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LOS ANGELES COUNTY
Caring for Your Coast
Beaches & Harbors

Stan Wisniewski
Director

Kerry Silverstrom
Chief Deputy

October 5, 2006

TO: Small Craft Harbor Commission

FROM: Stan Wisniewski, Director Stan W.

SUBJECT: **COMMISSION AGENDA – OCTOBER 11, 2006**

Enclosed is the October 11, 2006 meeting agenda, together with the minutes from your meeting of September 13, 2006. Also enclosed are reports related to Agenda Items 3b, 5a, 5b, 5c and 6a. Agenda Item 3a , Marina Sheriff's reports, were not finalized in time for the mailing and will be provided at the meeting.

Please feel free to call me at (310) 305-9522 if you have any questions or need additional information.

SW:tm

Enclosures

13837 Fiji Way • Marina del Rey • CA 90292 • 310.305.9503 • fax 310.821.6345 • internet: http://beaches.co.la.ca.us

"To enrich lives through effective and caring service"

Los Angeles County Beaches & Harbors — Caring for Your Coast

Stan Wisniewski
Director

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Chief Deputy

SMALL CRAFT HARBOR COMMISSION

AGENDA
OCTOBER 11, 2006
9:30 a.m.

BURTON W. CHACE PARK COMMUNITY ROOM
13650 MINDANAO WAY
MARINA DEL REY, CA. 90292

1. Call to Order, Action on Absences and Pledge of Allegiance

2. Approval of Minutes: Meeting of September 13, 2006

3. **REGULAR REPORTS**

   a. Marina Sheriff (DISCUSS REPORTS)
      - Crime Statistics
      - Enforcement of Seaworthy & Liveaboard Sections of the Harbor Ordinance
      - Numbers of Liveaboards

   b. Marina del Rey and Beach Special Events

   c. Marina del Rey Convention and Visitors Bureau (PRESENTATION BY BEVERLY MOORE, EXECUTIVE DIRECTOR OF MdR CVB)

4. **OLD BUSINESS**

   a. None

5. **NEW BUSINESS**

   a. Traffic Mitigation Measures within Marina del Rey Area -- Quarterly Report (PRESENTATION BY BARRY KURTZ, TRANSPORTATION ENGINEER CONSULTANT, DEPARTMENT OF BEACHES AND HARBORS)

13837 Fiji Way • Marina del Rey • CA 90292 ● 310.305.9503 • fax 310.821.6345 ● internet: http://beaches.co.la.ca.us

b. Overview of Marina del Rey Development Projects (PRESENTATION BY STAN WISNIEWSKI, DIRECTOR OF BEACHES AND HARBORS)

c. Option for Amended and Restated Lease to Facilitate Redevelopment – Del Rey Shores – 4201 to 4261 Via Marina, Marina del Rey (Parcels 100/101) (RECOMMEND TO BOARD)

6. **STAFF REPORTS** (DISCUSS REPORTS)

a. Ongoing Activities
- Board Actions on Items Relating to Marina del Rey
- Periodic Local Coastal Program Review – Update
- Status of Dredging Project
- Design Control Board Minutes

7. **COMMUNICATION FROM THE PUBLIC**

8. **ADJOURNMENT**

PLEASE NOTE:

1. The Los Angeles County Board of Supervisors adopted Chapter 2.160 of the Los Angeles Code (Ord. 93-0031 § 2 (part), 1993), relating to lobbyists. Any person who seeks support or endorsement from the Small Craft Harbor Commission on any official action must certify that he/she is familiar with the requirements of this ordinance. A copy of the ordinance can be provided prior to the meeting and certification is to be made before or at the meeting.

2. The agenda will be posted on the Internet and displayed at the following locations at least 72 hours preceding the meeting date:

Department of Beaches and Harbors' Website Address: http://marinadelrey.lacounty.gov

Department of Beaches and Harbors
Administration Building
13837 Fiji Way
Marina del Rey, CA 90292

MdR Visitors & Information Center
4701 Admiralty Way
Marina del Rey, CA 90292

Burton Chace Park Community Room
13650 Mindanao Way
Marina del Rey, CA 90292

Lloyd Taber-Marina del Rey Library
4533 Admiralty Way
Marina del Rey, CA 90292

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SMALL CRAFT HARBOR COMMISION
SEPTEMBER 13, 2006
MEETING

Commissioners Present

Harley Searcy, Chairman
Russ Lesser, Vice-Chairman
Albert Landini, Ed.D

Excused

Christopher Chuang-I Lin, Ph.D

Department of Beaches and Harbors

Stan Wisniewski, Director

Other County Departments

Thomas Faughnan, Principal Deputy County Counsel
Captain Mary Campbell, Marina Sheriff's Department
Lieutenant Greg Nelson, Marina Sheriff's Department
Sergeant Michael Carriles, Marina Sheriff's Department
Deputy John Rochford, Marina Sheriff's Department

Also Present

Beverly Moore, Executive Director, MdR Convention and Visitors Bureau

1. CALL TO ORDER, ACTION ON ABSENCES AND PLEDGE OF ALLEGIANCE

Chairman Searcy called the meeting of the Los Angeles County Small Craft Harbor Commission to order at 9:35 am in the Burton W. Chace Park Community Room, Marina del Rey.

Vice-Chairman Lesser moved and Commissioner Landini seconded a motion to excuse Commissioner Lin from the meeting. The motion passed unanimously.

The Commissioners, staff and members of the public stood and recited the Pledge of Allegiance.

2. APPROVAL OF MINUTES

Vice-Chairman Lesser moved and Commissioner Landini seconded a motion to approve the August 9, 2006 minutes. The motion passed unanimously.

3. REGULAR REPORTS

a. Marina Sheriff

-- Crime Statistics

Lt. Greg Nelson reported that there hasn't been any significant change in crime statistics from last month. There has been a lower than average crime rate for the summer months, which can be attributed to different factors, such as the decrease in crime rates throughout L.A. County, the field deputies' arrests of career criminals and the deployment of the bicycle team this summer.

Lt. Nelson also reported that the Army Corp of Engineers is planning to begin dredging the harbor's north entrance no later than December 15, 2006. The area still remains about 50% closed and will be entirely closed when the dredging begins, which should not take more than 60 days.

-- Enforcement of Seaworthy & Liveaboard Sections of the Harbor Ordinance

Sgt. Michael Carriles introduced Deputy John Rochford, who has taken over the responsibility of preparing the Seaworthiness and Liveaboard Report. He replaced Deputy Paul Carvalho, who returned to patrol duties.

Chairman Searcy welcomed Deputy Rochford and commented that Deputy Carvalho will be missed.

With respect to the Seaworthy & Liveaboard Compliance Report, Sgt. Carriles explained that for a number of years the liveaboard data was kept in a ledger. It is now in a computer database. He said that after reviewing the liveaboard data, the following problems were discovered: 1) There was no separation between new liveaboard applications and renewal applications. Consequently, some of the numbers were thrown off; 2) Percentages of liveaboards were based on the total occupancy in Marina del Rey and included redevelopment projects where slips were vacant. This threw off the percentages; 3) No accounting was in place for liveaboards that would cancel their liveaboard status. Nothing was in place that would eliminate them from the dockmaster report of the number of liveaboards. There were liveaboards who resided in one marina, then transferred to another marina and received a new liveaboard permit. This threw off the data.

Further, Sgt. Carriles explained that the Department is in the process of resolving these problems as follows: 1) The database is now in electronic form, is up to date and shows more than just numbers. Details such as the liveaboard's name, slip location, etc. is now included and compared to the dockmaster's records. If the records don't match, the Sheriff's Department will start the process of issuing renewals or new permits; 2) When a tenant falls out of liveaboard status, such as when his liveaboard permit expires, the Department will contact the dockmaster directly and inform him that this individual or slip location no longer has a valid liveaboard permit. If it is found that the individual is no longer a liveaboard, no further action will

be taken but if the individual is still a liveaboard, the dockmaster will let him know he needs to renew his permit.

Sgt. Carriles said that the Department found that a lot of the Department's old forms were incomplete. Also, several boat owners who had permits or applications basically photocopied them and turned them back in to the Department. The Department has just created a new design pertaining to liveaboard permits and has already started giving them to the dockmasters so that staff can start processing them. Staff expects the total liveaboard count to be completed within the next 60 to 90 days once there is better coordination with the dockmaster.

Chairman Searcy asked Sgt. Carriles did he think that he would have accurate data within approximately 60 to 90 days.

Sgt. Carriles responded that he believed the data would be accurate within that timeframe.

b. Marina del Rey and Beach Special Events

Mr. Stan Wisniewski requested Ms. Dusty Crane, Chief, Community and Marketing Services Division, to provide details about the upcoming "Discover Marina del Rey Day 2006" event.

Ms. Crane informed the Commission that "Discover Marina del Rey Day 2006" is an annual event for families. It will be held on October 8, 2006 at Chace Park from 11am to 4pm and will reflect the County's goal to promote healthy families. There will be healthy food, rides, games, music and every child will receive a pumpkin. The Department of Parks and Recreation will help with the crafts. There is a $5.00 fee for a wristband, which will be used as admission for the rides and also for the children to receive a pumpkin.

Mr. Wisniewski announced that the remaining special events are in the report and he encouraged the Argonaut to print this information.

c. Marina del Rey Convention and Visitors Bureau

Ms. Beverly Moore informed the Commission that the Marina Convention and Visitors Bureau (CVB) has been working with other CVBs for many years on many different promotional programs. Often the CVBs jointly host travel writers on tours to the area and provide a lot of support for the Los Angeles Convention and Visitors Bureau when it has large travel-related conventions.

Recently, four visitors bureaus located on the Westside have been searching for opportunities to emphasize that the best attractions in the entire Southern California Region are found on the Westside. If they are able to collaborate more, they will be able to gain greater success. The Marina's partners in this venture include West Hollywood, Santa Monica and Beverly Hills. So far, several projects have been worked on and are coming along very well. Currently, they are issuing joint quarterly media updates to the travel media nationally and internationally. In general, the travel media, which is constantly scrambling to get updated information about tourism issues worldwide, has received this project very well. These updates are issued

electronically directly to a mailbox to travel newspapers and publications throughout the country. The CVBs have begun to develop cooperative advertisements in publications in very limited markets. One example is the State of California publishes a series of different travel guides in different markets. The CVBs are looking at the international pieces that the State of California publishes in the countries where there are inquiries about travel to California. By putting the four CVBs together there is a very strong message, and it is extremely affordable. Rather than having to buy an ad separately, the CVBs can share the cost and divide it by four, which will make a much more powerful statement.

In conclusion, Ms. Moore stated that the CVBs are working on a website called WestLA.com, which is in the beginning stages. It ultimately will be a portal to each original destination site and will include comprehensive itineraries of the Westside, interactive maps, along with contact and visitor information, etc.

4. <u>OLD BUSINESS</u>

a. None

5. <u>NEW BUSINESS</u>

a. Report by Commissioner Landini Regarding State Legislative Affecting Liveaboards

Commissioner Landini gave some background pertaining to liveaboards, stating that there are approximately 500 liveaboards within Marina del Rey and the Sheriff's Department indicates that this number is constant with a slight increase over a ten-year period. Approximately 100 of the 500 liveaboards are not registered with the harbormaster. It is speculated that the reason the 100 people are not registered may be because they are not aware of the process, are not aware of what should be done, and are afraid of the increased cost of liveaboard tie ups. It could also be because their boats are not seaworthy and they are afraid of signing up because their boats might not pass the required inspection.

Commissioner Landini explained that the Commission has been confronted with a small number of people who complained of unfair evictions or unfair treatment by the dockmasters. Many docks in the Marina are being rehabilitated and this has caused disruption for some liveaboards who have had to move and could not find a place to tie up. The County had an eviction ordinance, but it was overturned by a court action, as reported by Mr. Thomas Faughnan at a previous meeting. The Small Craft Harbor Commission cannot establish an effective policy to regulate liveaboards, as the Commission is only an advisory panel to the Board of Supervisors. Additionally, the current state law does not apply to Marina del Rey because of the definition of liveaboard marinas.

Commissioner Landini said that the solution seems to lie in two paths: 1) The Commission can recommend that leases include a liveaboard provision prior to their submission to the Board of Supervisors, who may or may not choose to keep it; 2) request new state legislation because the problem with liveaboards, if there is a problem, is statewide and affects marinas up and

down the coast of California. He said that he prepared a transmittal memo for the Commission to send to the Board of Supervisors to alert them about the difficulties the public has brought to the Commission's attention. The memo requests that the Board develop new state legislation. He suggested that the Commission approve his proposed memo and include in the submission to the Board, the bill of rights document from the POWER organization, County Counsel's report, the August Small Craft Harbor Commission minutes and the latest Seaworthy and Liveaboard Compliance Report.

Additionally, Commissioner Landini said that he found a publication called "California Tenants," which is published by the State of California. He offered to give information about this publication to anyone who is interested. The publication notes that the 60-day eviction notice law, which was in place in California, expired on December 31, 2005.

CHAIRMAN SEARCY OPENED THE FLOOR TO PUBLIC COMMENT

Ms. Carla Andrus thanked the Commissioners for taking the liveaboard rights issue to the Board of Supervisors. She said there would be a continued effort to work for new legislation that will give rights to liveaboards. She stated this still is no way a fix nor is it an excuse for the County to pass the buck. Action is needed now.

Ms. Andrus informed the Commission that Bar Harbor is preparing to close down and is issuing pre-eviction notices even before Deauville is online. She said that hundreds of boaters will again be displaced and there will be another mass exodus. A moratorium on all no cause evictions is needed. Deauville was supposed to open last month and the lessee is unable to tell the public when the project will be completed. The hardship again falls on the boating community. There are consequences for Deauville being behind schedule and the issue needs to be taken up in full immediately. This is a crisis and it is happening right here. The Deauville lease was supposed to revert back to the old lease if the lessee wasn't able to satisfy his permit. The matter should be taken up with the California Coastal Commission. Ms. Andrus stated that in the meantime, there is a clear and sane approach that can be taken for boaters' concerns. The County has an opportunity to act now. An affordable housing policy is going before the Board of Supervisors in less than 60 days. The Commission could ask that liveaboards be included in this housing policy. Ms. Andrus stated that the County of Los Angeles got it wrong the last time and it was out of compliance with state law. There are consequences to the failed policy that need to be addressed and this is an opportunity to do it correctly. The County must consider equal rights for liveaboards and protect affordable housing under the Mello Act. This has been an affordable way of living in the Marina and the public will not be pushed out any further. In conclusion, Ms. Andrus stated that she talked to her dockmaster and was informed that liveaboard permits were not being issued anymore.

Mr. Donald Klein, Coalition to Save the Marina, thanked Commissioner Landini for his work on the liveaboard issue and for preparing the paperwork and seeing this issue through. He commented that another important issue pertains to regular boaters who have been evicted for no apparent reason. Mr. Klein stated that he has a list of people who left and had no place to go.

Mr. Klein stated that state legislation, because of the amount of time it takes to get through the Assembly and the Senate, will take a couple of years. Something must be done now. He believes that an ordinance can be added under County Code Section 19 that requires notification for cause of eviction for non-liveaboards and liveaboards. Public Law 780 requires that the Marina be open to all on an equal basis. This is an important factor and a congressional statutory law. He also clarified that the statement claiming that the Villa del Mar lawsuit was involved in floating homes is wrong. The lawsuit actually pertained to affordable housing and not for eviction on a general basis.

Vice-Chairman Lesser asked Mr. Faughnan whether Mr. Klein's statement that the County is not in compliance with federal law is accurate.

Mr. Faughnan replied that Mr. Klein's statement regarding Public Law 780 and his general statements about the availability of Marina facilities to the public is correct. Mr. Faughnan disagreed, however, with Mr. Klein equating that law with evictions in the Marina. Mr. Faughnan stated that the Marina is governed by state law and until someone can provide him with information that shows the lessees are not complying with state law with respect to evictions of liveaboards, he has nothing to analyze.

Mr. David Levine, on behalf of the Marina del Rey Lessees Association, stated that the association is opposed to Commissioner Landini's proposal to seek new and unprecedented state legislation regarding liveaboards. For more than two decades the state legislature, as well as the state and federal courts, have all weighed in on precisely this issue. All have determined that liveaboards do not deserve the same rights as apartment residents. County Counsel has carefully provided the Commission with legal precedence on this question.

Mr. Levine quoted from the federal court ruling in the Derfus case, "The right to dock one's boat in a particular berth or marina cannot be equated with the right to decent low cost housing even if one chooses to liveaboard the boat. The nature of the right for which plaintiff seeks protection simply does not rise to the level entitled to constitutional protection, which would override traditional landlord tenant relationships and leases allowing as here for termination on a 30-day written notice by either party." He stated that both state and federal courts have spoken on this issue and there is no statue, no ordinance, no regulation, no case law, and no other authority to the contrary. Mr. Levine said that this is an inescapable conclusion and he is able to cite other legal cases.

Mr. Levine stated that the contract for liveaboards is simply an ordinary commercial lease terminable on the terms specified therein and statutory protections do not create any other kind of situation. The liveaboards claim that lessees harass them. He said that if they are harassed, there are both bureaucratic and legal avenues for individuals to air their grievances and seek just compensation. The Small Craft Harbor Commission is an advisory body to the Board of Supervisors. It is not an arbitration body, nor an ombudsman and this must be made clear. The County of Los Angeles has a direct financial interest in the ground rent generated by the dock slips leased in Marina del Rey. He urged caution about advising the Board of Supervisors that the taxpayers of the County of Los Angeles need to subsidize this small group of liveaboards, as a public subsidy to live on their substandard boats is really what this group wants. He said

that it is ironic and hypocritical for members of the public who attend the meetings on a regular basis to argue that Marina del Rey is a recreational boating facility, yet also claim that a small handful of liveaboards with derelict boats should have permanent resident status. He stated that no court nor any legislative body has agreed with this point of view in decades and the Lessees Association would oppose any legislative effort just as members in the County have joined hands in legal forces to defend the current law in the County's interest in these matters when they have been brought before the courts.

Mr. Levine said the question of rights and how liveaboards have been dealt with in courts and legislative bodies in the past is a separate question from how best to deal with the temporary dislocation of boaters while renovations are going forward. He noted that these two questions are not the same and must be separated. With respect to liveaboard rights, the courts have spoken.

Mr. Greg Schem, The Boatyard lessee, stated that he has the highest percentage of liveaboard tenants in the Marina. A boat is not a residential apartment unit. Apartment buildings have a lot of required inspections. They have to pass electrical inspections and have proper plumbing, etc. Boats come in all shapes and sizes, some are livable and some are not. Boats should be suitable to liveaboard. Substandard plumbing, waste disposal, etc. have to considered. He would agree with David Levine that there is no right to liveaboard, but certainly liveaboards are accommodated because it works and they are a valuable component. Landlords should not have their rights taken away to ensure that boats are adequately maintained and occupied by people who respect regulations. There has to be assurance that these boats are adequately maintained and that they have people who are going to respect the rights and regulations of the marina.

With respect to Mr. Levine's statement about the Derfus court ruling, Ms. Nancy Marino commented that the issue here pertains to evictions without cause. Many people who own boats are afraid of stepping forward to speak against development in Marina del Rey for fear of retribution by dockmasters and putting their slips at risk. She stated that Mr. Levine is correct that the Commission is an advisory body. Ms. Marino said the public is asking the Commission to advise the Board of Supervisors to establish a policy that would be fair and equitable for people who have boats.

Ms. Marino said that before she moved to Marina del Rey, she and her husband rented a place in Marina Harbor. No one asked if they were permanent. She perceives renting a slip as renting the walls around a piece of water rather than a floor and a ceiling. If the lessee charges for utilities, the cost should be factored into the slip use. When she and her husband rented at Marina Harbor, utilities were included as part of the rent and no one told them that because they only used the place every other weekend they would be charged less. Ms. Marino said that if a person is evicted, there should be a cause. The County should be required to tell the dockmaster and lessee that a cause should be given. The liveaboards, apartment tenants and boat owners are being treated as transients, yet many have been here for 20, 30 or 40 years, for as long a period as the Marina has been around. In conclusion, Ms. Marino said she wants everyone to be treated as a community member. The Marina is a diverse community; one of the only diverse communities left that hasn't been split between the very wealthy and very poor.

She would like the County to establish policies that would preserve that.

A former Dolphin Marina tenant [secretary did not have his name] informed the Commission that in 2005 he was given a 30-day eviction notice for no reason. The dockmaster claimed that he paid late 22 times, but he has proof that he did in fact pay rent as well as late fees. He also was denied a grace period to pay the rent. He left the slip without a place to go. He believes he was denied due process. He would like to have his rights restored and the opportunity to move back to his slip.

Vice-Chairman Lesser pointed out that comments are heard on a regular basis about lessees trying to get rid of liveaboards. According to the POWER organization, liveaboards are under-fire and intimidation tactics are used to force them out of the Marina. Vice-Chairman Lesser said that a completed survey concluded there are more liveaboards now than in the history of the Marina. Some members of the public believe that liveaboards are kicked out and evicted for no apparent reason. As a businessman this does not seem logical to him.

Vice-Chairman Lesser asked Mr. Schem to comment on the number of liveaboards he has evicted, the reasons for the evictions and whether anyone was evicted due to his or her ethnicity, gender or race.

Mr. Schem replied that he has 115 slips, most ranging from 25-30 feet, up to 85 feet. Although he didn't have statistics on the exact number of evictions, he guessed the number is fewer than five. Mr. Schem believes the evicted people were those who committed gross violations. He recalled one person was evicted after trying to shoot pelicans with his 9mm gun.

Mr. Schem agreed that if a lessee has good tenants, the lessee would want to keep them. The issues that should be considered concern whether a boat is suitable, whether it will detract from the Marina or from other people's rights, does it have enough room to store equipment, etc. Mr. Schem said that there's also a limited number of restrooms and he hopes that liveaboards are using landside restrooms and showers that are properly sanitized for normal use. The Marina has an issue with contaminated water and proper disposal.

Ms. Dorothy Franklin commented that she has been a liveaboard for 25 years and takes offense at Mr. Levine's comment that liveaboards are derelict. She said that some small boats don't have proper facility waste management and electricity; however, boats should be considered on an individual basis. Her boat is 42' and adequate. She has a boat detailing business in the Marina and she works for quite a few people who are liveaboards. Liveaboards are not derelicts, their boats are well maintained. Ms. Franklin said that the liveaboards don't come to the Commission meetings because they don't want to risk losing their slips.

Mr. William Dresser stated he is a twelve-year liveaboard in Marina del Rey by choice. He enjoys sleeping on the water and has seen many changes over the years. He has noticed the marginalization of liveaboards in the official vernacular and policy. It used to be no problem to be a liveaboard, now it is something to achieve. He noted that former Supervisor Burton Chace had a dream. This area was the Ballona Lagoon and was only sand. Supervisor Chace dreamt

of a small harbor for people of modest means and not a cash cow for the County. Doug Ring's dream is prime waterfront real estate and it has become the operating principle today and is being applied at Deauville.

Further, Mr. Dresser said that he is a Bar Harbor tenant and he has already received his pre-sixth month eviction notice. He questioned who profits from the elimination of liveaboards. Liveaboards appear to be a problem to apartment owners, as they enable people to live cheaply on the water. Anywhere up and down the coast a 35-foot boat or better is required. If a person has a small boat in A basin, it is expected to be new or near new condition. Small boaters are being eliminated as well as people of modest means. They are being marginalized and cut out little by little. In conclusion, he asked where is the legal oversight on boating policy in the Marina and where is the Coastal Commission on the development issue.

Vice-Chairman Lesser commented that Mr. Dresser mentioned that liveaboards are becoming ostracized; however, Vice-Chairman Lesser pointed out that statistics contradict this allegation. He said statistics show that the Marina has 20% more liveaboards than ten years ago. Obviously, it is not correct that the County and lessees are opposed to liveaboards; otherwise, the numbers would be dropping rather than increasing. Vice-Chairman Lesser emphasized that he is 100% opposed to evicting people without reason, but he is not going to support asking the Board of Supervisors to change legislation, as it would be a waste of time because the Commission does not have any facts or examples of people being evicted without reason.

Vice-Chairman expressed that he didn't know what to believe, so he suggested to POWER members that if they are aware of liveaboards who have been wrongfully evicted, they should provide this information to the County and include the boater's name, slip number, lessee's name, dates the slip was occupied, date the liveaboard was given the eviction notice and the reason for eviction. Upon receipt of this information, Beaches and Harbors staff could contact the lessee to find out the reason for the eviction and evaluate the data. Staff could then bring it to the Commission's attention.

Mr. Wisniewski affirmed that if staff were provided information about a wrongful eviction, staff would investigate and report back to the Commission.

Commissioner Landini clarified that his intention was to write a transmittal memo, not an advocacy paper for any establishment of legislation. In the short period of time he has been a Commission member he has heard about the liveaboards' concerns. He commented that if this issue can't be resolved, the Commissioners and public's time is being wasted. The Commissioners are the ears for the Board of Supervisors and have an obligation to alert the Board about the arguments in POWER's bill of rights and the County Counsel's report. If the Board of Supervisors wants more data, the Commission can relay this need back to members of the public.

Vice-Chairman Lesser noted that he has no problem informing the Board; however, he would like to obtain data first. He does not want to send something to the Board without unsubstantiated data. What he has seen in writing indicates that liveaboards are increasing in number and the County's and lessee's goal is to not get rid of them.

Sgt. Michael Carriles agreed with Vice-Chairman Lesser that the liveaboard data should be substantiated. He commented that the liveaboard report that was given to the Commission is inaccurate; the data might possibly be flat and there might not be an actual increase. Sgt. Carrilles recommended that the Commission refrain from sending Commissioner Landini's proposed memo to the Board until he checks the data, which he will try to do within 30-days. Sgt. Carriles clarified that the listed percentage of liveaboards is consistent, but the actual numbers might be different. The last total percentages were based on full occupancy of all the slips in the Marina and some of the slips were missing.

Chairman Searcy commented that his brother has lived on a boat since 1971, so Chairman Searcy understands some of the comments expressed about liveaboards. He said that his business is involved with development and affordable housing. What is occurring is an economic issue. It doesn't just involve people of modest means around the harbor, but also people of modest means in apartment communities and urban areas.

Mr. Faughnan updated the Commission on information provided at the August meeting about AB1169, which was passed by the legislature in August and re-institutes the 60-day notice for residential units that are occupied by tenants for more than one year. Mr. Faughnan said that this law lapsed in 2006 and is now being re-instituted until 2010. He doesn't believe it has been signed into law yet.

Mr. Klein commented that, so far, the statements regarding Marina del Rey haven't included the fact that it is public land. Private enterprises are evicting people for no reason at all and it is accepted; however, the Marina is public land, as determined by Public Law 780, and is open to all on an equal basis. That is where the issue is and the County has not addressed it.

Chairman Searcy reiterated that the issue is economic and the economics are what fund the health, welfare, etc, of L.A. County residents. He agreed that the Marina is on public land, but he noted that it could be used for public purposes, such as generating revenue to provide services for which the County is responsible.

Mr. Faughnan mentioned that Mr. Klein often refers to Public Law 780. Mr. Faughnan explained that the fact of the matter is the Marina is public land and that is one of the reasons the master leases are structured in such a way that there are not any boat slip leases or apartment leases that can be for more than one year. Most of the leases are for less than a year or are on a month-to-month basis. There should be no entitlement to any particular individual to live or have a boat in Marina del Rey.

Chairman Searcy commented that there is a process in place and the County would take action if it received information about a lease being violated or a person being wrongfully evicted. He suggested to members of the public that if they really want to effect change, they should get tenant organizations and/or attorneys to study this issue, draft legislation and propose ideas to solve the problem. When they're ready, they could submit the information to the Commission for review and consideration.

Commissioner Landini reiterated that the Commissioners are the ears for the community and Board and he would like to see his proposed memo forwarded to the Board of Supervisors. Today's discussion merits consideration by the Board and a report by the legislative analyst. The Commission can't request Mr. Wisniewski to conduct the appropriate study, as it is the Board's role to do that. He moved that the Commission support his proposed memo and submit it to the Board of Supervisors. The motion was not seconded and failed.

Chairman Searcy indicated that he wasn't clear on what Commissioner Landini's memo was requesting. Chairman Searcy said it would help if the memo were accompanied by draft legislation. Additionally, he wasn't sure he agreed that the Commission could not request Mr. Wisniewski to conduct a study. He asked Mr. Faughnan for direction.

Mr. Faughnan advised that if there were a proposal for specific legislation and the Commission had findings to support the need for legislation, it would be appropriate for the Commission to make a recommendation for Board consideration.

As for conducting a study, Mr. Faughnan informed the Commission that it could request that the Department provide a report or further data on the status of evictions of liveaboards in the Marina.

Vice-Chairman Lesser reiterated that one way the Commission could obtain data about liveaboards who have been wrongfully evicted is for members of the public to submit specific information to Beaches and Harbors, which would then verify the information and bring it to the attention of the Commission. Vice-Chairman Lesser requested that an eviction report be added to the agenda each month so that it can be addressed if needed. If there aren't any evictions to report, staff could so indicate, and if there are evictions to report, the Commission can discuss them.

In addition to requesting Mr. Wisniewski to provide the liveaboard eviction report, Chairman Searcy requested that staff also research what other harbors are doing relative to liveaboards on a national and international level. He would like the Commission to receive information on laws as well as informal rules.

Mr. Wisniewski said that staff would conduct the eviction study as well as research liveaboards nationally and internationally and report back to the Commission.

6. STAFF REPORT

a. <u>Ongoing Activities Report</u>

- Board Actions on Items Relating to Marina del Rey

Mr. Wisniewski informed the Commission that there were no Board actions relating to Marina del Rey in the last 30 days.

- **Periodic Local Coastal Program Review - Update**

Mr. Wisniewski reported that the periodic review of the Local Coastal Program (LCP) is underway by the Department's staff and consultant. He believes the Coastal Commission plans to schedule the review for consideration at its November meeting in Los Angeles.

CHAIRMAN SEARCY OPENED THE FLOOR TO PUBLIC COMMENT

Ms. Nancy Marino corrected Mr. Wisniewski's LCP report for the record. She said that it was on Mr. Wisniewski's initiative that the Executive Director of the California Coastal Commission postponed the meeting. The reason that was given was that the County did not have enough time to prepare comments, which she believes to be disingenuous for the County to establish as fact for the record when it is not actually a fact. Ms. Marino said that, perhaps, the County did not specifically ask for the postponement, but the County made it clear that postponement is what it wanted and it is what the Coastal Commission allowed.

Further, Ms. Marino said that the fact that the County did not receive the report in advance of its publication is immaterial. She doesn't see why the County should have received the material in advance when the public didn't receive it in advance of the publication. The County had as much time as the public to prepare. The County has one year from the publication date of the LCP Review to respond to the Coastal Commission's comments. Until that one-year period has elapsed, the Coastal Commission will not entertain any appeals to projects because the LCP is still under consideration and the County still has time to respond. Everything is moving through the approval process until the report is actually published on the assumption that an LCP amendment is needed and the presumption that it will be obtained. The public objects to this. There is a process in place and the County is not honoring the spirit of the process because the County has a full year after the report is published. This is a way the County postpones and delays in order to move other things through the Small Craft Harbor Commission, Design Control Board, Regional Planning and Board of Supervisors. In fact, what is needed is an LCP Review first before any of the development projects go to the Board of Supervisors and the Commissions.

Mr. Wisniewski commented for the record that his LCP update is accurate.

- **Status of Dredging Report**

Mr. Wisniewski reported that the Department is working closely with the Corps of Engineers to ensure that dredging can occur during the current window that is available. The bids closed on 9/13/06. The Corps has 1.4 million in its budget and the Department notified the Board of Supervisors of its intent to work with the Corps and supplement its funding. He will keep the Commission apprised on the matter.

b. Public Request for Information at August 9, 2006 Meeting

- **Boater Concerns about Dock Construction at the Parcel 20 Marina**

Mr. Wisniewski reported that at the August 9, 2006 Commission meeting, a concern was expressed regarding the eviction of tenants due to dock replacement work, specifically on dock D-1700 at Panay Way Marina (Parcel 20). Staff researched the matter and found that new docks are being installed at Parcel 20. Docks D-2300, D-2100 and D-1900 have already been completed and reoccupied. D-1700, which was the subject of the person's concern at the August meeting, has been completely vacated and replacement activities are imminent. Notices to vacate have been issued to the slip tenants at Docks D-1500 and D-1300. Staff spoke to the lessee and it appears he is using reasonable efforts to minimize boaters during the work.

Mr. Wisniewski explained that lessees have chosen to stagger the dock replacement so that they only have one dock out of service at a time. They assemble the docks on land before the old dock is fully vacated. If the lessee plans to invite a slip tenant back after dock replacement, the lessee tries to put the tenant in a temporary slip until the new dock is completed. If a tenant is not invited back, it is because the tenant has either been late in payments, has violated his slip agreement or allowed individuals to liveaboard. These cases have been investigated. For instance, in one case, one gentleman was late with rent eleven times, twice to the extent that lien proceedings were initiated.

Mr. Wisniewski said that the Department welcomes the opportunity to look into these matters. When a tenant believes himself to be unfairly treated, rather he be a liveaboard or a non-liveaboard, staff will investigate. Mr. Wisniewski said that staff found lessees to be acting in good faith when it comes to retaining tenants who they think would abide by lease agreements.

Vice-Chairman Lesser mentioned that the Argonaut reports on the Coalition to Save the Marina's lawsuits against the County. The paper doesn't report on the outcome of these lawsuits. He is aware of five outstanding lawsuits and he asked whether Mr. Faughnan knew the status of them.

Mr. Faughnan responded that there are five lawsuits, four of which involve leases for Parcels 102, 103, 64 and 10. The court has recently sustained the County's and lessees' demurrers the third time around and has sustained the demurrers without leave to amend, which means the trial court is dismissing the actions. The plaintiffs may appeal, but they are going to be dismissed in trial court. The fifth lawsuit relates to the County Seaworthy Ordinance and the disposition of abandoned vessels as well as the eviction of Stuart Hoffman from a marina. This lawsuit is ongoing and still in the pleading stage after two years. The County and lessee defendants have demurrers pending to the plaintiff's most recent complaint. This is the only active lawsuit.

Vice-Chairman Lesser commented that, in the interest of fair journalism, the Argonaut should report that the trial court has dismissed the lawsuits.

CHAIRMAN SEARCY OPENED THE FLOOR TO PUBLIC COMMENT

Ms. Helga Gendell, reporter for the Argonaut, informed the Commission that the lawsuits were not printed in the paper until they had been filed. The paper doesn't print outcomes until the lawsuits are resolved and the Argonaut receives the official documents. Argonaut staff has

checked with the attorney, Mr. Richard Fein, to make sure the cases are still pending. At this time, the suits have not been officially closed. Once that happens and the information is transmitted, it will be printed.

Mr. Faughnan commented that the defendants were asked to prepare a judgment, which the County is doing. It will be submitted to the courts and once it is signed, the case will be dismissed.

7. COMMUNICATION FROM THE PUBLIC

Ms. Andrus stated that members of the community should have opportunity to collaborate on the Beaches and Harbors study. There is also an issue concerning the affordable housing policy, which is scheduled for Board consideration in less than 60 days. She commented that item #16 of the policy, titled "Ownership Units," omits affordable housing in ownership units. Ownership of units on publicly owned land that is under private control is outrageous. At the same time, the affordable housing policy has failed already. It is out of compliance with the Mello Act and state law. This is the silver bullet. Ms Andrus said that Marina del Rey lies within the state coastal zone and is subject to the affordable housing requirement in the act. The act mandates the creation of affordable housing if feasible whenever either existing affordable housing in the coastal zone is removed or new additional housing is constructed. According to the act, feasible means capable of being accomplished in a successful manner within a reasonable period of time taking into account economic, environmental, social and technical factors.

Ms. Andrus asked the Commission to consider the liveaboards as an affordable aspect of living in the Marina. This will help to satisfy the general plan and the need to create general housing. A lot of money will come in for redevelopment, but it can't be taken down to having no affordable housing in the Marina. That is why the Mello Act is here. There is a wonderful opportunity right here and now to protect the boaters under this law.

Ms. Nancy Marino commented on two issues, the first being the Sheriff's statement that the liveaboard rate might be flat once new data is obtained. She said that this would suggest the number of liveaboards has gone down because the number of slips has decreased by nearly 2000. This would show that the liveaboards are down as well. The second issue pertained to a new Long Beach marina. Ms. Marino informed the Commission that a new private marina in the City of Long Beach has slip rates lower than Marina del Rey and a 10% liveaboard policy. She recommended that the County do a survey to determine what the rental rates are.

Chairman Searcy stated that Ms. Marino provided good information and he requested Mr. Wisniewski to conduct the research.

Further, Ms. Marino commented that Marina del Rey is public land and the leases for apartments and slips are a maximum of one year. This is all the renters could get; yet the County wants to sell it to others. She asked how the County could reconcile this with the fact that it has accepted a project proposal for ownership of units in Marina del Rey. The County is allowing eight floors on Parcel 9U on ownership units. Last week, a public hearing introduced a

draft affordable housing policy that made two references to ownership units. This shows how fragmented all of these issues are and how difficult it is for the public to begin addressing some of these things. The public would like a public viewing of Marina del Rey's master plan to resolve the housing issues and LCP. She asked how the public has a chance for appeal before a project is completed. Ms. Marino noted that the only recourse for the public is litigation or a monetary option. It is difficult for the public to begin to state what it considers reasonable redevelopment. She stated that she is not begrudging the County's desire to make a profit, but would like the Commission to recommend to the Board and/or Beaches and Harbors that there be a public review of the Marina del Rey master plan before any of the development projects proceed in the approval process or before any new projects move along.

Mr. Donald Klein requested a current status report on the Marina's development projects.

Chairman Searcy responded that Mr. Klein had a good idea and requested that staff update the Commission on this issue.

Mr. Klein commented that he took exception to Mr. Faughnan's statement about boaters wanting something special that others don't have. Mr. Klein said that the boaters only want the protection of the law.

8. ADJOURNMENT

Chairman Searcy adjourned the meeting at 11:35 a.m.

Respectfully submitted,

Donna Samuels
Commission Secretary

"To enrich lives through effective and caring service"

Los Angeles County Beaches & Harbors
Caring for Your Coast

Stan Wisniewski
Director

Kerry Silverstrom
Chief Deputy

October 5, 2006

TO: Small Craft Harbor Commission

FROM: Stan Wisniewski, Director SWisniewski

SUBJECT: **AGENDA ITEM 3b - MARINA DEL REY AND BEACH SPECIAL EVENTS**

MARINA DEL REY

MARINA DEL REY OUTDOOR ADVENTURES

Sponsored by the Los Angeles County Department of Beaches and Harbors
Burton Chace Park ♦ 13650 Mindanao Way ♦ Marina del Rey ♦ CA ♦ 90292

Harbor Kayaking Program
Saturday, October 21
11:30 am – 1:45 pm

Last chance to come and take a kayaking lesson in Marina del Rey harbor. This two-hour session begins with Los Angeles County Lifeguard instruction and water safety. The group will get the opportunity to enjoy Marina del Rey's basins. This is a great opportunity for families to have a fun and educational day in Marina del Rey.

Program requires pre-registration. Fees are $25 (youths 10–18) and $30 (19 or older). Fees must be paid upon registering.

Surf Kayaking Program
Saturday, October 21
8:00 am – 11:00 am

Los Angeles County Department of Beaches and Harbors is offering its last surf kayaking session for this year. Participants will get the opportunity to kayak through Marina del Rey harbor and head out to the North Jetty, where they will surf the waves aboard sit-on-top kayaks. Los Angeles County Ocean Lifeguards will instruct the outing.

13837 Fiji Way • Marina del Rey • CA 90292 ● 310.305.9503 • fax 310.821.6345 ● internet: http://beaches.co.la.ca.us

Program requires pre-registration. Fees are $25 (youths 10–18) and $30 (19 or older). Fees must be paid upon registering.

For all Outdoor Adventures Programs call: Burton Chace Park at (310) 822-8530.

FISHERMAN'S VILLAGE WEEKEND CONCERT SERIES
Sponsored by Pacific Ocean Management, LLC
All concerts from 2:00 pm – 5:00 pm

Saturday, October 14
Chris Ho Band, playing Jazz

Sunday, October 15
Sullivan Hall, playing R&B

Saturday, October 21
Xtown Traffic, playing R&B and Funk

Sunday, October 22
Bob Desena, playing Latin Jazz

Saturday, October 28
Mark Harrison Quintet, playing Funk & Jazz Fusion

Sunday, October 29
Susie Hansen, playing Hot Latin Jazz

For more information call: Dee Lavell Gilbert at (310) 822-6866.

