

THE INDUSTRIAL DEVELOPMENT BOARD OF
THE CITY OF KINGSPORT, TENNESSEE

(a public nonprofit corporation organized
under Tennessee law)

TO

MODEL CITY III, L.P.

(a Tennessee limited partnership)

LEASE

DATED AS OF _____

This instrument prepared by:
BASS, BERRY & SIMS PLC (JPM)
900 S. Gay Street, Suite 1700
Knoxville, Tennessee 37902

LEASE

This Lease, made and entered into as of the ___ day of _____, 2025, by and between THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF KINGSPORT, TENNESSEE, a public nonprofit corporation organized under Tenn. Code Ann. §§ 7-53-101, et seq. ("Lessor"), and MODEL CITY III, L.P., a Tennessee limited partnership ("Lessee").

W I T N E S S E T H:

WHEREAS, Lessor is a public nonprofit corporation and a public instrumentality of the City of Kingsport, Tennessee, and is authorized under Sections 7-53-101 to 7-53-317, inclusive, Tennessee Code Annotated, as amended (the "Act"), to acquire, whether by purchase, exchange, gift, lease, or otherwise, and to own, lease and dispose of properties for certain purposes identified in the Act; and

WHEREAS, in order to encourage Lessee to cause the acquisition, construction, rehabilitation and equipping of a 256-unit housing facility known as Stonecrest Apartments located in the City of Kingsport, Tennessee (the "Project"), thereby furthering the purposes of the Act, Lessor desires to lease to Lessee and Lessee desires to rent from Lessor certain real property hereinafter more particularly described, on the terms and conditions set forth herein; and

NOW, THEREFORE, Lessor, for and in consideration of the payments hereinafter stipulated to be made by Lessee, and the covenants and agreements hereinafter contained to be kept and performed by Lessee, does by these presents demise, lease and let unto Lessee, and Lessee does by these presents hire, lease and rent from Lessor, for the Term (as defined below) and upon the conditions hereinafter stated, the real property described in Exhibit A attached hereto, together with all facilities and improvements now existing or hereafter constructed thereon by Lessee or otherwise;

UNDER AND SUBJECT, however, to deed restrictions, covenants, easements, reservations, rights of way and other encumbrances applicable to the real property to be leased and existing as of the date hereof and any other encumbrance hereafter existing that is not created by Lessor; and

UNDER AND SUBJECT to the following terms and conditions:

ARTICLE I.

Definitions

Section 1.01 In addition to the words, terms and phrases elsewhere defined in this Lease, the following words, terms and phrases as used in this Lease shall have the following respective meanings:

"Acquisition Deed" shall mean the deed pursuant to which Lessor acquires title to the Leased Land.

"Act" shall mean Sections 7-53-101 to 7-53-317, inclusive of Tennessee Code Annotated, as amended.

"Additional Rent" shall mean the amounts described in Section 4.02.

"Basic Rent" shall mean the amounts described in Section 4.01.

"Buildings" shall mean the Buildings to be renovated on the Leased Land by Lessee pursuant to Article XI.

"City" shall mean the City of Kingsport, Tennessee.

"Completion Date" shall mean the earlier of (i) the third anniversary hereof, subject to extension upon an event of Force Majeure and (ii) the date that the renovations to the Buildings described in Article XI are substantially complete, as evidenced by the issuance of a certificate of occupancy. Lessee shall provide a certificate to Lessor evidencing the Completion Date no later than thirty (30) days after the occurrence of the Completion Date.

"County" shall mean Sullivan County, Tennessee.

"Force Majeure" means fires, floods, inability to obtain materials, conditions arising from governmental orders or regulations, war or national emergency, acts of God, and any other cause, similar or dissimilar, beyond the applicable party's reasonable control. Where this Lease expressly provides that a party's obligations are subject to Force Majeure, then delay or non-performance on the part of such party will be excused upon the occurrence and during the continuance of such event of Force Majeure, provided that such party promptly gives the other party written notice of the occurrence and abatement of such event of Force Majeure.

"Investor Limited Partner" shall mean [_____] and its successors and assigns.

"Lease" shall mean this instrument as originally executed or as it may from time to time be supplemented or amended by one or more instruments supplemental hereto.

"Leased Land" shall mean the real property described in Exhibit A attached hereto.

"Leased Property" shall mean the Leased Land, together with the Buildings and related improvements.

"Lender" shall mean [_____] and its successors and assigns.

"Lessee" shall mean Model City III, L.P., a Tennessee limited partnership.

"Lessor" shall mean The Industrial Development Board of the City of Kingsport, Tennessee, a public nonprofit corporation organized under the Act.

"Tax Credits" shall mean any low income housing tax credits available at the Leased Property pursuant to Section 42 of the Internal Revenue Code of 1986, as amended.

"Tax Year" shall mean each annual period beginning on January 1 of each year and ending on December 31 of that year.

"Term" shall mean the term described in Article III.

ARTICLE II.

Representations of Lessee

Section 2.01 Lessee makes the following representations and warranties to induce Lessor to enter into this Lease:

(a) Lessee is a limited partnership duly formed, validly existing and in good standing under the laws of the State of Tennessee, has full power and authority to enter into this Agreement and to perform all obligations contained herein and therein, and has, by proper action, been duly authorized to

execute and deliver this Lease and, when executed and delivered by the parties thereto, this Lease will constitute the valid and binding obligation of Lessee enforceable in accordance with its terms.

(b) Neither the execution and delivery of this Lease, nor the consummation of the transactions contemplated herein by Lessee, nor the fulfillment of or compliance with the terms and conditions of this Lease, does or will conflict with or result in a breach of the terms, conditions or provisions of any restriction or internal governing document of Lessee or any agreement or instrument to which Lessee is now a party or by which it is bound, or any existing law, rule, regulation, judgment, order or decree to which it is subject, or constitutes a default under any of the foregoing or, except as contemplated hereby, results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of Lessee under the terms of any instrument or agreement.

(c) There are no proceedings pending, or to the knowledge of Lessee threatened, against or affecting Lessee in any court or before any governmental authority, arbitration board or tribunal which involve the possibility of materially and adversely affecting the properties, business, prospects, profits or condition (financial or otherwise) of Lessee, or the ability of Lessee to perform its obligations under this Lease. Lessee is not in default with respect to an order of any court, governmental authority, arbitration board or tribunal.

(d) No event has occurred and no condition exists with respect to Lessee that would constitute an Event of Default under this Lease, as defined in Article XIII, or which, with the lapse of time or with the giving of notice, or both, would become such an Event of Default.

(e) To the knowledge of Lessee, and in reliance upon, and except as disclosed in, an independent third-party report obtained by Lessee, there are no substances, materials, wastes, pollutants or contaminants located on the Leased Property that are regulated under any environmental law or regulation except those materials and substances that are maintained in compliance with such laws and regulations, and Lessee shall not permit material quantities of such substances, materials, wastes, pollutants or contaminants to exist on the Leased Property during the Term of this Lease except in compliance with such laws and regulations.

ARTICLE III. Lease Term

Subject to the provisions contained in this Lease, this Lease shall be in full force and effect for a Term commencing on the date hereof and ending on the fifteenth (15th) anniversary of the Completion Date, unless terminated earlier, in accordance with the terms hereof. Lessee shall provide a certificate to Lessor evidencing the Completion Date no later than thirty (30) days after the occurrence of the Completion Date.

Notwithstanding the foregoing, the Term of this Lease may be terminated upon exercise by Lessee of the purchase option described in Article XIV hereof.

