

VII. STANDING COMMITTEES

Finance, Audit & Facilities Committee

UW Medicine at South Lake Union – Authorization of WBRP III and Exercise of Phase III Option

RECOMMENDED ACTION

It is the recommendation of the administration and the Finance, Audit and Facilities Committee that the Board of Regents:

1. Adopt the attached resolution authorizing Washington Biomedical Research Properties III (WBRP III) as the non-profit entity to issue bonds on behalf of the University of Washington and agreeing that the University of Washington will accept title to the bond-financed property, at no additional cost, when the bonds are retired; and
2. Delegate to the President of the University or the President's authorized representative the authority to execute the contracts and other documents necessary to implement the transaction that has been negotiated by representatives of City Investors, LLC, City Investors XII LLC, WBRP III, and the University of Washington for the development of additional research space in South Lake Union (SLU) Phase III, including:
 - a. execution of the Second Amended and Restated Option Agreement for South Lake Union Phase III (Phase III Option) that has been negotiated by representatives of City Investors LLC, City Investors XII LLC, and the University of Washington substantially in the form attached;
 - b. assignment of the Phase III Option to WBRP III;
 - c. consent to the exercise of the Phase III Option by WBRP III;
 - d. execution of a long-term occupancy lease for the first Phase III research building and related infrastructure in support of a project budget not to exceed \$165.6 million;
 - e. execution of any other approvals, contracts or documents necessary to implement the transaction and to enable WBRP III to exercise the Phase III Option not later than June 30, 2010, its expiration date; and
 - f. approval of an increase in the project budget, if needed to meet programmatic requirements, by up to \$10 million (6% of project budget) for additional project costs, including \$7.5 million in tenant improvements and equipment beyond the level established in the project budget and \$2.5 million in additional capitalized interest due to a potential increase in interest rates.

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THE PROJECT

UW Medicine at South Lake Union is a three phase project (Project) that began in 2003 and is expected to be completed by 2020. The complete build-out is comprised of five biomedical research buildings and one administrative office building on two full blocks in the South Lake Union area of Seattle. See the map on **Exhibit 1** for details.

The Brotman Building (Phase I) provides 100,000 gross square feet (GSF) of research space. It was completed in 2004 and is now fully assigned. Phase II was completed in 2008 and consists of an administrative office building of 100,000 GSF and a research building of 166,000 GSF with associated parking and loading facilities. The Phase II buildings are also fully assigned. Phase III would be developed as three separate research buildings in three sub-phases (Phases 3.1, 3.2, and 3.3). When completed, Phases I, II, and III would provide over 800,000 GSF of research space in support of School of Medicine (SOM) research programs.

Phase III of the Project consists of three research buildings of roughly equivalent size to be constructed sequentially, together with associated underground parking. The Project will include approximately 510,000 GSF of new space above-grade and approximately 65,000 GSF of program space below-grade, with below-grade parking and loading facilities to serve the Phase III buildings.

It is anticipated that the Phase 3.1 will be completed in the spring of 2013. Its underground parking and infrastructure will serve both Phases 3.1 and 3.2. Phase 3.3 will have its own underground parking to be integrated with the parking for Phase 3.1 and 3.2. **Exhibit 2** summarizes the Phase 3.1 project budget.

Preliminary design work for the Phase 3.1 also has been completed as called for in the 2007 Phase III Option Agreement revision. Upon assignment and exercise of the Phase III Option, final design work for Phase 3.1 will be undertaken in order to allow construction to begin in summer 2011.

Previous Board of Regents actions regarding South Lake Union are summarized in **Exhibit 3** and a chronology of future key dates is shown in **Exhibit 7**.

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THE OPPORTUNITY

The Project is of vital strategic importance to the School of Medicine. SOM awards have grown at an annual rate of 7.9% over the past fifteen years, with NIH funding for University of Washington SOM growing at an annual rate of 3% since 2002. For the first nine months of FY 2010 the SOM award growth rate excluding ARRA (federal stimulus) grants is 20%. There is effectively no surplus research space on campus. Both the Brotman Building and Phase II are fully assigned, and research is expected to grow although not necessarily at the same historic rate.

The importance of South Lake Union is also reflected in the substantial investment (over \$200 million) in Phase 1 and Phase II. The opportunity to fully capitalize on the investment in South Lake Union will be compromised if we do not exercise the option on Phase III.

Finally, the weakened construction market and current financing environment make this a highly favorable time to be developing space.

TRANSACTION STRUCTURE

The University has negotiated a revised option agreement in substantially final form with City Investors XII LLC, the land owner, to enter into a long term ground lease for the Phase III parcel, which covers all three sub-phases. This revised option agreement will be signed by the University and assigned to and exercised by WBRP III, a newly created non-profit 501c3 corporation.

WBRP III will:

- 1) Be authorized by the Board of Regents
- 2) Be assigned the Phase III Option by the UW
- 3) Exercise the Phase III Option before June 30, 2010
- 4) Enter into a long term (48 year) ground lease with City Investors XII LLC
- 5) Enter into an occupancy lease with the UW
- 6) Secure interim financing to fund project costs prior to long term debt issuance
- 7) Issue 63-20 bonds backed by the lease payments to fund the construction of SLU Phase 3.1
- 8) Undertake the development of the property through a Development Services Agreement with City Investors LLC

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There are two five year extensions on the ground lease to allow for Phases 3.2 and 3.3. These extensions will only be exercised by WBRP III if UW determines it is economically advantageous to do so.

If, by December 31, 2015, the University determines that it will not develop Phases 3.2 and 3.3, it will direct WBRP III to terminate the ground lease for the portion of the property that is undeveloped. Costs incurred by UW by not developing Phases 3.2 and 3.3 include \$13.3 million in ground rent and “walk-away” fees and approximately \$10 million in Phase 3.2 infrastructure that was developed as a part of Phase 3.1. These infrastructure improvements will be owned by City Investors XII LLC if the ground lease for Phases 3.2 and 3.3 is terminated. However, a series of cross-easements will be executed to ensure that both parties have access to the Phase 3.1 and 3.2 infrastructure.

FINANCING PLAN

Project funding sources and uses for Phase 3.1 are detailed below:

Sources of Funds

Equity (1)	13,500,000
Debt - Building	141,800,000
Debt - Equipment	9,600,000
Accrued Interest (2)	<u>700,000</u>
Total Sources of Funds	165,600,000

Uses of Funds

Building	135,500,000
Capitalized Interest (3)	17,700,000
Cost of Issuance	2,800,000
Equipment	<u>9,600,000</u>
Total Uses of Funds	165,600,000

(1) Equity is based on 10% of the building cost.

(2) Accrued Interest is interest earned on project balances during construction.

(3) Capitalized Interest is borrowed money used to pay bondholders during construction.

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In order to secure the most cost effective bond rates, the lease will obligate the University to make payments from General Revenues, which are a broader revenue pool than the School of Medicine revenues which are directly responsible for those payments. In addition, the 63-20 structure allows WBRP III to issue Build America Bonds, which have had significantly lower interest costs than traditional tax-exempt debt.

Furniture, fixtures, equipment and other personal property for use by the University in the buildings will be acquired either directly by the University or by WBRP III through a tax-exempt financing lease mechanism or as part of the building lease(s) for a term not to exceed 15 years. The lender to finance such property will be competitively selected based on lowest overall cost.

Although recent changes in the transaction structure have eliminated any required schedule for construction of any of the Phase III buildings, the School of Medicine's plan is to develop all three sub-phases of Phase III over a ten year period at a total estimated cost of between \$400 and \$500 million. A commitment of this scope and timeframe naturally introduces significant uncertainty as to revenue and expense projections, especially in the later years. Each future phase will be brought to the Regents for approval before proceeding.

Base Case

The Phase 3.1 proforma and the overall Phase III proforma are shown in **Exhibit 4**.

The Phase 3.1 proforma assumes the UW walks away from Phases 3.2 and 3.3 on December 31, 2015. Under this scenario, annual total net cash flows before institutional contributions average -\$3.3 million, with a break-even in the 12th year. The annual deficits before break-even will be offset by a total institutional commitment of \$22.5 million over five years, repurposing some SOM administrative cost recovery revenues and School of Medicine reserves.

The Phase 3.1, 3.2 and 3.3 proforma reflects the total costs of all three phases. Over the twelve year period, Phases 3.1 and 3.2 will require \$47 million in institutional contribution. However, only Phases 3.1 and 3.2 will have broken even within the 12 year period ending in 2025. An additional \$29 million in institutional contributions would be required to offset the first five years of Phase 3.3 annual cash flow deficits through 2025. By the end of 2025, the combined

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annual cash deficit before institutional contributions for all three phases would have declined to just under \$5 million and would continue to decline to overall break-even under the base case assumptions.

Base Case Assumptions

Indirect Cost Rate (ICR):	67% for the first three years, 70% thereafter (currently 66%, submitted 75.08%)
Direct Cost per square foot (2014):	\$282
Direct Cost Growth Rate:	3% (last 8 years of expenditures at 4%, NIH awards at 3%)
Project Cost Inflation:	2.5%
Operating Costs Inflation:	3.0%
Borrowing Rate:	4.2% for Phase 3.1, 6.2% for Phases 3.2 and 3.3

Key Risks and Sensitivities

The affordability of each sub-phase is highly dependent on the growth in grants and the associated indirect cost rate as well as project and borrowing costs.

