

**METRO**

Date: December 14, 1993

To: Judy Wyers, Metro Council Presiding Officer

From: Neil Saling, Director of Regional Facilities

Re: Options for Metro Center

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Attached for your study are the Staff Reports which would accompany draft Resolution No. 93-1883 and draft Ordinance No. 93-526 which contain the Executive Officer's recommendation to sublease Metro Center. Included in these documents are the analyses of three other options for the future disposition of the building. (The option proposed by Mr. Cooper during our recent Executive Session on this topic is not included.) ~~Also attached is a copy of the Talking Paper distributed during our Executive Session.~~

The two factors which must be evaluated to reach a final decision in this matter are cost and risk. These factors are not independent, but all risks cannot be quantified in dollars. In hope of furthering everyone's understanding of the alternatives, the following discusses the nature of the important costs and risks.

**Costs**

**Lease Payments:** The Master Lease between Metro and AMCO obligates Metro to monthly lease payments of \$24,230. This equates to \$290,760 per year or \$726,900 for the thirty (30) months remaining on the Master Lease.

**Operating Costs:** Utility and maintenance costs as well as personnel and capital improvement costs constitute operating costs. For 1992-93 these costs averaged \$16,832 per month. Most recently, with the building at 10% occupancy, these costs have been about \$11,053 per month.

**Brokers Fees:** Metro's contract with CB Commercial provides for a fee of 5% per year for each five-year lease. The fee for 100% occupancy would approximate \$163,600.

**Tenant Improvements:** An allowance of \$15.00 per square foot is provided to each new long-term tenant for building out office space. Metro and AMCO have agreed to split such costs for any new Metro Center tenants.

**Taxes:** Taxes are generally included as an operating expense, but these are broken out as a separate cost since they are subject to the nature of the tenant. The cost of taxes ranges from \$2,160 per year which Metro would pay for one of the two present tenants up to an estimated \$48,887 per year with a building fully subleased.

**Capital Improvements:** Metro completed its required exterior painting of Metro Center last year. Improvements to accommodate multiple tenants include sprinklers for fire suppression and ADA accommodations. These improvements would be funded by the building owner. Replacement of the HVAC system is not anticipated, but could cost approximately \$150,000 if required.

**Excise Taxes:** Sublease revenues are subject to Excise Tax. While Metro would be viewed as reaping a net benefit "off the top", the tax must be accommodated within the market rates. This reduces the revenues available to defray cost. Over five years at full occupancy, Metro's Excise Tax revenues would approximate \$229,000.

### Risks

**HVAC System:** Although some of the distribution system would be replaced as a part of tenant improvements, the existing HVAC system could break down while Metro is still obligated to AMCO. Under the "triple-net" terms of the lease, repair is Metro's obligation.

**Occupancy Level:** Profit and loss are quite sensitive to the degree to which the building is occupied. Metro may approach a break-even point at 100% occupancy but, because lease payments to AMCO and operating costs remain almost constant, reductions in occupancy are almost directly proportional to increased loss.

**Unreliable Tenants:** Although both Metro and AMCO would carefully scrutinize each subtenant, the potential for business failure remains. A risk also exists that occupants may damage the building, requiring Metro to fund repairs.

**Building Deterioration:** Metro's level of maintenance must assure a clean, viable facility for turnover to AMCO at the end of the Master Lease. At whatever level of occupancy is chosen or is generated, Metro must continue to maintain and secure the facility.

**Full Building Tenant:** Metro's initial leasing efforts emphasized the location of a tenant to assume from Metro the responsibility for the full building. Such a tenant proved difficult to find. There is no guarantee a tenant equally acceptable to AMCO could be found before June 1996.

Shown at Enclosure 1 is a summary of the four options considered together with their cost arrayed over time. This chart shows graphically the higher up front costs of the Sublease Option. It also shows the risk of this option associated with the occupancy level. (A building occupancy of 90% is the break even point for payment of operating expenses.)

The following comments respond to Councilor questions or comments as I noted them during the Executive Session.

*for the five year period*

*but does not fully amortize the up-front costs.*

*annual*

ENCLOSURE 1

OPTION	TIME FRAME						TOTAL
	January 94 - June 94	July 94 - June 95	July 95 - June 96	July 96 - June 97	July 97 - June 98	July 98 - June 99	
STATUS QUO	-\$286,630	-\$373,260 *	0	0	0	0	-\$659,890
			-\$373,260	0	0	0	-\$1,033,150
MOTHBALL	-\$239,695	-\$279,390 *	0	0	0	0	-\$519,085
			-\$279,390	0	0	0	-\$798,475
BUYOUT	-\$1,200,000	0	0	0	0	0	-\$1,200,000
SUBLEASE (100%)	-\$605,526	+\$57,492	+\$57,492	+\$57,492	+\$57,492	+\$57,492	-\$318,053 **
SUBLEASE (85%)	-\$605,526	-\$33,780	-\$33,780	-\$33,780	-\$33,780	-\$33,780	-\$774,426 **
SUBLEASE (50%)	-\$605,526	-\$246,756	-\$246,756	-\$246,756	-\$246,756	-\$246,756	-\$1,839,306 **

\* Full building tenant found June 1995 (18 months)

\*\* Excludes 7% Excise Tax paid to Metro.

## STAFF REPORT

CONSIDERATION OF RESOLUTION NO. 93-1883 AUTHORIZING THE EXECUTIVE OFFICER TO EXTEND THE METRO MASTER LEASE WITH AMCO-PORTLAND, INC. FOR THE METRO CENTER FACILITY AND ENTER INTO SUBLEASES FOR PORTIONS OF THAT FACILITY.

Date: November 30, 1993

Presented by: Neil Saling

### Proposed Action

This resolution authorizes the Executive Officer to extend the current lease on Metro Center three (3) years to permit the subleasing of the facility for a period of five (5) years. It approves the proposed language of the Master Lease amendment as well as the format for the subleases.

### Background

Resolution No. 91-1494C authorized the Executive Officer to purchase the Sears facility thereby setting in motion the series of events which culminated in the renovation of that facility as the Metro Regional Center and the move of Metro offices. That analysis assumed that Metro would lease its unoccupied office space in Metro Center, but excluded the cost of such subleasing from its project cost analysis. The financial analysis of subleasing Metro Center anticipated a lease-up period of four (4) months achieving a 95% occupancy. The anticipated loss to Metro approximated \$50,000.

Staff, through its contractor CB Commercial, has continued to support the subleasing efforts in the belief that it presents the most cost effective method of completing the existing Master Lease with AMCO-Portland, Inc. Guidance to CB Commercial has consistently been to sublease the facility in such a way that Metro can break even on its expenses. As the subleasing has been delayed, it has become apparent that the break even goal will not be achieved.

Metro vacated the Metro Center facility in May 1993. Remaining in the building are two (2) tenants: Moskowitz and Thomas, Attorneys, and the Pacific Marine Fisheries Council. CB Commercial is under contract with Metro to procure new tenants for the facility and is now negotiating subleases with nine (9) prospective tenants including the two (2) who remain in the building.