BEACH EVENTS

5th ANNUAL CARNEVALE VENICE BEACH
Sponsored by the City of Los Angeles Department of Cultural Affairs
Saturday, October 28
Venice Beach at Venice Windward Circle
Noon – 10:00 pm

In the tradition of the famed Carnevale in Venice, the costumed street celebration returns for the fifth year. There will be performances all day, costume contests, arts and crafts vendors, food court, beer and wine garden, Concourso Venezia Car Show, DJ's, Windburn dance area and Burning Man exhibit. Admission is free to the public.

For more information: visit www.Carnevale.US

14th ANNUAL HERMOSA BEACH TRIATHLON AND FESTIVAL
"DAY AT THE BEACH"
Sponsored by City of Hermosa Beach
Sunday, October 15
7:00 am – 11:00 am

The Day at the Beach Triathlon at Hermosa Beach features a fun and safe, beginner-oriented course. The event starts with a cool, refreshing ocean swim (wetsuits are recommended). This is followed by a 10-mile bike course that takes racers down Hermosa Ave towards Redondo Beach and curves back to Hermosa. There will be lots of volunteers and it is always very well marked. The run is out-and-back courses with scenic ocean views, on paved roads. If you are a beginner, this race is an excellent way to start in the sport of triathlon!

For more information call: (818) 707-8867 or register online at www.mesp.com.

SW:DC:mc

"To enrich lives through effective and caring service"

Los Angeles County
Beaches & Harbors
Caring for Your Coast

Stan Wisniewski
Director

Kerry Silverstrom
Chief Deputy

October 5, 2006

TO: Small Craft Harbor Commission

FROM: Stan Wisniewski, Director SWisniewski

SUBJECT: **AGENDA ITEM 5a – TRAFFIC MITIGATION MEASURES WITHIN THE MARINA DEL REY AREA – QUARTERLY REPORT**

Item 5a on your agenda is a quarterly report on traffic mitigation measures within the Marina del Rey area, which Barry Kurtz, the Department of Beaches and Harbors' Transportation Engineer Consultant, will be present to provide at your meeting. In connection with his presentation, Attachment A to this memo provides lists and color-coded maps of transportation improvements that are completed, proposed and under construction.

SW:tm
Attachment

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ATTACHMENT A

COMPLETED TRANSPORTATION IMPROVEMENTS IN THE MARINA DEL REY AREA October 2006

1. Automated Traffic Surveillance And Control System (ATSAC), has been installed at all of the signalized intersections along Admiralty Way and along Via Marina to improve traffic signal synchronization.

2. Admiralty Way at the SBBT Crossing: Public Works installed a marked pedestrian crosswalk with pedestrian signals to the SBBT crossing of Admiralty Way. This measure improved pedestrian access between Admiralty Park and the Library. (Completed 9/05).

3. Admiralty Way/Mindanao Way: Public Works installed a marked crosswalk with pedestrian signals to the south leg of Admiralty Way to allow pedestrians to cross all four legs of the intersection. Public Works added a left-turn arrow for northbound traffic turning westbound into Mindanao Way. (Completed 8/05)

4. Admiralty Way sidewalk improvements and increased left-turn storage on Admiralty Way for the Waterside Shopping Center on Parcel 50. (Completed 9/05)

5. Via Marina: Public Works installed new speed/curve warning signs on Via Marina. Public Works extended the existing raised center median from 216' to 325' south of Old Harbor Lane. These measures have enhanced speed control and safety. (Completed 10/05).

6. Fiji Way: An Engineering and Traffic (E&T) survey has been conducted on Fiji Way as requested by the West LA CHP. The current 35 MPH posted speed limit will remain the same. A radar enforcement sign has been installed on Fiji Way.

7. Water Shuttle and demonstration Beach Shuttle service: Operates during the Summers.

8. Lincoln Blvd/Culver Blvd interchange improvement: Southeast ramp was modified to allow northbound traffic from Lincoln Boulevard to access Culver Blvd.. (Completed summer of 2005).

9. Bluff Creek Road (Teal St) from Lincoln Blvd to Centinela Av was constructed by Playa Vista. The connection at Lincoln Blvd is expected to be completed in 2006.

10. Lincoln Blvd transit system: Playa Vista funded 5 buses for Santa Monica Big Blue Bus; Installed Bus Priority System for Lincoln Blvd; and installed Internal Shuttle System. (Completed 2005).

11. Centinela Av widening: Two lanes in each direction and left-turn lanes.

12. Vista del Mar widening at Culver Blvd to facilitate left turns Culver Blvd to Vista del Mar.

COMPLETED TRAFFIC IMROVEMENTS IN THE MARINA DEL REY AREA

--- NEW ROADS

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PUBLIC WORKS

FEET 2400

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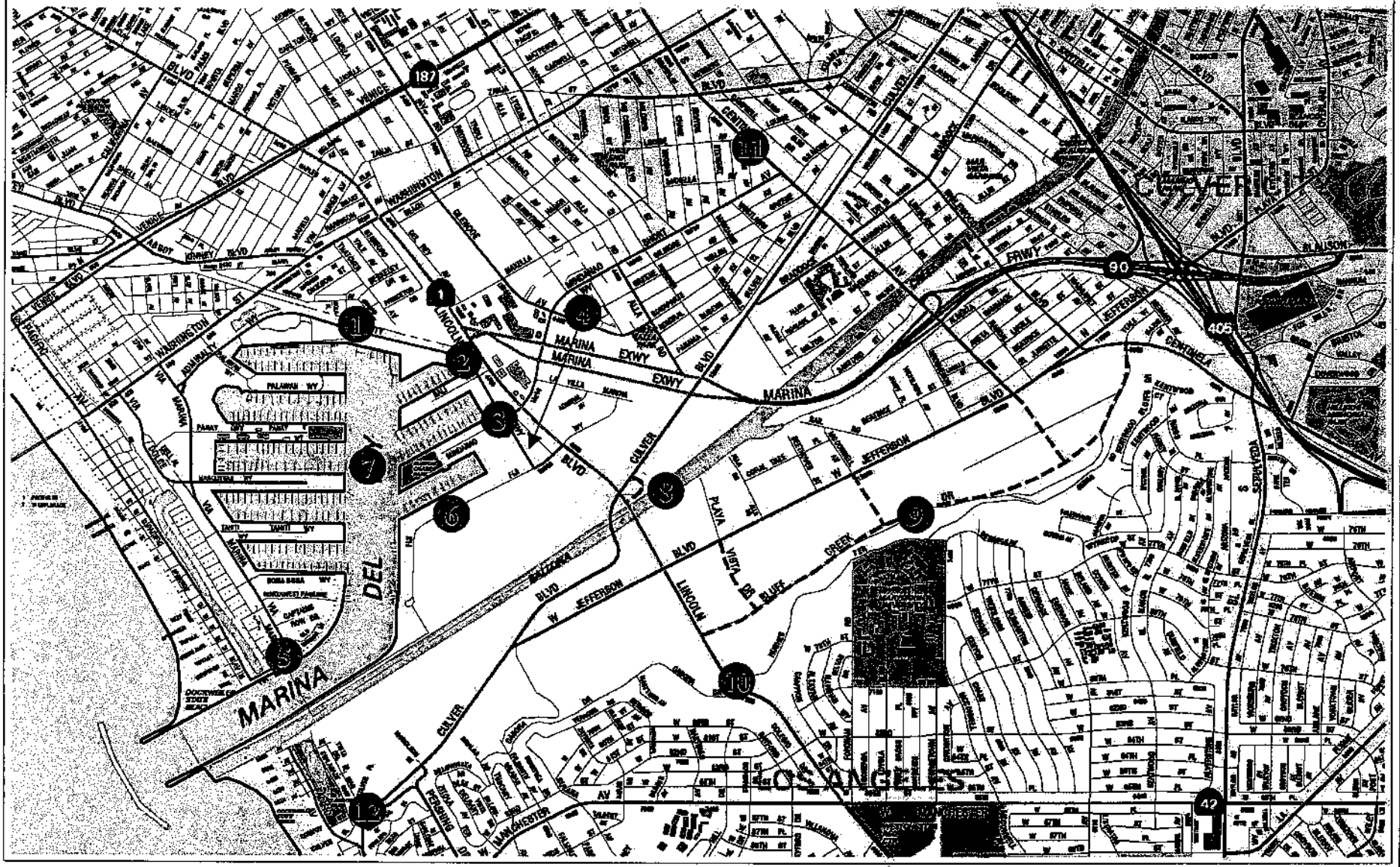

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TRANSPORTATION IMPROVEMENTS UNDER CONSTRUCTION IN THE MARINA DEL REY AREA
October 2006

1. Lincoln Blvd/Mindanao Way Intersection Improvement: Add a separate northbound right-turn lane on Lincoln Blvd at Mindanao Way. (PV 2006).

2. Lincoln Blvd from Bali Way to 83rd St: Add 3rd through lane in each direction. (Caltrans mid 2007).

3. Lincoln Blvd from La Tijera to LMU Drive: Add a 4th northbound lane. (Caltrans 2007)

4. SR 90/Culver Blvd Interchange: Grade separation over SR 90 and interchange construction. (Caltrans Spring 2007). Plant establishment will take another year.

5. SR 90/Centinela Av Interchange: Widen Centinela ramps, modify signals at the interchange, and construction of soundwalls along the north side of the Marina Freeway between Centinela Av and Ballona Creek. (Caltrans Winter 2006).

6. San Diego Freeway high occupancy vehicle (HOV) Lanes from I-10 to SR 90: Construction of 3.6 miles of HOV lanes northbound and southbound on I-405. The construction will also include soundwalls for noise mitigation. (Caltrans Fall 2007).

7. San Diego Freeway HOV Lanes from SR 90 to SR 105: Construction of HOV lanes northbound and southbound on I-104. Soundwalls will be constructed for noise mitigation. (Caltrans Winter 2006).

8. Lincoln Blvd/Bluff Creek intersection: Construct the intersection with signal. (LA City 2006).

NEW ROADS

TRAFFIC IMPROVEMENTS UNDER CONSTRUCTION IN THE MARINA DEL REY AREA

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PUBLIC WORKS

FEET 2400

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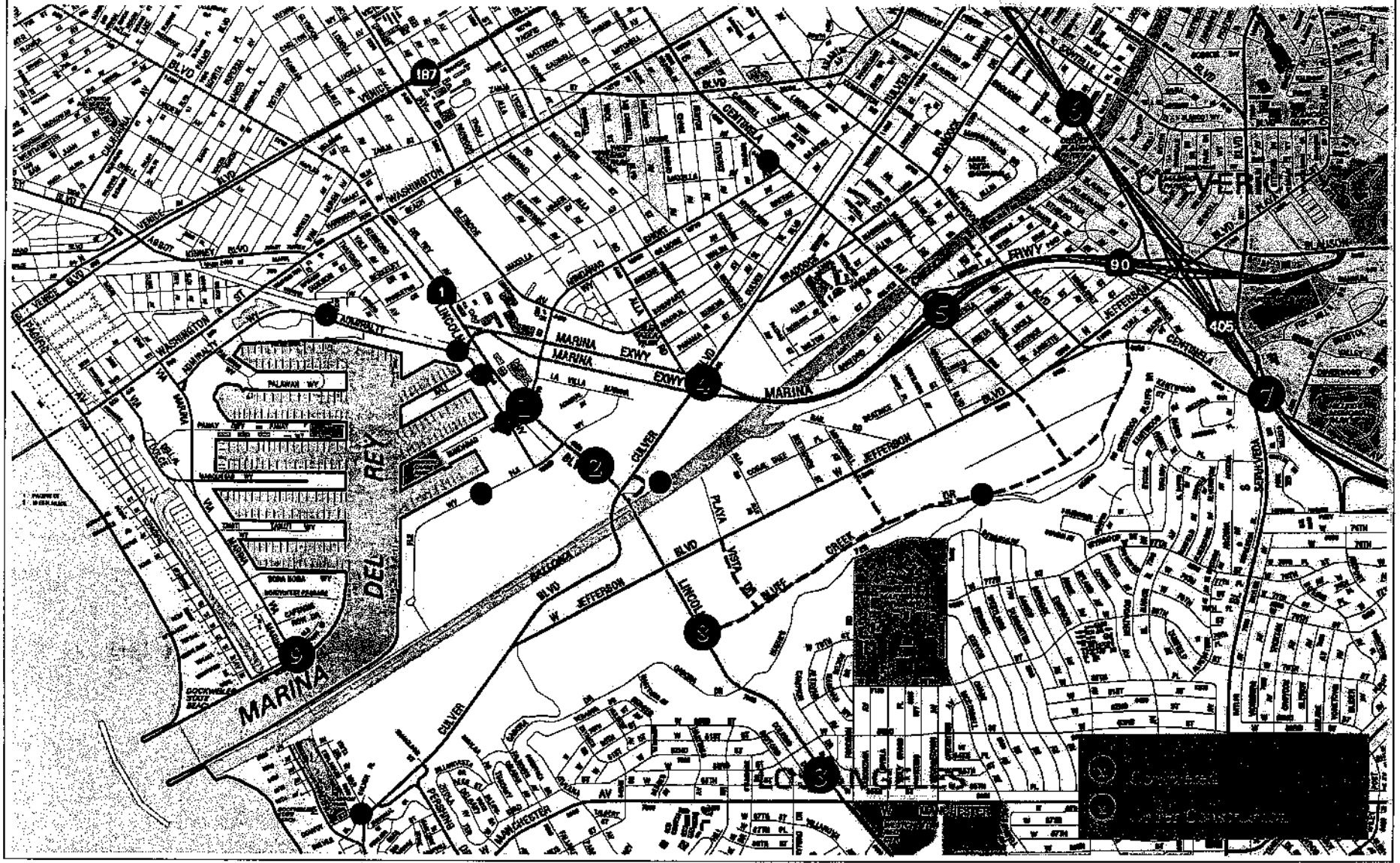

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PROPOSED TRANSPORTATION IMPROVEMENTS IN THE MARINA DEL REY AREA
October 2006

1. Marina Expressway (SR-90) Connector Road to Admiralty Way Project: EIR/EIS to consider the SR 90 Connector Road to Admiralty Way at grade. (County EIR/EIS 2007).

2. Admiralty Way Improvement Project: EIR/EIS to consider either 5-lane alternative within existing right of way or 5/6-lane alternative. (County EIR/EIS 2007).

3. Admiralty Way/Via Marina Intersection Realignment Project: As part of the Admiralty Way Improvement Project, consider the realignment of Admiralty Way to form a continuous loop road with Via Marina. (County EIR/EIS 2007).

4. Admiralty Way/Palawan Way Intersection Improvements: Restripe northbound Palawan Way to provide a separate right turn lane to Admiralty Way and restripe southbound on Palawan Way to provide into a second left-turn lane. (County 2008).

5. Palawan Way/Washington St Intersection Improvement: Reconstruct Palawan Way at Washington St to allow full access. Install a traffic signal at the intersection providing dual left-turn lanes instead of the existing right-turn only lane. (County 2008).

6. Admiralty Way/Mindanao Way Intersection Improvement: Add an exclusive northbound right-turn lane from northbound Admiralty Way to eastbound Mindanao Way. (Future).

7. Lincoln Blvd/Fiji Way Intersection Improvement: Add second left-turn lane on westbound Fiji Way at Lincoln Blvd. (County 2011).

8. Fiji Way Gap Closure of the South Bay Bicycle Trail: Relocate the bicycle route from an on-road bikeway along Fiji Way to an off-road bikeway south of and adjacent to Fiji Way in the right of way previously known as Area A of Playa Vista. (County 2011).

9. Centinela Av Widening from Ballona Creek to Culver Blvd: Add third northbound lane. (PV II 2010).

10. Jefferson Blvd Widening from Beethoven St/Centinela Av: Add fourth eastbound travel lane. (PV II 2007).

11. Sepulveda Blvd Widening from Playa/Jefferson to Green Valley Circle: Add a third southbound lane. (PV 2007).

12. SR 90/Slauson Av Intersection Improvement: Add a third left-turn lane from westbound Slauson Av to SR 90. (PV 2007). Pending City of Culver City approval.

13. Expand Playa Vista's Internal Shuttle System on a Demand /Responsive basis to Marina del Rey, The Bridge, Fox Hills LMU, and Playa del Rey. (PV II 2010).

14. Lincoln Corridor Task Force recommended in March 2004 an exclusive bus lane along Lincoln Boulevard. The bus lane was approved by the City of Santa Monica and is under study by the City of Los Angeles.

PROPOSED TRAFFIC IMROVEMENTS IN THE MARINA DEL REY AREA

— — — NEW ROADS

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GIS SERVICES

PUBLIC WORKS

FEET 2400

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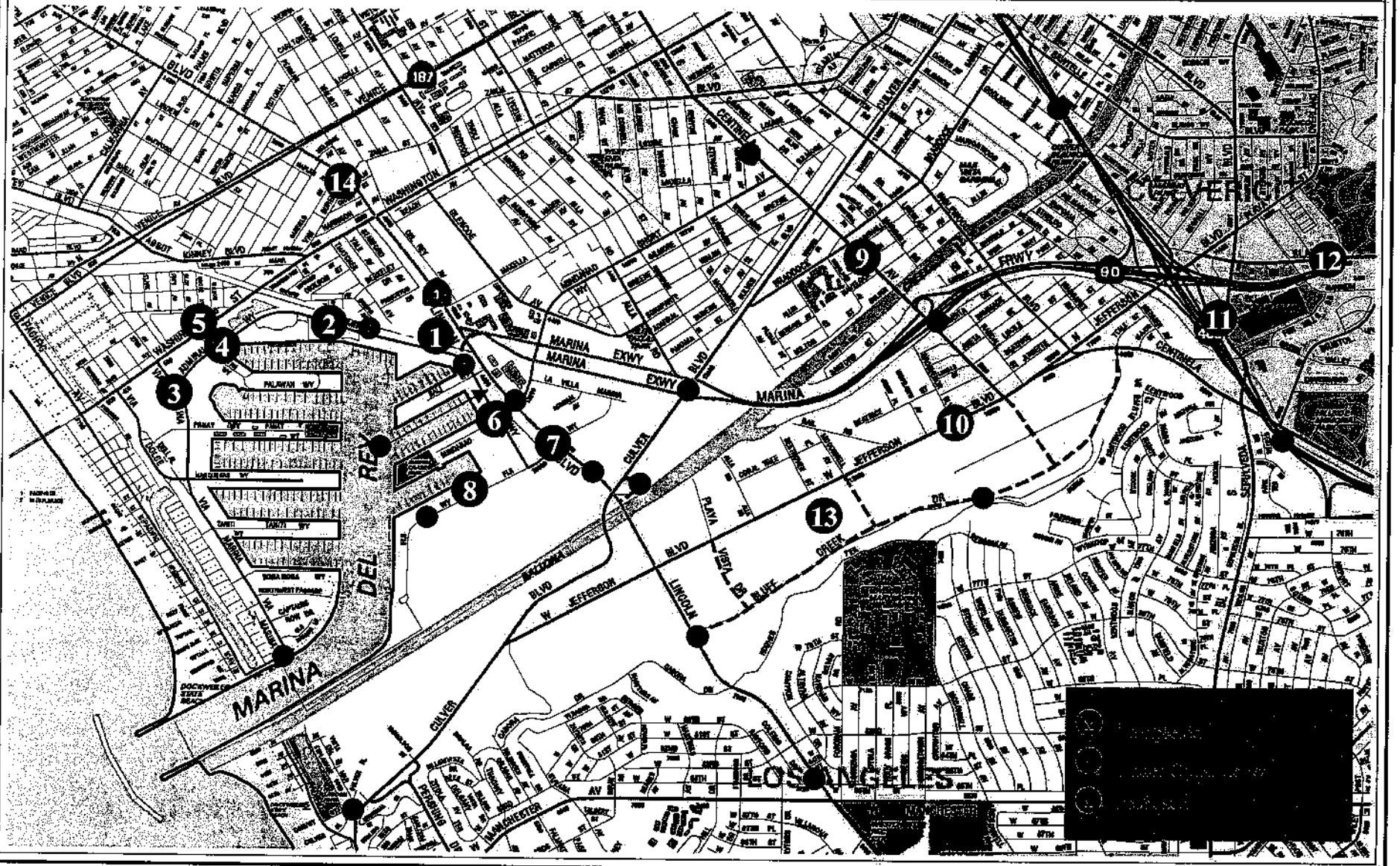

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"To enrich lives through effective and caring service"

Los Angeles County
Beaches & Harbors
Caring for Your Coast

Stan Wisniewski
Director

Kerry Silverstrom
Chief Deputy

October 5, 2006

TO: Small Craft Harbor Commission

FROM: Stan Wisniewski, Director Stan W.

SUBJECT: **AGENDA ITEM 5b – OVERVIEW OF MARINA DEL REY DEVELOPMENT PROJECTS**

At your September 13, 2006 meeting, Chairman Searcy requested an update on development projects in Marina del Rey. Attached is a map illustrating the negotiation and construction status of all Marina projects. Also attached is a table which summarizes the proposed developments as well as the status of regulatory matters. This table is available for viewing on our website at www.bh.lacounty.gov, under the Development/RFP section.

I will refer to the map and table in my presentation on the status of Marina del Rey development projects.

Please feel free to contact me at (310) 305-9522 if you have questions or need additional information.

SW:cm
Attachments

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Marina del Rey Redevelopment Projects
Descriptions and Status of Regulatory/Proprietary Approvals
As of October 5, 2006

Map Key	Parcel No. -- Project Name/Lessee	Lessee Name/ Representative	Redevelopment Proposed	Massing and Parking	Status	Regulatory Matters
1	42/43 - Marina del Rey Hotel/ Pacifica Hotels	Dale Marquis/ Mike Barnard	* Complete renovation	No changes	Proprietary -- term sheet under negotiation Regulatory -- to be determined	
2	52/GG -- Boat Central/ Pacific Marina Development	Jeff Pence	* 345-vessel dry stack storage facility * 30-vessel mast up storage space * Sheriff boatwright facility	Massing -- 75' high boat storage building partially over water and parking with view corridor Parking -- all parking required of the project to be located on site, public parking to be replaced on Parcel 56	Proprietary -- term sheet approved by BOS on July 2006; lease documents in process Regulatory -- DCB application in process	LCP amendment to allow proposed use and to transfer Public Facility use to Parcel 19
3	55/56/W -- Fishermans Village/ Gold Coast	Michael Pashaie/ David Taban	* 132-room hotel * 65,700 square foot restaurant/retail space * 30-slip new marina * 28-foot wide waterfront promenade	Massing -- Nine mixed use hotel/visitor-serving commercial/retail structures (eight are 1 or 2-story and one 60' tall hotel over ground floor retail/ restaurant), parking structure with view corridor Parking -- all parking required of the project to be located on site; must include parking for adjacent Parcel 61 lessee (Shanghai Reds) and replacement parking from Parcel 52	Proprietary -- lease documents approved by BOS Dec 2005 Regulatory -- DCB hearing May 2006, item continued; approved in concept July 2006. Regional Planning application in preparation	Shared parking analysis
4	64 - Villa Venetia/ Lyon Capital	Frank Suryan/ Mark Kelly	* 479-unit residential complex (includes 263 apartments and 216 condominium units) * 3,000 square foot accessory retail space * 18-slip marina with water taxi slip * 28-foot wide waterfront promenade and parkette	Massing -- Three buildings, two that are 140' tall, consisting of 11-12 floors of residential and 2 above-ground parking levels, and the third that is 84' tall, consisting of 6 floors over raised podium and plaza level with expansive covered parking Parking -- all parking required of the project to be located on site	Proprietary -- term sheet under negotiation Regulatory -- on DCB's August 2006 agenda, item heard, continued to October 2006	Affordable housing
5	1 -- Marina del Rey Landing/ Harbor Real Estate	Greg Scheen	* New fuel dock facility with high-speed pumps and automatic payment * 3,000 square foot dock mart and restrooms * New marina with 10 slips and transient berths * Public promenade and public view decks	Massing -- 1-story structure Parking -- all parking required of the project to be located on site	Proprietary -- lease documents approved by BOS May 2006 Regulatory -- DCB application in preparation	
6	10/FF -- Neptune Marina/ Legacy Partners	Jim Andersen	* 526 apartments * 161-slip marina + 7 end-ties * 28-foot wide waterfront promenade * Replacement of public parking both on and off site	Massing -- Four 55' tall clustered 4-story residential buildings over parking with view corridor Parking -- 103 public parking spaces to be replaced off site	Proprietary -- term sheet approved by BOS Aug 2004; lease documents in process Regulatory -- DCB approval in concept June 2006; Regional Planning application in preparation	LCP amendment to allow apartments on Parcel FF Parking permit to allow some replacement public parking off site Replacement of Parcel FF open space Affordable housing
7	9 -- Woodfin Suite Hotel and Vacation Ownership/ Woodfin Hotels	Mark Rousseau	* 19-story, 288-room hotel (152 hotel rooms and 136 timeshare suites) * 5-story, 332-stall parking structure * New public transient docks * 28-foot wide waterfront promenade * Wetland park	Massing -- 19-story hotel with 5-story parking structure, 225' tall, on northern half of parcel with view corridor and wetland park on southern half Parking -- all parking required of the project to be located on site	Proprietary -- revised term sheet under negotiations Regulatory -- DCB initial hearing May 2006, item continued; approved in concept June 2006	Timeshare component Wetland
8	100/101 - The Shores/ Del Rey Shores	Jerry Epstein/ David Levine	* 544-unit apartment complex * 10 new public parking spaces	Massing -- Twelve 75' tall 5-story residential buildings Parking -- all parking required of the project to be located on site plus 10 public beach parking spaces	Proprietary -- term sheet approved by BOS Dec 2003; lease documents in process Regulatory -- Regional Planning approval June 2006	
9	95/LLS -- Marina West Shopping Center/ Gold Coast	Michael Pashaie/ David Taban	* 72-unit apartment complex * 10,000 square foot restaurant * 22,400 square foot commercial space * Gateway parkette on Parcel LLS	Massing -- One 42' tall retail building, three 60' tall mixed-use residential/retail buildings and parkette Parking -- all parking required of the project to be located on site	Proprietary -- term sheet under negotiation Regulatory -- DCB initial hearing May 2006; item also on June and July agenda, but not heard; on again for September 2006 agenda; continued to November 2006	
10	145 - Marina International Hotel/ Pacifica Hotels	Dale Marquis/ Mike Barnard	* Complete renovation	No changes	Proprietary -- term sheet under negotiation Regulatory -- to be determined	
11	OT -- Admiralty Courts/ Goldrich & Kest Industries	Jona Goldrich/ Sherman Gardner	* 114-unit senior care facility * 3,000 square feet of retail space * Replacement public parking both on and off site * Public accessway from Washington to Admiralty	Massing -- One 5-story residential (senior) building over ground-floor retail and parking, 65' tall Parking -- all parking required of the project to be located on site; 92 public parking spaces to remain on site, 94 public parking spaces to be replaced off site near Marina Beach	Proprietary -- term sheet approved by BOS Aug 2005; lease documents in process Regulatory -- DCB conceptual approval August 2005; Regional Planning application filed May 2006, awaiting hearing date	LCP amendment to allow proposed use Parking permit for senior care facility Parking permit to allow some replacement public parking off site
12	33/NR -- The Waterfront	Ed Czuker	* 292 apartments * 32,400 square foot restaurant/retail space * Rooftop observation deck * Replacement public parking both on and off site	Massing -- Three 5-story mixed use residential/retail buildings (two 44' tall and one 61' tall) with view corridor Parking -- 121 public parking spaces to be replaced on site, 70 public parking spaces to be replaced off site	Proprietary -- lease documents in process and economic terms being negotiated Regulatory -- DCB concept approval August 2004; revised project pending DCB consideration	LCP amendment to allow proposed use Parking permit to allow some replacement public parking off site
13	27 -- Jamaica Bay Inn/ Pacifica Hotels	Dale Marquis/ Mike Barnard	* 69 additional hotel rooms * Renovate balance of property * Marina Beach Promenade	Massing -- 4-story, 45' tall, hotel expansion with view corridor Parking -- all parking required of the project to be located on site	Proprietary -- lease documents approved by BOS May 2006 Regulatory -- DCB conceptual approval obtained October 2005; Regional Planning application in preparation	
14	IR -- Marriott Residence Inn/ Pacifica Hotels	Dale Marquis/ Mike Barnard	* 147-room hotel * Replacement of public parking both on and off site * Marina Beach Promenade	Massing -- Two hotel buildings above parking, 45' tall, with view corridor Parking -- 197 public parking spaces to remain on site, 20 or 89 public parking spaces to be replaced off site depending on intersection project	Proprietary -- lease documents approved by BOS Oct 2006 Regulatory -- DCB approved in concept February 2006; Regional Planning application in preparation	LCP amendment to allow proposed use Parking permit to allow some replacment public parking off site
15	21 -- Holiday Harbor Courts/ Goldrich & Kest Industries	Jona Goldrich/ Sherman Gardner	<u>Phase 1</u> * 5-story, 29,300 square foot mixed-use building (health club, yacht club, retail, marine office) * 87-slip marina * 28-foot wide waterfront promenade and pedestrian plaza <u>Phase 2 (Parcel C)</u> * Westernmost portion of land to revert to County for public parking	Massing -- One 56' tall commercial building with view corridor Parking -- all parking required of the project to be located on site, including 94 replacement spaces from OT and Parcel 20 boater parking	<u>Phase 1</u> Proprietary -- lease documents in process Regulatory -- DCB conceptual approval obtained August 2005; Regional Planning application (landside) filed July 2006 <u>Phase 2 (Parcel C)</u> DCB hearing May 2006, item continued	CDP for landside from Regional Planning CDP for waterside from Coastal Commission Parcel 20 CDP amendment from Regional Planning to transfer Parcel 20 Phase 2 (6,025 sf yacht club, 2,300 sf office space, 231 parking spaces) to Parcel 21
16	19 -- Administration Building/ Department of Beaches and Harbors	N/A	* 26,000 square foot County administration building	Massing -- One 56' tall building consisting of 2 floors office space over 3 parking levels Parking -- all parking required of the project to be located on site	Proprietary -- lease documents in process with Parcel 20 lessee for parcel reversion Regulatory -- DCB hearing May 2006, item continued	See Item #2 above

Note: Height information for projects will be shown as information becomes available.

"To enrich lives through effective and caring service"

Los Angeles County
Caring for Your Coast
Beaches & Harbors

Stan Wisniewski
Director

Kerry Silverstrom
Chief Deputy

October 5, 2006

TO: Small Craft Harbor Commission

FROM: Stan Wisniewski, Director Stan W.

SUBJECT: **ITEM 5c – OPTION FOR AMENDED AND RESTATED LEASE TO FACILITATE REDEVELOPMENT - DEL REY SHORES – 4201 TO 4261 VIA MARINA, MARINA DEL REY (PARCELS 100/101)**

Item 5c on your agenda pertains to a proposed extension of the existing lease agreements for Parcels 100S and 101S (Del Rey Shores Apartments) in order to facilitate replacement of the existing 201 apartments with 544 new units, including 37 moderate-income and 17 very low-income units.

Attached is a copy of the Board Letter that explains the details of the proposed transaction. The exhibits to the Board Letter include a copy of the proposed Option for Amended Lease agreements, attached to which is the proposed Amended and Restated Lease Agreement. These documents are currently in draft and are being finalized but will contain substantially the same terms as provided. Should there be any substantive change to these documents, we will re-calendar this matter for your consideration before scheduling it for action by the Board of Supervisors.

Your Commission's endorsement of my recommendation to the Board of Supervisors as contained in the attached letter is requested.

SW:cm
Attachment

13837 Fiji Way • Marina del Rey • CA 90292 • 310.305.9503 • fax 310.821.6345 • internet: http://beaches.co.la.ca.us

"To enrich lives through effective and caring service"

Los Angeles County Beaches & Harbors
Caring for Your Coast

Stan Wisniewski
Director

Kerry Silverstrom
Chief Deputy

October 19, 2006

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

OPTION FOR AMENDED AND RESTATED LEASE TO FACILITATE REDEVELOPMENT – DEL REY SHORES – 4201 TO 4261 VIA MARINA, MARINA DEL REY (PARCELS 100/101)
(4th DISTRICT)
(4 VOTES)

IT IS RECOMMENDED THAT YOUR BOARD:

1. Find that the proposed Option to Amend Lease Agreement ("Option") is categorically exempt under the California Environmental Quality Act pursuant to classes 1 (r) and 4 (j) of the County's Environmental Document Reporting Procedures and Guidelines.

2. Approve and authorize the County Mayor to sign the enclosed Option granting to the current lessees of Parcels 100S and 101S, Del Rey Shores, a joint venture, and Del Rey Shores North, a joint venture, respectively, (collectively "Lessee"), upon fulfillment of stated conditions, the right to extend the term of their existing ground leases (which will be combined into one document) on Parcels 100S and 101S ("Parcels 100/101") by 39 years.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Your Board previously authorized the release of the Invitation to Apply for Lease Extensions on Certain Marina del Rey Parcels, which was intended to seek competitive proposals for the use of available entitlements that would both enable development and allow for the concurrent evaluation of multiple proposals for such developments in order to determine the proposal(s) that best maximizes the County's benefit from those available entitlements. The proposed Option is the result of negotiations initiated as a result of an evaluation committee's recommendation, accepted by the Director of the Department of Beaches and Harbors and approved by your Board, to proceed with negotiations with the Lessee. The enclosed Option is designed to allow the Lessee to

exercise its option and receive the benefits of the Amended and Restated Lease ("Restated Lease"), attached to the Option as Exhibit A, upon demonstration that it has satisfied all of the conditions for exercise contained in the Option and has received all planning, zoning, environmental and other entitlement approvals required to be obtained from governmental authorities for the construction of the development project.

The Restated Lease provides for a 39-year lease extension for Parcels 100/101 and demolition of the current 201 apartments and construction of 544 new apartments. The Restated Lease also puts into effect other modern lease provisions that have been negotiated in other new and extended leases previously presented for your Board's consideration, including: a) establishment of a reserve for capital improvements equal to 1.0% of the gross revenues derived from the leasehold for the first ten years following completion of construction and 2% of the gross revenues derived from the leasehold thereafter; b) establishment of a Renovation Fund that must be funded in the amount of $365,000 annually for 10 years beginning in 2022 and must be fully expended to physically reposition the project to then current market requirements no later than 2035; c) County participation in sale and/or refinance proceeds; d) reimbursement of County administrative/negotiating costs; e) County right to recapture in the event of proposed sale; f) modernized "baseball" type arbitration; g) lease assignment and ownership disclosure requirements; h) a 6% late fee plus interest for any late payments; i) security deposit in the amount of 3 months' minimum rent; j) new insurance requirements with insurance levels renegotiated each 5th lease anniversary date; k) County approval rights over construction plans and specifications; l) CPA-certified annual gross revenue reports; m) required maintenance in conformance with Marina standards; n) liquidated damages of $100 per day per cited maintenance deficiency for each deficiency that remains uncorrected after a specified cure period; and o) establishment of new minimum and percentage rents. If the Lessee does not exercise the Option, the new percentage rents and some of the improved lease terms will nonetheless be incorporated by amendment into the current leases. Once the Lessee has obtained all necessary project entitlements and has fulfilled the other requirements entitling it to exercise the Option, we will return to your Board for authority to execute the Restated Lease in substantially the form attached.

The Department has obtained an appraisal that confirms the returns to the County from the lease extension for Parcels 100/101 are equivalent to, or greater than, fair market value.

Implementation of Strategic Plan Goals

In furtherance of County Goal #4, "Fiscal Responsibility," the recommended action will allow the Department to implement that portion of its Strategic Plan that enhances strategic partnerships with existing and prospective lessees through proactive

implementation of the Marina del Rey Asset Management Strategy toward both revenue maximization and property redevelopment.

The following chart details the proposed deal terms of the Restated Lease providing for the 39-year lease extension as they relate to your Board's existing lease extension policy:

BOARD POLICY ITEM	PROPOSED DEAL TERMS – PARCELS 100/101
REDEVELOPMENT Redevelopment of existing improvements	- Demolition of existing apartment buildings (201 total units). Construction of 544 new apartment units (including 37 moderate income and 17 very low income on-site affordable apartments) in 5-story wood frame buildings over a 2-level parking structure (1 level below grade and 1 level above grade). Construction to be completed within 2 years of lessee's exercise of Option, exclusive of Force Majeure which in no event shall exceed 2 years. - Total development budget to be $95.3 million for direct construction costs. - A capital reserve sinking fund to be funded annually by lessee based upon a percentage of gross revenue equal to 1% per annum for the first 10 years of operations and 2% per annum thereafter, to be maintained during the term of the lease. The Capital Improvement Fund must be fully expended for Permitted Capital Expenditures (PCE) by 7 years prior to the expiration date of the lease. All PCE are subject to prior approval by the Director, not to be unreasonably withheld. -Starting in 2022, for a period of 10 years, a Renovation Fund to be funded annually by lessee in the amount of $365,000 will be maintained. At least the amount of the Renovation Fund, plus interest accrued thereon, must be fully expended to physically reposition the project to then current market requirements, beginning in 2032 with completion no later than 2035. All Renovation Fund expenditures are subject to prior approval by the Director, not to be unreasonably withheld.
EXTENSION TERM	- Option to extend lease for 39 years (from 3/31/2022 to 3/31/2061) is exercisable by lessee within 18 months of grant of Option by Board of Supervisors. Grant of Option will be provided by Board of Supervisors only after lessee has paid an option fee of $100,000. Lessee can exercise Option only after it has obtained all required planning, zoning and entitlement approvals and has provided to County satisfactory evidence of project financing. If lessee is unable to obtain all the necessary entitlement and financing approvals within the 18-month period, the Director may grant, in his discretion, one 6-month extension if lessee can demonstrate it has diligently pursued those approvals. - If lessee obtains its approvals within the 18-month (or 24-month) period, but such approvals are subject to litigation or appeal brought by a third party, then the option exercise date will be tolled pending the resolution of such litigation or appeal; provided, however, that the Option exercise date shall in no event be later than 4 years after the date the Option is granted. - If Option is not exercised, all items in this Term Sheet shall lapse with the exception of items 2, 4, 5, 7, 9, 11, 14, and 16, all or a portion of which shall be incorporated by amendment of the current leases.

EXTENSION FEE Fee equal to or commensurate with value of the extension	- Lessee shall pay a “Minimum Extension Fee” of $1 million, payable as follows: a) Lessee shall pay the above described non-refundable Option fee of $100,000 concurrent with the execution of the Option. Such payment shall be credited against extension fee if the Option is exercised, but shall not be refundable in the event that the Option is not exercised. b) The remaining extension fee balance of $900,000, plus interest on the unpaid balance at the prime rate until paid in full, to be fully payable upon issuance of the certificate of occupancy for the new apartments. - In addition, lessee shall pay an “Additional Extension Fee,” the methodology of which shall be determined by a negotiated formula and will depend upon the year in which 3 consecutive months of stabilized occupancy (95% occupancy each month) is achieved. The amount of the Additional Extension Fee may range from zero to $1.5 million but shall in no event exceed $1.5 million. In the event stabilized occupancy is not achieved by the end of calendar year 2008, the computation tables for succeeding years shall be modified as appropriate by agreement of the parties to achieve a similar result. The Additional Extension Fee is to be paid in equal annual increments over a 4-year period, commencing on the date the Additional Extension Fee is determined to be due, plus interest on the unpaid balance computed at the prime rate

MARKET RATE RENTS Ensure fair market rents	-Minimum Rent: a) Minimum annual rent during the entire demolition and construction period to be $590,000. b) Minimum annual rent for 3 years following completion of construction equal to 75% of total annual average rent to be paid to County based on lessee's projected gross receipts for the first 3 years of operation, to be provided by lessee no later than 3 months prior to completion of construction and reasonably approved by County. - If County and lessee cannot agree on minimum annual rent based upon lessee's projected gross receipts, then lessee will pay County the Minimum Annual Floor Rental Amount. The Minimum Annual Floor Rental Amount shall be the Base Rent Amount (as described below) increased (but not decreased) by the percentage change in the Consumer Price Index (All Urban Consumers for Los Angeles-Riverside-Orange Counties) from January 2002 through the month of the completion of construction. - The Base Rent Amount shall mean 75% of the total rents payable by lessee for the calendar year 2001 multiplied by a fraction, the numerator of which is the number of proposed apartment units (544), minus the units devoted to affordable housing (54), and the denominator of which is the number of existing apartment units (201). c) Commencing with the fourth year after completion of construction, the minimum rent to be reset, and every 3 years thereafter, equal to 75% of the previous 3 years' average total annual rent paid to County. -Percentage Rent: Apartments 10.5% for the first 30 years from completion of the first phase of development. Vending (Owned) – 5% Vending (Commissions) – 20% Miscellaneous – 5% Percentage rents are subject to renegotiation to Fair Market Rental as of the first day of the 20th year following completion of construction, except for the apartment category (see above), and, thereafter for all categories, every 10 years.
PARTICIPATION IN SALE AND REFINANCE Secure County participation in sale and refinance of leasehold	a) Sale Participation: Sale #1 or #2 exempt, if the sale occurs during the first 10 years after issuance of the Certificate of Occupancy ("CO Date"). Subsequent sales: 1% of Gross Proceeds for any sale occurring during years 11 through 25 after the CO Date, and the greater of 2% of Gross Proceeds or 20% of Net Proceeds for any sale taking place thereafter. b) Refinance Participation: 20% of net loan proceeds not reinvested in leasehold. - Exempt, if the refinance occurs during the first 10 years after issuance of the CO Date. - County generally in agreement as to transfers between partners and affiliates or related parties (subject to appropriate definition of related entities) and such transfers will not constitute an obligation to pay a sale participation until an aggregate transfer of interests of 50% or more is reached.

