

APPLEGATE TRAIL APARTMENTS LIMITED PARTNERSHIP
(Borrower)

to

OREGON TITLE INSURANCE COMPANY
(Trustee)

in favor of

MIDLAND LOAN SERVICES, L.P.
(Lender)

**TRUST DEED, SECURITY AGREEMENT
AND ASSIGNMENT OF LEASES AND RENTS**

Dated: October 21, 1996

Location: Klamath Falls, Oregon

RECORD AND RETURN TO:

MIDLAND LOAN SERVICES, L.P.
210 West 10th Street, 6th Floor
Kansas City, MO 64105
Attention: MCF Closing Department

Loan No.: 940903645

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THIS TRUST DEED, SECURITY AGREEMENT AND ASSIGNMENT OF LEASES AND RENTS (the "Deed of Trust") is made as of the 21ST day of October, 1996, by **APPLEGATE TRAIL APARTMENTS LIMITED PARTNERSHIP**, an Oregon limited partnership ("Borrower"), having its principal place of business (or residing) at c/o Bowen Real Estate Group, 2260 U.S. Bancorp Tower, 111 SW Fifth Avenue, Portland, Oregon 97204, to **OREGON TITLE INSURANCE COMPANY**, a corporation ("Trustee"), having an address at 1515 S.W. Fifth Avenue, Suite 800, Portland, Oregon 97201, for the benefit **MIDLAND LOAN SERVICES, L.P.**, a Missouri limited partnership ("Lender"), having its principal place of business at 210 West 10th Street, 6th Floor, Kansas City, Missouri 64105.

WITNESSETH:

To secure the payment of an indebtedness in the principal sum of One Million One Hundred Thousand and No/100 Dollars (\$1,100,000.00), lawful money of the United States of America, to be paid with interest according to a certain contemporaneously executed Promissory Note made by Borrower to the order of Lender (said Promissory Note, together with all extensions, renewals or modifications thereof, is referred to as the "Note", and said indebtedness, interest and all other sums due hereunder, and under the Note and the Other Security Documents (hereinafter defined), including applicable attorney fees and costs, is collectively referred to as the "Debt"), Borrower hereby irrevocably deeds, mortgages, gives, grants, bargains, sells, aliens, enfeoffs, conveys, confirms, pledges, assigns, grants a security interest in, and hypothecates to Trustee, its successors and assigns, in trust, with power of sale, and right to entry and possession, all of its estate, right, title and interest in, to, and under any and all of the following described property (collectively the "Mortgaged Property"), whether now owned or held or hereafter acquired:

(a) The real property described in Exhibit A attached hereto (the "Premises") and the buildings, structures, additions, enlargements, extensions, modifications, repairs, replacements and improvements now or hereafter located thereon (the "Improvements");

(b) all easements, rights-of-way, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, air rights and development rights, and all estates, rights, titles, interests, privileges, liberties, tenements, hereditaments and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to the Premises and the Improvements and the reversion and reversions, remainder and remainders, and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Premises, to the center line thereof and all the estates, rights, titles, interests, dower and rights of

dower, curtesy and rights of curtesy, property, possession, claim and demand whatsoever, both at law and in equity, of Borrower of, in and to the Premises and the Improvements and every part and parcel thereof, with the appurtenances thereto;

(c) all machinery, equipment, fixtures (including but not limited to all heating, air conditioning, plumbing, lighting, communications and elevator fixtures), building equipment, materials and supplies, and other property of every kind and nature, whether tangible or intangible, owned by Borrower, or in which Borrower has or shall have an interest, now or hereafter located upon the Premises and the Improvements, or appurtenant thereto, and usable in connection with the present or future operation and occupancy of the Premises and the Improvements (hereinafter collectively called the "Equipment"), including the proceeds of any sale or transfer of the foregoing, and, without limiting the generality of the foregoing, if any such Equipment is subject to any prior security interest or prior security agreement (as such terms are defined in the Uniform Commercial Code, as adopted and enacted in the State of Oregon, then the Mortgaged Property shall include all of the right, title and interest of Borrower in and to any such Equipment, together with all deposits and payments now or hereafter made by Borrower with respect to such Equipment;

(d) all awards, payments or compensation, including interest thereon, heretofore or hereafter made with respect to the Mortgaged Property for any injury to or decrease in the value of the Mortgaged Property related to any exercise of the right of eminent domain or condemnation (including without limitation, any transfer made in lieu of or in anticipation of the exercise of said rights or for a change of grade);

(e) all leases, reciprocal easement agreements, and other agreements and arrangements affecting the use, enjoyment or occupancy of, or the conduct of any activity upon or at the Premises and the Improvements heretofore or hereafter entered into (the "Leases"), all income, rents (including, without limitation, all percentage rents), issues, profits and revenues (including all oil and gas or other mineral royalties and bonuses) from the Mortgaged Property (the "Rents") and all proceeds from the sale or other disposition of the Leases and the right to receive and apply the Rents to the payment of the Debt;

(f) all proceeds of, and any unearned premiums on, any insurance policies covering the Mortgaged Property, including, without limitation, the right to receive and apply the proceeds of any insurance, judgments, or settlements made in lieu thereof, for damage to the Mortgaged Property; and

(g) the right, in the name and on behalf of Borrower, to appear in and defend any action or proceeding brought with respect to the Mortgaged Property and to

commence any action or proceeding to protect the interest of Lender in the Mortgaged Property;

TO HAVE AND TO HOLD the Mortgaged Property unto and to the use and benefit of Trustee, and the successors and assigns of Trustee, forever;

IN TRUST, WITH POWER OF SALE, to secure the payment to Lender of the Debt at the time and in the manner provided for its payment in the Note, in this Deed of Trust or in the Other Security Documents;

PROVIDED, HOWEVER, these presents are upon the express condition that, if Borrower shall pay to Lender the Debt at the time and in the manner provided in the Note, in this Deed of Trust or in the Other Security Documents, and shall abide by and comply with each and every covenant and condition set forth herein and in the Note in a timely manner, these presents and the estate hereby granted shall cease, terminate and be void, and Trustee shall reconvey without warranty the Mortgaged Property then held under this Deed of Trust.

Borrower hereby represents and warrants to and covenants and agrees with Lender as follows:

1. Payment of Debt and Incorporation of Covenants, Conditions and Agreements. Borrower will pay the Debt at the time and in the manner provided in the Note, this Deed of Trust and the Other Security Documents. All the covenants, conditions and agreements contained in: (a) the Note; and (b) all and any documents (other than the Note or this Deed of Trust) (collectively the "Other Security Documents") now or hereafter executed by Borrower and/or others in favor of Lender which wholly or partially secure or guaranty payment of the Note, provide for any indemnity in favor of or payment to Lender related to the Debt, the Note or the Mortgaged Property, provide for any escrow/holdback arrangements or for any actions to be completed by Borrower subsequent to the date hereof, or are otherwise related to the loan secured by this Deed of Trust (the "Loan"); are hereby made a part of this Deed of Trust to the same extent and with the same force as if fully set forth herein. Notwithstanding anything herein to the contrary, neither this Deed of Trust nor any of the Other Security Documents shall secure the payment of any Post-Foreclosure Transfer Environmental Losses (as defined in that certain Environmental Indemnity Agreement executed by Borrower in favor of Lender contemporaneously herewith).

2. Warranty of Title. Borrower warrants that Borrower has good title to the Mortgaged Property and has the right to deed, mortgage, give, grant a security interest in, bargain, sell, alien, enfeoff, convey, confirm, pledge, assign and hypothecate the

same and that Borrower possesses an unencumbered fee estate in the Premises and the Improvements and that it owns the Mortgaged Property free and clear of all liens, encumbrances and charges whatsoever except for those exceptions shown in the title insurance policy in favor of Lender insuring the lien of this Deed of Trust. Borrower shall forever warrant, defend and preserve such title and the validity and priority of the lien of this Deed of Trust to Lender against the claims of all persons whomsoever.

3. Insurance Requirements.

(a) Borrower, at its sole cost and expense, will keep the Mortgaged Property insured during the entire term of this Deed of Trust for the mutual benefit of Borrower and Lender against loss or damage by fire and against loss or damage by other risks and hazards covered by a standard extended coverage insurance policy including, but not limited to, fire, lightning, windstorm, hail, explosion, riot attending a strike, riot, civil commotion, aircraft, vehicles, smoke, vandalism, malicious mischief, burglary and theft, and to the extent required by Lender, earthquake or any other risks insured against by persons operating like properties in the locality of the Mortgaged Property. Such insurance shall be in an amount not less than the lesser of (i) the then full replacement cost of the Mortgaged Property, without deduction for physical depreciation, or (ii) the outstanding principal balance of the Debt; but in any event an amount sufficient to ensure that the insurer issuing said policies would not deem Borrower a co-insurer under said policies. The policies of insurance carried in accordance with this paragraph shall be paid annually in advance and shall contain the "Replacement Cost Endorsement" with a waiver of depreciation.

(b) Borrower, at its sole cost and expense, for the mutual benefit of Borrower and Lender, shall also obtain and maintain during the entire term of this Deed of Trust the following policies of insurance:

(i) Flood insurance (meeting the current requirement of the Federal Insurance Administration) if any part of the Mortgaged Property is located in an area identified by the Federal Emergency Management Agency as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968 (and any successor act thereto) in an amount at least equal to the lesser of (A) the stated principal amount of the Note; or (B) the maximum amount of coverage available to Borrower under the Flood Disaster Protection Act of 1973 (and any successor act thereto).

(ii) Comprehensive public liability insurance on an "occurrence basis", in the amount of at least \$3,000,000.00 per occurrence,

including broad form property damage, blanket contractual and personal injuries (including death resulting therefrom) coverages.