ARTICLE IV. Rent

Section 4.01 Basic Rent. Lessee will pay to Lessor without notice or demand, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, as Basic Rent on each January 1 during the Term, the sum of \$1.00. Lessor acknowledges that Lessee has prepaid the Basic Rent for the Term on the date hereof.

Section 4.02 Additional Rent. Lessee agrees to pay, as additional rent, all other amounts,

liabilities and obligations which Lessee herein assumes or agrees to pay.

ARTICLE V.

Compliance with Laws; Permitted Contests; Lessee's Acceptance of Leased Property; Reports; Net Lease

Section 5.01 **Compliance with Laws.** Lessee shall throughout the Term and at no expense to Lessor promptly cure any violations under all laws, ordinances, orders, rules, regulations and requirements of duly constituted public authorities, which are or shall become lawfully applicable to the Leased Property, the repair and alteration thereof, and the use or manner of use of the Leased Property, whether or not such laws, ordinances, orders, rules, regulations and requirements are foreseen or unforeseen, ordinary or extraordinary, and whether or not they shall involve any change of governmental policy or shall require structural or extraordinary repairs, alterations or additions, irrespective of the cost thereof; provided, however, that Lessee, in lieu of compliance with such laws, orders, rules, regulations and requirements, or the making of such additions, changes or alterations, may, at its option, exercise its right to purchase the Leased Property, as provided below and, in such event shall have no further liability hereunder, except as otherwise provided herein.

Section 5.02 **Permitted Contests.** Lessee shall not be required to comply or cause compliance with the laws, ordinances, orders, rules, regulations or requirements referenced in Section 5.01, so long as Lessee shall, at Lessee's expense, contest the same or the validity thereof in good faith, by appropriate proceedings. Such contest may be made by Lessee in the name of Lessor or of Lessee, or both, as Lessee shall determine and Lessor agrees that it will, at Lessee's expense, cooperate with Lessee in any such contest to such extent as Lessee may reasonably request. It is understood, however, that Lessor shall not be subject to any liability for the payment of any costs or expenses (including attorneys' fees) in connection with any such proceeding brought by Lessee, and Lessee covenants to pay, and to indemnify and save harmless Lessor from, any such costs or expenses.

Section 5.03 **Acceptance of Leased Property.** Lessee acknowledges that, as between Lessor and Lessee, it has examined the Land described in Exhibit A attached hereto and the state of Lessor's title thereto prior to the making of this Lease and knows the condition and state thereof, including, without limitation, the environmental and soil conditions, as of the first day of the term of this Lease, and accepts the same in said condition and state; that no representations as to the condition or state thereof have been made by representatives of Lessor; and that in entering into this Lease, Lessee is relying solely upon its own examination thereof.

Section 5.04 **Net Lease.** This is a "net lease" and the Basic Rent, Additional Rent and all other sums payable hereunder to or for the account of Lessor shall be paid promptly and without set off, counterclaim, abatement, suspension, deduction, diminution or defense.

ARTICLE VI.

Title and Tax Benefits

Section 6.01 **No Conveyance of Title by Lessor.** Lessor covenants and agrees that, except as set forth herein, during the Term of this Lease, it will not convey, pledge, encumber or suffer or permit the conveyance of, by any voluntary act on its part, its title to the Leased Property to any person, firm, corporation, or other entity whatsoever, irrespective of whether any such conveyance or attempted conveyance shall recite that it is expressly subject to the terms of this Lease unless such conveyance is consented, in writing, to by Lessee, its mortgagee that has been disclosed to Lessor in writing pursuant to Section 12.03, and Investor Limited Partner. Lessor will not create any lien, encumbrance or charge upon its interest in the Leased Property except for any such lien, encumbrance or charge otherwise created by

this Lease or consented to by Lessee.

Section 6.02 Tax Benefits. The parties acknowledge that Lessee is funding the acquisition, construction, rehabilitation and equipping of the Project. It is agreed by the parties hereto that in no event is Lessor intended to be treated as the owner of the Leased Property or the Project for federal income and state franchise and excise tax purposes. Instead, all of the benefits and burdens of ownership of the Leased Property and the Project are held by Lessee and that Lessee shall be the owner of the Leased Property and Project for federal income and state franchise and excise tax purposes throughout the term of this Lease. Without limiting the generality of the foregoing, Lessee alone shall be entitled to claim depreciation or cost recovery deductions for all taxation purposes or cost recovery deductions on all buildings, structures and other improvements, all machinery, equipment and fixtures upon the Leased Property or that are part of the Project and shall have the right to claim the Tax Credits. Lessor shall execute and deliver other and further certificates, documents and amendments to this Lease as reasonably requested by Lessee (and at the expense of Lessee) to confirm and establish that Lessee is the owner of the Leased Property or Project for federal income and state franchise and excise tax purposes. Lessor will hold only bare legal title to facilitate the Lease.

ARTICLE VII.

Taxes and Other Charges

Section 7.01 Taxes and Other Governmental Charges. Lessee agrees, subject to the provisions of Section 7.04, to pay and discharge, as additional rent, punctually as and when the same shall become due and payable without penalty, all ad valorem taxes that at any time during the Term shall be or become due and payable by Lessor or Lessee and that shall be levied, assessed or imposed upon, or that shall be or become liens upon, the Leased Property or any portion thereof or any interest of Lessor or Lessee therein, under and by virtue of any present or future law, statute, regulation or other requirement of any governmental authority.

Section 7.02 Lessee Subrogated to Lessor's Rights. To the extent of any payments of additional rent by Lessee under this Article VII, Lessee shall be subrogated to Lessor's rights in respect to the proceedings or matters relating to such payments, and any recovery in such proceedings or matter shall be used to reimburse Lessee for the amount of such additional rent so paid by Lessee.

Section 7.03 Utility Services. Lessee agrees that Lessor is not, nor shall it be, required to furnish to Lessee or any other user of the Leased Property any gas, water, sewer, electricity, light, heat, power or any other facilities, equipment, labor, materials or services of any kind pursuant to this Lease and Lessee agrees that it shall pay all costs and expenses related to the foregoing. This is a fully net Lease to the Lessor.

Section 7.04 Payments in Lieu of Taxes.

(a) Recognition of Tax Status. Lessee recognizes that under present law, including specifically the Act, the properties owned by Lessor are exempt from all taxation in the State of Tennessee.

(b) Administrative Provisions. In furtherance of the agreements in this Section, it is agreed by and between the parties hereto that Lessee, in cooperation with Lessor, shall cause all of the Leased Property, including but not limited to, the Leased Land, the Buildings, and each expansion of any Building to be valued and assessed separately by the assessor or other official or officials charged with the responsibility of assessing privately owned property in the area where the Leased Property is located at the time such privately owned property is valued or assessed. Lessee, in cooperation with Lessor, shall cause to be applied to the appropriate taxable value of each such portion of the Leased Property the tax rate or rates that would be applicable for state and local tax purposes if the property were then privately owned,

and shall cause the county trustee or other official or officials charged with the responsibility of collecting taxes to submit annually to Lessor and Lessee a statement of the taxes which would otherwise then be chargeable to each such portion of the Leased Property. The right is reserved to Lessee to the same extent as if Lessee were the owner of the Leased Property to contest the validity or amount of any such assessment.

(c) Payments in Lieu of Taxes. In addition to Basic Rent and Additional Rent hereunder, Lessee and Lessor agree that Lessee shall pay directly to the City and the County the following payments in lieu of taxes: (i) for each Tax Year during the period commencing on the date hereof through and including the end of the calendar year during which the Completion Date occurs, an annual payment in lieu of taxes equal to \$110,000 (which amount shall be divided \$[_____] to the City and \$[_____] to the County), and (ii) for each Tax Year thereafter, an annual payment in lieu of taxes equal to the amounts shown for each Tax Year on Exhibit C attached hereto (collectively, the "PILOT Payments").