COUNTY ADMINISTRATIVE COSTS Ensure payment for County costs for lease extension and administration	Lessee agrees to reimburse County for costs associated with extension negotiations and option and lease preparation, including all appraisal, consultant, and legal costs.
COUNTY INCOME CONTINUITY Ensure County revenue flow during redevelopment	- Minimum annual rent during the entire demolition and construction period to be $590,000.
RIGHT TO RECAPTURE	- Provide County with the right to purchase the leasehold interest if lessee desires to either assign or sell a controlling interest after expiration of original lease term.
LEASE ASSIGNMENT-DISCLOSURE ISSUES	- Lease assignment and ownership disclosure requirements in accord with standard County policy. County approvals shall not be required with respect to any transfer of ownership interests in lessee or in constituent entities of lessee, if such transfer is to a member of the immediate family of the transferor (or to a trust for the benefit of a member of the immediate family of the transferor) for estate planning purposes, whether such transfer is the result of gift, devise, intestate succession or operation of law. - Transfers to be permitted between partners and affiliates or related parties (for estate planning purposes or otherwise) without triggering obligation for Sale Participation. Additionally, transfers of entity interests to others will not constitute an obligation to pay Sale Participation unless (i) there is an aggregate transfer of more than 50% of the ownership interests, or (ii) the transfer brings the total beneficial interest in lease held by the transferee to over 50%.
APPRAISAL	- The Department has obtained an appraisal that confirms the return to County from the lease extension is equivalent to or greater than fair market value.
ENTITLEMENTS: SITE COVERAGE, HEIGHT & LAND USES	- Density, site coverage, open space, view corridor, building height, entitlements, and land uses are subject to lessee obtaining all County and Coastal Commission planning and entitlement approvals, including that of Design Control Board.

Additional Matters

OTHER TERMS	-Credit: Lessee shall receive a $11.05 million credit, which accrues interest at the County Pool Rate for 10 years from completion of first phase construction, that may be used at any time to offset Construction Period Rent; Minimum or Percentage Rent; or Lease Extension Fees. - A 6% late charge after the 5th day plus interest at Prime + 3% for any late payments from due date until paid. Lessee entitled to waiver of late charge once each year so long as paid within one business day of notice by County. Interest applies to all overdue amounts regardless of notice provisions. - A security deposit equal to 3 months' minimum rent, reset every 5 years. - Insurance levels set initially at execution of restated lease and renegotiated on each 5th anniversary date. - County to maintain approval rights of construction plans and specifications. County approval shall not be required for plans and specifications where all of the following conditions are satisfied: (1) the total cost of the project is less than $100,000 adjusted annually by the ENR Index; (2) none of the construction activity is structural in nature; and (3) none of the proposed construction, additions, modifications or changes affect or are visible from the exterior of the premises. -Certified financial statements prepared by a CPA to be presented to the County within 6 months after the end of each lessee's fiscal year. - Lessee to maintain improvements in conformity with Marina del Rey standards as set forth in new lease document. For all cited maintenance deficiencies that remain uncured after the specified notice and cure periods, liquidated damages in the amount of $100 per day (triennially adjusted for CPI), per item, shall be assessed and paid immediately or released from the security deposit (in which case lessee must fully reinstate security deposit amounts so used), until said items are cured, without prejudice to County's default rights.

If the Lessee does not or is unable to exercise the Option on or before its stated expiration date (including any extensions), it is required to execute amendments to the current leases which will add the following requirements: a) new market rate percentage rents; b) the obligation to reimburse the County's actual costs incurred for outside consultants, County Counsel and the Department's lead negotiator in the review, negotiation, preparation and documentation of the Option and Restated Lease; c) disclosure provisions in the event of lease assignment; d) assessment of a late fee and interest for late payments due the County; e) security deposit equal to 3 months' minimum rent; f) insurance levels newly set and renegotiated every 5 years; g) provision for enhanced audit and record-keeping standards; h) minimum rents to be adjusted every third year to 75% of preceding 3 years' average total rent and renegotiated with percentage rent and insurance provisions each tenth lease year; and i) modernized arbitration provisions.

FISCAL IMPACT/FINANCING

The Restated Lease reflects the County's current market rate percentage rents for all relevant categories. It will produce the fiscal benefit to the County of rent increases due to the replacement of 201 apartments that were constructed in the 1960's with 544 new apartments. The total rent derived from Parcels 100/101 during fiscal year 2006 was approximately $385,000. After construction and stabilization in 2010, our economic consultant has estimated that the total County rent will rise to approximately $1,715,000 annually, an annual increase of approximately $1,330,000.

Lessee shall receive an $11.05 million credit, which accrues interest at the County Pool Rate for 10 years from completion of first phase construction, that may be used at any time to offset Construction Period Rent, Minimum or Percentage Rent, or Lease Extension Fees. The credit is being provided in recognition of construction cost increases and the cost of providing affordable housing.

Costs of consultants and primary County staff involved in the negotiation and development of the Option and Restated Lease are being reimbursed by the Lessee on an ongoing basis.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The County originally entered into two separate ground leases for Parcels 100S and 101S for approximately 58 years and 59 years, respectively. The lease for Parcel 100S commenced on August 28, 1964 and the lease for Parcel 101S commenced on September 24, 1965. Both leases are set to expire on March 31, 2022. The proposed Option allows for the extension of the terms by 39 years until March 31, 2061, for a total term of approximately 97 years and 98 years, respectively, and requires Lessee to

demolish the existing apartment buildings (201 units) and construct 544 new apartment units (including 37 moderate income apartments and 17 very low income apartments). Parcels 100/101 encompass approximately 8.32 acres of land and are currently improved with 201 apartment units. The parcels do not have a water area.

The Lessee's application to the Department of Regional Planning for discretionary land use entitlements under the applicable standards of the Local Coastal Program, including those related to building height and traffic requirements for this project has been approved by the Regional Planning Commission. Approval of the Option is without prejudice to the County's full exercise of its regulatory authority in the consideration of the land use entitlements required for the possible exercise of the Option.

The Lessee has agreed to provide affordable housing units in conformance with the terms and conditions of any permit granted by the appropriate regulatory bodies in connection with the land use entitlements it is seeking but not less than the 37 moderate income units and the 17 very low income units upon which the negotiations were based.

Extension of the existing leases is authorized by Government Code Sections 25907 and 25536. The extended lease term is in conformance with the maximum 99-year period authorized by California law.

On October 11, 2006, the Small Craft Harbor Commission ____ the Director's recommendation to approve and execute the Option. County Counsel has approved the documents as to form.

ENVIRONMENTAL DOCUMENTATION

Approval of the Option is categorically exempt under the California Environmental Quality Act pursuant to classes 1(r) and 4(j) of the County's Environmental Document Reporting Procedures and Guidelines. Execution of the Option does not authorize renovation or construction of any improvements on the parcel.

CONTRACTING PROCESS

Not applicable.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There is no impact on other current services or projects as Parcels 100/101 are one, combined stand-alone project, and all construction activity and staging is planned to take place on-site.

CONCLUSION

Please authorize the Mayor of the Board to execute three originals of the Option and authorize the Executive Officer of the Board to acknowledge the Mayor's signature. Return two executed originals of the Option to the Department of Beaches and Harbors and retain one executed original for your files.

Respectfully submitted,

Stan Wisniewski
Director

Attachments (2)

c: Chief Administrative Officer
County Counsel

SW:PW:CM:dg

DRAFT

OPTION TO AMEND LEASE AGREEMENTS
PARCELS 100S AND 101S – MARINA DEL REY

THIS OPTION TO AMEND LEASE AGREEMENTS ("Agreement") is made and entered into as of the _____ day of _____, 2006, by and between the COUNTY OF LOS ANGELES ("County"), and DEL REY SHORES, a joint venture, and DEL REY SHORES NORTH, a joint venture (collectively, "Lessee").

R E C I T A L S

A. County, as lessor, and Roy Norris, Harold Wiseman and Jerry Epstein, collectively as lessee, entered into Lease No. 8696 dated August 28, 1964 (as amended prior hereto, the "Existing Parcel 100S Lease") concerning the lease of that certain real property in the Marina del Rey Small Craft Harbor commonly known as Parcel No. 100S, as more particularly described in the Existing Parcel 100S Lease (the "Parcel 100S Premises").

B. County, as lessor, and Roy Norris, Harold Wiseman and Jerry Epstein, collectively as lessee, entered into Lease No. 10023 dated September 24, 1965 (as amended prior hereto, the "Existing Parcel 101S Lease") concerning the lease of that certain real property in the Marina del Rey Small Craft Harbor commonly known as Parcel No. 101S, as more particularly described in the Existing Parcel 101S Lease (the "Parcel 101S Premises"). For purposes of this Agreement, the Existing Parcel 100S Lease and Existing Parcel 101S Lease are collectively referred to as the "Existing Leases," and the Parcel 100S Premises and Parcel 101S Premises are collectively referred to as the "Premises."

C. Del Rey Shores, a joint venture, is the current lessee under the Existing Parcel 100S Lease.

D. Del Rey Shores North, a joint venture, is the current lessee under the Existing Parcel 101S Lease.

E. Each of the terms of the Existing Leases are currently scheduled to expire on March 31, 2022 (the "Existing Expiration Date").

F. Lessee has requested County, and County is willing, to grant Lessee an option to amend and restate the Existing Parcel 100S Lease and the Existing Parcel 101S Lease in their entirety upon the terms and conditions more specifically provided herein, including, without limitation, an aggregation of the Parcel 100S Premises and the Parcel 101S Premises under one fully amended and restated lease, and an extension of the term of such lease through March 31, 2061.

A G R E E M E N T

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, County and Lessee agree as follows:

1. Grant of Option. County hereby grants to Lessee an option (the "Option") to amend and restate the Existing Parcel 100S Lease and the Existing Parcel 101S Lease in their entirety upon the terms and conditions more specifically provided herein, including, without limitation, an aggregation of the Parcel 100S Premises and the Parcel 101S Premises under one fully amended and restated lease and an extension of the term of such lease through March 31, 2061 (the "Extended Expiration Date"). Such amended and restated lease shall be in the form of the Amended and Restated Lease Agreement for Parcels 100S and 101S attached to this Agreement as Exhibit A (the "Restated Lease"). The Option shall be exercisable only with respect to both Existing Leases, and Lessee shall have no right to exercise the Option with respect to only one of the Existing Leases. As consideration for County's grant of the Option to Lessee, concurrent with the execution and delivery of this Agreement Lessee shall pay to County the sum of One Hundred Thousand Dollars ($100,000.00) (the "Option Fee"). The Option Fee shall be nonrefundable to Lessee but shall be applied against the Extension Fee set forth in Section 2.2. of the Restated Lease if Lessee exercises the Option.

2. Option Term. The term of the Option (the "Option Term") shall commence on the date of this Agreement and expire on that date (the "Option Expiration Date") which is the earlier of (i) forty-five (45) days following the Entitlement Receipt Date (as defined below), or (ii) eighteen (18) months after the date of this Agreement (the "Outside Expiration Date"); provided, however, that if as of eighteen (18) months after the date of this Agreement the Entitlement Receipt Date has not occurred and in the reasonable judgment of Director of the Department of Beaches and Harbors of the County (the "Director") Lessee has proceeded with best efforts to satisfy all of the conditions to the Entitlement Receipt Date, but has been delayed in doing so as a result of delays beyond normal entitlement processing periods in the processing by the applicable governmental authorities of Lessee's applications for the Entitlements ("Extraordinary Governmental Delays") or as a result of Force Majeure (as defined in the Restated Lease), then upon Lessee's request Director shall extend the Outside Expiration Date. Such extension or extensions shall be limited to the period of any Extraordinary Governmental Delays or Force Majeure delays, as determined in the reasonable judgment of Director, but in no event shall all extensions exceed six (6) months in the aggregate. Director shall have no discretion to extend the Outside Expiration Date if Lessee is in material breach or default of this Option Agreement or the Existing Lease.

For purposes hereof, the "Entitlement Receipt Date" shall mean the first date upon which (a) Lessee has received all discretionary planning and zoning land use entitlement approvals from the County and the California Coastal Commission for the Redevelopment Work (as defined below) (the "Entitlements") and such approvals are final, (b) any appeal period to contest the issuance of the Entitlements has lapsed, and (c) there is no proceeding or litigation pending to appeal the issuance of the Entitlements, or to enjoin or restrain the performance of the Redevelopment Work (not including any proceeding or litigation brought by or on behalf of any partner, shareholder or member of, or any other person or entity affiliated with, or otherwise directly or indirectly having an ownership interest in, Lessee (a "Lessee Affiliate")), or if such a proceeding or litigation has been pending, then the issuance of a dismissal, decision or judgment rendered thereon in favor of the validity of the Entitlements, which dismissal, decision or judgment is not subject to further appeal.

If as of the end of the eighteen (18) month period described above (as such period may have been extended) the Entitlement Receipt Date has not occurred (i) because the Redevelopment Work is the subject of a pending proceeding or litigation to appeal the issuance of entitlements for the Redevelopment Work, or to enjoin or restrain the performance of the Redevelopment Work (other than any proceeding or litigation brought by or behalf of a Lessee Affiliate), or (ii) because of a moratorium, temporary restraining order, injunction or other court order which prohibits the issuance of the Entitlements for the Redevelopment Work and all other similar projects in Marina del Rey on land leased from the County, then as long as Lessee continues to diligently prosecute or pursue the defense or removal of such proceeding, litigation, moratorium or court order, the removal of the Outside Expiration Date shall be extended until not later than forty-five (45) days following the date that such proceeding, litigation, moratorium or court order is resolved in favor in favor of the validity of the Entitlements (with no further right of appeal); provided, however, in no event shall the Outside Expiration Date be extended beyond the fourth (4th) anniversary of the date of this Agreement. Notwithstanding any contrary provision hereof, in no event shall the Outside Expiration Date be extended if Lessee is in material breach or default of this Option Agreement.

For purposes of this Agreement, the "Redevelopment Work" shall mean the demolition of the existing improvements located on the Premises and the construction of five hundred forty-four (544) new apartment units on the Premises (the "New Apartments"), along with all associated improvements, hardscape, landscape and other site work to be performed in connection with the construction of the New Apartments.

3. Exercise of Option. The Option shall be exercisable by Lessee only by Lessee's strict satisfaction on or before the Option Expiration Date of the following terms and conditions: (i) Lessee shall notify County in writing of its exercise of the Option; (ii) as part of the exercise of the Option Lessee shall designate the entity that will execute the Restated Lease as lessee, which entity shall be either one of the entities that collectively constitute Lessee under this Agreement or an entity that controls, is controlled by, or is under common control with, one or both of the entities that collectively constitute Lessee under this Agreement; provided that if the entity designated to execute the Restated Lease as lessee is not one of the entities collectively constituting Lessee under this Agreement, then County shall have the right to approve such entity, which approval shall not be unreasonably withheld and which approval shall be based on the same criteria as set forth in the Restated Lease for an assignment of the Restated Lease by the lessee thereunder; (iii) Lessee shall accompany the notice described in the preceding clause (i) with (1) the execution and delivery to County of the Restated Lease by the entity designated in clause (ii) above, with any blank or bracketed terms set forth in Exhibit A completed in accordance with the terms and provisions of this Agreement, and (2) the execution and delivery to County of an Assignment of Lease and Acceptance of Assignment of Lease in form satisfactory to County pursuant to which each Lessee's interest in the Existing Leases is assigned to the entity that will execute the Restated Lease as lessee (to the extent such entity is different than the Lessee under each particular Existing Lease); (iv) as of the date of Lessee's delivery of the notice described in clause (i) above Lessee shall not be in material breach or default of any term or provision of the Existing Leases, after notice from County and the expiration of any applicable cure period thereunder; (v) the Entitlement Receipt Date shall have occurred and there shall be no action or proceeding pending to contest the Entitlements issued for the

Redevelopment Work or to enjoin or restrain the performance of the Redevelopment Work; (vi) the entity designated to execute the Restated Lease as lessee shall have provided evidence satisfactory to County of its having sufficient financial resources, as reasonably determined by the Director, to complete the Redevelopment Work; and (vii) Director shall have approved the Schematics and Preliminary Plans for the Redevelopment Work pursuant to Sections 4.3.1 and 4.3.2 of this Agreement.

Upon Lessee's proper and timely exercise of the Option, County shall execute and deliver the Restated Lease as soon as reasonably possible thereafter, but, in any event not later than forty-five (45) days following the date of Lessee's exercise of the Option. The Effective Date of the Restated Lease (as defined in the Restated Lease) shall be the date the Restated Lease is executed and delivered by County, which date shall be inserted into page 1 of the Restated Lease concurrent with County's execution and delivery thereof. If Lessee's construction financing is in a position to close within the above forty-five (45) day period County agrees to cooperate with Lessee to effectuate a concurrent closing of the construction financing and County's delivery of the Restated Lease such that the Effective Date of the Restated Lease is the same as the date of the close of Lessee's construction financing; provided, however, in no event shall such agreement to cooperate be interpreted to make the execution and delivery of the Restated Lease contingent upon the close of Lessee's construction financing, nor in any event require an extension of the foregoing forty-five (45) day period or the Effective Date of the Restated Lease if Lessee's construction financing is not then in a position to close.

4. Entitlements and Plan Preparation During Option Term.

4.1 Obtaining Entitlements. During the Option Term, Lessee shall use its best efforts to obtain as soon as possible all Entitlements necessary to perform the Redevelopment Work. Such efforts shall include Lessee's expenditure of such funds, including, without limitation, application fees, travel costs, architectural fees and consulting and lobbying fees, as reasonably necessary to expedite the permit, license and other approval processes.

4.2 County Cooperation. In its proprietary capacity, the Department of Beaches and Harbors of the County of Los Angeles (the "Department") shall cooperate with and assist Lessee, to the extent reasonably requested by Lessee, in Lessee's efforts to obtain the Entitlements. Such cooperative efforts may include the Department's joinder in any application for the Entitlements, where joinder therein by the Department is required or helpful; provided, however, that Lessee shall reimburse County for the Actual Costs (as defined in the Restated Lease) incurred by the Department in connection with such joinder or cooperative efforts. Notwithstanding the foregoing, Lessee and County acknowledge that the approvals given by County under this Agreement and/or the Restated Lease shall be approvals pursuant to its authority under Section 25907 of the California Government Code and given in its proprietary capacity; that approvals given under this Agreement and/or the Restated Lease in no way release Lessee from obtaining, at Lessee's expense, all permits, licenses and other approvals required by law for the construction of the Redevelopment Work and operation and other use of the Premises; and that the Department's duty to cooperate and County's approvals under this Agreement and/or the Restated Lease do not in any modify or limit the exercise of County's governmental functions or decisions as distinct from its proprietary functions pursuant to this Agreement and/or the Restated Lease.

4.3 Plans and Specifications for Redevelopment Work. During the Option Term, the preparation, submittal and approval of the plans and specifications for the Redevelopment Work shall be performed in accordance with the terms and provisions of this Section 4.3. The plans and specifications submitted by Lessee for the Redevelopment Work shall comply with the requirements of the Redevelopment Work set forth in Section 5.1 of the Restated Lease.

4.3.1 Schematics. Not later than sixty (60) days after the date of this Agreement, Lessee shall submit to the Director six (6) sets of schematic plans together with a narrative description clearly delineating the nature, size, configuration and layout of any and all Improvements (as defined in the Restated Lease) to be constructed, altered or modified on the Premises as part of the Redevelopment Work, together with a construction cost estimate summary (collectively, the "Schematics"). Such Schematics shall, among other things, clearly delineate the architectural theme or motif of the Improvements and shall identify and illustrate the boundaries of the Premises and all rights-of-way or other areas reserved to County or third parties which are located thereon. Director shall have sixty (60) days within which to reasonably approve or disapprove the Schematics. Failure of Director to approve the Schematics in writing within said sixty (60) day period shall be deemed disapproval of said submission. After approval of the Schematics (or subsequent approval of the Preliminary Plans, as defined herein) by Director, if changes in such plans are required by conditions of approval of the Improvements imposed by the California Coastal Commission or other governmental agency having jurisdiction thereover (including County in its governmental capacity), Lessee shall promptly advise Director in writing of such changes. Director's approval shall not be required with respect to any changes required by the California Coastal Commission or other governmental agency, as appropriate, unless such changes are a Material Modification (as defined in Section 4.3.3 below) (any such governmental changes which do not require Director's approval pursuant to this provision are referred to as the "Approved Governmental Changes"). Any changes required by the California Coastal Commission or another governmental agency which involve a Material Modification shall require Director's approval, which approval shall not be unreasonably withheld.

4.3.2 Preliminary Plans and Specifications. As soon as practicable, but in no event later than sixty (60) days after the Regional Planning Commission hearing on the Redevelopment Work, Lessee shall submit to Director six (6) sets of preliminary plans, outline specifications and construction cost estimates for the Redevelopment Work (the "Preliminary Plans"). The Preliminary Plans shall conform to, expand upon and reflect a natural evolution from the descriptions set forth in the approved Schematics. Any material difference in the scope, size, configuration, arrangement or motif of the Improvements from those described in the approved Schematics shall be separately identified and described. Director shall have twenty-one (21) days within which to approve or reasonably disapprove such submission, and Director may disapprove said Preliminary Plans only on the grounds that they do not reflect a natural evolution from the approved Schematics or that they materially differ from the approved Schematics, exclusive of any Approved Governmental Changes.

Failure of Director to disapprove said Preliminary Plans within twenty one (21) days after Director's receipt thereof shall be deemed Director's approval thereof; provided, however, that in the event that the Preliminary Plans contain substantial changes from the approved Schematics (other than any Approved Governmental Changes), then Director shall have sixty (60) days in which to approve said submission, which approval shall be deemed withheld if not granted in writing within such sixty (60) day period; and provided further, that together with the submission of the Preliminary Plans Lessee must deliver to Director a transmittal letter containing the following text prominently displayed in bold faced type:

> "PURSUANT TO SECTION 4.3.2 OF THE OPTION TO AMEND LEASE AGREEMENTS, IF THESE MATERIALS CONTAIN NO SUBSTANTIAL CHANGES (OTHER THAN APPROVED GOVERNMENTAL CHANGES) FROM THE MATERIALS PREVIOUSLY SUBMITTED TO YOU, YOU HAVE TWENTY ONE (21) DAYS AFTER RECEIPT OF THESE MATERIALS IN WHICH TO APPROVE OR DISAPPROVE THEM. FAILURE TO DISAPPROVE THESE MATERIALS IN WRITING WITHIN TWENTY ONE (21) DAYS OF YOUR RECEIPT OF THESE MATERIALS SHALL CONSTITUTE YOUR APPROVAL OF THEM."

Following any deemed disapproval of such submission by Director, Director shall, within thirty (30) days after receipt of a written request from Lessee, disclose to Lessee in writing Director's objections to the submission.

4.3.3 Material Modification. For purposes of this Agreement, a "Material Modification" shall mean a modification to the Redevelopment Work as to which any one of the following applies: (1) the total cost of the modifications exceeds one percent (1%) of the total estimated construction cost of the Redevelopment Work; (2) the proposed modification is structural in nature; (3) the modification affects or is visible from the exterior of the Improvements; (4) the modification is not in compliance with the Permitted Uses under the Restated Lease; or (5) the modification changes the total number of units of New Apartments.

5. Alternative Lease Amendment. If Lessee does not exercise the Option on or before the Option Expiration Date (or the Option is not exercisable by the Option Expiration Date), then (a) the Option shall be automatically terminated, and (b) within forty-five (45) days following the Option Expiration Date, County and each applicable Lessee shall execute and deliver an amendment to the Existing Leases (the "Non-Exercise Amendment"), which amendment shall:

(i) amend and restate Sections 11 through 15 of each of the Existing Leases in accordance with all of the terms and provisions of Sections 4.1 through 4.5 of the Restated Lease, except that

(I) paragraphs (a), (b) and (c) of subsection 4.2.1 shall be deleted;

(II) during the first three years following the Effective Date the Annual Minimum Rent under each Existing Lease shall be equal to seventy-five percent (75%) of the average total annual square foot rental and percentage rentals which were payable by Lessee under such Existing Lease during the three (3) year period immediately preceding the Effective Date;

(III) the following shall be added at the end of subsection 4.2.1: "Commencing on the third (3rd) anniversary of the Effective Date and continuing each third (3rd) consecutive anniversary thereafter until the first Renegotiation Date (as defined in Section 4.3 below), and thereafter each third (3rd), sixth (6th) and ninth (9th) anniversaries of each Renegotiation Date (each an 'Adjustment Date' and collectively the 'Adjustment Dates'), the Annual Minimum Rent shall be adjusted as provided in the next sentence. The Annual Minimum Rent shall be adjusted as of each Adjustment Date to the amount which equals seventy five percent (75%) of the average of the total Annual Rent that was payable by Lessee to County under this Lease during the thirty-six (36) month period immediately preceding the Adjustment Date. On each Renegotiation Date, the Annual Minimum Rent shall be adjusted as set forth in Section 4.3 below.";

(IV) the "Applicable Percentage" in subsection 4.2.2(c) shall be ten and one-half percent (10.5%) for each year after the Effective Date;

(V) the first sentence of Section 4.3 of the Restated Lease shall be revised to read as follows: "Effective on the tenth (10th) anniversary of the Effective Date, and each tenth (10th) anniversary thereafter (each a "Renegotiation Date" and collectively, the "Renegotiation Dates"), the Annual Minimum Rent and Percentage Rent shall be readjusted to the Fair Market Rental Value (as defined below) of the Premises."; and

(VI) Section 4.4 shall be deleted;

(ii) add Article 16 of the Restated Lease to each of the Existing Leases;

(iii) amend and restate Section 7 of each of the Existing Leases in accordance with Article 7 of the Restated Lease;

(iv) amend and restate Sections 8 and 10 of each of the Existing Leases in accordance with Sections 5.3, 5.4, 5.8, 5.9, 5.10 and 5.11 of the Restated Lease;

(v) amend and restate Section 18 of each of the Existing Leases in accordance with Sections 2.4 and 2.5 of the Restated Lease;

(vi) amend and restate Sections 22A and 22C of each of the Existing Leases in accordance with Sections 11.1, 11.2 (excepting subsections 11.2.4 and 11.2.5) and 11.3 of the Restated Lease;

(vii) amend Section 26 of each of the Existing Leases to adjust the amount and scope of general liability, automobile liability, garagekeeper's legal liability, workers compensation, and employer's liability insurance coverage required to be carried by Lessee to equal the amounts and coverages set forth in Sections 9.1.1, 9.1.2 and 9.1.3 of the Restated Lease, and to add the provisions of Section 9.6 of the Restated Lease to Section 26 of the Existing Lease;

(viii) amend and restate Sections 30, 31 and 32 of each of the Existing Leases in accordance with Article 14 of the Restated Lease; and

(ix) incorporate into the Existing Lease the definitions of capitalized terms used in the Restated Lease to the extent such terms are used in the Non-Exercise Amendment pursuant to clauses (i) through (viii) above.

For purposes of the Non-Exercise Amendment, all references in the Restated Lease to the "Effective Date" shall mean and refer to the date of the execution and delivery of the Non-Exercise Amendment, but not later than forty-five (45) days following the Option Expiration Date.

6. County Costs. Regardless of whether Lessee exercises the Option, Lessee shall promptly reimburse County for the Actual Costs (as defined in the Restated Lease) incurred by County in the review, negotiation, preparation, documentation and administration of this Agreement, the Restated Lease, any Non-Exercise Amendment, and the term sheets and memoranda that precede or preceded any of the foregoing. The parties acknowledge that Lessee has deposited the sum of One Hundred Twenty Thousand Dollars ($120,000.00) toward those costs. County shall deliver to Lessee an initial report regarding such expenditures within ninety (90) days after the date of this Agreement. County shall thereafter deliver supplemental reports to Lessee for costs, if any, incurred subsequent to the initial report. Lessee shall pay any such Actual Costs incurred by County subsequent to the date of this Agreement within thirty (30) days following receipt by Lessee of an invoice from the County for such Actual Costs.

7. Miscellaneous.

7.1 Time is of the Essence. Time is of the essence of this Agreement, including, without limitation, with respect to all times, restrictions, conditions and limitations set forth herein.

7.2 Waivers. Except as stated in writing by the waiving party, any waiver by either party of any breach of any one or more of the covenants, conditions, terms or provisions of this Agreement shall not be construed to be a waiver of any subsequent or other breach of the same or of any other covenant, condition, term or provision of this Agreement, nor shall failure on the part of either party to require exact, full and complete compliance with any of the covenants, conditions, terms or provisions of this Agreement be construed to in any manner change the terms hereof or estop that party from enforcing the full provisions hereof.

7.3 Notices. All notices required or permitted to be given under this Agreement shall be given in accordance with the terms and provisions of Section 15.10 of the Restated Lease.

7.4 Captions. The captions contained in this Agreement are for informational purposes only, and are not to be used to interpret or explain the particular provisions of this Agreement.

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

7.6 No Assignment. Subject to the provisions of Section 3(ii) and (iii) of this Agreement, Lessee shall have no right to assign or transfer its rights or obligations under this Agreement to any other person or entity, without the express written consent of County, which consent may be withheld by County in its sole and absolute discretion.

7.7 Entire Agreement. This Agreement sets forth the full and complete understanding of the parties relating to the subject matter hereof, and supercedes any and all agreements, understandings and representations made prior hereto with respect to such matters.

7.8 Joint Effort. Preparation of this Agreement has been a joint effort of the parties, and the resulting document shall not be construed more severely against one of the parties than against the other.

7.9 Applicable Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

7.10 Counterparts. This Agreement may be signed in any number of counterparts. Each counterpart shall represent an original of this Agreement and all such counterparts shall collectively constitute one fully-executed document.

7.11 Successors and Assigns. Subject to Section 7.6 above, the rights and obligations of the parties under this Agreement shall be binding upon the parties' respective successors and assigns.

7.12 Exhibits. Exhibit A attached to this Agreement is hereby expressly incorporated herein by reference.

8. Affordable Housing Requirements. Lessee acknowledges and agrees that if Lessee exercises the Option, it shall be required to comply with any County or other governmental agency affordable housing policy or policies in effect from time to time that are applicable to the Redevelopment Work and/or the Premises. In all events, Lessee shall be

required to provide at least seventeen (17) very low income units and thirty-seven (37) replacement moderate income units (as such terms are defined under the California Health and Safety Code) on the Premises for a thirty (30) year covenant period, with household income, rent requirements and bedroom mix that are not more favorable to Lessee than the assumptions that were used by the parties to calculate the amount of the Lessee Credit in Section 4.4 of the Restated Lease. Prior to the parties' execution and delivery of the Restated Lease, the Restated Lease shall be modified to incorporate into the Restated Lease the requirements of any such affordable housing policy that are applicable to the Premises and to provide that any default by Lessee in compliance with such affordable housing policy requirements (after notice and the expiration of the cure period set forth in Section 13.1.3 of the Restated Lease) shall constitute a default by Lessee under the Restated Lease.

IN WITNESS WHEREOF, County and Lessee have entered into this Agreement as of the day and year first written above.

THE COUNTY OF LOS ANGELES

By: _____
Chair, Board of Supervisors

DEL REY SHORES, a joint venture

By: Bryna Investments, L.P.

By: Douglas Ventures LLC, a Delaware limited liability company, General Partner

By: _____
Anne Douglas

By: Epstein Family Trust

By: _____
Jerry B. Epstein, Trustee

By: _____
Pat T. Epstein, Trustee

DEL REY SHORES NORTH, a joint venture

By: Bryna Investments, L.P.

By: Douglas Ventures LLC, a Delaware limited liability company, General Partner

By: _____
Anne Douglas

By: Epstein Family Trust

By: _____
Jerry B. Epstein, Trustee

By: _____
Pat T. Epstein, Trustee

SIGNATURES CONTINUED ON FOLLOWING PAGE

ATTEST:

SACHI HAMAI,
Executive Officer of the Board of Supervisors

By: _____
Deputy

APPROVED AS TO FORM:

RAYMOND G. FORTNER, JR.,
COUNTY COUNSEL

By: _____
Deputy

APPROVED AS TO FORM:

MUNGER, TOLLES & OLSON LLP

By: _____

EXHIBIT A

RESTATED LEASE

DRAFT

AMENDED AND RESTATED LEASE AGREEMENT
PARCELS 100S AND 101S — MARINA DEL REY

THIS AMENDED AND RESTATED LEASE AGREEMENT ("Lease") is made and entered into as of the _____ day of _____, ____ ("Effective Date"), by and between the COUNTY OF LOS ANGELES ("County"), as lessor, and [INSERT NAME OF LESSEE, a _____] (together with its permitted successors and assigns, "Lessee"), as lessee.

W I T N E S S E T H

WHEREAS, County, as lessor, and Roy Norris, Harold Wiseman and Jerry Epstein, collectively as lessee, entered into Lease No. 8696 dated August 28, 1964 (as amended prior hereto, the "Existing Parcel 100S Lease") concerning the lease of that certain real property in the Marina del Rey Small Craft Harbor commonly known as Parcel No. 100S and which is more specifically described as Parcel 100S on Exhibit A attached hereto and incorporated herein by this reference (the "Parcel 100S Premises"), the term of which commenced as of August 1, 1964 and currently extends through March 31, 2022 (the "Existing Expiration Date"); and

WHEREAS, County, as lessor, and Roy Norris, Harold Wiseman and Jerry Epstein, collectively as lessee, entered into Lease No. 10023 dated September 24, 1965 (as amended prior hereto, the "Existing Parcel 101S Lease") concerning the lease of that certain real property in the Marina del Rey Small Craft Harbor commonly known as Parcel No. 101S and which is more specifically described as Parcel 101S on Exhibit A attached hereto and incorporated herein by this reference (the "Parcel 101S Premises"), the term of which also currently extends through the Existing Expiration Date (the Existing Parcel 100S Lease and the Existing Parcel 101S Lease are collectively referred to herein as the "Existing Leases"); and

WHEREAS, immediately prior to the Effective Date the current lessee under the Existing Parcel 100S Lease was Del Rey Shores, a joint venture; and

WHEREAS, immediately prior to the Effective Date the current lessee under the Existing Parcel 101S Lease was Del Rey Shores North, a joint venture (Del Rey Shores, a joint venture, and Del Rey Shores North, a joint venture are collectively referred to herein as the "Existing Lessees"); and

WHEREAS, County and Existing Lessees have entered into that certain Option to Amend Lease Agreements dated _____, 2006 (the "Option Agreement"), pursuant to which County has granted the Existing Lessees an option (the "Option") to amend and restate the Existing Leases in their entirety, upon the terms and conditions more specifically provided herein, including, without limitation, an aggregation of the Parcel 100S Premises and the Parcel 101S Premises under one fully amended and restated lease and an extension of the term of such lease through March 31, 2061; and

WHEREAS, in accordance with the terms and provisions of the Option Agreement each of the Existing Lessees have assigned all of their respective right, title and interest under the Existing Leases and the Option Agreement to Lessee, and Lessee has exercised the Option.

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

1. BACKGROUND AND GENERAL.

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

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

1.1.2 "ACTUAL COST" shall mean (i) the reasonable out-of-pocket costs and expenses incurred by County with respect to a particular activity or procedure, including without limitation, expenditures to third party legal counsel, financial consultants and advisors, (ii) costs incurred in connection with appraisals, (iii) the reasonable value of services actually provided by County's in-house counsel, and (iv) the reasonable value of services actually provided by County's lead lease negotiator/administrator and any other lease auditors and other County administrative staff below the level of deputy director (the administrative level which is two levels below County department head) required by the lead lease negotiator/administrator for technical expertise or assistance. In those instances in which Lessee is obligated to reimburse County for its Actual Costs incurred in performing obligations required to be performed by Lessee under this Lease which Lessee fails to perform within the applicable cure period, if any, provided under this Lease, Actual Costs shall also include a reasonable allocation of County overhead and administrative costs to compensate County for performing such obligations on behalf of Lessee.

1.1.3 "ACTUAL RATIO" shall have the meaning set forth in subsection 2.3.1.

1.1.4 "ADA" shall have the meaning set forth in Section 1.2.

1.1.5 "ADDITIONAL LEASE EXTENSION FEE" shall have the meaning set forth in Section 2.3.

1.1.6 "ADJUSTMENT DATES" shall have the meaning set forth in subsection 4.2.1.

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

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

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

1.1.10 "ANNUAL RENT" shall mean the total of Annual Minimum Rent and Percentage Rent.

1.1.11 "ANNUALIZED GROSS RECEIPTS" shall have the meaning set forth in subsection 2.3.4.

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

1.1.13 "APPLICABLE RATE" shall mean an annually compounded rate of interest equal to the lesser of (a) ten percent (10%) per annum or (b) the Prime Rate, as defined in subsection 4.3.5, plus three percent (3%) per annum; however, the Applicable Rate shall in no event exceed the maximum rate of interest which may be charged pursuant to Applicable Laws. In the event that the Applicable Rate as determined by the first sentence of this definition exceeds such maximum rate of interest, then the Applicable Rate shall be deemed the maximum rate permissible under Applicable Laws notwithstanding the first sentence of this definition.

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

1.1.15 "APPROVED GOVERNMENTAL CHANGES" shall have the meaning set forth in Section 4.3.1 of the Option Agreement.

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

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

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

1.1.19 "BASE RENT AMOUNT" shall have the meaning set forth in subsection 4.2.1.

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

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

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

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

1.1.24 "CALCULATION NOTICE" shall have the meaning set forth in Section 4.7.

1.1.25 "CAPITAL IMPROVEMENT FUND" shall have the meaning set forth in Section 5.12.

1.1.26 "CERTIFICATE OF OCCUPANCY DATE" shall mean the date of receipt of the first Temporary Certificate of Occupancy or other applicable governmental permit, certificate or approval for the legal occupancy of any apartment building constructed on the Premises as part of the Redevelopment Work pursuant to Article 5 of this Lease.

1.1.27 "CHANGE OF OWNERSHIP" shall have the meaning set forth in subsection 4.6.1.

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

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

1.1.30 "COMPARABLE RATIOS" shall have the meaning set forth in subsection 2.3.1.

1.1.31 "COMPLETION DATE" shall mean the date of receipt of a Temporary Certificate of Occupancy or other applicable governmental permit, certificate or approval for the legal occupancy of all apartment buildings constructed on the Premises as part of the Redevelopment Work pursuant to Article 5 of this Lease.

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

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

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

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

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

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

1.1.38 "COUNTY POOL RATE" shall have the meaning set forth in subsection 4.3.5 of this Lease.

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

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

1.1.41 "DIRECT IMPROVEMENT COSTS" shall have the meaning set forth in subsection 2.3.4.

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

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

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

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

1.1.46 "ENCUMBRANCE" shall have the meaning set forth in subsection 12.1.1.

1.1.47 "ENCUMBRANCE HOLDER" shall have the meaning set forth in subsection 12.1.1.

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

1.1.49 "EVENTS OF DEFAULT" shall have the meaning set forth in Section 13.1.

1.1.50 "EXCESS PERCENTAGE RENT PAYMENT" shall have the meaning set forth in subsection 4.2.2.4.

1.1.51 "EXISTING EXPIRATION DATE" shall have the meaning set forth in the preamble to this Lease.

1.1.52 "EXISTING LEASES" shall have the meaning set forth in the preamble to this Lease.

