[SHAPELL INDUSTRIES, INC. LETTERHEAD]

January [●], 2014

Thomas R. Hatch, Executive Director
Costa Mesa Housing Authority
77 Fair Drive
Costa Mesa, California 92626

Dear Mr. Hatch:

Reference is made to that certain Parcel 1 Ground Lease, recorded December 13, 1984, by and between Costa Mesa Housing Authority, as successor-in-interest to Costa Mesa Redevelopment Agency ("former Agency"), City of Costa Mesa, California ("Lessor" or "Authority"), and Costa Mesa Family Village, a California limited partnership ("Lessee"), that certain Parcel 2 Ground Lease, recorded December 13, 1984, by and between Lessor and Lessee, and that certain Parcel 3 Ground Lease, recorded December 13, 1984, by and between Lessor and Lessee. We are informed and believe that the Costa Mesa Housing Authority is successor in interest to the former Agency based on the following: (a) as of February 1, 2012 the former Agency became a dissolved redevelopment agency pursuant to the requirements of Assembly Bill x1 26 that added Parts 1.8 and 1.85 to Division 24 of the California Health and Safety Code commencing with Section 34161, *et seq*., and as amended by the California Supreme Court's decision in *California Redevelopment Association, et al. v. Matosantos*, and as amended by Assembly Bill 1484 chaptered and effective June 27, 2012 (together, "Dissolution Laws"); and (b) pursuant to Section 34176 of the Dissolution Laws, on January 17, 2012 the Authority adopted a resolution by which the Authority elected to assume the housing assets and functions of the former Agency and by operation of law on and as of February 1, 2012 and pursuant to Section 34181 such transfer was confirmed by the Oversight Board to the Successor Agency by Resolution adopted on April 19, 2012, and also pursuant to Section 34176 the Authority prepared and submitted to the DOF a housing asset transfer schedule in July 2012, and in December 2012 the State Department of Finance ("DOF") approved the transfer of such housing assets that include, among other assets, the subject Parcel 1 Ground Lease, the Parcel 2 Ground Lease and the Parcel 3 Ground Lease (together, "Leases"), and thereby the Authority is now the Lessor and underlying fee owner of the former Agency's housing assets, including without limitation the subject Leases.

This letter is a formal notice to the Authority, as Lessor, from Lessee that Shapell Industries, Inc. ("Shapell"), a Delaware corporation and the general partner of Lessee, has decided to undergo a restructuring ("Restructuring"). In conjunction with the Restructuring, Shapell intends to transfer all of its general partnership interests in Lessee to Shapell Rental Properties No. 2, LLC ("Shapell Sub"), a Delaware limited liability company and indirect wholly-owned subsidiary of Shapell ("GP Transfer"). The GP Transfer is currently expected to occur in January 2014. Enclosed for illustration are structure diagrams showing the existing structure and the structure following the GP Transfer.

Lessee informs Lessor that the GP Transfer constitutes an "Assignment" under Section 5.F of the Leases and, accordingly, Lessee is required to obtain the consent of Lessor prior to the GP Transfer. Accordingly, Lessee and Shapell hereby request that Lessor exercise consent to the GP Transfer by signing and returning a copy of this letter.

Lessee and Shapell hereby represent and warrant to Lessor that (i) the GP Transfer will be completed pursuant to a Contribution Agreement in the form attached hereto as Schedule 1, (ii) no cash or other monetized consideration will be paid or otherwise exchanged in connection with the GP Transfer

and, as a result, no additional rent is payable under Section 5.F of the Leases, (iii) Shapell Sub is an indirect wholly-owned subsidiary of Shapell and, as a result, in accordance with Section 13.A.(1) of the Leases, the right of first refusal in Section 13.A of the Leases does not apply to the GP Transfer, and (iv) the GP Transfer does not constitute a sale, assignment, sublease or transfer of the Leases or any rights therein, or any total or partial sale, assignment, sublease or transfer in any other mode or form of the whole or any part of the property subject to the Leases and, as a result, Section 13.B of the Leases does not apply to the GP Transfer. Lessee and Shapell further represent and warrant to Lessor that following completion of the Restructuring, Shapell Sub will hold interests in seven or eight properties, the overall debt service coverage ratio for which will be higher than 1.25 to 1.00.

Except as expressly set forth herein, this letter shall not operate in any manner as a waiver or an amendment, expressly or impliedly, of any terms, conditions, rights or privileges of Lessor under the Leases (or any other agreements related thereto). Except as expressly set forth herein, all other terms of the Leases (and any other agreements related thereto) remain in full force and effect and, to the extent applicable to Shapell, are fully assigned by Shapell and fully assumed by Shapell Sub.