The Key Risks are:

- 1) NIH funding could be flat for a period of time.
- 2) Federal budget deficits could result in downward pressure on the indirect cost recovery (ICR) rate.
- 3) Higher interest and inflation rates in later years could increase project and borrowing costs.
- 4) The bidding environment may become less favorable over time.

Sensitivities

If the indirect cost rate was 67% (1% above its current rate of 66%), rather than 70% from the Base Case, the Phase 3.1 project deficit over twelve years would increase by \$9.8 million from \$40 million loss to a \$49.8 million loss before institutional contribution.

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If the annual growth in grants was 2% rather than 3%, Phase 3.1 project deficit over twelve years would increase by \$9.1 million from a \$40 million loss to a \$49.1 million loss before institutional contribution.

If both scenarios were to occur, Phase 3.1 project deficit over twelve years would increase by \$18.2 million from \$40 million loss to a \$58.2 million loss before institutional contribution.

The borrowing rate for the debt is projected to be 4.2%. If it increases by 50 basis points to 4.7%, the deficit through the first twelve years would increase by an additional \$8 million or if it increases by 100 basis points to 5.2%, the deficit will increase by an additional \$16 million.

Any deficit will be funded through a combination of the University's commitment of \$4.5 million per year for five years, repurposing some of the School of Medicine's administrative cost recovery and School of Medicine reserves.

Risk Mitigation

- 1) The previously required building completion schedule has been eliminated, allowing UW SOM to refrain from construction of any of the three sub-phases (subject to a right of reentry by the landowner). Further, UW SOM has the ability to terminate the ground lease as to Phase 3.2 and/or Phase 3.3 should a decision be reached not to construct either or both of those buildings.
- 2) UW Medicine has the landowner's consent to use as much space for clinical use as is determined by UW Medicine to be desirable in Phase III.
- 3) UW SOM will have the opportunity to consolidate research in other leased space into the Phase III facilities.
- 4) Non-UW SOM research could be allocated to the facility.
- 5) Space could be sub-leased to qualified third party non-profit organizations.

Impact on Institutional Debt Capacity

- 1) As of March 2010, UW Medicine has \$660 million in outstanding debt including the first phase of the UWMC expansion.
- 2) Adding on the second phase of the hospital expansion (\$71 million) and all three phases of SLU III (\$433 million) will increase UW Medicine debt by nearly 76% to \$1.2 billion and debt service by 50% to \$105 million

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- 3) This increased debt load will likely constrain UW Medicine's ability to take on additional debt.
- 4) Based on the debt capacity analysis provided to the Regents in March 2010, the UW would likely remain at an Aa1 credit based on identified projects likely to be funded, including SLU III.
- 5) This Aa1 credit assumes UW revenues are sufficient to service UW's future debt.

REVIEW AND APPROVALS

The recommendation to assign and exercise the Phase III Option and has been approved by the CEO of UW Medicine and Dean of the School of Medicine, the Senior Vice President, and the Vice Provost for Planning and Budgeting. The structure of the transaction and the viability of the financing plan have been reviewed by the School of Medicine, the Real Estate Office, and the Treasury Office. As in Phases I and II, the University's financial advisor, real estate counsel and bond counsel will review and approve all transaction documents prior to their execution.

Exhibits:

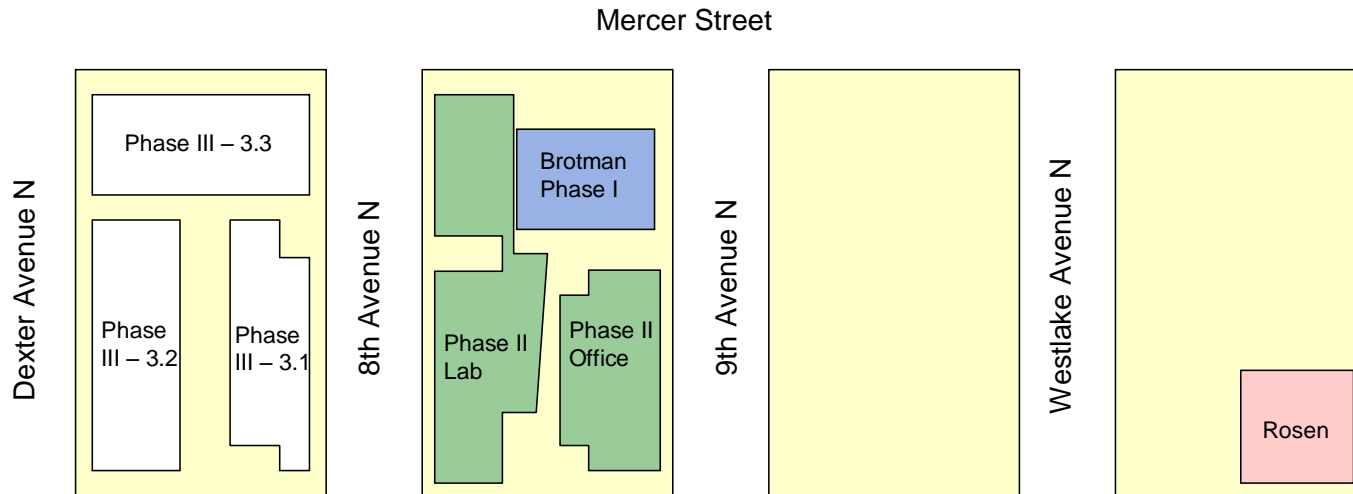
1. Project Map
2. Phase 3.1 Project Budget
3. Previous Board of Regents Items Timeline
4. South Lake Union III Proforma Review
5. 63-20 Resolution
6. 63-20 Diagram
7. Phase III Chronology of Key Dates
8. Revised Option Agreement (Option draft from 4/20/2010)
9. Option Assignment and Consent to Exercise

Exhibit 1: Project Map

UW Medicine Lake Union

Phased Development

Potential Total: +/- 986,000 SF



Phase III (All Lab)

3.1: +/- 180,000 SF

3.2: +/- 180,000 SF

3.3: +/- 200,000 SF

Phase I Brotman

Lab: 100,000 SF

Phase II

Lab: 166,000 SF

Office: 100,000 SF

Rosen

Lab: 60,000 SF

Exhibit 2:
Phase 3.1 Project Budget

	<i>Total Escalated Cost</i>
A/E Basic Design Services	\$8,200,000
Consultants	<u>\$1,200,000</u>
Consultant Services	\$9,400,000
Construction Cost (Shell, Core, TI)	\$100,600,000
Construction Contingencies	\$6,000,000
Other Contracts	\$12,200,000
Sales Tax	<u>\$1,000,000</u>
Construction	\$119,800,000
Equipment	\$9,600,000
Artwork	\$300,000
Other Costs	\$1,300,000
Project Management	<u>\$4,700,000</u>
Other Costs	\$15,900,000
Subtotal	\$145,100,000
Capitalized Interest	\$17,700,000
Cost of Issuance	<u>\$2,800,000</u>
Total Design, Construction and Financing Cost	\$165,600,000

