

RECORDER'S OFFICE OF SAN MATEO COUNTY

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FIRST AMERICAN TITLE INSURANCE CO
SAN MATEO COUNTY TITLE DIVISION

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MARVIN CHURCH, RECORDER
SAN MATEO COUNTY
OFFICIAL RECORDS

Recording Requested by and
When Recorded Mail to:

WILSON MORTON ASSAF & McELLIGOTT
630 North San Mateo Drive
P.O. Box 152
San Mateo, California 94401

Attention: G. A. Laster

(Space above for recorder's use only)

REGULATORY AGREEMENT
AND
DECLARATION OF RESTRICTIONS

THIS REGULATORY AGREEMENT AND DECLARATION OF RESTRICTIONS is made and entered into as of October 1, 1985, by and among the CITY OF REDWOOD CITY, a municipal corporation and charter city of the State of California (the "Issuer"), SECURITY PACIFIC NATIONAL BANK, a national banking association (the "Trustee"), and REDWOOD SHORES APARTMENT ASSOCIATES, LTD., A CALIFORNIA LIMITED PARTNERSHIP (the "Developer");

W I T N E S S E T H:

WHEREAS, the Issuer is authorized pursuant to Division 31, Part 5, Chapter 7 of the Health and Safety Code of the State of California (the "Act"): (a) to make construction loans and mortgage loans to housing sponsors, to purchase such loans, and to make loans to lending institutions under terms and conditions which shall require the lending institutions to use the net proceeds of the loans for the making of construction loans or mortgage loans to housing sponsors to finance the development of multifamily rental housing within the boundaries of the Issuer which housing includes units to be occupied by persons of low or moderate income; (b) to issue its revenue bonds for the purpose of obtaining moneys to make such loans and provide such financing, to establish necessary reserve funds and to pay administrative and other costs incurred in connection with the issuance of such bonds; and (c) to pledge all or any part of the revenues and receipts to be received by the Issuer from or in connection with such loans and to mortgage, pledge or grant security interests in such loans in order to secure the payment of the principal or redemption price of and interest on such bonds;

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WHEREAS, the Issuer has heretofore determined to adopt and implement a multifamily rental housing program under which the Issuer will make, purchase or assist in the making of construction loans or mortgage loans to provide financing for multifamily rental housing developments as described above, all for the public purpose of assisting persons of low or moderate income to obtain decent, safe and sanitary housing;

WHEREAS, in order to implement the program, the Issuer and REDWOOD SHORES APARTMENT ASSOCIATES, LTD., a California limited partnership (together with its successors to and assigns of the Project, the "Developer") entered into a Loan Agreement dated as of October 1, 1985 (the "Loan Agreement") pursuant to which the Issuer has agreed to make a construction loan or mortgage loan (the "Project Loan") to enable the Developer to finance a qualifying multifamily rental housing development (the "Project");

WHEREAS, further in implementation of the program, the Issuer pursuant to a resolution of the city council of the City (the "Bond Resolution") has sold and issued its Multifamily Housing Revenue Bonds (Redwood Shores Apartments Project), Series 1985B, in the aggregate principal amount of \$28,000,000 pursuant to an Indenture of Trust dated as of October 1, 1985, by and between the Issuer and the Trustee (the "Indenture") simultaneously with the execution of the Loan Agreement to obtain the funds to make the Developer Loan and certain other purposes;

WHEREAS, the Indenture and the Loan Agreement require, as a condition of making the Developer Loan, the execution of this Regulatory Agreement and Declaration of Restrictions (the "Regulatory Agreement"); and

WHEREAS, in order to satisfy such requirement, the Issuer, the Trustee and the Developer have determined to enter into this Regulatory Agreement to set forth certain terms and conditions relating to the construction or development and operation of the Project;

NOW, THEREFORE, in consideration of the mutual covenants and undertakings set forth herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Issuer, the Trustee and the Developer do hereby contract and agree as follows:

Section 1. Definitions and Interpretation. Unless otherwise expressly provided herein or unless the context clearly requires otherwise, the following terms shall have the respective meanings set forth below for all purposes of this Regulatory Agreement:

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"Account" means the Account or Sub-Account established within any Fund pursuant to the provisions of the Indenture.

"Act" means Chapter 7 of Part 5 of Division 31 of the California Health and Safety Code of the State of California, as amended and supplemented, from time to time.

"Adjusted Income" shall mean the total annual income of a person (together with the total annual income of all persons who intend to reside with such person in one residential unit), as determined in the manner prescribed in Treasury Regulation Section 1.167(k)-3(b)(3) as it shall be in effect on the Delivery Date.

"Administration Account" means the Ordinary Expenses and Extraordinary Expenses of the Trustee and any Paying Agent acting hereunder, the fee payable to the Remarketing Agent under Section 1009(b) of the Indenture and the \$90,000 fee of the Issuer payable at time of issuance of the Bonds and the reasonable annual out-of-pocket costs and expenses of the Issuer incurred or to be incurred by the Issuer in connection with the administration of the "Program" as defined in this Regulatory Agreement, as limited by Section 6(b) hereof.

"Affiliate" means any Related Person as to a particular Person, any other Person directly and, indirectly controlling or controlled by or under direct or indirect common control with such specified Person. "Control," when used with respect to a particular Person, means the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of such Person whether through the ownership of voting stock, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing. If the Developer is a partnership, each general partner of the Developer will be an Affiliate of the Developer, and each general partner of any partnership which is a general partner of the Developer will be an Affiliate of the Developer.

"Area" means the San Francisco Primary Metropolitan Statistical Area or the then-current successor which includes the Issuer.

"Authorized Issuer Representative" means the City Manager of the Issuer or any other person who, at the time, shall have been designated to act on behalf of the Issuer by a written certificate furnished to the Developer, the Trustee, the Remarketing Agent and the Credit Instrument Obligor containing the specimen signature of such person and signed on behalf of the Issuer by the City Manager of the Issuer. Such certificate may designate an alternate or alternates.

"Authorized Developer Representative" means any person who, at the time, shall have been designated as such pursuant to the

provisions of Section 3.6 of the Loan Agreement by a written certificate furnished to the Issuer, the Credit Instrument Obligor, the Remarketing Agent and the Trustee containing the specimen signature of such person and signed on behalf of the Developer by a general partner of the Developer, if a partnership, or the chief executive officer of the Developer, if a corporation. Such certificate may designate an alternate or alternates.

"Bond Counsel" means an attorney at law or a firm of attorneys, selected by the Issuer, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

"Bondholder" or "holder" or "owner" means the registered owner thereof pursuant to the registration books maintained by the Trustee pursuant to the Indenture.

"Bond Resolution" means Resolution No. 10047 of the City Council of the Issuer, as adopted on October 28, 1985, as it may from time to time be supplemented, modified or amended.

"Bonds" means the City of Redwood City Multifamily Housing Revenue Bonds (Redwood Shores Apartments Project), Series 1985B, authorized by, and at any time outstanding pursuant to the Indenture.

"Certificate of Estimated Project Costs" means a certificate so entitled, completed and signed by the Developer on the Delivery Date, which itemizes and estimates Project Costs, Neutral Costs, Qualified Costs of the Project and costs which would, or if in excess of a certain amount would, cause interest on the Bonds not to be exempt from federal income tax under the Code.

"Code" shall mean the Internal Revenue Code of 1954, as amended, as in effect as of the date hereof. Each citation to a section of the Code herein shall be deemed to include applicable Regulations promulgated under such section and in effect as of the date hereof unless otherwise provided.

"Completion Certificate" shall mean the certificate of completion of the Project required by Section 2 of this Regulatory Agreement to be delivered to the Issuer and the Trustee by the Developer, in form substantially similar to the form attached hereto as Schedule C.

"Completion Date" means the date of completion of the Construction of the Project as that date shall be certified in accordance with Section 3.4 of the Loan Agreement.

"Construction Fund" means the fund or account established by the Trustee by Section 307 of the Indenture into which the Bond proceeds available for construction or acquisition of the Project are to be deposited pursuant to the Loan Agreement.

"Costs of Issuance" means the following costs incurred in connection with the issuance and sale of the Bonds: underwriting discount or fees paid to the Underwriter in connection with the initial offering and sale of the Bonds; fees and out-of-pocket expenses incurred by the Issuer and fees and expenses of Bond Counsel, counsel to the Developer and counsel to the Underwriter and the Issuer; printing and engraving costs for the Bonds and the offering materials used in connection with the offering of the Bonds for sale; rating agency fees; fees of the California Debt Advisory Commission, initial Trustee's fees and expenses of the Trustee's counsel; the costs and expenses of the initial Credit Instrument Obligor (including the fees and expense of its special counsel); the premium for the Qualified Credit Instrument; and other costs incidental to the issuance and sale of the Bonds and the financing of the Project.

"Credit Instrument Obligor" means the issuer of a Qualified Credit Instrument, and its successors and assigns in such capacity. If an Alternate Credit Instrument has been issued and delivered in accordance with Section 4.5 of the Loan Agreement, "Credit Instrument Obligor" shall mean the issuer(s) of such Alternate Credit Instrument, in their capacity as issuer(s) of such Alternate Credit Instrument and their successors and assigns in such capacity.

