



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED	October 13, 2016	REPORT NO.	16-070- Revised
ATTENTION	Honorable Council President and Members of the City Council		
SUBJECT	Lease of the Property and Improvements located at 101 Ash Street, San Diego, CA 92101 (the former Semptra Building – APNs 533-424-11-00 and 533-424-14-00)		
REFERENCE	N/A		

REQUESTED ACTION

1. Authorize the Mayor or his representative to execute a 20-year lease-to-own agreement (Lease) between the City of San Diego and 101 Ash, LLC, a California municipal corporation (101, LLC), or affiliate, for a lease for the real property and improvements at 101 Ash Street with ownership automatically transferring to the City of San Diego upon lease expiration.
2. Authorize the Chief Financial Officer to appropriate and expend an amount not to exceed \$4,183,448.50 for the remaining Fiscal Year 2017 for the lease-to-own agreement between City and 101 Ash, LLC, for the property and improvements located at 101 Ash Street, San Diego, CA 92101 from the General Fund in order to pay rent (\$2,673,633) and operating expenses (\$1,509,816) at 101 Ash Street from the date of lease commencement (estimated to be January 1, 2017) through June 30, 2017.
3. Authorize the Chief Financial Officer to transfer up to \$1,921,000 from the Real Estate Assets Operating Department Budget to Citywide Program Expenditures Department to provide funding for the property and improvements located at 101 Ash Street.
4. Authorize the Chief Financial Officer to expend an amount not to exceed \$201,902,440 for the 20-year lease-to-own agreement between the City and 101 Ash, LLC, for the properties and improvements located at 101 Ash Street, San Diego, CA 92101, including rent and operating expenses.
5. Authorize the Chief Financial Officer to deposit 101 Ash Street parking rent revenue into the General Fund 100000.
6. Establish a restricted CIP fund for capital improvements relating specifically to 101 Ash Street, San Diego, CA 92101.

STAFF RECOMMENDATION

Approve the requested actions.

EXECUTIVE SUMMARY OF ITEM BACKGROUND**Background**

The City of San Diego currently occupies approximately 797,500 square feet of office space in five different buildings in the downtown area. Approximately 523,000 square feet is rented and another 273,000 square feet is owned by the City in the City Administration Building (CAB) and the City Operations Building (COB).

The five buildings range in age from 43 years to 53 years old and are occupied by an estimated 2,559 employees (full-time equivalent/FTE).

The following table identifies the size, age and occupancy of the five main buildings.

	OWNED		LEASED			TOTAL
	COB	CAB	CCP*	525 B St	Exec Comp	
Est. FTEs	355.00	426.00	805.00	514.00	459.00	2,559.00
SF Occupied	143,000	130,000	265,986	116,180	141,889	797,055
Year Built	1970	1965	1973	1969	1963	

* Civic Center Plaza (CCP) is considered a leased building as ownership will not revert to the City until 2036.

A renewed interest in Downtown office space leasing, combined with a corresponding slow response in office building construction/availability in San Diego, has created a shrinking inventory of office space which continues to drive up leasing rates.

David Marino of HughesMarino¹ wrote in July 2016 “that \$5 per foot proposals have been trading at the Diamond View Tower and nearly every other Class A building has seen double digit growth”. He continued in his analysis by adding, “Meanwhile, Class B buildings have slowly been filling, and there are no new buildings under construction. This spells lack of options and very high rents in the future.”

The City’s occupancy at 525 B Street is an example of these increasing rates. The current lease for 116,180 square feet of space is \$1.70 per square foot (PSF) and will expire in 2020. The City recently requested the ability to increase the occupancy by an additional 17,619 square feet to accommodate new staff for the Public Works Department. The new rates quoted by the landlord are proposed to increase approximately 40% from the current rate and will increase another 20% during the new term of the lease.² Under the best terms, this proposal would increase the annual lease payment by \$1.2 million by 2021. It is important to note that there are currently no other space options available to move the entire Public Works Department out of 525 B Street.

Therefore, controlling future office space occupancy expenses and resolving ever increasing deferred maintenance has led to the pursuit of long-term solutions for housing City staff. In 2015, the City took the first step in securing long-term control of office space by entering into a 20-year lease-to-own agreement for Civic Center Plaza (CCP) which provides for a fixed lease payment for the next 20 years. Staff estimates that the CCP lease-to-own agreement will save the City in excess of \$24 million vs. market rent over the same period.

¹ HughesMarino is a leading provider of tenant representation throughout California

² This new lease agreement is still being negotiated and will require approval by the City Council

With the continued increase in lease rates, the continuing decline in the condition and availability of currently occupied buildings and the increase in FTE counts to support the City's initiatives, the Real Estate Assets Department (READ) researched the availability of office space in the Downtown corridor with two goals

1. Identify an expansion and relocation solution for the Development Services Department (DSD), currently located in the COB³. In FY 2016 DSD issued approximately 65,000 construction permits which reflects an increase of 25,000 permits since FY 2013. This permit activity represents more than 100,000 plan reviews and more than 160,000 customer contacts at existing DSD offices. The increased workload and the associated increase in employees and customers has created insufficient capacity at COB. Presently, the downtown DSD operations are spread across 80 counters located in two buildings over six separate floors. Customers and employees, many times with large sets of plans, must often shuttle between multiple floors during the normal course of business.
2. Identify office space to accommodate employees that are currently located in other City occupied buildings.

LEASE-TO-OWN

During their due diligence, READ identified an option to relocate DSD into a nearby office building. This solution, however, would have required DSD customers to travel to different floors throughout the building and would not be conducive to the transformation efforts underway. Additionally, the proposed lease rates already reflected increased rates and would not allow the City to control long-term expenses.

While pursuing potential leases, READ staff was made aware of an opportunity to negotiate for ownership of 101 Ash Street.

101 Ash Street is the former headquarters building for Sempra Energy. The building has been primarily vacant since July 2015. It contains 21 stories and 315,545 square feet. READ estimates that it would be able to accommodate approximately 1,100 FTEs. The building is considered Class A (highest tier) office space due to the excellent condition of the interior finishes and the upgraded mechanical systems. The lease-to-own includes all office furnishings and modular office equipment, all of which is in good condition. The building features eight elevators, two more than buildings of this size normally contain, which can aid in the movement of customers and staff more efficiently. There are redundant energy systems and a back-up generator serving the building, preventing any loss of electrical service during black-outs or brown-outs. The building also contains 235 underground parking spaces.

While City staff was considering the viability of occupying 101 Ash Street, Cisterra, a local private developer, was also considering entering into an agreement to purchase 101 Ash Street from the current owners. The 101 Ash Street owners had approached the City in 2015 to gauge interest in either buying the building for \$100 million or entering into a lease-to-own agreement with similar terms. Cisterra was estimating a purchase price of \$72.5 million.

³ The City Operations Building has a deferred maintenance repair estimate of \$94 million to bring up to a service level of FCI = 20 (Good)

The City approached Cisterra regarding the potential to enter into a non-binding agreement with Cisterra to either assign the purchase rights for the estimated purchase price of \$72.5 million or sign a lease-to-own agreement with Cisterra. This arrangement was intended to secure rights to the building without entering into a bidding competition. Based on the original purchase and sale agreement signed between Cisterra, LLC and the current owners, it was determined that the feasibility of an assignment for purchase was unavailable. As a result, the City is now able to lease-to-own the building based upon Cisterra's purchase price of \$72.5 million dollars and will, once again, be able to control a greater proportion of office space expenses for the next 20 years and beyond. This action will result in an estimated 20 year savings of \$44 million to the City versus continuing to pay market rental rates.

The terms of the lease-to-own agreement include a beginning rental rate of approximately \$1.70 PSF/month with no annual increases. The City will be responsible for all operating expenses (including utility expenses, building management and maintenance and repair), which are estimated to be \$0.80/sf/mo or \$9.60 PSF/year. At any time after the 5th year, the City may opt to transfer the loan for \$1 to a City entity and continue making lease payments to that City entity, rather than to Cisterra. In addition, any time after the 5th year, the City may prepay the lease-to-own agreement and have the right and option to purchase the real property and improvements by paying an amount to Cisterra equal to the net present value of the remaining payments due under the lease-to-own agreement, using a discount rate calculated per a formula set forth in the lease-to-own agreement.

The start rate of \$1.70 PSF/month does include an estimated \$5 million in tenant improvements, allowing for renovation of all floors at 101 Ash Street. This will maximize space for the City to accommodate approximately 1,100 employees within the building, per the space standards identified in the City's Administrative Regulation 56 – *Work Space Requests*.

Per Exhibit B, the lease-to-own analysis attached here, this agreement will save the City more than \$44 million over 20 years when compared with continuing to lease EC and completing a lease at 110 Plaza for DSD (which would relocate them from COB).

CONDITION OF 101 ASH STREET

On March 10, 2016, a Property Condition Report (PCR) for 101 Ash Street was completed by Advantage Environmental Consultants, LLC, which stated that "The Site was observed to be in good condition. Evidence of on-going maintenance was observed." The previous occupant, Sempra Energy, was meticulous in their maintenance and care of the property over their several decades of occupancy. In fact, the PCR estimates that "this Site's estimated remaining useful life (ERUL) should be at least an additional 40 years barring any natural disasters." The PCR summarized that "AEC did not identify any obvious items of deferred routine maintenance that warrant mention" and their only recommendation for immediate repair was an amount of \$10,000 to clean, caulk and pressure wash the exterior of the building.

WHAT HAPPENS TO THE CITY OPERATIONS BUILDING (COB)?

Once the CCP project is completed in approximately FY 2022, the City will determine the best use of the property, including relocating Fire Station #1 and potentially redeveloping the site.

WHAT HAPPENS IF NO ACTION TAKEN?

The City will continue to be forced to pay market rates for future office rental space. There is no indication that prices will stabilize or decline in the next 5 to 8 years and could, in fact, increase by 50% or more. There is estimated savings of \$44 million over 20 years by occupying 101 Ash Street instead of existing or other market spaces.

City department operations will continue to be located throughout various buildings and City staff will be required to maintain operations in buildings that have documented deficiencies including plumbing and HVAC issues.

Cisterra's purchase price of \$72.5 million is equivalent to \$230 PSF. This is below market value based on recent comparable sales, however, an MAI appraisal performed by D.F. Davis Real Estate Inc, dated September 8, 2016, indicated the appraised value of 101 Ash Street to be \$67.1 million. By contrast, a broker opinion of value ("BOV") prepared by Jones Lang LaSalle, dated September 12, 2016, indicated a value of \$85.7 million.

There are several reasons for the difference in these two valuations:

1. The MAI appraised value of \$67.1 million did not include the existing furniture, fixtures & equipment which, has a value to the City in the \$2.2 million range because it reduces the need for the City to purchase furniture for the employees who will occupy 101 Ash Street. The furniture is excellent in quality and condition.
2. The appraised value per the MAI is a more conservative manner of valuing real estate because it considers purchase and lease deals done in the past, vs. looking to the anticipated future as the broker opinion of value does. As we are all aware, Downtown office lease rates have climbed steadily over the past three years and this is expected to continue into the future because of the lack of new supply in the Downtown market.
3. 101 Ash Street has a greater value to the City than to a third-party purchaser based upon its location proximate to the rest of the City's campus Downtown as indicated on Exhibit A, Site Map, attached here.

BENEFITS OF APPROVING OF THESE REQUESTED ACTIONS

1. Provide an estimated savings in occupancy expenses of over \$44 million in a 20-year period and allow the City to control its expenses at a time of record-breaking rent increases for the Downtown market.
2. Allow City operations to be centralized in one building vs. spread out into several buildings, thus providing for less wasted travel time between buildings for employees as well as improved service to the public.
3. Substantially improve working conditions for all affected City employees.
4. Increase accessibility and ease of flow for the public.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S)

Goal #1 Provide high quality public service

Objective #1 Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

Objective #2 Improve external and internal coordination and communication

Objective #3: Ensure equipment and technology are in place so that employees can achieve high quality public service.

Goal #2 Work in partnership with all of our communities to achieve safe and livable neighborhoods

Objective #3 Invest in infrastructure

FISCAL CONSIDERATIONS

The total cost of the 20 year lease-to-own would not exceed \$201,902,440. Lease-to-own of 101 Ash Street vs. continuing to lease from the market will result in savings estimated to exceed \$44 million over the next 20 years in occupancy costs.

Fiscal Year 2017 General Fund costs are estimated to be \$4,183,448.50 for the lease-to-own agreement between City and 101 Ash, LLC. This expense includes rent of \$2,673,633 and operating expenses of \$1,509,816.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable)

This agreement is subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708).

This agreement is subject to the City's Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS

This item is requested to be placed on the agenda for the Smart Growth & Land Use Committee meeting on September 21, 2016.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS

AFSCME Local 127, DCAA, Local 145, MEA, POA and Teamsters Local 911 have been notified of this proposed action.

Approving this action will limit the City's exposure to increasing market leasing rates for 314,545 SF of its leased office space, leading to occupancy cost savings over the next 20 years of over \$44 million and will provide a means for the City to own 101 Ash Street at the end of the 20-year lease term. This will in turn allow the City to terminate its lease at Executive Complex.

Ronald H. Villa
Deputy Chief Operating Officer
Internal Operations

Attachment(s): Exhibit A – Site Map
Exhibit B – Lease-to-own Analysis

EXHIBIT A

101 Ast St.

City Operations
Building

Parkade

King-Chavez
School

Civic Center Plaza

Concourse
Golden Hall

Civic Theater

City Administration
Building

ATTACHMENT G:
101 Ast St. Rental and Lease for 101 Ast St.

The City of San Diego
20-Year Comparison of Downtown Lease-to-Own Vs. Leasing from Third Parties
January 1, 2017 - June 30, 2037

Last Updated: 9/9/2016

Assumptions:

[illegible]

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037

20 YEAR LEASE-TO-OWN SCENARIO WITH CISTERRA

101 Ash Street	SF	314,545	(includes \$5.5M in Tk and lease commences on 1/1/17)																										
Rent (\$1.70/sq mo NNN)	\$1.70	\$2,673,633	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$6,416,718	\$3,208,359	
Expenses		\$1,509,816	\$3,080,025	\$3,143,621	\$5,204,458	\$3,268,547	\$3,333,918	\$3,400,596	\$3,466,608	\$3,537,980	\$3,606,740	\$3,680,915	\$3,754,533	\$3,829,624	\$3,906,216	\$3,984,340	\$4,064,027	\$4,145,308	\$4,228,214	\$4,312,778	\$4,399,034	\$2,243,507							
EC Rent from 1/1/17-6/30/17		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
EC Expenses from 1/1/17-6/30/17		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Rent from DSD - 1/1/17-6/30/17		\$330,193	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Expenses from DSD - 1/1/17-6/30/17		\$236,772	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
COB Expenses from GR red. by		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Parking (235 spaces)		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Occupancy Costs		\$207,084,631	\$5,891,192	\$9,738,250	\$9,804,681	\$9,872,440	\$9,941,554	\$10,012,051	\$9,950,636	\$10,021,314	\$10,093,406	\$10,166,940	\$10,241,944	\$10,318,449	\$10,396,484	\$10,476,079	\$10,557,266	\$10,640,077	\$10,724,544	\$10,810,701	\$10,898,580	\$10,988,218	\$5,539,824						

LEASE 110 PLAZA AND EXECUTIVE COMPLEX SCENARIO

[illegible]

110 Plaza	SF	165,000																					
T/ Overage		\$1,000,000																					
Rent		\$0	\$4,125,000	\$4,595,250	\$4,694,250	\$4,793,250	\$4,892,250	\$4,991,250	\$5,090,250	\$5,189,250	\$5,288,250	\$5,387,250	\$5,486,250	\$3,528,758	\$7,269,242	\$7,487,319	\$7,711,939	\$7,943,297	\$8,181,596	\$8,427,044	\$8,679,855	\$4,470,125	
Expenses		\$0	\$19,800	\$79,992	\$121,192	\$163,216	\$206,080	\$249,802	\$294,398	\$339,886	\$386,283	\$433,609	\$481,881	\$0	\$50,222	\$101,449	\$153,701	\$206,997	\$261,359	\$316,809	\$373,367	\$215,529	
Total Occupancy Costs		\$0	\$4,144,800	\$4,675,242	\$4,815,442	\$4,956,466	\$5,098,330	\$5,241,052	\$5,384,648	\$5,529,136	\$5,674,532	\$5,820,859	\$5,968,131	\$3,528,758	\$7,319,464	\$7,588,768	\$7,865,639	\$8,150,294	\$8,442,955	\$8,743,852	\$9,053,222	\$4,685,654	
Total Scenario Occupancy Costs		\$238,241,294	\$1,140,780	\$6,528,518	\$7,161,801	\$7,141,115	\$9,783,489	\$10,105,940	\$10,434,297	\$10,768,722	\$11,109,380	\$11,456,442	\$11,810,083	\$12,170,483	\$9,950,216	\$13,966,179	\$14,467,065	\$14,982,024	\$15,511,461	\$16,055,790	\$16,615,437	\$17,190,842	\$8,891,229

COMPARISON OF 2 AVAILABLE SCENARIOS - NOTE THAT % ALLOCATION TO EACH DEPARTMENT IS ESTIMATED						
	SF	TOTAL OCC. COST OVER 20 YEARS	OCC. COST TO GENERAL FUND (55%)	OCC. COST TO ENTERPRISE FUND (DSO) (36%)	OCC. COST TO INTERNAL SERVICE AND SPECIAL REVENUE FUNDS *** (9%)	PARKING
101 Ash Street Lease-to-Own	314,545	\$207,084,631	\$113,896,547	\$74,550,467	\$18,637,617	235
Lease 110 & EC *	306,888	\$236,241,294	<u>\$136,859,528</u>	<u>\$84,654,159</u>	\$16,727,567	0
Lease 110 & EC w/parking **	306,888	\$251,501,294	<u>\$144,152,528</u>	<u>\$89,427,799</u>	\$17,920,967	235

Advantage to City to lease-to-own vs leasing to third party: Over 20 years	\$44,416,663
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* Note that 110 Plaza rent assumes original LOI agreement of \$2.00/sf with increases of \$.05/yr, PLUS an extra \$.25/sf/mo which 110 Plaza landlord has indicated is the minimum amount they will be raising the City's rent from the LOI originally signed due to improving market conditions.