Please indicate the Authority's consent to the GP Transfer by signing where indicated below and returning an executed counterpart of this letter via facsimile, with the original to follow by mail, to:

Shapell Industries, Inc.
Wilshire-San Vicente Plaza
8383 Wilshire Boulevard Suite 700
Beverly Hills, CA 90211
Attention: Thomas A. Ingram
Facsimile: (323) 653-4345

Please call me at (323) 988-7597 with any questions that you may have. Thank you for your attention to this matter.

Sincerely,

COSTA MESA FAMILY VILLAGE,
a California limited partnership

By: Shapell Industries, Inc.,
its General Partner

By: _____
Name: Thomas A. Ingram
Title: Secretary

Confirmed and consented to,
as of the date first above written:

COSTA MESA HOUSING AUTHORITY,
a public body corporate and politic and
as successor to the former Costa Mesa Redevelopment Agency

By: _____
Name: Thomas R. Hatch (or Authorized Designee)
Title: Executive Director (or Authorized Designee)

Schedule 1

CONTRIBUTION AGREEMENT

This **CONTRIBUTION AGREEMENT** ("Agreement") is entered into as of _____, 2013 ("Effective Date"), by and between **SHAPELL INDUSTRIES, INC**., a Delaware corporation ("SII"), and **SHAPELL RENTAL PROPERTIES NO. 2, LLC**, a Delaware limited liability company ("Opco").

RECITALS

WHEREAS, Opco is an indirect wholly-owned subsidiary of SII;

WHEREAS, SII holds ownership interests in the limited partnership described on Schedule 1 hereto ("Contributed Asset"); and

WHEREAS, SII desires to contribute to Opco its entire interest in the Contributed Asset as of the Effective Date ("Contribution").

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing recitals and the promises and covenants of the parties set forth herein, SII and Opco hereby agree as follows:

1. Representations of SII. SII hereby represents and warrants to Opco that:

(a) SII owns its interest in the Contributed Asset free and clear of any and all covenants, conditions, restrictions, liens and adverse claims or rights whatsoever;

(b) this Agreement constitutes the legal, valid and binding agreement of SII, enforceable against it in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally, and subject to general principles of equity; and

(c) the execution, delivery and performance by SII of this Agreement does not and will not contravene or conflict with or constitute a violation of any provision of applicable law or any contract, agreement, indenture or other instrument binding on SII or any of its assets.

2. Representations of Opco. Opco hereby represents and warrants to SII that:

(a) this Agreement constitutes the legal, valid and binding agreement of Opco, enforceable against it in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and subject to general principles of equity; and

(b) the execution, delivery and performance by Opco of this Agreement does not and will not contravene or conflict with or constitute a violation of any provision of applicable law or any contract, agreement, indenture or other instrument binding on Opco or any of its assets.

3. Contribution and Assignment. Effective as of the Effective Date, SII does hereby transfer, convey, assign and deliver to Opco, and Opco does hereby accept and acquire from SII all of SII's right, title and interest in and to the Contributed Asset. Opco also hereby agrees to assume the rights and obligations hereby transferred and assigned, and agrees to keep and perform all covenants, conditions and provisions applicable to the Contributed Asset under that certain Parcel 1 Ground Lease, recorded December 13, 1984, by and between Costa Mesa Housing Authority ("Lessor" or "Authority"), as successor-in-interest to Costa Mesa Redevelopment Agency ("former Agency"), City of Costa Mesa, California, and Costa Mesa Family Village, a California limited partnership ("Lessee"), that certain Parcel 2 Ground Lease, recorded December 13, 1984, by and between Lessor and Lessee, and that certain Parcel 3 Ground Lease, recorded December 13, 1984, by and between Lessor and Lessee. SII is informed and believes that the Authority is successor-in-interest to the former Agency based on the following:

(a) as of February 1, 2012 the former Agency became a dissolved redevelopment agency pursuant to the requirements of Assembly Bill x1 26 that added Parts 1.8 and 1.85 to Division 24 of the California Health and Safety Code commencing with Section 34161, *et seq*., and as amended by the California Supreme Court's decision in *California Redevelopment Association, et al. v. Matosantos*, and as amended by Assembly Bill 1484 chaptered and effective June 27, 2012 (together, "Dissolution Laws"); and

(b) pursuant to Section 34176 of the Dissolution Laws, on January 17, 2012 the Authority adopted a resolution by which the Authority elected to assume the housing assets and functions of the former Agency and by operation of law on and as of February 1, 2012 and pursuant to Section 34181 such transfer was confirmed by the Oversight Board to the Successor Agency by Resolution adopted on April 19, 2012, and also pursuant to Section 34176 the Authority prepared and submitted to the DOF a housing asset transfer schedule in July 2012, and in December 2012 the State Department of Finance ("DOF") approved the transfer of such housing assets that include, among other assets, the subject Parcel 1 Ground Lease, the Parcel 2 Ground Lease and the Parcel 3 Ground Lease (together, "Authority Ground Leases"), and thereby the Authority is now the Lessor, underlying fee owner of the former Agency's housing assets, including without limitation the subject Authority Ground Leases; and

4. Successors. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by each party and its permitted successors and assigns.