(iii) Business interruption and/or rental loss insurance (for all losses regardless of cause, and with no exclusions) in an amount equal to the aggregate annual amount of all rents, additional rents (including, without limitation, percentage rents) payable by all of the tenants under the Leases (whether or not such Leases are terminable in the event of a fire or casualty) and profits or other income from the Mortgaged Property, which business interruption insurance and/or rental loss insurance shall cover such losses for a period of at least twelve (12) months after the date of the fire or other casualty in question. The amount of such insurance shall be increased from time to time during the term of this Deed of Trust as and when Lender requires, to reflect all rent, additional rent, increased rent and increased additional rent payable by all new or renewal tenants, and all increased profits or other income from the Mortgaged Property.

(iv) Insurance against loss or damage from explosion of steam boilers, air conditioning equipment, high pressure piping, machinery and equipment, pressure vessels or similar apparatus now or hereafter installed in the Improvements (excepting any such apparatus located within and serving individual residential units of the Improvements, if any).

(v) Such other insurance as may from time to time be reasonably required by Lender in order to protect its interests.

(c) All policies of insurance (individually, a "Policy", and collectively the "Policies") required pursuant to this Deed of Trust: (i) shall be issued by an insurer satisfactory to Lender, in its sole discretion; (ii) shall contain a mortgagee non-contribution clause satisfactory to Lender, in its sole discretion, naming Lender as the person to which all payments made by such insurance company shall be paid; (iii) shall be maintained throughout the term of this Deed of Trust without cost to Lender; (iv) shall be assigned and delivered to Lender; (v) shall contain such provisions as Lender deems necessary or desirable to protect its interest including, without limitation, endorsements providing that neither Borrower, Lender nor any other party shall be a co-insurer under said Policies and that Lender shall receive at least thirty (30) days prior written notice of any modification, termination or cancellation of the applicable Policy; and (vi) shall be satisfactory in form and substance to Lender and shall be approved by Lender as to amounts, form, risk coverage, deductibles, loss payees and insureds. Borrower shall pay the premiums for such Policies (the "Insurance Premiums") as the same become due and payable. Not later than thirty (30)

days prior to the expiration date of each of the Policies, Borrower will deliver to Lender satisfactory evidence of the renewal of each expiring Policy.

4. Casualty Loss.

(a) If the Mortgaged Property is damaged or destroyed, in whole or in part, by fire or other casualty (a "Casualty"), Borrower shall give prompt notice thereof to Lender. Borrower hereby authorizes and empowers Lender to settle, adjust or compromise any claims for any insurance proceeds arising from any Casualty (the "Insurance Proceeds"), to receive such Insurance Proceeds and to retain and apply such Insurance Proceeds as set forth herein. If no Event of Default (hereinafter defined), or event which with the giving of notice or passage of time, or both, would give rise to an Event of Default, has occurred as of the date of the Casualty, then:

(i) If the aggregate amount of any Insurance Proceeds resulting from a Casualty is equal to \$15,000.00 or less, such Insurance Proceeds shall be paid directly to Borrower and shall be applied by Borrower to the prompt repair and replacement of the Mortgaged Property;

(ii) If the aggregate amount of any Insurance Proceeds resulting from a Casualty (or series of related Casualties) exceeds \$15,000.00 and the value of the Mortgaged Property immediately following such Casualty remains greater than fifty percent (50%) of its value immediately prior to such Casualty, then all Insurance Proceeds from such Casualty shall be paid to Lender; provided, however, that so long as no Event of Default exists and subject to the requirements set forth herein, Lender shall disburse such amounts of the Insurance Proceeds (after deduction for Lender's costs and expenses of collection) as Lender reasonably deems necessary for the repair or replacement of the Mortgaged Property, with any balance remaining after such disbursement being applied by Lender to the Debt in such priority and proportions as Lender deems proper;

(iii) If the value of the Mortgaged Property immediately following any Casualty (or series of related Casualties) does not exceed fifty percent (50%) of its value immediately prior to such Casualties, then all Insurance Proceeds from such Casualties shall be paid directly to Lender and Lender, at its discretion: (A) may declare the entire Debt to be immediately due and payable and apply all such Insurance Proceeds, after deduction for Lender's costs and expenses of collection, to the Debt in such priority and proportions as Lender deems proper; or (B) subject to the requirements set forth herein, may disburse such amounts of the Insurance Proceeds as Lender reasonably deems

necessary for the repair or replacement of the Mortgaged Property, with any balance remaining after such disbursement being applied by Lender to the Debt in such priority and proportions as Lender deems proper; and

(iv) If no Event of Default (as hereinafter defined) has occurred, and no event has occurred that with notice and/or the passage of time, or both, would constitute an Event of Default, then no Prepayment Consideration (as defined in the Note) will be due with respect to any Insurance Proceeds paid to Lender pursuant to subclauses (ii) or (iii) above. If an Event of Default has occurred, or an event has occurred that with notice and/or the passage of time, or both, would constitute an Event of Default, then Prepayment Consideration will be due with respect to any Insurance Proceeds paid to Lender pursuant to subclauses (ii) and (iii) above. An Event of Default which existed but which was completely cured prior to the date of Casualty shall not in itself give rise to any Prepayment Consideration under this subsection.

(b) All disbursements of any portion of any Insurance Proceeds held by Lender shall be subject to all terms and conditions deemed necessary by Lender, including: (i) Lender's receipt of satisfactory requests for disbursements, paid bills and lien waivers, architect certificates or other certificates, and certificates or endorsements from title insurance companies; (ii) Borrower's deposit with Lender of any additional funds necessary to supplement the Insurance Proceeds, so as to cover, in advance, the entire cost of the necessary repairs or replacements to the Mortgaged Property as established by the certificate of an architect or engineer (employed by Lender at Borrower's expense); (iii) such architect's or engineer's determination that such repairs or replacements may be effected within a period of six (6) months or less; and (iv) Borrower's prompt and diligent completion of such repairs or replacements in accordance with plans and specifications submitted to and approved by Lender. Lender, whether in possession of the Premises or not, shall not have any obligation to advance or make funds other than the Insurance Proceeds available for the repair or replacement of the Mortgaged Property.

5. Payment of Taxes and Other Charges.

(a) Borrower shall pay or cause to be paid and discharged all taxes, assessments, water rates and sewer rents now or hereafter levied or assessed or imposed against the Mortgaged Property or any part thereof (collectively the "Taxes"), and all ground rents, utility charges, maintenance charges, other governmental impositions, and all other liens or charges whatsoever which may be or become a lien or charge against the Mortgaged Property (including without limitation, mechanics and materialmen's liens, vault charges and license fees for the use of vaults, chutes and

similar areas adjoining the Premises), now or hereafter related to, or levied, assessed or imposed against, the Mortgaged Property or any part thereof (collectively the "Other Charges") as the same become due and payable. Borrower will deliver to Lender, promptly upon Lender's request, evidence satisfactory to Lender that the Taxes and Other Charges have been paid prior to the same becoming delinquent.

(b) After prior written notice to Lender, Borrower, at its own expense, may contest by appropriate legal proceeding, promptly initiated and conducted in good faith and with due diligence, the amount or validity or application in whole or in part of any of the Taxes or Other Charges, provided that: (i) no Event of Default has occurred and shall be continuing; (ii) Borrower is permitted to do so under the provisions of any mortgage, deed of trust, ground lease, or other instrument which creates a superior or junior lien to this Deed of Trust (it being understood that no such superior or junior liens will be permitted unless specifically allowed, in writing, by Lender); (iii) such proceeding shall be permitted under and be conducted in accordance with the provisions of any other instrument to which Borrower is subject and shall not constitute a default thereunder; (iv) neither the Mortgaged Property nor any part thereof or interest therein will be in danger of being sold, forfeited, terminated, cancelled or lost; (v) Borrower shall have set aside adequate reserves (which Lender may at its option require to be placed in escrow with Lender) for the payment of the Taxes or Other Charges, together with all interest and penalties; and (vi) Borrower shall have furnished such security as may be required in the proceeding, or as may be requested by Lender to insure the payment of any such Taxes or Other Charges, together with all interest and penalties thereon.

6. Escrowed Funds. Borrower shall, at the option of Lender or its designee, pay to Lender or its designee on the first day of each calendar month one-twelfth of an amount which would be sufficient to pay all Insurance Premiums, Taxes and Other Charges payable, or estimated by Lender to be payable, during the next ensuing twelve (12) months. (The aggregate of said amounts so held by Lender is hereinafter called the "Escrowed Funds"). Borrower hereby pledges to Lender any and all Escrowed Funds now or hereafter held by Lender as additional security for the payment of the Debt. Lender will apply the Escrowed Funds to payments of Taxes, Other Charges and Insurance Premiums required to be made by Borrower pursuant hereto. If the amount of the Escrowed Funds held by Lender shall exceed the amounts required for the payment of the Taxes, Other Charges and Insurance Premiums described above, Lender shall, in its discretion, return any excess to Borrower or credit such excess against future payments to be made to the Escrowed Funds. In allocating such excess, Lender may deal with the person shown on the records of Lender to be the owner of the Mortgaged Property. If, at any time, the Escrowed Funds are not sufficient to pay the Taxes, Other Charges and Insurance Premiums described above, Borrower shall

promptly pay to Lender, upon demand, an amount which Lender shall estimate as sufficient to make up the deficiency. Upon the occurrence of an Event of Default, Lender may apply any Escrowed Funds held by it to the payment of the following items in any order in its sole discretion:

- (i) Taxes and Other Charges;
- (ii) Insurance Premiums;
- (iii) Interest on the unpaid principal balance of the Note;
- (iv) Amortization of the unpaid principal balance of the Note; and
- (v) All other sums payable pursuant to the Note, this Deed of Trust and the Other Security Documents, including without limitation advances made by Lender pursuant to the terms of this Deed of Trust and any applicable Prepayment Consideration.