1.1.53 "EXISTING LESSEES" shall have the meaning set forth in the preamble to this Lease.

1.1.54 "EXTENDED TIME" shall have the meaning set forth in Section 15.15.

1.1.55 "EXTENSION FEE" shall have the meaning set forth in Section 2.2.

1.1.56 "EXTENSION FEE BALANCE" shall have the meaning set forth in Section 2.2.

1.1.57 "EXTENSION PAYMENT" shall have the meaning set forth in Section 2.2 of this Lease.

1.1.58 "FAIR MARKET RENTAL VALUE" shall have the meaning set forth in subsection 4.3.1.

1.1.59 "FAMILY MEMBERS" shall have the meaning set forth in Section 11.4.

1.1.60 "FINAL ALTERATION PLANS AND SPECIFICATIONS" shall have the meaning set forth in subsection 5.3.3.

1.1.61 "FINAL REDEVELOPMENT WORK PLANS AND SPECIFICATIONS" shall have the meaning set forth in subsection 5.1.1.

1.1.62 "FINANCING EVENT" shall have the meaning set forth in Section 12.1.

1.1.63 "FIRST PHASE COMPLETION DATE" shall have the meaning set forth in subsection 4.4.1.

1.1.64 "FORCE MAJEURE" shall have the meaning set forth in Section 5.6.

1.1.65 "GROSS ERROR" shall have the meaning set forth in subsection 16.15.4.

1.1.66 "GROSS RECEIPTS" shall have the meaning set forth in subsection 4.2.2.3.

1.1.67 "GROSS RECEIPTS THRESHOLD" for each Supplemental Participation Year shall be as set forth in the table in subsection 4.4.2.

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

1.1.69 "IMPROVEMENT COSTS" shall have the meaning set forth in subsection 4.8.1.1.

1.1.70 “INCOME APPROACH” shall have the meaning set forth in Section 6.5.

1.1.71 “INDIRECT IMPROVEMENT COSTS” shall have the meaning set forth in subsection 2.3.4.

1.1.72 “INITIATING PARTY” shall have the meaning set forth in the first paragraph of Article 16.

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

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

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

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

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

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

1.1.79 “LESSEE CREDIT” shall have the meaning set forth in subsection 4.4.1.

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

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

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

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

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

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

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

1.1.87 "NET TRANSFER PROCEEDS" shall have the meanings set forth in subsections 4.8.1 and 4.8.2.

1.1.88 "NOTICE OF COMPLETION" shall have the meaning set forth in subsection 5.8.7.

1.1.89 "OPTION AGREEMENT" shall have the meaning set forth in the preamble to this Lease.

1.1.90 "PARTIAL TAKING" shall have the meaning set forth in Section 6.5.

1.1.91 "PAYMENT BOND" shall have the meaning set forth in subsection 5.4.3.2.

1.1.92 "PERCENTAGE RENT" shall have the meaning set forth in subsection 4.2.2.

1.1.93 "PERFORMANCE BOND" shall have the meaning set forth in subsection 5.4.3.1.

1.1.94 "PERMITTED USES" shall have the meaning set forth in Section 3.1.

1.1.95 "PREMISES" shall mean the Parcel 100S Premises and the Parcel 101S Premises.

1.1.96 "PRIME RATE" shall have the meaning set forth in subsection 4.3.5.

1.1.97 "PROPOSED TRANSFER" shall have the meaning set forth in subsection 11.2.4.

1.1.98 "PUBLIC WORKS DIRECTOR" shall mean the Director of the Department of Public Works of the County of Los Angeles.

1.1.99 "PURCHASE MONEY NOTE" shall have the meaning set forth in subsection 4.7.2.

1.1.100 "REDEVELOPMENT WORK" shall have the meaning set forth in Section 5.1.

1.1.101 "RENEGOTIATION DATES" shall have the meaning set forth in Section 4.3.

1.1.102 "REPLY" shall have the meaning set forth in Section 16.5.

1.1.103 "REQUIRED COMPLETION DATE" shall have the meaning set forth in Section 5.1.

1.1.104 "RESPONDING PARTY" shall have the meaning set forth in the first paragraph of Article 16.

1.1.105 "REVERSION AMENDMENT" shall have the meaning set forth in Section 5.1.

1.1.106 "SECTION" shall mean a section of this Lease.

1.1.107 "SECURITY DEPOSIT" shall have the meaning set forth in Section 7.1.

1.1.108 "SHALL" and "WILL" are mandatory and the word "MAY" is permissive.

1.1.109 "STABILIZED OCCUPANCY DATE" shall have the meaning set forth in subsection 2.3.4.

1.1.110 "STATE" shall mean the State of California.

1.1.111 "STATEMENT OF POSITION" shall have the meaning set forth in subsection 16.6.

1.1.112 "SUBLEASE" shall have the meaning set forth in subsection 11.1.1.

1.1.113 "SUBLESSEE" shall have the meaning set forth in subsection 11.1.1.

1.1.114 "SUBSECTION" shall mean a subsection of a Section of this Lease.

1.1.115 "SUBSEQUENT RENOVATION" shall have the meaning set forth in Section 5.13.

1.1.116 "SUBSEQUENT RENOVATION FUND" shall have the meaning set forth in Section 5.13.

1.1.117 "SUPPLEMENTAL PARTICIPATION RENT" shall have the meaning set forth in subsection 4.4.2.

1.1.118 "SUPPLEMENTAL PARTICIPATION YEAR" shall have the meaning set forth in subsection 4.4.2.

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

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

1.1.121 "TOTAL IMPROVEMENT COSTS" shall have the meaning set forth in subsection 2.3.4.

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

1.1.123 "UNREASONABLE COUNTY ACT" shall have the meaning set forth in subsection 5.7.2.

1.1.124 "WRITTEN APPRAISAL EVIDENCE" shall have the meaning set forth in Section 16.7.

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

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

quasi-governmental entity ("Applicable Laws") or of any other person or entity (including, without limitation, relevant provisions of the Americans with Disabilities Act ("ADA"), (vii) the presence of any underground storage tank or hazardous materials on, under or about the Premises or the adjoining or neighboring property, (viii) the quality of any labor and materials used in any Improvements, (ix) subject to subsection 1.2.2 below, the condition of title to the Premises, and (x) the economics of the operation of the Premises and/or any Improvements located thereon. Notwithstanding the foregoing, this subsection 1.2.1 shall not alter the parties' rights and obligations under the Existing Leases with respect to any abandoned wells or other environmental conditions existing on the Premises as of the Effective Date.

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

1.2.3 Excluded Conditions. Notwithstanding anything to the contrary set forth herein, the terms and provisions of subsection 1.2.1 shall not be applicable to any sewer, storm drain or other improvements which have been dedicated to (and such dedication has been accepted by) the Department of Public Works of the County ("Excluded Conditions"); provided, however, that this Lease (as opposed to any separate dedication acceptance or other contractual or legal obligation) shall not create any obligation or liability on the part of County with respect to such sewer, storm drain and other improvements.

2. TERM.

2.1 Term. Unless terminated sooner in accordance with the provisions of this Lease, the term of this Lease commenced as to each particular portion of the Premises on the respective commencement date of the term of each of the Existing Leases, and shall expire at 11:59 p.m. on March 31, 2061 ("Term"). For purposes of this Lease, "Lease Year" shall mean each calendar or partial calendar year during the Term of the Lease.

2.2 Extension Fee. In consideration for County's agreement to enter into this Lease, Lessee shall pay to County as hereinafter provided the principal sum of One Million Dollars ($1,000,000.00) (the "Extension Fee"). County received the first One Hundred Thousand Dollars ($100,000.00) of the Extension Fee in the form of the Option Fee that was paid by Lessee by County concurrent with the execution of the Option Agreement. The remaining Extension Fee balance of Nine Hundred Thousand Dollars ($900,000.00) (the "Extension Fee Balance") shall bear interest from the Effective Date until the date of payment at an annual rate, compounded annually, equal to the Prime Rate. For purposes of calculating the accrual of interest on the Extension Fee Balance, the interest rate for the period from the Effective Date through the day preceding the first anniversary of the Effective Date shall be the Prime Rate in effect on the Effective Date. Thereafter, the interest rate shall be adjusted on each anniversary of the Effective Date to equal the Prime Rate in effect on each such adjustment date. The entire outstanding unpaid Extension Fee Balance and all accrued and unpaid interest thereon shall be

due and payable on the earlier of (i) the Certificate of Occupancy Date, or (ii) the Required Completion Date. The Extension Fee Balance (including accrued interest thereon), may be prepaid by Lessee, in whole or in part, at any time. Any failure by Lessee to pay the Extension Fee Balance (and all unpaid accrued interest thereon) by the date required in this Section 2.2 shall constitute a breach by Lessee of the terms and conditions of this Lease and shall give rise to County's remedies as set forth herein, including without limitation County's right to receive a Late Fee in connection with such late payment and/or County's right to terminate this Lease if such breach is not cured after written notice and the expiration of the cure period set forth in subsection 13.1.1 of this Lease. Upon the occurrence of an Event of Default, County shall have the right to declare the entire remaining unpaid Extension Fee Balance (including accrued, but unpaid interest) immediately due and payable.

2.3 Additional Lease Extension Fee. In addition to the Extension Fee and as additional consideration to County for County's execution of this Lease and the extension of the Term set forth herein, Lessee shall also pay to County an additional fee (the "Additional Lease Extension Fee") calculated in accordance with the terms and provisions of this Section 2.3.

2.3.1 Calculation of Additional Lease Extension Fee. The calculation of the amount of the Additional Lease Extension Fee shall be based on a ratio (the "Actual Ratio") equal to the Total Improvement Costs divided by Annualized Gross Receipts (as such terms are defined below). The amount of the Additional Lease Extension Fee shall be determined by a comparison of the Actual Ratio to the comparison ratios (the "Comparison Ratios") set forth in the Additional Lease Extension Fee Table to be prepared by County in accordance with the terms of subsection 2.3.2 below. The Additional Lease Extension Fee shall not be less than $0 nor greater than $1,500,000 (not including interest that accrues thereon). Within ninety (90) days after the Completion Date Lessee shall submit Lessee's determination of the Total Improvement Costs to Director for Director's approval, which approval shall not be unreasonably withheld. The Total Improvement Costs submitted by Lessee shall be certified by Lessee's chief financial officer as being true and correct. During the period from the Certificate of Occupancy Date through the Stabilized Occupancy Date, Lessee shall concurrent with the delivery of its monthly reports of Gross Receipts also deliver to County a leasing report and current rent roll with respect to the lease-up of the residential units as of the close of the previous month. Concurrent with the delivery of its monthly report of Gross Receipts for the month during which the Stabilized Occupancy Date occurs, Lessee shall notify County in writing of the Stabilized Occupancy Date and submit to Director for Director's approval, which approval shall not be unreasonably withheld, Lessee's determination of Annualized Gross Receipts. Following receipt of the foregoing information, County shall proceed with diligence to prepare the Additional Lease Extension Fee Table described in subsection 2.3.2 and based thereon determine the amount of the Additional Lease Extension Fee.

2.3.2 Preparation of Additional Lease Extension Fee Table. Attached to this Lease as Exhibit C are sample tables illustrative of the methodology for the determination of the Additional Lease Extension Fee. The Additional Lease Extension Fee Table shall be prepared by County in the same format as Sample Tables 1 and 2 attached to this Lease as Exhibit C. Sample Table 1 assumes that the Completion Date occurs in

October, 2006, that the Stabilized Occupancy Date (as defined below) occurs in 2007, and that the increase in the Consumer Price Index from February, 2003 to October, 2006 is 10%. Sample Table 2 assumes that the Completion Date occurs in October, 2006, that the Stabilized Occupancy Date occurs in 2008, and that the increase in the Consumer Price Index from February, 2003 to October, 2006 is 10%.

Sample Tables 1 and 2 have been prepared, and the actual Additional Lease Extension Fee Table shall be prepared, in accordance with the following:

(a) The column labeled "Additional Lease Extension Fee" shall be $0 in Line 1 and shall increase by $150,000 in each succeeding line such that the Additional Lease Extension Fee in Line 11 is $1,500,000.

(b) Line 1 of the column labeled "(equal to or greater than)" in the Comparison Ratios columns shall equal (i) $101,709,687 multiplied by the fraction equal to (I) the Consumer Price Index for the month during which the Completion Date occurs, divided by (II) the Consumer Price Index for the month of February, 2003; divided by (ii) $14,400,000 if the Stabilized Occupancy Date occurs in 2008, $14,925,200 if the Stabilized Occupancy Date occurs in 2009, or $15,469,500 if the Stabilized Occupancy Date occurs in 2010. If the Stabilized Occupancy Date occurs after 2010, then the amount in clause (ii) above shall be $15,469,500 increased at an annual compounded rate of 3.65% for the number of years between 2010 and the calendar year during which the Stabilized Occupancy Date occurs.

(c) Line 11 of the column labeled "(less than)" in the Comparison Ratios columns shall equal (i) $93,985,000 multiplied by the fraction equal to (I) the Consumer Price Index for the month during which the Completion Date occurs, divided by (II) the Consumer Price Index for the month of February, 2003; divided by (ii) $16,037,500 if the Stabilized Occupancy Date occurs in 2008, $16,622,400 if the Stabilized Occupancy Date occurs in 2009, or $17,228,600 if the Stabilized Occupancy Date occurs in 2010. If the Stabilized Occupancy Date occurs after 2010, then the amount in clause (ii) above shall be $17,228,600 increased at an annual compounded rate of 3.65% for the number of years between 2010 and the year during which the Stabilized Occupancy Date occurs.

(d) Line 2 of the column labeled "(less than)" in the Comparison Ratios columns shall be the same amount as in Line 1 of the column labeled "(equal to or greater than)" in the Comparison Ratios columns.

(e) Line 10 of the column labeled "(equal to or greater than)" in the Comparison Ratios columns shall be the same amount as in Line 11 of the column labeled "(less than)" in the Comparison Ratios columns.

(f) Line 10 of the column labeled "(equal to or greater than)" shall be subtracted from Line 1 of the same column, and the difference shall be divided by 9. Each line in each column of the Comparison Ratios columns shall thereafter be an amount equal to the amount in the previous line of the same column, reduced by the resulting amount from the first sentence of this paragraph (f).

2.3.3 Payment of Additional Lease Extension Fee. The amount of the Additional Lease Extension Fee shall be determined from the Additional Lease Extension Fee Table based on the comparison of the Actual Ratio to the Comparison Ratios set forth in such table. The resulting Additional Lease Extension Fee, if any, shall be paid in four (4) equal annual installments of twenty-five percent (25%) of the Additional Lease Extension Fee, plus interest at the Prime Rate on unpaid amounts of the Additional Lease Extension Fee from the Stabilized Occupancy Date through the date of payment. The first installment shall be due and payable within thirty (30) days following written notice from County to Lessee of the amount of the Additional Lease Extension Fee. Each of the remaining three (3) installments of the Additional Lease Extension Fee shall be due and payable on or before each of the first three (3) anniversaries of the Stabilized Occupancy Date. Lessee shall accompany each installment of the Additional Lease Extension Fee with payment of the accrued interest on the unpaid amounts of the Additional Lease Extension Fee from the Stabilized Occupancy Date. For purposes of calculating the accrual of interest on the Additional Lease Extension Fee, the interest rate for the period from the Stabilized Occupancy Date through the day preceding the first anniversary of the Stabilized Occupancy Date shall be the Prime Rate in effect on the Stabilized Occupancy Date. Thereafter, the interest rate shall be adjusted on each anniversary of the Stabilized Occupancy Date to equal the Prime Rate in effect on each such adjustment date. The Additional Lease Extension Fee may be prepaid by Lessee in whole or in part at any time without penalty. Lessee's failure by the dates set forth herein to pay the installments (and accrued interest) of the Additional Lease Extension Fee or to deliver the information required to be delivered herein in order to calculate the Additional Lease Extension Fee shall be a material breach by Lessee of this Lease, which breach shall constitute an Event of Default if not cured upon written notice from County and the expiration of the applicable cure period set forth in Section 13.1 of this Lease and shall give rise to County's remedies as set forth herein, including without limitation County's right to receive a Late Fee in connection with such late payment and/or County's right to terminate this Lease if such breach is not cured after written notice and the expiration of the cure period set forth in subsection 13.1.1 of this Lease. At any time during which an Event of Default remain uncured County shall have the right to declare the entire remaining unpaid Additional Lease Extension Fee installments (including accrued, but unpaid interest) immediately due and payable.

2.3.4 Definitions. For purposes of this Section 2.3, the following additional terms shall be defined as set forth in this subsection 2.3.4.

(a) "Annualized Gross Receipts" means the product of (i) aggregate of the Gross Receipts under subsection 4.2.2 of this Lease for the three (3) month period ending on the Stabilized Occupancy Date, multiplied by (ii) four (4).

(b) "Direct Improvement Costs" means the actual out-of-pocket demolition and construction costs paid by Lessee to third parties for the cost of material, labor, equipment and third party contractor's profit and overhead for the demolition of the Improvements existing on the Premises as of the Effective Date and the construction of the Redevelopment Work, including all on-site and off-site improvements required to be constructed in connection with the Redevelopment Work, asbestos abatement in

connection with the demolition of the existing Improvements, the re-routing of utilities, site preparation, and the construction of associated sidewalk, parking, common area, project amenity and landscaping Improvements. For purposes hereof, (i) material costs shall include the out-of-pocket cost paid to third parties for building materials, including freight, handling and storage costs, as applicable; (ii) labor cost shall include all wages paid to third parties and associated taxes, insurance and benefits; (iii) equipment costs shall include the rental cost of all equipment required to perform the Redevelopment Work in a timely manner; and (iv) the contractor's overhead and profit shall include the amounts paid to such contractor for field supervision and project management (but not supervision or project management by Lessee's employee or representative).

(c) "Indirect Improvement Costs" means the (i) out-of-pocket architectural, engineering and environmental fees and expenses paid to third parties in connection with the design and permitting of the Redevelopment Work; (ii) out-of-pocket legal, accounting and consulting fees and expenses paid to third parties in connection with the negotiation and preparation of the Option Agreement, this Lease and the term sheets leading up to such documents, or in connection with the design, permitting and construction of the Redevelopment Work; (iii) possessory interest real estate taxes paid by Lessee with respect each portion of the Premises on which a particular building is located (along with such building's share of common areas) for the period from the Effective Date until a temporary certificate of occupancy is received for such building, prorated as applicable (with the parties agreeing to cooperate to obtain a tax allocation consistent with the foregoing); (iv) out-of-pocket marketing and leasing fees and costs paid to third parties (including actual out-of-pocket costs incurred by Lessee for the operation of a leasing office) in connection with the initial leasing of the residential units in each particular building until a temporary certificate of occupancy is received for such building; (v) out-of-pocket fees and costs paid to third parties to obtain the required governmental permits to perform the Redevelopment Work, including without limitation impact and in-lieu fees; (vi) project management fees (not including the project management fees included in Direct Improvement Costs) and development fees for the performance of the Redevelopment Work (including those payable to both non-affiliates and affiliates), which project management fees and development fees (plus the project management fees included in Direct Improvement Costs) shall not, in the aggregate exceed four percent (4%) of Direct Improvement Costs; and (vii) Monthly Minimum Rent paid by Lessee under this Lease for the period from the Effective Date through the Certificate of Occupancy Date (prorated as applicable); provided, however, that any Monthly Minimum Rent that is paid by application of the Lessee Credit in subsection 4.4.1 against such Monthly Minimum Rent shall not be included in Indirect Improvement Costs. Notwithstanding any contrary provision hereof, total Indirect Improvement Costs shall not exceed thirty-eight percent (38%) of total Direct Improvement Costs.

(d) "Stabilized Occupancy Date" shall mean the last day of the first calendar month during which the new residential units constructed by Lessee pursuant to the Redevelopment Work have been at least ninety-five percent (95%) leased for a three (3) consecutive month period.

(e) "Total Improvement Costs" means the sum of the Direct Improvement Costs and the Indirect Improvement Costs.

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

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

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

2.5.2 Duty to Remove. No earlier than eleven (11) years, and no later than ten (10) years prior to the expiration of the Term, Lessee shall deliver to County a report prepared by a construction and demolition expert approved by County, such approval not to be unreasonably withheld or delayed, which report details and estimates the cost of removing all Improvements on the Premises at the expiration of the Term. County may give written notice (the "County Removal Notice") at any time, no later than seven (7) years prior to the expiration of the Term or concurrently upon any earlier termination, of County's election to require Lessee to remove, at the sole cost and expense of Lessee, not later than the expiration of the Term or earlier termination of this Lease, all or any portion of the at grade, above grade and below grade Improvements of any kind whatsoever placed or maintained on the Premises, whether placed thereon or maintained by Lessee or others, including, but not limited to, concrete foundations, pilings, structures and buildings; and if such structures are required to be removed by Lessee, then Lessee shall, upon the expiration or termination of this Lease, immediately restore, and quit, and peacefully surrender possession of, the Premises to County in good, usable and buildable condition, consisting of a level, graded buildable pad with no excavations, hollows, hills or humps.

Lessee shall have the right, by written notice to County not later than thirty (30) days prior to the expiration of the Term, to extend the date by which Lessee must complete the Improvement removal and Premises surrender obligations under this subsection 2.5.2 and/or the Lessee's removal obligations under subsection 2.5.4 below to a date not more than one hundred twenty (120) days after the expiration of the Term; provided, however, that all of the Lessee's obligations and liabilities under the Lease (other than the obligation to affirmatively operate the Premises) shall be applicable during such additional period, including without limitation, the Lessee's obligations with respect to insurance and indemnification, and Lessee's obligation to pay County compensation for such period (the "Extension Rent") in an amount equal to (a) the Monthly Minimum Rent rate in effect immediately prior to the expiration of the Term multiplied by 1.333, for each month of the extension, plus (b) an amount for each month of the extension equal to the amount, if any, by which one-twelfth (12th) of the aggregate Percentage Rent payable by Lessee for the most recent twelve (12) month period during which the Premises was fully operational (without offset by Monthly Minimum Rent) exceeds the monthly amount in clause (a) above. As a condition precedent to the extension described in this paragraph, Lessee shall be required to pay County the Extension Rent in advance prior to the scheduled expiration of the Term.

If County elects to require Lessee to remove Improvements hereunder pursuant to the County Removal Notice, Lessee shall, no later than the date which is thirty (30) days after Lessee's receipt of the County Removal Notice, provide County with a written plan which sets forth Lessee's proposed method of securing the discharge of Lessee's removal and restoration obligations pursuant to this subsection. Such security plan shall detail (i) the form of security proposed by Lessee, which security shall be either a deposit of funds, or a letter of credit, bond or other form of security in form and amount, and from an issuer, satisfactory to County, and (ii) a schedule satisfactory to County for the delivery by Lessee of the security described in clause (i) above, which schedule shall in all events provide for a full funding of the security not later than two (2) years prior to the expiration of the Term. The amount of the deposit or letter of credit, bond or other security shall be no less than the estimated costs to remove the Improvements set forth in the report described above, adjusted annually to reflect the increase or decrease, if any, in the ENR Index over the ENR Index as of the date of cost estimation set forth in such expert report; provided, however, that in no event shall such adjustment result in a deposit or letter of credit, bond or other security of an amount less than that set forth in the expert report. Any uncured failure by Lessee to deliver the removal and restoration security described in this subsection 2.5.2 shall constitute an Event of Default. If County fails to elect to require Lessee to remove the buildings, structures and Improvements on the Premises as provided above, then upon the expiration of the Term, or earlier termination of the Lease, Lessee shall turn over the Premises to County in good and workmanlike condition, consistent with the condition of other buildings, structures and Improvements of comparable age and construction quality.

2.5.3 <u>County's Right to Remove Improvements</u>. Should Lessee fail to so remove said structures, buildings and Improvements and restore the Premises, County may sell, remove or demolish the same, in event of which sale, removal or demolition Lessee shall reimburse County for any cost or expense thereof in excess of any funds

received by County through the security above provided and any consideration received by County as a result of such sale, removal or demolition.

2.5.4 Duty to Remove Equipment, Etc. No later than the expiration of the Term or sooner termination of this Lease (or within the additional one hundred twenty (120) day period described in Section 2.5.2 above), Lessee shall in any event remove at its cost and expense such furniture, equipment and personal property as are not firmly affixed to said structures, buildings and Improvements or reasonably necessary for the orderly operation of the Premises. Should Lessee fail to so remove said furniture, equipment and personal property within said period, and said failure continues for thirty (30) days after written notice from County to Lessee, Lessee shall lose all right, title and interest in and thereto, and County may elect to keep the same upon the Premises or to sell, remove, or demolish the same, in event of which sale, removal, or demolition Lessee shall reimburse County for its Actual Costs incurred in connection with such sale, removal or demolition in excess of any consideration received by County as a result of said sale, removal or demolition.

2.5.5 Title to Certain Improvements Passes to County; Lessee to Maintain. As between County and Lessee, title to all utility lines, transformer vaults and all other utility facilities constructed or installed by Lessee upon the Premises shall vest in County upon construction or installation to the extent that they are not owned by a utility company or other third party provider. Notwithstanding that title shall vest in County, all utility lines, transformer vaults and all other utility facilities (other than any sewer, storm drain or other utility systems which have been dedicated to and accepted by County pursuant to a dedication separate from this Lease), shall be maintained, repaired, and replaced, if and as needed, by Lessee during the Term.

3. USE OF PREMISES.

3.1 Specific Primary Use. The Premises shall be used by Lessee for the operation and management of (i) a residential apartment project, and (ii) such other related and incidental uses as are specifically approved by County (collectively, the foregoing shall be referred to herein as the "Permitted Uses"). Except as specifically provided herein, the Premises shall be used for no other purpose without the prior written consent of County. County makes no representation or warranty regarding the continued legality of the Permitted Uses or any of them, and Lessee bears all risk of an adverse change in Applicable Laws.

3.2 Prohibited Uses. Notwithstanding the foregoing:

3.2.1 Nuisance. Lessee shall not conduct or permit to be conducted any private or public nuisance on or about the Premises, nor commit any waste thereon. No rubbish, trash, waste, residue, brush, weeds or undergrowth or debris of any kind or character shall ever be placed or permitted to accumulate upon any portion of the Premises, except in appropriate receptacles intended for such purposes, nor shall any portion of the Premises be maintained so as to render said Premises a fire hazard or unsanitary, unsightly, offensive, or an imminent risk to public health and safety, nor shall any similar activity be permitted on any adjacent public street or adjacent property.

Lessee shall be permitted to perform the Redevelopment Work on the Premises, provided that such work is conducted in compliance with Article 5 of this Lease.

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

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

3.2.2.2 The Premises shall not be used or developed in any way in a manner inconsistent with the Permitted Uses. Without limiting the foregoing, no part of the Premises shall be used by any person for any adult entertainment purposes, as such term refers to graphic, explicit and/or obscene depictions of sexual activity; provided, however, that this subsection 3.2.2.2 shall not be interpreted to regulate in violation of applicable law the private activity of an individual that is confined to such individual's private residence;

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

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

3.2.2.5 Without the prior written reasonable approval of Director, no antennae or other device for the transmission or reception of television signals or any other form of electromagnetic radiation shall be erected, used or maintained by Lessee outdoors above ground on any portion of the Premises, whether attached to an improvement or otherwise; provided that the foregoing requirement to obtain Director's approval as to any antennae or other transmission or reception devices shall be inapplicable to the extent that such requirement violates Applicable Law;

3.2.2.6 No tools, equipment, or other structure designed for use in boring for water, oil, gas or other subterranean minerals or other substances, or designed for use in any mining operation or exploration, shall hereafter be erected or placed upon or adjacent to the Premises, except (i) as is necessary to allow Lessee to perform its maintenance and repair obligations pursuant to this Lease, and (ii) for such boring or drilling as necessary to perform water testing or monitoring, or any dewatering program to relieve soil water pressure;

3.2.2.7 Except for the Excluded Conditions, no adverse environmental condition in violation of Applicable Laws shall be permitted to exist on any portion of the Premises, nor shall any toxic or hazardous wastes be permitted to be generated, treated, stored, disposed of, or otherwise deposited in or on or allowed to emanate from the Premises or any portion thereof, including, without limitation, into the surface waters and subsurface waters thereof; provided, however, that toxic or hazardous substances may be stored or used, so long as such storage and use is (a) ancillary to the ordinary course of business of an otherwise Permitted Use with the intent that such substances will be used in the ordinary course of business, and (b) conducted in compliance with all Applicable Laws; and

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

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

3.4 Signs and Awnings. Any and all art, displays, identifications, monuments, awnings, advertising signs and banners which are placed on, or are visible from, the exterior of the Premises shall be only of such size, design, wording of signs and color as shall have been specifically submitted to and approved by Director (and to the extent required under then Applicable Law, the Design Control Board), whether pursuant to Article 5 of this Lease or otherwise, in writing, prior to the erection or installation of said art, sign, display, identification, monument, awning or advertising sign. Director shall not unreasonably withhold its approval of the matters described in this Section 3.5. Any dispute as to whether Director has unreasonably withheld its approval of a matter described in this Section 3.4 shall be submitted to arbitration pursuant to Article 16 of this Lease.

3.5 Compliance with Regulations. Lessee shall comply with all Applicable Laws and shall pay for and maintain any and all licenses and permits related to or affecting the use, operation, maintenance, repair or improvement of the Premises. Without limitation of the foregoing, Lessee shall comply with all conditions and requirements of Coastal Development Permit No. _____ **[INSERT COASTAL DEVELOPMENT PERMIT INFORMATION PRIOR TO LEASE EXECUTION],** which conditions and requirements are incorporated into this Lease by this reference. **[PRIOR TO LEASE EXECUTION INSERT**

REFERENCE TO ANY AFFORDABLE HOUSING REQUIREMENTS APPLICABLE TO NEW APARTMENTS.]

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

3.7 Reservations. Lessee expressly agrees that this Lease and all rights hereunder shall be subject to all prior encumbrances, reservations, licenses, easements and rights of way existing as of the dates of the respective Existing Leases or otherwise referenced in this Lease in, to, over or affecting the Premises for any purpose whatsoever, and also subject to any other encumbrances, reservations, licenses, easements and rights of way consented to by Lessee.

Without limiting the foregoing, Lessee expressly agrees that this Lease and all rights hereunder shall be subject to all prior matters of record and the right of County or City existing as of the Effective Date or otherwise disclosed to or known to Lessee, as their interests may appear, to install, construct, maintain, service and operate sanitary sewers, public roads and sidewalks, fire access roads, storm drains, drainage facilities, electric power lines, telephone lines and access and utility easements across, upon or under the Premises, together with the right of County or the City to convey such easements and transfer such rights to others. Notwithstanding the foregoing or anything herein to the contrary, County agrees to cooperate with Lessee, at Lessee's cost, in Lessee's efforts to address title matters, if any, which would prevent Lessee from proceeding with the redevelopment of the Premises in accordance with the Redevelopment Work, as long as such efforts do not materially adversely affect the County (e.g., cooperating with Lessee in the relocation at Lessee's cost of any easements which interfere with the Redevelopment Work, to the extent such relocation is reasonably acceptable to County).

4. PAYMENTS TO COUNTY.

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

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

4.1.2 Taxes and Assessments. Lessee agrees to pay before delinquency all lawful taxes, assessments, fees, or charges which at any time may be levied by the State,

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

The parties acknowledge that the Premises are and shall continue to be subject to possessory interest taxes, and that such taxes shall be paid by Lessee. This statement is intended to comply with Section 107.6 of the Revenue and Taxation Code. Lessee shall include a statement in all Subleases to the effect that the interests created therein are derived from the Lessee's interest under this Lease and that Lessee's interest requires the payment of a possessory interest tax.

4.2 Rental Payments. Throughout the Term, for the possession and use of the Premises granted herein, Lessee shall pay County (a) the Annual Minimum Rent described in subsection 4.2.1 below, and (b) the Percentage Rent described in subsection 4.2.2 below. For purposes of this Lease "Annual Rent" shall mean the aggregate of the Annual Minimum Rent and Percentage Rent.

4.2.1 Annual Minimum Rent and Monthly Minimum Rent. Lessee shall pay to County the minimum rent described in this subsection 4.2.1 (subject to adjustment pursuant to Section 4.3 below) during each Lease Year of the Term (the "Annual Minimum Rent"). Annual Minimum Rent shall be payable by Lessee to County on a monthly basis in equal installments of one-twelfth (1/12th) of the Annual Minimum Rent (the "Monthly Minimum Rent"); provided, however, if any Lease Year is shorter or longer than a calendar year, then the Annual Minimum Rent shall be calculated on a pro rata basis based on the number of days in the applicable period as compared to 365, and Monthly Minimum Rent shall be payable in equal monthly installments of such pro rata Annual Minimum Rent.

(a) During the period from the Effective Date through the day preceding the earlier of the Completion Date or the Required Completion Date, the Annual Minimum Rent shall be Two Hundred Fifty Two Thousand Seven Hundred Thirty-Three Dollars ($252,733.00) per year.

(b) Commencing on the earlier of the Completion Date or the Required Completion Date and continuing until the end of the calendar year in which the third (3rd) anniversary of the Completion Date occurs, the Annual Minimum Rent shall be equal to the product of (a) the average total Annual Rent projected to be payable by Lessee for the three (3) year period after the Completion Date, multiplied by (b) .75. Not later than three (3) months prior to the earlier of the projected Completion Date or the

Required Completion Date, Lessee shall deliver to County for County's reasonable approval Lessee's projected Gross Receipts for the three (3) year period following the Completion Date, which projected Gross Receipts, as reasonably approved by County, shall be used to calculate the average total Annual Rent projected to be payable by Lessee for such three (3) year period. If County and Lessee are unable to agree upon such projected Gross Receipts and average total Annual Rent, then the Annual Minimum Rent payable during the period described in this paragraph (b) shall be the Minimum Annual Floor Rental Amount (as defined below). The "Minimum Annual Floor Rental Amount" shall be the Base Rent (as defined below) increased (but not decreased) by the percentage change in the Consumer Price Index from the month of January, 2002 through the month during which the Completion Date occurs. The "Base Rent Amount" shall mean the aggregate of the total annual square foot rentals and percentage rentals that were payable by the Existing Lessees under the Existing Leases for calendar year 2001, multiplied by 2.43 (for purposes of clarification, 2.43 equals (i) the number of new apartment units to be constructed as part of the Redevelopment Work [544], less the number of such units required to be devoted to affordable housing [54] (or which would have been required to be devoted to affordable housing but for payment of an in lieu fee), divided by (ii) the number of existing apartment units on the Premises immediately prior to the Effective Date.

(c) Commencing on the first January 1 following the third (3rd) anniversary of the Completion Date and continuing every three (3) years thereafter until the first Renegotiation Date (as defined in Section 4.3 below), and thereafter each third (3rd), sixth (6th) and ninth (9th) anniversaries of each Renegotiation Date (each an "Adjustment Date" and collectively the "Adjustment Dates"), the Annual Minimum Rent shall be adjusted as provided in this paragraph (c). The Annual Minimum Rent shall be adjusted as of each Adjustment Date to the amount which equals seventy five percent (75%) of the average of the total Annual Rent that was payable by Lessee to County under this Lease during the thirty six (36) month period immediately preceding the Adjustment Date. On each Renegotiation Date, the Annual Minimum Rent shall be adjusted as set forth in Section 4.3 below.

4.2.2 Percentage Rent. For the purposes of this Lease, "Percentage Rent" for any given year shall be defined as the sum of the amounts set forth in this Section 4.2.2, less the Annual Minimum Rent for such month or year. Gross Receipts (as defined herein) from each transaction, sale or activity of Lessee and/or any sublessee shall be reported under one or more of the following percentage categories, as applicable. It is understood that Article 3 of this Lease provides for the Permitted Uses of the Premises and that the percentage categories listed below are not all applicable to this Lease and are in no way intended to expand or modify the Permitted Uses. Director, by Policy Statement and with the approval of Lessee, Auditor-Controller and County Counsel, has interpreted and may further interpret the percentage categories as set forth in this subsection 4.2.2, with such determinations and interpretations to be a guideline in determining the appropriate categories. Within fifteen (15) days after the close of each and every calendar month of the term hereof, Lessee shall file a report of Gross Receipts and pay to County a sum equal to the total of the following percentages for said previous month, less the amount of the Monthly Minimum Rent paid for said previous month:

(a) RESERVED;

(b) TWENTY PERCENT (20%) of Gross Receipts from the rental or other fees charged for the use of dry storage facilities and landside storage space;

(c) The "APPLICABLE PERCENTAGE" (as defined below) of Gross Receipts or other fees charged for (1) the occupancy of apartments, (2) the rental or use of meeting rooms, or (3) the rental or use of land and/or facilities for activities not otherwise provided for in this section, such as but not limited to television, motion pictures or other media filming purposes; for purposes hereof, "Applicable Percentage" shall mean (i) two and one-half percent (2.5%) with respect to Gross Receipts attributable to the first three (3) years after the Completion Date; (ii) five percent (5.0%) with respect to Gross Receipts attributable to the fourth (4th) and fifth (5th) years after the Completion Date; and (iii) ten and one-half percent (10.5%) with respect to Gross Receipts attributable to the sixth (6th) and each subsequent year during the Term of this Lease;

(c1) TWELVE PERCENT (12%) of Gross Receipts or other fees charged for the occupancy of (1)offices utilized for banking, financial or investment activities, internal clerical or administrative activities (other than Lessee's management office), business enterprises, real estate and insurance brokerage, legal, medical, engineering, travel agencies, yacht club purposes, or similar uses; or (2) restaurants, stores, shops, or other commercial establishments; provided that, except as provided in subsection 4.2.2.5, Gross Receipts or other fees charged for the occupancy of restaurants, stores, shops or other commercial establishments shall not be included in the calculation of Percentage Rent under this subsection (c1) if the Gross Receipts from the operation of such businesses are required to be reported under other paragraphs of this subsection 4.2.2;

(d) RESERVED;

(e) RESERVED;

(f) With respect to service enterprises, including, without limitation, cable television, internet, satellite, telecommunication or other antennae fees, telephone and other utility services, and valet parking services, FIVE PERCENT (5%) of the Gross Receipts received by Lessee or sublessee from such enterprise if Lessee or a sublessee is the operator of such enterprise, or TWENTY PERCENT (20%) of any commissions or fees collected by Lessee or a sublessee from such enterprise if a third (3rd) party provider is the operator of such enterprise;

(g) RESERVED;

(h) With respect to the installation and/or operation of coin-operated vending or service machines, including pay telephones, FIVE PERCENT (5%) of the Gross Receipts received by Lessee or sublessee from such enterprise if Lessee or a sublessee is the operator of such enterprise, or TWENTY PERCENT (20%) of any commissions or fees collected by Lessee or a sublessee from such enterprise if a third (3rd) party provider is the operator of such enterprise;

(i) RESERVED;

(j) THREE AND ONE-HALF PERCENT (3½%) of Gross Receipts from the operation of restaurants, restaurant/cocktail lounge combination, coffee shops, beach and theater food facilities, except that Gross Receipts from facilities established and operated as a take-out food operation shall be reported under subsection (s); a "take-out food operation" shall mean a restaurant or other food operation a majority of the Gross Receipts from which are derived from the sale of food or beverages to be consumed off-site;

(k) RESERVED;

(l) RESERVED;

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

(n) RESERVED;

(o) RESERVED;

(p) RESERVED;

(q) RESERVED;

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

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

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

If with the prior approval of County or Director Lessee hereafter engages in a use that is not currently permitted under this Lease and as to which there is no specific percentage set forth above applicable to such additional or related use, then concurrent with the approval by County or Director of such specific additional use, Director and Lessee shall negotiate in good faith with Lessee to establish the specific percentage to be applied to

such use. Such percentage shall be the greater of (1) the average percentage received by County with respect to that category of activities within Marina del Rey, California at the time of approval of the additional or related use, and (2) the most recent agreement between County and a Marina del Rey lessee, whether by arbitration or otherwise, with respect to the appropriate percentage to be applied to that use. The percentage rent for the additional or related use as determined pursuant to this paragraph shall remain in effect until the next Renegotiation Date.

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

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

4.2.2.3 Gross Receipts. Except as herein otherwise provided, the term "Gross Receipts" as used in this Lease means all money, cash receipts, or other things of value, including but not limited to gross charges, sales, rentals, common area maintenance payments, operating expense reimbursements, fees and commissions made or earned by Lessee and/or all its assignees, Sublessees, licensees, permittees or concessionaires, from any business, use, occupation or any combination thereof, originating, transacted, or performed in whole or in part, on the Premises, including but not limited to rentals, the rendering or supplying of services and the sale of goods, wares or merchandise, calculated in accordance with the accounting method described in the last sentence of Section 14.1.

