

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

COMMONWEALTH EQUITY TRUST

CIK: **314485** | IRS No.: **942255677** | State of Incorpor.: **CA** | Fiscal Year End: **0930**
Type: **8-K** | Act: **34** | File No.: **000-09097** | Film No.: **94554745**
SIC: **6798** Real estate investment trusts

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SACRAMENTO CA 95825

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SACRAMENTO CA 95825
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the
Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): October 7, 1994

THE PEREGRINE REAL ESTATE TRUST
(Exact Name of Registrant as Specified in its Charter)

California
(State or Other Jurisdiction of Incorporation)

0-9097
(Commission File Number)

94-2255677
(I.R.S. Employer
Identification Number)

1300 Ethan Way, Suite 200, Sacramento, California
(Address of Principal Executive Offices)

95825
(Zip Code)

(916) 929-8244
(Registrant's Telephone Number, Including Area Code)

COMMONWEALTH EQUITY TRUST,
705 University Avenue, Sacramento, California
(Former Name or Former Address, if Changed Since Last Report)

ITEM 1. CHANGES IN CONTROL OF REGISTRANT

- (a) The Peregrine Real Estate Trust, formerly known as Commonwealth Equity Trust (the "Company"), filed a Form 8-K dated August 8, 1994, which included as an exhibit that certain Third Amended Plan of Reorganization, as Modified, of Commonwealth Equity Trust (the "Plan"). The Plan is incorporated herein by this reference.

Capitalized terms used herein but not defined shall have the meaning given for such terms in the Plan.

Prior to October 7, 1994 (the "Effective Date"), 25,000,000 shares of Old CET Common Stock were outstanding, which shares were held by approximately 29,000 shareholders. The Plan effectuated an approximately 10 for 1 reverse stock split; that is, for approximately every 10 shares of Old CET Common Stock, a shareholder received 1 share of New CET Common Stock.

All Old CET Common Stock and old CET securities were cancelled and terminated as of the Effective Date.

Pursuant to the terms of the Plan, the Company issued approximately 5,000,000 shares of New CET Common Stock as of the Effective Date. Approximately 2,550,000 shares, constituting 51% of the New CET Common Stock, were distributed to the parties defined in the Plan as the Pacific Mutual Lenders, and individually as follows:

<TABLE>

<CAPTION>

Pacific Mutual Lender
Shareholder

Number of Common Shares
Issued as of the
Effective Date

- - - - -

- - - - -

<S>

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The Prudential Insurance Company of America

424,434

PRUCO Life Insurance Company

254,660

Pacific Mutual Life Insurance Company

679,095

Orix USA Corp.

101,864

Weyerhaeuser Company Master Retirement Trust

98,095

TCW Special Credits Fund IV

316,884

TCW Special Credits Plus Fund

337,884

</TABLE>

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<S>	<C>
TCW Special Credits Trust IV	272,487
TCW Special Credits Trust IVA	65,397

The remaining 2,450,000 shares of New CET Common Stock, representing 49% of the New CET Common Stock, were issued to the holders of Old CET Common Stock and those persons who formerly owned Old CET Common Stock and have an Allowed Claim for Damages from the purchase and sale of the stock.

In addition, 11,250,000 shares of preferred stock, representing 100% of the Company's preferred stock, were issued to the parties defined in the Plan as the Pacific Mutual Lenders, as of the Effective Date. The preferred shares were issued individually as follows:

<TABLE>

<CAPTION>

Pacific Mutual Lender Shareholder - -----	Number of Preferred Shares Issued as of the Effective Date -----
<S>	<C>
The Prudential Insurance Company of America	913,782
The Prudential Insurance Company of America	958,721
PRUCO Life Insurance Company	1,123,502
Pacific Mutual Life Insurance Company	2,996,005
Orix USA Corp.	449,401
Weyerhaeuser Company Master Retirement Trust	432,773
TCW Special Credits Fund IV	1,394,490
TCW Special Credits Plus Fund	1,490,663
TCW Special Credits Trust IV	1,202,147

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Real Estate Trust

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3.2 Byaws of The Peregrine
Real Estate Trust

4.1 Second Amended and Restated
Note Agreement dated
September 27, 1994, by and
among Commonwealth Equity
Trust, the Noteholders named
therein and The Prudential
Insurance Company of America
as Agent for the Noteholders

4.2 Loan and Security Agreement
dated October 6, 1994, between
Commonwealth Equity Trust and
Foothill Capital Corporation

4.3 Preferred Stock Purchase
Agreement dated as of October 1,
1994, by and among The Peregrine
Real Estate Trust, Pacific
Mutual Life Insurance Company,
The Prudential Insurance Company
of America, PRUCO Life Insurance
Company, Orix USA Corporation,
Weyerhaeuser Company Master
Retirement Trust, TCW Special
Credits Fund IV, TCW Special

Credits Plus Fund, TCW Special
Credits Trust IV and TCW Special
Credits Trust IVA

4.4 Registration Rights
Agreement dated as of October 1,
1994, by and among The Peregrine
Real Estate Trust, Pacific
Mutual Life Insurance Company,
The Prudential Insurance Company
of America, PRUCO Life Insurance
Company, Orix USA Corporation,
Weyerhaeuser Company Master
Retirement Trust, TCW Special
Credits Fund IV, TCW Special
Credits Plus Fund, TCW Special
Credits Trust IV and TCW Special
Credits Trust IVA

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Agreement dated October 1, 1994,
between Commonwealth Equity Trust
and Fama Management, Inc.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934,
the registrant has duly caused this report to be signed on its behalf by the
undersigned hereunto duly authorized.

THE PEREGRINE REAL ESTATE TRUST

By: _____
Name: Arnold E. Brown
Title: Chief Financial Officer

Date: October 7, 1994

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4.1	Second Amended and Restated Note Agreement dated September 27, 1994, by and among Commonwealth Equity Trust, the Noteholders named therein and The Prudential Insurance Company of America as Agent for the Noteholders	Page 83 of 309
4.2	Loan and Security Agreement dated October 6, 1994, between Commonwealth Equity Trust and Foothill Capital Corporation	Page 187 of 309
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Trust, TCW Special Credits
Fund IV, TCW Special
Credits Plus Fund, TCW Special
Credits Trust IV and TCW
Special Credits Trust IVA

4.4

Registration Rights
Agreement dated as of
October 1, 1994, by and among
The Peregrine Real Estate
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Insurance Company, The
Prudential Insurance Company

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Special Credits Plus Fund,
TCW Special Credits Trust IV
and TCW Special Credits
Trust IVA

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Services and
Confidentiality Agreement
dated October 1, 1994,
between Commonwealth Equity
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RESTATED DECLARATION OF TRUST
OF
THE PEREGRINE REAL ESTATE TRUST

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RECORDING REQUESTED BY

WHEN RECORDED MAIL TO:

Greenberg, Glusker, Fields,
Claman & Machtinger
1900 Avenue of the Stars, #2000
Los Angeles, CA 90067
Attention: Gary L. Kaplan, Esq. (SPACE ABOVE THIS LINE FOR RECORDER'S USE)

RESTATED DECLARATION OF TRUST
OF
THE PEREGRINE REAL ESTATE TRUST

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RESTATED DECLARATION OF TRUST
OF
THE PEREGRINE REAL ESTATE TRUST

THIS RESTATED DECLARATION OF TRUST OF THE PEREGRINE REAL ESTATE TRUST, dated and effective as of the date and time of recording in the Office of the County Recorder of Sacramento County, California, by and between DORIS V. ALEXIS, ALBERT S. RODDA, STEVEN H. GOLD, HOWARD E. COHN, and RICHARD RATHFON, hereinafter referred to as the Trustees, and the holders from time to time of shares to be issued hereunder, who become parties hereto and beneficiaries of this Trust by becoming the holders of one or more shares;

WITNESSETH:

WHEREAS, by Declaration of Trust dated July 31, 1973 (the "Original Declaration") WILHELM BERGER, ANDREW R. LOLLI, JEAN P. NIELSEN, LYNES DOWNING and G. ROBERT HENRY formed the Commonwealth Equity Trust ("CET");

WHEREAS, the Original Declaration was amended on February 23, 1981,

March 31, 1984, March 30, 1985, and March 28, 1987;

WHEREAS, the Original Declaration together with the amendments dated February 23, 1981, March 31, 1984 and March 30, 1985 was recorded on January 14, 1987 at Book 87 0114, Page 1908, in the Official Records of Sacramento County, California, and the amendment dated March 28, 1987 was recorded on July 15, 1992 at Book 92 0715, Page 0963 in the Official Records of Sacramento County, California;

WHEREAS, CET was the debtor in a reorganization proceeding under Chapter 11 of the United States Bankruptcy Code, In re Commonwealth Equity Trust, Case No. 93-26727-11, in the United States Bankruptcy Court for the Eastern District of California (the Court");

WHEREAS, as part of the plan of reorganization approved by the Court, the Court has ordered that the Original Declaration be amended, restated and superseded in its entirety, as hereinafter set forth, pursuant to that certain Order Approving Third Amended Plan of Reorganization dated August 8, 1994;

WHEREAS, the Trustees have determined that it is in the best interests of CET to change its name to The Peregrine Real Estate Trust (the "Trust");

WHEREAS, the Trust is a California real estate investment trust governed by Part 4, Title 3 of the California Corporations Code which provides, at Section 23005, that the provisions of

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Corporations Code Sections 1400 and 1402 governing bankruptcy reorganizations also apply to real estate investment trusts;

WHEREAS, Corporations Code Section 1400, as applied to real estate investment trusts, provides that such a trust has the full power and authority to put into effect and carry out any plan of reorganization and the order of any United States bankruptcy court without further action by its board of trustees or shareholders;

WHEREAS, DORIS V. ALEXIS, ALBERT S. RODDA, STEVEN H. GOLD, HOWARD E. COHN, and RICHARD RATHFON are the duly elected and acting trustees of the Trust (the "Trustees").

NOW, THEREFORE, the Trustees hereby declare that they will hold all property of every type and description which they now hold or may acquire hereafter as such Trustees, in trust, to receive the income, interests, rents, and profits thereof and to reinvest them from time to time for the benefit of or distribute them to the holders of the certificates of shares in this Trust in the manner and subject to the terms and conditions contained herein; and that the Original Declaration and the amendments thereto are hereby superseded and of no further force or effect.

ARTICLE I.

DEFINITIONS

Section 1.1 "Board" shall mean the Trustees of the Trust acting as a Board of Trustees as provided in Article III hereof.

Section 1.2 "CalREIT" shall mean California Real Estate Investment Trust, an unincorporated California real estate investment trust formed pursuant to that certain Declaration of Trust recorded on June 8, 1981 in Book D 215, Page 250, Instrument D 94227, Official Records of San Francisco County, California, as amended and restated.

Section 1.3 "Change-in-Control Transaction" shall have the meaning described in 5.2.4.2.

Section 1.4 "Code" shall mean the United States Internal Revenue Code of 1986 as amended, and any successor statute. Any reference to a provision of the Code or any regulation promulgated thereunder shall include the

corresponding provision of any such successor statute or regulation.

Section 1.5 "Common Shares" shall mean the shares of beneficial interest of the Trust of the class described as Common Shares in Section 5.1.

Section 1.6 "Conversion Price" shall have the meaning described in Section 5.2.5.3.

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Section 1.7 "Declaration" and "Declaration of Trust" shall mean this Restated Declaration of Trust of Commonwealth Equity Trust as it now stands and as it may from time to time be supplemented, amended or modified pursuant to the provisions hereof.

Section 1.8 "Note Agreement" shall mean that certain Second Amended And Restated Note Agreement dated as of October 1, 1994 by and among the Trust, the Noteholders named therein and The Prudential Insurance Company of America as agent for Noteholders.

Section 1.9 "Old Shares" shall have the meaning described in Section 5.14.

Section 1.10 "Person" shall include an individual, partnership, firm, group, association, trust, corporation, or other entity.

Section 1.11 "Plan" shall mean the Third Amended Plan of Reorganization of the Trust filed with the United States Bankruptcy Court for the Eastern District of California on June 9, 1994, and confirmed by such Court by Order dated August 8, 1994.

Section 1.12 "Preferred Shares" shall mean the shares of beneficial interest of the Trust of the class described as Preferred Shares in Sections 5.1 and 5.2.

Section 1.13 "Shareholders", unless expressly stated otherwise, shall mean the holders of record of the Trust's outstanding Common Shares or Preferred Shares.

Section 1.14 "Shares" shall mean the Common Shares and the Preferred Shares.

Section 1.15 "Stated Value" shall have the meaning described in Section 5.2.3.1.

Section 1.16 "Trust" shall mean The Peregrine Real Estate Trust, formerly named Commonwealth Equity Trust, an unincorporated California real estate investment trust created pursuant to this Declaration and Part 4, Title 3 of the California Corporations Code.

Section 1.17 "Trustee" or "Trustees" shall mean the individuals named in this Declaration as Trustees and any successor Trustees as provided herein. The word "Trustee" wherever it appears throughout this Declaration shall refer to the Trustees of the Trust in their capacity as such Trustees and not personally and shall not refer to the officers, agents, or shareholders of the Trust.

Section 1.18 "1934 Act" shall mean the Securities Exchange Act of 1934, as amended, and any successor statute. Any reference to a provision of the 1934 Act, or any rule promulgated thereunder,

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shall include the corresponding provision of any successor statute or rule.

ARTICLE II.

THE TRUST

Section 2.1 Name

The Trust shall be designated as THE PEREGRINE REAL ESTATE TRUST in which name the Trustees may conduct business; make and execute deeds, mortgages, leases, contracts, and other instruments; acquire, mortgage, lease, convey, and transfer real estate and other property; and sue and be sued. Insofar as may be practicable, the business of the Trust shall be conducted and transacted in the name of the Trust.

Section 2.2 Principal Office

The principal office of the Trust shall be located at 1300 Ethan Way, Sacramento, California 95825, or at such other places as the Trustees may designate. The Trustees may also establish branch offices in such other places as they may determine.

Section 2.3 Purpose

The purpose of the Trust shall be to conduct its business in such a manner so that the Trust qualifies as a "real estate investment trust" as defined in Section 856 of the Code. Notwithstanding the foregoing, however, if circumstances arise in which the Trustees shall deem it advisable to take any action inconsistent with such purpose, they shall have the power to do so. Failure of the Trust to qualify under the foregoing statute shall not in any manner whatsoever invalidate the Trust nor cause the termination of its term.

Section 2.4 Investment Objective

The Trustees may invest assets of the Trust pursuant to the powers granted them in Article 3 hereof. The primary investment objective of the Trust shall be to invest in income-producing real estate and related interests, principally, but not limited to, office buildings, shopping centers, industrial and commercial buildings, hotels, apartment houses, and motels.

Section 2.5 Qualification as "Real Estate Investment Trust"

So long as the Trustees deem it advisable to establish and maintain the qualification of the Trust as a "real estate investment trust" for federal income tax purposes, the Trustees shall use their best efforts to preserve such qualification. In so doing, the Trustees will be protected in relying on the written advice and opinions of their duly selected lawyers and accountants

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and upon facts as represented to them in writing by any Shareholder, Trustee, or independent contractor of the Trust. Should the Trust fail or cease to qualify at any such time, the Trustees shall incur no liability to the Shareholders by reason of this event to the extent that their actions were based upon such advice or opinions or such representations. To the extent that their actions were not so based, they shall incur liability to the Shareholders only to the extent that their acts or omissions constitute bad faith, wilful misfeasance, gross negligence, or reckless disregard of duties.

Section 2.6 No Partnership Relationship

Nothing contained herein or in any share certificate, and no act done or any writing or agreement made during the continuance of the Trust, shall be construed as, or have the effect of constituting the Trustees, the Shareholders, or any of them or any other person, copartners or otherwise members of any association.

Section 2.7 Third-Party Reliance

Any act done by the Trustees or under their authority shall, as to third parties dealing in good faith with the Trust, be conclusively deemed to be within the purposes of the Trust and within the powers and authority of the person or person acting.

Section 2.8 Nonliability and Indemnification of Shareholders

All persons dealing with or having any claim against the Trustees or any officer, agent or employee of the Trust shall look only to the Trust for the payment of any debt, claim, obligation or damages, or of any money or other thing that might become due or payable in any way, whether founded upon contract, tort, or otherwise, and no Shareholder shall be personally or

individually liable therefor. Every written contract to which the Trust is a party shall include a provision that the Shareholders not be personally liable thereon. The Trustees shall maintain adequate liability insurance for the protection of the Trust and those connected therewith. Each Shareholder shall be entitled to pro rata indemnity from the Trust's assets if, contrary to the provisions hereof, such shareholder is held personally liable for any obligation of the Trust.

Section 2.9 Responsibility of Trust Agents

No Trustee, officer, employee or agent of the Trust shall be liable to the Trust or to any other person for any act or omission except for his own willful misfeasance, bad faith, gross negligence or reckless disregard of duty or his failure to act in good faith in the reasonable belief that his actions are in the best interests of the Trust. The Trustees, officers, employees and agents of the Trust in incurring any debts, liabilities or obligations, or in taking or omitting any other action for or in connection with the

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Trust are, and shall be deemed to be, acting as Trustees, officers, employees or agents of the Trust and not in their own individual capacities. Notwithstanding any provision to the contrary, no Trustee, officer, employee or agent of the Trust shall be liable for any debt, claim, demand, judgment, decree, liability or obligation of any kind in tort, contract or otherwise of, against or with respect to the Trust arising out of any action taken or omitted for or on behalf of the Trust, and the Trust shall be solely liable therefor and resort shall be had solely to the assets of the Trust for the payment or performance thereof. The Trustees shall obtain at the expense of the Trust and shall file with the Trust and maintain thereafter a good and sufficient fidelity bond, by a corporate surety qualified to do business in California.

Section 2.10 Indemnification

Any person made a party to any action, suit or proceeding or against whom a claim or liability is asserted by reason of the fact that he, his testator or intestate was or is a Trustee, officer, employee or agent of the Trust or active in such capacity on behalf of the Trust shall be indemnified and held harmless by the Trust against judgments, fines, amounts paid on account thereof (whether in settlement or otherwise) and reasonable expenses, including attorneys' fees, actually and reasonably incurred by him in connection with the defense of such action, suit or proceeding or in connection with any appeal therein, whether or not the same proceeds to judgment or is settled or otherwise brought to a conclusion. Notwithstanding the above, no person shall be so indemnified or reimbursed for any claim, obligation or liability which shall have been adjudicated, or, in case of settlement, which in the opinion of counsel for the Trust would, if adjudicated, have likely been adjudicated to have arisen out of or been based upon such person's willful misfeasance, bad faith, gross negligence or reckless disregard of duty or for his failure to act in good faith in the reasonable belief that his action was in the best interests of the Trust. Any person seeking indemnification under this provision must demonstrate to the satisfaction of the Trustees that such person (1) gave prompt notice to the Trust of the claim, alleged liability, action, suit or proceeding, and (2) has executed such documents, and taken such action as to permit the Trust to conduct the defense or settlement of any such claim, alleged liability, action, suit or proceeding. Such rights of indemnification and reimbursement shall be satisfied only out of the assets of the Trust.

The rights accruing to any person under these provisions shall not exclude any other right to which he may be lawfully entitled, nor shall anything contained herein restrict the right of the Trust to indemnify or reimburse such person in any proper case even though not specifically provided for herein, nor shall anything contained herein restrict such rights of a Trustee to contribution as may be available under applicable law. The Trustees may make advance payments in connection with indemnification under this section provided that the indemnified person shall have given a

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written undertaking to reimburse the Trust in the event it is subsequently determined that he is not entitled to such indemnification. For purposes of this section, any investment advisor, investment manager or independent

property manager of the Trust shall be considered an agent of the Trust.

In order to carry out the intent and purposes of this section, the Trust shall have the power to enter into individual indemnification agreements with any person or entity entitled to be indemnified under this section, without specific approval thereof by the Shareholders of the Trust, provided that the substantive provisions of any such agreement shall be consistent in all material respects with the provisions of this section at the time such agreement is entered into. The terms of any such agreement need not be identical to the terms of any other such agreement and any such agreement which has been entered into may subsequently be amended or changed by mutual agreement of the parties thereto, without specific approval thereof by the Shareholders of the Trust, so long as at the time such agreement is entered into or amended or changed, as the case may be, its substantive provisions are consistent in all material respects with the provisions of this section.

The Trust shall have the power to use the assets of the Trust to establish arrangements for funding its indemnification obligations under this section, including but not limited to depositing assets in trust funds, obtaining bank letters of credit in favor of indemnified persons or entities, purchasing policies of insurance or establishing specific reserve accounts and otherwise funding special self-insurance arrangements for these purposes.

Section 2.11 Notice to Trust Agents

No notice to the Trustees or any officer of the Trust shall be effective for any purpose unless given in writing, and until the same is received.

Section 2.12 Notice by Trust Agents

Any notice required or permitted by this Declaration or by law to be given by the Trustees or by any officer or authorized agent of the Trust, shall be conclusively deemed to have been given when such notice is enclosed in an envelope addressed to the proper person at the last address shown in the records of the Trust, and such envelope is deposited in the United States mail, postage prepaid; and the date of mailing shall be deemed the date such notice is given. All distributions from Trust assets may be made by mailing the same in like manner.

Section 2.13 Representations and Guarantees

No officer, agent, representative or employee of the Trust or of the Trustees, nor anybody other than the Trustees, has authority to make any representations or guarantees concerning the Trust; nor

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shall any Trustee or officer of the Trust be responsible for or with respect to the validity or sufficiency of the Trust or of the share certificates issued hereunder; nor has any such officer, agent, representative, employee or other person any authority to change the terms and conditions of the Trust or any certificates issued hereunder, or to bind the Trust or its agents by any representation, statement, agreement or interpretation, written or oral, not contained herein or in such certificate.

Section 2.14 Merger

As provided in California Corporations Code Section 23006, the Trust is hereby specifically authorized to merge with one or more real estate investment trusts, with any participating trust as the surviving trust, pursuant to the provisions of this Section 2.14. The trustees of each trust which desires to merge shall approve an agreement of merger. The constituent trusts shall be parties to the agreement of merger and other persons may be parties to the agreement of merger. The agreement shall state all of the following:

2.14.1 The terms and conditions of the merger.

2.14.2 The amendments to the declaration of trust of the surviving trust to be effected by the merger, if any; if any amendment changes the name of the surviving trust the new name may be the same as or similar to the name of a disappearing trust subject to Corporations Code Section 201(b).

2.14.3 The name and place of organization of each constituent trust and which of the constituent trusts is the surviving trust.

2.14.4 The manner of converting the shares of each of the constituent trusts into shares or other securities of the surviving trust and, if any shares of any of the constituent trusts are not to be converted solely into shares or other securities of the surviving trust, the cash, property, rights, or securities of any entity which the holders of those shares are to receive in exchange for the shares, which cash, property, rights or securities of any entity may be in addition to or in lieu of shares or other securities of the surviving trust, or that the shares are canceled without consideration.

2.14.5 Such other details or provisions as are desired, if any, including, without limitation, a provision for the payment of cash in lieu of fractional shares or for any other arrangements with respect thereto consistent with the provisions of Corporations Code Section 407 relating to fractional shares.

Each share of the same class or series of any constituent trust (other than the cancellation of shares held by a constituent trust in another constituent trust) shall, unless all shareholders of the class or series consent and except as provided in

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corporations Code Section 407, be treated equally with respect to any distribution of cash, property, rights or securities.

ARTICLE III.

THE TRUSTEES

Section 3.1 Trustees' General Authority

Except as in this Declaration expressly otherwise provided, the business, affairs and assets of the Trust shall be entrusted to the exclusive management and control of the Trustees. The Trustees shall exercise their powers hereunder in good faith and for the exclusive benefit of the shareholders.

Section 3.2 Action as Board

In managing the business, affairs and assets of the Trust, the Trustees shall act as a Board of Trustees. One member of the Board shall be designated to serve as Chairman of the Board for such term as the Board fixes. The full Board shall not be less than five nor more than thirteen, the number to be established by resolution of the Board from time to time, subject to Section 3.3.3. Ownership of all Trust assets, legal, equitable or both, shall be vested jointly in those Trustees in office at any time. A successor Trustee shall succeed immediately upon accepting office to the interest of his predecessor, without the necessity of any transfer or conveyance.

Section 3.3 Independence and Term of Trustees

3.3.1 A majority of the Trustees shall not be an affiliate or associate of the investment manager or advisor of the Trust or with any person who is an affiliate or associate of such investment manager or advisor. The terms "affiliate" and "associate" shall have the meaning assigned to them in Rule 12b-2 under the 1934 Act; provided, that a person shall not be deemed to be an affiliate or associate of any other person solely by reason of being a Trustee or officer of the Trust.

3.3.2 Subject to the terms of Sections 3.3.3 and 5.2.4.3, relating to voting rights of the Preferred Shares, and Section 8.8.4, relating to cumulative voting for Trustees, Trustees shall be elected by a vote of a majority of the Common Shares represented in person or by proxy at the annual meeting of Shareholders. Subject to the terms of Sections 3.4 and 3.5, each Trustee so elected shall serve until his term of office expires and until the election and qualification of his successor. Each Trustee shall qualify following his election, whether by the Shareholders or by the remaining Trustees, by filing a notice of acceptance with the Trustees. The secretary of the Trust and the Chairman of the Trustees shall, from time to time when necessary to reflect any changes, execute and file for record an instrument which sets forth the then existing membership of the Trustees.

3.3.3 So long as any Preferred Shares shall be outstanding, the authorized number of Trustees shall be five, none of whom need be Shareholders and each of whom is to be elected for a term ending upon the next succeeding annual meeting of Shareholders and his successor being elected and qualified, subject to earlier termination as provided below. The holders of at least a majority of the then outstanding Preferred Shares shall be entitled to elect one Trustee (the "Preferred Designee"); provided that if no Trustee is elected by the holders of a majority of the then outstanding Preferred Shares, the unfilled position shall be left vacant. The other Trustees (the "Other Trustees") shall be elected by the holders of all of the then outstanding Common Shares. The person so elected as the Preferred Designee, together with such persons elected as the Other Trustees, shall constitute the duly elected Trustees of the Trust.

