

GROUND LEASE

SUMMARY OF BASIC LEASE PROVISIONS

1. PREMISES:

Santa Barbara County Assessor's Parcel Number 65-090-26, approximately 9 acres of land, located on the easterly side of San Ricardo Drive, (approximately 1,000 feet south of Hollister Avenue), which is more particularly described in the Preliminary Title Report (Exhibit D) included in the Bidders' Information Package.

2. USE OF PREMISES: Residential buildings.

3. LEASE TERM: Ninety-nine (99) Years.

4. COMMENCEMENT DATE July 20, 1982

EXPIRATION DATE July 19, 2081

5. ANNUAL RENT: \$93,600 payable quarterly in advance

6. ADDITIONAL RENTAL PAYMENT \$65,000 payable on or before commencement of seventh month of the first lease year.

7. BROKER(S): None

8. LEASE EXECUTION AND ADDRESS FOR PAYMENTS AND NOTICES:

GOLETA UNION SCHOOL DISTRICT
401 North Fairview Avenue
Goleta, California 93117
Attention: Robert A. Brown
Asst. Superintendent
Business Services

M. Timm, Inc.
233 E. Carrillo St. Ste. D
Santa Barbara, CA 93101

Milan E. Timm, President

By Frank M. Shultz

By Robert A. Brown

By _____

By _____

"Lessor"

"Lessee"

GROUND LEASE

This Ground Lease is made as of July 20, 1982, by and between GOLETA UNION SCHOOL DISTRICT ("Lessor"), and M. Timm, Inc., a California corporation ("Lessee"), upon the following terms and conditions:

1. LEASED PREMISES. For and in consideration of the rent to be paid and the covenants and conditions to be kept and performed by Lessee, Lessor does hereby lease to Lessee, and Lessee hereby hires from Lessor, that certain real property known as Santa Barbara County Assessor's Parcel Number 65-090-26, approximately 9 acres of land, located on the easterly side of San Ricardo Drive (approximately 1,000 feet to the south of Hollister Avenue), which is more particularly described in the Preliminary Title Report (Exhibit D) included in the Bidders' Information Package.

THIS LEASE IS MADE SUBJECT TO:

All covenants, conditions, restrictions, reservations, rights, rights-of-way, easements and all other matters of record contained in the preliminary title report Exhibit D incorporated herein, and all other matters of record recorded after date of the preliminary title report or apparent (from a physical inspection) affecting the Premises or the use thereof.

2. TERM. The term of this Lease shall be for ninety-nine (99) Years commencing on the Commencement Date, being defined as the date of execution of this Lease by Lessee, as entered on the facing page hereof and ending 99 Years thereafter; subject, however, to earlier termination as provided in this Lease.

3. COMMENCEMENT OF RENTAL AND TAXES. Lessee's obligation for the payment of rental as set forth in Paragraph 4 below, and taxes as provided in Article 3 of the General Conditions to Ground Lease attached hereto and made a part hereof (the "General Conditions") and all other payments required hereunder, shall commence on the Commencement Date.

4. ANNUAL RENTAL. Lessee agrees to pay as rental for the use and occupancy of the Premises during the term of this Lease, without deduction or offset, at the times and in the manner as hereinafter provided, the following sums:

(a) Basic Rental. The rent during the term of this lease shall be in the annual amount of NINETY-THREE THOUSAND SIX HUNDRED DOLLARS (\$93,600), payable quarterly in advance in equal installments of TWENTY-THREE THOUSAND FOUR HUNDRED DOLLARS (\$23,400).

(b) Additional One-Time Rent Payment. No later than on the first day of the seventh month of the first lease year, Lessee shall pay to Lessor a one-time lease payment in the amount of SIXTY-FIVE THOUSAND DOLLARS (\$65,000). This payment shall be in addition to any other payments provided for in this Lease.

(c) Manner of Payment. All rental and other payments required to be made to Lessor hereunder shall be paid by Lessee, without deduction or offset, in lawful money of the United States of America, to Lessor at the address set forth above its signature on the Summary of Basic Lease Provisions, or to such other person or entity, or at such other place, as may from time to time be designated by Lessor in writing.