CB Commercial has found subleasing the facility to be far more difficult than anticipated and, thus, more time consuming. To be competitive, CB Commercial is offering a \$15 per square foot tenant improvement allowance and a variable number of months of free rent after tenant occupancy in addition to providing parking with the sublease. Rental rates and the tenant improvement allowance are competitive with BOMA surveys and other buildings in the immediate vicinity.

The FY 1993-94 Budget reflects revenues from subleasing of Metro Center of \$511,216 and parking fees of \$78,120 based upon an assumption of occupancy rate approximating 85% in that fiscal year. That rate has not been achieved and anticipated revenues will fall far short of projections.

The present Metro/AMCO Master Lease terminates on June 30, 1996. From May 1993 when Metro vacated the facility to the termination date is 37 months. Metro is obligated to pay rent of \$896,510 (\$24,230 per month) through the end of the Master Lease. The Master Lease is a "triple-net" lease requiring Metro to perform all maintenance and repair and pay all taxes, utilities and assessments. AMCO has agreed to extend the Master Lease with Metro for a period of approximately thirty-six (36) months at the current rental rate to permit Metro to sublease the facility to one or more tenants for a period of five (5) years.

### Analysis

Notwithstanding the progress made by CB Commercial, Metro must anticipate a greater than projected loss in executing the remainder of its lease with AMCO-Portland, Inc. To minimize this net loss, four alternatives were evaluated: (1) maintain the status quo, (2) mothball the building, (3) buy out our remaining lease from AMCO, and (4) sublease the facility to the maximum extent possible. Each of these alternatives is examined below to determine relative costs, relative risks and potential political and public relations impact.

For the purpose of comparison, all four alternatives are assumed to commence on January 1, 1994. The impact of this assumption is that Metro is obligated to pay its rent for the seven (7) months from June 1993 through December 1993 without significant sublease revenues. The net rent obligation during this period, after subtracting sublease revenues from Moskowitz & Thomas, and Pacific Marine Fisheries Council is \$140,358. In addition, Metro Center operating costs for this seven (7) month period are estimated to be \$77,371, for a total sunk cost of \$217,729, of which \$186,625 is in FY 1993-94.

#### Status Quo Option

This option would continue the present operational mode of Metro Center until such time as a full building tenant was found to replace Metro. The subleases of the two remaining tenants would be extended. CB Commercial would discontinue marketing the building for multiple tenants and concentrate on a single building tenant.

While awaiting an acceptable full building tenant, Metro would incur building operating expenses as well as continue to make monthly lease payments to AMCO. Since leaving the building in May 1993, Metro has incurred operating expenses of \$11,053 per month. This is partially offset by revenues from the remaining tenants of \$4178 per month or a net operating cost approximating \$6875 per month. The monthly rent to Metro is \$24,230 resulting in a monthly expenditure of \$31,105.

One-time expenses include a brokers fee and associated space planning costs which may be incurred as a part of the marketing effort. These costs are estimated to be about \$175,000. Metro would assume no responsibility for tenant improvements and would ask AMCO to defray all or a major portion of the brokers fee and marketing costs on the basis that Metro receives little future benefit from the new tenant.

The risks of this option center primarily on the availability of a full building tenant. CB Commercial has continued to be sensitive to this sector of the market and reports a paucity of possible full building tenants. Thus, it is difficult to place an upper limit on costs short of the termination of the Master AMCO/Metro Lease. A second risk is the agreement by AMCO to share brokers fees and marketing costs. A final risk is the termination of the ongoing marketing effort which has produced nine (9) prospective tenants who have or are making firm plans to move to Metro Center. Metro may have some fiscal responsibility to accompany the negative public relations impacts of changing its building availability to tenants at this late date.

Assuming an early execution of a lease with a full building tenant within eighteen (18) months, the cost to Metro would approximate \$659,890. The upper end of the scale, based on no new lease before the end of the AMCO/Metro Master Lease, would approximate \$1,033,150.

#### Mothball Option

This option would place the building in a dormant status through the remaining 37 months of the Master Lease. The subleases of the two (2) remaining tenants would be terminated. Minimal utilities, security and landscape maintenance would be provided to keep the building in condition to turn over to AMCO in June 1996 in accordance with the Master Lease provisions. Marketing efforts to locate a full-building tenant could continue.

This option provides for a minimal risk to Metro. Beyond security and cosmetic maintenance, Metro would not utilize the utilities, and specifically the obsolescent HVAC system, during the mothball period. However, there is a political and public relations risk. Metro, through CB Commercial, has pursued subleases to the point of Council approval. In some cases, prospective tenants have given notice to their previous landlords and, in one case, are occupying temporary office space in Metro Center. Metro may be obliged to pay some form of damages and/or suffer public criticism.

The Financial Planning Division has estimated the cost to Metro of this option to be \$698,475. Payment of a brokers fee for CB Commercial's foregone effort (\$70,000) and cost of lost planning effort would raise the cost of this option to \$798,475 unless a full-building tenant were found before June 1996.

#### Buy-Out Option

This option has been pursued by the Metro General Counsel. It would permit Metro to turn over the facility to AMCO before June 1996, permitting AMCO to lease the facility to a new tenant. Until the negotiated turnover date, Metro could (a) continue to operate the facility with the two remaining tenants, or (b) mothball the facility.

Metro has been informed, however, that the AMCO starting price in this negotiation would approximate \$1.1 million. This AMCO proposal has been provided in writing to Metro. To this amount must be added a broker's fee for foregone effort and the cost of lost space planning effort. These costs approximate \$100,000.

Metro General Counsel has pursued this alternative to the point that additional negotiation would not result in a competitive cost and it is, therefore, not being actively pursued. Considerations with regard to prospective tenants apply as in the Status Quo and Mothball Options, i.e. a political and public relations risk exists in relation to not carrying out planned subleasing to prospective tenants.

#### Sublease Option

The original option and the one now being pursued is to sublease the facility to additional tenants to provide income to assist in defraying Metro's monthly rent obligation. This option, however, requires significant initial investment on the part of both Metro and AMCO and its cost is sensitive to operating costs and level of building occupancy.

Subleasing the facility would provide revenues to offset Metro's costs but would incur additional expenses. These include:

- **Tenant Improvements:** \$15.00 per square foot shared with AMCO, or approximately \$7.05 per square foot cost to Metro, or \$314,430 for a fully leased facility. Contracting for tenant improvements would be through AMCO.
- **Taxes:** Unless space is rented to a public entity, taxes would be about \$1.50 per square foot per year or a maximum of \$66,969 per year. Based upon the currently proposed tenant mix this would be reduced to approximately \$48,887.
- **Free Rent:** As an inducement to sublease space up to six (6) months of free rent has been offered to prospective tenants. Free rent is not an out-of-pocket expense, but rather it is a foregone revenue. As AMCO has agreed to fund half of this "expense" (probably through a rent offset), their participation reduces overall Metro rent payments.
- **Brokers' Fees:** Brokers' fees approximate 5% of the rent. For the fully leased facility, this would approximate \$32,700 per year or a total of \$163,600. Brokers fees are routinely paid in total at the time the lease is signed.