3.3.4 Notwithstanding anything to the contrary in this Declaration, Frank A. Morrow, John McMahan, E. Lawrence Hill, Jr., John F. Salmon and Kenneth T. Seeger are hereby designated as Trustees to serve from the date hereof until their successors are elected at the next annual meeting of Shareholders and qualified. During the period commencing on the date of this Declaration until the date of the first annual meeting of Shareholders, any of these designated Trustees may only be removed for cause pursuant to Section 3.4.2 below.

Section 3.4 Removal of Trustees

A Trustee may be removed from office at any time either:

3.4.1

.1 if such Trustee is an Other Trustee, with or without Cause (as hereinafter defined) by the vote or written consent of either (A) seventy-five percent (75%) of the Trustees then in office and a majority of the outstanding Common Shares of the Trust entitled to vote, or (B) sixty-six and two-thirds percent (66-2/3%) of the outstanding Common Shares of the Trust entitled to vote; provided, however, that the Trustee shall not be removed if the number of votes cast against removal (or not consenting in writing to such removal) would be sufficient to elect the Trustee if voted cumulatively at an election at which the same total number of votes were cast (or, if the action is taken by written consent, all Common Shares entitled to vote were voted) and the entire number of Trustees to be elected by holders of the Common Shares at the time of the Trustee's most recent election were then being elected; and

.2 if such Trustee is a Preferred Designee, with or without Cause by the vote or written consent of a majority of the outstanding Preferred Shares, or

3.4.2 with Cause by the vote or written consent of all remaining Trustees.

For purposes of this Section 3.4, Cause shall mean having been declared of unsound mind by an order of court or convicted of a felony.

Section 3.5 Resignation of Trustees

Any Trustee may resign his office by an instrument in writing signed by him and delivered to the Board of Trustees, which resignation shall take effect after such delivery and on the date indicated in such instrument; provided, that such resignation shall not become effective until a copy of such instrument shall have been duly filed for record by such resigning Trustee.

Section 3.6 Action by Trustees

A majority of the Trustees in office at any one time, but not less than three Trustees, shall constitute a quorum at any meeting of the Board of

Trustees. Meetings of the Trustees shall be held from time to time upon the call of the Chairman of the Board or any two Trustees; provided, however, that prior to the annual meeting of Shareholders to be held during calendar year 1996, the Board shall meet no less frequently than once during each quarter of each fiscal year of the Trust. Notice of any meeting shall be given at least 3 days before the meeting. The Trustees shall act pursuant to the vote or written consent, with or without a meeting, of more than half their number in office at any one time. No action of the Board shall be effective without a meeting unless all Trustees then in office shall sign, before or after such action is taken, a written consent to such action and waiver of meeting; provided, however, that the lack of such consent and waiver shall not be raised to defeat the rights of any third party who has in good faith relied upon such action. In case of the death or resignation of one or more Trustees, or vacancies occurring in the Board of Trustees for any reason, the vacancies so created may be filled (i) with respect to an Other Trustee by the Other Trustee or Other Trustees remaining in office at the time, and (ii) with respect to the Preferred Designee, by the holders of a majority of the Preferred Shares, and each new Trustee shall serve for the unexpired term of his predecessor and until the election and qualification of his successor. No vacancy on the Board of Trustees shall operate to diminish the powers of the Trustee or Trustees remaining in office. The provisions of this Section 3.6 relating to call and notice of meetings of the Trustees may be varied by By-Laws adopted by the Trustees.

Section 3.7 By-Laws

The Trustees may adopt and from time to time amend or repeal By-Laws for the conduct of their business, and in such By-Laws may define the duties of their officers, agents, employees and representatives.

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Section 3.8 Delegation of Authority

The Trustees may appoint one or more committees from their number and delegate to such committees any of the powers and authority of the Board of Trustees in the management of the business, affairs and assets of the Trust, except the power to declare dividends and initiate amendments to this Declaration. The Trustees shall appoint, and from time to time fix the compensation and duties of a Chairman of the Board of Trustees, who shall be a Trustee, each of whom shall hold his office at the pleasure of the Board of Trustees. The Trustees may appoint such other officers and employ or otherwise contract with such other persons as the Trustees in the exercise of their discretion may deem necessary or desirable to achieve the purposes of the Trust. The Trustees may delegate to any Trustee(s), officer(s), employee(s) or agent(s), the authority to act in behalf of the Trust, including without limitation the authority to execute any contract, agreement, document, conveyance, deed, deed of trust, mortgage, release, or other written instruments.

Section 3.9 Compensation

The Trustees, the secretary, and every other person appointed, employed or otherwise engaged to assist in the execution of the Trust, shall receive such compensation from the assets of the Trust for their respective services to the Trust as shall be fixed from time to time by the Board of Trustees.

Section 3.10 Use and Effect of Trust Seal

The secretary or other officer designated by the Trustees shall have custody of the seal of the Trust. As to any person relying thereon in good faith, the impression of the seal of the Trust upon a document or writing bearing the handwritten signature of the secretary, or of any assistant secretary, shall conclusively evidence that such document or writing was duly executed pursuant to authority granted by the Board of Trustees and this Declaration.

Section 3.11 Powers of Trustees

The Trustees shall have full and absolute power, control and authority over all Trust assets held by or for them hereunder, and over the business and

affairs of the Trust, to the same extent as if they were the sole owners of such assets and such business in their own right, subject only to the limitations herein expressly stated. Without limitation of the generality of the foregoing, the Trustees shall have power:

3.11.1 To design and adopt a seal of the Trust, and to change the same from time to time; to locate and relocate the principal office of the Trust; and from time to time to change the name of the Trust, and under such name to make and execute contracts and all kinds of instruments, conduct business, acquire and convey real or personal property, and sue or be sued;

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3.11.2 To solicit proxies of the Shareholders; to declare and effect Share dividends and splits; and when good reason appears therefor, to require that outstanding certificates be handed in to the Trust in exchange for new certificates;

3.11.3 To issue from time to time, without the necessity of a prior offering thereof to existing Shareholders, Shares of the Trust in addition to any then outstanding, issuing the same to such party or parties, for such property or consideration, at such time or times, and on such terms as the Trustees deem best, and in so doing, to allow or eliminate fractional shares, in their discretion;

3.11.4 To acquire and dispose of assets, and otherwise conduct the business of the Trust, in any part of the United States of America and any of the territories or possessions thereof and in Canada; and to cause to be organized or assist in organizing, under the laws of any jurisdiction, such corporations, trusts, associations, or organizations having such rights, powers and discretion as they deem desirable for Trust purposes;

3.11.5 To take out policies of insurance at the expense of the Trust, including without limitation of the foregoing, liability, life, errors and omissions, fire and casualty insurance including workers' compensation insurance, covering such persons, property and contingencies and in such amounts as they deem proper;

3.11.6 To lease property to or from others for a term extending beyond the possible termination of the Trust; to acquire and deal absolutely with property of any description, real or personal; and to lend and borrow money and incur indebtedness for the purposes of the Trust, and cause to be executed and delivered therefor promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecation or other evidences of debt and securities therefor;

3.11.7 To exercise all rights, powers and privileges relating to the ownership of any stock, bonds or other securities forming part of Trust assets;

3.11.8 To employ such assistance, at such compensation, as they deem expedient in the transaction of the business of the Trust;

3.11.9 To determine conclusively whether any monies, obligations, securities or other properties of the Trust are to be considered as principal or income, and in what manner any expenses or disbursements are to be charged as between principal and income, or as between earnings, surplus and capital, as the case may be;

3.11.10 To determine the fiscal year and the accounting procedures of the Trust, and to change the same from time to time;

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3.11.11 To compromise or settle claims of or against the Trust; and to take such action, legal or otherwise, as appears to them necessary or desirable in the interests of the Trust and the shareholders, and in so doing to pay the expenses thereby incurred in good faith, including counsel fees, from the funds of the Trust;

3.11.12 To determine the proper interpretation of any provision of this Declaration or By-Laws of the Trust; and

3.11.13 To do all acts and undertake all things which in their judgment are necessary, convenient or appropriate to promote the purposes of the Trust, although such acts or things are not specifically mentioned in this Declaration.

ARTICLE IV.

INVESTMENT AND MANAGEMENT OF TRUST ASSETS

Section 4.1 Investment and Management Policy

It is intended that the Trust shall be a "real estate investment trust," as that term now is, or as it or substitute designations later may be, defined by the Code. The Trustees shall endeavor to manage the Trust and to invest its assets, and to make distributions to shareholders therefrom, in such manner as to comply with all valid state and federal laws, rules, regulations and orders pertaining to the Trust, and to take advantage of tax benefits, whether federal, state or local, from time to time afforded to "real estate investment trusts" or shareholders thereof provided, however, that notwithstanding the preceding provisions, the Trustees shall at all times take such action under the Trust as in their judgment will best serve the interests of the Trust and of the Shareholders.

Section 4.2 Permissible Investments

Trust assets shall consist principally of ownership interests in income-producing real property. Such real property may be located in any state, territory or possession of the United States (including the District of Columbia) and shall be comprised for the most part of office buildings, apartment buildings, shopping centers, or other multiple-residential, commercial or industrial properties. Secondary investments of Trust assets may be of such nature and of such extent as the Trustees may determine, having in mind the best interests of the Trust and of the shareholders. Other things being equal, Trust investments shall be chosen for their best overall return on investment, including both income production and appreciation potential, among other factors; but this principle shall be understood to be intended only as a general guide to assist the Trustees in the exercise of their discretion. Funds may be accumulated or invested temporarily until such times as more suitable investments are available. The Trust may also participate in joint ventures and may purchase or merge with other

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real estate investment trusts and companies, provided the assets and investments of said joint ventures, trusts and companies are permissible hereunder. Undivided interests in property may be acquired for the Trust, and encumbered property may be acquired subject to, or with assumption of, the underlying indebtedness.

Section 4.3 Maintenance of Assets

The Trustees, on behalf of the Trust, shall themselves or through agents or independent contractors, incur all expenses and make all expenditures necessary or desirable for the protection, improvement, maintenance, repair, alteration, efficient operation, or ready marketability of any asset of the Trust.

Section 4.4 Disposition or Encumbrance of Assets

The Trustees shall have full discretion in retaining, selling, exchanging or encumbering any asset of the Trust, or any interest in any such asset.

Section 4.5 Use of Brokers and Appraisers

Subject to the provisions of Section 4.7 hereof, the Trustees may employ at the expense of the Trust the services of any person, including any real estate or securities broker, for the purpose of appraising, acquiring, encumbering or disposing of assets of the Trust.

4.6.1 The Trust shall not engage in any Material Transaction with a Related Party unless the Material Transaction has, after disclosure of the interest of the Related Party, been approved or ratified by a majority of the Trustees who are neither affiliates nor associates of the Related Party. All such transactions shall be fair and reasonable to the Trust and its Shareholders as a whole at the time of authorization, and be on terms at least as favorable to the Trust as terms that would have been obtainable from a person other than a Related Party. This section shall not apply to any purchase or sale of securities issued by the Trust and registered with the Securities and Exchange Commission except to the extent that a person who is a Large Shareholder immediately before or after the transaction has a direct or indirect interest in such purchase or sale of securities.

4.6.2 No Related Party shall directly or indirectly receive any material remuneration in connection with any Material Transaction involving the Trust unless the terms for the payment of such remuneration have been approved or ratified by a majority of the Trustees who are neither affiliates nor associates of any person receiving such remuneration. Payment of any such remuneration shall be on terms which are fair and reasonable to the Trust and its shareholders as a whole at the time of authorization; such

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terms may include, without limitation, deduction of such payments from the remuneration otherwise payable to a Related Party.

4.6.3 The Trustees entitled to approve a transaction or terms for the payment of remuneration under subsections 4.6.1 or 4.6.2 above shall be entitled in their discretion to retain, at the Trust's expense, independent appraisers, investment bankers, legal counsel, accountants and other professional consultants or advisors to assist them in their determination.

4.6.4 For purposes of this Section 4.6:

.1 The term "Related Party" shall mean any present or former Trustee, officer, Large Shareholder, investment manager or advisor of the Trust, or any affiliate or associate of such person.

.2 The term "Material Transaction" shall include, without limitation, any purchase, sale, loan, lease, pledge, exchange or other transfer of Trust assets or securities, and any merger, consolidation, reorganization, joint venture, partnership or other entity involving the Trust.

.3 The term "Large Shareholder" means any person who is the beneficial owner (within the meaning of Rule 13d-3 under the 1934 Act) of five percent (5%) or more of the outstanding Common Shares or Preferred Shares of the Trust entitled to vote in the election of Trustees after including among his shares those owned by an affiliate or associate.

.4 The terms "affiliate" and "associate" shall have the meanings assigned to them in Rule 12b-2 under the 1934 Act; provided, that a person shall not be deemed to be an affiliate or an associate of any other person solely by reason of being a Trustee or officer of the Trust.

Section 4.7 Approval of Major Transactions

Subject to additional requirements and restrictions of this Declaration and the voting rights of holders of Preferred Shares pursuant to Section 5.2.4.2,

4.7.1 at any time when the Trust is qualified as a real estate investment trust under the Code, no action shall be taken by the Trust which would foreseeably cause the Trust to fail so to qualify as a real estate investment trust under the Code, notwithstanding Section 4.1, and

4.7.2 the Trust shall not be incorporated, merged into another entity, consolidated with one or more entities into a new entity, reorganized as a new entity, liquidated or dissolved, notwithstanding Section 4.2; provided, however, that the Trust may merge or consolidate with CalREIT

without obtaining the approval otherwise required pursuant to this Section 4.7, and

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4.7.3 all or substantially all of the assets, properties, or businesses of the Trust shall not be sold, leased, transferred, conveyed, exchanged or otherwise disposed of, notwithstanding Section 3.11,

except upon the affirmative vote or written consent of seventy-five percent (75%) of the outstanding Common Shares of the Trust entitled to vote.

ARTICLE V.

SHARES AND SHAREHOLDERS

Section 5.1 Classes of Shares

The Trustees are authorized to issue two classes of Shares to be designated "Common Shares" and "Preferred Shares" respectively. The total number of Shares which the Trust is authorized to issue is Seventy-Five Million (75,000,000), of which Fifty Million (50,000,000) Shares shall be Common Shares and Twenty-Five Million (25,000,000) Shares shall be Preferred Shares. The Trustees shall not be authorized to issue any Shares which do not have the right to vote for election of Trustees.

Section 5.2 Preferred Shares

The designations, voting powers, preferences and relative, participating, optional and other special rights of the shares of the Preferred Shares and the qualifications, limitations or restrictions thereof are as follows:

5.2.1 Rank. The Preferred Shares shall, with respect to dividend rights and rights on redemption and on liquidation, winding up and dissolution, rank prior to any other equity securities of the Trust, including Common Shares (all of such equity securities of the Trust to which the Preferred Shares rank prior are collectively referred to in this Section 5.2 as the "Junior Shares").

5.2.2 Dividends. The holders of Preferred Shares shall be entitled to receive, when and as declared by the Trustees out of funds legally available therefor, cumulative dividends payable in cash at a rate of 10% per annum of the Stated Value (as hereinafter defined), provided that until and including September 30, 1998, dividends may, at the option of the Trustees, be paid in Preferred Shares issued by the Trustees, Preferred Shares issued as payments of dividends shall be valued at the Stated Value. Such dividends shall be payable quarterly on the last day of each March, June, September and December commencing on the first of such dates to occur after the first Preferred Shares are initially issued. Dividends shall accrue on each Preferred Share from the date of issuance thereof and shall accrue from day to day, whether or not earned or declared. Accrued but unpaid dividends shall increase at a compounding rate equal to 10% per annum compounded quarterly.

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Dividends paid on the Preferred Shares in an amount less than the total amount of such dividends at the time accrued and payable on such Preferred Shares shall be allocated pro rata on a share-by-share basis among all such Preferred Shares at the time outstanding. The Trustees may fix a record date for the holders of Preferred Shares entitled to receive payment of a dividend or distribution declared thereon, which record date shall not be more than 30 days prior to the date fixed for payment thereof. During such time as any Preferred Shares are outstanding, the Trustees shall not declare, pay or set apart for payment any dividend on any Junior Shares or make any payment on account of, or set apart money for a sinking or other similar fund or make any payment for, the purchase, redemption or other retirement of, any Junior Shares or any

warrants, rights, calls or options exercisable for or convertible into any Junior Shares, or make any distribution in respect thereof, either directly or indirectly, and whether in cash, obligations or Shares of the Trust or other property (other than distributions or dividends in Junior Shares to the holders of Junior Shares), and shall not permit any corporation or other entity directly or indirectly controlled by the Trustees to purchase or redeem any Junior Shares or any warrants, rights, calls or options exercisable for or convertible into any Junior Shares, unless prior to or concurrently with such declaration, payment, setting apart for payment, purchase, redemption or distribution, as the case may be, the full cumulative dividends on all outstanding Preferred Shares shall have been paid in full or contemporaneously are declared and paid through the most recent dividend payment date.

5.2.3 Liquidation Preference.

.1 In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Trust, the holders of the Preferred Shares then outstanding shall be entitled to be first paid out of the assets of the Trust available for distribution to its Shareholders an amount in cash equal to Two Dollars (\$2.00) per Preferred Share (the "Stated Value"), plus an amount equal to all dividends (whether or not earned or declared) on such Shares accrued and unpaid thereon to the date of final distribution, before any payment shall be made or any assets distributed to the holders of any Junior Shares. Except as provided in the preceding sentence, holders of the Preferred Shares shall not be entitled to any distribution in the event of liquidation, dissolution or winding up of the affairs of the Trust. If, upon any such liquidation, dissolution or winding up of the affairs of the Trust, the remaining assets of the Trust available for distribution to its Shareholders shall be insufficient to pay the holders of the Preferred Shares the full amount to which they shall be entitled, the holders of the Preferred Shares shall share ratably in any distribution of the remaining assets and funds of the Trust in proportion to the respective amounts which would otherwise be payable in respect of the Shares held by them upon such distribution if all amounts payable on or with respect to such Preferred Shares were paid in full.

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.2 For the purposes of this Section 5.2.3, neither the voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all the property or assets of the Trust nor the consolidation or merger of the Trust with one or more other entities shall be deemed a liquidation, dissolution or winding up, voluntary or involuntary.

5.2.4 Voting Rights.

.1 Right to Vote. Except as otherwise expressly provided herein, or by law, the holders of Preferred Shares shall have no voting rights. In the event that the holders of Preferred Shares shall have the right to vote, each person in whose name Preferred Shares shall be registered on the record date for determining the holders of the Preferred Shares entitled to vote at any meeting of Shareholders (or adjournment thereof) or to consent to Shareholder action in writing without a meeting shall be entitled to, at such meeting or with respect to such action, one vote for each Common Share of the Trust into which each Preferred Share registered in the name of such person on such record date could be converted (with any fractional Share determined on an aggregate conversion basis being rounded to the nearest whole Share).

.2 Significant Events. During such time as any Preferred Shares are outstanding, the Trustees shall not, without the affirmative vote or consent of the holders of at least a majority of the issued and outstanding Preferred Shares voting together as a separate class, (A) create, authorize or issue (including on conversion or exchange of any convertible or exchangeable securities or by reclassification) any class or series of Shares ranking on a parity with or prior to the Preferred Shares, either as to dividends or redemption or upon voluntary or involuntary liquidation, dissolution or winding up; (B) increase the authorized Shares of, or issue (including on conversion or exchange of any convertible or exchangeable securities or by reclassification) any Preferred Shares, except to pay dividends on the issued and outstanding Preferred Shares as provided in

Section 5.2.2 above; (C) amend, alter, waive the application of, or repeal (whether by merger, consolidation or otherwise) any provision of the Declaration, enter into any agreement or take any other action which in any manner would alter, change or otherwise adversely affect the powers, rights or preferences of the Preferred Shares; (D) effect the reorganization, liquidation, dissolution or winding up of the Trust, or the sale, lease, conveyance or exchange of all or substantially all of the assets, property or business of the Trust, or the merger or consolidation of the Trust with or into any other entity other than CalREIT; (E) take any action which would cause a dividend or other distribution to be deemed to be received by the holders of the Preferred Shares for federal income tax purposes unless such dividend or other distribution is actually received by such holders; (F) cause the occurrence of a Change-in-Control Transaction (as hereinafter defined), including through

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issuance of additional Securities; or (G) at any time after October 1, 1998, when the Trust has not paid, when due, cash dividends specified in Section 5.2.2 for a period of three consecutive quarters, incur any indebtedness, whether recourse or non-recourse, other than indebtedness described in Section 6.5 of the Note Agreement. As used in this Section 5.2.4.2, "Change-in-Control Transaction" means any transaction or series of related transactions, involving the Trust, holders of any class of Shares or both, resulting in any person or group of persons acting in concert who were not theretofore the holder or holders of voting securities enabling the holder or holders thereof to cast more than a majority of the votes which may be cast for the election of Other Trustees (as defined in Section 3.3.3) becoming the holder or holders of at least such amount of voting securities (for such purpose, treating instruments or securities issued in such transaction which are convertible into or exchangeable or exercisable for voting securities as being so converted, exchanged or exercised upon issuance, regardless of the terms thereof); provided, however, that any transfer of voting securities of the Trust by persons (including, without limitation, any affiliate, agent, or control person of such persons) who are, or at any time have been, holders of Preferred Shares, shall not constitute all or any part of a Change-In-Control Transaction. A person shall not be considered as acting in concert with any other person for this purpose unless such persons bear a relationship described in either Section 267(b) or 707(b) of the Code.

.3 Election of Trustees. The right of holders of Preferred Shares to elect the Preferred Designee as a Trustee is set forth in Section 3.3.3.

5.2.5 Conversion.

.1 Optional Conversion. As long as Mandatory Conversion has not occurred, the Trustees shall have the right, at their option, to cause the conversion of all of the outstanding Preferred Shares into Conversion Shares (as defined below) upon the issuance in a single offering or transaction (the "New Issuance") by the Trust of Common Shares and/or any equity securities convertible into or exchangeable or exercisable for Common Shares for an aggregate purchase price equal to or greater than an amount equal to 150% of the sum of (A) the aggregate Stated Value of all Preferred Shares then outstanding as of the date that the optional conversion occurs (the "Conversion Date") and (B) the amount of unpaid dividends accrued on all Preferred Shares then outstanding to the Conversion Date. The conversion right granted by this Section 5.2.5.2 may be exercised by the Trust by giving written notice of its election to exercise such conversion right by United States certified or registered mail, postage prepaid, mailed not more than 30 days thereafter to all holders of record of the then outstanding Preferred Shares at such holders' addresses shown on the books of the Trust. Each such notice shall state the proposed Conversion Date (which date shall not be fewer than 10 days more than 30 days after the date notice thereof is received), the number

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of Common Shares to be delivered per Preferred Share converted and the place or

places where certificates of Preferred Shares are to be surrendered for conversion. From and after the Conversion, each certificate of Preferred Shares shall be deemed to represent only the Common Shares into which such Preferred Shares have been converted. The holder of such certificates shall surrender such certificates for conversion upon and pursuant to the request of the Trust. The number of whole Common Shares to be delivered to each holder of Preferred Shares upon an Optional Conversion shall be computed by dividing (1) the aggregate Stated Value of those Preferred Shares held by each such holder by (2) an amount equal to 80% of the purchase price per Common Share included in the New Issuance securities. (For such purpose, to the extent that the New Issuance securities are equity securities convertible into or exchangeable or exercisable for Common Shares, such New Issuance securities shall be treated as having been converted, exchanged or exercised as of the date of the New Issuance even if not by their terms then convertible, exchangeable or exercisable.) At the time of an Optional Conversion of Preferred Shares, the Trust shall pay in cash to the holder thereof an amount equal to all unpaid dividends accrued thereon to the date of conversion. Each Preferred Share certificate surrendered for conversion shall be endorsed by its holder.

.2 Mandatory Conversion. All of the outstanding Preferred Shares shall, without any further action by the holders thereof, convert into Conversion Shares (a "Mandatory Conversion") upon the occurrence of any event specified in Section 5.2.6 and the failure by the Trust to redeem all issued and outstanding Preferred Shares (and to pay in cash an amount equal to all unpaid dividends accrued thereon to the date of redemption) within 10 days after the occurrence of any such event. The number of Common Shares to be delivered to each holder of Preferred Shares upon a Mandatory Conversion pursuant to this Section 5.2.5.2 shall be computed by dividing (1) the aggregate Stated Value of such holder's Preferred Shares, plus an amount equal to all accrued but unpaid dividends on such person's Preferred Shares by (2) the then applicable Conversion Price (as defined in Section 5.2.5.3) for such holder's Preferred Shares. In the event of a Mandatory Conversion pursuant to this Section 5.2.5.3, the Trust shall forthwith transmit to each holder of Preferred Shares notice thereof in reasonable detail, together with certificates for the shares of Common Shares issued as a result thereof, dated the date of such Mandatory Conversion against delivery of the certificates representing the Preferred Shares to be converted, and such holders shall be deemed for all purposes to be the holders of such Common Shares as of the date and time of such Mandatory Conversion.

.3 Conversion Price. For the purposes of conversion under Section 5.2.5.2, the Preferred Shares shall be converted into Common Shares (the "Conversion Shares") at the price per Share of \$2.00 per Conversion Share ("Conversion Price"), subject to adjustment pursuant to the provisions of Section 5.2.5.5.

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.4 Stock Fully Paid; Reservation of Shares. All Common Shares which may be issued upon the conversion of Preferred Shares will, upon issuance, be duly issued, fully paid and nonassessable and free from all liens and charges with respect to the issue thereof. At all times that any Preferred Share is outstanding, the Trust shall have authorized, and shall have reserved for the purpose of issuance upon such conversion, a sufficient number of Common Shares to provide for the conversion into Common Shares of all Preferred Shares then outstanding at the then effective conversion price. Without limiting the generality of the foregoing, if at any time the conversion price is decreased, the number of Common Shares authorized and reserved for issuance upon the conversion of the Preferred Shares shall be appropriately increased.