** Note also that neither 110, nor Executive Complex, provide for any free parking. The value of 235 parking spaces over 20 years is \$13.26M.

*** Includes IT (Fund 200308), Facilities Finance (Fund 200001), and LEA (Fund 200226) which would relocate from Executive Complex to 101 Ash Street. Actual allocations will vary based on amount of square footage occupied each year.

ORIGINAL

EXECUTION FORM

LEASE AGREEMENT

Between

**101 ASH, LLC,
a Delaware limited liability company**

as Landlord

and

**THE CITY OF SAN DIEGO
a California municipal corporation**

as Tenant

to be effective
Dated as of January 3, 2017

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EXHIBITS TO LEASE AGREEMENT:

Exhibit A — Legal Description

Exhibit B — Schedule of Base Rent

Exhibit C — Form of Memorandum of Lease

Exhibit D — Form of Subordination, Non-Disturbance and Attornment Agreement

LEASE AGREEMENT

This LEASE AGREEMENT dated ^{to be effective} as of January 3, 2017 (the "**Effective Date**") (as amended from time to time, this "**Lease**"), between 101 Ash, LLC, a Delaware limited liability company ("**Landlord**"), having an address at 3580 Carmel Mountain Road, Suite 460, San Diego, California 92130, and The City of San Diego, a California municipal corporation ("**Tenant**"), having an address at 202 C Street, San Diego, California 92101.

Section 1. Lease of Premises; Title and Condition; Release.

(a) In consideration of the rents and covenants herein stipulated to be paid and performed by Tenant and upon the terms and conditions herein specified, Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the premises (the "**Premises**") consisting of (i) the land (the "**Land**") described in **Exhibit A** attached hereto, (ii) all buildings and other improvements (including the attachments and other affixed property), now or hereafter located on the Land (the "**Improvements**"), which Improvements include, without limitation, a single 21-story commercial office building located at 101 Ash Street, San Diego, California, on the full city block bounded by Ash and A Streets and First and Second Avenues (APNs 533-424-11-00 and 533-424-14-00), and (iii) the respective easements, rights and appurtenances relating to the Land and the Improvements. The interests of Landlord in the Premises are herein called "**Landlord's Estate**". The Premises are leased to Tenant in their present condition without representation or warranty by Landlord and subject to the rights of parties in possession, to the existing state of title and to all applicable legal requirements now or hereafter in effect. Tenant acknowledges that it is sufficiently familiar with and knowledgeable about the physical condition of the Premises, including any elements of deferred maintenance or the presence of any Hazardous Materials and is not relying on any representation or warranty by Landlord with regard to the condition of the Premises, and Tenant finds all of the same satisfactory for all purposes. Landlord hereby advises Tenant, and Tenant acknowledges, that the Premises have not, to Landlord's knowledge, been inspected by a Certified Access Specialist (CAsp) and makes no representation whether the Premises meet the construction-related accessibility standards of California Civil Code Section 55.53.

(b) TENANT EXPRESSLY AGREES TO LEASE THE PREMISES AND EACH PART THEREOF "AS IS" AND "WHERE IS". LANDLORD SHALL NOT BE DEEMED TO HAVE MADE AS OF THE EFFECTIVE DATE, AND LANDLORD HEREBY DISCLAIMS, ANY WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED OR OTHERWISE, WITH RESPECT TO THE SAME OR THE LOCATION, USE, DESCRIPTION, DESIGN, MERCHANTABILITY, FITNESS FOR USE FOR ANY PARTICULAR PURPOSES, CONDITION OR DURABILITY THEREOF, OR AS TO THE QUALITY OF THE MATERIAL OR WORKMANSHIP THEREIN, OR AS TO LANDLORD'S TITLE THERETO OR OWNERSHIP THEREOF OR OTHERWISE, IT BEING AGREED THAT ALL RISKS INCIDENT THERETO, EXCEPT AS OTHERWISE SET FORTH HEREIN, ARE TO BE BORNE BY TENANT. IN THE EVENT OF ANY DEFECT OR DEFICIENCY OF ANY NATURE IN THE PREMISES OR ANY PROPERTY OR FIXTURE OR OTHER ITEM CONSTITUTING A PORTION THEREOF, WHETHER PATENT OR LATENT, EXCEPT AS OTHERWISE STATED HEREIN, LANDLORD SHALL HAVE NO RESPONSIBILITY OR

LIABILITY WITH RESPECT THERETO. THE PROVISIONS OF THIS SECTION 1(b) HAVE BEEN NEGOTIATED AND ARE INTENDED TO BE A COMPLETE EXCLUSION AND NEGATION OF ANY WARRANTIES BY LANDLORD, EXPRESS OR IMPLIED, WITH RESPECT TO THE PREMISES OR ANY PROPERTY OR FIXTURE OR OTHER ITEM CONSTITUTING A PORTION THEREOF, WHETHER ARISING PURSUANT TO THE UNIFORM COMMERCIAL CODE OR ANOTHER LAW NOW OR HEREAFTER IN EFFECT OR OTHERWISE.

(c) As of the Commencement Date, the Tenant, and its agents, members, partners, employees, representatives, officers, directors, agents, related and affiliated entities, successors and assigns (collectively, the "**Tenant Parties**"), hereby fully and irrevocably release Landlord and each person or entity acting by or on behalf of Landlord, and any member, partner, officer, director, employee, agent, affiliate, successor or assign of Landlord (collectively, the "**Landlord Parties**") and the beneficiary (the "**Lender**") under any loan (a "**Fee Loan**") secured by a deed of trust that encumbers the Premises (a "**Fee Mortgage**") and the holder of any ownership interests in the assets of a trust that is holding a loan secured by a Fee Mortgage (a "**Certificate Holder**") and its agents, members, partners, employees, representatives, officers, directors, agents, related and affiliated entities, successors and assigns (collectively, the "**Lender Parties**") from any and all claims or choses in action that the Tenant Parties may have or thereafter acquire against any of the Landlord Parties or the Lender Parties for any cost, loss, liability, damage, expense, demand, action or cause of action ("**Claims**") arising from or related to any matter of any nature relating to, and condition of, the Premises, including any latent or patent construction defects, errors or omissions, compliance with law matters, Hazardous Materials and other environmental matters within, under or upon, or in the vicinity of the Premises, any statutory or common law right Tenant may have to receive disclosures from Landlord, including, without limitation, any disclosures as to the Premises' location within areas designated as subject to flooding, fire, seismic or earthquake risks by any federal, state or local entity, the need to obtain flood insurance, and/or the advisability of obtaining title insurance, or any other condition or circumstance affecting the Premises, its financial viability, use or operation, or any portion thereof. This release includes Claims of which Tenant or any Tenant Party is presently unaware or which Tenant or a Tenant Party does not presently suspect to exist in its favor which, if known by Tenant or such Tenant Party, would materially affect Tenant's release of the Landlord Parties. In connection with the general release set forth in this subsection 1(c), Tenant specifically waives the provisions of California Civil Code Section 1542, which provides as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor."



Tenant's Initials

Section 2. Use. Subject to the terms hereof, the Premises may be used and occupied by Tenant (and its assignees and subtenants permitted hereunder) for any lawful purpose permitted by applicable zoning ordinances. Such use may include, without limitation, general office and

administrative use, and any other legally permitted ancillary use, in a manner consistent with Comparable Buildings, including, without limitation: (a) accounting and data center facilities, trading floors and business laboratory space, (b) conference and/or meeting facilities and employee training facilities, (c) travel service facilities, cafeteria, dining room, kitchen and/or food service facilities (including vending machines), physical fitness training facilities and related equipment (including showers, saunas, bathrooms, and full impact aerobic workout rooms), and reservation centers, (d) day care facilities (for use by Tenant and its assignees and subtenants permitted hereunder), (e) audio/visual, close circuit television and all other communication facilities, data processing facilities, storage, and personnel and human resource facilities, and (f) parking facilities, provided that no legally-permitted use not specifically listed above shall (i) increase the likelihood that Landlord could incur material liability under any applicable Environmental Law when compared to the use of the Premises as of the date of this Lease, (ii) result in any burdensome regulation of Landlord or (iii) materially reduce the Fair Market Value of the Premises (as defined below). Landlord agrees that without the prior consent of Tenant (which consent shall not be unreasonably withheld) it shall not seek any change in the zoning ordinances or land use category applicable to the Premises and Landlord agrees to cooperate with Tenant, at Tenant's expense, in any effort by Tenant to oppose any changes in the present zoning ordinances or land use category applicable to the Premises. As used herein, "Fair Market Value" means the fair market value of the Premises as an operational building available for lease by tenants that would be obtained in an arm's length transaction between an informed and willing buyer and an informed and willing seller, each under no compulsion to buy or sell. For purposes hereof, Fair Market Value shall be determined assuming that the Premises will have the potential occupancy rate, tenant quality and rental rates of Comparable Buildings (as defined herein) and the Premises have been maintained to at least the standard required by this Lease.

Section 3. Term.

The Premises are leased to Tenant for a term (the "Term") commencing on the date Landlord acquires fee title to the Premises (the "Commencement Date") and ending at midnight (12:00 AM) on the date twenty (20) years after the first (1st) day of the month in which the Commencement Date occurred (the "Termination Date"). The Commencement Date and the Termination Date shall be confirmed in writing by that certain Estoppel Certificate executed by Tenant and delivered to Landlord and Lender dated as of the Commencement Date (the "Estoppel Certificate").

Section 4. Rent.

(a) From and after the Commencement Date, Tenant shall pay, from any and all legally available funds, to Landlord (or Landlord's designee), in lawful money of the United States, as fixed rent for the Premises Five Hundred Thirty-Four Thousand Seven Hundred Twenty Six and 50/100 Dollars (\$534,726.50) per month (the "Base Rent" for the entire Term, with the first (1st) payment due and payable on the Commencement Date and each subsequent monthly payment due on the monthly anniversary of the first (1st) day of the month in which the Commencement Date occurs (individually a "Payment Date" and collectively the "Payment Dates"), by wire transfer or ACH of immediately available funds to such account as Landlord from time to time may designate in a written notice delivered to Tenant. Tenant shall be provided the information for the

account into which Base Rent shall initially be paid no less than fifteen (15) days prior to the Commencement Date. If any Payment Date is not a date on which commercial banks are open for business in the state of California (a "**Business Day**"), then Base Rent shall be payable on the next occurring Business Day.

(b) All amounts which Tenant is required to pay pursuant to this Lease (other than Base Rent, including, without limitation, any amount payable pursuant to Section 16(b)(iv)), together with every fine, penalty, interest and cost which may be added for non-payment or late payment thereof, shall constitute "**Additional Rent**" (and together with Base Rent, "**Rent**"). In the event Tenant fails to pay any Additional Rent when due hereunder, Landlord shall be entitled to all remedies applicable hereunder for the nonpayment of Base Rent.

(c) Any Rent not paid when due shall bear interest from the date it becomes delinquent (giving effect to any applicable notice and cure period) until paid at a per annum rate (the "**Default Rate**") equal to the lesser of (i) the greater of (A) eight percent (8%) per annum and (B) a floating rate equal to two percent (2%) above the "**Prime Rate**" reported in the Money Rates column or section of the most recent issue of The Wall Street Journal (or similar financial publication), automatically adjusting with each change in the Prime Rate, and (ii) the maximum non-usurious rate of interest permitted by the applicable laws of the State of California.

(d) Tenant hereby covenants to take such action as may be necessary to include all Rent due hereunder in its annual budget and to make the necessary annual appropriations for all such Rent. The covenants on the part of the Tenant contained in this Lease shall be deemed and construed to be ministerial duties imposed by law and it shall be the ministerial duty of each and every public official of the City of San Diego to take such action and do such things as are required by law in the performance of such official duty of such officials to enable Tenant to carry out and perform Tenant's covenants and agreements contained in this Lease. The obligation of Tenant to pay Rent does not constitute an obligation of Tenant for which the Tenant is obligated to levy or pledge any form of taxation or for which Tenant has levied or pledged any form of taxation. The obligation of the Lessee to pay Rent does not constitute an indebtedness of Tenant, the County of San Diego, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

(e) Tenant hereby certifies to Landlord that Tenant has fully investigated options and alternatives to the lease of the Premises, including rental rates, terms and conditions, and has utilized the services of commercial real estate leasing professionals familiar with local market conditions and that, as of the Effective Date of this Lease, the total Rent during any twelve (12)-month period during the Term (a "**Lease Year**") is not in excess of the total fair rental value of the Premises.

Section 5. Lease Agreement; Capital Lease.

(a) Notwithstanding any present or future law to the contrary, except as specifically provided in Section 11 hereof, this Lease shall not terminate, nor shall Tenant be entitled to any abatement or reduction, set-off, counterclaim, defense or deduction with respect to any Rent, nor, shall the obligations of Tenant hereunder be affected, by reason of: (i) any damage to or destruction

of the Premises; (ii) any Taking of the Premises or any part thereof or of the Landlord's Estate by condemnation or otherwise; (iii) any prohibition, limitation, restriction or prevention of Tenant's use, occupancy or enjoyment of the Premises, or any interference with such use, occupancy or enjoyment by any Person; (iv) any eviction by paramount title, constructive eviction or otherwise; (v) any default by Landlord hereunder or under any other agreement; (vi) the impossibility of performance by Landlord, Tenant or both; (vii) any action of any governmental authority; or any other cause whether similar or dissimilar to the foregoing. The parties intend that the obligations of Tenant hereunder shall be separate and independent covenants and agreements and shall continue unaffected unless such obligations shall have been modified or terminated pursuant to an express provision of this Lease.

(b) Except as specifically provided in Section 11 hereof, Tenant shall remain obligated under this Lease in accordance with its terms and shall not take any action to terminate, rescind or avoid this Lease, notwithstanding any bankruptcy, insolvency, reorganization, liquidation, dissolution or other proceeding affecting Landlord or any assignee of Landlord, or any action with respect to this Lease which may be taken by any trustee, receiver or liquidator or by any court. Except as otherwise expressly provided in this Lease (including Section 11), Tenant waives all rights now or hereafter confirmed by statute or otherwise to quit, to terminate or surrender this Lease, or to any abatement or deferment of Rent.

(c) Notwithstanding anything to the contrary herein, unless a right is specifically granted to Landlord pursuant to the terms hereof, then, so long as no Default is then existing and continuing, decisions related to the management, leasing and operation of the Building shall be retained by Tenant in its sole discretion in accordance with the standards and terms of this Lease

(d) This Lease is a capital lease and is not an operating lease, and the economic realities of this Lease are those of a capital lease and not an operating lease. Each party shall reflect the transaction represented by this Lease in all applicable books, records and reports (including tax filings and financial reports) in a manner consistent with "capital lease" treatment rather than "operating lease" treatment."

Section 6. Taxes and Assessments; Other Charges; Compliance with Law; Hazardous Materials and Environmental Laws.

(a) Tenant shall pay when due, and agrees to indemnify to the maximum extent permitted by law, Landlord and its successors and assigns and hold Landlord and its successors and assigns harmless from and against all Impositions. The term "**Impositions**" shall mean all taxes, assessments, special assessments use, real estate, personal property, sales, ad valorem, value-added, lease use, stamp and occupancy taxes, sales taxes on rents, water and sewer charges, rates and rents, the margin tax imposed, charges for utilities public and private, excises, levies, license and permit fees, penalties, interest and other charges, general and special, ordinary and extraordinary, foreseen and unforeseen, of any kind and nature whatsoever, which shall or may during the Term of this Lease be assessed, levied, charged, confirmed or imposed upon or become payable out of or become a lien upon (i) the Premises or Landlord's Estate or any part thereof or the appurtenances thereto or the sidewalks or streets adjacent thereto, (ii) the rent and income received by or for the account of Tenant from any subtenants, (iii) the possession, use or occupancy

of the Premises or Landlord's Estate, (iv) the ownership, delivery, leasing and operation, of the Premises or Landlord's Estate, (v) such franchises, licenses and permits as may be appurtenant to the use of the Premises, or (vi) this Lease or the transactions hereunder or any document or documents related hereto to which Tenant is a party, or creating or transferring an interest or estate in the Premises or Landlord's Estate and shall mean all gross receipts, lease, sales or similar taxes imposed or levied upon, assessed against or measured by any Rent.

The term "Impositions" shall not include any municipal, state or Federal net income taxes, assessed against Landlord, or any municipal, state or Federal capital levy, estate, succession, inheritance or transfer taxes of Landlord, or any franchise taxes imposed upon any corporate owner of the Premises (except for the margin tax described in the preceding paragraph and any tax based on the value of the Premises), or any part thereof, or any net income, profits or revenue tax, assessment or charge imposed upon the rent received as such by Landlord under this Lease, except for the gross receipts, lease, sales or similar taxes referred to in the preceding paragraph above (the taxes enumerated in this sentence are collectively referred to as "Landlord's Taxes"). Notwithstanding the foregoing, if at any time during the Term of this Lease, if any of the Landlord's Taxes are imposed, levied or assessed by a governmental authority of competent jurisdiction in substitution for any Imposition which Tenant is required to pay pursuant to this Section 6(a), then such Landlord's Taxes, to the extent that they are so substituted or imposed, shall be deemed to be included within the term "Impositions".

Tenant will furnish to Landlord, within thirty (30) days after written demand therefor, proof of payment of all Impositions. If any such Imposition may legally be paid in installments, Tenant may pay such Imposition in installments; in such event, Tenant shall be liable only for installments which become due and payable prior to or during the term hereof. Landlord shall, at the request and expense of Tenant, execute such applications for conversion of Impositions to installment payments.

