and other items deliverable to County hereunder shall be filed with or delivered to the Department. Checks, drafts, letters of credit and money orders shall be made payable to the County of Los Angeles.

15.10 Service of Written Notice or Process. Any notice required to be sent under this Lease shall be in compliance with and subject to this Section 15.10. If Lessee is not a resident of the State of California, or is an association or partnership without a member or partner resident of said State, or is a foreign corporation, Lessee shall file with Director a designation of a natural person residing in the County of Los Angeles, State of California, or a service company, such as CT Corporation, which is authorized to accept service, giving his or its name, residence, and business address, as the agent of Lessee for the service of process in any court action between Lessee and County, arising out of or based upon this Lease, and the delivery to such agent of written notice or a copy of any process in such action shall constitute a valid service upon Lessee.

If for any reason service of such process upon such agent is not possible, then any officer of Lessee may be personally served with such process outside of the State of California and such service shall constitute valid service upon Lessee; and it is further expressly agreed that Lessee is amenable to such process and submits to the jurisdiction of the court so acquired and waives any and all objection and protest thereto.

Written notice addressed to Lessee at the addresses below-described, or to such other address that Lessee may in writing file with Director, shall be deemed sufficient if said notice is delivered personally, by telecopy or facsimile transmission or, provided in all cases there is a return receipt requested or the delivery service maintains records of delivery, and postage or other delivery charges are prepaid, by registered or certified mail posted in the County of Los Angeles, California, Federal Express, UPS, Airborne or DHL, or such other services as Lessee and County may mutually agree upon from time to time. Each notice shall be deemed received and the time period for which a response to any such notice must be given or any action taken with respect thereto (including cure of any prospective Event of Default) shall commence to run from the date of actual receipt of the notice by the addressee thereof in the case of personal delivery, telecopy or facsimile transmission if before 5:00 p.m. on regular business days, or upon the expiration of the third (3rd)
business day after such notice is sent from within Los Angeles County in the case of such registered or certified mail as authorized in this Section.

Copies of any written notice to Lessee shall also be simultaneously mailed to any Encumbrance Holder, Major Sublessee or encumbrancer of such Major Sublessee of which County has been given written notice and an address for service. Notice given to Lessee as provided for herein shall be effective as to Lessee notwithstanding the failure to send a copy to such Encumbrance Holder, Major Sublessee or encumbrancer.

As of the date of execution hereof, the persons authorized to receive notice on behalf of County and Lessee are as follows:

**COUNTY:**
Director
Department of Beaches and Harbors
Los Angeles County
13837 Fiji Way
Marina del Rey, California 90292
Phone: 310/305-9522
Fax: 310/821-6345

**With a Copy to:**
Office of County Counsel
Los Angeles County
500 West Temple Street
Los Angeles, California 90012
Attn: County Counsel
Phone: 213/974-1801
Fax: 213/617-7182

**LESSEE:**
Marina del Rey Country Club Apartments
2222 Corinth Avenue
Los Angeles, California 90064
Attn: Darby T. Keen
Phone: 310/444-2241
Fax: 310/479-1451

**With a Copy to:**
Brown, Winfield & Canzoneri, Inc.
300 South Grand Avenue
Suite 1500
Los Angeles, California 90071
Attn: C. Geoffrey Mitchell
Phone: 213/687-2148
Fax: 213/687-2149

15.11 **Interest.** In any situation where County has advanced sums on behalf of Lessee pursuant to this Lease, such sums shall be due and payable immediately upon demand, together with interest at the Applicable Rate (unless another rate is specifically provided herein) from the date such sums were first advanced, until the time payment is received. In the event that Lessee repays sums advanced by County on Lessee's behalf with interest in excess of the maximum rate permitted by Applicable Laws, County shall either refund such excess payment or credit it against subsequent installments of Annual Minimum Rent and Percentage Rent.
15.12 **Captions.** The captions contained in this Lease are for informational purposes only, and are not to be used to interpret or explain the particular provisions of this Lease.

15.13 **Attorneys' Fees.** In the event of any action, proceeding or arbitration arising out of or in connection with this Lease, whether or not pursued to judgment, the prevailing party shall be entitled, in addition to all other relief, to recover its costs and reasonable attorneys' fees, including without limitation attorneys' fees for County Counsel's services where County is represented by the County Counsel and is the prevailing party, and also including all fees, costs and expenses incurred in executing, perfecting, enforcing and collecting any judgment.

15.14 **Amendments.** This Lease may only be amended in writing executed by duly authorized officials of Lessee and County. Notwithstanding the foregoing, Director shall have the power to execute such amendments to this Lease as are necessary to implement any arbitration judgment issued pursuant to this Lease.