Until expended or applied as above provided, the Escrowed Funds shall constitute additional security for the Debt. The Escrowed Funds shall not constitute a trust fund and may be commingled with other monies held by Lender. No earnings or interest on the Escrowed Funds shall be payable to Borrower.

To the extent Borrower timely deposits all required Escrowed Funds with Lender, Borrower shall be relieved of any further obligation to directly pay, or to deliver to Lender any evidence of the payment of (prior to their expiration or delinquency), any Insurance Premiums, Taxes or Other Charges.

7. Condemnation. Borrower shall promptly give Lender written notice of the actual or threatened commencement of any exercise of a right of condemnation or eminent domain affecting all or any part of the Mortgaged Property (each such event being hereinafter referred to as a "Condemnation"), and shall deliver to Lender copies of any and all papers served in connection with any such Condemnation. Notwithstanding any taking (including but not limited to any transfer made in lieu of or in anticipation of the exercise of such taking) of all or any part of the Mortgaged Property through a Condemnation, Borrower shall continue to pay the Debt at the time and in the manner provided for its payment in the Note, this Deed of Trust and the Other Security Documents, and the Debt shall not be reduced until any award or payment therefor shall have been actually received and applied by Lender (after deducting any expenses of collection) to the Debt. Lender shall not be limited to the rate of interest paid on any such award or payment from a Condemnation but shall be

entitled to receive out of such award or payment interest at the rate then applicable under the Note. Borrower shall cause any award or payment payable to Borrower in any Condemnation to be paid directly to Lender. Lender shall apply any such award or payment (after deducting any expenses of collection) to the reduction or discharge of the Debt (whether or not then due and payable). No Prepayment Consideration shall be payable solely in connection with such application; provided, however, that notwithstanding the foregoing, if an Event of Default is existing as of the date of the Condemnation, or an event has occurred as of the date of the Condemnation that with notice and/or the passage of time, or both, would constitute an Event of Default hereunder, then any Condemnation awards or proceeds applied to the Debt pursuant to this section shall be subject to the Prepayment Consideration computed in accordance with the terms of the Note. If the Mortgaged Property is sold, through foreclosure or otherwise, prior to the receipt by Lender of any such award or payment, Lender shall have the right, whether or not a deficiency judgment on the Note shall have been sought, recovered or denied, to receive said award or payment in an amount sufficient to fully satisfy the Debt.

8. Leases and Rents. Borrower does hereby absolutely and unconditionally assign to Lender all current and future Leases and Rents, it being intended by Borrower that this assignment constitutes a present, absolute assignment and not an assignment for additional security only. The terms and conditions of this assignment shall be governed by the Assignment of Leases and Rents (the "Assignment of Leases") executed by Borrower in favor of Lender contemporaneously with this Deed of Trust. Except as permitted pursuant to the Assignment of Leases, Borrower shall not enter into any future Leases of all or any part of the Mortgaged Property.

9. Maintenance, Use and Management of Mortgaged Property.

(a) Borrower shall cause the Mortgaged Property to be maintained in a good and safe condition and repair. The Improvements and the Equipment shall not be removed, demolished or materially altered (except for normal replacement of the Equipment) without the consent of Lender, not to be unreasonably withheld. Borrower shall promptly comply with all laws, orders and ordinances affecting the Mortgaged Property, or the use thereof, except that Borrower shall be permitted to contest any change or proposed change thereto under the same terms and conditions as permitted in paragraph 5(b), above. Borrower shall promptly repair, replace or rebuild any part of the Mortgaged Property which may be destroyed by any Casualty, become damaged, worn or dilapidated or which may be affected by any Condemnation, and shall also complete and pay for any structure at any time in the process of construction or repair on the Premises. Unless Lender otherwise consents in writing, Borrower shall not initiate, join in, acquiesce in or consent to any change in any private restrictive

covenant, replat, easement, zoning law or other public or private restriction, limiting or defining the uses which may be made of the Mortgaged Property or any part thereof. If under applicable zoning provisions the use of all or any portion of the Mortgaged Property is or shall become a nonconforming use, Borrower will not cause or permit such nonconforming use to be discontinued or abandoned without the express written consent of Lender.

(b) Borrower shall use and continuously operate and permit the use and continuous operation of the Premises and the Improvements as provided for in Borrower's original loan application to Lender.

(c) Unless Lender otherwise consents in writing, Borrower shall not initiate, join in, acquiesce in or consent to the removal or resignation of the managing agent for the Mortgaged Property or the transfer of ownership, management or control of such managing agent to a person or entity other than Borrower or the general partner or managing partner of Borrower.

10. Sale of Mortgaged Property or Change in Borrower.

(a) Borrower acknowledges that Lender has examined and relied on the creditworthiness and experience of Borrower in agreeing to make the loan secured hereby, and that Lender has a valid interest in maintaining the value of the Mortgaged Property so as to ensure that should Borrower default in the repayment of the Debt, Lender can recover the Debt by a sale of the Mortgaged Property.

(b) Borrower may not Transfer (hereinafter defined) the Mortgaged Property, nor allow any Change in Ownership (hereinafter defined), unless all of the following conditions shall have been satisfied: (i) Lender has received Borrower's written request for a Transfer, or for a Change in Ownership (or any other request resulting in a new obligor under the Loan) and Lender shall have expressly approved such request in writing, subject to the satisfaction of all requirements hereunder; (ii) no Event of Default has occurred and is continuing; (iii) the proposed new owner/assignee of the Mortgaged Property (the "New Borrower") meets all of Lender's Underwriting Standards (hereinafter defined); (iv) the Mortgaged Property meets all of Lender's Underwriting Standards related to its financial condition, cash flow, operating income, physical condition, management and operation; (v) Borrower reimburses Lender for all underwriting costs incurred by Lender in connection with such Transfer or Change in Ownership (including without limitation, engineering and/or architect's fees, environmental studies, title searches, credit checks, attorney fees); (vi) Borrower remits to Lender an assumption fee in the amount of one percent (1%) of the outstanding balance of the Debt as of the date of such Transfer or Change in

Ownership, not as a penalty, but as compensation to Lender for administrative costs and loss of Prepayment Consideration. Borrower shall reimburse Lender for any and all Underwriting Costs incurred by Lender in connection with Borrower's written request for a Transfer or for a Change in Ownership (or any other request resulting in a new obligor under the Loan) whether or not any request for a Transfer or Change in Ownership is approved or consummated. A failure to comply with any of the terms of this paragraph 10 shall constitute an Event of Default, and Lender may then declare the entire Debt immediately due and payable upon any such Transfer or Change in Ownership.

(c) "Lender's Underwriting Standards" shall mean the actual commercial loan underwriting standards of Midland Loan Services, L.P. (or any successor entity that is then servicing the Loan) in effect at the time of the proposed Transfer or Change in Ownership, or, if no such standards exist, such standards which are then customary for a commercial lender in connection with a mortgage loan of the size and type of Borrower's loan from Lender secured hereby.

(d) A "Transfer" is defined as any sale, conveyance, alienation, mortgage, encumbrance, pledge or other transfer of the Mortgaged Property or any part thereof or interest therein, whether voluntary or involuntary or otherwise. Without limiting the generality of the foregoing, a Transfer is deemed to include: (i) an installment sales agreement wherein Borrower agrees to sell the Mortgaged Property or any part thereof for a price to be paid in installments; (ii) an agreement by Borrower leasing all or a substantial part of the Mortgaged Property for other than actual occupancy by a space tenant thereunder; or (iii) a sale, assignment or other transfer of, or the grant of a security interest in, Borrower's right, title and interest in and to any Leases or any Rents.

(e) A "Change in Ownership" is defined as follows: (i) if Borrower, any Guarantor (hereinafter defined), or any general partner in Borrower or any Guarantor is a corporation, the voluntary or involuntary sale, conveyance or transfer of any of such corporation's stock (or any of the stock of any corporation directly or indirectly controlling such corporation by operation of law or otherwise), or the creation or issuance of any new stock in one or a series of transactions, by which an aggregate of more than forty percent (40%) any of such corporation's stock shall be vested in a party or parties who are not now stockholders (where appropriate, a corporation shall be deemed to include a limited liability company, co-op, business trust, joint venture or other entity, and the rules applicable to shares of stock will apply with equal force to membership shares or similar indicia of ownership, or actual ownership interest in these other entities); and (ii) if Borrower, any Guarantor or any general partner of Borrower or any Guarantor is a limited or general partnership or

joint venture, the change, removal or resignation of a general partner or managing partner. Except as set forth above, involuntary changes in ownership resulting from a death or physical or mental disability shall not be considered a Change in Ownership.

(f) Borrower shall be released from liability for the Debt only after: (i) all conditions for a Transfer or Change in Ownership have been satisfied; (ii) all security documents deemed necessary by Lender have been executed, delivered, recorded and perfected; (iii) Lender has received a policy of title insurance (or similar assurance) reflecting the new ownership and the priority and perfection of Lender's security; (iv) the New Borrower has assumed all required personal liability; and (v) all other reasonable requirements of Lender are satisfied.

11. No Other Encumbrances Permitted. Except for financing liens placed against Borrower's inventory in the normal course of business, Borrower shall not, directly or indirectly, mortgage, pledge, hypothecate, encumber, assign or otherwise place a lien or security interest against the Mortgaged Property without in each instance obtaining the prior written consent of Lender, which consent may be given or withheld by Lender in each instance in its sole discretion. If Lender does consent to any additional mortgages or liens, it may require the modification of this Deed of Trust, payment of an administrative fee in an amount determined by Lender and such other conditions as Lender shall determine in its sole discretion. Lender shall not be required to demonstrate any actual impairment of its security or any increased risk of default hereunder in order to declare the Debt immediately due and payable upon such encumbrance. This provision shall apply to every sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Mortgaged Property regardless of whether voluntary or not, or whether or not Lender has consented to any previous sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Mortgaged Property.

