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DECLARATION OF COVENANTS, CONDITIONS AND RESTRICTIONS
FOR
CARDIFF TERRACE

COUNTY OF SANTA CRUZ, STATE OF CALIFORNIA

July, 3rd, 1986

RECORDED AT THE REQUEST OF
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EXHIBITS:

- A: DESCRIPTION OF PROJECT PROPERTY
- B: EASEMENT
- C: DESCRIPTIONS OF LOTS 201-250 AND 301-311

DECLARATION OF COVENANTS, CONDITIONS AND
RESTRICTIONS OF CARDIFF TERRACE PLANNED UNIT DEVELOPMENT

THIS DECLARATION is made on July 3rd, 1986, by The Regents of the University of California, a California public corporation ("Declarant").

Declarant is the owner of real property located adjacent to Coolege Drive, Santa Cruz County, State of California, as described in Exhibit A to this Declaration (the "Property") which Property forms a part of the campus of the University of California, Santa Cruz.

Declarant intends to improve the Property for residential purposes and hereby establishes a general plan, set forth in this Declaration, for the subdivision, improvement and long-term leasing of certain lots and the collective use of the remainder of the Property in common, which together shall constitute the "Project." Declarant seeks to secure the harmonious and uniform development of the Property and the Project in accordance with the plan.

NOW, THEREFORE, Declarant hereby declares that the Project shall be held, sold and conveyed subject to the following declaration as to division, leasehold interests, easements, rights, liens, covenants, servitudes, restrictions, limitations, conditions and uses to which the Project may be put, hereby specifying that such Declaration shall operate for the mutual benefit of all Owners of the Project and shall constitute covenants to run with the land, as well as equitable servitudes, and shall be binding on and for the benefit of the Project and each lot and area thereof, Declarant, its successors and assigns, the Association (as hereinafter defined), its successors and assigns, and all subsequent Owners of all or any part of the Project, together with their grantees, successors, heirs, executors, administrators, devisees and assigns, for the benefit of the Project, and shall, further, be imposed upon all the Project as equitable servitudes in favor of each and every lot and the Owner thereof as the dominant tenement.

ARTICLE I - DEFINITIONS

The following definitions apply in construing the provisions of this Declaration:

1. Architectural Review Board or ARB means the Architectural Review Board established pursuant to Article IX, Section 2 of these Covenants, Conditions and Restrictions.

2. Articles means the Articles of Incorporation of the Association as they may be amended from time to time.

3. Association means Cardiff Terrace Homeowners Association, a California mutual benefit corporation, its successors and assigns.

4. Board or Board of Directors may be used interchangeably herein and shall mean the Board of Directors of the Association as the same may, from time to time, be constituted.

5. Bylaws means the Association's Bylaws and any amendments thereto.

6. Common Area means the real property within the Project leased pursuant to the Common Area Lease by the Declarant to the Association for the common use and enjoyment of the Owners. The Common Area shall consist of (a) the land described in Exhibit A, less all Residential Lots as defined in Section 21 below, plus (b) the easement described in Exhibit B attached hereto and incorporated herein by reference. If annexation is effected pursuant to Article XX hereof, the Common Area may then include such additional property as is annexed to the Common Area.

7. Common Area Lease means the ground lease (or any amendment thereof, or addition or successor thereto) between Declarant as lessor and the Association as lessee for all land within the Property other than that conveyed or to be conveyed pursuant to Residential Lot Leases.

8. The County means the County of Santa Cruz, State of California.

9. Custom Home means a Residence located on a Custom Lot.

10. Custom Lot means a Residential Lot designated by Declarant to be used as the site of a single family residential structure pursuant to a Custom Lot Lease.

11. Custom Lot Lease means a Residential Lot Lease which permits the lessee to construct a Residence on the leased premises.

12. Declarant means The Regents of the University of California, its successors and assigns.

13. Declaration means this Declaration of Covenants, Conditions and Restrictions, together with any amendments, supplements or modifications hereto.

14. Deed of Trust shall mean and be synonymous with the word Mortgage and the same may be used interchangeably with the same meaning; likewise, the word Trustor shall be synonymous with the word Mortgagor, and the word Beneficiary shall be synonymous with the word Mortgagee.

15. Member means every person or entity who holds a membership in the Association.

16. Mortgage shall mean any security device encumbering all or a portion of the Project or any Residential Lot, and the term Mortgage shall include Deed of Trust.

17. Mortgagee means a person or entity to whom a Mortgage is made or who otherwise is a holder of a mortgage; Mortgagor means a person or entity who mortgages his, hers or its property to another, i.e., the maker of a Mortgage.

18. Owner means the lessee, whether one or more persons or entities, of a Residential Lot pursuant to a Residential Lot Lease who owns the Residence, if any, erected on such Residential Lot, but excluding those having such interests merely as security for the performance of an obligation. Owner shall also include a contract vendee under a real property sales contract, provided that such contract complies with the provisions of sections 2985-2985.6 of the California Civil Code.

19. Person means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency or other legal or commercial entity as the context may require.

20. Residence means a residential structure or structures located on a Residential Lot, including garages and any enclosed patio leased as part of a Residential Lot plus all rights granted in this Declaration in the Common Area.

21. Residential Lot or Residential Lots means any of lots 201 through 250 and 301 through 311 within the Project as described in Exhibit C hereto, and incorporated herein by

reference, which are or will be improved with an attached or detached single family dwelling and such additional real property as is hereafter annexed, pursuant to Article XX hereof, for the same purpose and which does not become a part of the Common Area.

22. Residential Lot Lease means any lease between Declarant as lessor and an Owner or Owners for a Residential Lot.

23. Rules and Regulations means (i) those rules and regulations adopted by the Association or its Board, including any amendments or additions thereto, and (ii) the Property Use and Maintenance Regulation promulgated by the Declarant pursuant to the Residential Lot Leases.

24. Single Family means one or more persons, each related to the other by blood, marriage or legal adoption, or a group of not more than four (4) persons not so related, together with his, her or their domestic servants, maintaining a common household.

25. Townhome means any Residence located on the Property which shares at least one common wall or any common roof area with any other Residence.

26. Townhome Lot means a Residential Lot on which is located a Townhome.

ARTICLE II - COMMON AREA

The Association shall, prior to Declarant's transfer of a leasehold interest in the first Residential Lot, become the lessee of the Common Area pursuant to the Common Area Lease. The Owner of each Residence shall have a right and easement of enjoyment in and to the Common Area which will be appurtenant to and pass with each transfer, whether voluntary or involuntary of title to the Residence and of the lessee's interest in the Residential Lot Lease. However, such right and easement of enjoyment shall be subject to the provisions of this Declaration, including the rights of the Association and Declarant to exercise all powers and perform all duties set forth in this Declaration, the Articles, the Bylaws, the Common Area Lease and the Residential Lot Leases. No Owner may separate such right and easement of enjoyment from the leasehold interest to his or her Residential Lot, although an Owner may delegate his or her right of enjoyment of the Common Area to the members of Owner's family and to such tenants as are authorized in this Declaration.

ARTICLE III - ASSOCIATION MEMBERSHIP AND VOTING RIGHTS1. Membership.

(a) An Owner shall automatically, (i) upon becoming the record owner of a Residence or, (ii) in the case of the lessee of a Custom Lot, upon such lessee's execution of a Custom Lot Lease, be a Member of the Association and shall remain a Member until his or her ownership ceases for any reason, at which time his or her Membership shall automatically cease. Such Membership shall be appurtenant to and pass with the ownership of such Residence.

(b) A Membership shall not be transferred, pledged or alienated in any way, except (i) upon and with the transfer of a Residence, or (ii) by pledge to a lending institution as additional security for a real estate loan secured by a Mortgage on the Residence to which the Membership is appurtenant. Any attempt to transfer a Membership prohibited by this Section shall be void and shall not be reflected upon the Association's books and records. If the Owner of any Residence fails to transfer such Membership appurtenant thereto upon any transfer, whether voluntary or involuntary, of the Residence, the Association shall have the right to record the transfer upon its books and thereupon the Membership outstanding in the name of the prior Owner shall be null and void.

2. Voting. The Association shall have two classes of voting members:

(a) Class A. Class A members shall be all Owners other than Declarant and shall be entitled to one vote for each Residence owned. If more than one person holds an interest in a Residence, all such persons shall be Members. The vote for such Residence shall be exercised as they among themselves determine, but in no event shall more than one Class A vote be cast with respect to any Residence.

(b) Class B. The Class B member shall be the Declarant and shall be entitled to three votes for each Residence owned. The Class B membership shall cease and be converted to Class A membership when the total votes outstanding in the Class A membership equal the total votes outstanding in the Class B membership.

3. Joint Owner Disputes. The vote attributable to each Residence may not be cast on a fractional basis. If a Residence has more than one Owner and the Owners are unable to agree as to how their vote shall be cast, they shall lose their right to vote on the matter in question. If any Owner casts a vote attributable to a Residence, it will thereafter be

conclusively presumed that the vote was cast with the authority and consent of all other Owners of the same Residence. If more than one vote attributable to a Residence is cast, none of such votes shall be counted, and all of such votes shall be deemed void.

4. Cumulative Voting. The election of directors to the Board shall be by cumulative voting as described herein, provided Owners having at least 10 percent of the voting power of the Association have placed a candidate's name in nomination prior to the voting and given notice at the meeting prior to the voting of the Owners' intention to cumulate votes. If the required number of Owners have given such notice, then all Owners have the right to cumulate their votes for candidates in nomination. Under cumulative voting, each Owner, either in person or by proxy, may give a single candidate the number of votes equal to the number of Directors to be elected multiplied by the number of votes the Owner is entitled to exercise under this Declaration, or the Owner may distribute such cumulated votes among any two or more candidates as the Owner desires. The candidates receiving the highest number of votes up to the number of Board members to be elected shall be elected; provided, however, that one member of the Board shall be elected solely by the vote of the Owners other than the Declarant.

5. Removal of Directors. The entire Board or any individual Director may be removed from office in the manner provided in the Bylaws; provided, however, that unless the entire Board is removed, an individual Director shall not be removed prior to expiration of his or her term if the votes against his or her removal would have been sufficient to elect that Director if cast cumulatively at an election at which the same total number of votes were cast and all Directors authorized at the time of the most recent election of that Director were being elected.

6. Default Under Deed of Trust. If an Owner defaults on the payments due on a promissory note secured by a Mortgage on his or her Residence, the beneficiary of such Mortgage shall have the right, upon giving written notice to said defaulting Owner and the Association, and placing on record a notice of default, to exercise the vote of such Owner at any regular or special meeting of the Owners held during such time as such default may continue. During such time the Board shall notify the beneficiary of all meetings of the Owners.

ARTICLE IV - POWERS, RIGHTS AND DUTIES OF THE ASSOCIATION

The Association shall have the power, right and duty, in addition to those provided elsewhere in this Declaration, the Articles of Incorporation and the Bylaws to:

- (1) Enforce, by any proceeding at law or in equity, and comply with the provisions of this Declaration, the Bylaws, any applicable Rules and Regulations, or a duly adopted resolution of the Board or the Members;
- (2) Pay taxes, special assessments and other liabilities which are or would become a lien on the Common Area, or any portion thereof;
- (3) Levy assessments and perfect and enforce liens as hereinafter provided;
- (4) Borrow funds to pay the costs of operation, secured by assignment or pledge of rights against delinquent Owners; provided, however, that the vote of the majority of the Members and the consent of the Declarant shall be required to borrow in excess of \$100 times the number of Residences in the Project; and
- (5) Make reasonable Rules and Regulations for the operation and use of the Project and to amend them from time to time.

Whenever this Declaration or the Bylaws require the approval, consent or action of the Association, said approval, consent or action shall be that of the Board unless otherwise provided by this Declaration or the Bylaws. The prevailing party in any legal action brought by the Association shall be entitled to recover costs and reasonable attorneys' fees. Failure by the Association to enforce any covenant or restriction herein shall not be deemed a waiver of the right to do so thereafter. Any aggrieved Owner shall have a right of action, by proceeding at law or in equity, against the Association or any Owner, if the Association or such Owner shall fail to comply with the provisions of the Bylaws, any applicable Rules and Regulations, or a duly adopted resolution of the Board or the Members

ARTICLE V - ASSESSMENTS AND LIENS

1. Creation of Obligation and Lien. Except as otherwise provided in Article V, Section 4, Declarant, for each

Residence owned by it, and each other Owner by acceptance of a Residential Lot Lease, shall covenant and shall have the personal obligation to pay all assessments, charges and all monetary sums which are duly levied against his, her or its Residence by the Association and become due while he, she or it is the Owner of such Residence. Such assessments, charges and other sums are also hereby established as charges upon the Residence to which they relate and shall be a lien thereon which may be enforced by nonjudicial proceedings under a power of sale or by any other means authorized by law.

