

Attachment 4



Cascade MANAGEMENT, INC.

Phone: 503-682-7788 / TTY 711
Fax: 503-682-5656
8532 SW St. Helens Drive
Suite 201
Wilsonville, Oregon 97070

Real Estate Management Services

www.cascade-management.com

February 29, 2012

Toby LaFrance, Finance Director
City of Tigard
13125 SW Hall Blvd.
Tigard, OR 97223
SENT VIA EMAIL ELECTRONIC PDF to:
lizabeth@tigard-or.gov

Dear Toby LaFrance:

Please find the attached application for tax abatement for Hawthorne Villa Apartments, located at 7705 SW Pfaffle St. in Tigard. Enclosed in this packet is the application itself and attachments including ownership and lease documents, a MOU to enter into these agreements, Oregon Housing and Community Services Project Restrictions and evidence of the 501(c)3 designation for the non-profit partner Accessible Living, Inc.

Please let me know if you have any questions.

Sincerely,

Dave Bachman
President and CEO
Consultant and Management Agent to Hawthorne Villa

Cc: Liz Lutz at lizabeth@tigard-or.gov – City of Tigard
Marissa Daniels



ACCESSIBLE LIVING INC.

6160 SW Main Avenue

Beaverton Oregon, 97008

City of Tigard

Application for Tax Abatement

February 29, 2012

Hawthorne Villa Apartments

Address here:

A.	Property Description
B.	Projects Charitable Purpose
C.	Certification of Residents Income Levels
D.	How Tax Exemption Will Benefit Residents
E.	Tax Exempt Status
F.	Verification of Information
G.	Attachments (List)

A. Property Description

Hawthorne Villa Apartments, (Tax account # # is R282429, is located at 7705 SW Pfaffle St, Tigard OR 97223 just off of Pacific Highway in Tigard Oregon. The site sits on 4.76 acres and provides 119 units of affordable housing for low-income residents of Tigard. The property includes 8 apartment buildings and a house that contains the manager's unit and office. The property has 30 studios, 84 - 1 bedroom and 5 - 2 bedroom units.

The project was purchased by Hawthorne Urban Development LLC in September of 2011 for the purpose of maintaining affordability of Hawthorne Villa, Improving its' accommodations to a sustainable and thriving community and re-establishing resident service activities through a non-profit partnership.

The project has received private financing totaling \$2.45 million. An additional \$1,008,300 of additional financing is secured to complete project renovations. This is based on the Owner's commitment to deliver quality affordable housing in the City of Tigard. Over \$445,000 of renovations are complete to the project exterior with another \$563,300 planned for project interiors over the next 12 months. No tenant relocation is necessary for planned improvements.

Hawthorne Exterior Improvements (Completed) – Total \$445,000

Siding repaired all buildings
Painting all buildings
All Buildings Re-Roofed
Asphalt Paving Parking Lot
Landscape Improvements for entire site
Deck/Railing replacements and improvements
New Fencing
Renovated Existing Office Building

<u>Hawthorne Interior Improvements</u>	Units - 118
Fully renovate 5 interior units (Completed)	
Interior Water Meter @ \$750 per units	\$ 88,500
Replace appliances	\$ 118,000
Interior painting @ \$600 per units	\$ 70,800

Replace interior carpet and vinyl @1200	\$ 141,600
Replace interior in exterior door \$1200 per unit	\$ 94,400
Contingency	\$ 50,000

The project is close to transportation and retail. Employment proximity is also excellent to many entry level service jobs, including many stores, banks or restaurants along Pacific Highway in Tigard. Many of the existing residents at Hawthorne Villa work within walking distance of the property.

Legal Description: See Attached as part of Oregon Affordable Housing Commitment Documents

GENERAL INFORMATION

Name: Hawthorne Villa Apartments
Property Type: Multi-Family (Garden/Low Rise) LIHTC Apartments
Address: 7705 SW Pfaffle Street
Tigard, Oregon 97223
Assessor's Parcel #: R282429
Census Tract No.: 306.00

Site Description:

USABLE AREA	EXCESS AREA	SURPLUS AREA	GROSS AREA
SF ACRES	SF ACRES	SF ACRES	SF ACRES
207,346 4.76	0 0.00 0	0.00	207,346 4.76

Zoning: Medium-Density Residential (R-12)

Improvement Description:

No. of Total Buildings: 9 (8 one and two-story apartment buildings and 1 single-family home that is used as a leasing office and manager's unit).

Number of Units: 118

Amenities: Laundry rooms, storage units, and leasing office. Several landscaped courtyards on the property.

The property has 30 studios, 84 - 1 bedroom and 5 - 2 bedroom units.

B. Project's Charitable Purpose

Accessible Living Inc.'s mission is to provide low- cost housing which meets the specialized needs of seniors and disabled persons and their families and to promote the public's awareness of the plight of disabled persons to obtain low-cost accessible housing.

ALI's involvement in Hawthorne Villa will be to provide support to residents in obtaining and retaining affordable housing through the delivery of resident services. ALI will work to identify the needs of Hawthorne Villa residents and work with the residents and property management to support residents in connecting with community programs and services to address those needs, including access to emergency services such as local food programs, utility assistance, eviction prevention and services for individuals and families struggling with addiction, mental health issues and other disabilities.

ALI will seek to develop partnerships with organizations such as the Oregon Food Bank, Luke- Dorf, Lifeworks NW, Community Action, Hope Spring, and other community organizations to provide resource and referral. Where appropriate ALI will develop MOU's and release of information with residents, property management and community partners to better coordinate services and housing and to avoid tenant eviction.

ALI will partner with Housing Independence, a non-profit service provider for individuals with special needs including seniors, individuals with physical and developmental disabilities, veterans and other underserved special needs populations that may need support in obtaining and retaining housing.

The project has developed a current budget and commitment of \$30,000 per year to sustain service delivery to residents. The services budget and delivery will be the sole and direct responsibility of ALI.

C. Certification of Resident Income Levels

Resident income levels are verified upon application. Hawthorne Villa currently has an extended use agreement with Oregon Housing and Community Services that will restrict the property be exclusively used for low income rentals until January 1, 2025. These covenants require that all households have earnings at or

below 60% of the area median income. Currently the property income demographics demonstrate the need for continued affordability and a service commitment with the average income at 34% of AMI (see attached Household Demographics Report). We certify that all apartments in this property are currently rented to and will remain affordable to households earning at or below 60% of the area median income until January 1, 2025.

D. How tax exemption will benefit residents

100% of the property tax exemption is a direct subsidy that benefits residents. Every dollar in tax reduction is passed on in scheduled rents and in the delivery of resident services programs. Without this funding Hawthorne Villa would not be able to retain its current affordability (below the 60% restriction). The tax exemption also allows for a \$30,000 per year services budget to offer much needed services that supports residents in obtaining and retaining their housing, including connecting them with emergency services for eviction prevention. The remainder of the tax exemption savings will be applied to maintain rent levels below 60% of area median income.

It can be argued that using property tax revenues to subsidize well managed affordable housing unit's results in a net savings of public resources. Fewer and less-severe police calls, healthier residents and stably housed social service consumers, all provide a direct reduction in the demand for government funded services.

E. Tax exempt status

Hawthorne Urban Development is the Owner (Landlord) who has entered into a lease agreement with Hawthorne Villa General Partnership (Tenant). ALI is a General Partner to Hawthorne Villa General Partnership who is responsible for day to day operation of the project. Hawthorne Villa General Partnership has a leasehold interest in Hawthorne Villa through the lease (attached).

F. Verification of Information

I hereby certify that the information for this tax abatement application is accurate and complete to the best of my knowledge. Cascade Property Management performs the day to day management of the property and is responsible for certifying income levels of each resident for compliance with program guidelines.

Karen A. Voiss

2-29-2012

Karen Voiss, Executive Director
Accessible Living, Inc.
General Partner of Tenant (Hawthorne Villa GP)

Date

Saj Jivanjee
Saj Jivanjee, Member
Hawthorne Urban Development LLC
Owner

2.29.2012

G. Attachments

OHCS Low Income Housing Commitments and Assignment
Household Demographics
Lease to Hawthorne Villa General Partnership
Hawthorne Villa General Partnership Agreement
Accessible Living Inc. 501c(3) evidence

ATTACHMENT

OREGON HOUSING AND COMMUNITY SERVICES COMMITMENTS AND ASSIGNMENT TO OWNER

Return to:
Housing and Community Services
Attn: Multifamily Housing Section
725 Summer St. NE, Suite B
Salem, Oregon 97301-1266

COPY

SPACE ABOVE THIS LINE FOR RECORDER'S USE

**HOUSING AND COMMUNITY SERVICES DEPARTMENT
STATE OF OREGON**

**CONSENT TO ASSIGNMENT, TRANSFER, ASSUMPTION AND MODIFICATION AGREEMENT
LOW-INCOME HOUSING TAX CREDIT**

THIS CONSENT TO ASSIGNMENT, TRANSFER, ASSUMPTION AND MODIFICATION AGREEMENT (this "Agreement") is entered into and made this ____ day of September, 2011, among:

PARTIES:

Recipient: HAWTHORNE VILLA LIMITED PARTNERSHIP,
an Oregon limited partnership

New Obligor: HAWTHORNE URBAN DEVELOPMENT LLC,
an Oregon limited liability company

Grantor (herein "Department"): STATE OF OREGON, acting by and through its
Housing and Community Services Department

RECITALS

A. Recipient is the owner of the real property described in Exhibit A and of any improvements thereon and of any personal property related thereto (collectively hereinafter, the "Project" or "Property"). Exhibit A is attached hereto and incorporated herein by reference. Recipient received a low-income housing tax credit allocation by the Department with respect to the development and operation of the Project in a final amount not to exceed One Hundred Eighty-One Thousand One hundred Forty-Three (\$181,143) (the "Tax Credit"). The documents giving effect to the Tax Credit (the "Tax Credit Documents") are more fully described below.

B. Recipient has or will convey its interest in the Property to HAWTHORNE URBAN DEVELOPMENT LLC (the "New Obligor or Owner") pursuant to that certain _____ Deed dated as of September ____, 2011 (the "Deed").

C. Recipient and New Obligor are willing to document the transfer of the Project and New Obligor's assumption of Recipient's interests and obligations with respect to the Property and with respect to the Tax Credits from the Department and to commit to operate the Project in conformance with the Tax Credit Documents and this Agreement. The Department is willing to consent to the transfer in ownership of the

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Property and to allow the assumption of the Tax Credit Documents consistent with the terms and conditions of this Agreement.

D. The Tax Credits are evidenced by a Reservation and Extended Use Agreement, Project No. 96046606, executed between the Recipient and the Department and dated on or about May 24, 1996, (the "Tax Credit Agreement"). Certain performance obligations with respect to the Project arising under the Tax Credits were made in a Declaration of Land Use Restrictive Covenants, executed by the Recipient in favor of the Department on or about, April 8, 1997 and recorded April 9, 1997, as Instrument No. 97032421, Records of Washington County, Oregon (the "Declaration"). The Tax Credit Agreement and the Declaration are collectively referred to herein as the "Tax Credit Documents."

AGREEMENT

NOW, THEREFORE, for good and sufficient consideration, including the agreements and covenants herein contained, Recipient and New Obligor hereby agree with the Department as follows:

1. Incorporation of Recitals and Documents. The terms of the foregoing Recitals, Exhibit A and the Tax Credit Documents are incorporated herein by reference.
2. Conveyance to New Obligor; Assignment. Recipient has conveyed or is conveying its interests in the Property to New Obligor in the manner described in this Agreement, in the Deed and in other purchase documents. Recipient hereby assigns his interests in the Tax Credit Documents and in the Property to New Obligor.
3. Assumption. New Obligor hereby unconditionally assumes the interests of Recipient in the Project and the interests and obligations of Recipient under the Tax Credit Documents as modified herein. New Obligor also hereby unconditionally agrees, covenants and warrants that it shall perform all obligations arising under this Agreement or otherwise owed to the Department under the Tax Credit Documents. The Department shall have the right to resort to, proceed against, or otherwise exercise its rights with respect to any and all remedies, restrictive covenants or equitable servitudes with respect to the Property or the New Obligor and its assigns or successors in interest, whether such rights arise under the Tax Credit Documents, this Agreement, or are otherwise now or subsequently available at law. New Obligor will execute and deliver to the Department such other documents reasonably requested by the Department to effect, exercise or maintain its rights under the Tax Credit Documents, this Agreement or otherwise with respect to the Project.
4. Consent. The Department hereby consents to and approves of the described transfer of the Property to New Obligor. The Department also consents to and approves of New Obligor's assumption of all the rights of Recipient and all obligations owed to the Department under the Tax Credit Documents, as further modified herein, without affecting in any manner the restrictions and requirements of such Tax Credit Documents with respect to any further or additional transfer of ownership of the Project. This consent and approval by the Department is conditioned, however, upon prior execution and recording of subordination agreements acceptable to the Department by any and all current lien holders with respect to the Property.
5. Limited Release. Recipient is hereby released by the Department from any obligations arising prospectively under the Tax Credit Documents except that Recipient is not released from any liability of any

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nature arising under the Tax Credit Documents before the date of this Agreement. Recipient's remaining liability shall be joint and several with New Obligor and shall not be diminished or affected in any manner by New Obligor's assumption of the obligations and liabilities of Recipient under the Tax Credit Documents.

6. Modification of Tax Credit Documents.

6.1 The Declaration is hereby amended to include the following:

COVENANTS TO RUN WITH THE LAND; EQUITABLE SERVITUDES.

(a) The term "Owner" means the owner of the Project or Property and shall be construed to include the terms "Recipient" and "New Obligor" or "Owner" as appropriate.

(b) The Owner intends, declares, and covenants, on behalf of itself and all future owners and operators of the Project or Property during the term of this agreement, that the covenants, reservations, restrictions and equitable servitudes set forth in this agreement regulating and restricting the use, occupancy and transfer of the Project (1) shall be and are, until January 1, 2025, covenants running with the real property of the Project and do further constitute equitable servitudes with respect to the real property in favor of the Department and any tenant of this Project or Property, do encumber the Project until January 1, 2025, are binding upon the Owner's successors in title and all subsequent owners and operators of the Project, (2) are not merely personal covenants of the Owner, (3) shall bind the Owner and the Owner's successors and assigns until January 1, 2025, and (4) shall inure to the benefit of the Department and any tenant of the Project. The Owner hereby agrees that any and all Oregon state law requirements for the provisions of this agreement to constitute covenants running with the land or real property or to constitute equitable servitudes with respect to the real property in favor of the Department and any tenant of this Project or Property, shall be deemed satisfied in full. No transfer of any interest in the Project or Property shall be valid without the prior written consent of the Department. Until January 1, 2025, each and every contract, deed or other instrument hereafter executed conveying the Project or a portion thereof shall expressly provide that such conveyance is subject to this agreement, provided, however, the covenants contained herein shall survive and be effective regardless of whether such contract, deed, or other instrument hereafter executed conveying the Project or portion thereof provides that such conveyance is subject to this agreement.

(c) The Owner covenants that the consent of any recorded prior lien holder on the Project or Property is not required in connection with recording this agreement, or if required, such consent has been or will be obtained by the Owner.

BURDEN AND BENEFIT.

The Owner hereby declares its understanding and intent that the burdens of the covenants, reservations, restrictions and equitable servitudes set forth herein touch and concern the land of the Project or Property in that the Owner's legal interest in the Project or Property is rendered less valuable thereby. The Owner hereby further declares its understanding and intent that the benefits of such covenants, reservations, restrictions and equitable servitudes touch and concern the land by enhancing and increasing the enjoyment and use of the Project or Property by tenants therein, the intended beneficiaries of such covenants, reservations, restrictions or equitable servitudes, and by furthering the public purposes for which tax credit assistance was provided by the Department for the Project or Property.

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6.3 The Declaration is further amended by replacing Section 9 thereof with the following language:

SECTION 9 - FUTURE TRANSFER OF OWNERSHIP, QUALIFIED CONTRACT

This Section (choose one of the below)

- Will apply to the Project described herein:
- Will not apply to the Project described herein:

- a) For the purpose of ensuring the Project will continue to be used as affordable housing, Owner hereby agrees to transfer the Project to a "qualified nonprofit organization" [as defined in IRC 42(h)(5)(C)] acceptable to the Owner, Department and the mortgage lender after the end of the calendar year falling 15 years after the issuance of the Forms 8609 for the Project, or as soon thereafter as the transfer can be consummated, on the following terms:
- 1) The consideration for the transfer shall be in accordance with the formula in IRC Section 42(h)(6)(F) in an amount equal to the sum of (a) the principal amount of outstanding indebtedness secured by the Project, (b) the adjusted investor equity in the building, and (c) other capital contributions not reflected in the amounts described above, reduced by cash distributions from (or available for distribution from) the project.
 - 2) Owner shall be under no obligation to transfer the project to a qualified organization in the event that no acceptable qualified organization agrees in writing to accept title and assume Owner's obligations before the end of the calendar year falling 15 years after the issuance of the Forms 8609 for the project.
 - 3) In making the determination of the transferee qualified nonprofit organization, first right of refusal shall be given to N/A.
- b) Owner further covenants to use its reasonable best efforts to assure, at the time of the transfer; (i) the Project is generating sufficient cash flow to service Project debt and pay Project operating expenses; and (ii) the Project is in reasonably good physical condition (for a multi-family apartment project of its age and quality).
- c) No provision of this section shall prevent any lender loaning funds secured by the Project from foreclosing on the property or otherwise exercising its full rights as a lender. In the event of a bonafide foreclosure or transfer of the Project to a lender by a deed in lieu of foreclosure, the foreclosing lender shall take the project free and clear of any obligation to transfer the Project to a nonprofit organization or to operate the project as affordable housing except as provided for in IRC Section 42. Department or its assigns shall have the right to cure any default to avoid foreclosure and assure transfer as stated above.

7. Governing Law; Venue; Consent to Jurisdiction. Recipient, New Obligor and each person now or at any time hereafter liable, whether primarily or secondarily, hereby agree that this Agreement and each of the Tax Credit Documents shall be governed by and construed in accordance with the laws of the State of Oregon without regard to principles of conflicts of law. Any claim, action, suit or other proceeding (collectively "Claim") arising out of or related in any way to this Agreement shall be brought and conducted solely and

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exclusively within an appropriate Circuit Court for the State of Oregon; provided, however, if a Claim must be brought in a federal forum, then it shall be brought and conducted solely and exclusively within the United States District Court for the District of Oregon. The Recipient and the New Obligor hereby consent to the *in personam* jurisdiction of said courts. In no event shall this Section be construed as a waiver by the State of Oregon of any form of defense or immunity, whether it is sovereign immunity, governmental immunity, immunity based on the Eleventh Amendment to the Constitution of the United States or otherwise, from any Claim or from the jurisdiction of any court.

8. Notice to the Department. New Obligor shall promptly notify the Department in writing of (i) any material adverse change in the financial condition of New Obligor, or (ii) any suit, governmental action, claim or other proceeding pending or threatened in writing which may have a material adverse effect on New Obligor or their business operations, condition (financial or otherwise) or involving the Project. New Obligor shall promptly provide to the Department on request such credit reports, current financial statements and information, prepared by certified public accountant and certified by New Obligor, and other documents and information pertaining to the financial condition and obligations of New Obligor, in reasonable detail and certified where appropriate, as the Department may reasonably require from time to time, including a detailed statement of income and expenditures (including debt service obligations) and supporting schedules, and updated financial statements.

9. Further Documentation and Assurance. New Obligor shall execute upon request of the Department such additional instruments and provide such further assurances as the Department may consider reasonably desirable or necessary to evidence or carry out the parties' intent and agreement under this Agreement or to complete, perfect, continue and preserve the obligations, restrictive covenants and equitable servitudes created under the Tax Credit Documents and/or this Agreement. New Obligor shall be responsible for all costs incurred in this transaction, including the cost of obtaining a title insurance endorsement acceptable to the Department, if requested, insuring that the restrictive covenants and equitable servitudes arising under the Tax Credit Documents and this Agreement continue as valid encumbrances, in their original priority, against the Property and are not impaired by execution of this Agreement.

10 General Provisions.

10.1 Representations of New Obligor. New Obligor hereby ratifies, affirms, reaffirms, acknowledges, confirms and agrees that: (i) the Tax Credit Documents (as modified by this Agreement) represent the legal, valid, binding and enforceable obligations of New Obligor; (ii) there are no existing claims, defenses, personal or otherwise, or right of set-off whatsoever available to New Obligor with respect to any of such Tax Credit Documents; and (iii) no event has occurred and no condition exists which would constitute a default under such Tax Credit Documents or this Agreement, either with or without notice or lapse of time, or both.

10.2 Survival; Ratification. Except as specifically modified pursuant to this Agreement, all the terms and provisions of the Tax Credit Documents remain in full force and effect. As modified by this Agreement, the Tax Credit Documents are approved and hereby ratified and reaffirmed.

10.3 No Relinquishment of Covenants. This Agreement shall in no way act as a release or relinquishment of the restrictive covenants, equitable servitudes and encumbrances (collectively called the "Covenants") recorded with respect to the Property protecting the Department's ability to enforce operation of the Project consistent

with the terms of the Tax Credit Documents except as expressly released or modified in this Agreement. The Covenants, as modified, are hereby ratified, and confirmed in all respects.

10.4 Full Force and Effect. This Agreement, and the Tax Credit Documents are in full force and effect and nothing contained in this Agreement shall be construed as modifying such documents, except as specifically provided pursuant to this Agreement.

10.5 Defined Terms. Capitalized terms shall have the defined meanings provided in this Agreement or in the Tax Credit Documents.

10.6 Severability. A determination that any term or provision of this Agreement is invalid or otherwise not enforceable shall not affect the validity of the remaining terms and provisions of this Agreement which shall remain in full force and effect.

10.7 Time of the Essence. Time is of the essence in the performance of any and all obligations under this Agreement.

10.8 Attorney Fees. In the event a lawsuit is instituted regarding this Agreement, the prevailing party in any dispute arising under this Agreement shall, to the extent permitted by law, be entitled to recover from the other its reasonable attorney fees and all costs and disbursements incurred at trial and on appeal. Notwithstanding any other provision in this Agreement or incorporated documents, reasonable fees shall not exceed the rate charged the Department by its attorneys.

10.9 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute but one agreement. Any party may execute this Agreement by signing any such counterpart.

[The balance of this page is intentionally left blank.]

RECIPIENT:

HAWTHORNE VILLA LIMITED PARTNERSHIP,
an Oregon limited partnership

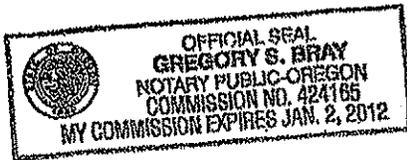
By: Hawthorne Villa GP, Inc.,
an Oregon corporation


By: Ashile Johnson, Member

STATE OF OREGON)

County of Washington)
: ss
m. c. s. n. o. k.

The foregoing instrument was acknowledged before me this 29 day of September, 2011, by Ashile Johnson, Member, general partner of Hawthorne Villa Limited Partnership, on behalf of said limited partnership of Hawthorne Villa GP, Inc. an Oregon general partnership.




NOTARY PUBLIC FOR OREGON
My Commission Expires: 1.2.12

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NEW OBLIGOR:

HAWTHORNE URBAN DEVELOPMENT LLC,
an Oregon limited liability company

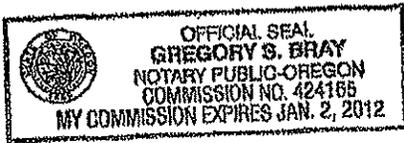
By: Saj Jivanjee, Member

STATE OF OREGON)

: ss

County of Washington)
W. H. H. H. H. H.

The foregoing instrument was acknowledged before me this 16th day of September, 2011, by Saj Jivanjee, Member of Hawthorne Urban Development LLC, on behalf of said limited liability company.



92112
NOTARY PUBLIC FOR OREGON

My Commission Expires: 1.2.12

NEW OBLIGOR:

HAWTHORNE URBAN DEVELOPMENT LLC,
an Oregon limited liability company

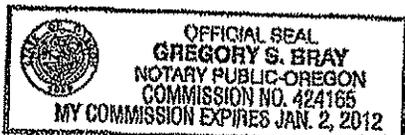
By: Richard Krueger, Member

STATE OF OREGON)

: ss

County of Washington)
W. H. H. H. H.

The foregoing instrument was acknowledged before me this 16th day of September, 2011, by Richard Krueger, Member of Hawthorne Urban Development LLC, on behalf of said limited liability company.



92112
NOTARY PUBLIC FOR OREGON

My Commission Expires: 1.2.12

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EXHIBIT A

Real property in the County of Washington, State of Oregon, described as follows:

PARCEL I:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648; thence South 89°49' East, 85.0 feet along the North line of that tract conveyed in Deed Book 279, Page 648 to the Northeast corner of said tract and true point of beginning of tract herein described; thence South 89°49' East, 26.0 feet; thence North 0°11' East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Washington County Records, 173.66 feet; thence South 88°17' East, 96 feet to the East line of said Cason tract; thence South 0°11' West along the East line of said Cason tract, 316.0 feet to the Southeast corner thereof; thence North 88°17' West along the South line of said Cason tract, 121.8 feet to the Southeast corner of that tract conveyed in Deed Book 279, Page 648; thence North 0°11' East along the East line of that tract conveyed in Deed Book 279, Page 648, 141.34 feet, more or less to the true point of beginning, all situated in Washington County, Oregon.

PARCEL II:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648, and the true point of beginning herein described; thence South 89°49' East, 110.0 feet to a point; thence North 0°11' East, parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Washington County Records, 173.66 feet to a point; thence North 88°37' West, 110.0 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 173.66 feet to the true point of beginning.

PARCEL III:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648; thence South 89°49' East, 85.0 feet along the North line of that tract conveyed in Deed Book 279, Page 648 to the Northeast corner thereof; thence South 89°49' East, 26.0 feet; thence North 0°11' East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Washington County Records, 173.66 feet; thence South 88°17' East, 51.0 feet to the true point of beginning of the herein described premises; thence continuing South 88°17' East, 46.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 90.0 feet; thence North 88°17' West, 46.0 feet; thence South 0°11' West, 90.0 feet to the true point of beginning.

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PARCEL IV:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1030.34 feet to a point on the West line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Records of Washington County, being the Westerly Northwest corner of that tract described in Mortgage recorded October 29, 1968 in Book 722, Page 520, Records of Washington County and the true point of beginning of the herein described premises; thence South 88°17' East, 161.6 feet; thence North 0°11' East, 90.0 feet; thence South 88°17' East, 45.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 171.34 feet to a point; thence North 88°17' West, 65.00 feet to a point; thence South 0°11' West, 75.0 feet to a point; thence North 88°17' West, 141.6 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 166.34 feet to the true point of beginning.

PARCEL V:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 844.0 feet to a point on the West line of that tract described in deed to Leonard E. Cason, et al, recorded January 18, 1968 in Book 677, Page 139, Records of Washington County, being the Westerly Northwest corner of the first tract described in Mortgage recorded February 4, 1969 in Book 732, Page 58, Records of Washington County and the true point of beginning of the herein described property; thence South 88°17' East, 141.6 feet to a point; thence North 0°11' East, 75.0 feet to a point; thence South 88°17' East, 65.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 113.66 feet to a point; thence North 88°17' West, 206 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 190 feet to the true point of beginning.

PARCEL VI:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 654.0 feet to a point on the West line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Records of Washington County, being the Northwest corner of the first tract described in Mortgage recorded in Book 745, Page 285, Records of Washington County and the true point of beginning of the herein described property; thence South 88°17' East, 206 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 186.0 feet to a point; thence North 88°17' East, 206 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 186.0 feet to the true point of beginning.

PARCEL VII:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary

line of said Donation Land Claim; thence South 0°11' West, 290 feet to a point, said point being the Southwest corner of a tract conveyed to Oscar Sidler and Grace Sidler by deed recorded November 28, 1911 in Deed Book 90, Page 45, and the true point of beginning; thence South 0°11' West, 178 feet to a point on the West line of that tract described in a deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Records of Washington County, being the Northwest corner of the first tract described in Mortgage recorded May 19, 1971 in Book 818, Page 167, Records of Washington County; thence South 88°17' East, 206 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 178 feet to the South line of said Sidler tract; thence North 89° West along the West line of said Sidler tract, 206.0 feet to the true point of beginning.

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RECORDING REQUESTED BY
AND WHEN RECORDED, MAIL
TO:

5 Oregon Housing and Community
4 Services Department
✓ 1600 State Street
Jalem, Oregon 97310
Attn: Komi P. Kalevor

SPACE ABOVE FOR RECORDER'S USE

OREGON HOUSING AND COMMUNITY SERVICES DEPARTMENT
LOW-INCOME HOUSING TAX CREDIT
DECLARATION OF LAND USE RESTRICTIVE COVENANTS

THIS DECLARATION OF LAND USE RESTRICTIVE COVENANTS, (this "Declaration"), dated as of April 5, 1997, by HAWTHORNE VILLA LIMITED PARTNERSHIP, and its successors and assigns (the "Owner") is given as a condition precedent to the allocation of low-income housing credits by the Oregon Housing and Community Services Department, a governmental agency of the State of Oregon, together with any successor to its rights, duties, and obligations, (the "Department").

WITNESSETH: *(includes 117 tax credit units and two common-area managers' units)

HEREAS, the Owner is or shall be the owner of a(n) 119 unit/rental housing development, ~~one manager's unit~~ located on lands in the City of Tigard, County of Washington, State of Oregon, more particularly described in Exhibit A hereto, known as or to be known as HAWTHORNE VILLA APARTMENTS (the "Project"); and

HEREAS, the Department has been designated by the Governor of the State of Oregon as the housing credit agency for the State of Oregon for the allocation of low-income housing tax credit dollars (the "Credit"); and

WHEREAS, the Owner has applied to the Department and entered into a Determination Letter and Agreement for an allocation of Credit to the Project in an amount not to exceed One hundred eighty one thousand, one forty three dollars (\$181,143) of tax exempt bond financed 4% low-income housing credit allocation; and

WHEREAS, the Department has agreed to issue a Form 8609 to the Owner upon the execution and recording of this Declaration which constitutes part of the Determination Letter and Agreement; and

WHEREAS, the Owner has represented to the Department in Owner's Low-Income Housing Tax Credit Application (the "Application") dated March 24, 1997, that Owner shall lease/rent 100 percent of the units in the Project to individuals or families whose income is 60 percent or less of the area family adjusted median gross income ("Low-Income Tenants") as determined in accordance with Section 42 of the Internal Revenue Code (the "IRC"); and

WHEREAS, the Department has determined the Project would require a Credit allocation in the amount of \$181,143 ix exempt bond financed 4% tax credit allocation to be financially feasible; and

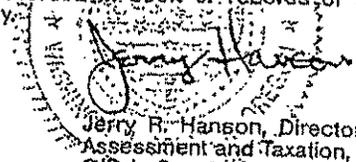
WHEREAS, the Owner has represented to the Department rent restrictions it will maintain for the period of time as specified in the Determination Letter and Agreement; and

DECLARATION OF LAND USE RESTRICTIVE COVENANTS
LIHTC PROJECT NUMBER OR96-4-002
PAGE 1 OF 10

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County of Washington) 33

I, Jerry R. Hanson, Director of Assessment and Taxation and Ex-Officio County Clerk for said county, do hereby certify that the within instrument of writing was received and recorded in book of records of said county.



Jerry R. Hanson, Director of Assessment and Taxation, Ex-Officio County Clerk

Doc : 97032421

Rect: 184112

83.00

04/09/1997 04:02:29pm

1-15

this Declaration, provided, however, the covenants contained herein shall survive and be effective regardless of whether such contract, deed, or other instrument hereafter executed conveying the Project or portion thereof provides that such conveyance is subject to this Declaration.

- (c) The Owner covenants to obtain the consent of any prior recorded lienholder on the Project to this Declaration and such consent shall be a condition precedent to the issuance of Internal Revenue Service Form 8609 constituting final allocation of the Credit.

SECTION 3 - REPRESENTATIONS, COVENANTS AND WARRANTIES OF THE OWNER

The Owner hereby represents, covenants, and warrants as follows:

- (a) The Owner (I) is a limited partnership duly organized under the laws of the State of Oregon, and is qualified to transact business under the laws of the State of Oregon, (II) has the power and authority to own its properties and assets and to carry on its business as now being conducted, and (III) has the full legal right, power and authority to execute and deliver this Declaration.
- (b) The execution and performance of this Declaration by the Owner (I) will not violate or, as applicable, has not violated any provision of law, rule or regulation, or any order of any court or other agency or governmental body, (II) will not violate or, as applicable, has not violated any provision of any indenture, agreement, mortgage, mortgage note, or other instrument to which the Owner is a party or by which it or the Project is bound, and (III) will not result in the creation or imposition of any prohibited encumbrance of any nature.
- (c) The Owner will, at the time of execution and delivery of this Declaration, have good and marketable title to the premises constituting the Project free and clear of any lien or encumbrance (subject to encumbrances created pursuant to this Declaration, any Loan Documents relating to the Project or other permitted encumbrances).
- (d) There is no action, suit, or proceeding at law or in equity, or by or before any governmental instrumentality or other agency now pending, or, to the knowledge of the Owner, threatened against or affecting it, or any of its properties or rights, which if adversely determined, would materially impair its right to carry on business substantially as now conducted (and as now contemplated by this Declaration) or would materially adversely affect its financial condition.
- (e) The Project constitutes or will constitute a qualified low-income building or qualified low-income project, as applicable, as defined in IRC Section 42 and applicable regulations.
- (f) Each unit in the Project contains complete facilities for living, sleeping, eating, cooking and sanitation (unless the Project qualifies as a single-room occupancy project or transitional housing for the homeless) which are to be used on other than a transient basis.
- (g) During the Term of this Declaration, all units subject to the Credit shall be leased, rented or made available to members of the general public who qualify as Low-Income Tenants (or otherwise qualify for occupancy of the low-income units) under the applicable election specified in Section 42(g) of the IRC.
- (h) The Owner agrees that tenant and third parties will be eligible to enforce IRC Section 42 entitlements as

provided by the Fair Housing Act, as amended.