(1) Except as otherwise set forth herein, there shall be no deduction from Gross Receipts for any overhead or cost or expense of operation, such as, without limitation, salaries, wages, costs of goods, interest, debt amortization, rent credit (but the value of any free rent period shall not be imputed as Gross Receipts), collection costs, discounts from credit card operations, insurance and taxes.

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

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

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

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

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

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

d. receipts from insurance claims other than rental interruption or business interruption insurance related to the replacement of Gross Receipts;

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

f. the Cost of Lessee's subtenants' submetered electricity, provided (1) each subtenant's obligation to reimburse Lessee for such subtenant's electrical charges is separate and apart from such tenant's obligation to pay rent for its occupancy of the Premises; (2) the reimbursed sum is in an amount equal to the Cost of the subtenant's electricity; and, (3) the receipt is actually credited against the cost of the subtenant's

electricity. For the purpose of the foregoing sentence, the "Cost" of the subtenant's electricity shall mean the actual costs incurred by Lessee, exclusive of overhead and general and administrative expenses, in paying the portion of the respective utility's electric bill that is allocable to the subtenant based on such subtenant's submetered consumption of electricity, and in paying the portion of any third party submeter reading and service charge to each submeter that is actually read and a direct allocation of the submeter service charge to each such submeter that is serviced. County shall have the right to approve all submeters and to challenge the legitimacy or amount of any Cost, and all disputes regarding such County approvals or challenges, if not resolved by the parties within thirty (30) days after notice to Lessee of such disapproval or challenge, shall be resolved by arbitration pursuant to Article 16 of this Lease. The terms and provisions of this paragraph f shall also be applicable to other submetered utility charges to the extent that it is customary for subtenants to be responsible for such other utility charges.

g. amounts received for services rendered by a Sublessee of an individual apartment unit, in connection with the operation by such Sublessee of an in-home business in such apartment unit, as long as the primary purpose of Sublessee's use of the apartment unit is for residential occupancy and such in-home business is an incident to such residential use.

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

4.2.2.5 Effect of Sublessee, etc. Doing Business. Except as specifically provided to the contrary in this Lease, where a sublessee, licensee, or permittee is conducting a business or engaged in any use or occupation or any combination thereof on Lessee's leasehold except for those uses or occupations delineated under Item (1) of subsection (c1) of subsection 4.2.2, Lessee shall report whichever of the following results in the greater percentage rental: (1) the Gross Receipts of each sublessee under one or more of the appropriate subsections of this Section; or (2)Lessee's receipts from each sublessee under subsection (c) or (c1) of this Section.

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

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

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

4.3 Renegotiation of Annual Minimum and Percentage Rents. Effective on the first January 1 following the thirtieth (30th) anniversary of the Completion Date, and every ten (10) years thereafter (each a "Renegotiation Date" and collectively, the "Renegotiation Dates"), the Annual Minimum Rent and Percentage Rent shall be readjusted to the Fair Market Rental Value (as defined below) of the Premises.

4.3.1 Fair Market Rental Value. As used herein, "Fair Market Rental Value" shall mean, as of each Renegotiation Date, the fair market rent (including an annual minimum rent), expressed as respective percentages of Gross Receipts in accordance with the categories enumerated in subsection 4.2.2, which the Premises would bring, on an absolute net basis, taking into account the Permitted Uses, all relevant and applicable County policies and all of the other terms, conditions and covenants contained in the Lease, if the Premises were exposed for lease for a reasonable time on an open and competitive market to a lessee for the purpose of the Permitted Uses, where County and the respective tenant are dealing at arms length and neither is under abnormal pressure to consummate the transaction, together with all restrictions, franchise value, earning power and all other factors and data taken into account in accordance with California law applicable from time to time to eminent domain proceedings.

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

Lessee's notice to County shall conspicuously state in bold faced type that such determination of Fair Market Rental Value shall be binding on County unless County delivers notice of its disagreement within such fifteen (15) day period.

If Lessee fails to deliver the notice described in the first sentence of this subsection, setting forth Lessee's determination of Fair Market Rental Value, and such failure continues for fifteen (15) days after receipt of written notice from County, then County shall submit its determination of Fair Market Rental Value to Lessee, and Lessee shall have fifteen (15) days after the submittal by County to Lessee of County's determination of Fair Market Rental Value to deliver to County written notice of Lessee's agreement or disagreement with County's determination. If Lessee fails to deliver notice of such disagreement within such fifteen (15) day period and County's notice to Lessee conspicuously stated in bold faced type that such determination of Fair Market Rental Value shall be binding on Lessee unless Lessee delivers notice of its disagreement within such fifteen (15) day period, then County's determination of Fair Market Rental Value shall be binding on Lessee as of the Renegotiation Date.

4.3.3 Negotiation of Fair Market Rental Value. If County (or Lessee, as the case may be) does so notify Lessee (or County, as the case may be) of its disagreement as provided in subsection 4.3.2, County and Lessee shall have sixty (60) days from the end of the applicable response period in which to agree upon the Fair Market Rental Value for the Premises. County and Lessee shall negotiate in good faith during said sixty (60) day period. If the parties do so agree, they shall promptly execute an amendment to this Lease setting forth the Fair Market Rental Value so jointly determined, to be effective upon the Renegotiation Date. Director shall be authorized to execute any such amendment on behalf of County. During the period of negotiation, Lessee shall abide by all of the terms and conditions of this Lease, including but not limited to the obligation to continue to pay to County Annual Minimum Rent and Percentage Rent at the then-existing levels.

4.3.4 Arbitration. If County and Lessee fail to reach agreement during the sixty (60) day period set forth in subsection 4.3.3, then, unless the parties agree otherwise, the Fair Market Rental Value of the Premises shall be determined by arbitration as set forth in Article 16 of this Lease and the parties shall execute an amendment to this Lease setting forth the Fair Market Rental Value as determined by arbitration. In order to determine the Fair Market Rental Value of the Premises, the arbitrator shall take into consideration all of the terms, conditions and covenants of this Lease, the earning power and all of the factors and data relating to such value required or proper to be considered in determining the fair rental value of leaseholds under the laws of eminent domain in the State of California. During the period of arbitration, County and Lessee shall abide by all of the terms and conditions of this Lease, including but not limited to Lessee's obligation to pay to County Annual Minimum Rent and Percentage Rent at then existing levels.

4.3.5 Retroactivity. In the event that, pursuant to subsections 4.3.3 or 4.3.4 hereof, the parties execute an amendment to this Lease setting forth the Fair Market Rental Value and the Annual Minimum Rent, such amendment, if executed prior to the

Renegotiation Date, shall be effective as of the Renegotiation Date; if executed after the Renegotiation Date, such amendment shall be retroactive to the Renegotiation Date. In the event that such amendment is executed after the Renegotiation Date, then, within thirty (30) days after such execution, Lessee shall pay to County, or County shall at its election pay or credit to Lessee, the difference, if any, between (a) such Fair Market Rental Value for the Premises and (b) the actual Annual Minimum Rent and Percentage Rent paid by Lessee to County, for the period of time from the Renegotiation Date until the date of such payment. Lessee (with respect to overpayments) or County (with respect to underpayments) shall further be entitled to interest on each portion of such payment from each date on which the applicable rental payments were payable under this Lease to the date paid or credited, whichever is applicable, at the following rates:

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

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

4.4 Lessee Credit and Supplemental Participation Rent.

4.4.1 Lessee Credit. In consideration of Lessee's compliance with the affordable housing requirements referenced in Section 8 of the Option Agreement and Section 3.5 of this Lease, Lessee shall be entitled to a credit (the "Lessee Credit") in the principal amount of Eleven Million Fifty Thousand Dollars ($11,050,000.00). The Lessee Credit (plus accrued interest as described below) may be applied by Lessee against any of the following amounts payable by Lessee under this Lease at any time during the Term: (a) Annual Rent, including Annual Minimum Rent (or Monthly Minimum Rent) and Percentage Rent, and/or (b) the Extension Fee Balance payable under Section 2.2 and any interest payable on the Extension Fee Balance. Lessee shall exercise its right to apply the Lessee Credit against a particular payment described above by delivering written notice to County of such election on or before the due date of such payment. Commencing on and after [INSERT DEFINITION OF COMPLETION OF FIRST PHASE] (the "First Phase Completion Date") and continuing until the earlier of the full application of the Lessee Credit or the tenth (10th) anniversary of the First Phase Completion Date, unapplied portions of the original principal amount of the Lessee Credit shall accrue interest on a monthly basis at the County Pool Rate in effect from time to time. Such interest shall be added to and considered a part of the Lessee Credit; provided, however, that interest shall accrue only on the unapplied portions of the original principal amount of the Lessee Credit, and no interest shall accrue on or with respect to previously accrued interest; but provided, further, that applications of the Lessee Credit shall be made first from accrued interest and then to reduce the principal

balance of the Lessee Credit. Lessee shall be under no obligation to apply the Lessee Credit against the first or any particular amounts described above that are payable under this Lease, but no further interest shall accrue on unapplied portions of the Lessee Credit following the tenth (10th) anniversary of the First Phase Completion Date.

4.4.2 Supplemental Participation Rent. In addition to the Annual Minimum Rent and Percentage Rent payable by Lessee under this Lease, for each Supplemental Participation Year (as defined below) Lessee shall pay to County twenty percent (20%) of the amount, if any, by which total Gross Receipts for such Supplemental Participation Year exceed the "Gross Receipts Threshold" for such Supplemental Participation Year set forth in the table below ("Supplemental Participation Rent"). "Supplemental Participation Year" shall mean each of the twelve (12) consecutive calendar years (i.e., from each January 1 through December 31) commencing on and after the first January 1 following the fifteenth (15th) anniversary of the First Phase Completion Date (the first Supplemental Participation Year is listed in the table below as year 16).

Supplemental Participation Year	Gross Receipts Threshold
16	$
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	

Supplemental Participation Rent shall initially be calculated on a monthly basis (based on 1/12 of the Gross Receipts Threshold for the applicable Supplemental Participation Year and the actual monthly Gross Receipts for the applicable month) and paid in arrears on a monthly basis at the same time and in the same manner as Percentage Rent is payable under this Lease. The actual total Supplemental Participation Rent payable for a Supplemental Participation Year shall be reconciled on an annual basis following the close of each Supplemental Participation Year, on a concurrent basis with the annual reconciliation of Percentage Rent payable for such year. All statements, reports and other financial information and materials required to be provided by Lessee under this Lease with respect to Gross Receipts and the calculation of Percentage Rents shall be provided by Lessee with respect to the calculation and payment of Supplemental Participation Rent. All rights and remedies that County has under this Lease with respect to the review and/or audit of Lessee's books and records relative to the calculation of Gross Receipts and Percentage Rent shall also be applicable to the calculation of Supplemental Participation Rent.

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

In the event any payment under this Lease is not received by County by the date due, Lessee acknowledges that County will experience additional management, administrative and other costs that are impracticable or extremely difficult to determine. Therefore, a fee ("Late Fee") of six percent (6%) of the unpaid amount shall be added to any amount unpaid when due and payable; provided that the Late Fee shall be waived with respect to the first occurrence during any Lease Year of a late payment if such payment is received by County within one (1) business day following written notice from County that the unpaid amount was not paid by the date due. In addition to any Late Fee, any unpaid rent due shall additionally bear interest at an annual rate equal to the Prime Rate plus three percent (3%), computed from the date when such amounts were due and payable, compounded monthly, until paid. Lessee acknowledges that such Late Fee and interest shall be applicable to all identified monetary deficiencies under this Lease, whether identified by audit or otherwise, and that interest on such amounts shall accrue from and after the date when such amounts were due and payable as provided herein (as opposed to the date when such deficiencies are identified by County); provided, however, with respect to any obligation of an Encumbrance Holder in connection with the exercise of its cure rights under Article 12 below, interest accrual on any particular obligation for periods prior to the Encumbrance Holder's acquisition of leasehold title to the Premises shall be limited to a maximum of three (3) years.

4.6 Changes of Ownership and Financing Events. Except as otherwise provided in this Section 4.6, each time Lessee proposes either (a) a Change of Ownership (that is not an Excluded Transfer) or (b) a Financing Event, County shall be paid (1) an Administrative Charge equal to the Actual Cost incurred by County in connection with its review and processing of said Change of Ownership or Financing Event ("Administrative Charge") and (2) subject to the provisions of this Section 4.6, a Net Proceeds Share, in the event County approves such proposed Change of Ownership or Financing Event and such transaction is consummated. "Net Proceeds Share" shall mean the applicable amount determined pursuant to Section 4.8 of this Lease.

Changes of Ownership and Financing Events are further subject to County approval as provided in Articles 12 and 13 of this Lease.

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

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

4.6.2.1 a transfer by any direct or indirect partner, shareholder or member of Lessee (or of a limited partnership, corporation or limited liability company that is a direct or indirect owner in Lessee's ownership structure) as of the Effective Date or the date on which a Change of Ownership occurred as to the interest transferred, to any other direct or indirect partner, shareholder or member of Lessee (or of a limited partnership, corporation or limited liability company that is a direct or indirect owner in Lessee's ownership structure) as of the Effective Date, including in each case to or from a trust for the benefit of the immediate family (as defined in subsection 4.6.2.3 below) of any direct or indirect partner or member of Lessee who is an individual;

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

4.6.2.3 a transfer of ownership interests in Lessee or in constituent entities of Lessee (i) to a member of the immediate family of the transferor (which for purposes of this Lease shall be limited to the transferor's spouse, children, parents, siblings and grandchildren), (ii) to a trust for the benefit of a member of the immediate family of the transferor, or (iii) from such a trust or any trust that is an owner in a constituent entity of Lessee as of the Effective Date, to the settlor or beneficiaries of such trust or to one or more other trusts created by or for the benefit of any of the foregoing persons, whether any such transfer described in this subsection 4.6.2.3 is the result of gift, devise, intestate succession or operation of law, or (iv) in connection with a pledge by any partners of a constituent entity of Lessee to an affiliate of such partner;

4.6.2.4 a transfer of a beneficial interest resulting from public trading in the stock or securities of an entity, where such entity is a corporation or other entity whose stock or securities is/are traded publicly on a national stock exchange or is traded in the over-the-counter market and whose price is regularly quoted in recognized national quotation services;

4.6.2.5 a mere change in the form, method or status of ownership (including, without limitation, the creation of single purpose entities) so long as the ultimate beneficial ownership remains the same as of the Effective Date, or as otherwise excluded in accordance with subsections 4.6.2.1 through 4.6.2.4 above;

4.6.2.6 any transfer resulting from a Condemnation by County; or

4.6.2.7 any assignment of the Lease by Lessee to a parent, subsidiary or affiliate of Lessee in which there is no change to the direct and indirect beneficial ownership of the leasehold interest.

4.6.3 Aggregate Transfer. "Aggregate Transfer" shall refer to the total percentage of the shares of stock, partnership interests, membership interests or any other equity interests (which constitute beneficial residual interests in Lessee or a Major Sublessee, as appropriate) transferred or assigned in one transaction or a series of related transactions (other than those enumerated in subsection 4.6.2) occurring since the later of (a) the Effective Date, (b) the execution by Lessee of this Lease or a Major Sublease, as appropriate, or (c) the most recent Change of Ownership upon which an Administrative Charge was paid to County; provided, however, that there shall be no double counting of successive transfers of the same interest in the case of a transaction or series of related transactions involving successive transfers of the same interest. Isolated and unrelated transfers shall not be treated as a series of related transactions for purposes of the definition of Aggregate Transfer.

4.6.4 Beneficial Residual Interest. As used in this Lease, "beneficial residual interest" shall refer to the ultimate direct or indirect ownership interests in Lessee (or a Major Sublessee, as applicable), regardless of the form of ownership and regardless of whether such interests are owned directly or through one or more layers of constituent partnerships, corporations, limited liability companies or trusts.

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

such entity in order to determine the ownership of the beneficial interests in Lessee, this Lease or a Major Sublease, as appropriate, and any transfers thereof.

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

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

Lessee's Calculation Notice; provided, however, that (i) Lessee shall remit to County as otherwise required hereunder the undisputed portion of the Net Proceeds Share and (ii) Lessee shall deposit the disputed portion of the Net Proceeds Share into an interest bearing escrow account at the closing of the transaction (or deliver to County a letter of credit or other security reasonably acceptable to County in the amount of the disputed portion), which disputed portion shall be distributed in accordance with the arbitration of the dispute pursuant to Article 16 of this Lease, in the manner prescribed herein for the resolution of disputes concerning Fair Market Rental Value.

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

4.7.2 Purchase Money Notes. If the transferor of an interest accepts a note made by the transferee of such interest in payment of all or a portion of the acquisition cost (a "Purchase Money Note"), such note shall be valued at its face amount; provided that if the interest rate on such Purchase Money Note is in excess of a market rate, then the value of such note shall be increased to reflect such above-market rate. Any disputes between County and Lessee as to whether the interest rate on a Purchase Money Note is in excess of a market rate or with respect to the valuation of a Purchase Money Note with an above-market rate of interest, shall be settled by arbitration pursuant to Article 16 below.

4.7.3 Obligation to Pay Net Proceeds Share and Administrative Charge. With respect to a Change of Ownership giving rise to the Administrative Charge and Net Proceeds Share, the obligation to pay the Administrative Charge and Net Proceeds Share shall be the joint and several obligation of the transferor and transferee. In the event that the Administrative Charge or Net Proceeds Share is not paid when due with respect to the beneficial interest in this Lease, then County shall have the remedies set forth in Section 13.3 hereof; provided, however, in the case of a transfer of an interest in Lessee (as opposed to a transfer by Lessee of an interest in the Lease or the Premises) in which the transferor and transferee fail to pay the Administrative Charge and/or Net Proceeds Share due hereunder, as long as Lessee uses its best efforts to cause the payment of the required Administrative Charge and Net Proceeds Share to be made, County shall, for a period of up to three (3) years following the Change of Ownership, forebear from exercising any right to terminate the Lease as a result thereof; provided further that at the end of such three (3) year period County shall no longer have any obligation to forebear from terminating the Lease if the Administrative Charge and Net Proceeds Share, plus interest as described below, has not been paid in full. An Administrative Charge and Net Proceeds Share not paid when due hereunder shall bear interest at the Prime Rate plus three percent (3%). For purposes of determining whether County is required to forebear

from terminating the Lease as described above, Lessee's obligation to use its best efforts to cause the payment of the unpaid Administrative Charge and/or Net Proceeds Share shall include the obligation at Lessee's expense, to institute a legal action against the transferor and transferee within ninety (90) days following the date of the transfer and to diligently prosecute such legal action to completion.

4.8 Net Proceeds Share. The Net Proceeds Share payable in connection with a Change of Ownership or Financing Event shall be as follows:

(a) In the case of the first two (2) Changes of Ownership (excluding Excluded Transfers) occurring during the period from the Effective Date through the tenth (10th) anniversary of the Completion Date (and any Financing Event to fund such first two (2) Changes of Ownership), the Net Proceeds Share shall be $0.

(b) In the case of the third (3rd) and any subsequent Change of Ownership (excluding any Excluded Transfer) occurring during the period from the Effective Date to and including the tenth (10th) anniversary of the Completion Date, the Net Proceeds Share shall be the amount by which (i) one percent (1%) of the gross sale or transfer price or other consideration received for the interests transferred (but in the case of a transfer to a party affiliated with or otherwise related to the transferor which constitutes a Change of Ownership that is not an Excluded Transfer, such consideration shall in no event be deemed to be less than the fair value of the interests transferred; if Lessee and County are unable to agree upon such fair value, then the matter shall be determined pursuant to Article 16) ("Gross Transfer Proceeds"), exceeds (ii) the Administrative Charge paid by Lessee to County in connection with the transaction.

(c) In the case of any Change of Ownership (excluding any Excluded Transfer) occurring during the period commencing after the tenth (10th) anniversary of the Completion Date and continuing to and including the twenty-fifth (25th) anniversary of the Completion Date, the Net Proceeds Share shall be the amount by which (i) one percent (1%) of the Gross Transfer Proceeds exceeds (ii) the Administrative Charge paid by Lessee to County in connection with the transaction.

(d) In the case of any Change of Ownership (excluding Excluded Transfers) occurring after the twenty-fifth (25th) anniversary of the Completion Date, the Net Proceeds Share shall be the amount by which (i) the greater of (I) two percent (2%) of the Gross Transfer Proceeds from the transaction, or (II) twenty percent (20%) of the Net Transfer Proceeds from the transaction, exceeds (ii) the Administrative Charge paid by Lessee to County in connection with the transaction.

(e) In the case of a Financing Event occurring during the period from the Effective Date through the tenth (10th) anniversary of the Completion Date, the Net Proceeds Share shall be $0.

(f) In the case of any Financing Event occurring at any time after the tenth (10th) anniversary of the Completion Date (excluding any Financing Event in connection with an Excluded Transfer that is the transfer of an Ownership Interest in Lessee, if such Financing

Event is secured by the Ownership Interest that is transferred and to the extent that the proceeds of such Financing Event fund the acquisition cost of such Ownership Interest), the Net Proceeds Share (if any) shall be the amount by which (i) twenty percent (20%) of the Net Refinancing Proceeds from such Financing Event exceeds (ii) the Administrative Charge paid by Lessee to County in connection with the transaction.

4.8.1 Transaction by Original Lessee. In the case of a transfer by Lessee (but not a transfer by a successor or assignee of Lessee after the first Change of Ownership after the Effective Date) constituting a Change of Ownership, "Net Transfer Proceeds" shall mean the Gross Transfer Proceeds, less the following amounts:

4.8.1.1 (a) $15,932,000, representing the stipulated base amount for purposes of determining Net Transfer Proceeds, plus (b) the amount of the total Extension Fee that has been paid by Lessee as of the date of the Change of Ownership (but not including any portion of the Extension Fee paid through application of the Lessee Credit), (the sum of the amounts in (a) and (b) are referred to as the "Base Value"), plus (c) the final actual construction costs paid by Lessee in connection with the construction of the Redevelopment Work or any other subsequent physical Improvements or Alterations to the Premises (including future capital redevelopment and rehabilitation work, but no periodic maintenance and repair) constructed by Lessee in compliance with Article 5 of this Lease (including in each case all hard and soft costs, construction period interest on Lessee's construction loan, and developer fees incurred by Lessee, as long as such developer fees do not exceed four percent (4%) of hard construction costs), which costs have been submitted to County within ninety (90) days after the completion of such Improvements (or in the case of phased construction, within ninety (90) days after the completion of the applicable phase), together with a written certification from Lessee and Lessee's construction lender, if any, to the effect that such costs are accurate (the amounts described in this clause (c) are referred to "Improvement Costs"). Notwithstanding the foregoing, with respect to Improvements or Alterations which are not part of the Redevelopment Work, Lessee shall submit the cost of such Improvements on an annual basis within ninety (90) days following the end of each fiscal year. If by the date that is ninety (90) days after the completion of the Redevelopment Work (or other Improvements) the final amount of the Improvement Costs is not established because of a dispute or disputes between Lessee and its contractor(s), then Lessee shall note such dispute(s) in its submission of the Improvement Costs (including a description of the costs and the amounts under dispute). Lessee shall thereafter notify County in writing within thirty (30) days after the resolution of any such dispute as to any final adjustment required to the amount of the Improvement Costs to reflect the resolution of such dispute.

4.8.1.2 Commissions, title and escrow costs, documentary transfer taxes, sales and use taxes, reasonable attorneys' fees, prepayment fees, penalties or other similar charges (such as yield maintenance premiums or defeasance costs) and other bona fide closing costs actually paid to third parties and documented to the reasonable satisfaction of County, which costs were directly attributable to the

consummation of the particular transaction giving rise to the obligation to pay County a Net Proceeds Share (collectively, "Documented Transaction Costs").

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

4.8.2 Transfer by Lessee's Successor. In the case of a transfer by a Lessee other than the original Lessee, "Net Transfer Proceeds" shall mean the Gross Transfer Proceeds received by that successor Lessee, minus the following costs with respect to such successor Lessee:

4.8.2.1 The greatest of (a) the sum of the Base Value, plus Improvement Costs incurred subsequent to the Effective Date but prior to the acquisition of the leasehold interest by such successor, (b) the purchase price such successor paid to Lessee or such successor's seller for the interest acquired or (c) the original principal amount of any Financing Event or Financing Events (on a non-duplicative basis) after such successor Lessee's acquisition of the leasehold, and with respect to which County was paid a Net Proceeds Share, plus the principal amount of any financing existing as of the date on which such seller acquired the leasehold or subsequently obtained by Lessee, if such financing has not been refinanced, but without duplication;

4.8.2.2 Improvement Costs actually paid by such successor Lessee after such successor Lessee's acquisition of its leasehold interest in the Premises (but not duplicative of the principal amount of any Financing Event described in clause 4.8.2.1(c) above, the proceeds of which were used to fund such Improvement Costs), provided that such costs have been submitted to County, with an appropriate lender and Lessee certification, as provided in subsection 4.8.1.1; and,

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

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

4.8.4 Other Transfers. With respect to any Change of Ownership that is not an Excluded Transfer and is not described in subsections 4.8.1 through 4.8.3 e.g., a transfer of an interest in an entity holding a direct or indirect ownership interest in this Lease or in a Major Sublease), subsections 4.8.1 and 4.8.2 shall apply to such Change of Ownership, except that in lieu of deducting the Base Value and Improvement Costs in determining Net Transfer Proceeds, the cost to the transferor of the interest being transferred or which

was transferred in the past but constitutes a portion of an Aggregate Transfer (which cost shall in no event be deemed to be less than a pro rata share of the Base Value and Improvement Costs (or following a transfer by the original Lessee, such cost shall in no event be deemed to be less than a prorata share of the sum of subsections 4.8.2.1 plus 4.8.2.2 as of the respective date of the transfer of each interest in the aggregation pool)) shall be deducted. Furthermore, in the event that any such Change of Ownership produces a Net Proceeds Share, the then existing Improvement Costs shall be increased by an appropriate amount to reflect the basis on which the Net Proceeds Share was calculated, and the basis of the interest that was transferred and for which a Net Proceeds Share was paid shall also be increased for subsequent transfers of the same interest, as if realized by Lessee upon a transfer of a comparable interest in this Lease or in a Major Sublease, as appropriate.

4.8.5 Net Refinancing Proceeds. "Net Refinancing Proceeds" shall mean the gross principal amount of any Financing Event as described in Section 4.8(f) for which a Net Proceeds Share may be owed, plus in the case of secondary financing the original principal balance of any existing financing that is not repaid as a part of such secondary financing, minus (i) the greatest of (a) the Base Value, (b) the original principal amount of any subsequent refinancing by Lessee in connection with which County was paid a Net Proceeds Share (plus if the financing described in this clause (b) was secondary financing, the original principal balance of any then existing financing that was not repaid as a part of such secondary financing), or (c) in the case of a successor Lessee the purchase price such successor paid to Lessee or such successor's seller for the interest acquired, (ii) any portion of the proceeds of the Financing Event which shall be used for Improvement Costs, (iii) other Improvement Costs incurred by Lessee and not paid for or repaid with the proceeds of any Financing Event, and (iv) Documented Transaction Costs with respect to such Financing Event.

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

4.8.7 Payment. Net Proceeds Share shall be due and payable concurrently with the transfer giving rise to the obligation to pay such share and shall be the joint and several obligation of the transferee and transferor. Net Proceeds Share not paid when due shall be subject to a late fee of six percent (6%) of the amount due, together with interest on such Net Proceeds Share and late fee at the Applicable Rate from the date due until paid; provided that in the case of a dispute as to the correct amount of the Net Proceeds Share there shall be no late fee payable as long as Lessee timely pays to County the undisputed portion of the Net Proceeds Share and deposits the disputed portion thereof in an interest bearing escrow account at the closing of the transaction (or delivers to County

a letter of credit or other security reasonably acceptable to County in the amount of such disputed portion). In the event that the proceeds of the transaction giving rise to the obligation to pay Net Proceeds Share are comprised, in whole or in part, of assets other than cash, then the cash payment of the Net Proceeds Share shall reflect the fair market value of such non-cash assets as of the date of the Change of Ownership, which shall be set forth in the Calculation Notice. Notwithstanding the foregoing, in the case of a Change of Ownership described in subsection 4.6.1(b), the Net Proceeds Share shall be payable to County as and when the Net Transfer Proceeds are received, with the Net Proceeds Share being equitably apportioned to the payments derived by Lessee from said Change of Ownership (other than any payments passed through to County under this Lease).

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

5. CONSTRUCTION OF IMPROVEMENTS.

5.1 Redevelopment Work. It is expressly understood and agreed that following the Effective Date Lessee shall proceed to demolish the existing Improvements located on the Premises and construct five hundred forty-four (544) new apartment units on the Premises (the "New Apartments"). The construction of the New Apartments, along with all associated improvements, hardscape, landscape and other site work approved by County and to be performed in connection with the construction of the New Apartments, are herein collectively referred to as the "Redevelopment Work." The Redevelopment Work shall be in accordance with the Redevelopment Plan attached to this Lease as Exhibit B. The design, density, site coverage, layout and open space, view corridors, building height, construction materials, landscaping, hardscaping and other improvement specifications pertaining to the

Redevelopment Work shall be subject to County's approval as set forth in this Article 5 and Section 4.3 of the Option Agreement, and shall be subject to the receipt by Lessee of all required governmental (including, without limitation, County, Coastal Commission and Design Control Board) planning and entitlement approvals. Lessee shall be solely responsible for all costs and expenses incurred in connection with the design, entitlement and construction of the Redevelopment Work. Lessee shall be obligated to spend not less than $111,000,000 for the costs of the Redevelopment Work (the "Minimum Redevelopment Work Cost") in accordance with the most recent development cost budget that has been approved by Director prior to the Effective Date.

Lessee shall comply with all time deadlines and schedules set forth in this Article 5 relating to the completion of the design and construction of the Redevelopment Work. Lessee's failure to do so shall, if not cured within the applicable cure period set forth in subsection 13.1.3, constitute an Event of Default. Except to the extent Lessee is prevented from so doing by the events identified in Sections 5.6 or 5.7, Lessee shall cause the substantial completion of the Redevelopment Work in accordance with the Final Redevelopment Work Plans and Specifications to occur on or before the third (3rd) anniversary of the Effective Date (the "Required Completion Date").

For purposes of this Lease, the terms "substantial completion" or "substantially complete" as they pertain to the Redevelopment Work shall mean the completion of the Redevelopment Work in accordance with the Final Redevelopment Work Plans and Specifications, subject to minor so-called punch list items that do not interfere with the use and occupancy of the Redevelopment Work. Without limitation of any other requirements for substantial completion, each portion of the Redevelopment Work shall not be considered substantially completed until Lessee has received a temporary certificate of occupancy or equivalent approval required for the legal occupancy and use of such portion of the Redevelopment Work. The Required Completion Date will be extended only under the specific circumstances set forth in Sections 5.6 or 5.7, and under no other circumstances. In the event that Lessee fails to substantially complete the Redevelopment Work on or before the Required Completion Date (as such dates may be extended pursuant to Sections 5.6 or 5.7 below), then in addition to any other right or remedy which County may have in connection therewith, but subject to Section 12.12, this Lease shall be automatically amended such that the terms and provisions of this Lease revert back to the terms and provisions of the Existing Lease (including, without limitation, the Existing Expiration Date), as modified by the "Non-Exercise Amendment" described in Section 5 of the Option Agreement (the "Reversion Amendment").

5.1.1 Final Redevelopment Work Plans and Specifications. Pursuant to Sections 4.3.1 and 4.3.2 of the Option Agreement, County has heretofore approved the Schematics and the Preliminary Plans for the Redevelopment Work. Lessee shall submit for approval by Director six (6) complete sets of final plans and detailed specifications for the Redevelopment Work on the Premises (the "Final Plans"), together with one (1) set of appropriate structural computations, identical to those requested or required by the County Director of Public Works incident to the issuance of building permits under the relevant provisions of the Los Angeles County Building Code. The foregoing submission shall be made by Lessee in accordance with a schedule that will reasonably facilitate substantial completion of the Redevelopment Work by the Required Completion Date.

The Final Plans shall reflect a natural progression and logical evolution from the Preliminary Plans approved under the Option Agreement. Lessee shall file duplicate copies of the Final Plans required by this subsection with the County Director of Public Works, together with the necessary and appropriate applications for building permits for the Redevelopment Work on the Premises. Any material difference in the scope, size, configuration, arrangement or motif of the Improvements described in the Final Plans from those described in the Preliminary Plans for the Premises approved under Section 4.3.2 of the Option Agreement shall be separately identified and described. Director shall have twenty one (21) days within which to approve or disapprove the Final Plans, which approval shall not be unreasonably withheld. Director may disapprove the Final Plans only on the grounds that they do not reflect a natural evolution from or that they materially differ from the approved Preliminary Plans (exclusive of any Approved Governmental Changes, as defined in Section 4.3.1 of the Option Agreement). Failure of Director to disapprove said Final Plans within twenty one (21) days after Director's receipt shall be deemed Director's approval thereof; provided, however, that in the event that the Final Plans contain substantial changes from the Preliminary Plans (other than any Approved Governmental Changes), then Director shall have sixty (60) days in which to approve the Final Plans, which approval shall be deemed withheld if not granted in writing within such sixty (60) day period; and provided further, that together with the submission of the Final Plans, Lessee must deliver to Director a transmittal letter containing the following text prominently displayed in bold faced type:

> "PURSUANT TO SUBSECTION 5.2 OF THE LEASE, IF THESE MATERIALS CONTAIN NO SUBSTANTIAL CHANGES (OTHER THAN ANY APPROVED GOVERNMENTAL CHANGES) FROM THE MATERIALS PREVIOUSLY SUBMITTED TO YOU, YOU HAVE TWENTY ONE (21) DAYS AFTER RECEIPT OF THESE MATERIALS IN WHICH TO APPROVE OR DISAPPROVE THEM. FAILURE TO DISAPPROVE THESE MATERIALS IN WRITING WITHIN TWENTY ONE (21) DAYS OF YOUR RECEIPT OF THESE MATERIALS SHALL CONSTITUTE YOUR APPROVAL OF THEM."

Following any deemed disapproval by Director of such submission, Director shall, within thirty (30) days after receipt of a written request from Lessee, disclose to Lessee in writing Director's objections to the submission. Director's approval shall not be unreasonably withheld; provided, however, that it shall be deemed reasonable to disapprove any submission not in substantial conformity with the approved Preliminary Plans (exclusive of any Approved Governmental Changes). Upon approval, the Final Plans shall be referred to herein as the "Final Redevelopment Work Plans and Specifications." No material modifications shall be made to the Improvements described in the approved Final Redevelopment Work Plans and Specifications, without the prior written approval of Director, which shall not be unreasonably withheld.

5.2 Application of Article 5. The remaining sections of this Article 5 pertain to the construction of the Redevelopment Work and to any other Alterations (as defined in Section 5.3 below) which Lessee may be required or desire to make to the Premises during the Term, including without limitation, the Subsequent Renovation described in Section 5.13 below. Both

the Redevelopment Work and the Subsequent Renovation shall be considered to be Alterations. Accordingly, except as expressly provided in this Article 5, all of the terms and provisions of Article 5 of this Lease shall be applicable to the Redevelopment Work and the Subsequent Renovation.

5.3 Plans and Specifics for Alterations. Lessee shall make no Alterations (as defined below) to the Improvements located on the Premises without the prior written approval by Director of such Alterations (including the Director's approval of the plans, specifications and other materials pertaining to such Alterations required under this Section 5.3). Prior and as a condition precedent to the construction of any alterations or modifications to the Improvements located on the Premises or the construction of any new Improvements (other than the Redevelopment Work) (collectively, "Alterations"), Lessee shall submit to Director, for Director's approval, the plans, specifications and other materials described in this Section 5.3 pertaining to such Alterations. All Alterations must be consistent with the Permitted Uses set forth in Article 3 of this Lease. Notwithstanding the foregoing, the plan submittal and approval procedures set forth in subsections 5.3.1 through 5.3.3 below shall not be applicable to the Redevelopment Work. The Redevelopment Work shall be subject to the plan submittal and approval procedures set forth in the Option Agreement and subsection 5.1.1 of this Lease.

5.3.1 Schematics and Narrative. Lessee shall submit to the Director six (6) sets of schematic plans together with a narrative description and construction cost estimate summary clearly delineating the nature, size, configuration and layout of the Alterations. Such plans shall, among other things, clearly delineate the architectural theme or motif of the Alterations and shall identify and illustrate all affected boundaries of the Premises and all affected rights-of-way or other areas reserved to County or third parties which are located thereon. Director shall have sixty (60) days within which to approve or disapprove such submission. Failure of Director to approve such submission in writing within said sixty (60) day period shall be deemed disapproval of said submission. Following any deemed disapproval of such submission by Director, Director shall, within thirty (30) days after receipt of a written request from Lessee, disclose to Lessee in writing Director's objections to the submission. After approval of schematic plans (or subsequent approval of preliminary or final plans) by Director, if changes in such plans are required by conditions of approval of the Alterations imposed by the California Coastal Commission or other governmental agency having jurisdiction thereover, Lessee shall promptly advise Director in writing of such changes and Director shall not disapprove those changes which constitute Approved Governmental Changes.

5.3.2 Preliminary Plans and Specifications. After Director's approval of the materials submitted pursuant to subsection 5.3.1, Lessee shall submit to Director six (6) sets of preliminary plans, outline specifications and construction cost estimates for the Alterations. The preliminary plans, outline specifications and construction cost estimate shall conform to, expand upon and reflect a natural evolution from the descriptions and estimates set forth in the approved schematic plans and narrative. Any difference in the scope, size, configuration, arrangement or motif of the Improvements from those described in the approved schematics and narrative shall be separately identified and described. Director shall have twenty-one (21) days within which to approve or reasonably disapprove such submission, and Director may disapprove said preliminary

plans only on the grounds that (i) they do not reflect a natural evolution from the approved schematic plans or that they materially differ from the approved schematic plans and narrative (exclusive of any Approved Governmental Changes), or (ii) that any new, different or additional specifications for the Improvements not expressly set forth in, and approved by Director as a part of, the schematic plans do not meet the requirements for the Improvements set forth in this Article 5. Failure of Director to disapprove said preliminary plans within twenty one (21) days after Director's receipt thereof shall be deemed Director's approval thereof; provided, however, that in the event that the preliminary plans, outline specifications and construction cost estimates contain substantial changes from the approved schematics and narrative (other than Approved Governmental Changes), then Director shall have sixty (60) days in which to approve said submission, which approval shall be deemed withheld if not granted in writing within such sixty (60) day period; and provided further, that together with the submission of the preliminary plans, outline specifications and construction cost estimates, Lessee must deliver to Director a transmittal letter containing the following text prominently displayed in bold faced type:

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

Following any deemed disapproval of such submission by Director, Director shall, within thirty (30) days after receipt of a written request from Lessee, disclose to Lessee in writing Director's objections to the submission.

5.3.3 Final Plans and Specifications. After approval of the preliminary plans, Lessee shall submit for approval by Director six (6) complete sets of final plans, detailed specifications and a construction cost statement for the Alterations, together with one (1) set of appropriate structural computations, identical to those requested or required by the County Director of Public Works incident to the issuance of building permits under the relevant provisions of the Los Angeles County Building Code. Lessee shall file duplicate copies of the final plans, detailed specifications and construction cost statement required by this Section with the County Director of Public Works, together with the necessary and appropriate applications for building permits. Any difference in the scope, size, configuration, arrangement or motif of the Alterations from those described in the approved preliminary plans and specifications shall be separately identified and described. Director shall have twenty one (21) days within which to approve or disapprove such submission, and Director may disapprove such submission only on the grounds that (i) they do not reflect a natural evolution from or that they materially differ from the approved preliminary plans, outline specifications and construction cost

estimates (exclusive of any Approved Governmental Changes), or (ii) that any new, different or additional specifications for the Improvements not expressly set forth in, and approved by Director as a part of, the preliminary plans do not meet the requirements for the Improvements set forth in this Article 5. Failure of Director to disapprove said materials within twenty one (21) days after Director's receipt shall be deemed Director's approval thereof; provided, however, that in the event that the final plans, detailed construction specifications and construction cost statement contain substantial changes from the preliminary plans, outline specifications and construction cost estimates (other than Approved Governmental Changes), then Director shall have sixty (60) days in which to approve said submission, which approval shall be deemed withheld if not granted in writing within such sixty (60) day period; and provided further, that together with the submission of the final plans, detailed construction specifications and construction cost statement, Lessee must deliver to Director a transmittal letter containing the following text prominently displayed in bold faced type:

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

Following any deemed disapproval of such submission by Director, Director shall, within thirty (30) days after receipt of a written request from Lessee, disclose to Lessee in writing Director's objections to the submission. Director's approval shall not be unreasonably withheld; provided, however, that it shall be deemed reasonable to disapprove any submission not in substantial conformity with the approved preliminary plans and specifications (exclusive of any Approved Governmental Changes), or which contains new, different or additional specifications for the Improvements which were not expressly set forth in, and approved by Director as a part of, the preliminary plans and which do not meet the requirements for the Improvements set forth in this Article 5. No material modification shall be made to the Alterations described in the approved final plans, specifications and costs (the "Final Alteration Plans and Specifications") without the prior written approval of Director, which shall not be unreasonably withheld.