Exhibit 3:
Previous Board of Regents Items Timeline

South Lake Union – Previous BOR Items

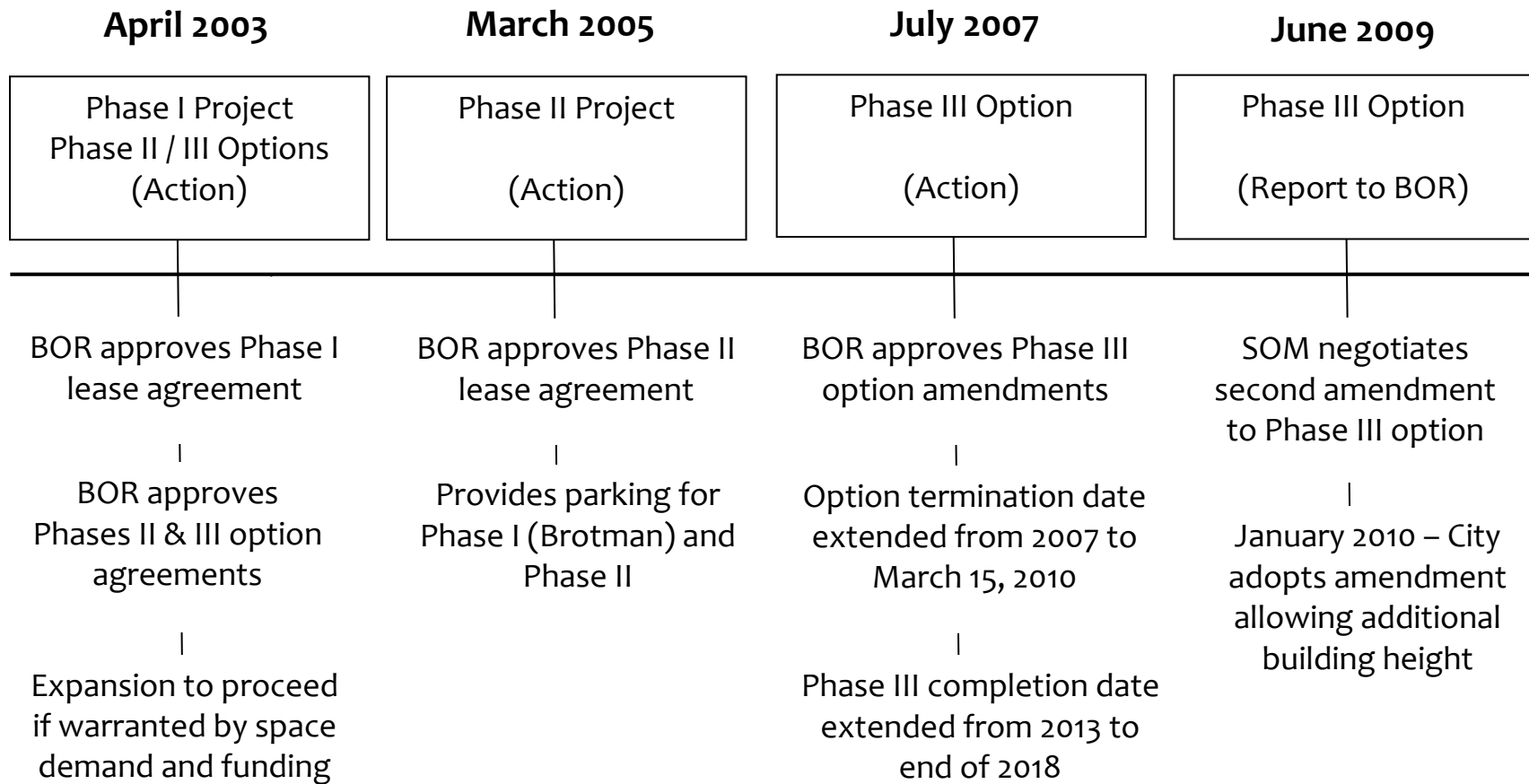


Exhibit 4:

South Lake Union III Proforma Review

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SLU Phase 3.1, 3.2, 3.3 Expected Case Proforma.....	4
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April 12, 2010 Revised Option

Termination After Phase 3.1

UW may terminate as to 3.2 and 3.3 after the later of completion of 3.1 or 12/31/2015

Upon termination of 3.2, the ground lease ends as to the 3.2 site, Vulcan receives title to the 3.2 infrastructure and the right to park 214 cars in the combined 3.1/3.2 garage. If no MUP has been obtained, UW may either secure a MUP or pay Vulcan \$1.0M.

Both parties have cross easements that allow access to and use of the loading dock, entryway, electrical rooms, etc. within the combined 3.1/3.2 infrastructure.

UW may terminate as to 3.3 anytime after termination of 3.2. Upon termination of 3.3, Vulcan receives 24 months of ground rent/taxes on that site (\$1.72M).

South Lake Union Phase 3.1 Project Cash Flow with "Walkaway" from 3.2 and 3.3

Based on Vulcan's 04/12/2010 Counter Proposal

	<u>Total</u>	<u>Present Value</u> <u>2010 dollars <1></u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u> <u>Break even</u> <u>Year</u>	<u>Ground Rent &</u> <u>Debt Service Only:</u> <u>FY 2026 - 2058</u>
Net Income from Operations			2.6	5.9	8.2	8.6	9.2	9.8	10.1	10.4	10.7	11.0	11.3	11.7	
3.1 Ground Rent 3.1 (2014-2058)	(65.1)	(20.8)	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)	(1.0)	(55.1)
3.1 Capitalized Ground Rent (2014-2044) <4>	(3.9)	(1.9)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(2.4)
3.1 Debt Service - Building (FY 2014 -2044)	(224.1)	(130.4)	(2.6)	(9.3)	(9.2)	(9.2)	(9.2)	(9.3)	(9.3)	(9.3)	(9.2)	(9.2)	(9.2)	(9.2)	(119.8)
3.1 Debt Service - Equipment (FY 2014-2025)	(13.4)	(9.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	
3.1 Total Rent	(306.5)	(162.1)	(4.5)	(11.2)	(11.3)	(11.3)	(11.3)	(11.3)	(11.3)	(11.4)	(11.4)	(11.4)	(11.4)	(11.4)	(177.3)
3.3 "Walkaway" Cost (FY 2016) <5>	(1.7)	(1.1)	-	-	(1.7)	-	-	-	-	-	-	-	-	-	
3.2 and 3.3 Ground Rent (FY 2014 -2016) <6>	(3.9)	(3.6)	(1.5)	(1.6)	(0.8)	-	-	-	-	-	-	-	-	-	
3.2 and 3.3 Cap. Ground Rent (FY 2014 -2044) <7>	(7.8)	(4.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(4.8)
3.2 and 3.3 Total Rent	(13.3)	(9.0)	(1.7)	(1.8)	(2.8)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(4.8)
Total Rent - All Phases	(319.8)	(171.1)	(6.2)	(13.0)	(14.1)	(11.5)	(11.5)	(11.5)	(11.6)	(11.6)	(11.6)	(11.6)	(11.6)	(11.7)	(182.1)
Net Cash Flow before Capital Reserves			(3.6)	(7.1)	(5.8)	(2.9)	(2.3)	(1.7)	(1.5)	(1.3)	(0.9)	(0.6)	(0.3)	(0.0)	
Capital Reserves			(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	
Net Cash Flow before Institutional Contributions			(4.6)	(8.1)	(6.8)	(3.9)	(3.3)	(2.7)	(2.5)	(2.2)	(1.9)	(1.6)	(1.3)	(1.0)	

Notes

<1> Discount rate used is 4.5%

<4> Capitalized ground rent is for rent on 3.1 for FY10 - FY 13 for a total principal of \$2.13 million

<5> Phase 3.3 "walkaway" is 24 mos of ground rent and taxes or \$1.72M.

<6> Phase 3.2 and 3.3 ground lease and taxes paid through 12/31/2015

<7> Capitalized ground rent is for rent on 3.2 and 3.3 for FY10 - FY 13 for a total principal of \$4.25 million

South Lake Union 3 Sources and Uses By Phase

	Phase 3.1	Phase 3.2	Phase 3.3	Totals
Sources of Funds				
Equity (1)	13.5	12.0	15.4	40.9
Debt - Building	141.8	127.2	162.2	431.2
Debt - Equipment	9.6	6.5	9.6	25.7
Accrued Interest (2)	0.7	7.3	10.5	18.5
Total Sources	165.6	153.0	197.7	516.3
Uses of Funds				
Building	135.5	120.1	154.2	409.8
Capitalized Interest (3)	17.7	23.8	30.6	72.1
Cost of Issuance	2.8	2.6	3.3	8.7
Equipment	9.6	6.5	9.6	25.7
Total Uses	165.6	153.0	197.7	516.3
 Estimated Interest Rate	 4.20%	 6.20%	 6.20%	

(1) Equity is based on 10 % of the building cost.

(2) Accrued Interest is interest earned on project balances during construction.

(3) Capitalized Interest is borrowed money used to pay bondholders during construction.

Exhibit 5:

BOARD OF REGENTS

UNIVERSITY OF WASHINGTON

RESOLUTION

A RESOLUTION of the Board of Regents of the University of Washington approving the issuance by Washington Biomedical Research Properties III of bonds for the purpose of financing biomedical research facilities, and agreeing to accept title to the bond-financed property, at no additional cost, when the bonds are retired.

WHEREAS, pursuant to Revenue Procedure 82-26 of the U.S. Treasury (the "Revenue Procedure"), a nonprofit may issue bonds as tax-exempt obligations (or as taxable Build America Bonds, with a direct federal interest subsidy); and

WHEREAS, Washington Biomedical Research Properties III has been formed as a nonprofit corporation for the purpose of financing biomedical research facilities for lease to UW Medicine at South Lake Union (the "Project"), as the third phase of a three-phase project commenced in 2003; and

WHEREAS, the Revenue Procedure requires that, within one year prior to issuance of the bonds, the University approve the nonprofit and the bonds to be issued, and agree to accept title to the Project when the bonds are retired;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF REGENTS OF THE UNIVERSITY OF WASHINGTON, as follows:

Section 1. Findings. The Board of Regents hereby finds that the University must provide sufficient space to accommodate the University's educational and research activities. UW Medicine has experienced a particular need for expanded research facilities, which cannot be met on the main Seattle campus. The Board of Regents finds that continued development of the biomedical research center at South Lake Union is the most desirable means to satisfy the need of UW Medicine for additional research facilities. The Board of Regents further finds that the University does not wish to undertake directly the governmental burden of such development, and that the involvement of Washington Biomedical Research Properties III as described in this resolution provides a more efficient means of accomplishing the needs of the University in this regard.

Section 2. Approval of Financing and Acceptance of Title. The Board of Regents hereby requests that Washington Biomedical Research Properties III undertake the acquisition, financing and development of the Project, and thereby relieve the University of the governmental burden thereof. The University hereby approves Washington Biomedical Research Properties III solely for the purposes of approving the issuance by it of bonds to finance the Project under the

Revenue Procedure. The University further agrees to accept title to the property financed by the bonds, including any additions to that property, when the bonds are discharged. At such time, title to the property financed by the bonds will be transferred to the University at no additional cost.

Section 3. General Authorization; Ratification of Prior Acts. All appropriate officers of the University are authorized to take any actions and to execute documents as in their judgment may be necessary or desirable in order to carry out the terms of, and complete the transactions contemplated by, this resolution. All acts taken pursuant to the authority of this resolution but prior to its effective date are hereby ratified.

