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COMMON AREAS LEASE

Between

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

-and-

**HAGAR COURT
HOMEOWNERS ASSOCIATION**

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HAGAR COURT CONDOMINIUMS

COMMON AREAS LEASE

RECORDING REQUESTED BY

THE REGENTS OF
THE UNIVERSITY OF CALIFORNIA

AFTER RECORDING, RETURN TO:

Real Estate Services Group
The Regents of the University of California
1111 Franklin Street, 6th Floor
Oakland, Ca 94612-3550

HAGAR COURT CONDOMINIUMS COMMON AREAS LEASE

THIS COMMON AREAS LEASE is made this 23rd day of October, 2003 by THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, a California public corporation ("The Regents"), and HAGAR COURT HOMEOWNERS ASSOCIATION, a California nonprofit mutual benefit corporation ("Lessee" or "Association").

BACKGROUND

A. The Association is a mutual benefit corporation, the members of which are, or will be, owners of condominium interests described below. All of the directors of the Association were initially appointed by The Regents.

B. The parties intend to establish a plan of condominium ownership of real property pursuant to a Declaration of Covenants, Conditions and Restrictions substantially in the form attached hereto as Exhibit A ("CC&Rs") which will establish fifty one (51) condominiums (the "Condominiums") based upon leasehold estates in the Premises, as hereinafter described, all in furtherance of a housing program established for the principal benefit and convenience of the members of the faculty and academic staff of the University of California Santa Cruz (the "Housing Program").

C. This Common Areas Lease (the "Lease") is entered into by the parties in furtherance of the Housing Program and is intended to provide Lessee with a transferable leasehold estate which will be subjected to the CC&Rs.

D. The capitalized terms in this Lease are defined in section 19.10, below.

1. **LEASE OF PREMISES.** Pursuant to, and on the terms and conditions of this Lease, The Regents leases to Lessee, and Lessee hires from The Regents, the Premises hereinafter described.

2. **PREMISES.** Except as expressly provided to the contrary in this Lease, reference to "Premises" is defined in section 19.10.11 of this Lease.

3. **OWNERSHIP OF CONDOMINIUMS.** Following the establishment of the Project by the parties, the CC&Rs shall provide that the owner of each Condominium shall become a member of the Association and shall have all of the rights and obligations of Condominium ownership as set forth in the CC&Rs.

4. **EXECUTION OF MAPS AND CERTIFICATES.** Lessee will execute all applications, maps, certificates and documents which may be required by any governmental authority (or agency thereof) or by law, incidental to the establishment by The Regents of the Project, specifically including a certificate of consent to recordation of the Condominium Plan or Subdivision Map, as provided in section 1351(iii) of the Civil Code; provided, however, that The Regents will hold Lessee and the Premises harmless from all costs whatsoever incidental to the execution of any such application, map, certificate or document.

5. **TERM.** The term of this Lease shall commence on September 30, 2003, and shall expire at 11:59 p.m., on December 31, 2063, unless sooner terminated as provided for in this Lease (the "Lease Term").

6. **RENT.** Lessee shall pay without abatement, deduction, or offset the following sums as rent:

6.1 **Minimum Rent After Recording of CC&Rs and Construction Completed.** After recording with the Recorder of Santa Cruz County of the CC&Rs for a condominium project of not fewer than fifty one (51) Condominiums, completion of construction of improvements for such Condominiums, and issuance of certificates of occupancy for them, the rent shall be Three Thousand (\$3000) per month ("Minimum Rent"). Minimum Rent shall be increased, but not decreased, as set forth in section 6.2.

6.2 Adjustment to Minimum Rent. The monthly Minimum Rent provided for in section 6.1 shall be subject to increases, at the discretion of The Regents, in amounts which shall, for any Lease Year, not exceed the lesser of eight percent (8%) or the previous year's rent, and to be payable beginning as of each January 1st during the Lease Term.

6.3 Definition of Lease Year. A Lease Year is a calendar year; however, the first Lease Year shall commence on the date the term of this Lease commences and shall terminate December 31, 2003, and all subsequent Lease Years shall begin on January 1st.

6.4 Additional Rent. Any other amount payable by Lessee to The Regents hereunder shall be deemed to be additional rent. In particular, if The Regents shall pay any amount under section 14.5 below, such amount shall be deemed to be additional rent, payable on demand.

7. TAXES. Lessee shall pay, or cause to be paid, in addition to all other payments due hereunder, the following taxes:

7.1 Real and Personal Property Taxes. All real and personal property taxes, general and special assessments, and other charges of every description levied on or assessed against the Premises, improvements located on the Premises, personal property located on or in the Premises or improvements, the leasehold estate, or any subleasehold estate owned by Lessee, to the full extent of installments falling due during the term, whether belonging to or chargeable against The Regents or Lessee. Lessee shall make all such payments directly to the charging authority at least ten (10) days before delinquency and before any fine, interest, or penalty shall become due or be imposed by operation of law for their nonpayment. If, however, the law expressly permits the payment of any or all of the above items in installments (whether or not interest accrues on the unpaid balance), Lessee may, at Lessee's election, utilize the permitted installment method, but shall pay each installment with any interest before delinquency.

7.2 Business Taxes. All taxes imposed by any taxing authority upon the rentals under this Lease. Lessee shall further be liable for any and pay any and all business taxes imposed by any taxing authority which are based on or measured in whole or in part by the rentals received under this Lease, other than a tax based on net income; all such taxes shall be paid by Lessee on or before their due date and shall be paid by Lessee whether they are imposed on Lessee or The Regents.

7.3 Other Taxes. All taxes of every kind and nature levied on the Premises and all improvements thereto, in lieu of, or in substitution for, or in addition to existing or additional real or personal property taxes on the land, building, or personal property, whether or not now customary or within the contemplation of the parties to this Lease. The intent of the parties is that this Lease shall be a "net, net, net" lease to The Regents, and that The Regents shall pay no taxes as to the Premises, whatsoever. "Taxes" shall also include the cost to The Regents of contesting the amount, validity, or applicability of any taxes.

7.4 Prorations. All payments of taxes or assessments or both, shall be prorated for the initial lease year and for the year in which the Lease terminates.

7.5 Lessee's Right to Contest. Lessee may contest the legal validity or amount of any taxes, assessments, or charges for which Lessee is responsible under this Lease, and may institute such proceedings as Lessee considers necessary. If Lessee contests any such tax, assessment, or charge, Lessee may (if applicable law so permits) withhold or defer payment or pay under protest, but shall protect The Regents and the Premises from any lien by adequate surety band or other appropriate security.

7.6 Appointment as Attorney-in Fact. The Regents appoints Lessee as The Regents' attorney-in-fact for purposes of making all payments to any taxing authorities and for the purpose of contesting any taxes, assessments, or charges, conditioned on Lessee's preventing any liens from being levied on the Premises or on The Regents (other than the statutory lien of Revenue and Taxation Code section 2187).

7.7 Proof of Compliance. Upon The Regents' written request, Lessee shall furnish to The Regents, at least five (5) days prior to the date when any tax, assessment, or charge would become delinquent, receipts or other appropriate evidence establishing their payment. Lessee may comply with this requirement by retaining a tax service to notify The Regents whether the taxes have been paid.

8. USES.

8.1 Condominium Residential Use. The Premises are leased to Lessee for use for Condominium residential purposes and for uses incidental thereto. The parties each specifically consent to the establishment of condominiums with respect to the Premises, in accordance with section 1350 et seq. of the California Civil Code.

8.2 Social Use Restrictions. Lessee shall include in each and every sublease of a fractional, undivided interest in the Premises entered into with a residential purchaser of a Condominium, a limitation on uses substantially identical to

the terms of section 3.6 of the Form Sublease of Undivided Interest attached hereto as Exhibit B.