15.15 **Time For Director Approvals.** Except where a different time period is specifically provided for in this Lease, whenever in this Lease the approval of Director is required, approval shall be deemed not given unless within thirty (30) days after the date of the receipt of the written request for approval from Lessee, Director either (a) approves such request in writing, or (b) notifies Lessee that it is not reasonably possible with diligence to complete such review within the thirty (30)-day period, provides a final date (which date shall be the earliest practical date and in any event, not more than a sixty (60) day period) for approval or disapproval by Director (the "Extended Time") and approves such request in writing prior to such Extended Time. If Director does not approve such request in writing within such Extended Time, the request shall be deemed to be disapproved. In any instance in this Lease when the failure of Director to approve or disapprove a matter within a specified time period is deemed to be a disapproval, Lessee may by notice request that Director provide written reasons for the disapproval within a reasonable period following such request.

15.16 **Time For County Action.** Notwithstanding anything to the contrary contained in this Lease, wherever Director determines that a County action required hereunder necessitates approval from or a vote of one or more of County's boards or commissions or County's Board of Supervisors, the time period for County performance of such action shall be extended as is necessary in order to secure such approval or vote, and County shall not be deemed to be in default hereunder in the event that it fails to perform such action within the time periods otherwise set forth herein.

15.17 **Estoppel Certificates.** Each party agrees to execute, within ten (10) business days after the receipt of a written request therefor from the other party, a certificate stating: the documents comprising this Lease; that this Lease is in full force and effect and is unmodified (or stating otherwise, if true); that, to the best knowledge of such party, such party and the other party are not then in default under the terms of this Lease (or stating the grounds for default if such be the case); and if requested, the amount of the Security Deposit, Annual Minimum Rent, Percentage Rent and other material economic terms and conditions of this Lease. Prospective purchasers and lenders may rely on such statements.

15.18 **Indemnity Obligations.** Whenever in this Lease there is an obligation to indemnify, hold harmless and/or defend, irrespective of whether or not the obligation so specifies, it shall include the obligation to defend and pay reasonable attorney's fees, reasonable expert fees and court costs.
15.19 **Controlled Prices.** Lessee shall at all times maintain a complete list or schedule of the prices charged for all goods or services, or combinations thereof, supplied to the public on or from the Premises, whether the same are supplied by Lessee or by its Sublessees, assignees, concessionaires, permittees or licensees. Said prices shall be fair and reasonable, based upon the following two (2) considerations: first, that the property herein demised is intended to serve a public use and to provide needed facilities to the public at fair and reasonable cost; and second, that Lessee is entitled to a fair and reasonable return upon his investment pursuant to this Lease. In the event that Director notifies Lessee that any of said prices are not fair and reasonable, Lessee shall have the right to confer with Director and to justify said prices. If, after reasonable conference and consultation, Director shall determine that any of said prices are not fair and reasonable, the same shall be modified by Lessee or its Sublessees, assignees, concessionaires, permittees or licensees, as directed. Lessee may appeal the determination of Director to the Board, whose decision shall be final and conclusive. Pending such appeal, the prices fixed by Director shall be the maximum charged by Lessee.

16. **ARBITRATION.**

Except as otherwise provided by this Article 16, disputed matters which may be arbitrated pursuant to this Lease shall be settled by binding arbitration in accordance with the then existing provisions of the California Arbitration Act, which as of the date hereof is contained in Title 9 of Part III of the California Code of Civil Procedure, commencing with Section 1280.

(a) Either party (the “Initiating Party”) may initiate the arbitration process by sending written notice (“Request for Arbitration”) to the other party (the “Responding Party”) requesting initiation of the arbitration process and setting forth a brief description of the dispute or disputes to be resolved and the contentions(s) of the Initiating Party. Within ten (10) days after service of the Request for Arbitration, the Responding Party shall file a “Response” setting forth the Responding Party’s description of the dispute and the contention(s) of Responding Party. If Responding Party has any “Additional Disputes” he shall follow the format described for the Initiating Party. The Initiating Party will respond within ten (10) days after service of the Additional Disputes setting forth Initiating Party’s description of the Additional Disputes and contentions regarding the Additional Disputes.

(b) Notwithstanding anything to the contrary which may now or hereafter be contained in the California Arbitration Act, the parties agree that the following provisions shall apply to any and all arbitration proceedings conducted pursuant to this Lease:

16.1 **Selection of Arbitrator.** The parties shall attempt to agree upon an arbitrator who shall decide the matter. If, for any reason, the parties are unable to agree upon the arbitrator within ten (10) days of the date the Initiating Party serves a request for arbitration on the Responding Party, then at any time on or after such date either party may petition for the appointment of the arbitrator as provided in California Code of Civil Procedure Section 1281.6.