- (i) During the term of this Declaration, the Owner covenants, agrees and warrants that each low-income unit is and will remain habitable.
- (j) Subject to the requirements of IRC Section 42 and this Declaration, the Owner may sell, transfer, or exchange the entire Project at any time, but the Owner shall notify in writing and obtain the agreement of any buyer or successor or other person acquiring the Project or any interest therein that such acquisition is subject to the requirements of this Declaration and to the requirements of IRC Section 42 and applicable regulations. This provision shall not act to waive any other restriction on sale, transfer, or exchange of the project or any low-income portion of the Project. The Owner agrees that the Department may void any sale, transfer, or exchange of the Project if the buyer or successor or other person fails to assume in writing the requirements of this Declaration and the requirements of IRC Section 42. Notwithstanding the foregoing, the owner shall not dispose of any portion of a building which constitutes a portion of the Project and to which this Declaration applies unless the entire building is disposed of to such person.
- (k) The Owner agrees to notify the Department in writing prior to any sale, transfer, or exchange of the entire Project or any low-income portion of the Project.
- (l) The Owner will provide certified financial documentation acceptable to the Department to satisfy the calculation of a qualified contract and to begin the one year period for finding a buyer in accordance with IRC Section 42(h)(6) if desired.
- (m) The Owner shall not demolish any part of the Project, substantially subtract from any real or personal property of the Project, or permit the use of any residential rental unit for any purpose other than rental housing during the term of this Declaration unless required by law or unless the Department has given its prior written consent.
- (n) The Owner represents, warrants, and agrees that if the Project, or any part thereof, shall be damaged, destroyed, shall be condemned, or acquired for public use, the Owner will use its best efforts, subject to the rights of any mortgagee, to repair and restore the Project to substantially the same condition as existed prior to the event causing such damage or destruction, or to relieve the condemnation, and thereafter to operate the Project in accordance with the terms of this Declaration.
- (o) The Owner warrants that it has not and will not execute any other Declaration with provisions contradictory to, or in opposition to, the provisions hereof, and that in any event, the requirements of this Declaration are paramount and controlling as to the rights and obligations herein set forth and supersede any other requirements in conflict herewith.
- (p) The applicable fraction for each building of the Project during the term of this Agreement shall not be less than the applicable fraction specified in the Low-Income Housing Tax Credit Determination Letter and Agreement (the "Agreement") executed by the Owner as 100 percent. [See IRC Section 42(h)(6)(B)]
- (r) The Department may require the Owner to reduce rents charged for low-income units if property taxes imposed upon the Project are reduced because of a change in Oregon law. Any reduction in rent required by the Department shall not exceed the reduction in property taxes, taking into account any replacement taxes or equivalent charges, and shall further take into account prevailing operating expenses or debt coverage requirements of the Project's lender(s).

DECLARATION OF LAND USE RESTRICTIVE COVENANTS
LIHTC PROJECT NUMBER OR96-4-002

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- (r) If the Section 8 Income Limits used to determine rent limits are reduced to account for a reduction in property taxes imposed on the Project because of a change in Oregon law or if rents are otherwise reduced by federally subsidized housing assistance programs or comparable program to account for a reduction in property taxes imposed on the Project because of a change in Oregon law and the Department determines that the reduced rent charged for low-income units in the Project appropriately reflects the reduction in property taxes, then Section 3(q) of this Declaration shall not apply.
- (s) The owner will not refuse to lease to a holder of a voucher or certificate of eligibility under Section 8 of the United States Housing Act of 1937 because of the status of the prospective tenant as such a holder.
- (t) The owner agrees to fill out and sign Part II of the Form 8609 required to be completed by the building owner for the first year of the credit period and return a copy (without Schedules and other supporting documents) to the Department for the purposes of compliance monitoring.
- (u) The Department may charge a reasonable fee comparable to fees charged by the Department for monitoring activities in accordance with Section 8(d) of this Declaration for rent reviews and determinations made pursuant to Sections 3(q) and 3(r) of this Declaration.

SECTION 4 -INCOME RESTRICTIONS; RENTAL RESTRICTIONS

The Owner represents, warrants, and covenants that from and after initial occupancy and throughout the remaining term of this Declaration and in order to satisfy the requirements of IRC Section 42 ("Section 42 Occupancy Restrictions") that;

(Check applicable percentage election)

- (1) At least 20 percent or more of the residential units in the Project will be both rent-restricted and occupied by individuals whose income is 50 percent or less of family adjusted area median income.
 - (2) At least 40 percent or more of the residential units in the Project will be both rent-restricted and occupied by individuals whose income is 60 percent or less of family adjusted area median income.
- (b) The Department may require that the determination of whether a tenant meets the low-income requirement be made by the Owner or his designated agent at least annually on the basis of the current income of such Low-Income Tenant.

SECTION 5 - DEPARTMENT'S OCCUPANCY RESTRICTIONS

The Owner represents, warrants and covenants throughout the term of this Declaration that:

- (a) Project rents will not exceed the gross rent allowable under IRC Section 42.

(Check b through e, if applicable)

- (b) The Owner will extend the income and rental restrictions of IRC Section 42 for 15 years after the close of the compliance period.

(c) Regardless of any provision in this Declaration to the contrary, the Department's Occupancy Restrictions provided by this Section shall remain in place for a period of 30 years or until January 1, 2025 except in the case of foreclosure or deed in lieu of foreclosure of a prior recorded lien to this Declaration as provided in Section 6(b)(1) but subject to Section 6(c) of this Declaration.

(Check applicable election)

(d) (1) X The Owner will SET the earliest date upon which the Owner may request the Department to assist in procuring a qualified contract for the acquisition of the low-income portion which is a part of the Project to after year 14, from the year the project was placed in service.

(2) ~~The Owner will POSTPONE the earliest date upon which the Owner may request the Department to assist in procuring a qualified contract for the acquisition of the low-income portion which is a part of the Project from after year 14 to year , from the year the project was placed in service.~~

(e) Operating reserves when released from restricted use shall be wholly used to subsidize tenant rents consistent with guidelines prescribed by the Department.

SECTION 6 - TERM OF DECLARATION

(a) Except as hereinafter provided, this Declaration and the IRC Section 42 Occupancy Restrictions specified herein shall commence with the first day in the Project period on which any building which is part of the Project is placed in service and shall end on the date which is 15 years after the close of the compliance period.

(b) The Owner shall comply with the requirements of IRC Section 42 relating to the extended use period, provided, however, this Declaration and the extended use period for any building which is part of this Project shall terminate:

(1) On the date the building is acquired by foreclosure or instrument in lieu of foreclosure; or

(2) On the last day of the one-year period specified in IRC Section 42(h)(6)(I), if the Owner has properly requested in accordance with IRC Section 42 that the Department assist in procuring a qualified contract for the acquisition of the low-income portion of any building which is a part of the Project, the Department and the Owner have agreed upon the terms of sale as specified in Section 3(1) of this Declaration, and the Department is unable to present a qualified contract within one year of reaching written agreement regarding the terms of sale.

(c) Notwithstanding subsection (b) above, IRC Section 42 rent requirements shall continue for a period of three years following the termination of the extended use requirement pursuant to the procedures specified in subsection (b) above for those tenants existing as of the date of termination. During such three-year period, the Owner shall not evict or terminate the tenancy of an existing tenant of any low-income unit other than for good cause and shall not increase the gross rent above the maximum allowed under the IRC with respect to such low-income unit.

(c) If the Owner has agreed to optional Department's Occupancy Restrictions as reflected in Section 5 of this Declaration, neither this Declaration nor the extended use period shall terminate until the time period for compliance with such Department's Occupancy Restrictions has expired subject to earlier termination under Section 6(b)(1) above.

SECTION 7 - ENFORCEMENT OF DEPARTMENT'S OCCUPANCY RESTRICTIONS

- (a) The Owner shall permit, during normal business hours and upon reasonable notice, any duly authorized representative of the Department, to inspect any books and records of the Owner regarding the Project with respect to the incomes of Low-Income Tenants which pertain to compliance with the Department's Occupancy Restrictions specified in this Declaration.
- (b) The Owner shall submit any other information, documents, or certifications requested by the Department which the Department shall deem reasonably necessary to substantiate the Owner's continuing compliance with the provisions of the Department's Occupancy Restrictions specified in this Declaration.

SECTION 8 - ENFORCEMENT OF SECTION 42 OCCUPANCY RESTRICTIONS

- (a) The Owner covenants that it will not knowingly take or permit any action that would result in a violation of the requirements of IRC Section 42 and applicable regulations of this Declaration. Moreover, Owner covenants to take any lawful action (including amendment of this Declaration as may be necessary, in the opinion of the Department) to comply fully with the IRC and with all applicable rules, rulings, policies, procedures, regulations or other official statements promulgated or proposed and published by the United States Department of the Treasury, the Internal Revenue Service, or HUD from time to time pertaining to Owner's obligations under IRC Section 42 and affecting the Project.
- (b) The Owner acknowledges that the primary purpose for requiring compliance by the Owner with restrictions provided in this Declaration is to assure compliance of the Project and the Owner with IRC Section 42 and the applicable regulations, AND BY REASON THEREOF, THE OWNER IN CONSIDERATION FOR RECEIVING LOW-INCOME HOUSING TAX CREDITS FOR THIS PROJECT HEREBY AGREES AND CONSENTS THAT THE DEPARTMENT AND ANY INDIVIDUAL WHO MEETS THE INCOME LIMITATION APPLICABLE UNDER SECTION 42 (WHETHER PROSPECTIVE, PRESENT OR FORMER OCCUPANT) SHALL BE ENTITLED, FOR ANY BREACH OF THE PROVISIONS HEREOF, AND IN ADDITION TO ALL OTHER REMEDIES PROVIDED BY LAW OR IN EQUITY, TO ENFORCE SPECIFIC PERFORMANCE BY THE OWNER OF ITS OBLIGATIONS UNDER THIS DECLARATION IN A STATE COURT OF COMPETENT JURISDICTION. The Owner hereby further specifically acknowledges that the beneficiaries of the Owner's obligations hereunder cannot be adequately compensated by monetary damages in the event of any default hereunder.
- (c) The Owner hereby agrees that the representations and covenants set forth herein may be relied upon by the Department and all persons interested in Project compliance under IRC Section 42 and the applicable regulations.
- (d) The Owner agrees to take any and all actions reasonably required by the Department to substantiate the Owner's compliance with occupancy restrictions of IRC Section 42 as now constituted or subsequently amended and other occupancy restrictions of the Department as now constituted or subsequently adopted and will pay a reasonable fee to the Department for the Department's monitoring of the Owners compliance based upon the Department's monitoring costs.
- (e) This Declaration and the Determination Letter and Agreement of which it is a part may be enforced by the Department or its designee in the event the Owner fails to satisfy any of the requirements herein. In addition,

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this Declaration shall be deemed a contract enforceable by one or more Tenants as third-party beneficiaries of the Declaration and Determination Letter and Agreement. In the event the Owner fails to satisfy the requirements of this Declaration or the Determination Letter and Agreement and legal costs are incurred by the Department or one or more of the tenants or beneficiaries, such legal costs, including attorney fees and court costs (including costs of appeal), are the responsibility of, and may be recovered from, the Owner.

SECTION 9 - EXTENDED LOW-INCOME HOUSING COMMITMENT ^g ~~NOT APPLICABLE~~ An Option and Right of First Refusal Agreement has been entered into with Tualatin Valley Housing Partners, the Project's co-General Partner.

~~For the purpose of ensuring that the Project will continue to be used as affordable housing indefinitely, Owner hereby agrees to transfer the Project to a "qualified nonprofit organization" [as defined in IRC 42(h)(5)(C)] acceptable to the Owner, the Department and the mortgage lender after the end of the calendar year falling 15 years after the issuance of the Forms 8609 for the Project, or as soon thereafter as the transfer can be consummated, on the following terms:~~

- ~~(1) The consideration for the transfer shall be in accordance with the formula in IRC Section 42(h)(6)(F) in an amount equal to the sum of (a) the principal amount of outstanding indebtedness secured by the Project, (b) the adjusted investor equity in the Project, and (c) other capital contributions not reflected in the amounts described above, reduced by cash distributions from (or available for distribution from) the Project.~~
- ~~(2) Owner shall be under no obligation to transfer the Project to a qualified organization in the event that no acceptable qualified organization accepts title and assumes Owner's obligations before the end of the calendar year falling 15 years after the issuance of the Forms 8609 for the Project.~~
- ~~(3) In making the determination of the transferee qualified nonprofit organization, first right of refusal shall be given to _____.~~
- ~~(4) Any controversy related to the selection of the transferee qualified organization shall be settled by arbitration pursuant to the rules of the American Arbitration Association.~~

~~(b) Owner further covenants to use its reasonable best efforts to assure that, at the time of the transfer: (i) the Project is generating sufficient cash flow to service Project debt and pay Project operating expenses; and (ii) the Project is in reasonably good physical condition (for a multi-family apartment project of its age and quality).~~

~~(c) No provision of this section shall prevent any lender loaning funds secured by the Project from foreclosing on the property or otherwise exercising its full right as a lender. In the event of a bonafide foreclosure or transfer of the Project to a lender by a deed in lieu of foreclosure, the foreclosing lender shall take the Project free and clear of any obligation to transfer the Project to a nonprofit organization or to operate the Project as affordable housing except as provided for in IRC Section 42. The Department or its assigns shall have the right to cure any default to avoid foreclosure and assure transfer as stated above.~~

SECTION 10 - MISCELLANEOUS

(a) Severability. The invalidity of any clause, part, or provision of this Declaration shall not affect the validity of the remaining portions thereof.

- (b) NOTICES. All notices to be given pursuant to this Declaration shall be in writing and shall be deemed given when mailed by certified or registered mail, return receipt requested, to the parties hereto at the addresses set forth below, or to such other place as a party may from time to time designate in writing.

To the Department:

Oregon Housing and Community Services Department
ATTN: LIHTC PROGRAM
1600 State Street
Salem, Oregon 97310-0161

To the Owner:

HAWTHORNE VILLA LIMITED PARTNERSHIP
ATTN: CHAD RENNAKER
16101 SW 72ND AVENUE SUITE 200
PORTLAND, OR 97224

The Department, and the Owner, may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

- (c) Amendment. The Owner agrees that it will take all actions necessary to effect amendment of this Declaration as may be necessary to comply with the IRC, any and all applicable rules, regulations, policies, procedures, rulings, or other official statements pertaining to the Credit. The Department, together with Owner, may execute and record any amendment or modification to this Declaration and such amendment or modification shall be binding on third-parties granted rights under this Declaration.

Subordination of Declaration. This Declaration and the restrictions hereunder are subordinate to the permanent loan and loan documents on the Project in an original principal amount not to exceed \$4,000,000, except insofar as IRC Section 42 (h)(6)(E) otherwise requires. The Department may subordinate this Declaration to other Financing, in its sole discretion and such subordination shall be binding on all third-parties granted rights under this Declaration.

- (e) Governing Law. This Declaration shall be governed by the laws of the State of Oregon and, where applicable, the laws of the United States of America.

- (f) Survival of Obligations. The obligations of the Owner as set forth herein and in the Application shall survive the allocation of the Credit and shall not be deemed to terminate or merge with the awarding of the allocation.

IN WITNESS WHEREOF, the Owner has caused this Declaration to be signed by its duly authorized representatives, as of the day and year first written above.

OWNER

Hawthorne Villa Limited Partnership

By: [Signature]

Name: G. David Sebastian

Title: President, Hawthorne Villa GP, Inc.,
General Partner of Hawthorne Associates Limited Partnership,
a General Partner

STATE OF OREGON)
County of Washington)

This instrument was acknowledged before me this 8th day of April, 1997, by G. David Sebastian, President

[Signature]
NOTARY PUBLIC FOR OREGON
My Commission Expires: Nov. 12, 2000



This document prepared this March 27, 1997, by: Komi P. Kalevor
Print Name: Komi P. Kalevor
Title: Tax Credit Program Representative

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Revised 3/97

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EXHIBIT "A"

PARCEL I:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648; thence South 89°49' East, 85.0 feet along the North line of that tract conveyed in Deed Book 279, Page 648 to the Northeast corner of said tract and true point of beginning of the tract herein described; thence South 89°49' East, 25.0 feet; thence North 0°11' East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968, in Book 677, Page 139, Washington County Records, 173.66 feet; thence South 88°17' East, 96 feet to the East line of said Cason tract; thence South 0°11' West along the East line of said Cason tract, 315.0 feet to the Southeast corner thereof; thence North 88°17' West along the South line of said Cason tract, 121.6 feet to the Southeast corner of that tract conveyed in Deed Book 279, Page 648; thence North 0°11' East along the East line of that tract conveyed in Deed Book 279, Page 648, 141.34 feet, more or less, to the true point of beginning, all situated in Washington County, Oregon.

PARCEL II:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648, and the true point of beginning herein described; thence South 89°49' East, 110.0 feet to a point; thence North 0°11' East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968, in Book 677, Page 139, Washington County Records, 173.66 feet to a point; thence North 88°37' West, 110.0 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 173.66 feet to the true point of beginning.

PARCEL III:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian and running thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648; thence South 89°49' East, 85.0 feet along the North line of that tract conveyed in Deed Book 279, Page 648 to the Northeast corner of thereof; thence South 89°49' East, 25.0 feet; thence North 0°11' East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968, in Book 677, Page 139, Washington County Records, 173.66 feet; thence South 88°17' East, 51.0 feet to the true point of beginning of the herein described premises; thence continuing South 88°17' East, 45.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 90.0 feet; thence North 88°17' West, 45.0 feet; thence South 0°11' West, 90.0 feet to the true point of beginning.

PARCEL IV:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim in Section 36, Township 1 South, Range 1 West, Willamette Meridian in the County of Washington and State of Oregon, and running thence South 89°00' East, 1887.60 feet to a point on the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1030.34 feet to a point on the West line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968, in Book 677, Page 139, records of Washington County, being the Westerly Northwest corner of that tract described in Mortgage recorded October 29, 1968, in Book 722, Page 520, records of Washington County and the true point of beginning of the herein described premises; thence South 88°17' East 161.6 feet; thence North 0°11' East, 90.0 feet; thence South 88°17' East, 45.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 171.34 feet to a point; thence North 88°17' West, 65.0 feet to a point; thence South 0°11' West, 75.0 feet to a point; thence North 88°17' West, 141.6 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 186.34 feet to the true point of beginning.

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PARCEL V:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, in Section 36, Township 1 South, Range 1 West of the Willamette Meridian and running thence South $89^{\circ}00'$ East, 1887.60 feet to a point on the Northerly boundary line of said Donation Land Claim; thence South $0^{\circ}11'$ West, 844.0 feet to a point on the West line of that tract described in deed to Leonard E. Cason et al, recorded January 16, 1968, in Book 677, Page 139, records of Washington County, being the Westerly Northwest corner of the first tract described in Mortgage recorded February 4, 1969, in Book 732, Page 58, records of Washington County and the true point of beginning of the herein described property; thence South $88^{\circ}17'$ East, 141.6 feet to a point; thence North $0^{\circ}11'$ East, 75.0 feet to point; thence South $88^{\circ}17'$ East, 65.0 feet to a point on the East line of said Cason tract; thence North $0^{\circ}11'$ East along said East line, 113.66 feet to a point; thence North $88^{\circ}17'$ West, 206 feet to a point on the West line of said Cason tract; thence South $0^{\circ}11'$ West along said West line, 190 feet to the true point of beginning.

PARCEL VI:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim in Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the County of Washington and State of Oregon and running thence South $89^{\circ}00'$ East, 1887.60 feet to a point on the Northerly boundary line of said Donation Land Claim; thence South $0^{\circ}11'$ West, 654.0 feet to a point on the West line of that tract described in deed to Leonard E. Cason et al, recorded January 16, 1968, in Book 677, Page 139, records of Washington County, being the Northwest corner of the first tract described in Mortgage recorded in Book 745, Page 285, records of Washington County and the true point of beginning of the herein described property; thence South $88^{\circ}17'$ East, 206 feet to a point on the East line of said Cason tract; thence North $0^{\circ}11'$ East along said East line, 186.0 feet to a point; thence North $88^{\circ}17'$ East, 206 feet to a point on the West line of said Cason tract; thence South $0^{\circ}11'$ West along said West line, 186.0 feet to the true point of beginning.

PARCEL VII:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim in Section 36; thence South $89^{\circ}00'$ East, 1887.00 feet to a point on the Northerly boundary of said Donation Land Claim; thence South $0^{\circ}11'$, 290 feet to a point, said point being the Southwest corner of a tract conveyed to Oscar Sidler and Grace Sidler by deed recorded November 28, 1911 in Deed Book 90, Page 45, and the true point of beginning; thence South $0^{\circ}11'$ West, 178 feet to a point on the West line of that tract described in a deed to Leonard E. Cason et al, recorded January 16, 1968 in Book 677, Page 139, records of Washington County, being the Northwest corner of the first tract described in Mortgage recorded May 19, 1971, in Book 818, Page 167, records of Washington County; thence South $88^{\circ}17'$ East, 206 feet to a point on the East line of said Cason tract; thence North $0^{\circ}11'$ East along said East line, 178 feet to the South line of said Sidler tract; thence North 89° West along the South line of said Sidler tract, 206.0 feet to the true point of beginning.

C3

Execution Copy

WHEN RECORDED RETURN TO:

First Interstate Bank of Oregon, N.A.
2701 NW Vaughn, 2nd Floor
Portland, OR 97210
Attention: Corporate Trust

CORRECTED
REGULATORY AGREEMENT
AND
DECLARATION OF
RESTRICTIVE COVENANTS

BY AND AMONG THE

STATE TREASURER
OF THE STATE OF OREGON

ACTING ON BEHALF OF THE STATE OF OREGON
AND ON BEHALF OF THE STATE OF OREGON
HEALTH, HOUSING, EDUCATIONAL AND
CULTURAL FACILITIES AUTHORITY,

FIRST INTERSTATE BANK OF OREGON, N.A.
AS TRUSTEE

AND

HAWTHORNE VILLA LIMITED PARTNERSHIP

RELATING TO
\$3,952,000
STATE OF OREGON
HEALTH, HOUSING, EDUCATIONAL
AND CULTURAL FACILITIES AUTHORITY
REVENUE BONDS
(HAWTHORNE VILLA PROJECT),
1996 SERIES A

DATED AS OF MAY 1, 1996

To certify that this is a TRUE and
EXACT copy of the original document.

FIDELITY NATIONAL TITLE
[Signature]
Recorded 5-24-96
Alan V. Latta

REGULATORY AGREEMENT AND DECLARATION OF RESTRICTIVE COVENANTS

THIS REGULATORY AGREEMENT AND DECLARATION OF RESTRICTIVE COVENANTS (this "Regulatory Agreement"), relating to the Project as hereinafter defined, is made and entered into as of May 1, 1996, by and among the STATE TREASURER OF THE STATE OF OREGON, acting on behalf of the State of Oregon and on behalf of the State of Oregon Health, Housing, Educational and Cultural Facilities Authority (the State Treasurer when acting in such capacities referred to herein as the "Issuer"), FIRST INTERSTATE BANK OF OREGON, N.A., as trustee (the "Trustee") under that certain Trust Indenture of even date herewith (the "Indenture") by and between it and the Issuer, and HAWTHORNE VILLA LIMITED PARTNERSHIP, a limited partnership organized under the laws of the State of Oregon (the "Borrower").

PREMISES

WHEREAS, the Issuer proposes to issue its State of Oregon Health, Housing, Educational and Cultural Facilities Authority Revenue Bonds (Hawthorne Villa Project), 1996 Series A (the "Bonds"), the proceeds of which will be utilized to fund a loan to the Borrower to be made by Washington Capital DUS, Inc. (the "Lender"), a Delaware corporation, in accordance with the Financing Agreement of even date herewith (the "Financing Agreement") by and among the Issuer, the Borrower and the Trustee, in order to enable the Borrower to finance the acquisition, rehabilitation and development of the Project; and

WHEREAS, in order to assure the Issuer and the owners of the Bonds that interest on the Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and to satisfy the purposes of the Issuer in determining to issue the Bonds, certain limits on the occupancy of units in the Project need to be established and certain other requirements need to be met.

NOW, THEREFORE, in consideration of the issuance of the Bonds by the Issuer and the use of the proceeds thereof to finance the Project, the mutual covenants and undertakings set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Issuer, the Trustee and the Borrower agree as follows:

SECTION L. DEFINITIONS. Unless the context otherwise requires, the capitalized terms used herein shall have the respective meanings assigned to them in the recitals hereto, in this Section l or in the Indenture or the Financing Agreement.

"ADJUSTED INCOME" means the adjusted income of a person (together with the adjusted income of all other persons who intend to reside with such person in one residential unit) as

calculated in the manner prescribed in Regulations Section 1.167(k)-3(b)(3) in effect as of the Closing Date.

"AREA" means the Portland Primary Metropolitan Statistical Area.

"CERTIFICATE OF CONTINUING PROGRAM COMPLIANCE" means the Certificate to be filed by the Borrower with the Issuer, the Lender and the Trustee pursuant to Section 4(e) hereof, which shall be substantially in the form attached as Exhibit C hereto, or in such other form as maybe provided by the Issuer to the Borrower.

"COUNTY" means Washington County, Oregon.

"HOUSING ACT" means the United States Housing Act of 1937, as amended, or its successor.

"INCOME CERTIFICATION" means a Verification of Income and an Occupancy Certificate in the form attached as Exhibit B hereto, or in such other form as may be provided by the Issuer to the Borrower.

"LOW INCOME TENANT" means any tenant whose Adjusted Income does not exceed sixty percent (60%) of Median Gross Income for the Area with adjustments for family size. If all the occupants of a unit are students (as defined under Section 151(e)(4) of the Code), no one of whom is entitled to file a joint return under Section 6013 of the Code, such occupants shall not qualify as Low Income Tenants. The determination of a tenant's status as a Low Income Tenant shall be made by the Borrower upon initial occupancy of a unit in the Project by such tenant, on the basis of an Income Certification executed by the tenant.

"LOW INCOME UNITS" means the units in the Project required to be rented, or held available for occupancy by, Low Income Tenants pursuant to Sections 4(a) and 6(b) hereof.

"MEDIAN GROSS INCOME FOR THE AREA" means the area median income as determined in accordance with Section 142(d)(2)(B) of the Code, that is, by the Secretary of Housing and Urban Development in a manner consistent with determinations of area median gross income under Section 8 of the Housing Act (or if programs under Section 8 are terminated under the method used by said Secretary prior to such termination).

"QUALIFIED PROJECT PERIOD" means the period beginning on the later of (i) the Closing Date or (ii) the first day on which at least 10% of the units in the Project are first occupied, and ending on the later of the following:

(A) the date which is fifteen (15) years after the Closing Date (being May 24, 2011); or

(B) the first date on which no tax-exempt private activity bonds with respect to the Project are outstanding; or

(C) the date on which any assistance provided with respect to the Project under Section 8 of the Housing Act terminates.

"REGULATIONS" means the Income Tax Regulations of the Department of the Treasury applicable under the Code from time to time.

"REGULATORY AGREEMENT" means this Regulatory Agreement and Declaration of Restrictive Covenants, together with any and all amendments and supplements hereto.

"TAX-EXEMPT" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from gross income for federal income tax purposes; *provided, however*, that such interest may be includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

"UNITS" or "DWELLING UNITS" means all residential units in the Project except not more than two units set aside for resident manager or other administrative use.

"VERIFICATION OF INCOME" means a Verification of Income in the form attached as Exhibit B to this Regulatory Agreement, or in such other form as may be provided by the Issuer to the Borrower.

Unless the context clearly requires otherwise, as used in this Regulatory Agreement, words of any gender shall be construed to include each other gender when appropriate and words of the singular number shall be construed to include the plural number, and vice versa, when appropriate.

This Regulatory Agreement and all the terms and provisions hereof shall be construed to effectuate the purposes set forth herein and to sustain the validity hereof.

The titles and headings of the sections of this Regulatory Agreement have been inserted for convenience of reference only, and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof or be considered or given any effect in construing this Regulatory Agreement or any provisions hereof or in ascertaining intent, if any question of intent shall arise.

SECTION 2. REPRESENTATIONS, COVENANTS AND WARRANTIES OF THE BORROWER. The Borrower hereby incorporates herein, as if set forth in full herein, each of the representations, covenants and warranties of the Borrower contained in the Tax Certificate and in the Financing Agreement relating to the Project.

The Borrower acknowledges, represents and warrants that it understands the nature and structure of the transactions contemplated by this Regulatory Agreement; that it is familiar with the provisions of all of the documents and instruments to which it is a party or of which it is a beneficiary; that it understands the financial and legal risks inherent in such transactions; and that it has not relied on the Issuer for any guidance or expertise in analyzing the financial or other consequences of such financing transactions or otherwise relied on the Issuer in any manner except to issue the Bonds in order to provide funds to assist the Borrower in financing the Project.

SECTION 3. QUALIFIED RESIDENTIAL RENTAL PROJECT. The Borrower hereby acknowledges and agrees that the Project is to be owned, managed and operated in the same manner as a "qualified residential rental project" (within the meaning of Section 142(d) of the Code) for a term equal to the Qualified Project Period. To that end, and for the term of this Regulatory Agreement, the Borrower hereby represents, covenants, warrants and agrees as follows:

(a) The Borrower will own, manage and operate the Project as a multifamily residential rental property consisting of a building or structure or several interrelated buildings or structures, together with any functionally related and subordinate facilities, and no other facilities, in accordance with Section 142(d) of the Code, Section 1.103-8(b) of the Regulations and the provisions of the Housing Act, and in accordance with such requirements as may be imposed thereby on the Project from time to time.

(b) All of the dwelling units in the Project will be similarly constructed units, and each dwelling unit in the Project will contain complete separate and distinct facilities for living, sleeping, eating, cooking and sanitation for a single person or a family, including a sleeping area, bathing and sanitation facilities and cooking facilities equipped with a cooking range, refrigerator and sink.

(c) None of the dwelling units in the Project will at any time be utilized on a transient basis, or will ever be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, nursing home, hospital, sanitarium, rest home or trailer court or park.

(d) No part of the Project will at any time during the Qualified Project Period be owned by a cooperative housing corporation, nor shall the Borrower take any steps in connection with a conversion to such ownership or use, and the Borrower will not take any steps in connection with a conversion of the Project to condominium ownership during the Qualified Project Period.

(e) All of the dwelling units in the Project will be available for rental during the Qualified Project Period on a continuous basis to members of the general public, on a "first-come first-served" basis, and the Borrower will not give preference to any particular class or group in renting the dwelling units in the Project, except to the extent that dwelling units are required to be leased or rented to Low Income Tenants.

(f) The Project consists of a parcel or parcels that are contiguous except for the interposition of a road, street or stream, and all of the facilities of the Project comprise a single geographically and functionally integrated project for residential rental property, as evidenced by the ownership, management, accounting and operation of the Project.

(g) At the closing for the Bonds, the Borrower shall give the Issuer, the Trustee, the Lender and Fannie Mae notice of whether or not the Project is then in compliance with the provisions of this Regulatory Agreement.

SECTION 4. LOW INCOME TENANTS; REPORTING REQUIREMENTS. Pursuant to the requirements of the Code, the Borrower hereby represents, warrants and covenants as follows:

(a) Commencing on the Closing Date, Low Income Tenants shall occupy at least forty percent (40%) of all completed and occupied units in the Project before any vacant units are occupied by persons who are not Low Income Tenants; and for the Qualified Project Period no less than 40% of the total number of completed units of the Project shall at all times be rented to and occupied by Low Income Tenants. For the purposes of this paragraph (a), a vacant unit which was most recently occupied by a Low Income Tenant is treated as rented and occupied by a Low Income Tenant until reoccupied, other than for a temporary period of not more than 31 days, at which time the character of such unit shall be redetermined.

(b) No tenant qualifying as a Low Income Tenant shall be denied continued occupancy of a unit in the Project because, after admission, such tenant's Adjusted Income increases to exceed the qualifying limit for Low Income Tenants. However, should a Low Income Tenant's Adjusted Income, as of the most recent determination thereof, exceed one hundred forty percent (140%) of the applicable income limit for a Low Income Tenant of the same family size, the next available unit of comparable or smaller size must be rented to (or held vacant and available for immediate occupancy by) a Low Income Tenant. Until such next available unit is rented, the former Low Income Tenant who has ceased to qualify as such shall be deemed to continue to be a Low Income Tenant for purposes of the forty percent (40%) requirement of Section 4(a) hereof.

(c) For the Qualified Project Period, the Borrower will obtain, complete, and maintain on file Income Certifications for each Low Income Tenant, including an Income Certification dated (i) immediately prior to the initial occupancy by such Low Income Tenant in the Project, and (ii) annually thereafter, within thirty days before or after the anniversary of such Low Income Tenant's initial occupancy of a unit in the Project. The Borrower will provide such additional information as may be required in the future by the Issuer and by the Code, as the same may be amended from time to time, in such form and manner as may be required by applicable rules, rulings, policies, procedures, Regulations or other official statements now or hereafter promulgated, proposed or made by the Department of the Treasury or the Internal Revenue Service with respect to Tax-Exempt obligations, all as and to the extent required to maintain the Tax-Exempt status of the Bonds or to comply with the laws of the State. A copy of the most recent Income Certifications for Low Income Tenants commencing or continuing occupation of a Low Income Unit shall be

attached to each report to be filed with the Issuer and the Trustee pursuant to paragraph (e) of this Section 4. The Borrower shall make a good faith effort to verify that the income information provided by an applicant in a Verification of Income is accurate by taking one or more of the following steps as a part of the verification process: (1) obtain a pay stub for the most recent pay period, (2) obtain an income tax return for the most recent tax year, (3) conduct a search with a credit reporting company, (4) obtain an income verification from the applicant's current employer, (5) obtain an income verification from the Social Security Administration and/or the State of Oregon if the applicant receives assistance from either of such entities, or (6) if the applicant is unemployed and does not have an income tax return, obtain another form of independent verification.