8.3 Resale Price Limitations. To assure that the Condominiums to be created on the Premises will remain affordable to persons associated with the University of California Santa Cruz, the parties will each include a resale price limitation in any Condominium Lease entered into with the purchaser of a Condominium. In general, no sublease associated with an individual Condominium may be assigned, nor may a Condominium be sold by a sublessee at a price for such assignment and sale that is greater than the maximum resale price permitted under Article 14, section 14.2, of the CC&Rs.

8.4 Notice of Transfer and Sales Price. All subleases hereunder made with reference to an individual Condominium shall require that the sublessee shall, no later than thirty (30) days prior to the closing of any transaction described in section 8.3, above, give written notice to the Lessee and The Regents regarding the proposed transaction. The notice shall specify the proposed transferee and describe his or her relationship to the University, shall set forth the proposed sales price, and shall be accompanied by such documentation as shall be necessary to accurately describe the proposed transaction.

8.5 Children's Play Area. Lessee will, at Lessee's expense, maintain and operate the Children's Play Area located within the recreation easement area identified in the condominium plan attached to the CC&R's as Exhibit B, pursuant to the following terms and conditions:

8.5.1 Lessee shall permit members of the general public to use the Children's Play Area, strictly in accordance with this Section 8.5 and shall permit members of the general public to gain access to the Children's Play Area.

Lessee may post signs demarcating the public and private space and, if necessary, construct gates, fences, or other barriers to control access to the Children's Play Area. Lessee may, at its discretion, construct and maintain lockable gates between the Children's Play Area and the public access point, providing that the gates are unlocked during hours that the Children's Play Area is available for public use.

8.5.2 Lessee may, at its discretion establish rules and conditions for the use of the Children's Play area

8.5.3 [RESERVED]

8.5.4 Lessee shall, establish, post, and enforce conditions on the number of Children's Play Area users at any time and types of use, to ensure that the Children's Play Area is used in a safe and appropriate manner.

8.5.5 Lessee shall post and maintain a sign or signs visible to the public describing the Children's Play Area availability and rules and conditions for its use.

8.5.6 Lessee shall maintain the Children's Play Area and play equipment within it in a safe and useable condition. Lessee is not required to provide specific pieces or types of equipment, although the general types and quality of equipment shall be sufficient to be safe, reasonably attractive and inviting to children.

9. IMPROVEMENTS. The Regents shall complete renovation of the improvements on the Premises on or before December 31, 2003, in accordance with the plans and specifications, dated Sept. 18, 2002 which are attached hereto as Exhibit B (the "Plans").

10. MAJOR AND MINOR REPAIRS OR ALTERATIONS. Lessee shall be responsible to make repairs to the Premises as required by Section 11, below.

10.1 Minor Repairs. The Regents approval shall not be required for Lessee's minor repairs or alterations. "Minor" means a construction cost not exceeding Fifty Thousand Current Dollars (\$50,000). "Construction cost" includes the cost of labor, materials and the charges of all contractors for demolition and removal of existing improvements as well as for preparation, construction and completion of any new or replacement improvements. "Current Dollars" shall mean an amount in dollars, adjusted by the percentage change, beginning the month prior to the start of the Lease Term, in the National Consumer Price Index, All Urban Consumers, All Items, 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 national changes in the price of consumer items.

10.2 Major Repairs or Alterations. "Major repairs or alterations" are those not deemed as minor, above.

10.3 Requirements for Work. No construction activity with respect to the Premises or the Project, including major repairs, alterations, or reconstruction of the Project (hereinafter, "Work"), shall be undertaken until or unless:

10.3.1 The work shall have been approved by the Architectural Review Board, if any, established pursuant to the CC&Rs.

10.3.2 All permits and authorizations required by any governmental body having jurisdiction over the Work shall have been obtained.

10.3.3 Lessee shall have delivered to The Regents a request for consent to alterations accompanied by two (2) sets of schematic plans; and preliminary specifications for the Work (the "Submittals"), including, if applicable, grading and excavation plans, exterior elevations and site plans, all or which shall be prepared by an architect or engineer licensed to practice in California.

10.3.4 The Regents shall have given its consent to commence the Work, which consent shall not be unreasonably withheld. If The Regents shall fail to respond to Lessee's request for consent within thirty (30) days, such consent shall be deemed to have been given.

11. LESSEE TO MAINTAIN PREMISES.

11.1 Repairs. Lessee shall promptly and diligently repair, restore and replace as required, and remedy all damage to or destruction of all or any part of the Premises. If Lessee fails to promptly make such replacement, repair or restoration, The Regents, at its option, may, but shall not be obligated to, make such replacement, repair or restoration. The completed work of maintenance, compliance, repair, restoration or replacement shall be equal in value, quality and use to the condition of the Premises before the event giving rise to the work, except as expressly provided to the contrary in this Lease. The Regents shall not be required to furnish any service or facilities or to make any repairs or alterations of any kind on or in the Premises. The Regents' election to perform any obligation of Lessee under this provision on Lessee's failure or refusal to do so shall not constitute a waiver of any right or remedy for Lessee's default, and Lessee shall promptly reimburse, defend and indemnify The Regents against all liability, loss, cost and expense arising from Lessee's default.

11.2 Standards of Repair and Maintenance. Throughout the Term, Lessee shall, at Lessee's sole cost and expense, maintain the Premises in good condition and repair, and in accordance with all applicable laws, rules, ordinances, orders and regulations (i) of federal, state, county, municipal and other governmental agencies and bodies having jurisdiction and of all their respective departments, bureaus and officials; (ii) of the insurance underwriting board or insurance inspection bureau having jurisdiction; and (iii) of all insurance companies insuring all or any part of the Premises. Without limiting the generality of the foregoing, Lessee shall maintain the Premises in a condition substantially equal to or better than other similar residential complexes in the City of Santa Cruz.

11.3 No Limitation of Other Rights. Nothing in this provision defining the duty of maintenance shall be construed as limiting any right given elsewhere in this Lease to alter, modify, demolish, remove or replace any improvement, or as limiting provisions relating to condemnation or to damage or destruction during the final year or years of the term. No deprivation, impairment or limitation of use resulting from any event or work contemplated by this section shall entitle Lessee to any offset, abatement or reduction in rent nor to any termination or extension of the term.

11.4 Right to Contest. Lessee may contest by appropriate judicial or administrative proceeding, without cost or expense to The Regents, the validity or application of any law, ordinance, order, rule, regulation or governmental requirement (hereafter called "law") that Lessee repair, maintain, alter or replace the Premises in whole or in part, and Lessee shall not be in default for failing to do such work until a reasonable time following final determination of Lessee's contest. If The Regents gives notice of request, Lessee shall first furnish The Regents a bond, satisfactory to The Regents in form, amount and insurer, guaranteeing compliance by Lessee with the contested law and indemnifying The Regents against all liability that The Regents may sustain by reason of Lessee's failure or delay in complying with the law. The Regents may, but is not required to, contest any such law independently of Lessee. The Regents may, and on Lessee's notice of request shall, join in Lessee's contest, all at Lessee's expense.

12. DAMAGE OR DESTRUCTION DURING FINAL YEARS OF TERM.

Lessee is relieved of the obligation to, but may, repair, restore or reconstruct portions of the Premises damaged or destroyed during the final five (5) years of the Lease Term provided that (i) the cost of repairing, restoring or reconstructing would exceed Five Hundred Thousand Current Dollars (\$500,000); (ii) the damage or destruction is uninsured and is not required to be insured under any provision of this Lease; and (iii) Lessee shall:

12.1 Give The Regents notice of the damage or destruction promptly, but not later than fifteen (15) days after the event, detailing facts that qualify the casualty under this provision;

12.2 Not be in default under any provisions or condition of this Lease;

12.3 Continue to make all payments, when due as required by the provisions of this Lease, provided that The Regents may, by notice given at any time after Lessee's notice of the damage or destruction, elect to terminate the Lease as to the damaged portions of the Premises at a date stated in The Regents' notice and to forgive

all rent for the period following that date which would have been attributable to such portion;

12.4 Pay in full, or has paid in full, any outstanding indebtedness incurred by Lessee or any sublessee or the damaged portion or the Premises and secured by an encumbrance or encumbrances on the leasehold interest(s) related to such portion or the Premises;

12.5 Deliver possession of such portion of the Premises to The Regents and quitclaims any right, title and interest in the land and improvements if, and promptly after, vacating such portion of the Premises; and

12.6 Effectively relinquish and transfer to The Regents all insurance proceeds resulting from the casualty.

13. OWNERSHIP OF IMPROVEMENTS. All improvements included in the Premises at the expiration of the Lease Term or sooner termination of this Lease shall, without compensation to Lessee, then become The Regents property, free and clear of all claims to or against them by Lessee or any third person other than a sublessee whose sublease extends beyond the Lease Term, provided that the Regents shall have expressly consented to such sublease term, and Lessee shall defend and indemnify The Regents against all liability and loss arising from such claims or from The Regents' exercise of the rights conferred by this section.