Using the five (5) year lease envisioned by AMCO, the added costs to Metro total as follows:

Tenant Improvements	\$314,430
Taxes	244,435
Brokers' Fees (\$32,700 x 5)	<u>163,600</u>
Subtotal	\$722,465

CB Commercial has formulated their rent proposals assuming a building operations cost of \$6.00 per square foot including taxes. This figure is based upon the 1993 Building Owners and Managers Association (BOMA) 1993 Experience Exchange Report. That report finds that downtown buildings in Portland of less than 50,000 square feet are averaging \$6.36 per square foot with a median cost of \$5.95 per square foot. Removing tax cost from these figures results in unit costs of \$5.11 and \$4.70 per square foot respectively.

Metro's experience in the facility reveals that historically annual costs exceed the BOMA experience factors. For the most recent fiscal year completed (FY 1992-93) the total cost of operations, less lease payments and taxes, was \$301,726 and the unit operating costs were \$6.77 per square foot. (Assuming a 3% inflation factor, these costs would become \$6.97 per square foot in FY 1993-94.)

The six (6) major areas of expense for FY 1992-93 are discussed below in the context of the mode of operation of the building while it is subleased.

- **Personal Services:** Metro Center Operations in FY 1992-93 required 1.45 FTE at a cost of \$52,905. It is estimated that a professional building management plus 0.20 FTE Metro support could suffice at a cost of approximately \$11,500. This is a reduction of approximately \$41,400 from FY 1992-93.
- **Miscellaneous:** Professional Services: This category covers the contract security guard services. The estimate for FY 1994-95 is \$19,752.00 or an increase of \$4,017.00 over FY 1992-93. The latter cost is appropriate.
- **Electricity:** As a part of the tenant improvements, the ceiling grid, tile, light fixtures and HVAC diffusers are proposed to be replaced. An analysis by PGE of the reduction in electricity costs based on the higher efficiency lighting fixtures and reduced numbers of fixtures would be \$14,320 per year. Further, PGE estimated that the

reduction in building operation hours from the extended Metro schedule to that of a more traditional office would reduce overall electrical consumption by 35% (from 5200 hours per year to 3328 hours per year). These two factors would reduce the FY 1992-93 electricity cost by \$45,000.

- **Building Cleaning:** Metro expended \$43,429 on cleaning services in FY 1992-93. The costs include both our janitorial services and window washing. Based upon our janitorial contract with Habilitation House, this figure appears correct for 100% occupancy of the facility.
- **Maintenance & Repair (Building):** Metro expended \$20,720 on building maintenance and repair in FY 1992-93. Of this amount, \$8850.28 was spent on the HVAC systems, \$4878.37 on locks and lock adjustment, and \$3538.59 on periodic elevator maintenance. The high HVAC cost results from an intensive rebuild effort. Also the locking device cost could be reduced as this cost in other years is significantly less. The M&R cost could be reduced by \$5000 as a minimum in FY 1994-95.
- **Capital Outlay:** Metro expended \$37,589 on leasehold improvements in FY 1992-93. Of this amount, approximately \$30,000 was spent on a one-time painting of the building exterior in accordance with a Master Lease provision.

The savings in operation of the Metro Center projected above could reduce the FY 1992-93 cost by \$121,400 to \$180,326 or reduce the unit operation cost to \$4.04 per square foot in FY 1992-93 dollars. Escalating this cost over two years at 3% results in a FY 1994-95 cost of approximately \$4.30 per square foot. Beyond FY 1994-95, subleases would provide for a pass-through of increased operating costs of up to 5%.

Utilizing these reductions as a base, a draft operating budget for the facility in FY 1994-95 was generated (Enclosure 1). The resultant annual operating cost would be \$211,341 before paying taxes, or \$4.74 per square foot.

Setting aside the sunk cost to Metro of operating the building from May 1993 through December 1993 as a basis for equitable comparisons, Metro would incur operational expenses through June 1999 of 66 months. Based on a unit cost of \$4.74 per square foot, the total operating cost becomes \$1,162,376. Summarizing all costs:

Tenant Improvements	\$314,430
Taxes	268,878
Brokers' Fees	163,600
Operating Expenses	1,162,376
Lease Payments	<u>1,599,180</u>
Subtotal	\$3,508,464
Free rent from AMCO	<u>-148,000</u>
Total	\$3,360,484

A weighted average of the unit costs to prospective tenants yields \$14.67 per square foot. At this rate, full occupancy of the building over sixty (60) months would produce revenues of \$3,271,410. Of this amount, \$229,000 would accrue to Metro as Excise Taxes at 7% leaving \$3,042,411 available to defray expenses.

The estimated loss to Metro from this option becomes \$318,053.

A comparison of the four alternative costs is shown below

Status Quo	\$659,890 to \$1,033,150
Mothball	\$798,475
Buy-Out	\$1,200,000
Sublease (full occupancy)	\$318,053
Sublease (85% occupancy)	\$1,839,306
Sublease (50% occupancy)	\$774,426

**Evaluation of Options:**

The Status Quo Option would continue Metro's obligation to maintain Metro Center, but at a reduced rate. The cost is directly dependent on the execution of a new lease with a full building tenant. It could prove less expensive than either the Mothball or Buy-Out Options. Along with the Mothball and Buy-Out Options, it has strong negative public relations implications if prospective tenants must find other office space.

The Mothball Option would terminate Metro's obligation to AMCO in June 1996 with no exposure to operational risks in the interim. The financial impact is primarily the payment of monthly lease payments for this period plus some building maintenance costs.

The Buy-Out Option would return the facility to AMCO at some point prior to June 1996. The final cost would be subject to negotiation, but the Option becomes financially less desirable than the Mothball Option as the negotiated buy-out price exceeds \$798,475. Based upon correspondence from AMCO, it appears a buyout price in this range would be difficult to achieve. Both these options will have a public relations impact as the prospective tenants, three of whom occupy the building now and two who have given notice to their present landlords, must be turned away from Metro Center.

The Sublease Option would extend the Master Lease for 3½ years, thus extending the responsibility for building operation and the corresponding operational risk. This option would also require upfront expenditures for tenant improvements not associated with the other options. The fiscal impact is also very sensitive to the operational costs. Based on comparison to the other options, and using an 85% occupancy rate, these costs can rise by \$293,656 over five years to be financially equivalent to the Mothball Option or about \$1.32 per square foot per year. Alternatively, the risk of this Option carries a contingency of \$293,656. A similar comparison with the Buy-Out Option is more difficult given the range in possible results. However, the risk offset would range from about zero to \$595,181. The cost of maintaining the status quo is somewhat more expensive than the Sublease Option at 85% occupancy and is more expensive if higher occupancy rates can be maintained. A major disadvantage of the Sublease Option is its high initial cost.

Based upon the foregoing analysis, the Sublease Option is sustained as the best course of action.

#### **Policy Impact**

Metro Code Section 2.04.033(a)(3) requires Council approval of the sale, lease or transfer of real property owned by the District. Although the Metro Center is not owned by Metro, the Metro General Counsel advises that this course of action should receive Council consideration and approval. To this end, the proposed changes to the Master Lease are contained at Enclosure 2. The format proposed for the various subleases to be utilized by the Executive Officer is attached at Enclosure 3.