Amounts payable with respect to any periods that are less than an entire Tax Year included within the Term will be prorated based upon the actual number of days included within such Tax Year. Any payment due with respect to a Tax Year that is not paid prior to the termination or expiration of this Lease shall not be extinguished as a result of such termination or expiration and shall survive such termination or expiration.

Notwithstanding anything to the contrary contained in this Section, this Lease shall not be extended except pursuant to an amendment in writing and executed by both the Lessor and Lessee (and consented to by the Investor Limited partner), which amendment may be granted or withheld or consented to by the parties in their sole and absolute discretion. Such reduction in taxes otherwise payable shall not apply with regard to any other tax assessed against Lessee, its income, its other real property or its personalty. In the event Lessee assumes ownership of the Leased Property, Lessee shall begin paying all applicable ad valorem and other taxes directly to the City and the County, as assessed, but shall not make, from the date of such acquisition, any in lieu payments with respect to such property other than those payments that were unpaid at the time of such acquisition.

Notwithstanding anything to the contrary contained in this Section, in the event that Lessee fails to complete the renovation of the Buildings in accordance with Article XI hereof or the Leased Property becomes wholly ineligible for Tax Credits due to an uncured violation of the use restrictions (related to the Tax Credits) applicable to the Leased Property, then Lessee shall make a payment in lieu of taxes with respect to each Tax Year remaining in the Term on behalf of the Lessor to the City and the County in an amount equal to the ad valorem taxes that would otherwise be payable with respect to the Leased Property if such Leased Property were owned by Lessee.

(d) Credit for Taxes Paid. Nothing contained in this Section 7.04 is intended or shall be construed to require the payment by Lessee of any greater amounts in lieu of taxes than would be payable as taxes if the Leased Property were owned by Lessee. It is accordingly understood and agreed that the amount payable by Lessee in any year under the provisions of this Section 7.04 shall be reduced by the amount of any ad valorem taxes lawfully levied upon the Leased Property or any part thereof, or upon Lessee's leasehold estate therein, and actually paid by Lessee pursuant to the requirements of Section 7.01 hereof to the City and the County and to the extent that any such tax payments paid by Lessee pursuant to the requirements of Section 7.01 hereof for any year shall exceed the PILOT Payments for such year otherwise provided in this Section 7.04 the amount payable by Lessee in any subsequent year under the provisions of this Section 7.04 shall be reduced by such excess amount.

(e) Timing of Payments. Each payment in lieu of taxes required by this Section 7.04 with respect to any Tax Year or partial Tax Year shall be paid not later than the last day on which ad valorem taxes are payable without penalty or interest to the City with respect to such Tax Year or partial

Tax Year.

(f) Reports. On behalf of Lessor, Lessee shall, during the term of this Lease, submit on or before October 1 of each year to the Tennessee State Board of Equalization the annual report required to be submitted by it pursuant to Section 7-53-305 of the Act.

(g) Payment Upon Termination or Expiration. Upon the termination of this Lease for any reason during a Tax Year, Lessee shall pay a pro-rated amount of the payments in lieu of taxes, if any, required by this Section 7.04 for the period that this Lease is in effect and for which no payments in lieu of taxes have been made up to the date of such termination within thirty (30) days after such termination.

(h) Cessation of Business or Foreclosure. Except in the event Lessee shall terminate this Lease pursuant to Article IX of this Lease, in the event Lessee ceases the active operation (excluding temporary cessations due to Force Majeure events) of a low-income housing facility for eligible residents at the Leased Property, and notwithstanding any provision herein to the contrary, Lessee shall make payments in lieu of taxes beginning as of the date Lessee ceases such operation equal to the ad valorem taxes that Lessee otherwise would have been required to make with respect to the Leased Property if the Leased Property was owned by Lessee. Upon the foreclosure of Lessee's leasehold interest in this Lease, or assignment of Lessee's leasehold interest in this Lease without the prior written consent of Lessor, any successor to Lessee's interest hereunder shall, notwithstanding any provisions herein to the contrary, make payments in lieu of taxes beginning as of the date such successor acquires Lessee's leasehold interest hereunder equal to the ad valorem taxes that such successor otherwise would have been required to make with respect to the Leased Property if the Leased Property was owned by such successor.

Section 7.05 Permitted Contests. Lessee shall not be required to pay any tax or assessment against the Leased Property or any part thereof, so long as Lessee shall, at Lessee's expense, contest the same or the validity thereof in good faith, by appropriate proceedings which shall operate to prevent the collection of the tax or assessment so contested or resulting from such contest and the sale of the Leased Property or any part thereof to satisfy the same. Such contest may be made by Lessee in the name of Lessor or of Lessee, or both, as Lessee shall determine, and Lessor agrees that it will, at Lessee's expense, cooperate with Lessee in any such contest to such extent as Lessee may reasonably request. It is understood, however, that Lessor shall not be subject to any liability for the payment of any costs or expenses (including attorneys' fees) in connection with any such proceeding brought by Lessee, and Lessee covenants to pay, and to indemnify and save harmless Lessor from, any such costs or expenses. Notwithstanding the foregoing, Lessee shall not have the right to contest or appeal the amount of the PILOT Payments.

Section 7.06 Additional Improvements. The PILOT Payments payable hereunder shall only apply to the Leased Land, the Buildings and the renovations and rehabilitation of the Buildings in connection with the Project. In the event Lessee constructs improvements on the Leased Land other than the Buildings or removes and replaces the Buildings (other than if due to a casualty), Lessee shall make payments in lieu of taxes to the City and the County with respect to such additional or replaced improvements in an amount equal to the ad valorem taxes that would otherwise be payable with respect to such improvements or replacements if such improvements or replacements were owned by Lessee, unless Lessor and Lessee shall agree in writing otherwise.

Section 7.07 Survival. The provisions of this Article VII shall survive the termination of this Lease.

ARTICLE VIII.

Maintenance and Repair

Lessor shall not be required to rebuild or to make any repairs, replacements or renewals of any nature or description to the Leased Property or to make any expenditures whatsoever in connection with this Lease or to maintain the Leased Property in any way. Lessee expressly waives the right contained in any law now or hereafter in effect to make any repairs at the expense of Lessor.

Lessee shall keep and maintain in good order, condition and repair (including any such repair as is required due to fire, storm or other casualty) the Leased Property and every part thereof and any and all appurtenances thereto. Lessee shall save Lessor harmless on account of claims for mechanics and materialmen's liens in connection with any work by Lessee, and any such liens shall exist only against Lessee's leasehold interest and shall be discharged, by bond or otherwise, within sixty (60) days after filing. Lessee shall keep and maintain the Leased Property in accordance with all directions, rules and regulations of the proper officials of the government agencies having jurisdiction, at the sole cost and expense of Lessee, provided that Lessee shall not be required to repair, rebuild or restore the Leased Property following material damage from a fire or other casualty except that Lessor may require Lessee to remove any debris from the Leased Property following a fire or other casualty. Lessee shall be entitled to receive all proceeds of casualty insurance relating to any damage or destruction of any portion of the Leased Property.

ARTICLE IX. Condemnation

If during the Term, all or any part of the Leased Property be taken by the exercise of the power of eminent domain or condemnation, Lessee shall be entitled to and shall receive the entire award for the taking. If title to or control of all of the Leased Property shall be taken by the exercise of the power of eminent domain or condemnation, or if such use or control of a substantial part of the Leased Property shall be taken as to result in rendering a substantial part of the Leased Property untenable or of materially reduced value to Lessee, Lessee may terminate this Lease and exercise the purchase option purchase to Article XIV by giving written notice to the Lessor and thereafter shall have no further liability hereunder except as specifically provided herein, provided, as a condition of such termination, Lessor may require Lessee to remove all or a portion of the improvements from the remaining portion of the Leased Property.