.5 Adjustment of Conversion Price. The Conversion Price shall be subject to adjustment from time to time upon the happening of certain events, as set forth in the following paragraphs; provided, however that the issuance of Common Shares pursuant to any conversion of Preferred Shares under this Declaration shall not result in any adjustment of the Conversion Price pursuant to this Section 5.2.5.5; and provided further, that the issuance of any Shares which results in an adjustment of the Conversion Price pursuant to any subsection of this Section 5.2.5.5 shall not result in any further adjustment of the Conversion Price under this Section 5.2.5.5:

.1 Reclassification, Consolidation or

Merger. In case of any reclassification or change of outstanding Common Shares issuable upon conversion of Preferred Shares (other than as a result of a subdivision or combination), or in case of any consolidation, merger or combination of the Trust with or into another entity (other than a merger or combination with another entity in which the Trust is the surviving Trust and which does not result in any reclassification or change -- other than as a result of a subdivision or combination --of outstanding Common Shares issuable upon such conversion, and other than a consolidation or merger with CalREIT), the rights of the holders of the outstanding Preferred Shares shall be adjusted in the manner described below:

.1 In the event that the Trust is the surviving entity, the Preferred Shares shall, without payment of additional consideration therefor, be deemed modified so as to provide that upon conversion thereof the holder of the Preferred Shares being converted shall procure, in lieu of each Common Share theretofore issuable upon such conversion, the kind and amount of shares, other securities, money and property receivable upon such

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reclassification, change, consolidation, combination or merger by the holder of each Common Share issuable upon such conversion had conversion occurred immediately prior to such reclassification, change, consolidation, combination or merger. Such Preferred Shares shall be deemed to provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 5.2.5. The provisions of this clause (1) shall similarly apply to successive reclassifications, changes, consolidations, combinations and mergers.

.2 In the event that the Trust is not the surviving entity, the surviving entity shall, without payment of any additional consideration therefor, issue new Preferred Shares, providing that upon conversion thereof, the holders thereof shall procure in lieu of each Common Share theretofore issuable upon conversion of the Preferred Shares the kind and amount of Shares, other securities, money and property receivable upon such reclassification, change, consolidation or merger by the holder of each Common Share issuable upon conversion of the Preferred Shares had such conversion occurred immediately prior to such reclassification, change, consolidation or merger. Such new Preferred Shares shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 5.2.5. The provisions of this clause (2) shall similarly apply to successive reclassification, changes, consolidations, combinations and mergers.

.2 Subdivision or Combination of Shares. If the Trust, at any time while any of the

Preferred Shares is outstanding, shall subdivide or combine its Common Shares, the Conversion Price shall be proportionately reduced, in case of subdivision of Shares, as of the effective date of such subdivision, or if the Trust shall take a record of holders of its Common Shares for the purpose of a subdividing, as of such record date, whichever is earlier; or shall be proportionately increased, in the case of combination of Shares, as of the effective date of such combination or, if the Trust shall take a record of holders of its Common Shares for the purpose of so combining, as of such record date, whichever is earlier.

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.3 Certain Dividends and Distributions.
If the Trust, at any time while any of the Preferred Shares is outstanding, shall:

.1 Stock Dividends. Pay a dividend payable in, effect a split-up of, or make any other distribution of Common Shares, the Conversion Price shall be adjusted, as of the date the Trust shall take a record of the holders of its Common Shares for the purpose of receiving such dividend, stock split or other distribution (or if no such record is taken, as of the date of such payment or other distribution), to that price determined by multiplying the Conversion Price by a fraction (1) the numerator of which shall be the total number of Common Shares outstanding immediately prior to such dividend, split-up or distribution and (2) the denominator of which shall be the total number of Common Shares outstanding immediately after such dividend, split-up or distribution (plus in the event that the Trust paid cash for fractional Shares, the number of additional Shares which would have been outstanding had the Trust issued fractional shares in connection with said dividend, split-up or distribution); or

.2 Liquidating Dividends, etc.
Make a distribution of its property to the holders of its Common Shares as a dividend in liquidation or partial liquidation or by way of return of capital or other than as a dividend payable out of funds legally available for dividends under the laws of the State of California if the Trust were a general business corporation, the holders of the Preferred Shares shall, upon conversion thereof, be entitled to receive, in addition to the number of Common Shares receivable thereupon, and without payment of any consideration therefor, a sum equal to the amount of such property as would have been payable to them as owners of that number of Common Shares of the Trust receivable upon such conversion, had they been the holders of record of such Common Shares on the record date for such distribution; and an appropriate provision therefor shall be made a part of any such distribution.

.4 Issuance of Common Shares at Less Than Conversion Price. In the event that after the date of issuance of the Preferred Shares the Trust

issues Common Shares or Common Share Equivalents (as hereinafter defined) at an issue price less than the Conversion Price, the Conversion Price shall be reduced to an amount equal to the weighted average of the issue prices of all Common Shares and Common Share Equivalents then outstanding. For this purpose, the issue price of all Common Shares issued on or before the effective date of this Declaration shall be deemed to be equal to the Two Dollars (\$2.00) per Share. A Common Share Equivalent shall mean any security that is treated as a Common Share for purposes of computing fully diluted earnings per share under generally accepted accounting principles, but shall not include the Preferred Shares.

.5 Notice of Adjustments. Whenever the Conversion Price shall be adjusted pursuant to Section 5.2.5.5 hereof, the Trust shall make a certificate signed by the Chairman of the Board and by its chief financial officer, treasurer, assistant treasurer, secretary or assistant secretary, setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated (including a description of the basis on which the Trust made any determination hereunder), and the Conversion Price after giving effect to such adjustment, and shall cause copies of such certificate to be mailed (by first-class mail, postage prepaid) to each holder of Preferred Shares at its address shown on the books of the Trust. The Trust shall make such certificate and mail it to each holder promptly after each adjustment.

.6 No Reissuance of Preferred Stock. No Preferred Shares which have been converted into Common Shares shall be reissued by the Trust.

5.2.6 Redemption. Upon the earlier to occur of (A) any event specified in clauses (A) through (G) of Section 5.2.4.2 for which the affirmative vote or consent of holders of Preferred Shares required under Section 5.2.4.2. has not been obtained, (B) any failure by the Trust on or after October 1, 1998, to declare and pay any cash dividend on the Preferred Shares on the payment due dates and in the amounts described in Section 5.2.2 hereof, if such failure shall continue in whole or in part for a period of 90 days from the payment due date, or (C) the sixth anniversary of the date that any Preferred Shares are first issued, the Trust shall redeem all issued and outstanding Preferred Shares not more than 10 days following the date of such event for cash at a redemption price per share equal to the Stated Value plus an amount equal to all unpaid dividends accrued thereon to the date of redemption; provided, however, that the right of redemption under

clause (A) of this Section 5.2.6 may be waived by affirmative vote or consent of the holders of at least a majority of the issued and outstanding Preferred Shares. If the Trust fails to redeem all issued and outstanding Preferred Shares within 10 days after the occurrence of any of the events specified in this Section 5.2.6, all Shares which have not been redeemed (at the option of the Trust) shall be converted to Common Shares as provided in Section 5.2.5.3.

5.2.7 Optional Redemption. The Trust may, in its sole discretion, elect to redeem all or any portion of the outstanding Preferred Shares, at a price per share equal to the Stated Value, plus any accrued but unpaid dividends on the Preferred Share, so long as:

.1 The Trust has paid in cash the entire principal amount of all Interest Deferral

Notes (as defined in the Note Agreement) as delivered to Noteholders (as defined in the Note Agreement) and all accrued interest thereon, and the period on which the Trust may issue Interest Deferral Notes in lieu of cash payments of interest has expired; and

.2 All amounts owing under the New Credit Line (as defined in the Note Agreement) and the Redding Hotel Improvement Loan (as defined in the Note Agreement) have been paid in full.

Section 5.3 Shareholder's Interest in Trust

The interest in the Trust of each Shareholder consists of his right to enforce the performance of the Trust, including the right to participate in all distributions of Trust income or principal according to the proportion which the number of Common Shares or Preferred Shares held by him bears to the total number of Common Shares or Preferred Shares, respectively, then outstanding. Such interest is personal property. During the continuance of the Trust, no Shareholder or his legal representative or successor shall be entitled to a partition of Trust property or, except as herein provided, to an accounting, nor shall the Trust be in any manner affected by the death, incapacity, dissolution, termination or bankruptcy of any Shareholder, or by the transfer of any Share or Shares of the Trust.

Section 5.4 Agreement of Shareholders

Each of the Shareholders, severally but not jointly, by becoming a Shareholder hereunder, hereby agrees with the Trustees and their successors in office that he accepts and agrees to, and shall be bound and governed by, the provisions, terms, and conditions of this Declaration in the same manner as if he had personally executed the same.

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Section 5.5 Nonassessability of Shares

No assessment shall ever be made upon the Shares of the Trust.

Section 5.6 Issuance of Certificates

Every Shareholder shall be entitled to receive a share certificate in such form as the Trustees shall from time to time approve. There shall be stated on each share certificate the certificate number, the date of its issuance, the number of Shares represented thereby, and the name of the Shareholder. All certificates shall be for full Shares. No certificates for fractional shares shall be issued.

Section 5.7 Authentication of Certificates

Each certificate shall bear the signatures of the chairman or a vice-chairman of the Board of Trustees and the secretary or an assistant secretary of the Trust, and if there shall be an independent transfer agent or registrar, the countersignature of an officer thereof duly authorized for the purpose. The signatures of the chairman or a vice-chairman of the Board, the secretary or an assistant secretary of the Trust, and the designated officer of any independent transfer agent or registrar, may be facsimile reproductions. The validity of a share or certificate therefor shall not be affected by the fact that at the time of issuance of the certificate one or more persons whose signatures were duly authorized when placed thereon are no longer authorized to sign the same.

Section 5.8 Replacement Certificates

Lost, stolen, mutilated or destroyed certificates shall be replaced subject to such conditions of proof and indemnity as the Trustees may determine to impose.

Section 5.9 Only Registered Holder Recognized

A register shall be kept under the direction of the Trustees, which shall contain the names and addresses of the Shareholders, the number of Shares of each class of Shares held by them respectively, the numbers of the certificates representing the same, and a record of all transfers thereof. Only the Shareholder designated in such register as the holder of a share certificate shall be recognized for purposes of the Trust as having any interest in such certificate or the Shares represented thereby, and neither the Trust nor any person connected therewith shall be bound by any notice to the contrary, but in cases of dispute the Trustees may require that the certificate in question be submitted for inspection and that the registered Shareholder's title thereto be satisfactorily established. A holder may be registered as a fiduciary, and customary words may be employed to identify the fiduciary relationship.

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Section 5.10 Shareholder's Transfer of Shares

Excepting transfers by operation of law, Shares shall be transferable on the records of the Trust only by the record holder thereof or by his agent duly authorized in writing, upon delivery to the Trustees or a transfer agent of the Trust, if any, of the certificate or certificates therefor, properly endorsed or accompanied by duly executed instrument or instruments of transfer, together with such evidence of the genuineness of each such endorsement, execution and authorization and of other matters as may reasonably be required. Upon such delivery and proof, the transfer shall be recorded upon the register of the Trust, and one or more new certificates shall be issued to those entitled thereto by reason of such transfer. Until the transfer is so recorded, the Shareholder designated by the register as the holder of such Shares shall be deemed to be the holder thereof for all purposes of the Trust, and neither the Trustees nor any transfer agent or registrar, nor any officer or agent of the Trust, shall be affected by any notice of any proposed transfer. The Trustees may establish particular procedures to govern the assignment of Shares for security purposes. No Shareholder may demand that the Trust or the Trustees redeem his Shares. No certificates for fractional Shares shall be issued.

Section 5.11 Transfers by Operation of Law

Any person becoming entitled to any Share in consequence of the death, dissolution or bankruptcy of any shareholder, or in any other way than in Section 5.10 provided, may be entered upon the register as the holder thereof and receive a new certificate therefor, upon delivery of the existing certificate and such proofs as may be required to the Trustees or any transfer agent of the Trust. The transfer shall have no effect until entered upon the register, and notice given to any person prior to such entry shall likewise be ineffective for any purpose. No certificates for fractional shares shall be issued.

Section 5.12 Trust Agents as Shareholders

Any Trustee, officer, agent or employee of the Trust may, in his individual capacity, acquire or dispose of Shares of the Trust.

Section 5.13 Right to Refuse to Transfer Shares; Acquisition Restriction; Redemption Rights

5.13.1 Whenever it is deemed by them to be reasonably necessary to protect the status of the Trust as a "real estate investment trust" for federal income tax purposes, the Trustees may require a statement or affidavit from each proposed transferee of Trust shares setting forth the number of Shares already owned by him and any related person specified in the form prescribed by the Trustees for that purpose. If, in the opinion of the Trustees, the proposed transfer may jeopardize the qualification of the Trust as a "real estate investment trust" under the Code, or result in a

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Change-in-Control Transaction, the Trustees shall have the right, but not a duty, to refuse to transfer the Shares to the proposed transferee. All contracts for the sale or other transfer of Shares of the Trust shall be subject to this provision.

5.13.2 Notwithstanding any other provision of this Declaration of Trust to the contrary, any purported acquisition of Shares of the Trust which would result in the disqualification of the Trust as a real estate investment trust under the Code shall be null and void.

5.13.3 All persons who own 5% or more of any class of the Trust's outstanding Shares shall file with the Trust an affidavit setting forth the number of Shares (i) owned directly (held of record by such person or by a nominee or nominees of such person), (ii) owned indirectly (by reason of Sections 542, 544 and 856 of the Code or for purposes of Rule 13(d) under the 1934 Act) by the person filing the affidavit, and (iii) owned by an person who would be considered as acting in concert with such person as determined under Section 5.2.4.2. The affidavit to be filed with the Trust shall set forth all the information required to be reported (i) in returns of Shareholders under Treasury Regulations Section 1.857-9 and (ii) in reports to be filed under Section 13(d) of the 1934 Act. The affidavit or an amendment to a previously filed affidavit shall be filed with the Trust annually within 60 days after the close of the Trust's taxable year, and prior to any transfer or attempted transfer of Shares by or to such person, so long as immediately prior to or subsequent to the transfer or attempted transfer such person owns 5% or more of the Trust's outstanding Shares.

5.13.4 The Trustees may redeem such Shares as they deem necessary when, in good faith, the Trustees determine that failure to redeem such Shares will result in the Trust's failure to qualify as a real estate investment trust under the Code. All such Shares may be redeemed by the Trust, in the discretion of the Trustees, by mailing a written notice of redemption to the holder of such Shares not less than one week prior to the redemption date as set by the Trustees and included in the notice. The redemption price to be paid for such Shares shall be equal to (i) the average of the high and low sales prices of the shares of such class or series on the last business day prior to the redemption date on the principal national securities exchange on which such shares are listed or admitted to trading, or (ii) if such shares are not so listed or admitted to trading, the average of the highest bid and lowest asked prices on such last business day as reported by the National Quotation Bureau Incorporated or a similar organization selected from time to time by the Trust for the purpose, or (iii) if not determinable as aforesaid, as determined in good faith by the Trustees. From and after the date fixed for redemption by the Trustees, the holder of any Shares of so called for redemption shall cease to be entitled to any distributions and other benefits with respect to such Shares, except only the right to payment of the redemption price fixed as aforesaid.

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5.13.5 The provisions of this Section 5.13 relating to transactions which could affect the Trust's qualification as a "real estate investment trust" under the Code shall be applicable only during fiscal years of the Trust for which the Trustees determine that the Trust can reasonably expect to meet the requirements for election to be taxed as a "real estate investment trust" under the Code and that it is in the best interests of the Trust and the Shareholders that the Trust make such election.

Section 5.14 Cancellation of Old Shares

Prior to the effective date of this Declaration, the Trust had outstanding a single class of beneficial interests designated as "shares" (the "Old Shares"). Effective as of the date hereof, all issued and outstanding certificates representing Old Shares are hereby canceled and terminated, and all issued and outstanding Old Shares are hereby converted into Common Shares and cash, without necessity for further action either by the Trust or the holders of the Old Shares. The number of Common Shares issued to holders of Old Shares is the number determined pursuant to Article IV.B.22 and .23 of the Plan. The Trustees shall record on the books of the Trust the names of former holders of the Old Shares and the number of Common Shares issued to such holders pursuant to the conversion provided for in this Section 5.14 and the Plan. Upon receipt of a request of a former holder of Old Shares, or when and

to the extent they deem practicable, the Trustees shall issue to the persons entitled thereto certificates for Common Shares issued pursuant to the conversion provided for in this Section 5.14 and the Plan.

ARTICLE VI.

DIVIDENDS

Section 6.1 Declaration and Payment

Subject to Section 5.2, relating to Preferred Shares, the Trustees shall declare dividends, payable from the assets of the Trust, in money or otherwise, at such times, in such amounts and from such sources, whether income, surplus, capital, or any combination thereof, as they in their discretion may determine, and cause the same to be distributed to the shareholders in amounts proportionate to the number of shares held by each Shareholder. The Trustees may fix a record date for the determination of holders of Preferred Shares entitled to receive payment of a dividend or a distribution declared thereon, which record date shall be not more than 30 days prior to the date fixed for the payment thereof.

Section 6.2 Statement of Source

Any distributions to Shareholders shall be accompanied by a statement in writing identifying the source or sources to which the distribution is charged. In case of doubt as to source, the writing shall so state, and the required statement as to source shall be forwarded to Shareholders not later than 60 days after the

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close of the fiscal year in which the distribution of doubtful source is made.

ARTICLE VII.

ACCOUNTING

Section 7.1 Standard

The books and records of the Trust shall be kept in conformity with generally accepted principles of accounting, consistently applied.

Section 7.2 Inspection of Records

The share register or a duplicate thereof, the books of account, and minutes of proceedings of the Shareholders and the Board of Trustees and of committees of the Trustees, shall be open to inspection at any reasonable time upon the written demand of any Shareholder, made upon the secretary or any assistant secretary of the Trust, for a purpose reasonably related to his interests as a Shareholder, and shall be exhibited at any time when required by the demand at any Shareholders' meeting of ten percent of the Shares represented at the meeting. Inspection by a Shareholder may be made in person or by agent or attorney. The right of such inspection shall include the right to make extracts. Each Trustee shall have the right at all reasonable times during his term of office to inspect the records and property of the Trust.

Section 7.3 Annual Audit

The Trustees shall cause to be prepared at least annually, at the expense of the Trust, a report of Trust operations, containing a balance sheet and a statement of income and surplus and an opinion of an independent certified public accountant on the financial statement. Such opinion shall be based on an examination of the books and records of the Trust which is not materially limited in scope and is made in accordance with generally accepted auditing procedures. Within one hundred fifty (150) days after the close of the period covered by the report, a signed copy of such report and opinion shall be filed with the Trustees, and a copy thereof shall be sent to each Shareholder.

Section 7.4 Interim Reports

Interim reports, containing a current balance sheet which may be unaudited, shall be prepared at least quarterly and shall be furnished within a

ARTICLE VIII.

MEETINGS OF SHAREHOLDERS

Section 8.1 Annual Meeting

The annual meeting of the Shareholders shall be held on a business day during the fifth or sixth calendar month of the Trust's fiscal year, between 9:00 a.m. and 10:00 p.m., at Sacramento, California, or at such other location in the State of California as the Trustees shall elect, provided, however, that no annual meeting shall be held during calendar year 1995. Notice of the date, hour and place of the meeting as determined by resolution of the Trustees, and the annual report of Trust operations required by Section 7.3, shall be mailed to shareholders at least 14 days before the day of the meeting.

Section 8.2 Special Meetings

8.2.1 Special meetings of Shareholders may be called at any time and place by a majority of the Trustees. The Trustees shall cause a special meeting to be called upon receipt of the written request of the holders of more than twenty-five percent (25%) of the outstanding Shares of each class of Shares entitled to vote on any matter to be considered at such meeting, which request shall specify the purpose or purposes for which such meeting is to be called. Such special meeting shall be held not less than 35 nor more than 90 days following receipt by the Trustees of such written request of Shareholders. If for any reason an annual meeting of Shareholders as herein provided for shall be omitted, a special meeting of Shareholders may subsequently be held in lieu thereof and the business of the annual meeting may be transacted thereat.

8.2.2 Notwithstanding Section 8.2.1, upon the written request of the holders of that number of then outstanding Preferred Shares which equal at least 10% of the aggregate number of Preferred Shares then outstanding addressed to the Trustees at the principal office, the Trust shall give notice of a special meeting of the holders of Preferred Shares for the election of a Preferred Designee to fill any vacancy caused by the failure of the holders of Preferred Shares to elect a Preferred Designee or by the death, resignation or other inability to serve of the Preferred Designee, to be held not less than 35 nor more than 60 days following receipt by the Trustees of such written request. The record date for any such special meeting shall be the date of receipt by the Trustees of such written request. If a notice of a special meeting requested as aforesaid shall not be transmitted by the Trustees within 20 days after receipt of the request, then the holders of at least 10% of the Preferred Shares may designate in writing one of their number to call such meeting, and the person so designated may call such meeting at the place designated in the Declaration or the By-Laws of the Trust for meetings of the Shareholders and upon not less than 10 nor more than 60 days' notice and for that purpose shall have access to the Share register of the Trust.

Section 8.3 Action Without Meeting

Whenever holders of the Preferred Shares or Common Shares are required or permitted to take any action by vote, such action may be taken without a meeting by written consent, setting forth the action so taken and signed by the holders of the outstanding Preferred Shares or Common Shares, as the case may be, having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all such shares entitled to vote thereon were present and voted.

Notice of all meetings of Shareholders shall be given at the direction of the Trustees by the secretary or any other officer authorized by the Trustees, and shall be mailed not less than 14 days nor more than 60 days before the day of the meeting to each Shareholder at his address as given in the register, or lacking such address, to such Shareholder addressed to the principal office of the Trust. No business shall be transacted at any special meeting of Shareholders unless notice of such business has been given in the call for the meeting. Any adjourned meeting may be held as adjourned, without further notice.

Section 8.5 Effect of Action

Except as otherwise expressly provided by law or this Declaration, no action taken by the Shareholders at any meeting shall in any way bind the Trustees in their management of the Trust.

Section 8.6 Record Date

Except as provided in Section 6.1, relating to dividends on Preferred Shares, the Trustees may, without closing the transfer books, fix a date not more than 45 days prior to the date of any meeting of Shareholders or dividend payment as a record date for the determination of Shareholders entitled to vote at such meeting or any adjournment thereof, or to receive such dividend. Any person who is a registered Shareholder at the time so fixed shall be entitled to vote or receive such dividend even though he has since that date disposed of his Shares, and no Shareholder becoming such after that date shall be so entitled to vote at such meeting or any adjournment thereof or to receive such dividend.

Section 8.7 Quorum

A majority of the outstanding Shares of each class entitled to vote on any matter to be voted on at a meeting of Shareholders represented in person or by proxy shall constitute a quorum at any such meeting. The Shareholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Shareholders to leave less than a quorum. In the absence of

a quorum, any meeting of Shareholders may be adjourned from time to time, up to and including the 45th day following the originally noticed meeting date by an affirmative vote of a majority of the Common Shares entitled to vote and represented in person or by proxy at the meeting. At any meeting of Shareholders called for the purpose of election of Trustees, holders of at least a majority of the outstanding Preferred Shares, present in person or by proxy, shall be sufficient to constitute a quorum for the election of a Preferred Designee.

Section 8.8 Voting of Shares

8.8.1 Subject to the terms of Preferred Shares, which may at the time be outstanding, each Common Share shall be entitled to one vote; provided, that only holders of record as of the record date for the meeting shall be entitled to vote at any meeting of Shareholders. Whenever any action is to be taken by the Shareholders, it shall, except as otherwise required by this Declaration or the provisions of any series of Preferred Shares which may at the time be outstanding or by law, be authorized either by the affirmative vote of a majority of the votes cast at a meeting of Shareholders by holders of Common Shares entitled to vote thereon, or by written consents setting forth the action so taken and signed by the holders of a majority of all outstanding Common Shares entitled to vote thereon.

8.8.2 Whenever the vote or written consent of Shareholders is required or permitted under this Declaration, such vote or consent may be given either in person or by proxy. The trustees may solicit such proxies from the Shareholders or any of them in any matter requiring or permitting the Shareholders' vote or written consent. No proxy for any meeting of

Shareholders shall be effective unless such proxy shall have been received in the office of the Trust, or such other location designated by the Trustees and indicated in the material soliciting the proxies, for verification prior to the meeting.

8.8.3 When a Share entitled to vote is held jointly by several persons, any one of them may vote at any meeting in person or by proxy with respect to such Share, but if more than one of them shall be present at such meeting in person or by proxy and such joint owners or their proxies so present disagree as to any vote to be cast, no vote shall be received with respect to such Share.

8.8.4 Every Shareholder entitled to vote at any election of trustees may cumulate such Shareholder's votes and give one candidate a number of votes equal to the number of Trustees to be elected multiplied by the number of votes to which the Shareholder's Share are normally entitled, or distribute the Shareholder's votes on the same principle among as many candidates as the Shareholder thinks fit, provided however, that no Shareholder shall be entitled to cumulate votes (i.e., cast for any candidate a number of votes greater than the number of votes which

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40 such Shareholder normally is entitled to cast) unless such candidate or candidates' names have been placed in nomination prior to the voting and the Shareholder has given notice at the meeting prior to the voting of the Shareholder's intention to cumulate the Shareholder's votes. If any one Shareholder has given such notice, all Shareholders may cumulate their votes for candidates in nomination.

Section 8.9 Annual Report

At each annual meeting of Shareholders, the Trustees shall present a report upon the affairs of the Trust and upon its business and operations.

ARTICLE IX.

DURATION OF TRUST

Section 9.1 Duration

Unless terminated at an earlier date, the Trust shall terminate twenty-one (21) years after the death of the last survivor of the following named persons: WILHELM BERGER, ANDREW R. LOLLI, JEAN P. NIELSEN, G. ROBERT HENRY, LYNES DOWNING, JACK KRYSTAL, BRUCE E. BEDIG, CLAYTON W. BRUNSELL, JAMES H. THOMAS, and ROSE J. SUNDQUIST.