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

5.4.1 Permits and Other Approvals. Lessee shall have received and furnished the Department with copies of all permits, licenses and other governmental approvals necessary for commencement of the Redevelopment Work or Alterations, as the case may be. All permits, licenses and other governmental approvals necessary for subsequent

stages of the Redevelopment Work or Alterations shall be furnished to the County prior to commencement of such stages.

5.4.2 Copies of Construction Contracts. Lessee shall have furnished County with copies of any contract(s) entered into between Lessee and any general contractor(s) employed for the purpose of constructing the Redevelopment Work or Alterations, as the case may be.

5.4.3 Performance and Payment Bonds. Lessee shall, at its own cost and expense, have furnished County with the following separate corporate surety bonds not less than ten business (10) days prior to the commencement of construction, which bonds must be in form and content reasonably satisfactory to County:

5.4.3.1 A corporate surety performance bond ("Performance Bond") issued by a surety company licensed to transact business as such in the State of California, in an amount not less than one hundred percent (100%) of the amount of all hard construction costs approved by County in conjunction with the approved work. The Performance Bond and its issuer shall be in all material respects reasonably satisfactory to County. It shall name Lessee as principal and said issuer as surety, and County as obligee, assuring full and satisfactory performance by Lessee of Lessee's obligations herein to build, construct and otherwise complete the Improvements described in the approved final plans and specifications.

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

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

5.4.4 Alternative Security. In lieu of providing the Payment and Performance Bonds, Lessee may, in its discretion, provide any one or any combination of the following alternative security: (i) a completion guaranty, in form and substance

reasonably acceptable to County, made by an individual or entity with a sufficient net worth and liquidity, in the sole discretion of Director, to comply with the terms of such guaranty in view of the potential financial responsibility involved, (ii) a Certificate of Deposit, cash or United States governmental security, (iii) an additional Letter of Credit, or (iv) a Set Aside Letter from Lessee's construction lender. The security described in clauses (ii), (iii) and (iv) above shall be in an amount equal to one hundred percent (100%) of the construction contract price for hard costs, and shall permit County to draw thereon to complete the construction of the Improvements if same have not been completed by Lessee or if a material Event of Default has occurred under this Lease. Any alternative security provided by Lessee pursuant to this subsection may name County and Lessee's lender as co-beneficiaries. A condition precedent to Lessee's right to provide the alternate security described in this subsection 5.4.4 shall be delivery by Lessee to County of an opinion of counsel from a firm and in a form acceptable to County to the effect that the construction work does not constitute a public work of improvement requiring the delivery of the bonds described in subsection 5.4.3 above. Director shall have the authority, in his reasonable discretion, to modify, waive or reduce the amount of any bonds or alternate security required hereunder.

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

5.4.6 Work Schedule. With respect to the Redevelopment Work, Lessee shall have provided County with a construction schedule which will result in the completion of the Redevelopment Work on or before the Required Completion Date, as such date may be extended as provided in this Article 5.

5.5 County Cooperation. In its proprietary capacity, the Department shall cooperate with and assist Lessee, to the extent reasonably requested by Lessee, in Lessee's efforts to obtain the appropriate governmental approvals, consents, permits or variances which may be required in connection with the performance by Lessee of the Redevelopment Work and the Subsequent Renovation described in Section 5.13 below, as applicable. Such cooperative efforts may include the Department's joinder in any application for such approval, consent, permit or variance, where joinder therein by the Department is required or helpful; provided, however, that Lessee shall reimburse County for the Actual Cost incurred by the Department in connection with such joinder or cooperative efforts. Notwithstanding the foregoing, Lessee and County acknowledge that the approvals given by County under this Lease are approvals pursuant to its authority under Section 25907 of the California Government Code; that approvals given under this Lease in no way release Lessee from obtaining, at Lessee's expense, all permits, licenses and other approvals required by law for the construction of Improvements on the Premises and operation and other use of such Improvements on the Premises; and that the Department's duty

to cooperate and County's approvals under this Lease do not in any way modify or limit the exercise of County's governmental functions or decisions as distinct from its proprietary functions pursuant to this Lease.

5.6 Delays in Completion of Redevelopment Work. Lessee shall commence the Redevelopment Work in accordance with the work schedule delivered by Lessee pursuant to subsection 5.4.6 above. Once construction of the Redevelopment Work has been commenced, Lessee shall thereafter diligently pursue the completion of such construction by the Required Completion Date. During this period, delays due to fire, earthquake, flood, tornado or other act of God, civil disturbance, war, organized labor dispute, freight embargo or other unforeseeable event reasonably beyond the control of Lessee, or a hidden condition, including without limitation, environmental contamination, relating to the foundation, substructure or subsurface of the Premises which was not known to Lessee as of the commencement of such construction activity ("Force Majeure") shall extend the Required Completion Date by the length of time of such delay, although Lessee shall to the extent possible commence and complete the portions, if any, of the Improvements not impacted by such delay within the timeframe set forth in this Lease. For purposes of this Section 5.6, "Force Majeure" shall also include delays in the completion of construction caused (i) by a third party restraining order or injunction (filed by a plaintiff other than County or the California Coastal Commission) obtained after the commencement of construction, subject to Lessee's obligation to diligently pursue the removal or appeal of any such restraining order or injunction, or (ii) by Unreasonable County Activity after the commencement of construction, subject to the procedures set forth in subsection 5.7.2 below for establishing Unreasonable County Activity. Lessee and Director shall discuss and attempt to agree on the length of time of any entitled delay due to Force Majeure pursuant to this Section 5.6. If they are unable to agree within thirty (30) days after the event or occurrence giving rise to Lessee's claim to an entitlement to a delay under this Section 5.6, the matter shall be arbitrated as set forth in Article 16. Notwithstanding any contrary provision of this Article 5, the Required Completion Date shall not be extended beyond the fourth (4th) anniversary of the Effective Date.

5.7 Extension of Dates. Other than as set forth in Section 5.6 above, the date by which Lessee is required to commence the Redevelopment Work and the Required Completion Date shall be extended only for the reasons set forth in this Section.

5.7.1 Injunction by Third Party, Nonregulatory Body. The date for Lessee's commencement of the construction of the Redevelopment Work shall be extended if the commencement of construction of the Redevelopment Work has been enjoined or restrained by a court action commenced by a plaintiff other than County or the California Coastal Commission acting in their governmental capacity. In such case, the date for Lessee's commencement of the construction of the Redevelopment Work shall be extended until forty-five (45) days after the restraining order and/or injunction is removed; provided that in no event shall the such required construction commencement date be extended beyond the second (2nd) anniversary of the Effective Date. Whether or not a named party in such action, Lessee shall diligently pursue the removal of any restraining order or injunction so issued and shall exhaust all commercially reasonable efforts to appeal such restraining order or injunction. If the required construction commencement date is extended pursuant to this subsection 5.7.1, then the Required

Completion Date shall be extended by the same period; provided, however, in no event shall the Required Completion Date be extended beyond the fourth (4th) anniversary of the Effective Date.

5.7.2 Delay Caused by Unreasonable County Acts. The required construction commencement date shall be extended if Lessee has been delayed in the obtaining of any permits or other approvals necessary for the commencement of construction due to Unreasonable County Activity. For the purposes of this Lease, the following shall be deemed to be "Unreasonable County Activity": (i) County's failure to provide required joinder, if any, in Lessee's proposals for the Improvements described in the Final Redevelopment Work Plans and Specifications before any governmental agency; or (ii) County's failure to take such other actions in its proprietary capacity reasonably requested by Lessee, at no cost or expense to County, which are necessary for Lessee to proceed with the permit/approval process or County's having taken such actions without Lessee's consent which adversely affected Lessee's rights and obligations hereunder, which were unreasonable and which actually delayed the commencement of construction and which action or inaction occurred after the date hereof; or (iii) County's failure to comply with the time periods imposed upon County under this Article 5, except in the case where a failure of County to notify Lessee of its approval or disapproval of a matter constitutes County's deemed approval of such matter, or constitutes County's deemed disapproval of such matter and County's disapproval of such matter is authorized under the circumstances. Nothing contained in this Section or this Lease shall be construed as obliging County to support proposals, issue permits, or otherwise act in a manner inconsistent with County's actions under its regulatory powers. It shall not be Unreasonable County Activity if County fails to accelerate the County's customary regulatory permit/approval process. An extension shall be available under this subsection only if all of the following procedures have been followed:

(a) Within a reasonable time under the circumstances, Lessee must notify Director in writing of the specific conduct comprising the alleged Unreasonable County Activity, and the next opportunity, if any, for County to rectify such alleged conduct. If Lessee fails to notify Director in writing as specified in the immediately preceding sentence within five (5) days following Lessee's discovery of the alleged Unreasonable County Activity, then notwithstanding any contrary provision of this subsection 5.7.2, in no event shall Lessee be entitled to an extension for any period of the delay occurring prior to the date of Lessee's notice described in this paragraph (a).

(b) Within seven (7) days following receipt of the notice alleging Unreasonable County Activity, Director shall meet with Lessee or its authorized representative in order to determine whether Unreasonable County Activity has occurred and, if so, how such Unreasonable County Activity can be rectified and the appropriate length of time of any extension pursuant to this subsection. If Director determines that Unreasonable County Activity has occurred and that County can and will take rectifying action, then the extension time shall equal the amount of actual delay directly caused by the Unreasonable County Activity. If Director determines that Unreasonable County Activity has occurred, but that County cannot take rectifying action (or if the proposed rectifying action will not produce the results desired by Lessee), then Lessee and Director

shall establish the length of time of any extension based on the actual delay of the permit/approval process likely to be caused by the Unreasonable County Activity.

(c) If, within fourteen (14) days following receipt of notice alleging Unreasonable County Activity, Director and Lessee have not agreed in writing as to whether or not an extension is appropriate, or if appropriate, the length of any such extension, then the matter shall be referred to binding arbitration in accordance with Article 16 of this Lease. The arbitrator shall be instructed that, if Unreasonable County Activity has occurred, then the standards set forth in subsection (b) above will be applied to determine the length of any extension.

The period of any extension pursuant to this subsection shall be equal to the period of the delay caused by the Unreasonable County Activity. If the required construction commencement date is extended pursuant to this subsection 5.7.2, then the Required Completion Date shall be extended by the same period; provided, however, in no event shall the Required Completion Date be extended beyond the fourth (4th) anniversary of the Effective Date.

5.7.3 Delay in Obtaining Permits or Approvals. Except as otherwise provided in subsection 5.7.4, if as of the required construction commencement date (as it may be extended as provided above), Lessee has not obtained a permit or other approval necessary to the commencement of construction from a regulatory body or agency other than County, or such regulatory body has obtained an injunction preventing the commencement of construction, and such permits, approvals or the removal of such injunction constitute(s) the major remaining impediment to the commencement of construction, then the required construction commencement date shall be extended to forty-five (45) days after the date upon which such permit is issued or injunction dissolved, provided that (1) Lessee has exhausted and continues to exhaust all commercially reasonable efforts to obtain such approval or permit or dissolution of such injunction, and (2) such extended required construction commencement date shall not be later than the second (2nd) anniversary of the Effective Date. If the required construction commencement date is so extended, then the Required Completion Date shall be extended by the same period; provided, however, in no event shall the Required Completion Date be extended beyond the fourth (4th) anniversary of the Effective Date. The extension provided by this subsection shall be the only extension available in a situation where such permits and/or approvals have not been issued or such regulatory body or agency has obtained such an injunction.

5.7.4 Limitation of Extensions. Notwithstanding the foregoing, Lessee shall not be entitled to any extension unless Lessee had actually been pursuing the process of obtaining all permits, approvals, financing and other items necessary for the commencement of construction with due diligence, and unless all Improvements specified and plans and specifications submitted by Lessee in connection with any such permit, approval, financing or other item substantially conformed to (i) the Final Redevelopment Work Plans and Specifications, and (ii) the land use laws and regulations and the Local Coastal Plan (except for any required density transfer between Development Zones) existing as of the date of execution of this Lease by Lessee.

5.7.5 Obligation to Pay Rent. Notwithstanding anything to the contrary contained in this Lease, no extension, relaxation or modification of the requirement to Substantially Commence construction of the Redevelopment Work by the Required Construction Commencement Date and complete such Improvements by the Required Completion Date, shall relieve Lessee of its obligation to pay County the Annual Minimum Rent, Percentage Rent and other amounts set forth in Article 4 of this Lease.

5.8 Manner of Construction.

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

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

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

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

5.8.5 Notice to Director; Damage to County Improvements. Lessee further agrees to keep Director apprised of the progress of the work to the end that Director may, upon at least one (1) Business Day advance notice, timely inspect the Premises to assure proper safeguarding of any County-owned improvements existing on or around the Premises, including but not limited to seawalls, underground conduits and utility lines. If

any such County-owned improvement is damaged as a result of construction activity by Lessee or its contractors, Lessee agrees to repair such damage immediately at no cost or expense to County. Lessee shall add the work necessary to repair such damage to the construction schedule for the Redevelopment Work (or other Alteration work, as applicable), and shall complete such repair work in accordance with such schedule; provided that if such damage to County-owned improvements creates a threat to public health and safety or materially adversely affects the condition, appearance or operation of any County-owned improvement or of any other property, then Lessee shall promptly commence the completion of such repair work and complete such repair work as soon as reasonably possible thereafter. In the event that Lessee fails to effectuate such repair in accordance with the foregoing requirements, County may upon written notice to Lessee enter upon the Premises to make such repairs, the Actual Cost of which shall be paid by Lessee within five (5) business days after demand by County. This subsection 5.8.5 shall not be deemed to impose upon Lessee any obligation to repair damage to County-owned improvements existing on or around the Premises if such damage was not incurred as a result of Lessee's construction activities.

5.8.6 Rights of Access. Representatives of the Department of Beaches and Harbors of the County shall, upon reasonable notice and at reasonable times during normal business hours, have the right of reasonable access to the Premises and the Improvements thereon without charges or fees, but at no cost or expense to Lessee, for the purpose of ascertaining compliance with the terms and conditions of this Lease, including but not limited to the inspection of the construction work being performed. Such access shall be reasonably calculated to minimize interference with Lessee's construction and/or operations, and County shall comply with industry safety standards in connection with any such access. Lessee shall have the right to have a representative present to accompany the representatives of the Department of Beaches and Harbors of the County in connection with such access. In the event of any emergency which is life-threatening or which involves the threat of potential substantial damage, County shall have the right to enter the Premises immediately and without notice to or accompaniment by Lessee.

5.8.7 Notice of Completion. Upon completion of the Redevelopment Work or any Alterations (including the Subsequent Renovation described in Section 5.13), Lessee shall file or cause to be filed in the Official Records of the County of Los Angeles a Notice of Completion (the "Notice of Completion") with respect to the Improvements and Lessee shall deliver to County, at no cost to County, two (2) sets of reproducible final as-built plans and specifications of the relevant Improvements.

5.8.8 Final Completion Certificate. Promptly after completion of the Redevelopment Work, upon Lessee's request, County shall execute and deliver to Lessee a final completion certificate (the "Final Completion Certificate") as to the Redevelopment Work which is the subject thereof, which shall conclusively evidence the completion of such work by Lessee in accordance with the terms of this Lease.

5.9 Use of Plans. Contracts between Lessee and any architect, design professional or licensed contractor in connection with the construction, alteration or modification of

Improvements on the Premises shall provide, in form and content reasonably satisfactory to County, for the assignment thereof to County (and Lessee's Encumbrance Holder(s) if required by Lessee's Encumbrance Holder(s)) as security to County for Lessee's performance hereunder, and County shall be furnished with a copy of any such contract, together with the further agreement of the parties thereto, that if this Lease is terminated by County due to Lessee's default, County (or if County enters into a new lease with Lessee's Encumbrance Holder pursuant to Article 12, then Lessee's Encumbrance Holder) may, at its election, use any plans and specifications created by such architect, design professional or contractor in connection with the contract, upon the payment of any sums due to any party thereto. County's right to elect to use plans and specifications as described above shall not include the unauthorized right to use any trade marks, trade names or logos of Lessee or any such architect, design professional or contractor. The assignment to County and Lessee's Encumbrance Holder(s) described in this Section 5.9 shall be effective until the Final Completion Certificate for the subject work is issued, and shall be subordinate to the security interest, if any, of Lessee's construction lender in the assigned contract, which subordination shall be in a form reasonably acceptable to Lessee's construction lender.

5.10 Where Director Approval Not Required. Notwithstanding the foregoing, and notwithstanding anything to the contrary in this Article 5, Lessee shall not be required to seek or obtain the approvals of Director described in this Article 5 (including those set forth in Section 5.3) for Alterations where all of the following conditions are satisfied: (i) the total cost of the project is less than One Hundred Thousand Dollars ($100,000), adjusted annually to reflect the increase or decrease in the ENR Index from and after the Effective Date (provided, however, that in no event shall such adjustment result in a reduction of the threshold for Director approval to less than One Hundred Thousand Dollars ($100,000); (ii) none of the proposed construction activity is structural in nature; and, (iii) none of the proposed construction, additions, modifications or changes affect or are visible from the exterior of the Premises; provided, however, that whenever Lessee makes or constructs or permits any improvements in or to the Premises, Lessee shall (a) give written notice thereof (including a description of the work to be done and the permits obtained for such work), and (b) furnish a copy of "as-built" plans upon completion of such work to County.

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

5.11.1 Posting Notices. County shall have the right at all reasonable times and places to post and, as appropriate, keep posted, on the Premises any notices which County may deem necessary for the protection of County's interest in the Premises from mechanics' liens or other claims. Lessee shall give County at least ten (10) business days prior written notice of the commencement of any work to be done on the Premises under this Article 5, in order to enable County timely to post such notices.

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

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

In the event any lien is recorded, Lessee shall, within five (5) business days after demand, furnish any one of the following, as determined by Lessee: (i) the bond described in California Civil Code Section 3143, or successor statute, which results in the removal of such lien from the Premises, (ii) a Set Aside Letter from Lessee's construction lender, in form and substance reasonably satisfactory to County, setting aside sufficient funds from Lessee's construction loan for the satisfaction of such lien, or (iii) a title insurance policy or endorsement insuring County against any loss or liability arising out of such lien, together with any other evidence requested by County to evidence that such claim will be paid, removed or discharged as a claim against the Premises and/or County.

5.12 Capital Improvement Fund. Commencing with the month during which the Certificate of Occupancy Date occurs, and continuing during the remaining Term of the Lease, Lessee shall establish and maintain a reserve fund (the "Capital Improvement Fund") in accordance with the provisions of this Section 5.12 for the cost of Permitted Capital Expenditures (as defined below) for the Premises. Lessee and County agree and acknowledge that the purpose of the Capital Improvement Fund shall be to provide funds for the costs of additions, replacements, renovations or upgrades of or to the Improvements on the Premises, including building exteriors and major building systems (such as HVAC, mechanical, electrical, plumbing, vertical transportation, security, communications, structural or roof) that significantly increase the capacity, efficiency, useful life or economy of operation of the Improvements or their major systems, after the completion of the Redevelopment Work ("Permitted Capital Expenditures"). Notwithstanding any contrary provision herein, the Capital Improvement Fund shall not be used to fund any portion of the cost of the Redevelopment Work or the Subsequent Renovation (as defined in Section 5.13 below). In addition, Permitted Capital Expenditures shall not include the cost of periodic, recurring or ordinary expenditures, repairs or replacements that keep the buildings or their major systems in an ordinarily efficient operating condition, but that do not significantly add to their value or appreciably prolong their useful life. Permitted Capital Expenditures must constitute capital replacements, improvements or equipment under generally accepted accounting principles consistently applied. Permitted Capital Expenditures shall not include costs for any necessary repairs to remedy any broken or damaged Improvements, all of which costs shall be separately funded by Lessee. By way of example, set forth on Exhibit E

attached to this Lease are categories of Permitted Capital Expenditures that qualify as proper costs to be funded from the Capital Improvement Fund. All purposes and costs for which Lessee desires to utilize amounts from the Capital Improvement Fund shall be subject to Director's approval, which approval shall not be unreasonably withheld.

The Capital Improvement Fund shall be held in an account established with a reputable financial institution (including Lessee's Encumbrance Holder) acceptable to Director into which deposits shall be made by Lessee (and/or into which Lessee's Encumbrance Holder shall provide funds) pursuant to this Section 5.12. The amounts to be added to the Capital Improvement Fund shall be inclusive of amounts required to be deposited with and held by an Encumbrance Holder, provided that the Encumbrance Holder acknowledges that such amounts are subject to the requirements and shall be made available for the purposes of this Section 5.12.

Commencing on the fifteenth (15th) day of the month during which the Certificate of Occupancy Date occurs and continuing on or before the fifteenth (15th) day of each month thereafter during the remaining Term, Lessee shall make a monthly deposit to the Capital Improvement Fund. During the first ten (10) years after the Certificate of Occupancy Date, the monthly deposits to the Capital Improvement Fund shall be equal to one percent (1%) of total Gross Receipts for the previous month. After the foregoing ten (10) year period and continuing during the remaining Term of the Lease, the monthly deposits to the Capital Improvement Fund shall be equal to two percent (2%) of total Gross Receipts for the previous month. All interest and earnings on the Capital Improvement Fund shall be added to the Capital Improvement Fund, but shall not be treated as a credit against the Capital Improvement Fund deposits required to be made by Lessee pursuant to this Section 5.12.

Disbursements shall be made from the Capital Improvement Fund only for costs which have been approved by Director and which satisfy the requirements of this Section 5.12. For the purpose of obtaining Director's prior approval of any Capital Improvement Fund disbursements, Lessee shall submit to Director on an annual calendar year basis a capital expenditure plan for the upcoming year which details the amount and purpose of anticipated Capital Improvement Fund expenditures for which Lessee requests Director's approval, which approval shall not be unreasonably withheld. Any anticipated expenditure set forth in such capital expenditure plan which is approved by Director as an acceptable Capital Improvement Fund disbursement shall be considered pre-approved by Director (but only up to the amount of such expenditure set forth in the annual capital expenditure plan) for the duration of the upcoming year. Lessee shall have the right during the course of each year to submit to Director for Director's approval revisions to the then current capital expenditure plan in effect for such year, or individual expenditures not noted on the previously submitted capital expenditure plan. Prior to the disbursement of any amounts from the Capital Improvement Fund, Lessee shall furnish to Director applicable invoices, evidence of payment and other back-up materials reasonably acceptable to Director concerning the use of amounts from the Capital Improvement Fund.

As of the date that is seven (7) years prior to the expiration of the Term of the Lease, all (or substantially all) of the amounts required to have been deposited in the Capital Improvement Fund prior to such date shall have been expended for Permitted Capital Expenditures. Capital Improvement Fund deposits made after such date shall continue to be used for Permitted Capital Expenditure purposes under this Section 5.12; provided, however, if County elects to require

Lessee to remove the Improvements at the end of the Term and requires Lessee to provide security to secure its obligation to perform such removal obligations in accordance with subsection 2.5.2 of this Lease, then Lessee shall have the right to contribute the deposits thereafter required to be made by Lessee under this Section 5.12 towards Lessee's obligations to fund the security requirements in subsection 2.5.2, but only if and to the extent that there are sufficient funds made available in the Capital Improvement Fund for any needed Permitted Capital Expenditures, as determined by Director in Director's reasonable discretion.

5.13 Subsequent Renovation. During the period between 2032 and 2035 Lessee shall be required to complete a renovation of the Improvements (the "Subsequent Renovation"). The Subsequent Renovation shall consist of such renovation and construction work as necessary in the reasonable judgment of Director to reposition the Improvements to a condition and appearance at least equal to other then-existing residential apartment projects. The Subsequent Renovation shall be commenced by Lessee not earlier than January 1, 2032 and shall be completed by Lessee not later than December 31, 2035.

Prior to the commencement of construction of the Subsequent Renovation, Lessee shall submit to Director a renovation plan ("Subsequent Renovation Plan"), which renovation plan shall (a) describe the proposed renovation work in such detail as reasonably acceptable to Director, (b) include a design, governmental approval and construction schedule for the work described therein, (c) include a budget for all work costs, and (d) address such other matters as Director reasonably requests. The Subsequent Renovation Plan shall be submitted by Lessee to County not later than such date as, taking into consideration the approval periods described in this Section 5.13 and Section 5.3 above, the estimated time required to obtain all necessary governmental approvals and permits, and the estimated time required to complete the work, will permit the completion by Lessee of the Subsequent Renovation by not later than December 31, 2035. Director shall have sixty (60) days within which to reasonably approve or disapprove the Subsequent Renovation Plan, or to approve the Subsequent Renovation Plan subject to conditions imposed by Director in its reasonable judgment. Failure of Director to notify Lessee in writing of its approval or disapproval of the Subsequent Renovation Plan shall be deemed Director's disapproval of the Subsequent Renovation Plan. Upon Director's approval of the Subsequent Renovation Plan, Lessee shall proceed to satisfy all conditions in this Article 5 to the commencement of the Subsequent Renovation and to commence and complete the Subsequent Renovation in accordance with the Subsequent Renovation Plan and the terms and conditions of this Article 5. Director's approval of the actual plans and specifications for the Subsequent Renovation shall proceed in accordance with the protocol for plan submission and approval set forth in Section 5.3 of this Lease, except that the schematic plan submittal requirements set forth in subsection 5.3.1 shall not be applicable to the extent that the Subsequent Renovation Plan approved by Director satisfies the requirements of such subsection 5.3.1. Lessee's failure to comply with the schedule approved by Director as part of Subsequent Renovation Plan and/or to meet the construction commencement and completion deadlines pertaining to the Subsequent Renovation set forth in this Section 5.13 shall, if not cured within the cure period set forth in subsection 13.1.2, constitute an Event of Default. Any dispute as to whether Director has failed to exercise reasonable judgment in the approval or disapproval of the Subsequent Renovation Plan shall be submitted to arbitration pursuant to Article 16 of this Lease. If the arbitrator determines that Director failed to exercise reasonable judgment in the approval or disapproval of the Subsequent Renovation Plan and as a result thereof Lessee is delayed in the completion of

the Subsequent Renovation by the required completion date set forth in the first paragraph of this Section 5.13, then the required date for the completion of such Subsequent Renovation shall be extended by the duration of the delay caused by Director's failure to reasonably approve the Subsequent Renovation Plan, provided that the required date for the completion of the Subsequent Renovation shall not be extended beyond the date reasonably required for the completion by Lessee of the Subsequent Renovation.

During the ten (10) period from January, 2022 through December, 2031 Lessee shall establish and maintain a reserve fund (the "Subsequent Renovation Fund") in accordance with the provisions of this Section 5.13 for the purpose of funding a portion of the cost of the Subsequent Renovation. The Subsequent Renovation Fund shall be held in an account established with a reputable financial institution (including Lessee's Encumbrance Holder) acceptable to Director into which deposits shall be made by Lessee (and/or into which Lessee's Encumbrance Holder shall provide funds) pursuant to this Section 5.13. On or before January 15, 2022 and each subsequent anniversary thereof through and including January 15, 2031, Lessee shall make an annual deposit to the Subsequent Renovation Fund in an amount equal to Three Hundred Sixty Five Thousand Dollars ($365,000.00). The amounts to be added to the Subsequent Renovation Fund shall be inclusive of amounts required to be deposited with and held by an Encumbrance Holder, provided that the Encumbrance Holder acknowledges that such amounts are subject to the requirements and shall be made available for the purposes of this Section 5.13. All interest and earnings on the Subsequent Renovation Fund shall be added to the Subsequent Renovation Fund, but shall not be treated as a credit against the Subsequent Renovation Fund deposits required to be made by Lessee pursuant to this Section 5.13. Disbursements shall be made from the Subsequent Renovation Fund only for costs which have been approved by Director and which satisfy the requirements of this Section 5.13. Prior to the disbursement of any amounts from the Subsequent Renovation Fund, Lessee shall furnish to Director applicable invoices, evidence of payment and other back-up materials reasonably acceptable to Director concerning the use of amounts from the Subsequent Renovation Fund. Director shall have no obligation to approve the disbursement of amounts from the Subsequent Renovation Fund unless and until Director has approved Lessee's Subsequent Renovation Plan and Lessee has furnished to Director evidence reasonably satisfactory to Director that Lessee has sufficient financial resources to pay for all costs of the Subsequent Renovation. Lessee shall not be required to make further contributions to the Subsequent Renovation Fund after the month of January, 2031.

In lieu of the periodic Subsequent Renovation Fund contributions described in this Section 5.13, Lessee agrees that Director shall have the authority, in the exercise of the Director's discretion, to consider the delivery by Lessee of substitute security acceptable to Director (e.g., a letter of credit or bonding mechanism) to secure the performance by Lessee of the Subsequent Renovation described in this Section 5.13. Such substitute security shall be in not less than the same amounts and delivered not later than the same times, as amounts that would have otherwise been required to be delivered into the Subsequent Renovation Fund

6. CONDEMNATION.

6.1 Definitions.

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

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

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

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

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

6.3 Total Taking. If the Premises are totally taken by Condemnation, this Lease shall terminate on the Date of Taking.

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

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

6.5 Effect of Partial Taking on Rent. If any portion of the Premises is taken by Condemnation and this Lease remains in full force and effect as to the portion of the Premises

not so taken (a "Partial Taking"), the Annual Minimum Rent shall be reduced as of the date of the Partial Taking to an amount equal to the Annual Minimum Rent multiplied by the ratio of the fair market value of the portion of the Premises not so taken to the fair market value of the entire Premises immediately prior to the Partial Taking, but without regard to any diminution in value resulting from the imminent taking. Upon the next Annual Minimum Rent Adjustment Date, as described in Section 4.3 above, if any, for the purposes of adjusting the Annual Minimum Rent, all Annual Minimum Rent and Percentage Rent paid by Lessee to County prior to the date of the Partial Taking shall be adjusted, for the purposes of this calculation only, to the proportion that the fair market value of the portion of the Premises which remains after the taking bears to the fair market value of the entire Premises immediately prior to the taking. If the parties cannot agree upon the appropriate Annual Minimum Rent, the matter shall be settled through arbitration in the manner set forth in Article 16 hereof. Any determinations of fair market value made pursuant to this Section 6.5 in connection with any arbitration proceeding shall be predicated upon the "income approach" or "income capitalization approach" to property valuation, as defined in The Dictionary of Real Estate Appraisal and/or The Appraisal of Real Estate, published by the Appraisal Institute or any successor organization (the "Income Approach"). All other obligations of Lessee under this Lease, including but not limited to the obligation to pay Percentage Rent, shall remain in full force and effect.

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

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

6.7.1 Partial Taking Without Termination. Net Awards and Payments received on account of a Taking other than a total Taking or a Partial Taking which results in termination hereof or a taking for temporary use shall be held by County and shall be paid out to Lessee or Lessee's designee(s), in progress payments, to pay the cost of restoration of the Premises. The balance, if any, shall be divided between County and Lessee pro rata, as nearly as practicable, based upon (1) the then value of County's interest in the Premises (including its interest hereunder) and (2) the then value of Lessee's interest in the remainder of the Term of this Lease including bonus value (for such purposes, the Term of this Lease shall not be deemed to have terminated even if Lessee so elects under Section 6.4). Any determinations of fair market value made pursuant to this Section 6.5 shall be predicated upon the Income Approach. Notwithstanding the foregoing, if County is the condemning authority and the taking pertains only to Lessee's interest, then Lessee shall be entitled to the entire amount of the Net Awards and Payments.

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

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

6.7.3 Total Taking and Partial Taking with Termination. Net Awards and Payments received on account of a total taking or a Partial Taking which results in the termination of this Lease shall be allocated in the following order:

First: There shall be paid to County an amount equal to the greater of (a) the sum of (1) the present value of all Annual Minimum Rent, Percentage Rent and other sums which would become due through the expiration of the Term if it were not for the taking less, in the event of a Partial Taking, an amount equal to the present value of the fair rental value of the portion of the Premises (with the Improvements thereon) not subject to the Partial Taking, from the date of the Partial Taking through the expiration of the Term and (2) the present value of the portion of the Premises (with the Improvements thereon) subject to the taking from and after the expiration of the Term or (b) in the event of a Partial Taking, the present value of the fair market rental value of the portion of the Premises (with the Improvements thereon) subject to the Partial Taking, from and after the expiration of the Term.

Second: There shall be paid to any Encumbrance Holder an amount equal to the sum of any unpaid principal amount of any Encumbrance secured by the Premises plus costs, expenses, and other sums due pursuant the loan documents, if any, and any interest accrued thereon, all as of the date on which such payment is made; and then

Third: There shall be paid to Lessee an amount equal to the value of Lessee's interest in the remainder of the Term of this Lease, including the value of the ownership interest in and use of the Improvements constructed on the Premises, determined as of the date of such taking, less payments made under paragraph Second above. For such purposes, the Term of this Lease shall not be deemed to have terminated even if Lessee so elects under Section 6.4.

Fourth: The balance shall be paid to County.

If County is the condemning authority in connection with a total taking or a partial taking that results in the termination of the Lease, and the taking pertains to only Lessee's interest, then Lessee shall be entitled to the entire amount of any Net Awards and Payments.

6.7.4 Disputes. Any dispute under Article 6 concerning the fair market value of the Premises or any portion thereof, computation of present value or the determination of the amount of Annual Minimum Rent or Percentage Rent or other sums which would have become due over the Term of this Lease which are not resolved by the parties, shall be submitted to arbitration pursuant to Article 16 of this Lease. Such

valuations, computations and determinations of value shall be made utilizing the Income Approach.

7. SECURITY DEPOSIT.

7.1 Amount and Use. On or prior to the Effective Date, Lessee shall deliver to County a security deposit (the "Security Deposit") in the amount of $63,183.25. County shall apply the current balance of any security deposit under the Existing Leases as a credit against the Security Deposit required to be delivered by Lessee under this Section 7.1. On or prior to the earlier of the Completion Date or the Required Completion Date Lessee shall increase the Security Deposit to an amount equal to one-fourth (1/4) of the Annual Minimum Rent payable by Lessee under subsection 4.2.1(b) of this Lease. On or prior to the third (3rd) anniversary of the Completion Date Lessee shall increase the Security Deposit to an amount equal to one-fourth (1/4) of the Annual Minimum Rent payable by Lessee under subsection 4.2.1(c) of this Lease. The Security Deposit shall thereafter be increased effective as of each Adjustment Date and each Renegotiation Date during the remaining Term of the Lease to an amount equal to one-fourth (1/4) of the Annual Minimum Rent payable by Lessee under the Lease effective on and after each such respective Adjustment Date or Renegotiation Date, as applicable.

The Security Deposit shall secure Lessee's obligations pursuant to this Lease, and may be drawn on by County, in whole or in part, to cover (a) delinquent rent not paid by Lessee within any applicable notice and cure period, and (b) any other Events of Default of Lessee under this Lease. The Security Deposit shall be applied at the discretion of County. Lessee shall have the right to maintain the Security Deposit in form of cash or in lieu or replacement of the cash Security Deposit requirement described above, in the form of a certificate of deposit, letter of credit or other approved investment instrument acceptable to County with respect to form, content and issuer. As long as no Event of Default by Lessee exists under the Lease, Lessee shall be entitled to any interest or other earnings which are actually earned on any unapplied portions of the Security Deposit delivered to County in the form of a certificate of deposit or other approved investment instrument (as opposed to cash, on which Lessee shall not be entitled to interest). Provided that no Event of Default then exists under the Lease, at the end of each Lease Year Lessee shall be entitled to a credit for all unexpended interest accruing to Lessee's benefit with respect to the Security Deposit during such Lease Year pursuant to the immediately preceding sentence. Notwithstanding any contrary provision hereof, County shall have the right at any time to apply any accrued but uncredited interest (which accrued during non-Event of Default periods) against delinquent rents and other amounts owed by Lessee under the Lease.

7.2 Replacement. In the event that some or all of the Security Deposit is drawn against by County and applied against any delinquent rent not paid by Lessee within any applicable notice or cure period, or against other Events of Default of Lessee hereunder, Lessee shall, within ten (10) days after receipt of written notice of the amount so applied and the reasons for such application, deposit sufficient additional funds with County, or cause the issuer of the Letter of Credit to reinstate the letter of credit to its full face amount, so that at all times that this Lease is in effect (other than between the date of the application of funds by County and the expiration of said ten (10) day period), the full amount of the Security Deposit shall be available to County. Failure to maintain and replenish the Security Deposit, if not cured within the time period set forth in subsection 13.1.3, shall constitute an Event of Default hereunder.

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

8. INDEMNITY.

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

9. INSURANCE.

9.1 Lessee's Insurance. Without limiting Lessee's indemnification of County, during the Term of this Lease Lessee shall provide and maintain the following insurance issued by companies authorized to transact business in the State of California by the Insurance Commissioner and having a "general policyholders rating" of at least A-VII (or such higher rating as may be required by an Encumbrance Holder) as set forth in the most current issue of "A.M. Best's Key Rating Guide" or an equivalent rating from another industry-accepted rating agency.

9.1.1 General Liability insurance (written on ISO policy form CG 00 01 or its equivalent) and endorsed to name County as an additional insured, with limits of not less than the following:

General Aggregate:	$20,000,000
Products/Completed Operations Aggregate:	$20,000,000
Personal and Advertising Injury:	$10,000,000
Each Occurrence:	$10,000,000

Lessee may satisfy the above coverage limits with a combination of primary coverage ("Primary Coverage") and excess liability coverage ("Umbrella Coverage") (as long as (a) Lessee's Primary Coverage is at least One Million Dollars ($1,000,000) per occurrence, One Million Dollars ($1,000,000) annual aggregate, and (b) the combination of such Primary Coverage and Umbrella Coverage provides County with the same protection as if Lessee had carried primary coverage for the entire limits and coverages required under this Section 9.1.1.

9.1.2 Automobile Liability insurance (written on ISO form CA 00 01 or its equivalent) with a limit of liability of not less than One Million Dollars ($1,000,000) of Primary Coverage and One Million Dollars ($1,000,000) of Umbrella Coverage, for each accident and providing coverage for all "owned", "hired" and "non-owned" vehicles, or coverage for "any auto." During any period of operation of valet parking facilities, Lessee also shall provide Garagekeeper's Legal Liability coverage, (written on ISO form CA 99 37 or its equivalent) with limits of not less than Three Million Dollars ($3,000,000) for this location.

9.1.3 Workers Compensation and Employers' Liability insurance providing workers compensation benefits, as required by the Labor Code of the State of California and for which Lessee is responsible, and including Employers' Liability coverage with limits of not less than the following:

Each Accident:	$1,000,000
Disease - policy limit:	$1,000,000
Disease - each employee:	$1,000,000

9.1.4 Commercial Property insurance covering damage to the Premises, including improvements and betterments, from perils covered by the Causes-of-Loss Special Form (ISO form CP 10 30), excluding earthquake, and including Ordinance or Law Coverage, written for the full replacement value of the Improvements, with a deductible no greater than $250,000 or 5% of the property value, which ever is less, and also including business interruption, including loss of rent equal to eighteen (18) months of rent, with proceeds payable to Lessee and County as their interests may appear and

utilized for repair and restoration of the Premises and Improvements. Notwithstanding the foregoing, during any period during which no Improvements exist on the Premises or all of the existing Improvements are being demolished in connection with the construction of Redevelopment Work, the obligation to provide insurance under this subsection 9.1.4 shall not be applicable so long as the insurance coverage described in subsection 9.1.5 below is carried.

9.1.5 For construction projects, including any Alterations or restoration, on the Premises, Lessee or Lessee's contractor or subcontractors will provide the following insurance (County reserves the right to determine the coverage and coverage limit required on a project by project basis.):

9.1.5.1 Builder's Risk Course of Construction to insure against damage from perils covered by the Causes-of-Loss Special Form (ISO form CP 10 30). This insurance shall be endorsed to include ordinance or law coverage, coverage for temporary offsite storage, debris removal, pollutant cleanup and removal, testing, preservation of property, excavation costs, landscaping, shrubs and plants and full collapse coverage during construction (without restricting collapse coverage to specified perils. This insurance shall be written on a completed-value basis and cover the entire value of the construction project, including County furnished materials and equipment, against loss or damage until completion and acceptance by Lessee.