#### **Fiscal Impact**

The fiscal impact of the proposed action has multiple facets and will necessitate an Ordinance to make budget modifications to implement the recommendations. The estimated net funding support required in FY 1993-94 approximates \$426,596. The FY 1993-94 budget anticipated combined sublease and parking revenues from Metro Center of \$589,336. As little as \$56,700 in revenues may be realized. Alternatively, expenses from July 1993 through December 1993 will be reduced as 90% of the building has been vacant. For January 1994 through June 1994, the building expenses will be dependent upon the option selected. These reduced revenues and revised expenditures will require a comprehensive amendment to the FY 1993-94 Building Management Fund budget.

The second aspect of the fiscal impact is the up-front costs which are required by the Sublease Option. Tenant Improvements, if 100% occupancy can be achieved in the third and fourth quarters of FY 1993-94, could total \$669,000. While AMCO has agreed to share this cost, Metro's share is estimated to cost approximately \$314,430. Further, brokers fees would total \$163,600 at full occupancy. Such fees are normally paid upon lease execution. Total up-front costs approximate \$478,030.

Funding support plus up-front costs approximate \$904,646. The source of these funds are anticipated to be savings from the refinancing of the Metro Regional Center Bonds and a loan from the Solid Waste Operating Fund. Ordinance No. 93-526, which accompanies this Resolution addresses the details of the funding changes.

#### **Recommendation**

The Executive Officer recommends approval of Resolution No. 93-1883.

**PROPOSED CHANGES TO  
AMCO/METRO MASTER LEASE**

1. Paragraph 1 (Page 22, Lines 7-10). "for a term of fourteen (14) years and three (3) months commencing March 1, 1985 and ending at 11:59p.m. on May 31, 1999" (the "initial term").
2. Paragraph 2 (Page 2, Lines 11-31 and Page 3, Lines 1-4). Delete in its entirety.
3. Paragraph 3.3 (Page 3, Line 21). Revise as follows: "the month of May 1999, and"
4. Paragraph 3.4 (Page 3, Lines 24-31 and Page 4, Lines 1-21). Delete in its entirety.
5. Add new paragraph 3.7 (Page 5, Line 6). "Lessor acknowledges that Lessee may offer periods of free rent as an inducement to prospective tenants to sublease the premises. Lessor agrees to share the cost of this free rent with the Lessee on an equal share basis."
6. Add new paragraph 7.4 (Page 9, Line 5). Add the following: "For the purpose of construction of tenant improvements during the period December 1993 through November 1999, Lessor agrees to act as contracting agent. Lessee shall provide planning and construction management services, and shall provide to Lessor the Lessee's share of such tenant improvement costs upon demand by Lessor. Selection of the construction contractor shall be at the discretion of the Lessor."
7. Paragraph 8.6 (Page 10, Line 23). Add the following: "under paragraphs 8.1, 8.2, 8.4, 8.5, 8.8, 13.2, 13.3 and".
8. Add new paragraph 8.8 (Page 11, Line 24). Add the following: "Upon sublease of part or all of the premises by the Lessee commencing November 1993, Lessor agrees to jointly fund the tenant improvements for the Sublessee based upon a mutually agreed division of the costs of such tenant improvements between Lessee and Lessor. The division of such tenant improvement costs, limited to a total of \$15.00 per square foot, shall be 47% Lessee and 53% Lessor. Lessor specifically agrees to fund a sprinkler system for the premises as well as necessary improvements to comply with the Americans with Disabilities Act. It is agreed that the costs of replacing the ceiling tile and grid and associated lighting and HVAC system as well as carpet shall be considered tenant improvements. All design and construction management costs shall be considered tenant improvement costs as well."
9. Paragraph 16.1 (Page 23, Line 27). Add the following: "promises by Lessee except for subleasing of the Premises in compliance with the provisions of paragraph 12".

## LEASE

This lease, made as of this 8th day of November, 1993, between Parametrix, Inc., hereinafter referred to as the "Lessee" and Metro, a municipal corporation and public body of the State of Oregon, hereinafter referred to as "Metro", and AMCO-Portland, Inc., a corporation, hereinafter referred to as "AMCO", the latter two entities collectively or singly referred to as "Lessor".

### WITNESSETH:

That Metro is the Lessee under that certain lease dated February 19, 1985, as amended by instruments dated November 3, 1993, between Metro and AMCO (the "Master Lease"). The premises of the Master Lease include the building at 2000 SW First Avenue, Portland, Oregon 97201, and the surrounding lands more particularly described in Exhibit A to the Master Lease. Metro will retain the relationship with AMCO prescribed in the Master Lease until May 31, 1999 at which time AMCO will assume direct control of the premises and the various leases thereof. References herein to "Lessor" shall mean "Metro" for the time period until May 31, 1999 and thereafter shall mean "AMCO".

Lessor desires to lease to Lessee a portion of the above property of approximately 8272 rentable square feet located on the 3rd floor of the building more particularly described in the attached Exhibit A, hereinafter referred to as the "Premises". Lessee desires to lease from Lessor the Premises.

NOW, THEREFORE, the parties agree as follows:

1. Agreement to Lease. Subject to the terms and conditions of this Lease and to AMCO's consent, Lessor hereby leases the Premises to the Lessee and the Lessee leases the Premises from Lessor.
2. Use of Premises.
  - 2.1 Lessee shall use the Premises during the term of this Lease for general office use and meeting area, and for no other purpose whatsoever without Lessor's written consent, which shall not be unreasonably withheld. Lessee will not make any unlawful, improper or offensive use of the Premises, will not suffer any strip or waste thereof, will not permit any objectionable noise or odor to escape or be emitted from the Premises, or do anything or permit anything to be done upon or about the Premises in any way tending to create a nuisance. Subject to paragraph 7, Lessee may place or install in or upon the Premises such trade fixtures and equipment as it shall deem desirable for the conduct of its business therein. Personal property, trade fixtures and equipment used in the conduct of Lessee's business (including telephone system, computer system and wiring, and any other similar data processing equipment), as distinguished from fixtures and equipment used in connection with the physical operation and maintenance of the building and improvements, placed by Lessee in or upon the Premises shall not become a part of the realty, even if nailed or screwed or otherwise fastened to the Premises, but shall retain their status as personal property and may be removed by Lessee at any time. Any damage caused the Premises by the installation, use or removal of such property shall be repaired by Lessee at its expense. Any personal property, trade fixtures and equipment not used in connection with the physical operation of the Premises and belonging to Lessee, if not removed upon the expiration of the term of this Lease (or, in the event of the sooner termination of this Lease, within twenty (20) days after such termination) shall, at the option of Lessor, be deemed abandoned and shall become the property of Lessor without any payment or offset therefor.
  - 2.2 Lessee acknowledges that the Premises are a part of a multi-tenant facility, leased by a group of firms and agencies providing professional services. Lessee shall maintain its premises and conduct its business in a manner consistent with the highest professional standards. Lessee will not permit its employees, invitees, clients or guests to interfere with the use of the facility by Lessor or other tenants by making excessive noise, littering or engaging in any other conduct in the common areas of the building which diminish the desirability of the Premises.
3. Term. This Lease shall be for a period commencing on January 1, 1994 or upon substantial completion of improvements, whichever occurs last, and ending on May 31, 1999 (the "Term").