Section 9.2 Early Termination

The Trust shall be irrevocable. Subject to the provisions of the Preferred Shares, the Trust may be terminated or dissolved only upon the affirmative vote or written consent of sixty-six and two-thirds percent (66-2/3%) of the outstanding Common Shares of the Trust entitled to vote.

Section 9.3 Procedure Upon Termination

Upon termination of the Trust, subject to the provisions of the Preferred Shares, the Trustees shall cause such liquidation of Trust assets as they deem desirable, shall pay or make adequate provision for all liabilities of the Trust, whether present or contingent, and shall distribute the remaining Trust assets, either in kind or in money or both, to the Shareholders in proportion to their Shareholdings.

ARTICLE X.

INTERPRETATION AND AMENDMENT

Section 10.1 California Laws Govern

This Declaration of Trust is executed and delivered in the State of California, and its provisions and all rights, powers, privileges, trusts, duties and obligations hereunder and under all

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share certificates shall be governed by the laws of the State of California and of the United States of America.

Section 10.2 Headings

The use of headings in this Declaration of Trust is solely for convenience, and all such headings shall be disregarded in the construction of its provisions.

Section 10.3 Amendments

Except as provided in Section 10.4, any amendment to this Declaration of Trust shall be in writing and, subject to the terms of Section 10.4 and the provisions of the Preferred Shares, shall require and shall be effective upon the affirmative vote or written consent of seventy-five percent (75%) the outstanding Common Shares of the Trust entitled to vote.

Section 10.4 Amendment Without Shareholder Approval.

Notwithstanding Section 10.3, seventy-five percent (75%) of the Trustees then in office may amend this Declaration without the vote or consent of Shareholders to the extent (i) such action is within the powers granted to the Trustees pursuant to Section 3.11 of this Declaration, and (ii) the Trustees deem it necessary for the Trust to qualify as a real estate investment trust under the Code, or to conform this Declaration to any other applicable laws, rulings or regulations; provided that the Trustees shall in no event be liable for failing to so amend the Declaration. The Trustees shall cause notice of any such amendment to be mailed to Shareholders within 30 days following such amendment.

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Section 10.5 Recording Amendments

Following the adoption of any amendment hereto, the secretary of the Trust and the chairman of the Board of Trustees shall execute and file for record an instrument which sets forth such amendment.

IN WITNESS WHEREOF, the individuals above named, comprising the Trustees of the Trust, have hereunto set their hands on the date first above written.

Doris V. Alexis

Albert S. Rodda

Steven H. Gold

Howard E. Cohn

Richard Rathfon

STATE OF CALIFORNIA)
) SS:
COUNTY OF LOS ANGELES)

On _____, 1994, before me,
_____, a Notary Public, personally appeared DORIS V. ALEXIS known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that she executed the same in her authorized capacity, and that by her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____
(Seal)

STATE OF CALIFORNIA)
) SS:
COUNTY OF LOS ANGELES)

On _____, 1994, before me,
_____, a Notary Public, personally appeared ALBERT S. RODDA, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____
(Seal)

STATE OF CALIFORNIA)
) SS:
COUNTY OF LOS ANGELES)

On _____, 1994, before me,
_____, a Notary Public, personally appeared STEPHEN H. GOLD known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

STATE OF CALIFORNIA)
) SS:
COUNTY OF LOS ANGELES)

On _____, 1994, before me,
_____, a Notary Public, personally appeared HOWARD E. COHN, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____
(Seal)

STATE OF CALIFORNIA)
) SS:
COUNTY OF LOS ANGELES)

On _____, 1994, before me,
_____, a Notary Public, personally appeared RICHARD RATHFON, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____
(Seal)

BYLAWS

OF

THE PEREGRINE REAL ESTATE TRUST

A CALIFORNIA REAL ESTATE INVESTMENT TRUST

ARTICLE I. OFFICES

SECTION 1. Principal Executive Office. The principal executive office of the Trust is hereby fixed and located at 1300 Ethan Way, Sacramento, California 95825. The Board of Trustees of this Trust (referred to herein individually as a "Trustee" and collectively as the "Trustees") are hereby granted full power and authority to change said principal executive office from one location to another. Any such change shall be noted on the Bylaws opposite this Section, or this Section may be amended to state the new location.

SECTION 2. Other Offices. Branch or subordinate offices may at any time be established by the Trustees at any place or places.

ARTICLE II. SHAREHOLDERS

SECTION 1. Annual Meetings. Annual meetings of the shareholders shall be held on a business day during the fifth or sixth calendar month of the Trust's fiscal year on a date and at a time and place within the State of California designated by the

Trustees. No annual meeting of shareholders shall be held during calendar year 1995.

SECTION 2. Special Meetings. Special meetings of the shareholders may be called at any time and place when ordered by a majority of the Trustees or upon the written request of the holders of more than 25% percent of the outstanding shares of each class of shares entitled to vote, specifying the purpose or purposes for which the meeting is called. If for any reason the annual meeting of the shareholders shall be omitted, a special meeting of the shareholders may subsequently be held in lieu thereof, and the business of the annual meeting may be transacted thereat. No business shall be transacted at any special meeting of shareholders unless notice of such business has been

given in the call for the meeting. Special meetings of holders of Preferred Shares, as defined in the Restated Declaration of Trust of The Peregrine Real Estate Trust (the "Declaration") are provided for in Section 8.2.2 of the Declaration.

SECTION 3. Notice. Notice of a shareholders' meeting shall be given not less than fourteen (14) nor more than sixty (60) days before the meeting by a Trustee or officer either personally or by mail or by other means of written communication, addressed to the shareholder at the address of such shareholder appearing on the books of the Trust or given by the shareholder to the Trust for the purpose of such notice; or, if no such address appears or is given,

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at the place where the principal executive office of the Trust is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located. Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mail, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient, or is delivered to a common carrier for transmission, or is actually transmitted by the person giving the notice by electronic means.

SECTION 4. Record Date. For purposes of determining the shareholders who are entitled to vote or act at any meeting or any adjournment thereof, or who are entitled to participate in any dividend or distribution payment, the Trustees may from time to time close the transfer books, for such periods not exceeding forty-five (45) days as the Trustees may determine; or without closing the transfer books, the Trustees may fix a date not more than forty-five (45) days prior to the date of any meeting of shareholders, or dividends or distribution payment, as a record date for the determination of shareholders entitled to vote at such meeting or any adjournment thereof, or to receive such dividend or distribution payment; and any shareholder who was a shareholder at the time so fixed shall be entitled to vote at such meeting or any adjournment thereof or to receive such dividend or distribution even though the shares of such shareholder have since that date

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been disposed; and no shareholder becoming such after said date shall be so entitled to vote at said meeting or any adjournment thereof or to receive such

dividend or distribution; provided, however, that the record date for payment of dividends on Preferred Shares shall be not more than thirty (30) days prior to the date fixed for payment thereof.

SECTION 5. Voting.

(a) Only shareholders of record shall be entitled to vote.

(b) In the election of Trustees, each shareholder shall be entitled to one (1) vote per share, on a cumulative basis, for each trusteeship to be filled; provided, however, that no shareholder shall be entitled to cumulate votes unless the candidate(s) name(s) have been placed in nomination prior to the voting and at least one shareholder has given notice at the meeting prior to the voting of the shareholder's intention to cumulate votes. The candidate(s) receiving the highest number of votes, up to the number of trusteeships to be filled in the election, shall be elected.

(c) If any share is held jointly by several persons, any one of them may vote at any meeting in person or by proxy in respect of such share, but if more than one of them shall be present at such meeting in person or by proxy, and such joint owners or their proxies so present disagree as to any vote to be cast, such vote shall not be received in respect of such share.

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(d) Shares held by an administrator, executor, guardian, conservator or custodian may be voted by such holder either in person or by proxy, without a transfer of such shares into the holder's name; and shares standing in the name of a trustee may be voted by the trustee, either in person or by proxy, but no trustee shall be entitled to vote shares held by such trustee without a transfer of such shares into the trustee's name.

(e) Shares standing in the name of a receiver may be voted by such receiver; and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into the receiver's name if authority to do so is contained in the order of the court by which such receiver was appointed.

(f) Shares standing in the name of a minor may be voted and the Trust may treat all rights incident thereto as exercisable by the minor, in person or by proxy, whether or not the Trust has notice, actual or constructive, of the nonage, unless a guardian of the minor's property has been appointed and written notice of such appointment given to the Trust.

(g) Except where otherwise agreed in writing between the parties, a shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

(h) Shares standing in the name of a corporation, domestic or foreign, may be voted by such officer, agent or power as the bylaws of such corporation may prescribe, or in the absence of such provision, as the board of directors of such corporation may determine or, in the absence

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of such determination, by the chairman of the board, president or any vice president of such corporation, or by any other person authorized to do so by the board, president or any vice president of such other corporation. Shares which are purported to be voted or any proxy purported to be executed in the name of a corporation (whether or not any title of the person signing is indicated) shall be presumed to be voted or the proxy executed in accordance with the provisions of this subdivision, unless the contrary is shown.

(i) Any shares held by the Trust in a fiduciary capacity shall not be entitled to vote on any matter, except to the extent that the settlor or beneficial owner possesses and exercises a right to vote or gives the Trust binding instructions as to how to vote such shares.

SECTION 6. Quorum. A majority of the outstanding shares of each class of shares entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of shareholders. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

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SECTION 7. Adjourned Meeting and Notice Thereof. Any shareholders' meeting, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the shares, the holders of which are either present in person or represented by proxy thereat, but in the absence of a quorum (except as provided in Section 6 of this Article II) no other business may be transacted at such meeting. It shall not be necessary to give any notice of the time and place of the adjourned meeting or of the business to be transacted thereat, other than by announcement at the meeting at which such adjournment is taken; provided, however, when any shareholders' meeting is adjourned for more than 45 days or, if after adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given as in the case of an original meeting.

SECTION 8. Consent of Absentees. The transactions of any meeting of shareholders, however called and noticed, and wherever held, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by Proxy, signs a written waiver of notice, or a consent to the holding of the meeting or an approval of the minutes of the meeting.

SECTION 9. Action Without Meeting. Any action which may be taken at any annual or special meeting of shareholders may be taken

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without a meeting and without prior notice if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Unless a record date for voting purpose be fixed as provided in Section 4 of this Article II, the record date for determining shareholders entitled to give consent pursuant to this Section 9, when no prior action by the Trustees has been taken, shall be the day on which the first written consent is given.

SECTION 10. Proxies. Every person entitled to vote shares has the right to do so either in person or by one or more persons authorized by a written proxy executed by such shareholder and filed with a Trustee or officer of the Trust. Any proxy duly executed is not revoked and continues in full force and effect until revoked by the person executing it prior to the vote pursuant thereto by a writing delivered to the Trust stating that the proxy is revoked or by a subsequent proxy executed by, or by attendance at the meeting and voting in person by, the person executing the proxy; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of its execution unless otherwise provided in the proxy.

SECTION 11. Inspectors of Election. In advance of any meeting of shareholders, the Trustees may appoint any persons other

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than nominees for office as inspectors of election to act at such meeting and any adjournment thereof. If inspectors of election be not so appointed, or if any persons so appointed fail to appear or refuse to act, the chairman of any such meeting may, and on the request of any shareholder or shareholder's proxy shall, make such appointment at the meeting. The number of inspectors shall be either one or three. If appointed at a meeting on the request of one or more shareholders or proxies, the majority of shares present shall determine whether one or three inspectors are to be appointed. The duties of such inspector(s) shall include, but not necessarily be limited to, determining the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies; receiving votes, ballots, or consents; hearing and determining all challenges and questions in any way arising in connection with the right to vote; counting and tabulating all votes

or consents; determining when the polls shall close; determining the result of the election or vote; and doing such acts as may be proper to conduct the election or vote with fairness to all shareholders. If there are three inspectors of election, the decision, act, or certificate of a majority is effective in all respects as the decision, act, or certificate of all.

ARTICLE III. TRUSTEES

SECTION 1. Number and Qualifications. Subject to Section 3.3.3 of the Declaration, there shall be not less than five (5) nor more than thirteen (13) Trustees, the exact number to be fixed by the Trustees from time to time. No reduction of the authorized number of Trustees shall have the effect of removing any Trustee prior to the expiration of the Trustee's term of office. No person shall qualify as a Trustee unless that person is at least twenty-one (21) years of age, and until that person shall have either signed the Declaration or agreed in writing to be bound by the Declaration.

SECTION 2. Election. The election of Trustees is provided for in Section 3.3 of the Declaration.

SECTION 3. Vacancies. The filling of vacancies on the Board is provided for in Section 3.6 of the Declaration. The election to fill such a vacancy shall be evidenced by an instrument in writing signed by a majority of the Trustees; but no such election shall become effective unless and until such instrument bearing the acceptance of the person so appointed has been acknowledged by one or more of the existing Trustees. Thereupon, the Trust property shall vest in the new Trustee jointly with the continuing Trustee or Trustees without any further act or conveyance. The Trustees named in the Declaration and/or their successors as Trustees shall

hold office during the existence of this Trust; provided, however, that any one or more Trustees may be removed and one or more new Trustees elected to take the place of each such Trustee so removed. Whenever a vacancy in the number of Trustees shall occur, until such vacancy is filled, the continuing or surviving Trustee or Trustees shall have all the powers granted to the Trustees and shall discharge all duties imposed upon the Trustees by the Declaration. The term "majority of the Trustees", except where otherwise defined herein, shall mean more than one-half (1/2) of the total number of Trustees then in office.

SECTION 4. Removal. Removal of a Trustee is provided for in Section

SECTION 5. Resignation. Any Trustee may resign as Trustee by a signed instrument in writing which is delivered or mailed to the Trustees, and such resignation shall take effect immediately or at a later date, according to the terms of the notice; provided, however, that such resignation shall not become effective until a copy of such resignation is recorded with the County Recorder for the county in which the principal office of business of the Trust is located.

SECTION 6. Cessation of Right, Title or Interest. Upon the resignation, removal, or death of a Trustee, that Trustee shall automatically cease to have any right, title, or interest in any

properties or interest in properties of the Trust, and the right, title and interest of such Trustee shall automatically vest, upon that Trustee's resignation, removal, or death, in the remaining Trustees, if any.

SECTION 7. Survival of Trust. The death, resignation, or removal of any one or more of the Trustees shall not operate to annul the Trust or to revoke any existing agency created pursuant to the terms of the Declaration, except as to the Trustee or Trustees whose term has been so terminated.

SECTION 8. Meetings. Meetings of the Trustees shall be held from time to time upon the call of the Chairman of the Board or any two of the Trustees; provided, that prior to the annual meeting of shareholders of the Trust to be held during calendar year 1996, the Board shall meet no less frequently than once during each quarter of each fiscal year of the Trust. Regular or special meetings of the Trustees shall be held at any place within or without the State of California which has been designated from time to time by the Trustees. In the absence of such designation regular meetings shall be held at the principal executive office of the Trust.

SECTION 9. Notice. Notice of any meetings shall be given not less than seventy-two (72) hours prior to the meeting, but may be waived by any Trustee either before or after such meeting. Notice may be given personally or by telephone, telegraph, telex,

facsimile or other similar means of communication. Any such notice

shall be addressed or delivered to each Trustee at such Trustee's address as it is shown upon the records of the Trust or as may have been given to the Trust by the Trustee for purposes of notice or, if such address is not shown on such records or is not readily ascertainable, at the place in which the meetings of the Trustees are regularly held. Notice by mail shall be deemed to have been given at the time a written notice is deposited in the United States mail, postage prepaid. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or is actually transmitted by the person giving the notice by electronic means.

SECTION 10. Voting. The concurrence of all the Trustees shall not be necessary for the validity of any action taken by them, but a decision expressed in a vote passed at a meeting by a majority of the Trustees present or expressed in writing signed by a majority of the Trustees without a meeting shall constitute the action of the Trustees and have the same effect as if assented to by all. At any meeting a majority of the Trustees shall constitute a quorum. Any deed, mortgage, lease, or other instrument or writing executed by one or more of the Trustees shall be valid and binding upon the Trustees and upon the Trust when authorized by a vote or writing passed or signed as above provided.

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SECTION 11. Telephone Conference. Trustees may participate in a meeting through use of conference telephone or similar communications equipment, so long as all Trustees participating in such meeting can hear one another.

SECTION 12. Consent of Absentees. The transactions of any meeting of the Trustees, however called and noticed or wherever held, are as valid as though had at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the Trustees not present signs a written waiver of notice, a consent to holding such meeting or an approval of the minutes thereof. All such waivers, consents, or approvals shall be filed with the Trust records or made a part of the minutes of the meeting.

SECTION 13. Adjourned Meeting and Notice Thereof. A majority of the Trustees present, whether or not a quorum is present, may adjourn any Trustees' meeting to another time and place. Notice of the time and place of holding an adjourned meeting need not be given to absent Trustees if the time and place be fixed at the meeting adjourned. If the meeting is adjourned for more than 24 hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the Trustees who were not present at the time of the adjournment.

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SECTION 14. Action Without Meeting. Any action required or permitted to be taken by the Trustees may be taken without a meeting if all Trustees shall individually or collectively consent in writing to such action. Such consent or consents shall have the same effect as a unanimous vote of the Trustees and shall be filed with the minutes of the proceedings of the Trustees.

SECTION 15. Inspection Rights. Every Trustee shall have the right at any reasonable time to inspect and copy all books, records, and documents of every kind and to inspect the physical properties of the Trust. Such inspection by a Trustee may be made in person or by agent or attorney and includes the right to copy and obtain extracts.

SECTION 16. Compensation. Each Trustee shall receive such remuneration from the Trust for Trustee's services as a Trustee as shall be fixed from time to time by the Trustees. There shall be no requirement that each Trustee receive compensation in the same amount.

SECTION 17. Executive Committee. The Trustees shall have power to appoint and remove from among their own number an Executive Committee of three (3) or more persons to whom they may delegate such of the powers herein given to the Trustees as they may deem expedient, except as otherwise provided herein.

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SECTION 18. Advisory Board. The Trustees may appoint an Advisory Board. Members of this Board shall not be Trustees or officers of the Trust but may be shareholders or retired Trustees. They shall be entitled to such remuneration for their services as the Trustees from time to time deem appropriate. The Trustees may at any time remove any member of the Advisory Board and may appoint new or additional members. Any member may resign by giving notice in writing to the Trustees. The Advisory Board shall consult with and advise the Trustees as to the investment of the Trust property and other matters relating to the business and affairs of the Trust. The Advisory Board shall have no power or authority to make any contract or incur any liability whatever or to take any action binding upon the Trust, the Trustees, or the shareholders. The provisions of the Declaration and these Bylaws relative to the exemption from personal liability of the Trustees, officers, and agents of the Trust shall apply in all respects to members of the Advisory Board.

SECTION 19. Reliance on Documents. The Trustees may rely on and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, or other paper or document which they believe to be genuine and to have been signed or presented by the proper party or parties.

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SECTION 20. No Security Required. Except as required by law or by any rule or order issued by the Commissioner of Corporations of California applicable to real estate investment trusts, no Trustee shall be required to provide a bond, surety, or security to secure the performance of such Trustee's duties or obligations hereunder.

SECTION 21. Execution of Instruments. All instruments, whether or not under seal (including, but not limited to, deeds, mortgages, leases, contracts, bonds, notes, and agreements), may be executed on behalf of the Trust by any Trustee or agent as shall be authorized by the Trustees herein provided. Except as otherwise provided for in the Declaration or these Bylaws, all agreements, obligations, instruments, papers, and actions by, or in the name of, or on behalf of the Trust shall be made, incurred, executed, signed, or taken by, or in the name of the Trust, and shall in such cases and in such manner as the Trustees deem advisable, expressly exempt the Trustees and the shareholders from personal liability and expressly provide that the Trust property shall be liable thereunder by reason thereof; provided, however, in any contract made by the Trustees, or their duly authorized agents, a provision shall be included eliminating any personal liability of the Trustees or shareholders by reason of such contract, which provision shall be in substantially the following form:

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"This contract is made by the undersigned, [name of Trustee(s)], not individually, but as Trustee(s) under that certain Restated Declaration of Trust of The Peregrine Real Estate Trust, and hereby made a part hereof, and is enforceable only against, and is payable out of, the Trust property held thereunder, and any and all personal liability of the Trustee(s), their duly authorized agents, and the shareholders of said Trust is expressly waived."

SECTION 22. Interested Trustees. No contract or other transaction between the Trust and any other person, firm, association, or corporation shall

be void or voidable because of the fact that one or more Trustees of the Trust is a director, partner, or member of, or otherwise interested in or affiliated with such other person, firm, association, or corporation, provided that such contract or transaction shall be approved or ratified by the affirmative vote of a majority of the Trustees who are not so interested at a meeting of the Trustees, and that the fact of the interest of such interested Trustees shall be disclosed or known to such approving majority of the Trustees. Any Trustee so interested present at any meeting of the Trustees may be counted in determining the existence of a quorum at such meeting, provided, however, that it is the intent of the Trustees that any

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relationship of any of the Trustees with any independent contractor dealing with the Trust shall meet the requirements of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, and the requirements set forth in any rule or order issued by the California Corporations Commissioner relative to real estate investment trusts, in order that the Trust be treated as a qualified real estate investment trust.

SECTION 23. Powers. Subject to any limitations of the Declaration and these Bylaws, the business and affairs of the Trust shall be managed by the Trustees. All Trust powers, including, but not limited to, those powers set forth in the Declaration and these Bylaws, shall be exercised by or under the direction of the Trustees. The Trustees may delegate the management of the day-to-day operation of the business of the Trust to a management company, or, as provided in Section 18 of this Article III, an Executive Committee, or as provided in Section 19 of this Article III, an Advisory Board, or other person or entity provided that the business and affairs of the Trust shall be managed and all Trust powers shall be exercised under the ultimate direction of the Trustees.

ARTICLE IV. OFFICERS

SECTION 1. Officers. The officers of the Trust shall be a Chairman of the Board, a President and Chief Executive Officer, one

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or more Vice Presidents, a Secretary, a Treasurer/Chief Financial Officer and/or such additional officers or agents as the Trustees may from time to time determine. The term of office of all officers shall be for such period of time as the Trustees may determine or until their respective successors are elected and qualify, but any officer may be removed at any time by the Trustees. In the absence of designation from time to time of powers and duties by the Trustees, the officers shall have powers and duties as generally pertain

to their respective offices. Any number of offices may be held by the same person.

SECTION 2. Election. The officers of this Trust shall be chosen by the Board of Trustees, and each shall serve at the pleasure of the Board of Trustees, subject to the rights, if any, of an officer under any contract of employment. The Chairman of the Board, President and Chief Executive Officer, Secretary and Treasurer/Chief Financial Officer shall be chosen by the Board of Trustees annually at its first meeting after the election of Trustees.

SECTION 3. Subordinate Officers. The Trustees may elect, and may empower the President and Chief Executive Officer to appoint, such other officers as the business of the Trust may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the Trustees may from time to time determine.

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SECTION 4. Removal. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the Board of Trustees. Any officer may resign at any time upon written notice to the Trustees without prejudice to the rights, if any, of this Trust under any contract to which the officer is a party.

SECTION 5. Resignation. Any officer may resign at any time by giving written notice to the Trust, but without prejudice to the rights, if any, of the Trust under any contract to which the officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled in the manner prescribed in these Bylaws for regular election or appointment to such office.

SECTION 7. Chairman of the Board. The Chairman of the Board shall be a member of the Board of Trustees. The Chairman of the Board shall preside at meetings of the Board of Trustees and the shareholders and shall exercise and perform such other powers and duties as from time to time may be prescribed by the Board of Trustees. If there is no President, the Chairman of the Board

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shall, in addition, be the chief executive officer of this Trust and shall have the powers and duties of the President.

SECTION 8. President and Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board of Trustees to the Chairman of the Board, the President and Chief Executive Officer shall be the chief executive officer of this Trust and shall, subject to the control of the Board of Trustees, have general supervision, direction and control of the business and the affairs of this Trust. In the absence of the Chairman of the Board, the President and Chief Executive Officer shall preside at all meetings of the shareholders and at meetings of the Board of Trustees. The President and Chief Executive Officer shall have the general powers and duties of management usually vested in the chief executive officer of a business entity and shall have such other powers and duties as from time to time may be prescribed by the Board of Trustees.

SECTION 9. Vice Presidents. In the absence or disability of the President and Chief Executive Officer and the Chairman of the Board, the Vice President or Vice Presidents, if there be such an officer, or officers, in order of their rank as prescribed by the Board of Trustees, shall perform all the duties of the President and Chief Executive Officer, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President and Chief Executive Officer. The Vice President(s) shall

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have such other powers and perform such other duties as from time to time may be prescribed for them, respectively, by the Board of Trustees.

SECTION 10. Secretary. The Secretary shall keep or cause to be kept, at the principal executive office or such other place as the Board of Trustees may direct, a book of minutes of all meetings and actions of Trustees, committees of Trustees, and shareholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice given, the names of those present at Trustees' meetings or committee meetings, the number of shares present in person or by proxy at meetings of shareholders, and the proceedings thereof. The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the transfer agent or registrar, a record of its shareholders, or a duplicate share register, showing the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of share certificates issued, and the number and date of cancellation of every share certificate surrendered for cancellation. The Secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the Board of Trustees required by the Restated Declaration of Trust to be given, shall be the custodian of the Trust records of this

Trust, shall keep the seal of this Trust in safe custody, and shall have such other powers and perform such

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other duties as are usually vested in the office of secretary of a business entity and as may be prescribed by the Board of Trustees.

SECTION 11. Treasurer/Chief Financial Officer. The Treasurer/Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of the properties and business transactions of the Trust, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The Treasurer/Chief Financial Officer shall deposit all moneys and other valuables in the name and to the credit of the Trust with such depositaries as may be designated by the Board of Trustees. The Treasurer/Chief Financial Officer shall disburse the funds of this Trust as may be ordered by the Board of Trustees, shall render to the Chairman of the Board, President and Chief Executive Officer and the Trustees, whenever they request it, an account of all transactions as Treasurer/Chief Financial Officer and of the financial condition of this Trust, and shall have other powers and perform such other duties as are usually vested in the office of chief financial officer of a business entity and as from time to time may be prescribed by the Trustees.