16.2 **Arbitrator.** The arbitrator shall be a retired judge of the California Superior Court, Court of Appeal or Supreme Court, or of any United States District Court or Court of Appeals located within the State, who has agreed to resolve civil disputes.

16.3 **Scope of Arbitration.** County and Lessee affirm that the mutual objective of such arbitration is to resolve the dispute as expeditiously as possible. The arbitration process shall not apply or be used to determine issues other than (i) those presented to the arbitrator by the Initiating
Party provided those disputes are arbitrable disputes pursuant to this Lease, (ii) Additional Disputes presented to the arbitrator by the Responding Party, provided that any such Additional Disputes constitute arbitrable disputes pursuant to this Lease and (iii) such related preliminary or procedural issues as are necessary to resolve (i) and/or (ii) above. The arbitrator shall render an award. Either party may, at its sole cost and expense, request a statement of decision explaining the arbitrator's reasoning which shall be in such detail as the arbitrator may determine. Unless otherwise expressly agreed by the parties in writing, the award shall be made by the arbitrator no later than the sooner of six (6) months after the date on which the arbitrator is selected by mutual agreement or court order, whichever is applicable, or five (5) months after the date of a denial of a petition to disqualify a potential arbitrator for cause. County and Lessee hereby instruct the arbitrator to take any and all actions deemed reasonably necessary, appropriate or prudent to ensure the issuance of an award within such period. Notwithstanding the foregoing, failure to complete the arbitration process within such period shall not render such arbitration or any determination made therein void or voidable; however, at any time after the expiration of the foregoing five (5) or six (6) month periods, as applicable, either party may deliver written notice to the arbitrator and the other party either terminating the arbitration or declaring such party's intent to terminate the arbitration if the award is not issued within a specified number of days after delivery of such notice. If the arbitrator's award is not issued prior to the expiration of said specified period, the arbitration shall be terminated and the parties shall recommence arbitration proceedings pursuant to this Article 16.

16.4 Immunity. The parties hereto agree that the arbitrator shall have the immunity of a judicial officer from civil liability when acting in the capacity of arbitrator pursuant to this Lease.

16.5 Section 1282.2. The provisions of Code of Civil Procedure § 1282.2 shall apply to the arbitration proceedings except to the extent they are inconsistent with the following:

(1) Unless the parties otherwise agree, the arbitrator shall appoint a time and place for the hearing and shall cause notice thereof to be served as provided in said § 1282.2 not less than ninety (90) days before the hearing, regardless of the aggregate amount in controversy.

(2) No later than sixty (60) days prior to the date set for the hearing (unless, upon a showing of good cause by either party, the arbitrator establishes a different period), in lieu of the exchange and inspection authorized by Code of Civil Procedure § 1282.2(a)(2)(A), (B) and (C), the parties shall simultaneously exchange the following documents by personal delivery to each other and to the arbitrator:

(a) a written Statement of Position, as further defined below, setting forth in detail that party's final position regarding the matter in dispute and specific numerical proposal for resolution of monetary disputes;

(b) a list of witnesses each party intends to call at the hearing, designating which witnesses will be called as expert witnesses and a summary of each witness's testimony;

(c) a list of the documents each intends to introduce at the hearing, together with complete and correct copies of all of such documents; and,

(d) if the issue involves Fair Market Rental Value or a valuation matter, a list of all Written Appraisal Evidence (as defined below) each intends to introduce at
the hearing, together with complete and correct copies of all of such Written Appraisal Evidence.

(3) No later than twenty (20) days prior to the date set for the hearing, each party may file a reply to the other party’s Statement of Position (“Reply”). The Reply shall contain the following information:

(a) a written statement, to be limited to that party’s rebuttal to the matters set forth in the other party’s Statement of Position;

(b) a list of witnesses each party intends to call at the hearing to rebut the evidence to be presented by the other party, designating which witnesses will be called as expert witnesses;

(c) a list of the documents each intends to introduce at the hearing to rebut the evidence to be presented by the other party, together with complete and correct copies of all of such documents (unless, upon a showing of good cause by either party, the arbitrator establishes a different deadline for delivering true and correct copies of such documents);

(d) if the issue involves Fair Market Rental Value or a valuation matter, a list of all Written Appraisal Evidence, or written critiques of the other party’s Written Appraisal Evidence if any, each intends to introduce at the hearing to rebut the evidence presented by the other party, together with complete and correct copies of all of such Written Appraisal Evidence (unless, upon a showing of good cause by either party, the arbitrator establishes a different deadline for delivering true and correct copies of such Written Appraisal Evidence); and

(e) Witnesses or documents to be used solely for impeachment of a witness need not be identified or produced.

