

**EXCLUSIVE NEGOTIATING AGREEMENT
(Richmar Station)**

This Exclusive Negotiating Agreement ("Agreement") is dated as of the 9th day of September, 2014, by and between the City of San Marcos in its capacity as the successor housing agency to the former San Marcos Redevelopment Agency ("SHA") and Richmar Station San Marcos, LP, a California limited partnership ("Developer").

RECITALS

A. In furtherance of the objectives of the California Community Redevelopment Law ("Redevelopment Law") (Health & Safety Code Section 33000 et seq.), the SHA may desire to provide financial assistance to Developer using funds from the SHA's Housing Bond Fund to develop the real property in the City of San Marcos generally bounded by West Mission Road, Pleasant Avenue, Richmar Avenue and Firebird Lane, and may also include adjacent properties immediately across Richmar Avenue to the north (collectively referred to herein as the "Property").

B. The SHA and Developer desire to negotiate an agreement ("Development and Loan Agreement") pursuant to which the SHA would provide financial assistance to Developer for the development of the Property for a new mixed-use, affordable housing community for seniors and/or veterans and/or another population approved by the SHA ("Project") consistent with the statutes and regulations governing the use of the SHA's Housing Bond Fund.

C. The purpose of this Agreement is to establish a period during which Developer shall have the right to exclusively negotiate with the SHA the terms of a Development and Loan Agreement with respect to the Property.

NOW, THEREFORE, Developer and the SHA, hereby agree as follows:

1. Negotiating Period. The SHA agrees to exclusively negotiate with Developer and Developer agrees to exclusively negotiate with the SHA regarding the terms of the Development and Loan Agreement for a one (1) year period from the date first set forth above ("Negotiating Period"). The SHA and Developer shall negotiate diligently and in good faith to carry out the obligations of this Agreement during the Negotiating Period.
2. Site Control. The Property is currently owned by the SHA.
3. Costs and Expenses. Except as otherwise provided in Section 6, below, each party shall be responsible for its own costs and expenses in connection with any activities and negotiations undertaken in connection with the performance of its obligations under this Agreement.
4. Developer Submissions. Developer agrees that not less than 150 days prior to the expiration of this Agreement, Developer shall submit to the SHA for review, a proposal for development of the Property and the Project, with supporting documents. In addition, Developer

will provide the SHA with the following documents, reports and information prior to the expiration of this Agreement:

(a) Basic floor area ratios or a potential unit mix by number of bedrooms, proposed income targeting, proposed construction work with preliminary cost estimates, and site amenities, with a schedule for implementation.

(b) A proposed schedule for development of the Project.

(c) A financial pro forma which contains: (i) a projected development budget for the Project, (ii) a projected sources and uses analysis, (iii) a 15-year cash flow analysis, (iv) a proposed rent schedule and utility allowance schedule, and (v) a projected operating budget for the Project.

(d) Preliminary evidence of conventional construction and permanent financing options.

(e) The name and qualifications of the architect which Developer proposes to use, if any. The SHA will approve or disapprove the proposed architect in its sole and absolute discretion.

(f) The name and qualifications of the management agent that Developer proposes to use. The SHA will approve or disapprove the proposed management agent in its sole and absolute discretion.

5. Approval and Negotiation of Development and Loan Agreement. If both the SHA and Developer are satisfied with the financial feasibility of the Project, the SHA and Developer shall seek in good faith to negotiate and draft a mutually acceptable Development and Loan Agreement for the development of the Project. However, by entering into this Agreement, the Parties are not contractually bound to enter into a Development and Loan Agreement.

6. Predevelopment Loan. Upon SHA's satisfaction of the financial feasibility of the Project, SHA shall deposit the sum of \$392,500.00 ("Predevelopment Loan") into a specially marked account with the City of San Marcos Housing & Neighborhood Services for the benefit of Developer to facilitate predevelopment activities of the Project. Said account shall remain in the control of Housing & Neighborhood Services and disbursements shall be made to Developer based upon reasonable requests for funding by Developer to Senior Administrative Analyst, Harry Williams, Housing & Neighborhood Services. Requests for funds by Developer shall include expense projections sufficiently detailed to allow Housing & Neighborhood Services to evaluate Developer's funding needs. Housing & Neighborhood Services shall not unreasonably deny requests for funds and shall ensure that funding requests and disbursements are expeditiously processed. Any Predevelopment Loan funds disbursed prior to adoption of the Development and Loan Agreement shall be credited against the amount of any SHA loan to be made thereunder and any funds remaining in the account if and when the Development and Loan Agreement is approved shall be added to the principal of any loan made by the SHA pursuant to the Development and Loan Agreement. If the Development and Loan Agreement or similar

agreement is ultimately executed by the SHA and Developer, the Predevelopment Loan shall constitute a portion of any financial assistance which may ultimately be provided by the SHA to Developer. In such event, the Predevelopment Loan shall be repayable by Developer to the SHA with interest from the date of construction loan closing at the simple interest rate of three percent (3%) per annum (or such interest rate as may ultimately be charged on any financial assistance provided by the SHA to Developer with respect to the Project), from residual receipts produced from the operation of the Project. If this Agreement is: (i) terminated for any reason other than Developer's uncured, material default hereunder; (ii) the SHA and Developer do not enter into a Development and Loan Agreement or similar agreement with respect to the Property; and (iii) acquisition and/or development of the Project does not proceed prior to termination of this Agreement, then the SHA shall forgive the Predevelopment Loan and discharge Developer's obligation to repay the Predevelopment Loan to the SHA. In such event, Developer shall assign its interest in all reports, studies and plans pertaining to the Project to the SHA. Such assignment shall be subject to any applicable third-party rights in such materials so assigned. If the SHA acquires title to the Project and no Development and Loan Agreement or similar agreement is entered into between the SHA and Developer, then following the termination of this Agreement, the SHA shall be free to dispose of, sell or otherwise deal with the Project as the SHA determines in its sole and absolute discretion.