If no Default exists, and following written notice to Landlord and Interest Holder (as hereinafter defined), Tenant may contest (including through abatement proceedings), in good faith and at its sole expense, by appropriate legal proceedings, any Impositions and/or any Legal Requirement affecting the Premises; and postpone payment of or compliance with the same during the pendency of such contest, provided that (i) the commencement and continuation of such proceedings shall suspend the collection thereof from, and suspend the enforcement thereof against, Landlord and the Premises, (ii) no part of the Premises nor any Rent or this Lease shall be interfered with or shall be in imminent danger of being sold, forfeited, attached, terminated, cancelled or lost, (iii) Tenant shall promptly and diligently prosecute such contest to a final settlement or conclusion, (iv) at no time during the permitted contest shall there be a risk of the imposition of civil or criminal liability or penalty on Landlord or Interest Holder for failure to comply therewith and (v) Tenant shall satisfy any Legal Requirements, including, if required, that the Impositions be paid in full before being contested. Tenant shall pay any and all judgments, decrees and costs (including all reasonable attorneys' fees and reasonable expenses incurred by Landlord or Interest Holder) in connection with any such contest and shall, promptly after the final determination of such contest, fully pay and discharge the amounts which shall be levied, assessed, charged or imposed or be determined to be payable therein or in connection therewith, together

with all penalties, fines, interest, costs and expenses thereof or in connection therewith, if any, and perform all acts the performance of which shall be ordered or decreed as a result thereof.

(b) Tenant shall at its sole expense, including being entitled to use available funds in the TI Allowance for such purpose, comply with and cause the Premises to comply with (i) all laws and other governmental statutes, codes, ordinances, rules, orders, permits, licenses, authorizations, directions and determinations now or hereafter enacted, whether or not presently contemplated, including without limitation all Environmental Laws (as hereinafter defined) (collectively, "**Legal Requirements**"), applicable to the Premises or the use thereof, and (ii) all contracts, agreements, ground leases, insurance policies, permits, licenses and restrictions applicable to the Premises or the ownership, occupancy or use thereof, including but not limited to all such Legal Requirements, contracts, insurance policies, agreements, ground leases, permits, licenses and restrictions which (x) require structural, unforeseen or extraordinary changes or (y) relate to environmental protection or Hazardous Materials matters, and in the case of (i) and (ii), where noncompliance therewith may reasonably be expected to have an adverse effect upon Tenant's use and occupancy of the Premises in accordance with Section 2 above, except where the necessity of compliance therewith is contested in good faith by appropriate proceedings.

(c) As used herein (i) "**Hazardous Materials**" shall mean all chemicals, petroleum, crude oil or any fraction thereof, hydrocarbons, polychlorinated biphenyls (PCBs), asbestos, asbestos-containing materials and/or products, urea formaldehyde, or any substances which are classified as "hazardous" or "toxic" under CERCLA; hazardous waste as defined under the Solid Waste Disposal Act, as amended 42 U.S.C. § 6901; air pollutants regulated under the Clean Air Act, as amended, 42 U.S.C. § 7401, et seq.; pollutants as defined under the Clean Water Act, as amended, 33 U.S.C. § 1251, et seq., any pesticide as defined by Federal Insecticide, Fungicide, and Rodenticide Act, as amended, 7 U.S.C. § 136, et seq., any hazardous chemical substance or mixture or imminently hazardous substance or mixture regulated by the Toxic Substances Control Act, as amended, 15 U.S.C. § 2601, et seq., any substance listed in the United States Department of Transportation Table at 45 CFR 172.101; any chemicals included in regulations promulgated under the above listed statutes or any similar federal or state statutes relating to the environment, human health or natural resources; any explosives, radioactive material, and any chemical regulated by state statutes similar to the federal statutes listed above and regulations promulgated under such state statutes and (ii) "**Environmental Law**" shall mean and include the Resource Conservation and Recovery Act of 1976 (RCRA), 42 U.S.C. §§ 6901-6987, as amended by the Hazardous and Solid Waste Amendments of 1984, CERCLA, the Hazardous Materials Transportation Act of 1975, 49 U.S.C. §§ 1801-1812, the Toxic Substances Control Act, 15 U.S.C. §§ 2601-2671, the Clean Air Act, 42 U.S.C. §§ 7401 et seq., the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. §§ 136 et seq, the Occupational Safety and Health Act, the Emergency Planning and Community Right-to-Know Act of 1986, the Solid Waste Disposal Act and all other federal, state and local laws, ordinances, rules, orders, statutes, codes and regulations applicable to the Premises or the operations thereon or use thereof and (a) relating to the environment, human health or natural resources, including asbestos and/or asbestos-containing materials in any form that is or could be friable, (b) regulating, controlling or imposing liability or standards of conduct concerning Hazardous Materials, or (c) regulating the clean-up or other

remediation of the Premises or any portion thereof, as any of the foregoing may have been amended, supplemented or supplanted from time to time.

Tenant covenants that, from and after the Commencement Date, neither Tenant nor its employees, agents, sublessees, assignees, licensees, contractors or invitees (each, a "**Tenant Responsible Party**") will install or permit the installation on the Premises of any underground storage tanks or surface impoundments in violation of Environmental Laws and shall not permit there to exist any petroleum contamination originating on the Premises in violation of applicable Environmental Laws, and, with respect to any petroleum contamination on the Premises which originates from a source off the Premises, Tenant shall notify all responsible third parties and appropriate government agencies (collectively, "**Third Parties**") and shall prosecute the cleanup of the Premises by such Third Parties, including, without limitation, undertaking legal action, if necessary, to enforce the cleanup obligations of such Third Parties and, to the extent not done so by such Third Parties and to the extent technically feasible and commercially practicable, Tenant shall remediate such Hazardous Materials. Tenant shall cause any alterations of the Premises to be done in a way which complies with Environmental Laws relating to exposure of persons working on or visiting the Premises to Hazardous Materials and, in connection with any such alterations, shall remove any Hazardous Materials present upon the Premises which are not in compliance with applicable Environmental Laws or which present a danger to persons working on or visiting the Premises.

If, at any time during the Term, Hazardous Materials shall be found to have been released, placed, stored, brought onto, into or under the Premises by a Tenant Responsible Party or any Third-Party, then Tenant shall (at Tenant's sole expense), or shall cause such responsible Third Parties to, promptly commence and diligently prosecute to completion all investigation, site monitoring, containment, cleanup, removal, restoration or other remedial work of any kind or nature (collectively, "**Remedial Work**") to the extent required by Environmental Laws, and in compliance with Environmental Laws, and at Tenant's sole cost; provided, that except as otherwise expressly provided in this subsection (iv), Landlord shall not be required to accept any institutional control (such as a deed restriction) that restricts the permitted use of the Premises or any real property as a condition to any remedial plan approved by any governmental authority in connection with such Remedial Work. The Remedial Work required of Tenant under this Lease shall be limited to achieving clean-up standards applicable to commercial use of the Premises as provided herein ("**Commercial Closure**"), if allowed under applicable Environmental Laws and if approved by the governmental authority with jurisdiction over the Premises, Hazardous Materials and Remedial Work; provided, that the Hazardous Materials left in place would not reasonably be expected to cause or threaten to cause current or future migration of such Hazardous Materials from the environmental media in which such Hazardous Materials are present to other environmental media or to other properties in excess of applicable regulatory standards permitted under Applicable Law; and provided, further, that nothing contained in this subsection 6(c) shall be deemed to limit the obligations of the Tenant under any other provision of this Lease including, without limitation, the indemnification obligations of the Tenant under Section 8. In the event an institutional control (such as a deed restriction, environmental land use restriction, or activity and use limitation) that restricts the permitted use of or activities on the Premises (hereinafter a "**Restriction**") is required in order to achieve Commercial Closure, prior to submitting any

proposed plan for Remedial Work to a governmental authority which proposes such a Restriction or performing or implementing such Remedial Work or actually recording any Restriction in the relevant real property records, Tenant shall submit such Restriction to Landlord for review and approval. Landlord shall not unreasonably withhold or delay its approval of any such Restrictions (i) so long as the condition set forth in subpart (iii) of this sentence is satisfied, which require that the Premises not be used for residential purposes, for a day care facility (other than for use by Tenant and its assignees and subtenants permitted hereunder), or for agricultural purposes, (ii) so long as the condition set forth in subpart (iii) of this sentence is satisfied and the Premises are adequately served by a municipal water supply, which prohibit the use of the ground water underlying the Premises, or (iii) so long as such Restrictions would not reasonably be likely to result in a decrease in the Fair Market Value of the Premises based upon the use of the Premises as a commercial office building, would not reasonably be likely to adversely affect the marketability of the Premises or the ability to obtain financing secured by the Premises based upon the use of the Premises as a commercial office building, and would not reasonably be likely to create ongoing monitoring or reporting obligations with respect to the Premises

(i) To the extent that Tenant acquires knowledge thereof, Tenant shall promptly provide notice to Landlord of any of the following matters:

(A) any proceeding or investigation commenced or threatened by any governmental authority with respect to the presence of any Hazardous Material affecting the Premises;

(B) any proceeding or investigation commenced or threatened by any governmental authority, against Tenant or Landlord, with respect to the presence, suspected presence, release or threatened release of Hazardous Materials from the Premises;

(C) all written notices of any pending or threatened investigation or claims made or any lawsuit or other legal action or proceeding brought by any person against (A) Tenant or Landlord or the Premises, or (B) any other party occupying the Premises or any portion thereof, in any such case relating to any loss or injury allegedly resulting from any Hazardous Material or relating to any violation or alleged violation of Environmental Laws;

(D) the discovery of any occurrence or condition on the Premises, of which Tenant becomes aware and which is not corrected within ten (10) days, or written notice received by Tenant of an occurrence or condition on any real property adjoining, which reasonably could be expected to lead to the Premises or any portion thereof being in violation of any Environmental Laws or subject to any restriction on ownership, occupancy, transferability or use under any Environmental Laws or which might subject Landlord or Lender to any Environmental Claim. "**Environmental Claim**" means any claim, action, investigation or written notice by any person alleging potential liability (including, without limitation, potential liability for investigatory costs, cleanup costs, governmental response costs, natural resource damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (A) the presence, or release into the environment, of any Hazardous Materials at the Premises, or (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; and

(E) the commencement and completion of any Remedial Work.

(ii) **TENANT SHALL BE SOLELY RESPONSIBLE FOR AND TO THE MAXIMUM EXTENT PERMITTED BY LAW SHALL DEFEND, REIMBURSE, INDEMNIFY AND HOLD LANDLORD PARTIES HARMLESS FROM AND AGAINST ALL DEMANDS, CLAIMS, ACTIONS, CAUSES OF ACTION, ASSESSMENTS, LOSSES, DAMAGES, LIABILITIES, INVESTIGATIONS, WRITTEN NOTICES, COSTS AND EXPENSES OF ANY KIND (INCLUDING, WITHOUT LIMITATION, DIMINUTION IN PROPERTY VALUE AND REASONABLE EXPENSES OF INVESTIGATION BY ENGINEERS, ENVIRONMENTAL CONSULTANTS AND SIMILAR TECHNICAL PERSONNEL AND REASONABLE FEES AND DISBURSEMENTS OF COUNSEL), ARISING OUT OF, IN RESPECT OF OR IN CONNECTION WITH (A) TENANT'S BREACH OF ITS REPRESENTATIONS, WARRANTIES, COVENANTS OR OBLIGATIONS IN THIS LEASE, (B) THE OCCURRENCE OF ANY REGULATED ACTIVITY AT, ON OR UNDER THE PREMISES AT ANY TIME, (C) ANY ENVIRONMENTAL CLAIM WITH RESPECT TO THE PREMISES AGAINST ANY LANDLORD INDEMNIFIED PARTY OR ANY PERSON WHOSE LIABILITY FOR SUCH ENVIRONMENTAL CLAIM LANDLORD OR TENANT HAS OR MAY HAVE ASSUMED OR RETAINED EITHER CONTRACTUALLY OR BY OPERATION OF LAW (PROVIDED, THAT, EXCEPT FOR LIABILITIES OF LANDLORD ASSUMED OR RETAINED BY OPERATION OF LAW, WITHOUT THE CONSENT OF TENANT NO ENVIRONMENTAL LIABILITY CONTRACTUALLY ASSUMED OR CONTRACTUALLY RETAINED BY LANDLORD SHALL INCREASE THE LIABILITY OF TENANT UNDER THIS PARAGRAPH 8(c) IN EXCESS OF THAT LIABILITY OF TENANT OTHERWISE EXPRESSLY PROVIDED HEREUNDER), (D) THE RELEASE, THREATENED RELEASE OR PRESENCE OF ANY HAZARDOUS MATERIALS AT, ON, UNDER OR FROM THE PREMISES BY A TENANT RESPONSIBLE PARTY OR ANY THIRD-PARTY BEFORE OR DURING THE TERM OF THIS LEASE REGARDLESS OF HOW DISCOVERED BY TENANT, LANDLORD OR ANY THIRD PARTY, (E) ANY REMEDIAL WORK REQUIRED TO BE PERFORMED PURSUANT TO ANY ENVIRONMENTAL LAW OR THE TERMS HEREOF WITH RESPECT TO MATTERS ARISING OR OCCURRING PRIOR TO OR DURING THE TERM, OR (F) ANY MATTERS ARISING UNDER OR RELATING TO ANY ENVIRONMENTAL LAW AND RELATING TO THE TENANT OR THE PREMISES.**

(iii) Upon Landlord's request, at any time after the occurrence and during the continuation of a Default by Tenant hereunder, or at such other time as Landlord has reasonable grounds to believe that Hazardous Materials (except to the extent those substances are permitted to be used by Tenant under this Section 6(c) in the ordinary course of its business and in compliance with all Environmental Laws) are or have been released, stored or disposed of on or around the Premises by any Tenant Responsible Party or any Third-Party, or that the Premises may be in violation of the Environmental Laws as a result of actions of an act or omission of a Tenant Responsible Party or any Third-Party, Tenant shall provide, at Tenant's sole cost and expense, an inspection or audit of the Premises prepared by a hydrogeologist or environmental engineer or other appropriate consultant approved by Landlord and Lender indicating the presence

or absence of the reasonably suspected Hazardous Materials on the Premises or an inspection or audit of the Premises prepared by an engineering or consulting firm approved by Landlord and Lender indicating the presence or absence of friable asbestos or substances containing asbestos on the Premises. If Tenant fails to provide such inspection or audit within thirty (30) days after such request, Landlord or Lender may order the same; and Tenant hereby grants to Landlord or Lender and their respective employees, contractors and agents access to the Premises upon reasonable notice and a license to undertake such inspection or audit. The reasonable cost of such inspection or audit, together with interest thereon at the Lease Default Rate from the date Tenant is provided with written confirmation of such costs incurred by Landlord until actually paid by Tenant, shall be immediately paid by Tenant on demand.

The provisions of this Section 6(c) shall survive any termination of this Lease.

(d) Tenant shall be responsible for all obligations related to, and shall comply in all material respects with the terms of, any ground lease, reciprocal easement agreement, declaration of covenants, easements and restrictions or similar agreements, including, without limitation, any general and special assessments, levies, fees, vault charges, ground rents, permits, inspection and license fees owing or imposed thereunder to the extent affecting the Premises or any part thereof. From and after the date hereof, Landlord shall not further encumber the Premises (except with respect to financing) without first obtaining the prior written consent of Tenant and Landlord shall be solely responsible for the satisfaction of any Landlord Lien (as hereinafter defined) placed on the Premises by Landlord.

Section 7. Liens. Should any Tenant Lien(s) (as hereinafter defined) be filed against any portion of the Premises or any interest therein, Tenant shall cause the same to be cancelled or discharged of record by bond or otherwise within thirty (30) days after Tenant becomes aware thereof. If Tenant shall fail to cancel or discharge said Tenant Lien(s) within said thirty (30) day period, Landlord may cancel or discharge the same and upon Landlord's demand, Tenant shall promptly reimburse Landlord for all reasonable costs actually incurred in canceling or discharging such Tenant Lien(s), together with interest thereon from the date paid by Landlord to the date reimbursed by Tenant at the Default Rate. As used herein, the term "Tenant Lien(s)" shall mean any charge, lien, security interest or encumbrance, including all liens which arise out of the use, occupancy, construction, repair or rebuilding of the Premises or by reason of labor or materials furnished or claimed to have been furnished to Tenant or for the Premises, but not including any mortgage, charge, lien, security interest or encumbrance created by Landlord (such as, without limitation, the Landlord Mortgage (as hereinafter defined) or any other lien securing monetary obligations of Landlord excluding items that Tenant is specifically responsible for under this Lease (e.g., liens for Impositions) (each a "Landlord Lien"). Landlord hereby irrevocably, unconditionally and expressly waives any and all liens on the property of Tenant and its sublessees, express or implied, statutory or contractual.

Section 8. Indemnification. To the maximum extent permitted by law, and excluding any claims by an Indemnitee (as defined below) resulting from such Indemnitee's gross negligence or willful misconduct, Tenant shall defend all actions against Landlord, Lender, and their respective assignees, successors and Affiliates and their respective officers, directors, employees, shareholders, members and other equity owners and certificate holders (collectively, the

"Indemnitees") with respect to, and shall pay, protect, indemnify and save harmless each Indemnitee and the Premises from and against, any and all liabilities (including, without limitation, strict liability in tort), losses, damages, costs, expenses (including reasonable attorneys' fees and expenses), causes of action, suits, claims, demands or judgments of any nature (collectively, **"Claims"**) (a) to which any Indemnitee is subject because of its respective estate or interest in the Premises (excluding any Landlord Lien) or (b) directly or indirectly arising or alleged to arise from or in connection with (i) injury to or death of any Person, or damage to or loss of property, on or about the Premises or on adjoining property, sidewalks, streets or ways, (ii) the ownership, use, condition (including, without limitation, latent and other defects whether or not discoverable by Landlord), design, occupancy, lease, sublease, construction, maintenance, repair or rebuilding of the Premises, any part thereof or any adjoining property, sidewalks, streets or ways, (iii) violation of any Legal Requirement, whether with respect to environmental protection or hazardous waste matters or otherwise, (iv) any act or omission of Tenant or its agents, contractors, licensees, sublessees or invitees, (v) any contest referred to in Section 6 or Section 15 and (vi) the actual or alleged presence, use, storage, generation or release of any Hazardous Materials on, under, from or at the Premises or any portion thereof of any surrounding areas for which Tenant or Landlord has any legal obligation, whether prior to or during the term of this Lease, including the cost of assessment, containment and/or removal of any such Hazardous Materials, the cost of any Remedial Work in response to a release of any such Hazardous Materials so that it does not migrate or otherwise cause or threaten danger to present or future public health, safety, welfare or the environment, and costs incurred to comply with Environmental Laws in connection with all or any portion of the Premises or the operation thereof, or any surrounding areas for which Tenant or Landlord has any legal obligation.