SECTION 12. Compensation. Subject to the rights, if any, of any officer under any contract of employment, the compensation of the officers of this Trust shall be fixed from time to time by the

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Board of Trustees, or by one or more officers of this Trust to the extent so authorized from time to time by the Board of Trustees.

ARTICLE V. LIMITATION OF LIABILITY OF SHAREHOLDERS, TRUSTEES AND OTHERS

SECTION 1. Shareholders. All shares shall be non-assessable. The shareholders shall not be personally liable upon any debt, claim, demand, suit, judgment, note, or other obligation of the Trust or of the Trustees, in tort, contract, or otherwise, in connection with Trust property or the affairs of the Trust, and the Trustees shall have no power to bind the shareholders personally

in any manner whatsoever. The liability of the shareholders shall be limited to their share of the capital of the Trust and shall not be increased in any manner. Any amendment to the Declaration or these Bylaws increasing the liability of the shareholders shall be void. All written contracts to which the Trust is a party shall include a provision substantially in the form set forth in Section 21 of Article III of these Bylaws.

SECTION 2. Trustees; Officers; Agents. No Trustee, officer, or agent of the Trust shall be liable on account of any act or omission of any other Trustee or agent or representative of the Trust or for their own act, neglects, and defaults (including without limitation the failure to compel in any way former or acting Trustee to redress any breach of Trust) to the Trust or to

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any shareholder, Trustee, officer, or agent thereof, except for such of his own acts as shall constitute bad faith, willful misfeasance, gross negligence, or reckless disregard of his duties.

SECTION 3. Indemnification. The Trust shall indemnify and hold harmless each Trustee, officer, and agent from and against all claims and liabilities to which such trustee, officer, or agent may become subject by reason of his having been or being a Trustee, officer, or agent, or by reason of any action alleged to have been taken or omitted by him as Trustee, officer, or agent and shall reimburse such Trustee for all legal and other expenses which such Trustee reasonably incurs in connection with any such claim or liability; provided, however, that no Trustee shall be indemnified or reimbursed under the foregoing provisions in relation to that Trustee's own act as shall constitute bad faith, willful misfeasance, gross negligence, or reckless disregard of that Trustee's duties. The rights accruing to a Trustee, officer, or agent under these provisions shall not exclude any other right to which such Trustee may lawfully be entitled, nor shall anything herein contained restrict the right of the Trust to indemnify or reimburse such Trustee, officer, or agent in any proper cause even though not specifically provided for herein; provided, that no Trustee, officer or agent may satisfy any right of indemnity or reimbursement granted herein or to which that Trustee may be otherwise entitled except out of the property of the Trust, and no

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shareholder shall be personally liable with respect to any claim of a Trustee, officer, or agent for indemnity or reimbursement.

SECTION 4. Insurance. The Trust shall have power to purchase and maintain insurance on behalf of any agent, Trustee, shareholder, or independent contractor of the Trust (the "Insured") against any obligation or liability asserted against or incurred by the Insured in such capacity or arising out of the Insured's status as such whether or not the Trust would have the power to indemnify the Insured against such liability under the provisions of this Article V.

ARTICLE VI. AMENDMENTS

SECTION 1. Amendment by Shareholders. Subject to the Declaration, the provisions of these Bylaws may be amended or repealed with the vote or written consent of the shareholders holding a majority of the outstanding shares of each class of shares entitled to vote.

SECTION 2. Amendment by Trustees. Subject to the Declaration and the rights of the shareholders as provided in Section 1 of this Article VI, the provisions of these Bylaws may be amended or repealed by the Trustees.

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ARTICLE VII. MISCELLANEOUS

SECTION 1. Choice of Law. This instrument is by the Trustees and delivered in the State of California with reference to the laws thereof, and the rights of all parties, and the construction and effect of every provision hereof shall be subject to and construed according to the laws of said State.

SECTION 2. Headnotes and Titles. The headnotes and titles of articles are inserted herein only as a matter of convenience and for reference and in no way define, limit, or describe the scope or intent of these Bylaws in any manner whatsoever.

* * * * *

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CERTIFICATE OF SECRETARY OF
THE PEREGRINE REAL ESTATE TRUST

I, the undersigned, do hereby certify:

(1) That I am the duly elected and acting secretary of said Trust; and

(2) That the foregoing Bylaws, comprising twenty-eight (28) pages, constitute the Bylaws of said Trust as duly adopted by Action by Unanimous Consent in Writing of the Trustees dated as of September 27, 1994.

IN WITNESS WHEREOF, I have hereunder subscribed my name and affixed the seal of said Trust.

Dated as of: _____

Arnold E. Brown

CONFIRMATION BY TRUSTEES OF
THE PEREGRINE REAL ESTATE TRUST

The undersigned, being the Trustees of said Trust hereby assents to and adopts the foregoing Bylaws of said Trust.

Executed by the undersigned on the date set forth opposite their names.

Dated as of: _____

Dated as of: _____

SECOND AMENDED AND RESTATED NOTE AGREEMENT

by and among

The Peregrine Real Estate Trust,
formerly known as Commonwealth Equity Trust

and

Noteholders Named Herein

and

The Prudential Insurance Company of America
as Agent for Noteholders

September 27, 1994

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SECOND AMENDED AND RESTATED NOTE AGREEMENT

This Second Amended and Restated Note Agreement (this "Agreement") is made as of September 27, 1994, by and among The Peregrine Real Estate Trust, formerly known as Commonwealth Equity Trust ("Company"), those of the following note purchasers who execute and deliver this Agreement and the Intercreditor Agreement of even date herewith: Pacific Mutual Life Insurance Company, The Prudential Insurance Company of America, Pruco Life Insurance Company, ORIX USA Corporation, TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Trust IV, TCW Special Credits Trust IVA, and Weyerhaeuser Company Master Retirement Trust (each individually, a "Noteholder" and collectively, "Noteholders") and The Prudential Insurance Company of America, as Agent for Noteholders (in such capacity, "Agent").

RECITALS

- A. Noteholders, or their respective predecessors in interest, are parties to an Amended and Restated Note Agreement dated July 17, 1992 (as amended, supplemented, or otherwise modified from time to time prior to the date hereof, the "Existing Note Agreement"), pursuant to which Company issued certain notes and Noteholders purchased such notes (the "Existing Notes") secured by perfected liens upon substantially all of the assets of Company;
- B. On August 2, 1993, Company filed a petition under Chapter 11

of Title 11 of the United States Code and such chapter 11 case is pending in the United States Bankruptcy Court for the Eastern District of California as Chapter 11 Case No. 93-26727-C11 (the "Chapter 11 Case").

C. Company, Noteholders, the Official Committee of Unsecured Creditors, and the Official Committee of Equity Security Holders have filed a joint Plan of Reorganization in the Chapter 11 Case (the "Plan"); and

D. In connection with and as provided under the Plan, Company, Noteholders and Agent have agreed (i) that certain of the respective claims of Noteholders in the Chapter 11 Case will be satisfied and discharged by converting such claims into amounts outstanding under this Agreement pursuant to the terms and conditions set forth herein and (ii) that Company shall reaffirm the grant of liens and security interests in the Collateral made in connection with the Existing Note Agreement and grant additional liens and security interests in the Collateral in connection with this Agreement such that Company shall have granted liens and security interests in substantially

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all of its assets to Collateral Agent (as hereinafter defined) for the benefit of Noteholders.

ARTICLE I

DEFINED TERMS

Terms Defined in this Agreement. As used in this Agreement, the following terms shall have the meanings set forth below.

1.1 "Accountant" means Ernst & Young, or any other accountant or financial advisor retained by Agent or Noteholders and designated as Accountant hereunder.

1.2 "Affiliate" means (i) CalREIT; (ii) any person or entity (other than Company or Noteholders) that directly or indirectly owns or controls five percent (5%) or more of the voting shares of Company or CalREIT; (iii) any person or entity, five percent (5%) or more of whose voting shares or partnership equity interests is directly or indirectly owned or controlled by Company or CalREIT; (iv) any general partnership or limited partnership in which Company or CalREIT is a general partner; (v) any present or former advisor, officer, or former property manager of Company or CalREIT; (vi) any person or entity five percent (5%) or more of whose shares or partnership equity interests is directly or indirectly owned or controlled by Company, CalREIT or any of the persons or entities described in clause (v), above; and (vii) any person or entity that directly or indirectly owns or controls five percent (5%) of any entity described in clause (v), above.

1.3 "After Acquired Property" means real property or fixtures acquired by Company on or after entry of the Confirmation Order, to the extent that the purchase money for such property consists solely of the proceeds of any equity offering, unsecured financing (other than the New Line of Credit), or Purchase Money Lien on such property.

1.4 "Agent" has the meaning set forth in the preamble and any successor Agent as provided in the Intercreditor Agreement.

1.5 "Agent's Fee" has the meaning assigned to it in SECTION 2.12.

1.6 "Agreement" means this Second Amended and Restated Note Agreement, including all amendments, modifications and supplements hereto.

1.7 "Allowed Secured Real Property Tax Claim" shall have the meaning assigned it in the Plan.

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1.8 "Available Cash Flow" means, with respect to Company for any fiscal period, EBITDA minus (i) taxes; and (ii) Capital Expenditures in each case actually due or paid during such fiscal period.

1.9 "Bankruptcy Code" means the United States Bankruptcy Code, 11 U.S.C. Section 101 et seq.

1.10 "Bankruptcy Court" means the United States Bankruptcy Court for the Eastern District of California.

1.11 "Bankruptcy Law" has the meaning assigned to it in SECTION 7.1(h).

1.12 "Business Day" means any day other than a Saturday, Sunday, or any day appointed as a holiday by the President or the Congress of the United States, or by the State of California.

1.13 "CalREIT" means California Real Estate Investment Trust, a California real estate investment trust.

1.14 "Capital Expenditures" means, as to Company, any expenditure for the acquisition or construction of fixed assets which would be capitalized on a balance sheet of Company prepared in accordance with generally accepted accounting principles, including deferred maintenance charges and tenant improvements or leasing commissions (whether in connection with a new lease or with an existing lease).

1.15 "Capitalized Lease" means any lease of property by Company as lessee which would be capitalized on a balance sheet of Company prepared in accordance with generally accepted accounting principles.

1.16 "Cash Equivalents" means (a) securities issued, guaranteed or insured by the United States of America or any of its agencies with maturities of not more than one year from the date acquired, (b) certificates of deposit with maturities of not more than one year from the date acquired that have been issued by a federal or state chartered commercial bank of recognized standing, which bank has capital and unimpaired surplus in excess of \$500,000,000, based on its most recent publicly available financial statements, and (c) commercial paper or finance company paper issued by any entity incorporated under the laws of the United States of America or any state thereof and having a rating of at least A-1 or the equivalent by Standard & Poor's Corp. or at least P-1 or the equivalent by Moody's Investors Service, Inc., in each case with maturities of not more than 60 days from the date acquired.

1.17 "Chapter 11 Case" has the meaning assigned to it in Recital B.

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1.18 "Closing" has the meaning assigned to it in SECTION 2.2.

1.19 "Closing Date" means the first date on which (i) Company and each Noteholder have executed and delivered this Agreement and (ii) all conditions precedent under Article III hereof have been fully satisfied, waived or deferred.

1.20 "Collateral" means all of Company's now existing or hereafter arising interest, however such interest may arise (including but not limited to

interests acquired by Company as a result of any merger, acquisition, tender offer, or other business combination with CalREIT, regardless of whether Company or CalREIT is the surviving entity) in any and all real or personal property, including, without limitation, (a) all real property and fixtures encumbered by the Deeds of Trust, and (b) all personal property described in the Pledge and Security Agreement, including all personal property described in the Description of Collateral attached as EXHIBIT ___ to the Pledge and Security Agreement, provided that Collateral shall not include any After Acquired Property.

1.21 "Collateral Agent" means Collateral Agent under and as defined in the Collateral Agent Agreement, or any person or entity that becomes a successor Collateral Agent pursuant to the terms thereof.

1.22 "Collateral Agent Agreement" means the Amended and Restated Collateral Agent Agreement dated as of September 27, 1994, by and among Collateral Agent, Agent and Noteholders.

1.23 "Company" means Commonwealth Equity Trust, a California Real Estate Investment Trust, as reorganized pursuant to the Plan.

1.24 "Confirmation Order" means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code entered by the Bankruptcy Court on August 8, 1994.

1.25 "Consultant" means Ernst & Young, or any other consultant or real estate advisor retained by Agent or Noteholders, or by any agent of Agent or Noteholders.

1.26 "Contingent Obligations" shall mean, as to any person or entity, collectively, all indebtedness, obligations or other liabilities of such person or entity guarantying or in effect guarantying the payment or performance of any indebtedness, obligation or other liability, whether or not contingent (collectively, the "primary obligations"), of any other person or entity (the "primary obligor") in any manner, whether directly or indirectly, including without limitation any indebtedness,

obligation or other liability of such person or entity (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (b) to advance or supply funds, (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (d) otherwise to assure or hold harmless the owner of such primary obligation against loss with respect thereto.

1.27 "Deeds of Trust" means the deeds of trust and modifications thereto described in Item No. 7.4 of the Schedule of Documents, including all amendments, modifications and supplements thereto and any appendices, exhibits or schedules to any of the foregoing.

1.28 "Default" means an event or condition the occurrence of which would, with the giving of notice or the lapse of time or both, become an Event of Default.

1.29 "Default Rate" means a rate of interest equal to the greater of: (a) a rate equal to the Prime Rate plus two percent (2%) per annum, and (b) ten and one-half percent (10.5%) per annum; provided that to the extent the Default Rate exceeds the Maximum Lawful Rate, the Default Rate shall be a rate equal to the Maximum Lawful Rate.

1.30 "Documents" means the Agreement, the Notes, Pledge and

Security Agreement, Deeds of Trust, financing statements, schedules, and all other agreements, notices, endorsements, title policies, and other documents executed and delivered pursuant to the Schedule of Documents relating to this Agreement, including without limitation those documents listed in Sections 2.1, 2.2, 2.5, 2.6, 3, 5, 6, 7 and 10 of the Schedule of Documents, or this Agreement, the other documents, instruments and agreements referred to therein or executed in connection therewith, including all amendments, modifications and supplements hereto and any appendices, exhibits or schedules to any of the foregoing.

1.31 "EBITDA" means, with respect to Company, for any fiscal period (i) income before interest and taxes, plus (ii) to the extent deducted in determining such income, depreciation, amortization and other similar non-cash charges, minus (iii) to the extent recognized in determining such income, extraordinary gains, in each case for such fiscal period.

1.32 "Effective Date of Plan" means the Effective Date as defined in the Plan.

1.33 "Environmental Laws" means all federal, state and local laws, statutes, ordinances and regulations, now or hereafter in

effect, and in each case as amended or supplemented from time to time, and any applicable judicial or administrative interpretation thereof relating to the regulation and protection of human health, safety, the environment and natural resources (including ambient air, surface water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation). Environmental Laws include, but are not limited to, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Section Section 9601 et seq.) ("CERCLA"); the Hazardous Material Transportation Act, as amended (49 U.S.C. Section Section 1801 et seq.); the federal Insecticide, Fungicide, and Rodenticide Act, as amended (7 U.S.C. Section Section 136 et seq.); the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section Section 6901 et seq.) ("RCRA"); the Toxic Substance Control Act, as amended (15 U.S.C. Section Section 2601 et seq.); the Clean Air Act, as amended (42 U.S.C. Section Section 740 et seq.); the federal Water Pollution Control Act, as amended (33 U.S.C. Section Section 1251 et seq.); the Occupational Safety and Health Act, as amended (29 U.S.C. Section Section 651 et seq.) ("OSHA"); the Safe Drinking Water Act, as amended (42 U.S.C. Section Section 300(f) et seq.); the Safe Drinking Water and Toxic Enforcement Act of 1986 (Cal. Health & Saf. Code Section Section 25249.5 et seq.); and the Emergency Planning and Community Right-to-Know Act (42 U.S.C. Section Section 11001 et seq.), each as amended or supplemented from time to time, and any and all regulations promulgated thereunder, and all analogous state and local counterparts or equivalents and any transfer of ownership notification or approval statutes.

1.34 "ERISA" means the Employee Retirement Income Security Act of 1974 (or any successor legislation thereto), as amended from time to time, and regulations promulgated thereunder.

1.35 "ERISA Affiliate" means any person or entity who (i) for purposes of Title IV of ERISA is a member of Company's controlled group, or (ii) may be treated as a single employer together with Company within the meaning of section 414(b)(c)(m) or (o) of the Internal Revenue Code and the regulations promulgated and rulings issued thereunder.

1.36 "Event of Default" means any of the events specified in SECTION 7.1.

1.37 "Excess Cash Flow" means, with respect to Company for any fiscal period, EBITDA minus (i) Interest Expense, (ii) taxes, and (iii) Capital

Expenditures, in each case actually due or paid during such fiscal period.

1.38 "Existing Indebtedness" means the obligations of Company to Noteholders under the Existing Note Agreement and the other documents executed in connection therewith.

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1.39 "Existing Note Agreement" has the meaning assigned to it in Recital A.

1.40 "Existing Notes" has the meaning assigned to it in Recital A.

1.41 "Florin-Perkins Bond Claims" means all such claims listed in the Plan.

1.42 "Florin-Perkins Properties" has the meaning assigned to it in the Plan.

1.43 "Hazardous Material" means any substance, material or waste, the generation, handling, storage, treatment or disposal of which (i) is regulated by any governmental authority in any jurisdiction in which Company has owned, leased, or operated real property, or by any federal governmental authority, or (ii) forms the basis of liability under any Environmental Law, including any material or substance which is (a) defined as a "solid waste," "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste" or "restricted hazardous waste" or other similar term or phrase under any Environmental Laws, or (b) petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls, or radioactive substances.

1.44 "Indebtedness" of any person or entity means: (a) indebtedness for borrowed money or for the deferred purchase price of property or services (including reimbursement and all other indebtedness with respect to surety bonds, letters of credit and bankers' acceptances), whether or not matured; (b) all indebtedness evidenced by notes, bonds, debentures or similar instruments; (c) all indebtedness referred to in clauses (a) or (b) above that are secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property owned by such person or entity, even though such person or entity has not assumed or become liable for the payment of such Indebtedness; (d) Contingent Obligations; and (e) obligations under Capitalized Leases.

1.45 "Intercreditor Agreement" means the Intercreditor Agreement, of even date herewith, by and among Agent and Noteholders, including all amendments, modifications and supplements thereto and any appendices, exhibits or schedules to any of the foregoing.

1.46 "Interest Deferral Notes" means the promissory notes to be delivered by Company to each Noteholder pursuant to SECTION 2.3.

1.47 "Interest Expense" means, for each fiscal period, Company's interest expense on Indebtedness due during such period

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which should be reported on Company's financial statements prepared in accordance with generally accepted accounting principles.

1.48 "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.49 "Lien" means any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, claim, security interest, easement or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement or financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the Uniform Commercial Code or comparable law of any jurisdiction) or any other type of similar preferential arrangement for the purpose, or having the effect, of protecting a creditor against loss or securing the payment or performance of an obligation.

1.50 "Majority Noteholders" means Noteholders holding at least fifty-one percent (51%) of the Pro Rata Share.

1.51 "Material Adverse Effect" means (a) a material adverse effect on (i) the business, assets, operations, prospects or financial or other condition of Company, individually or of Company and CalREIT, on a consolidated basis; (ii) the ability of Company to pay or perform the Obligations under the Documents; (iii) the Collateral or Noteholders' Liens on the Collateral or the priority of any such Lien; or (iv) Noteholders' rights and remedies under this Agreement and the other Documents, or (b) the incurrence by Company or CalREIT of any liability, contingent or liquidated, that has an actual or estimated incurrence of liability, or dollar exposure or loss, greater than \$1,000,000 to Company or to Company and CalREIT, on a consolidated basis, which loss or liability would not be reflected on Company's or CalREIT's respective income statement.

1.52 "Maturity Date" means October 1, 2000.

1.53 "Maximum Lawful Rate" means the highest rate of interest permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable under this Agreement.

1.54 "Minimum Noteholders" shall mean Noteholders holding at least twenty-five percent (25%) of the Pro Rata Share.

1.55 "Mortgaged Property" means all of the land, improvements, fixtures and personal property described in any of

the Deeds of Trust. "Mortgaged Properties," means all of the land, improvements, fixtures and personal property described in all of the Deeds of Trust.

1.56 "Net Cash Proceeds" means, (a) with respect to the sale or refinancing of any asset, all cash payable to Company as a result of such sale or refinancing after payment of (i) all reasonable and customary closing costs not payable to Company or any Affiliate or insider of Company, including, brokerage commissions, appraisal fees, recording fees, attorneys' fees, title insurance premiums, inspection report charges, prepayment penalties payable to senior lienholders, escrow credits in favor of the purchaser or financier, customary prorations, transfer taxes, escrow fees, points and other loan fees, (ii) Senior Permitted Liens on such asset, (iii) Allowed Secured Real Property Tax Claims on such asset, (iv) permitted deposits into the Tax Reserve Account and (v) any and all fees incurred by Agent, Collateral Agent and Noteholders in connection with such sale or refinancing, and (b) with respect to the grant by Company of an option to purchase real property at the time such funds are not refundable by CET, all cash payable to Company as a result of such grant after payment of all reasonable and customary closing costs not payable to Company or any Affiliate or insider of Company.

1.57 "Net Worth" means, as to any person or entity, the gross book value of the assets of such person or entity (exclusive of goodwill, patents, trademarks, trade names, organization expense, treasury shares, debt discount and expense, deferred charges and other like intangibles), minus (i) reserves applicable thereto, and (ii) all of such person's or entity's liabilities (including accrued and deferred income taxes).

1.58 "New CET Common Stock" means the New CET Common Stock defined in and issued pursuant to the Plan.

1.59 "New CET Unsecured Notes" means the New CET Unsecured Notes defined in and issued pursuant to the Plan.

1.60 "New Credit Line" means the line of credit to be provided to Company in accordance with the Plan on or after the Effective Date of the Plan, which shall be in an amount of no more than \$10 Million.

1.61 "New Kroeger Note" means the New Kroeger Note as defined in and issued pursuant to the Plan.

1.62 "Noteholder" has the meaning set forth in the preamble and all assignees or transferees of any such Noteholder.

1.63 "Noteholders' Action" shall mean any action, consent, instruction, notice, declaration which may be taken under the

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Documents by the appropriate percentage of Noteholders as provided in SECTION 8 of the Intercreditor Agreement and SECTION 8.3 of this Agreement to instruct Agent or Collateral Agent, to amend any Document, to consent or refuse to consent to any Company request, or to take any other action with respect to the Documents, the Collateral, or the Obligations.

1.64 "Notes" means the Principal Notes and the Interest Deferral Notes.

1.65 "Notes Receivable" shall have the meaning set forth in SECTION 2.8(c).

1.66 "Notice of Acceleration" means a written notice sent to Company pursuant to SECTION 7.1, accelerating the Obligations.

1.67 "Notice of Default" means a written notice sent to Company notifying Company that an Event of Default has occurred.

1.68 "Obligations" means all loans, advances, debts, liabilities, and obligations, for monetary amounts (whether or not such amounts are liquidated or determinable) owing by Company to Agent, Collateral Agent, or any Noteholder, and all covenants and duties regarding such amounts, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, arising under the Notes, this Agreement or any of the other Documents. This term includes, without limitation, all principal, interest, fees, charges, reimbursable expenses, attorneys' fees and costs, accounting fees and costs, consultants' and advisors' fees and expenses, and any other sum chargeable to Company under any of the Documents.

1.69 "Pacific Palisades Property" means the property located at 881 Alma Real Drive in Pacific Palisades, California.

1.70 "Permitted Liens" means: (a) Liens for taxes or assessments or other governmental charges or levies, either not yet due and payable, or payment of which is provided by the Plan; (b) inchoate and unperfected workers', mechanics', suppliers' or similar Liens arising in the ordinary course of business; (c) zoning restrictions, easements, licenses, or other

restrictions on the use of real property, leases, or leasehold estates, or other minor irregularities in title (including leasehold title) thereto, so long as the same do not materially impair the use, value, or marketability of such real property, leases or leasehold estates; (d) Senior Mortgage Liens against the real property of Company; (e) Permitted Liens under and as defined in the Deeds of Trust; and (f) Liens securing Indebtedness permitted under SECTIONS 6.5(a), (d), (e), (f), (g) AND (i) AND SECTION 6.8, to the extent, in each case, Noteholders consent to the pledge of the property securing such Indebtedness.

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1.71 "Plan" has the meaning assigned to it in Recital C.

1.72 "Pledge and Security Agreement" means the Amended and Restated Pledge and Security Agreement to be executed by Company in favor of Collateral Agent, for the benefit of Noteholders, including all amendments, modifications and supplements thereto and any appendices, exhibits or schedules to any of the foregoing.

1.73 "Pledged Property" means the Pledged Property under and as defined in the Pledge and Security Agreement.

1.74 "Prime Rate" means the prime rate (for corporate loans at large United States money center commercial banks) published in the Western Edition of The Wall Street Journal. In the event the Western Edition of The Wall Street Journal is no longer published or no longer publishes such prime rate, Noteholders shall select a comparable reference.

1.75 "Principal Notes" means the promissory notes to be delivered by Company to each Noteholder pursuant to SECTION 2.2 and which may be delivered in exchange for Interest Deferral Notes and Principal Notes pursuant to SECTION 2.3(c).

1.76 "Pro Rata Share" means as of any date of determination the ratio (expressed as a percentage) of (a) the principal balance of the Principal Notes and Interest Deferral Notes, if any, held by any Noteholder or Noteholders, as the case may be, to (b) the aggregate outstanding principal balance of all Principal Notes, plus the aggregate outstanding principal balance of all Interest Deferral Notes, if any.

1.77 "Purchase Money Lien" means any Lien on property, to the extent that such Lien is (a) taken or retained by the seller of such property to secure all or part of its purchase price, or (b) taken by any person or entity who by making advances or incurring obligations gives value to Company to enable Company to acquire rights in such property if such value is in fact so used.

1.78 "Redding Hotel Improvement Loan" means the Redding Hotel Improvement Loan under and as defined in the Plan.