4. Security Deposit. Concurrently with Lessee's execution of this Lease, Lessee shall deposit with Lessor a security deposit in the amount of Eight Thousand Nine Hundred Sixty-One Dollars and Thirty-Three Cents (\$8,961.33). Lessee shall not be entitled to interest on the security deposit. If Lessee defaults with respect to any provisions relating to the payment of rent and any of the monetary sums due herewith, Lessor may (but shall not be required to) use, apply or retain all or any part of this security deposit for the payment of any other sum which Lessor may spend or become obligated to spend by reason of Lessee's default or to compensate Lessor for any other loss or damage which Lessor may suffer by reason of Lessee's default. If any portion of said deposit is so used or applied, Lessee shall, within ten (10) days after written demand therefor, deposit cash with Lessor in an amount sufficient to restore the security deposit to its original amount; Lessee's failure to do so shall be a material breach of this Lease. Lessor shall not be required to keep this security deposit separate from its general funds. If Lessee shall fully and faithfully perform every provision of this Lease to be performed by Lessee, the security balance or any balance thereof shall be returned to Lessee within a reasonable time but not later than fifteen (15) days following the expiration of this Lease term or any earlier termination of this Lease by mutual agreement (so long as Lessee is not in default hereunder) and after Lessee has vacated the Premises. In the event of termination of Lessor's interest in this Lease, Lessor shall transfer said deposit to its successor in interest, whereupon Lessee shall release Lessor from all liability for the return of such deposit or the accounting therefor, it being understood and agreed that, without future agreement by anyone, such successor in interest shall be bound by the preceding sentence with respect to a return of the security deposit or any balance thereof.
  
5. Rent.
  - 5.1 For the first six calendar months of the Term of the Lease (i.e. a period ending June 30, 1994), Lessee has paid to Lessor a sum of Ten Dollars (\$10.00), receipt whereof is hereby acknowledged by Lessor.
  
  - 5.2 For the next 35 calendar months of the Term of the Lease, Lessee shall pay Metro as rent for the Premises in advance on the first day of each calendar month the sum of \$8,961.33; thereafter, for the Term of the Lease, Lessee shall pay \$9,995.33 each month in a similar manner. (See Rent Schedule, Addendum to Lease.)
  
  - 5.3 Rent includes that portion of Lessee's share of Direct Costs and of Building Taxes allocable to the Premises.
  
6. Condition of Premises. Notwithstanding anything to the contrary in the Master Lease, Lessee accepts the Premises in their "AS IS" condition. However, the building will be brought to full ADA compliance at the sole cost of the Lessor. Lessee acknowledges and agrees that Lessor has not undertaken any obligation to make or agreed to make any alteration or improvements to the Premises for Lessee's use or occupancy thereof except as provided in Section 7 below, and the Addendum to Lease.
  
7. Tenant Improvements, Alterations, Maintenance and Repairs.
  - 7.1 During the term of this Lease, Lessee may construct and install tenant improvements, alterations, additions and utility installations in and to the Premises, provided that (i) the design, plans and specifications for all such tenant improvements, alterations, additions and utility installations, and (ii) the identity of the contractor(s) engaged to construct and install the same, are approved in writing by Lessor prior to the commencement of the work. Lessor agrees not unreasonably to withhold its approval of the matters described in clauses (i) and (ii) of the preceding sentence. However, as a condition to giving such approval, Lessor may require that Lessee agree to remove any such tenant improvements, alterations, additions or utility installations at the expiration of the Term, and to restore the Premises to their prior condition. As a further condition to giving such consent, Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a payment and performance bond in form acceptable to Lessor, in a principal amount not less than one hundred twenty-five percent (125%) of the estimated cost of such improvements, to insure Lessor against any liability for construction, mechanics' and material men's liens and to insure completion of the work.. As used in this paragraph 7.1, the term "utility installations" shall include ducting, power panels, lighting fixtures, space heaters, piping, conduits and wiring.

- 7.2 Lessee shall pay, when due, all lawful claims for labor or materials furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any construction, mechanics' or material men's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law.
- 7.3 All partitions (except furniture partitions and half wall or demountable partition walls not connected to ceiling tiles), plumbing, utility installations (except such as are an integral part of a telephone system, computer system or other similar data processing equipment), alterations of, additions to or improvements upon the Premises, whether installed by Lessor or Lessee, shall be or become a part of the Premises as soon as installed and the property of Lessor unless otherwise provided herein or agreed to in writing by Lessor.
- 7.4 Landlord agrees to have shower facilities available for tenants' use throughout the term of the Lease.
8. Repairs by Lessor. At any time when Lessor is required hereunder to do any painting or to make any repairs, alterations, additions or improvements to or upon the Premises, or the building or improvements thereon, Lessor, its agents and contractors, may erect scaffolding and all other necessary structures about and upon the Premises and may bring, use and store upon the Premises all materials, supplies, tools and equipment reasonable necessary for performance of the work. Lessor will use reasonable efforts to give Lessee adequate notice in advance of commencing any such work and to cause no undue interference with Lessee's use and occupancy of the Premises, but, except in the case of the negligent or willful acts or omissions of Lessor or Lessor's agents, contractors or employees, Lessor shall not in any event be liable for inconvenience, annoyance, disturbance, loss of business or other interference or damage to Lessee by reason of the performance of any such work, and the obligations of Lessee under this Lease shall not thereby be affected in any manner.
9. Compliance with Laws. Lessee agrees, at Lessee's own cost and expense, to comply with and observe all laws, ordinances, orders, rules, regulations or requirements of the United States of America, the State of Oregon, the County of Multnomah and the City of Portland, and all duly constituted authorities thereof, affecting the use and occupancy of the Premises.
10. Utilities and Government Impositions.
- 10.1 Lessor shall pay all utility charges, as well as assessments and other governmental impositions to include electricity, water, sewer, gas and other utility services furnished to the Premises as well as all taxes, assessments, personal property taxes, water rents, rates and charges.
- 10.2 To the extent that Lessee utilizes the Premises during business hours other than those cited in Section 10.3, and/or utilizes other than ordinary office equipment, Lessee will compensate Lessor for any added costs incurred, to be reasonably assessed.
- 10.3 Heating and air conditioning services shall be provided from 7:00a.m. to 7:00p.m. Monday through Friday, and 8:00a.m. to 12:00p.m. on Saturdays. Elevator service will be available at all times.
- 10.4 Landlord shall provide five (5) day per week janitorial services within Lessee's space at no charge to Lessee, but this will be included within the building operating expenses.
11. Condition of Premises in Lessee's Hands.
- 11.1 Lessee will not overload the floors of the Premises in such a way as to cause any undue or serious stress or strain upon the building on the Premises or any part thereof, and Lessor shall have the right at any time to call upon any competent engineer or architect whom Lessor may choose to decide whether or not the floors of said Premises or any part thereof are being overloaded so as to cause any undue or serious stress or strain on the building or any part thereof. The decision of said engineer or architect shall be final and binding upon the Lessee, and, in the event the engineer or architect so called upon shall decide that in his opinion the stress or strain is such as to endanger said building or any part thereof, then and in that event Lessee agrees immediately to relieve said stress or strain either by reinforcing the building or by lightening the load which causes such stress or strain in a manner satisfactory to Lessor.