(d) The Borrower will maintain complete and accurate records pertaining to the Low Income Units, and will permit any duly authorized representative of the Issuer, the Trustee, the Lender, Fannie Mae, the Department of the Treasury or the Internal Revenue Service to inspect the books and records of the Borrower pertaining to the Project, including those records pertaining to the occupancy of the Low Income Units.

(e) The Borrower will prepare and submit to the Issuer and the Trustee (and to the Lender upon the Lender's written request), no later than the fifteenth day of the first month of each calendar quarter until the end of the Qualified Project Period, a Certificate of Continuing Program Compliance executed by the Borrower stating (i) the percentage of the Dwelling Units of the Project which were occupied or deemed occupied, pursuant to subsection (a) hereof, by Low Income Tenants during the preceding calendar quarter; and (ii) that either (A) no unremedied default has occurred under this Regulatory Agreement or the Financing Agreement, or (B) a default has occurred, in which event the certificate shall describe the nature of the default in detail and set forth the measures being taken by the Borrower to remedy such default.

(f) For the Qualified Project Period, all tenant leases or rental agreements shall be subordinate to this Regulatory Agreement, the Indenture and the Mortgage and shall contain clauses, among others, wherein each tenant who occupies a Low Income Unit: (i) certifies the accuracy of the statements made in the Verification of Income and (ii) agrees that the family income and other eligibility requirements shall be deemed substantial and material obligations of the tenancy of such tenant, that such tenant will comply promptly with all requests for information with respect thereto from the Borrower, the Trustee, the Lender or the Issuer, and that the failure or refusal to comply with a request for information with respect thereto shall be deemed a material breach of such tenant's lease, permitting immediate termination of such lease or rental agreement.

(g) Each lease or rental agreement pertaining to a Low Income Unit also shall contain a provision to the effect that the Borrower has relied on the Verification of Income and supporting information supplied by the Low Income Tenant in determining qualification for occupancy of the Low Income Unit, and that any failure to provide accurate information in the Verification of Income or supporting information or material misstatement in the Verification of Income or supporting information (whether or not intentional) will be cause for immediate termination of such lease or rental agreement. Each such lease or rental agreement shall also provide

that the tenant's income is subject to annual certification in accordance with Section 4(c) hereof and that if upon any such certification such tenant's Adjusted Income exceeds the income limit applicable to Low Income Tenants, such tenant may cease to qualify as a Low Income Tenant.

(h) In addition to any and all other reports or information required to be provided or filed hereunder by the Borrower, during the Qualified Project Period, the Borrower shall annually file with the Internal Revenue Service an "Annual Certification of a Residential Rental Project" (currently IRS Form 8703) by March 31 after the close of the calendar year for which certification is made, and/or such other certification, filing or report, with such frequency and by such date, as the Internal Revenue Service may in the future require in connection with the operation of the Project in manner necessary to ensure the Tax-Exempt status of the Bonds. Concurrently with such filing, the Borrower shall deliver to the Trustee and the Issuer copies of each IRS Form 8703 or other certification, filing or report filed with the Internal Revenue Service pursuant to this subsection (h).

SECTION 5. TAX-EXEMPT STATUS OF THE BONDS. The Borrower hereby represents, warrants and agrees as follows:

(a) The Borrower will not knowingly take or permit, or omit to take or cause to be taken, as is appropriate, any action that would adversely affect the Tax-Exempt status of the interest on the Bonds and, if the Borrower should take or permit, or omit to take or cause to be taken, any such action, it will take all lawful actions necessary to rescind or correct such actions or omissions promptly upon obtaining knowledge thereof.

(b) The Borrower will, at its own expense, file of record such documents and take such other steps as are necessary, in the written opinion of Bond Counsel filed with the Issuer and the Trustee, with copies to the Lender and Fannie Mae, in order to ensure that the requirements and restrictions of this Regulatory Agreement will, subject to the *proviso* in Section 12 regarding termination of this Regulatory Agreement, be binding upon all owners (including subsequent owners, if any) of the Project, including, but not limited to, the execution and recordation of this Regulatory Agreement in the real property records of the County.

(c) The Borrower hereby covenants to include or reference the requirements and restrictions contained in this Regulatory Agreement in any documents transferring any interest in the Project to another person to the end that such transferee has notice of, and is bound by, such restrictions, and, except in the case of a foreclosure or deed in lieu of foreclosure or comparable conversion of the Mortgage Loan by Fannie Mae or its nominee, whereby Fannie Mae or its nominee becomes the owner of the Project, to obtain the agreement from any transferee to abide by all requirements and restrictions of this Regulatory Agreement, it being understood that no such agreement shall be required of Fannie Mae or its nominee.

SECTION 6. MODIFICATION OF COVENANTS. The Borrower, the Trustee and the Issuer hereby agree as follows:

(a) To the extent any amendments to the Regulations or the Code shall, in the written opinion of Bond Counsel filed with the Issuer, the Trustee and the Borrower (with a copy to the Lender and Fannie Mae), impose requirements upon the ownership or operation of the Project more restrictive than those imposed by this Regulatory Agreement, and if such requirements are applicable to the Project, this Regulatory Agreement shall be amended in accordance with the procedures set forth in Section 6(c) hereof to impose such additional or more restrictive requirements.

(b) To the extent that the Regulations or the Code, or any amendments thereto, shall, in the written opinion of Bond Counsel filed with the Issuer, the Trustee and the Borrower (with a copy to the Lender and Fannie Mae), impose requirements upon the ownership or operation of the Project less restrictive than imposed by this Regulatory Agreement, this Regulatory Agreement may be amended or modified to provide such less restrictive requirements, but only (i) by written amendment signed by the Issuer, the Trustee and the Borrower, (ii) with the written consent of Fannie Mae, and (iii) upon receipt by the Issuer, the Trustee, the Lender and Fannie Mae of the written opinion of Bond Counsel to the effect that such amendment will not affect the Tax-Exempt status of interest on the Bonds.

(c) The Borrower, the Issuer and, if applicable, the Trustee, shall execute, deliver and, if applicable, file of record any and all documents and instruments reasonably necessary to effectuate the intent of this Section 6, and each of the Borrower and the Issuer hereby appoints the Trustee as its true and lawful attorney-in-fact to execute, deliver and, if applicable, file of record on behalf of the Borrower or the Issuer, as is applicable, any such document or instrument (in such form as may be approved in writing by Bond Counsel) if either the Borrower or the Issuer defaults in the performance of its obligations under this subsection (c); *provided, however*, that unless directed in writing by the Issuer or the Borrower, the Trustee shall take no action under this subsection (c) without first notifying the Borrower, the Issuer, the Lender and Fannie Mae, and without first providing the Borrower or the Issuer, or both, as is applicable, an opportunity to comply with the requirements of this Section 6. Nothing in this subsection (c) shall be construed to allow the Trustee to execute an amendment to this Regulatory Agreement on behalf of the Issuer or the Borrower.

SECTION 7. INDEMNIFICATION; PAYMENT OF OTHER AMOUNTS. The Borrower hereby covenants and agrees that it shall indemnify and hold harmless and defend, the Issuer, the Lender and the Trustee and the respective officers, members, supervisors, directors, officials, employees, agents and attorneys of each of them as set forth in the Financing Agreement, subject to the terms and provisions of the Financing Agreement; *provided* that such indemnification shall remain in effect notwithstanding termination of the Financing Agreement. In addition, the Borrower hereby agrees as follows:

(a) The Borrower shall pay and discharge and shall indemnify and hold harmless the Issuer and the Trustee from (i) any lien or charge upon payments by the Borrower to the Issuer and the Trustee hereunder and (ii) any taxes (including, without limitation, all ad valorem taxes and sales taxes), assessments, impositions and other charges in respect of any portion of the Project. If

any such claim is asserted, or any such lien or charge upon payments, or any such taxes, assessments, imposition or other charges, are sought to be imposed, the Issuer or the Trustee shall give prompt notice to the Borrower and the Borrower shall have the sole right and duty to assume, and will assume, the defense thereof, with full power to litigate, compromise or settle the same in its sole discretion.

(b) The Borrower will pay upon demand all of the fees and expenses paid or incurred by the Trustee and/or the Issuer in enforcing the provisions hereof (including, but not limited to, fees and expenses of Trustee and its counsel prior to trial, at trial, and on appeal, and in any bankruptcy or arbitration proceedings).

Notwithstanding any other provision of this Regulatory Agreement to the contrary, neither Fannie Mae, its nominee nor any successor in interest thereto will assume or take subject to any liability for the indemnification obligations of the Borrower for acts or omissions of the Borrower prior to any transfer of title to Fannie Mae or its nominee, whether by foreclosure, deed in lieu of foreclosure or comparable conversion of the Mortgage Loan. Following any transfer of title to Fannie Mae or its nominee, any obligation of Fannie Mae or its nominee under this Section 7 shall be strictly limited to acts and omissions of Fannie Mae or its nominee which occur following acquisition of the Project by Fannie Mae or its nominee, whether such acquisition is by foreclosure, deed in lieu of foreclosure or comparable conversion of the Mortgage Loan, and only during the period of Fannie Mae's, or its nominee's, ownership and operation of the Project. The Borrower shall remain liable under this Section 7 for its actions and omissions prior to any transfer of title to Fannie Mae or its nominee, notwithstanding any consent given pursuant to Section 10.

The provisions of this Section 7 shall survive the term of the Bonds and this Regulatory Agreement.

SECTION 8. CONSIDERATION. The Issuer has issued the Bonds to provide funds to finance the Project, all for the purpose, among others, of inducing the Borrower to operate the Project as provided herein. In consideration of the issuance of the Bonds by the Issuer, the Borrower has entered into this Regulatory Agreement and has agreed to restrict the uses to which the Project may be put on the terms and conditions set forth herein.

SECTION 9. RELIANCE. The Borrower hereby recognizes and agrees that the representations and covenants set forth herein may be relied upon by all persons interested in the legality and validity of the Bonds and in the exemption from Oregon personal income taxation and the Tax-Exempt status of the interest on the Bonds. In performing their duties and obligations hereunder, the Issuer and the Trustee may rely upon statements and certificates of the Low Income Tenants, and upon audits of the books and records of the Borrower pertaining to the Project in compliance with Section 4 hereof. In addition, the Issuer and the Trustee may consult with counsel, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Issuer or the Trustee hereunder in good faith and in conformity with such opinion. In determining whether any default or lack of compliance by the Borrower exists

under this Regulatory Agreement, the Trustee shall not be required to conduct any investigation into or review of the operations or records of the Borrower and may rely solely on any written notice or certificate delivered to the Trustee by the Borrower or the Issuer with respect to the occurrence or absence of a default unless it knows that the notice or certificate is erroneous or misleading.

SECTION 10. SALE OR TRANSFER OF THE PROJECT. Except as may be specifically permitted by the terms of the Financing Agreement, the Borrower hereby covenants and agrees not to sell, transfer or otherwise dispose of the Project or any portion thereof (other than leases for individual tenant use as contemplated hereunder and replacement of personal property and fixtures), without obtaining the prior written consent of the Issuer and Fannie Mae, which consent of the Issuer shall, except in the case of a foreclosure or deed in lieu of foreclosure or comparable conversion of the Mortgage Loan by Fannie Mae, whereby Fannie Mae or its nominee becomes the owner of the Project, be conditioned solely upon receipt by the Issuer and the Trustee of (i) evidence reasonably satisfactory to the Issuer that the Borrower's purchaser or transferee has assumed in writing and in full, and is reasonably capable of performing and complying with, the Borrower's duties and obligations under this Regulatory Agreement (subject to the limitations herein provided), (ii) a certificate of the Borrower that no default has occurred and no event which, with the passage of time or the giving of notice, or both, would constitute a default under this Regulatory Agreement has occurred, and that any fees due under this Regulatory Agreement have been paid, (iii) an opinion of counsel to the transferee that the transferee has duly assumed the obligations of the Borrower under this Regulatory Agreement and that such obligations and this Regulatory Agreement are binding on the transferee and (iv) an opinion of Bond Counsel that such sale, transfer or other disposition of the Project will not adversely affect the Tax-Exempt status of interest on the Bonds and the exemption of such interest from Oregon personal income taxes. Provided the above conditions have been satisfied, upon request, the Issuer will provide to the Borrower and the purchaser or transferee its written consent to any sale, transfer or disposition of the Project, or any portion thereof, in accordance with this Section 10 and written notice to the Trustee of the Issuer's consent. No consent by the Issuer shall be required in connection with the acquisition of title to the Project by Fannie Mae or its nominee pursuant to foreclosure of the Mortgage by Fannie Mae, or the acceptance by Fannie Mae of a deed in lieu of such foreclosure, or comparable conversion of the Mortgage Loan; *and, therefore*, in connection with such acquisition of title by Fannie Mae or its nominee, as provided above, compliance with the provisions specified in clauses (i), (ii), (iii) and (iv) above shall not be required to make effective any such title acquisition. It is hereby expressly stipulated and agreed that any other sale, transfer or other disposition of the Project in violation of this Section 10 shall be null, void and without effect and shall be ineffective to relieve the Borrower of its obligations under this Regulatory Agreement. Nothing contained in this Section 10 shall affect or limit any provision of the Mortgage or any other document or instrument to which the Borrower is a party which requires the Borrower to obtain the consent of the holder of the Mortgage Note or any other person as a precondition to sale, transfer or other disposition of the Project.

SECTION 11. TERM. This Regulatory Agreement and all and several of the terms hereof shall become effective upon its execution and delivery, and shall remain in full force and effect for the period provided herein and shall terminate in its entirety (except for provisions otherwise

provided with a specific termination date) at the end of the Qualified Project Period, it being expressly agreed and understood that the provisions hereof are intended to survive the retirement of the Bonds and discharge of the Indenture and the Financing Agreement if the Qualified Project Period extends beyond such retirement and discharge.

The terms of this Regulatory Agreement notwithstanding, the requirements of this Regulatory Agreement shall terminate and be of no further force and effect in the event of involuntary noncompliance caused by fire or other casualty, seizure, requisition, foreclosure, transfer of title by deed in lieu of foreclosure, change in a federal law or an action of a federal agency after the Closing Date which prevents the Issuer and the Trustee from enforcing such provisions, or condemnation or a similar event, but only if, within a reasonable period, either the Bonds are retired or amounts received as a consequence of such event are used to provide a project which meets the requirements hereof; *provided, however*, that the preceding provisions of this sentence shall cease to apply and the restrictions contained herein shall be reinstated if, at any time subsequent to the termination of such provisions as the result of foreclosure of the Mortgage or the delivery of a deed in lieu of foreclosure or a similar event, the Borrower or any related person (within the meaning of Section 1.103-10(e) of the Regulations) obtains an ownership interest in the Project for federal income tax purposes. The Borrower hereby agrees that, following any foreclosure, transfer of title by deed in lieu of foreclosure or similar event, neither the Borrower nor any such related person as described above will obtain an ownership interest in the Project for federal tax purposes. Upon the termination of the terms of this Regulatory Agreement, the parties hereto agree to execute, deliver and record appropriate instruments of release and discharge of the terms hereof; *provided, however*, that the execution and delivery of such instruments shall not be necessary or a prerequisite to the termination of this Regulatory Agreement in accordance with its terms.

SECTION 12. COVENANTS TO RUN WITH THE LAND; EQUITABLE SERVITUDES. The Borrower hereby subjects the Project to the covenants, reservations and restrictions set forth in this Regulatory Agreement. The Issuer and the Borrower hereby declare their express intent that the covenants, reservations and restrictions set forth herein shall be deemed covenants running with the land and shall be deemed equitable servitudes and shall pass to and be binding upon the Borrower's successors in title to the Project; *provided, however*, that on the termination of this Regulatory Agreement, said covenants, reservations and restrictions shall expire. Each and every contract, deed or other instrument hereafter executed covering or conveying the Project or any portion thereof shall conclusively be held to have been executed, delivered and accepted subject to such covenants, reservations and restrictions, regardless of whether such covenants, reservations and restrictions are set forth in such contract, deed or other instruments.

SECTION 13. BURDEN AND BENEFIT. The Borrower hereby declares its understanding and intent that the burdens of the covenants set forth herein touch and concern the land in that the Borrower's legal interest in the Project is rendered less valuable thereby. The Borrower hereby further declares its understanding and intent that the benefits of such covenants touch and concern the land by enhancing and increasing the enjoyment and use of the Project by Low Income Tenants,

the intended beneficiaries of such covenants, reservations and restrictions, and by furthering the public purposes for which the Bonds were issued.

SECTION 14. COMMON PLAN. The covenants, reservations and restrictions hereof shall apply uniformly to the entire Project in order to establish and carry out a common plan for the use of the site on which the Project is located.

SECTION 15. DEFAULTS; ENFORCEMENT. If the Borrower defaults in the performance or observance of any covenant, agreement or obligation of the Borrower set forth in this Regulatory Agreement, and if such default remains uncured for a period of sixty (60) days after notice thereof shall have been given by the Issuer or the Trustee to the Borrower, or for a period of sixty (60) days from the date the Borrower should, with due diligence, have discovered such default, then the Trustee, acting on its own behalf or on behalf of the Issuer, shall declare an "Event of Default" to have occurred hereunder. Following the declaration of an Event of Default hereunder the Issuer or the Trustee may, at their respective options, take any one or more of the following steps, in addition to all other remedies provided by law or equity:

(i) by mandamus or other suit, action or proceeding at law or in equity, including injunctive relief, require the Borrower to perform its obligations and covenants hereunder or enjoin any acts or things which may be unlawful or in violation of the rights of the Issuer or the Trustee hereunder;

(ii) have access to and inspect, examine and make copies of all of the books and records of the Borrower pertaining to the Project;

(iii) with the consent of Fannie Mae, declare a default under the Financing Agreement, accelerate the indebtedness of the Borrower under the Financing Agreement, and proceed with any remedies provided therein; and/or

(iv) take such other action at law or in equity as may appear necessary or desirable to enforce the obligations, covenants and agreements of the Borrower hereunder;

provided, however, that any claim for damages, indemnification or any other monetary obligation sought to be enforced by Issuer or the Trustee shall be subordinate to the Mortgage Loan.

For so long as the Bonds are outstanding, the rights of the Issuer in this Regulatory Agreement (except the rights of the Issuer under subdivision (a) of Section 7) will be assigned as security to the Trustee and shall be enforceable by the Trustee, upon notice to but without the consent or approval of the Issuer, in accordance with the terms hereof and the terms of the Indenture.

No delay in enforcing the provisions hereof as to any breach or violation shall impair, damage or waive the right of any person entitled to enforce the same to obtain relief against or

recover for the continuation or repetition of such breach or violation or any similar breach or violation thereof at any later time or times.

All reasonable fees, costs and expenses of the Trustee and the Issuer incurred in taking any action pursuant to this Section 15 shall be the sole responsibility of the Borrower.

No breach or default under this Regulatory Agreement shall defeat or render invalid any mortgage or like encumbrance upon the Project or any portion thereof given in good faith and for value.

Notwithstanding anything herein to the contrary, neither the Issuer nor the Trustee, or any other person acting on behalf of either of them, shall:

(a) initiate or take any action which may have the effect, directly or indirectly, of impairing the ability of the Borrower to timely pay the principal of, interest on, or other amounts due and payable under, the Mortgage Loan;

(b) interfere with or attempt to influence the exercise by Fannie Mae of any of its rights under the Mortgage Loan, including, without limitation, Fannie Mae's remedial rights under the Mortgage Loan upon the occurrence of an event of default by the Borrower under the Mortgage Loan; or

(c) upon the occurrence of an event of default under the Mortgage Loan, take any action to accelerate or otherwise enforce payment or seek other remedies with respect to the Mortgage Loan or the Bonds;

provided that the foregoing prohibition shall not be construed to prevent the Issuer from consulting with Fannie Mae or to limit the rights of the Issuer and the Trustee to specifically enforce this Regulatory Agreement in order to provide for the operation of the Project in accordance with the Code and the Act; *and provided further* that this prohibition shall not be construed to limit the rights of the Issuer to enforce its rights against the Borrower under Section 7 so long as it does not cause the Borrower to file a petition seeking reorganization, arrangement, adjustment, or composition of or in respect of the Borrower under any applicable liquidation, insolvency, bankruptcy, rehabilitation, composition, reorganization, conservation or other similar law now or hereafter in effect.

The Issuer and the Trustee acknowledge that, notwithstanding the occurrence of any violation of this Regulatory Agreement, neither the Issuer nor the Trustee shall have any right to cause or direct acceleration of the Mortgage Loan, to enforce the Mortgage Note or to foreclose on the Mortgage, and that no person other than Fannie Mae shall have the right to (a) declare the principal balance of the Mortgage Note to be immediately due and payable or (b) commence foreclosure or other like action without express written authorization from Fannie Mae.

Promptly upon determining that a violation of the Regulatory Agreement has occurred, the Issuer or the Trustee shall, by notice in writing to the Lender and Fannie Mae, inform the Lender and Fannie Mae that such violation has occurred, the nature of the violation and that the violation has been cured or has not been cured, but is curable within a reasonable period of time, or is incurable.

SECTION 16: THE TRUSTEE. The Trustee shall act as specifically provided herein and in the Indenture. The Trustee shall have no duty to act with respect to enforcement of the Borrower's performance hereunder as described in Section 15 unless it shall have actual knowledge of any such default. The Trustee may act as the agent of and on behalf of the Issuer under this Regulatory Agreement, and any act required to be performed by the Issuer as herein provided shall be deemed taken by the Issuer if such act is performed by the Trustee. In connection with any such performance, however, the Trustee is acting solely as Trustee under the Indenture, and not in its individual capacity, and all provisions of the Indenture relating to the rights, privileges, powers and protections of the Trustee shall apply with equal force and effect to all actions taken (or omitted to be taken) by the Trustee in connection with this Regulatory Agreement. Neither the Trustee nor any of its officers, directors or employees shall be liable for any action taken or omitted to be taken by it hereunder or in connection herewith except for its or their own negligence or willful misconduct. The Trustee may consult with legal counsel selected by it (the reasonable fees of which counsel shall be paid by the Borrower) and any action taken or suffered by it reasonably and in good faith in accordance with the opinion of such counsel shall be full justification and protection to it.

After the date on which no Bonds remain outstanding as provided in the Indenture, the Trustee shall no longer have any duties or responsibilities under this Regulatory Agreement and all references to the Trustee in this Regulatory Agreement shall be deemed references to the Issuer.

SECTION 17. RECORDING AND FILING. The Borrower shall cause this Regulatory Agreement and all amendments and supplements hereto to be recorded and filed in the real property records of the County and in such other places as the Issuer or the Trustee may reasonably request. The Borrower shall pay all fees and charges incurred in connection with any such recording.

SECTION 18. PAYMENT OF FEES. Notwithstanding any prepayment of the Mortgage Loan and notwithstanding a discharge of the Indenture, the Borrower shall continue to pay to the Trustee reasonable compensation for any services rendered by it hereunder and reimbursement for all expenses reasonably incurred by it in connection herewith, and shall continue to pay (or shall prepay) the Issuer's annual administrative fee and expenses as provided in the Financing Agreement; *provided* that neither Fannie Mae, its nominee nor any purchaser from Fannie Mae or its nominee shall have any liability for the payment of any accrued and unpaid fees owed by the Borrower prior to the date of acquisition of the Project by Fannie Mae or its nominee.

SECTION 19. GOVERNING LAW. This Regulatory Agreement shall be governed by the laws of the State of Oregon. The Trustee's rights, duties and obligations hereunder are governed in their entirety by the terms and provisions hereof and of the Indenture.

SECTION 20. AMENDMENTS.

(a) This Regulatory Agreement may be amended only by a written instrument executed by the parties hereto or their successors in title, and duly recorded in the real property records of the County, only with the prior written consent of Fannie Mae and notice to the Lender, and only upon receipt by the Issuer of an opinion from Bond Counsel that such amendment will not adversely affect the Tax-Exempt status of the Bonds.

(b) Anything to the contrary contained herein notwithstanding, the Issuer, the Trustee and the Borrower hereby agree to amend this Regulatory Agreement to the extent required, in the opinion of Bond Counsel, in order that interest on the Bonds remains Tax-Exempt. The parties requesting such amendment shall notify the other parties to this Regulatory Agreement and Fannie Mae of the proposed amendment, with a copy of such requested amendment to Bond Counsel and a request that Bond Counsel render to the Issuer an opinion as to the effect of such proposed amendment upon the Tax-Exempt status of the Bonds. This provision shall not be subject to any provision of any other agreement requiring any party hereto to obtain the consent of any other person in order to amend this Regulatory Agreement.

SECTION 21. NOTICES. Any notice required to be given hereunder shall be made in writing and shall be given by personal delivery or first class mail, postage prepaid, at the addresses specified below, or at such other addresses as may be specified in writing by the parties hereto:

To the Issuer: State of Oregon Health, Housing, Educational
and Cultural Facilities Authority
Pacwest Center, Suite 1700
1211 SW Fifth Avenue
Portland, Oregon 97204
Attention: Executive Director
Telecopy Number: (503) 796-2900

With a copy to: State Treasurer
159 Capitol Building
Salem, Oregon 97310
Telecopy Number: (503) 373-7051

To the Trustee: First Interstate Bank of Oregon, N.A.
2701 NW Vaughn Street, 2nd Floor
Portland, Oregon 97210
Attention: Corporate Trust Department
Telecopy Number: (503) 340-5685

To the Borrower: Hawthorne Villa Limited Partnership
c/o Hawthorne Associates Limited Partnership
Suite 200
16101 SW 72nd Avenue
Portland, Oregon 97224
Attention: Mr. Chad Rennaker

with a copy to: Stephen M. Seidel
Miller, Nash, Wiener, Hager & Carlsen
111 SW Fifth Avenue, Suite 3500
Portland, Oregon 97204

To Fannie Mac: Federal National Mortgage Association
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016-2899
Attention: Senior Vice President, Multifamily

with a copy to: Federal National Mortgage Association
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016-2899
Attention: Office of the General Counsel - re:
Multifamily Matters

with a copy to: Federal National Mortgage Association
135 North Los Robles Avenue
Suite 300
Pasadena, California 91101-1707
Attention: Vice President/Multifamily

with a copy to: Arent Fox Kitner Plotkin & Kahn
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036
Attention: Stephen D. Kahn

To the Lender: Washington Capital DUS, Inc.
1616 North Fort Myer Drive, Suite 1210
Arlington, Virginia 22209
Attention: Robert L. Moore

with a copy to: Ballard Spahr Andrews & Ingersoll
555 13th Street NW, #900 East
Washington, D.C. 20004
Attention: Mary Jo George

The Issuer, the Trustee, the Borrower, the Lender and Fannie Mae may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. Notice shall be deemed given three business days after the date of mailing. A duplicate copy of each notice, certificate or other communication given hereunder by any party to another shall also be given to each of the others.

SECTION 22. FINANCIAL OBLIGATIONS PERSONAL TO BORROWER. The Issuer acknowledges that the Project shall be encumbered by the Mortgage and shall be subject to any and all other Mortgage Loan Documents. Notwithstanding any provisions of this Regulatory Agreement to the contrary, all obligations of the Borrower under this Regulatory Agreement for the payment of money and any claims for damages against the Borrower occasioned by breach or alleged breach by the Borrower of its obligations under this Regulatory Agreement, including indemnification obligations, shall not be secured by or in any manner constitute a lien on the Project and no Person shall have the right to enforce such obligations other than directly against the Borrower as provided in Section 15 of this Regulatory Agreement. No subsequent owner of the Project shall be liable or obligated for the breach or default of any obligation of any prior owner of the Project under this Regulatory Agreement, including but not limited to any payment or indemnification obligation. Such obligations are personal to the Person who was the Borrower at the time the default or breach was alleged to have occurred and such Person shall remain liable for any and all damages occasioned thereby even after such Person ceases to be the owner of the Project.

SECTION 23. SEVERABILITY. If any provision of this Regulatory Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining portions hereof shall not in any way be affected or impaired thereby.

SECTION 24. MULTIPLE COUNTERPARTS. This Regulatory Agreement may be simultaneously executed in multiple counterparts, all of which shall constitute one and the same instrument, and each of which shall be deemed to be an original.

SECTION 25. CONSTRUCTION. The parties to this Regulatory Agreement acknowledge that each party and its counsel have participated in the drafting and revision of this Regulatory Agreement. Accordingly, the parties agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in the interpretation of this Regulatory Agreement or any amendment, modification, supplement or restatement of any of the foregoing or of any exhibit to this Regulatory Agreement.

[This space intentionally left blank. The signatures of the parties appear on the following pages.]

IN WITNESS WHEREOF, the Issuer, the Trustee and the Borrower have executed this Regulatory Agreement by duly authorized representatives, all as of the date first above written.

JIM HILL, STATE TREASURER,
ON BEHALF OF THE ISSUER

By *Gary Bruebaker*
Gary Bruebaker, Deputy State Treasurer

STATE OF OREGON)
)ss:
County of MARION)

The foregoing instrument was acknowledged before me this 23rd day of May 1996, by Gary Bruebaker, Deputy State Treasurer, for and on behalf of Jim Hill, State Treasurer, on behalf of the Issuer.



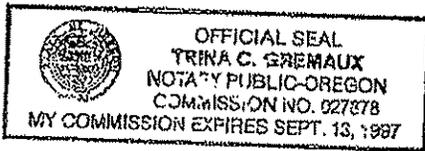
Judy Ann Rutkowski
Notary Public for the State of Oregon
My Commission Expires: 7/18/00

FIRST INTERSTATE BANK OF OREGON,
N.A., AS TRUSTEE

By *Agustin*
Authorized Officer

STATE OF OREGON)
)ss:
County of Multnomah)

The foregoing instrument was acknowledged before me this 23~~rd~~ day of May 1996, by A. Garrett, an Authorized Officer of First Interstate Bank of Oregon, N.A., for and on behalf of First Interstate Bank of Oregon, N.A., as Trustee.



Trina C. Gremaux
Notary Public for the State of Oregon
My Commission Expires: 9-13-97

HAWTHORNE VILLA LIMITED
PARTNERSHIP, as Borrower

By: TUALATIN VALLEY HOUSING PARTNERS, a
General Partner of the Borrower

By: [Signature]
Its: Executive Director

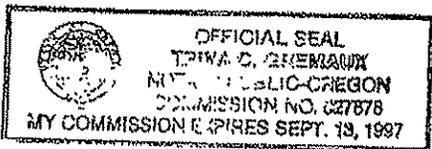
And: HAWTHORNE ASSOCIATES LIMITED
PARTNERSHIP, a General Partner of the Borrower

By: HAWTHORNE VILLA GP, INC., a General
Partner of the Hawthorne Associates
Limited Partnership

By: [Signature]
Its: Senior Vice President

STATE OF OREGON)
County of Multnomah)ss:

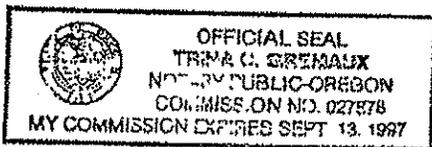
The foregoing instrument was acknowledged before me this 23rd day of
May 1996, by Topaz Faulkner, for and on behalf of Tualatin Valley Housing
Partners, as general partner of Hawthorne Villa Limited Partnership.



Trina C. Cremaux
Notary Public for the State of Oregon
My Commission Expires: 9-13-97

STATE OF OREGON)
County of Multnomah)ss:

The foregoing instrument was acknowledged before me this 23rd day of
May 1996, by Bradley J. Bullock, for and on behalf of Hawthorne Villa GP, Inc.,
as general partner of Hawthorne Associates Limited Partnership, a general partner of Hawthorne Villa
Limited Partnership.



Trina C. Cremaux
Notary Public for the State of Oregon
My Commission Expires: 9-13-97

EXHIBIT A

DESCRIPTION

PARCEL I:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South $89^{\circ}00'$, East 1,887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South $0^{\circ}11'$ West, 1,204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648; thence South $89^{\circ}49'$ East, 85.0 feet along the North line of that tract conveyed in Deed Book 279, Page 648 to the Northeast corner of said tract and true point of beginning of the tract herein described; thence South $89^{\circ}49'$ East, 25.00 feet; thence North $0^{\circ}11'$ East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968, in Book 677, Page 139, Washington County Records, 173.66 feet; thence South $88^{\circ}17'$ East, 96 feet to the East line of said Cason tract; thence South $0^{\circ}11'$ West along the East line of said Cason tract, 315.0 feet to the Southeast corner thereof; thence North $88^{\circ}17'$ West along the South line of said Cason tract, 121.6 feet to the Southeast corner of that tract conveyed in Deed Book 279, Page 648; thence North $0^{\circ}11'$ East along the East line of that tract conveyed in Deed Book 279, Page 648, 141.34 feet, more or less, to the true point of beginning, all situated in Washington County, Oregon.

PARCEL II:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South $89^{\circ}00'$ East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South $0^{\circ}11'$ West 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648, and the true point of beginning herein described; thence South $89^{\circ}49'$ East, 110.0 feet to a point; thence North $0^{\circ}11'$ East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968, in Book 677, Page 139, Washington County Records, 173.66 feet to a point; thence North $88^{\circ}37'$ West, 110.00 feet to a point on the West line of said

Cason tract; thence South 0°11' West along said West line, 173.66 feet to the true point of beginning.

PARCEL III:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian and running thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648; thence South 89°49' East, 85.0 feet along the North line of that tract conveyed in Deed Book 279, Page 648 to the Northeast corner thereof; thence South 89°49' East, 25.0 feet; thence North 0°11' East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968, in Book 677, Page 139, Washington County Records, 173.66 feet; thence South 88°17' East, 51.0 feet to the true point of beginning of the herein described premises; thence continuing South 88°17' East, 45.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 90.0 feet; thence North 88°17' West, 45.0 feet; thence South 0°11' West, 90.0 feet to the true point of beginning.