9.1.5.2 General Liability. Such insurance shall be written on ISO policy form CG 00 01 or its equivalent with limits as reasonably required by the County for the Alterations. The products/completed operations coverage shall continue to be maintained for the following periods: (a) in the case of the Redevelopment Work, three (3) years after the date the Redevelopment Work is completed and accepted by the Lessee, or (b) in the case of Alterations after the completion of the Redevelopment Work, such period after the date such Alterations are completed and accepted by Lessee as reasonably determined by County, but not to exceed three (3) years after such completion and acceptance.

9.1.5.3 Automobile Liability. Such coverage shall be written on ISO policy form CA 00 01 or its equivalent with a limit of liability as reasonably required by the County for the Alterations. Such insurance shall include coverage for all "owned," "hired" and "non-owned" automobiles, or coverage for "any auto."

9.1.5.4 Professional Liability. Such insurance shall cover liability arising from any error, omission, negligent or wrongful act of the contractor and/or licensed professional (i.e. architects, engineers, surveyors, etc.). This coverage shall also provide an extended two-year reporting period commencing upon termination or cancellation of the construction project. The limits of the coverage required under this subsection 9.1.5.4 shall be (a) Three Million Dollars ($3,000,000) with respect to the prime architect for the Redevelopment Work (or such lesser amount as required by Director for the prime architect in connection

with any subsequent Alterations), and (b) One Million Dollars ($1,000,000) with respect to each other contractor, subcontractor, architect, engineer, surveyor or other licensed professional rendering services in connection with the design or construction of the Redevelopment Work or subsequent Alterations, provided that Director shall have the discretion to reduce the coverage limits under this clause (b) if appropriate in the judgment of Director based on the nature and scope of the services being provided.

9.1.5.5 Asbestos Liability or Contractors Pollution Liability insurance, if construction requires remediation of asbestos or pollutants, and if such insurance is available. Such insurance shall cover liability for personal injury and property damage arising from the release, discharge, escape, dispersal or emission of asbestos or pollutants, whether gradual or sudden, and include coverage for the costs and expenses associated with voluntary clean-up, testing, monitoring and treatment of asbestos in compliance with governmental mandate or order. If the asbestos or pollutant will be removed from the construction site, asbestos or pollution liability is also required under the contractor's of subcontractor's Automobile Liability Insurance. Contractor shall maintain limits as reasonably required by the County for the Alterations.

9.1.6 If the use of the Premises or Improvements involves any manufacture, distribution or service of alcoholic beverages, Liquor Liability insurance (written on ISO policy form CG 00 33 or 34 or their equivalent) with a liability limit of not less than Five Million Dollars ($5,000,000) per occurrence and an annual aggregate of Ten Million Dollars ($10,000,000), which limits may be covered by a combination of Primary Coverage and Umbrella Coverage. If written on a claims made form, the coverage shall also provide an extended two-year reporting period commencing upon the termination or cancellation of the Lease.

9.2 Provisions Pertaining to Property Insurance. The insurance coverage required in Sections 9.1.4 and 9.1.5.1 shall name the County as an additional insured and any Encumbrance Holder as loss payee. Subject to Section 12.8, upon the occurrence of any loss, the proceeds of property and builder's risk insurance shall be held by County in trust for the named insureds as their interests appear, and shall be disbursed by County on a monthly basis to pay for work completed in accordance with then-prevailing industry custom and practice; provided, however, that if the insurance proceeds received with respect to a loss are less than $500,000 (as adjusted to reflect any increase in the ENR Index during the period from the Effective Date through the date of the loss), the Encumbrance Holder shall have the right to hold and disburse such proceeds to pay the renovation and repair of Improvements in accordance with the terms of the loan agreement or deed of trust with Lessee's Encumbrance Holder. In the event of a loss, Lessee shall be obligated to rebuild or replace the destroyed or damaged buildings, structures, equipment, and Improvements, in accordance with the procedures set forth hereinabove for the initial construction, except as otherwise provided in Article 11 hereof. Subject to Section 12.8, any surplus or proceeds after said rebuilding or replacement shall be distributed to Lessee.

9.3 General Insurance Requirements. Subject to the immediately following grammatical paragraph, a duplicate policy or policies (or certificates of insurance) evidencing the

insurance coverage required under this Article 9, in such form as shall be reasonably acceptable to County, shall be filed with Director no later than the Effective Date, provided that the evidence of the insurance coverage required under Section 9.1.5 shall be required to be delivered by Lessee prior to the commencement of any Alterations. All certificates of insurance shall (a) specifically identify the Lease; (b) clearly evidence all coverages required under the Lease; (c) identify any deductibles or self-insured retentions exceeding $25,000 or such other commercially reasonable amount as approved by the Director; and (d) evidence all other requirements under this Article 9. The policy or policies of insurance shall provide that such insurance coverage will not be canceled or reduced without at least thirty (30) days prior written notice to Director or ten (10) business days in case of cancellation for failure to pay the premium. At least ten (10) business days prior to the expiration of such policy, a certificate showing that such insurance coverage has been renewed shall be obtained by Lessee and filed with Director.

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

Any insurance coverage may be issued in the form of a blanket policy insuring other properties, in form, amount and content reasonably satisfactory to County such that such coverage provides the same protection as required under this Article 9 as if the insurance had been procured on an individual property basis.

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

(a) that County and its respective Board of Supervisors and members thereof, and County's officers, agents, employees and volunteers, shall be named as additional insureds under any liability insurance policy or policies;

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

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

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

(e) to the extent of the indemnification obligations of Lessee in favor of any additional insureds, the property and commercial general liability insurance policies shall provide coverage on a primary and non-contributory basis with respect to such additional insureds, regardless of any other insurance or self-insurance that such additional insureds may elect to purchase or maintain;

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

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

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

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

9.5 Failure to Procure Insurance. If Lessee fails to procure or renew the herein required insurance and does not cure such failure within five (5) business days after written notice from County, in addition to the other rights and remedies provided hereunder, County may, at its discretion, procure or renew such insurance and pay any and all premiums in connection therewith. All monies so paid by County shall be repaid by Lessee, with interest thereon at the Applicable Rate, to County within five (5) business days after Lessee's receipt of written demand therefor.

9.6 Adjustment to Amount of Liability Coverage. The amounts of liability insurance required under Section 9.1.1, 9.1.2 and 9.1.3 shall be subject to renegotiation as of each fifth (5th) anniversary of the Effective Date (each, an "Insurance Renegotiation Date"). If County and Lessee cannot agree upon the amount of insurance by the sixtieth (60th) day preceding an Insurance Renegotiation Date, the matter shall be resolved by binding arbitration in accordance with Article 16. In no event shall the amounts of liability insurance be decreased as a result of such renegotiation or arbitration. Following such renegotiation or arbitration, the parties shall execute an amendment to this Lease setting forth the renegotiated insurance provisions or the arbitration judgment, as appropriate.

9.7 Notification of Incidents, Claims or Suits. Lessee shall notify County of any accident or incident on or about the Premises which involves injury or property damage over Fifty Thousand Dollars ($50,000.00) in the aggregate and pursuant to which a claim against Lessee and/or County is made or threatened. Such notification shall be made in writing within 72 hours after Lessee first becomes aware of the claim or threatened claim.

10. MAINTENANCE AND REPAIR; DAMAGE AND DESTRUCTION.

10.1 Lessee's Maintenance and Repair Obligations. Lessee shall maintain the Premises, including paved or unpaved ground surfaces and Improvements thereon (but excluding the Excluded Conditions), in conformance with the Minimum Standards regarding the use and occupancy of residential apartment buildings and marina facilities in Marina del Rey (such as the Premises) as revised from time to time by County in a manner consistent with

commercially reasonable maintenance standards applicable to other comparable residential apartment buildings and marina facilities in Marina del Rey (the "Maintenance Standard"). Any dispute as to whether revisions to the Minimum Standards adopted by the County from time to time pursuant to the immediately preceding sentence are commercially reasonable shall be submitted to arbitration pursuant to Article 16 of this Lease. Without limiting the foregoing, at Lessee's sole cost and expense, but subject to the terms and conditions of this Lease, Lessee shall keep and maintain the Premises and all equipment, Improvements or physical structures of any kind which may exist or be erected, installed or made on the Premises in good and substantial repair and condition, including without limitation capital improvements and structural and roof repairs and replacement, and shall make all necessary repairs and alterations and replacements thereto, except as otherwise provided in this Article 10. Lessee shall undertake such repairs, alterations or replacements in compliance with Applicable Laws, the Maintenance Standard and the terms and provisions of this Article 10. Lessee shall maintain all Improvements on the Premises (other than the Excluded Conditions) in a safe, clean, wholesome and sanitary condition, in the commercially reasonable judgment of Director, and in compliance with all Applicable Laws. Lessee shall, at its own cost and expense, install, maintain and replace landscaping between the streets abutting the Premises and the building footprints on the Premises as is necessary in the commercially reasonable judgment of the Director to maintain the appearance of the Premises in a manner consistent with the Maintenance Standard. Lessee specifically agrees to provide proper containers for trash and garbage which are screened from public view, to keep the Premises free and clear of rubbish and litter. County in its proprietary capacity shall have the right to enter upon and inspect the Premises at any reasonable time for cleanliness, safety and compliance with this Section 10.1, as long as such entrance is not done in a manner which would unreasonably interfere with the operation of the Premises. The exclusion of the Excluded Conditions from Lessee's maintenance obligations under this Section 10.1 shall not relieve Lessee from the obligation to repair and restore any damage to the Excluded Conditions caused by Lessee, its agents, employees, subtenants or contractors, or by Improvements constructed by or on behalf of Lessee, and Lessee hereby agrees to perform such repair or restoration work at Lessee's sole cost and expense.

10.2 Maintenance Deficiencies. If County provides written notice to Lessee of a deficiency or other breach in the performance by Lessee of the maintenance and repair obligations of Lessee under Section 10.1 above, then Lessee shall promptly commence the cure thereof and shall complete such cure within the time period for such cure set forth in the County's deficiency notice, which cure period shall not be less than thirty (30) days except if the deficiency pertains to a condition that is a threat to health or safety or otherwise constitutes an emergency situation, in which case County shall have the right to immediately require Lessee to take all appropriate steps to avoid damage or injury. If Lessee fails to cure any such deficiency within the cure period set forth in County's deficiency notice (which cure period shall comply with the requirements of the immediately preceding sentence of this Section 10.2), then in addition to, and not in lieu of, any rights or remedies that County may have under Article 13 of this Lease for defaults not cured within the applicable notice and cure periods set forth therein, Lessee shall pay to County an amount equal to One Hundred Dollars ($100) per day per item of deficiency for each day after such cure period that the deficiency item remains uncured; provided, however, if the nature of the deficiency is such that it is not capable of cure within the cure period specified in County's notice (for example, as a result of permitting

requirements or construction material procurement delays beyond the control of Lessee), then as long as during the specified cure period Lessee commences the cure of the deficiency and thereafter continues the prosecution of the completion of such cure in a manner and with such diligence that will effectuate the cure in as short a period as reasonably possible, then the cure period specified in County's deficiency notice shall be extended for such additional time as necessary to complete the cure in as short a period as reasonably possible. For purposes of determining the number of items of deficiency set forth in a deficiency notice received from the County, County shall reasonably identify the separate deficiencies so as not to unfairly increase the daily amount payable under this Section 10.2 by separating the work into unreasonably particularized items (e.g., the requirement to paint the exterior of a building shall not be split into individual deficiency items for the painting of each individual door, window or other component of such building).

If a cited deficiency is not health or safety related and does not otherwise constitute an emergency, and if in the reasonable and good faith business judgment of Lessee the deficiency notice was erroneously issued by County, then Lessee shall have the right to contest such deficiency notice by written notice to Director within five (5) business days after the date the deficiency notice is received by Lessee. If Lessee files any such contest with Director, then Director shall have the right, in the exercise of Director's discretion, to consider such contest. If Lessee's contest is made on a reasonable and good faith basis, then the cure period for the deficiency notice shall be tolled during the period between the date Director receives written notice of such contest and continuing until Director notifies Lessee in writing that either Director denies Lessee's contest or that Director has determined not to consider such contest, and the daily penalty set forth above in this Section 10.2 shall not be applicable during the period that the cure period is tolled. The One Hundred Dollars ($100) per diem amount set forth in this Section 10.2 shall be adjusted every three (3) years during the remaining Lease Term on each third (3rd) anniversary of the Effective Date to reflect any change in the Consumer Price Index over the three (3) year period immediately preceding each such adjustment. If Lessee fails to pay any amounts payable by Lessee under this Section 10.2 within ten (10) days after written notice from County, then County shall have the right to draw on the Security Deposit to cover such unpaid amounts.

10.3 Option to Terminate for Uninsured Casualty. In the event of any damage to or destruction of the Premises, or any Improvements located thereon (other than the Excluded Conditions, except to the extent damage thereto is caused by the Lessee, its agents, employees, subtenants or contractors, or by Improvements constructed by or on behalf of Lessee), Lessee shall, except as otherwise expressly provided in this Section 10.3, promptly (taking into consideration the necessity of obtaining approvals and permits for such reconstruction) repair and/or restore such Improvements to their condition existing prior to the damage or destruction. Except as otherwise expressly provided in this Section 10.3, such obligation to repair and restore is absolute, and is in no way dependent upon the existence or availability of insurance proceeds. Repair and restoration of any damage or destruction shall take place in accordance with the provisions of Article 5. Notwithstanding the foregoing, Lessee shall have the option to terminate this Lease and be relieved of the obligation to restore the Improvements on the Premises where all or substantially all of the Improvements on the Premises (other than the Excluded Conditions) are substantially damaged or destroyed and such damage or destruction

resulted from a cause not required to be insured against by this Lease (an "Uninsured Loss"), and where all of the following occur:

10.3.1 No more than one hundred (100) days following the Uninsured Loss, Lessee shall notify County of its election to terminate this Lease; to be effective, this notice must include both a copy of Lessee's notification to the Encumbrance Holder, if any, of Lessee's intention to exercise this option to terminate and Lessee's certification under penalty of perjury that Lessee has delivered or mailed such notification to the Encumbrance Holder in accordance with this subsection 10.3.1. County shall be entitled to rely upon the foregoing notice and certification as conclusive evidence that Lessee has notified the Encumbrance Holder regarding Lessee's desire to terminate this Lease.

10.3.2 No more than sixty (60) days following the giving of the notice required by subsection 10.3.1 or such longer time as may be reasonable under the circumstances, Lessee shall, at Lessee's expense: remove all debris and other rubble from the Premises; secure the Premises against trespassers; and, at County's election, remove all remaining Improvements on the Premises.

10.3.3 No more than sixty (60) days following the loss, Lessee delivers to County a quitclaim deed to the Premises in recordable form, in form and content satisfactory to County and/or with such other documentation as may be reasonably requested by County or any title company on behalf of County, terminating Lessee's interest in the Premises and reconveying such interest to County free and clear of any and all Encumbrances and Subleases.

10.3.4 Within ten (10) days following the County's receipt of the notice referred to in subsection 10.3.1, County has not received both written notice from the Encumbrance Holder, if any, objecting to such termination and an agreement containing an effective assignment of Lessee's interest in this Lease to such Encumbrance Holder whereby such Encumbrance Holder expressly assumes and agrees to be bound by and perform all of Lessee's obligations under this Lease.

10.4 No Option to Terminate for Insured Casualty. Lessee shall have no option to terminate this Lease or otherwise be relieved of its obligation to restore the Improvements on the Premises where the damage or destruction results from a cause required to be insured against by this Lease.

10.5 No County Obligation to Make Repairs. County shall have no obligation whatsoever to make any repairs or perform any maintenance on the Premises.

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

10.7 Other Repairs. Although having no obligation to do so, County may, at its own cost and at its sole discretion, perform or permit others to perform any necessary dredging, filling, grading or repair of water systems, sewer facilities, roads, or other County facilities on or about the Premises. Any entry by County onto the Premises pursuant to this Section 10.7 shall be made in accordance with the following requirements: (i) prior to entry onto the Premises County shall cause each of its contractors to provide to Lessee evidence that such contractor has procured commercial general liability insurance coverage pertaining to such contractor's activities on the Premises, which insurance coverage shall be consistent with County's insurance requirements generally applicable to County contractors, and shall name Lessee as an additional insured; (ii) County's contractors shall comply with industry standard safety requirements; and (iii) County shall repair, or cause its contractors to repair, any damage to the Premises caused by the activities of County and/or it contractors on the Premises pursuant to this Section 10.7.

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

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

11. ASSIGNMENT AND SUBLEASE.

11.1 Subleases.

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

11.1.2 Approval Required. At least thirty (30) days prior to the proposed effective date of any Sublease that is not a Major Sublease or an Approved Apartment Lease (as defined below), or of any assignment or material amendment of such Sublease, Lessee shall submit a copy of such Sublease (or assignment or amendment thereof), to Director for approval, which approval shall not be unreasonably withheld. To the extent practical, Director shall approve or disapprove said proposed Sublease, amendment or assignment within thirty (30) days after receipt thereof. In no event, however, shall any such Sublease, amendment or assignment be made or become effective without the prior approval of Director. Each such Sublease shall specifically provide that the Sublessee shall comply with all of the terms, covenants, and conditions of this Lease applicable to the portion of the Premises subject to the Sublease.

Notwithstanding any contrary provision of this Article 11, Lessee shall not be required to obtain County's approval of any Sublease of an individual apartment unit in the ordinary course (but not the master lease of multiple units) to a person or persons who will physically occupy the subleased unit, as long as such Sublease is in the form of the standard residential apartment lease hereafter submitted to and approved by County and the term of such Sublease does not exceed eighteen (18) months (each, an "Approved Apartment Lease"). The terms and provisions of Sections 11.2 and 11.3 of this Lease shall not be applicable to Approved Apartment Leases. Upon request by County, Lessee shall furnish County with a current rent roll respecting the Approved Apartment Leases and a copy of all of such Approved Apartment Leases.

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

11.2 Approval of Assignments and Major Subleases. Except as specifically hereinbefore provided in this Article 11, Lessee shall not, without the prior written consent of County, which shall be based upon factors described in Exhibit J hereto, which is incorporated herein by this reference ("Assignment Standards"), and which shall be applied in a commercially reasonable manner, either directly or indirectly give, assign, hypothecate, encumber, transfer, or grant control of this Lease or any interest, right, or privilege therein (including without limitation the right to manage or otherwise operate the Improvements located from time to time on the Premises), or enter into a Major Sublease affecting the Premises, or license the use of the all or substantially all of the Premises. Notwithstanding the foregoing, Lessee shall have the right, without the prior approval of County, to retain an affiliate of Lessee as the property manager for the Premises. Any Change of Ownership that is not an Excluded Transfer shall constitute an assignment of Lessee's interest under this Lease. In addition, for purposes of this provision, the following acts of Lessee (except for Excluded Transfers) shall require the prior written consent of County to be effective: (1) the addition, removal or replacement of one or more general partners or managing members in a Lessee which is a limited partnership or limited liability entity, except (a) by death, insolvency, incapacity, resignation (except for a sole general partner, if any) or removal of a general partner or managing member and his replacement by a vote of the limited partners, the remaining general partners or remaining members, or (b) if any general partner or managing member owning more than fifty percent (50%) of the interests of the partnership or limited liability entity acquires the interest of another general partner or managing member owning fifteen percent (15%) or less of the interests in the partnership or limited liability entity; (2) the sale, assignment, or transfer of fifty-percent (50%) or more of the stock, partnership interests or limited liability company interests in an entity which owns, or is a general partner or managing member of an entity which owns, an interest in this Lease. Lessee shall provide County with any information reasonably requested by County in order to determine whether or not to grant approval of the matters provided herein requiring County's consent. These same limitations

and approval requirements as to Lessee's interest under the Lease shall also apply with respect to the Sublessee's interest under a Major Sublease.

11.2.1 County's Use of Discretion and Limitation on Permissible Assignees. In exercising its discretion to approve assignments as provided in this Section 11.2, County shall take into account the Assignment Standards and, if County determines that such Assignment Standards are satisfied, County shall not withhold or unreasonably delay its consent to any proposed assignment.

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

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

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

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

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

11.2.3.4 Lessee shall be required to reimburse County for its Actual Costs incurred in connection with the proposed assignment, whether or not

County ultimately grants its approval to the proposed assignment (without duplication with any Administrative Charge payable under Section 4.6).

11.2.3.5 Lessee or the proposed assignee shall provide County with sufficient information for County to determine if the public interest will be served by approving the proposed transaction. The information that must be provided includes, but shall not be limited to, the following:

(a) Nature of the Assignee. Full disclosure is required in accordance with this Lease and County's applicant disclosure policy then in effect. Additionally, a flowchart identifying the chain of ownership of the assignee and its decision-making authority shall be provided to County. County shall be advised if the proposed assignee, or any other person or entity for whom disclosure is required pursuant to County's disclosure policy, has had any leasehold or concessionaire's interest canceled or terminated by the landlord due to the tenant or Lessee's breach or default thereunder.

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

(c) Financial Analysis. County shall be provided with the proposed assignee's financing plan for the operation of the Premises (unless the assignment is pursuant to a Change of Ownership that is an Excluded Transfer or is pursuant to a Change of Ownership that involves the transfer of only beneficial ownership interests in the constituent owners of Lessee, and following such transfer there is no intended change in the financing plan for the operation and improvement of the Premises) and for any contemplated improvement thereof, demonstrating such proposed assignee's financial capability to so operate the Premises and construct such improvements. Such financing plan shall include, but not be limited to, information detailing (1) equity capital; (2) sources and uses of funds; (3) terms of financing; (4) debt service coverage and ratio; and (5) loan to value ratio. The proposed assignee shall also provide County with documentation demonstrating such proposed assignee's financial viability, such as letters of commitment from financial institutions which demonstrate the availability of sufficient funds to complete any proposed construction or improvements on the Premises. Further, such proposed assignee shall authorize the release of financial information to County from financial institutions relating to the proposed assignee or other information supplied in support of the proposed assignment.

(d) Business Plan. County shall be provided with the proposed assignee's business plan for the Premises (unless the assignment is pursuant to a Change of Ownership that constitutes an Excluded Transfer or is pursuant to a Change of Ownership that involves the transfer of only beneficial ownership interests in the constituent owners of Lessee, and following such transfer there is no intended change in the business plan for the Premises), including pro forma financial projections for the Premises for the five (5) year period beginning upon the commencement of the proposed assignment. Such pro forma projections will include capital costs, income and expenses, as well as debt service and all other payments to providers of debt and equity, and will be accompanied by a statement of basic assumptions and an identification of the sources of the data used in the production of such projections.

(e) Assignor's Financial Statements. County shall be provided with certified financial statements, including balance sheets and profits and loss statements concerning the assignor Lessee and its operations for the three (3) most recent years prior to the proposed transaction.

(f) Cure of Defaults. County shall be provided with the proposed assignee's specific plans to cure any and all delinquencies under this Lease which may be identified by County, whether identified before or after the date of the proposed assignment.

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

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

11.2.3.6 Nondisturbance. At the request of Lessee, County shall agree to execute a subordination, nondisturbance and attornment agreement

and a ground lessor's estoppel certificate on commercially reasonable terms in favor of any Major Sublessee.

11.2.3.7 Final Documents. Prior to granting its approval over any proposed assignment, County shall be provided with an executed Assignment and Acceptance of Assignment in form and content as approved or supplied by the County. Ten (10) copies of each must be submitted to County, of which five (5) shall be signed originals and properly acknowledged.

11.2.4 County Right to Recapture. The terms and provisions of this Section 11.2.4 shall be applicable on and after April 1, 2022 and continuing during the remaining Term of the Lease. If Lessee proposes to assign its interest in this Lease or the Premises, or proposes to enter into any Major Sublease affecting the Premises (with either such proposed transaction herein referred to as a "Proposed Transfer") on or after April 1, 2022, it shall provide County with written notice of such desire and the sale price ("Lessee Sale Price") at which it is willing to consummate the Proposed Transfer. Within thirty (30) days thereafter, the County shall provide Lessee with written notification as to whether it has elected to acquire an option to purchase the interest subject to the Proposed Transfer. During said thirty (30) day period, Lessee may continue to market the interest subject to the Proposed Transfer, provided that such interest is offered subject to County's rights as provided herein. In the event that, prior to the expiration of said thirty (30) day period, County has given notice to Lessee that it has elected to acquire said option, Lessee shall deliver to County an assignable option to purchase the interest subject to the Proposed Transfer ("County Option") at the Lessee Sale Price. Such County Option shall have a term of five (5) calendar months. During the term of the County Option, Lessee shall make the Premises and its books and records reasonably available for inspection by County and third parties as reasonably requested by County. In the event that County causes Lessee to issue the County Option and subsequently declines to purchase the interest subject to the Proposed Transfer at the Lessee Sale Price, County shall pay to Lessee at the expiration of the County Option period (or, at County's election, credit to Lessee against the next applicable installment(s) of Annual Minimum Rent and Percentage Rent), a sum (the "County Option Price") which represents (i) three percent (3%) of the Lessee Sale Price, plus (ii) seven percent (7%) interest per annum on said three percent (3%) of the Lessee Sale Price, from the date Lessee received notice of County's election to receive the County Option through the date on which the County Option Price, together with interest thereon, is paid or credited in full. If County either (a) fails to elect to cause Lessee to issue the County Option within said thirty (30) day period or (b) gives notice that it has elected not to acquire the interest subject to the Proposed Transfer, then during the nine (9) month period following the later of (a) or (b), Lessee shall be entitled to enter into an agreement to consummate the Proposed Transfer with a third party (subject to County's approval rights as otherwise set forth in this Lease) so long as (1) the actual price for the Proposed Transfer is equal to or greater than the Lessee Sale Price last offered to County and upon no more favorable material terms to the assignee, and (2) the transfer is consummated not later than twelve (12) months after the later of (a) or (b). In the event of a proposed Major Sublease or other permitted assignment of less than all of the Premises, County's election shall pertain to such portion of the Premises subject to the proposed Major Sublease or assignment and, in the event

that County elects to acquire such portion of Lessee's interest in the Premises, Lessee's Annual Minimum Rent shall be proportionally reduced and Lessee's obligation to pay Percentage Rent shall pertain only to the amounts derived from the portion of the Premises retained by Lessee. In the event that County elects to recapture all or any portion of the Premises as provided herein, Lessee agrees to execute promptly a termination agreement and such other documentation as may be reasonably necessary to evidence the termination of this Lease, to set a termination date and to prorate rent and other charges with respect to the termination. County's rights pursuant to this subsection 11.2.4 shall not apply to Financing Events or those events identified in subsection 4.6.2 of this Lease.

11.2.5 County Credits Toward Purchase Price. In the event that County or its assignee elects to exercise the County Option, it shall receive the following credits toward the Lessee Sale Price: (1) the Net Proceeds Share which would be payable to County in the event that a third party were to purchase the interest offered at the Lessee Sale Price and (2) an amount which represents unpaid Annual Minimum Rent, Percentage Rent, and all other amounts payable under the Lease, if any (including a provisional credit in an amount reasonably acceptable to County for any amounts that may arise from an audit by County, but that have not yet been determined as of that date), with late fees and interest as provided herein, from the end of the period most recently subject to County audit through the date of the purchase of the interest by County. In the case of any unpaid rental amounts that may be found to be owing to County in connection with any uncompleted audit by County, in lieu of a provisional credit for such amounts, Lessee may provide County with a letter of credit or other security satisfactory to County to secure the payment of such unpaid amounts when finally determined by County. During the term of the County Option, Lessee shall cause to be available to County all books and records reasonably necessary in order to determine the amount of such unpaid Annual Minimum Rent, Percentage Rent, and other amounts payable under the Lease. In the event that County or its assignee exercises the County Option, but the transaction fails to close due to a failure of the parties to agree upon an appropriate allowance for such unpaid Annual Minimum Rent, Percentage Rent, and other amounts or appropriate security for the payment thereof, then County shall have no obligation to pay or credit to Lessee the County Option Price.

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

assignee until after the assignment; provided, further, the assignor shall not be relieved of any liability for the payment of the Administrative Charge or the required portion of any Net Proceeds Share or Net Refinancing Proceeds which arise upon such assignment as provided herein.

11.4 Family Transfers. Notwithstanding any contrary provision of this Article 11, the County's approval shall not be required, nor shall the County's rights of recapture under subsection 11.2.4 be applicable, with respect to any transfer of ownership interests in Lessee or in constituent entities of Lessee, if such transfer is to a member of the immediate family of the transferor (or to a trust for the benefit of a member of the immediate family of the transferor) for estate planning purposes, whether such transfer is the result of gift, devise, intestate succession or operation of law. Specifically, but without limitation of the foregoing, the County's approval shall not be required, nor shall the County's rights of recapture under subsection 11.2.4 be applicable, with respect to transfers of general partnership, limited partnership or membership interests in Lessee, a successor Lessee or any of their constituent entities, to or among the following (collectively, "Family Members"): (a) Jerry B. Epstein, Pat Epstein, David Levine and his wife, and any of their lineal descendants or any trusts for the benefit of such persons, (b) the Epstein Family Trust, (c) the Pat and Jerry Epstein Foundation, (d) Kirk Douglas, Ann Douglas, Peter Douglas and his wife, Eric Douglas and his wife, and any of their lineal descendants or any trusts for the benefit of such persons, and (e) The Douglas Foundation.

12. ENCUMBRANCES.

12.1 Financing Events.

12.1.1 Definitions. For the purposes of this Lease, including without limitation the provisions of Sections 4.6 through 4.8 hereof: (i) a "Financing Event" shall mean any financing or refinancing consummated by Lessee or by the holders of partnership interests or other direct or indirect ownership interests in Lessee (collectively, "Ownership Interests"), whether with private or institutional investors or lenders, where such financing or refinancing is an Encumbrance (as defined below); for purposes of Section 12.1.2 below and Sections 4.6 through 4.8 above, a "Financing Event" shall also include all of the foregoing actions involving the granting of a mortgage, deed of trust or other security interest in a Major Sublease; and (ii) an "Encumbrance" shall mean any direct or indirect grant, pledge, assignment, transfer, mortgage, hypothecation, grant of control, grant of security interest, or other encumbrance, of or in all or any portion of (A) Lessee's interest under this Lease and the estate so created (including without limitation a direct or indirect assignment of Lessee's right to receive rents from subtenants) or (B) Ownership Interests if an absolute assignment from the holder of such Ownership Interests to the holder of the Encumbrance would have required County's consent under this Lease, to a lender (upon County approval of the Encumbrance and consummation thereof, the "Encumbrance Holder") as security for a loan. The term "Encumbrance Holder" shall also be deemed to include any and all affiliates of such Encumbrance Holder which have succeeded by assignment or otherwise to any rights, interests or liabilities of the Encumbrance Holder with respect to the Encumbrance, or which have been designated by the Encumbrance Holder to exercise any rights or remedies under the

Encumbrance or to take title to the leasehold estate under this Lease or to Ownership Interests, and such affiliates shall enjoy all of the rights and protections given to Encumbrance Holders under this Lease. The term "Equity Encumbrance Holder" shall mean an Encumbrance Holder holding an Encumbrance with respect to Ownership Interests.

12.1.2 County Approval Required. Lessee may, with the prior written consent of Director, which shall not be unreasonably withheld, and subject to any specific conditions which may be reasonably imposed by Director, consummate one or more Financing Event(s). Lessee shall submit to Director a preliminary loan package and thereafter a complete set of all proposed transaction documents in connection with each proposed Financing Event. The preliminary loan package shall include the loan commitment (or the so-called “loan application” if the loan commitment is styled as a loan application) and any other documents, materials or other information reasonably requested by Director. Lessee shall have the right, but not the obligation, to include draft loan documents in the preliminary loan package. Director shall have sixty (60) days (thirty (30) days for the initial construction loan for the Redevelopment Work) to grant or withhold approval of the preliminary loan package. Director shall have sixty (60) days (thirty (30) days for the initial construction loan for the Redevelopment Work) after receipt of substantially complete loan documents conforming to the approved preliminary loan package in which to grant or withhold final approval of the Financing Event; provided, however, that if the preliminary loan package included draft loan documents then the foregoing sixty (60) day period shall be reduced to thirty (30) days. If not approved by Director in writing within the foregoing periods, the proposed Financing Event shall be deemed disapproved by Director (and, if so requested in writing by Lessee), Director shall within thirty (30) days of such request deliver to Lessee a written description of Director's objections to said proposed Financing Event). Lessee shall reimburse County for County's Actual Cost incurred in connection with its review of the proposed Financing Event. One (1) copy of any and all security devices or instruments as finally executed or recorded by the parties in connection with any approved Encumbrance shall be filed with Director not later than seven (7) days after the effective date thereof. The same rights and obligations set forth above in this subsection 12.1.2 shall inure to the benefit of and shall be binding upon any holder of Ownership Interests with respect to any proposed Financing Event involving Ownership Interests.

12.2 Consent Requirements In The Event of a Foreclosure Transfer.

12.2.1 Definitions. As used herein, a "Foreclosure Transfer" shall mean any transfer of the entire leasehold estate under this Lease or of all of the Ownership Interests in Lessee pursuant to any judicial or nonjudicial foreclosure or other enforcement of remedies under or with respect to an Encumbrance, or by voluntary deed or other transfer in lieu thereof. A "Foreclosure Transferee" shall mean any transferee (including without limitation an Encumbrance Holder) which acquires title to the entire leasehold estate under this Lease or to all of the Ownership Interests in Lessee pursuant to a Foreclosure Transfer. An "Equity Foreclosure Transferee" shall mean a Foreclosure Transferee whose acquired interest consists of all of the Ownership Interests in Lessee.

12.2.2 Foreclosure Transfer. The consent of County shall not be required with respect to any Foreclosure Transfer.

12.2.3 Subsequent Transfer By Encumbrance Holder. For each Foreclosure Transfer in which the Foreclosure Transferee is an Encumbrance Holder, with respect to a single subsequent transfer of this Lease or the Ownership Interests (as applicable) by such Encumbrance Holder to any third party, (i) County's consent to such transfer shall be required, but shall not be unreasonably withheld or delayed, and the scope of such consent (notwithstanding anything in this Lease to the contrary) shall be limited to County's confirmation (which must be reasonable) that the Lessee following such transfer has sufficient financial capability to perform its remaining obligations under this Lease as they come due, along with any obligation of Lessee for which the Foreclosure Transferee from whom its receives such transfer is released under subsection 12.3.1 below, and (ii) such transferee (other than a transferee of Ownership Interests) shall expressly agree in writing to assume and to perform all of the obligations under this Lease, other than Excluded Defaults (as defined below). For clarification purposes, the right to a single transfer under this Section shall apply to each Foreclosure Transfer in which the Foreclosure Transferee is an Encumbrance Holder, so that there may be more than one "single transfer" under this Section.

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

12.3.1 Any Encumbrance Holder which is a commercial bank, savings bank, savings and loan institution, insurance company, pension fund, investment bank, opportunity fund, mortgage conduit, real estate investment trust, commercial finance lender or other similar financial institution which ordinarily engages in the business of making, holding or servicing commercial real estate loans, including any affiliate thereof (an "Institutional Lender"), shall, upon becoming a Foreclosure Transferee (other than an Equity Foreclosure Transferee), become liable to perform the full obligations of Lessee under this Lease (other than Excluded Defaults as defined below) accruing during its period of ownership of the leasehold. Upon a subsequent transfer of the leasehold in accordance with subsection 12.2.3 above, such Institutional Lender shall be automatically released of any further liability with respect to this Lease, other than for (i) rent payments, property tax payments, reserve account payments and other monetary obligations under specific terms of the Lease that accrue solely during such Institutional Lender's period of ownership of the leasehold, and (ii) Lessee’s indemnification obligations under this Lease with respect to matters pertaining to or arising during such Institutional Lender’s period of ownership of leasehold title.

12.3.2 Any other Foreclosure Transferee (i.e., other than an Institutional Lender as provided in Section 12.3.1 above) shall, upon becoming a Foreclosure Transferee (other than an Equity Foreclosure Transferee), become liable to perform the full obligations of Lessee under this Lease (other than Excluded Defaults), subject to possible release of liability upon a subsequent transfer pursuant to Section 11.3 above.

12.3.3 Following any Foreclosure Transfer which is a transfer of the leasehold interest under the Lease, County shall recognize the Foreclosure Transferee as the Lessee under the Lease and shall not disturb its use and enjoyment of the Premises, and the Foreclosure Transferee shall succeed to all rights of Lessee under this Lease as a direct lease between County and such Foreclosure Transferee, provided that the Foreclosure Transferee cures any pre-existing Event of Default other than any such pre-existing Event of Default that (i) is an incurable non-monetary default, (ii) is a non-monetary default that can only be cured by a prior lessee, (iii) is a non-monetary default that is not reasonably susceptible of being cured by such transferee, or (iv) relates to any obligation of a prior lessee to pay any Net Proceeds Share (collectively, "Excluded Defaults"), and thereafter performs the full obligations of Lessee under this Lease. Pursuant to Section 12.3.7 below, following any Foreclosure Transfer which is a transfer of Ownership Interests, the foregoing rights under this Section 12.3.3 shall also inure to the benefit of the Lessee.

12.3.4 No Encumbrance Holder shall become liable for any of Lessee's obligations under this Lease unless and until such Encumbrance Holder becomes a Foreclosure Transferee with respect to Lessee's leasehold interest under the Lease.

12.3.5 No Foreclosure Transfer, and no single subsequent transfer by an Encumbrance Holder following a Foreclosure Transfer pursuant to subsection 12.2.3, shall trigger (i) any obligation to pay an Administrative Charge nor any Net Proceeds Share, (ii) any acceleration of the Extension Fee, Additional Lease Extension Fee or any other financial obligation of Lessee under this Lease, (iii) any recapture right on the part of County, or (iv) any termination right under this Lease. Any Foreclosure Transfer, and any single subsequent transfer by an Encumbrance Holder following a Foreclosure Transfer pursuant to subsection 12.2.3, shall be deemed to be excluded from the definition of "Change of Ownership" for all purposes of this Lease. For clarification purposes, the "single subsequent transfer" referred to above applies to each Foreclosure Transfer in which the Foreclosure Transferee is an Encumbrance Holder (as more fully explained in Section 12.2.3), so that there may be more than one "single subsequent transfer" benefited by this Section.

12.3.6 In the event that an Institutional Lender becomes a Foreclosure Transferee, all obligations with respect to the construction and renovation work described in Sections 5.1 or 5.13 above (other than any obligations to make deposits into the Subsequent Renovation Fund under Section 5.13) shall be tolled for a period of time, not to exceed twelve months, until such Institutional Lender completes a subsequent transfer of its foreclosed interest in the Lease or Ownership Interests, provided that such Institutional Lender is making commercially reasonable and diligent efforts to market and sell its foreclosed interest. Nothing in this Section 12.3.6 shall be construed as a limit or outside date on any cure periods provided to Encumbrance Holders under this Lease.

12.3.7 Following a Foreclosure Transfer with respect to all of the Ownership Interests in Lessee, (i) any and all rights, privileges and/or liability limitations afforded to Foreclosure Transferees in this Article 12 or any other provision of this Lease shall also be afforded to Lessee from and after such Foreclosure Transfer, to the same extent as if

the Foreclosure Transferee had acquired the leasehold interest of Lessee directly and became the Lessee under this Lease, and (ii) if the Foreclosure Transferee was also an Equity Encumbrance Holder, then any and all rights, privileges and/or liability limitations afforded to Foreclosure Transferees who are Encumbrance Holders in this Article 12 or any other provision of this Lease shall also be afforded to Lessee from and after such Foreclosure Transfer, to the same extent as if the Foreclosure Transferee had acquired the leasehold interest of Lessee directly and became the Lessee under this Lease.

12.4 No Subordination. County's rights in the Premises and this Lease, including without limitation County's right to receive Annual Minimum Rent and Percentage Rent, shall not be subordinated to the rights of any Encumbrance Holder. Notwithstanding the foregoing, an Encumbrance Holder shall have all of the rights set forth in the security instrument creating the Encumbrance, as approved by County in accordance with subsection 12.1.2, to the extent that such rights are not inconsistent with the terms of this Lease, including the right to commence an action against Lessee for the appointment of a receiver and to obtain possession of the Premises under and in accordance with the terms of said Encumbrance, provided that all obligations of Lessee hereunder shall be kept current, including but not limited to the payment of rent and curing of all defaults or Events of Default hereunder (other than Excluded Defaults or as otherwise provided herein).