12. Estoppel Certificates and No Default Affidavits.

(a) After request by Lender, Borrower shall within ten (10) business days furnish Lender with a statement, duly acknowledged and certified by Borrower, setting forth: (i) the amount of the original principal amount of the Note; (ii) the unpaid principal amount of the Note; (iii) the rate of interest of the Note; (iv) the date installments of interest and/or principal were last paid; (v) any offsets or defenses to the payment of the Debt, if any; and (vi) that the Note, this Deed of Trust and the Other Security Documents are valid, legal and binding obligations and have not been modified, or if modified, giving particulars of such modification.

(b) Within ten (10) business days after request by Lender, Borrower will furnish Lender with estoppel certificates, in form and content satisfactory to Lender, from all tenants specified by Lender (other than tenants under Leases for residential purposes, congregate care services or mini-warehouse storage rentals (unless such storage rental exceeds ten percent (10%) of the rentable square footage of such storage facility) (collectively "Residential Leases")), or, if any tenant fails to provide such estoppel certificate, Borrower shall provide a certificate with respect to the tenancy of such tenant, in form and substance satisfactory to Lender.

13. Cooperation. Borrower acknowledges that Lender and its successors and assigns may: (a) sell or assign this Deed of Trust, the Note and any of the Other Security Documents to one or more investors as a whole loan; (b) sell or assign a participation interest in the Debt to one or more investors; (c) deposit this Deed of Trust, the Note and any of the Other Security Documents with a trust, which trust may sell certificates to investors evidencing an ownership interest in the trust assets; or (d) otherwise sell or assign the Debt, the Note, this Deed of Trust and any of the Other Security Documents, or any interest therein to investors (the transactions referred to in subparagraphs (a) through (d) above are hereinafter referred to as "Secondary Market Transactions"). Borrower shall cooperate in good faith with Lender in effecting any such Secondary Market Transaction and in addressing such matters as any party involved in a Secondary Market Transaction may require, including the provision of such information and documents relating to Borrower, any Guarantors, the Mortgaged Property and any tenants of the Improvements as Lender may reasonably request in connection with a Secondary Market Transaction. Lender shall have the right to provide to prospective investors any information in its possession, including, without limitation, financial statements relating to Borrower, any Guarantors, the Mortgaged Property and any tenant of the Improvements. Borrower acknowledges that certain information regarding the Loan and the parties thereto and the Mortgaged Property may be included in a private placement memorandum, prospectus or other disclosure documents.

14. Books and Records; Reporting Requirements.

(a) Borrower and Guarantor(s), if any, shall keep complete and accurate books and records of account in accordance with generally accepted accounting principles consistently applied. Borrower shall deliver, or cause to be delivered, the reports and financial statements described below, all in form acceptable to Lender (collectively the "Reports"), within the time period required.

(i) Within ninety (90) days after the close of each fiscal year of Borrower, Borrower shall deliver, or cause to be delivered to Lender: (A) an

annual rent roll, certified by Borrower's chief financial officer (or other person acceptable to Lender); (B) an annual operating statement of the Mortgaged Property, certified by Borrower's chief financial officer (or other person acceptable to Lender); and (C) an annual balance sheet and profit and loss statement of Borrower certified by Borrower's chief financial officer (or other person acceptable to Lender).

(ii) Within ninety (90) days after the close of the separate individual fiscal years of any Guarantor, Borrower shall deliver, or cause to be delivered to Lender, an annual balance sheet and profit and loss statement of each Guarantor, if any, certified by such Guarantor's chief financial officer (or other person acceptable to Lender).

(iii) Within thirty (30) days after the close of each calendar quarter, Borrower shall deliver, or cause to be delivered the following, all to be certified by Borrower's chief financial officer (or other person acceptable to Lender): (A) a quarterly rent roll; (B) a quarterly operating statement of the Mortgaged Property; (C) a quarterly balance sheet and profit and loss statement of Borrower.

(b) Annually, no later than each February 1 during the term of the Note, Borrower shall deliver to Lender, for Lender's approval in its sole discretion, a report (the "Leasing Report") setting forth the minimum economic terms which Borrower proposes for use in connection with the standard lease form for Leases of portions of the Mortgaged Property during the twelve month period beginning upon such anniversary date. The terms set forth in the Leasing Report shall reflect the prevailing market conditions for like properties in the locality of the Mortgaged Property.

(c) Borrower shall supplement the required Reports and Leasing Reports and provide such other financial information in respect of Borrower, any Guarantor and the Mortgaged Property as Lender, from time to time, may request. Borrower acknowledges that, without timely delivery of complete and accurate Reports and Leasing Reports, Lender may not be able to execute a Secondary Market Transaction. Borrower agrees that failure to timely deliver any of the Reports or the Leasing Reports shall be an Event of Default hereunder.

15. Performance of Other Agreements. Borrower shall observe and perform each and every term to be observed or performed by Borrower pursuant to the terms of any agreement or recorded instrument affecting or pertaining to the Mortgaged Property.

16. Further Acts, etc. Borrower will, at the cost of Borrower, and without expense to Lender, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignment, transfers and assurances as Lender shall, from time to time, require for the better assuring, conveying, assigning, transferring and confirming unto Lender the property and rights hereby mortgaged, given, granted, bargained, sold, alienated, enfeoffed, conveyed, confirmed, pledged, assigned and hypothecated or intended now or hereafter so to be, or which Borrower may be or may hereafter become bound to convey or assign to Lender, or for carrying out the intent of or facilitating the performance of the terms of this Deed of Trust or for filing, registering or recording this Deed of Trust. Borrower, on demand, will execute and deliver and hereby authorizes Lender to execute in the name of Borrower or without the signature of Borrower to the extent Lender may lawfully do so, one or more financing statements, chattel mortgages or other instruments, to evidence or perfect more effectively the security interest of Lender in the Mortgaged Property. Borrower grants to Lender an irrevocable power of attorney coupled with an interest for the purpose of exercising and perfecting any and all rights and remedies available to Lender under the Note, this Deed of Trust, the Other Security Documents, at law or in equity, including without limitation the rights and remedies described in this paragraph.

17. Recording of Deed of Trust, etc. Upon the execution and delivery of this Deed of Trust and thereafter, from time to time, Borrower shall cause this Deed of Trust, the Assignment of Leases and any other instrument creating or evidencing a lien or security interest in Lender's favor upon the Mortgaged Property, and each instrument of further assurance to be filed, registered or recorded in such manner and in such places as may be required by any present or future law in order to publish notice of and fully to protect Lender's interest in and lien or security interest upon the Mortgaged Property. Except where otherwise prohibited by law, Borrower will pay all filing, registration or recording fees, and all expenses incident to the preparation, execution, acknowledgment, and subsequent release or reconveyance of this Deed of Trust and the Note, any deed of trust or mortgage supplemental hereto, any security instrument with respect to the Mortgaged Property, any instrument of further assurance and all federal, state, county and municipal taxes, duties, imposts, assessments and charges arising out of or in connection with the same. Borrower shall hold harmless and indemnify Lender, its successors and assigns, against any liability incurred by reason of the imposition of any tax on the making and recording of this Deed of Trust. This Deed of Trust will be recorded in the Recorder's Office as a fixture filing pursuant to ORS 79.4020(6).

18. Prepayment. The Debt may only be prepaid in accordance with the terms of the Note.

19. Events of Default. The Debt shall become immediately due and payable at the option of Lender, without notice or demand, upon the occurrence of any one or more of the following events (each an "Event of Default"):

(a) if Borrower fails to make the full and punctual payment of any amount payable pursuant to the Note or hereunder on a monthly basis, which failure is not cured on or before the fifth (5th) day after written notice from Lender to Borrower of such failure;

(b) if Borrower fails to pay the entire outstanding principal balance of the Note, together with all accrued and unpaid interest, on the date when due, whether on the Maturity Date (as defined in the Note), or upon acceleration, or on the Prepayment Date (as defined in the Note);

(c) if Borrower fails to make the full and punctual payment of any portion of the Debt (other than payments described in subparagraphs (a) and (b) immediately above) which failure is not cured on or before the twentieth (20th) day after written notice from Lender to Borrower of such failure;

(d) if Borrower fails to make the full and punctual payment of Taxes or Other Charges as required hereby;

(e) if Borrower fails to keep the Policies of insurance required hereby in full force and effect, or fails to promptly deliver copies thereof to Lender upon request;

(f) if a Transfer or a Change in Ownership occurs in violation of the provisions of this Deed of Trust, or if Borrower violates or does not comply with the provisions of the Assignment of Leases, or paragraphs 36 or 38 of this Deed of Trust;

(g) if any representation or warranty of Borrower, or of any person guaranteeing payment of the Debt or any portion thereof or performance by Borrower of any of the terms of this Deed of Trust, the Note or the Other Security Documents (a "Guarantor"), made herein, in any guaranty, or in any certificate, report, financial statement or other instrument or document furnished to Lender shall have been false or misleading in any material respect when made;

(h) if Borrower shall make an assignment for the benefit of creditors or if Borrower is not paying debts as and when the same become due;

(i) if a receiver, liquidator or trustee of Borrower shall be appointed or if Borrower is adjudicated bankrupt or insolvent, or if any petition for bankruptcy, reorganization or arrangement pursuant to federal bankruptcy law, or any similar federal or state law, shall be filed by or against, consented to, or acquiesced in by, Borrower or if any proceeding for the dissolution or liquidation of Borrower shall be instituted; however, if such appointment, adjudication, petition or proceeding was involuntary and not consented to by Borrower, then upon the same not being discharged, stayed or dismissed within sixty (60) days;

(j) if Borrower shall be in default under any other deed of trust, mortgage or security agreement covering any part of the Mortgaged Property whether it be superior or junior in priority to this Deed of Trust (it not being implied by this clause that any such encumbrance will be permitted);

(k) if the Mortgaged Property becomes subject to any mechanic's, materialman's or other lien (other than a lien for local real estate taxes and assessments not then due and payable, or any lien being contested by Borrower pursuant to its rights hereunder) and such lien shall remain undischarged of record (by payment, bonding or otherwise) for a period of thirty (30) calendar days;

(l) if Borrower fails to promptly and diligently cure any material violations of laws or ordinances affecting the Mortgaged Property; or

(m) if for more than thirty (30) days after written notice from Lender, Borrower shall fail to perform any other term, covenant or condition of the Note, this Deed of Trust or any of the Other Security Documents; provided, however, that if such failure to perform is of a type which cannot be cured within such thirty (30) day period and Borrower diligently commences and prosecutes such cure, Lender shall allow a reasonable additional time period (not to exceed sixty (60) additional days) to complete such cure.