1.79 "Refinancing Indebtedness" has the meaning set forth in SECTION 6.8.

1.80 "Responsible Officer" means the chief executive officer, chief operating officer, chief accounting officer, chief financial officer or any other officer of Company principally involved in the financial administration of Company.

1.81 "Schedule of Documents" means the list of all documents, to be executed or delivered on or before the Closing

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Date in connection with this Agreement, a copy of which is attached hereto as EXHIBIT A.

1.82 "Schedules" means all of the schedules listed in Part 6 of the Schedule of Documents, together with all amendments thereto and all updates or supplementary schedules delivered to Agent, Collateral Agent or Noteholders after the Closing Date.

1.83 "Senior Mortgage Liens" means the Liens securing the Senior Mortgages under and as defined in the Plan, and any Lien securing permitted Refinancing Indebtedness.

1.84 "Senior Permitted Liens" means any Permitted Lien that is senior to the Lien of Collateral Agent on any Collateral.

1.85 "Subsidiary" shall mean any entity, including CalREIT, of which an aggregate of more than 50% of the outstanding stock having ordinary voting power to elect a majority of the board of directors of such entity is at the time, directly or indirectly, through one or more intermediaries or both, owned legally or beneficially by Company.

1.86 "Systems Integrators Buildings" means the property located at 3755 N. Freeway Boulevard and 3900 Lanane Drive, each in Sacramento, California.

ARTICLE II

DEBT RESTRUCTURING

2.1 Debt Restructuring. Effective on the Closing Date, the Existing Indebtedness shall be restructured on the terms set forth in this Agreement and the other Documents. Company and Noteholders acknowledge and agree that, as of the Closing Date, Company is indebted to each Noteholder in the principal amount set forth opposite the name of each Noteholder in SECTION 2.2, and in the aggregate principal amount of \$40,000,000.

2.2 Closing of Debt Restructuring. The closing of the restructuring of the Existing Indebtedness (the "Closing") shall take place within three (3) Business Days after the Effective Date of Plan or such date as each Noteholder shall agree in writing. At the Closing, in exchange for the Existing Notes, Company shall execute and deliver to each Noteholder one or more promissory notes, in the form of the secured promissory note attached hereto as EXHIBIT B in the principal amounts set forth opposite each Noteholder's name listed below (each of which shall be a "Principal Note").

<TABLE>	<S>	<C>
	Pacific Mutual Life Insurance Company:	\$10,652,463
	The Prudential Insurance Company of America:	\$ 3,249,001

</TABLE>

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<TABLE>	<S>	<C>
	The Prudential Insurance Company of America:	\$ 3,408,788
	Pruco Life Insurance Company:	\$ 3,994,674
	ORIX USA Corporation:	\$ 1,597,870
	TCW Special Credits Fund IV:	\$ 4,958,189

TCW Special Credits Plus Fund:	\$ 5,300,134
TCW Special Credits Trust IV:	\$ 4,274,301
TCW Special Credits Trust IVA:	\$ 1,025,832
Weyerhaeuser Company Master Retirement Trust:	\$ 1,538,748

</TABLE>

2.3 The Notes; Interest.

(a) The Principal Notes. The Principal Notes delivered at the Closing shall be dated the Closing Date, shall mature on the Maturity Date and shall bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at a rate of 8.5% per annum and, on overdue payments, at the Default Rate, all as specified below.

(b) Payment of Interest; Interest Deferral Notes. Interest on the Notes is payable quarterly commencing October 1, 1994. Interest shall be computed on the basis of a 360 day year/actual days elapsed. From October 1, 1994 to and including September 30, 1996, unless an Event of Default has occurred and is continuing, Company may, in lieu of paying interest on the Notes in cash, execute and deliver to each Noteholder on or before any interest payment date, one or more promissory notes in the form of the secured promissory note attached hereto as EXHIBIT C (each of which shall be an "Interest Deferral Note") in a principal amount equal to the sum of interest due to such Noteholder on such interest payment date and maturing on the Maturity Date. Each Interest Deferral Note shall bear interest at a rate of 8.5% per annum and, on overdue payments, at the Default Rate as provided in SECTION 2.3(D). If on any interest payment date Company elects to deliver Interest Deferral Notes to any Noteholder, Company shall deliver Interest Deferral Notes to all Noteholders and shall not pay cash interest to any Noteholder. From and after October 1, 1996, interest on the Notes shall be payable only in cash.

(c) Permitted Issuance of New Notes. From and after October 1, 1996, at each Noteholder's election, each Noteholder may request that Company, in exchange for the Principal Notes and

Interest Deferral Notes held by such Noteholder, execute new Notes, the principal amount of which shall be the aggregate principal amounts due under the Principal Notes and Interest Deferral Notes in the form attached hereto as EXHIBIT D (each of which shall be a "Principal Note"). Each Noteholder shall notify Agent in writing of such election and its receipt of such Principal Note. Such Notes shall have the same payment terms provided in SECTION 2.3(b), provided that interest on such Notes shall be payable only in cash.

(d) Default Interest. From and after the occurrence of any Event of Default (including but not limited to any Event of Default resulting from the filing of a bankruptcy case) and continuing until such Event of Default is cured or has been waived in writing by Agent, at Noteholders' option pursuant to SECTION 8.3, interest shall accrue on the Obligations at the Default Rate. Any interest, reasonable professional fees and expenses of Agent and Collateral Agent, or other reasonable professional fees, expenses and charges of Noteholders due under SECTION 8.2, which are not paid as and when due, shall be added to principal, shall be secured by the Collateral and shall, at Noteholders' option, bear interest at the Default Rate. The foregoing interest rate increase shall take effect immediately upon Noteholders' election made at any time following the occurrence of an Event of Default, without prior notice to Company.

2.4 Prepayments. The Notes shall be subject to prepayment as set

forth below.

(a) Optional Prepayments. The Notes may be prepaid (i) without discount, penalty or premium and (ii) (A) in whole at any time or (B) from time to time in part in multiples of \$1,000,000, at the option of Company, plus interest accrued thereon to the prepayment date.

(b) Mandatory Payments. Company shall immediately pay to Agent for the benefit of Noteholders (i) eighty percent (80%) of the Net Cash Proceeds of (A) any sale of Collateral under and as permitted by SECTION 6.6, (B) any grant of an option to purchase Collateral under and as permitted by SECTION 6.7, (C) any Refinancing Indebtedness incurred under and as permitted by SECTION 6.8, (D) any new financing or refinancing secured by a lien on the Collateral, and (E) any principal payment or prepayment on account of any Note Receivable; and (ii) eighty percent (80%) of any CalREIT dividends other than dividends derived from CalREIT's net income plus depreciation minus Capital Expenditures and principal payments on Indebtedness of CalREIT; provided, that Company shall retain a portion of Net Cash Proceeds sufficient, in Company's reasonable business judgment, to satisfy any federal, state, or local tax liability of Company arising from any such asset disposition. Any excess of such

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retained funds remaining after payment of all such tax liabilities shall be deemed Net Cash Proceeds, eighty percent (80%) of which shall be paid to Noteholders as provided herein.

(c) Notice of Prepayment. Company shall give Agent and each Noteholder irrevocable written notice of any prepayment pursuant to SECTION 2.4 not less than five (5) Business Days prior to the prepayment date, specifying such prepayment date and the principal amount of the Notes to be prepaid on such date and stating that such prepayment is to be made pursuant to SECTION 2.4. Notice of prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date, shall become due and payable on such prepayment date.

(d) Payment Obligations Not Excused. Company's use of Net Cash Proceeds from the sale or refinancing of any Mortgaged Property, Note Receivable or Pledged Property shall not excuse, defer or delay Company's obligations to make any payments required under this Agreement, the Notes or the other Documents.

2.5 Note Payments; Prohibition Against Non-Proportional Payments.

(a) Payments. Company agrees that, so long as any holder shall hold any Note and any Obligations are outstanding under the Documents, it will make payments of principal of, and interest on such Note or payments with respect to any other Obligations, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 noon, California time, on the date due) to such Noteholder's account as specified in the Schedule of Notices, or such other account or accounts in the United States as such Noteholder may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment.

(b) Prohibition Against Non-Proportional Payments. Company shall not, and shall not permit any Subsidiary to, prepay or otherwise retire in whole or in part prior to or at their stated final maturity or purchase or otherwise acquire, directly or indirectly, Notes held by any holder unless Company or any Subsidiary shall have offered to pay, prepay or otherwise retire or purchase or otherwise acquire, as the case may be, the same proportion of the aggregate principal amount of the Notes held by each other

holder of Notes at the time outstanding upon the same terms and conditions.

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2.6 Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment on the Notes or any of the other Obligations that is due on a date other than a Business Day shall be made on the next succeeding Business Day. If the date for any payment is extended to the next succeeding Business Day by reason of the preceding sentence, the period of such extension shall be included in the computation of the interest payable on such Business Day.

2.7 Application of Payments.

All payments, other than regularly scheduled interest payments, (including, without limitation, prepayments) on the Notes or on any of the other Obligations shall be made to Noteholders or Agent, as the case may be, for application against Company's then due Obligations as follows (regardless of how each Noteholder may treat such payments for purposes of its own accounting): first to outstanding fees, expenses or other charges of Agent, Noteholders or Collateral Agent under this Agreement or any other Document to the extent payable by Company; second to interest on any Interest Deferral Notes accrued and unpaid prior to the date such funds are received by Noteholders; third to the principal balance on the Interest Deferral Note; fourth to interest accrued and unpaid on the Principal Notes at the time such funds are received by Noteholders; and fifth to the principal balance of the Principal Notes.

2.8 Collateral.

(a) General. To secure the payment and performance of the Obligations, Company shall grant to Collateral Agent for the benefit of Noteholders a Lien on all of the Collateral, which shall be evidenced and perfected by and subject to the terms of such Documents as each Noteholder shall reasonably require.

(b) Deeds of Trust. Without limiting the generality of SECTION 2.8(a), above, Company shall execute Deeds of Trust, in form and substance reasonably satisfactory to Collateral Agent for the benefit of Noteholders, encumbering all Company's now existing or hereafter arising interest in land, improvements, fixtures and related property, other than After Acquired Property. Notwithstanding the provisions of this SECTION 2.8(b), Noteholders may, in their sole discretion, instruct Collateral Agent in writing not to take a Lien against one or more properties owned by Company, or to reconvey its Lien against one or more of such properties after the Closing Date.

(c) Notes Receivable. Without limiting the generality of SECTION 2.8(a), above, Company shall grant a security interest in, assign, endorse, and pledge to Collateral Agent for the benefit of Noteholders all of Company's interest in any notes, instruments, and documents, and all receivables and rights to

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payment evidenced thereby, together with all leases, master leases, trust deeds, mortgages, rent assignments, guaranties, and contingent obligations to which Company may look for payment therefor, and other collateral or security for any of the foregoing (collectively, "Notes Receivable") in which Company is the original obligee or is the assignee or pledgee of such Note Receivable. Company shall execute a Pledge and Security Agreement in form and substance satisfactory to Noteholders to evidence the foregoing pledge and shall deliver physical possession of all original Notes Receivable to Collateral Agent.

(d) Investments and Partnerships. Without limiting the generality of SECTION 2.8(a), above, Company shall assign to Collateral Agent for the benefit of Noteholders for security purposes all of Company's interest in any partnership in which Company is a general partner or holds a substantial limited partner interest (as determined by Noteholders), together with Company's interest in CalREIT. Company shall execute such documents, Uniform Commercial Code financing statements, instruments and agreements as Collateral Agent, Agent and/or Noteholders may require in order to evidence and perfect the foregoing assignments, all in form and substance satisfactory to Noteholders.

(e) CalREIT Distributions. Company acknowledges and agrees that all dividends (whether in stock, cash or other property), distributions, and payments or rights to payment received or receivable from CalREIT on account of Company's equity interest therein constitute a part of the Collateral, subject to the security interest in favor of Collateral Agent.

2.9 Release or Subordination of Noteholders' Liens Upon Sales or Other Dispositions of Collateral.

(a) Upon consummation of any sale of any Collateral and the satisfaction of all conditions to such sale provided by SECTION 6.6, Noteholders shall instruct Collateral Agent to release its Lien on such Collateral.

(b) Upon the grant of any option to purchase Collateral and the satisfaction of all conditions to such grant provided by SECTION 6.7, Noteholders shall, pursuant to a subordination agreement in form and substance reasonably satisfactory to Agent, Noteholders and Collateral Agent, instruct Collateral Agent to subordinate its Lien on such Collateral to such option to purchase.

(c) Upon consummation of a refinancing of any real property Collateral and the satisfaction of all conditions to such refinancing provided by SECTION 6.8, Noteholders shall, pursuant to a subordination agreement in form and substance reasonably satisfactory to Agent, Noteholders and Collateral

Agent, instruct Collateral Agent to subordinate its Lien on such Collateral to the Refinancing Indebtedness incurred thereby.

(d) Approved Escrows. All sales or refinancings of any Mortgaged Property or sales of Notes Receivable shall be conducted through an independent corporation or association selected by Company and reasonably satisfactory to Noteholders that is licensed under the laws of any state as a bank, trust company, title company, title insurance company or otherwise licensed to conduct trust or escrow business.

2.10 Subordination in Connection With New Credit Line. Noteholders shall, pursuant to a subordination agreement in form and substance reasonably satisfactory to Noteholders, subordinate certain Liens to Liens granted in connection with the New Credit Line; provided that the terms of such New Credit Line are in form and substance reasonably satisfactory to Noteholders and advances thereunder shall not be used to purchase real property or to make tenant improvements on After Acquired Property.

2.11 Notation on Notes; Notification to Accountant and Agent; Accountant's Calculation of Amounts Owed. Each Noteholder agrees that upon receipt of any payment with respect to the Obligations hereunder, including prepayments specified in SECTION 2.4, such Noteholder shall notify Accountant and Agent of such payment and shall prior to disposing of such Note (i) notify

Agent, Accountant and each other Noteholder of such disposition and (ii) make a notation on the Note (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. Company may from time to time request Accountant to instruct Company in writing as to the amount of any Interest Deferral Note, interest payment, or Net Cash Proceeds due any Noteholder, and Company may rely on such written instructions.

2.12 Agent's Fee. Company shall pay to Agent on the Closing Date and monthly thereafter on the first day of each month in advance, a nonrefundable fee in an amount equal to \$2500.00 per month (the "Agent's Fee"). The Agent's Fee is payable from the Closing Date until such time as the Company has no Obligation to any Noteholder and the Obligation to pay the Agent's Fee shall survive the payment in full of the Obligations.

ARTICLE III

CONDITIONS PRECEDENT

3.1 Conditions Precedent to Noteholders' Obligations. Noteholders' obligations under this Agreement and under the Documents are expressly conditioned upon the satisfaction of each of the following conditions precedent:

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(a) The occurrence of the Effective Date of Plan by no later than October 1, 1994.

(b) All legal matters, and corporate and other proceedings incidental to the transactions contemplated by this Agreement and by the Documents shall be satisfactory to Agent's and each Noteholder's legal counsel.

(c) All of the Documents specified on the Schedule of Documents all in form and substance satisfactory to Noteholders shall have been executed and delivered to Agent, Noteholders and Collateral Agent, except those items on the Schedule of Documents which Agent and Noteholders may agree to have executed, delivered, or performed after the Closing Date, pursuant to the Post-Closing Items Letter referred to in the Schedule of Documents.

(d) All of the warranties and representations contained in this Agreement and the Documents shall be true and correct.

(e) Company shall have obtained all of the consents, licenses, permits and approvals necessary or appropriate to permit Company to enter into and perform its obligations under this Agreement.

(f) Company shall have paid the Agent's Fee for one month as set forth in SECTION 2.12.

3.2 Conditions Precedent to Company's Obligations. Company's obligations under this Agreement and under the Documents are expressly conditioned upon the satisfaction of each of the following conditions precedent:

(a) The occurrence of the Effective Date of Plan by no later than October 1, 1994.

(b) All legal matters, and corporate and other proceedings incidental to the transactions contemplated by this Agreement and by the Documents shall be satisfactory to Company's legal counsel.

(c) Agent and each Noteholder shall have executed and delivered all Documents to be executed and delivered by Noteholders, except those items on the Schedule of Documents which Company may agree to have executed, delivered, or performed after the Closing Date, pursuant to the Post-Closing Items Letter referred to in the Schedule of Documents.

3.3 Closing Date. The Closing Date shall occur no later than October 1, 1994.

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ARTICLE IV

WARRANTIES AND REPRESENTATIONS

Company represents and warrants as follows:

4.1 Legal Status.

(a) Other than as listed on Schedule 4.1(a), Company (i) is duly organized and validly formed as a Real Estate Investment Trust under California law and has not been dissolved, revoked or terminated, and no action has been taken to dissolve, revoke or terminate Company, (ii) has all requisite power and authority and all necessary licenses and permits to own and operate its properties and to carry on its business as now conducted and as presently proposed to be conducted, where failure to have such power, authority, licenses and permits might have a Material Adverse Effect and (iii) has been duly qualified and is authorized to do business in each jurisdiction, if any, where failure to qualify might have a Material Adverse Effect.

(b) Other than as listed on Schedule 4.1(b), CalREIT (i) is a Real Estate Investment Trust under California law, formed pursuant to a Declaration of Trust made and entered into on September 15, 1966, as amended, (ii) as of the Closing Date, is qualified as a Real Estate Investment Trust pursuant to sections 856-860 of the Internal Revenue Code and has been so qualified for all prior fiscal years as to which its federal income tax returns remain subject to audit by the Internal Revenue Service, so that CalREIT is not and has not been subject to federal income taxation on that portion of its taxable income that was distributed to shareholders, (iii) to the best of Company's knowledge, has been operated in such a manner so as to preserve its status as a qualified Real Estate Investment Trust pursuant to sections 856-860 of the Internal Revenue Code, (iv) is duly organized and validly formed as a Real Estate Investment Trust and has not been dissolved, revoked or terminated, and no action has been taken to dissolve, revoke or terminate CalREIT, (v) has all requisite power and authority and all necessary licenses and permits to own and operate its properties and to carry on its business as now conducted and as presently proposed to be conducted, where failure to have such power, authority, licenses and permits might materially adversely affect the business, prospects, assets or condition (financial or otherwise) of CalREIT, and (vi) has been duly qualified and is authorized to do business in each jurisdiction, if any, where failure to qualify might have a Material Adverse Effect.

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4.2 Correctness of Collateral Schedules.

The Schedules listed as Item Nos. 6.1 through 6.10 of the Schedule of Documents and delivered to Agent and Noteholders in connection

herewith are complete and correct in all material respects as of the date of this Agreement.

4.3 Correctness of Financial Statements. The financial statements described on Item No. 3.1 of the Schedule of Documents and delivered to Agent and Noteholders in connection herewith are true and correct and (a) present fairly, in all material respects, the consolidated financial condition of Company and CalREIT as of the date thereof, (b) disclose all material liabilities of Company and CalREIT whether liquidated or unliquidated, fixed or contingent that are required to be disclosed under generally accepted accounting principles as of the date thereof, and (c) have been prepared in accordance with generally accepted accounting principles, consistently applied. The financial projections described on Item No. 3.4 of the Schedule of Documents and delivered to Agent and Noteholders in connection herewith are based upon reasonable estimates and assumptions, and reflect the reasonable estimates of Company of the results of operations and other information projected therein.

4.4 Authorization and Validity. This Agreement, the Notes and the other Documents required by or delivered to Agent and Noteholders in connection with this Agreement have been duly authorized, and upon their execution and delivery in accordance with the provisions hereof will constitute legal, valid and binding agreements and obligations of Company or the party which executes the same, enforceable in accordance with their respective terms, except as the enforceability of each such Document may be subject to or limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting the rights of creditors and except as the availability of equitable remedies are subject to the application of equitable principles.

4.5 No Violation. The execution, delivery and performance by Company of each of the Documents to which it is a party will not: (a) violate any provision of any law or regulation; (b) contravene any provision of Company's Declaration of Trust or By-Laws (if any); (c) result in a breach of or constitute a default under any contract, obligation, indenture or other instrument to which Company is a party or by which Company may be bound; or (d) require the consent or approval of any governmental authority.

4.6 Assets. Company has good and marketable title to the Collateral, including but not limited to the Mortgaged

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Properties. None of the properties or assets of Company are subject to any Liens except Permitted Liens.

4.7 Litigation. Other than as listed on Schedule 4.7, there are no pending, or to the best of Company's knowledge after due investigation, threatened, actions, claims, investigations, suits or proceedings before any governmental authority, court or administrative agency which may reasonably be expected to have a Material Adverse Effect.

4.8 Taxes. Except as otherwise provided by the Plan:

(a) All federal, state, local and foreign tax returns, reports and statements required to be filed by Company have been filed with the appropriate governmental agencies and all charges and other impositions shown thereon to be due and payable by Company have been paid, or accrued and appropriately reserved for, prior to the date on which any fine, penalty, interest or late charge may be added thereto for nonpayment thereof, or any such fine, penalty, interest, late charge or loss has been paid.

(b) Company has paid when due and payable all requisite taxes and other charges.

(c) Proper and accurate amounts have been withheld by Company from its employees for all periods in full and complete compliance with the tax, social security and unemployment withholding provisions of applicable federal, state, local and foreign law and such withholdings have been timely paid to the respective governmental agencies.

(d) Company has neither executed nor filed with the Internal Revenue Service or any other governmental authority any agreement or other document extending, or having the effect of extending, the period for assessment or collection of any taxes or assessments, and there are no tax audits under way with respect to the Internal Revenue Service or any such entities. Company has neither agreed nor been requested to make any adjustment under Internal Revenue Code section 481(a) by reason of a change in accounting method or otherwise. Company has no knowledge of any pending assessments or adjustments of its income tax payable with respect to any year.

4.9 No Subordination. Except as may be provided in the Plan, there is no agreement, indenture, contract or instrument to which Company is a party or by which Company may be bound that requires the subordination in right of payment of any of Company's Obligations to any other obligation of Company.

4.10 Court Orders. Neither Company nor (to the best of Company's knowledge, after due investigation) CalREIT is subject

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to any order, writ, judgment, decree, injunction, or other restriction that would have a Material Adverse Effect.

4.11 Permits, Franchises. Company possesses, and will hereafter possess, all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade names, trade styles, logos, trade name rights, patents, patent rights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged without conflict with the rights of others where failure to possess such permits, memberships, franchises, contracts, licenses, trademark rights, trade names, trade styles, logos, trade name rights, patents, patent rights and fictitious name rights might reasonably be expected to have Material Adverse Effect.

4.12 ERISA. Company and all ERISA Affiliates are in compliance in all material respects with all applicable provisions of ERISA and the Internal Revenue Code and no "Reportable Event" as that term is defined in ERISA, has occurred and is continuing with respect to any employee benefit plan (as that term is defined in Section 3(3) of ERISA) maintained or contributed to by Company or any ERISA Affiliate thereunder. All employee benefit plans maintained by the Company or any of its ERISA Affiliates that are intended to qualify under Section 401(a) of the Internal Revenue Code do so qualify. Neither the Company nor any ERISA Affiliate has engaged in, or has incurred, any liability with respect to, a non-exempt "prohibited transaction" described in Section 406 of ERISA or Section 4975 of the Internal Revenue Code. Neither the Company nor any ERISA Affiliate has incurred any liability, which was not satisfied, under Title IV of ERISA, Section 302 of ERISA, Section 412 of the Internal Revenue Code, or Section 4971 of the Internal Revenue Code. Neither the Company nor any ERISA Affiliate has incurred or expects to incur any withdrawal liability, which was not satisfied (either as a contributing employer or as part of a controlled group which includes a contributing employer) to any multiemployer plan, as defined in Section 3(37) or Section 4001(a) (3) of ERISA or Section 414(f) of the Code in connection with any complete or partial withdrawal from such plan. Neither the Company nor any ERISA Affiliate maintains, contributes to, or has any liability (fixed, contingent or otherwise) for medical, health, life, or other welfare benefits for present or future terminated employees (other than any welfare benefits provided in compliance with the Consolidated Omnibus Budget Reconciliation Act

or similar law).

4.13 Compliance With Other Laws. Company is in compliance in all material respects with all federal, state and local laws, ordinances and regulations, including those relating to licensing, securities, labor, environmental, health and safety, including, without limitation, all rules and regulations of the Securities and Exchange Commission, the California Department of

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Real Estate, the California Department of Corporations, and their federal, state and local counterparts, to the extent applicable.

4.14 Executive Offices. The chief executive office and principal place of business of Company is located at 705 A University Avenue, Sacramento, California 95825 or at such other location as Company reports to Noteholders in writing prior to the Closing Date.

4.15 Full Disclosure. Neither this Agreement nor the other Documents contains any untrue statement of a material fact or omits to state a material fact necessary to make the statement contained herein or therein not misleading in light of the circumstances under which such statement has been made.

ARTICLE V

AFFIRMATIVE COVENANTS

Company covenants and agrees that from and after the Closing Date and until all of the Obligations are paid and satisfied in full:

5.1 Punctual Payments. Company shall punctually pay the Obligations at the times and place and in the manner specified in the Documents.

5.2 Compliance with Documents. Company shall comply with each and every term and condition of the Documents, in a complete and timely manner. Within five (5) days before March 30, June 30, September 30, and December 31 of each calendar year, in addition to the financial statements and other reports which are required under this Article V, Company shall deliver to Agent and each Noteholder a Certificate of Compliance and Financial Condition, properly executed in the form attached hereto as EXHIBIT E. In addition to the foregoing, Company shall promptly provide Agent and each Noteholder with copies of any compliance certificates or statements of financial condition prepared by Company for the purpose of incurring or in connection with any Indebtedness.

5.3 Reporting Requirements. Company shall deliver to Agent, Accountant and each Noteholder all of the following:

(a) As soon as available and, in any event, within fifteen (15) days after the beginning of each fiscal year, an operating budget for Company, prepared on a monthly basis for such fiscal year, including projected income statements, cash flow statements, and balance sheets, and, not later than forty-five (45) days after the end of each fiscal quarter, if the actual operating results for such quarter were materially

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different than projected, a revised operating budget for the remainder of the

fiscal year.