The obligations of Tenant under this Section 8 shall survive the expiration or other termination of this Lease and shall not be limited or affected by any other provision of this Lease requiring Tenant to carry liability insurance. Notwithstanding anything herein to the contrary, Tenant's liability under this Lease shall not include Claims arising from events or circumstances that occur after the expiration or termination of this Lease; provided, however, that if Tenant is holding over or remains on all or any portion of the Premises after the expiration of this Lease (such space that Tenant is actually holding over on, the **"Holdover Space"**), then Tenant's liability under this Lease shall extend with respect to such Holdover Space until Tenant no longer occupies the Holdover Space.

Section 9. Management, Maintenance and Repair.

(a) Tenant shall, at its own expense, throughout this Lease Term, contract and pay for third party property management services for the Premises; said third party property management services shall be from an experienced, qualified and professional management company.

(b) Tenant, at its own expense, will maintain all parts of the Premises, including any altered, rebuilt, additional or substituted buildings, structures and other improvements thereto and all sidewalks, curbs, landscaping, parking lots, vaults and vault space located on or adjacent to the Premises, in a clean and safe condition, in compliance with applicable Legal Requirements and in a manner consistent with the standard not less than that of Comparable Buildings, and will take all action and will make all structural and nonstructural, foreseen and unforeseen and ordinary and

extraordinary changes, replacements and repairs which may be required to keep all parts of the Premises in a clean and safe condition, and to a standard not less than that of Comparable Buildings. All repairs, replacements and renewals shall be performed promptly and in a good and workmanlike manner and in compliance with applicable Legal Requirements. Landlord shall not be required to maintain, repair or rebuild all or any part of the Premises. Tenant waives the right to (i) require Landlord to maintain, repair or rebuild all or any part of the Premises, or (ii) make repairs at the expense of Landlord pursuant to any Legal Requirement at any time in effect. For purposes of this Lease, the term "Comparable Buildings" is defined as other comparable leased buildings of similar age, size and quality. As of the Lease Commencement Date, the Civic Center Plaza building is classified as a "Class B" mid-rise office building; and the building currently occupied by King Chavez is classified as a "Class C" low-rise office building; both buildings being located in the downtown San Diego Office submarket.

Section 10. Alterations.

(a) Tenant may, at its expense, including funds made available in the TI Allowance account, make additions to and alterations of the Improvements and construct additional Improvements and make substitutions and replacements for the Improvements ("Alterations"), provided that Tenant delivers a written statement identifying the Alterations being made, when they are being made and their cost and certifying that (i) the Fair Market Value (as defined in Section 2, above) of the Premises shall not be lessened thereby other than in a de minimus manner and such Alterations will not permanently reduce the square footage of the Improvements, (ii) such Alterations shall be completed in a good and workmanlike manner, free of Liens and in compliance with all applicable Legal Requirements and all insurance policies required to be maintained by Tenant hereunder, and (iii) such Alterations will not adversely affect the building systems or structural integrity of the Premises. Prior to commencing any Alteration the cost of which, either alone or together with any other Alterations (other than those of a merely cosmetic nature (e.g. paint, wall and floor coverings, window treatments) made without Landlord's consent since the last instance in which Landlord provided written consent to Alterations, exceeds Two Million Dollars (\$2,000,000), Tenant shall have first obtained Landlord's written consent, which consent shall not be unreasonably withheld. Landlord's consent shall not be required for Alterations of a merely cosmetic nature. If Landlord's consent is required under this Section 10 and Landlord has not provided Tenant with Landlord's approval or disapproval within twenty (20) days after Landlord's receipt of from Tenant of plans and specifications and other reasonable information requested from Landlord, and such failure continues for ten (10) days after Landlord's receipt of written a second request from Tenant, Landlord will be deemed to have approved the request. Upon Landlord's request, Tenant shall provide Landlord with copies of the plans and specifications, if available for any such additions and alterations. Before making any Alterations, Tenant shall obtain, at its sole cost, including being entitled to use funds available in the TI Allowance account, all necessary permits and approvals required to perform the proposed Alteration. All such Alterations shall be and remain part of the realty and the property of Landlord and shall be subject to this Lease. Landlord agrees to execute such utility easements, building permit applications, zoning changes and other similar governmental applications as Tenant may reasonably deem necessary or requisite in connection with any such addition and/or alteration, provided such utility easements, building permit applications, zoning changes and other similar

governmental applications do not result in any on-going liability on the part of Landlord for which Landlord is not indemnified for hereunder or change the nature of the Premises when compared to Comparable Buildings. Tenant shall reimburse, upon demand, all out-of-pocket fees and costs reasonably incurred by Landlord and its successors and assigns in connection with reviewing any request for consent to Tenant Alterations.

(b) Notwithstanding the foregoing paragraph, Tenant may place upon the Premises any inventory, fixtures, machinery, equipment or other improvements which can be removed without structural damage to the Premises ("**Tenant's Trade Property**") and may remove the same at any time during the Term of this Lease. Landlord agrees, within ten (10) Business Days of Tenant's request and at Tenant's expense, to execute a waiver or subordination of its statutory or contractual landlord's lien to any holder of a valid security interest in any of Tenant's Trade Property or to any bona fide lessor of Tenant's Trade Property provided that the holder of such security interest, or such lessor, agrees in writing to repair any damage which may be done to the Premises as a result of a removal of any of Tenant's Trade Property. Tenant shall promptly repair any damage to the Premises caused by its removal of any of Tenant's Trade Property.

(c) Upon the Commencement Date, Landlord shall make available to Tenant the sum of Five Million Dollars (\$5,000,000) (the "**TI Allowance**") from which Tenant shall be entitled to withdraw funds to pay the cost of Alterations to the Improvements that Tenant elects to make to the Premises, including, without limitation, furnishings, fixtures, equipment, cabling and wiring (the "**Tenant Improvements**"). The TI Allowance, funded by Landlord on the Commencement Date, shall be deposited into a separate interest-bearing account established by Tenant and, subject to the provisions of this Section 10(c), available for withdrawal by Tenant to fund Alterations to the Premises upon request and Tenant Improvements costs are incurred. For so long as, and provided, Tenant maintains a debt rating on its unsecured long-term debt ("**Tenant's Credit Rating**") of not less than either "BBB (outlook stable)" from Standard & Poor's Ratings Services, Inc. or "Baa2" from Moody's Investors Service, Inc. (the "**Minimum Debt Rating**"), Tenant shall be entitled to withdraw funds from the TI Allowance account with at least ten (10) days prior written notice to Landlord to pay for Tenant Improvements. If, at any time, Tenant's Credit Rating is below the Minimum Debt Rating, as a condition to Tenant's right to withdraw funds from the TI Allowance account, in addition to and concurrently with the required advance written notice to Landlord, Tenant shall also provide to Landlord copies of paid invoices for any Alterations to be paid for from such withdrawal from the TI Allowance account and preliminary or final lien releases and waivers in form that conforms with the requirements of the construction lien laws of the State of California and duly executed by the contractors and subcontracts to whom payment is intended to be funded from such withdrawal. Provided such notice and additional materials and documents are provided, if and as required, Landlord shall allow Tenant to withdraw the requested funds from the TI Allowance account.

(d) All designs, plans and specifications for such Alterations shall be prepared by Tenant and Tenant's consultants, agents and contractors and shall be subject to Tenant's approval in its sole and absolute discretion.

(e) Tenant, or Tenant's representative, shall undertake responsibility for coordinating, managing and overseeing the design, construction and installation of such Alterations. Tenant, or

Tenant's representative, shall engage the services of a construction manager or management firm to act as Tenant's agent in performing its responsibilities related to the Alterations ("**Construction Manager**"), all costs associated with such Construction Manager's services and costs being Tenant's sole responsibility.

(f) Upon completion of such Improvements, Tenant shall certify to Landlord that such Alterations have been completed in accordance with the related plans and specifications. Landlord shall have no responsibility to fund any improvements or Alterations to the Premises.

(g) Any unused TI Allowance funds remaining in the TI Allowance account after the nineteenth (19th) year of this Lease shall be immediately payable to Tenant upon Tenant giving thirty (30) days written notice to Landlord.

Section 11. Condemnation and Casualty; Abatement.

(a) If, prior to the Termination Date, the Premises are subject to (i) an event of loss, damage or destruction, whether by fire or hazard or other casualty to all or any portion of the Premises (a "**Casualty**") that is caused by a peril which is or should have been covered by a policy of insurance described in Section 12 of this Lease (an "**Insured Peril**"), or (ii) a condemnation, seizure, confiscation, requisition or other taking or sale of the use, access, occupancy, easement, rights to or title of all or any portion of the Premises, whether permanent or temporary, by or on account of any actual or threatened eminent domain proceeding or other action by any governmental authority or any transfer in lieu or in anticipation thereof (a "**Taking**" (a Taking or a Casualty each sometimes referred to in this Lease as a "**Destruction**"), Tenant shall give Landlord prompt written notice thereof, and describe in reasonable detail in each case the facts or circumstances of the Destruction and the damage to or loss or destruction of the Premises; provided, however, so long as no Default exists, Tenant shall not have any obligation to notify Landlord of any Casualty which results in damages to the Premises equaling less than \$1,000,000 (a "**Limited Casualty**").

(b) So long as no Default exists, Tenant shall, at its cost and expense, in the name and on behalf of the Landlord, Lender and Tenant, appear in any such proceeding or other action, negotiate, accept and prosecute any claim for any award, compensation, insurance proceeds or other payment on account of any such Destruction. Tenant shall use commercially reasonable efforts to achieve the maximum award or other recoveries obtainable under the circumstances. Except with respect to a Limited Casualty, any negotiated awards, settlement or recoveries shall be subject to Landlord's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed and if Landlord's written disapproval of any such award is not received by Tenant within ten (10) business days after Landlord's receipt from Tenant of written notice thereof, Landlord shall be deemed to have approved such award (and if approved, Tenant shall be deemed to have used commercially reasonable efforts to achieve the maximum award or other recoveries obtainable under the circumstances). Except with respect to a Limited Casualty, Tenant shall promptly inform Landlord of all settlement offers. Landlord and Lender may appear in any such proceeding or other action in a manner consistent with the foregoing and the costs and expenses of any such appearance shall be borne by Landlord or Lender, as applicable. If a Default

exists, Lender (or if there be none, Landlord) shall have the exclusive right, at Tenant's reasonable cost, to negotiate, adjust and settle awards, settlements and recoveries without Tenant's approval.

(c) As used herein, the term "**Net Award**" shall mean the entire award, compensation, insurance proceeds or other payment (excluding Reimbursed Funds), if any, by reason of or on account of any Destruction, less any expenses reasonably incurred by Tenant (or if a Default exists, Landlord or Lender) in obtaining such award, compensation, insurance proceeds or other payment and any cost and expense of either in connection with the administration of the distribution of the same and not already paid (or reimbursed to Landlord or Lender if a Default then exists). Subject to subsections (d) and (e) below, Tenant shall cause any Net Award to be paid to Lender, if any, and otherwise, to Landlord, excluding, however, insurance proceeds or payments received by Tenant in reimbursement of amounts expended by Tenant ("**Reimbursed Funds**") and such proceeds shall be applied by Landlord to the payment of Rent that is subject to abatement pursuant to subsection (d), below, or toward the costs of Restoration of the Premises pursuant to subsection (d), below.

The full amount of the Net Award shall be paid to a depositary (the "**Depository**"), except with respect to a Limited Casualty in which case the Net Award shall be paid directly to Tenant to be applied towards costs and expenses related to Restoration. The Depository shall be Lender, or a bank or trust company, selected by Landlord, the long-term unsecured debt obligations of which are rated at least "A" and "A2", respectively, by S&P or Moody's (or any successor to either entity). The Depository shall have no affirmative obligation to prosecute a determination of the amount of, or to effect the collection of, any insurance proceeds or condemnation award or awards. Moneys so received by the Depository shall be held by the Depository in trust separately for the uses and purposes provided in this Lease. To the extent not available to be paid from the Net Award, fees and expenses payable to the Depository shall be paid by Tenant as Additional Rent.

(d) As used herein, "**Restore**" or "**Restoration**" means if the Premises suffers a Destruction by a Casualty or a Taking, to restore, repair, replace, rebuild and/or improve the Premises, as nearly as practicable, to the following condition: (x) with respect to a Casualty, a condition which is consistent with the condition of the Premises immediately prior to such Destruction, or (y) with respect to a Taking, a condition such that the remaining portion of the Premises when restored is fit for use in Tenant's business and has a value not less than the value of the Premises immediately prior to such Taking. All Restoration undertaken pursuant to this Lease shall be commenced, executed and completed in the same manner as if the same were undertaken pursuant to Section 10 above, and shall be subject to the reasonable requirements of Landlord and Lender.

(e) As soon as is reasonably and commercially practicable with the exercise of reasonable and continuous diligence, but in no event later than three hundred sixty-five (365) days following the date of the Insured Peril, Tenant shall obtain and provide to Landlord and Lender a written estimate(s) of (i) the cost to Restore the Premises, and (ii) the Net Award available to pay such costs. Copies of such estimate(s) shall be made available to the Lender and the Lender's request. If such three hundred sixty-five (365) days period is insufficient to obtain such estimates, the period shall be extended by Landlord as reasonably necessary to allow Tenant to obtain such

estimates, provided Tenant has sought and continues to seek to obtain them with reasonable and continuous diligence. Payments of the Net Award for the actual costs and expenses incurred by Tenant in connection with such Restoration shall be made periodically (but not less frequently than once each calendar month and not more frequently than twice each calendar month) to Tenant from time to time as work progresses by the Depositary after written notice to the Depositary, with a copy to Landlord, setting forth in reasonable detail and with reasonable supporting materials all of such costs and expenses actually incurred by Tenant. Disbursements by the Depositary shall be in an amount not exceeding the hard and soft costs of the Restoration incurred since the previous disbursement and shall be conditioned upon the delivery to the Depositary of appropriate lien waivers, architect's certificates, title insurance endorsements and other certificates and information that would typically be delivered to a construction lender in a construction loan context. If upon completion of the Restoration and the payment of all costs incurred in connection therewith there is any excess Net Award, provided no Default exists, then such excess Net Award shall first be applied to the payment of any Base Rent that is, in accordance with this Lease, subject to abatement following a Destruction and, if there is any remaining excess Net Award, it shall be paid to or retained by Tenant, free and clear of any claims by Landlord or Lender.

(f) If the amount of the Net Award exceeds the estimated costs of Reconstruction, Tenant shall use such Net Award to Restore the Premises to the same or better quality as existed before the Destruction. Tenant shall commence and manage the Restoration and shall complete the Restoration as soon as reasonably possible after the occurrence of such Destruction with reasonable and continuous diligence. If the estimated costs of Restoration exceed the Net Award, Tenant, in its sole discretion, may elect, in its sole and absolute discretion, to budget and appropriate to the Restoration the amount of such excess, whether the same is greater or less than the estimated excess, and to manage the Restoration as herein provided. Tenant shall exercise this election by written notice thereof delivered to Landlord and Lender within 30 days after Tenant obtains said written estimate(s).

(g) If Tenant does not exercise the election to Restore pursuant to subsection (f), above, and the amount of the Net Award is at least sufficient to pay the Interim Term Purchase Price (as defined in Section 13 of this Lease), then Tenant shall be deemed to have irrevocably exercised the Interim Term Purchase Option (as defined in Section 13 below), the closing of which shall occur on the next Payment Date first occurring ninety (90) days after Tenant's election not to Restore pursuant to subsection (f), above. At the closing of the purchase of Landlord's Estate as provided herein, Tenant shall be entitled to apply the full amount of any Net Award to the payment of the Interim Term Purchase Price or to retain such Net Award free and clear of any claims by Landlord or Lender provided the Interim Term Purchase Price is otherwise fully paid when and as required under Section 13. If necessary, Landlord or Lender shall provide assignments, releases or other documentation necessary to effectuate the payment of the Net Award to Tenant in accordance with the previous sentence.

(h) If Tenant does not exercise the election to Restore pursuant to subsection (f), above, and the amount of the Net Award is insufficient to pay the Interim Term Purchase Price (as defined in Section 13 of this Lease), Tenant may elect, in its sole and absolute discretion, to budget and appropriate funds to exercise the Interim Term Purchase Option and, if it exercises such option, the closing of such purchase shall occur on the next Payment Date first occurring ninety (90) days

after Tenant's election not to Restore pursuant to subsection (f), above. Tenant shall be entitled to apply the full amount of any Net Award to the payment of the Interim Term Purchase Price or to retain such Net Award free and clear of any claims by Landlord or Lender provided the Interim Term Purchase Price is otherwise fully paid when and as required under Section 13. Notwithstanding the foregoing, if Tenant elects not to budget and appropriate funds for the exercise of the Interim Term Purchase Option, Tenant shall pay the entire Net Award to the Landlord who may choose, in its sole and absolute discretion to Restore the Premises, in which case the Net Award shall be applied to such Restoration or, alternatively, Landlord may apply the Net Award to the payment of any Base Rent that is, in accordance with this Lease, subject to abatement following a Destruction.

(i) If, during any period in which, by reason of an event of Destruction, there is substantial interference with the use and occupancy by Tenant of any portion of the Premises, payments of Base Rent due hereunder with respect to the Premises shall be abated to the extent that the annual fair rental value of the portion of the Premises in respect of which there is no substantial interference is less than the annual Base Rent payments and Additional Rent, in which case rental payments shall be abated only by an amount equal to the difference. In the case of abatement relating to the Premises, the amount of annual rental abatement shall be such that the resulting Base Rent payments in any Lease Year during which such interference continues, excluding any amounts remaining the TI Allowance account, which shall be applied to the payment of Base Rent and paid as and when otherwise due but for such abatement, do not exceed the annual fair rental value for each Lease Year of the portions of the Premises with respect to which there has not been substantial interference, as evidenced by a certificate of an authorized representative of Tenant. Such abatement shall continue for the period commencing with the date of such Destruction and ending with the Restoration of the Premises or portion thereof to tenantable condition or substantial completion of the work of Restoration of the portions of the Premises subject to such Destruction.