Section 4. Immediate Effect. This resolution shall take effect immediately upon its adoption.

ADOPTED at an open public meeting of the Board of Regents of the University, after notice thereof was duly and regularly given as required by law, this ____ day of April, 2010.

BOARD OF REGENTS, UNIVERSITY OF
WASHINGTON

By _____

Attest:

By _____

Approved as to form:

Cynthia M. Weed
Special Assistant
Attorney General
State of Washington

Exhibit 6:
63-20 Diagram

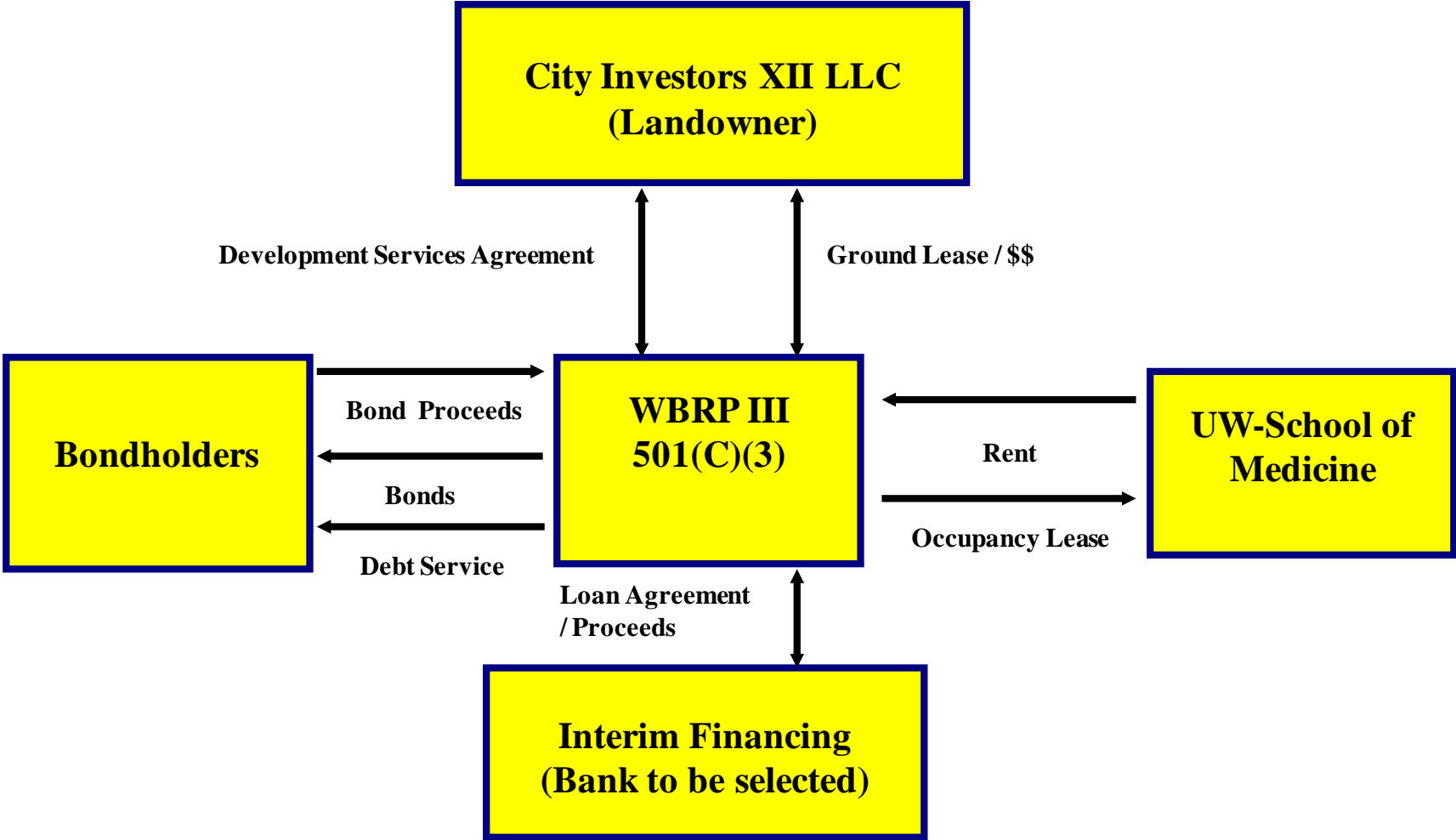


Exhibit 7:

Chronology of Key Dates Related to SLU III
(based on Second Amended Phase III Option Agreement)

Phase 3.1

April 28, 2010—Regents meet to authorize execution of Second Amended Option Agreement, authorize assignment of Second Amended Option Agreement to WBRP, approve Resolution authorizing 63-20 financing structure, and approve project budget for Phase 3.1

June 28, 2010—End of 60-day working period (from date of Regents action) for: University to finalize and execute Second Amended Option Agreement, assign Phase III Option to WBRP, and consent to exercise of the Phase III Option by WBRP; and for WBRP to exercise Phase III Option, enter into ground lease with Vulcan, enter into building lease with the University, and obtain interim financing

June 30, 2010—Last day to exercise Phase III Option

November 24, 2010—MUP issuance for 3.1/3.2 (based on Vulcan schedule dated 4/16/10)

December 31, 2010—Last day to obtain permanent financing within calendar 2010 (ARRA rates expected to be slightly less favorable in 2011)

July 11, 2011—Start of construction for 3.1 (based on Vulcan schedule dated 4/16/10)

January 1, 2012—First day Vulcan can give notice of re-entry for 3.1 if UW has not begun construction on 3.1 (starts 6 month cure period)

March 15, 2013—Estimated Certificate of Occupancy issuance (based on Vulcan schedule dated 4/16/10)

June 1, 2013—Last day for issuance of Certificate of Occupancy to avoid penalty for late commencement of 3.1

Phase 3.2

September 15, 2014—Date by which UW should start programming, design, approval, and permitting process for 3.2 in order to occupy by March 15, 2018 and have 45 year lease term for 3.2 (assumes 24 month period for programming and design and 18 month period for construction, assumes original lease term runs 45 years from March 15, 2013, and assumes exercise of first option to extend)

Exhibit 7:

December 31, 2015—Last day UW can exercise first option to extend lease

January 1, 2016—Earliest day UW can exercise right to terminate as to 3.2 (provided 3.1 completed); note UW can terminate as to 3.3 anytime after termination of 3.2

January 1, 2016—Date by which UW should start programming, design, approval and permitting process for 3.2 in order to begin construction by December 31, 2017 and avoid Vulcan notice of re-entry (assumes 24 month period for pre-construction activities; note that Vulcan notice can be “cured” with Regent approval to proceed and start of construction within 12 months)

January 1, 2018—First day Vulcan can give notice of re-entry for 3.2 alone or for 3.2/3.3 if UW has not begun construction on 3.2 (starts first 3 month cure period)

March 15, 2018—Date by which UW needs to occupy 3.2 in order to have a 45 year lease term for 3.2 (assumes initial lease term runs 45 years from March 15, 2013, assumes a five year extension)

Phase 3.3

July 1, 2017—Date by which UW should start programming, design, approval, and permitting process for 3.3 in order to begin construction by December 31, 2019 and avoid Vulcan notice of re-entry (assumes 30 month period for pre-construction activities; note that Vulcan notice can be “cured” with Regent approval to proceed and start of construction within 12 months)

September 15, 2018—Latest date by which UW should start programming, design, approval, and permitting process for 3.3 in order to occupy by March 15, 2023 and have 45 year lease term for 3.3 (assumes 30 month period for programming and design and 24 month period for construction, assumes original lease term runs 45 years from March 15, 2013, and assumes exercise of both options to extend)

December 31, 2019—Last day UW can exercise second option to extend

January 1, 2020—First day Vulcan can give notice of re-entry for 3.3 alone if UW has not begun construction on 3.3 (starts first 3 month cure period)

March 15, 2023—Date by which UW needs to occupy 3.3 in order to have a 45 year lease term for 3.3 (assumes initial lease term runs 45 years from March 15, 2013, assumes a second five year extension)

Chronology Date: 4/25/10

Exhibit 8:

SECOND AMENDED AND RESTATED
PHASE III
OPTION AGREEMENT
(South Lake Union Bio-Medical Research Facilities)

This Second Amended and Restated Phase III Option Agreement (“Agreement”) is made this ____ day of April, 2010, by and among City Investors LLC, a Washington limited liability company (“Development Manager”), City Investors XII L.L.C., a Washington limited liability company (“City Investors”), and The Board of Regents of the University of Washington (the “University”). This Agreement amends, restates and replaces in its entirety that certain Amended and Restated Phase III Option Agreement among Development Manager, City Investors and the University dated August 29, 2007, as amended by a First Amendment dated June 30, 2009 and extension letters extending the Phase III Option Term (defined below) to April 30, 2010 (collectively the “Prior Phase III Option Agreement”).