(b) Not later than the thirty-fifth (35th) day after each calendar month, an unaudited unconsolidated income statement, balance sheet and cash flow statement, in each case for such month, and setting forth a comparison to the budget for such calendar month and the actual results for such calendar month in the previous fiscal year, certified by a Responsible Officer as complete and correct, subject to normal accounting adjustments and without footnotes.

(c) As soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, consolidated statements of income, stockholders' equity and cash flows of Company and CalREIT for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated balance sheet of Company and CalREIT as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and satisfactory in form to Noteholders and certified by a Responsible Officer, subject to changes resulting from year-end adjustments together with a variance report comparing Company's operating results for such quarter with Company's budget for such quarter, and including an explanation of the reason for any material variations certified by a Responsible Officer; provided, however, that delivery pursuant to clause (f) below of copies of the Quarterly Report on Form 10-Q of Company for such quarterly period filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this clause (c).

(d) As soon as practicable and in any event within 90 days after the end of each fiscal year, consolidating and consolidated statements of income and cash flows and a consolidated statement of stockholders' equity of Company and CalREIT for such year, and a consolidating and consolidated balance sheet of Company and CalREIT as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail and satisfactory in form to Noteholders and, as to the consolidated statements, reported on by independent public accountants of recognized national standing selected by Company whose report shall be without limitation as to the scope of the audit and satisfactory in substance to Noteholders and, as to the consolidating statements, certified by a Responsible Officer; provided, however, that delivery pursuant to clause (f) below of copies of the Annual Report on Form 10-K of Company for such fiscal year filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this clause (d).

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(e) As soon as available, and in any event within 90 days after the end of each fiscal year, a copy of each other report submitted to Company or CalREIT by its independent certified public accountants in connection with any annual interim or special audit made by them on the books of Company or CalREIT.

(f) Promptly upon transmission thereof, and in any event not later than five (5) Business Days thereafter, copies of all such financial statements, proxy statements, notices and reports as Company or CalREIT shall send to its public stockholders and copies of all registration statements (without exhibits) and all reports which Company or CalREIT files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission).

(g) Promptly upon receipt thereof, and in any event not later than five (5) Business Days thereafter, copies of all financial

statements Company receives from CalREIT unless such financial statements are already required to be provided under another subsection of this SECTION 5.3.

(h) Promptly, and in any event not later than five (5) Business Days after the occurrence of each of the following, written notice in reasonable detail of: (i) the occurrence of (A) a Default, or (B) an Event of Default, or (C) an event or condition that occurs or exists which could have or results in a Material Adverse Effect, the nature and period of existence thereof and the action Company proposes to take with respect thereto; (ii) any change in the name or the organizational structure of Company; (iii) any termination or cancellation of any insurance policy which Company is required to maintain; or (iv) any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting Company's property in excess of an aggregate of \$1,000,000; or (v) any changes in the following senior management positions of Company: Trustee, Chair, President, Secretary, or Chief Financial Officer.

(i) Promptly upon, and in any event no later than five (5) Business Days after learning thereof, written notice in reasonable detail of any litigation threatened or commenced against Company or CalREIT, and of the threat or institution of any suit or administrative proceeding that may have a Material Adverse Effect, or where the damages claimed exceeds \$1,000,000.

(j) Together with each delivery of financial statements required by clauses (b) and (c) above, a certificate of a Responsible Officer stating that there exists no (i) Event of Default, or (ii) Default, or (iii) an event or condition which could have or results in a Material Adverse Effect, or, if any (i) Event of Default, or (ii) Default, or (iii) an event or condition that occurs or exists which could have or results in a Material Adverse Effect, exists, specifying the nature and period of existence thereof and what action Company proposes to take

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with respect thereto. Together with each delivery of financial statements required by clause 5.3 (d) above, Company will deliver a certificate of such accountants stating that, in making the audit necessary for their report on such financial statements, they have obtained knowledge of no (i) Event of Default, or (ii) Default, or (iii) an event or condition which could have or results in a Material Adverse Effect, or if they have obtained knowledge of any (i) Event of Default, or (ii) Default, or (iii) an event or condition which could have or results in a Material Adverse Effect, specifying the nature and period of existence thereof. Such accountants, however, shall not be liable to anyone by reason of their failure to obtain knowledge of any (i) Event of Default, or (ii) Default, or (iii) an event or condition which could have or results in a Material Adverse Effect, which would not be disclosed in the course of an audit conducted in accordance with generally accepted auditing standards.

(k) Promptly upon, and in any event no later than three (3) Business Days after learning thereof, written notice in reasonable detail of each of the following: (i) any penalty assessed against Company by any federal, state, or local government agency (including but not limited to tax penalties), (ii) any notice received from any federal, state, or local government agency of any violation by Company of any federal, state, or local law or regulation which could result in the assessment of a penalty in excess of \$500,000 or the revocation of any license by any federal, state or local government agency, (iii) any investigation of Company by any federal, state or local government agency, and (iv) any violation by Company of any such law or regulation of which Company becomes aware, which violation could result in the assessment of a penalty or the revocation of a registration or license by any federal, state, or local government agency, or in notification of a violation of any federal, state, or local law or regulation from any federal, state, or

local government agency.

(l) As soon as practicable and in any event within 45 days after the end of each quarterly period, including the last quarterly period, a report certified by a Responsible Officer setting forth the status of the items listed on Schedules 4.1(a), 4.1(b) and 4.7, until such items have been resolved such that they would not have been listed on such Schedules.

(m) From time to time and with reasonable promptness such other information as Collateral Agent, Agent or any Noteholder may reasonably request.

5.4 Communication with Accountants. Upon the request of Collateral Agent, Agent or any Noteholder, Company hereby authorizes Agent, Collateral Agent and each Noteholder, upon notice to Company, to communicate directly with Company's independent certified public accountants and tax advisors and authorizes those accountants to disclose to Agent, Collateral Agent and Noteholders any and all financial statements and other supporting financial documents and schedules including copies of any management representation letter with respect to the

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business, financial condition and other affairs of Company. On or before the Closing Date and on each anniversary of the Closing Date, Company shall deliver a letter addressed to such accountants and tax advisors instructing them to comply with the provisions of this SECTION 5.4 and authorizing Agent, Collateral Agent and Noteholders to rely on the certified financial statements prepared by such accountants.

5.5 Right of Access and Inspection. Company shall provide Agent, Collateral Agent, any Noteholder, Accountant and/or Consultant (as the case may be) with full and complete access to all books, records, financial statements and documents requested by Agent, Collateral Agent, any Noteholder, Accountant and/or Consultant to enable Accountant and Consultant to (i) continue to review Company's business and financial condition, (ii) to monitor the Collateral, (iii) to monitor Company's compliance with the reporting requirements set forth herein, and (iv) to perform audits. Company hereby grants to Agent, Collateral Agent, Noteholders, Accountant, Consultant, and any of their officers, employees and/or agents the right, exercisable as frequently as Agent, Collateral Agent, Noteholders, Accountant and Consultant reasonably determine to be appropriate, during normal business hours (or at such other times as may reasonably be requested by Agent, Collateral Agent, any Noteholder, Accountant or Consultant), to inspect the properties and facilities of Company and to inspect, audit and make extracts from all of Company's records, financial statements, files and books of account as set forth above, discuss the affairs, finances and accounts of Company with any of its advisors, officers or trustees, and communicate directly with Company's independent certified public accountants. Company shall deliver any document or instrument reasonably necessary for Agent, Collateral Agent, any Noteholder, Accountant, or Consultant as any of them may reasonably request, to obtain records from any service bureau maintaining records for Company, and shall maintain duplicate records or supporting documentation on media, including computer tapes and discs owned by Company. Upon the written request by Agent, Collateral Agent or any Noteholder to Company, Company shall instruct its banking and other financial institutions to make available to Agent, Collateral Agent or Noteholders such information and records as reasonably requested. In exercising any inspection rights pursuant to this SECTION 5.5, Agent, Collateral Agent, Noteholders, Accountant, and Consultant shall use their best efforts to minimize any disruption to the orderly conduct of Company's business.

5.6 Maintenance of Existence and Conduct of Business. Company shall: (a) do or cause to be done all things necessary to maintain and keep in

full force and effect CalREIT's existence and rights as a real estate investment trust; (b) at all times maintain, preserve and protect all of their respective rights to enjoy and use trademarks, trade names, service marks, patents, copyrights, licenses, and such real property rights necessary or useful to the conduct of their respective businesses; (c) do or cause to be done all things necessary to renew all registrations and licenses and avoid any forfeiture of any registration or

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license necessary or useful to the conduct of their respective businesses; (d) preserve all the remainder of their property, in use or useful in the conduct of their respective businesses and keep the same in good repair, working order and condition and from time to time make, or cause to be made, all needed and proper repairs, renewals and replacements, betterments and improvements thereto consistent with industry practices, so that the business carried on in connection therewith may be properly and advantageously conducted at all times.

5.7 Books and Records. Company shall keep adequate records and books of account with respect to its business activities, in which proper entries, reflecting all financial transactions, are made in accordance with generally accepted accounting principles, consistently applied.

5.8 Maintenance of Insurance. Company shall maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Company, including fire, extended coverage, public liability (including bodily injury and property damage) and workers' compensation, carried with companies and in amounts reasonably satisfactory to Noteholders, and deliver to Agent and Noteholders from time to time, at Noteholders' request, schedules setting forth all insurance then in effect. All such liability insurance shall name Collateral Agent as an additional insured and all such fire and extended coverage insurance with respect to Collateral Agent granted to Collateral Agent pursuant to the Documents shall name Collateral Agent as co-loss payee and be the subject of a lender's loss payable endorsement (Form 438 BFU or equivalent) reasonably acceptable to Noteholders in favor of Collateral Agent to the extent of amounts outstanding hereunder or to the extent of Collateral Agent's interest in such Collateral.

5.9 Compliance with Law. Company shall comply with all federal, state and local laws and regulations applicable to it, including those relating to ERISA, those regarding the collection, payment and deposit of sales, employees' income, unemployment and Social Security taxes, and those relating to environmental matters, where the failure to comply may have a Material Adverse Effect.

5.10 Agreements. Company shall perform within all required time periods (after giving effect to any applicable grace periods), all of its obligations and enforce all of its rights under each agreement to which it is a party, including any leases to which it is a party. Company shall not terminate or modify in any manner any provision of any agreement to which either is a party which termination or modification could have a Material Adverse Effect.

5.11 Payment of Tax Obligations. Except as otherwise provided by the Plan, Company shall pay and discharge before any notice of default or delinquency is filed or recorded with any governmental authority having jurisdiction over Company, any and all assessments or taxes that first come due and payable by

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Company on or after the Effective Date of Plan, including (i) real property or personal property taxes or ad valorem assessments, (ii) federal and state income taxes, and (iii) any principal, interest, or other charges with respect to bond issues which are or may become Liens upon any of Company's real or personal property.

5.12 Leases. Company shall comply in all material respects with all of its obligations under all leases existing on the Effective Date of Plan or thereafter entered into by it with respect to Mortgaged Property. Company shall provide Agent and Noteholders with a copy of each notice of default or termination received by Company under any lease which represents more than 20% of the net rentable square footage of any Mortgaged Property, immediately upon receiving any such notice, and deliver to Agent and Noteholders a copy of each notice of default or termination sent by Company under any lease simultaneously with its delivery of such notice under such lease, and shall notify Agent, not later than thirty (30) days prior to the date of the expiration of the term of any lease, of Company's intention either to renew or not renew any such lease, and, if Company shall intend to renew such lease, the terms and conditions of renewal of any such lease. Upon Agent's or any Noteholder's request, Company shall use its best efforts to obtain and deliver to Agent for the benefit of Noteholders, an estoppel certificate, in form and substance satisfactory to Noteholders, executed by such tenants as Noteholders may specify, certifying, among other things, that Company is not in default under such lease, the amount of rent payable under such lease, the term of such lease, and disclose any extra-contractual rent adjustments or discounts, and any purchase, extension or termination options.

5.13 Property. If, after the Closing Date, Company acquires any interest in additional real property (other than After Acquired Property), which Noteholders reasonably determine to be material to Company, then, such real estate shall be deemed to be "Mortgaged Property" as defined herein and if requested by Agent, Company shall (i) execute a mortgage or deed of trust in favor of Collateral Agent covering such real property, in form and substance satisfactory to Noteholders and subordinate or junior only to such mortgages or deeds of trust as are existing of record on the date Company acquires such real property, (ii) provide Collateral Agent with casualty insurance covering such real property in an amount equal to the value of such real property (as determined by Noteholders), (iii) provide Collateral Agent with an ALTA Lender's Policy covering such real property, in an amount and with such endorsements as Noteholders may, in their sole discretion, require, and (iv) if requested by Noteholders, provide a current ALTA survey thereof, together with a surveyor's certificate in form and substance reasonably satisfactory to Noteholders.

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ARTICLE VI

NEGATIVE COVENANTS

Company covenants and agrees that until all of the Obligations are paid and satisfied in full:

6.1 Mergers, Etc. Company shall not, and shall not vote to allow CalREIT to, directly or indirectly, by operation of law or otherwise, merge with, consolidate with, acquire all or substantially all of the assets or capital stock of, or otherwise combine with, any person or entity, other than a merger or consolidation of Company and CalREIT, provided that the Obligations are assumed by the surviving entity. Company shall not, and shall not vote to allow CalREIT to, form or acquire any subsidiary, or make any material change in the nature of their respective businesses (other than changes occurring in the ordinary course of its business), or sell all or substantially all of their

respective assets.

6.2 Loans, Advances, Investments. Except for (a) investments in Cash Equivalents, (b) seller financing permitted by SECTION 6.6(B) of this Agreement, and (c) the purchase, with After Acquired Property, of 100% of the stock of a corporation whose primary assets are real property, Company shall not make any loans, guarantees (including, without limitation guarantees of any lease in connection with a sale/leaseback transaction), capital contributions or advances to or for the benefit of, or investments in any person or entity.

6.3 Name Change. Company shall not change its name, chief executive office or principal place of business, or conduct business (including purchasing real property, notes, inventory or other assets) in any name other than its present correct name, unless and until Company has (i) given Agent and Collateral Agent at least thirty (30) days prior written notice of its intended name change; and (ii) executed such documents, instruments or agreements as Agent or Collateral Agent may require in order to preserve and protect Noteholders' Liens and other rights under this Agreement and the other Documents.

6.4 Dividends, Distributions. Company shall not declare or pay any dividend or distribution either in cash, stock or any other property on account of New CET Common Stock now or hereafter outstanding, nor redeem, retire, repurchase or otherwise acquire any shares or warrants of New CET Common Stock now or hereafter outstanding, unless and until:

(a) Company has paid in cash all dividends then due and owing to holders of New CET Preferred Stock;

(b) Company has paid in cash the entire principal amount of all Interest Deferral Notes delivered to Noteholders and all accrued interest thereon, and the period in which Company may issue Interest Deferral Notes in lieu of cash payments of interest has expired; and

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(c) All amounts owing under the New Credit Line and the Redding Hotel Improvement Loan have been paid in full;

provided, that if permitted under applicable law, Company may declare dividends to the extent, in the opinion of counsel to Company satisfactory to Noteholders, such payment is required to maintain Company's status as a real estate investment trust. Notwithstanding anything to the contrary in this SECTION 6.4, Company shall not repurchase New CET Common Stock, make payments of dividends thereon or make distributions in connection therewith, unless such payments are made from Excess Cash Flow.

6.5 Indebtedness. Company shall not, create, incur, assume or permit to exist any Indebtedness except for (a) the Obligations, (b) trade and other credit on account of goods and services incurred in the ordinary course of business which are not more than 90 days past due, (c) lease payment obligations under leases that Company is not prohibited from entering into under the Documents, (d) Refinancing Indebtedness as permitted under the terms of SECTION 6.8, (e) Purchase Money Indebtedness, (f) the New Credit Line provided that such New Credit Line meets the requirements of SECTION 2.10, (g) the New Kroeger Note, (h) the New CET Unsecured Notes, (i) the Redding Hotel Improvement Loan, in an amount not to exceed \$1,000,000, and (j) unsecured Indebtedness due and payable after the Maturity Date; provided that at the time such unsecured Indebtedness is created, incurred or assumed the ratio of Available Cash Flow to Interest Expense for the immediately preceding period meets or exceeds 2 to 1.

6.6 Sales of Collateral. So long as no Event of Default has occurred and is continuing, Company may sell Collateral and other assets,

provided:

(a) Eighty percent (80%) of all Net Cash Proceeds from any sale of Collateral are paid to Noteholders pursuant to SECTION 2.4(b); and

(b) Without limiting SECTION 6.6(a), with respect to sales of any asset (whether or not Collateral) in which Company provides seller financing, (i) the subject property is sold to a financially responsible purchaser (as determined by Board of Directors of Company in accordance with commercially reasonable standards), (ii) Company assigns and pledges to Collateral Agent, for the benefit of Noteholders, the note, any and all security for the note, and any other collateral given to Company in consideration for the sale, and (iii) such note, security documents, other collateral, and assignment are in form and substance satisfactory to Noteholders and (iv) such sale is for a purchase price no less than the fair market value of such asset as determined by an independent appraisal satisfactory to Board of Directors of Company or such other method satisfactory to Noteholders.

6.7 Purchase Options. So long as no Event of Default has occurred and is continuing, Company may grant options to purchase Company's real property, provided eighty percent (80%) of all Net

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Cash Proceeds from any grant of an option to purchase real property Collateral are paid to Noteholders pursuant to SECTION 2.4.

6.8 Real Property Refinancing. So long as no Event of Default has occurred and is continuing, Company may incur Indebtedness relating to the refinancing of Indebtedness secured by real property ("Refinancing Indebtedness"), provided that eighty percent (80%) of any Net Cash Proceeds of such Refinancing Indebtedness is paid to Noteholders pursuant to SECTION 2.4(b).

6.9 Notes Receivable. Company shall not compromise, settle, waive, extend, modify, alter, fractionalize, or hypothecate any Note Receivable; provided nothing in this SECTION 6.9 shall be deemed to prohibit the sale of any Note Receivable for par pursuant to the terms of SECTION 6.6 without approval of the Board of Trustees of Company.

6.10 Prohibited Payments on Indebtedness. Company (i) shall make no prepayments of principal, interest or other amounts on account of (A) the New Kroeger Note, (B) the New CET Unsecured Notes or (C) the Florin-Perkins Properties and the Florin-Perkins Bond Claims, or (D) unsecured Indebtedness referred to in SECTION 6.5(j), and (ii) shall make no payments with respect to the Florin-Perkins Properties and the Florin-Perkins Bond Claims in connection with any taxes, bond payments or bond assessments.

6.11 Transactions with Affiliates. Company shall not, directly or indirectly, enter into or be a party to any agreement or transaction (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate except for transactions in the ordinary course of and pursuant to the reasonable requirements of business and upon fair and reasonable terms that are approved by Company's board of trustees, fully disclosed to Agent and approved by Noteholders, and no less favorable to Company than it would obtain in a comparable arm's length transaction with a person not an Affiliate; provided nothing in this SECTION 6.11 shall be deemed to prohibit CalREIT from declaring and paying dividends which might otherwise be payable under this Agreement, or permitting Company and CalREIT to merge as permitted under SECTION 6.1.

6.12 Liens. Except for Permitted Liens, Company shall not create or permit any Lien on any of its properties or assets, including, without limitation, the Collateral.

6.13 Cancellation of Indebtedness. Company shall not cancel any claim or debt owing to it, except for reasonable consideration and in the ordinary course of business.

6.14 ERISA. Neither Company nor any ERISA Affiliate shall acquire any new ERISA Affiliate that (i) maintains or has an obligation to contribute to a pension plan that has either an "accumulated funding deficiency", as defined in section 302 of ERISA, or any "unfunded vested benefits," as defined in

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section 4006(a)(3)(E)(iii) of ERISA in the case of any plan other than a Multiemployer Plan and in section 4211 of ERISA in the case of a Multiemployer Plan, or (ii) maintains or has an obligation to contribute to a pension plan that has assets having a fair market value which is less than the present value of the liabilities under the plan on a termination basis or (iii) which will result in any liability to the Company or any ERISA Affiliate if a plan maintained by a new ERISA Affiliate is to be terminated immediately after the new ERISA Affiliate is acquired by the Company or any ERISA Affiliate. Additionally, neither Company nor any ERISA Affiliate shall: (a) permit or cause any representation set forth in section 4.12 to cease to be met and satisfied at any time; establish any Pension Plan that is subject to Title IV of ERISA; or terminate any Pension Plan that is subject to Title IV of ERISA where such termination could reasonably be anticipated to result in liability to Company; or any ERISA Affiliate; (b) permit any accumulated funding deficiency, as defined in section 302(a)(2) of ERISA, to be incurred with respect to any Pension Plan; (c) fail to make any contributions or fail to pay any amounts due and owing as required by the terms of any Plan before such contributions or amounts become delinquent; (d) make a complete or partial withdrawal (within the meaning of section 4201 of ERISA) from any Multiemployer Plan; or (e) at any time fail to provide any Noteholder with copies of any plan documents or governmental reports or filings, if reasonably requested by such Noteholder.

6.15 Hazardous Materials. Except in the ordinary course of business and in compliance with all applicable Environmental Laws, Company shall not and shall use its reasonable best efforts not to cause or permit any other person or entity to, cause or permit the presence, use, generation, manufacture, installation, release, discharge, storage or disposal of any Hazardous Materials on, under, in or about any real property owned by Company or any Subsidiary or any real property leased, subleased, occupied or used by Company or any Subsidiary, or the transportation of any Hazardous Materials to or from any such real property unless such use or transportation is on a temporary basis incidental to the conduct of its business in the ordinary course and is performed in a manner that does not cause a material violation of any applicable Environmental Law. In the event of any breach or violation of the foregoing, or in the event of any other release or threatened release of Hazardous Materials on, under, in or about any real property owned by Company or any real property leased, subleased, occupied or used by Company, Company shall promptly commence and diligently complete a clean-up or other remediation of any such environmental contamination using a duly qualified, licensed and insured contractor. In the event of any release or threatened release of Hazardous Material on, under, in or about any real property owned by any Subsidiary or any real property leased, subleased, occupied or used by any Subsidiary, Company shall cause such Subsidiary to promptly commence and diligently complete a clean-up or other remediation of any such environmental contamination using a duly qualified, licensed and insured contractor.

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ARTICLE VII

EVENTS OF DEFAULT; RIGHTS AND REMEDIES

7.1 Default. The occurrence of any one or more of the following events or conditions (regardless of the reason therefor) shall constitute an Event of Default under this Agreement:

(a) Company fails to make any payment of principal, interest, fees, expenses, or any other amount owing in respect of any of the Notes or any of the other Obligations when due and payable pursuant to the terms thereof or hereof; or

(b) Company (whether as primary obligor or as guarantor or other surety) fails to make any payment of Indebtedness at maturity or otherwise beyond any period of grace provided with respect thereto, or Company fails to perform or observe any other agreement, term or condition contained in any agreement under which any such Indebtedness is created (or if any other event thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such Indebtedness (or a trustee on behalf of such holder or holders) to cause, such Indebtedness to become due (or to be repurchased by Company, prior to any stated maturity, provided that the aggregate amount of all Indebtedness as to which such a payment default shall occur and be continuing or such failure or other event causing or permitting acceleration (or resale to Company) shall occur and be continuing exceeds \$500,000; and provided, further, that this SECTION 7.1(b) shall not apply to Indebtedness secured by the Florin-Perkins Properties, the 425 University Avenue property, the University Village property, the Pacific Palisades Property or the Systems Integrators Buildings; or

(c) any representation or warranty made by Company herein or by Company or any of its officers in any writing furnished in connection with or pursuant to this Agreement shall be false in any material respect on the date as of which made; or

(d) Company fails to perform or observe any agreement contained in Article VI; or

(e) Company fails to perform or observe any other agreement, term or condition contained in this Agreement or in any of the other Documents and such failure shall not be remedied within 30 days after any Responsible Officer obtains actual knowledge thereof; or

(f) Company conceals, removes or permits to be concealed or removed, any part of its property, with intent to hinder, delay or defraud its creditors or any of them, or makes or suffers a transfer of any of its property or incurs any obligation which may be intentionally or constructively fraudulent under any bankruptcy, fraudulent conveyance or other similar law; or

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(g) Company makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(h) any decree or order for relief in respect of Company is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (collectively, "Bankruptcy Law"), of any jurisdiction; or

(i) Company petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of Company, or of any substantial

part of the assets of Company, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings (other than proceedings for the voluntary liquidation and dissolution of CalREIT) relating to Company under the Bankruptcy Law of any other jurisdiction; or

(j) any such petition or application is filed, or any such proceedings are commenced, against Company and Company by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 30 days; or

(k) any order, judgment or decree is entered in any proceedings against Company decreeing the dissolution of Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(l) any order, judgment or decree is entered in any proceedings against Company decreeing a split-up of Company which requires the divestiture of assets representing a substantial part, or the divestiture of the stock of CalREIT whose assets represent a substantial part, of the consolidated assets of Company and CalREIT (determined in accordance with generally accepted accounting principles) or which requires the divestiture of assets, or stock of CalREIT, which shall have contributed a substantial part of the consolidated net income of Company and CalREIT (determined in accordance with generally accepted accounting principles) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(m) a final judgment in an amount in excess of \$500,000 is rendered against Company and, within 60 days after entry thereof, such judgment is not discharge or execution thereof stayed pending appeal, or within 60 days after the expiration of any such stay, such judgment is not discharged; or

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(n) Company or any ERISA Affiliate, in its capacity as an employer under a Multiemployer Plan, makes a complete or partial withdrawal from such Multiemployer Plan resulting in the incurrence by such withdrawing employer of a withdrawal liability in an amount exceeding \$100,000; or

(o) Any material provision of any Deed of Trust, the Pledge and Security Agreement or any other Document shall for any reason cease to be valid, any such Document shall be repudiated, terminated or avoided, including by operation of law, or any security interest created under any such Document shall cease to be a valid and perfected first priority security interest or Lien in any material portion of the Collateral purported to be covered thereby (subject only to Permitted Liens), provided that such termination or avoidance is not caused by the actions of Noteholders or the failure of Noteholders to act; or

(p) The holder of any Lien encumbering any of the Mortgaged Properties (other than Agent, Collateral Agent or Noteholders and a claimant under a mechanic's lien or a materialmen's lien) records a notice of default against such property or commences an action to enforce such Lien, regardless of the reason therefor; or

(q) The claimant under any mechanics' lien or materialman's lien obtains a judgment against Company establishing the validity of such lien or permitting such claimant to enforce such lien, or notices of mechanics' and/or materialmen's liens are recorded against the Mortgaged

Properties, which judgments, liens or notices aggregate \$500,000 or more.