14. NONSUBORDINATION AND PERMITTED ENCUMBRANCES BY LESSEE AND BY SUCCESSOR LESSEES.

14.1 Nonsubordination of Lease. This Lease shall be a prior lien against the Premises in respect to any loan, mortgage, deed of trust, other lease, lien, or encumbrance that may hereafter be placed on the Premises. Lessee shall, without any cost or expense to The Regents, execute any instrument that is necessary or is reasonably requested by The Regents to further effect the nonsubordination of this Lease.

14.2 Permitted Encumbrances by Successor Lessees.

14.2.1 Securing Successor Lessees. A Successor Lessee shall have the right, without obtaining the consent of Lessee or The Regents, to assign all or part of the Successor Lessee's interest under this Lease as security to any Lender that has advanced funds to the Successor Lessee pursuant to a promissory note (hereinafter "Note") and a mortgage or deed of trust (hereinafter "Condominium Mortgage"). In such event, Lessee agrees to sign all necessary papers required by such Lender;

provided that Lessee shall not be required to sign any Note or Condominium Mortgage or otherwise become obligated thereunder, and provided further that no such encumbrance shall constitute a lien upon The Regents' fee title to the Premises.

14.2.2 Notice. Concurrently with the execution of any Condominium Mortgage described in subsection 14.2.1 of this section 14.2, the Successor Lessee shall furnish to Lessee and The Regents the name and address of the holder thereof. Lessee shall thereafter mail to such Lender a duplicate copy or any and all notices or default which Lessee may from time to time give to or serve upon the Successor Lessee.

14.2.3 Non-Termination by The Regents. The Regents shall not take any action to terminate the assignment/sublease of a Successor Lessee because of any default or breach hereunder on the part of Lessee.

14.2.4 If this Lease shall terminate prior to the normal expiration of the Lease Term for any reason, The Regents agrees that any Successor Lessee shall have the right, for a period of ninety (90) days subsequent to the termination, to receive from The Regents a new lease of an undivided leasehold interest in the Premises as required to support a Condominium interest in the Project, the term of which lease shall not extend beyond the term of this Lease. The new lease shall contain the following terms and conditions:

14.2.4.1 The new lease shall be for a term to commence at such early termination of this Lease and shall have as the fixed date for the expiration thereof the same date stated in this Lease as the fixed date for the expiration of this Lease. The rent for the new lease shall be the pro rata share of the Successor Lessee at the same rent as would have been applicable during such term under the provisions of this Lease, had this Lease not been terminated; and all of the terms, covenants, conditions, and provisions of such new lease shall be the same as the terms, covenants, conditions, and provisions of this Lease.

14.2.4.2 If any such Successor Lessee shall elect to demand a new lease within the ninety (90) day period, it shall give written notice to The Regents of said election, and The Regents shall execute said new lease with such Successor Lessee in accordance with the provisions of this subsection.

14.2.4.3 The Successor Lessee shall, at the time of the execution and delivery of such new lease, pay to The Regents the pro rata share of all sums owing by Lessee to The Regents under the terms of this Lease immediately prior to the termination of this Lease, as well as all sums which would have become payable

hereunder by Lessee to The Regents to the date of execution and delivery of such new lease, had this Lease not terminated, and which remain unpaid at the time of the execution and delivery of such new lease, but the Lender or Successor Lessee shall be given credit for any net rents and income actually collected in the meantime by The Regents with respect to the Premises.

14.2.4.4 Notwithstanding any other expressed or implied provision of this Lease, any new lease made pursuant to this subsection shall be prior to any mortgage, deed of trust, or other lien, charge, or encumbrance on the fee of the Premises created by The Regents.

14.3 Lender Obligations. If a Lender under a Condominium Mortgage acquires an interest under this Lease by foreclosure or deed-in-lieu of foreclosure with respect to any Condominium in the Project, that Lender may assign or transfer the Condominium (or any interest under any new lease obtained pursuant to section 14.2) only in accordance with the following procedure:

14.3.1 For a period of at least twenty (20) days following notification by the Lender to The Regents of the Lender's intent to assign its interest in the Lease and sell the Condominium, The Regents shall have the option to accept such assignment and purchase such Condominium at a price equal to the full amount then owing under the mortgage loan that was foreclosed or with respect to which a deed-in-lieu of foreclosure was accepted, including interest accrued and unpaid thereon through the date of transfer, interest that would have been paid on the mortgage except for the transfer up to the date of sale, real property taxes that have been paid by the Lender or have accrued on the Condominium, the reasonable fees of the attorneys for the Lender, statutory costs and allowances permitted in connection with the foreclosure or other proceeding, and any other reasonable holding costs incurred by the Lender as a result of the foreclosure or the acceptance of a deed-in-lieu of foreclosure. Such option of The Regents shall be fully and freely assignable by The Regents to such persons and upon such terms and conditions as The Regents in its sole and absolute discretion may determine. If The Regents or its assignee notifies the Lender within the above-described twenty (20) day period that the option of The Regents will be exercised, the assignment and sale transaction between The Regents or its assignee and the Lender shall be closed within sixty (60) days thereafter. The notification referred to above may be given by mailing (by registered or certified mail) a copy of the statutory notice of trustee's sale with respect to the Condominium to The Regents at the addresses listed in section 19.4.2, below.

14.3.2 Upon expiration of the twenty (20) day period described in subsection 14.3.1, above, the Lender's interest in the Premises and the related Condominium may be offered for assignment and sale to the general public.

14.4 Foreclosure. If any Lender under a Condominium Mortgage described in section 14.3 subsequently assigns or transfers its interest under this Lease, after acquiring the same by foreclosure or deed-in-lieu of foreclosure, or subsequently assigns or transfers its interest under any new lease obtained pursuant to subsection 14.2.4, and, in connection with any such assignment or transfer, the Lender takes back a mortgage or deed of trust encumbering such leasehold interest to secure a portion of the purchase price given to the Lender for such assignment or transfer, then such mortgage or deed of trust (notwithstanding whether or not it is in a first lien position) shall be considered a Condominium Mortgage as contemplated under section 14.2, and the Lender shall be entitled to receive the benefit of and enforce the provisions of this Article 14, and any other provision of this Lease intended for the benefit of the holder of such a Condominium Mortgage.

14.5 Notice and Right to Cure Before Foreclosure. Every Condominium Mortgage shall provide that, prior to the institution of any proceeding to foreclose any such instrument or negotiations to accept an assignment in lieu of the foreclosure of any such instrument, the holder or beneficiary of said instrument shall notify The Regents to that effect, and The Regents shall have the right (but not the obligation) within sixty (60) days after the giving of such notice to pay the full amount then delinquent under said instrument, including interest accrued and unpaid thereon, the reasonable fees of the attorneys for the holder or beneficiary, statutory costs and allowances in the event any foreclosure proceeding shall have commenced, and any other reasonable costs incurred by the Lender as a result of the default under such instrument. The notice required by the preceding sentence may be satisfied by mailing (by certified or registered mail) a statutory notice of a default to The Regents. Any amount The Regents shall pay to a Lender under this right to cure shall be deemed to be additional rent under section 6.4, above.