Recitals

A. City Investors previously entered into a long-term ground lease (the “Phase I Ground Lease”) with Washington Biomedical Research Properties I, a Washington nonprofit corporation (“WBRPI”), with respect to certain improved real property legally described in Exhibit A attached hereto (the “Phase I Property”). WBRPI renovated the Phase I Property for biomedical research and related uses and leased the improved facilities to the University pursuant to a Building Lease dated August 18, 2003 (the “Phase I Building Lease”). Development Manager, an affiliate of City Investors, was retained by WBRPI to provide certain development management services for the renovation of the Phase I Property under a Development Management Services Agreement dated August 18, 2003 (the “Phase I Development Management Agreement”).

B. City Investors also previously entered into a long-term ground lease (the “Phase II Ground Lease”) with Washington Biomedical Research Properties II, a Washington non-profit corporation (“WBRPII”) with respect to certain unimproved real property legally described in Exhibit B attached hereto (the “Phase II Property”). WBRPII developed the Phase II Property for biomedical research and related uses and leased the facility to the University pursuant to a Building Lease dated June 1, 2005 (the “Phase II Building Lease”). Development Manager was retained by WBRPII to provide certain development management services for the development of the Phase II Property under a Development Management Services Agreement dated June 1, 2005 (the “Phase II Development Management Agreement”).

C. The University has requested an option to cause the potential future development of additional biomedical research, clinical use and related office and administrative facilities within the vicinity of the Phase I Property and the Phase II Property, and Development Manager and City Investors have agreed to grant such option to the University, on the terms and conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, Development Manager, City Investors and the University agree as follows:

1. Grant of Phase III Option. On the terms and conditions set forth herein, City Investors grants to the University an irrevocable, exclusive option (the “Phase III Option”) to cause the development of approximately _____ square feet or more of improvements on the real property legally described in Exhibit C attached hereto (the “Phase III Property”) for bio-medical research, clinical, treatment, office and administrative purposes.

2. Term of Phase III Option. The term of the Phase III Option commenced on August 18, 2003 and shall expire on April 30, 2010 (the “Phase III Option Term”).

3. Exercise of Phase III Option. The University may exercise the Phase III Option at any time during the Phase III Option Term by delivering written notice of exercise to City Investors. The written notice of exercise shall be deemed delivered upon personal delivery to City Investors or two (2) business days after having been deposited in the U.S. mail, certified or registered, return receipt requested, and addressed as follows (or such other address as City Investors may specify in a written notice to the University):

City Investors XII L.L.C.
505 Union Station
505 Fifth Avenue South, Suite 900
Seattle, Washington 98104
Attention: Ada Healey

4. Exercise Rights. The University may exercise the Phase III Option only as to the entire Phase III Property. The University shall have certain surrender rights and City Investors shall have certain re-entry rights as described further in Section 7.6 below. If the Phase III Option is exercised, development of the Phase III Property shall be consistent with the applicable portions of the Phase III Property Master Plan Report prepared by Perkins + Will dated March 27, 2009 and attached as an exhibit to the First Amendment to the Prior Phase III Option Agreement and the site plan attached hereto as Exhibit D (collectively the “Master Plan”).

5. Phase III Pre-Development Services. City Investors previously retained Development Manager to provide certain schematic design and master use permit services for the initial building (and parking garage) expected to be developed on the Phase III Property, and Development Manager has been paid a project administration fee of \$_____ with respect to such services. This project administration fee shall be credited against the development fee to which Development Manager shall become entitled under the Phase III Development Management Agreement.

6. Tenant Matters. The University or its permitted designee shall not be authorized to commence demolition/construction on the Phase III Property until the earlier of (a) three hundred sixty-five (365) days after the date the University exercises the Phase III Option, or (b) the date all then-existing tenants have vacated such portion of the Phase III Property, to permit City Investors to terminate the then-existing leases on such portion of the Phase III Property.

City Investors agrees from and after the date hereof not to enter into any new leases with respect to the Phase III Property, or renew or extend any existing leases on the Phase III Property unless such leases contain a right for City Investors to terminate such leases unilaterally on not more than nine (9) months prior written notice. City Investors also agrees to exercise such termination rights at the request of the University immediately following the exercise of the Phase III Option. Tenants on month to month or similar occupancy agreements shall also be required to vacate the Phase III Property within 9 months of a request by the University for unencumbered possession of the Phase III Property

Following the exercise of the Phase III Option, the University shall be entitled to a credit against the rent due under the Phase III Ground Lease for the gross rental income actually collected by City Investors from existing leases affecting the Phase III Property for rent due under such existing leases for periods following the exercise of the Phase III Option by the University.

7. Effect of Exercise. If the University or its permitted designee exercises the Phase III Option within the Phase III Option Term, City Investors and the University or its permitted designee shall negotiate in good faith and with reasonable diligence to finalize definitive documents for the development of the Phase III Property, based on substantially the following terms and conditions:

7.1 Phase III Ground Lease. City Investors shall ground lease the Phase III Property to the University (the "Phase III Ground Lease"), on substantially the same terms and conditions as the Phase II Ground Lease, with the following general revisions:

(a) The expiration date of the Phase III Ground Lease would be forty-five (45) years from the earlier of (i) the issuance of the first temporary certificate of occupancy for any improvements constructed on the Phase III Property, or (ii) June 1, 2015. If the first temporary certificate of occupancy for any improvements constructed on the Phase III Property is issued after June 1, 2013 but before June 1, 2014, the University shall pay City Investors a late commencement fee of \$194,000. If the first temporary certificate of occupancy for any improvements constructed on the Phase III Property is issued on or after June 1, 2014, the University shall pay City Investors a late commencement fee of \$372,000. The University would have two extension options. The first extension option may be exercised at any time prior to December 31, 2015 upon written notice to City Investors and shall extend the Phase III Ground Lease expiration date to May 31, 2063. If and only if the first extension option is exercised, then the University shall have a second extension option that may be exercised at any time prior to December 31, 2019 upon written notice to City Investors and shall extend the Phase III Ground Lease expiration date to May 31, 2068. If the University exercises the December 2015 extension option, then simultaneously with the exercise of such option, the University shall pay to City Investors a ground lease extension fee of \$2,603,000. If the University thereafter exercises the December 2019 extension option, then simultaneously with the exercise of such option, the University shall pay City Investors a ground lease extension fee of \$614,000. The Phase III Ground Lease would be effective upon (and/or retroactive to) the date of exercise of the Phase III Option such that the University's obligation to pay ground rent, taxes, utilities, etc., shall commence on the date of exercise of the Phase III Option.

(b) Initial ground rent would be based on (i) a fair market value of the Phase III Property of \$250 per square foot of land contained within the Phase III Property, and (ii) an annual ground lease return to City Investors of nine percent (9%) per annum.

(c) Ground rent shall be adjusted in five (5) and ten (10) year rent cycles in the same manner as the Phase II Ground Lease, with the annual return to City Investors of nine percent (9%) per annum. In determining the fair market value of the Phase III Property for purposes of calculating rent for each ten (10) year rent cycle, such fair market value shall be determined without reference to the additional density permitted on the Phase III Property due to the prior rezone of the Phase III Property to allow building heights in excess of eighty-five feet (85').

(d) The rent commencement date for the Phase III Ground Lease shall be simultaneous with the exercise of the Phase III Option. However, if the Phase III Ground Lease is not signed until some time after the date of exercise of the Phase III Option, then upon signing the Phase III Ground Lease, the ground rent thereunder shall be retroactive to the date of exercise of the Phase III Option with the retroactive rent payable within ten (10) days of mutual execution of the Phase III Ground Lease.

(e) The permitted uses under Section 1.3 of the Phase III Ground Lease would be expanded to include clinical use, including patient visits and treatment, but excluding overnight stays or hospital use, and excluding drug, alcohol and other dependency treatment. Research involving non-human primates, weapons production or development and research requiring facilities higher than a bio-safety III laboratory would continue to be prohibited.

7.2 Improvements. The University shall be entitled under the Phase III Ground Lease to develop improvements on the Phase III Property for bio-medical research, clinical use, office and administrative uses. The location of the improvements shall be consistent with the Master Plan or as otherwise approved by City Investors. If the University proceeds with the Phase 3.1 project (as identified in the Master Plan), the University shall simultaneously construct the underground parking garage, parking garage ramps and loading dock for both the Phase 3.1 project and the Phase 3.2 project. Nothing in the Phase III Ground Lease will require the University to develop any part of the Phase III Property. However, if the University proceeds with any such development, the University must develop the Phase 3.1 project prior to or simultaneously with the Phase 3.2 project and provided the Phase 3.2 site has not been surrendered by the University or recaptured by City Investors as provided below, the University must develop the Phase 3.2 project prior to or simultaneously with the Phase 3.3 project.

The improvements shall include parking for 1.25 spaces for each one thousand (1,000) square feet of rentable space devoted to bio-medical research use and 2.0 spaces for each one thousand (1000) square feet of all other space. The University shall have the right to eliminate the P-4 parking level of the Phase 3.1 project and Phase 3.2 project underground parking garage (based upon the current parking garage designs). The University shall also have the right to reduce the parking for the Phase 3.3 project below the minimum required parking (but in no event below 0.7 parking spaces per 1000 square feet of rentable square feet). If the University develops the Phase 3.1 and Phase 3.2 project underground parking garage without the

P-4 parking level but thereafter either the University surrenders the Phase 3.2 site or City Investors re-enters as to the Phase 3.2 site, then City Investors shall be granted a parking easement within the underground parking garage on the Phase 3.1 and 3.2 sites so that City Investors has the right to 214 parking spaces (so that within the parking garage serving both the Phase 3.1 and Phase 3.2 projects, City Investors has the right to 214 parking spaces for the use of the project eventually developed on the Phase 3.2 site). If the University does not develop the P-4 parking level in the underground parking garage for the Phase 3.1 and Phase 3.2 projects or develops the Phase 3.3 project with parking at less than 1 space per 1000 square feet of space, then upon expiration or earlier termination of the Phase III Ground Lease, and at the request of City Investors made within twelve (12) months following such expiration or termination, the University will be required to demolish any and all laboratory support improvements previously installed by the University on the P-1 level of the Phase 3.1 and Phase 3.2 underground parking garage so that the P-1 level may be converted to parking.