(j) The provisions of this Section 11 shall supersede any contrary provisions in any statute or law. The City expressly waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate this Lease by virtue of any such Destruction to the Premises and this Lease shall continue in full force and effect. All Net Award proceeds shall be applied in accordance with the provisions of this Section 11.

Section 12. Insurance.

(a) Tenant will maintain insurance on the Premises of the following character:

(i) All Risk Property Insurance, including coverage for windstorm, tornado, explosion (including coverage for boilers and similar apparatus located on the Premises), earthquake and flood insurance (if the Premises is located within either a Special Flood Hazard Area or a Non-Special Flood Hazard Area as determined by FEMA flood zone ratings of A or V), and with extended coverage as are customarily insured against and in such amounts as are customarily carried, by companies owning property of a character similar to that of the Premises and engaged in a business similar to that engaged in by Tenant but in any event in amounts not less than 100% of the full replacement value of the Premises, exclusive of foundations and

excavations, as evidenced by "Replacement Costs" or "Restoration" endorsements thereto. The term "**full replacement value**" as used herein means actual replacement value without deduction for physical depreciation, as determined upon request of Landlord at reasonable intervals not more than once per year to provide the required "Replacement Cost" or "Restoration" endorsements and at the expense of Tenant, by independent appraisals.

(ii) Commercial general liability insurance covering claims for bodily injury, death or property damage in the minimum amounts of \$5,000,000 per occurrence.

(iii) Workers' compensation insurance to the extent required by the law of the state in which the Premises are located and to the extent necessary to protect Landlord and the Premises against worker's compensation claims; provided that if permitted under the laws of such state in lieu of such worker's compensation insurance, Tenant may maintain a program of self-insurance complying with the rules and regulations and requirements from time to time in effect of the appropriate state agency of the state in which the Premises are located.

(iv) Whenever Tenant shall be engaged in making any alterations, additions, repairs or construction work of any kind (collectively, "**Work**") for which the estimated cost exceeds \$1,000,000, project completed value builder's risk insurance or other adequate property insurance coverage, whether by Tenant or its contractors.

(v) Loss of business income or business interruption insurance coverage insuring the rental value of the Premises for the length of any period during which, and to the extent and for so long as, Rent abates under the terms of this Lease due to a Casualty up to a total of twenty-four (24) months.

(vi) Such additional and/or other insurance with respect to the Premises and in such amounts as are reasonably requested by Landlord or a Lender consistent with types and amounts required by landlord or owners of Comparable Buildings.

(vii) Tenant shall obtain and maintain coverage in its "all risk" property policy (or by a separate policy) against loss or damage by terrorist acts in an amount equal to 100% of the full replacement value" of the Premises; provided that such coverage is available. If such coverage for terrorist acts is not included as part of the "all risk" property Policy required by Section 12(a)(i), Tenant shall, nevertheless be required to obtain coverage for terrorism (as standalone coverage) in an amount equal to 100% of the "full replacement value" of the Premises; provided that such coverage is available.

All insurance shall be written by companies of recognized national standing authorized to do business in the state in which the Premises are located, having a rating by Standard & Poor's (or equivalent ratings agency) of not less than A, and an A.M. Best Insurance Reports rating of not less than "A1" and a financial size category of at least "VIII", unless otherwise approved in writing by Landlord.

(b) At any time that Tenant does not qualify to self-insure (as provided in Section 12(d), the All Risk Property Insurance referred to in Section 12(a)(i) shall include a first mortgagee

endorsement in favor of the lender or lenders (collectively, the "**Lender**") that have provided a loan to Landlord secured by a Fee Mortgage. All policies referred to in Section 12(a) (except for Workers' Compensation and, so long as Tenant qualifies to self-insure as provided above, the All Risk Property Insurance) shall name as additional insured Landlord, Lender and any trustee acting on behalf of the Lender (the "**Trustee**"), as their interests may appear in this Lease. The All Risk Property Insurance referred to in Section 12(a)(i) shall provide that (i) if available on commercially reasonable terms and rates, Landlord's and Lender's interests shall be insured regardless of any breach or violation by Tenant of any warranties, declarations or conditions contained in such policies and (ii) if available on commercially reasonable terms and rates, such insurance as to the interests of Landlord and the Lender therein shall not be invalidated by the use or operation of the Premises for purposes which are not permitted by such policies or by any foreclosure or other proceedings relating to the Premises or by change in title to or ownership of the Premises. Every policy referred to in Section 12(a) above shall provide, to the extent of Tenant's assumed liabilities under this Lease, that (x) the insurers shall provide a waiver of subrogation in favor of Landlord and Lender and (y) coverages shall be primary and not excess to or contributing with any insurance or self-insurance maintained by Landlord or Lender. The Tenant shall provide Landlord with 30 days written notice of cancellation, material reduction in coverage, or material increase in deductible or co-insurance under all policies required hereunder.

(c) At any time that Tenant does not qualify to self-insure as provided in Section 12(d) and Tenant insures through a carrier that does not provide a first mortgagee endorsement, Tenant agrees to indemnify and hold harmless Landlord and Lender from all loss, cost or expense that Landlord or Lender (or both) shall incur which they would not have incurred if the insurance policy had provided a first mortgagee endorsement and which loss, cost or expense is not otherwise covered by Tenant's other payment and indemnity obligations under this Lease.

(d) Notwithstanding any other provisions of this Lease, Tenant has the right and option to self-insure any insurance which Tenant is obligated to carry under the terms of this Lease so long as Tenant maintains a debt rating on its unsecured long-term debt of not less than "BBB (outlook stable)" from Standard & Poor's Ratings Services, Inc. and "Baa2" from Moody's Investors Service, Inc., provided each continues to publish ratings on Tenant's unsecured long-term debt, or qualitatively similar ratings from other ratings services should either rating no longer be obtained by the Tenant. If Tenant does not maintain, in whole or in part, insurance of the types and in the amounts set forth in this Section 12, or if the insurances maintained by Tenant do not satisfy the requirements of this Section 12, Tenant shall be deemed to have elected to self-insure as to such insurances and shall, as a result, be subject to the provisions of this subsection (d).

Section 13. End of Term Conveyance; Purchase Option; Sale to Affiliate of Tenant and Assumption of Fee Loan.

(a) So long as no material, monetary or insolvency Default exists under this Lease, in consideration of Tenant's performance of its obligations under this Lease during the Term hereof, and without further request, payment or obligation, on the Termination Date, Landlord shall convey to Tenant, and Tenant shall accept, without condition other than as contained in this Section 13, fee title to the Premises.

(b) In addition to the offer right granted Tenant in Section 11 hereof, Tenant shall also have the right and option to purchase Landlord's Estate at any time following the end of the fifth (5th) year of the Term (the "**Interim Term Purchase Option**") provided Tenant has delivered a written notice to Landlord and the Lender (a "**Purchase Notice**") notifying them of Tenant's irrevocable exercise of the Interim Term Purchase Option. The closing date of Tenant's purchase (the "**Purchase Date**") pursuant to the Interim Term Purchase Option shall be the date ninety (90) days after the delivery of the Purchase Notice. If the Interim Term Purchase Option is exercised, the purchase price to be paid by Tenant shall be an amount, payable in cash, equal to the net present value of the remaining payments of Rent due for the balance of the Term, based on a discounted cash flow calculation using a discount rate which is the lower of either (A) three and fifteen hundredths percent (3.15%) or (B) fifty (50) basis points above the rate equal to the yield to maturity of either (1) actively traded U.S. Treasury securities having a maturity equal to the then remaining average life of the Fee Loan obtained by Landlord from Lender and secured by the Fee Mortgage as reported as of 11:00 A.M. (New York City time) on the date of calculation on the display designated PX-1 on the Bloomberg Financial Markets Screen (or such other display as may replace such displays on the Bloomberg service on any other generally available service), or (2) if no maturity exactly corresponding to the remaining average life of the Fee Loan shall appear therein, then yields for the two most closely corresponding reported maturities (with one being shorter and the other longer) shall be calculated pursuant to the foregoing sentence and the Discount Rate shall be interpolated from the yield derived from the ICUR function on the Bloomberg Financial Markets Screen (the "**Interim Term Purchase Price**").

(c) In addition to the rights and options described in subsection (b), above, at any time following the end of the fifth (5th) year of the Term, Tenant shall have the right and option to cause an affiliate of Tenant (an "**Affiliate**" being defined as any entity owned or controlled through equity ownership by or under common ownership or control with Tenant) to purchase, and Landlord shall sell to such Affiliate (the "**Transferee**") (the "**Affiliate Purchase Option**"), all but not less than all of the Landlord's Estate, provided Tenant has delivered a Purchase Notice to Landlord and the Lender notifying them of Tenant's irrevocable exercise of the Affiliate Purchase Option. Provided all of the conditions of this subsection (c) have been satisfied, the Purchase Date for the purchase by the Transferee shall be the date ninety (90) days after the delivery of the Purchase Notice, on which date Tenant shall pay to Landlord the amount of One Dollar (\$1.00) (the "**Assumption Price**") and shall comply with the following:

(i) No Event of Default may exist under the Lease at the time of or immediately after such Transfer;

(ii) The Transfer will not result in a merger of estates;

(iii) Transferee, in writing, (A) assumes and agrees to pay (subject to the non-recourse provisions of the Fee Loan) and to perform all of the obligations of Landlord under the Fee Loan Documents, and (B) as of the date of Transfer makes those representations of Landlord which are applicable to Transferee in the Fee Loan Documents. Before or concurrently with the closing of such Transfer, Transferee and Landlord shall duly execute, without any cost or expense to Lender and Transferee, such documents and agreements as Lender may reasonably require to

evidence and effectuate said assumption, and deliver such legal opinions as Lender may reasonably require;

(iv) Landlord and Transferee shall duly execute and deliver to Lender, without any cost or expense to Lender, new financing statements or financing statement assignments or amendments;

(v) Transferee and Landlord shall duly execute and deliver to Lender, without any cost or expense to Lender, an assignment and assumption of the Lease reasonably acceptable to Lender;

(vi) Landlord or Transferee causes to be delivered to Lender, without any cost or expense to Lender, such endorsements to Lender's title insurance policy, hazard insurance endorsements or certificates and other similar materials as Lender may reasonably deem necessary at the time of the Transfer, all in form and substance reasonably satisfactory to Lender, including, an endorsement or endorsements to Lender's title insurance policy, insuring the Lien of the Fee Mortgage, extending the effective date of such policy to the date of execution and delivery with no additional exceptions added to such policy not previously approved by Lender and insuring that fee simple title to the Mortgaged Property is vested in Transferee, or, in lieu thereof, such other documents or evidence as Lender may reasonably require to confirm that such policy is unaffected by the Transfer;

(vii) Landlord duly executes and delivers to Lender, without any cost or expense to Lender, a release of Lender, its successors and assignees, their respective officers, directors, employees and agents, from all claims and liability relating to the transactions evidenced by the Fee Loan Documents through and including the date of the closing of the Transfer, which agreement shall be in form and substance reasonably satisfactory to Lender and shall bind the Transferee;

(viii) Transferee delivers to Lender, without any cost or expense to Lender, such certificates and legal opinions by Transferee or its counsel as Lender may reasonably request in connection with such and any other documents executed by or that binds Transferee and delivered for such Transfer, including a non-consolidation opinion satisfactory to Lender; and the parties intend that all such certificates and opinions delivered for Landlord in connection with the making of the Fee Loan hereunder are to be delivered, executed or otherwise provided for Transferee and Lender's rights under the Fee Loan Documents will not be diminished or affected by such Transfer;

(ix) Transferee satisfies the requirements of the Fee Loan Documents relating to special purpose entities hereof; and

(x) Transferee shall provide Tenant and Lender with an IRS Form W 9.

No assumption fee or other fee is due and payable for a Permitted Transfer to an Affiliate of Tenant.

(d) Upon conveyance by Landlord to Tenant pursuant to subsection (a), above, or if Tenant or a Transferee under subsection (c), above, shall purchase the Landlord's Estate pursuant

to subsection (b) or (c), above, upon the Termination Date or Purchase Date, as applicable, Landlord shall convey Landlord's Estate to Tenant or such Transferee via a grant deed, free and clear of any Lien (defined below) (other than the Lien of the Fee Loan in the event of a sale to a Transferee pursuant to subsection (c), above) or other adverse interest of any kind created by Landlord, but otherwise expressly AS-IS, WHERE-IS, without representation or warranty, express or implied, by Landlord, with a corresponding commercially customary written release and waiver of all claims, known or unknown, related thereto by Tenant in favor of Landlord, with regard to any matter regarding the physical condition of Landlord's Estate, and any other instruments necessary to convey the title thereto described in this Section 13 and to assign any other property (such as any improvements, fixtures, personal property, etc.) included in the definition of "Premises" then required to be assigned by Landlord pursuant hereto, as well as, in recordable form, a cancellation of any right of Landlord with respect to the Premises, and concurrently therewith, Tenant shall pay to Landlord the Interim Term Purchase Price, or the Assumption Price, as applicable, together, with all Rent hereunder up to and including the Purchase Date, in immediately available funds. Tenant shall pay all charges incident to such conveyance and assignment, including escrow fees, recording fees, title insurance premiums and all applicable taxes (other than any net income or franchise taxes of Landlord) which may be imposed by reason of such conveyance and assignment and the delivery of said instrument of assignment and conveyance. Upon the completion of any purchase of the Landlord's Estate (other than in the case of a sale to a Transferee pursuant to subsection (c), above) this Lease shall terminate, except with respect to obligations and liabilities which expressly survive termination. As used in this paragraph only, "Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or other security agreement.

Section 14. Assignment and Subletting.

(a) Tenant may sublet the Premises or assign or otherwise transfer its interests hereunder without obtaining Landlord's consent; provided, that (i) at the time of any such sublease or assignment no Default exists, (ii) any such sublease or assignment shall by its terms be expressly made subject and subordinate to the terms of this Lease, (iii) with respect to any sublease of less than forty thousand (40,000) rentable square feet of the Premises, Tenant shall have given Landlord ten (10) days' prior written notice of any such sublease or assignment (but the failure to do so shall not invalidate such transfer and shall not be considered a breach or Default by Tenant hereunder), and (iv) for any sublease or assignment entered into after the date hereof, such sublease shall contain a section to read as follows:

"Sublessee by its execution of this Sublease hereby unconditionally acknowledges and agrees as follows: (a) Sublessee has received a copy of the Lease Agreement dated as of _____, 201__ (the "**Primary Lease**"), between THE CITY OF SAN DIEGO, as Tenant, and 101 Ash, LLC, as Landlord, (b) this Sublease represents a sublease of Sublessor's rights in and to the Premises and this Sublease and the rights of Sublessee hereunder are in all respects subject and subordinate to the Primary Lease."

No such assignment or sublease shall modify or limit any right or power of Landlord hereunder or affect or reduce any obligation of Tenant hereunder, and all such obligations shall

continue in full effect as obligations of a principal and not of a guarantor or surety, as though no assignment or subletting had been made. Tenant shall, within thirty (30) days after the execution of any such sublease or assignment, deliver a conformed copy thereof to Landlord and the Trustee. Tenant shall have no rights to mortgage or otherwise hypothecate its leasehold interest under this Lease.

(b) Landlord shall not be entitled to any net profits resulting from a sublease or assignment. Upon the occurrence of a Default under this Lease, Landlord shall have the right to collect and enjoy all rents and other sums of money payable under any sublease of any of the Leased Premises, which rents and other sums shall be applied to Tenant's outstanding obligations under this Lease (and any excess shall be paid to Tenant unless and until this Lease is terminated) and Tenant hereby irrevocably and unconditionally assigns such rents and money to Landlord, which assignment may be exercised upon and after (but not before) and during the continuance of a Default.

(c) Landlord shall be entitled to sell, convey, assign, transfer, mortgage, hypothecate or encumber (any a "Transfer") the Premises or any part thereof without Tenant's consent, provided that the Lease shall remain in full force and effect and without impact or effect from such Landlord and further provided that Landlord shall notify Tenant, in writing, of any such Transfer, provided that Landlord's failure to do so shall not affect the validity of any such Transfer, constitute a Default under this Lease or the affect the right or title to the Premises of the transferee; provided, however, if Tenant is not provided notice of a Transfer and until such notice has been delivered, Tenant shall not be in Default if Tenant otherwise lacks knowledge of the Transfer and, due to Landlord's failure to provide notice of a Transfer, Tenant pays the Rent to the prior Landlord and not to the transferee (in which case Landlord shall be responsible for making any such Transferee whole, which shall include the payment of any and all penalties, fines and/or fees charged by said Transferee).

Section 15. Permitted Contests. Tenant shall not be required to (a) comply with any Legal Requirement applicable to the Premises or the use thereof, (b) pay any Imposition or (c) obtain any waivers or settlements or make any changes or take any action with respect to any encroachment, hindrance, obstruction, violation or impairment referred to in Section 7, 9 or 10 hereof, as long as Tenant shall contest the existence, applicability, amount or validity thereof in good faith by appropriate proceedings which shall prevent the collection of, or other realization with respect to, the matter so contested, and which also shall prevent the sale, forfeiture or loss of the Premises, Landlord's Estate and any Base Rent or Additional Rent and which shall otherwise not affect the payment of any Base Rent or any Additional Rent; provided that in no event shall any such contest subject Landlord or its successors and assigns to the risk of any criminal liability or any civil liability. Tenant shall (i) give written notice to Landlord and the Lender of any such contest, (ii) indemnify and hold the Indemnitees harmless from any liability in connection with any such contest and (iii) promptly after the final determination of such contest, fully pay and discharge the amounts which shall be levied, assessed, charged or imposed or be determined to be payable therein or in connection therewith, together with all penalties, fines, interest, costs and expenses thereof or in connection therewith, and perform all acts the performance of which shall be ordered or decreed as a result thereof.

Landlord agrees to sign such tax returns, applications and other documents as may be reasonably necessary or requisite for Tenant to properly conduct any contest permitted hereunder, and Landlord further agrees that it shall hold in trust and forthwith pay Tenant the amount of any tax, or other-refund received by Landlord as a result of any contest permitted hereunder.

Section 16. Conditional Limitations; Default Provisions.