"Delivery Date" shall mean the date of delivery of the Bonds to the initial purchaser or purchasers thereof in accordance with the Indenture.

"Designation of Units for Lower-Income Tenants" means the designation of residential units in the Project for occupancy by Lower-Income Tenants as provided for by Section 4 hereof.

"Event of Default" means an "event of default" as such term is used in Section 16 hereof.

"Guarantors" means William R. Cooper, Jeffrey B. Allen, Don M. Shine and George E. Thomas, jointly and severally.

"Indenture" means the Indenture of Trust dated as of October 1, 1985, between the Issuer and the Trustee relating to the issuance of the Bonds, as amended, supplemented or modified from time to time.

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"Investment Earnings" means investment earnings on the moneys derived from the proceeds of the Bonds held by the Trustee under the Indenture through the Completion Date.

"Issuer" means the City of Redwood City, a municipal corporation and charter city, validly existing under the constitution and other laws of the State, and its successors.

"Loan Agreement" means the agreement relating to the Project Loan between the Issuer and the Developer and dated as of October 1, 1985.

"Loan Documents" means, collectively, all documents related to the Project Loan and includes the Loan Agreement, the Regulatory Agreement, and all other documents, instruments and agreements and related financing statements executed and delivered by the Developer at any time and from time to time to evidence and secure the indebtedness of the Developer with respect to the loan of the Bond proceeds for the financing of the Project in accordance with the Loan Agreement, as such documents, instruments and agreements may be amended and supplemented from time to time.

"Lower-Income Tenants" shall mean and include any individual or family with an Adjusted Income which does not exceed 80 percent of the Median Income for the Area. In no event, however, will the occupants of a residential unit be considered to be Lower-Income Tenants if all the occupants are students, no one of which is entitled to file a joint federal income tax return. In the event determinations pursuant to Federal law of 80 percent of the Median Income for the Area are discontinued, and are made on a reasonably comparable basis pursuant to State law, determinations pursuant to State law shall be used.

"Median Income for the Area" means the median gross income in the Area as determined for purposes of the existing program, administered by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937, as amended.

"Neutral Costs" means costs properly allocable on a pro rata basis between Qualified Project Costs and other uses of Bond proceeds; such term includes (a) Costs of Issuance and (b) reasonably required reserve funds.

"Permitted Encumbrances" means the encumbrances which are "Permitted Encumbrances" under the Indenture.

"Person" means any individual, corporation, partnership, joint venture, association, joint stock company, trust company, trust, unincorporated organization or government or any agency or political subdivision thereto.

"Program" shall mean the Issuer's multifamily rental housing program under which the Issuer will make, purchase or assist in the making of construction loans or mortgage loans to provide financing for multifamily rental housing developments within the Issuer pursuant to the Act, as implemented by the Project Loan, the Loan Agreement pursuant to which made, the Bond Resolution, the Indenture and this Regulatory Agreement, the Program Guidelines for which are attached hereto as Schedule B and incorporated herein.

"Project" shall, on the Delivery Date, mean the multifamily residential rental housing project consisting of the Project Facilities described by Schedule A hereto and the Project Site described by Schedule D hereto (which Schedule D is identical to the land described by Exhibit A to the Loan Agreement on the Delivery Date), in connection with which real property the Project Facilities are or are to be located. After the Delivery Date, the term shall mean the Project Facilities and the Project Site described in Exhibit A to the Loan Agreement, as said Exhibit A may from time to time be amended, and all additions thereto, substitutions therefor and alterations, replacements and restorations thereof, it being intended that all references to the Project shall mean and include the premises at the time of reference.

"Project Costs" shall mean those costs and expenses which may be paid or for which the Developer may be reimbursed under Section 3.3 (b) of the Loan Agreement, and include the following costs:

- (i) The costs of the preparation of the Plans and Specifications (including any preliminary study or planning) and architectural, engineering and supervisory services with respect thereto and in connection with the construction of the Project.
- (ii) The Costs of Issuance, and title insurance premiums and costs of surveys and other professional fees and expenses incurred and payable prior to the Completion Date.
- (iii) The costs of labor, services, materials, equipment and supplies used or furnished in site improvement and in the construction, improvement and equipping of the Project; the cost of the acquisition, construction and improvement of the Land and all on-site utility services or other facilities, and all real and personal property deemed necessary in connection therewith; and miscellaneous expenses incidental to any of the foregoing items, including the premium on any payment or performance bonds.
- (iv) The fees and expenses of the Trustee (as Trustee, Paying Agent and Bond Registrar) and of any Paying Agent

properly incurred under the Indenture that may become due prior to the Completion Date.

(v) The premiums on all insurance taken out and maintained during the construction and improvement of the Project to the extent not paid by a contractor.

(vi) The taxes, assessments and other charges, if any, that may have become payable during the construction and improvement of the Project.

(vii) The expenses incurred in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the Project.

(viii) Deposits made into the Principal and Interest Account within the Bond Fund to pay interest payable or accrued on the Bonds through the Completion Date if and to the extent the moneys otherwise on deposit therein and in the Capitalized Interest Account shall be insufficient to pay such interest.

(xi) Any other costs and expenses relating to the Project permitted under the Act and incurred for the purpose of providing residential rental property and related facilities.

all of which costs are hereby deemed appropriate by the Issuer to effectuate the purposes of the Program.

"Project Loan" shall mean the construction loan or mortgage loan with respect to the Project, made to the Developer by the Issuer from moneys derived from the proceeds of the Bonds as contemplated by the Loan Agreement in accordance with the Act and the Program.

"Qualified Project Costs" means and includes the costs paid or incurred in connection with the acquisition, construction and equipping of the Project, but only to the extent that (i) such costs were paid or incurred by or on account of the Developer or any Related Person on or after December 10, 1984, the date of the first official action by the Issuer expressing its intent to issue revenue bonds, to assist the Developer in financing the Project; (ii) such costs are for land or are chargeable to the Project's capital account or would be so chargeable either with a proper election by the Developer or but for a proper election by the Developer to deduct such costs, within the meaning of Treasury Regulation 1.103-8(a)(1); (iii) if any portion of the Project is being constructed by a Related Person of the Developer (whether as a general contractor or a subcontractor), such costs include only (a) the actual out-of-pocket costs incurred by such Related Person in constructing the Project (or any portion thereof), (b) any reasonable fees for supervisory services actually rendered by the

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Related Person, and (c) any overhead costs incurred by the Related Person which are directly attributable to the work performed on the Project, and shall not, for example, include intercompany profits resulting from members of an affiliated group (within the meaning of Section 1504 of the Code) participating in the construction of the Project or payments received by such Related Person due to early completion of the Project (or any portion thereof); (iv) such costs do not constitute leasing commissions, costs of advertising for the Project or other costs related to the rental of units in the Project or management fees for the management and operation of the Project; and (v) such costs are used to finance residential rental property described in Section 103(b)(4)(A) of the Code and Section 1.103-8(b) of the Regulations.

"Qualified Project Period" means the period beginning on the later of (a) the first day on which at least 10 percent of the residential units in the Project are first occupied or (b) the Delivery Date, and ending on the last of the date (i) which is ten years after the date on which at least 50 percent of the residential units in the Project are first occupied; (ii) which is a Qualified Number of Days after the date on which any of the residential units in the Project is first occupied; or (iii) on which any assistance provided with respect to the Project under Section 8 of the United States Housing Act of 1937, as amended terminates. "Qualified Number of Days" means 50 percent of the longest term of any Bond, or in the case of a refunding of the Bonds, 50 percent of the sum of the period the Bonds were outstanding plus the longest term of any refunding obligations.

"Regulations" means those regulations, whether now or hereafter adopted, proposed or temporary, prepared by the United States Department of the Treasury with respect to Section 103 (or successor) of the Code, as such Regulations are now in effect and applicable and as such Regulations may from time to time hereafter be amended or supplemented and lawfully be made applicable to this Regulatory Agreement. Nothing in this Regulatory Agreement as initially effective provides for the applicability under this Regulatory Agreement of any such amendments or supplements, and to the extent permitted under federal income tax laws without loss of the qualification that interest on the Bonds is exempt under Section 103 of the Code it is intended that no such amendments or supplements which are more restrictive shall be applicable under this Regulatory Agreement.

"Regulatory Agreement" shall mean this Regulatory Agreement and Declaration of Restrictions by and among the Issuer, the Developer, the Corporation and the Trustee, pertaining to the Project.

"Related Person" means a related person within the meaning of Section 103(b)(6)(C) of the Code (or any successor sections thereto) and the Regulations issued thereunder.

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"Requisition for Disbursement of Project Loan Proceeds," or "Requisition" means a requisition as referred to by the Loan Agreement, completed and signed by the Developer and submitted to the Trustee.

"State" shall mean the State of California.

"Tenant Income Certificate" means a certificate so entitled, substantially in the form attached as Exhibit "E" to the Loan Agreement hereto, completed and signed by the persons indicated thereon and filed with the Issuer and the Trustee.

"Trustee" means the person serving as such at the time under the Trust Indenture.