ARTICLE X. Insurance and Indemnification

Section 10.01 Insurance. Lessee shall carry commercial general liability insurance covering the Leased Property and the use and occupancy of the same in a company or companies licensed to do business in Tennessee with limits of not less than \$1,000,000 per occurrence for injury/death and shall provide evidence of same to Lessor. Lessor shall be listed as an additional insured on such policy. Lessee shall also insure all improvements on the Leased Property at their full replacement value under a policy consistent with Lessee's customary insurance practices and in at least such amounts as are usually maintained by companies similar to Lessee engaged in the same or a similar business, with Lessor being included as an additional insured, and Lessee shall provide evidence of same to Lessor. Each policy described above shall not be canceled without first giving Lessor not less than thirty (30) days prior written notice. Lessee shall provide to Lessor evidence of all insurance policies contemplated by this Section, including, upon request, annual certificates of continued coverage.

Section 10.02 Indemnification. Lessee covenants and agrees, at its expense, to pay, and to indemnify and save Lessor and its directors, agents and employees (collectively, the "Indemnified Parties") harmless against and from any and all claims by or on behalf of any person, firm, corporation, or governmental authority, arising from the occupation, use, possession, conduct or management of or from

any work or activity done in or about the Leased Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Leased Property or the occupancy or use thereof. Lessee also covenants and agrees, at its expense, to pay, and to indemnify and save the Indemnified Parties harmless against and from, any and all claims, costs or expenses arising from (i) any condition, including any environmental condition, now existing or hereafter arising, on the Leased Property, (ii) any breach or default on the part of Lessee in the performance of any covenant or agreement to be performed by Lessee pursuant to this Lease, (iii) any act or negligence of Lessee, or any of its agents, contractors, servants, employees or licensees, (iv) the failure of the Acquisition Deed to convey title to the Leased Land to Lessor on the date hereof other than as described in the Acquisition Deed, (v) any disputes, demands or claims related to the title of the Leased Land or any liens or other encumbrances affecting the Leased Land (other than claims originating from an action in violation of Section 6.01 hereof), or (vi) any accident, injury or damage whatever caused to any person, firm or corporation in or about the Leased Property and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in this Section. In the event that any action or proceeding is brought against any Indemnified Party by reason of any such claims, Lessee, upon notice from such Indemnified Party, covenants to resist or defend such action or proceeding. Notwithstanding anything in this Lease to the contrary, Lessee shall not be required to indemnify any of the Indemnified Parties in the event of any acts of gross negligence or willful misconduct or intentional misconduct of any of the Indemnified Parties. The indemnification provided shall survive termination of this Lease.

Section 10.03 Limitation of Liability. Notwithstanding anything in this Lease to the contrary, this Lease and the obligations of Lessor hereunder shall be non-recourse as to Lessor, and Lessor shall have absolutely no personal or individual liability with respect to any of the terms, covenants and conditions of this Lease. Lessee hereby expressly agrees that it shall look solely to the equity of Lessor or its successor(s) interest in the Leased Premises for the satisfaction of any remedy of Lessee in the event of any breach by Lessor of any of the terms covenants and conditions of this Lease. This exculpation of Lessor's personal liability is absolute and without any exception whatsoever. Lessee acknowledges that Lessor is a governmental entity and is subject to the protection of the Tennessee Governmental Tort Liability Act, Tennessee Code Annotated § 29-20-101 through 29-20-408 (as amended from time to time), and nothing contained herein shall constitute a waiver or release of Lessor's rights and protections under said Act.

ARTICLE XI.

Renovation of Buildings; Alterations

Lessee shall have the right to construct buildings and other improvements on the Leased Land from time to time and to make additions to and alterations of any such buildings and improvements and any existing buildings and improvements. All work done in connection with such additions, alterations, improvements or construction shall be done promptly, and in good and workmanlike manner, and in compliance with all applicable laws, ordinances, orders, rules, regulations and requirements of all federal, state and municipal governments and the appropriate departments, commissions, boards and offices thereof. Lessee shall maintain or cause to be maintained, at all times when any work is in process in connection with such additions, alterations, improvements or construction, workmen's compensation insurance covering all persons employed in connection with such work and with respect to whom death or bodily injury claims could be asserted against Lessor, Lessee or the Leased Property.

Lessee covenants and agrees at its expense to cause the acquisition of the Leased Land and the rehabilitation of each of the existing 256 apartment units and improvements located on the Leased Land (the "Buildings"). In connection therewith, Lessee agrees to incur capital expenditures for the renovation of the Buildings in an aggregate amount of not less than \$[_____]. It is understood and agreed that the Buildings, together with all other improvements or fixtures from time to time placed on the Leased Land,

shall become the property of Lessor and part of the Leased Property, subject to the purchase option set forth in Article XIV. Lessee agrees to complete the renovation of the Buildings prior to the second anniversary hereof, provided that such time period shall be extended upon an event of Force Majeure. Lessee will use commercially reasonable efforts to encourage its contractor to use local labor and local vendors during the rehabilitation of the Buildings, and, upon Lessor's request, Lessee will provide information to Lessor in connection with Lessee's efforts related thereto.

ARTICLE XII.

Subletting, Assignments and Mortgaging

Section 12.01 Except for (i) leases to tenants in the ordinary course of business or otherwise desirable for operation of an apartment complex, (ii) a leasehold deed of trust pursuant to which Lessee mortgages its leasehold estate in the Leased Property, (iii) removal of the general partner of Lessee in accordance with the terms of its partnership agreement or by the Lender pursuant to the loan documents related to the loan from the Lender to Lessee (the "Loan Documents") so long as any new general partner of Lessee is approved by Lessor, such approval not to be unreasonably withheld, conditioned or delayed, and shall be provided or withheld within thirty (30) days of the date of request or shall be deemed approved, and (iv) any other transfer of a partnership interest of Lessee in accordance with the terms of its partnership agreement or by the Lender pursuant to the Loan Documents so long as (A) LHP Capital, LLC or an affiliate thereof remains a direct or indirect partner of Lessee or (B) the transferee is approved by Lessor, such approval not to be unreasonably withheld, conditioned or delayed, and shall be provided or withheld within thirty (30) days of the date of request or shall be deemed approved (each of the foregoing being a "Permitted Transfer" which shall not require Lessor's consent), Lessee shall not have the right to sublet the Leased Property or assign or otherwise transfer its rights and interest hereunder except with the prior written consent of Lessor or as explicitly permitted in this Lease. In the event that the Lender becomes the successor lessee hereunder pursuant to this section, the Lender shall be eligible to make the payments in lieu of taxes pursuant to Section 7.04 hereof; and further provided that any successor or assign of the Lender, or any purchaser at a foreclosure sale other than the Lender, shall be entitled to make payments in lieu of taxes pursuant to Section 7.04 hereof so long as Lessor has reasonably approved such person or entity, such approval not to be unreasonably withheld, conditioned or delayed, and shall be provided or withheld within thirty (30) days of the date of request or shall be deemed approved. If such successor or assign of the Lender or any purchaser at a foreclosure sale other than the Lender is not approved by Lessor (the "Non-Approved Party") in accordance with the foregoing sentence, then the Non-Approved Party shall make payments in lieu of taxes beginning as of the date of such assignment or purchase equal to the ad valorem taxes that Lessee otherwise would have been required to make with respect to the Leased Property if the Leased Property was owned by Lessee. If Lessee conveys, assigns, transfers, leases, subleases or sells all or any part of its rights or interest hereunder to a transferee with the approval of HUD in accordance with section (c) of Lease Addendum attached hereto as Exhibit E but without the approval of Lessor, such transferee shall make payments in lieu of taxes beginning as of the date thereof equal to the ad valorem taxes that Lessee otherwise would have been required to make with respect to the Leased Property if the Leased Property was owned by Lessee, except as otherwise provided in this Section 12.01.