PARCEL IV:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim in Section 36, Township 1 South, Range 1 West, Willamette Meridian in the County of Washington and State of Oregon, and running thence South 89°00' East, 1887.60 feet to a point on the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1030.34 feet to a point on the West line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968, in Book 677, Page 139, records of Washington County, being the Westerly Northwest corner of that tract described in Mortgage recorded October 29, 1968, in Book 722, Page 520, records of Washington County and the true point of beginning of the herein described premises; thence South 88°17' East 161.6 feet; thence North 0°11' East, 90.0 feet; thence South 88°17' East, 45.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 171.34 feet to a point; thence North 88°17' West, 65.0 feet to a point; thence South 0°11' West, 75.0 feet to a

point; thence North 88°17' West, 141.6 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 186.34 feet to the true point of beginning.

PARCEL V:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, in Section 36, Township 1 South, Range 1 West of the Willamette Meridian and running thence South 89°00' East, 1,887.60 feet to a point on the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 844.0 feet to a point on the West line of that tract described in deed to Leonard E. Cason et al, recorded January 16, 1968, in Book 677, Page 139, records of Washington County, being the Westerly Northwest corner of the first tract described in Mortgage recorded February 4, 1969, in Book 732, Page 58, records of Washington County and the true point of beginning of the herein described property; thence South 88°17' East, 141.6 feet to a point; thence North 0°11' East, 75.0 feet to a point; thence South 88°17' East, 65.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 113.66 feet to a point; thence North 88°17' West, 206 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 190 feet to the true point of beginning.

PARCEL VI:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim in said Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the County of Washington and State of Oregon and running thence South 89°00' East, 1887.60 feet to a point on the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 654.0 feet to a point on the West line of that tract described in deed to Leonard E. Cason et al, recorded January 16, 1968, in Book 677, Page 139, records of Washington County, being the Northwest corner of the first tract described in Mortgage recorded in Book 745, Page 285, records of Washington County and the true point of beginning of the herein described property; thence South 88°17' East, 206 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 186.0 feet to a point; thence North 88°17' East, 206 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 186.0 feet to the true point of beginning.

PARCEL VII:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim in Section 36; thence South $89^{\circ}00'$ East, 1887.60 feet to a point on the Northerly boundary line of said Donation Land Claim; thence South $0^{\circ}11'$, 290 feet to a point, said point being the southwest corner of a tract conveyed to Oscar Sidler and Grace Sidler by deed recorded November 28, 1911 in Deed Book 90, Page 45, and the true point of beginning; thence South $0^{\circ}11'$ West, 178 feet to a point on the West line of that tract described in a Deed to Leonard E. Cason et al, recorded January 16, 1968, in Book 677, Page 139, records of Washington County, being the Northwest corner of the first tract described in Mortgage recorded May 19, 1971 in Book 818, Page 167, records of Washington County; thence South $88^{\circ}17'$ East, 206 feet to a point on the East line of said Cason tract; thence North $0^{\circ}11'$ East along said East line, 178 feet to the South line of said Sidler tract; thence North 89° West along the South line of said Sidler tract, 206.0 feet to the true point of beginning.

Exhibit B

[FORM OF INCOME CERTIFICATION]

VERIFICATION OF INCOME

RE: [name and address of Project]

Apartment Number: _____

I/We, the undersigned, being first duly sworn, state that I/we have read and answered fully, and truthfully each of the following questions for all persons who are to occupy the unit in the above apartment development for which application is made, all of whom are listed below:

1. Name of Members of the Household	2. Relationship to Head of Household	3. Age	4. Social Security Number	5. Place of Employment
_____	HEAD	_____	_____	_____
_____	SPOUSE	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

6. The anticipated income of all the above persons during the 12-month period beginning this date, including income described in (a) below, but excluding all income described in (b) below, is \$_____.

(a) The amount set forth above includes all of the following income (unless such income is described in (b) below):

(i) all wages and salaries, over-time pay, commissions, fees, tips and bonuses before payroll deductions;

(ii) net income from the operation of a business or profession or from the rental of real or personal property (without deducting expenditures for business expansion or amortization of capital indebtedness or any allowance for depreciation of capital assets);

(iii) interest and dividends (include all income from assets as set forth in item 7(b) below);

(iv) the full amount of periodic payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits and other similar types of periodic receipts;

(v) payments in lieu of earnings, such as unemployment and disability compensation, workmen's compensation and severance pay;

- (vi) the maximum amount of public assistance available to the above persons;
- (vii) periodic and determinable allowances, such as alimony and child support payments and regular contributions and gifts received from persons not residing in the dwelling;
- (viii) all regular pay, special pay and allowances of a member of the Armed Forces (whether or not living in the dwelling) who is the head of the household or spouse; and
- (ix) any earned income tax credit to the extent it exceeds income tax liability.

(b) The following income is excluded from the amount set forth above:

- (i) casual, sporadic or irregular gifts;
- (ii) amounts which are specifically for or in reimbursement of medical expenses;
- (iii) lump sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses;
- (iv) amounts of educational scholarships paid directly to a student or an educational institution, and amounts paid by the government to a veteran for use in meeting the costs of tuition, fees, books and equipment, but in either case only to the extent used for such purposes;
- (v) hazardous duty to a member of the household in the armed forces who is away from home and exposed to hostile fire;
- (vi) relocation payments under Title II of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970;
- (vii) income from employment of children (including foster children) under the age of 18 years;
- (viii) foster child care payments;
- (ix) the value of coupon allotments under the Food Stamp Act of 1977;
- (x) payments to volunteers under the Domestic Volunteer Service Act of 1973;
- (xi) payments received under the Alaska Native Claims Settlement Act;
- (xii) income derived from certain submarginal land of the United States that is held in trust for certain Indian tribes;
- (xiii) payments on allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program;
- (xiv) payments received from the Job Partnership Training Act;
- (xv) income derived from the disposition of funds of the Grand River Band of Ottawa Indians; and

(xvi) the first \$2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims or from funds held in trust for an Indian tribe by the Secretary of Interior.

7. If any of the persons described in column 1 above (or any person whose income or contributions were included in item 6) has any savings, stocks, bonds, equity in real property or other form of capital investment (excluding interests in Indian trust lands), provide:

- (a) the total value of all such assets owned by all such persons: \$ _____, and
- (b) the amount of income expected to be derived from such assets in the 12-month period commencing this date: \$ _____

8. (a) Will all of the persons listed in column 1 above be or have they been full-time students during five calendar months of this calendar year at an educational institution (other than a correspondence school) with regular faculty and students?

Yes _____ No _____

(b) (Complete only if the answer to Question 8(a) is "Yes"). Is any such person (other than nonresident aliens) married and eligible to file a joint federal income tax return?

Yes _____ No _____

We acknowledge that all of the above information is relevant to the status under federal income tax law of the interest on bonds issued to finance construction of the apartment building for which application is being made. We consent to the disclosure of such information to the issuer of such bonds, the holders of such bonds, any trustee acting on their behalf and any authorized agent of the Treasury Department or Internal Revenue Service.

Date: _____

Head of Household

Spouse

SUBSCRIBED AND SWORN to before me this _____ day of _____

(NOTARY SEAL)

Notary Public in and for the State of _____

My Commission Expires: _____

NOTE TO BORROWER: A vacant unit previously occupied by individuals or a family of low income, may be treated as occupied by individuals or a family of low income until reoccupied, other than for a period of 31 consecutive days or less, at which time the character of the unit shall be redetermined.

FOR COMPLETION BY BORROWER ONLY:

I. Calculation of eligible income:

- (A) Enter amount entered for entire household in 6 above: \$ _____
- (B) If the amount entered in 7(a) above is greater than \$5,000, enter:
- (i) the product of the amount entered in 7(a) above multiplied by the current passbook savings rate as determined by HUD: \$ _____
 - (ii) the amount entered in 7(b) above: \$ _____
 - (iii) line (i) minus line (ii) (if less than \$0, enter \$0): \$ _____
- (C) TOTAL ELIGIBLE INCOME (Line I(A) plus line I(B)(iii)): \$ _____

II. Qualification as individuals or a family of low income:

- (A) Is the amount entered in line I(c) less than 60% of Median Gross Income for the Area*?
Yes _____ No _____
- (B) (i) If line II(A) is "No", then the household does not qualify as individuals or a family of low income; skip to item III.
- (ii) If line II(A) above is "Yes" and 8(a) above is "No", then the household qualifies as individuals or a family of low income; skip to item III.
- (iii) If line II(A) above is "Yes" and 8(b) above is "Yes", then the household qualifies as individuals or a family of low income; skip to item III.
- (iv) If neither (ii) nor (iii) is applicable, then the household does not qualify as individuals or a family of low income.

III. (Check one)

The household does not qualify as individuals or a family of low income. _____

The household qualifies as individuals or a family of low income. _____

IV. Number of apartment unit assigned: _____
(enter here and on page one)

Borrower

* "Median Gross Income for the Area" means the median income for the area where the Project is located as determined by the Secretary of Housing and Urban Development under Section 8(f)(3) of the United States Housing Act of 1937, as amended, or if programs under Section 8(f) are terminated, median income determined under the method used by the Secretary prior to the termination.

OCCUPANCY CERTIFICATE

(To be filed with the Issuer along with a Verification of
Income upon the rental of a unit to any low Income Tenant.)

Project: _____

The tenant identified in the attached Verification of Income has entered into a lease with respect to a unit
in the above-described Project.

Such tenant is/is not (circle one) a Low Income Tenant.

The rental of a unit to such tenant will not result in a violation of any of the requirements of the Financing
Agreement or the Regulatory Agreement to which the Borrower is a party.

Witness

Borrower

Date: _____

Exhibit C

[FORM OF CERTIFICATE OF CONTINUING PROGRAM COMPLIANCE]

CERTIFICATE OF CONTINUING PROGRAM COMPLIANCE

Witnesseth that on this ___ day of _____, 19___, the undersigned, having borrowed certain funds from the _____ (the "Issuer") for the purpose of constructing a multifamily rental housing development (the "Project"), does hereby certify that during the preceding quarter (i) such Project was continually in compliance with the Regulatory Agreement executed in connection with such loan from the Issuer, (ii) ___% of the units in the Project were occupied by Low Income Tenants (minimum of 40%) and does hereby further certify that the representations set forth herein are true and correct to the best of the undersigned's knowledge and belief.

Set forth below are the names of Low Income Tenants who commenced or terminated occupancy during the preceding quarter.

<u>Commenced Occupancy</u>	<u>Terminated Occupancy</u>
1.	1.
2.	2.
3.	3.

The units occupied by Low Income Tenants are of similar size and quality to other units and are dispersed throughout the Project.

Attached is a separate sheet listing the number of each unit and indicating which units are occupied by Low Income Tenants, the size, the number of bedrooms of such units and the number of Low Income Tenants who commenced occupancy of units during the preceding quarter.

Witness

Borrower

Date: _____

ATTACHMENT

**HAWTHORNE VILLA HOUSEHOLD
DEMOGRAPHICS**

Household Demographics Report

Community=Hawthorne Villa (252)

Effective Date = 2/27/2012

Funding Program = Tax Credit Federal

Printed on: 2/27/12 12:07 pm

Unit	Ethnicity	Total In Household	Adults >= 18 Yr	Children <= 5 yr	Pre-Teens		Move-In Date	GROSS INCOME		DEDUCTIONS					
					6-12 yr	13-17 yr		Move-In \$	%AMI	Certified \$	%AMI	Move-In \$	Certified \$		
1-001	na	1	1				08/04/00	7,642	22%	11,472	22%	7,642	(100)		
1-002	na	1	1				06/19/06	7,582		16,492		(7,642)	(100)		
1-003	Caucasian	2	2				03/30/10	24,544	48%	22,404	44%	(7,582)	(100)		
1-004	Caucasian	1	1				08/01/11	14,713	29%	22,069	43%	(14,713)	(100)		
1-005	Caucasian	1	1				10/29/10	20,400	35%	22,069	43%	11,016			
1-006	Caucasian	1	1				03/12/10	8,580		11,472	22%	11,016			
1-007	Caucasian	2	2				03/21/11	20,400	35%	16,492		(1,271)	(15)		
1-008	Caucasian	1	1				08/01/08	8,580		11,472	22%	(1,271)	(15)		
1-009	Caucasian	1	1				02/08/99	11,472	22%	11,472	22%				
1-010	Caucasian	1	1				01/28/11	16,492		11,472	22%	(16,492)	(100)		
1-011	na	1	1				08/18/06	16,492		11,472	22%	(16,492)	(100)		
1-012	na	1	1				07/01/08	16,492		11,472	22%	(16,492)	(100)		
1-014	Caucasian	2	2				01/20/06	20,424	40%	22,404	44%	(20,424)	(100)		
1-015	Caucasian	1	1				08/09/10	12,360	24%	22,404	44%	10,044	81		
1-016	na	1	1				10/01/10	22,069	43%	22,069	43%				
1-017	Caucasian	1	1				08/25/11	14,560	28%	14,560	28%				
2-018	Caucasian	1	1				07/09/08	27,990	54%	11,568	23%	(27,990)	(100)		
2-019	Caucasian	1	1				09/13/11	28,034	55%	28,034	55%				
2-020	Caucasian	1	1				03/09/05	12,936		13,020	25%	(12,936)	(100)		
2-021	Caucasian	1	1				10/22/10	26,489	52%	26,489	52%				
2-022	Caucasian	1	1				06/16/10	21,843		26,489	52%	(21,843)	(100)		
2-023	Caucasian	1	1				05/09/11	26,489	52%	26,489	52%				
2-024	Caucasian	1	1				10/01/05	21,843		26,489	52%	(21,843)	(100)		
2-025	na	2	2				09/10/07	26,489	52%	26,489	52%				
2-026	Caucasian	1	1				05/01/06	21,843		26,489	52%				
2-027	Caucasian	1	1				01/09/12	18,609	32%	18,609	32%				
2-028	Black	2	2				01/07/06	15,500	26%	13,863	27%	(15,500)	(100)		
2-029	Caucasian	1	1				01/03/10	13,863	27%	13,863	27%				
2-030	Caucasian	2	2				12/17/07	10,608	21%	10,608	21%				
2-031	Caucasian	2	2				04/18/11	24,638	48%	24,638	48%				
2-032	Caucasian	1	1				05/28/10	13,863	27%	13,863	27%				
3-033	Asian	2	2				02/07/11	10,608	21%	10,608	21%				
3-034	Caucasian	1	1				07/22/11	31,582	61%	31,582	61%				
3-035	Caucasian	1	1				02/01/11	24,638	48%	24,638	48%				
3-036	Caucasian	1	1				06/28/03	19,176	37%	19,176	37%				
3-037	Hawaiian/Pacific Island	1	1				10/08/11	10,047	24%	12,468	24%	2,421	24		
3-038	Hispanic/Latino	1	1				02/01/09	22,193		8,088	16%	(22,193)	(100)		
3-039	Caucasian	1	1				07/21/09	19,176	37%	19,176	37%				
3-040	na	1	1				09/28/00	28,756	49%	28,756	49%				
3-041	Caucasian	1	1				02/12/04	10,047	24%	10,047	24%				
3-042	Caucasian	1	1				08/19/11	10,047	24%	10,047	24%				
3-043	Caucasian	1	1				12/09/00	10,047	24%	10,047	24%				
3-044	Caucasian	1	1				10/13/00	10,047	24%	10,047	24%				
3-045	<VACANT>	2	2				03/01/08	10,047	24%	10,047	24%				
3-046	na	2	2				03/01/08	10,047	24%	10,047	24%				

Household Demographics Report

Printed on: 2/27/12 12:07 pm

Unit	Ethnicity	Total In Household	Adults		Pre-Teens		Teens		Move-In Date	GROSS INCOME		DEDUCTIONS				
			>= 18 yr	<= 5 yr	6-12 yr	13-17 yr	Move-In \$	%AMI		Certified \$	%AMI	Change \$	%	Move-In \$	Certified \$	
3-047	Other	1	1						12/06/07	21,840						
3-048	Caucasian	1	1						03/01/07							
4-049	Hispanic/Latino	6	4			1			02/21/05	13,860	27 %			(21,840)	(100)	
4-050	Other	2	2						10/01/11	28,995	49 %	28,995	49 %			
4-051	Caucasian	2	2						12/12/10	9,396	16 %	9,396	16 %			
4-052	Caucasian	1	1						12/06/11							
4-053	Caucasian	1	1						12/29/10	17,517	34 %			(17,517)	(100)	
4-054	Caucasian	1	1						06/15/11							
4-055	na	2	1	1					05/11/11	14,024	24 %	14,024	24 %			
6-056	Caucasian	2	2						10/04/11	20,448	35 %	20,448	35 %			
6-057	Caucasian	1	1						02/01/12	9,684	19 %	9,684	19 %			
6-058	Hawaiian/PacificIsland	1	1						09/03/11	23,920	47 %	23,920	47 %			
6-059	na	2	1	1					04/01/11	19,714	34 %	19,714	34 %			
6-060	na	1	1						12/28/07	17,016				(17,016)	(100)	
6-061	Caucasian	1	1						02/09/09							
6-062	na	1	1						07/01/05	7,644				(7,644)	(100)	
6-063	Caucasian	1	1						12/15/11	8,710	17 %	8,710	17 %			
6-064	Caucasian	1	1						03/04/08	8,710	15 %	7,894	15 %			
6-065	na	1	1						12/11/99	21,838				(21,838)	(100)	
5-066	Caucasian	1	1						06/23/06			7,968	16 %			
5-067	Caucasian	1	1						02/07/08							
5-068	na	4	2	2		2			06/04/05	15,507	28 %	26,000	35 %			
5-069	Other	2	2						07/01/09					(15,507)	(100)	
5-070	Caucasian	1	1						01/27/09							
7-071	Caucasian	1	1						02/16/11	10,704	21 %			(10,704)	(100)	
7-072	Other	1	1						07/13/07	28,140				(28,140)	(100)	
7-073	Caucasian	2	1	1					12/15/11	14,610	25 %	14,610	25 %			
7-074	Caucasian	1	1						11/10/96	5,652				(5,652)	(100)	
7-075	na	1	1						06/20/11	19,573	38 %	19,573	38 %			
7-076	Caucasian	1	1						08/20/11	23,140	45 %	23,140	45 %			
7-077	Caucasian	1	1						09/15/11	10,800	21 %	10,800	21 %			
7-078	Caucasian	1	1						04/29/09	8,088	16 %	8,088	16 %			
7-079	na	2	2						11/22/05	19,741				8,088		
7-080	AmerIndian/Alaskan	1	1						07/07/11	24,482	48 %	24,482	48 %			
7-081	an															
7-081	Caucasian	1	1						08/17/06	7,236				(7,236)	(100)	
7-082	Black	1	1						09/20/11	14,908	29 %	14,908	29 %			
7-083	Caucasian	1	1						06/04/09	8,088	16 %	8,088	16 %			
7-084	<VACANT>															
7-085	na	1	1						07/13/04	16,070				(16,070)	(100)	
7-086	<VACANT>															
7-087	Caucasian	1	1						10/01/10	8,336	16 %			(8,336)	(100)	
7-088	Hispanic/Latino	1	1						02/14/11	21,000	41 %			(21,000)	(100)	
7-089	na	1	1						10/01/04	8,532				(8,532)	(100)	
7-090	Caucasian	1	1						08/19/10	16,824	33 %			(16,824)	(100)	
7-091	na	1	1						09/25/07	11,945				(11,945)	(100)	
7-092	<VACANT>															
7-093	na	1	1						09/26/08	9,401				(9,401)	(100)	

Household Demographics Report

Printed on: 2/27/12 12:07 pm

Unit	Ethnicity	Total In Household	Adults >= 18 Yr	Children <= 5 Yr	Pre-Teens 6-12 Yr	Teens 13-17 Yr	Move-In Date	Move-In \$	Move-In %AMI	GROSS INCOME Certified \$	Certified %AMI	Change \$	Change %	DEDUCTIONS Move-In \$	Certified \$
7-094	Caucasian	1	1				02/04/08								
7-095	Asian	1	1				10/21/05	7,188				(7,188)	(100)		
7-096	Caucasian	1	1				01/24/08								
7-097	<VACANT>														
7-098	Caucasian	1	1				01/06/12	22,838	44 %	22,838	44 %				
7-099	Caucasian	1	1				01/15/10								
7-100	Caucasian	1	2				12/15/11								
8-101	Caucasian	1	1				11/17/09								
8-102	Black	1	1				08/27/10	11,352	22 %			(11,352)	(100)		
8-103	Black	1	1				02/11/08								
8-104	Caucasian	1	1				11/24/10	19,607	38 %			(19,607)	(100)		
8-105	Caucasian	1	1				11/01/10	21,363	42 %			(21,363)	(100)		
8-106	Caucasian	3	1		1		10/02/09								
8-107	Caucasian	2	1				05/27/10			19,723	38 %				
8-108	Asian	2	2				03/16/05			12,264	21 %				
8-109	Caucasian	1	1				06/15/07			12,348	24 %				
8-110	<VACANT>														
8-111	Caucasian	1	1				10/22/10	17,690	30 %			(17,690)	(100)		
8-112	Caucasian	1	1				03/20/09			14,815	29 %				
8-113	Caucasian	1	1				05/14/10			13,360	26 %	13,360			
8-114	Caucasian	2	2				07/03/11	27,848	47 %						
8-115	Caucasian	1	1				06/22/06			25,000	49 %				
8-116	Hispanic/Latino	3	3				01/01/08								
8-117	Caucasian	1	1				03/05/07			11,916	23 %				
8-118	Caucasian	1	1				04/17/09			7,812	15 %				
8-119	Caucasian	1	1				05/25/11	13,780	27 %						
8-7705	Caucasian	1	1				05/01/11			15,332	34 %	(6,793)	(89)		
Community Averages:		1	1	0	0	0				8,265	31 %			0	0
Total Units:		119													
Vacant Units:		6													
Occupied Units:		113													

COMMUNITY SUMMARY:

Income Layer	Move-In #	Income Avg	Certified #	Income Avg
<= 20%	3	16 %	12	15 %
> 20% And <= 30%	16	25 %	19	25 %
> 30% And <= 40%	10	36 %	8	36 %
> 40% And <= 50%	11	46 %	13	47 %
> 50% And <= 60%	3	54 %	2	54 %
> 60% And <= 80%			1	61 %
> 80%				

ATTACHMENT

MOU FOR NON-PROFIT GENERAL PARTNERSHIP WITH PARTNERSHIP AGREEMENT AND LEASE TO PROPERTY

**(PARTNERSHIP AGREEMENT AND LEASE TO BE ENTERED INTO FOLLOWING PRELIMINARY
REVIEW AND APPROVAL OF TAX EXEMPTION STATUS)**

MEMORANDUM OF UNDERSTANDING TO FORM GENERAL PARTNERSHIP

In order To Provide Social Services and Low Income Housing At Hawthorne Villa Apartments

[FEBRUARY 29, 2012]

PARTIES

Hawthorne Urban Development, LLC ("Hawthorne")
C/O Richard Krueger
21001 Dairy Creek Rd
North Plains, OR 97133

Accessible Living, Inc ("ALI")
3300 NW 185th St 186,
Portland, OR 97229-3406

PURPOSE

The purpose of this Memorandum of Understanding ("MOU") is to outline the expression of interest and binding intent to execute the proposed Partnership Agreement and for the partnership to then execute the proposed Lease, both of which are attached hereto, upon approval of the City of Tigard of the parties application for tax exempt status for the property known as Hawthorne Villa Apartments at 7705 SW Pfaffle Street, Tigard, Oregon, 97223 ("Hawthorne Villa Apartments").

RECITALS

- A. ALI is a non-profit corporation who provides social services and support for low income residents.
- B. Hawthorne is an entity that owns Hawthorne Villa Apartments which provides residence to low income individuals at restricted and below market rent.
- C. The parties wish to enter into a mutually beneficial relationship that allows the continuation of Hawthorne's ability to provide residences to low income individuals at restricted and below market rents; and, to allow low income individuals to receive social support services from ALI while residing at Hawthorne Villa Apartments.
- D. For the success of this intended desire held by both parties, it is necessary for them to maintain the tax exempt status per the City of Tigard Code, Chapter 3.50 et seq. ("Code") Hawthorne and ALI wish to create a partnership who will lease the Hawthorne Villa Apartments from Hawthorne per Section 3.50.020(B) of the Code to achieve their mutual goal to provide below market rent and social services to people of need.

UNDERSTANDING

Section 1. Creation of Partnership. ALI and Hawthorne agree to create a partnership ("Partnership") under the Oregon Revised Partnership Act (the "Act") upon approval of tax exempt status of the property known as Hawthorne Villa Apartments at 7705 SW Pfaffle Street, Tigard, Oregon, 97223 under Code 3.50. It is the intent of the Partners that this Agreement shall create a general partnership subject to the terms, restrictions and limitations set forth in the attached proposed Partnership Agreement.

Section 2. Consideration. Consideration for this transaction, includes, but is not limited to:

1. Payment to ALI of:
 - a. Base Compensation of \$2,500/mos or such other amounts that may from time to time be determined by the written consent or agreement of all the Partners.
 - b. Enhanced Compensation at an hourly rate of \$30 for each hour that it spends in executing enhanced services.
2. Services performed by ALI as follows:
 - a. Basic Services set forth in the attached proposed Partnership Agreement, including but not limited to these examples:
 - (1) Housing Success: Assist residents to maintain their housing;
 - (2) Cooperate with the building manager to assist each resident in maintaining lease compliance and in obtaining and coordinating services;
 - (3) Follow-up on all ALI notices given to residents: Contact the affected resident's case manager, if applicable; make referrals as appropriate; assist with neighbor relations; work closely with Hawthorne or its agents to coordinate supportive services;
 - (4) When necessary to evict resident, communicate and work closely with Hawthorne and its agents or staff for smooth transition of the resident from the building;
 - (5) Refer residents to appropriate agencies for benefits; make referrals to meet basic needs of food, clothing, personal items, medical care, and other assistance, as needed;
 - (6) Work with Hawthorne and its agents and local support agencies on eviction prevention strategies;
 - (7) Provide monthly newsletter to residents with the collaboration of Property Management;
 - (8) Meet monthly with Hawthorne and its agents and on-site staff; and
 - (9) Coordinate resident meetings as needed.
 - b. Enhanced Services set forth in the attached proposed Partnership Agreement, including but not limited to these examples.

- (1) Asset Development:
 - (A) Provide opportunities for residents to increase their economic stability.
 - (B) Provide residents with information regarding financial literacy classes.
- (2) Skill Development – ALI shall offer opportunities that help residents build skills and provide social opportunities, such as follows:
 - (A) Schedule and promote on-going classes and workshops such as “Cooking on a Budget”, exercise/movement classes, and/or other classes or activities as determined by resident interest.
 - (B) Monthly newsletter of building news and local activities.
 - (C) Provide computer instruction and open labs.
 - (D) Social gatherings for community building
3. Ownership interests in the partnership by ALI and Hawthorne per section 3.7 of the Partnership Agreement.
4. Execution of the attached Lease giving the Partnership rights to possess, use and maintain Hawthorne Villa Apartments for the benefit of low income housing residences.
5. Maintenance of Tax Exempt Status to allow continued services to low income residential tenants.
6. Initial Capital Contributions by Hawthorne in the amount of \$8,000.00; and,
7. Improvements planned by Hawthorne as follows:

Hawthorne Interior Improvements	Units
	118
Budget	
Interior Water Meter @ \$750 per units	\$ 88,500
Replace appliances	\$ 118,000
Interior painting @ \$600 per units	\$ 70,800
Replace interior carpet and vinyl @1200	\$ 141,600
Replace interior in exterior door \$1200 per unit	\$ 94,400
Contingency	<u>\$ 50,000</u>
TOTAL	\$ 563,300

Section 3. Negotiation. The principal aspects of the transaction have been negotiated and finalized and documented in the attached proposed Lease and Partnership Agreement.

Section 4. Due Diligence. ALI and Hawthorne both acknowledge they each have performed a due-diligence investigation of each other; and, believe each can perform as needed to provide shelter and social services to low income individuals.

Section 5. Conditions to Execution of the Attached Partnership Agreement and Lease. Execution of the agreements will be contingent on approval of tax exempt status per Code 3.50;

Section 6. Closing Date. The expected closing date will be on or about March 1, 2012, or, within three business days of approval of tax exempt status, which ever date is later.

Section 7. Expenses. Each party to the transaction will pay its own expenses and those of any professional advisers, including attorney fees.

Section 8. Effect of This Letter. This letter is an expression of interest only and does not constitute a binding legal obligation of the parties, and may not be relied on as the basis for a contract by estoppel or be the basis for a claim based on detrimental reliance or any other theory; however, the parties agree that they intend to execute the attached Partnership Agreement and Lease upon of approval of tax exempt status.

Section 9. Termination. This letter may not be terminated by either party unless tax exempt status is denied; or, July 1, 2012, whichever first occurs. Termination shall occur immediately upon delivery of a written notice to the other party of intent to terminate.

Dated 2/29/, 2012

Hawthorne Urban Development, LLC

SAJ JIVANJEE
By: _____
Title: MANAGING MEMBER

Dated 2-29, 2012

Accessible Living, Inc.,
Karen A. Udiss
By: Karen A. Udiss
Title: Executive Director

PARTNERSHIP AGREEMENT

AGREEMENT OF PARTNERSHIP

This AGREEMENT OF PARTNERSHIP (this "Agreement"), dated as of _____, 2012, is among Hawthorne Urban Development, LLC, an Oregon limited liability company (hereinafter, "Hawthorne") and Accessible Living, Inc., an Oregon non-profit corporation (hereinafter, "ALI") (each individually, a "Partner," and collectively, the "Partners").

AGREEMENT

The parties agree as follows:

SECTION 1. CREATION AND TERM OF PARTNERSHIP

1.1 Creation of Partnership. The Partners agree to create a partnership (the "Partnership") under the Oregon Revised Partnership Act (the "Act"). It is the intent of the Partners that this Agreement shall create a general partnership subject to the terms, restrictions and limitations set forth herein.

1.2 Name. The name of the Partnership is *Hawthorne Villa General Partnership*. Hawthorne shall be responsible for registering Hawthorne Villa General Partnership as an assumed business name with the Oregon Secretary of State within 60 days after this Agreement is fully executed by both Partners.

1.3 Principal Office. The principal office from which the Partnership conducts its business will be at 7705 SW Pfaffle Street, Tigard, Oregon, 97223. The business of the Partnership may also be conducted at such other places as may from time to time be determined by the Partners. The Partnership books and records will be kept at **21001 Dairy Creek Road, North Plains, Oregon 97133.**

1.4 Purposes and Powers. The Partnership is formed for the purpose of managing, renting, maintaining, improving, and otherwise enhancing the value of the real property owned by Hawthorne and located at **7705 SW Pfaffle Street, Tigard, Oregon 97223** ("Hawthorne Villa"), all the while maintaining Hawthorne's ability to receive tax credits or tax exemption from the City of Tigard or such other government entity through the use and management of said property. Without expanding the foregoing purpose, the Partners shall be empowered to do all things necessary for, incident to, or in furtherance of conducting such business.

1.5 Indefinite Term of Partnership Subject to Election to Dissolve. The term of the Partnership will commence as of the date of this Agreement and will continue until the Partners having more than 51% of the Ownership Interests of the Partnership, excluding any dissociated Partner, after October 31, 2012, gives 60 days' written notice to the Partnership and to

the other Partners of the election to dissolve the Partnership. The Partnership will dissolve 61 days after such notice is given and its affairs will be wound up, unless it has been dissolved earlier as provided in this Agreement.

1.6 Title. Title to Hawthorne Villa shall remain in the name of Hawthorne. Hawthorne shall lease Hawthorne Villa to the Partnership and the Partnership shall utilize its possessory interest in Hawthorne Villa to achieve the goals stated in Section 1.4 above.

SECTION 2. BOOKS AND RECORDS; ACCOUNTING

2.1 Books and Records.

2.1.1 Maintenance of Books and Records. The Partnership will maintain a separate books of account for the Partnership at **21001 Dairy Creek Road, North Plains, Oregon 97133**, which will show a true and accurate record of all costs and expenses incurred, all charges made, all credits made and received, and all income derived in connection with the conduct of the Partnership and the operation of the Partnership business. The books of account will be prepared in accordance with U.S. generally accepted accounting principles consistently applied and, to the extent inconsistent with those principles, in accordance with this Agreement.

2.1.2 Access to Books and Records. Any Partner or any agent or representative of a Partner, at the Partner's own expense and without notice to any other Partner, may examine, copy, and audit the books and records of the Partnership and make copies of and abstracts from the financial and operating books and records of account of the Partnership, and discuss the affairs, finances, and accounts of the Partnership with the independent accountants of the Partnership, all at such reasonable times and as often as a Partner or any agent or representative of a Partner may reasonably request. The rights granted to a Partner pursuant to this Section 2.1.2 are expressly subject to the Partner's compliance with the confidentiality procedures and guidelines of the Partnership as may be established from time to time.

2.1.3 Reports. Hawthorne will prepare or cause to be prepared financial reports of the Partnership and coordinate financial matters of the Partnership with the Partnership's accountants. Within 90 days after the end of each fiscal year and within 60 days after the end of each fiscal quarter, the Hawthorne will cause each Partner to be furnished with a copy of the balance sheet of the Partnership as of the last day of the applicable period, a statement of income or loss for the Partnership for that period, and a statement of the Partnership's cash flow for the period. Annual statements must also include a statement of the Partners' Capital Accounts (defined in Section 3.8) and changes therein for the fiscal year. Annual statements will be compiled by the Partnership's accountants.

2.2 Method of Accounting. The books of account of the Partnership will be kept on a cash basis.

2.3 Accounting Year. The books of account of the Partnership will be kept on a calendar year basis. The taxable year of the Partnership will be the calendar year.

2.4 Income Tax Information. The Partnership will furnish each Partner with information pertaining to partnership taxable income or loss, including but not limited to the informational tax returns of the Partnership and Schedule K-1, applicable to such Partner. Such information must show each Partner's distributive share of each class of income, gain, loss, deduction, or credit of the Partnership. Such information will be furnished to the Partners as soon as is practicable after the close of the Partnership's taxable year.