2. Proportionate Share. Each Owner shall share proportionately ("Proportionate Share") in the expenses of the Association attributable to the type of Residence owned by such Owner.

(a) The Proportionate Share of Owners of Custom Homes in the expenses of the Association for any accounting period shall be calculated by subtracting from the Association's expenses for such period those expenses for (i) maintenance, repair or restoration of the Townhomes (including contributions to reserves for such purposes); (ii) landscaping expenses for Townhome Lots; (iii) all insurance expenses attributable solely to Townhomes for the perils referred to in Article VI, Section 1(b) hereof and by dividing that difference by the number of Residential Lots.

(b) The Proportionate Share of each Owner of a Townhome shall be calculated by adding to the amount calculated in subsection (a) above, an amount equal to the amounts deducted in subsection (a) divided by the number of Townhome Lots.

(c) The Proportionate Share attributable to each Residence shall not be changed without prior written approval of seventy-five percent (75%) of the first Mortgagees of Residences, except following an annexation under Article XX. Notwithstanding any consent with respect to annexation or otherwise pursuant to a vote of the Association, Owners of Custom Homes shall not be required to assume any costs related solely to the Townhomes, as enumerated in paragraph 2(a) above, without the express, written consent of at least 75% of the Custom Home Owners.

3. Assessments. Except as otherwise provided in Article V, Section 4, each Owner, including Declarant, shall be subject to the following assessments in amounts to be determined by the Board.

(a) Regular monthly assessments equal to the Owner's Proportionate Share of the actual or estimated costs of all maintenance, repairs, taxes, ground rent, insurance and other common expenses for which the Association is responsible. Such

assessments shall be amortized and collected on a monthly basis and shall commence as to all Residences, including Declarant's unsold Residences, as of the first of the month following the close of escrow for the sale of the first Residence in the Project;

(b) Adequate reserves for replacement, whether by capital contribution or otherwise, which reserves shall be amortized and collected monthly on the same basis as for regular assessments;

(c) Special assessments for capital expenditures or other purposes, all on the same basis as for regular assessments, provided that any fiscal year, the Board may not, without the vote or written consent of majority of Owners other than Declarant, levy special assessments to defray the cost of any action or undertaking on behalf of the Association which in the aggregate exceed 5 percent of the budgeted gross expenses of the Association for that fiscal year; notwithstanding any consent pursuant to the preceding paragraph above, or any vote of the Association, no Owner of a Custom Home shall be required to assume any cost related solely to the Townhomes as enumerated in section 2(a) above, without the express written consent of at least 75% of the Custom Home Owners.

(d) Charges, payments, fines, penalties and such other sums as may or shall become payable under this Declaration or the Bylaws.

The provisions of this Article V shall not limit the right of the Board to levy and collect the sums specified herein as special assessments against an Owner as a remedy to reimburse the Association for the costs incurred in bringing the Owner in compliance with this Declaration or the Bylaws, provided, however, that any fines or penalties imposed as a disciplinary measure may not be enforced by exercising lien rights in accordance with Article V, sections 6 and 7 hereof.

The Board may not, without the approval of Owners casting a majority of the votes at a meeting of the Association or the written consent of a majority of Association members, other than the Declarant, impose a regular annual assessment per Residence which is more than ten percent (10%) greater than the regular annual assessment for the immediately preceding year, or impose special assessments which in the aggregate exceed five percent (5%) of the budgeted gross expenses of the Association for that fiscal year.

4. Declarant's Assessment. Notwithstanding any other provision of this Declaration or the Bylaws which may be or appear to be contrary, Declarant shall be temporarily exempted,

with respect to Residential Lots which do not include a structural improvement for human occupancy until a notice of completion for such an improvement shall have been recorded in the office of the County Recorder, from the payment of that portion of regular and special assessments assessed against Residential Lots which is for the purpose of defraying expense attributable to the existence and the use of structural improvements including, without limitation, expenses attributable to roof replacement, landscape and exterior maintenance, walkway and exterior lighting, refuse disposal, insurance, cable television, irrigation and domestic water. Such temporary partial exemption shall not deprive Declarant of any voting rights with respect to the Residential Lots to which the exemption applies.

5. Payment. Unless the Board shall otherwise determine, the Association's fiscal year shall be the calendar year, and the regular assessment period shall be for the twelve (12) months of each fiscal year beginning January 1 and ending on December 31 of the same year, provided that, if the month of the commencement of the initial assessment shall be a month other than January, the assessment period for the first fractional year shall be deemed to end on December 31. The payment shall be due in advance on the first day of each succeeding month. Each Owner shall pay all assessments levied on his Residence to the Association on or before the due date. If an assessment is not paid when due, the Association may assess the Owner for late charges (not to exceed the greater of ten dollars (\$10.00) or ten percent (10%) of the delinquent amount), interest and collection and lien enforcement costs (including reasonable attorneys' fees). If an assessment is not paid within 30 days after the delinquency date, the assessment, all late charges, and costs of collection and enforcement shall bear interest from the date of delinquency at the then legal rate. No Owner may exempt himself or herself from liability for his or her share of assessment by waiving the use or enjoyment of the Common Area or by abandoning his or her Residence.

6. Lien. Each assessment (including late charges, interest, collection, attorneys' fees and other costs) shall, if not paid within 30 days of the due date, become a lien upon the owner's Residence and shall continue to be such a lien until fully paid, subject to the following conditions:

(a) Such lien shall become effective against a Residence only upon the recordation by the Association of a Notice of Lien in the office of the County Recorder of Santa Cruz County, California. The Notice of Lien shall state the amount of delinquent assessments and other charges, a description of the Residence against which the same has been assessed, and the name of the Owner of such Residence. Such Notice of Lien shall be

executed by the president or any vice president of the Association and shall include the name and address of the trustee authorized to enforce the lien. Upon payment of all delinquent assessments and charges, or upon other satisfaction thereof, the Association shall cause to be recorded a Release of Lien, provided that the Association is reimbursed for the cost of preparing and recording the release (including reasonable attorneys' fees); and

(b) Any such lien shall not defeat nor render invalid the lien of any first Mortgage or first Deed of Trust affecting any Residence made in good faith and for value and recorded in the office of said County Recorder prior to the recordation of any such lien, and any such lien shall be subordinate and subject to the lien of any such prior recorded first Mortgage or first Deed of Trust. Any person who acquires title to a Residence by or through a trustee sale or foreclosure of a first Mortgage or a first Deed of Trust shall take such title free of the lien hereof for all assessments which accrued up to the time of such Trustee's sale or foreclosure, but subject to the lien hereof for all assessments and charges subsequently accruing.

7. Foreclosure. The Association is hereby vested with the right and power to bring, at its option, any and all actions against an Owner for the collection of assessments which are not paid when due, and to enforce the aforesaid lien by any and all methods available for the enforcement of contractual obligations or liens, including, without limitation, the right to bring a personal action against the Owner on such debt, the right to foreclose such lien in any manner provided by law for foreclosure for a Mortgage, and the right to sell the Owner's interest by power of sale, which may be enforced by the Association, its attorney or other person authorized to bring such action or make such sale. A sale of an Owner's interest by power of sale shall be conducted in the same manner as is provided in California Civil Code sections 2924, 2924(a), 2924(b) and 2924(c) (or any similar statutory provisions that may hereafter exist). Such provisions shall be applied and adapted to the foreclosure of the lien by power of sale to the fullest extent reasonably possible and consistent, in view of the differences between the lien and mortgages generally. The Association shall have the power to bid in its own name on the property sold and to hold, lease, mortgage and convey the same for the benefit of all the owners, subject to the limitations on transfer found herein in Article XII. All rights and remedies granted to the Association hereunder shall be cumulative, and the exercise of one or more right or remedy shall not constitute a waiver or election preventing the use of other rights or remedies. The Association shall be entitled to collect from a defaulting Owner all costs and attorneys' fees incurred in

connection with pursuing the collection of said assessments and/or the enforcement of said lien.

8. Waiver of Homestead Declaration. Notwithstanding the recordation by an Owner at any time of a declaration of homestead under the laws of California, such declaration shall not operate to defeat or impair any assessment or bona fide lien created under this Article.

9. Suspension. During any period in which an Owner shall be in default in the payment of any assessment levied by the Association, the voting rights and right to use the recreational facilities, if any, of such Owner may be suspended by the Board until such assessment has been paid. Such rights of an Owner may also be suspended for a period not to exceed 30 days for a single infraction of any Rule or Regulation. Such suspension shall not take effect unless the Owner is notified in writing of the suspension and the reasons therefore, at least 15 days prior to the effective date of the suspension, and if requested by said Owner in writing in five days thereafter, a hearing on said suspension shall be held before the Board at least five days before the effective date of the suspension, and at such hearing, the Owner may appear and contest the matters resulting in the notice of suspension.

10. Excess Assessments. The Association shall be organized and operated in a manner consistent with minimization of federal and state income taxation and, to that end, may:

(a) Elect to be treated as a tax-exempt organization under Section 528 of the Internal Revenue Code, sections 23701 and 23701t of the California Revenue and Taxation Code, and the regulations promulgated thereunder;

(b) In any year in which there is an excess of regular or special assessments, including assessment to fund capital reserves, received over amounts actually used or expended for the Association's purposes, the Association may, with the approval or written consent of the majority of the Owners:

(i) treat such excess as a contribution to the capital of the Association in accordance with Section 118 of the Internal Revenue Code; or

(ii) apply such excess against the subsequent year's assessment; or

(iii) return such excess to the members pro rata in accordance with their respective assessments; or

(iv) transfer to and hold in trust such excess to provide for the management, maintenance, and care of Association property.

ARTICLE VI - INSURANCE

1. Insurance Obtained By The Association. The Association, for the benefit of the Association, the Common Area and the Owners, shall acquire the following insurance policies from reputable insurance companies authorized to do business in California:

(a) Public Liability. A policy insuring the Association and its officers, the Board, the Declarant, the Owners and occupants of a Residence and their respective guests, invitees and agents, against any liability to the public or to the Owners, their guests, invitees, or tenants, incident to the ownership or use of the Common Area. The general, aggregate limits of such insurance shall be not less than \$2 Million (which amount shall be adjusted not less frequently than every third year after the date hereof, to reflect such adjustments as shall be necessary and appropriate, including reference to the percentage increase in the National Consumer Price Index (all items) for all urban consumers as published by the United States Department of Labor, Bureau of Labor Statistics) and \$2 Million (subject to adjustment as aforesaid) for bodily injury, personal injury or death, for any one occurrence; and with limits of not less than \$1 Million, as adjusted, per occurrence with respect to property damage and medical expense. Such insurance shall also include coverage against water damage liability, liability for owned, nonowned and hired automobiles, liability for the property of others and against other liability or risk customarily covered with respect to projects similar in construction, location and use. Such insurance shall contain a severability of interest endorsement which shall preclude the insurer from denying the claim of named insureds because of any neglect or other act or omission of another named insured. The Declarant shall be named as an additional insured with respect to any such insurance.

(b) Fire and Extended Coverage for Townhomes and Common Area. A master or blanket policy or policies of insurance for the full, insurable, replacement value of all of the Townhomes in the Project and all improvements located on the Common Area, such insurance to be satisfactory to all institutional first Mortgagees as to form and content, and to name as an insured the Association, the Owners, Declarant (so long as Declarant shall be an Owner), and all Mortgagees as their interests may appear. Such policy or policies shall:

(i) Provide coverage against the perils of fire, extended coverage, vandalism, malicious mischief and, if reasonably commercially available, blanket earthquake coverage, as minimum requirements; and (a) if any portion of the Project is located within an area for which flood insurance is available under the National Flood Insurance Act of 1968 (or any successor legislation) and (b) if such insurance is required by the Secretary of Housing and Urban Development, flood insurance available under such Act for the amount of either the maximum limit available under such Act for all buildings and other insurable property located within a designated flood hazard area, or one hundred percent (100%) of current replacement cost of such insurable property, whichever is less;

(ii) Provide for a separate loss payable endorsement in favor of each Mortgagee of each Townhome as their respective interests may appear;

(iii) Provide for 30 days prior written notice to such Mortgagee or Mortgagees of cancellation or reduction in type or amount of coverage;

(iv) To the extent available and economically feasible, contain an agreed amount endorsement or its equivalent, an increased cost of construction endorsement or contingent liability from operation of building loss endorsement of their equivalent, and a determinable cash adjustment clause or similar clause to permit cash settlement covering full value of the improvements in case of partial destruction and a decision not to rebuild;

(v) Be primary to and not affected by any right of setoff, proration or contribution by reason of any insurance held by an Owner of a Townhome; and

(vi) Be adequate to make the Owners eligible to obtain mortgages funded by Declarant's Mortgage Revenue Board Faculty Loan Program or to obtain tax credits funded by the Federal Mortgage Credit Certificate Program.