All capitalized terms used in this Regulatory Agreement and not otherwise defined herein shall have the respective meanings set forth in the Trust Indenture.

Unless the context clearly requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa. This Regulatory Agreement and all the terms and provisions hereof shall be construed to effectuate the purposes set forth herein and to sustain the validity hereof.

The terms and phrases used in the recitals of this Regulatory Agreement have been included for convenience of reference only and the meaning, construction and interpretation of all such terms and phrases for purposes of this Regulatory Agreement shall be determined by reference to this Section. The titles and headings of the Sections of this Regulatory Agreement have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Regulatory Agreement or any provision hereof or in ascertaining intent, if any question of intent shall arise.

Section 2. Acquisition, Construction and Completion of the Project. The Developer hereby represents, covenants and agrees as follows:

- (a) the Developer has incurred or will incur within 6 months after the Bond Issuance Date a substantial binding obligation to commence acquisition and construction of the Project, pursuant to which the Developer is or will be obligated to expend at least the lesser of \$100,000 or 2-1/2 percent of the costs of such acquisition and construction;

(b) the Developer reasonably expects that the total cost of acquisition, construction and equipping of the Project will be approximately the amount set forth in Schedule A attached hereto under the heading "Anticipated total development cost" and that an itemization of such is accurately set forth in the Certificate of Estimated Project Costs incorporated by this reference herein;

(c) the Developer has commenced the acquisition, of the Project or will commence the same within six months after the Delivery Date, and will proceed with due diligence to complete the same;

(d) the Developer reasonably expects to complete the acquisition, construction and equipping of the Project and to expend the full amount of the proceeds of the Project Loan for Project Costs within 3 years after the Delivery Date; and

(e) the Project (i) has not been acquired from an Affiliate and (ii) will not be retransferred to the entity from which it was acquired, or to an Affiliate of such entity, prior to the fifth anniversary of the Bond Issuance Date.

The Developer hereby further represents, covenants and agrees as follows:

(a) that at least 92 percent of the proceeds of the Project Loan (including Investment Earnings but excluding Neutral Costs) shall be applied to pay or reimburse Qualified Project Costs that the Developer will submit to the Trustee on or before the date of each requested disbursement of the Project Loan, a statement certifying that, after payment of the amount set forth in the Requisition, at least 92 percent of the aggregate disbursements theretofore and thereupon to be disbursed constitute Qualified Project Costs.

(b) that, upon the completion of acquisition, construction and equipping of the Project, the Developer shall submit to the Issuer and the Trustee, a Completion Certificate containing the following: (i) the Developer's certification that the Project has been acquired or completed and is ready and available for occupancy as of a specified date (which shall be the Completion Date); (ii) the Developer's certification of the dates of 10 percent and 50 percent occupancy; (iii) the Developer's certification of the aggregate amount advanced under the Developer Loan; (iv) the Developer's certification that at least 92 percent

of the proceeds of the Project Loan have been applied to pay or reimburse Qualified Project Costs; and (v) such additional certifications as shall be required by the Loan Agreement;

(c) that, upon any prepayment of the Project Loan, the Developer will submit to the Trustee a written notice of such prepayment, stating the amount and date of such prepayment and the amount remaining unpaid on the Developer Loan;

(d) that the Developer does not own any buildings or structures which are proximate to the Project other than those buildings or structures which comprise the Project which are being financed pursuant to a common plan under which the Project is also being financed; and

Section 3. Residential Rental Project. The Issuer and the Developer hereby declare their understanding and intent that the Project is to be owned, managed and operated, for so long as any Bonds remain outstanding under the Trust Indenture but in any event at least for the Qualified Project Period, as a "residential rental project" as such phrase is utilized in Section 103(b)(4)(A) of the Code. To that end, the Developer hereby represents, covenants and agrees as follows:

(a) that the Project is being acquired, constructed and equipped for the purpose of providing residential rental property, and the Developer shall own, manage and operate (or cause the management and operation of) the Project as a residential rental project comprised of similarly constructed residential dwelling units and facilities functionally related and subordinate thereto, in accordance with the applicable provisions of Section 103(b)(4)(A) of the Code and Treasury Regulation Section 1.103-8(b) under the Code, as the same may be amended from time to time; provided however that such ownership, management and operation shall not extend to ownership, management and operation to provide occupancy by Lower-Income Tenants, which matter is governed entirely by Section 4, below;

(b) that once each residential unit in the Project is available for occupancy such unit shall be rented or available for rental on a continuous basis;

(c) that each residential unit in the Project shall contain complete facilities for living, sleeping, eating, cooking and sanitation which are separate and distinct from similar facilities provided other units, with a sleeping area, bathing and sanitation facilities and cooking facilities equipped with a cooking range, refrigerator and sink; provided however that, except for the units for occupancy by Lower-Income Tenants, the Developer may provide a refrigerator space for a unit but not a refrigerator if the Developer obtains an opinion of Bond Counsel to the effect that by so doing, interest on the Bonds will not become subject to federal income taxation;

(d) that none of the residential units in the Project shall at any time be utilized on a transient basis; that none of the residential units in the Project shall ever be leased or rented for a period of less than thirty (30) days; that neither the Project nor any portion thereof shall ever be used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, hospital, nursing home, sanitarium, rest home or trailer park or court; and that no portion of the Project except for incidental facilities such as laundry and vending machines shall be leased for commercial purposes;

(e) that the residential units in the Project shall be leased or rented to members of the general public and that the Developer shall not give preference in renting residential units in the Project to any particular class or group of persons, except as expressly provided herein; that the Developer shall accept as tenants, on the same basis as other prospective tenants, low-income persons who are recipients of federal certificates for rent subsidies pursuant to the Section 8 of the United States Housing Act of 1937, as amended, or its successor, and to apply no selection criteria to Section 8 certificate holders that is more burdensome than the criteria applied to all other prospective tenants;

(f) that at no time will either the Developer or any Affiliate occupy a unit in the Project if such Project contains fewer than five units;

(g) no part of the Project will at any time be owned or used by a cooperative housing corporation;

(h) the Project is located on a single tract of land or two or more contiguous tracts of land (except for the interposition of a road, street, stream or similar property) described herein as the Project Site, and the Project Site and all of the Project Facilities comprise a single geographically and functionally integrated project for residential rental property, as evidenced by the common ownership, management, accounting and operation of the Project; and

(i) the Developer will not convert all or any part of the Project to condominium ownership, without an opinion of Bond Counsel to the effect that by so doing, interest on the Bonds will not become subject to federal income taxation.

Unless the provisions of this Section 3 are amended as permitted under Section 21 hereof, the provisions of this Section 3 shall remain in effect for the longer of (a) the period during which any of the Bonds are Outstanding under the Indenture, and (b) the Qualified Project Period; provided, however, that after payment in full of the Project Loan the Developer shall be discharged from its obligations under this Section 3 to the extent that the same are assumed by any successor in interest to the Developer.

Section 4. Tenant and Other Restrictions. To the end of satisfying the requirements of the Program and Section 103(b)(4)(A) of the Code, for the Qualified Project Period, but not any longer, notwithstanding Section 12, the Developer hereby represents, covenants and agrees as follows:

(a) at all times, at least 20 percent of the completed residential units in the Project shall be occupied (within the meaning of Section 1.103-8(b)(5)(ii) of the Treasury Regulations under Section 103(b)(4)(A) of the Code) by Lower-Income Tenants, and the Developer shall designate and may redesignate at any time at Developer's sole discretion at least 20 percent of the residential units in the Project as units for such occupancy and advise the Issuer and the Trustee in writing of such designation and, on a monthly basis, of any revision thereof by completing and submitting to each of them a form substantially similar to that attached hereto as Exhibit "C" to Schedule B, entitled "Designation of Units for Lower-Income Tenants." For purposes of satisfying the requirements of this subdivision (a): (i) an individual (or family) who qualifies as a Lower-Income Tenant at the time he or she (or they) first occupies a unit will be deemed a Lower-Income Tenant as long as he or she (or they) continues to reside in such unit, even though he or she (or they) subsequently ceases to meet the income or other requirements of a Lower-Income Tenant, and (ii) when an individual (or family) who

qualifies as a Lower-Income Tenant at the time he or she (or they) first occupies a unit leaves a unit, such unit will be considered as occupied by a Lower-Income Tenant if it is held vacant and available for such occupancy until it is reoccupied by another tenant, at which time the status of the new tenant as a Lower-Income Tenant is to be determined;

(b) in addition, to the extent feasible, as determined in the sole discretion of the city council or other governing body of the Issuer, and whose determination shall be final and conclusive, at least one-half of the designated units shall be for occupancy on a priority basis by individuals or families whose adjusted gross income does not exceed 50 percent of the median adjusted gross income for the Area, as median adjusted gross income may from time to time be determined pursuant to Section 8 of the United States Housing Act of 1937, as amended. In determining the feasibility of meeting this requirement, the city council or other governing body has considered the availability of rent subsidies or other financial aid from the federal or State government. The city council has determined and does hereby determine based thereon that the occupancy of none of the designated units shall be so restricted at any time.

