DATE: January 14, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-07

Resolution authorizing the Executive Director to consent to assignment of an existing lease on PDC-owned property located at 2650 NW Upshur Street (the “Property”) and to execute a Deed of Trust as grantor on the Property to enable the preservation of an affordable housing project.

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6664

ACTION SUMMARY

Authorizes the Executive Director to consent to assignment of a lease and execute a trust deed as a grantor on PDC-owned property located at 2650 NW Upshur. The Trust Deed will secure Northwest Housing Alternatives (“NHA”) repayment of a loan in the amount of $2,075,000 provided by Network for Oregon Affordable Housing (“NOAH”) to provide Interim Acquisition Financing. The trust deed will secure the entire NOAH loan. This action will put PDC’s interest in the property at risk but PDC will not be directly liable on the loan to NHA.

PUBLIC BENEFIT

This action will ensure the long term financial viability of an important affordable housing project in an underserved area of Northwest Portland.

This action will support the following PDC goals:

☐ ☐ Provide access to quality housing
☐ ☐ Help businesses to create and sustain quality jobs
☐ ☐ Support a vibrant Central City (urban core)
☐ ☐ Contribute to a strong regional economy

PUBLIC PARTICIPATION AND FEEDBACK

Not applicable. This is an existing affordable housing project.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

The Thurman/Vaughn Corridor Improvement Plan was adopted by City Council in August, 1977, and called for new housing to be built on vacant land between NW 26th Ave. and NW 28th Place. City Council directed PDC through Resolution 32137 (adopted 7/5/78) to work with Tom Walsh to develop housing on PDC owned land in the Thurman/Vaughn Corridor. This action enables the preservation of affordable housing in an underserved part of the city.
FINANCIAL IMPACT

No direct financial impact. See discussion under risk assessment for PDC’s risk.

RISK ASSESSMENT

If NHA defaults on its loan from NOAH, NOAH will be entitled to foreclose on PDC’s interest in the property if PDC fails to cure the default. PDC is unlikely to be able to cure a default because the Property is not within an urban renewal area and PDC’s resources available for expenditure outside urban renewal areas are extremely limited.

WORK LOAD IMPACT

There are sufficient resources within the Housing Department to process this request.

ALTERNATIVE ACTIONS

The Board may withhold approval. This will jeopardize preserving the affordable housing project.

CONCURRENCE

PDC staff has conferred with the Bureau of Housing and Community Development in evaluating the proposal.

BACKGROUND

Upshur House Apartments are located in Northwest Portland at 2650 NW Upshur Street. The project consists of five townhouse style apartment buildings which house low-income families in a mix of 8 one-bedroom units, 12 two-bedroom units, and 10 three-bedroom units. PDC owns a fee simple interest in the land beneath the project, which is leased to project owner Upshur House, LTD. (Tom Walsh and Co, General Partner). On 12/11/79 the PDC approved Resolution No. 2799 authorizing the Commission to enter a 60 year land lease with a Walsh-related entity for the sum of $2,500 per year with the stipulation that Walsh develop affordable housing on the site. Per the PDC real estate department the lessee has been paying as agreed on the lease. Upshur House, LTD and PDC entered into the lease on 2/29/80 and there are approximately 31 years left on the term. At the time of the initial construction financing, PDC joined with Upshur House, LTD. to execute a Deed of Trust in favor of Oregon Housing and Community Services (OHCS).

Upshur is an expiring Section 8 project and Northwest Housing Alternatives (NHA) has entered in to a Memo of Understanding to purchase the improvements as part of a larger portfolio. NHA has requested that PDC consent to the assignment of the lease from Upshur House, Ltd. to a NHA controlled entity. The existing Section 8 contract expires in 2010, and after acquisition, NHA will go through the process of applying to HUD for an extension of the contract. NHA will also be putting together a package to finance the rehabilitation of the project to ensure its long term viability, as well as taking out the NOAH interim acquisition financing. It is anticipated that this financing will include a commercial construction and permanent loan as well as Low Income Housing Tax Credits. Additional changes to the
existing lease may be required when the financial structure of the rehabilitation is finalized in 2010.

Upshur Apartments is anticipated to be acquired concurrently as part of a portfolio with interim financing to be provided by the Network for Oregon Affordable Housing (NOAH). OHCS has earmarked $900,000 of gap funds specifically for the acquisition of this portfolio. In addition, the current owner has agreed to take a note back in an amount equal to any remaining gap.

Upshur’s land lease structure creates security difficulties for NOAH. In order to provide acquisition financing for the project, NOAH is requiring that PDC grant a lien on PDC’s fee simple interest in the Property to secure NHA’s repayment of the NOAH loan, identical to the structure on the existing OHCS loan. This action effectively grants NOAH a lien on the property. If NHA defaults on the loan, NOAH will be entitled to foreclose on PDC’s interest in the property if PDC fails to cure the default. PDC is unlikely to be able to cure a default because the property is not within an urban renewal area and PDC’s resources available for expenditure outside urban renewal areas are extremely limited. The projected Loan to Value (LTV) ratio for the NOAH loan is 1.25:1. This high LTV is due to NOAH’s reliance on an appraisal based on restricted rents at current HUD Section 8 levels. The NOAH loan maturates on July 29th 2011.

Assignment of the lease with PDC consent and PDC’s execution of the Trust Deed for interim financing are both allowed for under the existing lease. PDC’s existing rights under the lease will be preserved, subject to the rights of NOAH under the Trust Deed.