11.2 Lessee shall not, without Lessor's written consent, install lighting or other electrical equipment or devices requiring power in excess of the standard amounts (load and usage) as determined from time to time by Lessor for normal office use of the Premises, and in no event shall Lessee overload the electrical circuits in or upon the Premises.

12. Default.

12.1 The failure of Lessee to perform any covenant, liability or obligation, as and when performance is due, under this Lease shall constitute a default by Lessee.

12.2 The occurrence of any one or more of the following events shall constitute a default by the Lessee.

12.2.1 The abandonment of the Premises by Lessee.

12.2.2 The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee unto Lessor hereunder within ten (10) business days after the same becomes due and payable.

12.2.3 Any attempted assignment, transfer, mortgage, encumbrance or subletting in contravention of paragraph 23 below.

12.2.4 The failure by Lessee to observe or perform any other of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's default is such that more than thirty (30) days is reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commences such cure within said thirty-day period and thereafter diligently prosecutes such cure to completion.

12.2.5 The making by Lessee of any general assignment or general arrangement for the benefit of creditors; the filing by or against Lessee of a petition to have Lessee adjudged bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days or the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days.

12.3 Should Lessor determine that Lessee may be in default, notice of such determination shall be provided in accordance with Section 19 below.

13. Remedies on Default by Lessor. In the event of any such material default or breach, Lessor may, at Lessor's option, exercise any one or more of the rights and remedies available to a landlord in the State of Oregon to redress such default, consecutively or concurrently, including the following:

13.1 Lessor may elect to terminate Lessee's right to possession of the Premises or any portion thereof by written notice to Lessee. Following such notice, Lessor may re-enter, take possession of the Premises and remove any persons or property by legal action or by self-help with the use of reasonable force and without liability for damages. To the extent permitted by law, Lessor shall have the right to restrain the personal property belonging to Lessee which is on the Premises at the time of re-entry, or the right to such other security interest therein as the law may permit, to secure all sums due or which become due to Lessor under this Lease. Perfection of such security interest shall occur by taking possession of such personal property or otherwise as provided by law.

13.2 Following re-entry by Lessor, Lessor may relet the Premises for a term longer or shorter than the term of this Lease and upon any reasonable terms, including the granting of rent concessions to the new tenant. Lessor may alter, refurbish or otherwise change the character or use of the Premises in connection with such reletting. Lessor shall not be required to relet for any use or purpose which Lessor may reasonably consider injurious to its property or to any tenant which Lessor may reasonably consider objectionable. No such reletting by Lessor following a default by Lessee shall be construed as an acceptance of the surrender of the Premises. If rent received upon such reletting exceeds the rent received under this Lease, Lessee shall have no claim to the excess.

13.3 Following re-entry, Lessor shall have the right to recover from Lessee the following damages:

13.3.1 All unpaid rent or other charges for the period prior to re-entry plus interest at the rate prescribed under paragraph 25 below.

13.3.2 An amount equal to the rent lost during any period during which the Premises are not relet, if Lessor uses reasonable efforts to relet the premises. If Lessor lists the Premises with a real estate broker experienced in leasing commercial property in Portland, Oregon, for reasonable terms at market rent such listing shall constitute the taking of reasonable efforts to relet the Premises.

13.3.3 The following costs incurred in reletting or attempting to relet the Premises: The cost of removing any personal property of Lessee from the Premises, the cost of cleanup and repair in preparation for a new tenant, the cost of correcting any defaults or restoring any unauthorized alterations, the amount of any real estate commissions and advertising expenses, the cost (including but not limited to a reasonable attorney's fee) for negotiating and preparing a new lease, and the cost to Lessor of such rent concessions below market rent as may reasonably be required to induce a new tenant to lease the Premises.

13.3.4 The difference between the rent reserved under this Lease and the amount actually received by Lessor after reletting at a market rate, as such amounts accrue

13.3.5 Reasonable attorneys' fees incurred in connection with the default, whether or not any litigation is commenced.

13.4 Lessor may sue periodically to recover damages as they accrue throughout the term of this Lease and no action for accrued damages shall be a bar to a later action for damages subsequently accruing. To avoid a multiplicity of actions, Lessor may obtain a decree of specific performance requiring Lessee to pay damages as they accrue. Alternatively, Lessor may elect in any one action to recover accrued damages plus the reasonable rental value of the premises for the remainder of the term, discounted to the time of the judgment at a reasonable discount rate.

13.5 In the event that Lessee remains in possession following default and Lessor does not elect to re-enter, Lessor may recover all back rent or other charges, plus interest at the rate prescribed under paragraph 25 below from the date of delinquency, and shall have the right to cure any default (other than one described at paragraph 12.2) and recover the cost of such cure from Lessee, plus interest at the rate prescribed under paragraph 25 below from the date of the expenditure. In addition, Lessor shall be entitled to recover attorneys' fees reasonably incurred in connection with the default, whether or not litigation is commenced. Lessor may sue to recover such amounts as they accrue, and no one action for accrued damages shall bar a later action for damages subsequently accruing.

13.6 The foregoing remedies shall not be exclusive but shall be in addition to all other remedies and rights provided hereunder or under applicable law, and no election to pursue one remedy shall preclude resort to another consistent remedy.

13.7 No action; of Lessor, other than Lessor's express written notice of the termination of this Lease, shall terminate this Lease or be construed as an acceptance of the surrender of the premises.

14. Default by Lessor. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within thirty (30) days after written notice by Lessee to Lessor and to the holder of any mortgage upon the premises whose name and address shall have therefore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation and provided, further, that if the nature of Lessor's obligation thirty (30) days is required for performance then Lessor shall not be in default if Lessor commences performance within such thirty-day period and thereafter diligently prosecutes the same to completion. At any time when Lessor is in default (as in this paragraph 14 provided) in the performance of any obligation to be performed by Lessor hereunder (other than a default relating to Lessor's failure to give a consent or approval that, under the terms of this Lease, may not be unreasonably withheld), Lessee shall have the right to cure such default and recover the cost of such cure from Lessor including reasonable attorney fees and costs, plus interest at the rate prescribed under paragraph 25 below from the date of the expenditure. In the event Lessor fails so to reimburse Lessee within thirty (30) days following Lessee's written demand for reimbursement, Lessee may offset against succeeding installments of the monthly rent hereunder the amount of such unpaid reimbursements.
15. Late Charge. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage upon the premises. accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) business days after such amount shall be due, Lessee shall pay to Lessor a late charge equal to five percent (5%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such over due amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. The late charge herein prescribed shall be in addition to and not in lieu of, any interest payable on amounts for which interest is recoverable hereunder.
16. Surrender of Premises. At the expiration or sooner termination of this Lease, Lessee shall surrender the Premises to Lessor (or those having Lessor's estate in the Premises) peaceably, quietly, broom-clean, and in as good order and condition (reasonable use and wear thereof alone excepted) as the same are in at the commencement of the term of this Lease (or as they may thereafter be put by Lessor or Lessee under the provisions of this Lease), Lessee shall remove alterations, improvements, additions and utility installations and restore the premises to their prior condition to the extent required by Lessor as a condition of having given consent under paragraph 7.1, and subject to paragraph 7.3, Lessee will remove therefrom all of Lessee's equipment, goods and effects which may be affixed to or contained in or upon the premises.
17. Condemnation. If the Premises described in Exhibit A to the Master Lease or any portion thereof is taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to any part of the premises so taken as of the date the condemning authority takes title or possession, whichever first occurs. If, in the event of condemnation, the sum of the following two percentages, to-wit:
- (i) The percentage of the floor area of the building on the premises that is taken by condemnation; plus
  - (ii) The percentage of the area of the premise now used for the parking of vehicles that is taken by condemnation,
- exceeds forty percent (40%), then, and in no other event, Lessee's option, to be exercised in writing within thirty (30) days after Lessor shall have given Lessee written notice, within ten (10) days after the condemning authority shall have taken possession), terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate the Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rental under paragraph 5 shall be reduced in the proportion that the floor area taken within the building on the premises bears to the total floor area within such building. Any award for the taking of all or any part of the entire premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whenever such award shall be made a compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to compensation for its loss, if any, of capita improvements installed in the premises by Lessee at Lessee's expense, in such amount as the Court may award; and provided, further, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable tangible personal property. In the event that this Lease is not