(c) to accept as tenants, on the same basis as all other prospective tenants, low-income persons who are recipients of federal certificates for rent subsidies pursuant to the program existing on the date of this Regulatory Agreement under Section 8 of the United States Housing Act of 1937 or its successor, and to apply no selection criteria to Section 8 certificate holders that is more burdensome than the criteria applied to all other prospective tenants;

(d) (i) to operate and manage the Project so that the designated units will be of comparable quality to those units in the Project which are available to other tenants, (ii) to grant to tenants in the designated units equal access to all common facilities and common areas of the Project and (iii) to offer designated units in a range of sizes and number of bedrooms comparable to units available to other tenants;

(e) to obtain at the time of initial rental and to maintain on file a sworn income certification from each Lower-Income Tenant or other individual or family occupying a designated unit in the Project pursuant to subdivision (a), above, who anticipates the receipt of income of any sort within the appropriate 12-month period in the form and manner required by Treasury Regulation Section 1.167(k)-3(b)(3), as it shall be in effect on the Delivery Date, or in such other form and manner as may be required by

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applicable rules, rulings, procedures, official statements, regulations or policies now or hereafter promulgated or proposed by the Department of the Treasury or the Internal Revenue Service with respect to obligations issued under Section 103(b)(4)(A) of the Code, the form of which to be used in connection with rental applications received on the Delivery Date and subsequently shall be substantially similar to that attached to the Loan Agreement as Exhibit "E" entitled "Tenant Income Certificate", unless change is made by the Issuer pursuant to the Program Guidelines;

(f) to obtain at the time of initial rental and to maintain on file from each Lower-Income Tenant or other individual or family occupying a designated unit in the Project pursuant to subdivision (a), above, a copy of such Lower-Income Tenant's federal income tax return for the taxable year immediately preceding or other reasonably satisfactory evidence of income for such year;

(g) to permit any duly authorized representative of the Issuer or the Trustee, to inspect the books and records of the Developer pertaining to the incomes of Lower-Income Tenants or other individuals or families occupying designated units in the Project pursuant to subdivision (a), above;

(h) to prepare and submit to the Issuer and the Trustee at the beginning of the Qualified Project Period, within 15 days after the end of each month thereafter and at such other times as shall be required by any of them in order to confirm compliance with the occupancy requirements, a Certificate of Continuing Program Compliance executed by the Developer and stating (i) the percentage of the residential units of the Project which were occupied by Lower-Income Tenants or other individuals or families pursuant to subdivision (a), above, or held vacant and available for occupancy by Lower-Income Tenants as provided in subdivision (a) above, and (ii) whether or not an Event of Default or event which with the passage of time or notice or both would become an Event of Default within the meaning of the Regulatory Agreement has occurred and is continuing, together with completed forms of Designation of Units for Lower-Income Tenants and Tenant Income Certificate for new Lower-Income Tenants, all as provided pursuant to the Program Guidelines;

(i) to maintain on file for examination during business hours by Authorized Issuer Representatives or the Trustee, all tenant lists, applications, waiting lists, certifications and verifications relating to the Project and to deliver to such Authorized Issuer Representatives written certifications of the status of the occupancy of the Project

on a monthly basis until the Project is rented to such an extent that 90 percent of the units are occupied by tenants obligated to pay rent for the use of their respective units, and thereafter, on a quarterly basis, and vacancy lists on a current basis; and

(j) units designated for Lower Income Tenants will be reasonably interspersed throughout the Project.

Section 5. Tax Exempt Status of Bonds.

1. The Issuer hereby represents, covenants and agrees as follows:

(a) that the Issuer will not knowingly take or fail to take or permit any action to be taken that would adversely affect the exemption from federal or State income taxation of the interest on the Bonds and, if it should take or permit any such action, the Issuer shall take all lawful actions that it can take to rescind such actions promptly upon having knowledge thereof; and

(b) that the Issuer will take such action or actions, including without limitation amendment of the Regulatory Agreement, as may be necessary in the opinion of Bond Counsel to comply fully with all applicable rules, rulings, regulations, policies, procedures or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 103(b)(4)(A) of the Code.

2. The Developer hereby covenants, represents and agrees as follows:

(a) that the Developer will not take or fail to take or permit any action to be taken that would adversely affect the exemption from federal or State income taxation of the interest on the Bonds and, if it should take or permit any such action, the Developer shall take all lawful actions that it can take to rescind such action promptly upon having knowledge thereof; and

(b) that the Developer will take such action or actions, including amendment of the Regulatory Agreement, as may be necessary in the opinion of Bond Counsel to comply fully with all applicable rules, rulings, regulations, policies, procedures or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 103(b)(4)(A) of the Code applicable to this Regulatory Agreement.

3. Anything to the contrary notwithstanding, the provisions of this Regulatory Agreement shall be amended to reflect any amendments that may be made to Section 103(b)(4)(A) of the Code or to reflect any changes in the interpretation of the Section 103(b)(4)(A) requirements, which, in the opinion of Bond Counsel, have come about by the promulgation of new Treasury Regulations, revenue rulings, private letter rulings or other official interpretative advice and are applicable to this Regulatory Agreement.

Section 6. Indemnification and Payment of Fees, Costs and Expenses. The Developer hereby covenants and agrees:

(a) that it shall at all times protect, indemnify and save harmless the Issuer, its officers, agents and employees, past, present and future, and the Trustee, its directors, officers, agents and employees (hereinafter, the Indemnitees) from and against all liabilities, obligations, claims, damages, penalties, fines, losses, reasonable costs and expenses (including, without limitation, reasonable Counsel fees) to the extent not covered by insurance imposed upon or incurred by or asserted against the Indemnitees on account of any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the condition of the Project or adjacent areas the maintenance of which is the legal responsibility of the Developer, or arising from or in connection with the acquisition, construction, equipping or ownership thereof, (including, without limitation, reasonable Counsel fees) imposed upon or incurred by or asserted against the Indemnitees on account of any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the condition of the Project or adjacent areas or arising from or in connection with the acquisition, construction, equipping or ownership thereof, or pertaining to the occupation, use or operation of the Project, on account of any action, suit, proceeding or investigation or a judicial, legislative, administrative or regulatory nature relating to any of the foregoing; and shall further indemnify and save harmless the Indemnitees from and against all other liabilities, obligations, claims, damages, penalties, fines, losses, reasonable costs and expenses including without limitation:

(1) All amounts paid in settlement of any litigation commenced or reasonably threatened against the Indemnitees, if such settlement is effected with the written consent of the Developer;

(2) all expenses reasonably incurred in the investigation of, preparation for or defense of any litigation, proceeding or investigation of any nature,

whatsoever, commenced or reasonably threatened against the Developer, the Project or the Indemnitees;

(3) any judgments, penalties, fines, damages, assessments, indemnities or contributions; and

(4) the reasonable fees of Counsel, auditors and consultants;

provided, however, that such liabilities, obligations, claims, damages, penalties, fines, losses, costs or expenses shall arise out of:

(i) any failure by the Developer to comply with the terms of the Loan Agreement, the Regulatory Agreement or the other Loan Documents, or other documents relating to the Project, the financing thereof, or the Bonds to which the Developer is a party and any agreements, covenants, obligations or prohibitions set forth therein; and any consequences arising from failure by the Developer to so comply, including specifically and without limitation, consequences from the loss of exemption from federal income taxation of interest on the Bonds;

(ii) any breach of any representation or warranty of the Developer set forth in the Loan Agreement, the Regulatory Agreement, or the other Loan Documents, or other documents relating to the Project, the financing thereof, or the Bonds to which the Developer is a party, or any certificate or other document delivered by the Developer pursuant thereto, and any claim that any statement, representation or warranty of the Developer contains or contained any untrue or misleading statement of material fact or omits or omitted to state any material facts necessary to make the statements made therein not misleading in light of circumstances under which they were made; or

(iii) any suit, action, administrative proceeding, or investigation of a judicial, legislative, administrative or regulatory nature of any kind whatsoever commenced against the Developer, the Project or the Indemnitees which might adversely affect the validity or enforceability of the Bonds, the Indenture of Trust, the Loan Agreement, this Regulatory Agreement or the other Loan Documents, or other documents relating to the Project or the financing thereof, to which the Developer is a party, or the Bonds, or which relate to the exercise or performance by the Developer or the Indemnitees of any of their respective obligations or duties thereunder;

provided, however, that the Developer shall not be required to indemnify the Issuer, the Trustee or any other Indemnified Party for any such liabilities, obligations, claims, damages, penalties, fines, losses, costs or expenses resulting from its negligent or willful acts, and provided further that the benefits of this section shall not inure to any Person other than the Indemnitees.