(a) Any of the following occurrences or acts shall constitute a Default ("**Default**") under this Lease:

(i) If Tenant shall fail to pay any sum of Rent when due, and such failure shall continue for at least five (5) business days; or

(ii) Tenant fails to maintain the insurance (or self-insurance) required to be maintained by it in accordance with this Lease; or

(iii) if Tenant shall fail to observe or perform any other provision hereof and such failure shall continue for thirty (30) days after written notice to Tenant; provided, however, if the nature of the default is such that it is curable, but cannot be cured with the exercise of Tenant's reasonable and good faith efforts within the thirty (30) day period, Tenant shall have up to one hundred twenty (120) days from the date of Landlord's written notice to cure such default, provided Tenant commences such curative action within the thirty (30) day period and diligently and continuously proceeds with such curative action using Tenant's reasonable and good faith efforts; or

(iv) if Tenant has entered against it or on its behalf an order for relief under the Federal bankruptcy laws, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or becomes insolvent, or makes an assignment for the benefit of creditors, or fails to generally pay its debts as such debts become due, or Tenant applies for or consents to the appointment of a trustee or receiver or for the major part of its property; or

(v) a custodian (including without limitation a trustee or receiver) is appointed for Tenant or for the major part of the property of Tenant and is not discharged within ninety (90) days after such appointment; or

(vi) bankruptcy or insolvency proceedings, or other proceedings for relief under any bankruptcy or similar Federal or state law or laws for the relief of debtors, are instituted by or against Tenant and, if instituted against Tenant are consented to or are not dismissed within ninety (90) days after such institution; or

(vii) any judgment or order for the payment of money in an amount of \$150,000,000 or more in excess of valid and collectible insurance in respect thereof or in excess of an indemnity with respect thereto reasonably acceptable to Landlord shall be rendered against Tenant and such judgment shall have become final and non-appealable and shall have remained outstanding for a period of 60 consecutive days.

(b) Upon any Default by Tenant, Landlord may:

(i) Maintain this Lease in full force and effect and recover the Rent and other monetary charges as they become due, without terminating Tenant's right to possession irrespective of whether Tenant shall have abandoned the Premises. If Landlord elects not to terminate this Lease, (i) then upon Tenant's subsequent cure of all Defaults, Tenant may assign or sublet as otherwise permitted by this Lease, and/or (ii) Landlord shall have the right (but not the obligation) to attempt to relet the Premises at such rent and upon conditions, and for such a term, and to do all acts necessary to maintain or preserve the Premises, as Landlord deems reasonable and necessary, without being deemed to have elected to terminate this Lease, including re-entering the Premises to make repairs or to maintain or modify the Premises, and removing all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. Reletting may be for a period shorter or longer than the remaining Term of this Lease, and for more or less rent, but Landlord shall have no obligation to relet at less than prevailing market rental rates (taking into account concessions). Notwithstanding that Landlord fails to elect to terminate the Lease initially, Landlord at any time thereafter may elect to terminate the Lease by virtue of any previous and continuing uncured Default by Tenant. In the event of any such termination, Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's Default, as well as all costs of reletting, including, without limitation, brokerage commissions and/or finder's fees, attorneys' fees, and restoration or remodeling costs, less what Tenant can prove Landlord could have avoided if it had used reasonable efforts to mitigate its damages as provided in CC Section 1951.2(a)(2).

(ii) Terminate Tenant's right to possession by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's Default including, without limitation thereto, the following: (i) the worth, at the time of award, of any unpaid rent which had been earned at the time of such termination; plus (ii) any other amount, and court costs, necessary to compensate Landlord for all the detriment proximately caused by Tenant's Default or which in the ordinary course of things would be likely to result there from (including, without limiting the generality of the foregoing, the amount of any brokerage commissions and/or finder's fees for a replacement tenant, maintaining the Premises after such Default, and preparing the Premises for reletting); plus (iii) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Applicable Law. As used in (i) above, the "worth at the time of the award" is computed by allowing interest at the maximum rate of interest allowed by applicable law.

(iii) Collect sublease rents (or appoint a receiver to collect such rents) and otherwise perform Tenant's obligations at the Premises, it being agreed, however, that neither the filing of a petition for the appointment of a receiver for Tenant nor the appointment itself shall constitute an election by Landlord to terminate this Lease.

(iv) Proceed to cure the Default at Tenant's sole cost and expense. If at any time Landlord pays any sum or incurs any expense as a result of or in connection with curing any Default of Tenant, the amount thereof shall be deemed Additional Rent hereunder and shall be immediately due and payable by Tenant to Landlord upon demand.

(c) Pursue any and all other legal or equitable remedies as may be available to Landlord by reason of such Default by Tenant.

Except as may be specifically provided above, the remedies of Landlord, as hereinabove provided, are cumulative (to the extent they do not allow duplicative recovery), and in addition to and not exclusive of any other remedy of Landlord herein given or which may be permitted by law. The remedies of Landlord, as hereinabove provided, are subject to the other provisions herein. Nothing contained in this Section 16 shall affect Landlord's right, as in this Lease elsewhere provided, to indemnification against liability for injury or damage to persons or property occurring prior to the termination of this Lease.

Except as provided with respect to a holdover under Section 8 above, in no event may Landlord or Tenant recover from the other consequential damages.

Section 17. Additional Rights of Landlord.

(a) No right or remedy hereunder shall be exclusive of any other right or remedy, but shall be cumulative and in addition to any other right or remedy hereunder or now or hereafter existing. Failure to insist upon the strict performance of any provision hereof or to exercise any option, right, power or remedy contained herein shall not constitute a waiver or relinquishment thereof for the future. Receipt by Landlord of any Rent with knowledge of the breach of any provision hereof shall not constitute waiver of such breach, and no waiver by Landlord of any provision hereof shall be deemed to have been made unless made in writing. Landlord shall be entitled to injunctive relief in case of the violation, or attempted or threatened violation, of any of the provisions hereof, or to a decree compelling performance of any of the provisions hereof, or to any other remedy allowed to Landlord by law.

(b) If a Default shall exist hereunder, Tenant shall pay to Landlord on demand all reasonable expenses incurred by Landlord as a result thereof, including reasonable attorneys' fees and expenses. If Landlord shall be made a party to any litigation commenced against Tenant and Tenant shall fail to provide Landlord with counsel approved by Landlord and pay the expenses thereof, Tenant shall pay, on demand, all reasonable costs and reasonable attorneys' fees and expenses incurred by Landlord in connection with such litigation.

Section 18. Subordination. This Lease is subject and subordinate to any mortgage, deed of trust, ground lease and/or security agreement which may now or hereafter encumber the Premises or any interest of Landlord therein, and to any advances made on the security thereof and to any and all increases, renewals, modifications, consolidations, replacements and extensions thereof only on the condition that Tenant receives a non-disturbance agreement from the holder of such mortgage, deed of trust or security agreement, or the ground lessor reasonably acceptable to each of the parties whereby, as a condition to any attornment or subordination by Tenant, Tenant shall not be disturbed in its possession of the Premises during the Term nor its rights under this Lease terminated so long as no Default has occurred and is then continuing. Tenant agrees that any Lender shall have the right at any time to subordinate such mortgage, deed of trust or other lien to this Lease. The provisions of the foregoing sentence shall be self-operative and no further instrument of subordination shall be required. In the event of the enforcement by the ground lessor,

the mortgagee, the trustee, the beneficiary or the secured party under any such ground lease, mortgage, deed of trust or security agreement, provided such party has entered into such a non-disturbance agreement (any such party being herein referred to as "**Interest Holder**"), of the remedies provided for by law or by such ground lease, mortgage, deed of trust or security agreement, Tenant will attorn to and automatically become the tenant of such Interest Holder or successor in interest without any change in the terms or other provisions of this Lease. Upon request by such Interest Holder or successor in interest, whether before or after the enforcement of its remedies, Tenant shall execute and deliver an instrument or instruments confirming and evidencing the attornment herein set forth in a form reasonably satisfactory to Tenant. Prior to the Commencement Date, Landlord, Tenant and Lender shall enter into a mutually acceptable, commercially reasonable and customary subordination, non-disturbance and attornment agreement, the form of which when agreed and executed shall be attached to this Lease as **Exhibit D**.

Section 19. Landlord Cooperation. Landlord, at the sole cost and expense of Tenant, shall execute such instruments, maintain all permits, licenses and other agreements and take such additional action as Tenant may reasonably request (all such action herein being collectively called the "**Landlord Action**") in connection with the following activities ("**Specified Activities**"): (1) contesting Taxes and Impositions, (2) maintaining the Premises in accordance with Requirements, (3) developing and improving the Premises in accordance with this Lease, and (4) any other action necessary for Tenant (x) to receive the full benefit of the terms and provisions of this Lease or (y) to enjoy the full use and enjoyment of the Premises in the same manner as on the date hereof, in each case so long as (i) at the time Tenant requests Landlord to take such Specified Activity, no Default under this Lease then exists, and (ii) such Specified Activity satisfies all of the following requirements ("**Specified Requirements**"):

(a) Such Specified Activity does not violate or is otherwise not prohibited by any provision of this Lease, any provision of any loan document, any restrictive covenant or any Legal Requirement.

(b) Such Specified Activity shall not adversely affect the Fair Market Value of the Premises.

(c) Such Specified Activity shall not result in a sale or forfeiture of all or any portion of the Premises.

(d) Such Specified Activity shall not result in any liability on the part of Landlord that is not undertaken by Tenant under this Lease.

If (x) Tenant requests Landlord to take a Landlord Action with respect to a given Specified Activity, (y) such Specified Activity satisfies all of the Specified Requirements and (z) Landlord fails to take such Landlord Action fifteen (15) days after Tenant delivers to Landlord both (A) a written request of Landlord to take such Landlord Action and (B) evidence reasonably satisfactory to Landlord that such Specified Activity satisfies all of the Specified Requirements, then Tenant, as its sole and exclusive remedy, shall have the right to take such action on behalf of Landlord (at Tenant's sole cost and expense) as Landlord's attorney-in-fact. In that connection, Landlord does hereby irrevocably constitute and appoint Tenant, with full power of substitution, as its true and lawful attorney-in-fact and

agent with full power and authority to act in Landlord's name, place and stead under this Section of this Lease after, with respect to any Specified Activity, the expiration of the fifteen (15) day period referred to above, but solely with respect to the related Specified Activity. Such power-of-attorney shall be deemed to be coupled with an interest, shall be irrevocable, shall survive the disability, dissolution, liquidation or other termination of Landlord and shall be binding on all successors and assigns of Landlord. Tenant shall pay all reasonable costs and expenses (including attorneys' fees) incurred by Landlord and the Lender in connection with the performance by Landlord of its obligations under this Section.

Section 20. Building Name.

(a) Tenant has the sole and exclusive right to place signage on the Premises in its sole and absolute discretion, subject to applicable Legal Requirements.

(b) Tenant may retain and use the existing building name. Tenant shall have the sole and exclusive right to change the name of the Improvements in its sole and absolute discretion.

Section 21. Notices, Demands and Other Instruments. Any notice or other communications to Landlord or Tenant required or permitted to be given under this Lease (and copies of the same to be given to the parties as below described) must be in writing and delivered to the addresses for Landlord and Tenant set forth below:

The address for notices to Landlord is:

101 Ash, LLC
c/o Cisterra Development
3580 Carmel Mountain Road, Suite 460
San Diego, CA 92130
Attention: Steven L. Black
Phone: 619-615-0200
Fax: 619-615-0199

The address for notices to Tenant is:

The City of San Diego
Real Estate Assets Department
1200 Third Avenue, Suite 1700 (MS 51A)
San Diego, California 92101-4199
Attention: Director, Real Estate Assets
Department Facsimile: (619) 236-6706

The address for notices to Lender is:

[TBD]_____

Phone: _____

Fax: _____

Any notice shall be effective (i) on the fourth Business Day following the date of deposit of such item in a depository of the United States Postal Service, postage prepaid, if mailed by United States Mail, certified or registered, return receipt requested, (ii) on the next Business Day after having been sent for overnight delivery by Federal Express, United Parcel Service or other nationally recognized air courier service or (iii) on the Business Day delivered, if hand delivered. Notice effected other than by mail shall be deemed to have been received at the time of confirmed receipt or refusal of receipt. Either party shall have the right to change its address to which notices shall thereafter be sent by giving the other written notice thereof in accordance with this Section and to be effective ten (10) days after delivery. Additionally, Tenant shall send copies of all notices of default, abatement, offset, or termination given to Landlord to each Interest Holder who enters into a subordination, non-disturbance, and attornment with Tenant satisfying the requirements of Section 18.

Section 22. Estoppel Certificates. Tenant agrees that from time to time, upon ten (10) business days' prior request by Landlord or Lender to execute, acknowledge and deliver to Landlord and Lender a certificate stating that this Lease is unmodified and in full effect (or, if there have been modifications, that this Lease is in full effect as modified, and setting forth such modifications) and the dates to which Rent has been paid, either stating that to the actual knowledge of the signer of such certificate no default exists hereunder or specifying each such default of which the signer has actual knowledge, and containing such other information as Landlord or Lender may reasonably request. Any such certificate executed by Tenant may be relied upon by any prospective mortgagee or Lender or purchasers of the Landlord's Estate or of equity interests in Landlord.

Section 23. No Merger. There shall be no merger of this Lease or of the leasehold estate hereby created with the fee estate in the Premises by reason of the fact that the same Person acquires or holds, directly or indirectly, this Lease or the leasehold estate as well as the fee estate in the Premises or any interest in such fee estate.

Section 24. Surrender. Upon the termination of this Lease, Tenant shall surrender the Premises to Landlord in good order and safe condition in all material respects, except for ordinary wear and tear and except as otherwise provided in Section 11 above (the "**Surrender Condition**"). Tenant shall remove from the Premises on or prior to such termination all property situated thereon which is not owned by Landlord, and shall repair any damage caused by such removal. Property not so removed shall become the property of Landlord, and Landlord may cause such property to be removed from the Premises and disposed of, but the cost of any such removal and disposition and of repairing any damage caused by such removal shall be borne by Tenant. As a condition precedent to any claim by Landlord for damages based on an allegation that the Surrender Condition

was not met, Landlord shall be required to demonstrate that Tenant failed to maintain, restore and make required replacements to the Premises in a manner consistent with Section 9 above.

Section 25. Separability; Binding Effect. Each provision hereof shall be separate and independent and the breach of any such provision by Landlord shall not discharge or relieve Tenant from its obligations to perform each and every covenant to be performed by Tenant hereunder. If any provision hereof or the application thereof to any Person or circumstance shall to any extent be invalid or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision hereof shall be valid and shall be enforceable to the extent permitted by law. All provisions contained in this Lease shall be binding upon, inure to the benefit of, and be enforceable by, the respective successors and assigns of Landlord and Tenant to the same extent as if each such successor and assign were named as a party hereto. This Lease may not be changed, modified or discharged except in writing signed by Landlord and Tenant and with the prior written consent of Lender, if applicable.

Section 26. Recording of Lease. Upon the execution of this Lease, Landlord and Tenant shall execute a Memorandum of Lease in substantially the form attached hereto as **Exhibit C** and record the same, at Tenant's sole cost, in the Official Records of the County of San Diego, California.

Section 27. Financial Statements. Tenant shall provide to Landlord within ninety (90) days after the end of each fiscal quarter, quarterly operating statements for the General Fund, to include a summary of revenue and expenditures through the end of the quarter, and within one hundred and eighty (180) days of the end of each fiscal year consolidated annual financial statements (sometimes referred to as the "CAFR") (which annual statements shall be audited by a nationally recognized accounting firm) in each case prepared in accordance with generally accepted accounting principles. In addition, for so long as Tenant is required to prepare and deliver any Continuing Disclosure Certificates in connection with its public facilities financing lease revenue and lease refunding bonds, Tenant shall concurrently deliver to Landlord a copy of any Annual Report and any notice of significant events contained in any such certificates. Notwithstanding the foregoing, Tenant shall be deemed to have complied with the terms of this Section to the extent any such financial statements, reports or disclosures are available on Tenant's (the City of San Diego's) website.

Section 28. Counterparts. This Lease may be executed in any number of counterparts, each counterpart constituting an original but altogether only one Lease.

Section 29. Headings. The headings which are used following the number of each Section are so used in and for evidence in locating various provisions of this Lease and shall not be deemed to affect the interpretation or structure of such provisions.

Section 30. Quiet Enjoyment. Subject to all of the provisions of this Lease, so long as no Default has occurred and is continuing hereunder, Landlord covenants that neither Landlord, nor any Person claiming by, through or under Landlord, shall do any act to disturb, or fail to perform

any act which failure results in the disturbance of, the peaceful and quiet occupation and enjoyment of the Premises by Tenant during the Primary Term.

Section 31. Exhibits. Exhibits A, B, C, and D referred to in this Lease are hereby (or will deemed to be when agreed and executed) incorporated by reference.

Section 32. No Consequential Damages. Notwithstanding anything to the contrary elsewhere in this Lease neither party will be liable to any other party or person for incidental, indirect, consequential, special or punitive damages, loss of future revenues or income, lost profits, loss of business reputation or opportunity relating to any breach or alleged breach of this Lease, regardless of whether such liability is based on breach of contract, tort, strict liability, breach of warranties, failure of essential purpose or otherwise. The waiver of damages in this section shall survive the termination or expiration of this Lease.

Section 33. Holding Over. Any holding over by Tenant of the Premises after the early termination of this Lease, without the consent of Landlord, shall operate and be construed as tenancy from month-to-month only, at one hundred two and one-half percent (102.5%) of the Base Rent reserved herein and upon the same terms and conditions as contained in this Lease, increasing by two and one-half percent (2.5%) each year thereafter that such month-to-month holdover tenancy continues. Notwithstanding the foregoing (a) any holding over without Landlord's consent shall constitute a Default and shall entitle Landlord, in addition to collecting monthly Base Rent at the rate set forth in the previous sentence, to exercise all rights and remedies provided by law or in equity and (b) the terms of this Section shall not apply in the event that Tenant has properly exercised the End of Term Purchase Option or the parties otherwise are acting in good faith to reach a mutually acceptable ongoing arrangement beyond the early termination of this Lease.