2.5 Tax Matters Partner. Hawthorne will be the tax-matters partner for the Partnership.

SECTION 3. CAPITAL

3.1 Initial Contribution. The Partners will initially contribute cash to the capital of the Partnership in the respective amounts (each an "Initial Contribution") set opposite such Partner's name below:

Partner	Contribution
Hawthorne Urban Development	\$8,000.00
<u>ALI</u>	<u>\$ 80.00</u>
TOTAL	<u>\$8,080.00</u>

The Initial Contribution of each Partner will be due and payable in full 30 days after the date of this Agreement.

3.2 Additional Contributions. If Partners whose Ownership Interests (set forth in Section 3.7) equal or exceed 51% determine that additional funds are necessary to meet the needs of the Partnership, the Partners making such determination must so notify the other Partner(s) in writing. Any such notice must set forth (a) a statement of the aggregate additional capital required, (b) a reasonably detailed breakdown of the expenditures for which such funds will be used, and (c) a date by which the contribution is required to be made, which date may not be sooner than 15 days after the giving of such notice (the "Contribution Date"). If any such notice is given, the Partners must, on or before the Contribution Date, contribute to the Partnership such sums as are requested in such notice, in the ratio of their respective Ownership Interests.

3.3 Failure to Make Contributions. If any Partner (the "Defaulting Partner") fails to make a contribution required to be made by such Partner pursuant to Section 3.2 (a "Noncontributed Amount"), the other, nondefaulting Partner(s) will have the right and option at any time thereafter, but not the obligation, to advance to the Partnership the unpaid portion of such required contribution. Any such advance will bear interest at a rate equal to five percentage points above the annual rate of publicly announced prime rate of interest charged by Wells Fargo Bank in Tigard, Oregon, as of the Contribution Date, but not more than the maximum rate allowed by law. The advance must be secured by the partnership interest of the Defaulting Partner on whose behalf such advance is made. Repayment by the Defaulting Partner of the advance will be due not later than 90 days after it is made. Until such advance, plus interest, is

repaid, the Defaulting Partner will not have any right to participate in the management of the Partnership. If any such advance, plus interest, is not repaid when due, the party making such advance may either foreclose on the security interest granted on the partnership interest of the Defaulting Partner pursuant to the Oregon Uniform Commercial Code, or elect any other remedy at law or in equity. Each Partner agrees to execute and deliver all documents and instruments reasonably requested by the Partnership or the other Partners that may be required to evidence the obligation to repay the advance, to perfect the security interest granted pursuant to this section, and otherwise to effectuate and carry out the provisions of this section.

3.4 Adjustment of Ownership Interests. There shall be no adjustments to ownership interest based upon any Partner's failure to repay any debt incurred under Section 3.3 above.

3.5 Interest. Without limiting or waiving any interest incurred or accrued pursuant to a debt created under Section 3.3 above, no interest will be paid on the Initial Contributions or on any subsequent contributions to capital of the Partnership.

3.6 Return of Contributions; No Right to Withdraw Capital. Each Partner agrees to look solely to the assets of the Partnership for the return of such Partner's capital contributions and, if the assets of the Partnership are insufficient to return such capital contributions, such Partner will have no recourse against any other Partner for that purpose. Except as specifically provided in this Agreement, a Partner may not withdraw capital from the Partnership. To the extent that any amount that any Partner is entitled to receive from the Partnership pursuant to any provision of this Agreement constitutes a return of capital, each Partner consents to the withdrawal of such capital. A Partner will not have the right to demand and receive property other than cash in return for such Partner's capital contribution.

3.7 Ownership Interest. The "Ownership Interest" of each Partner in the Partnership will be as follows:

	Name	Ownership Percentage
	Hawthorne	99.9%
	ALI	0.01%

3.8 Capital Accounts. The Partnership will maintain a separate capital account (a "Capital Account") for each Partner in accordance with the requirements of Treasury Regulation §1.704-1. Each Partner's Capital Account will be equal to:

- (a) The amount of cash and the fair market value of the property contributed to the capital of the Partnership by such Partner in accordance with Section 3; plus
- (b) Such Partner's allocable share of any profits of the Partnership pursuant to Section 4; minus
- (c) Such Partner's allocable share of any losses of the Partnership pursuant to Section 4; minus
- (d) The amount of cash and the fair market value of property distributed to such Partner.

On a sale, exchange, transfer, assignment, gift, or other disposition of an interest in the Partnership, the Capital Account associated with the interest so transferred, whether such Capital Account has a positive or a negative balance, will be transferred to the transferee of such interest.

SECTION 4. ALLOCATION OF PROFITS AND LOSSES

4.1 Determination. The net profit or net loss of the Partnership for each fiscal year will be determined as of the end of such fiscal year by the Partnership's certified public accountants in accordance with those principles of the cash method of accounting that are employed in the preparation of the federal income tax informational return filed by the Partnership for that fiscal year, but without any special provisions for tax-exempt or partially tax-exempt income of the Partnership.

4.2 Allocation. The net profit or net loss of the Partnership for each fiscal year will be allocated among the Partners in direct proportion to their Ownership Interests.

4.3 Transfer of Partnership Interest. If a Partner transfers all or part of such Partner's interest in the Partnership, or if Ownership Interests of the Partners are adjusted pursuant to Section 3.4, the net profit or net loss of the Partnership allocable to the interest so transferred or adjusted will be prorated between the transferor and the transferee for the fiscal year in which such transfer or adjustment occurs in accordance with the number of days during such fiscal year that each owned such interest.

SECTION 5. DISTRIBUTIONS

The Partners must, not less often than quarterly, review the financial operations and cash position of the Partnership and may distribute any cash (including the proceeds of any refinancing of indebtedness of the Partnership) that is in excess of the amount that Partners having more than 51% of the Ownership Interests determine is reasonably needed by the Partnership. Any distribution pursuant to this Section 5 will be allocated among the Partners in the ratio of their Ownership Interests on the date of such distribution.

SECTION 6. ADMINISTRATION OF PARTNERSHIP BUSINESS

6.1 Management. Except for powers vested exclusively in the Partners as provided in Section 6.2 and subject to the consent requirements in Section 6.3, all Partners will have the right to participate in the management and conduct of the business of the Partnership. Except as otherwise provided in this Agreement, any matters related to the conduct of the business of the Partnership or the administration of the internal affairs of the Partnership will be decided by the affirmative vote or consent of Partners having combined Ownership Interests equal to or exceeding 51% in interest of the Ownership Interests.

6.2 Management Duties. Except as provided for in this Agreement, each Partner shall have sole and exclusive management rights and responsibilities as outlined in this Section 6.2. On the affirmative vote or consent of Partners having more than 51% of the Ownership Interests, each right and responsibility outlined herein may be removed without cause, which removal will terminate such Partner's rights and responsibilities under this section, but will not

affect the Ownership Interest or other rights of said Partner under this Agreement. On the death, incapacity, resignation, or removal of any Partner, a successor Partner will be selected by Partners having more than 51% of the Ownership Interests. The following Partners will have the following powers and authority to act on behalf of the Partnership:

6.2.1 Hawthorne's Management:

Hawthorne (either by its self or through its agents) shall exclusively manage the following:

- (a) General Partnership obligations:
 - (1) All contracts with property managers, general contractors, subcontractors and other professionals related to Hawthorne Villa regardless of the expenditures involved in said contract;
 - (2) Any capital expenditures or series of related capital expenditures, when the total of such expenditures are in excess of \$5,000.
 - (3) Entering into any contract on behalf of the Partnership if the contract involves the payment of more than \$ 5,000.00 by or to the Partnership; or the contract may not be terminated by the Company upon 90 or fewer days' notice for any or no reason without any additional liability arising out of or resulting from the termination;
 - (4) The conversion of the Partnership into any other type of entity;
 - (5) The incurring of any indebtedness by the Partnership other than in the ordinary course of the business of the Partnership, or as expressly provided in this Agreement;
 - (6) Procuring all insurance necessary for the real estate and operations of Hawthorne Villa;

- (b) The following Property Management obligations:
 - (1) Maintain a waiting list of applicants and fill vacancies from the waiting list.
 - (2) Coordinate move-ins and move-outs with resident. Notify ALI or its agents and staff of move-ins and move-outs.
 - (3) Maintain the Hawthorne Villa building in general good repair and keep common areas and exteriors clean and free of hazards.
 - (4) Provide and maintain essential services to residents per Oregon Residential Landlord Tenant Act.
 - (5) Respond in a timely manner to requests for repairs by residents.
 - (6) Cooperate with ALI or its agents in efforts to assist clients in maintaining lease compliance and in obtaining and coordinating services. Notify ALI of potential lease violations for preventive action.
 - (7) Participate in monthly Property Management-Resident Services meetings, and assist in planning such meetings as requested.
 - (8) When necessary to evict resident, communicate and work closely with ALI or its agents for a smooth transition of resident from building.

6.2.2 ALI's Management:

ALI will hire resident services staff who will be assigned to 20 hours per week, providing or coordinating resident services at Hawthorne Villa. Provider's Service staff will be on-site a minimum of two (2) hours per week and available by phone other hours. ALI's service provider will also meet with property management staff at least weekly by phone and monthly on-site at Hawthorne Villa. ALI will additionally be responsible for conducting a needs assessment annually at the property to best match services to the needs of the resident population. ALI's resident services coordinator will provide the basic services outlined below and, subject to Hawthorne's prior written approval, the Partnership shall pay additional compensation to ALI for such enhanced services in accordance with Section 6.5 (b). ALI will provide the following services:

- (a) Basic Services - Basic Services described below will be developed by ALI during the months of February through April, 2012, inclusive, with full implementation of the developed services to begin no later than June 1, 2012:
 - (1) Housing Success: Assist residents to maintain their housing;
 - (2) Cooperate with the building manager to assist each resident in maintaining lease compliance and in obtaining and coordinating services;
 - (3) Follow-up on all ALI notices given to residents: Contact the affected resident's case manager, if applicable; make referrals as appropriate; assist with neighbor relations; work closely with Hawthorne or its agents to coordinate supportive services;
 - (4) When necessary to evict resident, communicate and work closely with Hawthorne and its agents or staff for smooth transition of the resident from the building;
 - (5) Refer residents to appropriate agencies for benefits; make referrals to meet basic needs of food, clothing, personal items, medical care, and other assistance, as needed;
 - (6) Work with Hawthorne and its agents and local support agencies on eviction prevention strategies;
 - (7) Provide monthly newsletter to residents with the collaboration of Property Management;
 - (8) Meet monthly with Hawthorne and its agents and on-site staff; and
 - (9) Coordinate resident meetings as needed.

- (b) Enhanced Services - These enhanced services are available to all Hawthorne Villa residents, subject to the prior written approval by Hawthorne. ALI shall be paid additional compensation for such services subject to Section 6.5 (b):

- (1) Asset Development:

- (A) Provide opportunities for residents to increase their economic stability.
- (B) Provide residents with information regarding financial literacy classes.

- (2) Skill Development – ALI shall offer opportunities that help residents build skills and provide social opportunities, such as follows:
- (A) Schedule and promote on-going classes and workshops such as “Cooking on a Budget”, exercise/movement classes, and/or other classes or activities as determined by resident interest.
 - (B) Monthly newsletter of building news and local activities.
 - (C) Provide computer instruction and open labs.
 - (D) Social gatherings for community building.

6.3 Restrictions.

6.3.1 Consent of Majority of Partners for Certain Acts. No Partner may engage in any of the following acts without the written consent of Partners (who may include the Partner engaging in such act or acts) having Ownership Interests equal to or exceeding 51%:

- (a) Endorse any note, or act as an accommodation party, or otherwise become surety for any person, on behalf of the Partnership.
- (b) Borrow or lend money on behalf of the Partnership, or make, deliver, or accept any commercial paper, or execute any mortgage, security agreement, bond, or lease, or purchase or contract to purchase, or sell or contract to sell, any property for or of the Partnership, except that any Partner may, without the consent of any other Partner, purchase for the Partnership such items of equipment, materials, and supplies as are used or useful in the ordinary course of the Partnership business.

6.3.2 Unanimous Consent of Partners for Certain Acts. No Partner may engage in any of the following acts without the written consent of all Partners:

- (a) Enter into any agreement as a result of which any person may become interested with such Partner in the Partnership.
- (b) Admit a person as a Partner of the Partnership.
- (c) Do any act that is detrimental to the best interests of the Partnership (except as permitted by Section 6.4) or that would make it impossible to carry on the ordinary business of the Partnership.
- (d) Do any act that negatively affects the tax exempt status of Hawthorne Villa.

6.4 Time Devoted; Other Activities. Each Partner will be required to devote only such time to the affairs of the Partnership as the Partner determines in its sole discretion may be necessary to manage and operate the Partnership, and each such Partner will be free to serve any other person or enterprise in any capacity that the Partner may deem appropriate in the Partner’s discretion.

6.4.1 Waiver of Claims to Interests of Other Partners. Each Partner acknowledges that the other Partners and their Affiliates are free to engage or invest in the following activities or businesses, any one or more of which may be related to the activities or businesses of the Partnership:

Own, lease, manage or otherwise participate in the operations of real estate or personal property other than Hawthorne Villa.

Any Partner who engages in or invests in any business or activity described above may do so without having or incurring any obligation to offer any interest in such business or activity to the Partnership or any Partner, and neither this Agreement nor any activity undertaken pursuant to this Agreement will prevent any Partner from engaging in or investing in those businesses or activities, or require any Partner to permit the Partnership or any Partner to participate in them. As a material part of the consideration for the execution of this Agreement by each Partner, each Partner hereby waives, relinquishes, and renounces any such right or claim of participation or interest in any such business or activity. The Partners acknowledge that certain conflicts of interest may arise and hereby agree that the specific rights with respect to the Partners' and their Affiliates' freedom of action provided in this Section 6.4.1 are sufficient to protect their respective interests in relation to the possible conflicts and are to be in lieu of all other possible limitations that might otherwise be implied in fact, at law or in equity. A Partner will not be obligated to disclose, present, or offer to the Partnership or the other Partners any investment or business opportunity of which the Partner becomes aware, it being understood that the business of the Partnership is limited to the purposes set forth in Section 1.4.

6.4.2 Transactions with Partners and Affiliates. To the extent permitted by applicable law and except as otherwise provided in this Agreement, Hawthorne is authorized to purchase property from, to sell property to, or otherwise to deal with any Partner, acting on its own behalf, or any Affiliate of any Partner, as long as any such purchase, sale, or other transaction is in the ordinary course of the Partnership's business and is made on terms and conditions that are no less favorable to the Partnership than if the sale, purchase, or other transaction had been entered into with an independent third party. The Partners agree that the Lease and Property Management contract satisfy this independent third-party standard and the Partners hereby authorize the Hawthorne to enter into the agreements referenced in this Section 6.4.2.

6.4.3 Loans to and from Partners and Affiliates. Subject to obtaining the written consent of the Partners as provided in Section 6.3, each Partner and any Affiliate of a Partner may also lend money to, borrow money from, act as a surety, guarantor, or endorser for, guarantee or assume one or more specific obligations of, provide collateral for, and transact other business with the Partnership and, subject to other applicable law, has the same rights and obligations with respect thereto as a person who is not a Partner; however, if a Partner acts as surety, guarantor, or endorser for a Partnership obligation, that act must be at no cost to the Partnership.

6.5 Salaries to Certain Partners.

- (a) Base Salary - ALI will be entitled to a monthly base salary of \$2,500 or such other amounts that may from time to time be determined by the written consent or agreement of all the Partners. This salary will be treated as Partnership expenses in determining its profits and losses.

(b) **Enhanced Salary** – So long as ALI has received prior written consent from Hawthorne to provide services listed in 6.2.2(b) above, then ALI shall be paid by the Partnership an hourly rate of \$30 for each hour that it spends in executing such services. This enhanced salary shall be paid by the Partnership on or about the last day of the month in which the enhanced service was provided. As a condition to receiving such enhanced salary payment, prior to the last day of the month in which the enhanced service was provided, ALI shall submit to the Partnership an itemized list of what enhanced services were provided and an exact amount of time allotted for such enhanced service. This enhanced salary will be treated as Partnership expenses in determining its profits and losses.

6.6 Expense Account. Each Partner will be entitled to reimbursement monthly, on the submission of an itemized account, for such items as have been expended for the benefit of the business from such Partner's personal assets.

6.7 Operating Fund. The Partnership will maintain accounts at such banks and other financial institutions as determined by the Partners. All Partnership funds must be deposited in the Partnership's name and will be subject to withdrawal only on the signatures of both Hawthorne and ALI, except that a separate account ("Operating Fund") may be maintained with a balance never to exceed \$30,000. The amounts in that separate account will be subject to withdrawal on the signature of ALI alone. The Partners agree that if the balance of the Operating Fund ever drops below \$8,000, then ALI shall notify Hawthorne as such, and within 10 business days after receipt of such notice, ALI and Hawthorne shall both sign whatever instruments are necessary to transfer funds from one of the Partnership's other accounts to bring the balance of the Operating Fund up to \$30,000.

6.8 Indemnification. Each Partner will indemnify and hold harmless the Partnership and each of the other Partners from any and all expense and liability resulting from or arising out of any negligence or misconduct on his or her part to the extent that the Partnership does not have insurance coverage for the expense or liability or the amount of the expense or liability exceeds the Partnership's insurance coverage.

6.9 Advisers. The Partnership may select and engage the services of such advisers, accountants, lawyers, agents, and brokers as may be necessary or advisable in connection with the accomplishment of the Partnership purposes described in Section 1.4.

SECTION 7. TRANSFER OF PARTNERSHIP INTERESTS

7.1 Restriction on Transfer. Except as expressly permitted under this Section 7 or any other provision of this Agreement, no Partner may sell, exchange, assign, pledge, give, or otherwise transfer or encumber in any manner or by any means whatsoever, whether to or in favor of another Partner or one who is not a Partner, and whether by operation of law or otherwise, all or any part of such Partner's interest in this Partnership, without obtaining the prior written consent of all other Partners.

7.2 Right of First Refusal. A Partner may, without the prior written consent of the other Partners, sell his or her entire interest (but may not sell a part of his or her interest) in the Partnership if he or she fully complies with this Section 7.2. Such Partner (the "Selling Partner") must give written notice to all other Partners (the "Nonselling Partners") that he or she has received a bona fide offer of purchase, in writing, of his or her entire interest in the Partnership (the "Offer"). Such notice must state with specificity the name and address of the person(s) desiring to purchase the Partnership interest, together with the price and terms of payment. A copy of the Offer must accompany the notice. Such notice also must contain the offer of the Selling Partner to sell his or her entire interest in the Partnership to the Nonselling Partners in the same manner, price, and terms as provided in the Offer. The notice must further contain a representation and warranty that the party making the Offer can fully perform all of the obligations of the Selling Partner under this Agreement, and in the case of ALI, that the party making the offer, if accepted as a Partner would not jeopardize the tax exempt status of the property managed by the Partnership and owned by Hawthorne. For a period of 60 days after the giving of such notice by the Selling Partner, the Nonselling Partners will have the option to accept the offer of the Selling Partner and to purchase the entire Partnership interest of the Selling Partner. Such option will be exercisable by the giving of written notice of acceptance, signed by the Nonselling Partners, to the Selling Partner within such 60-day period.

7.3 Sale Pursuant to Lapse of Right of Refusal. If the Nonselling Partners fail to exercise the option granted under and in accordance with Section 7.2, the Selling Partner will be free, for a period of 61 days after giving the notice described in Section 7.2, to transfer and assign his or her entire Partnership interest to the person(s) named in the third-party, bona fide offer of purchase, at a price and on the terms and conditions no less favorable to the Selling Partner than those set forth in the Offer. If the Partnership interest is not transferred and assigned as provided in this Section 7.3, it will remain subject to all the terms, conditions, and restrictions set forth in Section 7.

7.4 Rights of Assignee. In accordance with ORS 67.200, no person to whom a Partnership interest is transferred or assigned (other than as expressly permitted under Section 7 or another provision of this Agreement) may be a Partner or otherwise entitled, during the continuance of the Partnership, to participate in the management or administration of the business or internal affairs of the Partnership, to require any information or account of Partnership transactions, or to inspect the Partnership books and records. The assignee will merely be entitled to receive, in accordance with the terms of the assignment or other transfer, the profits, losses, and distributions to which the assigning or transferring Partner would otherwise be entitled.

7.5 Liability of Selling Partner. If any Partners' Partnership Interest is transferred pursuant to Section 7.2 above, and after such transfer, the Partnership or any Partner incurs economic losses due to a misrepresentation or breach of the warranty contained in the notice required under Section 7.2 above, then the Selling Partner shall be liable in damages to both the Partnership and each remaining Partner for such economics losses incurred by such party due to said breach.

SECTION 8. DISSOCIATION OF A PARTNER; ACTION FOR PARTITION; BREACHES

8.1 Waiver of Partition. No Partner may, either directly or indirectly, take any action to require partition or to cause the sale of any asset or property of the Partnership and, notwithstanding any provisions of applicable law to the contrary, each Partner (and each Partner's legal representatives, successors, or assigns) hereby irrevocably waives any and all rights it may have to maintain any action for partition or to compel any sale with respect to a Partner's interest in the Partnership, or with respect to any asset or property of the Partnership, except as expressly provided in this Agreement.

8.2 Covenant Not to Dissociate or Dissolve. Subject to ORS 67.015, each Partner hereby covenants and agrees that the Partners have entered into this Agreement based on their mutual expectation that all Partners will continue as Partners and carry out the duties and obligations undertaken by them under this Agreement and that, except as otherwise expressly required or permitted hereby, each Partner hereby covenants and agrees not to (a) cause or permit itself to be dissolved, if the Partner is an entity or association, (b) dissociate or attempt to dissociate from the Partnership, (c) exercise any power under the Act to dissolve the Partnership, (d) transfer all or any portion of its Partnership interest, except as otherwise expressly permitted by this Agreement, (e) petition for judicial dissolution of the Partnership, or (f) demand a return of its contributions or profits (or a bond or other security for the return of such contributions or profits) without the unanimous written consent of the Partners.

8.3 Death or Permanent Incapacitation. Intentionally Deleted.

8.4 Consequences of Violation of Covenants. Notwithstanding anything to the contrary in the Act, if a Partner (a "Breaching Partner") (a) attempts to cause a partition in breach of Section 8.1, (b) attempts to dissociate from the Partnership, dissolve the Partnership, or take any action in breach of Section 8.2, (c) becomes a debtor in bankruptcy, executes an assignment for the benefit of creditors, or seeks, consents to, or acquiesces in the appointment of a trustee, receiver, or liquidator of the Partner of all or substantially all of the Partner's property, (d) fails, within 60 days after appointment, to have vacated the appointment of a trustee, receiver, or liquidator of the Partner or all or substantially all of the Partner's property, or (e) is expelled as a Partner, then in any such event the Partnership will continue, and the Breaching Partner will be subject to this Section 8.4. In that event, the following will occur:

(a) The Breaching Partner will immediately cease to be a Partner and will have no further power to act for or to bind the Partnership;

(b) The other Partners will continue to have the right to possess (as Partners) the Partnership's property and goodwill and to conduct its business and affairs;

(c) The Breaching Partner will be liable in damages, without the requirement of a prior accounting, to the Partnership for all costs and liabilities that the Partnership or any Partner may incur as a result of such breach;

(d) The Partnership will have no obligation to pay to the Breaching Partner any contributions, capital, or profits, but may, by notice to the Breaching Partner within 30 days after the date of dissociation, elect to make Breach Payments (as defined in Section 8.5) to the Breaching Partner in complete satisfaction of the Breaching Partner's interest in the Partnership;

(e) If the Partnership does not elect to make Breach Payments pursuant to Section 8.5, the Partnership will treat the Breaching Partner as if the Breaching Partner were an unadmitted assignee of the interest of the Breaching Partner and will make distributions to the Breaching Partner of only those amounts otherwise payable with respect to such interest hereunder;

(f) The Partnership may apply and offset any distributions otherwise payable with respect to such interest (including Breach Payments) to satisfy any claims it may have against the Breaching Partner;

(g) The Breaching Partner will have no right to inspect the Partnership's books or records or to obtain other information concerning the Partnership's operations for any period after the date of breach;

(h) The Breaching Partner will continue to be liable to the Partnership for any unpaid capital contributions required under this Agreement before the date of dissociation with respect to such interest and, to the fullest extent permitted by the Act, will continue to be jointly and severally liable with the other Partners for any debts and liabilities (whether actual or contingent, known or unknown) of the Partnership;

(i) Notwithstanding anything to the contrary in this Section 8.4, unless the Partnership has elected to make Breach Payments to the Breaching Partner in satisfaction of such Partner's interest, the Partnership may, on the Breaching Partner's behalf, offer and sell (on any terms that are not unconscionable) the interest of the Breaching Partner to any other Partner, person, or entity who agrees to become a Partner with respect to such interest and to perform the duties and obligations imposed by this Agreement on the Breaching Partner; and

(j) If the Partnership has not elected to make Breach Payments to the Breaching Partner in satisfaction of such Partner's interest and has not effected a sale of the Partner's interest as provided in Section 8.4(i) above, the rights and obligations of the Partnership and the Breaching Partner will not be governed by, and the Partners hereby waive the application of, the provisions of ORS 67.250.

8.5 Breach Payments. For purposes of this Section 8, Breach Payments will be made in four installments, each equal to one-fourth of the Breach Amount, payable on the next four consecutive anniversaries of the breach by the Breaching Partner, with simple interest accrued from the date of the breach through the date that each such installment is paid on the unpaid balance of the Breach Amount at 9% per annum. The "Breach Amount" will be an amount equal to the greater of \$1 or the Net Equity of the Breaching Partner's interest on the date of such breach, computed in accordance with Section 3.7. The Partnership may, at its sole election, prepay all or any portion of the Breach Payments or interest accrued thereon at any time without premium or penalty.

8.6 No Security. Notwithstanding any provision of the Act, the Partnership will not be obligated to secure the value of the Breaching Partner's interest by bond or otherwise.

SECTION 9. DISSOLUTION OF PARTNERSHIP

9.1 Liquidating Events. The Partnership will dissolve and commence winding up and liquidating on the first to occur of any of the following events (a "Liquidating Event"):

(a) Hawthorne Villa loses its tax exempt status;

- (b) The sale of all or substantially all of Hawthorne Villa;
- (c) The vote by Partners holding 51% or more of the Ownership Interests to dissolve, wind up, and liquidate the Partnership; or
- (d) Any other event described in subsection (4), (5), (6), or (7) of ORS 67.290 requiring that the Partnership be liquidated and wound up.

The Partners hereby agree that, notwithstanding any provision of the Act, the Partnership will not dissolve before the occurrence of a Liquidating Event. If a court of competent jurisdiction determines that the Partnership has dissolved before the occurrence of a Liquidating Event, the Partners hereby agree to continue the business of the Partnership without a winding up or liquidation.

9.2 Notice of Dissolution. If a Liquidating Event occurs or an event occurs that would, but for the provisions of Section 9.1, result in a dissolution of the Partnership, then Hawthorne must, within 30 days thereafter, (a) provide written notice thereof to each of the Partners and to all other parties with whom the Partnership regularly conducts business (as determined in the discretion of Hawthorne) and (b) publish notice of the dissolution in a newspaper of general circulation in each place where the Partnership conducts business (as determined in the discretion of the Hawthorne).

SECTION 10. WINDING UP

10.1 Rights and Duties. On the occurrence of a Liquidating Event as described in Section 9.1, the Partnership will continue solely for the purpose of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors and Partners, and no Partner may take any action that is inconsistent with, or not necessary to or appropriate for, winding up the Partnership's business and affairs. To the extent not inconsistent with the foregoing, all covenants contained in this Agreement and obligations provided for in this Agreement will continue to be fully binding on the Partners until the Partnership's assets have been distributed pursuant to this Section 10.1 and the Partnership has terminated. Hawthorne will be responsible for overseeing the winding up and liquidation of the Partnership, will take full account of the Partnership's liabilities and assets, will cause the Partnership's assets to be liquidated as promptly as is consistent with obtaining the fair market value thereof, and will cause the proceeds therefrom, to the extent sufficient therefor, to be applied and distributed in the following order:

- (a) First, to creditors other than Partners in satisfaction of the Partnership's debts and liabilities to such creditors other than liabilities for which reasonable provision for payment has been made;
- (b) Second, to the Partners in satisfaction of all of the Partnership's debts and liabilities to Partners other than liabilities for which reasonable provision for payment has been made; and
- (c) The balance, if any, to the Partners in accordance with their positive Capital Accounts after giving effect to all contributions, distributions, and allocations for all periods.

10.2 No Additional Compensation. No Partner will receive any additional compensation for any services performed pursuant to this Section 10.

10.3 Waiver of Priority and Subordination. Each Partner understands and agrees that by accepting the provisions of this Section 10 setting forth the priority of the distribution of the assets of the Partnership to be made on its liquidation, the Partner expressly waives any right that it, as a creditor of the Partnership, might otherwise have under the Act to receive distributions of assets *pari passu* with the other creditors of the Partnership in connection with a distribution of assets of the Partnership in satisfaction of any liability of the Partnership, and hereby subordinates to the debts and liabilities to those creditors any such right.

10.4 Restoration of Deficit Capital Accounts. If any Partner's Capital Account has a deficit balance (after giving effect to all contributions, distributions, and allocations for all taxable years, including the taxable year during which the Liquidating Event occurs), such Partner must contribute to the capital of the Partnership the amount necessary to restore the deficit balance to zero.

10.5 Liquidating Trust; Reserve. In the discretion of Hawthorne, a pro rata portion of the distributions pursuant to Section 10.1 that would otherwise be made to the Partners may be:

(a) Distributed to a trust established for the benefit of the Partners solely for the purposes of liquidating Partnership assets, collecting amounts owed to the Partnership, and paying any contingent or unforeseen liabilities or obligations of the Partnership or of the Partners arising out of or in connection with the Partnership. The assets of any such trust may be distributed to the Partners from time to time, in the reasonable discretion of Hawthorne, in the same proportions as the amount distributed to such trust by the Partnership would otherwise have been distributed to the Partners pursuant to Section 10.1; or

(b) Withheld to provide a reasonable reserve for Partnership liabilities (contingent or otherwise) and to allow for the collection of the unrealized portion of any installment obligations owed to the Partnership; any such amounts withheld must be distributed to the Partners as soon as practicable.

The portion of the distributions that would otherwise have been made to each of the Partners that is instead distributed to a trust pursuant to Section 10.5(a) or withheld to provide a reserve pursuant to Section 10.5(b) will be determined in the same manner as the expense or deduction would have been allocated if the Partnership had realized an expense equal to such amounts immediately before distributions being made pursuant to Section 10.1.

SECTION 11. ADMISSION OF ADDITIONAL PARTNERS

Without limiting any other provision of this Agreement, no person or entity may be admitted as a Partner without first having received the prior written consent of all the Partners and executing a counterpart copy of this Agreement, as amended, pursuant to which such new Partner agrees to be bound by the provisions of this Agreement, as amended.

SECTION 12. MISCELLANEOUS

12.1 Amendment of Partnership Agreement. This Agreement may be amended only by the written agreement of all the Partners.

12.2 No Assignment. No party may assign or delegate any of the party's rights or obligations under this Agreement to any person unless the assignment or delegation is expressly permitted by this Agreement.

12.3 Binding Effect. This Agreement will be binding on the parties and their respective heirs, personal representatives, successors, and permitted assigns, and will inure to their benefit.

12.4 Notices. All notices or other communications required or permitted by this Agreement:

- (a) must be in writing;
- (b) must be delivered to the parties at the addresses set forth below, or any other address that a party may designate by notice to the other party; and
- (c) are considered delivered:
 - (1) upon actual receipt if delivered personally, by fax, or by a nationally recognized overnight delivery service; or
 - (2) at the end of the third business day after the date of deposit, if deposited in the United States mail, postage pre-paid, certified, return receipt requested.
- (d) Notices to Hawthorne:

Hawthorne Urban Development LLC
Jivanjee Circosta Architects LLP
PO BOX 230579
Tigard OR 97281

- (e) Notices to ALI:

3300 NW 185th ST., #186
Portland, OR 97229-3406

12.5 Waiver. No waiver will be binding on a party unless it is in writing and signed by the party making the waiver. A party's waiver of a breach of a provision of this Agreement will not be a waiver of any other provision or a waiver of a subsequent breach of the same provision.

12.6 Severability. If a provision of this Agreement is determined to be unenforceable in any respect, the enforceability of the provision in any other respect and of the remaining provisions of this Agreement will not be impaired.

12.7 Further Assurances. The parties will sign other documents and take other actions reasonably necessary to further effect and evidence this Agreement.

12.8 No Third-Party Beneficiaries. The parties do not intend to confer any right or remedy on any third party.

12.9 Termination. The termination of this Agreement, regardless of how it occurs, will not relieve a party of obligations that have accrued before the termination.

12.10 Survival. All provisions of this Agreement that would reasonably be expected to survive the termination of this Agreement will do so.

12.11 Attachments. Any exhibits, schedules, and other attachments referenced in this Agreement are part of this Agreement.

12.12 Remedies. The parties will have all remedies available to them at law or in equity. All available remedies are cumulative and may be exercised singularly or concurrently.

12.13 Governing Law. This Agreement is governed by the laws of the State of Oregon, without giving effect to any conflict-of-law principle that would result in the laws of any other jurisdiction governing this Agreement.

12.14 Attorney's Fees. If any arbitration, action, suit, or proceeding is instituted to interpret, enforce, or rescind this Agreement, or otherwise in connection with the subject matter of this Agreement, including but not limited to any proceeding brought under the United States Bankruptcy Code, the prevailing party on a claim will be entitled to recover with respect to the claim, in addition to any other relief awarded, the prevailing party's reasonable attorney's fees and other fees, costs, and expenses of every kind, including but not limited to the costs and disbursements specified in ORCP 68 A(2), incurred in connection with the arbitration, action, suit, or proceeding, any appeal or petition for review, the collection of any award, or the enforcement of any order, as determined by the arbitrator or court.

12.15 Entire Agreement. Except for the Articles of Organization, this Agreement contains the entire understanding of the parties regarding the subject matter of this Agreement and supersedes all prior and contemporaneous negotiations and agreements, whether written or oral, between the parties with respect to the subject matter of this Agreement.