(c) Fidelity. A fidelity bond for directors, officers, trustees, and employees responsible for handling funds collected and held for the Association or for the Owners, naming as insured the Association for an amount sufficient to cover at least twenty-five percent (25%) of the Association's estimated annual operating expenses and contributions to reserves.

(d) Worker's Compensation. Worker's compensation insurance, to the extent that it is required by law, for all employees or uninsured contractors of the Association.

(e) Directors and Officers. To the extent that insurance is available and economically feasible, insurance on behalf of any director, officer or agent of the Association (collectively "the agents") against any liability asserted against or incurred by an agent in such capacity or arising out of the agent's status as such regardless of whether the Association would have the power to indemnify the agent against liability under applicable law.

(f) Use of Proceeds. All insured's proceeds available under Section 1(b) of this Article may be paid either (a) to the Board or (b) to a bank or other financial institution with trust powers in Santa Cruz County to be held for the benefit of the Owners, Mortgagees or other persons as their respective interests shall appear, to be paid out in accordance with Article XIII of this Declaration.

(g) Authority of the Board. Each Owner, and each other person named or covered as an insured in connection with any of the policies purchased by the Board hereby irrevocably delegates to the Board sole and exclusive authority to negotiate law settlements with the appropriate insurance carriers. Any execution of a loss claim form and release form in connection with the settlement of a claim shall be binding on all of the Owners, and upon any other person named as an insured or any such policy or policies only upon the execution thereof by a majority of the members of the Board.

(h) Review of Coverage. The Board shall review insurance coverage for the Association not less frequently than every three (3) years.

(i) Custom Lot Individual Insurance. Each Owner who is a lessee of a Custom Lot ("Custom Lot Lessee") shall obtain and maintain, at his or her expense, fire and casualty coverage as may be required by the first Mortgagee of the Custom Home on such Lot, or if no Mortgage encumbers the the Custom Home, as may be determined by the Board of Directors, with respect to damage or destruction to the Custom Home. Each such individually carried insurance policy shall also contain a waiver of subrogation rights by the carrier as to other Owners, the Association, Declarant, and the first Mortgagee of such Custom Home.

ARTICLE VII - MAINTENANCE AND REPAIRS

1. General. Notwithstanding the existence of any insurance covering an Owner, the Association or both, against

loss, damage and destruction, the Association and each Owner shall have the affirmative obligation for maintenance, repair and restoration as set forth in this Article.

2. Maintenance of Common Area. The Association shall maintain the Common Area, including all improvements, road or pathways, facilities, landscaping and planting thereon in good condition and repair.

3. Exterior Maintenance of Townhomes and Townhome Lots. The Association shall maintain the Townhome Lots and the exteriors of all Townhomes (excluding doors, windows and frames thereof) in good condition and repair, including roofs, gutters, downspouts, exterior building surfaces, fences and gates, sidewalks, paving, trees, landscaping, planting and all other exterior improvements which are not the responsibility of an Owner as provided in Article VII, Section 4. The standards of landscaping and exterior structural maintenance shall be determined by the ARB.

4. Owner Maintenance.

(a) Townhome Maintenance. Except as provided in Article VII, Section 3, with respect to exterior maintenance, each Townhome Owner shall maintain in good, workable, attractive and sanitary condition and repair, at Owner's cost and expense, the structures comprising his or her Residence, including the equipment and fixtures in the Residence, such as heating equipment, air conditioning equipment, water heaters, and utility outlets, the garage and any patio on his or her Residential Lot which is enclosed by a fence or wall but sold as part of the Residential Lot at the time of the first sale hereof by Declarant (including all landscaping and planting, if any within such patio). However, each such Owner has complete discretion as to the choice of furniture, furnishings and interior decorating, except that windows can be covered only by drapes, shutters, shades or blinds and cannot be painted or covered by foil, cardboard or similar materials. Each such Owner shall also maintain, repair, and replace as needed all plumbing, electrical, heating, air conditioning and gas lines, conduits, apparatus and equipment servicing his or her Residence and repair, replace and clean as needed the windows and glass of his or her Residence. If a Townhome Owner is required to make any repair or if such an Owner desires to construct any improvement or install any fixture or equipment that will significantly alter or affect any bearing wall or structural member, the prior written consent of the ARB must be first obtained.

(b) Custom Home Maintenance. Each Owner of a Custom Home shall maintain in good condition and repair, at Owner's cost and expense, the exterior of his or her Residence

and Custom Lot, including roofs, gutters, downspouts, exterior building surfaces, walls, fences and gates, sidewalks, paving, trees, landscaping, planting and all other exterior improvements.

(c) Maintenance Remedies. In addition to the remedies provided in Article X, Section 22, the Association may, upon an Owner's failure to do so, perform exterior maintenance on any Residence or Residential Lot pursuant to the following procedure, when necessary in the opinion of the Board of Directors to preserve the beauty, quality or value of the Project:

(i) Notice and Hearing. When, in the opinion of the Board of Directors, exterior maintenance needs to be done on a Residence or Residential Lot, the Board shall notify the Owner by certified mail specifying in said notice exactly what should be repaired or fixed. The Owner shall then have thirty (30) days from receipt of such notice to perform the necessary maintenance or to make written demand for a hearing before the Board.

(ii) Hearing. If a hearing is demanded, the Board shall set a date therefor and give the Owner at least ten (10) days notice thereof. The hearing shall be informal and rules of evidence shall not apply. The Board shall render its decision in writing. The Owner may, within twenty (20) days of service on him or her of such decision, submit the matter to arbitration pursuant to Title 9 of the Code of Civil Procedure of the State of California, section 1280 et seq. as amended from time to time, or pursuant to such successor statutes as are adopted by the Legislature of the State of California.

(iii) Assessment of Costs. The cost of maintenance undertaken by the Association hereunder shall be assessed against the Residence upon which such maintenance is performed and shall be a lien on the Lot and the personal obligation of the Owner, and shall become due and payable in all respects, together with interest and fees for the cost of collection, as provided for the other assessments of the Association and shall be subordinate to mortgage liens to the extent provided by Article V, Section 6(c) of this Declaration. The exterior maintenance assessments shall not be considered a part of the regular or special assessments described above in that Article.

(iv) Access at Reasonable Hours. For the purpose of performing the maintenance authorized by this section, the Association, through its duly authorized agents or employees, shall have the right, after reasonable notice to the Owner, to enter upon any Residential Lot or the exterior of any Residence

thereon at reasonable hours on any day except Sunday and such entry shall not be deemed a trespass.

5. Cost of Maintenance. The cost of the exterior maintenance for which the Association is responsible under this Article shall be assessed in accordance with Article V, provided, however, that the cost of any maintenance, repair or replacement of the Common Area, Townhomes or Townhome Lots which is not covered by insurance and which results from the negligence or willful act of an Owner, an Owner's family or guest or the occupant of an Owner's Residence shall be an assessment, lien and obligation of such Owner and shall be due and payable in all respects as provided in Article V.

ARTICLE VIII - PARTY WALLS

The rights and duties of the Owners with respect to party walls shall be as follows:

1. General. Each wall which is constructed as part of a Residence and any part of which is placed on the dividing line between Residences shall constitute a party wall, and with respect to such wall, each of the adjoining Owners shall assume the burdens and assume the benefits of this Declaration, and to the extent not inconsistent herewith, the general rules of law regarding party walls shall apply thereto.

2. Damage By One Owner. In the event that any such party wall is damaged or destroyed through the act of one adjoining owner or any agent, guest, family or tenant of Owner, or by a member of Owner's family (whether or not such act is negligent or otherwise culpable) so as to deprive the other adjoining Owner of the full use and enjoyment of such wall, then the first of the aforementioned Owners shall forthwith proceed to rebuild and repair the same to as good a condition as formerly existed, without cost to the adjoining Owner.

3. Damage By Other Cause. In the event any party wall is damaged or destroyed by a cause (including ordinary wear and tear and deterioration from lapse of time), other than the act of one of the adjoining Owners, his agents, guests, family or tenant, both of such adjoining owners shall proceed forthwith to rebuild or repair the same to as good a condition as formerly existed, at their joint expense.

4. Alterations. In addition to meeting the other requirements of this Declaration and of any building code or similar regulation or ordinance, any Owner proposing to modify, make additions to or rebuild his Residence in any manner which requires the extension or other alteration of any party wall

shall first obtain the written consent of the adjoining Owner and the ARB.

5. Dispute. In the event of a dispute between Owners with respect to the repair or rebuilding of a party wall or with respect to the sharing of the cost thereof, upon written request of one of such Owners addressed to the Association, the matter shall be submitted to binding arbitration by the Association or its designated representative.

6. Default in Payment. Upon failure of any Owner required hereby to pay for the rebuilding or repair of a party wall for a period of 60 days, the Association may pay the cost thereof and assess such cost to the responsible party, which assessment shall be due and payable and become an assessment obligation of such Owner and a lien in all respects as provided in Article V.

ARTICLE IX - ARCHITECTURAL CONTROL

1. Architectural Restrictions. No building, fence, wall, or other structure shall be commenced, erected or maintained upon the Property, nor shall any improvement be demolished or removed, nor shall changes in, removal of or additions of fences, hedges, patio covers, landscaping, garages, exterior paint or decor, or other item visible from outside of the Residential Lot on which it is to be built or made be commenced, applied, constructed, erected, or maintained by any person other than the Declarant until the plans or specifications showing the nature, kind, shape, height, materials, color, location and approximate cost of the same shall have been submitted to and approved in writing as to the harmony of exterior design, location and relation to surrounding structures and topography by the Architectural Review Board (the "ARB") constituted as designated in subparagraph 2, below. If the ARB fails to approve or disapprove such design and location within forty-five (45) days after said plans and specifications have been submitted to it, such approval will not be required, and the owner proposing such items shall be deemed to have fully complied with this paragraph.

2. Architectural Review Board. There shall be an Architectural Review Board consisting of at least three (3) but no more than five (5) members to carry out the functions set forth in Section 1 of this Article IX. Three (3) members of the ARB shall be appointed by the Chancellor of UCSC. The Board of Directors may appoint two members to the ARB. Members of the ARB appointed by the Board of Directors shall be members of the

Association. Members of the ARB appointed by Declarant need not be members of the Association. All members of the ARB shall be appointed or elected for terms of two (2) years, and those appointed by Declarant may be removed by Declarant at any time, for any reason or no reason. An ARB member appointed by the Board of Directors may be removed only for cause. ARB members may be appointed to serve successive terms. The ARB shall prepare and adopt Architectural Guidelines which shall govern the policy and procedures of the ARB. Such Architectural Guidelines shall be distributed to each Owner and may be amended by the ARB, and a copy thereof, as amended, shall be distributed to each Owner after each such amendment.

ARTICLE X - USE RESTRICTIONS

In addition to all other covenants, restrictions and limitations contained herein, the use of the Property and each Residence therein, and the Common Area is subject to the following restrictions:

1. Business Usage Prohibited. None of the Residences shall be used except for residential purposes. No part of the Project or any Residence shall ever be used or allowed, authorized or caused to be used in any way, directly or indirectly, for any business, commercial, manufacturing, mercantile, storage, or other nonresidential purpose, except for professional or academic endeavors not requiring the continuing presence of any employee or business invitee and except that Declarant, its successors or assigns, may use the Residential Lots owned by it as models, for display and sales offices during the construction and sales period of the Project.