terminated by reason of such condemnation, Lessor shall repair any damage to the premises caused by such condemnation. In the event that the severance damages received by Lessor in connection with such condemnation are for any reason (including but not limited to application by a mortgagee of all or any part of the severance damages to the reduction of any indebtedness secured by a mortgage upon the premises) not sufficient to effect such repair, Lessor shall have the option to make such repair at Lessor's expense or to cancel and terminate this Lease.

18. Lessor's Access. Lessor and Lessor's agents shall have the right to enter the premises at reasonable items for the purpose of inspecting the same or showing the same to prospective purchasers or lenders. At no time prior to the last twelve (12) months of the term of this Lease shall Lessor place any "For Sale" or "For Lease" signs on or about the premises without the prior written consent of Lessee. Lessor may at any time during the last twelve (12) months of the term hereof place on or about the premises any "For Sale" and "For Lease" signs employed by realtors in Portland, Oregon in connection with commercial buildings of a size and utilization similar to the building on the premises and shall not hinder Lessee's normal daily functions. Lessor shall retain a key to all locked portions of the premises (except vaults and locked fire or storage cabinets) at all times. Lessee may not change locks upon the premises unless Lessee furnishes Lessor with a key thereto.
19. Notices. Any notices required or permitted to be given hereunder shall be in writing and may be served personally or by registered or certified mail, postage and registration or certification prepaid, addressed to Lessor and Lessee respectively at the addresses set forth beside their signatures at the end of this Lease. Such notices, if mailed, shall be deemed sufficiently served or given, for all purposes thereunder, five (5) days after the date they are deposited in the United States mail. Either party may, by like notice to the other party, at any time and from time to time, designate a different address to which notices shall be sent.
20. Signage. Lessor shall provide Lessee's name and/or logo on standard exterior building signage in accordance with design review requirements. In addition, Lessee shall be entitled to interior signage provided by Lessor. Lessee shall have no entitlement to exterior wall signage or to signs in any exterior window.
21. Insurance.
  - 21.1 Lessee agrees to secure, at its expense, the public liability and property damage insurance with respect to the Premises from an insurer meeting the standards thereof as indicated below. Metro and AMCO shall be named as additional insureds in said policy or policies, and Lessee agrees to provide Metro and AMCO with a certificate of insurance or other suitable evidence of said insurance prior to Lessee's occupancy of the Premises. Lessee hereby waives on behalf of itself and on behalf of its insurer any and all rights of recovery against Metro, AMCO and the officers, employees, agents and representatives of Metro or AMCO on account of loss or damage occasioned to Lessee or its property or the properties of others under its control caused by fire or any of the extended coverage risks described in the Master Lease to the insurance policy in force at the time of such loss or damage. Lessee shall give notice to its insurance carrier or carriers of the foregoing waiver of subrogation.
  - 21.2 Throughout the Term of this Lease, Lessee shall cause to be kept insured, at Lessee's sole cost and expense, all buildings and other improvements located on the Premises against loss or damage caused (a) by fire, windstorm and perils generally included under "extended coverage," (b) sprinkler leakage, (c) boilers and machinery, and (d) vandalism and malicious mischief. The amount of the insurance shall be sufficient to prevent either Lessor or Lessee from becoming a co-insurer under the provisions of the policy, but in no event shall the amount be less than ninety percent (90%) of the then actual replacement cost (exclusive of the cost of excavations, foundations and footings below the basement floor, but without deduction for depreciation and with not more than Ten Thousand Dollars (\$10,000.00) deductible from the loss payable for any casualty). Said policy or policies or insurance shall provide that payment for any losses covered under or by said policy or policies shall be made unto Lessor, and/or any mortgage or assigns designated by Lessor from time to time, and/or Lessee, as their respective interests may appear. Until such time as Lessor notifies Lessee that the amount of the insurance maintained by Lessee under this paragraph 21.2 is, in Lessor's opinion, less than the amount required by the second sentence of this paragraph 21.2, the amount of the insurance in force at any time, as evidenced by the certificate or certificates therefor furnished under paragraph 21.1, shall be deemed to be adequate under the second sentence of this paragraph 21.2.

- 21.3 Throughout the Term of this Lease, at Lessee's sole cost and expense, Lessee shall keep in force public liability insurance (naming Lessor as an additional insured) insuring Lessor and Lessee against any and all loss, liability and damage whatever for personal injury and property damage, or either, resulting from, or alleged to have resulted from negligence of the condition or use of the Premises, or of any building or other improvement situated thereon, or of any sidewalk one way adjacent to said Premises, with policy limits in such amounts as Lessor may at any time or from time to time require (provided, at the time, such policy amounts do not exceed those customarily maintained in connection with commercial properties of similar size and utilization in Portland, Oregon). In no event shall such policy limits be less than One Million Dollars (\$1,000,000.00) for property damage and One Million Dollars (\$1,000,000.00) for personal injury (whether or not resulting in death) suffered by one person and Two Million Dollars (\$2,000,000.00) for personal injuries (whether or not resulting in death) suffered by more than one person in one occurrence.
- 21.4 All insurance required by express provisions of this Lease shall be carried in responsible insurance companies licensed to do business in the State of Oregon. All such policies shall be nonassessable and shall contain language, to the extent obtainable, to the effect that (a) any loss shall be payable notwithstanding any act or negligence of Lessor that might otherwise result in a forfeiture of the insurance, and (b) the policies may not be canceled or materially changed except after thirty (30) days' notice by the insurer to Lessor or Lessor's designated representatives.
- 21.5 Lessee and Lessor each hereby waives any and all rights of recovery against the other, or against the officers, employees, agents and representatives of the other, for loss of or damage to such waiving party or its property or the property of others under its control, where such loss or damage is insured against under any insurance policy in force at the time of such loss or damage. Lessee shall, upon obtaining the policies of insurance required hereunder, give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.
- 21.6 Except as and to the extent of waiver of subrogation in paragraph 21.5, Lessee shall indemnify and hold harmless Lessor from any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any negligence of the Lessee, or any of Lessee's agents, contractors, employees, invitees or guests, and from and against all costs, attorneys' fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel satisfactory to Lessor. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property or injury to persons, in , upon or about the Premises arising from any cause except for (as to the extent of) the Lessor's negligence.
22. Subleasing and Assignment. Lessee shall not assign this Lease or any interest therein nor sublet the Premises or any part thereof or any right or privilege appurtenant thereto to any person without the prior written consent of Lessor. Lessor shall have the discretion, to either approve or disapprove of the proposed Sublease or assignment by Lessee, such approval shall not be unreasonably withheld.
23. Entire Agreement. All prior understandings and agreements between Metro, AMCO and Lessee are superseded by and merged in this Lease, which alone fully and completely sets forth the understanding of Metro, AMCO and Lessee. This Lease may not be amended or modified in any respect whatsoever except by an instrument in writing signed by Metro, AMCO and Lessee.
24. Interest. Whenever, under any provision of this Lease, interest is due and payable at the rate prescribed under this paragraph 24, the rate of such interest shall be that rate per annum which is the lowest of (a) the highest rate per annum which may lawfully be charged under the laws of the State of Oregon, determined as of the time the underlying obligation to Lessor is incurred hereunder; or (b) at any time when quotations of discount rates on ninety (90) day commercial paper are outstanding from the Federal Reserve Bank of San Francisco, that rate per annum which is five (5) percentage points above the said discount rate of the Federal Reserve.