15. ASSIGNMENT AND SUBLETTING.

15.1 Assignment. Lessee shall not voluntarily assign or encumber its rights hereunder without first obtaining the written consent of The Regents. Any assignment or encumbrance without The Regents shall be voidable and, at The Regents option, shall constitute a default hereunder.

15.2 Subletting. Lessee shall promptly execute such documents as shall be reasonably necessary to sublet undivided one/fifty first (1/51st) interests in the

Premises to each purchaser or other permitted transferee of a Condominium under the provisions of Articles 13 and 14 of the CC&Rs, provided that each such sublease shall be in substantially the form set forth in Exhibit C attached hereto, or on such other form of sublease as The Regents shall reasonably direct. Alternatively, at The Regents' election, The Regents may, as Lessee's attorney-in-fact, execute subleases of the type described in the preceding sentence in favor of members of the class of transferees described in such sentence.

Lessee may not enter into any sublease other than as provided in this section 15.2 without the express, prior, written consent of The Regents, which consent may be withheld at The Regents' absolute discretion. Entry into such a sublease without the consent of The Regents shall be a material breach hereof, and, if not remedied within the periods provided in Section 18, below, following notice thereof from The Regents, shall be a default hereunder.

16. INSURANCE.

16.1 Fire, Casualty and Demolition Coverage. Throughout the term, at Lessee's sole cost and expense, Lessee shall obtain and maintain or cause to be obtained and maintained a policy of fire and casualty insurance coverage for the full insurable value of all of the improvements located on or appurtenant to the Premises covering one hundred percent (100%) of the current replacement cost of such improvements. The policy shall contain an "Agreed Amount" endorsement and a one hundred percent (100%) co-insurance clause and shall include coverage of all perils included in a standard "all risk" endorsement. The policy shall also contain, to the extent required by law or the Federal National Mortgage Association and/or the Federal Home Loan Mortgage Corporation for a condominium project, an increased cost of construction endorsement; to the extent available at: a commercially reasonable cost, an inflation guard endorsement or its equivalent; vandalism and malicious mischief coverage; and a determinable cash adjustment clause or a similar clause to permit cash settlement covering full value or the improvements in case of partial destruction and a decision not to rebuild. The maximum deductible on such policy shall be the lesser of Thirty Thousand Current Dollars (\$30,000.00) or one percent (1%) of the face amount of the policy, and the maximum deductible related to proceeds to be paid with regard to any individual Condominium shall be the lesser of One Thousand Current Dollars (\$1,000.00) or one percent (1%) of the Condominium's replacement cost. The Regents shall not carry any insurance the effect or which would be to reduce the protection or payment to Lessee under any insurance that this Lease obligates Lessee to carry. If any dispute on whether the amount or insurance complies with the above cannot be resolved by agreement, The Regents may, not more often than once every twelve (12)

months, request the carrier of the insurance then in force to determine the full insurable value as defined in this provision, and the resulting determination shall be conclusive between the parties for the purpose of this section. Lessee may also obtain and maintain demolition insurance in adequate amounts to cover demolition, in case of total or partial destruction of the Project and a decision not to rebuild, and may obtain blanket policies of earthquake or flood insurance to the extent such coverage is customarily available to similar condominium projects at reasonable cost, or is required by law or the Federal National Mortgage Association and/or the Federal Home Loan Mortgage Corporation. The insurance policies required under this section 16 shall name as insured Lessee, any sublessees, and all mortgagees or Condominiums as their respective interests may appear, and may contain loss payable endorsements in favor of the trustee described in section 16.2, below. The policies shall provide that any insurance trust agreement established pursuant to section 16.2, below, will be recognized.

16.2 Appointment of a Trustee. All insurance proceeds payable to Lessee under section 16.1 of this Lease for losses to real property and improvements, subject to the rights or Mortgagees under section 16.1, shall, upon election of The Regents, by notice to Lessee and insurance carrier, be paid to a trustee, to be held and expended for the benefit of The Regents, Lessee, owners of Condominiums, mortgagees and others, as their respective interests shall appear. The trustee may be a commercial bank or other financial institution with trust powers in Santa Cruz County, California, that agrees in writing to accept such trust.

16.3 Builder's Risk Coverage. Before commencement of any demolition or construction on the Premises, Lessee shall procure, and shall maintain in force until completion and acceptance of the work, "all risks" builder's risk insurance including vandalism and malicious mischief, in form and with a company reasonably acceptable to The Regents, covering improvements in place and all material and equipment at the job site furnished under contract, but excluding contractor's, subcontractor's and construction manager's tools and equipment, and property owned by contractor's or subcontractor's employees, with limits in an amount at least equal to the estimated cost of the demolition or construction for all work at the job site.

16.4 Public Liability Insurance. Throughout the term, at Lessee's sole cost and expense, Lessee shall keep or cause to be kept in force, for the mutual benefit of The Regents and Lessee, comprehensive public liability and property damage insurance against any claim or liability incident to the ownership or use of the Premises and any other Lessee-owned real or personal property, including a cross-liability or severability of interest endorsement insuring each insured against liability to each other insured.

The general aggregate limit of such insurance shall be not less than Five Million Current Dollars (\$5,000,000) (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 Index) per person for personal or bodily injury, death or property damage and Two Million Current Dollars (\$2,000,000) (subject to adjustment as aforesaid) for any one accident or occurrence; and with limits of not less than One Million Current Dollars (\$1,000,000) (subject to adjustment) per occurrence with respect to property damage. Such insurance shall also include coverage against water damage liability, liability for non-owned 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 to preclude the insurer from denying the claim of named insureds because of any neglect or other act or omission of another named insured.

16.5 Boiler, Unusual Hazards, Other Insurance. Lessee shall procure and keep in force in form and coverage reasonably satisfactory to The Regents:

16.5.1 Boiler and machinery insurance if at any time or from time to time such equipment is located on the Premises.

16.5.2 If Lessee commits, permits or causes the conduct of any activity or the bringing or operation of any equipment on or about the Premises creating unusual hazards, Lessee shall, promptly on notice of demand from The Regents, procure and maintain in force, during such activity or operation, insurance sufficient to cover the risks represented thereby. The Regents' demand for unusual hazard insurance shall not constitute a removal, cessation or abatement of such activity or operation.

16.5.3 Lessee shall obtain and maintain a fidelity bond for directors, officers, trustees, and employees responsible for handling its funds, naming as insured Lessee for an amount sufficient to cover at least twenty-five percent (25%) of the estimated annual operating expenses and reserves.

16.5.4 Other insurance, in amounts from time to time reasonably required by The Regents, against other insurable risks, if at the time they are Commonly insured against for premises similarly situated and containing comparable improvements.

Lessee may procure and maintain any insurance not required by this Lease, but all such insurance shall be subject to all other provisions of this Lease pertaining to insurance and shall be for the mutual benefit of The Regents and Lessee.

16.6 Policy Form, Content, Insurer. All insurance required by express provisions of this Lease shall be carried only in responsible insurance companies licensed to do business in the State of California. All such policies shall be non-assessable and shall contain language, to the extent obtainable, to the effect that (1) any loss shall be payable notwithstanding any act or negligence of The Regents that might otherwise result in a forfeiture of the insurance, (2) the insurer waives the right of subrogation against The Regents and The Regents' agents and representatives, (3) the policies are primary and noncontributing with any insurance that may be carried by The Regents, and (4) they cannot be canceled or materially changed except after thirty (30) days written notice by the insurer to The Regents or The Regents' designated representative. Lessee shall furnish The Regents with copies of all such policies promptly on receipt of them, or with certificates evidencing the insurance. Upon expiration or earlier termination of this lease, The Regents shall reimburse Lessee pro rata for all prepaid premiums on insurance required to be maintained by Lessee, and Lessee shall assign all Lessee all right, title and interest in that insurance to The Regents. Lessee may effect for its own account any insurance not required under this lease.