20. Default Interest. Upon the occurrence of any Event of Default (including, without limitation, the failure of Borrower to pay the Debt in full on the Maturity Date), Borrower shall pay interest on the unpaid principal balance of the Note at the Default Rate (as defined in the Note).

21. Right to Cure Defaults. Upon the occurrence of any Event of Default, or if Borrower fails to make any payment or to do any act as herein required, Lender may do such acts or make such payments in Borrower's stead, in such manner and to the extent that Lender may deem necessary to protect the security hereof. Any such acts or payments by Lender shall be at Lender's sole discretion, may be taken without notice

to or demand on Borrower, and will not release Borrower from any obligation hereunder. Lender is authorized to enter upon the Mortgaged Property for such purposes, or appear in, defend or bring any action or proceeding to protect its interest in the Mortgaged Property, to cause this Deed of Trust to be foreclosed or to collect the Debt. All such costs and expenses (including attorney fees) incurred by Lender in remedying any such Event of Default, in acting or making payments in Borrower's stead, or in appearing in, defending or bringing any of the foregoing actions or proceedings, shall bear interest at the Default Rate from the date incurred by Lender until the date of payment to Lender. All such costs and expenses incurred by Lender together with interest thereon calculated at the above rate shall be deemed to constitute a portion of the Debt and be secured by this Deed of Trust and the Other Security Documents and shall be immediately due and payable upon demand by Lender therefor.

22. Prepayment After Event of Default. If following the occurrence of any Event of Default, Borrower shall tender payment of an amount sufficient to satisfy the Debt at any time prior to a sale of the Mortgaged Property, either through foreclosure or the exercise of other remedies available to Lender under this Deed of Trust or the Other Security Documents, such tender by Borrower shall be deemed to be a voluntary prepayment under the Note and all applicable Prepayment Consideration shall be immediately due and payable.

23. Lender's Remedies.

(a) Upon the occurrence of any Event of Default, Lender may take such action, without notice or demand, as it deems advisable to protect and enforce its rights against Borrower and in and to the Mortgaged Property, including, without limitation, the following actions:

- (i) declare the entire Debt to be immediately due and payable;
- (ii) institute proceedings to foreclose this Deed of Trust, in which case the Mortgaged Property or any interest therein may be sold for cash or upon credit in one or more parcels or in several interests or portions and in any order or manner;
- (iii) with or without entry, to the extent permitted and pursuant to the procedures provided by applicable law, institute proceedings for the partial foreclosure of this Deed of Trust for the portion of the Debt then due and payable, subject to the continuing lien of this Deed of Trust for the balance of the Debt not then due;

(iv) exercise the power of sale herein granted, as provided in ORS 86.735, as now enacted or hereafter amended, and the Uniform Commercial Code of the State of Oregon, as applicable;

(v) institute an action, suit or proceeding in equity for the specific performance of any covenant, condition or agreement contained herein, in the Note or the Other Security Documents;

(vi) recover judgment on the Note either before, during or after any proceedings for the enforcement of this Deed of Trust;

(vii) apply for the appointment of a trustee, receiver, liquidator or conservator of the Mortgaged Property, without notice and without regard for the adequacy of the security for the Debt or the solvency of Borrower, any Guarantor or of any person, firm or other entity liable for the payment of the Debt;

(viii) enforce Lender's interest in the Leases and Rents and enter into or upon the Mortgaged Property, either personally or by its agents, nominees or attorneys and dispossess Borrower and its agents and servants therefrom, and thereupon Lender may: (A) use, operate, manage, control, insure, maintain, repair, restore and otherwise deal with all and every part of the Mortgaged Property and conduct the business thereat; (B) complete any construction on the Mortgaged Property in such manner and form as Lender deems advisable; (C) make alterations, additions, renewals, replacements and improvements to or on the Mortgaged Property; (D) exercise all rights and powers of Borrower with respect to the Mortgaged Property, whether in the name of Borrower or otherwise, including, without limitation, the right to make, cancel, enforce or modify Leases, obtain and evict tenants, and demand, sue for, collect and receive all earnings, revenues, rents, issues, profits and other income of the Mortgaged Property and every part thereof; and (E) apply the receipts from the Mortgaged Property to the payment of the Debt, after deducting therefrom all expenses (including reasonable attorney fees) incurred in connection with the aforesaid operations and all amounts necessary to pay the Taxes, assessments, Insurance Premiums and Other Charges in connection with the Mortgaged Property, as well as just and reasonable compensation for the services of Lender, its counsel, agents and employees; or

(ix) pursue such other rights and remedies as may be available at law and in equity.

In the event of a sale, by foreclosure or otherwise, of less than all of the Mortgaged Property, this Deed of Trust shall continue as a lien on the remaining portion of the Mortgaged Property.

(b) To the extent permitted by applicable law, Trustee may adjourn from time to time any sale by it to be made under or by virtue of this Deed of Trust by announcement at the time and place appointed for such sale or for such adjourned sale or sales; and, except as otherwise provided by law, Trustee, without further notice or publication, may make such sale at the time and place to which the same shall be so adjourned.

(c) Upon the completion of any sale or sales made by Trustee under or by virtue of this Deed of Trust, Trustee, or an officer of any court empowered to do so, shall execute and deliver to the purchaser or purchasers a good and sufficient instrument, or good and sufficient instruments, conveying, assigning and transferring all estate, right, title and interest in and to the property and rights sold. Trustee is hereby irrevocably appointed the true and lawful attorney of Borrower, in its name and stead, to make all necessary conveyances, assignments, transfers and deliveries of the Mortgaged Property and rights so sold, and for that purpose Trustee may execute all necessary instruments of conveyance, assignment and transfer, and may substitute one or more persons with like power, Borrower hereby ratifying and confirming all that Trustee or such substitute or substitutes shall lawfully do by virtue hereof. Any such sale or sales made under or by virtue of this Deed of Trust, whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale, shall operate to divest all the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Borrower in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against Borrower and against any all persons claiming or who may claim the same, or any part thereof from, through or under Borrower.

(d) Upon any sale made under or by virtue of this Deed of Trust (whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale), Lender may bid for and acquire the Mortgaged Property or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the Debt the net sales price after deducting therefrom (to the extent allowed by applicable law) the expenses of the sale and costs of the action and any other sums which Lender is authorized to deduct under this Deed of Trust.

(e) No recovery of any judgment by Lender and no levy of an execution under any judgment upon the Mortgaged Property or upon any other

property of Borrower shall affect in any manner or to any extent the lien of this Deed of Trust upon the Mortgaged Property or any part thereof, or any liens, rights, powers or remedies of Lender hereunder, but such liens, rights, powers and remedies of Lender shall continue unimpaired as before.

24. Late Charges. If any portion of the Debt is not actually received by Lender by close of business on the tenth (10th) day after the date on which it was due, Borrower shall pay to Lender an amount (the "Late Charge") equal to the lesser of five percent (5%) of such unpaid portion of the Debt or the maximum amount permitted by applicable law, to defray the expenses incurred by Lender in handling and processing such delinquent payment and to compensate Lender for the loss of the use of such delinquent payment. All such Late Charges shall be automatically due and payable without any notice or demand and shall be secured by this Deed of Trust and the Other Security Documents.

25. Changes in the Laws Regarding Taxation. If any law is enacted or adopted or amended after the date of this Deed of Trust which deducts the Debt from the value of the Mortgaged Property for the purpose of taxation or which imposes a tax, either directly or indirectly, on the Debt or Lender's interest in the Mortgaged Property, Borrower will pay such tax, with interest and penalties thereon, if any. In the event Lender is advised by counsel chosen by it that the payment of such tax or interest and penalties by Borrower would be unlawful or taxable to Lender or unenforceable or provide the basis for a defense of usury, then in any such event, Lender shall have the option, by written notice of not less than ninety (90) days, to declare the entire Debt immediately due and payable; provided, however, that no Prepayment Consideration shall be required solely as a result of a prepayment required by any such declaration.

26. No Credits on Account of the Debt. Borrower will not claim or demand or be entitled to any credit or credits on account of the Debt for any part of the Taxes or Other Charges assessed against the Mortgaged Property, or any part thereof, and no deduction shall otherwise be made or claimed from the assessed value of the Mortgaged Property, or any part thereof, for real estate tax purposes by reason of this Deed of Trust or the Debt. In the event such claim, credit or deduction shall be required by law, Lender shall have the option, by written notice of not less than ninety (90) days, to declare the entire Debt immediately due and payable; provided, however, that no Prepayment Consideration shall be required solely as a result of a prepayment required by any such declaration.