ATTACHMENTS:

A. December 11 1979 PDC Commission Resolution (#2799) authorizing lease to enable the development of Upshur Apartments
B. February 29 1980 lease between PDC and Upshur House, LTD.
PORTLAND DEVELOPMENT COMMISSION
Portland, Oregon

RESOLUTION NO. 2799

RESOLUTION AUTHORIZING LEASE WITH WALSH CONSTRUCTION COMPANY OR ITS NOMINEE APPROVED BY THE EXECUTIVE DIRECTOR OF PROPERTY IN THE THURMAN/VAUGHN CORRIDOR FOR A TERM OF 60 YEARS FOR DEVELOPMENT OF HOUSING FOR LOW INCOME PERSONS

WHEREAS, the Commission has acquired certain property in the Thurman/Vaughn Corridor described in Exhibit "A" attached hereto, hereinafter called the "Property"; and

WHEREAS, the Commission finds that the Property should be developed for housing for persons of low income; and

WHEREAS, Walsh Construction Company, or its nominee approved by the Executive Director, hereinafter called "Walsh," has proposed to develop the Property with a 30-unit apartment complex for persons of low income; and

WHEREAS, the Commission finds the Property should be leased to Walsh for a period of 60 years at an annual rental of $2,500 with an option to purchase the Property at its fair market value under certain conditions; and

WHEREAS, the Commission has previously adopted Resolution No. 2706 on June 12, 1979, and approved certain terms by CRD No. 79-74 on July 17, 1979, with respect to the development of the Property and are hereby revised; now, therefore, be it

RESOLVED by the Commission as follows:

1. The Chairman and Secretary are hereby authorized to enter into a lease of the Property with Walsh for a period of 60 years at an annual rental of $2,500 with an option to purchase the Property at its fair market value under certain conditions; such lease to be approved as to form by Legal Counsel to the Commission.

2. Resolution No. 2706 and CRD No. 79-74 with respect to the development of the Property are hereby revised.

3. This resolution shall become effective immediately upon its adoption.

Adopted by the Commission DEC 11 1979

[Signatures]

Chairman

[Signatures]

Secretary
THIS LEASE AGREEMENT (referred to herein as "Lease") is executed by and between the CITY OF PORTLAND, acting by and through the PORTLAND DEVELOPMENT COMMISSION, a Municipal Corporation of the State of Oregon, (hereinafter referred to as "PDC") and UPSHUR HOUSE, LTD. (hereinafter referred to as "Lessee"), on the 29th day of Feb., 1980.

1. DEMISED PREMISES

(a) Lease. PDC hereby leases to Lessee and Lessee leases from PDC all of the real property situated in the City of Portland, County of Multnomah, State of Oregon described on Exhibit "A" attached hereto and by this reference made part of this Agreement (hereinafter called "Premises")

(b) Use. The Premises are leased to Lessee only for the purposes of constructing and operating rental apartment units for persons designated in Section 8 of TITLE II of the Housing and Community Development Act of 1974, Public Law No. 93-383, or any other similar program with the Federal, State or local government intended to provide direct rental subsidies for low-income citizens or for such other related or incidental purposes as may first be approved in writing by PDC and for no other purpose.

(c) Obligation to diligently use. Lessee covenants to use said Premises for the above specified purposes and to diligently pursue said purposes throughout the term of this Lease.

(d) Related Municipal actions by the granting of this Lease. PDC is not obligating itself or the City of Portland with regard to any other discretionary action relating to development or operation of the Premises. Such discretionary action includes, but is not limited to, rezonings, variances,
environmental clearances or any other governmental agency approvals which are or may be required.

2. TERM OF AGREEMENT, REMOVAL OF IMPROVEMENTS

(a) Commencement and termination. The term of this Lease shall be sixty (60) years commencing on the first day following the date of execution hereof by PDC (hereinafter the "commencement date"). No right of renewal is granted herein. Any extension of the term shall require the written assent of the PDC, and any mortgagee or beneficiary of any mortgage or trust deed on the premises or any improvements thereon.

(b) Lessee, at any time not more than two (2) years and not less than one (1) year prior to the termination of the lease at the end of the demised term or any extension thereof may elect to demolish and remove, at the end of the demised term, the improvements on the premises. If Lessee so elects, such demolition or removal shall be completed within 90 days after the end of the term.

(c) If Lessee fails to make such an election, PDC, at any time not more than one year and not less than 270 days prior to the end of the demised term or any extension thereof, may elect to require Lessee to demolish and remove (at the end of the term) the improvements on the premises. If PDC so elects, such demolition or removal shall be completed within 90 days after the end of the term.

(d) PDC agrees to allow Lessee and its agents to enter upon the premises for the period of 90 days after the end of the term and upon request such additional time as may be reasonably necessary not to exceed an additional 90 days after said first 90 days for the purpose of demolition and removal of improvements thereon. Any such demolition and removal shall be done at the sole expense of Lessee, and such demolition and removal shall not be considered to be substantially complete until the premises are in substantially similar condition to that which exists on the commencement date. In the event Lessee fails to complete said
demolition and removal Lessee covenants and agrees to indemnify and hold harmless PDC from any cost or liability PDC may incur in completing the demolition and removal of said improvements and returning the premises to their original condition pursuant to any election herein provided.

(e) Upon termination of the Lease at the end of the demised term or at any earlier time, for any reason, except purchase by Lessee, any improvements existing upon the premises (except those subject to demolition and removal pursuant to this section) shall be a part of the real estate and shall become vested in fee simple in the PDC, subject to the interest of the mortgagee or beneficiary under any then existing mortgage or trust deed, without necessity of any further act or demand by PDC or Lessee, except, if the Lease naturally expires at the end of the term or any extensions thereof assented to by the PDC in writing (and the premises are not subject to demolition and removal), Lessee shall be allowed to remove movable personal property which has not become fixtures or in any way attached to the real property, provided, that no such removal shall be allowed if such removal shall physically injure the realty, and further, that any such removal by Lessee shall be completed within 90 days following the termination of the Lease, and further, that Lessee shall leave the premises in a neat and orderly condition after such removal. Termination of this Lease shall not eliminate any right or interest of a mortgagee or beneficiary under this Agreement or under any mortgage or trust deed in the premises or in any improvement thereon, if said mortgage or trust deed has been approved by the PDC.

(f) Deed at Termination. At the expiration or earlier termination of this Lease, Lessee shall execute, acknowledge, and deliver to PDC, within five (5) days after demand by PDC, a valid and recordable quitclaim deed covering all of the leasehold premises free and clear of all liens and encumbrances except as indicated in subparagraph (e) above.
3. RENT

(a) Two Thousand Five Hundred Dollars ($2,500.00). Annual rent shall be $2,500.00, payable in advance on the commencement date, and each anniversary thereof, except as determined pursuant to subparagraph (b) of this section. Payment shall be made to PDC at its offices or as PDC otherwise designates.