5. Use. Lessee shall use the Premises for the construction and operation of a residential development in accordance with Section 6 below. In particular Lessee, on behalf of itself and its approved successor or assigns, agrees to comply with and be bound by all applicable provisions and regulations of the County of Santa Barbara Code then in effect, without regard to any amendment or abolition thereof by such county at any time hereafter and shall comply and be bound by all provisions with respect to construction of improvements on the Premises as set forth in Article 2 of the General Conditions attached. A violation of any such provision shall constitute a breach or default hereunder and entitle Lessor to exercise the remedies set forth herein or in the General Conditions. Unless expressly approved by Lessor, which approval may be withheld by Lessor in its sole discretion, Lessee shall not:

(a) Use, develop or attempt to use or develop the Premises or any portion thereof for any purpose other than those purposes expressly allowed (without the benefit of a conditional use permit, zone variance, exception or amendment) under the County of Santa Barbara Code in effect at the date of this Lease;

(b) Change or attempt any change in zoning, or the obtaining of or application for a conditional use permit, zoning variance or exception or other similar approval with respect to the use or development of the Premises or any portion thereof not expressly allowed under the zoning regulations of the County of Santa Barbara applicable to the Premises at the date of this Lease;

(c) Construct or maintain any structure or improvements on the Premises not in full compliance with all requirements of law or as contained herein or in any recorded covenants, conditions and restrictions existing from time to time covering the Premises;

(d) Effect any change or amendment to any parcel or final map covering the Land or record any further parcel or final map of the Land or any portion thereof or facilities thereon, pursuant to California Government Code Sections 66410 et seq., or any similar statute hereafter enacted, and any local ordinances adopted pursuant thereto, or file any applications with any governmental agency with respect thereto unless expressly approved by Lessor, which approval may be withheld by Lessor in its sole discretion.

6. SPECIFIC FACILITIES

(a) Commencement. Lessee shall within one (1) year of the execution of this Ground Lease "commence construction" (as hereinafter defined) of those facilities (herein, the "Specific Facilities") of the particular types and sizes permitted by the zoning regulations of the County of Santa Barbara pursuant to Paragraph 12 (c) of the Ground Lease Optional Agreement. In the event that Lessee is unable to commence construction within the one (1) year period Lessee

may submit, at least thirty (30) days prior to the date the one year period otherwise would expire, a written request for further extension of the period. Lessor in its sole discretion may extend the one-year period by delivering to Lessee written notice of such extension at any time prior to the date the period otherwise would expire. As used herein, the terms "commence construction" or "commencement of construction" shall mean at least the bona fide completion of substantially all grading and the pouring of at least some of the foundations for the Specific Facilities.

(b) Completion. Within two (2) years after execution of this Lease, Lessor shall complete the Specific Facilities in compliance with all applicable governmental laws, ordinances, regulations and other requirements and with all provisions contained in this Lease and in any other existing covenants, conditions, restrictions, limitations and/or rights or records affecting the Premises. In the event that Lessee is unable to complete the Specific Facilities within the two (2) year period Lessee may submit, at least sixty (60) days prior to the date the two year period otherwise would expire, a written request for a further extension of the period. Lessor in its sole discretion may extend the two year period by delivering to Lessee written notice of such extension at any time prior to the date the period otherwise would expire.

(c) Force Majeure. The time limits provided above for commencement and completion of construction shall be extended for and throughout such period of time as commencement of construction is prevented or delayed due to strikes, lockouts, acts of government, acts of God, wars, riots, civil insurrection, abnormal force of elements or other matters reasonably beyond Lessee's control; provided that in no event shall any extension of said period of time be deemed to have occurred unless Lessee shall have given written notice to Lessor within said period of time setting forth the facts giving rise to each such extension; and provided further, that the period of time for exercise of Lessor's rights herein shall be commensurately extended.

(d) Continued Operations. Lessee shall cause the Premises to be developed only with the Specific Facilities to be used, occupied and operated only as provided above; and no portion of the Premises or improvements thereon or any portion thereof shall be developed, used, operated or maintained with any facilities or for any purpose except as permitted under the zoning regulations of the County of Santa Barbara applicable to the Premises at the date of this Lease.

7. CONDOMINIUM PROVISIONS. It is expressly agreed between the parties that Lessee may develop the Premises as a residential condominium project, and shall sell individual condominium units therein, including a sublease of a fractional undivided interest in common with the purchasers in all land within the Premises. Accordingly, the following provisions shall

apply and shall override any provisions to the contrary contained in this Lease, including the General Conditions attached hereto in the event Lessee determines to develop such a project.

(a) Condominium Map. Lessee shall prepare, process and record a final subdivision or parcel map and condominium plan on the Premises, and Lessor hereby consents to such condominium subdivision subject, however, to Lessor's right to approve the tentative and final subdivision or parcel maps and preliminary and final condominium plans, which approval shall not be unreasonably withheld or delayed. Any such plan or map not disapproved by Lessor within 45 days after its submittal to Lessor's project manager or other person designated by Lessor as to such matter, shall be deemed approved. Upon request, Lessor shall execute promptly any such map or plans which have been so approved.