One hundred percent (100%) of all development and construction costs shall be the responsibility of and paid for by or through the University. The plans and specifications for the improvements and the financing for the improvements shall be subject to the approval of City Investors on the same terms as provided in the Phase II Ground Lease. The location of all buildings on the Phase III Property shall be subject to the approval of City Investors (or as specified in the Master Plan), and the buildings shall be of the same general standard, quality and overall aesthetic appearance as other new Class A commercial facilities in the South Lake Union area of Seattle, Washington.

7.3 Development Management Services. After exercise of the Phase III Option, the University or its permitted designee shall retain Development Manager to provide development management services for the development of the improvements to be constructed on the Phase III Property, on substantially the same terms as set forth in the Phase II Development Management Agreement, and provided that Development Manager is in the business of providing such development management services and continues to have (or retains) skilled and experienced personnel to provide such services. The development management fee shall be three and one-quarter percent (3.25%) of project development costs (the costs of development identified by the line items in the form of development budget attached hereto as Exhibit E, but specifically excluding the development costs identified by an asterisk in such development budget). In the event at the time the University elects to proceed with the development of the Phase 3.2 project and/or the Phase 3.3 project Development Manager is not in the business of providing development management services, Development Manager may assign its right to provide development management services to a third party development management company, provided such third party development management company has skilled and experience personnel to provide such services and is otherwise reasonably acceptable to the University.

7.4 Phased Development. At the request of the University, in the event the University elects to develop the Phase III Property in phases, the Phase III Ground Lease may be divided into two or more ground leases (one ground lease for each phase), provided all such ground leases shall have the same commencement date and the same term with rent prorated based upon the square footage of land subject to such ground lease. Similarly, in the event the

University elects to develop the Phase III Property in phases, the University and Development Manager shall enter into separate development management agreements for each such phase.

7.5 Right of First Offer. The Phase III Ground Lease will include a right of first offer for the benefit of the University. The right of first offer would operate as follows:

If City Investors desires to sell the Phase III Property, and before effecting such a sale, City Investors will provide the University with notice of its intent to sell. The notice will include an all cash price for the property (the "Offer Price"). The University will have thirty (30) days after receipt of such notice to exercise the right of first offer to purchase the property for the Offer Price. If the University does not exercise the right of first offer, then City Investors shall have a period of eighteen (18) months from the date of expiration of the right of first offer in which to effect a sale of the property at a price not less than ninety percent (90%) of the Offer Price. If the University does not exercise the right of first offer and City Investors thereafter sells the property as provided herein, the right of first offer shall terminate in its entirety (i.e., it will not survive and be applicable to a future sale by the purchaser from City Investors).

The right of first offer shall not apply to (a) transfers of less than fifty percent (50%) of the interests in City Investors, (b) the contribution of the property to a new entity in exchange for a more than fifty percent (50%) interest in such entity, (c) a transfer of interests in City Investors for estate planning purposes or upon the death of a natural person, (d) a portfolio sale of properties that includes the property (defined to be a sale of two or more properties in South Lake Union to the same buyer), or (e) a foreclosure sale, trustee's deed or deed in lieu of foreclosure, provided that in the event of a transaction described in (a), (b) or (c) above, the right of first offer would continue to apply to the first subsequent sale of the property. The right of first offer would be subordinate to any mortgages or deeds of trust that may be placed on the property by City Investors. The right of first offer would only apply to the portion of the property then subject to the Phase III Ground Lease (in the event re-entry or surrender rights had been exercised as described below). The right of first offer would be personal to the University and not assignable.

7.6 Surrender and Re-Entry Rights.

(a) City Investor Re-Entry Right. In the event the University does not proceed with the Phase 3.1, Phase 3.2 or Phase 3.3 project within certain time frames, City Investors would have a right to re-enter the property and terminate all or portions of the Phase III Ground Lease, on the terms set forth below.

If the University has not obtained permits, arranged financing and commenced construction of the Phase 3.1 project by December 31, 2011, City Investors would have the right to re-enter the property and terminate the Phase III Ground Lease in its entirety. To exercise this re-entry right, City Investors will be required to give the University a notice of intent to exercise the re-entry right (the "Phase 3.1 Notice of Intent"), which City Investors could issue at any time after December 31, 2011 if the University has not commenced the Phase 3.1 project. The University would have a period of 3 months from receipt of the Phase 3.1 Notice of Intent (the "Phase 3.1 Cure Period") to avoid re-entry by obtaining permits, arranging financing and commencing construction of the Phase 3.1 project. If the University does not obtain permits,

arrange financing and commence construction of the Phase 3.1 project within the Phase 3.1 Cure Period, then upon expiration of the Phase 3.1 Cure Period, the Phase III Ground Lease will terminate and the Phase III Property will revert back to City Investors.

If the University has not obtained permits, arranged financing and commenced construction of the Phase 3.2 project by December 31, 2017, City Investors would have the right to re-enter the property and recapture the Phase 3.2 site or both the Phase 3.2 site and the Phase 3.3 site. To exercise this re-entry right, City Investors will be required to give the University a notice of intent to exercise the re-entry right (the "Phase 3.2 First Notice of Intent"), which City Investors could issue any time after December 31, 2017 if the University has not commenced the Phase 3.2 project. The Phase 3.2 First Notice of Intent will disclose whether it applies only to the Phase 3.2 site or to both the Phase 3.2 site and the Phase 3.3 site. The University would have a period of 3 months from receipt of the Phase 3.2 First Notice of Intent (the "Phase 3.2 First Cure Period") to avoid the re-entry by obtaining firm approval (in the form of a binding resolution or other similar formal action) by the Board of Regents of the University approving the Phase 3.2 Project and authorizing the University to commence the permitting and design of the Phase 3.2 Project. If the Board of Regents of the University does not provide such firm approval within the Phase 3.2 First Cure Period, then upon expiration of the Phase 3.2 First Cure Period, the Phase III Ground Lease will terminate as to the Phase 3.2 site (and the Phase 3.3 site if included in the Phase 3.2 First Notice of Intent) and the Phase 3.2 site (and Phase 3.3 site if applicable) will revert back to City Investors. If the Phase 3.2 First Notice of Intent only applies to the Phase 3.2 site and re-entry and recapture occurs, then the Phase III Ground Lease shall continue to apply to the Phase 3.3 site, subject to the further re-entry rights of City Investors and the surrender rights of the University as described below. If the Board of Regents of the University provides firm approval of the Phase 3.2 Project within the Phase 3.2 First Cure Period but the University has not obtained permits, arranged financing and commenced construction of the Phase 3.2 Project within twelve (12) months of the expiration of the Phase 3.2 First Cure Period, City Investors shall have a second right to re-enter the property and recapture the Phase 3.2 site or both the Phase 3.2 site and the Phase 3.3 site. To exercise this second re-entry right, City Investors will be required to give the University a second notice of intent to exercise the re-entry right (the "Phase 3.2 Second Notice of Intent"), which City Investors could issue any time after expiration of the 12-month period if the University has not commenced construction of the Phase 3.2 Project. The Phase 3.2 Second Notice of Intent will disclose whether it applies only to the Phase 3.2 site or to both the Phase 3.2 site and the Phase 3.3 site. The University would have a period of 3 months from receipt of the Phase 3.2 Second Notice of Intent (the "Phase 3.2 Second Cure Period") to avoid the re-entry by obtaining permits, arranging financing and commencing construction of the Phase 3.2 Project. If the University does not obtain permits, arrange financing and commence construction of the Phase 3.2 project within the Phase 3.2 Second Cure Period, then upon expiration of the Phase 3.2 Second Cure Period, the Phase III Ground Lease will terminate as to the Phase 3.2 site (and Phase 3.3 site if included in the Phase 3.2 Second Notice of Intent) and the Phase 3.2 site (and Phase 3.3 site if applicable) will revert back to City Investors. If the Phase 3.2 Second Notice of Intent only applies to the Phase 3.2 site and re-entry and recapture occurs, then the Phase III Ground Lease shall continue to apply to the Phase 3.3 site, subject to the further re-entry rights of City Investors and the surrender rights of the University described below.