Section 12.02 If a mortgagee or an investor limited partner of Lessee shall have given Lessor, before any Event of Default shall have occurred hereunder, a written notice specifying the name and mailing address of the mortgagee or investor limited partner, then Lessor shall not terminate this Lease by reason of the occurrence of any Event of Default hereunder unless Lessor shall have given the mortgagee and investor limited partner a copy of its notice to Lessee of such Event of Default addressed to the mailing address last furnished by the mortgagee and investor limited partner, and such Event of Default shall not have been cured by said mortgagee or investor limited partner within the time permitted herein (which such time period, with respect to mortgagee and investor limited partner, shall begin upon receipt of the respective notice by mortgagee and investor limited partner), provided that mortgagee and investor limited

partner shall have the right to extend the period of time for the curing of any such Event of Default for an additional period of thirty (30) days from the date contained in the notice given pursuant to Section 16.03 herein, or in the case of an Event of Default which cannot be cured within said thirty (30) day period, for such additional period (not to exceed an additional sixty (60) days) as, with all due diligence and in good faith, is necessary to cure the Event of Default. Lessor acknowledges that it has received written notice that (a) Lender is a mortgagee hereunder, and that Lessor shall send notices required to be sent to a mortgagee hereunder to Lender at the address provided in Section 15.03 and (b) the Investor Limited Partner is an investor limited partner hereunder, and that Lessor shall send notices required to be sent to an investor limited partner hereunder to the Investor Limited Partner at the address provided in Section 15.03.

Section 12.03 Lessee irrevocably directs that Lessor accept, and Lessor agrees to accept, performance by any such mortgagee or investor limited partner of the Lessee's right to terminate this Lease granted to Lessee by Article XIV hereof, regardless whether an Event of Default has occurred. After the date hereof, and in addition to any rights the mortgagee or investor limited partner may have by virtue of this Lease, including the right to terminate the Lease, if, within ninety (90) days after the mailing of a notice of termination, or such later date as may be provided in this Lease following the expiration of the cure period, if any, afforded to the Lessee (the "Mortgagee/Investor Cure Period"), such mortgagee or investor limited partner shall pay, or arrange to the satisfaction of Lessor for the payment of, a sum of money equal to any and all Basic Rent, and other payments due and payable by Lessee hereunder (but not the costs or payments for the obligations under Article XI) with respect to the portion of the Leased Property to which such mortgagee or investor limited partner claims an interest as of the date of the giving of notice of termination, in addition to their pro rata share of any and all expenses, costs and fees, including reasonable attorneys' fees, incurred by Lessor in preparation for terminating this Lease, and in acquiring possession of the Leased Property, then, upon the written request of such mortgagee or investor limited partner made any time prior to the expiration of the Mortgagee/Investor Cure Period, Lessor and the party making such request (or its nominee) (the "New Lessee") shall mutually execute prior to the end of such Mortgagee/Investor Cure Period a new Lease of the Leased Property (or such portion thereof as they have an interest in or mortgage on) for the remainder of the Term of this Lease and on the same terms and conditions, and with the same priority over any encumbrances created at any time by Lessor, its successors and assigns which Lessee has or had by virtue of this Lease; provided, however, that in addition to the above payments such New Lessee shall have paid to Lessor a sum of money equal to the Basic Rent and other payments for such portion of the Leased Property accruing from the date of such termination to the date of the commencement of the term of such new Lease, together with its pro rata share of all expenses, including reasonable attorneys' fees, incident to the preparation, printing, execution, delivery and recording of such new lease and provided, further, that such New Lessee is approved by Lessor, such approval not to be unreasonably withheld, conditioned or delayed, and shall be provided or withheld within thirty (30) days of the date of request or shall be deemed approved. Such priority shall exist by virtue of the notice created by this Lease to any transferee of Lessor or person receiving an encumbrance from Lessor, and the priority shall be self-operative and shall not require any future act by Lessor. Such new Leases shall contain the same clauses subject to which this demise is made, and shall be at the rents and other payments for such portion of the Leased Property due Lessor and upon the terms as are herein contained. New Lessees under any such new Leases shall have the same right, title and interest in and to and all obligations accruing thereafter under this Lease with respect to the applicable portion of the Leased Property as Lessee has under this Lease. Nothing in this Section 12.03 shall require the investor limited partner or mortgagee, as a condition to the exercise of its rights under this Section 12.03, to cure any default of Lessee not reasonably susceptible of being cured by any investor limited partner or mortgagee.

Section 12.04 Simultaneously with the making of such new leases, the party obtaining such new lease and all other parties junior in priority of interest in the Leased Property shall execute, acknowledge and deliver such new instruments, including new mortgages and new subleases, as the case may be, and shall make such payments and adjustments among themselves, as shall be necessary and proper for the

purpose of restoring to each of such parties as nearly as reasonably possible, the respective interest and status with respect to the Leased Property which was possessed by the respective parties prior to the termination of this Lease as aforesaid.

Section 12.05 Nothing herein contained shall be deemed to impose any obligation on the part of Lessor to deliver physical possession of the Leased Property to such mortgagee or their respective nominee until the new leases have been executed by all pertinent parties. Lessor agrees, however, that Lessor will, at the cost and expense of such mortgagee or respective nominee, cooperate in the prosecution of judicial proceedings to evict the then defaulting Lessee or any other occupants of the Leased Property.

Section 12.06 Notwithstanding the term of any mortgage, Lessee's mortgagee shall have no further rights in the Lease except as stated herein. As used in this Section and throughout this Lease, the noun "mortgage" shall include a leasehold deed of trust, the verb "mortgage" shall include the creation of a leasehold deed of trust, the word "mortgagee" shall include the beneficiary under a leasehold deed of trust, and the terms "foreclose" or "foreclosure" shall include a trustee's sale under a deed of trust as well as a foreclosure by judicial process.

Section 12.07 Lessor and Lessee recognize that the Leased Property has been conveyed to Lessor subject to or contemporaneously with the execution of a deed of trust securing the financing of the acquisition of and renovations to the Leased Property Lessor will execute and deliver commercially reasonable documents pledging its interest in the Leased Property, by joinder or otherwise, in connection with Lessee's financing or refinancing of the Leased Property.

ARTICLE XIII.

Events of Default; Termination

If any one or more of the following events (herein called "Events of Default") shall happen:

(a) if Lessee fails to maintain the commercial general liability insurance or other insurance coverages required by Section 10.01 after being given notice of such failure and not curing such failure within ten (10) days of receipt of such notice; or

(b) if default shall be made in the due and punctual payment of any payment due pursuant to Section 7.04 hereof, and such default shall continue for more than thirty (30) days after Lessee's receipt of written notice of such default to Lessee from Lessor; or

(c) if default shall be made by Lessee in the due performance of or compliance with any of the terms hereof, other than that referred to in the foregoing subdivisions (a) and (b), and such default shall continue for sixty (60) days after Lessor shall have given Lessee written notice of such default (or in the case of any such default which cannot with due diligence be cured within such 60-day period, if Lessee shall fail to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence, it being intended in connection with any such default not susceptible of being cured with due diligence within the sixty (60) days that the time of Lessee within which to cure the same shall be extended for such period as may be necessary to complete the curing of the same with all due diligence);

then in any such event Lessor at any time thereafter and while such Event of Default shall continue may give a written termination notice to Lessee, which notice shall specify the nature of the Event of Default and a date of termination of this Lease not less than ninety (90) days after the giving of such notice. Upon such termination, Lessor shall have the right, but not the obligation, to enter upon the Leased Property and repossess the Leased Property. This termination right is subject to Lessee's right to purchase the Leased Property pursuant to Section 14.01 and at any time during or within 30 days after the term of this Lease,

Lessee may exercise its right in Section 14.01 to purchase the Leased Property without regard to whether an Event of Default has occurred.