12.16 Signatures. This Agreement may be signed in counterparts. A fax transmission of a signature page will be considered an original signature page. At the request of a party, each other party will confirm a fax-transmitted signature page by delivering an original signature page to the requesting party.

12.17 Arbitration. Any dispute between the parties that is to be resolved by arbitration as provided in this Section 17.8 must be settled and decided by arbitration conducted in accordance with the rule of the Arbitration Service of Portland, Inc., as then in effect (the "Arbitration Rules"), except as provided below. Any such arbitration must be held and conducted in the city or county in which the Premises is located, before one (1) arbitrator who will be selected by mutual agreement of the parties; if agreement is not reached on the selection of such arbitrator within fifteen (15) days of receipt of a written demand for arbitration as set forth below, then an arbitrator is to be appointed by the presiding judge of the Circuit Court of the County in Oregon in which the Premises is located.

The parties enter into this Agreement as of the date first written above.

[Signature Pages to Follow]

Dated _____, 2012

Hawthorne Urban Development, LLC

By: _____
Title: _____

Dated _____, 2012

Accessible Living, Inc.,

By: _____
Title: _____

LEASE

Between
HAWTHORNE URBAN DEVELOPMENT, LLC
"Landlord"

and

Hawthorne Villa General Partnership
"Tenant"

Dated: _____, 2012

LEASE

In consideration of the mutual promises of the parties set forth in this Lease, the Landlord leases to Tenant and Tenant leases from Landlord on the following terms and conditions the apartment complex commonly known as Hawthorne Villa Apartments located on the real property described in Exhibit A, illustrated on the site plan attached as Exhibit B-1, portions of which are further illustrated on Exhibit B-2, including all apartment units, parking areas, maintenance facilities, common use areas and any other improvements on the site necessary for the use and operation of the apartment complex (the "Premises").

SECTION 1 BASIC LEASE PROVISIONS

This Section sets forth certain definitions and a summary of the basic provisions contained in the Lease. In the event of any conflict between any provision contained in this Section 1 and a provision contained in the balance of the Lease, the latter provision will control.

- 1.1 **Date of Lease:** _____, 2012
- 1.2 **Name of Landlord ("Landlord"):** Hawthorne Urban Development, LLC
- 1.3 **Address for Notices to Landlord:** C/O Richard Krueger, 21001 Dairy Creek Rd, North Plains, OR 97133
Phone No.: 5036471000
Fax No.:
- 1.4 **Address for Rent Payments:** C/O Richard Krueger, 21001 Dairy Creek Rd, North Plains, OR 97133 _____

1.5 **Name of Tenant ("Tenant"):** Hawthorne Villa General Partnership

1.6 **Address for Notices to Tenant:** 7705 SW Pfaffle Street, _____
Tigard, OR 97223
Phone No.: 503-639-8158 _____
Fax No.: 503-624-2770 _____

1.7 Premises. The apartment complex as shown on Exhibits A, B-1 and B-2 with a street address of 7705 SW Pfaffle Street, Tigard, Oregon, 97223.

1.8 Permitted Use (*see* Section 5.1): Rental of apartments units as low income housing.

1.9 Trade Name to Be Used by Tenant at Premises (*see* Section 5.4): Hawthorne Villa Apartments

1.10 Gross Leasable Area of Premises: 207,346 sq. feet/ 4.76 acres

1.11 Lease Term (*see* Section 3): 5 years

1.12 Renewal Options(s): Two five year terms

1.13 Base Rent (*see* Section 4): \$35,433.83 per month, subject to adjustments based on amount of Gross Rents and Expenses. See Exhibit H.

1.14 Base Rent Increase (*see* Section 4.2): 3% per annum, subject to downward adjustment if needed to maintain tax exempt status and rules governing the Low Income Housing Tax Credit ("LIHTC") Program.

1.15 Percentage Rent Rate: N/A

1.16 Tenant's Proportionate Share (Building): 100%

1.17 Tenant's Proportionate Share (Common Areas): 100%

1.18 Minimum Hours of Operation (*see* Section 5.3): 24 hours/7 days/365 days

1.19 Landlord's Broker (*see* Section 17.11): N/A

1.20 Tenant's Broker (*see* Section 17.11): N/A

1.21 Security Deposit (*see* Section 15): \$TBD

1.22 Prepaid Rent (*see* Section 4.5): \$TBD

1.23 Guarantor's Name and Address (*see* Exhibit F): N/A

1.24 Radius Restriction Area (*see* Section 5.6): N/A

1.25 Exhibits:

Exhibit A Legal Description and General Description

Exhibit B-1 Site Plan

Exhibit B-2 Sample Illustrations

Exhibit C Landlord Work

Exhibit D Rules and Regulations

Exhibit E Confirmation Letter

Exhibit F Addendum

Exhibit G Portions of Appraisal by Colliers International Valuation & Advisory Services, dated June 24, 2011 and valued through August 1, 2012 that are relevant to the determination of the restricted rent, value of unrestricted rent and the tax savings to Landlord.

Exhibit H Base Rent Calculation

1.26 Definitions.

1.26.1 Building. *Building* means all structures upon the Premises, including without limitation, those certain 9 buildings making up Hawthorne Villa Apartments and laundry rooms, storage units, and leasing office.

1.26.2 Common Area. *Common Area* means all areas and facilities within and about Hawthorne Villa Apartments for the use and enjoyment of Tenant and residential subtenants, including all vehicle parking spaces and areas, roads, traffic lanes, driveways, sidewalks,

pedestrian walkways, landscaped areas, court yards, signs, service-delivery facilities, common storage areas, common utility facilities, and all other areas provided and designated by Landlord.

1.26.3 Default Interest Rate. *Default Interest Rate* means the prime rate of interest as declared by a major bank of national standing plus two (2) percentage points, but not in any event at a rate greater than the maximum rate of interest permitted by law, calculated from and after the date of Default or expenditure until paid.

1.26.4 ECR. *ECR* means that certain agreement creating easements, covenants, and restrictions affecting Hawthorne Villa Apartments, made and entered into as of April 8, 1997, by and between Hawthorne Villa Limited Partnership and Oregon Housing and Community Services, as amended by written instrument dated September 13, 2011, and as further amended from time to time.

1.26.5 Gross Leasable Area. *Gross Leasable Area* means the aggregate of the number of square feet of or acreage of area of all the Premises.

1.26.6 Gross Rents. As used in this Lease, *Gross Rents* means all rental receipts from Tenant's business operated at the Premises, whether paid in cash or credit, and all money and things of value received by, or paid to, Tenant. The term *Gross Rents* does not include any taxes collected from residential subtenants and for which Tenant is accountable to any governmental agency, and does not include the amount of any actual refunds or credits made by Tenant.

1.26.7 Hazardous Materials. *Hazardous Materials* means petroleum, asbestos, polychlorinated biphenyls, radioactive materials, radon gas, or any chemical, material, or substance defined as or included in the definition of "hazardous substances, hazardous waste, hazardous materials, extremely hazardous waste, restrictive hazardous waste, or toxic substances," respectively, or words of similar import under any applicable federal, state, or local law, ordinance, statute, rule, or regulation, including but not limited to the Comprehensive Environmental Response Compensation Liability Act of 1980, as amended, the Federal Water Pollution Control Act, as amended, ORS chapter 465 ("Hazardous Waste and Hazardous Materials I"), ORS chapter 466 ("Hazardous Waste and Hazardous Materials II"), ORS chapter 468 ("Environmental Quality Generally"), the Pollution Control and the Hazardous Materials Transportation Act, or any regulation or publication adopted or promulgated pursuant to such laws, ordinances, statutes, rules, or regulations, and any other chemical, material, or substance to which exposure is prohibited, limited, or regulated by any governmental authority, or may or could pose a hazard to the health and safety of the occupants of the Premises on which may or could pose a hazard to the environment.

1.26.8 Landlord's Work. *Landlord's Work* means those improvements and alterations that Landlord will construct in or about the Premises, as described in Exhibit C attached to this Lease (see Section 16). Landlord's Work reflects the renovations to be performed and noted in the Exhibit G Appraisal.

1.26.9 Lease Commencement Date. *Lease Commencement Date* means the date on which Landlord delivers possession of the Premises to Tenant.

1.26.10 Premises. *Premises* means those certain Premises consisting of approximately 207,346 sq. feet/ 4.76 acres square feet of Gross Leasable Area plus the Common Areas and the Building plus all other appurtenances used by Tenant.

1.26.11 Rent Commencement Date. *Rent Commencement Date* means the date that is the later of (a) March 1, 2012, or (b) thirty (30) days after the date Landlord delivers possession

of the Premises to Tenant in accordance with Section 3.1 or the date upon which Tenant commences business operations in the Premises, if earlier than the date described in (a) or (b).

1.26.12 Site Plan. *Site Plan* means that certain site plan attached to this Lease as Exhibit B-1 showing Hawthorne Villa Apartments.

1.26.13 Tenant's Work. *Tenant's Work* means those improvements and alterations that Tenant will construct in the Premises, as described in Exhibit C, attached to this Lease. *See* Section 16.

1.26.14 Capital Expenditure. For the purpose of this Lease only, *Capital Expenditure* means improvements and alterations intended to acquire or upgrade physical assets such as the Buildings, Common Areas, and structural and systematic components of the Premises and machinery. Capital Expenditures do not include repairs and maintenance to keep the Premises in good operating condition (i.e. fixing leaks, drywall, painting, fixing broken windows etc.)

SECTION 2 DEMISE OF PREMISES; USE OF COMMON AREAS

2.1 Demise of Premises. Commencing on the Lease Commencement Date, Landlord leases to Tenant and Tenant leases from Landlord the Premises for the Term as set forth in Section 1.11.

2.2 Right to Use Premises including Building and Common Area. Tenant and its employees, contractors, residential subtenants and invitees will have the right to use the Premises for all purposes necessary for the use and enjoyment of residential subtenants, including areas needed for ingress and egress to and from the Premises and for automobile parking on the terms and conditions contained in this Lease and subject to any reasonable rules and regulations that Landlord may from time to time promulgate.

2.3 Restrictions, Regulations, and Laws. This Lease is subject to all easements, restrictions, agreements of record, mortgages and deeds of trust, zoning and building laws, and all other laws, statutes, codes, ordinances, rules, regulations, and other governmental requirements now in effect or becoming effective after the date this Lease is executed (collectively, the "Laws").

SECTION 3 POSSESSION AND COMMENCEMENT OF TERM

3.1 Delivery of Possession and Commencement of Term. Landlord will deliver the Premises to Tenant in its current condition and repair. Tenant understands Landlord is planning to complete items listed on Exhibit C; however, delivery of possession and commencement of the Lease Term is not contingent upon substantial completion of the items on Exhibit C. By accepting possession of the Premises under this Lease, Tenant acknowledges that Tenant accepts the Premises "AS IS, WHERE IS" and as suitable for Tenant's intended use, in good and sanitary operating order, condition, and repair, and without representation or warranty by Landlord as to the condition, use, or occupancy that may be made of the Premises and that the Gross Leasable Area of the Premises is as set forth in Section 1.10. If there is any delay in delivering possession of the Premises to Tenant, the term of this Lease will be extended by the number of days of the delay. If the Lease Commencement Date is a date other than the first day of a calendar month, then the Term will be deemed extended by the number of days between the Lease Commencement Date and the first day of the first calendar month thereafter so that the Term of the Lease will expire at midnight on the last day of the last calendar month of the Lease Term (the "Expiration Date"). After the Lease Commencement Date, Rent Commencement Date, and

Expiration Date have been determined pursuant to this Section 3, Landlord will notify Tenant in writing thereof and Tenant will complete and execute a confirmation letter in the form attached to this Lease as Exhibit E and incorporated in this Lease by reference.

3.2 Early Possession. If possession of the Premises is delivered to Tenant before the Lease Commencement Date, Tenant will have the right to occupy the Premises subject to all the terms and provisions of this Lease, including the payment of all Additional Rent and utilities. The payment of Base Rent will not commence until the Rent Commencement Date.

3.3 Renewal Options. As long as Tenant is not then in default of this Lease beyond any applicable notice and cure period, Tenant will have the option to extend the Term for two (2) additional periods of five (5) years each (individually, an "Extension," and collectively, the "Extensions"), commencing at midnight on the date on which the Term or any Extension expires. Base Rent during an Extension will be increased three percent (3%) annually over the Base Rent in effect in the previous lease year for each and every lease year of the Extension, adjusted as needed to reflect the savings resulting from any exemption from taxation provided by the City of Tigard. Each Extension will be deemed automatically exercised by Tenant and Landlord and the parties will be bound by this Lease for the Extension unless Tenant or Landlord gives the other party written notice of its intention not to exercise its option to extend the Lease, not later than one-hundred-eighty (180) days before the expiration of the Term or the preceding Extension. If Tenant or Landlord notifies the other that it elects not to exercise its option as set forth above, Tenant will vacate the Leased Premises upon the expiration of the Term or Extension then in effect and will deliver the Leased Premises to Landlord in accordance with the terms and conditions of this Lease.

SECTION 4 RENT

4.1 Base Rent.

4.1.1. Acknowledgments: Landlord and Tenant agree that a recent appraisal on the property indicated the Rent Gap (average market rent for Tigard & Tualatin less market rents at the Premises) to be approximately 10%. See Exhibit G, pg. 62. As noted by the Appraisal:

Unit Type	# of Units	Concluded Market Rents	Concluded LIHTC Rents	Difference in Rent	% Gap
Studio	30	\$540	\$485	-\$55	10.2%
1 BD/1 BA (605SF)	62	\$610	\$550	-\$60	9.8%
1 BD/1 BA (685SF)	21	\$640	\$575	-\$65	10.2%
2 BD/1 BA	5	\$725	\$670	-\$55	7.6%

The Appraisal states, and its analysis explains, the concluded restricted rents after renovation are based on a typical Rent Gap of about 10% from the market rent conclusion. The Gross Rent as noted by the Appraisal is \$768,900.00 in normal market conditions. See Exhibit G, pg. 67. The parties agree that the 10% Rent Gap reduces Gross Rents by about \$77,000.00. The Appraisal states the estimated value of the tax exemption per unit to be \$375.00. See Exhibit F, pg. 29 & 71. With 118 units, the exemption provides a savings of about \$44,250.00 to Landlord. The saving of \$44,250.00 is offset by the decreased rental receipts received for the Property. Even if one factors in miscellaneous income from laundry, vending and storage of about \$18,750 per year, the rent restrictions still cause lost revenues to exceed the exemption. As a result, the parties agree to Base Rent based on the Gross Rents less Tenant Expenses and agree

that the tax savings resulting from the exemption are reflected in the Base Rent in light of the Rent Gap.

4.1.2. Base Rent Amount: Throughout the original Term, Tenant will pay to Landlord, as base rent, the amounts set forth in the schedule set forth in Section 1.13 ("Base Rent"). Tenant will pay Base Rent in advance on the first day of each calendar month of the Term at the address for rent payments set forth in Section 1.4, or at any other place that Landlord designates except that Tenant will pay Landlord the first month's Base Rent and Security Deposit on the date that Tenant executes this Lease.

4.2 Base Rent Increase. The Base Rent as set forth in Section 4.1 will be increased by three percent (3%) on the first day of each Lease Year after the Base Year but adjusted as needed to reflect the savings resulting from any exemption from taxation provided by the City of Tigard.

4.3 Records. Tenant will maintain complete and accurate records showing Gross Rents and Tenant Expenses on a monthly basis. Tenant will ensure that all records are available for inspection by Landlord at all times after reasonable advance notice.

4.4 Reporting. In addition to all monthly statements of Gross Rents and Expenses as required by Section 4.3, Tenant will submit to Landlord an annual statement of Gross Rents for each calendar year and partial calendar year during the Term within thirty (30) days after the end of each calendar year during the Term.

4.5 Audit. Landlord may cause Tenant's records of Gross Rents and Tenant Expense computations to be examined at any time by an accountant or other representative selected by Landlord. If the examination discloses that the Base Rent was understated, Tenant will immediately pay the unpaid Base Rent to Landlord together with interest at the Default Interest Rate on the shortage of Base Rent from the dates that such Rent should have been paid by Tenant. If the Base Rent was understated by more than two percent (2%), Landlord will provide written notice to Tenant of the understatement and, in addition to any Base Rent due, Tenant will pay the cost of the audit. If Tenant understates Gross Rents and Expenses at any subsequent time during the term of the Lease, in addition to all other rights and remedies available to Landlord hereunder, Tenant will pay the cost of the audit and Landlord may, by written notice to Tenant, terminate this Lease.

4.6 Additional Rent

4.6.1 Operating Expenses. In addition to Base Rent, Tenant will pay Landlord, as Additional Rent, Operating Expenses in accordance with this Section. For purposes of this Lease, the term *Operating Expenses* means all *expenses paid or incurred by Landlord (or on Landlord's behalf)* as reasonably determined by Landlord as necessary or appropriate for the operation, maintenance, repair, or replacement of the Premises as required by Landlord under this Lease, including the Building and Common Areas thereon. Operating Expenses may include, without limitation, (a) salaries, wages, and benefits of employees of Landlord engaged in the repair, operation, maintenance, and replacement thereon, if any; (b) payroll taxes, workers' compensation insurance, uniforms, and related expenses for those employees, if any; (c) the cost of all gas, utilities, sewer charges, and other services furnished to the Premises including the Building and Common Areas; (d) the cost of maintaining and repairing the Premises including the Building and Common Areas, including any replacement thereof, performed or to be performed by Landlord; (e) the cost of all comprehensive general liability and "all risk" casualty

insurance carried by Landlord; (f) the costs for renting all supplies and tools necessary for the maintenance and repair of the Building and Common Areas; (g) the costs of capital improvements, replacements, and remodelings of the Common Areas, the costs of which will be amortized (with interest on the unamortized balance at a commercially reasonable rate, as determined by Landlord) over the useful life of the improvements or remodelings and otherwise in accordance with generally accepted accounting principles uniformly applied as reasonably estimated by Landlord; (h) alterations and improvements to the Premises including the Building and Common Areas made by reason of all applicable Laws and requirements of any public authority or the requirements of any insurance body, but excluding any alteration or improvement that is included in Landlord's obligation to deliver the Premises, Building and Common Areas in compliance with Law, as set forth in Section 3.1; (i) management fees paid to a third party, or, if no managing agent is employed by Landlord, Landlord will be entitled to charge a reasonable management fee, and that fee will be included in the Operating Expenses; (j) reasonable legal, accounting, and other professional fees incurred in connection with the operation, maintenance, repair, replacement, and management of the Building and Common Areas; (k) the cost of landscape and parking-area maintenance, repair, and when necessary as determined by Landlord, including the replacement thereof; (l) janitorial and cleaning supplies and services; (m) all other charges properly allocable to the operation, repair, maintenance, and, if necessary, replacement of the Common Areas, Building, and Building Systems in accordance with generally accepted accounting principles; and all Section 4.4.3 Taxes (if imposed) .

4.6.2 Operating Year. *Operating Year* means each calendar year of the Term. If the Lease Commencement Date or the Expiration Date occurs on any date other than the first (1st) day of the calendar year, all calculations, costs, and payments referred to in this Section 4 will be prorated for the portion of the calendar year to which they apply.

4.6.3 Taxes. The term *Taxes* includes (a) if imposed, all ad valorem and other real property taxes and assessments and personal property taxes, charges, rates, user fees, duties, and assessments rated, levied, or imposed by any governmental authority with respect to the Premises and any improvements, fixtures, and equipment located in it or on it, and with respect to all other property of Landlord, real or personal, located in or on the Premises; (b) if imposed, any tax in lieu of a real property tax; (c) if imposed, any tax or excise levied or assessed by any governmental authority on the Rent payable under this Lease or Rent accruing from the use of the Premises or any portion of it; and (d) if imposed, any tax or excise imposed or assessed by or against Landlord that is measured or based in whole or in part on the capital used by Landlord to improve the Premises. The term *Taxes* does not include federal or state corporate or personal income taxes. If Landlord receives a refund of Taxes, then Landlord will credit the refund, net of any professional fees and costs incurred by Landlord to obtain the same, against the Taxes for the Operating Year to which the refund is applicable or the current Operating Year, at Landlord's option. Notwithstanding the foregoing, Tenant will pay before delinquency all taxes, assessments, licenses, fees, and charges assessed, imposed, or levied on (a) Tenant's business operations, (b) all trade fixtures, (c) leasehold improvements, (d) merchandise, and (e) other personal property in or about the Premises.

4.6.4 Written Statement of Estimate. Before the Lease Commencement Date, Landlord will furnish Tenant with a written statement setting forth Landlord's estimate of Operating Expenses and Taxes and Tenant's Proportionate Share (Center) thereof for the first Lease Year. Thereafter, before the commencement of each Operating Year after the first

Operating Year or as soon thereafter as reasonably possible, Landlord will furnish Tenant with a written statement setting forth the *estimated cost* of Operating Expenses and Taxes for the next Operating Year. Tenant will pay to Landlord as Additional Rent commencing on the Lease Commencement Date, and thereafter on the first day of each calendar month, an amount equal to one-twelfth (1/12th) of the estimated cost of Operating Expenses and Taxes, as shown in Landlord's written statement for that Operating Year. If Landlord fails to deliver the written estimate, Tenant will continue to pay to Landlord an amount equal to one-twelfth (1/12th) of the estimated cost of Operating Expenses and Taxes for the immediately preceding Operating Year until Landlord furnishes the written estimate. Upon receipt of the written estimate, Tenant will pay an amount equal to the difference between the estimated cost of Operating Expenses and Taxes for the expired portion of the current Operating Year and the Tenant's actual payments during that time, and any payments by Tenant in excess of the estimated cost of Operating Expenses, Taxes, and Insurance will be credited to the next due payment of Rent from Tenant. Landlord reserves the right, from time to time, to adjust the estimated cost of Operating Expenses and Taxes, and Tenant will commence payment of one-twelfth (1/12th) of the revised estimate on the first (1st) day of the month following receipt of the revised estimate.

4.6.5 Final Written Statement. Within one-hundred-twenty (120) days after the close of each Operating Year during the Term, Landlord will deliver to Tenant a written statement (the "Operating Statement") setting forth the actual cost of Operating Expenses and Taxes for the Premises for the preceding Operating Year for each such item. If the actual Operating Expenses and Taxes for the preceding Operating Year are greater than the amount paid by Tenant for the Operating Expenses and Taxes, Tenant will pay the amount due to Landlord as Additional Rent within thirty (30) days after Tenant receives the statement. If the actual Operating Expenses and Taxes for the preceding Operating Year are less than the amount paid by Tenant for the Operating Expenses and Taxes, then Landlord will, at Landlord's election, either (a) pay the amount of Tenant's overpayment to Tenant within thirty (30) days after the date of the statement or (b) apply the overpayment to Tenant's next Rent payment, reimbursing only the excess over the next Rent payment, if any. If an Operating Year ends after the expiration or termination of this Lease, any Additional Rent in respect thereof that is payable under this Section will be paid by Tenant within ten (10) days after Tenant receives the Operating Statement for the Operating Year, and any Additional Rent paid by Tenant in excess of the amount due under this Lease for the portion of the Operating Year after expiration or termination of this Lease for that Operating Year will be refunded by Landlord to Tenant within ten (10) days of the expiration of that Operating Year. Landlord's late delivery of any written statement will not constitute a waiver of Tenant's obligation to pay Operating Expenses and Taxes, but Landlord will use reasonable efforts to deliver such written statements as soon as reasonably possible after the commencement of each Operating Year.

4.6.6 Tenant Examination. The Operating Statement need not be audited but must contain sufficient detail to enable Tenant to verify the calculation of Operating Expenses, Taxes, and insurance for the Premises.

4.6.7 Tenant's Share Tenant's share of Operating Expenses and Taxes shall be One Hundred percent (100%) of the total cost.

4.6.8 Late Charges and Interest. Rent not paid when due will bear interest until paid at the Default Interest Rate. Landlord may impose a late charge of the greater of (a) five percent (5%) of Rent then due or (b) \$50 for each payment of Rent made more than ten (10) days late

(the "Late Charge"). Tenant acknowledges that late payment by Tenant to Landlord of any Rent or other sums due under this Lease will cause Landlord to incur costs not contemplated by this Lease, that the exact amount of those costs are extremely difficult and impracticable to ascertain, and that the Late Charge is not a penalty but represents a fair and reasonable estimate of the costs that Landlord will incur by reason of any such late payment. Landlord may levy and collect a late charge in addition to all other remedies available for Tenant's default, and collection of a late charge will neither be in lieu of nor waive the breach caused by the late payment.

4.7 Prepaid Rent. Unless waived by Landlord, Tenant will pay the initial monthly Base Rent for the first full month of the Lease Term for which Rent is payable upon the Lease Commencement Date.

4.8 Place of Payment. All payments required to be paid by Tenant under this Lease, other than the Base Rent, will constitute Additional Rent. Tenant must make all payments of Additional Rent at the address for rent payments set forth in Section 1.4, or at any other place that Landlord designates from time to time.

SECTION 5 USE

5.1 Permitted Use. Tenant will use the Premises only for the purpose set forth in Section 1.8 and for no other purpose without the written consent of Landlord.

5.2 Further Covenants Regarding Use.

5.2.1 Compliance with Laws. Except for Landlord's obligations as specifically set forth in this Lease, Tenant will comply at its expense with all applicable Laws, including without limitation those regarding the maintenance, operation, condition, and use of the Premises when and as required by the applicable public authority. Tenant will not use the Premises in conflict with any Laws nor will Tenant permit anything to be done in or about the Premises that would conflict with any Laws.

5.2.2 Activities on Premises. Tenant will neither conduct nor permit any activities on the Premises that would likely (a) increase the fire insurance rate on the Premises, (b) cause a cancellation of any of Landlord's insurance policies, (c) create a nuisance, (d) damage the reputation of Hawthorne Villa Apartments, or (e) be reasonably offensive to Landlord or other tenants. Tenant will not allow the disposal of any medical waste at the Premises trash receptacles by Tenant or Tenant's employees, agents, or independent contractors.

5.2.3 Manner of Operating Business. Tenant will keep the Premises clean and orderly and will operate its business in the Premises in a first-class, professional manner. Tenant will supervise its employees and cause Tenant's agents, independent contractors, employees, customers, suppliers, and invitees to conduct their activities in a manner that complies with the requirements of this Lease and the Rules and Regulations.

5.3 Continuous Operation. Tenant will continuously use and conduct its business described in Section 1.18 on the Premises during, at a minimum, the hours set forth therein. If Tenant fails to operate its business in the Premises for a period of thirty (30) days for any reason other than a casualty or condemnation that materially interferes with Tenant's operation of its business in the Premises, Tenant will be deemed to have abandoned the Premises and Landlord will have the right to exercise any and all rights and remedies set forth in this Lease. Tenant will use best efforts to operate the business conducted on the Premises in a diligent manner that will produce the maximum volume of Gross Rents.

5.4 Name of Business. The advertised name of the business operated in the Premises is set forth in Section 1.9. Tenant agrees not to change its advertised name without the prior written consent of Landlord, which consent Landlord will not unreasonably withhold.

5.5 Storage, Trash, and Recycling. Tenant will not store anything outside except in those areas approved in writing in advance by Landlord. Tenant will use only those trash and garbage receptacles approved by Landlord. Tenant will dispose of trash and other matter in a manner acceptable to Landlord, at Tenant's expense. Tenant will comply with all recycling programs required by applicable Laws or by Landlord from time to time.

SECTION 6 UTILITIES, SERVICES, AND SECURITY

6.1 Utilities and Services. Tenant will pay all charges for utilities and services supplied to the Premises, including without limitation "hookup" and service charges for electricity, gas, telephone, cable, water, and sewer. If consumption is not separately metered to the Premises, Tenant will pay Landlord as an Operating Expense for all utilities consumed on the Premises at a rate reasonably determined by Landlord that is not in excess of the cost to Landlord.

6.2 Security. Landlord may, but will have no obligation to, provide security service or adopt any security measure concerning the Premises, and Tenant will abide by all reasonable security measures adopted by Landlord.

SECTION 7 INSURANCE AND INDEMNITY

7.1 Tenant's Insurance

7.1.1 Commercial General Liability Insurance. At all times during the Term of this Lease, Tenant, at its expense, will maintain commercial general liability insurance in respect of the Premises and the conduct or operation of business in it, naming Landlord and its managing agent, if any, as additional insureds, with a combined single limit of not less than two million dollars (\$2,000,000); unless otherwise reduced by Landlord in writing. All such insurance will insure the Tenant's performance of the indemnity agreement as to liability for bodily injury to, illness of, or death of persons and damage to property set forth in this Lease. Tenant will pay for and deliver to Landlord and any additional insured such policies or certificates of insurance, in form reasonably satisfactory to Landlord, issued by the insurance company or its authorized agent, at least ten (10) days before the Lease Commencement Date. Tenant will procure and pay for renewals of such insurance from time to time before the expiration thereof, and Tenant will deliver to Landlord and any additional insured the renewal policy at least thirty (30) days before the expiration of any existing policy. All such policies must contain a provision whereby the same cannot be canceled or modified unless Landlord and any additional insured are given at least thirty (30) days' prior written notice of the cancellation or modification.

7.1.2 Property and Business-Interruption Insurance. Tenant will continuously maintain at its expense (a) special form type property insurance coverage on all furnishings, leasehold improvements, fixtures, inventory, and equipment located on the Premises, covering full replacement value, (b) insurance on all plate glass on the Premises, covering replacement cost, and (c) business-interruption coverage. The proceeds of such insurance, as long as this Lease remains in effect, will be used to repair or replace the leasehold improvements, fixtures, inventory, equipment, and plate glass so insured and to compensate Tenant for any damage

incurred by Tenant resulting from any interference with Tenant's ability to operate its business in the Premises.

7.1.3 Workers' Compensation Insurance. At all times during the Lease Term and any extensions or renewals, Tenant agrees to keep and maintain, and to cause Tenant's agents, contractors, and subcontractors to keep and maintain, workers' compensation insurance and other forms of insurance as may from time to time be required by Law or may otherwise be necessary to protect Landlord and the Premises from claims of any person who may at any time work on or in the Premises, whether as a servant, agent, or employee of Tenant or otherwise. Such insurance must be maintained at the expense of Tenant or Tenant's agents, contractors, or subcontractors and not at the expense of Landlord.

7.1.4 Insurance Policy Requirements. All insurance policies to be carried by Tenant must cover the risks and include only prudent deductible amounts as reasonably determined by Landlord from time to time. All insurance policies must name Landlord and Landlord's mortgagee as additional insureds and must be provided by responsible insurance companies authorized to issue insurance in the State of Oregon, with loss-payable clauses satisfactory to Landlord, and with ratings no less than B + VIII by A.M. Best Insurance Rating Service. Before occupying the Premises, Tenant must deliver to Landlord copies of all policies or certificates evidencing such insurance in form acceptable to Landlord. All policies and certificates must bear endorsements requiring thirty (30) days' written notice to Landlord before any change or cancellation.

7.2 Landlord's Insurance. During the Lease Term, Landlord may, at its discretion, maintain in full force and effect a policy or policies of property insurance covering the Building and the Center that provide coverage against such risks that are commonly covered under (a) a commercial general liability insurance policy providing secondary coverage to Tenant's policy, (b) a "special form" type of policy (including earthquake and/or flood coverage, at Landlord's election), together with loss of Rents coverage, and (c) any other insurance that Landlord deems reasonably necessary.

7.3 Waiver of Subrogation. Each property insurance policy obtained by each party that covers or applies to the Premises, or the personal property, fixtures, or equipment located in or on the Premises, must include an appropriate clause or endorsement that waives the insurance company's right to make any subrogation claim and that permits the insured, before any loss, to agree with the other party to this Lease to waive any claim it might have against the other party without invalidating the coverage under the insurance policy. The waiver of subrogation and permission for waiver of any claim must extend to the parties and their respective agents and employees. Each party releases the other and its agents and employees in respect of any claim (including a claim for negligence) that it might otherwise have against the other party or its agents or employees for loss, damage, or other casualty (including rental value or business interest, as the case may be) occurring during the Term of this Lease and normally covered under a special form property insurance policy in the form normally used in respect of similar property in Portland, Oregon.

7.4 Indemnification. Each party will indemnify, defend, and hold harmless the other party and its respective partners, directors, officers, agents, and employees from and against any and all third-party claims for bodily injury or property damage arising from or in connection with any accident, injury, or damage even if caused in part by the negligence of the indemnitee or its partners, directors, officers, agents, and employees occurring in, at, or upon an area under the

care, custody, and control of the indemnitor, together with all costs, expenses, and liabilities incurred or in connection with each such claim or action or proceeding brought thereon, including without limitation all attorney fees and expenses at trial and upon appeal.

SECTION 8 REPAIRS, MAINTENANCE, AND ALTERATIONS

8.1 Maintenance of Premises and Building

8.1.1 By Landlord. Landlord will repair, maintain, or replace, when necessary, the major structural and system components of the Premises, (major structural and system components do not include items such as, without limitation, basic fixtures or components such as faucets, light bulbs, switch plates, basic wiring repair for a unit, range hoods, etc. or items that do not materially add to the value of the Premises) including the Common Areas and the roof, foundation, exterior walls, interior structural walls, all structural components, and all systems (such as mechanical, electrical, HVAC, and plumbing) of or in the Building. Tenant expressly waives the benefits of any statute now or later in effect that would otherwise give Tenant the right to make repairs at Landlord's expense and deduct that cost from Rent owing to Landlord.

8.1.2 By Tenant. Except for Landlord Repairs set forth in Section 8.1.1, Tenant will (a) maintain all portions of the Premises and fixtures situated within and upon the Premises in good order and repair (i.e. fixing leaks, drywall, painting, fixing broken windows etc.); (b) repair and maintain as needed to comply with the Oregon Residential Landlord Tenant Act (ORS Chpt. 90) and comply with any other legal requirements; (c) to satisfy sublease obligations to residential subtenants; (d) maintain, repair, or replace, when necessary, all special equipment and decorative treatments installed by or at Tenant's request and that serve the Premises only; (d) make all necessary repairs and replacements to all portions of the Premises and pay Landlord for the repairs or replacements to the Building if any such repairs or replacements are needed because of Tenant's misuse or primary negligence; and, (e) not commit waste to the Premises, Building or Common Areas. If Tenant fails to perform Tenant's obligations under this Section or under any other Section of this Lease, then after ten (10) business days' prior written notice to Tenant, except in an emergency when no notice is required, Landlord may enter the Premises, perform the obligations on Tenant's behalf, and recover the cost of performance, together with interest at the Default Interest Rate as Additional Rent payable by Tenant with the next installment of Base Rent.