27. Documentary Stamps. If at any time the United States of America, any State thereof or any subdivision of any such State shall require revenue or other stamps

to be affixed to the Note or this Deed of Trust, or impose any other tax or charge on the same, Borrower will pay for the same, with interest and penalties thereon, if any.

28. Usury Laws. This Deed of Trust, the Other Security Documents and the Note are subject to the express condition that at no time shall Borrower be obligated or required to pay interest on the Debt or any other charges at a rate which could subject Lender to either civil or criminal liability as a result of being in excess of the maximum interest rate which Borrower is permitted by law to contract or agree to pay. If by the terms of this Deed of Trust, the Other Security Documents or the Note, Borrower is at any time required or obligated to pay any such amounts at a rate in excess of such maximum rate, the rate of interest under the Note shall be deemed to be immediately reduced to such maximum rate and the interest payable shall be computed at such maximum rate and all previous payments in excess of such maximum rate shall be deemed to have been payments in reduction of the principal and not on account of the interest due hereunder.

29. Right of Entry. Lender and its agents shall have the right to enter and inspect the Mortgaged Property at all reasonable times.

30. Reasonable Use and Occupancy. In addition to the rights which Lender may have herein, upon the occurrence of any Event of Default, Lender, at its option, may require Borrower to pay monthly in advance to Lender, or any receiver appointed to collect the Rents, the fair and reasonable rental value for the use and occupation of such part of the Mortgaged Property as may be occupied by Borrower, or may require Borrower to vacate and surrender possession of the Mortgaged Property to Lender or to such receiver and, in default thereof, Borrower may be evicted by summary proceedings or otherwise.

31. Security Agreement. This Deed of Trust is both a real property deed of trust and a "security agreement" within the meaning of the Uniform Commercial Code adopted and enacted by the State of Oregon (the "Uniform Commercial Code"), made by and between Borrower, as debtor, and Lender, as secured party, and by and between Borrower, as debtor, and Trustee, as secured party. Borrower by executing and delivering this Deed of Trust has granted and hereby grants to Lender, as security for the Debt, a security interest in the Mortgaged Property to the full extent that the Mortgaged Property may be subject to the Uniform Commercial Code (said portion of the Mortgaged Property so subject to the Uniform Commercial Code being herein referred to as the "Collateral"). As to all of the Mortgaged Property which is or hereafter becomes a "fixture" under applicable law, this Deed of Trust shall constitute a fixture filing under ORS §§ 79.3130 and 79.4020(6) of the Uniform Commercial Code as from time to time amended. If an Event of Default shall occur, Lender and

Trustee, in addition to any other rights and remedies which they may have, shall have and may exercise immediately and without demand any and all rights and remedies granted to a secured party upon default under the Uniform Commercial Code, including, without limiting the generality of the foregoing, the right to take possession of the Collateral or any part thereof, and to take such other measures as Trustee or Lender may deem necessary for the care, protection and preservation of the Collateral. Upon request or demand of Lender or Trustee, Borrower shall at its expense assemble the Collateral and make it available to Lender or Trustee at a convenient place acceptable to Lender or Trustee. Borrower shall pay to Lender or Trustee on demand any and all expenses, including legal expenses and attorney fees, incurred or paid by Lender or Trustee in protecting the interest in the Collateral and in enforcing the rights hereunder with respect to the Collateral. Any notice of sale, disposition or other intended action by Lender or Trustee with respect to the Collateral sent to Borrower in accordance with the provisions hereof at least five (5) days prior to such action, shall constitute commercially reasonable notice to Borrower. The proceeds of any disposition of the Collateral, or any part thereof, may be applied by Lender to the payment of the Debt in such priority and proportions as Lender in its discretion shall deem proper.

32. Actions and Proceedings. Lender or Trustee has the right to appear in and defend any action or proceeding brought with respect to the Mortgaged Property and to bring any action or proceeding, in the name and on behalf of Borrower, which Lender, in its discretion, decides should be brought to protect its interest in the Mortgaged Property. Lender shall, at its option, be subrogated to the lien of any deed of trust, mortgage or other security instrument discharged in whole or in part by the Debt, and any such subrogation rights shall constitute additional security for the payment of the Debt.

33. Waiver of Counterclaim. Borrower hereby waives the right to assert a counterclaim, other than a mandatory or compulsory counterclaim, in any action or proceeding brought against it by Lender, and, to the extent permitted by law, waives trial by jury in any action or proceeding brought by either party hereto against the other or in any counterclaim asserted by Lender against Borrower, or in any matters whatsoever arising out of or in any way connected with this Deed of Trust, the Note, any of the Other Security Documents or the Debt.

34. Recovery of Sums Required to Be Paid. Lender shall have the right from time to time to take action to recover any sum or sums which constitute a part of the Debt as the same become due, without regard to whether or not the balance of the Debt shall be due, and without prejudice to the right of Lender or Trustee thereafter to bring

an action of foreclosure, or any other action, for a default or defaults by Borrower existing at the time such earlier action was commenced.

35. Marshalling and Other Matters. Borrower hereby waives, to the extent permitted by law, the benefit of all appraisement, valuation, stay, extension, reinstatement, redemption and similar laws now or hereafter in force and all rights of marshalling in the event of any sale hereunder of the Mortgaged Property or any part thereof or any interest therein. Further, Borrower hereby expressly waives any and all rights of redemption from sale under any order or decree of foreclosure of this Deed of Trust on behalf of Borrower, and on behalf of each and every person acquiring any interest in or title to the Mortgaged Property subsequent to the date of this Deed of Trust and on behalf of all persons to the extent permitted by applicable law.

36. Hazardous Waste. Borrower hereby represents and warrants to Lender that, to the best of Borrower's knowledge, after due inquiry and investigation: (a) except as disclosed to Lender in the environmental report specifically referred to in an addendum (if any) attached hereto, the Mortgaged Property is not in violation of any local, state, federal or other governmental authority, statute, ordinance, code, order, decree, law, rule or regulation pertaining to or imposing liability or standards of conduct concerning environmental regulation, contamination or cleanup including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, as amended ("CERCLA"), the Resource Conservation and Recovery Act, as amended ("RCRA"), and any state superlien and environmental cleanup statutes (collectively, "Environmental Laws"); (b) the Mortgaged Property is not subject to any private or governmental lien or judicial or administrative notice or action relating to hazardous and/or toxic, dangerous and/or regulated, substances, wastes, materials, pollutants or contaminants, petroleum, petroleum by-products, friable asbestos, tremolite, anthophyllite or actinolite or polychlorinated biphenyls (including, without limitation, any raw materials which include hazardous constituents) and any other substances or materials which are included under or regulated by Environmental Laws (collectively, "Hazardous Substances"); (c) except as disclosed to Lender in the environmental report specifically referred to in an addendum (if any) attached hereto, no Hazardous Substances are or have been discharged, generated, treated, disposed of or stored on, incorporated in, or removed or transported from the Mortgaged Property otherwise than in compliance with all Environmental Laws; and (d) except as disclosed to Lender in the environmental report specifically referred to in an addendum (if any) attached hereto, no underground storage tanks exist on any of the Mortgaged Property.

Notwithstanding anything previously disclosed to Lender, so long as Borrower owns or is in possession of the Mortgaged Property, Borrower shall keep or cause the Mortgaged Property to be kept free from Hazardous Substances and in compliance

with all Environmental Laws and shall notify Lender within five (5) business days after Borrower becomes aware of the existence of any Hazardous Substances on, or any alleged or actual violation of any Environmental Laws with respect to, the Mortgaged Property. Borrower shall remove any such Hazardous Substances and/or cure any such violations, as applicable, as required by law, promptly after Borrower becomes aware of same, at Borrower's sole expense. Additionally, Borrower shall obtain and implement an asbestos-containing material operations and maintenance program for all identified and presumed asbestos-containing materials on or in the Mortgaged Property. Nothing herein shall prevent Borrower from recovering such expenses from any other party (excluding Lender and Trustee) that may be liable for such removal or cure. If, at any time and from time to time while this Deed of Trust is in effect, Lender has reasonable cause to believe that Borrower has violated, or permitted any violations, under this paragraph 36, then Borrower shall provide, at Borrower's sole expense, an inspection or audit of the Mortgaged Property prepared by a licensed hydrogeologist or licensed environmental engineer approved by Lender indicating the presence or absence of Hazardous Substances on, or violation of Environmental Laws at the Mortgaged Property. If Borrower fails to provide such inspection or audit within thirty (30) days after such request, Lender may order same, and Borrower hereby grants to Lender and its employees and agents access to the Mortgaged Property to undertake such inspection or audit. The cost of such inspection or audit shall be immediately due and payable, shall be added to the Debt and shall bear interest at the Default Rate from the date expended by Lender until paid by Borrower. The obligations and liabilities of Borrower under this paragraph 36 shall survive any termination, satisfaction, or assignment of this Deed of Trust and the exercise by Lender of any of its rights or remedies hereunder, including but not limited to, the acquisition of the Mortgaged Property by foreclosure or by a conveyance in lieu of foreclosure.

37. Access Laws.

(a) Borrower agrees that the Mortgaged Property shall at all times comply with the requirements of the Americans with Disabilities Act of 1990, the Fair Housing Amendments Act of 1988, all similar state and local laws and ordinances related to access and all rules, regulations, and orders issued pursuant thereto including, without limitation, the Americans with Disabilities Act Accessibility Guidelines for Buildings and Facilities (collectively the "Access Laws").

(b) Notwithstanding any provisions set forth herein or in any other document regarding Lender's approval of alterations of the Mortgaged Property, Borrower shall not alter the Mortgaged Property in any manner which would increase Borrower's responsibilities for compliance with the applicable Access Laws without

the prior written approval of Lender. The foregoing shall apply to tenant improvements constructed by Borrower or by any of its tenants. Lender may condition any such approval upon receipt of a certificate of an architect, engineer or other person acceptable to Lender regarding compliance with applicable Access Laws.