ARTICLE XIV.
Purchases and Purchase Prices

Section 14.01 Option to Purchase. Lessee shall have an irrevocable and exclusive option to purchase the Leased Property as a whole or any part thereof at any time during the Term or within thirty (30) days after the termination or expiration of the Lease for the amount provided in Section 14.03. To exercise such option Lessee shall (i) give Lessor at least ten (10) business days' prior written notice of its intent to exercise any option granted pursuant to this Section 14.01, which notice shall state the purchase date, and (ii) comply with the provisions of Section 14.03 hereof. The option to be exercised by Lessee hereunder may be exercised whether or not a default or Event of Default has occurred hereunder.

Section 14.02 Granting of Easements. From time to time during the Term, Lessee shall have the right, at Lessee's expense, to cause Lessor (i) to grant easements affecting the Leased Land, (ii) to dedicate or convey, as required, portions of the Leased Land for road, highway and utilities and other public purposes, and (iii) to execute petitions to have the Leased Land or portions thereof annexed to any municipality or included within any utility, highway or other improvement or service district. Lessor shall also promptly execute and deliver estoppels, joinders, non-disturbance agreements and other documents required in connection with Lessee's use, financing, and refinancing of the Leased Property.

Section 14.03 Exercise of Option.

(a) To exercise any option contained in Section 14.01, Lessee shall pay, or cause to be paid, on or prior to the purchase date, as the purchase price the sum of (i) \$1.00 plus (ii) any other amounts that are then due or that have accrued under this Lease (including, without limitation, any amounts due upon termination or expiration of this Lease).

(b) On the purchase date for the purchase of the Leased Property pursuant to Section 15.01, this Lease shall terminate and Lessor shall convey Lessor's interest in the Leased Property to Lessee (or its assigns) by quitclaim deed without warranty of any type. The form of the quitclaim deed pursuant to which property will be conveyed pursuant to this Section shall be in the form attached hereto as Exhibit B. Lessee shall pay all expenses relating to such conveyance.

ARTICLE XV.
Miscellaneous

Section 15.01 Applicable Law. This Lease shall be governed exclusively by the provisions hereof and by the applicable laws of the State of Tennessee.

Section 15.02 Severability. In the event that any clause or provision of this Lease shall be held to be invalid by any court of competent jurisdiction, the invalidity of such clause or provision shall not affect any of the remaining provisions hereof.

Section 15.03 Notices and Demands. All notices, certificates, demands, requests, consents, approvals and other similar instruments under this Lease shall be in writing, and shall be effective either (a) when delivered personally to the party for whom intended, (b) on the second business day following mailing by a nationally recognized overnight courier service, (c) on the fifth day following mailing by certified or registered mail, return receipt requested, postage prepaid, or (d) on the date transmitted by telecopy as shown on the telecopy confirmation therefor as long as such telecopy transmission is followed by mailing of such notice by certified or registered mail, return receipt requested, postage prepaid, in any

case addressed to such party as set forth below or as a party may designate by written notice given to the other party in accordance herewith.

To the Lessor:

The Industrial Development Board of the City of Kingsport, Tennessee
400 Clinchfield Street, Suite 100
Kingsport, TN 37660
Attention: Chairman

with copies to:

J Conkin Law PLLC
108 E Main St Suite 202
Kingsport, TN 37660
Attention: Joel A. Conkin

To the Lessee:

Model City III, L.P.
900 South Gay Street, Suite 2000
Knoxville, Tennessee 37902
Attention: Carey B. Parker

with copies to:

Gentry, Tipton & McLemore, PC
900 S. Gay Street, Suite 2300
Knoxville, Tennessee 37902
Attention: Brian Blind

To Lender (as mortgagee as provided in Article XII):

[_____]
[_____]

Attention:

with copies to:

[_____]
[_____]

Attention:

To the Investor Limited Partner
(as an investor limited partner as provided in Article XII):

[_____]
[_____]

Attention:

with copies to:

[_____]
[_____]

Attention:

Section 15.04 Headings and References. The headings in this Lease are for convenience of reference only and shall not define or limit the provisions thereof. All references in this Lease to particular Articles or Sections are references to Articles or Sections of this Lease, unless otherwise indicated.

Section 15.05 Successors and Assigns. The terms and provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

Section 15.06 Multiple Counterparts. This Lease may be executed in multiple counterparts, each of which shall be an original but all of which together shall constitute but one and the same instrument.

Section 15.07 Expenses. Lessee shall pay all costs and expenses of Lessor in connection with the preparation, negotiation and execution of this Lease and the performance hereof, including the reasonable fees and expenses of Lessor's attorneys. In addition, in the event that Lessor shall be required to engage legal counsel for the performance or enforcement of any of the terms of this Lease, whether or not such employment shall require institution of suit or other legal services required to secure compliance on the part of Lessee, Lessee shall be responsible for and shall promptly pay to Lessor the reasonable value of said attorneys' fees, and any other reasonable expenses incurred by Lessor as a result of such default.

Section 15.08 No Liability of Officers, Etc. No recourse under or upon any obligation, covenants or agreement contained in this Lease shall be had against any incorporator, members, director or officer, as such, past, present or future, of Lessor, either directly or through the Lessor. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such incorporator, member, director or officer is hereby expressly waived and released by Lessee as a condition of and consideration for the execution of this Lease.

Section 15.09 No Liability of City, County, Officers, Etc. The City, County and the officers and agents of the City and County shall not in any event be liable for the performance of any obligation or agreement of any kind whatsoever herein, and none of the agreements or obligations of Lessor contained in this Lease or otherwise shall be construed to constitute an indebtedness of the City, County or the officers or agents of the City or County, within the meaning of any constitutional or statutory provision whatsoever.

Section 15.10 Limitation of Liability. Notwithstanding any other provision hereof, Lessor's liability hereunder shall be limited to its interest in the Leased Property and the payments to be made pursuant to this Lease, and Lessee shall not have any recourse against any other assets of Lessor.

Section 15.11 Cost-Benefit Analysis. Attached hereto as Exhibit D is the analysis of the costs and benefits of the payment-in-lieu of tax provisions of this Lease required by Tennessee Code Annotated Section 7-53-305(b).

Section 15.12 Interest. In addition to all other amounts payable under this Lease, Lessee shall also pay interest on any payment due hereunder that is not paid on the date such payment is due until paid at the interest rate, as it may vary from time to time, that the City would impose on a delinquent tax payment during the period such payment was due.

Section 15.13 HUD Lease Addendum. The Lease Addendum attached hereto as Exhibit E is incorporated herein and, in the event of a conflict between the terms of the Lease Addendum and this Lease, the Lease Addendum shall control.

[Signatures appear on following page.]

IN WITNESS WHEREOF, this Lease has been duly executed by the parties hereto as of the date and year first above written.