(b) Delinquent Rent. In the event Lessee fails to pay the applicable rents when due, Lessee or its assignee shall pay PDC, in addition to the delinquent rent, a sum of money equal to five (5%) percent of the delinquent rent, provided however, in the event the delinquent rent is still unpaid fifteen (15) days after becoming delinquent, then Lessee shall pay to PDC, instead of five (5%) percent, the sum of money equal to ten (10%) percent of the delinquent rent. It is the intent of this provision that PDC shall be compensated by these additional sums for loss resulting from rental delinquency including costs to PDC for servicing the delinquent account. PDC may, at its option, for good cause, waive any such delinquency compensation required herein upon written application of Lessee. Any provision in this lease for payment of interest upon delinquent rental payments shall be in addition to, and not in place of, sums payable pursuant to this paragraph.

(c) Partial destruction. In the event that the premises are partially destroyed by fire, wind or other casualty, the rent as stated in this paragraph 3 shall be reduced in the same proportion as the percent of the property which is destroyed. Such reduction in rent shall begin in the month following the partial destruction, and shall continue until the destroyed units are rebuilt and ready for occupancy.

4. CONSTRUCTION OBLIGATION

(a) Lessee covenants and agrees to develop the premises in conformance with this Lease and to build upon the Premises, a thirty (30) unit apartment complex in conformance
with all applicable statutes and codes, including zoning, building and other safety codes, to commence construction within one (1) year of the commencement date of this Lease, and to substantially complete construction within two (2) years from the commencement date. Plans for such construction shall be subject to the prior approval of PDC.

(b) The Lessee covenants and agrees that the building or buildings will be constructed and paid for wholly at the expense of Lessee.

(c) The Lessee covenants and agrees that before commencing the building, it will have arranged for financing, so that at all times there will be available to the Lessee, sufficient funds to pay for the cost of construction of the proposed building or buildings in their entirety.

(d) The PDC agrees that, within ten (10) days after receipt of written request from Lessee, it will join in any and all applications for permits, licenses or other authorizations required by any governmental or other body claiming jurisdiction in connection with any work which the lessee may do hereunder, and will also join in any grants for easements for electric, telephone, gas, water, sewer and such other public utilities and facilities as may be reasonably necessary in the operation of the premises or of any improvements that may be erected thereon; and if, at the expiration of such ten (10) day period, the PDC shall not have joined in any such application, or grants for easements, the Lessee shall have the right to execute such application and grants in the name of the PDC, and, for that purpose, the PDC hereby irrevocably appoints the Lessee as its Attorney-in-fact to execute such papers on behalf of the PDC.

5. MORTGAGE FINANCING

(a) Upon the circumstances and subject to the terms contained in this Section on Mortgage Financing, the Lessee may, in connection with financing of the premises, require the PDC to join with the Lessee in the execution of a trust deed, mortgage
or mortgages to provide permanent or interim financing for the improvements to be constructed on the premises.

1. Any such mortgages or trust deed for permanent financing will be in favor of an agency of the State of Oregon, as mortgagee. Any such mortgage or trust deed for interim financing shall be subject to approval of PDC.

2. Any such trust deed or mortgage must contain a provision that the mortgagee or beneficiary recognizes it to be a fact that the joinder by the PDC in the mortgage or trust deed is for the purpose of creating a lien against the property encumbered by the mortgage or trust deed and that no personal liability shall ever attach to or personal judgment be sought or obtained against the PDC by reason of the PDC's joinder in the mortgage.

3. The Lessee shall submit satisfactory evidence to the PDC that the total rental to be due each month from all tenants (including rent subsidies) shall not be less than One Hundred percent (100%) of the debt service on a permanent loan. As used herein, the term "debt service" means the monthly installment of principal and interest necessary to amortize the loan.

(b) Proceeds of Loan Application. The PDC hereby directs any lender making any loan to pay the proceeds thereof directly to the Lessee. The PDC shall execute any appropriate documents required by any such lender for such purpose. If any lender nevertheless pays the proceeds of any such loan to the PDC or to PDC and Lessee jointly, the PDC shall pay over the proceeds thereof to the Lessee immediately on receipt thereof, and endorse and deliver to Lessee any check made payable to PDC or jointly to Lessee and PDC.
(c) Lessee covenants and agrees to maintain any mortgage on the leased premises in good standing and to timely cure any defaults in said mortgage, and in the event that lessee fails to keep any mortgage in good standing and timely cure any defaults, the PDC may, without waiving any other rights under this Lease, make any payments and do any other act necessary to keep said mortgages in good standing and cure any defaults, including assuming such mortgage if approved by the mortgagee or beneficiary.

6. PAYMENT OF TAXES

(a) Generally. The Lessee covenants and agrees with PDC that the Lessee shall pay, before any fine, penalty, interest, or cost is added thereto, or becomes due or is imposed by operation of law for the nonpayment thereof, all taxes, assessments, water and sewer rents, rates and charges, transit taxes, charges for public utilities, excises, levies, licenses and permit fees and other governmental charges, general and special, ordinary and extraordinary, unforeseen and foreseen, of any kind and nature whatsoever, which at any time during the term of this Lease, may be assessed, levied, imposed upon, or become due and payable out of or in respect to or become a lien on the Premises or any improvement thereon, or any part thereof or any appurtenances thereto, the rent and income received by the Lessee from subtenants, any use or occupation of the premises, and such franchises as may be appurtenant to the use of the premises, or any document (to which the Lessee is a party) creating or transferring an interest or estate in the demised premises.

(b) Payment. Lessee covenants and agrees that it shall pay the charges and taxes as enumerated in this Section and shall deliver official receipts evidencing such payment to PDC at the place at which rental payments are required to be made, which payment of taxes shall be made and receipts delivered, at least 30 days before the tax, itself, would become delinquent in accordance with the law then in force governing the payment of such tax or taxes. If, however, the Lessee desires to contest
the validity of any tax or tax claim, the Lessee may do so without being in default hereunder as to the Lessee's obligation to pay taxes and other assessments, provided the Lessee gives the PDC notice of the Lessee's intention to do so and furnishes PDC with the bond or the surety made by a surety company qualified to do business in the State of Oregon or pays cash to a recognized escrow agent in Multnomah County and approved by the Portland Development Commission, 1-1/2 times the amount of the tax item or items intended to be contested, conditioned to pay such tax or tax items when the validity thereof shall have been determined, and which written notice and bond or equivalent cash shall be given by the Lessee to the PDC, not later than a day which is 60 days before the tax item or items proposed to be contested would otherwise become delinquent.