Section 34. Definition of Landlord; Limitation of Liability. Anything contained herein to the contrary notwithstanding, any claim based on or in respect of any liability of Landlord under this Lease shall be enforced only against the Landlord's Estate, and shall not be enforced against the Landlord individually or personally, or against any member or other Affiliate of Landlord. The term "Landlord" as used in this Lease so far as covenants or obligations on the part of Landlord are concerned, shall be limited to mean and include only the owner or owners of the Premises or holder of any mortgage in possession at the time in question of the Premises and in the event of any transfer or transfers of the title of the Premises, the Landlord herein named (and in case of any subsequent transfers or conveyances, the then grantor) shall be automatically freed and relieved from and after the date of such transfer and conveyance of all liability as respects the performance of any covenants or obligations on the part of Landlord contained in this Lease thereafter to be performed (but shall remain liable with respect to all such liability arising from events or circumstances existing prior to the date of such transfer).

Section 35. Inspection. Landlord and its authorized representatives shall have the right upon reasonable notice (which shall be not less than two (2) Business Days except in the case of emergency) to enter the Premises at all reasonable business hours (and at all other times in the event of an emergency) for the purpose of inspecting the same or for the purpose of doing any work required to be done by Tenant under this Lease that Tenant has failed to do, and may take all such reasonable action thereon as may be necessary or appropriate for any such purpose (but nothing

contained in this Lease or otherwise shall create or imply any duty upon the part of Landlord to make any such inspection or do any such work). No such entry shall constitute an eviction of Tenant, but any such entry shall be done by Landlord in such reasonable manner as to minimize any disruption of Tenant's business operation. Landlord shall indemnify Tenant for any and all damages caused to Tenant, its property, and/or the Premises resulting directly or indirectly by Landlord's exercise of its rights granted in this Section 35.

Section 36. Non-Discrimination. This Lease is made and accepted upon and subject to the covenant and condition, which shall run with the Land, that neither Landlord nor Tenant nor any person claiming under or through Landlord or Tenant shall establish or allow any discrimination against or segregation of any person or group of persons on account of race, color, religion, gender, disability, sexual orientation, marital status, national origin, ancestry, familial status, or source of income in the possession, use and occupancy of the Premises or in the selection, location, number, use or occupancy of tenants, subtenants or vendees in the Premises.

Section 37. Miscellaneous. THIS LEASE SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO CONFLICTS OF LAWS PROVISIONS THAT WOULD REQUIRE THE APPLICATION OF THE LAW OF ANOTHER STATE; PROVIDED, HOWEVER, THAT NO LAW, THEORY, OR PUBLIC POLICY SHALL BE GIVEN EFFECT WHICH WOULD UNDERMINE, DIMINISH, OR REDUCE THE EFFECTIVENESS OF THE WAIVER OF DAMAGES PROVIDED IN SECTION 32, IT BEING THE EXPRESS INTENT, UNDERSTANDING, AND AGREEMENT OF THE PARTIES THAT SUCH WAIVER IS TO

REMAINDER OF PAGE INTENTIONALLY BLANK

SIGNATURES APPEAR ON FOLLOWING PAGE

EXECUTION FORM

BE GIVEN THE FULLEST EFFECT, NOTWITHSTANDING THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), GROSS NEGLIGENCE, WILLFUL MISCONDUCT, STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY PARTY.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed as of the date first above written.

LANDLORD:

**101 Ash, LLC,
a Delaware limited liability company**

By: _____

Name: Steven L. Black

Title: Authorized Signatory

TENANT:

**THE CITY OF SAN DIEGO,
a California municipal corporation**

By: _____

Name: _____

Title: _____

Approved as to form this 19th day
of December, 20 16.
MARA W. ELLIOTT
JAN I. GOLDSMITH, City Attorney

By: _____

Name: _____

Title: _____

Debra J. Bevier

Deputy City Attorney

0-20745

EXECUTION FORM

EXHIBIT A

LEGAL DESCRIPTION

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF SAN DIEGO, IN THE COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

PARCEL 1A: (ASSESSOR'S PARCEL NO. 533-424-14)

ALL BUILDINGS AND IMPROVEMENTS SITUATED ON:

LOTS A, B, C, D, E, F, G, H, I, J AND K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L. L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING FROM SAID LOT K THE NORTHERLY ONE-HALF THEREOF.

PARCEL 1B: (ASSESSOR'S PARCEL NO. 533-424-14)

LOTS A, B, C, D, E, F, G, H, I, J AND K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L. L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING FROM SAID LOT K THE NORTHERLY ONE-HALF THEREOF.

EXCEPTING THEREFROM ALL BUILDINGS AND IMPROVEMENTS SITUATED ON SAID ABOVE LOTS, WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

PARCEL 2A: (ASSESSOR'S PARCEL NO. 533-424-11)

ALL BUILDINGS AND IMPROVEMENTS SITUATED ON:

LOT L AND THE NORTHERLY ONE-HALF OF LOT K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L.L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

PARCEL 2B: (ASSESSOR'S PARCEL NO. 533-424-11)

LOT L AND THE NORTHERLY ONE-HALF OF LOT K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF

CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L.L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING THEREFROM ALL BUILDINGS AND IMPROVEMENTS SITUATED THEREON, WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

EXECUTION FORM

EXHIBIT B
SCHEDULE OF BASE RENT

[To be attached]

EXECUTION FORM

EXHIBIT C

FORM OF MEMORANDUM OF LEASE

Recording Requested by and When)
Recorded Mail to:)
)
The City of San Diego)
Real Estate Assets Department)
1200 Third Avenue, Suite 1700 (MS 51A))
San Diego, CA 92101-4199)
Attention: Ms. Cybele Thompson, Director)
)
)

APN: 533-424-11-00
533-424-14-00

MEMORANDUM OF LEASE

This Memorandum of Lease ("**Memorandum**") dated as of January __, 2017, entered into between 101 Ash, LLC, a Delaware limited liability company ("**Landlord**") and the City of San Diego, a California municipal corporation ("**Tenant**"), who agree as follows:

For good and valuable consideration, and in accordance with the terms and provisions of that certain Lease Agreement (the "**Lease**") dated concurrently herewith, by and between Landlord, and Tenant, with respect to the leased premises (the "**Premises**") described in **Exhibit "A"** attached hereto and, by this reference incorporated herein, as it may be further amended and, the Landlord leases the Premises, together with all rights, improvements and appurtenances thereto, to Tenant, and the Tenant leases the same from Landlord.

The Premises are leased to Tenant for a term (the "**Term**") of twenty (20) years commencing as of January __, 2017 (the "**Commencement Date**") and ending on December 31, 2036 (the "**Termination Date**").

The Lease grants the Tenant certain options to purchase the Premises pursuant to certain terms and conditions contained therein. This Memorandum is not a complete summary of the Lease.

IN WITNESS WHEREOF, the parties have executed the foregoing Memorandum as of the day and year first above written.

LANDLORD:

101 Ash, LLC
a Delaware limited liability company

By: _____
Its: _____

ACKNOWLEDGMENT BY NOTARY PUBLIC

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA)
) §
COUNTY OF SAN DIEGO)

On _____, before me, _____, NOTARY PUBLIC, personally appeared _____, who 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.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ (Seal)
My Commission Expires _____

TENANT:

CITY OF SAN DIEGO, a California municipal
corporation

By: _____
Name: _____
Its: _____

ACKNOWLEDGMENT BY NOTARY PUBLIC

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA)
) §
COUNTY OF SAN DIEGO)

On _____, before me, _____, NOTARY PUBLIC,
personally appeared _____, who 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.

*I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing
paragraph is true and correct.*

WITNESS my hand and official seal.

Signature _____ (Seal)
My Commission Expires _____

Approved as to form and legality
this _____ day of _____, 20 ____.

JAN I. GOLDSMITH, City Attorney

By: _____
Name: _____
Title: _____

ACKNOWLEDGMENT BY NOTARY PUBLIC

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA)
) §
COUNTY OF SAN DIEGO)

On _____, before me, _____, NOTARY PUBLIC,
personally appeared _____, who 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.

*I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing
paragraph is true and correct.*

WITNESS my hand and official seal.

Signature _____ (Seal)
My Commission Expires _____

EXECUTION FORM

Exhibit A

Legal Description

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF SAN DIEGO, IN THE COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

PARCEL 1A: (ASSESSOR'S PARCEL NO. 533-424-14)

ALL BUILDINGS AND IMPROVEMENTS SITUATED ON:

LOTS A, B, C, D, E, F, G, H, I, J AND K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L. L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING FROM SAID LOT K THE NORTHERLY ONE-HALF THEREOF.

PARCEL 1B: (ASSESSOR'S PARCEL NO. 533-424-14)

LOTS A, B, C, D, E, F, G, H, I, J AND K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L. L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING FROM SAID LOT K THE NORTHERLY ONE-HALF THEREOF.

EXCEPTING THEREFROM ALL BUILDINGS AND IMPROVEMENTS SITUATED ON SAID ABOVE LOTS, WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

PARCEL 2A: (ASSESSOR'S PARCEL NO. 533-424-11)

ALL BUILDINGS AND IMPROVEMENTS SITUATED ON:

LOT L AND THE NORTHERLY ONE-HALF OF LOT K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L.L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

PARCEL 2B: (ASSESSOR'S PARCEL NO. 533-424-11)

LOT L AND THE NORTHERLY ONE-HALF OF LOT K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF

CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L.L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING THEREFROM ALL BUILDINGS AND IMPROVEMENTS SITUATED THEREON, WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

EXECUTION FORM

EXHIBIT D

SUBORDINATION, NON-DISTURBANCE & ATTORNMENT AGREEMENT

Recording Requested by and When)
Recorded Mail to:)
)
)
Ballard Spahr LLP)
300 East Lombard Street, 18th Floor)
Baltimore, Maryland 21202)
Attn: Fred Wolf, III, Esq.)
_____)

APN: 533-424-11-00
533-424-14-00

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

This Subordination, Non-Disturbance and Attornment Agreement (this "**Agreement**") is dated as of _____, 201__, by and among _____, its successors and assigns ("**Lender**"), **THE CITY OF SAN DIEGO**, a municipal corporation ("**Tenant**"), and 101 Ash, LLC, a Delaware limited liability company ("**Landlord**" or "**Borrower**").

RECITALS

A. Tenant is the tenant under a certain Lease Agreement with Landlord (the "**Lease**") dated as of the date hereof, of the property described in Exhibit A attached hereto and made a part hereof (the "**Property**"), together with the buildings and improvements now existing or hereafter constructed on the Property and the equipment and fixtures attached to such buildings and improvements (collectively, the "**Premises**").

B. A memorandum of the Lease is intended to be recorded forthwith in the Official Records of San Diego County, California, and in such other appropriate office of public records in the county and state where the Property is located (collectively, the "**Land Records**").

C. This Agreement is being entered into in connection with a credit tenant loan (the "**Loan**") from Lender to Borrower, evidenced by a certain Promissory Note from Borrower to Lender (the "**Note**"), and the Note is secured by, inter alia: (a) a certain Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing encumbering the Premises and certain real property owned by Borrower upon which the Premises are or are to be constructed (the "**Indenture**"), by Borrower for the benefit of Lender, dated as of even date herewith, to be recorded among the Land Records immediately prior to the recording of this Agreement; and (b)

an Assignment of Lease and Rents (the "Assignment of Lease"), by Borrower in favor of Lender, dated as of even date herewith, to be recorded among the Land Records immediately prior to the recording of this Agreement. The Indenture, the Assignment of Lease and the other documents evidencing and securing the Loan are hereinafter collectively referred to as the "Security Documents".

AGREEMENT

For mutual consideration, including the mutual covenants and agreements set forth below, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. Subordination; Lender Election. Tenant agrees that the Lease is and shall be, at the option of Lender upon prior written notice to Tenant, at any time and from time to time, either subject and subordinate, or superior, to the Security Documents and to all present or future advances under the obligations secured thereby and all renewals, amendments, modifications, consolidations, replacements and extensions of the secured obligations and the Security Documents, to the full extent of all amounts secured by the Security Documents from time to time. Such options of Lender may be exercised an unlimited number of times. If subordinated, said subordination is to have the same force and effect as if the Security Documents and such renewals, modifications, consolidations, replacements and extensions thereof had been executed, acknowledged, delivered and recorded prior to the Lease, any amendments or modifications thereof and any memorandum or short form thereof (and without Lender having any knowledge of the Lease). This Agreement shall constitute notice to Tenant that for the time being, until further written notice to the contrary, Lender elects that the Lease is and shall be subject and subordinate to the Security Documents. In addition, to the extent that the Lease shall entitle Tenant to notice of any mortgage, this Agreement shall constitute such notice to Tenant with respect to the Indenture.

2. Non-Disturbance. Notwithstanding the provisions of Section 1 hereof, Lender consents to the Lease and agrees that, if Lender exercises any of its rights under the Security Documents, including an entry by Lender pursuant to the Indenture or a foreclosure of, or exercise of any power of sale under, the Indenture or any sale or transfer in lieu thereof, (a) Tenant shall not be named or joined as a party defendant in any action or proceeding to foreclose the Indenture (except to the extent, if any, that as a condition precedent to commencing or proceeding with any such action to foreclose the Indenture, Landlord is required by statute, judicial decision or the court in which such action or proceeding has been commenced or is pending to name or join Tenant as a party defendant in any suit, action or proceeding for the appointment of a receiver to quiet title to the Premises or to prevent impairment of Lender's security under the Indenture and in any other suit, action or proceeding the purpose or intent of which shall be to enforce Lender's rights and remedies under the Security Documents), (b) the Lease shall not be terminated or affected thereby and, so long as no "Event of Default" (as defined in the Lease) shall have occurred and be continuing beyond any applicable notice, grace and cure periods, Tenant's possession, use and occupancy of the Premises and Tenant's rights and privileges under the Lease (including during all extension periods which have been or are hereafter exercised) shall not be diminished, disturbed or intervened with by Lender but shall instead continue in full force and effect as a direct lease

between Lender and Tenant upon all of the terms, covenants and conditions set forth in the Lease, and (c) Lender will not disturb Tenant's right of quiet possession of the Premises under the terms of the Lease. Notwithstanding anything herein to the contrary, Lender expressly acknowledges and agrees that any net award in the event of a taking or condemnation shall be paid and held pursuant to the terms of the Lease.

3. Attornment, Etc. Tenant agrees that, in the event of a foreclosure of the Indenture or the acceptance of a conveyance in lieu of foreclosure by Lender or any other succession of Lender to ownership of Landlord's interest in the Premises, Tenant will attorn to and recognize Lender as its landlord under the Lease for the remainder of the term of the Lease (including all extension periods which have been or are hereafter exercised) upon the same terms and conditions as are set forth in the Lease, and, provided only that Tenant shall have received prior written notice from Lender or Lender's designee that Lender has succeeded to the interest of Landlord under the Lease or otherwise has the right to receive rents and require Tenant to perform its obligations under the Lease, Tenant hereby agrees to pay and perform all of the obligations of Tenant pursuant to the Lease. Such attornment shall be effective and self-operative, without the execution of any further instrument on the part of any of the parties hereto, immediately upon Lender succeeding to Landlord's interest in the Premises. Upon the written request of either Lender or Tenant to the other given on or after any such foreclosure, acceptance of a conveyance in lieu of foreclosure or other succession of Lender or to ownership of Landlord's interest in the Premises, provided that there exists no Event of Default beyond any applicable notice, grace and cure periods on Tenant's part under the Lease, Lender, as landlord, and Tenant, as tenant, shall execute a lease of the Premises containing, subject to the terms hereof, all of the same terms, provisions, options and conditions as are contained in the Lease between Landlord and Tenant, which lease shall be for the then unexpired portion of the term of the Lease.

4. Lender Not Bound, Etc. Tenant agrees that, in the event Lender succeeds to the interest of Landlord under the Lease, Lender shall not be:

(a) *Liable for Landlord Acts, Omissions.* Liable for any act or omission of any prior Landlord (including, without limitation, the then-defaulting Landlord) (other than acts or omissions to the extent that the same continue after the date Lender becomes the landlord under the Lease), or

(b) *Subject to Defenses.* Subject to any defense or offsets which Tenant may have against any prior Landlord (including, without limitation, the then-defaulting Landlord), or

(c) *Bound by Advance Payments.* Bound by any payment of "Base Rent" or "Additional Rent" (as such terms are defined in the Lease) which Tenant might have paid for more than one month in advance of the due date under the Lease to any prior Landlord (including, without limitation, the then-defaulting Landlord) except to the extent such monies actually have been received by Lender, or

(d) *Bound by Prior Payment Obligations.* Bound by any obligation of any prior Landlord to make any payment to Tenant which was required to be made, or arose from any

circumstance which occurred, prior to the time Lender succeeded to any such prior Landlord's interest, except to the extent that such prepayments are actually received by Lender, or

(e) *Accountable for Monies Not Received.* Accountable for any monies deposited with any prior Landlord (including security deposits), except to the extent such monies are actually received by Lender, or

(f) *Bound by Amendments, Etc.* Bound by any amendment or modification of the Lease for which Lender has not given its written consent or by any waiver or forbearance on the part of any prior Landlord (including, without limitation, the then-defaulting Landlord) made or given without the written consent of Lender provided, that nothing in this Section shall limit or require Lender's consent to Tenant's ability to exercise any right expressly set forth in the Lease; or

(g) *Liable for Warranties, Etc.* Liable with respect to warranties or indemnities of any nature whatsoever made by any prior Landlord (including, without limitation, the then-defaulting Landlord), including any warranties or indemnities regarding use, compliance with zoning, hazardous wastes or environmental laws, Landlord's title, Landlord's authority, habitability, fitness for purpose, or possession, except as required by law.

In the event that Lender shall acquire title to the Premises, Lender shall have no obligation, nor incur any liability, beyond Lender's then equity interest, if any, in the Premises, and Tenant shall look exclusively to such equity interest of Lender, if any, in the Premises for the payment and discharge of any obligations or liability imposed upon Lender hereunder, under the Lease or under any new lease of the Premises.