(c) Borrower agrees to give prompt notice to Lender of the receipt by Borrower of any complaints related to any violations of any Access Laws and of the commencement of any proceedings or investigations which relate to compliance with applicable Access Laws.

38. Indemnification. In addition to any other indemnifications provided herein or in the Other Security Documents, Borrower shall protect, defend, indemnify and save harmless Lender and Trustee from and against all liabilities, obligations, claims, demands, damages, penalties, causes of action, losses, fines, costs and expenses (including without limitation reasonable attorney fees and expenses), imposed upon, incurred by or asserted against Lender or Trustee by reason of: (a) ownership of this Deed of Trust, the Mortgaged Property or any interest therein or receipt of any Rents; (b) any accident, injury to or death of persons or loss of or damage to property occurring in, on or about the Mortgaged Property or any part thereof or on the adjoining sidewalks, curbs, adjacent property or adjacent parking areas, streets or ways; (c) any use, non-use or condition in, on or about the Mortgaged Property or any part thereof or on adjoining sidewalks, curbs, adjacent property or adjacent parking areas, streets or ways; (d) any failure on the part of Borrower or Trustee to perform or comply with any of the terms of this Deed of Trust; (e) performance of any labor or services or the furnishing of any materials or other property in respect of the Mortgaged Property or any part thereof; (f) the presence, disposal, escape, seepage, leakage, spillage, discharge, emission, release or threatened release of any Hazardous Substance on, from or affecting: (I) the Mortgaged Property; or (II) any other property by reason of any use or ownership of the Mortgaged Property or any action or inaction by Borrower; (g) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to any Hazardous Substance; (h) any lawsuit brought or threatened, settlement reached, or government order relating to any Hazardous Substance on, from or affecting: (I) the Mortgaged Property; or (II) any other property by reason of any use or ownership of the Mortgaged Property or any action or inaction by Borrower; (i) any violation of the Environmental Laws, which are based upon or in any way related to any Hazardous Substance including, without limitation, the costs and expenses of any remedial action, attorney and consultant fees, investigation and laboratory fees, court costs, and litigation expenses; and (j) any failure of the Mortgaged Property to comply with any Access Laws. Any amounts payable to Lender or Trustee by reason of the application of this indemnification shall be secured by this Deed of Trust and the Other Security Documents, shall become

immediately due and payable and shall bear interest at the Default Rate from the date loss or damage is sustained by Lender or Trustee until paid. The obligations and liabilities of Borrower under this paragraph 38 shall survive any termination, satisfaction or assignment of this Deed of Trust and the exercise by Lender of any of its rights or remedies hereunder, including, but not limited to, the acquisition of the Mortgaged Property by foreclosure or a conveyance in lieu of foreclosure.

39. Notices. Except as otherwise specified herein, any notice, consent, request or other communication required or permitted to be given hereunder shall be in writing, addressed to the other party as set forth below (or to such other address or person as any party or person entitled to notice may by notice to the other parties specify), and shall be: (a) personally delivered; (b) delivered by Federal Express or some comparable overnight delivery service; or (c) transmitted by United States certified mail, return receipt requested with postage prepaid; to:

Lender: MIDLAND LOAN SERVICES, L.P.
210 West 10th Street, 6th Floor
Kansas City, Missouri 64105

Borrower: APPLGATE TRAIL APARTMENTS LIMITED
PARTNERSHIP
c/o Bowen Real Estate Group
2260 U.S. Bancorp Tower
111 SW Fifth Avenue
Portland, Oregon 97204

and, after January 1, 1997

APPLGATE TRAIL APARTMENTS LIMITED
PARTNERSHIP
c/o Bowen Real Estate Group
121 SW Morrison, Suite 1000
Portland, Oregon 97204

Trustee: OREGON TITLE INSURANCE COMPANY
1515 S.W. Fifth Avenue, Suite 800
Portland, Oregon 97201

Unless otherwise specified, all notices and other communications shall be deemed to have been duly given on the first to occur of actual receipt of the same or: (i) the date of delivery if personally delivered; (ii) one (1) business day after depositing the same

with the delivery service if by overnight delivery service; and (iii) three (3) business days following posting if transmitted by mail.

40. Authority.

(a) Borrower (and the undersigned representative of Borrower, if any) has full power, authority and right to execute, deliver and perform its obligations pursuant to this Deed of Trust, and to mortgage, give, grant, bargain, sell, alien, enfeoff, convey, confirm, pledge, hypothecate and assign the Mortgaged Property pursuant to the terms hereof and to keep and observe all of the terms of this Deed of Trust on Borrower's part to be performed.

(b) Borrower represents and warrants that Borrower is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended, and the related Treasury Department regulations, including temporary regulations.

41. Waiver of Notice. Borrower shall not be entitled to any notices of any nature whatsoever from Lender or Trustee except with respect to matters for which this Deed of Trust specifically and expressly provides for the giving of notice by Lender or Trustee to Borrower and except with respect to matters for which Lender or Trustee is required by applicable law to give notice, and Borrower hereby expressly waives the right to receive any other notice.

42. Remedies of Borrower. In the event that a claim or adjudication is made that Lender has acted unreasonably or unreasonably delayed acting in any case where by law or under the Note, this Deed of Trust or the Other Security Documents, it has an obligation to act reasonably or promptly, Lender shall not be liable for any monetary damages, and Borrower's remedies shall be limited to injunctive relief or declaratory judgment.

43. Sole Discretion of Lender. Wherever pursuant to this Deed of Trust, Lender exercises any right given to it to approve or disapprove, or any arrangement or term is to be satisfactory to Lender, the decision of Lender to approve or disapprove or to decide that arrangements or terms are satisfactory or not satisfactory shall be in the sole and absolute discretion of Lender and shall be final and conclusive, except as may be otherwise expressly and specifically provided herein.

44. Nonwaiver. The failure of Lender or Trustee to insist upon strict performance of any term hereof shall not be deemed to be a waiver of any term of this Deed of Trust. Borrower shall not be relieved of Borrower's obligations hereunder by

reason of: (a) the failure of Lender or Trustee to comply with any request of Borrower or any Guarantor to take any action to foreclose this Deed of Trust or otherwise enforce any of the provisions hereof, of the Note or the Other Security Documents; (b) the release, regardless of consideration, of the whole or any part of the Mortgaged Property, or of any person liable for the Debt or any portion thereof; or (c) any agreement or stipulation by Lender extending the time of payment or otherwise modifying or supplementing the terms of the Note, this Deed of Trust or the Other Security Documents. Lender may resort for the payment of the Debt to any other security held by Lender in such order and manner as Lender, in its discretion, may elect. Lender or Trustee may take action to recover the Debt, or any portion thereof, or to enforce any covenant hereof without prejudice to the right of Lender or Trustee thereafter to foreclose this Deed of Trust. The rights and remedies of Lender or Trustee under this Deed of Trust and the Other Security Documents shall be separate, distinct and cumulative and none shall be given effect to the exclusion of the others. No act of Lender or Trustee shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision. Trustee and Lender shall not be limited exclusively to the rights and remedies herein stated but shall be entitled to every right and remedy now or hereafter afforded at law or in equity.

45. No Oral Change. This Deed of Trust, and any provisions hereof, may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Borrower or Lender, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

46. Liability. If Borrower consists of more than one person, the obligations and liabilities of each such person hereunder shall be joint and several. This Deed of Trust shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns forever.

47. Inapplicable Provisions. If any term, covenant or condition of the Note or this Deed of Trust is held to be invalid, illegal or unenforceable in any respect, the Note and this Deed of Trust shall be construed without such provision.

48. Headings, etc. The headings and captions of various paragraphs of this Deed of Trust are for convenience of reference only and are not to be construed as defining or limiting, in any way, the scope or intent of the provisions hereof.

49. Duplicate Originals. This Deed of Trust may be executed in any number of duplicate originals and each such duplicate original shall be deemed to be an original.

50. Concerning Trustee. Trustee shall be under no duty to take any action hereunder except as expressly required hereunder or by law, or to perform any act which would impose upon Trustee any expense or liability, or require Trustee to institute or defend any suit in respect hereof, unless properly indemnified to Trustee's reasonable satisfaction. Trustee, by acceptance of this Deed of Trust, covenants to perform and fulfill the trusts herein created, being liable, however, only for willful negligence or misconduct, and hereby waives any statutory fee and agrees to accept reasonable compensation in lieu thereof for any services rendered by Trustee hereunder. Trustee may resign at any time upon giving thirty (30) days' notice to Lender. In the event of the death, removal, resignation, or refusal or inability to act of Trustee or any duly appointed successor Trustee, or in Lender's sole discretion for any reason whatsoever, Lender, from time to time without notice and without specifying any reason therefor and without applying to any court, may select and appoint a successor trustee by an instrument recorded wherever this Deed of Trust is recorded and all powers, rights, duties and authority of Trustee hereunder shall thereupon become vested in such successor. Such successor trustee shall not be required to give bond for the faithful performance of the duties of Trustee hereunder unless required by Lender. The procedure provided for in this Deed of Trust for the appointment of a successor for Trustee shall be in addition to and not in exclusion of any other provisions for such an appointment, by law or otherwise.

51. Trustee's Costs. Borrower shall pay all costs, fees and expenses incurred by Trustee and Trustee's agents and counsel in connection with Trustee's performance of its duties hereunder and all such costs, fees and expenses shall be secured by this Deed of Trust.