(c) In the event Lessee shall fail, refuse, or neglect to make any or all of the payments in this Section required, then PDC may, at its option, pay the same, and the amount or amounts of money so paid, including reasonable attorneys' fees and expenses reasonably incurred because of or in connection with such payments together with interest on all such amounts at the rate of 12% per annum shall be repaid by the Lessee to PDC upon the demand of PDC and the payment thereof may be collected or enforced by the PDC in the same manner as though such amount were an installment of rents specifically required by the terms of this lease to be paid by the Lessee to PDC upon the day PDC demands repayment or reimbursement from the Lessee. The election of PDC to pay such taxes shall not waive the default thus committed by the Lessee.

(d) The foregoing notwithstanding, the parties hereto understand and agree that the taxes for the first and last years of the term herein shall be prorated proportionately between PDC and the Lessee, except that to the extent that the property is not taxable in the hands of PDC, the Lessee shall pay the entire amount of taxes.
7. LIENS AND ADVERSE INTERESTS

(a) Covenant. Lessee covenants and agrees with PDC that Lessee will not permit nor suffer any liens or claims of any kind to be filed or claimed against the interests of PDC in the demised Premises. During the continuance of this Lease if any lien or claim of any kind, except those affirmatively permitted by PDC in writing, be claimed or filed, it shall be the duty of Lessee within 30 days after PDC shall have been given written notice of such a claim having been filed among the public records of Multnomah County, State of Oregon or within 30 days after PDC shall have been given written notice of such claim and shall have transmitted written notice of the receipt of such claim to the Lessee, whichever 30 day period expires earlier, to cause the Premises to be released from such claim, either by payment or the posting of bond or payment into the court of the amount necessary to relieve and release the Premises from such claim or in any other manner, which, as a matter of law, will result within such period of 30 days in releasing PDC and the title of PDC from such claim. The Lessee covenants and agrees, within such period of 30 days, to cause the premises and PDC's interest therein to be released from legal effect of any such claim.

8. INSURANCE

(a) The Lessee covenants and agrees with PDC that from and after the commencement date, Lessee will keep insured any and all buildings and improvements upon the premises. The insurance shall be in such form and amount, with such company or companies, and against such risks and hazards, as shall be approved by PDC and the mortgagee or beneficiary but shall in any event provide coverage against all loss or damage by fire or windstorm and what is generally termed in the insurance trade as extended coverage, and shall be maintained in an amount sufficient to protect any party in interest from becoming a co-insurer or any part of the risk, and in no event shall be in an amount less than the amount necessary to rebuild or demolish the premises as required this section. All of the policies of insurance shall fully protect
the mortgagee or beneficiary, the PDC and Lessee as their respective interests may appear.

(b) Copies of all such policies shall be delivered to PDC by the Lessee along with the copies of receipted bills evidencing the fact that the premiums are paid. Nothing contained in this lease shall be construed as prohibiting the Lessee from financing the premiums when the terms of the policies are for three years or more, and in the event that the premiums are so financed the receipt shall evidence it to be the fact that the installment premium payment or payments are paid at or before their respective maturities. The copies of the policies shall be delivered by Lessee to PDC at least 10 days prior to the effective date of the policies.

(c) The Lessee covenants and agrees with PDC that the Lessee will pay premiums for all of the insurance policies on which the Lessee is obligated to carry under the terms of this Lease and will deliver to PDC evidence of such payment before the payment of any such premiums become in default, and Lessee will cause renewals of expiring policies to be written and the copies thereof, to be delivered to PDC at least 10 days before the expiration date of expiring policies.

9. REBUILDING

(a) Lessee covenants and agrees that in the event of the destruction or damage of the buildings and improvements or any part thereof, and as often as any building or improvement on said Premises shall be destroyed or damaged by fire, windstorm, or other casualty, the Lessee shall rebuild and repair the same in such manner that the building or improvements are rebuilt and repaired and the personal property so replaced or repaired shall be of the same or higher value as the said building or improvement and the personal property upon the Premises prior to such damage or destruction and shall have the same rebuilt and ready for occupancy within 15 months of the time when the damage or destruction occurred unless otherwise herein provided. The 15
month period for reconstruction shall be extended by delays caused without fault or neglect on the part of the Lessee by act of God, strikes, lockouts, or other conditions, (other than matters of finance) beyond the Lessee's control.

(b) Lessee covenants and agrees, that in the event Lessee elects not to rebuild said improvements, that Lessee, within 6 months of said damage or destruction will, immediately give notice of said election to PDC, and further, unless PDC shall within 14 days otherwise direct, Lessee shall immediately begin to demolish and remove said improvements from the premises, and said demolition and removal shall be completed within 90 days from the date of beginning thereof, and the premises so affected shall be returned to substantially the same condition as upon the commencement date. Lessee covenants and agrees to indemnify and hold harmless the PDC from any cost or liability which the PDC may incur in the event the PDC shall have to complete said demolition and removal.

(c) Lessee covenants and agrees that if Lessee does not enter into the reconstruction and repair or demolition and removal of the building or buildings within a period of 6 months from the date of the damage or destruction, occasioned by fire, windstorm, or other cause it will be at PDC's option to terminate the Lease. The six (6) month period herein provided for beginning of reconstruction shall be extended by delays caused without fault or neglect on the part of the Lessee by act of God, strikes, lockout, or other conditions, (other than matters of finance) beyond the control of Lessee.

(d) Lessee covenants and agrees, that in the event that said demolition and removal, whether completed by Lessee or PDC or the agents of either, results in a more than 50% reduction in area (square feet) of the project housing stock, it will be at PDC's option to terminate the lease.

(e) In the event that PDC has the option to terminate the lease pursuant to this section, PDC shall, within 60 days after the beginning of PDC's said option to terminate, exercise
such option by giving 60 days notice to Lessee of its exercise of the option to terminate.