(4) The arbitrator is not bound by the rules of evidence, but may not consider any evidence not presented at the hearing. The arbitrator may exclude evidence for any reason a court may exclude evidence or as provided in this Lease.

16.6 Statements of Position. The Statement of Position to be delivered by Section 16.5 shall comply with the following requirements:

(1) Where the dispute involves rent to be charged, market values, insurance levels or other monetary amounts, the Statements of Position shall numerically set forth the existing minimum rent, percentage rent, market value, insurance level and/or other monetary amounts in dispute, the party’s proposed new minimum rent, percentage rent, market value, insurance level and/or other monetary amounts, and shall additionally set forth the facts supporting such party’s position.

(2) If the dispute relates to Improvement Costs, the Statements of Position shall set forth the facts supporting such party’s position and the amount of each cost which the party believes should be allowed or disallowed.
16.7 **Written Appraisal Evidence.** Neither party may, at any time during the proceedings, introduce any written report which expresses an opinion regarding Fair Market Rental Value or the fair market value of the Premises, or any portion thereof, ("Written Appraisal Evidence") unless such Written Appraisal Evidence substantially complies with the following standards: it shall describe the Premises; identify the uses permitted thereon; describe or take into consideration the terms, conditions and restrictions of this Lease; correlate the appraisal method(s) applied; discuss the relevant factors and data considered; review rentals paid by lessees in Marina del Rey and other marina locations within Southern California who are authorized to conduct similar activities on comparable leaseholds; and, describe the technique of analysis, limiting conditions and computations that were used in the formulation of the valuation opinion expressed. With respect to disputes regarding Fair Market Rental Value, such Written Appraisal Evidence shall express an opinion regarding the fair market rental value of the Premises as prescribed by Section 4.4.1. Written Appraisal Evidence shall be in material conformity and subject to the requirements of the Code of Professional Ethics and the Standards of Professional Practice of The Appraisal Institute or any successor entity.

16.8 **Evidence.** The provisions of Code of Civil Procedure § 1282.2(a)(2)(E) shall not apply to the arbitration proceeding. The arbitrator shall have no discretion to allow a party to introduce witnesses, documents or Written Appraisal Evidence (other than impeachment testimony) unless such information was previously delivered to the other party in accordance with Section 16.5 and, in the case of Written Appraisal Evidence, substantially complies with the requirements of Section 16.7, or such evidence consists of a transcript of a deposition of an expert witness conducted pursuant to Section 16.9. Notwithstanding the foregoing, the arbitrator may allow a party to introduce evidence which, in the exercise of reasonable diligence, could not have been delivered to the other party in accordance with Section 16.5, provided such evidence is otherwise permissible hereunder.

16.9 **Discovery.** The provisions of Code of Civil Procedure § 1283.05 shall not apply to the arbitration proceedings except to the extent incorporated by other sections of the California Arbitration Act which apply to the arbitration proceedings. There shall be no pre-arbitration discovery except as provided in Section 16.5; provided, however, each party shall have the right, no later than seven (7) days prior to the date first set for the hearing, to conduct a deposition, not to exceed three (3) hours in duration unless the arbitrator otherwise determines that good cause exists to justify a longer period, of any person identified by the other party as an expert witness pursuant to Sections 16.5 (2)(b) or 16.5 (3)(b).