25. Renewal Term:

25.1 If Lessee shall: (a) elect by written notice given at least six (6) months prior to the expiration of the initial term provided at paragraph 3 of this Lease, and (b) if Lessee, at the time of giving such notice and continuously thereafter until the expiration of such initial term, is not in material default or breach of this Lease, then Lessor may grant a renewal of this Lease, for a further term of five (5) years from and after expiration of the initial term hereby granted (the "renewal term"), on the same terms and conditions contained in this Lease, except that (a) the Lessee shall have no further option for the renewal or extension of this Lease, and (b) the rent for the renewal term shall be determined under paragraph 25.3 below. Should Lessor at its discretion choose not to provide the Lessee with a renewal term, notification of such a decision will be transmitted to Lessee within ninety (90) days of the request for lease extension by Lessee.

25.2 All references in this Lease (other than references contained in this paragraph 25) to the term of this Lease shall be construed as referring to the initial term and any renewal term granted under paragraph 25.1, and all references herein (other than references in this paragraph 25) to the expiration of this Lease shall, in the case of a renewal of this Lease, refer to the last day of the renewal term granted under such paragraph 25.1.

25.3 Rent for the Renewal Term shall be that which has been mutually agreed between Lessee and Lessor to represent a current fair market rate. Should Lessee elect to renew this Lease and a monthly fair market rental rate cannot be agreed on between Lessor and Lessee, each shall appoint an appraiser and give notice of such appointment to the other party. The two appraisers so appointed shall choose a third appraiser within fifteen (15) days after appointment of the second. If either party fails to appoint an appraiser, or if the two appraisers shall fail to choose a third, the appointment shall be made by the then-presiding Judge of the Circuit Court of the State of Oregon for Multnomah County (or by a corresponding judge of a corresponding tribunal in the event such court or the position of presiding Judge is not then existence) on the application of either party and on ten (10) days' notice to the other party; provided, however, that either party may, by notice given before the appointment of the third appraiser, consent to appraisal by the appraiser appointed by the other party, in which event no further appointments of appraisers shall be made and any other appraiser previously appointed shall be dismissed. Each appraiser shall be a member of the American Institute of Appraisers (i.e. an "MAI" appraiser) who has been engaged in business in Portland, Oregon for at least five (5) years prior to his or her appointment. The appraisers, as so appointed, shall thereupon make the determination of the monthly fair market rental value of the premises. In making such determination, the appraisers shall give due regard to the relative rights and obligations of the parties under this Lease for the period of the renewal term. The determination of the monthly fair market rental value of the premises as set forth in a written document subscribed by any two (2) of the three (3) appraisers shall be final, conclusive and binding upon the parties. In the event no two (2) of the three (3) appraisers make such written determination within sixty (60) days following the appointment of the third appraiser, the determination set forth in a written document subscribed by such third appraiser shall be final, conclusive and binding upon the parties. The determination by appraisal shall be made in all events not later than sixty (60) days following the appointment of the third appraiser. Each party to the appraisal shall pay the compensation and expenses of the appraiser selected by or on behalf of such party, and the compensation and expenses of the third appraiser shall be paid in equal shares by the parties to the appraisal; provided, however, that if a party has consented to appraisal; by one appraiser appointed by the other party, the compensation and expenses of the one appraiser shall be paid in equal shares by the parties to the appraisal.

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

Lessee:  
Parametrix, Inc.  
7820 NE Holman, Suite B-6  
Portland, OR 97218-2859

Metro:  
Metro  
600 NE Grand Avenue  
Portland, OR 97232-2736

AMCO:  
AMCO-Portland, Inc.  
1211 SW Fifth Avenue, Suite 2900  
Portland, OR 97204

By \_\_\_\_\_

By \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

Title \_\_\_\_\_

Title \_\_\_\_\_

Legal Approval:

\_\_\_\_\_  
By/Title

**ADDENDUM TO THE LEASE  
BY AND BETWEEN PARAMETRIX, INC. ("TENANT") AND  
METRO/AMCO, INC. ("LANDLORD")  
DATED NOVEMBER 4, 1993**

Tenant Improvements:

Landlord agrees to build out tenants' space at no cost to Tenant, based on the attached floor plan. Improvements will be completed approximately sixty (60) days from mutual execution of a lease document.

Base Year:

The Base Year for the calculation of operating expense pass-throughs will be 1995. Additionally, any operating expense increases will be limited to a 5% increase in any given year.

First Right of Refusal:

Tenant shall have an ongoing First Right of Refusal for all space available on the third (3rd) floor. Tenant must respond to Landlord within ten (10) working days once provided notification by the Landlord that the space is being leased.

The Tenant Improvement allowance for any expansion space will be limited to \$15.00 per square foot, if the space is taken within the first twenty-nine (29) months of the Tenant's lease term. If taken later in the term, the allowance will be prorated.

Parking:

Tenant shall be granted the use of twenty-five (25) parking stalls at no cost during the term of their occupancy. This is based on a ratio of 3.0/1000. Any expansion space taken by Tenant will receive a parking ratio of 2.65/1000.

Rent Schedule:

Months 1-6:	Free
Months 7-41	\$13.00 per square foot, full service
Months 42-66	\$14.50 per square foot, full service

Storage Space:

Landlord agrees to provide Tenant Storage Space on the ground floor at \$7.50 per square foot per year. Total square footage of the Storage Space will be approximately 150 to 200 square feet.

Renewal Option:

Landlord agrees to provide Tenant a one-time Renewal Option at the end of their initial five (5) year term. The rate will be based on the "then current market rental rate" as negotiated by Tenant and Landlord. This rate shall not exceed 10% of the current rental rate then in effect.

Signage:

Landlord agrees to provide Tenant signage on the multi-tenant sign located directly adjacent to the main entry to Metro Center at 2000 SW First Avenue. Landlord agrees to provide a minimum of three (3) signage spaces for Tenant's use.

Brokers:

To be paid by Metro upon lease execution.