16.7 Failure to Maintain Insurance: Proof of Compliance. Lessee shall deliver to The Regents, in the manner required for notices, copies of certificates of all insurance policies required by this Lease, together with evidence satisfactory to The Regents of payment required for procurement and maintenance of the policy, within the following time limits:

16.7.1 For insurance required at the beginning of the Lease Term, at least thirty (30) days before the Lease Term commences, or at least thirty (30) days before the insurance is required if later than the requirement, if new, takes effect;

16.7.2 For any renewal or replacement of a policy already in existence, at least thirty (30) days before expiration or other termination of the existing policy.

If Lessee fails or refuses to procure or to maintain insurance as required by this Lease or fails or refuses to furnish The Regents with required proof that the insurance has been procured and is in force and paid for, The Regents shall have the right, at The Regents' election and upon five (5) days' notice, to procure and maintain such insurance. The premiums paid by The Regents shall be treated as added rent due from Lessee with interest at the rate of ten percent (10%) per annum, to be paid on the first day of the month following the date on which the premiums were paid. The Regents shall give prompt notice of the payment of such premiums, stating the amounts paid

and the names of the insurer or insurers, and interest shall run from the date of the notice.

16.8 Increase in Amount of Insurance. If The Regents reasonably believe that the type or amount of insurance carried by Lessee pursuant to this section 17 is inadequate, The Regents may, not more frequently than every third year during the Lease Term, require Lessee to increase such coverage to an amount or to change such coverage to a type which shall be reasonable when evaluated in comparison with the ordinary practice of owners of similar property (including associations of property owners) in the Santa Cruz/Monterrey Bay area.

16.9 Nonliability of The Regents. Lessee shall hold The Regents harmless from all liability or loss by reason of injury or death to any person, or damage to or loss of property from whatever cause whether on the Premises, or in any way connected with the Premises (a) arising from any use of the Premises, or any part thereof, (b) caused by any act or omission of Lessee, or any of its agents, employees, licensees or invitees, (c) arising from any accident on the Premises or any fire or other casualty thereon, (d) occasioned by the failure of Lessee to repair or maintain the Premises in a safe condition, or (e) arising from any other cause whatsoever, except as occasioned by the negligent act or omission by The Regents or its employees. Lessee shall indemnify The Regents and save it harmless from and against any and all claims, actions, damages, liability and expenses, including attorneys' fees, in connection with loss of life, personal injury and/or damage to property arising from or out of any incurrence in, upon or at the Premises or arising from or out of Lessee's failure to comply with any provision of this Lease, or otherwise occasioned wholly or in part by any act or omission of Lessee, its agents, contractors, employees or licensees. If The Regents shall, without fault on its part, be made party to any litigation commenced by or against Lessee, Lessee shall protect and hold The Regents harmless and pay all costs, expenses and reasonable attorneys' fees incurred or paid by The Regents in connection therewith.

17. CONDEMNATION.

17.1 Definitions. The following definitions apply in construing this section 17:

17.1.1 "Total Taking" means the taking of the fee title to all the Premises, which shall be considered to include any off-site improvements effected by Lessee to serve the Premises or any of the improvements included within the Premises.

17.1.2 "Partial Taking" means any taking of fee title to the Premises that is not a total taking.

17.1.3 "Improvements" mean all products of skill, artifice, plan or design for construction on, modification of, or planned use of existing structures, natural or cultivated, or earth contours on the Premises, including but not limited to: buildings, structures, fixtures, fences, utility installations, excavations, surfacing, water banks or channels, and grading; fruit, nut-bearing and ornamental trees, bushes and vines, whether occurring on the Premises naturally or placed by human design or effort, and whether coming into being on the Premises before or after commencement of the term; landscaping, ground cover, planting and earth contours forming part of a landscaping, design, and artistic and ornamental components of any of the above.

17.1.4 "Notice of Intended Taking" means any notice or notification on which a reasonably prudent person would rely and which he or she would interpret as expressing an existing intention of taking as distinguished from a mere preliminary inquiry or proposal. It includes but is not limited to the service of a condemnation summons and complaint on a party to this Lease. The notice is considered to have been received when a party to this Lease receives from the condemning agency or entity a notice of intent to take, in writing, containing a description or map of the taking reasonably defining the extent of the taking.

17.1.5 "Award" means compensation paid for the taking whether pursuant to judgment or by agreement or otherwise.

17.2 Notice to Other Party. The party receiving any notice of the kinds specified below shall promptly give the other party notice of the receipt, contents and date of the notice received:

17.2.1 Notice of intended taking.

17.2.2 Service of any legal process relating to condemnation of the Premise or improvements;

17.2.3 Notice in connection with any proceedings or negotiations with respect to such a condemnation; or

17.2.4 Notice of intent or willingness to make or negotiate a private purchase, sale or transfer in lieu of condemnation.

17.3 Representative of Each Party; Effectuation. The Regents, Lessee and all persons and entities holding under Lessee shall each have the right to represent his,

her, or its respective interest in each proceeding or negotiation with respect to a taking or intended taking and to make full proof of his, her, or its claims. No agreement, settlement, sale or transfer to or with the condemning authority shall be made without the consent of The Regents and Lessee. The Regents and Lessee will execute and deliver to the other any instruments that may be required to effectuate or facilitate the provisions of this Lease relating to condemnation.

17.4 Total Taking. In the event of a total taking, (a) Lessee's obligation to pay rent and (b) Lessee's interest in the leasehold shall each terminate on the date of taking. Lessee may continue to occupy the Premises and improvements until the condemner takes physical possession.

17.5 Partial Taking. On a partial taking, this Lease shall remain in full force and effect, covering the remaining portion of the Premises, except that the net rent shall be reduced in the same ratio as the percentage of the area of the Premises taken bears to the total area of the Premises.

17.6 Taking of a Condominium. If, during the Lease Term, any Condominium, including any interest in or under this Lease, shall be taken as a result of the exercise of the right of eminent domain, the sublease or assignment associated with such Condominium may, at the option of the Successor Lessee, be terminated on the date of such taking, and the rights of The Regents, the Lessee, and any Successor Lessee in and to the award or awards upon any such taking shall be determined in accordance with section 17.7.

17.7 Determination of Awards. If all or a portion of the Premises shall be taken by exercise of the right of eminent domain, the award in any such proceeding or for any such injury or reduction in value shall be determined and apportioned as follows:

17.7.1 In the event of any taking which results in the termination of this Lease or of any sublease or assignment of any interest thereunder in accordance with the foregoing, then each party hereto and any sublessee or assignee shall be entitled to prosecute claims in such condemnation proceedings for the value of their respective interests in the Premises as appropriate.

17.7.2 In the event of any taking of a portion of the Premises which does not result in the termination of this Lease or any sublease or assignment in accordance with the foregoing, then each party hereto and any sublessee or assignee shall be entitled to prosecute claims in such condemnation proceedings for the value of their respective interests.

The right of Lessee and any sublessee or assignee to share in any such award shall be subject to the rights of their respective lenders or mortgagees.