52. Definitions. Unless the context clearly indicates a contrary intent or unless otherwise specifically provided herein, words used in this Deed of Trust (including pronouns) shall include the corresponding masculine, feminine or neuter forms, and the singular form such words shall include the plural and vice versa. The word "Borrower" shall mean "each Borrower and any subsequent owner or owners of the Mortgaged Property or any part thereof or any interest therein"; the word "Lender" shall mean "Lender and any subsequent holder of the Note"; the word "Trustee" shall mean "Trustee and any subsequent holder of this Deed of Trust"; the word "Note" shall mean "the Note and any other evidence of indebtedness secured by this Deed of Trust"; the word "person" shall include an individual, corporation, partnership, trust, unincorporated association, government, governmental authority and any other entity;

and the words "Mortgaged Property" shall include any portion of the Mortgaged Property and any interest therein.

53. Homestead. Borrower hereby waives and renounces all homestead and exemption rights provided by the constitution and the laws of the United States and of any state, in and to the Mortgaged Property as against the collection of the Debt, or any part hereof.

54. Assignments. Lender shall have the right to assign or transfer its rights under this Deed of Trust without limitation. Any assignee or transferee shall be entitled to all the benefits afforded Lender under this Deed of Trust.

55. Exculpation. Notwithstanding anything to the contrary contained in this Deed of Trust, the liability of Borrower and its general partners (if any) for the payment of the Debt and for the performance of the other agreements, covenants and obligations contained herein, in the Note or in any of the Other Security Documents shall be limited as set forth in paragraph 12 of the Note.

56. Integration. This Deed of Trust, the Note and the Other Security Documents embody the entire agreement by and between Borrower and Lender with respect to the Loan, and any and all prior correspondence, discussions or negotiations are deemed merged therein; provided, however, that except to the extent inconsistent with law or the specific terms and provisions of this Deed of Trust, the Note and the Other Security Documents, all representations, warranties, statements, covenants and agreements of Borrower contained in any loan commitment and/or loan application executed in connection with the Loan shall survive the funding of the Loan, any termination, satisfaction, or assignment of this Deed of Trust and the exercise by Lender of any of its rights or remedies hereunder, including but not limited to, the acquisition of the Mortgaged Property by judicial or nonjudicial foreclosure or by a conveyance in lieu of foreclosure.

57. Applicable Law: Jurisdiction. This Deed of Trust shall be governed and construed in accordance with the laws of the State of Oregon, without regard to conflict of law provisions thereof. Borrower hereby submits to personal jurisdiction in the state courts located in said state and the federal courts of the United States of America (and any appellate courts taking appeals thereof) located in said state for the enforcement of Borrower's obligations hereunder and waives any and all personal rights under the law of any other state to object to jurisdiction within such state for the purposes of any action, suit, proceeding or litigation to enforce such obligations of Borrower. Borrower hereby waives and agrees not to assert, as a defense in any action, suit, proceeding or litigation arising out of or relating to this Deed of Trust, the Note

and/or any of the Other Loan Documents: (a) that it is not subject to such jurisdiction or that such action, suit, proceeding or litigation may not be brought or is not maintainable in those courts or that this Deed of Trust, the Note and/or any of the Other Loan Documents may not be enforced in or by those courts or that it is exempt or immune from execution; (b) that the action, suit, proceeding or litigation is brought in an inconvenient forum; or (c) that the venue of the action, suit, proceeding or litigation is improper.

58. Additional Terms and Provisions. Certain additional and supplemental terms and provisions of this Deed of Trust are set forth in the Addendum to Trust Deed, Security Agreement and Assignment of Leases and Rents attached hereto and incorporated herein by this reference.

59. Counterparts. This Deed of Trust may be executed in counterparts.

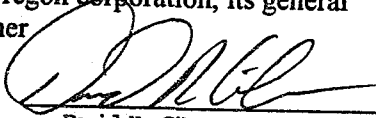
IN WITNESS WHEREOF, Borrower has executed this Trust Deed, Security Agreement and Assignment of Leases and Rents to be effective as of the day and year first above written.

"BORROWER":

APPLEGATE TRAIL APARTMENTS LIMITED
PARTNERSHIP, an Oregon limited partnership

By: Northwest Affordable Housing Partners
Limited Partnership, an Oregon limited
partnership, its general partner

By: Northwest Affordable Housing, Inc.,
an Oregon corporation, its general
partner

By: 
David R. Gibson, Secretary

[Printed Name and Title]

ACKNOWLEDGMENTS

State of Oregon

County of Multnomah

On this 21st day of October, 1996, before me personally appeared David R. Gibson, who being duly sworn, stated that he/she is the Secretary of Northwest Affordable Housing, Inc., an Oregon corporation, which is the general partner of Northwest Affordable Housing Limited Partnership, an Oregon limited partnership, which is the general partner of Applegate Trail Apartments Limited Partnership, an Oregon limited partnership, and acknowledged the foregoing instrument to be the voluntary act and deed of the corporation, executed by authority of its board of directors.



OFFICIAL SEAL
ANGELA M. RIVERS
NOTARY PUBLIC - OREGON
COMMISSION NO. 04096
MY COMMISSION EXPIRES APRIL 26, 1999

[Handwritten Signature]
(Signature of notarial officer)

Notary Public for Oregon

My commission expires: 4/6/99

EXHIBIT A**Legal Description**

A TRACT OF LAND SITUATED IN THE SW1/4 OF SECTION 11, TOWNSHIP 39 SOUTH, RANGE 9 EAST OF THE WILLAMETTE MERIDIAN, KLAMATH COUNTY, OREGON, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE INITIAL POINT ON THE SOUTH RIGHT OF WAY LINE OF BRISTOL AVENUE, FROM WHICH THE NORTHWEST CORNER OF TRACT NO. 1026 BEARS NORTH 89 DEGREES 32' 55" EAST 520.00 FEET AND S-N-S 1/256 CORNER BEARS SOUTH 89 DEGREES 38' WEST 916.15 FEET AND NORTH 30.00 FEET BY DEED; THENCE NORTH 89 DEGREES 32' 55" EAST ALONG SAID RIGHT OF WAY, 260.00 FEET, TO THE NORTHWEST CORNER OF THAT TRACT OF LAND DESCRIBED IN VOLUME M87, PAGE 14676, MICROFILM RECORDS OF KLAMATH COUNTY, OREGON; THENCE ALONG THE BOUNDARIES OF SAID TRACT AND THAT TRACT DESCRIBED IN VOLUME M96, PAGE 19616, MICROFILM RECORDS OF KLAMATH COUNTY, OREGON, SOUTH 00 DEGREES 27' 05" EAST 295.00 FEET AND NORTH 89 DEGREES 32' 55" EAST 150.00 FEET; THENCE SOUTH 00 DEGREES 27' 05" EAST 120.00 FEET; THENCE NORTH 89 DEGREES 32' 55" EAST 126.30 FEET, TO THE WESTERLY BOUNDARY OF TRACT 1026 - THE MEADOWS, A DULY RECORDED SUBDIVISION; THENCE ALONG SAID BOUNDARY SOUTH 22 DEGREES 42' 12" EAST 79.24 FEET AND SOUTH 37 DEGREES 56' 58" EAST 89.06 FEET; THENCE ALONG THE NORTHERLY RIGHT OF WAY LINE OF THE U.S.B.R. 1-C-3-B DRAIN, SOUTH 47 DEGREES 42' 00" WEST 152.16 FEET; THENCE ALONG THE NORTHERLY RIGHT OF WAY OF THE U.S.B.R. F-7 (A-3-C-) LATERAL, NORTH 59 DEGREES 30' 00" WEST 811.30 FEET TO THE WESTERLY LINE OF THAT PROPERTY DESCRIBED IN DEED VOLUME 284, PAGE 485, DEED RECORDS OF KLAMATH COUNTY, OREGON; THENCE FOLLOWING SAID WESTERLY LINE; NORTH 00 DEGREES 27' 05" WEST 61.45 FEET, NORTH 67 DEGREES 54' 55" EAST 202.89 FEET AND NORTH 00 DEGREES 27' 05" WEST 107.00 FEET TO THE POINT OF BEGINNING.

TOGETHER WITH AN EASEMENT AS EVIDENCED BY WARRANTY DEED DATED JUNE 14, 1976, RECORDED JUNE 28, 1976, IN VOLUME M76, PAGE 9724, MICROFILM RECORDS OF KLAMATH COUNTY, OREGON, AND AN EASEMENT AS EVIDENCED BY WARRANTY DEED DATED NOVEMBER 6, 1978, RECORDED NOVEMBER 20, 1978, IN VOLUME M78, PAGE 26188, MICROFILM RECORDS OF KLAMATH COUNTY, OREGON.

**ADDENDUM TO TRUST DEED,
SECURITY AGREEMENT
AND ASSIGNMENT OF LEASES AND RENTS**

This Addendum to Trust Deed, Security Agreement and Assignment of Leases and Rents contains certain additional and supplemental terms and provisions of the Trust Deed, Security Agreement and Assignment of Leases and Rents (the "Deed of Trust") dated as of October 21, 1996, executed by Applegate Trail Apartments Limited Partnership, as Borrower, in favor of Oregon Title Insurance Company, as Trustee for the benefit of Midland Loan Services, L.P., as Lender. The terms and provisions of this Addendum control and supersede any conflicting terms and provisions contained in the body of such Deed of Trust.

1. Environmental Report. The environmental report referred to in the Deed of Trust is the Final MCF Phase I Environmental Site Assessment dated September 16, 1996, prepared by Nobis Engineering, Inc. in favor of Midland Loan Services, L.P. .

STATE OF OREGON: COUNTY OF KLAMATH: ss.

Filed for record at request of Ameri title the 22nd day
of October A.D., 19 96 at 1:07 o'clock P.M., and duly recorded in Vol. M96
of Mortgages on Page 33394.

FEE \$205.00

Bernetha G. Letsch County Clerk
By Kathleen Rosa