If any action, suit, proceedings or investigation is brought or reasonably threatened against the Indemnitees for any loss or damage for which the Developer is required to provide indemnification under this section, the Issuer and the Trustee shall promptly notify the Developer and shall cooperate with the Developer in the investigation and defense thereof, and the Developer shall have the right to, upon request, at its expense resist and defend such action, suit, proceeding or investigation, or cause the same to be resisted and defended, by Counsel designated by the Developer and approved by the Indemnitees, which approval shall not be unreasonably withheld; provided, however, that such approval shall not be required in the case of defense pursuant to any applicable policy of insurance. The Developer shall, at its cost, post such bond or other security as the Indemnitees shall reasonably require with respect to and during the pendency of any such action, suit, proceeding or investigation. The Issuer or the Trustee shall have the right to employ separate Counsel in any such action, suit, proceeding or investigation and to participate in the defense thereof; provided that the selection of such separate Counsel shall be subject to the approval of the Developer, which approval shall not be unreasonably withheld. The fees and expenses of such Counsel shall be at the expense of the Developer. The obligations of the Developer under this Section shall survive expiration of the term of or earlier termination of this Regulatory Agreement.

(b) that it will pay to the Trustee, on the Delivery Date for disbursement to the Issuer, a fee of \$90,000. Additionally, it also hereby covenants and agrees to pay semiannually, on each April 1 and October 1, commencing on April 1, 1986 to the Trustee, for deposit into the Administration Account but only to the extent that there are not sufficient funds in the Administration Account to otherwise satisfy the Administration Account obligation established pursuant to the Indenture, such amount as shall pay or reimburse the Issuer for the Issuer's annual costs and expenses in connection with administration of the Program; provided, however, that annual costs and expenses of the Issuer exceeding \$5,000 in any year shall not be incurred, paid or reimbursed without the approval of the Credit Instrument Obligor and the Developer. Such payment shall continue until the payment of the principal of, and premium, if any, and interest on all of the Bonds and the discharge of the Indenture in accordance with its terms. In the event the Indenture is discharged prior to the expiration of the term or earlier termination of the Regulatory Agreement, the Developer has

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covenanted by Section 18 of the Regulatory Agreement to pay such amounts to the Issuer, directly. The amount hereby required to be paid to the Trustee for disbursement to the Issuer is not in limitation of any amount otherwise required to be paid the Trustee under the Loan Agreement also for deposit in the Administration Account.

Section 7. Consideration. The Issuer has determined to adopt and implement the Program and to issue the Bonds to obtain moneys to carry out the Program for the primary purpose of inducing the Developer to acquire and operate the Project as a project for occupancy, at least in part, by persons of low or moderate income. In consideration of the Project Loan and the issuance of the Bonds by the Issuer, the Developer has entered into this Regulatory Agreement and has agreed to restrict the uses to which the Project can be put for the term hereof.

Section 8. Reliance. The Issuer, the Trustee and the Developer recognize and agree that the representations and covenants set forth herein may be relied upon by all persons interested in the legality and validity of the Bonds and in the exemption from federal and California income taxation of the interest on the Bonds. In performing their duties and obligations hereunder, the Issuer and the Trustee may rely upon statements and certificates of the Developer and Lower-Income Tenants or other individuals or families pursuant to subdivision (a) of Section 4 believed to be genuine and to have been executed by the proper person or persons, and upon audits of the books and records of the Developer pertaining to occupancy of the Project. In addition, the Issuer, the Trustee and the Developer may consult with counsel, and the opinion of such Counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Issuer, the Trustee or the Developer hereunder in good faith and in conformity with the opinion of such Counsel. In determining whether any default or lack of compliance by the Developer exists under this Regulatory Agreement, the Issuer and the Trustee shall not be required to conduct any investigation into or review of the operations or records of the Developer, and they may rely solely on any notice or certificate delivered to them by the Developer with respect to the occurrence or absence of a default. The Developer shall be liable under this Agreement only to the extent that obligations are explicitly imposed upon or undertaken by the Developer.

Section 9. Project within Issuer Boundaries. The Developer hereby represents and warrants that the Project will be located entirely within the territorial limits of the Issuer.

Section 10. Sale or Other Transfer of Project. The Developer hereby covenants and agrees not to sell, transfer, lease or otherwise dispose of the Project or any interest therein or portion thereof (other than for Permitted Encumbrances) without

obtaining the prior written consent of the Issuer. The consent of the Issuer shall be conditioned solely upon (i) reasonable evidence that the Developer's purchaser or other transferee has assumed in writing and in full the Developer's duties and obligations (including and subject to any that are non-recourse but not including any that should have been performed but were not or were defectively performed) under this Regulatory Agreement, the Loan Agreement and the other Loan Documents, and (ii) an opinion of counsel to the purchaser or other transferee that the purchaser or other transferee has duly assumed such duties and obligations of the Developer under this Regulatory Agreement, the Loan Agreement and the other Loan Documents, and that such obligations are legal, valid and binding obligations of the purchaser or other transferee to the same extent as they were of the Developer immediately prior to the sale, transfer, lease or other disposition; and such consent of the Issuer shall be evidenced by a certificate of an Authorized Issuer Representative so stating; the consent of the Issuer shall be conditioned solely upon and such consent of the Issuer shall be evidenced by a Certificate of an Authorized Issue Representation so stating. No other conditions shall be imposed pursuant to this Regulatory Agreement upon any such sale, transfer, lease or other disposition. Neither any obligation nor the performance of any obligation of this Section 10 expressed or implied shall affect any obligation or the performance thereof of the Loan Agreement or of any other document or instrument between the Developer and the Issuer, the Credit Instrument Obligor or the Trustee which requires that the Developer obtain the consent of the Trustee, the Issuer or the Credit Instrument Obligor as a precondition of any such sale, transfer, lease or other disposition or which gives the Trustee, the Issuer or the Credit Instrument Obligor the right to accelerate the maturity of the Project Loan or to take some other similar action with respect to the Project Loan upon any such sale, transfer, lease or other disposition. It is hereby expressly stipulated and agreed that any sale, transfer, lease or other disposition in violation of this Section 10 shall be null, void and without effect, shall cause a reversion of title to the Developer, and shall be ineffective to relieve the Developer of its obligations under this Regulatory Agreement.

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Section 11. Involuntary Noncompliance. Except as otherwise provided by this Section 11, the provisions of this Regulatory Agreement shall cease to be applicable to the Project in the event of (i) (a) involuntary noncompliance with the provisions of this Regulatory Agreement caused by a foreclosure by the Trustee or Credit Instrument Obligor of any lien, or delivery of a deed in lieu of foreclosure, pursuant to which the Trustee or Credit Instrument Obligor, as applicable, or a purchaser or transferee pursuant to such foreclosure shall take possession of the Project, or (i) (b) involuntary noncompliance with the provisions of this Regulatory Agreement caused by fire, seizure, requisition, change in federal law or action of a federal agency after the Delivery Date which prevents the Issuer and the Trustee from enforcing the provisions hereof, or condemnation or similar event and (ii) the payment in full and full and retirement of the Bonds within a reasonable period thereafter. The provisions of this Regulatory Agreement

shall again become applicable to the Project if the Project is or has been subject to foreclosure by the Trustee or Credit Instrument Obligor or delivery of a deed in lieu of foreclosure or similar event, if at any time subsequent to such event and during the period that any Bonds remain outstanding under the Trust Indenture, but in any event at least during the Qualified Project Period, the Developer or an Affiliate shall acquire an ownership interest (for federal income tax purposes) in the Project.

Section 12. Term. This Regulatory Agreement shall become effective upon its execution and delivery and except as otherwise provided in Section 11 hereof, shall remain in full force and effect for as long as any Bonds are outstanding under the Indenture but in any case at least for the Qualified Project Period, it being expressly agreed and understood that the provisions hereof (other than the provisions of Section 11 hereof which in any case will remain in effect until the date determined in the manner provided in said Section) are intended to survive the retirement of the Bonds and termination of the Loan Agreement.

Section 13. Covenants to Run With the Land. The Developer hereby subjects the Project and the land described in Schedule D hereto to the covenants, reservations and restrictions set forth in this Regulatory Agreement, as an encumbrance thereon. The Issuer, the Trustee and the Developer hereby declare their specific intent that the covenants, reservations and restrictions set forth herein shall be deemed covenants running with the land and shall pass to and be binding upon the Developer's successors to or assigns of the Project provided, however, that except as otherwise provided by this Regulatory Agreement on the expiration of the term of or earlier termination of this Regulatory Agreement said covenants, reservations and restrictions shall be of no further effect. Each and every contract, deed or other instrument hereafter executed covering and conveying the Project or any interest therein or portion thereof (other than Permitted Encumbrances) shall conclusively be held to have been executed, delivered and accepted subject to such covenants, reservations and restrictions, regardless of whether such covenants, reservations and restrictions are set forth in such contract, deed or other instrument.

Section 14. Burden and Benefit. The Issuer, the Trustee, and the Developer hereby declare their understanding and intent that the burden of the covenants set forth herein touch and concern the land in that the Developer's legal interest in the Project is rendered less valuable thereby. The Issuer, the Trustee, and the Developer hereby further declare their understanding and intent that the benefit of such covenants touch and concern the land by enhancing and increasing the enjoyment and use of the Project by Lower-Income Tenants, by making possible the obtaining of advantageous financing for the proposed improvements, and by furthering the public purposes for which the Bonds were issued.