10. EMINENT DOMAIN

In the event the leased premises or any part thereof shall be taken for public purposes by condemnation as a result of any action or proceeding in eminent domain (it being understood and agreed that neither party shall be under any obligation to the other to controvert the allegations of any such suit), then the interest of PDC and Lessee (or Beneficiary or mortgage if there is a trust deed or mortgage then in effect), in the award and the effect of the taking upon this Lease agreement shall be as follows:

(a) In the event of such taking of only a part of the leased premises, leaving the remainder of said premises in such location and in such form, shape and size as to be unable to be used effectively and practicably in the opinion of PDC for the conduct thereon of the operations permitted hereunder, this lease shall terminate and end as to the portion of the leased premises so taken as of the date title to such portion vests in the condemning authority, but shall continue in full force and effect as to the portion of the leased premises not so taken. From and after such date the contract rent required by this Lease to be paid by Lessee to PDC shall be reduced in the proportion to which the value of the leased premises so taken bears to the total value of the demised premises; provided, however, PDC shall have the right, with the consent of Lessee, to substitute like adjacent property and maintain the rent schedule without diminution.

(b) In the event of the taking of only a part of the leased premises, leaving the remainder of said premises in such location, or in such form, shape or reduced size as to render the same not effectively and practicably usable, in the opinion of mortgagee or beneficiary, PDC or Lessee, for the conduct thereon of the operations permitted hereunder, this Lease and all right,
title and interest thereunder shall cease on the date title to
said premises or the portion thereof so taken vests in the
condemning authority.

(c) In the event the entire leased premises are so
taken, this Lease and all of the right, title and interest
thereunder shall cease on the date title to said premises so
taken vests in the condemning authority.

(d) In the event of any taking under Subparagraphs a, b, or c of this section, the only portion of any award of
compensation which shall be paid to Lessee shall be the fair
market value of the improvements placed upon that portion of the
leased premises which are taken by the condemning agency. PDC
and Lessee agree that fair market value of the improvements
placed upon that portion of the leased premises which are taken
by the condemning agency shall be the fair market value of the
premises, reduced by 1) the fair market value of the land,
and 2) the value of the reversionary interest of PDC (being that
period of the useful life of the improvements after the
expiration of the term of this Lease) in the improvements. PDC
and Lessee agree that valuation of the premises and various
interests therein necessary to effectuate this section shall be
determined pursuant to paragraph 23. PDC and Lessee agree that
if Lessee, at the date of taking, has pursuant to this lease any
exercised or unexercised option to remove the improvements on the
premises, that PDC shall not be considered to have any
reversionary interest in the improvements on the premises.

(e) Notwithstanding the foregoing provisions of this
section, PDC may, in its discretion and without affecting the
validity and existence of this Lease, transfer the PDC's
interests in said premises in lieu of condemnation to any
authority entitled to exercise the power of eminent domain. In
the event of such transfer by PDC, Lessee shall retain whatever
rights it may have to recover from the said authority the fair
market value of Lessee's interest in the improvements taken by
the authority and which Lessee has placed upon the leased
premises in accordance with the provisions of this Lease.

(f) All of the provisions contained herein relative to the disposition of payments or awards which become available by reason of any taking of the property or any part thereof, by condemnation or other eminent domain proceedings, are subject to the condition that if any mortgage or beneficiary holding a mortgage assented to by PDC requires, pursuant to the terms of its mortgage or trust deed, that the proceeds of condemnation or eminent domain proceedings be paid to the mortgagee on account of such mortgage or trust deed, then the payments shall be so made.

11. REPAIRS

(a) Lessee covenants and agrees with PDC that during the continuance of this Lease, Lessee will keep in good state of repair and in first class condition, any and all buildings, furnishings, fixtures and equipment which are brought or constructed or placed upon the demised Premises by the Lessee and the Lessee will not suffer or permit any strip, waste, or neglect of any buildings or any other property to be committed and that the Lessee will repair, replace and renovate as often as it may be necessary in order to keep the buildings and other property which is the subject matter of this Lease in first class repair and condition and in compliance with all applicable statutes and codes; that Lessee will keep the sidewalks free and clear of ice, snow, rubbish, debris, and obstruction; and that Lessee will maintain sidewalks, driveways, parking strips and landscaping and will repair, replace and renovate as often as may be necessary.

(b) PDC agrees that, so long as the regulatory agreement between the Lessee and the State of Oregon, recorded at Book ___, Page ___, Multnomah County Deed Records, or any similar successor agreement, requires Lessee to similarly make repairs and maintain the premises, compliance with the regulatory agreement will constitute compliance with Lessee's covenant to repair.
12. RIGHT OF LESSOR TO MAKE PAYMENTS

In the event that the Lessee shall fail to make any payments for insurance premium, taxes, mortgage amortization or any other payments required by this Lease, PDC shall have the right to make such payments on behalf of the Lessee. Such payments by PDC shall become as between the PDC and Lessee, rent due as of the date of the payment by PDC. Any such payment by PDC shall not be a waiver of any default under this lease.

13. ASSIGNMENT

This Lease shall not be assignable by the Lessee without the written consent of PDC. Any assignment by the Lessee shall not waive the further right of PDC to withhold its assent to any such future assignment. However, in the event of foreclosure of the mortgage or trust deed, or of substitution of the mortgagee or beneficiary for the Lessee pursuant to paragraph 15(b), this provision shall not apply to the mortgagee or beneficiary.

14. QUIET ENJOYMENT

PDC covenants and agrees with Lessee so long as the Lessee keeps and performs all of the covenants and conditions by the Lessee to be kept and performed, Lessee shall have quiet and undisturbed and continued possession, free from any claims by PDC and all persons claiming by or through PDC.

15. REMEDIES OF PDC

(a) Default by Lessee: It is covenanted and agreed by the Lessee that the breach of any covenant by Lessee is a default and if

(1) Lessee shall fail in the performance or fulfillment of any covenant or condition herein required to be performed or fulfilled by Lessee and shall fail to cure said default within thirty days following the service
on Lessee of a written notice from PDC specifying the default complained of; or

(2) Lessee shall voluntarily file or have involuntarily filed against him any petition under any bankruptcy or insolvency act or law; or

(3) Lessee shall make a general assignment for the benefit of creditors;

then PDC may, at its option, without further notice or demand upon Lessee or upon any person claiming through Lessee, immediately terminate this Lease and all rights of Lessee and of all persons claiming rights through Lessee in or to the said premises or in or to further possession thereof and PDC may thereupon enter and take possession of said premises and expel Lessee and all persons so claiming rights thereto. Provided, however, in the event that any default described in Subparagraph (a)(1) of this section is not curable within thirty days after the service of a written notice upon Lessee, PDC shall not terminate this Lease pursuant to said default if Lessee immediately commences to cure said default and diligently pursues such cure to completion.