If the University has not obtained permits, arranged financing and commenced construction of the Phase 3.3 project by December 31, 2019, City Investors would have the right to re-enter the property and recapture the Phase 3.3 site. To exercise this re-entry right, City Investors will be required to give the University a notice of intent to exercise the re-entry right (the "Phase 3.3 First Notice of Intent"), which City Investors could issue at any time after December 31, 2019 if the University has not commenced the Phase 3.3 project. The University would have a period of 3 months from receipt of the Phase 3.3 First Notice of Intent (the "Phase 3.3 First Cure Period") to avoid re-entry by obtaining firm approval (in the form of a binding resolution or other similar formal action) by the Board of Regents of the University approving the Phase 3.3 project and authorizing the University to commence the permitting and design of the Phase 3.3 project. If the Board of Regents of the University does not provide such formal approval within the Phase 3.3 First Cure Period, then upon expiration of the Phase 3.3 First Cure Period the Phase III Ground Lease will terminate as to the Phase 3.3 site and the Phase 3.3 site will revert back to City Investors. If the Board of Regents of the University provides firm approval of the Phase 3.3 project within the Phase 3.3 First Cure Period but the University has not obtained permits, arranged financing and commenced construction of the Phase 3.3 project within twelve (12) months of the expiration of the Phase 3.3 First Cure Period, City Investors shall have a second right to re-enter the property and recapture the Phase 3.3 site. To exercise this second re-entry right, City Investors will be required to give the University a second notice of intent to exercise the re-entry right (the "Phase 3.3 Second Notice of Intent"), which City Investors could issue any time after expiration of the 12-month period if the University has not commenced construction of the Phase 3.3 project. The University would have a period of 3 months from receipt of the Phase 3.3 Second Notice of Intent (the "Phase 3.3 Second Cure Period") to avoid the re-entry by obtaining permits, arranging financing and commencing construction of the Phase 3.3 project. If the University does not obtain permits, arrange financing and commence construction of the Phase 3.3 project within the Phase 3.3 Second Cure Period, then upon expiration of the Phase 3.3 Second Cure Period the Phase III Ground Lease will terminate as to the Phase 3.3 site and the Phase 3.3 site will revert back to City Investors.

If City Investors re-enters the property and recaptures the entire Phase III Property under a Phase 3.1 Notice of Intent, the University shall pay to City Investors as a ground lease early termination fee an amount equal to the rent, taxes and other impositions that would be paid under the Phase III Ground Lease for the 36 month period following the re-entry and recapture. Such amount shall be due to City Investors within 20 days of the effective date of such recapture. City Investors shall also be entitled to all work product, permits, entitlements and designs associated with the Phase III Property. In addition, if City Investors re-enters the property and recaptures the entire Phase III site and the University has not obtained a master use permit for the Phase 3.1 project, then the University shall also pay to City Investors an additional ground lease early termination fee of \$1,000,000. The University may avoid the \$1,000,000 additional ground lease early termination fee if the University has obtained a master use permit for the Phase 3.1 project within three (3) months of City Investors re-entry.

If City Investors re-enters the property and recaptures the Phase 3.2 site under a Phase 3.2 Notice of Intent, and in lieu of any other ground lease early termination fees with respect to the Phase 3.2 site, City Investors shall become the owner of all improvements previously installed on the Phase 3.2 site by the University, including the underground parking

garage and related facilities constructed on the Phase 3.2 site. City Investors also shall be entitled to all work product, permits, entitlements and designs associated with the Phase 3.2 project. However, if City Investors re-enters the property and recaptures the Phase 3.2 site and the University has not obtained a master use permit for the Phase 3.2 project, then the University shall also pay to City Investors a Phase 3.2 ground lease early termination fee of \$1,000,000. The University may avoid this \$1,000,000 ground lease early termination fee if the University has obtained a master use permit for the Phase 3.2 project within three (3) months of City Investors re-entry. In addition, if City Investors re-enters the property and recaptures the Phase 3.2 site pursuant to a Phase 3.2 Second Notice of Intent, then the University shall also be required to pay to City Investors as a ground lease early termination fee with respect to the Phase 3.2 site an amount equal to the rent, taxes and other impositions that would be paid with respect to the Phase 3.2 site for the twenty-four (24) month period following the re-entry and recapture. Such amount shall be due to City Investors within twenty (20) days of the effective date of such recapture.

If City Investors re-enters the property and recaptures the Phase 3.3 site (whether under the Phase 3.2 Notice of Intent or under a Phase 3.3 Notice of Intent), the University shall pay to City Investors as a ground lease early termination fee with respect to the Phase 3.3 site an amount equal to the rent, taxes and other impositions that would be paid with respect to the Phase 3.3 site for the twelve (12) month period following the re-entry and recapture (24 months if the re-entry and recapture is pursuant to a Phase 3.3 Second Notice of Intent). Such amount shall be due to City Investors within twenty (20) days of the effective date of such recapture. City Investors shall also be entitled to all work product, permits, entitlements and designs associated with the Phase 3.3 project.

Re-entry and recapture under a Phase 3.2 Notice of Intent or a Phase 3.3 Notice of Intent will be effected by an amendment to the Phase III Ground Lease withdrawing the Phase 3.2 site and/or the Phase 3.3 site (as applicable) from the property subject to the Phase III Ground Lease, and the rent under the Phase III Ground Lease would be reduced accordingly. Following re-entry and recapture of the Phase 3.2 site and/or the Phase 3.3 site, City Investors would have unencumbered title to the Phase 3.2 site and/or the Phase 3.3 site (as applicable) and could develop such sites in such manner as City Investors determines to be appropriate.

A series of cross easements will be established as between Phase 3.1, Phase 3.2 and Phase 3.3 such that if City Investors recaptures the Phase 3.2 site and/or the Phase 3.3 site, City Investors will have all rights needed to proceed with an independent development on such sites. This would include shared use of the parking ramp to access parking, shared use of the parking garage, shared use of the loading dock, shared use of the City Light transformer, and similar matters. City Investors will also be granted construction and tie-back easements, swing crane rights etc over the Phase 3.1 and, if applicable, Phase 3.2 sites.

The Phase 3.2 and Phase 3.3 site each will need to constitute a separate legal lot. The costs of a lot line adjustment or similar land division in order to establish the Phase 3.2 site and the Phase 3.3 site as separate legal lots (while preserving the maximum density for development of such sites) shall be paid by the University. The financing arranged by the University for the Phase 3.1 and Phase 3.2 projects (if applicable) will need to allow for the

exercise of such re-entry rights and the amendments to the Phase III Ground Lease necessary to effect such re-entry.

City Investors will not be required to exercise these re-entry rights, and if City Investors does not do so, the University would continue to have the rights to develop the Phase 3.1, Phase 3.2 and Phase 3.3 projects, and the University would continue to pay rent, taxes and other impositions and perform the other obligations associated with the Phase 3.1, Phase 3.2 and Phase 3.3 sites (subject to the right of the University to surrender the Phase 3.2 site and the Phase 3.3 site as discussed below). At the same time and other than having to pay rent, taxes and impositions under the Phase III Ground Lease and ground lease early termination fees if City Investors exercises a re-entry right, the University will not have other liability if the University decides not to proceed with the Phase 3.1, Phase 3.2 or Phase 3.3 projects.

(b) University Surrender Right. At any time after the later of December 31, 2015 or the completion by the University of the Phase 3.1 project (including the underground parking garage, parking garage ramps and loading dock for the Phase 3.2 project), and provided the University has not commenced construction of any other aspect of the Phase 3.2 project, the University may surrender the Phase 3.2 site to City Investors. The University may exercise this surrender right upon notice to City Investors. Upon such surrender the Phase 3.2 site will revert back to City Investors under the same general conditions as of the Phase 3.2 site was recaptured by City Investors as provided above. If the University exercises the surrender right at a time when the University has not obtained a master use permit for the Phase 3.2 project, then the University shall also pay to City Investors a ground lease early termination fee of \$1,000,000. The University may avoid this \$1,000,000 ground lease early termination fee if the University has obtained a master use permit for the Phase 3.2 project within three (3) months of the University's exercise of the surrender right. Such amounts shall be due to City Investors within twenty (20) days of the date of exercise of the surrender right.

At any time after December 31, 2019, and provided the University has not commenced construction of the Phase 3.3 project, the University may surrender the Phase 3.3 site to City Investors. The University may exercise this surrender right upon notice to City Investors. Upon such surrender, the Phase 3.3 site will revert back to City Investors under the same general conditions as if the Phase 3.3 site was recaptured by City Investors as provided above. If the University exercises this surrender right, the University shall pay to City Investors as a ground lease early termination fee an amount equal to the rent, taxes and other impositions that would be paid with respect to the Phase 3.3 site for the twenty-four (24) month period following such surrender. Such amount shall be due to City Investors within twenty (20) days of the date of exercise of the surrender right. City Investors shall also be entitled to all work product, permits, entitlements and designs (if any) associated with the Phase 3.3 project.

(c) Follow On Rights. If the University exercises a surrender right as to the Phase 3.2 site as provided above, the University may simultaneously with the surrender of the Phase 3.2 site or any time thereafter upon notice to City Investors also surrender the Phase 3.3 site. Upon such surrender, the Phase 3.3 site will revert back to City Investors under the same general conditions as if the Phase 3.3 site was recaptured by City Investors as provided above. If the University exercises this surrender right, the University shall pay to City Investors as a ground lease early termination fee an amount equal to the rent, taxes and other impositions

that would be paid with respect to the Phase 3.3 site for the twenty-four (24) month period following such surrender. Such amount shall be due to City Investors within twenty (20) days of the date of exercise of the surrender right. City Investors shall also be entitled to all work product, permits, entitlements and assigns (if any) associated with the Phase 3.3 project.