12.5 Modification or Termination of Lease. This Lease shall not be modified or amended without the prior written consent in its sole discretion of each then existing Encumbrance Holder with respect to Lessee's entire leasehold interest in this Lease or all of the Ownership Interests in Lessee. Further, this Lease may not be surrendered or terminated (other than in accordance with the provisions of this Article 12) without the prior written consent of each such Encumbrance Holder in its sole discretion. No such modification, amendment, surrender or termination without the prior written consent of each such then existing Encumbrance Holder shall be binding on any such Encumbrance Holder or any other person who acquires title to its foreclosed interest pursuant to a Foreclosure Transfer.

12.6 Notice and Cure Rights of Encumbrance Holders and Major Sublessees.

12.6.1 Right to Cure. Each Encumbrance Holder and Major Sublessee shall have the right, at any time during the term of its Encumbrance or Major Sublease, as applicable, and in accordance with the provisions of this Article 12, to do any act or thing required of Lessee in order to prevent termination of Lessee's rights hereunder, and all such acts or things so done hereunder shall be treated by County the same as if performed by Lessee.

12.6.2 Notice of Default. County shall not exercise any remedy available to it upon the occurrence of an Event of Default (other than exercising County’s self-help remedies pursuant to Section 13.5 or imposing the daily payment set forth in Section 10.2 in the case of emergency situations), and no such exercise shall be effective, unless it first shall have given written notice of such default to each and every then existing Major Sublessee and Encumbrance Holder which has notified Director in writing of its interest in the Premises or this Lease and the addresses to which such notice should be delivered. Such notice shall be sent simultaneously with the notice or notices to Lessee. An

Encumbrance Holder or Major Sublessee shall have the right and the power to cure the Event of Default specified in such notice in the manner prescribed herein. If such Event or Events of Default are so cured, this Lease shall remain in full force and effect. Notwithstanding any contrary provision hereof, the Lender's cure rights set forth in this Section 12.6 shall not delay or toll the County's right to impose the daily payment for Lessee breaches set forth in Section 10.2.

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

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

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

(1) The Encumbrance Holder or Major Sublessee may cure the default within sixty (60) days after the end of Lessee's cure period as provided in Section 13.1 hereof (or, if the default involves health, safety or sanitation issues, County may by written notice reduce such sixty (60) day period to thirty (30) days, such 60 or 30 day period, as applicable, being referred to herein as the "initial cure period"), provided, however, if the curing of such default reasonably requires activity over a longer period of time, the initial cure period shall be extended for such additional time as may be reasonably necessary to cure such default, so long as the Encumbrance Holder or Major Sublessee commences a cure within the initial cure period and thereafter continues to use due diligence to perform whatever acts may be required to cure the particular default. In the event Lessee commences to cure the default within Lessee's applicable cure period and thereafter fails or ceases to pursue the cure with due diligence, the Encumbrance Holder's and Major Sublessee's initial cure period shall commence upon the later of the end of Lessee's cure period or the date upon which County notifies the Encumbrance Holder and/or Major Sublessee that Lessee has failed or ceased to cure the default with due diligence.

(2) With respect to an Encumbrance Holder, but not a Major Sublessee, if before the expiration of the initial cure period, said Encumbrance Holder notifies County of its intent to commence foreclosure of its interest, and within sixty (60) days after the mailing of said notice, said Encumbrance Holder (i) actually commences foreclosure proceedings and prosecutes the same thereafter with due diligence, the initial cure period shall be extended by the time necessary to complete such foreclosure proceedings, or

(ii) if said Encumbrance Holder is prevented from commencing or continuing foreclosure proceedings by any bankruptcy stay, or any order, judgment or decree of any court or regulatory body of competent jurisdiction, and said Encumbrance Holder diligently seeks release from or reversal of such stay, order, judgment or decree, the initial cure period shall be extended by the time necessary to obtain such release or reversal and thereafter to complete such foreclosure proceedings. Within thirty (30) days after a Foreclosure Transfer is completed, the Foreclosure Transferee shall (if such default has not been cured) commence to cure, remedy or correct the default and thereafter diligently pursue such cure until completed in the same manner as provided in subsection (a) above. The Encumbrance Holder shall have the right to terminate its foreclosure proceeding, and the extension of any relevant cure period shall lapse, in the event of a cure by Lessee.

12.7 New Lease.

12.7.1 Obligation to Enter Into New Lease. In the event that this Lease is terminated by reasons of bankruptcy, assignment for the benefit of creditors, insolvency or any similar proceedings, operation of law, an Excluded Default or other event beyond the reasonable ability of an Encumbrance Holder to cure or remedy, or if the Lease otherwise terminates for any reason, County shall, upon the written request of any Encumbrance Holder with respect to Lessee's entire leasehold estate under this Lease or all of the Ownership Interests in Lessee (according to the priority described below if there are multiple Encumbrance Holders), enter into a new lease (which shall be effective as of the date of termination of this Lease) with the Encumbrance Holder or an affiliate thereof for the then remaining Term of this Lease on the same terms and conditions as shall then be contained in this Lease, provided that the Encumbrance Holder cures all then existing monetary defaults under this Lease, and agrees to commence a cure of all then existing non-monetary Events of Default within sixty (60) days after the new lease is entered into, and thereafter diligently pursues such cure until completion. In no event, however, shall the Encumbrance Holder be obligated to cure any Excluded Defaults. County shall notify the most junior Encumbrance Holder of a termination described in this Section 12.7 within thirty (30) days after the occurrence of such termination, which notice shall state (i) that the Lease has terminated in accordance with Section 12.7 of this Lease, and (ii) that such Encumbrance Holder has sixty (60) days following receipt of such notice within which to exercise its right to a new lease under this Section 12.7, or else it will lose such right. An Encumbrance Holder's election shall be made by giving County written notice of such election within sixty (60) days after such Encumbrance Holder has received the above-described written notice from the County. Within a reasonable period after request therefor, County shall execute and return to the Encumbrance Holder any and all documents reasonably necessary to secure or evidence the Encumbrance Holder's interest in the new lease or the Premises. From and after the effective date of the new lease, the Encumbrance Holder (or its affiliate) shall have the same rights to a single transfer that are provided in subsection 12.2.3 above, and shall enjoy all of the other rights and protections that are provided to a Foreclosure Transferee in this Article 12. Any other subsequent transfer or assignment of such new lease shall be subject to all of the requirements of Article 11 of this Lease. If there are multiple Encumbrance Holders, this right shall inure to the most junior Encumbrance Holder in order of priority; provided,

however, if such junior Encumbrance Holder shall accept the new lease, the priority of each of the more senior Encumbrance Holders shall be restored in accordance with all terms and conditions of such Encumbrances(s). If a junior Encumbrance Holder does not elect to accept the new lease within thirty (30) days of receipt of notice from County, the right to enter into a new lease shall be provided to the next most junior Encumbrance Holder, under the terms and conditions described herein, until an Encumbrance Holder either elects to accept a new lease, or no Encumbrance Holder so elects.

12.7.2 Priority of New Lease. The new lease made pursuant to this Section 12.7 shall be prior to any mortgage or other lien, charge or encumbrance on County's fee interest in the Premises, and any future fee mortgagee or other future holder of any lien on the fee interest in the Premises is hereby given notice of the provisions hereof.

12.8 Holding of Funds. Any Encumbrance Holder with respect to Lessee's entire leasehold interest in this Lease or all of the Ownership Interests in Lessee that is an Institutional Lender shall have the right to hold and control the disbursement of (i) any insurance or condemnation proceeds to which Lessee is entitled under this Lease and that are required by the terms of this Lease to be applied to restoration of the improvements on the Premises (provided that such funds shall be used for such restoration in accordance with the requirements of the Lease), and (ii) any funds required to be held in the Subsequent Renovation Fund (provided that such funds shall be used for the purposes required by this Lease). If more than one such Encumbrance Holder desires to exercise the foregoing right, the most senior Encumbrance Holder shall have priority in the exercise of such right.

12.9 Participation in Certain Proceedings and Decisions. Any Encumbrance Holder shall have the right to intervene and become a party in any arbitration, litigation, condemnation or other proceeding affecting this Lease. Lessee's right to make any election or decision under this Lease with respect to any condemnation settlement, insurance settlement or restoration of the Premises following a casualty or condemnation shall be subject to the prior written approval of each then existing Encumbrance Holder.

12.10 Fee Mortgages and Encumbrances. Any mortgage, deed of trust or other similar encumbrance granted by County upon its fee interest in the Premises shall be subject and subordinate to all of the provisions of this Lease and to all Encumbrances. County shall require each such fee encumbrance holder to confirm the same in writing (in a form reasonably approved by each Encumbrance Holder or its title insurer) as a condition to granting such encumbrance, although the foregoing subordination shall be automatic and self-executing whether or not such written confirmation is obtained.

12.11 No Merger. Without the written consent of each Encumbrance Holder, the leasehold interest created by this Lease shall not merge with the fee interest in all or any portion of the Premises, notwithstanding that the fee and leasehold interests are held at any time by the same person or entity.

12.12 Rights of Encumbrance Holders With Respect to Reversion. As used in this Section 12.12, the "Reversion" refers to the automatic amendment of this Lease described in Section 5.1 whereby the terms and conditions of this Lease are automatically amended and

revert back to the terms and provisions of the Existing Lease, and a "Reversion Condition" refers to any of the conditions under which the Reversion will occur, namely the failure of Lessee to substantially complete the Redevelopment Work on or before the Required Completion Date (as such dates may be extended pursuant to Sections 5.6 or 5.7). Notwithstanding anything in Section 5.1 or any other provision of this Lease to the contrary, so long as an Encumbrance Holder exists with respect to Lessee's entire leasehold interest in this Lease or all of the Ownership Interests in Lessee, the Reversion shall not occur unless and until (i) the County has given written notice of the occurrence of the Reversion Condition to each such Encumbrance Holder in accordance with subsection 12.6.2 (which notice shall describe the Reversion Condition that has occurred, and shall include the following statement in all capital and bold letters: "**YOUR FAILURE TO COMMENCE A CURE OF THE DEFAULT DESCRIBE IN THIS NOTICE WITHIN 60 DAYS OF YOUR RECEIPT OF THIS NOTICE, AND TO THEREAFTER PURSUE SUCH CURE TO COMPLETION IN ACCORDANCE WITH THE PROVISIONS OF SUBSECTION 12.6.3(b) OF THE LEASE APPLICABLE TO NONMONETARY DEFAULTS, WILL RESULT IN AN AUTOMATIC AMENDMENT AND REVERSION OF THE TERMS OF THE LEASE BACK TO THE TERMS OF A PRIOR LEASE, AS MORE PARTICULARLY DESCRIBED IN SECTION 5.1 OF THE LEASE**"), and (ii) no such Encumbrance Holder commences a cure of the default within 60 days of its receipt of such notice and thereafter pursues such cure to completion in accordance with the provisions of subsection 12.6.3(b) of the Lease applicable to nonmonetary defaults. Further, in the event that a Reversion occurs, such Reversion shall be subject to the "new lease" provisions of Section 12.7 of the Lease (and in such event the Reversion shall be deemed a "termination" of this Lease solely for purposes of Section 12.7 and the "new lease" to be entered into pursuant to Section 12.7 shall mean a new lease on the same terms as this Lease, not the Existing Lease).

12.13 Acceleration of Extension Fee or Additional Lease Extension Fee. So long as (i) no Event of Default exists based on nonpayment of an individual Extension Payment (even if any other Event of Default exists that is not based on nonpayment of an individual Extension payment) or an individual Additional Lease Extension Fee installment, or (ii) if an Event of Default exists based on nonpayment of an individual Extension Payment or an individual Additional Lease Extension Fee installment, an Encumbrance Holder, Foreclosure Transferee or the single subsequent transferee of a Foreclosure Transferee pursuant to subsection 12.2.3 cures such Event of Default by paying to County all past-due individual Extension Payments and Additional Lease Extension Fee installments, together with any default interest and/or Late Fees that may be owing thereon; then County shall not declare the entire remaining unpaid Extension Fee or Additional Lease Extension Fee immediately due and payable, or, if County has previously declared the entire remaining unpaid Extension Fee or Additional Lease Extension Fee immediately due and payable, County shall rescind such acceleration and permit the reinstatement of the original payment terms of the Extension Fee and Additional Lease Extension Fee (i.e., by annual payments).

[12.14 Supplemental Agreement With Initial Encumbrance Holders. County, Lessee, and the initial Encumbrance Holder(s) of this Lease [i.e., (i) _____ (holder of an Encumbrance which encumbers Lessee's leasehold interests under this Lease) and (ii) _____ (holder of an Encumbrance which encumbers all of the Ownership Interests in Lessee)], have entered into a

Ground Lessor's Consent and Agreement of substantially even date with this Lease which will be recorded in the Official Records of Los Angeles County, containing (among other things) provisions that alter and supplement certain provisions of this Article 12 and other provisions of the Lease (the "Ground Lessor's Consent and Agreement"). For so long as such initial Encumbrances are outstanding, this Article 12 (and any other provisions of this Lease, to the extent applicable) shall be subject to the provisions of the Ground Lessor's Consent and Agreement, and the provisions of the Ground Lessor's Consent and Agreement shall govern in the event of any conflicts with this Lease.]

13. DEFAULT.

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

13.1.1 Monetary Defaults. The failure of Lessee to pay the rentals due, or make any other monetary payments required under this Lease (including, without limitation, payment of the Extension Fee Balance plus accrued interest on or before the date required under Section 2.2 of this Lease; payment of the installments of the Additional Lease Extension Fee plus accrued interest on or before the dates required under Section 2.3 of this Lease; deposits to the Capital Improvement Fund pursuant to Section 5.12 of this Lease; and/or deposits to the Subsequent Renovation Fund pursuant to Section 5.13 of this Lease), within ten (10) days after written notice that said payments are overdue. Lessee may cure such nonpayment by paying the amount overdue, with interest thereon and the applicable Late Fee, if any, within such ten (10) day period.

13.1.2 Maintenance of Security Deposit. The failure of Lessee to maintain and/or replenish the Security Deposit required pursuant to Article 7 of this Lease if not cured within five (5) days after written notice of such failure.

13.1.3 Failure to Perform Other Obligations. The failure of Lessee to keep, perform, and observe any and all other promises, covenants, conditions and agreements set forth in this Lease, including without limitation the obligation to maintain adequate accounting and financial records, within thirty five (35) days after written notice of Lessee's failure to perform from Director; provided, however, that where Lessee's performance of such covenant, condition or agreement is not reasonably susceptible of completion within such thirty five (35) day period and Lessee has in good faith commenced and is continuing to perform the acts necessary to perform such covenant, condition or agreement within such thirty five (35) day period, County will not exercise any remedy available to it hereunder for so long as Lessee uses reasonable due diligence in continuing to pursue to completion the performance such covenant, condition or agreement and so completes performance within a reasonable time. Notwithstanding any contrary provision of this Section 13.1.3, the proviso set forth in the immediately preceding sentence providing for an extension of the cure period beyond thirty five (35) days shall not be applicable to any failure of Lessee to comply with the Required Completion Date set forth in Section 5.1 above (as such dates may extended pursuant to Sections 5.6 or 5.7, and subject to Section 12.12).

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

Any notice required to be given by County pursuant to subsections 13.1.1 through and including 13.1.3 shall be in addition to, and not in lieu of, any notice required under Section 1161 of the California Code of Civil Procedure.

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

13.3 Remedies. Upon the occurrence of an Event of Default, and subject to the rights of any Encumbrance Holder or Major Sublessee to cure such Event of Default as provided in Section 12.6 hereof, County shall have, in addition to any other remedies in law or equity, the following remedies which are cumulative:

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

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

13.3.3 Termination Following Continuance. Even though it may have kept this Lease in effect pursuant to subsection 13.3.2, thereafter County may elect to terminate this Lease and all of Lessee's rights in or to the Premises unless prior to such

termination Lessee shall have cured the Event of Default or shall have satisfied the provisions of Section 13.2, hereof. County agrees to use reasonable efforts to mitigate damages.

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

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

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

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

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

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

breach of any provision or provisions of this Lease shall not exceed the value of County's equity interest in the Premises and its right to insurance proceeds in connection with the policies required under Article 9 hereof.

14. ACCOUNTING.

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

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

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

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

14.3 Statement; Payment. No later than the fifteenth (15th) day of each calendar month, Lessee shall render to County a detailed statement showing Gross Receipts during the

preceding calendar month, together with its calculation of the amount payable to County under Sections 4.2 through 4.8 inclusive, and shall accompany same with remittance of amount so shown to be due.

14.4 Availability of Records for Inspector's Audit. Books of account and records for the then current and five (5) prior Accounting Years as hereinabove required shall be kept or made available at the Premises or at another location within Los Angeles County, and County and other governmental authorities shall have the right at any reasonable times and on reasonable prior notice to examine and audit said books and records, without restriction, for the purpose of determining the accuracy thereof and of the monthly statements of Gross Receipts derived from occupancy of the Premises and the compliance of Lessee with the terms of this Lease and other governmental requirements. This Section 14.4 shall survive the expiration of the Term or other termination of this Lease for thirty six (36) months after such expiration or termination.

14.4.1 Entry by County. Upon at least one (1) business day advance notice, County and its duly authorized representatives or agents may enter upon the Premises at any and all reasonable times during the Term of this Lease for the purpose of determining whether or not Lessee is complying with the terms and conditions hereof, or for any other purpose incidental to the rights of County.

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

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

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

14.8 Annual Financial Statements. Within six (6) months after the end of each Accounting Year, Lessee shall deliver to County the following financial statements: (i) a balance sheet of Lessee as of the end of such Accounting Year, certified by Lessee's chief financial officer as accurately reflecting Lessee's assets and liabilities, which balance sheet shall not be required to be audited, provided that at County's request not more often than every two years, such balance sheet shall be audited by a Certified Public Accountant who is a member of the American Institute of Certified Public Accountants and is satisfactory to County (a "Qualified CPA"); (ii) a profit and loss statement of Lessee for such Accounting Year,

audited and certified by a Qualified CPA; and (iii) a Gross Receipts and Percentage Rent statement for such Accounting Year, audited and certified by a Qualified CPA, which statement shall include a certification and unqualified opinion of such Qualified CPA (1) concerning Lessee's Gross Receipts (including a breakdown by category), and (2) that the correct amount of Percentage Rent and Supplemental Participation Rent (if applicable) has been paid to the County in connection with such Gross Receipts. All financial statements prepared by or on behalf of Lessee shall be prepared in a manner that permits County to determine the financial results of operations in connection with Lessee's activities at, from or relating to the Premises, notwithstanding that Lessee may have income and expenses from other activities unrelated to its activities on the Premises.

14.9 Accounting Obligations of Sublessees. Lessee shall cause all sublessees, licensees, concessionaires and others conducting business operations on or from the Premises to comply with all terms of this Article 14 with respect to the maintenance, form, availability and methodology of accounting records and the delivery to County of audited certified financial statements and unqualified opinions as to Gross Receipts. County shall provide written notice to Lessee of the failure of any sublessee, concessionaire or other person to comply with this subsection after County's discovery of such failure, and provide Lessee with the right to cure any failure to so comply by payment to County of amounts which may be owing to County, as shown on an audit conducted by County, or on an audit supplied by Lessee or such sublessee, concessionaire or other person and accepted by County, or as otherwise determined pursuant to Section 14.10. In such event County shall permit Lessee to subrogate to any right of County to enforce this provision against such sublessee, concessionaire or other person, to the extent Lessee does not have a direct right of enforcement against sublessee, concessionaire or other person.

14.10 Inadequacy of Records. In the event that Lessee or its sublessees, licensees or concessionaires, as appropriate, fails to keep the records required by this Article 14 such that a Certified Public Accountant is unable to issue an unqualified opinion as to Gross Receipts, such failure shall be deemed a breach of this Lease by Lessee. In addition to the other remedies available to County at law or equity as a result of such breach, County may prepare a calculation of the Percentage Rent payable by Lessee during the period in which the accounting records were inadequately maintained. Such calculation may be based on the past Gross Receipts levels on or from the Premises, the past or present level of Gross Receipts experienced by tenants of comparable leaseholds in Marina del Rey with comparable business operations, or any other method as reasonably determined by Director and shall utilize such methodology as Director deems reasonable. Within five (5) days after receipt of County's determination of Percentage Rent due, if any, Lessee shall pay such Percentage Rent, together with a late fee of six percent (6%) and interest to the date of payment at the Applicable Rate from the date upon which each unpaid installment of Percentage Rent was due, together with County's Actual Cost in connection with the attempted audit of the inadequate records and the reconstruction and estimation of Gross Receipts and the calculation of Percentage Rent due.

15. MISCELLANEOUS.

15.1 Quiet Enjoyment. Lessee, upon performing its obligations hereunder, shall have the quiet and undisturbed possession of the Premises throughout the Term of this Lease, subject, however, to the terms and conditions of this Lease.

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

15.3 County Costs. Lessee shall promptly reimburse County for the Actual Costs incurred by County in the review, negotiation, preparation and documentation of this Lease and the term sheets and memoranda that preceded it. The parties acknowledge that Lessee has paid all Actual Costs incurred by County through _____, and has on deposit with County the sum of $_____ toward costs incurred after _____. County shall deliver to Lessee a report detailing such expenditures (along with invoice summaries or other supporting documentation) within ninety (90) days after the Effective Date.

15.4 County Disclosure and Lessee's Waiver.

15.4.1 Disclosures and Waiver.

15.4.1.1 "AS IS". Lessee acknowledges that it is currently in possession of the Premises and that Lessee or its predecessor-in-interest has continuously occupied and/or managed and operated the Premises since 1964. Lessee accepts the Premises in their present condition notwithstanding the fact that there may be certain defects in the Premises, whether or not known to either party to this Lease, at the time of the execution of this Lease by Lessee and Lessee hereby represents that it has performed all investigations necessary, including without limitation soils and engineering inspections, in connection with its acceptance of the Premises "AS IS".

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

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

obligations under the Existing Leases with respect to any abandoned wells or other environmental conditions existing on the Premises as of the Effective Date.

15.4.1.4 California Civil Code Section 1542 provides as follows:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

By initialing this paragraph, Lessee acknowledges that it has read, is familiar with, and waives the provisions of California Civil Code §1542 set forth above, and agrees to all of the provisions of subsection 15.4.1.3 above.

_____
Lessee's Initials

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

15.5 Holding Over. If Lessee holds over after the expiration of the Term for any cause, with or without the express or implied consent of County, such holding over shall be deemed to be a tenancy from month-to-month only, and shall not constitute a renewal or extension of the Term. During any such holdover period, the Minimum Monthly Rent and Percentage Rent in effect at the end of the Term shall be increased to one hundred twenty five percent (125%) of such previously effective amounts. Such holdover shall otherwise be subject to the same terms, conditions, restrictions and provisions as herein contained. Such holding over shall include any time employed by Lessee to remove machines, appliances and other equipment during the time periods herein provided for such removal.

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

succeeding tenant arising from such failure to surrender, and any lost profits to County resulting therefrom, provided that County notifies Lessee that Lessee's failure to timely surrender the Premises will cause County to incur such lost profits.

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

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

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

Except to the extent arising out of or caused by the gross negligence or willful misconduct of County, Lessee agrees to indemnify, defend and save harmless County from any cost, expense, loss or damage arising out of or caused by any such entry or re-entry upon the Premises in the case of an Event of Default, including the removal of persons and property and storage of such property by County and its agents.

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

15.10 Service of Written Notice or Process. Any notice required to be sent under this Lease shall be in compliance with and subject to this Section 15.10. If Lessee is not a resident of the State of California, or is an association or partnership without a member or partner

resident of said State, or is a foreign corporation, Lessee shall file with Director a designation of a natural person residing in the County of Los Angeles, State of California, or a service company, such as CT Corporation, which is authorized to accept service, giving his or its name, residence, and business address, as the agent of Lessee for the service of process in any court action between Lessee and County, arising out of or based upon this Lease, and the delivery to such agent of written notice or a copy of any process in such action shall constitute a valid service upon Lessee.

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

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

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

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

COUNTY:	Director Department of Beaches and Harbors Los Angeles County 13837 Fiji Way Marina del Rey, California 90292 Phone: 310/305-9522 Fax: 310/821-6345
<u>With a Copy to</u>:	Office of County Counsel Los Angeles County

500 West Temple Street
Los Angeles, California 90012
Attn: County Counsel
Phone: 213/974-1801
Fax: 213/617-7182

LESSEE: _____
_____
_____
_____
Phone: _____
Fax: _____

With a Copy to: _____
_____
_____
_____
Phone: _____
Fax: _____

and

Cox, Castle & Nicholson LLP
2049 Century Park East
28th Floor
Los Angeles, California 90067
Attention: Ira J. Waldman, Esq.
Phone: 310/277-4222
Fax: 310/277-7889

Either party shall have the right to change its notice address by written notice to the other party of such change in accordance with the provisions of this Section 15.10.

15.11 Interest. In any situation where County has advanced sums on behalf of Lessee pursuant to this Lease, such sums shall be due and payable within five (5) days after Lessee's receipt of written demand, together with interest at the Applicable Rate (unless another rate is specifically provided herein) from the date such sums were first advanced, until the time payment is received. In the event that Lessee repays sums advanced by County on Lessee's behalf with interest in excess of the maximum rate permitted by Applicable Laws, County shall either refund such excess payment or credit it against subsequent installments of Annual Minimum Rent and Percentage Rent.

15.12 Captions. The captions contained in this Lease are for informational purposes only, and are not to be used to interpret or explain the particular provisions of this Lease.

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

15.14 Amendments. This Lease may only be amended in writing executed by duly authorized officials of Lessee and County. Notwithstanding the foregoing, Director shall have the power to execute such amendments to this Lease as are necessary to implement any arbitration judgment issued pursuant to this Lease. No amendment, other than one implemented through an arbitration judgment, shall be binding upon an Encumbrance Holder as to which County has been notified in writing, unless the consent of such Encumbrance Holder is obtained with respect to such amendment.

15.15 Time For Director Approvals. Except where a different time period is specifically provided for in this Lease, whenever in this Lease the approval of Director is required, approval shall be deemed not given unless within thirty (30) days after the date of the receipt of the written request for approval from Lessee, Director either (a) approves such request in writing, or (b) notifies Lessee that it is not reasonably possible to complete such review within the thirty (30)-day period, provides a final date for approval or disapproval by Director (the "Extended Time") and approves such request in writing prior to such Extended Time. If Director does not approve such request in writing within such Extended Time, the request shall be deemed to be disapproved.

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

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

15.18 Indemnity Obligations. Whenever in this Lease there is an obligation to indemnify, hold harmless and/or defend, irrespective of whether or not the obligation so specifies, it shall include the obligation to defend and pay reasonable attorney's fees, reasonable expert fees and court costs.

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

16. ARBITRATION OF DISPUTES.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) If the dispute relates to Improvement Costs, the Statements of Position shall set forth the facts supporting such party's position and the amount of each cost which the party believes should be allowed or disallowed.

16.7 Written Appraisal Evidence. Neither party may, at any time during the proceedings, introduce any written report which expresses an opinion regarding Fair Market Rental Value or the fair market value of the Premises, or any portion thereof, ("Written Appraisal Evidence") unless such Written Appraisal Evidence substantially complies with the following standards: it shall describe the Premises; identify the uses permitted thereon; describe or take into consideration the terms, conditions and restrictions of this Lease; correlate the appraisal method(s) applied; discuss the relevant factors and data considered; review rentals paid by lessees in Marina del Rey and other marina locations within Southern California who are authorized to conduct similar activities on comparable leaseholds; and, describe the technique of analysis, limiting conditions and computations that were used in the formulation of the valuation opinion expressed. With respect to disputes regarding Fair Market Rental Value, such Written Appraisal Evidence shall express an opinion regarding the fair market rental value of the Premises as prescribed by Section 4.3.1. Written Appraisal Evidence in connection with disputes arising out of Article 6 of this Lease shall predicate any valuation conclusions contained therein on the Income Approach. Written Appraisal Evidence shall in all other respects be in material conformity and subject to the requirements of the Code of Professional Ethics and the Standards of Professional Practice of The Appraisal Institute or any successor entity.

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

16.9 Discovery. The provisions of Code of Civil Procedure § 1283.05 shall not apply to the arbitration proceedings except to the extent incorporated by other sections of the California Arbitration Act which apply to the arbitration proceedings. There shall be no pre-

arbitration discovery except as provided in Section 16.5; provided, however, each party shall have the right, no later than seven (7) days prior to the date first set for the hearing, to conduct a deposition, not to exceed three (3) hours in duration unless the arbitrator otherwise determines that good cause exists to justify a longer period, of any person identified by the other party as an expert witness pursuant to Sections 16.5 (2)(b) or 16.5 (3)(b).

16.10 Awards of Arbitrators.

16.10.1 Monetary Issues. With respect to monetary disputes (including without limitation disputes regarding Percentage Rent, Fair Market Rental Value and the amount of coverage under the policies of insurance required pursuant to Article 9 of this Lease), the arbitrator shall have no right to propose a middle ground or any proposed modification of either Statement of Position. The arbitrator shall instead select whichever of the two Statements of Position is the closest to the monetary or numerical amount that the arbitrator determines to be the appropriate determination of the rent, expense, claim, cost, delay, coverage or other matter in dispute and shall render an award consistent with such Statement of Position. For purposes of this Section 16.10, each dispute regarding Annual Minimum Rent, each category of Percentage Rent and the amount of required insurance coverage shall be considered separate disputes (a "Separate Dispute"). While the arbitrator shall have no right to propose a middle ground or any proposed modification of either Statement of Position concerning a Separate Dispute, the arbitrator shall have the right, if the arbitrator so chooses, to choose one party's Statement of Position on one or more of the Separate Disputes, while selecting the other party's Statement of Position on the remaining Separate Disputes. For example, if the parties are unable to agree on the Annual Minimum Rent and three Percentage Rent categories to be renegotiated pursuant to Section 4.3 and the amount of liability insurance coverage to be renegotiated pursuant to Section 9.3, then there shall be five Separate Disputes and the arbitrator shall be permitted to select the County's Statement of Position with respect to none, some or all of such five Separate Disputes and select the Lessee's Statement of Position, on the balance, if any, of such five Separate Disputes. Upon the arbitrator's selection of a Statement of Position, pursuant to this Article 16, the Statement of Position so chosen and the award rendered by the arbitrator thereon shall be final and binding upon the parties, absent Gross Error on the part of the arbitrator.

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

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

16.12 Costs of Arbitration. Lessee and County shall equally share the expenses and fees of the arbitrator, together with other expenses of arbitration incurred or approved by the

arbitrator. Failure of either party to pay its share of expenses and fees constitutes a material breach of such party's obligations hereunder.

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

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

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

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

16.14.3 For the purposes of this Section 16.14, the term "Gross Error" shall mean that the arbitration award is subject to vacation pursuant to California Code of Civil Procedure § 1286.2 or any successor provision.

16.15 Notice.

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE "ARBITRATION OF DISPUTES" PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE ARBITRATION OF DISPUTES PROVISION TO NEUTRAL ARBITRATION.

_____	_____
Initials of Lessee	Initials of County

17. DEFINITION OF TERMS; INTERPRETATION.

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

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

17.3 Business Days. For the purposes of this Lease, "business day" shall mean a business day as set forth in Section 9 of the California Civil Code, and shall include "Optional Bank Holidays" as defined in Section 7.1 of the California Civil Code.

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

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

17.6 Reasonableness Standard. Except where a different standard is specifically provided otherwise herein, whenever the consent of County or Lessee is required under this Lease, such consent shall not be unreasonably withheld and whenever this Lease grants County or Lessee the right to take action, exercise discretion, establish rules and regulations or make allocations or other determinations, County and Lessee shall act reasonably and in good faith. These provisions shall only apply to County acting in its proprietary capacity.

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

17.8 Memorandum of Lease. The parties hereto shall execute and acknowledge a Memorandum of Lease Extension, in recordable form and otherwise satisfactory to the parties hereto, for recording as soon as is practicable on or following the Effective Date.

17.9 Counterparts. This Lease may be executed in counterparts, each of which shall constitute an original and all of which shall collectively constitute one fully-executed document.

SIGNATURES ON FOLLOWING PAGE

IN WITNESS WHEREOF, County has, by order of its Board of Supervisors, caused this Lease to be subscribed by the Chairman of said Board and attested by the Clerk thereof, and Lessee has executed the same the day and year first hereinabove written.

THE COUNTY OF LOS ANGELES

By: _____
Chair, Board of Supervisors

DEL REY SHORES, a joint venture

By: Bryna Investments, L.P.

By: Douglas Ventures LLC, a Delaware limited liability company, General Partner

By: _____
Anne Douglas

By: Epstein Family Trust

By: _____
Jerry B. Epstein, Trustee

By: _____
Pat T. Epstein, Trustee

DEL REY SHORES NORTH, a joint venture

By: Bryna Investments, L.P.

By: Douglas Ventures LLC, a Delaware limited liability company, General Partner

By: _____
Anne Douglas

By: Epstein Family Trust

By: _____
Jerry B. Epstein, Trustee

By: _____
Pat T. Epstein, Trustee

SIGNATURES CONTINUED ON FOLLOWING PAGE

ATTEST:

SACHI HAMAI,
Executive Officer of the Board of
Supervisors

By: _____
Deputy

APPROVED AS TO FORM:

RAYMOND G. FORTNER, JR.,
COUNTY COUNSEL

By: _____
Deputy

APPROVED AS TO FORM:

MUNGER, TOLLES & OLSON LLP

By: _____

EXHIBIT A

LEGAL DESCRIPTION OF PREMISES

Parcel 100

Parcel 101

EXHIBIT B

REDEVELOPMENT PLAN

EXHIBIT C

SAMPLE TABLE 1
ADDITIONAL LEASE EXTENSION FEE TABLE
(Stabilized occupancy in 2007)

Assumptions:

- Completion Date in October, 2006
- Stabilized Occupancy Date in 2007
- 10% CPI increase from February, 2003 to October, 2006

	Comparison Ratios		Additional Lease Extension Fee Due
	(equal to or greater than)	(less than)	
Line 1	8.053		$0
Line 2	7.900	8.053	$150,000
Line 3	7.748	7.900	$300,000
Line 4	7.596	7.748	$450,000
Line 5	7.443	7.596	$600,000
Line 6	7.291	7.442	$750,000
Line 7	7.139	7.291	$900,000
Line 8	6.986	7.139	$1,050,000
Line 9	6.834	6.986	$1,200,000
Line 10	6.681	6.834	$1,350,000
Line 11		6.681	$1,500,000

SAMPLE TABLE 2
ADDITIONAL LEASE EXTENSION FEE TABLE
(Stabilized occupancy in 2008)

Assumptions:

- Completion Date in October, 2006
- Stabilized Occupancy Date in 2008
- 10% CPI increase from February, 2003 to October, 2006

	Comparison Ratios		Additional Lease Extension Fee Due
	(equal to or greater than)	(less than)	
Line 1	7.769		$0
Line 2	7.622	7.769	$150,000
Line 3	7.475	7.622	$300,000
Line 4	7.328	7.475	$450,000
Line 5	7.181	7.328	$600,000
Line 6	7.034	7.181	$750,000
Line 7	6.887	7.034	$900,000
Line 8	6.740	6.887	$1,050,000
Line 9	6.593	6.740	$1,200,000
Line 10	6.446	6.593	$1,350,000
Line 11		6.446	$1,500,000

EXHIBIT D

ASSIGNMENT STANDARDS

These standards are to apply to Proposed Transfers of Lessee's interest in this Lease and/or the Premises and to any Major Sublease. These standards and conditions are not to apply to (a) an assignment for the purpose of securing leasehold financing of the parcel by an encumbrance holder approved by County, (b) the transfer of the leasehold in connection with a foreclosure or transfer in lieu of foreclosure by an approved lender, or (c) the first transfer by that encumbrance holder if it has acquired the leasehold through a foreclosure or a transfer in lieu of foreclosure.

1. The proposed transferee must have a net worth determined to be sufficient in relation to the financial obligations of the lessee under the Lease (equal to at least six (6) times the total Annual Minimum Rent and Percentage Rent due to County for the most recent fiscal). A letter of credit, cash deposit, guarantee from a parent entity or participating individual(s) having sufficient net worth or similar security satisfactory to the County may be substituted for the net worth requirement. If the proposed transferee's net worth is materially less than the transferor's, County may disapprove the assignment or require additional security such as that described in the previous sentence.

2. The proposed assignee must have significant experience in the construction (if contemplated), operation and management of the type(s) of Improvements existing on or to be constructed on the Premises, or provide evidence of contractual arrangements for these services with providers of such services satisfactory to the County. Changes in the providers of such services and changes to the contractual arrangements must be approved by the County. All approvals of the County will not be unreasonably withheld or delayed.

3. The individual or individuals who will acquire Lessee's interest in this Lease or the Premises, or own entity which will so acquire Lessee's interest, irrespective of the tier at which individual ownership is held, must be of good character and reputation and, in any event, shall have neither a history of, nor a reputation for: (1) discriminatory employment practices which violate any federal, state or local law; or (2) non-compliance with environmental laws, or any other legal requirements or formally adopted ordinances or policies of the County.

4. The price to be paid for the Proposed Transfer shall not result in a financing obligation of the proposed transferee which jeopardizes its ability to meet rental obligations to the County. Market debt service coverage ratios and leasehold financial performance, at the time of the Proposed Transfer, will be used by County in making this analysis.

5. If the proposed transferee is an entity, rather than an individual, the structure of the proposed transferee must be such that (or the assignee must agree that) the County will have reasonable approval rights regarding any future direct or indirect transfers of interests in the entity or the applicable lease; provided however, that a transfer of ownership of a publicly held parent corporation of Lessee that is not done primarily as a transfer of this leasehold will not be subject to County approval.

6. The terms of the proposed assignment will not detrimentally affect the efficient operation or management of the leasehold, the Premises or any Improvements thereon.

7. The proposed transferee does not have interests which, when aggregated with all other interests granted by County to such transferee, would violate any policy formally adopted by County restricting the economic concentration of interests granted in the Marina del Rey area, which is uniformly applicable to all Marina del Rey lessees.

8. The transfer otherwise complies with the terms of all ordinances, policies and/or other statements of objectives which are formally adopted by County and/or the County Department of Beaches and Harbors and which are uniformly applicable to persons or entities with rights of occupancy in any portion of Marina del Rey.

EXHIBIT E

PERMITTED CAPITAL EXPENDITURES

The purpose of the Capital Improvement Fund is be to provide funds for the cost of additions, replacements, renovations or upgrades of or to the Improvements on the Premises, including building exteriors and major building systems (such as HVAC, mechanical, electrical, plumbing, vertical transportation, security, communications, structural or roof) that significantly increase the capacity, efficiency, useful life or economy of operation of the Improvements or their major systems, after the completion of the Redevelopment Work. Permitted Capital Expenditures shall not include the cost of periodic, recurring or ordinary expenditures, repairs or replacements that keep the buildings or their major systems in an ordinarily efficient operating condition, but that do not significantly add to their value or appreciably prolong their useful life. The Capital Improvement Fund shall not be used to fund any portion of the cost of the Redevelopment Work or the Subsequent Renovation (as defined in Section 5.13 of the Lease). Permitted Capital Expenditures must constitute capital replacements, improvements or equipment under generally accepted accounting principles consistently applied. Permitted Capital Expenditures shall not include costs for any necessary repairs to remedy any broken or damaged Improvements, all of which costs shall be separately funded by Lessee.

Subject to the foregoing, set forth below is a list of examples of elements, systems or categories of Improvements for which Permitted Capital Expenditures may be made. The Capital Improvement Fund shall not be used for the repair or replacement of an individual or a selected group of individual items, unless such repair or replacement is part of a larger plan (which may be a phased plan) of repair or replacement of all, or substantially all, similar items.

1. Painting of the building exterior*
2. Walkways and driveway replacement* (if asphalt, a minimum of resurfacing, not slurry seal)
3. Windows replacement*
4. Roof replacement* (may be on a building by building basis)
5. Elevators (replacement or addition)
6. HVAC replacement
7. Light fixtures replacement* (interior and exterior)
8. Irrigation system* (replacement or major addition)

* To qualify, these expenditures need to incorporate replacement or renovation of at least 70% of the items or facilities in question

DRAFT

AMENDED AND RESTATED LEASE AGREEMENT

by and between

County of Los Angeles

and

[INSERT NAME OF LESSEE]

(Parcels 100S and 101S — Lease No. ____)

Dated as of _____, _____

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