THE INDUSTRIAL DEVELOPMENT BOARD OF
THE CITY OF KINGSPORT, TENNESSEE

ATTEST:

By: _____
Chairman

Secretary

MODEL CITY III, L.P.,
a Tennessee limited partnership

By: Model City III GP, LLC
a Tennessee limited liability company,
its General Partner

By: _____
Name: _____
Title: _____

EXHIBIT A

Legal Description of Leased Land

EXHIBIT B

This Instrument Prepared By:
BASS, BERRY & SIMS PLC (JPM)
1700 Riverview Tower
900 South Gay Street
Knoxville, Tennessee 37902

QUITCLAIM DEED

THIS INDENTURE, made this _____ day of _____, _____, between:

THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF KINGSPORT,
TENNESSEE, a public nonprofit corporation organized under Tenn. Code Ann. §§ 7-53-
101, et seq.

First Party, and

MODEL CITY III, L.P., a Tennessee limited partnership.

Second Party,

WITNESSETH: that said First Party, for and in consideration of the sum of ONE DOLLAR (\$1.00) cash and other good and valuable considerations in hand paid by Second Party, the receipt and sufficiency of which is hereby acknowledged, has quitclaimed and does hereby quitclaim unto the said Second Party the following described premises (the "Property"):

SEE LEGAL DESCRIPTION ATTACHED HERETO AS EXHIBIT A AND MADE A PART HEREOF.

THIS CONVEYANCE is made subject to applicable easements, restrictions and building set back lines of record.

TOGETHER with all the estate, right, title and interest of the First Party in the Property, with the hereditaments and appurtenances thereto appertaining releasing all claims therein.

In this instrument in every case the plural shall include the singular and vice-versa and each gender the others.

IN WITNESS WHEREOF, this instrument has been executed on behalf of First Party by its duly authorized officer on the day and year first above written.

THE INDUSTRIAL DEVELOPMENT BOARD OF
THE CITY OF KINGSPORT, TENNESSEE

By: _____
Chairman

STATE OF TENNESSEE)
)
COUNTY OF _____)

Personally appeared before me the undersigned authority, a Notary Public in and for said City and in said state, _____, with whom I am personally acquainted, and who, upon oath, acknowledged himself to be the Chairman of The Industrial Development Board of the City of Kingsport, Tennessee, the within named bargainer, a public nonprofit corporation organized under Tenn. Code Ann. §§ 7-53-101, et seq., and that he as such Chairman, being authorized so to do, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as Chairman.

Witness my hand and official seal at office, this ____ day of _____, ____

Notary Public

My Commission Expires:

Name and address of property owner:

who is responsible for payment of taxes.

CLT CODE: _____

I hereby swear or affirm that the actual consideration of this transfer is \$1.00.

Subscribed and sworn to before me, this ____ day of _____, ____.

Affiant

My Commission Expires:

Notary Public

EXHIBIT C

PILOT Payments

Tax Year	Amount Payable to Sullivan County	Amount Payable to the City of Kingsport	Total Payment
Year 1*	\$ 49,906.34	\$ 60,093.66	\$110,000
Year 2	\$ 50,360.03	\$ 60,639.97	\$111,000
Year 3	\$ 50,813.73	\$ 61,186.27	\$112,000
Year 4	\$ 51,267.42	\$ 61,732.58	\$113,000
Year 5	\$ 51,721.11	\$ 62,278.89	\$114,000
Year 6	\$ 52,174.81	\$ 62,825.19	\$115,000
Year 7	\$ 52,628.50	\$ 63,371.50	\$116,000
Year 8	\$ 53,082.20	\$ 63,917.80	\$117,000
Year 9	\$ 53,535.89	\$ 64,464.11	\$118,000
Year 10	\$ 53,989.58	\$ 65,010.42	\$119,000
Year 11	\$ 54,443.28	\$ 65,556.72	\$120,000
Year 12	\$ 54,896.97	\$ 66,103.03	\$121,000
Year 13	\$ 55,350.67	\$ 66,649.33	\$122,000
Year 14	\$ 55,804.36	\$ 67,195.64	\$123,000
Year 15	\$ 56,258.05	\$ 67,741.95	\$124,000

*Year 1 is the Tax Year after the Tax Year in which the Completion Date occurs.

EXHIBIT D

Cost-Benefit Analysis

See attached.

EXHIBIT E

HUD Lease Addendum

**Lease Addendum -
Multifamily**

**U.S. Department of
Housing and Urban
Development Office of**

OMB Approval No.
2502-0598 (Exp.
9/30/2021)

Public Reporting Burden for this collection of information is estimated to average 0.5 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Response to this request for information is required in order to receive the benefits to be derived. This agency may not collect this information, and you are not required to complete this form unless it displays a currently valid OMB control number. While no assurance of confidentiality is pledged to respondents, HUD generally discloses this data only in response to a Freedom of Information Act request.

Warning: Federal law provides that anyone who knowingly or willfully submits (or causes to submit) a document containing any false, fictitious, misleading, or fraudulent statement/certification or entry may be criminally prosecuted and may incur civil administrative liability. Penalties upon conviction can include a fine and imprisonment, as provided pursuant to applicable law, which includes, but is not limited to, 18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802, 24 C.F.R. Parts 25, 28 and 30, and 2 C.F.R. Parts 180 and 2424.

Project Name: Stonecrest Apartments
HUD Project No:

THIS **LEASE ADDENDUM** is attached to and made part of that certain Lease dated as of _____, 202_ (the "**Lease**") between **THE INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF KINGSPORT, TENNESSEE ("Landlord")** and **MODEL CITY III, L.P. ("Tenant")** (collectively, the "**Parties**").

The Lease Addendum is required in connection with a mortgage loan insured by the U.S. Department of Housing and Urban Development ("**HUD**") for multifamily projects pursuant to the National Housing Act, as amended, found at 12 U.S.C. § 1701, *et seq.* ("**Act**"), and made by the following HUD-approved lender, [REDACTED], a [REDACTED] ("**Lender**"). The insured loan is secured by a Security Instrument on the leasehold estate set forth in the Lease.

The definition of any capitalized term or word used in this Lease Addendum and not otherwise defined can be found in the Security Instrument and/or Note between Lender and Tenant; or the Regulatory Agreement between Tenant and HUD. The terms "HUD" and "Lender" as used in the Lease Addendum shall also include their successors and assigns, and the Tenant is the same legal entity as the Borrower under the Security Instrument. All references to "days" in this Lease Addendum shall mean calendar days.

Notwithstanding anything else in the Lease to which this Lease Addendum is attached, and for valuable consideration, the receipt and sufficiency of which the Parties hereto hereby acknowledge and agree, and to induce the Lender to make the Loan to the Tenant described in the Security Instrument, and to induce HUD to insure said Loan, so long as this leasehold estate is subject to a security instrument

insured, reinsured, or held by HUD or given to HUD in connection with a resale, or the Property is acquired and held by HUD because of a default under the Security Instrument, Landlord and Tenant acknowledge and agree to the following provisions.

The leasehold estate consists of the legally described land and includes all buildings, improvements, alterations, and fixtures now or in the future located on the legally described land. The Tenant does not own title to any of the buildings, improvements, alterations or fixtures but Tenant is the owner of the buildings, improvements, alterations and fixtures for federal income and state franchise and excise tax purposes. As such, the term "**Property**" means the legally described land in the Lease including the buildings, improvements, alterations and fixtures now or in the future located on the land.

1. Compliance with HUD Requirements. Pursuant to the Act, the following provisions may not be waived under any circumstances, whether for a new lease or an existing lease:

- (a) Intentionally Deleted;
- (b) the Landlord owns the Property in fee simple, and the leasehold estate is directly by the Landlord to the Tenant;
- (c) the leasehold estate underlying the Lease constitutes a mortgageable real property interest under state law;
- (d) the Lease and related Lease documents do not conflict with any Program Obligations¹ promulgated by HUD with respect to such mortgage insurance; and
- (e) all ground rent amounts have prior written approval by HUD.