(b) Sublease of the Premises. Clarifying the provisions of Section 11.1 of the General Conditions with respect to the sale of condominium units, Lessee's sublease of the entire Premises to a condominium owners' association (the "Association") shall not require the prior consent of Lessor, provided that such sublease meets the following criteria;

(i) The sublease is on a standard form approved in advance in writing by Lessor, or any material changes or deviations from such standard form have been approved in advance in writing by Lessor; and

(ii) The sublease contains such economic terms as rentals, term of lease and rental adjustment provisions no less favorable to the sublessor thereunder than comparable terms contained in this Lease, and shall include an attornment provision reasonably satisfactory to Lessor; and

(iii) Lessor shall have approved the form of any and all documents governing or related to the sublease, including without limitation the ground sublease, the condominium sales or lease instruments, the by-laws and declarations of restrictions for the Association and any provisions for collecting ground rents or other assessments; and

(iv) Lessee shall have paid to Lessor the basic annual rental for the three-year period following the execution of the sublease or, in lieu thereof, Lessee shall have obtained Lessor's approval, which approval may be withheld by Lessor in its sole discretion if Lessee has sold ninety percent (90%) of the residential condominium units which constitute the Specific Facilities of the Premises; and

(v) Lessee shall not accept directly or indirectly from the Association more than one prepayment of the quarterly installments of the basic annual rental; and

(vi) Lessee shall pay a transfer fee to Lessor of \$1,000 in connection with the processing and documentation of the sublease of the Premises from Lessee to the Association; and

(vii) Promptly upon such subletting Lessee shall provide Lessor with a copy of the fully executed sublease.

(c) Condominium Subleases. Clarifying the provisions of Section 11.1 of the General Conditions with respect to the sale of condominium units, neither the subleasing in the ordinary course of Lessee's business of an undivided interest in the land portion of the Premises, nor the encumbering of any such sublease for the condominium purchase described above (so long as the encumbrance is held either by Lessee, as seller and sublessor, or by a "Lender" as defined in Section 12.1 of the General Conditions), shall require the prior consent of Lessor, provided that each such sublease meets the following criteria:

(i) The sublease is upon a standard form approved in advance in writing by Lessor, or any material changes or deviations from such standard form have been approved in advance in writing by Lessor; and

(ii) Each sublease contains such economic terms as rentals, term of lease and rental adjustment provisions no less favorable to the sublessor thereunder than comparable terms contained in this Lease, and shall include an attorney provision reasonably satisfactory to Lessor; and

(iii) Lessor shall have approved the form of bylaws and declaration of restrictions for any maintenance or management association governing the project, including but not limited to any provisions for collecting ground rents and other assessments; and

(iv) Promptly upon such subletting, Lessee shall provide Lessor with a copy of the fully executed sublease.

(d) Lease Rather than Sale of Condominium Units. It is contemplated that market conditions may require that individual condominium units initially be leased rather than sold. In such event the provisions of subparagraph (c) above shall also apply with respect to such leased condominium units.

(e) As used in this paragraph, condominium includes a stock cooperative and community apartment.

8. GENERAL CONDITIONS. The General Conditions attached hereto are made a part hereof and incorporated herein by this reference. In the event of any conflict between this Ground Lease document and the General Conditions, the Ground Lease shall prevail.

9. BROKER COMMISSIONS. Lessor and Lessee each represents to the other that to the best knowledge of each, respectively, no brokerage commission, finder's fee or other compensation of any kind is due or owing to any person or entity in connection with this Lease. Each party agrees to and does hereby indemnify and hold the other free and harmless from and against any and all costs, liabilities or causes of action or proceedings which may be instituted by any broker, agent or finder, licensed or otherwise, claiming through, under or by reasons of the conduct of the indemnifying party in connection with this lease.

IN WITNESS WHEREOF, the parties hereto have executed this Ground Lease as of the day and year first above written.

GOLETA UNION SCHOOL DISTRICT

M. Timm, Inc.

By Frank Mahoney

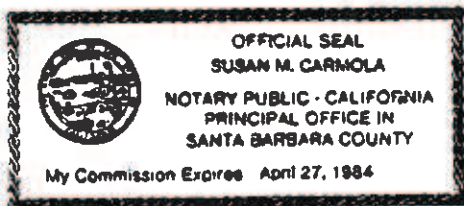
By Milan E. Timm President

By R. Brown
"Lessor"

By Richard A. Nightingale
"Lessee"

State of California)
County of Santa Barbara) ss

On this 2 day of June, in the year 1982, before me, personally appeared Milan E. Timm and Richard A. Nightingale, personally known to me to be the persons who executed the within instrument as president and Secretary on behalf of the corporation therein named and acknowledged to me that the corporation executed it.