Provided, further, in the event that there is a deed of trust or mortgage on the leasehold interest, PDC shall not terminate this Lease until it first shall have served upon the mortgagee or beneficiary written notice of the default or defaults complained of, and the mortgagee or beneficiary shall have sixty days from service of such notice within which to commence such cure as may be necessary and this Lease shall not terminate if said mortgagee or beneficiary shall prosecute said cure with reasonable diligence thereafter, and said sixty-day period shall be extended during the time required for said mortgagee or beneficiary
to perfect, through litigation or through foreclosure, its rights to cure.

b. PDC Recourse: If the mortgagee or beneficiary shall be required to perfect its right to cure said default or defaults though litigation or through foreclosure, then PDC shall have the option of the following courses of action in order that such default or defaults may be expeditiously corrected:

(1) PDC may correct or cause to be corrected said default or defaults and charge the costs therefor (including costs incurred by PDC in enforcing this provision) to the account of the Lessee, which charge shall be due and payable on the date that the rent is next due after presentation by PDC of a statement of all or part of said costs.

(2) PDC may correct or cause to be corrected said default or defaults and may pay the costs thereof (including cost incurred by PDC in enforcing this provision) from the proceeds of any insurance fund held by PDC and Lessee or by PDC and mortgagee or beneficiary or PDC may use said funds of any faithful performance or cash bond on deposit with PDC or PDC may call on the bonding agent to correct said default or defaults or to pay the costs of such correction performed by or at the discretion of PDC.

(3) PDC may terminate this Lease as to the rights of Lessee herein by assuming liability for any trust deed or mortgage. Lessee will assume and agrees to pay any and all penalties or bonuses required by the beneficiaries, trustees or mortgagees as a condition for early payoff of the related notes by PDC. PDC may, as an alternative, substitute a new Lessee for said terminated Lessee. Any substitution of Lessees by PDC under this provision must be approved by the mortgagee
or beneficiary. Lessee agrees to assume and pay any fee charged by the mortgagee or beneficiary for approval of the substitution, unless the substitution results from Lessee's default under the mortgage or trust deed.

Should said default or defaults be noncurable by Lessee, then any lender holding a beneficial interest in said leasehold whose qualifications have been approved by PDC for assignment of the leasehold interest shall have the absolute right to substitute itself to the estate of the Lessee hereunder and to commence performance of this Lease and this Lease shall not terminate if such mortgagee or beneficiary shall give notice in writing of its election to so substitute itself and commence performance within said sixty-day period after service upon it of said written notice by PDC of the default. In the event of the election by the mortgagee or beneficiary to substitute itself to Lessee's estate hereunder, the PDC expressly consents to said substitution and authorizes said mortgagee or beneficiary to perform under this lease with all the rights, privileges and obligations of the original Lessee hereunder, subject to cure of the default if possible by mortgagee or beneficiary, and Lessee expressly agrees to assign all its interest in and to its leasehold estate in that event.

In the event a mortgagee or beneficiary substituting itself for the Lessee elects to exercise the option to purchase provided in Paragraph 21(b) of this Agreement, upon receipt of the fair market value determined pursuant to Paragraph 23, PDC shall provide the mortgagee or beneficiary with good and marketable fee title to the demised premises and improvements, free and clear of all liens and encumbrances, except such as may be approved by the mortgagee or beneficiary in writing, and except any encumbrances created pursuant to City of Portland Ordinance No. 148739. Notwithstanding any provision to the contrary in Paragraph 21, a substituting mortgagee or beneficiary may exercise the option to purchase at any time after the
substitution occurs.

c. Abandonment by Lessee: Even though Lessee has breached the Lease and abandoned the property, this Lease shall continue in effect for so long as PDC does not terminate Lessee's right to possession, and PDC may enforce all its rights and remedies under said Lease, including, but not limited to, the right to recover the rent as it becomes due under the Lease. For purposes of this section, the following do not constitute a termination of Lessee's right to possession:

(1) Acts by PDC of maintenance, or preservation, or efforts to relet the property.

(2) The appointment of a receiver upon initiative of PDC to protect the City's interest under the Lease. No receiver or substitute Lessee of the property shall be appointed without notification of and approval by mortgagee or beneficiary.

d. Damages: Damages which PDC may recover in the event of default under this Lease include the worth, at the time of award, of the amount by which the unpaid rent for the balance of the term after the date of award, or for any shorter period of time specified in this Lease, exceeds the amount of such rental loss for the same period that the Lessee proves could be reasonably avoided. The remedies provided by this section are not exclusive and shall be cumulative to all other rights and remedies possessed by PDC and nothing contained herein shall be construed so as to defeat any other rights or remedies to which PDC may be entitled.

16. INDEMNIFICATION

The Lessee covenants and agrees with PDC that during the entire term of the Lease, the Lessee will indemnify and save harmless PDC against any and all claims, debts, demands, or obligations which may be made against PDC or against PDC's title
to the Premises, arising by reason of or in connection with, any alleged act or omission of the Lessee or any person claiming under, by or through the Lessee; and if it becomes necessary for PDC to defend any action to oppose any such liability, then Lessee will pay the PDC all costs of court and attorneys' fees incurred by PDC in effecting such defense, in addition to any other sums which PDC may be called upon to pay by reason of the entry of a judgment against PDC in the litigation in which such claim is asserted. From the time when the Lessee commences construction on the demised Premises, or any part thereof, or from and after any earlier date when the Lessee makes actual use of and occupies the demised Premises, or any parts thereof, the Lessee will cause to be written a policy or policies of insurance in the form generally known as Public Liability and/or owners', landlord and tenant policies and boiler insurance policies and elevator insurance policies, when there be boilers and elevators included in any improvements located on the demised Premises, insuring the Lessee against any and all claims and demands made by any person or persons whatsoever for injuries received in connection with the operation and maintenance of the Premises, improvements, and buildings located on the demised Premises, or for any risk insured against by such policies, each class of which policies shall have been written within limits of not less than $500,000.00 for damages incurred or claimed by any one person for bodily injury, or otherwise, plus $100,000.00 damages to property and for not less than $1 million dollars for damages incurred or claimed by more than one person for bodily injury or otherwise plus $250,000.00 for damages to property. In the event the statutory maximum liability limits of the PDC is greater than the limits provided herein, the limits shall be increased to equal such statutory maximum liability limits. All such policies shall name the Lessee and PDC as their respective interests may appear, as the persons insured by such policies; and the original or duplicate original of such policy or policies shall be delivered by the Lessee to the PDC promptly upon the writing of such policies, together with adequate evidence of the fact that
the premiums have been paid unless required to be delivered to some other person by the terms of a mortgage assented to by the PDC, in which case duplicate copies may be delivered to the PDC.