16.10 **Awards of Arbitrators.**

16.10.1 **Monetary Issues.** With respect to monetary disputes (including without limitation disputes regarding Percentage Rent, Fair Market Rental Value and the amount of coverage under the policies of insurance required pursuant to Article 9 of this Lease), the arbitrator shall have no right to propose a middle ground or any proposed modification of either Statement of Position. The arbitrator shall instead select whichever of the two Statements of Position is the closest to the monetary or numerical amount that the arbitrator determines to be the appropriate determination of the rent, expense, claim, cost, delay, coverage or other matter in dispute and shall render an award consistent with such Statement of Position. For purposes of this Section 16.10, each dispute regarding Annual Minimum Rent, each category of Percentage Rent and the amount of required insurance coverage shall be considered separate disputes (a "Separate Dispute"). While the arbitrator shall have no
right to propose a middle ground or any proposed modification of either Statement of Position concerning a Separate Dispute, the arbitrator shall have the right, if the arbitrator so chooses, to choose one party's Statement of Position on one or more of the Separate Disputes, while selecting the other party's Statement of Position on the remaining Separate Disputes. For example, if the parties are unable to agree on the Annual Minimum Rent and three Percentage Rent categories to be renegotiated pursuant to Section 4.4 and the amount of liability insurance coverage to be renegotiated pursuant to Section 9.3, then there shall be five Separate Disputes and the arbitrator shall be permitted to select the County's Statement of Position with respect to none, some or all of such five Separate Disputes and select the Lessee's Statement of Position, on the balance, if any, of such five Separate Disputes. Upon the arbitrator's selection of a Statement of Position, pursuant to this Article 16, the Statement of Position so chosen and the award rendered by the arbitrator thereon shall be final and binding upon the parties, absent Gross Error on the part of the arbitrator.

16.10.2 Nonmonetary Issues. With respect to nonmonetary issues and disputes, the arbitrator shall determine the most appropriate resolution of the issue or dispute, taking into account the Statements of Position submitted by the parties, and shall render an award accordingly. Such award shall be final and binding upon the parties, absent Gross Error on the part of the arbitrator.

16.11 Powers of Arbitrator. In rendering the award, the arbitrator shall have the power to consult or examine experts or authorities not disclosed by a party pursuant to Section 16.5(2) hereof, provided that each party is afforded the right to cross-examine such expert or rebut such authority.

16.12 Costs of Arbitration. Lessee and County shall equally share the expenses and fees of the arbitrator, together with other expenses of arbitration incurred or approved by the arbitrator. Failure of either party to pay its share of expenses and fees constitutes a material breach of such party's obligations hereunder.

16.13 Amendment to Implement Judgment. Within seven (7) days after the issuance of any award by the arbitrator becomes final, the County will draft a proposed amendment to the Lease setting forth the relevant terms of such award. Within seven (7) days after delivery of a copy of the amendment to Lessee, Lessee will sign the amendment and return the executed copy to the County, which shall thereafter be executed by County as soon as reasonably practicable.

16.14 Impact of Gross Error Allegations. Where either party has charged the arbitrator with Gross Error:

16.14.1 The award shall not be implemented if the party alleging Gross Error obtains a judgment of a court of competent jurisdiction stating that the arbitrator was guilty of Gross Error and vacating the arbitration award ("Disqualification Judgment"). In the event of a Disqualification Judgment, the arbitration process shall begin over immediately in accordance with this Section 16.14, which arbitration shall be conducted (with a different arbitrator) as expeditiously as reasonably possible.

16.14.2 The party alleging Gross Error shall have the burden of proof.

16.14.3 For the purposes of this Section 16.14, the term “Gross Error” shall mean that the arbitration award is subject to vacation pursuant to California Code of Civil Procedure § 1286.2 or any successor provision.
17. **DEFINITION OF TERMS, INTERPRETATION.**

17.1 **Meanings of Words Not Specifically Defined.** Words and phrases contained herein shall be construed according to the context and the approved usage of the English language, but technical words and phrases, and such others as have acquired a peculiar and appropriate meaning by law, or are defined in Section 1.1, are to be construed according to such technical, peculiar, and appropriate meaning or definition.

17.2 **Tense; Gender; Number; Person.** Words used in this Lease in the present tense include the future as well as the present; words used in the masculine gender include the feminine and neuter and the neuter includes the masculine and feminine; the singular number includes the plural and the plural the singular; the word "person" includes a corporation, partnership, limited liability company or similar entity, as well as a natural person.

17.3 **Business Days.** For the purposes of this Lease, "business day" shall mean a business day as set forth in Section 9 of the California Civil Code.

17.4 **Parties Represented by Consultants, Counsel.** Both County and Lessee have entered this Lease following advice from independent financial consultants and legal counsel of their own choosing. This document is the result of combined efforts of both parties and their consultants and attorneys. Thus, any rule of law or construction which provides that ambiguity in a term or provision shall be construed against the drafts-person shall not apply to this Lease.

17.5 **Governing Law.** This Lease shall be governed by and interpreted in accordance with the laws of the State of California.

17.6 **Reasonableness Standard.** Except where a different standard is specifically provided otherwise herein, whenever the consent of County, the Director or Lessee is required under this Lease, such consent shall not be unreasonably withheld or delayed, and whenever this Lease grants County, the Director or Lessee the right to take action, to request or require the other party to take action, exercise discretion, establish rules and regulations or make allocations or other determinations, County, the Director and Lessee shall act reasonably and in good faith. These provisions shall only apply to County acting in its proprietary capacity (whether directly or through the Director). In any instance in this Lease where the Director disapproves a matter and there is no express provision requiring the Director to provide reasons for such disapproval, Lessee may by notice to County request that the Director provide written reasons for Director's disapproval within a reasonable period following such request.