Notary Public

FORM OF ACKNOWLEDGMENT

PUBLIC AGENCY (CC1191)

State of California)
County of Santa Barbara) ss.

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

ASSIGNMENT

FOR VALUABLE CONSIDERATION, receipt and sufficiency of which are hereby acknowledged, the undersigned, M. TIMM, INC., a California corporation, ("Assignor") does hereby irrevocably transfer, convey and assign to THE VILLAGE AT SANTA BARBARA OWNERS ASSOCIATION, INC., a California corporation, ("Assignee") all right, title and interest of the undersigned, as Lessee in and under that certain Ground Lease dated as of July 20, 1982 by and between the undersigned, as Lessee, and GOLETA UNION SCHOOL DISTRICT, as Lessor, covering that certain real property known as Santa Barbara County Assessor's Parcel No. 65-090-26, consisting of approximately nine (9) acres of land being improved with a residential condominium project commonly known as The Village at Santa Barbara. The Ground Lease (short form-memorandum) was recorded _____, as instrument No. _____, with the County Recorder of Santa Barbara County, California.

The effective date of this Assignment shall be no later than the sale of the first condominium unit in the project. The parties shall enter the effective date and initial the ~~entry~~ once that date is determined. The effective date is

Assignor shall be responsible to pay the quarterly rent to the Assignee at least five (5) days before it is due and payable by the Assignee to Lessor for any of the 40 condominium units unsold at the time such rent becomes due after the effective date of the Assignment. (The quarterly rent for each unit is \$585.) This obligation shall end for each condominium unit when it is sold.

No security deposit or advance monthly rent payments shall be required of Assignor for such unsold units. The Sublease entered into for each unit sold shall provide for the proration of prepaid quarterly rent on the sale of a unit.

DATED: _____

M. TIMM, INC., a California corporation

By _____

By _____

"ASSIGNOR"

ACCEPTANCE AND AGREEMENT

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the undersigned Assignee named in the foregoing Assignment hereby accepts said Assignment and agrees to keep, perform and be bound by all of the terms,

purposes as though the undersigned Assignee were the original Lessee thereunder.

DATED: _____

THE VILLAGE AT SANTA BARBARA OWNERS
ASSOCIATION, INC., a California
corporation

By _____

By _____

"ASSIGNEE"

CONSENT

The undersigned, Lessor under the Lease referred to in the foregoing Assignment, hereby consents to the assignment by the Lessee under said Lease to THE VILLAGE AT SANTA BARBARA OWNERS ASSOCIATION, INC., a California corporation, and agrees to release the foregoing Assignor from any and all liabilities under the terms of said Lease in reliance upon the assumption of the covenants, terms and conditions thereof by the foregoing Assignee at such time as M. Timm, Inc. has sold one hundred percent (100%) of the residential condominium units which constitute the Specific Facilities of the Premises, as defined in the Ground Lease and subleases in standard form approved by Lessor have been entered into for all of the condominium units with the purchasers of those units.

DATED: _____, 1982

STATE OF CALIFORNIA)
) SS.
COUNTY OF SANTA BARBARA)

On _____, 1982, before me, the under-
signed, a Notary Public in and for said County and State,
personally appeared _____ and _____
_____, known to me [or proved to me on the basis of
satisfactory evidence] to be the President and Secretary,
respectively, of M. TIMM, INC., a California corporation, the
corporation that executed the within instrument and acknowledged
to me that such corporation executed the same.

WITNESS my hand and official seal.

Notary Public
in and for said County and State

[SEAL]

STATE OF CALIFORNIA)
) SS.
COUNTY OF SANTA BARBARA)

On _____, 1982, before me, the under-
signed, a Notary Public in and for said County and State,
personally appeared _____ and _____
_____, known to me [or proved to me on the basis of
satisfactory evidence] to be the _____ and _____,
respectively, of THE VILLAGE AT SANTA BARBARA OWNERS ASSOCIATION,
INC., the corporation that executed the within instrument and
acknowledged to me that said corporation executed the same.

WITNESS my hand and official seal.

Notary Public
in and for said County and State

[SEAL]

STATE OF CALIFORNIA)
) SS.
COUNTY OF SANTA BARBARA)

On _____, 1982, before me, the under-
signed, a Notary Public in and for said County and State,
personally appeared _____ and _____
_____, known to me [or proved to me on the basis of
satisfactory evidence] to be the _____ and _____,
respectively, of GOLETA UNION SCHOOL DISTRICT, the _____
_____ that executed the within instrument and acknowledged to
me that said GOLETA UNION SCHOOL DISTRICT executed the same.

WITNESS my hand and official seal.

Notary Public
in and for said County and State

[SEAL]