Section 15. Uniformity; Common Plan. The covenants, reservations and restrictions hereof shall apply uniformly to the entire Project in order to establish and carry out a common plan for the use, development and improvement of the Project Site with respect to which the Project Facilities are or are to be constructed.

Section 16. Events of Default; Enforcement. If the Developer defaults in the performance or observance of any covenant, agreement or obligation of the Developer set forth in this Regulatory Agreement, and if such default remains uncured for a period of thirty (30) days after notice thereof shall have been given by the Issuer or the Trustee to the Developer then the Issuer on its own behalf (or the Trustee, acting on behalf of the Issuer) or the Trustee, acting on its own behalf as Trustee under the Trust Indenture, may take any one or more of the following steps, at its option:

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

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

(c) take whatever other action at law or in equity may appear necessary or desirable to enforce the obligations, covenants and agreements of the Developer hereunder, or to recover monetary damages caused by such default.

If the foregoing are insufficient to achieve compliance by the Developer with the terms of this Regulatory Agreement within sixty (60) days after the default, the Trustee will declare an "event of default" under this Regulatory Agreement and proceed to exercise the rights of the Trustee or of the Bondholders under the Trust Indenture consequent thereon.

For so long as the Bonds are outstanding, the rights of the Issuer in this Regulatory Agreement shall be enforceable by the Trustee, upon notice to but without the consent, approval or knowledge of the Issuer, in accordance with its terms and the terms of the Trust Indenture.

No delay in enforcing the provisions hereof as to any breach or violation shall impair, damage or waive the right of any person entitled to enforce the same to obtain relief against or recover for the continuation or repetition of such breach or violation or any similar breach or violation thereof at any later time or times.

Notwithstanding the foregoing provisions or any other provisions of this Regulatory Agreement, the Issuer, the Developer and the Trustee hereby acknowledge and agree that the Issuer and the Trustee have entered into an Intercreditor Agreement dated as of October 1, 1985 (the "Intercreditor Agreement") with Continental Casualty Company, an Illinois insurance company (the "Surety") in connection with the issuance of a Surety Bond insuring certain payments on or with respect to the Bonds. The Issuer and the Trustee hereby acknowledge and agree that their exercise of any rights and remedies under this Regulatory Agreement is subject to the terms and provisions of the Intercreditor Agreement and the provisions of Section 40 of the First Deed of Trust referred to therein. The Trustee, the Developer and the Issuer further acknowledge and agree that the Surety shall be a third-party beneficiary under this Regulatory Agreement entitled to approve any and all amendments hereto and to directly enforce the provisions hereof. Notwithstanding any other provisions of this Regulatory Agreement, including particularly the provisions of Section 10 hereof, no consent of the Issuer or the Trustee shall be required for any mortgage, pledge, sale, conveyance, transfer, or assignment made pursuant to the Loan Documents and the Second Deed of Trust Documents, or by or on behalf of the Surety or any other mortgagee, assignee and secured party thereunder, or any transfer pursuant to the Loan Documents and the Second Deed of Trust Documents, or by or on behalf of the Surety or any other mortgagee, assignee and secured party thereunder, or any transfer pursuant to or in lieu of a foreclosure under the Loan Documents or the Second Deed of Trust Documents. Any successor Credit Instrument Obligor under and as defined in the Indenture shall succeed to the rights of the Surety hereunder upon the issuance of its Qualified Credit Instrument without further action by or on behalf of any of the parties hereto.

Section 17. Recording and Filing. The Developer hereby represents, warrants and covenants that it will cause this Regulatory Agreement to be recorded in the real property records of San Mateo County, California, and in such other places as the Issuer or the Trustee may reasonably request, prior to recordation of any lien held by the Credit Instrument Obligor. The Developer shall pay all fees and charges incurred in connection with any such recording.

Section 18. Administration Expenses. In the event the Indenture is discharged while the Project remains subject to this Regulatory Agreement, the Developer shall pay to the Issuer, on each anniversary of the date that the Indenture is discharged until the expiration of the term of or earlier termination of this Regulatory Agreement, and upon such expiration or termination, such amounts as shall pay or reimburse the annual expenses and other costs of the Issuer in connection with administration of the Program which are not paid pursuant to the Loan Agreement provision captioned "Amounts Remaining in the Bond Fund, Project Fund and

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Construction Fund;" provided; however, that annual costs and expenses of the Issuer exceeding \$5,000 in any year shall not be paid or reimbursed without the approval of the Developer.

Section 19. Further Assurances and Corrective Instruments. The parties hereto agree that they will, from time to time, sign, acknowledge and deliver, or cause to be signed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the performance required by this Regulatory Agreement.

Section 20. Governing Law. This Regulatory Agreement shall be governed by the laws of the State.

Section 21. Amendments. This Regulatory Agreement shall be amended only by a written instrument executed by the parties hereto or their successors or assigns, and duly recorded in the real property records of San Mateo County, California. The parties hereto acknowledge that, for so long as the Bonds are outstanding, the Credit Instrument Obligor is third party beneficiary of this Regulatory Agreement, and that no amendment affecting the rights of the Credit Instrument Obligor may occur without the prior written consent of the Credit Instrument Obligor. The agreement of the Issuer and the Trustee to any amendment of this Regulatory Agreement shall be given only in accordance with the provisions of the Trust Indenture or, if the Bonds are no longer outstanding, upon receipt of an opinion of Bond Counsel that such amendment or revision is lawful and will not adversely affect the validity and tax exemption of the interest on the Bonds under the laws of the State and the exemption from federal income taxation of interest on the Bonds.

Section 22. Notice. Any notice required to be given hereunder shall be given by registered or certified mail at the addresses specified below or at such other addresses as may be specified in writing by the parties hereto:

Issuer: City of Redwood City
 1017 Middlefield Road
 (P.O. Box 478, 94064)
 Redwood City, California 94063
 Attention: City Manager

Trustee: Security Pacific National Bank
 333 South Beaudry Avenue,
 24th Floor
 Los Angeles, California 90017
 Attention: Corporate Trust
 Department
 (W24-30)

Developer:

Redwood Shores Apartment
Associates, Ltd.
A California Limited Partnership
c/o Paragon Group, Inc.
523 West 6th Street
Los Angeles, California 90014
Attention: Jeffrey B. Allen and
George E. Thomas

with a copy to:

Stutzman & Bromberg
2200 Americas Tower
2323 Bryan Street
Dallas, Texas 75201

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

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

Section 25. Limited Liability. Notwithstanding any provision to the contrary contained herein, all obligations or liabilities of the Issuer with respect to which the execution or performance of this Regulatory Agreement is a substantial cause shall be limited obligations or liabilities of the Issuer, payable solely and only from revenues and other assets subject to the pledge of the Indenture.

Section 26. The Trustee. The Trustee may act as specifically provided herein and in the Indenture and may exercise such additional powers as are reasonably incidental hereto and thereto. The Trustee may act as the agent of and on behalf of the Issuer and any act required to be performed by the Issuer as herein provided shall be deemed taken if such act is performed by the Trustee. Neither the Trustee nor any of its officers, directors or employees shall be liable for any action taken or omitted to be taken by it hereunder or in connection herewith except for its or their own negligence or willful misconduct. The Trustee may consult with legal counsel selected by it and any action taken or suffered by it in accordance with the opinion of such counsel shall be full justification and protection to it; provided, however, that the Developer shall have the right to approve such counsel prior to the Trustee's reliance upon such counsel's opinion, provided that such approval shall not be unreasonably withheld or delayed.

Section 27. Notwithstanding any provision to the contrary contained herein, in any action commenced to enforce the obligations of Developer created or arising hereunder, the judgment shall not be enforceable personally against any general or limited partner of the Developer (or any individual or entity with a legal, equitable or beneficial interest therein, direct or indirect) or against any assets of the Developer (except the rights and properties conveyed in or encumbered by the Loan Amounts) or any assets of any general or limited partner of the Developer (or any such individual or entity), and then successors, assigns, heirs or personal representatives, and any such judgment shall not be subject to execution on nor be a lien on any other assets of the Developer, any general or limited partner of Developer, or any individual or entity with a legal, equitable or beneficial interest therein, direct or indirect, or their respective successors, assigns, heirs or personal representatives, except as otherwise may be provided in the Loan Agreement.

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IN WITNESS WHEREOF, the Issuer, the Trustee and the Developer have caused this Agreement to be signed, sealed and attested on their behalf by duly authorized representatives, all as of the date first written hereinabove.

(SEAL)

CITY OF REDWOOD CITY, a
municipal corporation, as Issuer

ATTEST: Jacqueline C. Hildebrand Priscilla Mosher
(Deputy) City Clerk *VICE MAYOR*
Diegueline C. Hildebrand *Priscilla Mosher*

SECURITY PACIFIC NATIONAL BANK,
as Trustee

By: Dennis Wong
Vice President
Dennis Wong

REDWOOD SHORES APARTMENT
ASSOCIATES, LTD., A
CALIFORNIA LIMITED PARTNERSHIP,
as Developer

By: REDWOOD SHORES APARTMENT
COMPANY, LTD., A
CALIFORNIA LIMITED PARTNERSHIP,
as General Partner

WITNESS: _____

By: Jeffrey B. Allen
Its: MANAGING GENERAL PARTNER
Jeffrey B. Allen

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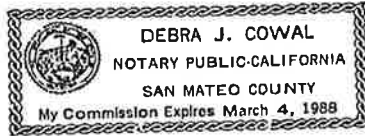
STATE OF CALIFORNIA)
) SS.
COUNTY OF SAN MATEO)

On this the 29th day of October, in the year 1985
before me, DEBRA J. COWAL, personally appeared
PRISCILLA MOSHER and _____, personally known
to me (or proved to me on the basis of satisfactory evidence) to be
the person who executed this instrument as VICE MAYOR and
_____ of the City of Redwood City and acknowledged
to me that the City of Redwood City executed it.