17. CUMULATIVE REMEDIES

All of PDC's remedies under the Lease and as provided by any law or statutes shall be cumulative and assertion of any shall not be a waiver of any other.

18. RIGHT OF ENTRY

(a) PDC and its agents shall have the right of entry upon the Premises at all reasonable times to examine the condition and use thereof, provided only that such right shall be exercised in such manner so as not to interfere with the conduct of the Lessee's business on the Premises, and if the Premises are damaged by fire, windstorm, or by any other casualty, which causes the Premises to be exposed to the elements, then the PDC may enter upon the Premises to make emergency repairs, but if the PDC exercises its option to make emergency repairs, such act or acts shall not be deemed to excuse the Lessee from its obligation to keep the Premises in repair and the Lessee shall, upon demand of PDC, immediately reimburse the PDC for the costs and expenses of such emergency repairs, and payment for such emergency repairs shall be due as if it were rent.

(b) PDC agrees that, so long as the regulatory agreement between the Lessee and the State of Oregon, recorded at Book _____, Page _____, Multnomah County Deed Records, or any similar successor agreement, provides the State of Oregon or its agents or assigns a similar right of entry and right to make repairs, said regulatory agreement shall control and subparagraph A of this section 18 shall be of no force and effect.
19. NOTICE

All notices, demands and requests required by this Lease or modifications shall be in writing and be sent:

1) To the PDC, at the following address

Portland Development Commission
1500 S. W. First Avenue
Portland, Oregon 97201

2) To the Lessee, at the following address

UPSHUR HOUSE, LTD.
3015 S.W. First Street
Portland, Oregon 97201

by registered or certified mail, postage prepaid, unless a notification of change of address has been sent to the party giving the notice by registered or certified mail prior to the time when such notice is given.

20. RESERVATION OF PDC RIGHTS

PDC hereby reserves all rights, title and interest in any and all gas, oil, minerals and water beneath said leased premises. PDC and its agents shall have the right to enter said leased premises for the purpose of making repairs to or developing municipal services as long as such repairs or development does not in any way negatively affect the operation of the leasing development. PDC hereby reserves the right to grant and use such easements or establish and use such rights of way over, under, along and across said leased premises for utilities, thoroughfares, or access as it may deem advisable for the public good. Provided, however, PDC shall not unreasonably interfere with Lessee's use of the premises and will reimburse Lessee for physical damages, if any, to the permanent improvements of Lessee located on the leased premises resulting
from PDC's exercising the rights retained in this paragraph. Such reimbursement shall include a reduction in the annual rent proportionate to the amount of said physical damage as determined by the PDC. PDC shall pay the costs of maintenance and repair of all PDC installations made pursuant to the rights reserved herein.

21. PURCHASE OPTION.

(a) At any time after the completion of the improvements, if the Lessee shall fail to continue to use the premises for subsidized housing under Section 8 or other appropriate and then existing federal, state or local housing assistance law, the PDC shall have the option to purchase the interest of the Lessee. The option to purchase shall be exercised by giving written notice of its intent to exercise to the Lessee. The option shall terminate 90 days after the first day that Lessee gives PDC notice of its said failure to so use the premises, however, notice not being a condition precedent to said option. PDC shall exercise said option by giving Lessee 90 days notice of its election to require Lessee to purchase said premises. Any transfer, assignment, sale or lease of the property by the Lessee to any other party is subject to prior written approval of the mortgagee or beneficiary.

(b) The option price shall be the fair market value of the premises as determined pursuant to section 23, reduced by the fair market value of the land.

(c) PDC and Lessee agree that the value of the land shall be equal to the sum of $185,000, with interest compounded annually. The interest rate may vary from year to year and for each year of this Lease, or portion thereof shall be equal to the prime rate as charged by the First National Bank of Oregon or its successors (expressed as a percentage) less three (3) percent, on the commencement date and each anniversary thereof.
22. PURCHASE OBLIGATION.

(a) At any time that the Lessee shall fail to continue to use the premises for subsidized housing under Section 8 or other appropriate and then existing federal, state or local housing assistance law, PDC shall have the option to require Lessee to purchase the interest of the PDC, including its reversionary interests, if any. The option shall terminate 90 days after the first day that Lessee gives PDC notice of its said failure to so use the premises, however, notice not being a condition precedent to said option. PDC shall exercise said option by giving 90 days notice to Lessee to purchase PDC's interest. Upon giving of such notice, Lessee shall be obligated to and covenants and agrees that it shall purchase the interest of the PDC. If Lessee exercises the option to purchase pursuant to this section, Lessee covenants and agrees to continue using the premises for residential purposes for thirty (30) years from the date that PDC's interest is transferred to Lessee.

(b) The option price shall be equal to the value of the land as determined pursuant to Section 21(c).

23. APPRAISAL.

Fair-market value of the premises or values of the interests therein shall be determined by a qualified appraiser selected by the Lessee from a choice of three (3) qualified appraisers provided by the PDC. The appraisal shall be final and binding on the parties. The cost of the appraisal shall be borne equally by the parties.

24. OPEN SPACE FOR PUBLIC USE.

A portion of the premises has been designated as open space. Lessee covenants and agrees to develop, maintain and manage said portion as open space for public use. PDC agrees to reimburse Lessee for Lessee's costs incurred in design and construction of said open space area on a cost plus 12% basis, not to exceed a total of $60,000.00. If cost and maintenance of
the designated open space should ever exceed $1,500.00 in one year, Lessee may reduce public access to the extent necessary so that the annual cost of maintenance shall not exceed $1,500.00. Lessee and PDC specifically agree that no part of this paragraph shall be construed as dedicating any portion of the premises to the public for park purposes. Lessee shall have full right to control use of said open space area as designated by this paragraph.