7. Termination/Expiration of Agreement. Except as this Agreement is extended or amended by mutual written agreement of the parties, if at the end of the Negotiating Period, the SHA and Developer have not agreed upon a mutually acceptable Development and Loan Agreement, then all of this Agreement shall terminate, except that the obligations of the Developer set forth in Recital B, above, and Section 8(b), below, shall survive such termination.

8. Cooperation. The SHA agrees to cooperate with Developer in supplying financial institutions with appropriate information, if available and not otherwise privileged, to facilitate the obtaining of additional financing for the Project. The SHA shall also cooperate with Developer's professional consultants and associates in providing them with any information and assistance reasonably within the capacity of the SHA to provide in connection with the preparation of the Development and Loan Agreement required to be submitted by Developer to the SHA pursuant to this Agreement or as required by state and local laws or regulations.

9. Nondiscrimination. Developer shall not discriminate against nor segregate, any person, or group or persons on account of sex, race, color, marital status, religion, creed, national origin or ancestry in the sale, lease, sublease, transfer, use, occupancy, tenure or enjoyment of the Project, nor shall Developer establish or permit any such practice or practices of discrimination or segregation in the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees or vendees of the Project.

10. Environmental Requirements. Certain state and local environmental requirements (including, but without limitation, the California Environmental Quality Act of 1970, Public Resources Code Section 21000, et seq.) may be applicable to the proposed Project. Pursuant to such requirements, certain environmental documents may be required to be prepared and certified for the proposed Project.

11. Physical Condition of the Property. Subsequent to execution of the Development and Loan Agreement by the Developer and SHA, Developer shall obtain data and conduct such surveys and tests with respect to the Property and improvements thereon as Developer deems necessary to carry out this Agreement, to complete the Project pursuant to the Development and Loan Agreement consistent herewith and to ensure that the Property is appropriate for the intended use. Developer shall give to the SHA a copy of all surveys and tests which it commissions with respect to the Property.

12. Address for Notices. Any notices pursuant to this Agreement shall be sent to the following addresses:

To SHA: City of San Marcos in its capacity as the successor housing agency
to the former San Marcos Redevelopment Agency
c/o City of San Marcos
1 Civic Center Drive
San Marcos, CA 92069
Attn: Office of the City Manager

Copy to: Christensen & Spath LLP
550 West C Street, Suite 1660
San Diego, CA 92101
Attn. Walter F. Spath, Esq.

To Developer: Richmar Station San Marcos, LP
c/o Hitzke Development Corporation
251 Autumn Drive, Suite 100
San Marcos, CA 92069
Attention: Ginger Hitzke, Manager

And to: National CORE
9421 Haven Avenue
Rancho Cucamonga, CA 91730
Attn: Tracy Thomas, CFO

Copy to: Natalie Gubb
Gubb and Barshay
50 California Street #3155
San Francisco, CA 94111

13. Entire Agreement. This Agreement constitutes the entire understanding and agreement of the parties, integrates all of the terms and conditions mentioned herein or incidental hereto, and supersedes all negotiations or previous agreements between the parties or their predecessors in interest with respect to all or any part of the subject matter hereof.

14. Amendment of Agreement. No modification, rescission, waiver, release or amendment of any provision of this Agreement shall be made except by a written agreement executed by the SHA and Developer.

15. Development and Loan Agreement to Supersede this Agreement. To the extent provided in the Development and Loan Agreement, this Agreement will be superseded by the Development and Loan Agreement, if and when the proposed Development and Loan Agreement is executed by Developer and approved and executed by the SHA in a manner required by law.

16. Assignment Prohibited. In no event shall Developer assign or transfer any portion of Developer's rights or obligations under this Agreement without the prior express written consent of the SHA, which consent may be withheld in the SHA's sole and absolute discretion.

17. Time of Essence. Time is of the essence of every portion of this Agreement in which time is a material part.

18. Governing Law. This Agreement shall be construed in accordance with the laws of the State of California.

19. Signature Authority. All individuals signing this Agreement for a party which is a corporation, limited liability company, partnership or other legal entity, or signing under a power of attorney, or as a trustee, guardian, conservator, or in any other legal capacity, covenant to the SHA that they have the necessary capacity and authority to act for, sign and bind the respective entity or principal on whose behalf they are signing.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

SHA:

City of San Marcos in its capacity as the successor housing agency
to the former San Marcos Redevelopment Agency

By: _____
Jack Griffin, City Manager

APPROVED AS TO FORM:

Christensen & Spath LLP

By: _____
Walter F. Spath III
Special Counsel to the SHA

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

DEVELOPER:

Richmar Station San Marcos, LP, a California limited partnership

By: Hitzke Development Corporation

Its: Administrative General Partner

By: _____

Ginger Hitzke, President

By: The Southern California Housing Development Corporation of Orange

Its: Managing General Partner

By: _____

Print Name: _____

Its: _____