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WITNESS my hand and official seal.

(SEAL)



Debra J. Cowal
Notary Public in and for the
State of California

STATE OF CALIFORNIA)
COUNTY OF San Mateo) ss.

On this the 29 day of October, in the year 1985
before me, CONSTANZA MUNEVAR, personally appeared
Dennis Wong, personally known to me (or proved to me on
the basis of satisfactory evidence) to be the person who executed
this instrument as Vice President of
Security Pacific National Bank and acknowledged to me
that he executed it.

WITNESS my hand and official seal.



(SEAL)

Constanza Munevar
Notary Public in and for the
State of California

STATE OF CALIFORNIA)
COUNTY OF _____) ss.

On this the _____ day of _____, in the year 19____,
before me, _____, personally appeared
_____, personally known to me (or proved to me on
the basis of satisfactory evidence) to be the person who executed
the within instrument as president (or secretary) or on behalf of
the corporation therein named and acknowledged to me that the
corporation executed it.

WITNESS my hand and official seal.

Notary Public in and for the
State of California

(SEAL)

STATE OF CALIFORNIA)
) ss.
COUNTY OF San Mateo)

On this the 29th day of October, in the year 1985,
before me, CONSTANZA MUNEVAR, personally appeared
Jeffrey B. Allen, personally known to me (or
proved to me on the basis of satisfactory evidence) to be the
person that executed this instrument on behalf of the partnership
and acknowledged to me that the partnership executed it.

WITNESS my hand and official seal.

(SEAL)

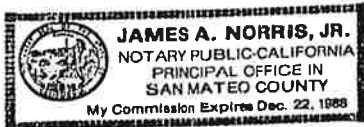


Constanza Munevar
Notary Public in and for the
State of California

STATE OF CALIFORNIA)
) ss.
COUNTY OF San Mateo)

On this the 29th day of October, in the year 1985, before me, James A. Norris
Jr., personally appeared Jeffrey B. Allen, personally known to me
(or proved to me on the basis of satisfactory evidence) to be the person
that executed the within instrument on behalf of Redwood Shores
Apartment Company, Ltd., a California limited partnership and sole
general partner of Redwood Shores Apartment Associates, Ltd., and
acknowledged to me that he executed the same as partner of the
partnership first above named, that said partnership executed it on
behalf of Redwood Shores Apartment Associates, Ltd., and that said
last named partnership executed it.

(SEAL)



James A. Norris, Jr.
James A. Norris, Jr.
Notary Public in and for said
County and State

MFH0040.RWC/5

10/28/85

SCHEDULE A

REDWOOD SHORES APARTMENTS PROJECT
REDWOOD CITY, CALIFORNIA

PROJECT FACILITIES

Anticipated Project Cost: \$ _____

Address of the Project Site:

Redwood City, California

Residential Buildings, Floor plans and square footage:

<u>Building Identification</u>	<u>Unit Identification</u>	<u>Floor Plan*</u>	<u>Approx. Unit Square Footage</u>
--------------------------------	----------------------------	--------------------	------------------------------------

Other Buildings and Structures: Recreation Building & Carports

Improvements: Parking, Landscaping, Pool and Spa, Tot Lot

Equipment, Fixtures and Other Property:
Managers Office Furniture, Recreation Building, Furniture,
Refrigerators, Model Furniture & Accessories, Laundry
Facilities.

The Project Facilities includes: the improvements to the Project Site; the residential and other buildings and structures; the equipment, fixtures and other property of the Developer located on, or used in connection with, the improvements, buildings and structures; and all functionally related and subordinate facilities.

*Studio; 1 bedroom; 2 bedroom; etc.

SCHEDULE B

CITY OF REDWOOD CITY
MULTIFAMILY RENTAL HOUSING

PROGRAM GUIDELINES

The following guidelines have been adopted and approved by the City of Redwood City (the "Issuer"), and are incorporated by reference into the Regulatory Agreement. The Issuer will originate and service or will cause the origination and servicing of the Project Loan for the multifamily rental housing Development in accordance with these guidelines. The terms of the Project Loan shall be in accordance with the Loan Agreement and the Regulatory Agreement except as such documents may be amended as provided in the Indenture. It is understood and agreed by the Developer that these guidelines are subject to change at any time by the Issuer by written notice to the Developer, in such manner as may be necessary, in the opinion of Bond Counsel to comply fully with all applicable rules, rulings, policies, procedures, regulations or other official statements promulgated or proposed by the Department of the Treasury or the Internal Revenue Service pertaining to obligations issued under Section 103(b)(4)(A) of the Code or in order to facilitate administration but only if those changes do not have more stringent leasing requirements than required by Section 103(b)(4)(A) of the Code, and only with the approval of the Developer, which approval shall not be unreasonably withheld. Words used herein which are defined in the Indenture or Regulatory Agreement shall have the same meaning as in such documents unless otherwise stated.

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The Program of the Issuer is to provide rental housing under the provisions of Division 31, Part 5 (commencing with Section 52000) of the California Health and Safety Code, Chapter 7 (commencing with Section 52075) of which authorizes, subject to the limitations of such Chapter 7, the issuance of revenue bonds as provided in Chapter 4 (commencing with Section 52030) for the purpose of financing the construction or development of multifamily rental housing and the provision of capital improvements related thereto (the "Act"). Any cost incurred or to be incurred in order to facilitate conversion of rental property to residential ownership, but which is not required to provide rental housing shall not be considered as a part of the cost of any Project which is to be financed by the Issuer.

Multifamily Rental Housing Projects

The Issuer shall make a loan to the Developer for the acquisition, construction and ownership of the multifamily rental housing Project located within the boundaries of the Issuer subject to the following conditions.

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Project: The Project must constitute a residential rental project within the meaning of Section 1.103.8(b)(4) of the regulations under Section 103(b) of the Code. As such, a Project shall consist of a building or structure or proximate buildings or structures, (a) containing one or more similarly constructed residential units which are to be used on other than a transient basis and any facilities which are functionally related and subordinate to such units, and (b) all of the residential units of which are rented or available for rental on a continuous basis to members of the general public in accordance with the requirements of Section 103(b)(4)(A) of the Code. Substantially all (not less than 92 percent) of a Project must consist of similar residential units together with any functionally related and subordinate facilities within the meaning of Section 103(b)(4)(A) of the Code. A building or structure is a discrete edifice or other man-made construction consisting of an independent (i) foundation, (ii) outer walls, and (iii) roof, and containing one or more similarly constructed residential units. Buildings or structures are proximate if they are all located on a single parcel of land or several parcels of land which are contiguous except for the interposition of a road, street, stream or similar property. Proximate buildings or structures are part of the same project only if owned for federal tax purposes by the same person and if the buildings are financed pursuant to a common plan. In no event shall a Project include a hotel, motel, dormitory, fraternity or sorority house, rooming house, hospital, nursing home, sanitarium, rest home, or trailer park or court. Furthermore, a Project shall not include any building or structure which contains fewer than five residential units, one residential unit of which is occupied by an owner of the units or party related to such owner.

Lower-Income Tenants: Of the total number of completed residential units in the multifamily Project, at all times during the Qualified Project Period, at least 20 percent of such units must be occupied (within the meaning of Section 103-8(b)(5)(ii) of the regulations under Section 103(b) of the Code) by Lower-Income Tenants. For each Lower-Income Tenant who occupies a residential unit in such Project, the Developer will be required to submit to the Trustee, with a copy to the Issuer, an income verification form, currently in the form attached as Exhibit E to the Loan Agreement, such forms to be executed by all such persons at the time of initial renting of such units, and submitted, monthly at the time of the next Certification of Continuing Program Compliance.

Owner Commitment: The Developer with respect to which there is a commitment to make a Project Loan must execute a Regulatory Agreement. The Regulatory Agreement will provide that the Developer agrees to comply with these Program Guidelines in all respects. In addition, the Developer must deliver monthly

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following completion of the Project and as otherwise required in the Regulatory Agreement, a Certification of Continuing Program Compliance, in the form attached to these Program Guidelines as Exhibit "B", certifying compliance with these Program Guidelines and that all new Lower-Income Tenants since the last such certification have executed an application and are in compliance with the Program Guidelines. Each new Lower-Income Tenant in such Project must fill out and sign an application in the form provided as Exhibit "E" to the Loan Agreement entitled "Form of Tenant Income Certificate". The Certification of Continuing Program Compliance must be delivered by the Developer to the Trustee, with a copy to the Issuer.