17.8 Partial or Temporary Taking. In the event of a partial taking or a taking for temporary use that does not result in the termination of this Lease or any sublease or assignment of any interest thereunder, Lessee, or sublessee or assignee as the case may be, shall, with due diligence following the taking, commence all work to remedy any physical damage done to the improvements by such taking, to restore them for the continuation of the use being made thereof prior to such taking and thereafter prosecute the same to completion with all due diligence. If Lessee, sublessee or assignee, jointly herein called "Lessee" does not commence to repair, alter, modify or reconstruct as above (herein called "repair") within a reasonable time, not to exceed 180 days, the cost of such repair shall be deducted from Lessee's share of the award and paid to The Regents; this payment of the award to The Regents, shall not be deemed a waiver by The Regents of a default on the part of Lessee for not making such repair, and The Regents shall have all remedies available for such default. Lessee is relieved of the duty to, but may repair, alter, modify or reconstruct the improvements if a partial taking occurs during the final five (5) years of the term. The conditions for such relief are:

17.8.1 The work of repair, alteration, modification or reconstruction would constitute a "major" repair or alteration as defined in the provisions of this Lease relating to maintenance, repair and alteration of improvements;

17.8.2 Within thirty (30) days after Lessee receives notice of intended taking, Lessee gives The Regents notice of election to claim the relief described in this provision;

17.8.3 Lessee complies with all conditions described as conditions in the provisions of this Lease relating to damage or destruction during the final years of the term. If the conditions described in this provision are met, the award shall be apportioned as for a substantial taking, applying the requirements of this provision relating to Lessee's obligations; provided Lessee's right, title and interest in the land, improvements and leasehold estate shall continue until the taking is completed by deed, contract or final order of condemnation.

If all the foregoing conditions for relief are satisfied, the cost of such repair, alteration, modification or reconstruction shall be deducted from Lessee's share of the award and paid to The Regents.

17.9 Taking of Less Than Fee Title. On the taking, other than a temporary taking, or less than a fee title interest in the Premises or improvements or both, the questions whether the taking is total or partial, and the effects on term, rent and apportionment or award shall be determined by arbitration.

17.10 Temporary Taking. If all or any portion of the Premises or of a Condominium therein shall be taken by the exercise of the right of eminent domain for governmental occupancy for a limited period, this Lease and any sublease or assignment governing any affected Condominium shall not terminate and Lessee or Successor Lessee, as the case may be, shall continue to perform and observe all of its obligations hereunder as though such taking had not occurred except only to the extent that it may be prevented from so doing by reason of such taking. Lessee, or Successor Lessee, as the case may be, shall in no event be excused from the payment of rent and all other sums and charges required to be paid under this Lease.

18. DEFAULT, REMEDIES AND TERMINATION.

18.1 Default. The occurrence of anyone or more of the following events constitutes a default hereunder by Lessee:

18.1.1 Failure to pay when due any rent, tax, assessment or other charge upon the Premises when due and payable where such failure shall continue for a period of ten (10) days after written notice thereof from The Regents to Lessee.

18.1.2 Failure by the Lessee to perform any other expressed or implied covenant which it is required hereunder to perform hereby, should such failure continue for thirty (30) days after written notice thereof from The Regents to Lessee specifying the particulars of such default; provided, however, that if the nature of Lessee's default is such that more than thirty (30) days are reasonably required for its cure, then the Lessee shall not be deemed to be in default if Lessee shall commence such cure within said thirty (30) days and thereafter diligently prosecute such cure to completion.

18.1.3 Appointment of a receiver, custodian or trustee (i) to take possession of all or substantially all of the assets of the Lessee who shall not be removed within thirty (30) days of such appointment, except for a receiver appointed at the insistence of The Regents to take possession of the Lessee's interest in the Premises; (ii) making a general assignment for the benefit of creditors; (iii) becoming unable or failing to pay its debts as they mature; or (iv) any action taken or suffered by Lessee under any reorganization, insolvency or bankruptcy law or proceeding involving

Lessee as the debtor, which is not dismissed within thirty (30) days after commencement thereof.

18.2 Remedies. If any default by the Lessee shall continue uncured, following notice of default, where required by this Lease, for the period applicable to the default under the applicable provision of this Lease, The Regents may resort, cumulatively or in the alternative, to the following remedies, as well as to anyone or more other remedies provided by law or county:

18.2.1 Termination. Subject to the rights of Successor Lessees to obtain a Condominium Lease directly from The Regents, The Regents may, at The Regents' election, terminate this Lease by giving Lessee a Notice of Lease Termination. The Regents shall not give Lessee a Notice of Lease Termination hereunder until thirty (30) days after The Regents shall have provided to each owner of a Condominium, a Notice of Intention to Terminate Lease, which shall be accompanied by an offer to enter into a Condominium Lease on substantially the same terms as the owner's then current Condominium Lease with The Regents. On the giving of the Notice of Lease Termination, all of Lessee's rights in the Premises and every part thereof shall terminate. The Regents shall not be deemed to have terminated this Lease unless The Regents has so declared in writing to Lessee, nor shall The Regents be deemed to have accepted or consented to an abandonment by Lessee by performing acts intended to maintain or preserve the Premises or appointing a receiver to protect The Regents' interest under this Lease. Promptly after notice of termination, Lessee shall surrender and vacate the Premises and all improvements thereto and The Regents may re-enter and take possession of the Premises and all improvements thereon. Termination under this section shall not relieve Lessee from the payment of any sum then due to The Regents or from any claim for damages previously accrued or then accruing against the Lessee.

18.2.2 Recovery of Damages. The Regents shall be entitled, at The Regents' election, to damages equal to the amount necessary to compensate The Regents for all the detriment proximately caused by Lessee's failure to perform Lessee's obligations under this Lease, or which in the ordinary course of things would be likely to result therefrom. Such amount shall include, but not be limited to, such expenses, including attorneys fees and costs, as The Regents may have paid, assumed or incurred in recovering possession of the Premises or of placing the Premises in good order and condition.

18.2.3 Strict Performance. The Regents may require strict performance of all covenants and obligations herein as the same shall accrue or become due and have a right of action therefor without awaiting the end of the term of this

Lease. Nothing contained herein shall affect, change or waive any rights of The Regents to obtain equitable relief when such relief is otherwise appropriate or to obtain the relief provided by California Code of Civil Procedure sections 1159 et seq., relating to actions for unlawful detainer, forcible entry, or forcible detainer. If The Regents obtains possession of the Premises under a judgment pursuant to section 1174 of the Code of Civil Procedure or if The Regents, by written notice, declares this Lease to be terminated because of the breach of this Lease, then The Regents may repossess and enjoy the Premises, together with all additions, alterations and improvements thereto.

18.2.4 No Waiver. The Regents' election to perform any obligation of Lessee under this Lease or its refusal to do so shall not constitute a waiver of any right or remedy for Lessee's default, and Lessee shall promptly reimburse, defend and indemnify The Regents against all liability, loss and expense arising therefrom.

18.3 Attorneys' Fees. In the event that either The Regents or Lessee brings suit against the other to enforce rights under this Lease, each party shall bear the expense of their own attorneys' fees.

18.4 Surrender of Property. Upon the expiration of the Lease Term (as such Lease Term may be extended by the agreement of The Regents and Lessee) or upon an earlier termination thereof, Lessee shall quit and surrender the Premises, including any personal property of Lessee required for the normal operation of the improvements, to The Regents without further obligation on the part of either party hereto free and clear of all liens and encumbrances other than those existing at the commencement of the term of this Lease or created by or with the approval of The Regents. Lessee shall also, upon such termination, pay to The Regents an amount equal to any advance rentals or security deposits theretofore received by Lessee in connection with any sublease which, with The Regents' approval, extends beyond termination of this Lease. At the end of the term of this Lease or upon the earlier termination thereof, the title to and ownership of the improvements shall automatically vest with The Regents without the execution of any further instrument.

18.5 Failure of Lessee To Perform Required Acts. If at any time during the Lease Term, Lessee fails, refuses, or neglects to do any of the things herein required to be done by Lessee, The Regents shall have the right but not the obligation to do the same, but at the cost of and for the account of Lessee; provided that The Regents shall in no case take such action sooner than thirty (30) days after giving Lessee written notice of such failure, refusal, or neglect and allowing said period within which Lessee may commence a bona fide effort to cure the same. The amount of any money expended by The Regents pursuant to this section 18.5, together with interest thereon at the rate of ten percent (10%) per annum, shall be repaid to The Regents by Lessee forthwith upon

demand therefor and, unless so paid, shall be added to the next rental payment coming due hereunder. Nothing contained in this section 18.5 shall diminish the rights of The Regents with regard to defaults under section 18.1 or with regard to remedies under section 18.2 of this Lease.