2. Modifications. The Lease and this Lease Addendum shall not be modified without the written consent of HUD and Lender. Modifications of the Lease and this Lease Addendum that are not authorized in writing by HUD and Lender are void and unenforceable.

3. Conflict Provision. The provisions of this Lease Addendum benefit Lender and HUD and are specifically declared to be enforceable against the parties to the Lease and all other persons by Lender and HUD. In the event of any conflict, inconsistency or ambiguity between the provisions of this Lease Addendum and the provisions of any other part of the Lease, the provisions of this Lease Addendum shall prevail and control.

4. Recording. The full Lease agreement and incorporated HUD Lease Addendum, or a memorandum of lease (if permitted under state law), must be recorded in the applicable land records office. If a memorandum of lease or a short form lease is to be recorded, it must set forth the following

¹ "Program Obligations" means (1) all applicable statutes and any regulations issued by the Secretary pursuant thereto that apply to the Project, including all amendments to such statutes and regulations, as they become effective, except that changes subject to notice and comment rulemaking shall become effective only upon completion of the rulemaking process, and (2) all current requirements in HUD handbooks and guides, notices, and mortgagee letters that apply to the Project, and all future updates, changes and amendments thereto, as they become effective, except that changes subject to notice and comment rulemaking shall become effective only upon completion of the rulemaking process, and provided that such future updates, changes and amendments shall be applicable to the Project only to the extent that they interpret, clarify and implement terms in this Lease Addendum rather than add or delete provisions from such document. Handbooks, guides, notices, and mortgagee letters are available on "HUDCLIPS," at www.hud.gov.

information, in addition to compliance with state law requirements:

- (a) names of the Parties;
- (b) legal description;
- (c) term and renewals;
- (d) reference to the HUD Lease Addendum; and
- (e) specific reference to HUD's option to purchase in Section 7 (unless Section 7 is expressly waived in writing by HUD in accordance with Program Obligations).

5. Estoppel Certificate. As a condition of HUD's acceptance of a lease transaction, an estoppel certificate identifying the Lease documents and signed by the Landlord, dated within thirty (30) days of the Note endorsement, must be provided to Lender and HUD at closing. The Landlord must confirm in writing to Lender and HUD that the Security Instrument is authorized, the Lease is in full force and effect, there are no defaults or pending defaults under the Lease or conditions that would give rise to defaults given the passage of time, and that the description of the Property is correct. The document must provide the language required by 24 CFR Section 200.62, and also include the "Warning" language found at the beginning of this Lease Addendum.

Upon a reasonable request from Tenant, Lender, or HUD, Landlord further agrees to promptly provide from time to time an estoppel certificate to confirm the terms of, and no default under, the Ground Lease.

6. Consent for Mortgage. Landlord agrees that the Tenant is authorized to obtain a loan, the repayment of which is to be insured by HUD and secured by the Security Instrument on this leasehold estate. The Tenant is further authorized to execute all documents necessary as determined by HUD and otherwise to comply with Program Obligations for obtaining such an insured loan.

7. Intentionally deleted.

8. Conveyance by Tenant. If approved in writing by HUD in advance, the Tenant may convey, assign, transfer, lease, sublease or sell all or any part of its leasehold interest in the Property without the need for approval or consent by any other person or entity.

9. Insurance.

- (a) Insurance policies shall be in an amount, and with such company or companies and in such form, and against such risks and hazards, as shall be approved by Lender and HUD.
- (b) The Landlord shall not take out separate insurance concurrent in form or contributing in the event of loss with that specifically required to be furnished by the Tenant to Lender. The Landlord may at its own expense, however, take out separate insurance which is not concurrent in form or not contributing in the event of loss with that specifically required to be furnished by the Tenant to Lender.

10. Condemnation. All awards and/or proceeds from a condemnation, or the negotiated sale in lieu of condemnation, of all or any part of the Tenant's and/or Landlord's interests in the Property, Improvements or the leasehold estate, shall be paid to Lender and applied as provided in the Security Instrument.

11. Intentionally deleted.

12. Intentionally deleted.

13. Landlord Cooperation for Needed Authorizations. The Landlord agrees that within ten (10) business days after receipt of written request from the Tenant, it will join in any and all applications for permits, licenses or other authorizations required by any Governmental Authority in connection with any work which the Tenant may do hereunder and will also join in any grants for easements for electric, telephone, telecommunications, cable, gas, water, sewer and such other public utilities and facilities as may be reasonably necessary in the operation of the Property and if, at the expiration of such ten (10) day period, the Landlord shall not have joined in any such application, or grants for easements, the Tenant shall have the right to execute such application and grants in the name of the Landlord, and for that purpose, the Landlord hereby irrevocably appoints the Tenant as its attorney-in-fact to execute such papers on behalf of the Landlord, only to the extent that a public body as Landlord may do so within the exercise of its municipal powers and responsibilities.

14. Taxes. Nothing in this Lease shall require the Tenant to pay any franchise, estate, inheritance, succession, capital levy or transfer tax of the Landlord or any income excess profits or revenue tax, or any other tax, assessment charge or levy upon the rent payable by the Tenant under this Lease.

15. Notices. All notices, demands and requests which are required to be given by the Landlord, Tenant, Lender or HUD in connection with the Lease and this Lease Addendum shall be in writing and shall be sent by registered or certified mail, postage prepaid, and addressed to the address of the party as given in this instrument unless a request for a change in this address has been sent to the party giving the notice by registered or certified mail prior to the time when such notice is given.

All notices shall be addressed as follows:

If to Lender:

[REDACTED]
[REDACTED]

Attention:

with copies to:

[REDACTED]
[REDACTED]

Attention:

If to HUD:

US Dept. of Housing and Urban Dev.
235 Cumberland Bend, Suite 200
Nashville, TN 37228-1803

If to Tenant:

Model City III, L.P.
900 South Gay Street, Suite 2000
Knoxville, Tennessee 37902
Attention: Carey B. Parker

with copies to:

Gentry, Tipton & McLemore, PC
900 S. Gay Street, Suite 2300
Knoxville, Tennessee 37902
Attention: Brian Blind

If to Landlord:

The Industrial Development Board of the City of Kingsport, Tennessee
400 Clinchfield Street, Suite 100
Kingsport, TN 37660
Attention: Chairman

with copies to:

J Conkin Law PLLC
108 E Main St Suite 202
Kingsport, TN 37660
Attention: Joel A. Conkin

16. No Merger. There shall be no merger of this Lease or the leasehold estate created by this Lease with the fee estate in or ownership of the Property or any interest therein by reason of the fact that the same person or entity may acquire or hold, directly or indirectly, this Lease or the leasehold estate hereby created or any interest therein and fee estate in or ownership of the Property. No such merger shall occur unless and until HUD specifically consents and agrees in writing to such merger.

Each signatory below hereby certifies that each of their statements and representations contained in the Lease and this Lease Addendum and all their supporting documentation thereto are true, accurate, and complete. This Lease Addendum has been made, presented, and delivered for the purpose of influencing an official action of HUD in insuring the Loan, and may be relied upon by HUD as a true statement of the facts contained therein.

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

THE INDUSTRIAL DEVELOPMENT BOARD OF
THE CITY OF KINGSPORT, TENNESSEE

By: _____
Chairman

ATTEST:

Secretary

MODEL CITY III, L.P.,
a Tennessee limited partnership

By: Model City III GP, LLC
a Tennessee limited liability company,
its General Partner

By: _____
Name: _____
Title: _____