17.7 **Compliance with Code.** County and Lessee agree and acknowledge that this Lease satisfies the requirements of Section 25536 of the California Government Code as a result of various provisions contained herein.

17.8 **Memorandum of Lease.** The parties hereto shall execute and acknowledge a Memorandum of Lease Extension, in recordable form and otherwise satisfactory to the parties hereto, for recording on the Effective Date.

[REST OF PAGE INTENTIONALLY LEFT BLANK]
IN WITNESS WHEREOF, County and Lessee have entered into this Lease as of the day and year first written above.

APPROVED AS TO FORM:

LLOYD W. PELLMAN
COUNTY COUNSEL

By: Deputy

THE COUNTY OF LOS ANGELES

By:

Mayor, Board of Supervisors

MARINA DEL REY COUNTRY CLUB APARTMENTS,
a California general partnership

By:

Howard F. Ruby, Trustee of The Howard F. Ruby Trust
u/a dated September 5, 1978, as amended, Managing Partner

By:

Darby T. Keen, Attorney-in-Fact for Howard F.
Ruby, Trustee

By:

James M. Klein, Attorney-in-Fact for Howard F.
Ruby, Trustee

By:

Edward R. Broida, Trustee of The Edward R. Broida
Trust No. 1 u/a dated April 2, 1976, as amended,
Managing Partner

By:

Richard D. Holt, Attorney-in-Fact for Edward R.
Broida, Trustee

ATTEST:

VIOLENT VARONA-LUKENS,
Executive Officer of the Board of Supervisors

By: Deputy

APPROVED AS TO FORM:

MUNGER, TOLLES & OLSON LLP

By:

[Electronic Signature]

[Colibri:DataDoc]:#625861 v7 - Amended & Restated Lease Agreement.doc]
EXHIBIT A

LEGAL DESCRIPTION OF PREMISES

All of Parcels 355 to 358 inclusive and portions of Parcels 339, 347 to 354 inclusive, and 359 to 369 inclusive, in the County of Los Angeles, State of California, as shown on Los Angeles County Assessor's Map No. 88, filed in Book 1, pages 53 to 70 inclusive, of Assessor's Maps, in the office of the Recorder of said County, described as a whole as follows:

Beginning at the intersection of a line parallel with and 20 feet southeasterly, measured at right angles, from the southeasterly line of Parcel 370, as shown on said map, with a line parallel with and 10 feet northeasterly, measured at right angles, from the southwesterly line of said last mentioned parcel; thence South 36°00'30" East along said last mentioned parallel line 421.79 feet to the beginning of a tangent curve concave to the southwest and having a radius of 520 feet; thence southeasterly along said curve through a central angle of 16°54'54" a distance of 153.52 feet; thence North 53°59'07" East 609.84 feet; thence South 36°00'53" East 24.33 feet; thence North 53°59'07" East 246.04 feet to a curve concentric with and 47 feet southwesterly, measured radially, from a curve concave to the southwest and having a radius of 810 feet, said last mentioned curve being tangent at the northwesterly terminus thereof to a line parallel with and 35.5 feet southwesterly, measured at right angles, from the straight line in the southwesterly boundary of Parcel 406, as shown on said map, said northwesterly terminus being distant South 36°00'53" East along said last mentioned parallel line 156.78 feet from a line parallel with and 40 feet northwesterly, measured at right angles, from the straight line in the northwesterly boundary of said last mentioned parcel; thence northwesterly along said concentric curve 80.94 feet to a line parallel with and 2.5 feet southwesterly, measured at right angles, from the northeasterly line of said Parcel 359; thence North 36°00'53" West along said last mentioned parallel line 100.20 feet to the southeasterly line of the northwesterly 55.5 feet of said last mentioned parcel; thence South 52°40'22" West along said last mentioned southeasterly line 0.50 foot to the southeasterly line of the northeasterly 3 feet of said last mentioned parcel; thence North 36°00'53" West along said last mentioned southeasterly line 2.00 feet to the southeasterly line of the northwesterly 53.5 feet of said last mentioned parcel; thence South 52°40'22" West along said last mentioned southeasterly line 2.00 feet to the southeasterly line of the northeasterly 5 feet of said last mentioned parcel; thence North 36°00'53" West along said last mentioned southeasterly line 8.00 feet to the southeasterly line of the northwesterly 45.5 feet of said last mentioned parcel; thence North 52°40'22" East along said last mentioned southeasterly line 2.00 feet to a line parallel with and 3 feet southwesterly, measured at right angles, from said northeasterly line; westerly, measured at right angles, from said northeasterly line; thence North 36°00'53" West along said last mentioned parallel line 98.03 feet to the northwesterly line of the southeasterly 52.5 feet of said Parcel 360; thence North 52°40'22" East along said northwesterly line 0.50 foot to a line parallel with and 2.5 feet southwesterly, measured at right angles, from the northeasterly line of said last mentioned parcel; thence North 36°00'53" West along said last mentioned parallel line 327.59 feet to said first mentioned parallel line; thence South 52°40'22" West along said first mentioned parallel line 837.83 feet to the point of beginning.
Together with a right of way for ingress and egress over those portions of said Parcels 362 to 369 inclusive, which lie northwesterly of a line parallel with and 20 feet southeasterly, measured at right angles, from the northwesterly line of said Parcel 362.