18.6 Mortgagee Protection. No breach of any provision of this Lease by Lessee shall invalidate the lien of any Lender or mortgage made in good faith and for value. The Regents shall take such action as shall be reasonably necessary to preserve such lien, including without limitation, entry into a direct lease from The Regents to a Condominium owner conveying, an undivided leasehold, interest in the Premises.

19. MISCELLANEOUS PROVISIONS.

19.1 Force Majeure. If either party shall be delayed or prevented from the performance of any act required by this Lease by the reason of acts of God, strikes, lockouts, labor troubles, inability to secure materials, or other cause, without fault and beyond the reasonable control of the party obligated (financial inability excepted), performance of such act shall be excused for the period of the delay; and the period for the performance of any such act shall be extended for a period equivalent to the period of such delay; provided that nothing in this section 19.1 shall excuse Lessee from the prompt payment of any rental or other charge required of Lessee. The party delayed or prevented from the performance of any act as described above shall notify the other of such delay or prevention within fifteen (15) days of the inception thereof, and shall thereafter keep said party regularly informed of the status of such delay or prevention.

19.2 Time of the Essence. The parties hereto agree that time is of the essence in this Lease and, accordingly, that time limits stated herein are to be strictly observed.

19.3 Binding Effect. The provisions of this Lease shall bind and inure to the benefit of the successors and assigns of the original parties to this Lease, provided that nothing in this section 19.3 shall be deemed to authorize or permit the assignment of any interest in this Lease other than in strict compliance with the provisions hereof.

19.4 Notices.

19.4.1 All notices required to be given or provided for in this Lease shall be in writing.

19.4.2 All notices required to be given or provided for in this Lease shall be deemed given when hand delivered to the addressee or deposited in the United

States mail properly addressed to the addressee with postage prepaid in certified or registered form, return receipt requested.

19.4.3 All notices to The Regents shall be delivered or mailed to:

Associate Vice Chancellor-Housing Services University of California Santa Cruz
Santa Cruz, CA 95064
Attn: Hagar Court Liaison

with a copy to:

Real Estate Services Group
The Regents of the University of California
1111 Franklin Street – Suite 600
Oakland, CA 94607

or to such other person or place as The Regents may from time to time direct.

19.4.4 All notices to Lessee shall be delivered or mailed to:

Shoreline Property Management
1100 Water Street, Suite 1A
Santa Cruz, CA 95062

or to such other person or place as Lessee may from time to time direct.

19.4.5 All notices to any Successor Lessee shall be delivered or mailed to such address as the Successor Lessee shall designate to The Regents at the time the Successor Lessee acquires an interest in the Premises or from time to time thereafter.

19.4.6 If any Lender (as defined in section 19.10.7 has present rights under section 14 or this Lease, then any notice sent to Lessee or a Successor Lessee shall be effective and deemed given only if a copy or such notice is simultaneously hand delivered or sent to such Lender by registered or certified mail, return receipt requested, at an address previously provided by Lessee or Successor Lessee or such Lender.

19.5 Memorandum of Lease. Concurrently with the execution of this Lease, the parties hereto shall execute and acknowledge a memorandum of this Lease for the purpose of recording the same in the office of the recorder of Santa Cruz County.

Such memorandum shall contain a description of the Premises, the names of The Regents and Lessee, and the term of this Lease.

19.6 Nonmerger of Fee and Leasehold Estates. If under any circumstances both The Regents and Lessee's estates in the Premises become vested in the same owner, this Lease nevertheless shall not be extinguished by application of the doctrine of merger except at the express election of the owner and with the express written consent of the beneficiary or beneficiaries Under all deeds of trust affecting the Premises and Lessee's leasehold estate.

19.7 Captions, Gender and Number.

19.7.1 The captions used herein are for convenience only and are not a part of this Lease and do not in any way limit or amplify the terms or provisions hereof.

19.7.2 As used in this Lease, the use of one gender shall include the other, and the use of the singular shall include the plural and vice versa, as the context may require.

19.8 Governing Law and Construction. This Lease shall be construed and interpreted in accordance with and governed by the laws of the State of California. The language in all parts of this Lease shall, in all cases, be construed according to its fair meaning and not strictly for or against The Regents or Lessee.

19.9 Entire Agreement; Amendments.

19.9.1 This Lease, together with the CC&Rs, contains all of the covenants, terms, provisions, and agreements between The Regents and Lessee relating in any manner to the subject matter hereof. No prior agreement or understanding with respect to the same shall be valid or of any force or effect, and no covenant, term, provision, or agreement of this Lease shall be altered, changed, modified, or added to, except in writing, signed by The Regents and Lessee, and with the written consent of any Lender of Lessee as provided in section 14.2 of this Lease.

19.9.2 In all assignments and subleases to Successor Lessees, Lessee shall reserve and maintain a right to alter, change, modify, or amend the provisions of this Lease without the approval of such Successor Lessees and require that any such alteration, change, modification, or amendment shall be binding upon all such Successor Lessees; provided that Lessee may not agree, absent the prior written approval of not less than sixty-six and two-thirds percent (66-2/3%) of the then Successor Lessees, to any alteration, change, modification, or amendment that would (i)

reduce the term of this Lease, (ii) increase the financial obligations of a Successor Lessee, or (iii) reduce the above-specified percentage of Successor Lessees needed to approve any such alteration, change, modification, or amendment.

19.10 Definitions.

19.10.1 "CC&Rs" means the Declaration of Covenants, Conditions and Restrictions, substantially in the form attached hereto as Exhibit A, and as subsequently duly amended, for a fifty one (51) unit Condominium development located on the Premises as duly executed by The Regents.

19.10.2 "Chancellor" means the Chancellor or the University or California Santa Cruz.

19.10.3 "Condominium" means an estate in real property, as defined in section 783 of the California Civil Code, consisting of an undivided interest as tenant in common in the Premises together with determinable fee interest in a particular described Condominium described in a condominium plan for the Project, all as constituted in the CC&Rs.

19.10.4 "Condominium Lease" means either (i) an individual sublease entered into by and between a Condominium owner and Lessee, (ii) a direct lease from The Regents to a Condominium owner conveying, respectively, an undivided subleasehold, or leasehold, interest in the Premises.

19.10.5 "Current Dollars" means any dollar amount stated herein multiplied by the quotient obtained by dividing the Index as of the date of computation by the Index as of the date of the beginning of the term of this Lease, provided, however, that should the Index cease to be published, the above-described computation shall be made using such other successor or reasonably comparable index as shall be reasonably designated by The Regents.

19.10.6 "Index" means the National Consumer Price Index, All Urban Consumers, All Items, 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 national changes in the price of consumer items.

19.10.7 "Lender" means any savings bank, savings and loan association, commercial bank, trust company, credit union, insurance company, real estate investment trust, pension fund, The Regents of the University of California, or other lending institution of substance (including the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation or other similar

institutional secondary market mortgage purchasers) which performs functions similar to any of the foregoing, which makes or is the assignee of a loan to Lessee or a Successor Lessee secured by a deed of trust on any portion of or fractional interest in the Premises.

19.10.8 "Lessee" means HAGAR COURT HOMEOWNERS ASSOCIATION, a California mutual benefit corporation, and its successors and assigns, to the extent permitted hereunder.

19.10.9 "Lease" means this Common Areas Lease by and between The Regents and Lessee, as such may be amended from time to time.

19.10.10 "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.

19.10.11 "Premises" means (i) the land described in the attached Exhibit D, (ii) any improvements now or hereafter located on the land, and (iii) any easements, rights or rights of way, or other interests in real property which are appurtenant thereto and which are of record.

19.10.12 "Project" means the condominium project as set forth in the CC&Rs, including fifty one(51) Condominiums to be created by The Regents and located on the Premises.