2. Billboards. Except for signs approved by the ARB for the benefit of the Project or temporary signs approved by the Board of Directors, no signs of any kind shall be displayed in public view on or about the exterior of any Residence, except signs not larger than is reasonable and customary in the area advertising such Residence for sale or lease.

3. Children. Each Owner shall be accountable to the remaining Owners, their families, visitors, guests and invitees for the conduct and behavior of his or her children and any other children residing in or visiting his or her Residence.

4. Pets. No Owner shall maintain or keep more than two usual and ordinary pets (exclusive of tropical fish but including caged birds). Such pets shall not be allowed in the Common Area except as permitted by the Rules and Regulations adopted by the Board. Each Owner shall be absolutely liable to

each and all remaining Owners, their families, guests, servants, tenants and invitees for any damage to person or property caused by any pet brought into or kept upon or in the Project by an Owner or members of his family, guests, invitees or tenants. Except as provided in this Section 4, no animals of any kind shall be brought within the Project or kept in or on any residence. The Association may prohibit the keeping of any animal that in the sole and exclusive opinion of the Board constitutes a nuisance to any other Owner.

5. Offensive Activities. No Owner shall permit or suffer anything to be done or kept upon or in his or her Residence or in the Common Area which will increase the rate of insurance thereon or will obstruct or interfere with the rights of other Owners, their families, guests and invitees, nor annoy them by unreasonable noises, vibrations, bright or flashing lights or otherwise, nor shall in any way interfere with the quiet enjoyment of each of the Owners of his or her respective Residence, nor will he or she commit or permit any nuisance, noxious, illegal or offensive activity to be permitted thereon or therein.

6. Owner Negligence. Each Owner shall be liable to the Association for any damage to the Common Areas or any equipment thereon which may be sustained by reason of the negligence or intentional acts or omissions of any said Owner, his family, guests or invitees, to the extent that any such damage shall not be covered by insurance.

7. Rubbish. Unless the Association has done so, each Owner shall arrange for regular removal of rubbish, trash and garbage from his or her Residence and shall insure that all refuse, containers, woodpiles, storage areas, machinery and equipment shall be obscured from view of adjoining Residences and streets by a fence or appropriate screen approved by the ARB.

8. Prohibited Restrictions. No Owner shall execute or file for record any instrument which imposes restrictions upon the sale, leasing or occupancy of his or her Residence on the basis of race, color, religion, sex, sexual orientation, age, marital status, or national origin.

9. Storage. No Owner shall park or store machinery, equipment, baby carriages, playpens, bicycles, wagons, benches or chairs on any part of the Common Area, except that such personal property may be stored in storage areas, if any, that may be designated by the Association for that purpose. Sun decks and other recreational areas may be used for their customary purposes.

10. Antenna and Clothesline. No television or radio poles, antenna, satellite transmission or reception equipment, flagpoles, clotheslines or external fixtures other than those originally installed by Declarant or approved by the ARB, and any replacements thereof, shall be constructed, erected or maintained on or within the Project or any structures on it. No wiring, insulation, air conditioning or other machinery or equipment other than that originally installed by Declarant or approved by the ARB, and any replacements thereto shall be constructed, erected or maintained on or within the property or any structures on it. Each Owner shall have the right to maintain television or radio antenna within completely enclosed portions of his or her Residence. The location of common antenna or connection facilities for cable television shall be solely as designated by the ARB.

11. Use of Vehicles. No truck, boat, trailer, van, camper, recreational vehicle or tent shall be used as a living area while located in the Project. No truck, trailer, van or recreational vehicle may be stored, other than within a garage of a Residence, within the Project by any Owner unless it is that Owner's principal means of transportation. However, trailers or temporary structures for use during the initial construction of the Project or the initial sales of Residences may be maintained within the Project provided such trailers or structures shall be promptly removed on completion of all initial construction and sales. No vehicle repairs other than oil changes, minor tune-ups, or simple repairs that can be completed in one or two hours shall be commenced upon any driveway, parking area, or other visible place. No waste fluids, parts, or other materials shall be dumped, in any drain, or on any part of the Project. No vehicle that is not in good working condition shall be permitted to remain on any part of the Common Area, parking areas, or driveways.

12. Personal Business Records Permitted. No restriction contained in this Article shall be construed in such a manner as to prohibit any Owner from the use of a Residence to (a) maintain his or her personal, professional library; (b) keep his or her personal business records or accounts; or (c) handle his or her personal or professional telephone calls or correspondence. Such uses are expressly declared to be customarily incident to the residential use of the Project and not in violation of any provision of this Article.

13. Exploration for Minerals. No oil drilling, oil development operations, oil refining, quarrying or mining operations of any kind shall be permitted in the Project or any portion thereof, nor shall oil wells, tanks, tunnels or mineral excavations or shafts be permitted upon the surface of any

portion of the Project or within five hundred (500) feet below the surface of the Project.

14. Restrictions Applicable to Guests, etc. The use of any Residence or of the Common Area or any portion thereof by any guest, invitee or tenant of any Owner shall be subject to all of the provisions of this Declaration, including, without limitation all of the use restrictions imposed under this Article, the Bylaws and the Rules and Regulations of the Association, and the Association may proceed directly against such guest, invitee or tenant in the enforcement of the provisions of this Declaration, the Association Bylaws or the Association's Rules and Regulations.

15. Fences and Screens. No fences, awnings, ornamental screens, screen doors, sunshades or walls of any nature shall be erected or maintained on or around any portion of any structure or elsewhere within the Project, except those that are installed in accordance with the original construction of the Project, and their replacements or as are authorized and approved by the ARB.

16. Gas or Liquid Storage. No tank for the storage of gas or flammable liquid shall be installed upon or in the Project unless such installation is done by Declarant or has been approved by the Board.

17. Diseased Plants. No plants or seeds infected with noxious insects or plant diseases shall be brought upon, grown or maintained within the Project.

18. Common Area Trees. No Owner shall cut, trim, prune, remove, replace or otherwise alter or affect the appearance or location of any tree, plant or other vegetation located in any portion of the Common Area without the prior written consent of the ARB. The Association may recover from any Owner violating this Section the cost of restoring or replacing any such vegetation.

19. Alterations. No Owner shall make any alterations or modifications to the exterior of the buildings, fences, railings or walls situated upon his or her Lot without the prior written consent of the ARB. Any structural, plumbing or electrical modification, alteration or addition to or of a Residence shall (a) conform to the standards for construction contained in the California Administrative Code, as amended from time to time, and (b) be approved, in advance, by the ARB.

20. Owner Maintenance. Each Owner shall maintain his or her Residence in conformance with Article VII and, with

respect to party wall repairs, in conformance with Article VIII, Sections 2 and 3.

21. Obligation for Taxes. To the extent allowed by law, all Residences, including the associated pro rata, undivided interests in the Common Area and the memberships of the Owner in the Association, shall be separately assessed and taxed so that all taxes, assessments and charges that may become liens prior to first Mortgages under local law shall relate only to the individual Residence and not to the Project as a whole. Each Owner shall be obliged to pay any taxes or assessments assessed by the County Assessor of the County against his or her Residence and against his or her personal property provided, however, that the Declarant shall not be obligated hereunder to pay any tax as to which it would otherwise be exempt. Until such time as real property taxes have been segregated by the County Assessor of the County, they shall be paid by the Owners. In such case, the proportionate share of the taxes for a particular Residence shall be determined by dividing the initial sales price of the Residence by the total initial sales prices of all Residences within the Project. Unsold Residences shall be valued at their offered price. If and to the extent that taxes are not paid by any Owner of a Residence and are allowed to become delinquent, they shall be collected from a delinquent Owner by the Association.

22. Remedies. The failure of any Owner to comply with any provision of this Declaration, the Articles, the Bylaws, or the Association's Rules and Regulations, shall give rise to a cause of action in the Association and any aggrieved Owner for the recovery of damages or for injunctive relief or both.

ARTICLE XI - SPECIAL RESTRICTIONS UPON
POSSESSION, OCCUPANCY AND USE OF RESIDENCES

1. Qualified Use. A principal purpose of this Declaration is to create a residential community supportive of and consistent with the educational and cultural goals of the Declarant; consequently no person shall possess, occupy or use any Residence unless such person is a "Qualified Person" or a "Conditionally Qualified Person" as defined in this Article XI. A person shall be deemed to possess, occupy or use a Residence for purposes of this Article if he or she resides in a Residence or otherwise regularly or from time to time physically occupies or uses it.

2. Qualified Person. A "Qualified Person" is a person determined to be eligible by the Chancellor of the University of California, Santa Cruz ("UCSC") in accordance with the employee housing policy and criteria of UCSC. That policy

and those criteria are intended and dedicated to further the educational purposes of UCSC by enhancing the quality of education through retention and recruitment of faculty members; therefore, the Chancellor of UCSC will, in his or her sole discretion, from time to time designate as Qualified Persons, those employees of Declarant who are an integral part of the UCSC community, and with respect to whom the Chancellor of UCSC shall have determined that providing adequate housing is a priority. Among those persons who shall be eligible for designation as Qualified Persons shall be full-time UCSC academic appointees whose titles are among the following:

(a) Professor (regular series, in residence series and acting series);

(b) Associate Professor (regular series, in residence series and acting series);

(c) Assistant Professor (regular series and in residence series); and

(d) Lecturer and Senior Lecturer with security of employment.

In addition, all persons who are members of Declarant's Management Program employed at UCSC shall be Qualified Persons.

Following designation as a Qualified Person, a person shall continue to be a Qualified Person until his or her employment by Declarant terminates, at which time he or she will no longer be a Qualified Person; provided, however, that no Owner who is a Qualified Person (a "Qualified Person/Owner") shall lose his or her status as a Qualified Person because of a termination of employment as result of disability or retirement.

"Retirement" shall mean termination of employment at a time when a person shall be eligible to receive retirement benefits from the University of California Retirement System or any other retirement system used by Declarant.

3. Conditionally Qualified Persons. The following persons ("Conditionally Qualified Persons") shall be considered to be Qualified Persons only upon the conditions and for the periods of time specified in this subparagraph:

(a) Any Qualified Person/Owner shall continue to be qualified until the expiration of six (6) months following the date on which such person shall cease to have been a Qualified Person as defined in Section 2 above;

(b) A Qualified Person/Owner's spouse or dependent child who shall possess, occupy and use a Residence as

of the date of death of such Qualified Person/Owner shall continue to be a Qualified Person until, in the case of a spouse, he or she sells or disposes of the Residence or, in the case of a dependent child, such child attains the age of twenty-one years;

(c) An heir or legatee (other than a spouse or dependent child) of a Qualified Person/Owner who shall acquire ownership of a Residence shall be a Qualified Person for one (1) year from the date such heir or legatee shall acquire record ownership of such Residence;

(d) A Qualified Person/Owner's spouse who acquires the sole rights of occupancy of a Residence pursuant to any marital settlement, proceeding or decree shall be a Qualified Person for a period of one (1) year from the date of such settlement, proceeding or decree;

(e) A co-Owner of a fifty percent (50%) or less undivided interest in a Residence who resides in such Residence during the lifetime of a Qualified Person/Owner shall be a Qualified Person for a period of one (1) year from the death of such Qualified Person; and

(f) Any lessee pursuant to Article XII, Section 7 during the term of a lease thereunder.

A Conditionally Qualified Person, as defined in this Section, may continue to possess, occupy and use a residence until the expiration of his or her Conditionally Qualified status pursuant to this Section.

4. Offer or Sale by Conditionally Qualified Person.

(a) Any Conditionally Qualified Person who owns a Residence may, at any time during the period of conditional qualification, either:

(i) Offer to sell such Residence to the Declarant at the price and on the terms set forth in Article XII, Section 2 hereof; or

(ii) Sell or transfer his or her entire ownership interest in the Residence to a Qualified Person designated pursuant to Article XII, Section 5 to be eligible to purchase such Residence at the price and on the terms set forth in Article XII, Sections 2 and 3 hereof.

5. Termination of Lease. With respect to any Residence a majority of the ownership interest of which is owned by a person other than a Qualified Person or a Conditionally Qualified Person, Declarant, as lessor under the Residential Lot

Lease for such Residence, may, pursuant to the terms thereof, terminate such Residential Lot Lease with respect to the Residential Lot and acquire such Residence or all ownership interests therein at the price and on the terms set forth in Article XII, Sections 2 and 3 hereof.