25. PARKING

A. Pursuant to City of Portland Ordinance No. 148739, a portion of N.W. Upshur Street adjacent to the premises has been vacated. Lessee covenants and agrees to construct, maintain, and manage thirty (30) diagonal parking spaces on said vacated area, pursuant to the restrictions in said Ordinance. PDC agrees to reimburse Lessee for Lessee's costs incurred in design and construction of said parking spaces, and the public pedestrian walkway required by said Ordinance on a cost plus 12% basis, not to exceed a total of $50,000.00.

B. Lessee covenants and agrees to construct, maintain and manage fourteen (14) parking spaces on the premises. All costs incurred in design and construction of said spaces shall be borne by Lessee.

C. Lessee shall have the right to control use of said spaces, except Lessee covenants and agrees to provide rights to use of the parking spaces constructed pursuant to subparagraphs A and B of this paragraph 25, pursuant to the Agreement attached to City of Portland Ordinance 148739.

D. PDC shall indemnify Lessee for any costs incurred by Lessee in any relocation of utilities necessitated by construction of said parking spaces.
26. SEWER AND STREET IMPROVEMENTS

Lessee covenants and agrees that if City of Portland determines, in its absolute discretion, that as a result of Lessee's development of the premises improvements are necessary to the street and storm sewers in N.W. 26th Avenue and/or N.W. 27th Avenue between Thurman and Upshur streets, Lessee shall construct said improvements as designed by the City of Portland. PDC agrees that PDC shall reimburse Lessee for Lessee's costs incurred in said design and construction on a cost plus 12% basis, not to exceed a total of $15,000.00.

27. MISCELLANEOUS

a. Lessee covenants and agrees that it shall use the Premises solely for legal purposes.

b. The rights and obligations of the parties under this lease shall be construed and determined pursuant to the law of the State of Oregon.

c. This Agreement is the entire agreement between the parties. There is no other oral or written agreement between the parties with regard to this subject matter.

d. All obligations of Lessee to PDC shall be due at the date specified by this Agreement, including liquidated damages and interest shall accrue immediately from the date of arrearage at the rate of 10% per annum.

e. Any modifications to this Lease Agreement shall be made in writing and assented to by Lessee, PDC and any mortgagee or beneficiary.

f. If Lessee or PDC shall be required to retain an attorney to enforce any portion of this agreement, the prevailing party shall be entitled to recover its reasonable
attorneys' fees from the other as determined by a court of
cOMPETENT jurisdiction, such reasonable attorneys' fees to
include attorneys fees upon appeal if necessary.

9. The Lessee covenants and agrees for itself, its
successors and assigns that the Lessee and such successors
and assigns shall not discriminate on the basis of race,
color, creed, sex, national origin, or ancestry in the use
or occupancy of the premises or any improvements erected or
to be erected thereon or any part thereof.

DATED this 29th day of Feb., 1980.

CITY OF PORTLAND, by and through
the PORTLAND DEVELOPMENT
COMMISSION, a Municipal Corporation
of the State of Oregon

Patrick Allen
Acting Director

ATTEST TO:

Oscar D. Morrell
Legal Counsel

UPSHUR HOUSE, LTD., an
Oregon Limited Partnership

By: (President)
Tom Walsh & Co., General Partner

By
Thomas J. Walsh, Partner
EXHIBIT A

LEGAL DESCRIPTION

A parcel of land located in Section 29, Township 1 North, Range 1 East, Willamette Meridian, in the City of Portland, County of Multnomah and State of Oregon, more particularly described as follows:

The entirety of Block 14, NORTH PORTLAND and Lot 13 and Lot 14, Block 323, BALCH'S ADDITION, together with that portion of Northwest Upshur Street vacated by City of Portland Ordinance No. 148739; excepting therefrom the following two parcels:

Beginning at the northwest corner of the east 17.8 feet, more or less, of Lot 8, Block 323, BALCH'S ADDITION; thence Northerly on a line parallel to the east line of said Lot 8, 2.51 feet; thence Easterly to a point on the east line of Lot 1, Block 14, NORTH PORTLAND, said point also being on the west line of N. W. 26th Avenue; thence Southerly along the east line of said Lot 1 and the west line of N. W. 26th Avenue 6.00 feet to the southeast corner of said Lot 1; thence Westerly along the south line of said Lot 1 to the point of beginning; and

The South 50 feet of Lot 13 and Lot 14, Block 323, BALCH'S ADDITION.
State of OREGON )
                       ) ss.
County of Multnomah )

On this 29th day of February, 1980, before me, the undersigned, a notary public in and for said County and State, personally appeared the within named PATRICK LaCROSSE, personally known to me to be the Acting Director of the Portland Development Commission and who executed the within instrument, and being first duly sworn, did say that he, PATRICK LaCROSSE, is the Acting Director of the Portland Development Commission, a Commission of the City of Portland, a municipal corporation of the State of Oregon, which Commission is the duly designated Urban Renewal Agency of the City of Portland, and that the seal affixed to the foregoing instrument is the corporate seal of said Commission, and that the said instrument was authorized by said Commission by authority of the Portland Development Commission, and the said PATRICK LaCROSSE acknowledged said instrument to be the free act and deed of said Commission.

[Signature]
Notary Public for OREGON
My Commission expires May 2, 1933
State of OREGON

County of Multnomah

BE IT REMEMBERED, That on this 29th day of February, 1980, before me, the undersigned, a Notary Public in and for said County and State, personally appeared the within named THOMAS J. WALSH known to me to be the identical individual described in and who executed the within instrument and acknowledged to me that he executed the same freely and voluntarily.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

[Signature]

Notary Public for OREGON
My Commission Expires: May 2, 1983
STATE OF OREGON 

) ss.

County of Multnomah 

On this 29th day of February, 1980, before me appeared TOM WALSH personally known to me to be the President of TOM WALSH & COMPANY, and being duly sworn, did say that he, the said TOM WALSH is the President of TOM WALSH & COMPANY, a general partnership, of which he, the said TOM WALSH, is a general partner, and that the said instrument was signed and sealed in behalf of said general partnership, and TOM WALSH acknowledged said instrument to be the free act and deed of said general partnership.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

Notary Public for OREGON
My Commission Expires: 5/2/83