19.10.13 "Regents" means THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, a California public corporation, and its successors and assigns, to the extent permitted hereunder.

19.10.14 "Successor Lessee" means any person or persons, who, as a purchaser, assignee, sublessee, or otherwise, is a successor in interest to Lessee with respect to an undivided one/fifty first (1/51st) interest in the Premises pursuant to the provisions of this Lease.

19.10.15 "University" means The Regents of the University of California.

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IN WITNESS WHEREOF, the parties hereto have executed this Common Areas Lease as of the date first above written.

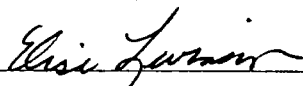
LESSEE:

THE REGENTS:

HAGAR COURT HOMEOWNERS ASSOCIATION, a California nonprofit mutual benefit corporation

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, a California public corporation

By:  _____

By:  _____

Its: PRESIDENT, HAGAR COURT HOMEOWNERS ASSOCIATION
Stephen R. Houser
President

Its: Director, Colleges and University Housing Services
Elise K. Levinson
Director, Colleges and University
Housing Services

CALIFORNIA NOTARY ACKNOWLEDGEMENT

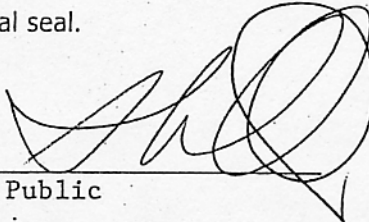
STATE OF CALIFORNIA)SS
COUNTY SANTA CRUZ)
OF

On October 23, 2003, before
me, Sharon Oster, Notary Public personally appeared
Stephen R. Houser and Elise K. Levinson, personally known to
me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are
subscribed to the within instrument and acknowledged to me that he/she/they executed the same in
his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the
person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

*This area for official
notarial seal*

Signature



Sharon Oster, Notary Public

My Commission

Expires: January 1, 2004



EXHIBIT A
To Common Areas Lease

FORM OF
Declaration of Covenants, Conditions and Restrictions
October 23, 2003

[Not Attached for Recording]

102940.1:lllee:Lee, Lloyd C.
7/2/03

EXHIBIT B
To
Common Areas Lease

PLANS AND SPECIFICATIONS
Not attached for recording

EXHIBIT C
To Common Areas Lease

FORM OF
SUBLEASE OF UNDIVIDED INTEREST

Recording requested by:

HAGAR COURT HOMEOWNERS
ASSOCIATION

WHEN RECORDED, MAIL TO:

(The above space reserved for Recorder's use)

MEMORANDUM OF SUBLEASE OF UNDIVIDED INTEREST

THIS MEMORANDUM OF SUBLEASE OF UNDIVIDED INTEREST (the "Memorandum"), dated _____, 2003, is made by and between the Hagar Court Homeowners Association, a California not for profit, mutual benefit corporation (the "Association") and _____ ("Home Owner").

A. The Association is a mutual benefit corporation, the members of which are, or will be, owners of condominium interests described below. All of the directors of the Association were initially appointed by The Regents of the University of California ("The Regents").

B. The Association is the lessee of certain land and improvements in the City of Santa Cruz, County of Santa Cruz, State of California, which is further described in Exhibit 1 (the "Premises") pursuant to a long-term lease with The Regents (the "Common Areas Lease").

C. By means of the Declaration of Covenants, Conditions and Restrictions ("CC&Rs"), The Regents and the Association established a plan of ownership of condominium units located in the Premises as part of a housing program established for the principal benefit and convenience of the members of the faculty and academic staff of the University of California Santa Cruz (the "Housing Program").

D. The principal objective of the Housing Program is to strengthen the educational program at the University of California Santa Cruz, by fostering an academic community at or near the campus, creating and maintaining affordable for-sale housing for members of the University's faculty and academic staff, and assisting in the recruitment and retention of faculty.

E. The Association assigned back to The Regents, the exclusive right to sublease undivided leasehold interests in the Premises ("Unit Interest"), each of which must be associated with a specific Condominium, as defined below.

F. Home Owner seeks to sublease Unit Interest and to purchase from The Regents Unit _____ associated therewith.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereto agree as follows:

1. **Transfer of Subleasehold Interest in the Premises.** The Association leases the Unit Interest associated with the Unit to Home Owner, and Home Owner leases the Unit Interest associated with the Unit from the Association, together with all rights and privileges pertaining to the Unit Interest, subject, however, to the CC&Rs and any other covenants, conditions, restrictions, limitations, licenses, rights of way and other matters of record. Nothing herein shall be construed to provide Home Owner with any right which is in conflict with the Common Areas Lease.

2. **Term.** This Sublease shall commence on the date first above written and shall end December 31, 2063, subject, however, (a) to rights of termination and renewal and (b) those terms and conditions all as set forth below and as set forth more particularly in a certain Sublease of Undivided Interest between these parties, which Sublease of Undivided Interest is dated of even date herewith.

3. **Terms and Conditions.** The terms of the Sublease of Undivided Interest, which are incorporated herein by reference as if fully set forth herein, include the following:

3.1 Home Owner's leasehold estate is subject to the Declaration of Covenants, Conditions and Restrictions for Hagar Court Condominiums (the "Declaration"), recorded on _____, 2003 as Instrument _____, Official Records Of Santa Cruz County, California;

3.2 The Premises include certain multi-family residential improvements;

3.3 In consideration of the lease of the Unit Interest, Home Owner shall pay to the Association rent in the amounts and at the times set forth in the Sublease of Undivided Interest;

3.4 Home Owner has the right to assign the leasehold in the Unit Interest and convey Home Owner's interest in the Unit only upon the terms and conditions set forth in the Sublease of Undivided Interest and the Declaration;

3.5 Pursuant to the terms of the Sublease of Undivided Interest and of the Common Areas Lease, The Regents has the option to require Home Owner to relinquish the Unit Interest and to convey the Unit to The Regents upon the occurrence of certain stated events;

3.6 Home Owner may use the Unit only as a principal place of residence; and

3.7 Home Owner may not sell or otherwise transfer the Unit or Unit Interest for a price in excess of that permitted by the Sublease of Undivided Interest and the Declaration.

4. **Covenants, Agreements and Representations of Home Owner.** Home Owner make the following covenants, agreements and representations, each of which is a material inducement to the Association; is being relied upon by the Association; and is being made for the benefit of both Lessr and The Regents:

4.1 Home Owner acknowledges that Home Owner has received a copy of the Common Areas Lease, the Declaration, the Hagar Court Property Use and Maintenance Regulations, and the Project Disclosure Report for Hagar Court Condominiums and has examined those documents.

4.2 Home Owner will keep, perform and be bound by each and every one of the covenants, agreements, and conditions provided for in the Sublease.

5. **Severability; Effect of Memorandum.** To the extent possible, each provision of this instrument shall be interpreted in such manner as to be effective under applicable law, but if any part of any provision of this instrument shall be prohibited or invalid under applicable law, such provision shall be ineffective only to the extent necessary without invalidating the remainder of the provision or remaining provisions of this instrument. In the event of conflict between the terms of this Memorandum and the Sublease, the Sublease shall control.

IN WITNESS WHEREOF, the parties have duly executed this instrument as of the date first above written.

HOME OWNER:

ASSOCIATION:

By: _____

EXHIBIT D

To Common Areas Lease

DESCRIPTION OF PREMISES

Parcel One:

The Common Area as shown on the Amended Subdivision Map filed October 17, 2003, in Volume 104 of Maps at Page 31, Santa Cruz County Records.

Excepting Therefrom:

Units 1 through 51, including those component elements bearing the same Identifying Number designation in the Condominium Plan, as defined in the Declaration of Covenants, Conditions & Restrictions for Hagar Court Condominiums, recorded concurrently herewith, and as shown in the Condominium Plan made a part of the Amended Subdivision Map filed October 17, 2003, in Volume 104 of Maps at Page 31, Santa Cruz County Records.