6. Other Qualified Users. Subject to the provisions of Article XI, Section 7, hereof, use of a Residence by a person who is (a) related by marriage, blood, guardianship or foster care to a Qualified Person, (b) co-owner of a 50 percent or less undivided interest in a Residence, (c) an invitee or guest of a Qualified Person, or (d) a domestic or nurse employed by a Qualified Person, during any period during which such Qualified Person uses the Residence as his or her principal place of abode shall be deemed to be a use thereof by the Qualified Person. Use of a Residence by a person pursuant to a lease approved by the Association between such person and a Qualified Person shall be deemed to be use thereof by the Qualified Person.

7. Single Family Use. No Residence shall, at any time, be possessed, occupied or used by more than a Single Family, as herein defined.

8. Enforcement of Qualified Use Restriction. Declarant or the Association may enforce the provisions of this Article by appropriate action, including, but not limited to, any remedy or remedies provided in Articles IV and V of this Declaration.

ARTICLE XII - LIMITATIONS ON TRANSFER

1. Right of First Refusal. The Declarant shall have a right of first refusal with respect to the sale or other transfer of any Residence, as follows:

(a) If at any time an Owner shall intend to sell or assign his or her Residence or any interest therein in excess of a 50 percent undivided interest, or to reduce his or her ownership interest therein to less than a fifty percent undivided interest, such Owner shall first offer to sell said Residence to the Declarant at the price and on the terms set forth in sections 2 and 3 of this Article XII; provided, however, that an offer by an Owner to sell or assign his or her Residence to an Approved Purchaser, as that term is defined in Section 5 of this Article XII, and an acceptance thereof by the offeree, at the price and on the terms and conditions set forth in sections 2 and 3 of this Article XII, shall be deemed to satisfy all obligations of such Owner pursuant to this Section 1(a).

(b) Each offer to sell a Residence pursuant to this Section shall be made in a written notice delivered to the Declarant.

(c) Declarant shall have the right, but not the obligation, to assign its right of acceptance of any offer made pursuant to this Section to an Approved Purchaser, as herein after defined.

(d) If Declarant rejects said offer or does not respond within 45 days, Owner may, by appropriate notices or advertisement, documentation of which shall be promptly delivered to Declarant, offer the Residence for sale, at the price and on the terms and conditions set forth in sections 2 and 3 of this Article XII, for a period of thirty (30) days to any person who is a member of the Academic Senate of UCSC. Thereafter, for an additional period of thirty (30) days, the offer shall be extended to include Declarant's salaried management program personnel employed full-time at UCSC. An offer made pursuant to this subsection shall remain open until accepted or for 60 days from the date of publication of the original notice or advertisement.

(e) If an Owner's offer pursuant to subsection (d) above is not accepted within sixty (60) days after it is made, and if the Owner continues to wish to sell the Residence, Owner shall notify Declarant of such intention and provide Declarant with the opportunity to purchase the Residence for an additional period of fifteen (15) days, at a price equal to or less than the price at which the Residence was originally offered to Declarant. After the expiration of the fifteen (15) day period the Owner may then offer the Residence for sale on the open market at any price, and on any terms. Such offer by an Owner, following expiration of not fewer than one hundred twenty (120) days from the receipt of the initial notice to Declarant given by Owner pursuant to this Section, may be made to any person, without respect to their "qualification" under Article XI.

(f) Any timely written notice of acceptance given by Declarant, an assignee of Declarant, or any offeree described in subsection (d) above to an Owner who shall have made an offer under this Section shall constitute a binding acceptance of such offer at the price and on the terms set forth in sections 2 and 3 hereof, respectively.

(g) Any purported offer or sale of the Residence other than in conformance with this Article XII, Section 1, shall be void and of no effect, except that such purported offer, sale or other transfer shall constitute an irrevocable offer to the Declarant to sell Owner's Residence at the price and on the terms

set forth in Sections 2 and 3 below, which offer shall be deemed to be delivered to Declarant 30 days following actual notice thereof by the Declarant of such purported offer, sale or transfer.

2. Purchase Price and Terms.

(a) Townhome Sales. The purchase price of any Townhome offered or sold pursuant to this Article XII shall be the lesser of:

(i) The fair market value of the Townhome and the Owner's leasehold interest in the Lot as mutually determined by the Owner and the prospective purchaser; or

(ii) The sum of: (A) the purchase price of the Townhome paid by the Owner, plus (B) the product of the purchase price of the Townhome paid by Owner and the fractional change in the Consumer Price Index (as defined below), as published for the month immediately preceding the date on which the Owner purchased the Townhome and said Index as published monthly preceding the date of the offer made pursuant to Section 1 of this Article, plus (C) the cost of all capital improvements to the Townhome made by the Owner, but only to the extent that each such capital improvement exceeded \$1,000 in cost and was certified by the ARB at the time such improvement was completed following submission by the Owner of cost documentation in such form as the ARB may prescribe, which documentation shall be subject to audit and proof, less (D) the reasonable cost (calculated as of the date of the sale) to cure any failure to maintain or destruction of the Townhome in excess of normal wear and tear. As used in this Section, "Consumer Price Index" means the National Consumer Price Index (all items) as published by the United States Department of Labor, Bureau of Labor Statistics, or, if such index ceases to be published, then any comparable successor index which measures changes in the prices of consumer items.

(b) Custom Home Sales. The purchase price of a Custom Home offered or sold pursuant to this Article XII shall be either:

(i) the fair market value of the Custom Home and the Owner's leasehold interest in the Lot, as mutually determined by the Owner and the prospective purchaser; or, in the case of the exercise by the Declarant of its option under section 1(e) of this Article XII,

(ii) Ninety-five percent (95%) of the fair market value of the Custom Home and the Owner's leasehold interest in the Lot on which it is located as determined by an

appraisal conducted by an independent appraiser jointly selected by Home Owner and The Regents. If the parties cannot agree on the selection of an appraiser, each party shall select an appraiser who shall be a professionally designated member of the American Institute of Real Estate Appraisers (or a successor or new designation of equal or superior stature) and in good standing. If two appraisers are selected, the value to be used hereunder shall be the average of the value established by the appraisers. If one appraiser is selected, each party shall bear one-half of the expense of appraisal, and if two appraisers are selected, each party shall bear the expense of the appraiser selected by such party. A party failing to agree on the identity of an appraiser who also fails to select an appraiser shall be deemed to have consented to the appraiser selected by the other party. Each appraisal conducted pursuant to this section shall be based upon the Owner's compliance with the covenants and use restrictions contained in this Declaration and upon the effect of Declarant's ownership of the land comprising the Custom Lot.

(c) No offer subject to this Article shall require an earnest money deposit of more than two percent (2%) of the purchase price nor require the closing of escrow for the sale of a Residence or final payment therefor in fewer than forty-five (45) days from the date of acceptance by the purchaser.

3. Closing; Payment. If any offer made pursuant to Section 1 of this Article is accepted by Declarant or by an Approved Purchaser, the closing thereon shall occur within 90 days of acceptance of Owner's offer, and the purchase price shall be paid in cash as follows:

(a) To the Association, for Proportionate Share assessments, including ground rent assessment, if any, to the date of closing;

(b) To Owner's Mortgagee or Mortgagees as their respective interests may appear or by assumption of the Mortgage or Mortgages as arranged by the purchaser;

(c) In payment of necessary closing costs customarily charged to sellers, including by way of examples, but not limitation, title insurance premiums, documentary transfer tax and escrow fees; and

(d) The remainder to Owner.

Real property taxes and assessments are to be pro rated to the date of closing. The purchase, possession, occupancy and use of the Residence shall be subject to all the terms and conditions of this Declaration.

4. Secured Parties. Except as provided in this Section 4, this Article shall not apply:

(a) to a transfer to or to a purchase by a Mortgagee which is a bank, insurance company, savings and loan association or other bona fide institutional lender which acquires its title as a result of holding a Mortgage upon the Residence concerned, and this exception shall be effective whether the title is acquired (i) by deed from the Mortgagor or his or her successor in title or (ii) through foreclosure proceedings; however, such provisions shall apply to a sale or other transfer by a bank, insurance company, savings and loan association or other institutional lender which so acquires title or,

(b) to a purchaser, other than those described in the foregoing sentence, who acquires title to a Residence at a duly advertised public sale with open bidding which is provided by law, such as, but not limited to, execution sales, foreclosure sales, judicial sales or tax sales; but any such purchaser other than a Qualified Person shall, for a period of 60 days after receipt of Declarant's demand therefore, make, or be deemed to have made, an offer to the Declarant pursuant to Section 1(a) or Section 1(g) of this Article.

5. Approved Purchasers. Declarant or by designation of Declarant, the Chancellor of UCSC, may compile a list of Qualified Persons who shall be determined by Declarant or by the Chancellor of UCSC to be eligible, in descending order of priority, as listed, to purchase a Residence from an Owner at a price not to exceed the price for such Residence as determined pursuant to Section 2, above (such persons to be "Approved Purchasers"). No person shall be deemed to be an Approved Purchaser with respect to any offer, sale or transfer of a Residence unless an offer to sell such Residence has, in good faith, been made to each Approved Purchaser having a higher priority as determined by Declarant or the Chancellor of UCSC.

6. Certification of Status. Upon written request of any respective transferee or purchaser, tenant or an existing or prospective Mortgagee, transferee or beneficiary of any Residence, the Association and Declarant shall, within 15 days thereof, issue a written and acknowledged certificate in recordable form, evidencing if such be the case:

(a) With respect to a proposed sale under this Article, that the proper offers were made by the selling Owner and that the Declarant did not elect to exercise its right to purchase;

(b) With respect to a sale to an Approved Purchaser, that proper notice was given by the Owner and that such sale was permissible hereunder; or

(c) That a deed in lieu of foreclosure was, in fact, given in lieu of foreclosure and is not subject to this Article, except as provided in Section 4 hereof.

7. Leasing. An Owner other than Declarant may lease or rent Owners' Residence only on the following terms and conditions:

(a) No Residence shall be leased or rented for a period of less than 30 days.

(b) Any lease or rental agreement with respect to any Residence shall be in writing, and a copy thereof shall be delivered to the Association promptly after execution thereof by the Owner, and any tenant thereunder shall abide by and be subject to all of the terms of the provisions of this Declaration, the Articles, the Bylaws and the Association Rules and Regulations, and such lease or rental agreement shall specify that failure to abide by such provisions shall be a default under the lease or rental agreement.

(c) No owner shall enter any lease or rental agreement which shall have a term longer than 12 months or which, when added to the term of any prior lease or rental agreement, would result in occupancy by tenants of more than 13 months within the preceding thirty-six (36) months without prior written consent of the Association and the Declarant, provided, however, that if such lease or rental agreement shall be entered in conjunction with an academic leave of Owner approved by the Chancellor of the University of California Santa Cruz, the occupancy of the residence by tenants may extend for the duration of such leave.

(d) Execution by an Owner of any lease or rental agreement of a Residence in violation of Section 7(c) without the prior written consent of the Declarant shall be deemed to be an irrevocable offer to sell the Residence to Declarant at the price and on the terms set forth in sections 2 and 3 of this Article XII.

8. Unauthorized Sales or Transfers. If any Owner shall attempt to sell, assign or otherwise transfer to any person other than an eligible Qualified Person, the Owner's Residence without making the offers described in Section 1 hereof and otherwise following the procedures set forth in this Article, such attempted or purported sale, assignment or transfer shall be wholly null and void and shall confer no title or interest

whatsoever upon the attended purchaser or transferee. If any Owner shall attempt to transfer an interest in his or her Residence to a person other than a Qualified Person and such transfer shall (a) reduce the undivided ownership interest in the Residence of the Owner to less than 50 percent or (b) deprive the Owner of the right of immediate occupancy at any time in the future, such transfer of estate and right to possession shall be wholly null and void and shall confer no title, interest or right of possession or occupancy whatsoever upon the intended transferee in the absence of consent thereto by Declarant.

9. Termination of Article XII. This Article shall cease to have any effect or confer any power on any person with respect to a particular Residence on or after January 1, 2046, except as may be specifically provided in any lease of, or extension or reletting of the leasehold interest in the Residential Lot associated with such Residence by Declarant.

10. Enforcement of Article XII. Declarant, as well as any Owner and the Association, may enforce the provisions of this Article by appropriate action, including, without limitation, an action for unlawful detainer or to enjoin trespass.