5. Lender's Cure Rights. If Lender has provided Tenant with its current mailing address, Tenant hereby agrees to give to Lender copies of all notices of Landlord default(s) under the Lease in the same manner as, and whenever, Tenant shall give any such notice of default to Landlord, and no such notice of default shall be deemed given to Landlord unless and until a copy of such notice shall have been so delivered to Lender. Tenant shall accept performance by Lender of any term, covenant, condition or agreement to be performed by Landlord under the Lease with the same force and effect as though performed by Landlord. Lender's cure of Landlord's default shall not be considered an assumption by Lender of Landlord's obligations with respect to the subject matter of such Landlord default or of any other obligations of Landlord under the Lease. If, in curing any such default, Lender requires access to the Premises to effect such cure, upon reasonable prior notice to Tenant (which may be by e-mail), Tenant shall furnish access to the Premises to Lender as required by Lender to effect such cure, at all reasonable times; provided that Tenant's occupancy, use and enjoyment of the Premises is not unreasonably disrupted thereby. Unless Lender otherwise agrees in writing, Lender shall have no liability to perform Landlord's obligations under the Lease, before Lender's exercise of any right or remedy under this Agreement. No Landlord default under the Lease shall exist or shall be deemed to exist (i) as long as Lender, in good faith, shall have commenced to cure such default within the above-referenced time period and shall be prosecuting the same to completion with reasonable diligence, subject to force majeure, or (ii) if possession of the Premises is required in order to cure such default, or if such default is not susceptible of being cured by Lender, as long as Lender, in good faith, shall have

notified Tenant that Lender intends to institute proceedings under the Security Documents, and, thereafter, as long as such proceedings shall have been instituted and shall be prosecuted with reasonable diligence. In the event of the termination of the Lease by reason of any default thereunder by Landlord (provided nothing herein shall be construed as creating, giving rise to, acknowledging or recognizing any such termination right on Tenant's part) or as a result of a rejection of the Lease following Landlord's bankruptcy, upon Lender's written request, which must be given (if at all) within thirty (30) days after any such termination or rejection, Tenant, within fifteen (15) days after receipt of such request, and within thirty (30) days after Lender becomes owner of Landlord's interest in the Premises, shall execute and deliver to Lender or its designee or nominee a new lease of the Premises for the remainder of the term of the Lease upon all of the terms, covenants and conditions of the Lease, subject, however, to the curing of the Landlord's default giving rise to such termination (unless such default is not susceptible to a cure by Lender, its designee or nominee). Neither Lender nor its designee or nominee shall become liable under the Lease unless and until Lender or its designee or nominee becomes, and then only with respect to periods during which Lender or its designee or nominee becomes, the owner of Landlord's interest in the Premises, but subject to Lender's obligations set forth in Section 4 hereof. Lender shall have the right, without Tenant's consent but subject to the provisions of this Agreement, to foreclose, or exercise any power of sale under, the Indenture or to accept a conveyance in lieu of foreclosure of the Indenture or to exercise any other remedies under the Security Documents.

6. Lender's Consent Required. Tenant agrees that no prepayment of Base Rent or Additional Rent paid under the Lease more than one month in advance and no amendment or modification of the Lease, shall be binding upon or as against Lender, and as Landlord under the Lease if it succeeds to that position, unless consented to in writing by Lender. Tenant acknowledges and agrees that the Security Documents contain provisions requiring Landlord to obtain Lender's consent for any matter requiring Landlord's consent under the Lease. Where Lender's consent is specifically required under the Lease, in any circumstance where Landlord's consent is required not to be unreasonably withheld, conditioned or delayed, Lender's consent will also not be unreasonably withheld, conditioned or delayed.

7. Authority. Each of Landlord and Tenant represents and warrants that the individual(s) executing this Agreement on behalf of such entity is duly authorized to execute and deliver this Agreement on behalf of such entity, in accordance with a duly adopted resolution of such entity or otherwise in accordance with the organizational documents of such entity, and that this Agreement is binding upon such entity in accordance with its terms.

8. Notices. Any notice, election, communication, request or other document or demand required or permitted under this Agreement shall be in writing and shall be deemed delivered on the earlier to occur of (a) receipt or (b) the date of delivery, refusal or non-delivery indicated on the return receipt, if deposited in a United States Postal Service Depository, postage prepaid, sent certified or registered mail, return receipt requested, or if sent via a recognized commercial courier service providing for a receipt, addressed to Tenant, Landlord or Lender, as the case may be, at the following addresses:

If to Tenant:

The City of San Diego
Real Estate Assets Department
1200 Third Avenue, Suite 1700 (MS 51A)
San Diego, CA 92101-4199
Attention: _____

If to Landlord:

101 Ash, LLC
c/o Cisterra Development
3580 Carmel Mountain Road, Suite 460
San Diego, CA 92130
Attention: Steven L. Black

With copies to:

LexTerra PLC
3580 Carmel Mountain Road, Suite 460
San Diego, CA 92130
Attention: David L. Dick

If to Lender:

[TBD]

with a copy to:

CGA Servicing, LLC
9690 Deereco Road, Suite 250
Timonium, Maryland 21093
Attention: Richard A. Jacobs
W. Kyle Gore

and to

Attention: _____

From time to time any party may designate a new address for purposes of notice hereunder to each of the other parties hereto.

9. "Lender", "Landlord" and "Tenant". The term "Lender" as used herein includes any successors or assigns of the Lender named herein, including without limitation, any co-lender at the time of making the Loan, any purchaser at a foreclosure sale and any transferee pursuant to a conveyance in lieu of foreclosure, and their successors and assigns. The term "Tenant" as used herein includes the Tenant named herein (the "Original Tenant") and any successors or assigns of the Original Tenant. The term "Landlord" as used herein includes the Landlord named herein (the "Original Landlord") and any successors or assigns of the Original Landlord.

10. Provisions Severable. If any provision of this Agreement is held to be invalid or unenforceable by a court of competent jurisdiction, such provision shall be deemed modified to the extent necessary to be enforceable, or if such modification is not practicable, such provision shall be deemed deleted from this Agreement, and the other provisions of this Agreement shall remain in full force and effect.

11. Changes, Etc. Only in Writing. Neither this Agreement nor any of the terms hereof may be terminated, amended, supplemented, waived or modified orally, but only by an instrument in writing executed by the party against which enforcement of the termination, amendment, supplement, waiver or modification is sought.

12. Governing Law. This Assignment shall be governed and construed in accordance with the laws of the state in which the Property is located (the "State") and the laws of the United States applicable to transactions in the State.

[SIGNATURE PAGES FOLLOW]

EXECUTION FORM

IN WITNESS WHEREOF, Lender has executed and ensealed this Subordination, Non-Disturbance and Attornment Agreement, as of the day and year first above written.

LENDER:

[TBD]

By: _____ (SEAL)
Name: _____
Title: _____

STATE OF MARYLAND §

COUNTY OF BALTIMORE §

This instrument was acknowledged before me on _____, 20____, by
_____, _____, of [TBD].

Notary Public

My Commission Expires: _____

[AFFIX SEAL]

[SIGNATURES CONTINUE ON THE FOLLOWING PAGES]

EXECUTION FORM

IN WITNESS WHEREOF, Tenant has executed and ensealed this Subordination, Non-Disturbance and Attornment Agreement, as of the day and year first above written.

TENANT:

THE CITY OF SAN DIEGO,
a California municipal corporation

By: _____ (SEAL)
Name: _____
Title: _____

Approved as to form this _____ day
of _____, 20 ____.

JAN I. GOLDSMITH, City Attorney

By: _____
Name: _____
Title: _____

ACKNOWLEDGMENT BY NOTARY PUBLIC

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF CALIFORNIA)
) §
COUNTY OF _____)

On _____, before me, _____, NOTARY PUBLIC,
personally appeared _____, who 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.

*I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing
paragraph is true and correct.*

WITNESS my hand and official seal.

Signature _____ (Seal)

My Commission Expires _____

[SIGNATURES CONTINUE ON THE FOLLOWING PAGE]

EXECUTION FORM

Exhibit A

Legal Description

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF SAN DIEGO, IN THE COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, AND IS DESCRIBED AS FOLLOWS:

PARCEL 1A: (ASSESSOR'S PARCEL NO. 533-424-14)

ALL BUILDINGS AND IMPROVEMENTS SITUATED ON:

LOTS A, B, C, D, E, F, G, H, I, J AND K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L. L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING FROM SAID LOT K THE NORTHERLY ONE-HALF THEREOF.

PARCEL 1B: (ASSESSOR'S PARCEL NO. 533-424-14)

LOTS A, B, C, D, E, F, G, H, I, J AND K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L. L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING FROM SAID LOT K THE NORTHERLY ONE-HALF THEREOF.

EXCEPTING THEREFROM ALL BUILDINGS AND IMPROVEMENTS SITUATED ON SAID ABOVE LOTS, WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

PARCEL 2A: (ASSESSOR'S PARCEL NO. 533-424-11)

ALL BUILDINGS AND IMPROVEMENTS SITUATED ON:

LOT L AND THE NORTHERLY ONE-HALF OF LOT K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L.L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

PARCEL 2B: (ASSESSOR'S PARCEL NO. 533-424-11)

LOT L AND THE NORTHERLY ONE-HALF OF LOT K IN BLOCK 195 OF HORTON'S ADDITION, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF MADE BY L.L. LOCKLING ON FILE IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY.

EXCEPTING THEREFROM ALL BUILDINGS AND IMPROVEMENTS SITUATED THEREON, WHICH BUILDINGS AND IMPROVEMENTS ARE AND SHALL REMAIN REAL PROPERTY.

ORDINANCE NUMBER O- 20745 (NEW SERIES)

DATE OF FINAL PASSAGE NOV 17 2016

AN ORDINANCE OF THE COUNCIL OF THE CITY OF
SAN DIEGO AUTHORIZING AND DIRECTING THE MAYOR
TO EXECUTE, DELIVER AND EFFECTUATE THE TERMS
OF THAT CERTAIN LEASE AGREEMENT WITH 101 ASH,
LLC FOR THE LEASE OF REAL PROPERTY AND
IMPROVEMENTS LOCATED AT 101 ASH STREET
(ASSESSOR PARCEL NUMBERS 533-424-11 AND 533-424-
14), IN DOWNTOWN SAN DIEGO, CALIFORNIA; AND
AUTHORIZING THE EXPENDITURE OF FUNDS THEREFOR.

WHEREAS, The Gas & Electric Headquarters Building – San Diego, L.P. and Shapery
Developers Gas & Electric Property, L.P. (collectively the “Sellers”) own the real properties and
improvements located at 101 Ash Street, Assessor Parcel Numbers 533-424-11 and 533-424-14
(Property); and

WHEREAS, the building located at the Property is a single 21-story commercial office
building, comprised of 314,545 square feet; and

WHEREAS, the Property includes two levels of underground parking with 235 parking
spaces, of which approximately two-thirds are tandem, and may be rented; and

WHEREAS, Cisterra Partners, LLC (Cisterra) is in escrow to purchase the Property
pursuant to that certain Agreement of Purchase and Sale and Joint Escrow Instructions (PSA)
between Cisterra and the Sellers; and

WHEREAS, Cisterra has agreed to assign the PSA to 101 Ash, LLC, an affiliate of
Cisterra; and

WHEREAS, the City of San Diego (City) has an opportunity to enter into a twenty (20)
year lease-to-own agreement with 101 Ash, LLC, commencing on the date 101 Ash, LLC
acquires the fee title to the Property; and

WHEREAS, the terms of the lease of the Property (Lease Agreement) include a rental rate of \$534,726.50/month, with no annual increases; the City will be responsible for all operating expenses, which are estimated to be \$9.60 per square foot/year, for a total estimated operating expense cost of \$3,029,232/year; at any time after the fifth year, the City may opt to transfer the loan for \$1 to a City entity and continue making lease payments to that City entity, rather than to 101 Ash, LLC; in addition, at any time after the fifth year, the City may prepay the Lease Agreement and have the right to purchase the Property by paying an amount to 101 Ash, LLC, equal to the net present value of the remaining payments due under the Lease Agreement, using a discount rate calculated by a formula set forth in the Lease Agreement; and

WHEREAS, City staff recommends that City enter into the Lease Agreement for the following reasons: (1) the lease-to-own of the Property will save the City an estimated \$44,000,000 over 20 years by eliminating the need to lease office space for City staff, when compared with current lease options; (2) the opportunity exists to combine several City departments in the same building for the benefit of City staff and the public; (3) the opportunity exists for City staff to vacate buildings with documented deficiencies in plumbing, heating and air conditioning; and (4) the opportunity exists for the City to control 86% of the City-occupied space in Downtown San Diego; and

WHEREAS, under Charter section 99, no contract, agreement or obligation extending for a period of more than five years may be authorized except by ordinance approved by a two-thirds' majority vote of the City Council; NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego as follows:

Section 1. That the Mayor, or his designee, is hereby authorized and directed to execute, deliver, and effectuate the terms and conditions of that certain Lease Agreement, on file

with the Office of the City Clerk as Document No. OO- 20745, between the City of San Diego and 101 Ash, LLC, to commence on the date 101 Ash, LLC acquires the fee title to the Property, to lease the real properties and all the improvements located at 101 Ash Street, in San Diego, California.

Section 2. That the Chief Financial Officer is authorized to expend all funds for rent, operating expenses and as otherwise required by the Lease Agreement in an amount not to exceed \$4,183,448.50 for the remaining Fiscal Year 2017, from the General Fund 100000.

Section 3. That the Chief Financial Officer is authorized to transfer an amount not to exceed \$1,921,000 from the Real Estate Assets Operating Department Budget to the Citywide Program Expenditures Department and expend these funds for rent, operating expenses, improvements and as otherwise required by the Lease Agreement for the remaining Fiscal Year 2017.

Section 4. That the Chief Financial Officer is authorized to expend all funds for rent, operating expenses and as otherwise required by the Lease Agreement in a total amount not to exceed \$201,902,440, all contingent upon the adoption of each annual fiscal year Appropriation Ordinance and contingent upon the Chief Financial Officer furnishing a certificate certifying that funds necessary for expenditure of each year's expenditure are, or will be, on deposit with the City Treasurer.

Section 5. That the Chief Financial Officer is authorized to deposit all rent revenues received from the parking facility at 101 Ash Street into General Fund 100000.

Section 6. That the Chief Financial Officer is authorized to establish a restricted CIP fund for capital improvements relating specifically to 101 Ash Street, San Diego CA 92101.

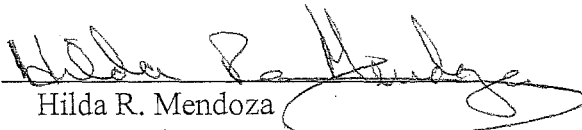
Section 7. That the Mayor, or his designee, is authorized to execute and deliver all such agreements and all other instruments to effect and complete the transaction contemplated by this ordinance.

Section 8. That a full reading of this ordinance is dispensed with prior to passage, a written copy having been made available to the Council and the public prior to the day of its passage.

Section 9. That this ordinance shall take effect and be in force on the thirtieth day from and after its final passage.

APPROVED: JAN I. GOLDSMITH, City Attorney

By


Hilda R. Mendoza
Deputy City Attorney

HRM:als

10/13/2016

Or.Dept: Real Estate Assets Dept.

Doc. No.: 1373118

I hereby certify that the foregoing Ordinance was passed by the Council of the City of San Diego, at this meeting of NOV 15 2016.

ELIZABETH S. MALAND
City Clerk

By 
Deputy City Clerk

Approved: 11/17/16
(date)


KEVIN L. FAULCONER, Mayor

Vetoed: _____
(date)

KEVIN L. FAULCONER, Mayor

NOV 15 2016

Passed by the Council of The City of San Diego on _____, by the following vote:

Councilmembers	Yeas	Nays	Not Present	Recused
Sherri Lightner	☒	☐	☐	☐
Lorie Zapf	☐	☐	☒	☐
Todd Gloria	☐	☐	☒	☐
Myrtle Cole	☒	☐	☐	☐
Mark Kersey	☒	☐	☐	☐
Chris Cate	☒	☐	☐	☐
Scott Sherman	☒	☐	☐	☐
David Alvarez	☒	☐	☐	☐
Marti Emerald	☐	☐	☒	☐

Date of final passage NOV 17 2016

AUTHENTICATED BY:

KEVIN L. FAULCONER

Mayor of The City of San Diego, California.

(Seal)

ELIZABETH S. MALAND

City Clerk of The City of San Diego, California.

By Linda Irwin, Deputy

I HEREBY CERTIFY that the foregoing ordinance was not finally passed until twelve calendar days had elapsed between the day of its introduction and the day of its final passage, to wit, on

OCT 17 2016

, and on

NOV 17 2016

I FURTHER CERTIFY that said ordinance was read in full prior to passage or that such reading was dispensed with by a vote of five members of the Council, and that a written copy of the ordinance was made available to each member of the Council and the public prior to the day of its passage.

(Seal)

ELIZABETH S. MALAND

City Clerk of The City of San Diego, California.

By Linda Irwin, Deputy

Office of the City Clerk, San Diego, California

Ordinance Number O- 20745

Passed by the Council of The City of San Diego on November 15, 2016, by the following vote:

YEAS: **LIGHTNER, COLE, KERSEY, CATE, SHERMAN, ALVAREZ.**
NAYS: **NONE.**
NOT PRESENT: **ZAPF, GLORIA, EMERALD.**
RECUSED: **NONE.**

AUTHENTICATED BY:
KEVIN L. FAULCONER
Mayor of The City of San Diego, California
ELIZABETH S. MALAND
City Clerk of The City of San Diego, California

(Seal)

By: **Jeannette I. Santos**, Deputy

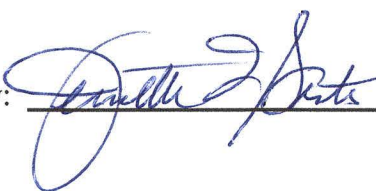
I HEREBY CERTIFY that the above and foregoing is a full, true and correct copy of ORDINANCE NO. **O-20745** (New Series) of The City of San Diego, California.

I FURTHER CERTIFY that said ordinance was not finally passed until twelve calendar days had elapsed between the day of its introduction and the day of its final passage, to wit, on **October 17, 2016** and on **November 17, 2016**.

I FURTHER CERTIFY that said ordinance was read in full prior to passage or that such reading was dispensed with by a vote of five members of the Council, and that a written copy of the ordinance was made available to each member of the Council and the public prior to the day of its passage.

ELIZABETH S. MALAND
City Clerk of The City of San Diego, California

(SEAL)

By: , Deputy