Also together with a temporary right of way for ingress and egress, to be used in common with others, over those portions of said Parcels 353, 354 and 369, within a strip of land 24 feet wide, lying 12 feet on each side of the following described center line:

Commencing at the intersection of a line parallel with and 30 feet southwesterly, measured at right angles, from that certain course of North 36°00'30" West 20.01 feet in the southwesterly boundary of said Parcel 369, with a line parallel with and 10 feet northwesterly, measured at right angles, from that certain course of North 52°40'22" East 60.01 feet in the northwesterly boundary of said last mentioned parcel; thence South 52°40'22" West along said last mentioned parallel line 4.00 feet to the true point of beginning; thence South 27°30'28" East 42.29 feet to the beginning of a curve concave to the northeast, having a radius of 250 feet, tangent to said last mentioned course and tangent to a line parallel with and 17 feet northeasterly, measured at right angles, from that certain course of North 36°00'30" West 380.01 feet in said southwesterly boundary; thence southeasterly along said curve 37.11 feet to said last mentioned parallel line; thence South 36°00'30" East along said last mentioned parallel line 351.72 feet to a line parallel with and 17 feet northeasterly, measured at right angles, from the southwesterly line of said Parcel 353; thence South 34°06'16" East along said last mentioned parallel line to the southwesterly prolongation of above described course of North 53°59'07" East 609.84 feet in the southeasterly boundary of above described parcel of land.

The side lines of above described 24 foot strip of land shall be prolonged or shortened so as to terminate at their points of intersection and shall be prolonged or shortened at the end thereof so as to terminate in said southwesterly prolongation.

Also together with a temporary right of way for ingress, egress, parking and landscaping in and across those portions of said Parcels 353, 354 and 369, within the following described boundaries:

Beginning at the most westerly corner of above described parcel of land; thence southeasterly along the southwesterly boundary of said parcel of land to the most southerly corner of said parcel of land; thence southwesterly along the southwesterly prolongation of above described course of North 53°59'07" East 609.84 feet in the southeasterly boundary of said parcel of land to the northeasterly boundary of above described 24 foot strip of land; thence northwesterly along said northeasterly boundary to the northwesterly boundary of said Parcel 369; thence northeasterly in a direct line to the point of beginning.

Said temporary rights of way shall cease and terminate at such a time that the area covered by said rights of way is dedicated for public road and highway purposes.

Reserving and excepting unto the County of Los Angeles a right of way for storm drain and harbor utility purposes in and across that portion thereof designated on said map as easement to be reserved by said County for such purposes.

[780247.1] 2
EXHIBIT B

RENOVATION PLAN
EXHIBIT D

FURNISHINGS REPLACEMENT PLAN
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⁽¹⁾ The initial deposit value of $280,000 is increased annually at an assumed CPI of 2.5%. Deposits are assumed to occur at the beginning of the year.
⁽²⁾ Interest for each year is calculated at 4.0%.
⁽³⁾ See Exhibit 2 for estimated expenditures. Amounts are increased at an assumed CPI of 2.5%. Amount for 5-year expenditures in 2000s is $542,010. Amount is spread over the year. Amount for 10-year expenditures in 2000s is $2,490,023. Amount is spread over two years.
Oakwood Apartments, Parcel 103  
Furniture Replacement Costs

Note: Costs per item or per unit were provided by the lessee and are in 2000 dollars.

**Soft Good Replacement - Every 5 years**

Note: Soft Good replacement occurs over a one year period.