11. Effect of Article XII. Nothing in this Article, and no act or failure to act of any person under the provisions of this Article, shall affect or work to limit, suspend or abridge the provisions of Article XI.

ARTICLE XIII - DESTRUCTION OF PROJECT

1. Bids and Insurance Proceeds. As soon as practicable after the damage or destruction of all or any portion of the Common Area, or all or any substantial portion of one or more Townhomes (unless all of such damage or destruction is covered by Article VIII - Party Walls), the Board shall:

(a) obtain bids from at least two reputable contractors, licensed in California, which bids shall set forth in detail the work required to repair, reconstruct and restore such damaged and destroyed portions of the Project to substantially the same condition as they existed prior to such damage, or, if required by law, to such condition as may then be required by law, and the itemized cost of such work; and

(b) determine the amount of all insurance proceeds available to the Association, as trustee or otherwise, for the purpose of effecting such repair, reconstruction and restoration and the amount of proceeds of insurance purchased by the Association which will not be made available to the

Association for such purpose by reason of the payment of such proceeds to Mortgagees of Residences.

2. Sufficient Insurance Proceeds. If, after damage or destruction as described in Section 1 above, the insurance proceeds available to the Association, as trustee or otherwise, are sufficient to cover not less than eighty-five percent (85%) of the amount needed to effect the complete repair, reconstruction and restoration of the damaged or destroyed portions of the Project, then the Association shall cause such to be repaired, reconstructed and restored to substantially the same condition as the same existed prior to such damage or destruction (or to such different condition as shall be required by law).

3. Insurance Proceeds Insufficient. If, after damage as described in Section 1 above, the proceeds of insurance available to the Association, as trustee or otherwise, are less than eighty-five percent (85%) of the amount needed to cover the cost of repair, reconstruction or restoration of the damaged or destroyed portions of the Project, the following provision shall apply:

(a) If all of such damage or destruction was exclusively to the Common Area, then members who hold a majority of the voting power in the Association shall determine, at a meeting, whether (i) to repair, reconstruct and restore the damaged or destroyed Common Area and specifically assess all Residences equally for all additional funds needed for such purpose or (ii) not to repair, reconstruct or restore the Common Area but to distribute such insurance proceeds to the Lessor of the Common Area land under the Common Area Lease, subject to the rights, if any, of Mortgagees of Residences;

(b) If such damage or destruction was to the Common Area and one or more Townhomes, then the proceeds of insurance available to the Association, as trustee or otherwise, shall be allocated between (i) the individual Townhomes which are damaged or destroyed and for which insurance proceeds are available to the Association, and (ii) the Common Area which is damaged or destroyed for which insurance proceeds are available to the Association. The share of available insurance allocated to the Common Area and the individual damaged or destroyed Townhomes (hereafter referred to as "Allocable Shares") shall be determined by giving due consideration to the insurance adjustment, the insurable value, the estimated costs of repair, restoration or reconstruction, payments of insurance proceeds to Mortgagees for debt reduction and insurance proceeds which are otherwise not available to the Association;

(c) If none of such damage or destruction is related to the Common Area, or if no insurance proceeds were

available to the Association for the Common Area, then all available insurance proceeds shall be allocated to the damaged or destroyed Townhomes.

The following procedure shall be used to determine the disposition of the Allocable Shares of insurance proceeds:

(i) The Common Area's Allocable Share of such insurance proceeds, if any, shall be used or distributed as provided in paragraph 3(a) of this Article XIII;

(ii) With respect to the damaged or destroyed Townhomes' Allocable Shares of such insurance proceeds, each Owner (including the Declarant with respect to retained or reacquired Townhomes), of a damaged or destroyed Townhome (which Residence was subject to allocation of insurance proceeds) shall, for purposes of this Section 3(c) (ii) be entitled to one vote for each Townhome owned. The Owners who hold 75 percent or more of such votes shall determine whether (A) to repair, reconstruct or restore all of such damage or destroyed Townhomes pursuant to a common plan by which each Owner of a damaged or destroyed Townhome shall contribute and be assessed for an amount equal to the differences between the actual cost of repair, reconstruction or restoration of that Owner's Townhome and the amount of that Residence's Allocable Share of available insurance proceeds (in which case the Association and the Owners of other Townhomes shall, by this provision and other appropriate means, be protected and held harmless from any claim or liability, in excess of the Townhome's Allocable Share of available insurance proceeds, relating to such repair, reconstruction, and restoration); or (B) not to repair, reconstruct or restore such Townhomes pursuant to a common plan but to distribute each damaged or destroyed Townhome's Allocable Share of insurance proceeds to the Owner of such damaged or destroyed Townhome (including Declarant with respect to retained or reacquired Townhomes), but no Owner other than Declarant shall be paid an amount in excess of that to which such Owner would be entitled under Article XII, Section 2 hereof upon a sale of a Townhome; provided, however, that such distribution shall be subject to the rights of Mortgagees of Townhomes, as their respective interest may appear, to all unpaid or special assessments and to the Declarant's right to the balance, if any, after payment to the Owner of all amounts owed to the Owner.

4. Reconstruction. If a determination is made to repair, reconstruct and restore all or a portion of the Project, the Board shall (a) enter into a written contract with a contractor licensed in California and submitting the lowest responsible bid for such repair, reconstruction and restoration, (b) disburse insurance proceeds available for said work and funds collected by reason of special assessments authorized therefore

in appropriate progress payments, and (c) take all steps necessary to insure the commencement and completion of such repair, reconstruction and restoration in a lawful and workmanlike manner at the earliest possible date.

5. Failure to Determine to Repair, Reconstruct or Restore. If the Association shall fail to decide to repair, reconstruct or restore any damage or destruction described in this Article, as provided herein, within a reasonable time, not to exceed one year, after such damage or destruction, the obligations of maintenance and repair set forth in Article VII shall apply.

ARTICLE XIV - CONDEMNATION

In the event the Project or any portion thereof shall be taken or condemned by any authority under the power of eminent domain, all actions shall be taken and all compensation and damages relating to the land or improvements shall be made payable and shall be distributed as follows:

1. Board Appointed Attorney-in-Fact: The Board is hereby appointed attorney-in-fact for all Owners to represent the Owners in any condemnation proceedings or in negotiations, settlements and agreements with the condemning authority for acquisition of all or a portion of the Project.

2. Sale by Consent: If an action for condemnation of all or a portion of the Project is proposed or threatened by any governmental agency having the right of eminent domain, then on written consent of those Owners and Mortgagees required pursuant to Article XVIII, Section 3, the Project or a portion of it, may be sold and conveyed to the condemning authority by the Board, acting as attorney-in-fact for the Owners pursuant to section 1, above, for a price deemed fair and equitable by the Board. If the requisite number of Owners or Mortgagees do not consent to a sale of all or a portion of the Project and the condemning authority institutes condemnation proceedings, the court shall fix and determine the condemnation awards.

3. Distribution of Sale Proceeds or Condemnation Award:

(a) In the event of a total sale or taking of the Project, meaning a sale or taking:

(i) That renders more than fifty percent (50%) of the Residential Lots uninhabitable (such determination to be made by the Board in case of a sale and by the court in the case of a taking); or

(ii) That renders the Project as a whole uneconomic as determined by the vote or written consent of those Owners and Mortgagees required pursuant to Article XVIII, Section 3, the right of any Owner to partition through legal action, pursuant to Article XV, shall revive immediately. However, any determination that a sale or taking is total must be made before the proceeds from any sale or award are distributed. The proceeds of any such total sale or taking of the Project, together with the proceeds of any sale pursuant to a partition action, after payment of all expenses relating to the sale, taking or partition action, shall be paid to all Owners and to their respective Mortgagees in the proportion that the fair market value of each Residence bears to the fair market value of all Residences in the Project. The fair market value of Residences shall be determined as set forth below.

(b) In the event of a partial sale or taking of the Project, meaning a sale or taking that is not a total taking as described above, the proceeds from the sale or taking shall be paid or applied in the following order of priority and any judgment of condemnation shall include the following provisions as part of its terms:

(i) To the payment of expenses of the Association in effecting the sale or to any prevailing party in any condemnation action to whom such expenses are awarded by the court to be paid from the amount awarded; then

(ii) to Owners and to their respective Mortgagees, as their interests may appear, of Residences in the Project whose Lots have been sold or taken, an amount equal to the fair market value of each such Residence as determined below, less such Owner's share of the above expenses (which share shall be in the proportion that the fair market value of each such Residence bears to the fair market value of all Residences in the Project sold or taken in such proceeding). After such payment, the recipient shall no longer be deemed an Owner or a Member, and the Association, acting as attorney-in-fact of all Owners, shall amend this Declaration to eliminate from the Project the Residences so sold or taken.

(iii) To any remaining Owner and to his Mortgagees, as his and their interests may appear, whose Residence has been diminished in fair market value as a result of the sale or taking disproportionate to any diminution in fair market value of all Residences, as determined below, but as of a date immediately after any announcement of condemnation, an amount up to the total diminution in value; then

(iv) To all remaining Owners and to their respective Mortgagees, as their interests may appear, the balance

of the sale proceeds or award in proportion to the ratio that the fair market value of each remaining Owner's Residence bears to the fair market value of all remaining Owners' Residences as determined below.

4. Fair Market Value: Wherever in this section reference is made to a determination of the fair market value of one or more Residences, it shall mean the fair market value of each such Residence (including its interest in the Common Area as a member of the Association) as of a date immediately prior to any announcement of condemnation as determined by an appraisal by an independent appraiser selected by the Association, who shall be a member of the Society of Real Estate Appraisers or other nationally recognized appraiser organization and who shall apply its or such other organization's standards in determining the value or fair market value of each such Residence. The cost of such appraisal shall be paid from the sale proceeds.

ARTICLE XV - WAIVER OF PARTITION

During the term hereof, no Owner shall sever his or her ownership interest in a Residence or any portion of a Residence from his or her membership in the Association or his or her right of use in and to the Common Areas. The Owners and all other persons having an interest in the Project shall have no right or cause of action for a judicial partition of the Project, the Common Area, or any part thereof during the term hereof; provided, however, that a partition of the Project, including all Residences, shall be permitted if (1) three years after damage or destruction of the Project which renders in material part thereof unfit for its prior use, the Project has not been rebuilt or repaired substantially to its state prior to its damage or destruction, or (2) three-fourths or more of the Project has been destroyed or substantially damaged and the Owners holding in aggregate more than a majority of the voting power in the Association are opposed to repair or restoration of the Project. Nothing in this paragraph shall prohibit co-ownership of a Residence, or (3) there has been a total taking of the Project as defined in Article XIV, Section 3.

ARTICLE XVI - EASEMENTS AND RIGHTS OF ENTRY

Declarant specifically reserves for the benefit of the Association, for the Owners in common, and for each Owner severally, as their respective interest shall obtain, the easements, reciprocal negative easements, secondary easements and rights of way which are identified in this Article.

1. Owner's Easement. There is reserved for the benefit of each Residential Lot, and the Owner thereof, as dominant tenement:

(a) A nonexclusive easement for utility services and the drainage of surface waters at reasonable places over, under and through the Project and each other Residential Lot as the servient tenement;

(b) A nonexclusive easement for the use and enjoyment of and for ingress and egress to and from each Residential Lot, over and through the Common Area; and

(c) An easement for encroachment, occupancy and use of such portion of the Project and other Residential Lots, jointly as the servient tenement, as shall be encroached upon and occupied by the Residence located within the Residential Lot which is the dominant tenement, as a result of any alluvian accretion, erosion, subsidence, landslide, collapse, deterioration, decay, construction error, portions of Residences (including without limitation, roof overhangs, foundations and party walls) which encroach upon other Residential Lots or the Common Area or movement or subsidence of buildings, structures or any portion thereof. The easement of encroachment here reserved shall continue notwithstanding that the encroachment may be cured by repair, reconstruction or restoration.

2. Owner's Right of Entry. To the extent reasonably necessary for the performance of an Owner's duties under Article VII, each Owner upon obtaining written approval from the Board, shall have a right to enter upon other Residential Lots and the Common Area at reasonable hours and after reasonable notice to the Owner of any Residential Lot to be entered upon.