8.2 Condition of Premises upon Termination. Upon the termination of this Lease, Tenant will surrender the Premises to Landlord broom clean, in good condition and repair, except for ordinary wear and tear and for casualty damage. All or any of the alterations or improvements to the Premises chosen by Landlord (excluding trade fixtures installed by Tenant and Tenant's other personal property) will, at Landlord's option, either (a) become part of the Premises and belong to Landlord and will be surrendered with the Premises without disturbance upon the termination of the Lease or (b) be removed by Tenant before the termination of this Lease, in which event Tenant will repair all damage caused thereby. No later than sixty (60) days before the Expiration Date, Landlord will deliver written notice to Tenant of Landlord's exercise of the foregoing option. If Landlord fails to provide that notice, Landlord will be deemed to have elected clause (b) above.

8.3 Alterations

8.3.1 By Landlord. As long as the alteration or change does not materially interfere with Tenant's operation of its business in the Premises, Landlord may modify or alter any improvements in or upon the Premises, including the Building and Common Areas.

8.3.2 By Tenant. Unless Tenant obtains Landlord's prior written consent, which Landlord can withhold in its sole discretion, Tenant will not make or permit to be made any alterations or improvements (a) to the building envelopes, exteriors, structures, roofs, or electrical, mechanical, HVAC or plumbing systems of the Premises, (b) Capital Expenditures; (c) any work that cost in excess of Five Thousand Dollars (\$5,000), or (d) that require a building permit. If Landlord consents to Tenant's making any alterations or improvements, the same must be made at Tenant's sole expense, using a contractor first approved in writing by Landlord, and the same must be made in accordance with plans and specifications first approved in writing by Landlord and in accordance with all applicable Laws. Landlord may require a cash deposit or other reasonable security to assure Landlord that the cost of the alterations or improvements will be paid promptly when and as due to avoid any liens.

8.4 Trade Fixtures. Upon the termination of this Lease, Tenant will remove all trade fixtures, movable furniture, and equipment located on the Premises that belong to Tenant, and will repair at its expense any damage caused to the Premises by such removal. If Tenant fails to remove any such property, Landlord may either (a) retain the property and all rights of Tenant with respect to it will cease, the property being deemed abandoned, (b) require Tenant to remove the property, or (c) effect a removal and place the property in storage for Tenant's account. Tenant will be liable to Landlord for the cost or reasonable value of removal, restoration, transportation to storage, and storage, with interest on all such as expenses as provided in Section 1.26.4.

8.5 Entry and Inspection. Landlord or Landlord's agents or employees may enter the Premises at any time in the event of an emergency. Otherwise, after giving Tenant twenty-four (24) hours' prior oral notice, Landlord or Landlord's agents or employees may enter the Premises to determine Tenant's compliance with this Lease, to make necessary repairs, or to show the Premises to prospective tenants, lenders, or purchasers. On Landlord's request, Tenant will provide Landlord with keys to all doors at the Premises.

8.6 Maintenance of Common Areas. Tenant, at its expense, will keep the Common Areas neat, clean, and free of ice, snow, trash, and other debris and will maintain the Common Areas at all times during the Term in a state of good condition and repair (ordinary wear and tear and damage due to uninsured casualty and condemnation excepted) and, in any event, in compliance with the applicable standards with respect thereto, if any, that are set forth in the ECR (see Section 1.26.5).

SECTION 9 RECONSTRUCTION AND RESTORATION

9.1 Minor Damage. If, during the Term, the Premises are damaged by fire or other casualty covered by Landlord's insurance and the damage is not "substantial" as defined in Section 9.2, and if Landlord receives insurance proceeds therefor, Landlord will promptly repair the damage at Landlord's expense and Tenant will repair any damage to its property at its expense or using proceeds from the insurance described in Section 7.1.2, and this Lease will continue in full force and effect.

9.2 Substantial Damage. If, during the Term, twenty-five percent (25%) or more of the Premises is destroyed or damaged by fire or other casualty (such percentage being defined as

an amount exceeding twenty-five percent (25%) of its full construction-replacement cost), then Landlord or Tenant may elect to terminate this Lease by giving the other party written notice of the termination within sixty (60) days after the date of the damage. Otherwise, Landlord will promptly commence commercially reasonable action to restore the Premises to a condition comparable to that existing before the damage and will thereafter prosecute the restoration to completion with diligence. Tenant will cooperate with Landlord during the period of repair and will vacate all or any part of the Premises to the extent necessary for the performance of the required work. Landlord need not incur expenses for restoration in excess of the net insurance proceeds received by Landlord for that purpose after payment of all reasonable costs, expenses, and attorney fees incurred by Landlord in connection therewith.

9.3 Abatement of Rent. All rent will be abated during the period and to the extent the Premises are not reasonably usable for Tenant's use. If the damage does not cause any material interference with Tenant's use, there will be no Rent abatement.

9.4 Repair of Leasehold Improvements and Tenant's Property. Repair, replacement, or restoration of any of Tenant's fixtures, inventory, leasehold improvements, equipment, or personal property (the "Tenant's Personal Property") will be the responsibility of Tenant. If (a) Tenant's Personal Property is damaged or destroyed by fire or other casualty and (b) this Lease is not terminated as set forth in Section 9.2, Tenant will promptly commence the restoration and repair of Tenant's Personal Property to a condition comparable to that existing before the damage, and thereafter will prosecute the restoration and repair to completion with diligence.

SECTION 10 ASSIGNMENT AND SUBLETTING

Except for subleasing to residential subtenants which is expressly authorized by Landlord, Tenant will not (voluntarily or by operation of law) assign, transfer, mortgage, pledge, hypothecate, or encumber the Premises or Tenant's leasehold estate or sublet any portion of the Premises, or otherwise transfer any interest in the Premises (each of the foregoing being sometimes referred to as a "Transfer") without Landlord's prior written consent in each instance, which consent will not be unreasonably withheld. Landlord may condition its consent to a proposed Transfer on reasonable conditions, including without limitation an increase in Base Rent to the fair market rental value of the Premises. If Landlord withholds its consent to a proposed Transfer for any of the following reasons, the withholding will be deemed to be reasonable: (a) conflict, incompatibility, or duplication of the proposed use with other uses or restrictions in or pertaining to the Premises; (b) financial inadequacy or managerial inexperience of the proposed transferee; (c) any proposed change in use would diminish the reputation or profitability of the other businesses located in the Premises; (d) the unsuitability of percentage-rent clauses for the proposed transferee; (e) the proposed use would have an adverse impact on the use of the common facilities by other tenants of the Premises; (f) Tenant is then in default of the Lease or has been in default on two or more occasions during the twelve- (12-) month period preceding the date that Tenant requests the Transfer; (g) Tenant's failure to deliver to Landlord an assignment or sublease executed by Tenant and any assignee or sublessee in form and content reasonably acceptable to Landlord; and (h) any other reasonable criterion or requirement.

SECTION 11 CONDEMNATION

11.1 Entire or Substantial Taking. If more than fifteen percent (15%) of the Premises or more than twenty-five percent (25%) of the Common Areas are taken under the power of eminent domain, or if any taking renders the balance of the Premises unusable for Tenant's use, this Lease will terminate on notice by Landlord or Tenant to the other party as of the date the condemning authority takes possession. A sale by Landlord to any authority with power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, will be deemed a taking under the power of eminent domain under this Section 11.

11.2 Partial Taking. If any taking under the power of eminent domain does not result in a termination of this Lease pursuant to Section 11.1, the Base Rent payable under this Lease will be reduced, effective on the date the condemning authority takes possession, in the same proportion as the reduction in Gross Leasable Area of the Premises.

11.3 Awards. Landlord is entitled to any award for a taking of all or any part of the Premises under the power of eminent domain, whether the award is made as compensation for diminution in value of the leasehold or for taking of the fee. Tenant hereby assigns to Landlord all interest in any such award. Nothing in this Lease precludes Tenant from making a separate claim for the value of its lost trade fixtures, Personal Property, or moving expenses as long as any such claim or award resulting from the claim does not reduce Landlord's award.

SECTION 12 SIGNS

Tenant will not construct or install any signs, banners, or other advertising material visible from the exterior of the Premises without Landlord's prior written consent. Landlord's consent to such signage will not be unreasonably withheld.

SECTION 13 OTHER OBLIGATIONS OF PARTIES

13.1 Liens. Tenant will pay when and as due all claims for work done on the Premises or for services rendered or materials furnished to the Premises and will keep the Premises free from any liens other than liens created by Landlord. If Tenant fails to pay such a claim or to discharge any lien within thirty (30) days of demand, Landlord may either (a) pay the claim on behalf of Tenant and then collect that amount from Tenant as additional Rent or (b) obtain a bond covering the lien and collect all costs and expenses incurred in obtaining the bond, including attorney fees, from Tenant as Additional Rent. Amounts paid by Landlord will bear interest and be repaid by Tenant as provided in Section 14.3. Any action taken by Landlord as allowed in this Section will be in addition to any other right or remedy and will not constitute a waiver of any right or remedy Landlord may have because of Tenant's breach of this Lease.

13.2 Holding Over. If Tenant fails to vacate the Premises, remove Tenant's property, or restore the Premises as required by this Lease upon the expiration or earlier termination of this Lease, Landlord may, upon thirty (30) days' prior written notice to Tenant, either (a) treat Tenant as a tenant from month to month, subject to all the provisions of this Lease (except that the Term will be month to month and the Base Rent will be one-hundred-fifty percent (150%) of the Base Rent payable by Tenant immediately before the end of the Term), or (b) eject Tenant from the Premises and recover damages caused by the wrongful holdover.

13.3 Subordination. Any mortgage, deed of trust, or ground lease to which this Lease is, at the time referred to, subject and subordinate is called a "Superior Mortgage" and the holder of a Superior Mortgage, or its successor in interest, at the time referred to, is called the "Superior Mortgagee." This Lease and all rights of Tenant under it are subject to and subordinate to all

mortgages that may now or hereafter affect the Premises, whether or not the mortgages also cover other lands and buildings, to each and every advance under the mortgages, and to all renewals, modifications, replacements, and extensions of the mortgages. This Section is self-operative, and no further instrument of subordination will be required. In confirmation of this subordination, Tenant will promptly execute, acknowledge, and deliver any instrument that Landlord or any Superior Mortgagee may reasonably request to evidence the subordination.

13.4 Notice. If any act or omission of Landlord would give Tenant the right, immediately or after the lapse of a period of time, to cancel or terminate this Lease, or to claim a partial or total eviction, Tenant will not exercise that right until (a) it has given written notice of that act or omission to Landlord and each Superior Mortgagee whose name and address has previously been furnished to Tenant and (b) a reasonable period of time has passed to allow the Landlord and each such Superior Mortgagee to cure the condition.

13.5 Attornment. For purposes of this Section, the term *Successor Landlord* means any Superior Mortgagee who succeeds to the rights of Landlord under this Lease, whether through possession, foreclosure action, or delivery of a new lease or deed, or any third party who succeeds to the rights of Landlord under this Lease by virtue of having purchased the Premises at a foreclosure sale. The Successor Landlord will accept Tenant's attornment, assume Landlord's obligations under the Lease, and agree in writing to not disturb Tenant's quiet possession of the Premises. Tenant will attorn to and recognize the Successor Landlord as Tenant's Landlord under this Lease and Tenant and the Successor Landlord will promptly execute and deliver an instrument reasonably acceptable to the parties to evidence such attornment and nondisturbance agreement. Upon such attornment, this Lease will continue in full force and effect as a direct lease between the Successor Landlord and Tenant upon all the terms, conditions, and covenants set forth in this Lease except that the Successor Landlord will not be (a) liable for any previous act or omission of Landlord under this Lease; (b) subject to any offset, deficiency, or defense that has accrued to Tenant against Landlord; (c) bound by any previous modification of this Lease or by any previous prepayment of more than one (1) month's Base Rent, unless the Superior Mortgagee expressly approved of the modification or prepayment in writing; or (d) liable for the return of any security deposit that was not actually transferred to the Successor Landlord.

13.6 Landlord's Liability; Sale. Landlord's liability under this Lease will be limited to Landlord's interest in the Premises, and any judgment against Landlord will be enforceable solely against Landlord's interest in the Premises. If the original Landlord under this Lease, or any successor owner of the Premises, sells, conveys, or otherwise transfers its interest in the Premises, all liabilities and obligations on the part of the original Landlord, or such successor owner, under this Lease accruing thereafter will terminate. All liabilities and obligations of Landlord accruing thereafter will be binding on the new owner. Tenant agrees to attorn to such new owner.

13.7 Estoppel Certificate. Within ten (10) days after written request by either party to the other, the requested party will deliver a written statement to the requesting party stating (a) the amount of all Base Rent, and the date to which the Base Rent and other charges have been paid, (b) whether the Lease is unmodified and in full force and effect, (c) whether the party knows of any current default by the other party and a description of any such default, and (d) any other matters that may reasonably be requested by the requesting party or by any prospective lender or purchaser.

13.8 Rules and Regulations. Tenant agrees to comply with all rules, regulations, and requirements for the Premises, as adopted and modified by Landlord from time to time at Landlord's sole and exclusive discretion (the "Rules and Regulations"), and to cause Tenant's contractors, employees, agents, and invitees to abide by the Rules and Regulations. The Rules and Regulations applicable to the Premises as of the date of this Lease are attached to this Lease as Exhibit D. Tenant agrees that Landlord will not be responsible to Tenant for the noncompliance by any residential subtenant or occupant of the Premises with the Rules and Regulations.

13.9 Covenant of Quiet Enjoyment. Landlord covenants that, as long as no event of default has occurred that remains uncured beyond any applicable cure period allowed by this Lease, Tenant will peaceably and quietly have, hold, and enjoy the Premises during the term of this Lease without any interruption or disturbance from Landlord or any party claiming, by, through, or under Landlord, subject to the terms and conditions of this Lease.

SECTION 14 DEFAULTS AND REMEDIES

14.1 Default. The following events constitute events of default:

14.1.1 Payment Default. Tenant fails to pay any Base Rent, or Additional Rent, or any other amount due under this Lease, within three (3) days after receiving notice that the same is past due. No notice and no opportunity to cure will be required if Landlord has previously given Tenant notice of failure to make any such payment required by this Lease two (2) or more times in any twelve- (12-) month period during the Term.

14.1.2 Unauthorized Transfer. Tenant makes any Transfer of Tenant's interest in this Lease, including any assignment or subletting of it, without Landlord's prior written consent as required by Section 10.

14.1.3 Abandonment of Premises. Tenant fails to occupy or use the Premises for the purposes described in Section 1.8 for a total of 60 or more consecutive calendar days during the Term, unless such failure is excused under any other provision of this Lease.

14.1.4 Default in Certain Covenants. Tenant fails to deliver the instruments described in Section 13.4 or 13.6 within five (5) days after receiving written notice from Landlord after the expiration of the time for delivery required in Section 13.4 or 13.6, as applicable, or Tenant fails to comply with any applicable Law when and as required by the applicable governmental authority.

14.1.5 Default in Other Term or Covenant. Tenant fails to comply with any other term, covenant, or condition of this Lease or to fulfill any other obligation of this Lease within twenty (20) days after written notice by Landlord specifying the nature of the failure with reasonable particularity. No notice and no opportunity to cure will be required if Landlord has previously given Tenant notice of failure to comply with such term or condition or to fulfill such other obligation of this Lease two or more times in any twelve-month period during the Term.

14.1.6 Insolvency Defaults. (a) Dissolution, termination of existence, insolvency on a balance-sheet basis, or business failure of Tenant; (b) Tenant's commencement of a voluntary case under the federal bankruptcy laws or under any other federal or state law relating to insolvency or debtor's relief; (c) the entry of a decree or order for relief against Tenant in an involuntary case under the federal bankruptcy laws or under any other applicable federal or state law relating to insolvency or debtor's relief; (d) the appointment of or the consent by Tenant to the appointment of a receiver, trustee, or custodian of Tenant or of any of Tenant's property; (e)

an assignment for the benefit of creditors by Tenant; (f) Tenant's failure generally to pay its debts as they become due; (g) Tenant's making or suffering a fraudulent transfer under applicable federal or state law; (h) Tenant's concealment of any of its property in fraud of creditors; or (i) the imposition of a lien through legal proceedings or restraint upon any of the property of Tenant which is not discharged or bonded. During any period in which there is a Guarantor of this Lease, each reference to "Tenant" in this paragraph will be deemed to refer to "Guarantor" or "Tenant" separately.

14.2 Remedies upon Default. Upon any default, Landlord may exercise any one or more of the following remedies, or any other remedy available under applicable law:

14.2.1 Retake Possession. (a) To the extent permitted by law, Landlord may reenter and retake possession of the Premises, without notice, either by summary proceedings or by any other applicable action or proceeding [, or by other means, including self help].

(b) Upon retaking possession of the Premises, Landlord may use the Premises for Landlord's own purposes or relet the Premises on any reasonable terms without prejudice to any other remedies that Landlord may have by reason of Tenant's default. None of these actions will be deemed an acceptance of surrender by Tenant. To the extent permitted by law, and except as expressly provided in this Lease, Tenant waives the service of (i) any notice of intention to terminate this Lease or to retake the Premises, (ii) any demand for payment of Rent or for possession, and (iii) any and every other notice or demand required or permitted under applicable law.

14.2.2 Relet the Premises. Landlord at its option may relet the whole or any part of the Premises, from time to time, either in the name of Landlord or otherwise, to any tenants, for any terms ending before, on, or after the expiration date of the Term, at any rentals, and on any other conditions (including concessions and free-rent periods) that Landlord, in its sole discretion, determines to be appropriate. Landlord is to use commercially reasonable efforts to mitigate any damages incurred by Landlord as a result of any default by Tenant. However, no failure to mitigate damages by Landlord will operate to relieve Tenant of any liability under this Lease or otherwise affect Tenant's liability. If other comparable and unleased space exists in the Premises, Landlord will have no obligation to attempt to relet the Premises before leasing other space in the Premises.

14.2.3 Damages for Default. Whether or not Landlord retakes possession of or relets the Premises, Landlord may recover all damages caused by the default (including but not limited to unpaid Rent, attorney fees reasonably incurred, all costs of reletting the Premises, the unamortized cost of improvements installed by Landlord for Tenant, and broker commissions) together with interest thereon at the Default Interest Rate. Landlord may sue periodically to recover damages as they accrue during the remainder of the Term without barring a later action for further damages. Landlord may at any time bring an action seeking accrued damages plus damages for the remaining Term as allowed by Law.

14.3 Cure of Tenant's Default. Without prejudice to any other remedy for default, Landlord may perform any obligation of Tenant or make any payment required by Tenant under this Lease if Tenant fails to do so. On demand, Tenant will immediately reimburse Landlord for Landlord's costs of such performance, including reasonable attorney fees and all disbursements, together with interest at the Default Interest Rate from the date of expenditure until fully paid.

SECTION 15 SECURITY DEPOSIT

Upon execution of this Lease, Tenant will deposit with Landlord the sum set forth in Section 1.21 (the "Security Deposit"), as security for Tenant's full and faithful performance of every provision of this Lease. If Tenant is in default of any provision of this Lease, Landlord may, but will not be obligated to, apply all or any part of the Security Deposit to remedy the default. If any portion of the Security Deposit is so applied, Tenant must immediately deposit with Landlord cash in an amount sufficient to restore the Security Deposit to its original amount. Landlord may commingle the Security Deposit with Landlord's funds, and Tenant will not be entitled to interest on the Security Deposit. If Tenant fully and faithfully performs every provision of this Lease, the Security Deposit or any remaining balance of it will be returned to Tenant within thirty (30) days after the expiration of the Term.

SECTION 16 LANDLORD'S AND TENANT'S WORK

Landlord will perform the work described as Landlord's Work, if any, as set forth in the attached Exhibit C; but, the completion of Landlord's Work is not a condition precedent to commencement of the tenancy, this Lease or the obligation to pay rent.

SECTION 17 MISCELLANEOUS

17.1 Waivers. No waiver by either party of performance of any provision of this Lease will be deemed to be a waiver of nor prejudice such party's right to otherwise require performance of the same provision or any other provision.

17.2 Recording. Tenant will not record this Lease or any memorandum of it without Landlord's prior written consent, which consent Landlord may withhold in its sole discretion.

17.3 Notices. All notices, demands, consents, approvals, and other communications provided for in this Lease will be invalid unless set forth in writing and delivered by facsimile transmission, email, overnight air courier, personal delivery, or registered or certified U.S. mail with return receipt requested to the appropriate party at its address as set forth in Section 1.6 for Tenant and Section 1.3 for Landlord. Addresses for notices may be changed from time to time by written notice to all other parties. Any communication given by email transmission must be confirmed within forty-eight (48) hours by mail. Any communication given by mail will be considered received on the earlier of (a) forty-eight (48) hours after deposit in the U.S. mail, with postage prepaid, or (b) actual receipt, as indicated by the return receipt. Any communication given by facsimile and email transmission will be considered received when sent. Any communication given by personal delivery or by overnight air courier will be considered received when delivered.

17.4 Exhibits. The Exhibits listed in Section 1.25 are attached to and made a part of this Lease as if they had been set forth in full in this Lease.

17.5 Construction of Lease Provisions. (a) This Lease is to be construed and governed by the laws of the state of Oregon; (b) the invalidity or nonenforceability of any provision of this Lease will not affect or impair any other provision in it; (c) this Lease constitutes the entire agreement of the parties and supersedes all prior agreements or understandings between the parties with respect to the subject matter of it; (d) this Lease may not be modified or amended except by written agreement signed by both parties; (e) if there is more than one tenant, the obligations imposed by this Lease on Tenant will be joint and several; (f) time is of the essence of this Lease and each and every provision of it; (g) nothing contained in

this Lease creates a principal-and-agent relationship, a partnership, or a joint venture between the parties to it, and no provisions contained in this Lease may be deemed to create any relationship other than that of landlord and tenant; (h) any provision of this Lease that does not require full performance before the expiration or earlier termination of this Lease will survive the expiration or earlier termination of this Lease and will be fully enforceable thereafter; (i) no representations have been made by Landlord or its agents and the parties have no understandings other than those set forth in this Lease; (j) upon delivery of possession of the Premises to Tenant, Tenant will be deemed to have measured the Premises and to have agreed that calculations of the Gross Leasable Area of the Premises, Building, and Premises are accurately set forth in the Basic Lease Provisions; and (k) no recalculation of square footage will affect the obligations of Tenant under this Lease including without limitation the amount of Base Rent, or Additional Rent payable by Tenant.

17.6 Successors. Subject to any limitations on assignments set forth in this Lease, all provisions of this Lease will inure to the benefit of and be binding on the successors and assigns of the parties to this Lease.

17.7 Attorney Fees in Suit or Action; Waiver of Jury Trial

17.7.1 Attorney Fees. If any suit or action is instituted to interpret or enforce any term or provision of this Lease, the prevailing party will be entitled to recover from the other party such sum as the court may adjudge reasonable as attorney fees at trial, on petition for review, or on appeal, in addition to all other sums provided by law.

17.7.2 Waiver of Jury Trial. THE PARTIES EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY ACTION OR PROCEEDING BROUGHT BY EITHER PARTY OR ANY OTHER PARTY RELATING TO (A) THIS LEASE OR ANY UNDERSTANDINGS OR PRIOR DEALINGS BETWEEN THE PARTIES TO THIS LEASE, OR (B) THE PREMISES, THE BUILDING, OR THE PREMISES OR ANY PART THEREOF.

17.8 Dispute Resolution

17.8.1 Disputes Subject to Arbitration. Any dispute between the parties relating to the interpretation of their rights and obligations under this Lease must be resolved solely by arbitration in accordance with the provisions of this Section 17.8. **NOTWITHSTANDING THE FOREGOING, SECTION 17.8 WILL NOT APPLY TO ANY DISPUTE CONCERNING THE PAYMENT OF RENT.**

17.8.2 Arbitration. Any dispute between the parties that is to be resolved by arbitration as provided in this Section 17.8 must be settled and decided by arbitration conducted in accordance with the rule of the Arbitration Service of Portland, Inc., as then in effect (the "Arbitration Rules"), except as provided below. Any such arbitration must be held and conducted in the city or county in which the Premises is located, before one (1) arbitrator who will be selected by mutual agreement of the parties; if agreement is not reached on the selection of such arbitrator within fifteen (15) days of receipt of a written demand for arbitration as set forth below, then an arbitrator is to be appointed by the presiding judge of the Circuit Court of the County in Oregon in which the Premises is located. The provisions of the Arbitration Rules will apply to and govern the arbitration subject, however, to the following:

(a) Any demand for arbitration must be in writing and must be made within ninety (90) days after the claim, dispute, or other matter in question arose. The arbitration proceeding must commence within thirty (30) days after the arbitrator is appointed, and all document

exchange and other discovery of evidence must be completed within twenty (20) days after that appointment.

(b) The arbitrator appointed must be a former or retired judge or practicing attorney with at least ten (10) years' experience in real property and commercial matters. The arbitrator will resolve the controversy in accordance with the Arbitration Rules, applicable law, and the terms and conditions of this Lease. Thereafter, the arbitrator will prepare in writing and provide to the parties his or her decision, including factual findings and reasons on which the decision is based.

(c) The arbitration proceeding must be conducted and completed within five (5) days after its commencement and the arbitrator's decision must be made within sixty (60) days after the date of receipt of the written demand for arbitration.

(d) The arbitrator must award the prevailing party its reasonable attorney fees, expert and nonexpert witness costs and expenses, and other costs and expenses incurred in connection with the arbitration, unless the arbitrator, for good cause, determines otherwise.

(e) The nonprevailing party is responsible for paying the arbitrator's costs and fees.

(f) The arbitrator's decision, which may include equitable relief, will be final and judgment may be entered on the decision in accordance with applicable law in any court having jurisdiction over the matter.

17.9 Hazardous Materials; Indemnities

17.9.1 Landlord Warranty. Landlord warrants and represents to Tenant that as of the date of this Lease, Landlord has no actual knowledge of the existence of any Hazardous Materials on, in, or under the Premises above the legally permitted background levels other than as previously disclosed to Tenant in writing.

17.9.2 Landlord's and Tenant's Representations. Landlord and Tenant each warrant and represent to the other that at no time during Tenant's occupancy of the Premises will either party store, or use, or permit the storage or use on, in, or under the Premises of any Hazardous Materials. Notwithstanding the foregoing, each party consents to the prudent use by the other party and other occupants of normal and customary chemicals and substances (including Hazardous Materials) applied in accordance with sound practices in the use of the Premises in quantities and in accordance with all Laws. Landlord and any occupant who uses any Hazardous Materials, including Tenant, will properly store and dispose of all Hazardous Materials as approved or authorized by Law and will not store or dispose of any Hazardous Materials on the Premises.

17.9.3 Landlord's Indemnity. Landlord agrees to indemnify and hold Tenant harmless from and against all costs, including attorney fees and court costs, incurred during the cleanup and restoration of the Premises in regard to all Hazardous Materials in or under the Premises that preexisted the Lease Commencement Date and that were not deposited on the Premises by Tenant and any Hazardous Materials deposited on the Premises subsequent to the commencement of this Lease by Landlord and its employees and agents.

17.9.4 Tenant's Indemnity. Tenant hereby agrees to indemnify and hold Landlord harmless from and against all costs, including attorney fees and court costs, incurred in the cleanup and restoration of the Premises resulting from (a) any Hazardous Materials brought onto the Premises by Tenant or its agents, employees, contractors, or invitees and any contamination by Hazardous Materials that results, directly or indirectly, from the use of the Premises by Tenant; and (b) any and all claims for liability, loss, damages, or expenses (including attorney

fees) suffered by Landlord in connection with the existence of Hazardous Materials on the Premises, including in the soil or groundwater underlying or adjacent to the Premises and in the water, sewage, and drainage systems connected to and within the Premises, to the extent that such hazardous materials were deposited, discharged, or stored on or about the Premises by Tenant or its employees, agents, contractors, or invitees.

17.10 Force Majeure. Whenever this Lease prescribes a period of time for action to be taken by a party, that party will not be liable or responsible for, and the computation for the period of time will exclude, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, acts of terrorism, Laws, or any other causes of any kind whatsoever that are beyond the reasonable control of the party. This provision will not be applicable to excuse any delay in the payment of Rent or any other money owed by Tenant to Landlord.

17.11 Authority. The persons executing this Lease on behalf of Landlord and Tenant each hereby covenant and warrant that the execution of this Lease is duly authorized by the party executing this Lease, that such party is qualified to do business in Oregon, and that the person signing on behalf of each party was duly authorized by that party to bind that party to this Lease.

17.12 No Offer. This Lease is submitted to Tenant based on the understanding that such submittal is not an offer and will not bind Landlord in any way until (a) Tenant has duly executed and delivered duplicate originals of this Lease to Landlord and (b) Landlord has executed and delivered one of such originals to Tenant.

The parties have executed this Lease to be effective on _____, 20____.

Landlord: _____

By: /s/ _____

Its: /s/ _____

Tenant: _____

By: /s/ _____

Its: /s/ _____

Exhibit A
Legal Description of the Premises

LEGAL DESCRIPTION

See Exhibit A-1.

GENERAL INFORMATION

Name: Hawthorne Villa Apartments
Property Type: Multi-Family (Garden/Low Rise) LIHTC Apartments
Address: 7705 SW Pfaffle Street
Tigard, Oregon 97223

Assessor's Parcel #: R282429
Census Tract No.: 306.00

Site Description:

USABLE AREA	EXCESS AREA	SURPLUS AREA	GROSS AREA
SF ACRES	SF ACRES	SF ACRES	SF ACRES
207,346 4.76	0 0.00 0	0.00	207,346 4.76

Zoning: Medium-Density Residential (R-12)

Improvement Description:

No. of Total Buildings: 9 (8 one and two-story apartment buildings and 1 single-family home that is used as a leasing office and manager's unit)
Number of Units: 118
Amenities: Laundry rooms, storage units, and leasing office. Several landscaped courtyards on the property.

EXHIBIT "A"
LEGAL DESCRIPTION

PARCEL I:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648; thence South 89°49' East, 85.0 feet along the North line of that tract conveyed in Deed Book 279, Page 648 to the Northeast corner of said tract and true point of beginning of tract herein described; thence South 89°49' East, 25.0 feet; thence North 0°11' East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Washington County Records, 173.66 feet; thence South 88°17' East, 96 feet to the East line of said Cason tract; thence South 0°11' West along the East line of said Cason tract, 315.0 feet to the Southeast corner thereof; thence North 88°17' West along the South line of said Cason tract, 121.6 feet to the Southeast corner of that tract conveyed in Deed Book 279, Page 648; thence North 0°11' East along the East line of that tract conveyed in Deed Book 279, Page 648, 141.34 feet, more or less to the true point of beginning, all situated in Washington County, Oregon.

PARCEL II:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648, and the true point of beginning herein described; thence South 89°49' East, 110.0 feet to a point; thence North 0°11' East, parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Washington County Records, 173.66 feet to a point; thence North 88°37' West, 110.0 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 173.66 feet to the true point of beginning.

PARCEL III:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1204.0 feet to an iron pipe, said iron pipe marking the Northwest corner of that tract conveyed in Deed Book 279, Page 648; thence South 89°49' East, 85.0 feet along the North line of that tract conveyed in Deed Book 279, Page 648 to the Northeast corner thereof; thence South 89°49' East, 25.0 feet; thence North 0°11' East parallel with the East line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Washington County Records, 173.66 feet; thence South 88°17' East, 51.0 feet to the true point of beginning of the herein described premises; thence continuing South 88°17' East, 45.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 90.0 feet; thence North 88°17' West, 45.0 feet; thence South 0°11' West, 90.0 feet to the true point of beginning.

PARCEL IV:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 1030.34 feet to a point on the West line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Records of Washington County, being the Westerly Northwest corner of that tract described in Mortgage recorded October 29, 1968 in Book 722, Page 520, Records of Washington County and the true point of beginning of the herein described premises; thence South 88°17' East, 161.6 feet; thence North 0°11' East, 90.0 feet; thence South 88°17' East, 45.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 171.34 feet to a point; thence North 88°17' West, 65.00 feet to a point; thence South 0°11' West, 75.0 feet to a point; thence North 88°17' West, 141.6 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 186.34 feet to the true point of beginning.

PARCEL V:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 844.0 feet to a point on the West line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Records of Washington County, being the Westerly Northwest corner of the first tract described in Mortgage recorded February 4, 1969 in Book 732, Page 58, Records of Washington County and the true point of beginning of the herein described property; thence South 88°17' East, 141.6 feet to a point; thence North 0°11' East, 75.0 feet to a point; thence South 88°17' East, 65.0 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 113.66 feet to a point; thence North 88°17' West, 206 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 190 feet to the true point of beginning.

PARCEL VI:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary line of said Donation Land Claim; thence South 0°11' West, 654.0 feet to a point on the West line of that tract described in deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Records of Washington County, being the Northwest corner of the first tract described in Mortgage recorded in Book 745, Page 285, Records of Washington County and the true point of beginning of the herein described property; thence South 88°17' East, 206 feet to a point on the East line of said Cason tract; thence North 0°11' East along said East line, 186.0 feet to a point; thence North 88°17' East, 206 feet to a point on the West line of said Cason tract; thence South 0°11' West along said West line, 186.0 feet to the true point of beginning.