Origination Fees and Expenses: The Issuer may charge the Developer, in connection with the Project Loan, a fee. In addition, the Issuer will require periodic payment from a Developer of certain other costs and expenses related to the Program.

Prepayment Premiums: Prepayments of the Project Loan shall result in prepayment premiums as provided by the Loan Agreement and the Trust Indenture.

Guidelines for Verification of Income of Lower Income Tenants

Developer's Responsibility: The Developer of each Project is responsible under the Regulatory Agreement for obtaining and verifying information with respect to the qualifications of tenants. The Developer usually delegates performance of the necessary duties, and generally does so largely by means of a resident manager.

Certificate of Tenant Eligibility: A Tenant Income Certificate (form) should be completed with respect to each Lower-Income Tenant. Each tenant should sign the certification thereto. If more than one of the tenants is employed, a separate form should be completed for each employed tenant. Each employed tenant should sign the permission to the respective employer to disclose the tenant's income from employment. The names of those household members who are minors should be indicated by placing the letter "M" before their names on the form, and those who are students indicated by placing the letter "S" before their names.

If the Anticipated Income is 80% or less of Median Income for the Area as defined in the Regulatory Agreement, the tenants may be eligible as Lower-Income Tenants. If the tenants are so eligible, the Developer or the property manager or other authorized person, should sign and date the Certificate of Anticipated Income and Determination of Eligibility (form), (a part of the Tenant Income Certificate attached as Exhibit E to the Loan Agreement) and retain the completed Tenant Income Certificate form together with the tax returns or other reasonably satisfactory evidence of income and other supporting materials on file. The Certificate of

Anticipated Income and Determination of Eligibility should be filed with the Trustee, with copy to the Issuer, monthly, together with the Certification of Continuing Program Compliance.

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EXHIBIT "A"
 CERTIFICATION OF CONTINUING PROGRAM COMPLIANCE

Report for Month Ending: _____

Pursuant to the Regulatory Agreement and Declaration of Restrictions (the "Regulatory Agreement") associated with the undersigned Developer's participation in the City of Redwood City's Multifamily Rental Housing Bond Program, as of the date of this certification, the following percentage of completed residential units in the Project (i) are occupied by Lower-Income Tenants, or tenants deemed to be Lower-Income Tenants, or (ii) are currently vacant and being held available for such occupancy and have been so held continuously since the date a Lower-Income Tenant vacated such unit:

<u>Total No. of Units Available for Rental</u>	<u>No. of Occupied Lower Income Units</u>	+	<u>No. of Vacant Lower Income Units</u>	=	<u>% of Total Units</u>
	(i)		(ii)		

The undersigned Developer hereby certifies the following information, that completed Verification of Income ("Tenant Income Certificate") forms are attached for each new Lower-Income Tenant since the filing of the last Certification of Continuing Program Compliance, that the same are true and correct to the best of the undersigned Developer's knowledge and belief, and that the undersigned Developer is in continuing compliance with the Regulatory Agreement (note here any exceptions: _____).

Lower Income Tenants

<u>Unit No.</u>	<u>Type of Unit</u>	<u>Tenant Name</u>	<u>Occupancy Date</u>
-----------------	---------------------	--------------------	-----------------------

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Date: _____

REDWOOD SHORES APARTMENT ASSOCIATES, LTD., A CALIFORNIA LIMITED PARTNERSHIP, as Developer

By: Paragon Group, Inc., Managing Agent

By: _____ Operator/Manager

By: _____ Resident Manager

EXHIBIT "B"

REDWOOD SHORES APARTMENTS PROJECT
REDWOOD CITY, CALIFORNIA

DESIGNATION OF UNITS FOR LOWER INCOME TENANTS

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The following dwelling units are hereby designated for occupancy by Lower-Income Tenants:

<u>Building Identification</u>	<u>Unit Identification</u>	<u>Floor Plan*</u>	<u>Approx. Unit Square Footage</u>
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	Number
Total Units in the Project	_____
Total Units presently occupied	_____
Total Units presently occupied by Lower-Income Tenants (or persons deemed to be Lower-Income Tenants) or previously occupied by Lower-Income Tenants and not reoccupied	_____
Total Units presently unoccupied	_____
Total Units presently unoccupied and available for occupancy by Lower-Income Tenants	_____

Certifications of Tenant Eligibility are attached hereto for all new Lower-Income Tenants who have become occupants of the Project since the filing of the last Designation of Units for Lower-Income Tenants.

The same are true and correct to the best of the undersigned's knowledge and belief.

REDWOOD SHORES APARTMENT
ASSOCIATES, LTD., A CALIFORNIA
LIMITED PARTNERSHIP, as
Developer

By: REDWOOD SHORES APARTMENT
COMPANY, LTD., A CALIFORNIA
LIMITED PARTNERSHIP,
General Partner

8511437

By: _____

Dated _____

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SCHEDULE C
COMPLETION CERTIFICATE

\$28,000,000
CITY OF REDWOOD CITY
MULTIFAMILY HOUSING REVENUE BONDS,
(REDWOOD SHORES APARTMENTS PROJECT)
SERIES 1985B

Redwood Shores Apartment Associates, Ltd., a California limited partnership (the "Developer"), with respect to the Project identified by the Regulatory Agreement between the City of Redwood City, the Developer and Security Pacific National Bank, dated as of October 1, 1985 (the "Regulatory Agreement"), hereby certifies that:

(a) the land described by Schedule D to the Regulatory Agreement has been acquired by the Developer, subject only to Permitted Encumbrances as defined by the Regulatory Agreement;

(b) except for minor punchlist items, construction of the buildings, structures and other improvements a part of the Project has been completed substantially in accordance with the plans and specifications therefor as approved by the Issuer, or such buildings, structures and other improvements have been acquired by the Developer;

(c) acquisition and installation of the personal property a part of the Project has been completed except for minor punchlist items;

(d) the final apartment building in the Project was approved for permanent occupancy on _____, 19____, (the "Completion Date", except as otherwise provided by paragraph (j) below) and operation of the Project has commenced;

(e) all labor, services, materials and supplies, and other personal property, and all fees, costs and expenses, rendered or charged for in connection with the construction of the Project have been paid or provided for in a manner satisfactory to the Credit Instrument Obligor;

(f) all other facilities necessary in connection with the Project have been constructed, acquired and installed and all fees, costs and expenses in connection therewith have been paid or provided for in a manner satisfactory to the Credit Instrument Obligor;

(g) the expenditures for each of the items described by paragraphs (a), (b) and (c), together with the fees,

costs and expenses of the Developer Loan, aggregate \$ _____, a true accounting of which is attached hereto as Exhibit A and incorporated herein;

(h) each expenditure in said accounting has been properly incurred in connection with the Project, not less than _____ percent of the aggregate of all such expenditures as stated above is for Qualified Project Costs within the meaning of the Regulatory Agreement, and _____ of the expenditures are for costs which are not Qualified Project Costs by reason of the participation of an Affiliated Party to the Developer;

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(i) the Regulatory Agreement is in full force and effect and to the best of the Developer's knowledge, no Event of Default or event which with the passage of time or notice or both would become an Event of Default within the meaning of the Regulatory Agreement has occurred and is continuing; and

(j) 10 percent of the residential units of the Project were occupied on _____, 198_, and 50 percent of the residential units were occupied on _____, 198_.

The certifications in paragraphs (e) and (f) are subject to an exception for amounts not yet paid by reason of a bona fide dispute or by reason of such amounts not yet being due, if and to the extent itemized by Exhibit "B" attached hereto and incorporated herein. In the event one or the other or each of the blanks of paragraph (j) are blank, the Developer will certify the information identified by paragraph (j) within 30 days of the obtaining of each occupancy level. This certificate is expressly without prejudice to and with reservation of any rights of the Developer against any contractor, subcontractor, laborer, materialman, other supplier or other third party which presently exists or which may subsequently come into existence. All terms used in this certificate have the meanings assigned to them by the Regulatory Agreement.

Dated: _____, 19__

Redwood Shores Apartment Associates, Ltd., a California limited partnership, as Developer

By: Redwood Shores Apartment Company, Ltd., a California limited partnership, as General Partner

By: _____ Authorized Developer Representative

EXHIBIT "A"

ACQUISITION, CONSTRUCTION AND EQUIPPING
FEES, COSTS AND EXPENSES

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EXHIBIT "A"

10/21/85

EXHIBIT "B"

EXCEPTION FOR AMOUNTS NOT YET PAID

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EXHIBIT "B"

10/21/85

SCHEDULE D

PROJECT SITE

Lot 3 as shown on that certain Map entitled "Sand Piper Subdivision Unit No. 1, City of Redwood City, San Mateo County, California", which Map was filed July 18, 1985 in Book 113 of Maps at Pages 43, 44 and 45, Records of San Mateo County, State of California.

EXCEPTING THEREFROM the ownership right, title and interest in and to any and all oil, gas or other hydrocarbon substances, geothermal steams, brines and minerals (collectively, "Minerals") which may be found on, in place under, or in migration in or under the above described property.

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SCHEDULE D

10/21/85