3. Association's Easements and Rights of Entry. There is reserved to the Association, its agents and servants, an easement in gross over all Residential Lots as the servient tenement, and easements of entry and of access (a) for the installation and maintenance of sewers, storm drains, drainage facilities, utility meter boxes and utility lines which are part of the Common Area or Residential Lots; (b) for landscaping and maintenance of Common Area, exterior of Residences and Residential Lots; and (c) for the performance generally of its rights and duties as provided in this Declaration. For purposes set forth herein, the Association, through its duly authorized officers, agents or employees, shall have the right, after reasonable notice to the Owner, to enter upon any Residential Lot at reasonable hours.

ARTICLE XVII - AMENDMENTS

1. Amendment Before Close of First Sale. Before the close of the first sale of a Residence in the Project to a purchaser other than Declarant, this Declaration and any amendments to it may be amended in any respect or revoked by the execution by Declarant of an instrument amending or revoking the Declaration.

2. Amendment After Close of First Sale.

(a) Subject to the provisions of subsection (b), below, after the close of the first sale of a Residence in the Project to a purchaser other than Declarant, this Declaration may be amended or revoked in any respect by the vote or written consent of the holders of not less than one-half (1/2) plus one (1) of the votes of each class of Owners, or if the single class of Owners is then in effect, by a vote or written consent of not less than two-thirds plus one of all of the votes. However, if any provision of this Declaration requires a greater or lesser percentage of the voting rights of any class of Owners in order to take affirmative or negative action under such provision, the same percentage of such class or classes of Owners shall be required to amend or revoke such provision.

(b) The consent of Declarant shall be required before any amendment or revocation of all or any provision of this Declaration shall become effective. Also, if the consent or approval of any other governmental authority, Mortgagee or any other person, firm, agency or entity is required under this Declaration with respect to any amendment or revocation of any provision of this Declaration, no such amendment or revocation shall become effective unless such consent or approval is obtained.

(c) Any amendment or revocation subsequent to the close of such first sale shall be evidenced by an instrument certified by the secretary or other duly authorized officer of the Association, shall make appropriate reference to this Declaration, its amendments and any consent required hereunder, and shall be acknowledged and recorded in the office of the County Recorder of the County.

3. Conformance With Mortgagee Requirements. It is the intent of Declarant that this Declaration and the Articles and Bylaws of the Association and the Project in general, shall now and in the future meet such requirements as are necessary to permit the purchase, guarantee, insurance or subsidization of any mortgage of a Residence in the Project by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and any applicable University of California home loan assistance

program. The Association and each Owner shall take any action or shall adopt any resolutions required by Declarant or any Mortgagee to conform this Declaration or the Project to the requirements of any of these entities.

ARTICLE XVIII - MORTGAGEE PROTECTION

1. Mortgage Permitted. Any Owner may encumber his or her Residence with a Mortgage.

2. Subordination. Any lien or right of first refusal created or claimed under the provisions of this Declaration is expressly made subject and subordinate to the rights of any first Mortgage that encumbers all or a portion of the Project, or any Lot, made in good faith and for value; and no such lien shall in any way defeat, invalidate, or impair the obligation or priority of such mortgage unless the Mortgagee expressly subordinates its interest, in writing, to such lien. If any Residence is encumbered by a first Mortgage made in good faith and for value, the foreclosure of any lien created by any provision set forth in the Declaration for assessments, or installments of assessments, shall not operate to affect or impair the lien of the Mortgage. On foreclosure of the Mortgage, the lien for assessments or the installments that have accrued up to the time of foreclosure shall be subordinate to the lien of the Mortgage, with the foreclosure-purchaser taking title to the Lot free of the lien for assessments or installments that have accrued up to the time of the foreclosure sale. On taking title to the Lot the foreclosure-purchaser shall be obligated to pay only assessments or other charges levied or assessed by the Association that became due or payable on or after the foreclosure-purchaser acquired title to the Lot. The subsequently levied assessments or other charges may include previously unpaid assessments, provided all Owners including the foreclosure-purchaser and his successors and assigns are required to pay their proportionate share as provided in this clause.

3. Control of Amendment of Project Documents. Unless a greater percentage is expressly required by this Declaration, the Articles, the Bylaws, or by law, the vote or written consent of the holders of not less than two-thirds (2/3) of the votes of each class of Owners plus the prior written consent (or deemed consent as provided below in this section) of the first Mortgagees of Residences that have at least fifty-one percent (51%) of the votes of all Residences encumbered by first Mortgages shall be required to add or amend any material provisions of the Declaration, the Articles, the Bylaws, or the Common Area Lease which establish, provide for, govern, or regulate any of the following:

- (a) Voting;
- (b) Assessment, collection of assessments, assessment liens or subordination of such liens;
- (c) Reserves for maintenance, repair and replacement of Common Area or improvements located on it;
- (d) Casualty and liability insurance or fidelity bonds;
- (e) Rights to use the Common Area;
- (f) Responsibility for maintenance and repair of Residential Lots and the Common Area and their improvements;
- (g) Expansion or contraction of the Project or the addition, annexation, or withdrawal of real property to or from the Project;
- (h) Boundaries of any Residential Lot;
- (i) The interests or rights of the Association or Owners in and to the Common Area;
- (j) The convertibility of Residential Lots into Common Area or of Common Area into a Residential Lot;
- (k) The leasing of Residences;
- (l) Imposition of any right of first refusal or similar restriction on the right of an Owner to sell, transfer, or otherwise convey his or her Residence; or
- (m) Any provisions that are for the express benefit of first Mortgagees or insurers or governmental guarantors of first mortgages.

For purposes of this provision, an addition or amendment shall not be considered material if it is for the purpose of correcting technical errors, or for clarification only. Any first Mortgagee who receives a written request to consent to additions or amendments requiring consent under this provision who does not deliver or post to the requesting party a negative response within thirty (30) days after such receipt shall be deemed to have consented to such request.

4. Effect of Breach. No breach of this Declaration shall defeat or render invalid the lien of any First Mortgage or First Deed of Trust made in good faith and value. However, each and all of the provisions hereof shall be binding upon and

effective against any Owner whose title to a Residence is acquired by or through trustee's sale or foreclosure of a first Mortgagee or first Deed of Trust, except that said person who acquires title in such manner shall take title free of the lien hereof for all assessments that have accrued up to the time of the trustee's Sale or foreclosure but subject to the lien hereof for all such charges that shall accrue subsequent thereto. The breach of any of the provisions hereof shall be enjoined, abated or reviewed by appropriate proceedings, notwithstanding the lien or existence of any such Mortgage.

5. Approval. Notwithstanding any provision in this Declaration which may be to the contrary, and in addition to all other approvals and consents required to be obtained from Mortgagees under this Declaration, unless the prior written approval of seventy-five percent (75%) or more of the first Mortgagees of Residences encumbered by first Mortgages is obtained, the Association shall not be entitled to:

(a) By act or omission seek to abandon, partition, subdivide, encumber, sell or transfer any interest in the Common Area. The granting of easements for public utilities or for other public purposes consistent with the intended use of the Project shall not be deemed a transfer within the meaning hereof;

(b) Change the method of determining assessments from that provided in Article V;

(c) Fail to maintain fire and extended coverage on insurable Common Areas and Residences as provided in Article VI;

(d) Use hazard insurance proceeds for losses to Common Areas and Residences for other than repair, replacement or reconstruction thereof;

(e) Change the rights of refusal and the restrictions on the rights of Owners to sell, transfer or otherwise convey Residences contained herein;

(f) Change any provisions of this Declaration that are for the express benefit of first Mortgagees or insurers or governmental guarantors of first Mortgages.

6. Books and Records. Mortgagees of Residences shall have the right to examine the books and records of the Association at reasonable times and after reasonable notice.

7. Right to Make Payments. Mortgagees of Residences may, jointly or singly, pay taxes or other charges which are in

default and which may or have become a charge against the Common Area and may pay overdue premiums on insurance policies, or secure new insurance coverage on the lapse of a policy for the Common Area, and Mortgagees making such payments shall be owed immediate reimbursement therefore from the Association. This paragraph constitutes an agreement by the Association for the express benefit of all Mortgagees, and, upon request by any Mortgagee the Association shall execute and deliver to such Mortgager a separate written agreement embodying this provision.

8. Damage; Condemnation Proceedings; Insurance.

(a) In the event of substantial damage to or destruction of the Project or portion thereof or to any Residence, or if any portion of the Project is made the subject matter of any condemnation or eminent domain proceeding or is otherwise sought to be acquired under threat of condemnation, the Mortgagee with respect to any Residence shall be entitled to timely written notice of such damage, destruction, proceedings or proposed acquisition, and no provision of the Articles, Bylaws or this Declaration shall entitle an Owner or other party to priority over such Mortgagee with respect to the distribution to such Residence of any award, settlement or insurance proceeds. The notice required hereunder shall be given by the Association within 10 days of the occurrence of any such loss or taking;

(b) All applicable fire and all physical loss or extended coverage insurance policies with respect to the Project shall contain loss-payable clauses acceptable to the affected Mortgagees, naming the Mortgagees as their interests may appear.

9. Notices to Mortgagees of Record. Upon written request to the Association, identifying the name and address of the holder, insurer or guarantor and the applicable Residential Lot number or address, any such eligible mortgage holder or eligible insurer or guarantor will be entitled to timely written notice of:

(a) Any condemnation loss or any casualty loss which affects a material portion of the Project or any Residence on which there is a first mortgage held, insured, or guaranteed by such eligible mortgage holder or eligible insurer or guarantor, as applicable.

(b) Any delinquency in the payment of assessments or charges owed by an Owner of a Residence subject to a first mortgage held, insured or guaranteed by such eligible holder or eligible insurer or guarantor, which remains uncured for a period of sixty (60) days.

(c) Any lapse, cancellation or material modification of any insurance policy or fidelity bond maintained by the Association.

(d) Any proposed action which would require the consent of a specified percentage of eligible mortgage holders as specified in paragraphs 3 or 5 of the Article.

ARTICLE XIX - DECLARANT'S CONTINUING RIGHTS

1. Failure of Association to Maintain. In the event the Association shall fail, refuse or neglect to take such acts, pursuant to sections 2, 3 and 5 of Article VII, as are necessary:

(a) To maintain the Project or any part thereof in good, proper and attractive condition, free of all liens other than any Mortgages permitted on individual Residences; or

(b) To otherwise assure compliance by all Townhome Owners with the covenants and obligations of Article III of the Townhome Lot Leases and Custom Home Lot Leases, including doing or performing the act or thing therein provided to be done or performed by any lessee; and if such failure, refusal or neglect shall continue for a period of 10 days, or such longer time as is reasonably required, after written notice from Declarant specified in the nature of the act or thing to be done or performed, then Declarant may, without obligation or liability for failure to do so, do or perform or cause to be done or performed such act or thing or such other acts or things as it deems necessary to achieve compliance with the terms hereof, and with the terms of the Common Area Lease or the Residential Lot Leases (entering upon the Project for such purposes, if Declarant shall so elect). Declarant shall not be held liable or in any way responsible for any loss, inconvenience or damages resulting to the Association or Owners or the the invitees, guests, licensees, contractors, Mortgagees or sublessees thereof, except for willfully or grossly negligent acts. No act or thing done by Declarant, pursuant to the provisions of this paragraph, shall be construed as a waiver by Declarant of any default by the Association or any Owner under any lease of any covenant, term or condition herein contained.

2. Assessments for Declarant's Costs.

(a) Any costs incurred by Declarant pursuant to any Action taken pursuant to paragraph 1 of this Article will be allocated by Declarant to each Residence and its Owner in accordance with the provisions of the Residential Lot Leases. In the absence of fraud or gross error, such determination and allocation shall be final and binding upon the Association and

all Owners. However, if a cost incurred by Declarant arises out of an act or thing that is not the primary responsibility of the Association, but is that of the Owner of a Residence as a result of failure to do or perform such act, and Declarant has given written notice to the Association as provided herein, then the entire amount of such cost shall be assessed to the Owner failing to do the act or thing required of him or her;

(b) Upon Declarant's or Association's advising any Owner of the amount of Owner's ground rent under a Residential Lot Lease, there shall be automatically assessed against such Owner a ground rent assessment equal to the amount of such ground rent. If default in payment of the ground rent assessment occurs, Association or Declarant as the agent of Association may record the lien provided for in Article V hereof and may record the one-year extension provided for in California Civil Code Section 1356. Declarant shall be an authorized person to enforce said lien by sale pursuant to said Section 1356;

(c) Each Owner shall pay his or her ground rent assessment to the Association in the usual manner, except that if Declarant requires any such lessee to pay ground rent under a Residential Lot Lease to Declarant rather than to the Association, then payment by such lessee of such ground rent to Declarant shall, for all purposes, constitute payment of such lessee's ground rent assessment. If paid to the Association, such assessments shall be due and payable by Owners in the same installments and at the same times as if the payments were being made to Declarant under the Residential Lot Lease.