5. Governing Law. This Agreement shall be interpreted, governed and construed under the laws of the State of California without regard to the conflicts of laws principles thereof.

6. Amendments and Waivers. Any amendment to, or waiver under, this Agreement must be in writing and signed by each party in the case of an amendment or by the waiving party only in the case of a waiver.

7. Entire Agreement. This Agreement fully expresses the parties' agreement concerning the subject matter hereof and supersedes any prior agreements or understanding regarding the same subject matter.

8. Counterparts. This Agreement may be executed by facsimile or pdf transmitted via email in multiple counterparts, all of which together shall constitute a single instrument, and it shall not be necessary that any counterpart be signed by all the parties.

9. Further Assurances. Each party shall, without additional consideration, execute and deliver such further instruments and take such further actions as may be reasonably requested by the other party to make effective the transactions contemplated by this Agreement.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties have caused this Contribution Agreement to be duly executed by their respective signatories duly authorized as of the date first written above.

SHAPELL INDUSTRIES, INC.
a Delaware corporation

By: _____
Name: Thomas A. Ingram
Title: Secretary

SHAPELL RENTAL PROPERTIES NO. 2, LLC
a Delaware limited liability company

By: Shapell Properties, Inc.,
its Sole Member

By: Shapell Industries, Inc.,
its Sole Stockholder

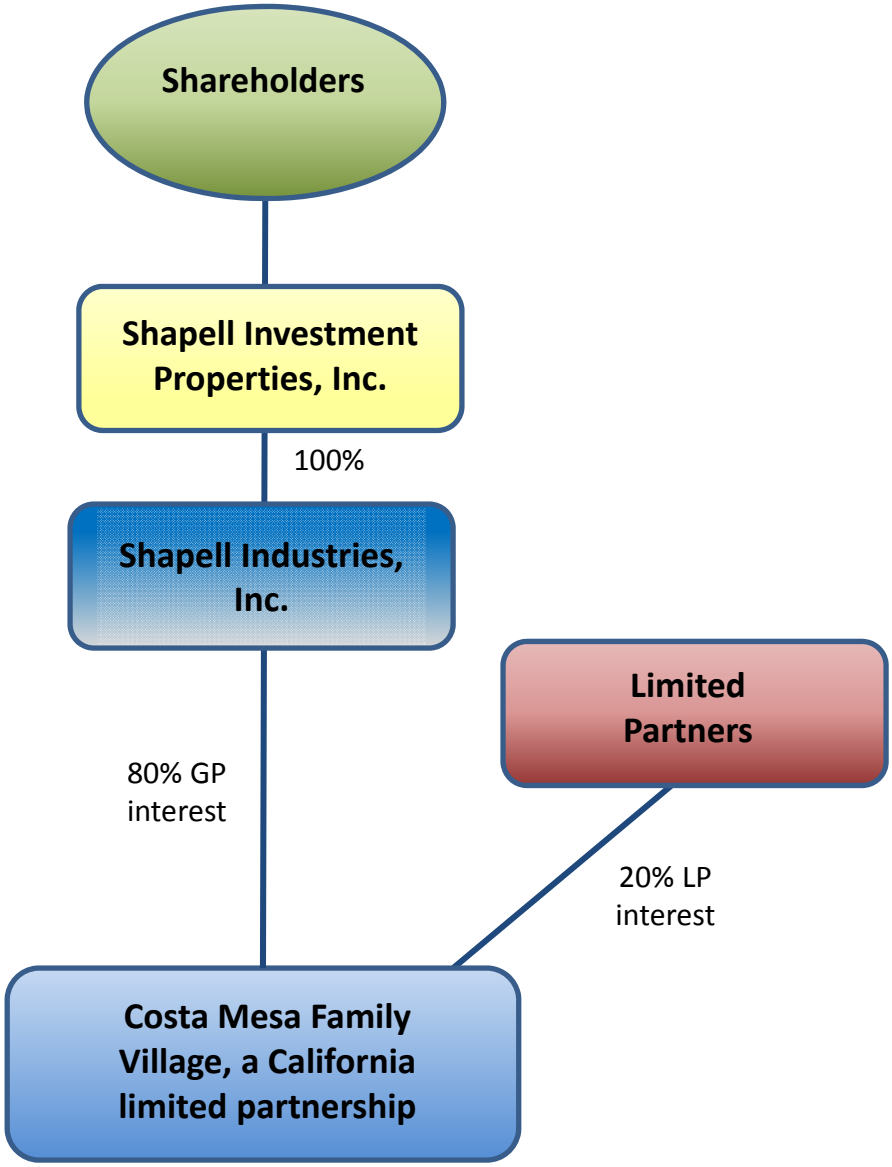
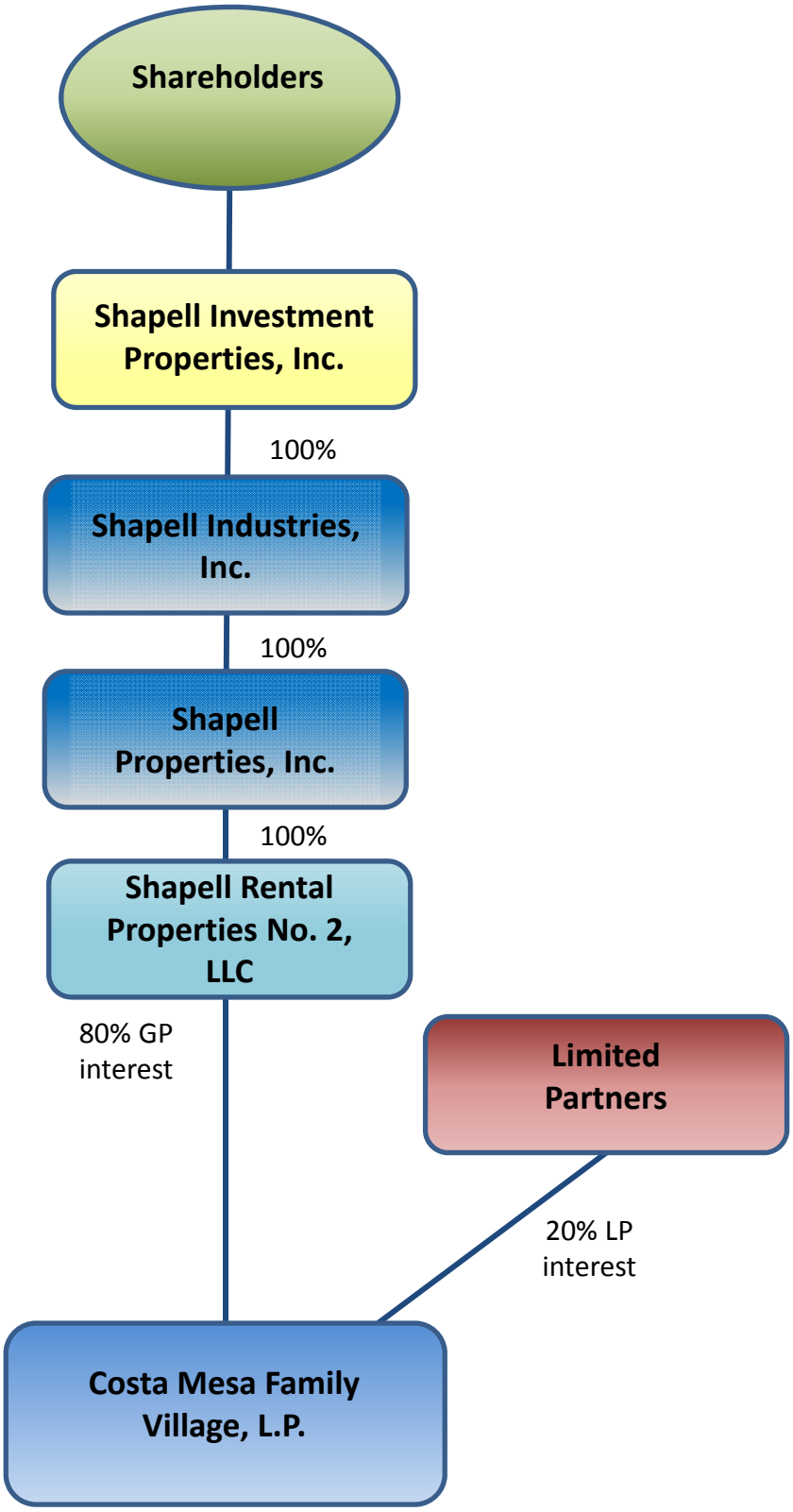
By: _____
Name: Thomas A. Ingram
Title: Secretary

SCHEDULE 1

Costa Mesa Family Village, a California Limited Partnership

Structure Diagrams

Costa Mesa Family Village
(as of 12/26/2013)



Costa Mesa Family Village (post GP Transfer)