If the University exercises a surrender right as to the Phase 3.2 site as provided above, City Investors may at any time thereafter upon notice to the University re-enter and recapture the Phase 3.3 site. If City Investors exercises this re-entry right, the University shall pay to City Investors as a ground lease early termination fee an amount equal to the rent, taxes and other impositions that would be paid with respect to the Phase 3.3 site for the twelve (12) month period following such re-entry. Such amount shall be due to City Investors within twenty (20) days of the date of City Investor's re-entry. City Investors shall also be entitled to all work product, permits, entitlements and designs (if any) associated with the Phase 3.3 site.

8. Option Fees. As consideration for the options granted hereunder, the University has previously paid certain option fees and other lump sum payments to City Investors (collectively the "Option Fees"). All Option Fees have been fully earned by City Investors and are nonrefundable to the University.

9. True-Up Option Payment. Upon the earlier of exercise of the Phase III Option or the expiration of this Agreement without the University having exercised the Phase III Option, the University shall pay to City Investors a true-up option payment in the amount of \$2,413,000 (the "True-up Option Payment"). The True-up Option Payment shall be due and payable on May 20, 2010. If the True-up Option Payment is not paid when due, such amount shall thereafter accrue interest at the rate of twelve percent (12%) per annum until paid.

10. Deferred Option Payment. If this Agreement terminates or expires without the University having exercised the Phase III Option (including a termination effected by written notice of termination given to City Investors by the University, which the University may do at any time, or the expiration of the Phase III Option Term), the University shall pay to City Investors a deferred option payment in the amount of \$4,250,000 (the "Deferred Option Payment"). The Deferred Option Payment (if due) shall be payable on May 20, 2010. If the Deferred Option Payment is not paid when due, such amount shall thereafter accrue interest at the rate of twelve percent (12%) per annum until paid.

11. Personal Rights; Assignment. The options set forth in this Agreement are personal to the University, and may not be transferred or assigned by the University without the express written consent of City Investors and Development Manager, which may be denied, withheld or conditioned in the sole and absolute discretion of City Investors and Development Manager. Notwithstanding the foregoing, the University shall be entitled to assign its rights hereunder to a non-profit organization simultaneously with the exercise of the Phase III Option to effect a ground lease/building lease structure similar to the ground lease and building lease under the Phase II Option Agreement, and ground rent under the Phase III Ground Lease would be subject to subordination to bond financing in the same general terms as the Phase II Ground Lease. However, if the Phase III Ground Lease is with a party other than the University, then simultaneously with the execution of the Phase III Ground Lease, the lessee under the Phase III Ground Lease shall enter into a building lease with the University pursuant to which the

improvements to be constructed on the Phase III Property will be leased to the University for a term co-extensive with the term of the Phase III Ground Lease, or otherwise on substantially the same terms as the Phase II Building Lease.

12. Breach; Remedy. In the event any party defaults or fails to perform its obligations hereunder, the aggrieved party may seek any and all remedies available at law or in equity.

13. Governing Law; Attorneys' Fees. This Agreement shall be construed according to the laws of the state of Washington. If any party should find it necessary to employ an attorney to enforce a provision of this Agreement or to recover damages for the breach hereof (including proceedings in bankruptcy), the prevailing party shall be entitled to be reimbursed for its court costs and attorneys' fees, in addition to all damages, through all levels of appeal.

14. New Encumbrances. During the term of this Agreement, City Investors shall not establish new easements or other title restrictions on the Phase III Property that might adversely effect the development of the Phase III Property as contemplated hereunder without the prior consent of the University, which consent shall not be unreasonably withheld or delayed.

(signatures follow)

DATED as of the day and year first above written.

DEVELOPMENT MANAGER: CITY INVESTORS LLC, a Washington limited liability company

By: _____
Its: _____

CITY INVESTORS: CITY INVESTORS XII L.L.C., a Washington limited liability company

By: City Investors Inc., a Washington corporation, managing member

By: _____
Its: _____

UNIVERSITY: THE BOARD OF REGENTS OF THE UNIVERSITY OF WASHINGTON

By: _____
Its: _____

Exhibits:

- Exhibit A – Legal Description of the Phase I Property
- Exhibit B – Legal Description of the Phase II Property
- Exhibit C – Legal Description of the Phase III Property
- Exhibit D – Site Plan
- Exhibit E - Form of Project Development Budget

EXHIBIT A
TO SECOND AMENDED AND RESTATED
PHASE III
OPTION AGREEMENT
(South Lake Union Bio-Medical Research Facilities)

Legal Description of The Phase I Property

EXHIBIT B
TO SECOND AMENDED AND RESTATED
PHASE III
OPTION AGREEMENT
(South Lake Union Bio-Medical Research Facilities)

Legal Description of The Phase II Property

EXHIBIT C
TO SECOND AMENDED AND RESTATED
PHASE III
OPTION AGREEMENT
(South Lake Union Bio-Medical Research Facilities)

Legal Description of the Phase III Property

EXHIBIT D
TO SECOND AMENDED AND RESTATED
PHASE III
OPTION AGREEMENT
(South Lake Union Bio-Medical Research Facilities)

Form of Project Development Budget

**ASSIGNMENT OF PHASE III OPTION AGREEMENT
(South Lake Union Biomedical Research Facilities)**

THIS ASSIGNMENT OF PHASE III OPTION AGREEMENT (this "Assignment") is dated _____, 2010 and is made by and among **CITY INVESTORS L.L.C.**, a Washington limited liability company ("Development Manager"), **CITY INVESTORS XII L.L.C.**, a Washington limited liability company ("City Investors"), **THE BOARD OF REGENTS OF THE UNIVERSITY OF WASHINGTON** (the "University") and **WASHINGTON BIOMEDICAL RESEARCH PROPERTIES III**, a Washington nonprofit corporation ("WBRP III").

RECITALS

A. City Investors and the entered into a Second Amended and Restated Phase III Option Agreement dated _____, 2010 ("Option Agreement") with regard to the potential development of certain additional biomedical research and related office and administrative facilities ("Phase III Project") adjacent to an existing biomedical research project known as the "815 Mercer Building" which has been developed pursuant to various agreements by and among Development Manager, City Investors, the University and WBRP III.

B. WBRP III now desires to assign all of its right, title and interest under the Option Agreement to WBRP III and Development Manager, City Investors and the University desire to confirm their consent to such assignment.

NOW, THEREFORE, in consideration of the covenants and agreements set forth herein, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Assignment and Consent to Exercise. The University hereby assigns, conveys and transfers to WBRP III all of the University's right, title and interest in and to the Option Agreement. The University hereby consents to WBRP's exercise of the Option under the Option Agreement.

2. Assumption. WBRP III hereby accepts the assignment made hereunder and hereby assumes and agrees to perform all obligations of the University under the Option Agreement that are required to be performed after the date of this Assignment[, **except for {describe any retained obligations} (the "Retained Obligations")**].

3. Warranty. The University warrants to WBRP III that the University has good right, power and authority to transfer its right, title and interest in the Option Agreement to WBRP III as provided in this Assignment. The University further warrants that it has obtained any necessary consents and approvals for this Assignment.

4. Consent to Assignment City Investors and the Development Manager each (i) consents to the assignment by the University of its right, title and interest in the Option Agreement to WBRP III and (ii) agree that from and after the date of this Assignment, [**except**

for the Retained Obligations,] it will look solely to WBRP III for performance of the obligations of the University thereunder.

5. Delivery. Upon execution of this Assignment by all parties hereto, a fully executed copy shall be delivered to each of the parties in satisfaction of the requirements of Section 8(b) of the Option Agreement.

6. Attorneys' Fees. If legal action is required to enforce or interpret any of the provisions of this Assignment, the prevailing party shall be entitled to recover its cost of suit, including reasonable attorneys' fees, incurred in connection therewith.

7. Successors and Assigns. The terms and conditions of this Assignment shall both bind and benefit the parties and their respective successors and assigns.

8. Amendment. This Assignment may be amended only by a writing that is executed and delivered by the parties.

9. Severability. The invalidity or unenforceability of one provision of this Assignment will not affect the validity or enforceability of the other provisions.

10. Time. Time shall be deemed to be of the essence as to every term and condition of this Assignment.

11. Governing Law. This Assignment has been made under the laws of the State of Washington, and such laws shall govern its interpretation and enforcement.

12. Counterparts. This Assignment may be executed in counterparts and by facsimile.

EXECUTED as of the day and year first above written.

DEVELOPMENT MANAGER:

CITY INVESTORS L.L.C.,
a Washington limited liability company

By _____
Name: _____
Its: _____

CITY INVESTORS:

CITY INVESTORS XII L.L.C.,
a Washington limited liability company

By: City Investors L.L.C.,
a Washington limited liability company
Its Managing member

By _____
Name: _____
Its: _____

THE UNIVERSITY:

**THE BOARD OF REGENTS OF
THE UNIVERSITY OF WASHINGTON**

By _____
Name: _____
Its: _____

APPROVED AS TO FORM:

Name: _____
Special Assistant Attorney General

WBRP III:

**WASHINGTON BIOMEDICAL
RESEARCH PROPERTIES II,**
a Washington nonprofit corporation

By _____
Name: _____
Its: _____