3. Rights of Access. The Declarant reserves easements over and on the Common Area for purposes of constructing or repairing Residences and for purposes of sales activities for Residences.

ARTICLE XX - ANNEXATION OF ADDITIONAL PROPERTY

Additional property or properties may be annexed to the Property and become subject to the duties, powers and jurisdiction of the Association and to the covenants, conditions and restrictions specified herein upon the vote or written assent of at least sixty-six and two-thirds percent (66-2/3%) of the votes of members other than the Declarant.

1. Procedure for Annexation. Such annexation shall be made by, and shall be effective upon, filing for record, in the office of the County Recorder of Santa Cruz County, a declaration of annexation, or similar instrument with respect to the additional property or properties to be annexed. Such declaration of annexation or similar instrument may contain

such supplementary additions to or modifications of the covenants, conditions and restrictions contained in this Declaration as may be necessary or advisable to reflect a different character, if any, of the annexed property or properties.

2. Consequence of Annexation. The recordation of any declaration of annexation as provided hereinabove shall constitute and effectuate the annexation of the real property described therein, making said real property subject to this Declaration, as amended, and subject to the functions, powers, duties and jurisdiction of the Association, and thereafter all owners of lots or parcels, not Common Areas, within the annexed property shall automatically be members of the Association. Any such annexation shall work a merger or consolidation of the Association and another association or similar organization, incorporated or unincorporated, if any, whose function and purposes are, with respect to the annexed property, substantially equivalent to those of the Association. The Association shall be the surviving successor organization, and such merger or consolidation shall work a transfer of the properties, rights and obligations from the other Association to the successor Association.

3. Adjustment of Assessments. Upon the occurrence of any such annexation, the Board shall have the power to make such equitable and reasonable adjustments in the regular and special assessments of Owners as may be necessary because of annexation. Such adjustments shall be made to reflect both the increased Association membership obligated therein to pre-assessments and the increased size (if any) of the Common Areas subject to the Association's management and control.

ARTICLE XXI - MISCELLANEOUS PROVISIONS

1. Inspection of Association's Books.

(a) The membership register, books of account and minutes of meetings of the Members, of the Board and its committees shall be made available for inspection and copying by any Member or by his or her duly-appointed representative at any reasonable time and for a purpose reasonably related to his or her interest as a Member, at the office of the Association or in such other place within the Project as the Board shall prescribe.

(b) The Board shall establish reasonable rules with respect to:

(i) Notice to be given by the Member desiring to make the inspection;

(ii) Hours and days of the week when such an inspection may be made;

(iii) Payment of the cost of reproducing copies of documents requested by a Member.

(c) Every director of the Association shall have the absolute right at any reasonable time to inspect all books, records and documents of the Association and the physical properties owned or controlled by the Association. The right of inspection by a director includes the right to make extracts and copies of documents.

2. Liberal Construction. The provisions of this Declaration shall be liberally construed to effectuate its purpose of creating a uniform plan for the operation of the Project.

3. Mortgagee Protection. It shall be the duty of each Owner whose Residence is encumbered by a first Mortgage or deed of trust promptly to notify the Association through its secretary of the name and address of such Mortgagee or beneficiary, and the Association shall maintain a record of such encumbrances. The Owner shall likewise promptly notify the Association as to the release or discharge of any such Mortgage.

4. Severability. The provisions hereof shall be deemed independent and severable, and the invalidity or partial invalidity or enforceability of any of the provisions hereof shall not affect the validity of the remaining provisions.

5. Successors and Assigns. This Declaration shall inure to the benefit of and be binding upon the successors and assigns of Declarant and the Association, and on the heirs, personal representatives, grantees, lessees, successors and assigns of the Owners.

6. Bylaws. The Owners shall have the right to adopt for the Association, and to amend reasonable Bylaws. To the extent that any provision of the Bylaws which may be adopted by the Owners shall conflict with the provisions of this Declaration, the provisions of this Declaration shall control.

7. Cumulative Remedies. Each remedy provided for in this Declaration shall be cumulative and not exclusive. The failure to exercise any remedy provided for in this Declaration shall not, under any circumstances, be construed as a waiver of the remedy.

8. Violations as Nuisance. Every act or omission in violation of the provisions of this Declaration shall constitute

a nuisance and, in addition to all other remedies set forth, may be abated or enjoined by any Owner, any member of the Board or the Association.

9. Number, Gender. The singular shall include the plural and the plural the singular unless the context requires the contrary; the masculine, feminine and neuter shall each include the masculine, feminine or neuter, as the context requires.

10. Incorporation of Exhibits. All exhibits referred to are attached to this Declaration and incorporated by reference.

11. Easements Reserved and Granted. Any easements referred to in this Declaration shall be deemed reserved or granted, or both reserved and granted, by reference to this Declaration in a deed to any Residence.

12. Delivery of Notices and Documents. Any written notice or other documents relating to or required by this Declaration may be delivered personally or by mail. If by mail, such notice, unless expressly provided herein or in the Bylaws to the contrary with accord to the type of notice being given, shall be deemed to have been delivered and received forty-eight (48) hours after a copy thereof is deposited in the United States mail, postage and fees prepaid, addressed as follows:

(a) If to an Owner, other than Declarant, to the address of the Owner's Residence in the Project, or to the address last furnished by such Owner for the purpose of giving notice and delivering documents to the Board. Each Owner, other than Declarant, shall file in writing with the Board promptly upon becoming an Owner his or her address for the purpose of giving notice and delivering documents, and shall promptly notify the Board in writing of any subsequent change of address;

(b) If to Declarant, whether in its capacity as an Owner, or in any other capacity, to:

Office of Faculty Housing
Hagar Court Community Building
University of California
Santa Cruz, California 95064,

or such successor address or office as Declarant may hereafter designate.

(c) Prior to the organization meeting, notices to the Board shall be addressed to the address set forth in this Section and Article for the giving of notice to the Declarant.

Thereafter, notices to the Board shall be addressed to the secretary of the Association, and the Board shall cause the address of the secretary of the Association to be posted at all times in the conspicuous place located in Declarant's Faculty Housing Office or any successor thereto. In addition, from and after the organization meeting, notice of the address of the secretary of the Association shall be given by the Board to each Owner within a reasonable time after the Board has received actual notice of such Owner's purchase of a Residence.

IN WITNESS WHEREOF, Declaration has executed this instrument on the day and year first above written.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

By John L. Gorman
By John L. Gorman

Assistant Director
Housing Services

STATE OF CALIFORNIA
COUNTY OF SANTA CRUZ ss.

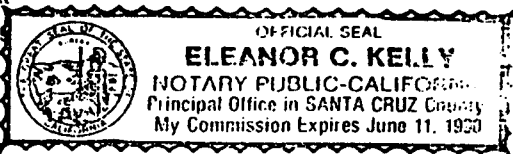
On July 3, 1986 before me, the undersigned, a Notary Public in and for said State, personally appeared JOHN L. GORMAN and

~~personally acknowledged the~~ for proved to me on the basis of satisfactory evidence) to be the persons who executed the within instrument as Authorized Representative President and Secretary, on behalf of The Regents of the University of California

the corporation therein named, and acknowledged to me that such corporation executed the within instrument pursuant to its by-laws or a resolution of its board of directors.

WITNESS my hand and official seal.

Signature Eleanor C. Kelly



(This area for official notarial seal)

Insurance Company

EXHIBIT A

PROJECT DESCRIPTION

ALL THAT CERTAIN REAL PROPERTY SITUATED IN THE CITY OF SANTA CRUZ, STATE OF CALIFORNIA AND MORE PARTICULARLY DESCRIBED AS FOLLOWS;

BEGINNING AT A CONCRETE MONUMENT ON THE SOUTHERLY LINE OF THE LANDS CONVEYED TO THE BOARD OF REGENTS OF THE UNIVERSITY OF CALIFORNIA AS SHOWN ON THE RECORD OF SURVEY OF SAID LANDS FILED IN VOLUME 38, OF MAPS, AT PAGE 1, SANTA CRUZ COUNTY RECORDS, AT THE NORTHWESTERLY CORNER OF THE LANDS OF THE SANTA CRUZ CITY SCHOOL DISTRICT, AS DESCRIBED IN VOLUME 1280, AT PAGE 511, OFFICIAL RECORDS OF SANTA CRUZ COUNTY; THENCE

NORTH 14°17'50" WEST 5.27 FEET TO AN IRON PIPE; THENCE
 NORTH 46°18'43" WEST 267.51 FEET; THENCE
 NORTH 70°01'24" WEST 68.87 FEET; THENCE
 SOUTH 54°48'44" WEST 19.98 FEET; THENCE
 NORTH 28°34'56" WEST 86.12 FEET; THENCE
 NORTH 23°23'11" EAST 86.70 FEET; THENCE
 NORTH 18°17'20" EAST 33.25 FEET; THENCE
 NORTH 55°01'08" EAST 20.50 FEET; THENCE
 NORTH 36°25'47" EAST 45.54 FEET; THENCE
 NORTH 47°00'00" WEST 36.36 FEET; THENCE
 NORTH 51°38'33" WEST 160.21 FEET; THENCE
 NORTH 59°08'00" EAST 524.82 FEET; THENCE
 SOUTH 35°35'17" EAST 37.24 FEET; THENCE
 SOUTH 15°35'17" EAST 34.66 FEET; THENCE
 SOUTH 35°25'50" EAST 322.52 FEET; THENCE
 EAST 189.13 FEET; THENCE
 SOUTH 43.26 FEET; THENCE
 SOUTH 37°08'36" EAST 15.54 FEET; THENCE
 SOUTH 34.46 FEET; THENCE
 SOUTH 70°50'23" EAST 81.41 FEET; THENCE
 SOUTH 10°50'34" WEST 45.17 FEET; THENCE
 SOUTH 38°45'19" EAST 108.73 FEET; THENCE
 SOUTH 14°17'50" EAST 96.35 FEET TO THE SAID SOUTHERLY LINE;
 THENCE ALONG SAID SOUTHERLY LINE SOUTH 75°42'10" WEST 667.64 FEET
 TO THE POINT OF BEGINNING.

ASSESSOR'S PARCEL NO. 1-011-09 (PORTION)

EXHIBIT B

ACCESS EASEMENT

AN EASEMENT FOR A RIGHT OF WAY FOR INGRESS AND EGRESS OVER THE FOLLOWING DESCRIBED LAND SITUATED IN THE CITY OF SANTA CRUZ, STATE OF CALIFORNIA AND MORE PARTICULARLY DESCRIBED AS FOLLOWS;

A STRIP OF LAND LYING 28 FEET NORTHWESTERLY OF THE FOLLOWING DESCRIBED LINE.

COMMENCING AT A CONCRETE MONUMENT ON THE SOUTHERLY LINE OF THE LANDS CONVEYED TO THE BOARD OF REGENTS OF THE UNIVERSITY OF CALIFORNIA AS SHOWN ON THE RECORD OF SURVEY OF SAID LANDS FILED IN VOLUME 38, OF MAPS, AT PAGE 1, SANTA CRUZ COUNTY RECORDS, AT THE NORTHWESTERLY CORNER OF THE LANDS OF THE SANTA CRUZ CITY SCHOOL DISTRICT, AS DESCRIBED IN VOLUME 1280, AT PAGE 511, OFFICIAL RECORDS OF SANTA CRUZ COUNTY; THENCE ALONG SAID SOUTHERLY LINE NORTH 75°42'10" EAST (NORTH 74°46' EAST PER VOLUME 38, OF MAPS, PAGE 1) 564.79 FEET; THENCE LEAVING SAID SOUTHERLY LINE NORTH 35°25'50" WEST 769.96 FEET; THENCE NORTH 15°35'17" WEST 34.66 FEET THENCE NORTH 59°06' EAST 18.18 FEET TO THE TRUE POINT OF BEGINNING; THENCE NORTH 30°53'40" WEST 325 FEET MORE OR LESS TO THE CENTER LINE OF COOLIDGE DRIVE.

ASSESSOR'S PARCEL NO. 1-011-09 (PORTION)