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<td>$ 399</td>
<td>242</td>
<td>96,558</td>
</tr>
<tr>
<td>1 Bedroom:</td>
<td>Sofa</td>
<td>$ 551</td>
<td>242</td>
<td>133,342</td>
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<tr>
<td></td>
<td>Love Seat</td>
<td>$ 399</td>
<td>87</td>
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<tr>
<td>2 Bedroom:</td>
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<td>$ 551</td>
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<td>Love Seat</td>
<td>$ 399</td>
<td>87</td>
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<tr>
<td>Total Cost of Soft Goods</td>
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<td>Freight, Storage and Installation</td>
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<tr>
<td>Total Cost of Soft Goods after Labor</td>
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<td></td>
<td></td>
<td>472 $ 542,010</td>
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<tr>
<td>Per Unit</td>
<td></td>
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<td>1,148</td>
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</table>

**Case Good Replacement - Every 10 years**

Note: Case good replacement occurs over a two year period, 50% in year 10 and 50% in year 11.

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Item</th>
<th>Cost per Unit</th>
<th>Furnished Units</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio:</td>
<td></td>
<td>$ 3,185</td>
<td>143</td>
<td>$ 455,455</td>
</tr>
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<td>1 Bedroom:</td>
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<td>Total Cost of Case Goods:</td>
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<td>Annual Expenditure over 2 years</td>
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## Oakwood Apartments, Parcel 103
### Furniture Replacement Sinking Fund

<table>
<thead>
<tr>
<th>Year</th>
<th>Beginning Balance</th>
<th>Deposit (1)</th>
<th>Interest Earned (2)</th>
<th>Withdrawal (3)</th>
<th>Ending Balance</th>
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<td>$0</td>
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<tr>
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<tr>
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<tr>
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<td>1,856,422</td>
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<tr>
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<td>2027</td>
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<tr>
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<td>2,594,022</td>
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<td>751,818</td>
<td>66,870</td>
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<td>770,613</td>
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</table>

(1) The initial deposit value of $280,000 is increased annually at an assumed CPI of 2.5%.

(2) Deposits are assumed to occur at the beginning of the year.

(3) Interest for each year is calculated at 4.0%.

(4) See Exhibit 2 for estimated expenditures. Amounts are increased at an assumed CPI of 2.5%.

Amount for 5-year expenditures in 2000 is $542,010. Amount is spread over the year.

Amount for 10-year expenditures in 2000 is $2,490,023. Amount is spread over two years.
Oakwood Apartments, Parcel 103  
Furniture Replacement Costs

Note: Costs per item or per unit were provided by the lessee and are in 2000 dollars.

**Soft Good Replacement - Every 5 years**

Note: Soft Good replacement occurs over a one year period.

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Item</th>
<th>Cost per Item</th>
<th>Furnished Units</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio:</td>
<td>Sofa</td>
<td>$551</td>
<td>143</td>
<td>$78,763</td>
</tr>
<tr>
<td></td>
<td>Love Seat</td>
<td>$399</td>
<td>242</td>
<td>96,558</td>
</tr>
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<td>133,342</td>
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<td></td>
<td></td>
<td></td>
<td>391,343</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>8.5%</td>
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<td></td>
<td>33,264</td>
</tr>
<tr>
<td>Supervision</td>
<td>10%</td>
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<td></td>
<td>39,134</td>
</tr>
<tr>
<td>Freight, Storage and Installation</td>
<td>20%</td>
<td></td>
<td></td>
<td>78,269</td>
</tr>
<tr>
<td>Total Cost of Soft Goods after Labor</td>
<td></td>
<td></td>
<td></td>
<td>472</td>
</tr>
<tr>
<td>Per Unit</td>
<td></td>
<td></td>
<td></td>
<td>$ 1,148</td>
</tr>
</tbody>
</table>

**Case Good Replacement - Every 10 years**

Note: Case good replacement occurs over a two year period, 50% in year 10 and 50% in year 11.

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Cost per Unit</th>
<th>Furnished Units</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio:</td>
<td>$3,185</td>
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<tr>
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<td>917,180</td>
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<td>87</td>
<td>425,865</td>
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<tr>
<td>Sales Tax</td>
<td>8.5%</td>
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<tr>
<td>Supervision</td>
<td>10%</td>
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<tr>
<td>Freight, Storage and Installation</td>
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<tr>
<td>Total Cost of Case Goods after Labor</td>
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<td>472</td>
</tr>
<tr>
<td>Per Unit</td>
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<td></td>
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<tr>
<td>Annual Expenditure over 2 years</td>
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