PARCEL VII:

A part of the George Richardson Donation Land Claim in the Northeast quarter of the Southwest quarter of Section 36, Township 1 South, Range 1 West of the Willamette Meridian, in the City of Tigard, County of Washington and State of Oregon, described as follows:

BEGINNING at the Northwest corner of the George Richardson Donation Land Claim, situated in Section 36, Township 1 South, Range 1 West, Willamette Meridian; thence South 89°00' East, 1887.60 feet to a point in the Northerly boundary

line of said Donation Land Claim; thence South $0^{\circ}11'$ West, 290 feet to a point, said point being the Southwest corner of a tract conveyed to Oscar Sidler and Grace Sidler by deed recorded November 28, 1911 in Deed Book 90, Page 45, and the true point of beginning; thence South $0^{\circ}11'$ West, 178 feet to a point on the West line of that tract described in a deed to Leonard E. Cason, et al, recorded January 16, 1968 in Book 677, Page 139, Records of Washington County, being the Northwest corner of the first tract described in Mortgage recorded May 19, 1971 in Book 818, Page 167, Records of Washington County; thence South $88^{\circ}17'$ East, 206 feet to a point on the East line of said Cason tract; thence North $0^{\circ}11'$ East along said East line, 178 feet to the South line of said Sidler tract; thence North 89° West along the West line of said Sidler tract, 206.0 feet to the true point of beginning. .

AERIAL PHOTOGRAPH

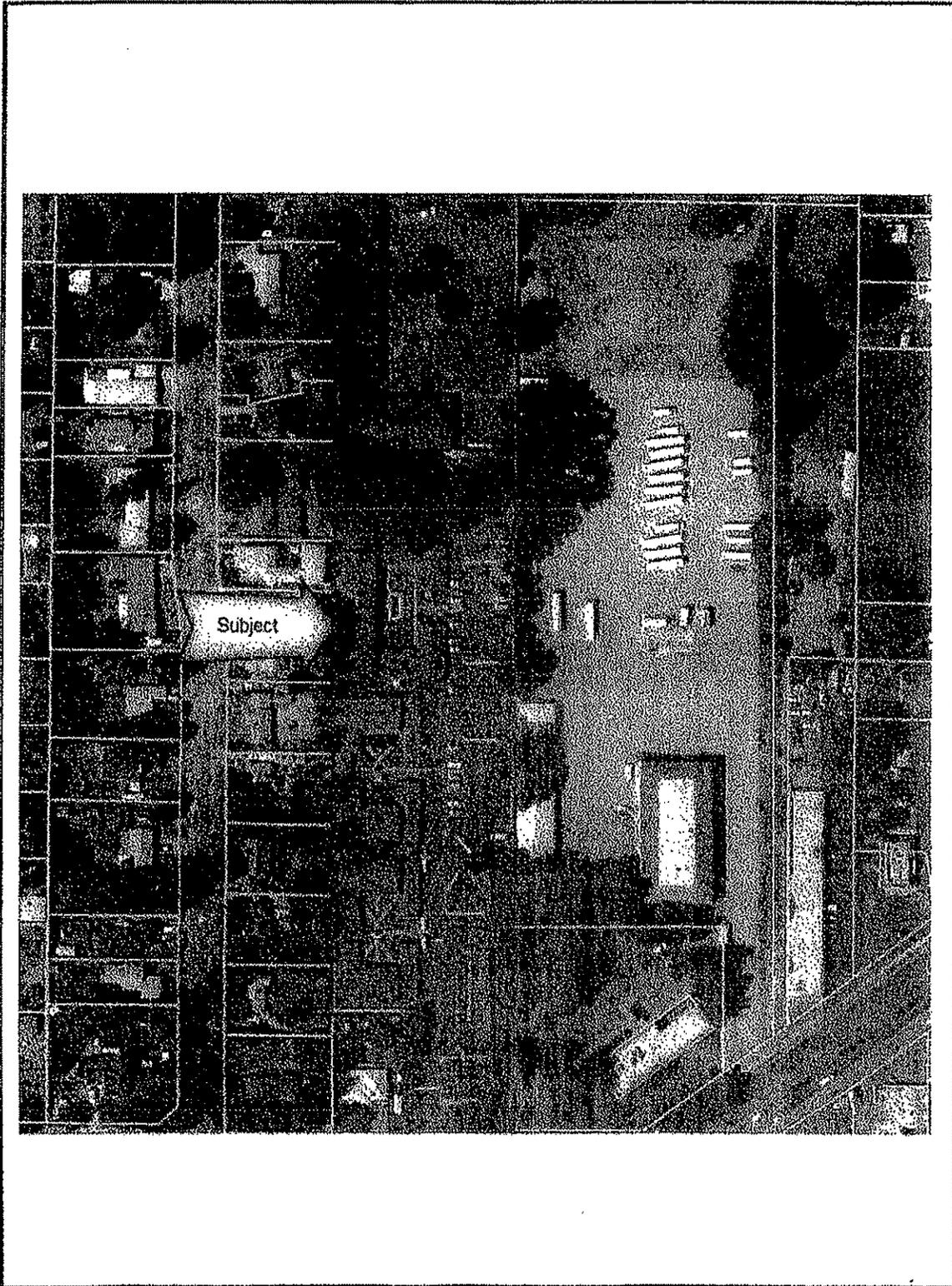


Exhibit B-1
Page 1 of 1

SUBJECT PROPERTY PHOTOGRAPHS



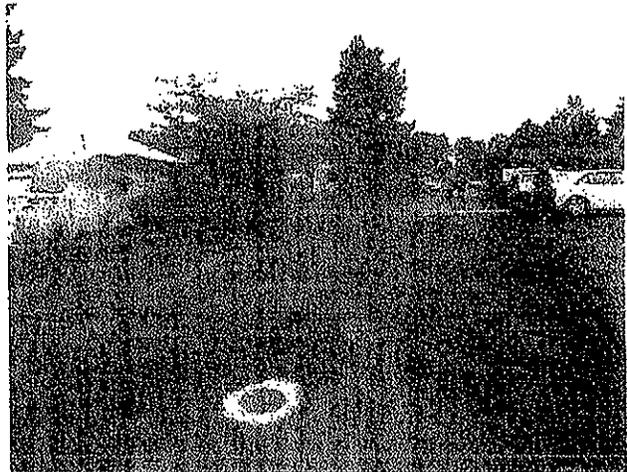
Typical one and two-story exterior



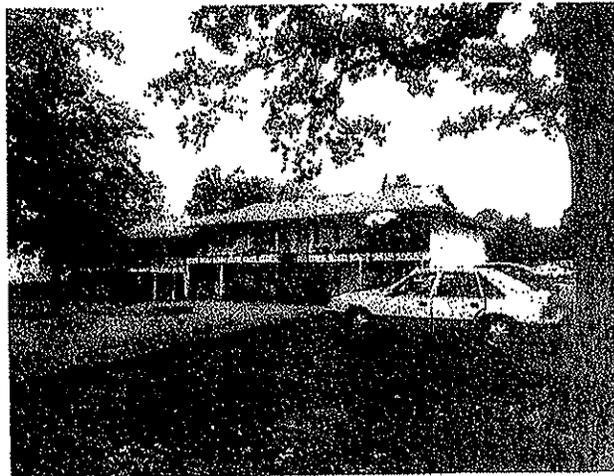
Courtyard with additional exterior view



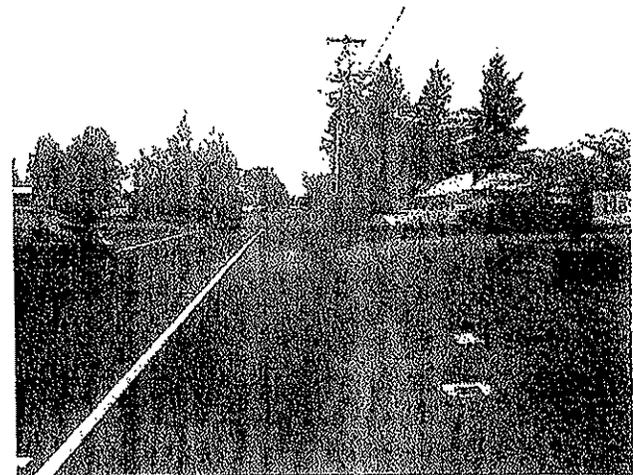
Entry to leasing office/manager's unit



Entry driveway



Two-story building (studios) w/ surface parking spaces

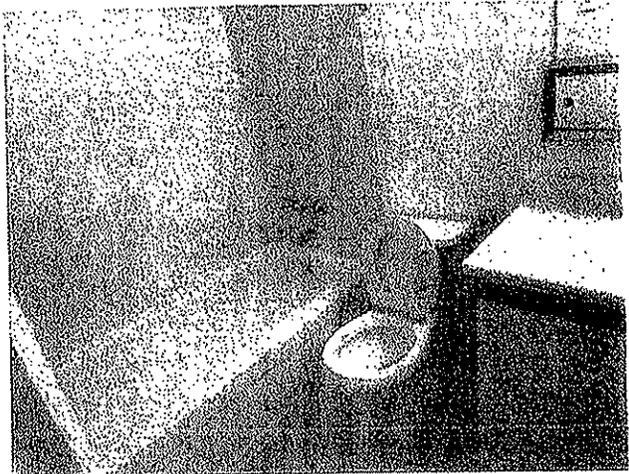


Street Scene: View west along Pfaffle Street

Exhibit B-2
Page 1 of 3



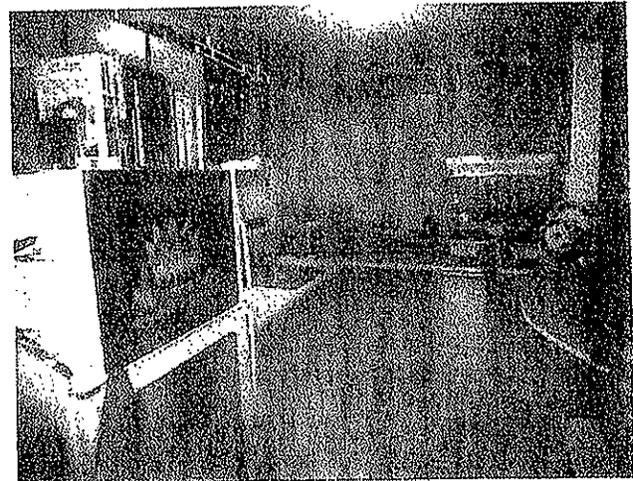
Typical bedroom



Bathroom



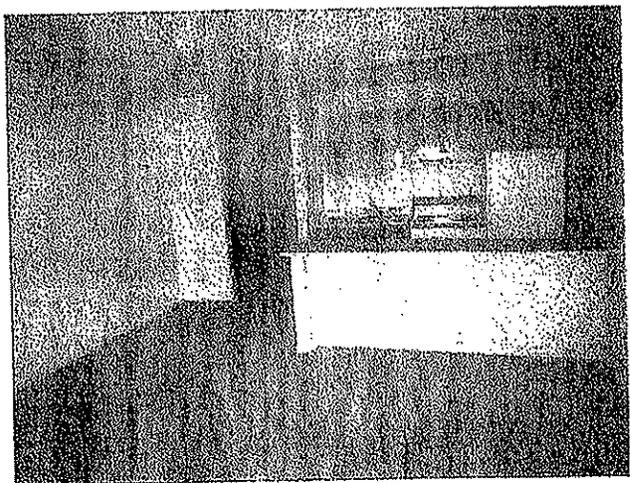
Kitchen and dining room area



Alternate kitchen view

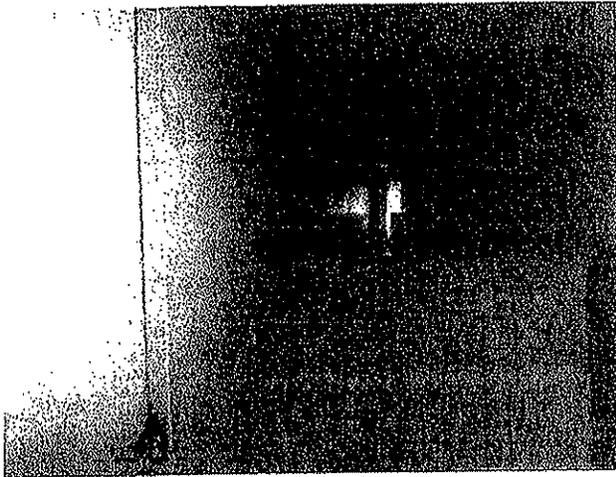


Typical living room



View of the studio from the entryway

Exhibit B-2
Page 2 of 3



Storage units



Laundry room



Common water heaters for studios



Stairwell and entry to studio units



Example of aging roof



View of parking and building exterior

Exhibit B-3
Page 3 of 3

Exhibit C

WORK LETTER

SECTION 1 IMPROVEMENTS PROVIDED BY LANDLORD

Landlord will provide the following improvements at the Premises at Landlord's expense ("Landlord's Work") as well as the permits for them:

Hawthorne Interior Improvements	Units
	118
Budget	
Interior Water Meter @ \$750 per units	\$ 88,500
Replace appliances	\$ 118,000
Interior painting @ \$600 per units	\$ 70,800
Replace interior carpet and vinyl @1200	\$ 141,600
Replace interior in exterior door \$1200 per unit	\$ 94,400
Contingency	<u>\$ 50,000</u>
TOTAL	\$ 563,300

Exhibit D

RULES AND REGULATIONS

The following Rules and Regulations will remain in full force and effect until Tenant is notified in writing by Landlord of any changes or amendments to them:

(1) Landlord reserves the right to require Tenant to discontinue any display or demonstration in or from the Premises that, in Landlord's sole opinion, interferes with the use of the public passageways of the Premises or constitutes a nuisance or an unhealthy or unsafe condition.

(2) At all times Tenant must maintain an adequate number of suitable fire extinguishers in good working order in the Premises for use in the event of local fires, including electrical or chemical fires.

(3) Tenant must immediately notify Landlord of any breakage, injury, fire, or disorder coming to its attention that occurs in or about the Premises or any of the Common Areas.

(4) Tenant may not permit the use in the Premises of any device or instrument that is intended to be audible or visible beyond the confines of the Premises, such as a sound-reproduction system, television set, phonograph, or radio, or excessively bright, changing, flashing, flickering, moving, or neon lights, or other lighting devices or any similar devices, nor may Tenant permit any act or thing on the Premises that is disturbing to normal sensibilities or other tenants in the Premises.

(5) Tenant may not, at any time, place any security gate or grille in front of the entrance doors or storefront of the Premises.

(6) Landlord will not be responsible to Tenant for the nonobservance or violation of any of these Rules and Regulations.

(7) Tenant is responsible for furnishing and installing all light bulbs for the Premises.

(8) Landlord may, upon Tenant's written request, waive Tenant's compliance with any of the foregoing Rules and Regulations but (a) no waiver will be effective unless signed by Landlord or Landlord's authorized agent, (b) any such waiver will not relieve Tenant from the obligation to comply with such Rule or Regulation in the future unless expressly consented to by Landlord, and (c) no waiver granted to Tenant will relieve any other tenant from the obligation of complying with the foregoing Rules and Regulations, unless the other tenant has received a similar waiver in writing from Landlord.

(9) The term *Tenant* as used in these Rules and Regulations means, in addition to the Tenant under the Lease, any sublessee, assignee, agent, servant, contractor, employee, invitee, or licensee of Tenant. All said parties must comply with these Rules and Regulations.

**Exhibit E
Confirmation Letter**

[date]

[name]

[address]

Dear _____:

Re: _____ (the "Premises")

CONFIRMATION LETTER AGREEMENT

As you know, on _____, 2012, _____, a _____, as Landlord, and _____, a _____, as Tenant, entered into a Lease for the above-referenced real property.

In Section 3.1 of that Lease, the parties agreed that once the Lease Commencement Date (as defined in the Lease) and certain other matters were determined, the parties would enter into a letter agreement confirming those matters.

Therefore, by execution of this letter, Landlord and Tenant confirm the following facts:

(1) The Lease Commencement Date is _____, 2012, Tenant has accepted the Premises, and the Premises are in the condition required by the Lease.

(2) The date that Landlord delivered possession of the Premises to Tenant is _____, 2012.

(3) The Rent Commencement Date is _____, 2012.

(4) The date that payment of Base Rent commences is _____, 2012.

(5) The date that payment of Operating Expense commences is _____, 2012.

(6) The Expiration Date is _____, 2017.

Please execute and date the enclosed copy of this letter in the space provided for that purpose and return it to me at your earliest convenience.

Thank you for your prompt attention to this matter.

Very truly yours,

/s/ _____

[name]

[title]

Attachment/Ex. _____

REVIEWED AND AGREED TO on _____, 2012.

[COMPANY'S NAME]

By: /s/ _____

Name: _____

Title: _____

Exhibit F
ADDENDUM

N/A as of 3.1.12

ASSESSMENT & TAX INFORMATION

The subject's assessed values and property taxes for the current year are summarized in the following table. According to the Washington County Tax Assessor, the subject is currently "specially" assessed and is currently fully tax exempt. Please note that it is unknown whether the subject property would remain tax exempt under the current potential buyer (discussed ahead).

TAX INFORMATION (2010/2011 Tax Year)						
APN	RMV			Assessed Total	2010/2011 Taxes	Millage Rate
	RMV Land	Imp./Other	RMV Total			
R282429	\$1,666,000	\$2,721,470	\$4,387,470	\$2,721,470	\$0	\$0.000
Total	\$1,666,000	\$2,721,470	\$4,387,470	\$2,721,470	\$0	

Assessment & Taxation Description - In Oregon, Measure 50 was passed in the May 20, 1997 special election. This measure establishes the maximum assessed value of property in Oregon for the 1997/1998 tax year as 90% of the property's real market value in the 1995/96 tax year. Any increases in assessed value for tax years following 1997/1998 are limited to 3% per year. Assessed value will be adjusted for new property or property improvements and certain other events. Certain local option taxes are permitted, if approved by voters. Measure 50 retains the existing total property tax rate for all property taxes, including local option taxes but excluding taxes for bonds at \$5 per \$1,000 of value for schools and \$10 per \$1,000 of value for non-school government. The subject property is not encumbered by bonds.

Estimated Property Taxes - The subject's current ownership group is a non-profit and the subject property is currently tax exempt. Because the buyer is a "for-profit" entity it is unknown whether the county will continue to fully abate real estate taxes and the change in ownership may trigger a full project reassessment; however, it is likely that the subject would receive a special assessment at a reduced tax liability, due to its status as an LIHTC project. Although tax comparables are not used by the assessor's office, for the purposes of estimating taxes for this analysis, the real estate taxes of the LIHTC expense comparables used in this report are presented below to provide a sample of range of taxes on a per unit basis:

TAX COMPARABLES (FROM EXPENSE COMPARABLES)						
	Subject	Comp. 1	Comp. 2	Comp. 3	Comp. 4	Comp. 5
Year Built	1969	1997	1992	1992	1991	1993
No. Units	118	124	104	114	54	210
Per Unit		\$0	\$241	\$670	\$219	\$513

Additionally, the Washington County Assessor's Office was contacted to assist in estimating taxes. According to Veronica with special assessment section, the subject began receiving special assessment in 2005. Additionally, the taxes at that time were \$37,544.83 (\$318/unit). The Assessor's Office warned that if the property was reassessed a full appraisal would be triggered without regard to previous taxes; however, this analysis considers the previous taxes as a reasonable guideline for potential taxes and uses a typical 3% tax growth per year from the 2004-2005 taxes. Therefore, the 2010-2011 taxes would be \$44,830 or \$379/unit, which seems reasonable based on the comparables as well.

Based on the above range of the comparables and the discussion with subject's continued status as a low-income housing project this analysis estimates taxes at \$44,250 or \$375 per unit.

Based on information provided by the buyer via phone, Veronica with the County Assessor stated that it is likely the full tax exemption would continue, but paperwork would need to be filed after the sale.

Discussion of Rental Adjustments

Adjustments for differences between the subject property and the comparables can be made quantitatively or qualitatively. Adjustments for some differences can be derived from the market and are addressed in the Quantitative Adjustments paragraph. Other items for which dollar adjustments are more difficult to derive are addressed in the Qualitative Adjustments paragraph.

Quantitative Adjustments - The subject property and the comparables vary to some degree in terms of project amenities, unit amenities, parking, laundry, and utilities. The following grid illustrates the quantitative adjustments applied to the comparables (when necessary) in order to make the comparables similar to the subject in terms of these features.

RENT COMPARABLE ADJUSTMENTS													
Adjustments		Comp. Comparison to the Subject											
Subcategory	\$ Adj.	Subject	Comp. 1	Comp. 2	Comp. 3	Comp. 4	Comp. 5	Comp. 6	Comp. 7	Comp. 8	Comp. 9	Comp. 10	Comp. 11
Project Amenities													
Pool	\$10	No	Yes (\$10)	No	\$0	\$0							
Clubhouse	\$10	No	No \$0	No \$0	Yes (\$10)	No \$0	Yes (\$10)	No \$0	Yes (\$10)	No \$0	No	\$0	\$0
Exercise facilities	\$10	No	Yes (\$10)	No \$0	No	\$0	\$0						
Subtotal			(\$20)	(\$10)	(\$30)	(\$10)	(\$30)	(\$10)	(\$30)	(\$10)		\$0	\$0
Unit Amenities													
Fireplace	\$10	No	No \$0	Yes (\$10)	No \$0	No \$0	No \$0	Yes (\$10)	No \$0	Yes (\$10)	No	\$0	\$0
Dishwasher	\$10	No	Yes (\$10)										
Subtotal			(\$10)	(\$20)	(\$10)	(\$10)	(\$10)	(\$10)	(\$20)	(\$10)			
Laundry													
Laundry	\$0	Yes	No \$0	Yes \$0	No \$0	No \$0	No \$0	No \$0	No \$0	No \$0	Yes \$0	Yes \$0	Yes \$0
Washer/Dryer Hookup	\$10	No	Yes (\$10)	No \$0	Yes (\$10)	No	\$0						
Washer/Dryer	\$30	No	Yes (\$30)	No \$0	Yes (\$30)	No \$0	Yes (\$30)	No	\$0				
Subtotal			(\$40)	\$0	(\$40)	(\$30)	(\$40)	(\$30)	(\$40)	(\$40)		\$0	\$0
Parking													
Open	\$0	Yes	Yes \$0										
Carport	\$15	No	Yes (\$15)	No \$0	No	\$0	\$0						
Garage	\$75	No	No \$0	No	\$0	\$0							
Subtotal			(\$15)	\$0	(\$15)	\$0	(\$15)	\$0	\$0	\$0		\$0	\$0
Utilities Included in Rent													
Electricity	\$30	No	No \$0										
Water	\$15	Yes	No \$15	Yes \$0	No \$15	No \$15	No \$15						
Hot Water	\$15	No	No \$0										
Sewer	\$15	Yes	No \$15	Yes \$0	No \$15	No \$15	No \$15						
Garbage	\$15	Yes	No \$15	Yes \$0	No \$15								
Telephone	\$20	No	No \$0										
Gas	\$10	No	No \$0										
Cable/Satellite	\$25	No	No \$0	Yes (\$25)	No \$0	Yes (\$25)	No \$0	Yes (\$25)	Yes (\$25)				
High-Speed Internet	\$35	No	No \$0										
Subtotal			\$45	\$0	\$30	(\$25)	\$45	(\$25)	\$45	(\$25)	\$45	(\$25)	\$5
Total Adjustments			(\$40)	(\$30)	(\$65)	(\$75)	(\$46)	(\$46)	(\$46)	(\$46)		(\$5)	(\$5)

Exhibit G
Page 2 of 5

Gross Rental Income

The gross rental income equals the total gross income based the rent conclusions presented above and is summarized in the following table.

Income Items	Unit Mix	Market Rent	Monthly	Annual
Rental Income				
Studio/1 BA	30	\$485	\$14,550	\$174,600
1 BD/1 BA	62	\$550	\$34,100	\$409,200
1 BD/1 BA	21	\$575	\$12,075	\$144,900
2 BD/1 BA	5	\$670	\$3,350	\$40,200
Total Rental Income	118	\$543	\$64,075	\$768,900

Other Income

The other income for the subject is discussed below and historical income can be seen in the next section. The renovations will not likely heavily impact potential other income sources; therefore historical figures are considered good indicators for this analysis.

Laundry/Vending - Based on the historical income, income of \$6,000/year is used in the analysis.

Storage - Based on the historical income, income of \$750/year is used in the analysis.

Miscellaneous Income - Typical LIHTC projects see some minor other income relating to retained deposits, late fees, etc. The subject historical income appears reasonable and income of \$12,000/year is used in the analysis (near \$8.50/unit/month).

Other Income			
Laundry/Vending		\$500	\$6,000
Storage		\$63	\$750
Miscellaneous Income		\$1,000	\$12,000
Total Other Income		\$1,563	\$18,750

Potential Gross Income (PGI)

Potential gross income equals the gross rental income plus other income, and is stated as follows:

POTENTIAL GROSS INCOME (PGI)	\$6,675	\$10,622	\$767,650
-------------------------------------	----------------	-----------------	------------------

Vacancy and Credit Loss

This category accounts for the time period between occupants, as well as possible prolonged vacancies under slow market conditions. This assignment reflects the probable stabilized vacancy during the economic life of the property and not necessarily the current or short-term vacancy. The subject's current vacancy rate is 5.1%. Vacancy for rent restricted properties in the subject's area is 2.7%, according to our Colliers International Valuation & Advisory Services survey, shown in the Market Analysis Section of this report. The subject had six vacant units based on the rent roll used in the report. Based on the above information and contact with various developers, property owners, and managers, a vacancy rate of 5% is concluded on a stabilized basis recognizing the subject's location, planned rent gap, and area's historical vacancy rate. The other income items are based on income that is considered to already reflect vacancy and credit loss.

Exhibit 6
Page 3 of 5

INCOME APPROACH -- AFTER RENOVATION (CONTINUED)

SUBJECT HISTORICAL INCOME & EXPENSES

Year	2009		2010		2011 Annualized		2012 Budget		Historicals*	
	Total	\$/Unit	Total	\$/Unit	Total	\$/Unit	Total	\$/Unit	Low	High
INCOME ITEMS										
Rental Income	\$685,763	\$5,812	\$685,789	\$5,812	\$698,403	\$5,919	\$783,600	\$6,641	\$5,812	\$5,919
Laundry/Vending	\$0	\$0	\$5,954	\$50	\$5,904	\$50	\$6,000	\$51	\$0	\$50
Storage	\$0	\$0	\$745	\$6	\$837	\$7	\$900	\$8	\$0	\$7
Miscellaneous Income	\$14,382	\$122	\$12,275	\$104	\$7,497	\$64	\$10,392	\$88	\$64	\$122
EFFECTIVE GROSS INCOME	\$700,145	\$5,933	\$704,663	\$5,972	\$712,641	\$6,039	\$800,892	\$6,787	\$5,933	\$6,039
EXPENSE ITEMS										
Real Estate Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Additional Tax Charges	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Insurance	\$10,308	\$87	\$12,602	\$107	\$11,265	\$95	\$12,600	\$107	\$87	\$107
Utilities	\$103,584	\$878	\$90,772	\$769	\$103,581	\$878	\$87,920	\$745	\$769	\$878
Repairs and Maintenance	\$52,698	\$447	\$42,073	\$357	\$33,750	\$286	\$35,640	\$302	\$286	\$447
Landscaping	\$0	\$0	\$3,950	\$33	\$5,250	\$44	\$14,400	\$122	\$0	\$44
Turnover Expenses	\$0	\$0	\$15,620	\$132	\$18,435	\$156	\$13,800	\$117	\$0	\$156
Off-Site Management	\$41,901	\$355	\$40,142	\$340	\$40,860	\$346	\$45,800	\$388	\$340	\$355
% of EGI		6.0%		5.7%		5.7%		5.7%	5.7%	6.0%
On-Site Management	\$92,483	\$784	\$63,455	\$707	\$60,018	\$509	\$89,474	\$758	\$509	\$784
Other Salaries	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Payroll Taxes/Benefits	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
General/Administrative	\$39,873	\$338	\$28,930	\$244	\$20,781	\$176	\$24,364	\$206	\$176	\$338
Reserves	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL EXPENSES	\$340,847	\$2,889	\$317,444	\$2,690	\$293,940	\$2,491	\$323,998	\$2,746	\$2,491	\$2,889
Expenses as % EGI	48.7%		45.0%		41.2%		40.5%		41.2%	48.7%
NET OPERATING INCOME	\$359,298	\$3,045	\$387,219	\$3,282	\$418,701	\$3,548	\$476,894	\$4,041	\$3,045	\$3,548

Exhibit 6
Page 4 of 5

EXPENSE ANALYSIS & CONCLUSIONS - AFTER RENOVATION

Expense Item	Total	\$/Unit	Description & Analysis
Real Estate Taxes	\$44,250	\$375	The subject is currently classified as "not assessable" or tax exempt by Washington County; however, based on the previous discussion presented in the Assessment and Tax & Information Section an annual tax liability of \$44,250 is estimated for this analysis.
Additional Tax Charges	\$0	\$0	There are no additional taxes.
Insurance	\$13,000	\$110	The concluded amount considers the comparables and the subject historicals.
Utilities	\$100,300	\$850	The concluded amount considers the subject historicals and the expense comparables, but also considers that hot water is included in the rent for the studio units.
Repairs and Maintenance	\$41,300	\$350	The concluded amount is based on the low er-end of the expense comparable range, considering the proposed renovations
Landscaping	\$17,700	\$150	The concluded amount is based on the middle of the expense comparable range and considers the amount of landscaping at the subject.
Turnover Expenses	\$17,700	\$150	The concluded amount is based on the low -end of the expense comparable range due to the high number of studio units at the subject and planned renovations.
Off-Site Management	\$33,714	\$286	The concluded amount is based on 4.5% of the concluded Effective Gross Income.
% of EGI		4.5%	
On-Site Management	\$94,400	\$800	The concluded amount is based on the middle of the expense comparable range.
Other Salaries	\$0	\$0	There are no additional taxes.
Payroll Taxes/Benefits	\$0	\$0	There are no additional benefits.
General/Administrative	\$26,600	\$225	The concluded amount considers the subject historical costs and the comparables.
Reserves	\$29,500	\$250	The concluded amount is based on \$250/unit, which considers the subject's age, condition after renovation, and unit mix.
Total Expenses	\$418,464	\$3,546	The subject concluded expenses fall slightly below the range of the comparables, but this is reasonable recognizing the subject's small average unit size. The expense conclusion is generally above the comparables on a % of EGI basis. Overall the conclusions are reasonable recognizing the planned renovations and are used in the analysis.

NOI Conclusion

Net Operating Income is equal to the effective gross income less the estimated expenses, and is stated as follows:

NET OPERATING INCOME (NOI)	\$2,808	\$2,955	\$340,741
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Exhibit 6
Page 5 of 5

EXHIBIT H

Base Rent shall be calculated as follows:

2012:

Estimated Gross Rents:

	\$768,900.00	Rental Income
+	<u>\$ 18,750.00</u>	(Laundry, Storage, Misc. Income)
	\$ 787,650.00	
-	<u>\$ 38,445.00</u>	(Vacancy/Credit Loss)
	\$ 749,205.00	

Tenant Estimated Operating Expenses:

\$323,999.00 (See Exhibit G, pg. 69)

Estimated Base Rent:

	\$ 749,205.00
-	<u>\$ 323,999.00</u>
	<u>\$ 425,206.00 / 12 = \$35,433.83/ per month</u>

Base Rent shall equal \$35,433.83 adjusted monthly (up or down) to reflect actual Gross Rents and Tenant Expenses.

ATTACHMENT

**ACCESSIBLE LIVING, INC. 501(C)3
EVIDENCE**

INTERNAL REVENUE SERVICE
DISTRICT DIRECTOR
2 CUPANIA CIRCLE
MONTEREY PARK, CA 91754

DEPARTMENT OF THE TREASURY

Date: FEB 24 1993

ACCESSIBLE LIVING INC
7435 SW SORRENTO
BEAVERTON, OR 97005

Employer Identification Number:
94-3081823
Contact Person:
TYRONE THOMAS
Contact Telephone Number:
(213) 894-2289

Our Letter Dated:
May 1989
Addendum Applies:
No

Dear Applicant:

This modifies our letter of the above date in which we stated that you would be treated as an organization that is not a private foundation until the expiration of your advance ruling period.

Your exempt status under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3) is still in effect. Based on the information you submitted, we have determined that you are not a private foundation within the meaning of section 509(a) of the Code because you are an organization of the type described in section 509(a)(1) and 170(b)(1)(A)(vi).

Grantors and contributors may rely on this determination unless the Internal Revenue Service publishes notice to the contrary. However, if you lose your section 509(a)(1) status, a grantor or contributor may not rely on this determination if he or she was in part responsible for, or was aware of, the act or failure to act, or the substantial or material change on the part of the organization that resulted in your loss of such status, or if he or she acquired knowledge that the Internal Revenue Service had given notice that you would no longer be classified as a section 509(a)(1) organization.

As of January 1, 1984, you are liable for taxes under the Federal Insurance Contributions Act (social security taxes) on remuneration of \$100 or more you pay to each of your employees during a calendar year. You are not liable for the tax imposed under the Federal Unemployment Tax Act (FUTA).

You are required to file Form 990 only if your gross receipts each year are normally more than \$25,000. For guidance in determining whether your gross receipts are "normally" more than \$25,000, see the instructions for Form 990. If a return is required, it must be filed by the 15th day of the fifth month after the end of your annual accounting period. A penalty of \$10 a day is charged when a return is filed late, unless there is reasonable cause for the delay. However, the maximum penalty charged cannot exceed \$5,000 or 5 percent of your gross receipts for the year, whichever is less. This penalty may also be charged if a return is not complete, so please be sure your return is complete before you file it.

If we have indicated in the heading of this letter that an addendum applies, the addendum enclosed is an integral part of this letter.

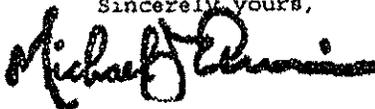
Letter 1050(DO/CG)

ACCESSIBLE LIVING INC

Because this letter could help resolve any questions about your private foundation status, please keep it in your permanent records.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Michael J. Quinn". The signature is written in a cursive style with a large, prominent "M" and "Q".

Michael J. Quinn
District Director