(r) Any other event or condition occurs or exists which could have or result in a Material Adverse Effect, provided that Agent provides two Business Days written notice to Company of such event or condition.

then (a) if such event is an Event of Default specified in any clause of this SECTION 7.1 other than clause (h), (i), or (j), Agent shall, at the direction of any Noteholder or Noteholders, by notice in writing to Company ("Notice of Acceleration"), declare such Noteholder's Notes and the Obligations to such Noteholder or all of the Notes and the other Obligations, as the case may be, to be and such Noteholder's Notes and the Obligations to such Noteholder or the Notes and the other Obligations, as the case may be, shall thereupon be and become, immediately due and payable together with interest accrued thereon, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by Company; and (b) if such event is an Event of Default specified in clause (h), (i), or (j) of this SECTION 7.1 with respect to Company, all of the Notes and the other Obligations at the time outstanding shall automatically become immediately due and payable at par together with interest accrued thereon, without presentment, demand,

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protest or notice of any kind, all of which are hereby waived by Company.

7.2 Cross-Defaults. The occurrence of any Event of Default under this Agreement shall also constitute an Event of Default under each of the other Documents. The occurrence of any Event of Default under any of the other Documents shall constitute an Event of Default under this Agreement. Company's failure to pay any installment of principal or interest when due under any Note, or to execute and deliver any Interest Deferral Note as and when due, shall constitute an Event of Default under all of the Notes.

7.3 Other Remedies. Upon the occurrence of any Event of Default in addition to the remedies listed in SECTION 7.1 upon the earlier of a Notice of Acceleration or acceleration of the Obligations: (a) Agent and/or Noteholders may file an action against Company in any court having jurisdiction, in their own names or in the name of Agent, Noteholders and/or Collateral Agent; and/or (b) Agent, Collateral Agent and Noteholders shall have all rights, powers and remedies available under each of the Documents and applicable law, including, without limitation, (i) commencing judicial or nonjudicial foreclosure proceedings against the Mortgaged Properties, (ii) enforcing Collateral Agent's security interest in the Collateral by means of one or more public or private sales thereof, (iii) taking possession of all or any portion of the Mortgaged Properties or the Collateral, in person or by means of a court appointed receiver (who shall be appointed without regard to the value of Collateral Agent's or Noteholders' security), and (iv) exercising any or all of the rights of a beneficiary or secured party pursuant to applicable law. All rights, powers and remedies of Agent, Collateral Agent or Noteholders in connection with each of the Documents may be exercised at any time or from time to time, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

7.4 Waivers by Company. Except as otherwise provided for in this Agreement and applicable law, Company waives (i) presentment, demand and protest and notice of presentment, dishonor, notice of intent to accelerate, notice of acceleration, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Agent, Collateral Agent or Noteholders on which Company may in any way be liable and hereby ratifies and confirms whatever Agent, Collateral Agent or Noteholders may do in this regard, (ii) all rights to notice and a hearing prior to Collateral Agent's taking possession or control of, or replevy, attachment or levy upon, the Collateral, or any bond or

security which might be required by any court prior to allowing Agent or Collateral Agent to exercise any of its remedies, and (iii) the benefit of all valuation, appraisal and exemption laws. Company acknowledges that it has been advised by counsel of its choice with respect to the effect of the foregoing waivers and this Agreement, the other Documents and

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the transactions evidenced by this Agreement and the other Documents, generally.

7.5 Right of Set-Off. Upon the occurrence and during the continuance of any Event of Default, Agent, Collateral Agent and each of Noteholders are hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off, recoup, and apply any and all funds in the possession of Agent, Collateral Agent or any Noteholder, all deposits (general or special, time or demand, provisional or final) at any time held and other Indebtedness at any time owing by Agent, Collateral Agent or any Noteholder to or for the credit or the account of Company against any and all of the Obligations of Company now or hereafter existing under the Documents that are then due and payable, whether by maturity or acceleration, irrespective of whether or not Noteholders shall have made any demand under this Agreement or the other Documents. Agent shall notify Company promptly after any such set-off and application made by Agent, Collateral Agent or any Noteholder; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application. The rights of Agent, Collateral Agent or Noteholders under this section are in addition to any other rights and remedies (including, without limitation, other rights of set-off) which Agent, Collateral Agent and Noteholders may have.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

8.1 Complete Agreement; Transferability.

(a) The Documents (i) supersede any prior written or oral agreements or understandings between the parties or any predecessor in interest with respect to the subject matter of the Documents, and (ii) constitute the complete agreement between the parties with respect to the subject matter of the Documents and (iii) may not be modified, altered or amended except by an agreement in writing signed by Company and each party affected by such modification.

(b) Company may not sell, assign or transfer, whether by operation of law or otherwise, any of the Documents, or any portion thereof, including Company's rights, title, interests, remedies, powers and duties hereunder or thereunder.

8.2 Professional Fees and Expenses.

(a) If at any time or times after the Closing Date, whether prior or subsequent to the commencement of a bankruptcy case (other than the Chapter 11 Case), any Noteholder, Agent or Collateral Agent, or any of them, employs legal counsel or other professionals (including, but not limited to, attorneys, accountants, consultants, inspectors, engineers, environmental experts, title insurers, appraisers, brokers or auctioneers) for advice or other representation or incurs other costs and

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expenses, Company shall, under the circumstances described below, pay to and

reimburse Agent, each Noteholder, and Collateral Agent for the reasonable professional fees, including reasonable attorneys' fees, arising from such services and all expenses, costs, charges and other fees incurred by or on behalf of such party in connection therewith, and the same shall constitute Obligations of Company to Agent, Collateral Agent and Noteholders secured by the Collateral; provided that The Prudential Insurance Company of America, in its capacity as Noteholder, and Pruco Life Insurance Company of America shall use the same professionals and TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Trust IV, TCW Special Credits Trust IVA, and Weyerhaeuser Company Master Retirement Trust shall use the same professionals. The circumstances under which such fees, costs and expenses are payable are as follows:

(i) whether or not an Event of Default has occurred under this Agreement or the other Documents, the negotiation or preparation of any proposed modification, extension, or renewal of, or proposed consent or waiver under, this Agreement, the Notes or any other Document, including additional documentation relating to the addition of any Collateral securing the Obligations, whether or not such amendment, modification, extension or renewal is consummated or such proposed consent granted; and

(ii) upon the occurrence and during the continuation of an Event of Default: (A) any litigation, contest, dispute, suit, case, proceeding or action (whether instituted by Agent, Noteholders, Company or any other person), in any way relating to this Agreement, the Documents, the Collateral or the affairs of Company or CalREIT; (B) any litigation, contested matter, adversary proceeding, dispute, suit, case, proceeding or action and any appeal or review thereof in connection with a case commenced by or against Company or CalREIT under the federal bankruptcy or reorganization laws or any other applicable federal or state bankruptcy, insolvency, debtor relief, reorganization or similar law, including but not limited to any contested matters, cases or proceeding relating to or arising out of the Chapter 11 Case or the Plan; (C) the monitoring, appraisal, inspection, collection, sale, liquidation or other disposition of the Collateral, and (D) the taking of (or determining whether or how to take) any action establishing, preserving, or enforcing any right or remedy permitted hereunder.

Payment of the fees and expenses provided for in this SECTION 8.2(a) shall be paid to Agent, Collateral Agent, or such Noteholder, as the case may be, by wire transfer as provided on the Schedule of Notices, no later than thirty (30) days after the date Company receives a written statement for such fees or expenses. The Obligations of Company under this SECTION 8.2 shall survive (i) the payment in full of any Note and (ii) the transfer of any Note or portion thereof or interest therein by any Noteholder.

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(b) In addition to the amounts set forth in SECTION 8.2(a), Company shall pay to Collateral Agent, (i) within 10 days after Collateral Agent invoices Company therefor, all fees of Collateral Agent and, (ii) within 30 days after Collateral Agent invoices Company therefor, all costs and expenses of Collateral Agent, and all fees and expenses of professionals engaged by Collateral Agent in accordance with the fees and expenses agreed to by Noteholders and by Collateral Agent in the Collateral Agent Agreement. In the event Company fails to timely pay such amounts, Noteholders shall advance their own funds to pay Collateral Agent and/or Collateral Agent's reasonable professional fees and expenses, as provided by the Collateral Agent Agreement, and demand reimbursement from Company, provided, that no action taken by any Noteholder or Collateral Agent pursuant to this sentence shall be deemed to waive or cure any Event of Default.

8.3 Noteholders' Action; Modification Under and of Documents. Any Noteholders' Action shall be taken only by Minimum Noteholders, Majority Noteholders or all Noteholders as required by this SECTION 8.3:

(a) Noteholders' Action to Modify Documents.

(i) The consent of each Noteholder is required to alter or modify this SECTION 8.3, and the amount of principal outstanding, the scheduled payments, the rate of interest, the maturity date, or the mandatory prepayments of principal set forth in this Agreement (including SECTIONS 2.4, 6.6, 6.7 AND 6.8) or the Notes.

(ii) Except as set forth in SECTION 8.3(a)(i), consent of Majority Noteholders is required to amend or modify any provision of this Agreement or the other Documents.

(b) Noteholders' Action With Respect to Defaults and Remedies. The following Noteholders' Actions with respect to defaults and remedies will require the consent of the following:

(i) Upon the request of any Noteholder after the occurrence of an Event of Default under SECTION 7.1(a), Agent shall send a Notice of Default.

(ii) Upon the request of Minimum Noteholders after the occurrence of any other Event of Default under SECTION 7.1, Agent shall send a Notice of Default.

(iii) Upon the request of Majority Noteholders after the occurrence of an Event of Default under SECTION 7.1, Agent and/or Collateral Agent shall send a Notice of Acceleration.

(iv) Upon the request of Majority Noteholders after the occurrence of an Event of Default, Agent shall send a notice to Company of the commencement of accrual of interest at the Default Rate as set forth in SECTION 2.3.

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(v) Upon the request of Majority Noteholders after the occurrence of an Event of Default, Agent shall instruct Collateral Agent to commence non-judicial action to collect rents on the Real Properties, payments on Notes Receivable, and/or dividends from CalREIT, pursuant to applicable provisions of the Collateral Agent Agreement and the other Documents.

(vi) Upon the request of Majority Noteholders after the occurrence of an Event of Default, Agent shall instruct Collateral Agent to exercise other remedies under the Documents, including but not limited to collection of funds in deposit accounts, foreclosure on Mortgaged Properties, collection of Notes Receivable, seeking a receiver to take possession of any Collateral and/or the Mortgaged Property, and commencement of or actions in court proceedings.

(c) Other Noteholders' Actions.

(i) Any action, consent, waiver, instruction, notice or declaration which is or may be taken or made by or on behalf of Noteholders under the Documents and which is not specified in SECTIONS 8.3(a) or (b) hereof shall be taken by Agent upon the vote of Majority Noteholders, and said Noteholders' Action shall thereupon be binding on all Noteholders, Agent, and Collateral Agent.

(ii) Any Noteholders' Action to rescind, annul, waive, modify or extend any prior Noteholders' Action shall require the same vote and consent of Noteholders as the prior Noteholders' Action; provided that Noteholders' Action by Majority Noteholders shall be required to rescind, annul, waive or modify any prior Noteholders' Action consented to by Minimum

Noteholders.

(d) Modification of Documents. Agent's, Collateral Agent's or Noteholders' failure, at any time or times, to require strict performance by Company or any other person or entity of any provision of this Agreement or any of the other Documents shall not waive, affect or diminish any right of Agent, Collateral Agent or Noteholders thereafter to demand strict compliance and performance therewith. Any suspension or waiver by Agent, Collateral Agent or Noteholders of a Default or Event of Default under this Agreement or any of the other Documents, shall not suspend, waive or affect any other Default or Event of Default under this Agreement or any of the other Documents, whether the same is prior or subsequent thereto and whether of the same or of a different type. No waiver of any provision of this Agreement or any other Documents, nor consent to any departure by Company, or any other person or entity therefrom, shall in any event be effective unless the same shall be in writing and signed by Agent or the requisite Noteholders necessary to effectuate such waiver or consent and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

8.4 Indemnity.

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(a) Company shall indemnify, defend and hold harmless Agent, Collateral Agent and each Noteholder and their affiliates, and the officers, directors, employees and agents of, and persons controlling any of them within the meaning of either section 15 of the Securities Act of 1933 or section 20 of the Securities Exchange Act of 1934, from and against any and all suits, actions, proceedings, claims, damages, losses, liabilities (including any liabilities owing by such indemnified person or entity to Agent or Collateral Agent pursuant to the indemnification provisions of the Intercreditor Agreement and the Collateral Agent Agreement), obligations, penalties, and expenses (including attorneys' fees and disbursements and other costs incurred by any indemnified person or entity in preparing for or undertaking investigations or defense, including those incurred upon any appeal) which may be instituted or asserted against or incurred by such indemnified person or entity, or to which such person or entity may become subject, whether direct, indirect, or consequential and whether based on any common law or in equity, or on contract, tort or otherwise resulting from, arising in any manner out of or in connection with or otherwise related to the Documents or any of the transactions contemplated thereunder, or in connection with the preparation, filing and dissemination of all documents and securities filings in connection therewith (including, without limitation, all environmental liabilities and costs arising from or connected with the past, present or future operations of Company or CalREIT involving any Mortgaged Property, Collateral or other real or personal property, or damage to real or personal property or natural resources or harm or injury (including pain and suffering) alleged to have resulted from any use or release of any Hazardous Materials on, upon or into such property); provided, however, that Company shall not be liable for such indemnification to such indemnified person or entity to the extent that any such suit, action, proceeding, claim, damage, loss, liability or expense either results from such indemnified person's gross negligence or willful misconduct.

(b) Company, at the request of any indemnified party, shall have the obligation to defend against any of the matters covered by the indemnity set forth in SECTION 8.4(a). In the event that any indemnified person or entity requests that Company defend against any such indemnified matter, Company shall promptly do so with counsel of Company's choosing and reasonably acceptable to the indemnified party, provided, that any such indemnified person or entity shall retain the right to participate in, but not control, the defense of any such indemnified matter using counsel of such person's choice at such person's expense. No action taken by legal counsel chosen by such indemnified party in defending against any indemnified matter

shall vitiate or in any way impair Company's duty and obligation to indemnify and hold such person harmless hereunder.

(c) This indemnity provided for by this SECTION 8.4 shall be an ongoing obligation of Company that shall survive the termination of this Agreement.

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8.5 Remedies Cumulative. Agent's, Collateral Agent's and Noteholders' rights and remedies under this Agreement shall be cumulative and nonexclusive of any other rights and remedies which Agent, Collateral Agent or Noteholders may have under any other agreement, including the other Documents, by operation of law or otherwise. No failure to exercise nor any delay in exercising on the part of Agent, Collateral Agent or Noteholders, any right, power or privilege hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or future exercise thereof or the exercise of any other right, power or privilege.

8.6 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

8.7 Form, Registration, Transfer and Exchange of Notes; Lost Notes. The Notes are issuable as registered notes without coupons in denominations of at least \$1,000,000, except as may be necessary to reflect any principal amount not evenly divisible by \$1,000,000; provided that the Interest Deferral Notes are issuable as registered notes without coupons in any denomination. Company shall keep at its principal office a register in which Company shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the principal office of Company, Company shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount, registered in the name of such transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the principal office of Company. Whenever any Notes are so surrendered for exchange, Company shall, at its expense, execute and deliver the Notes which the holder making the exchange is entitled to receive. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder or such holder's attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange. Upon receipt of written notice from the holder of any Note of the loss, theft or destruction, upon receipt of such holder's unsecured indemnity agreement, or in the case of any such mutilation upon surrender and cancellation of such Note, Company will make and deliver a new Note, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note.

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8.8 Persons Deemed Owners; Participations. Prior to due presentment for registration of transfer, Company and Agent may treat the person or entity in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of and interest on such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and Company and Agent shall not be affected by notice to the contrary. Subject to the preceding sentence, the holder of any Note may from time to time grant participations in such Note to any person or entity on such terms and conditions as may be determined by such holder in its sole and absolute discretion.

8.9 Parties; No Third Party Beneficiaries. This Agreement and the other Documents shall be binding upon, and inure to the benefit of, the successors of Agent, the permitted successors of Company, and the assigns, transferees and endorsees of Noteholders. No other person or entity shall be deemed to be a third-party beneficiary of any of the provisions of the Documents or otherwise have any rights by reason of any provision of the Documents.

8.10 Disgorgement; Revival of Obligations. In the event that any payments, collections or proceeds of Collateral paid or distributed to or realized by Noteholders, or any other payment made to any Noteholder pursuant to the terms hereof, is required to be disgorged, returned, repaid, turned over, or refunded to Company or to any other person or entity, including, without limitation any debtor in possession or bankruptcy trustee, the Obligations shall be reinstated, revived, or restored by the amount that is required to be disgorged, returned, repaid, turned over, or refunded, the same as if such payment, distribution, or realization had never been made. The Obligations, as reinstated, revived, or restored, shall continue to be secured by Collateral Agent's security interest in the Collateral.

8.11 Conflict of Terms. Except as otherwise provided in this Agreement or any of the other Documents by specific reference to the applicable provisions of this Agreement, if any provision contained in this Agreement is in conflict with, or is inconsistent with, any provision in any of the other Documents, the provision contained in this Agreement shall govern and control, except that this Agreement shall be subject to the provisions of the Intercreditor Agreement. If the provisions of one agreement give Noteholders greater or broader rights than the provisions of any other agreement, those provisions shall not be deemed to be inconsistent or in conflict, and Noteholders shall have the full benefit of the greater or broader provisions.

8.12 Governing Law; Consent to Jurisdiction and Venue. Except as otherwise expressly provided in any of the Documents, in all respects, including all matters of construction, validity and performance, this Agreement, the Notes and the other Documents, and the Obligations arising hereunder and thereunder, shall be governed by, and construed and enforced in accordance with, the laws of the State of California applicable to contracts made and performed in such state, without regard to the

principles thereof regarding conflict of laws, and any applicable laws of the United States of America. COMPANY, AGENT AND EACH NOTEHOLDER CONSENTS TO PERSONAL JURISDICTION, WAIVES ANY OBJECTION AS TO JURISDICTION OR VENUE, AND AGREES NOT TO ASSERT ANY DEFENSE BASED ON LACK OF JURISDICTION OR VENUE, IN ANY STATE AND FEDERAL COURT SITUATED IN CALIFORNIA. Service of process on Company, Agent or any Noteholder in any action arising out of or relating to any of the Documents shall be effective if mailed to such party at the address specified in the Schedule of Notices. Nothing herein shall preclude Agent, any Noteholder or Company from bringing suit or taking other legal action in any other jurisdiction.

8.13 MUTUAL WAIVER OF JURY TRIAL. BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. EACH OF THE PARTIES HERETO SPECIFICALLY WAIVES SUCH PARTY'S RIGHT TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM, CROSS-CLAIM, COUNTERCLAIM, THIRD PARTY CLAIM OR ANY OTHER CLAIM (COLLECTIVELY, "CLAIMS") ASSERTED BY COMPANY AGAINST AGENT AND/OR ANY ONE OR MORE NOTEHOLDERS, OR BY AGENT AND/OR ANY ONE OR MORE NOTEHOLDERS AGAINST COMPANY. THIS WAIVER EXTENDS TO ALL SUCH CLAIMS, INCLUDING, WITHOUT LIMITATION, CLAIMS WHICH INVOLVE PERSONS OR ENTITIES OTHER THAN AGENT, NOTEHOLDERS AND COMPANY; CLAIMS WHICH ARISE OUT OF OR ARE IN ANY WAY CONNECTED TO THE RELATIONSHIP BETWEEN COMPANY, AGENT AND NOTEHOLDERS; AND ANY CLAIMS FOR DAMAGES, BREACH OF CONTRACT ARISING OUT OF THIS AGREEMENT, SPECIFIC PERFORMANCE, OR ANY EQUITABLE OR LEGAL RELIEF OF ANY KIND.

8.14 Notices. Except as otherwise provided herein, any notice or other communication required or permitted to be given hereunder shall be in writing and shall be deemed to have been validly served, given or delivered (a) when delivered, if hand-delivered, with receipt acknowledged; (b) upon transmission, when set by facsimile transmission, with such transmission electronically confirmed during normal business hours of recipient, provided that no later than one (1) Business Day following such transmission, a copy of such facsimile shall be mailed by first class mail, postage prepaid; (c) one (1) Business Day after deposit with a reputable overnight delivery service with all charges prepaid; or (d) upon the earlier of actual receipt or five (5) days after deposit in the United States Mail, postage prepaid, in each case addressed as set forth on the Schedule for Notices attached hereto, or at such other address or facsimile transmission number as may be substituted by notice given as herein provided, provided, further, that to the extent the address for notices of one or more Noteholders is the same, only one notice need be sent to such address. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Failure or delay in delivering copies of any notice or other communication to the persons designated herein or in the Schedule of Notices hereof to receive

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copies shall in no way adversely affect the effectiveness of such notice or other communication.

8.15 Survival. The representations and warranties of Company in this Agreement shall survive the execution, delivery and acceptance hereof by the parties hereto and the closing of the transactions described herein or related hereto.

8.16 Section Titles. The section titles and Table of Contents contained in this Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

8.17 Counterparts. This Agreement may be executed in counterparts which, taken together, shall constitute the Agreement. Each party to this Agreement agrees to be bound by its own facsimile signature and to accept the facsimile signatures of the other parties to this Agreement.

8.18 Further Assurances; Execution of Notes for Assignees. Company, Agent, and Noteholders mutually covenant and agree to execute any additional documents and to do all other acts reasonably required to effect the intent and purposes of this Agreement. Company agrees to execute and deliver Notes to Agent for the benefit of and in the name of assignees of Noteholders promptly upon notice from Agent of any assignment.

8.19 No Partnership. Nothing herein shall be deemed or construed

to create a partnership or joint venture between Company, Agent, and Noteholders, between Company and Agent, Collateral Agent or any Noteholder, or among Agent, any of Noteholders or Collateral Agent.

8.20 No Personal Liability of Trustees. As provided in the Declaration of Trust of Company, this contract is made by the undersigned trustee, not individually, but as Trustee under a certain Declaration of Trust creating Commonwealth Equity Trust, and hereby made a part hereof, and is enforceable only against, and is payable out of, the Trust property held thereunder, and any and all personal liability of the Trustees, their duly authorized agents, and the shareholders of said Trust is expressly waived.

8.21 Understanding of the Parties.

(a) Each of the parties hereto stipulates and agrees that, in entering into this Agreement, such party has not relied upon any representations, statements, covenants or warranties other than those actually set forth in this Agreement or the other Documents, incorporated by reference by this Agreement or the other Documents, (including, without limitation, all of the information contained in the Schedules delivered in connection herewith), or specifically referred to in this Agreement or the other Documents.

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(b) Each party represents that such party has received independent advice from legal counsel with respect to the advisability of entering into this Agreement and with respect to the advisability of making the agreements and providing the releases, waivers and expressions of intent contained in this Agreement.

(c) Each party represents that such party has read this Agreement and understands the contents hereof.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth above.

COMPANY:

THE PEREGRINE REAL ESTATE TRUST,
fka Commonwealth Equity Trust

By _____

Title _____

AGENT:

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By _____

Title _____

NOTEHOLDERS:

PACIFIC MUTUAL LIFE INSURANCE COMPANY

By _____

Title _____

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By _____

Title _____

PRUCO LIFE INSURANCE COMPANY

By _____

Title _____

ORIX USA CORPORATION

By _____

Title _____

WEYERHAEUSER COMPANY MASTER RETIREMENT TRUST

By: TCW Special Credits,

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Its Investment Manager

By: TCW Asset Management Co.

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS FUND IV

By: TCW Special Credits,
Its General Partner

By: TCW Asset Management Co.

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS PLUS FUND

By: TCW Special Credits,
Its General Partner

By: TCW Asset Management Co.

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS TRUST IV

By: Trust Company of the West, Trustee

By: _____

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Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS TRUST IVA

By: Trust Company of the West, Trustee

By:

Richard Masson
Managing Director

By:

Name:
Title:

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TABLE OF SCHEDULES AND EXHIBITS TO
SECOND AMENDED AND RESTATED NOTE AGREEMENT

SCHEDULES REFERRED TO IN SECOND
AMENDED AND RESTATED NOTE PURCHASE AGREEMENT

Schedule For Notices
Schedule 4.1(a): CET Legal Status
Schedule 4.1(b): CalREIT Legal Status
Schedule 4.7: CET Litigation

EXHIBITS TO SECOND
AMENDED AND RESTATED NOTE PURCHASE AGREEMENT

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EXHIBIT A -- Schedule of Documents
EXHIBIT B -- Form of Principal Notes
EXHIBIT C -- Form of Interest Deferral Notes
EXHIBIT D -- Form of Cash Only Principal Note to be Issued After October 1, 1996
EXHIBIT E -- Form of Certificate of Compliance and Financial Condition
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SCHEDULE FOR NOTICES

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

- (1) All payments on account of Notes held by such noteholder shall be made by wire transfer of immediately available funds for credit to:

Account No. 050-54-526

Morgan Guaranty Trust Company of New York
23 Wall Street
New York, New York 10015
(ABA No.: 021-000-238)

Each such wire transfer shall set forth the name of the Company, a reference to 8.5% Senior Notes due October 1, 2000, and the due date and application (as among principal and interest) of the payment being made.

- (2) Address for all notices relating to payments:

The Prudential Insurance Company of America
c/o The Prudential Investment Operations Group
Three Gateway Center, 12th Floor
100 Mulberry Street
Newark, New Jersey 07102-4077

Attention: Manager

- (3) Address for all notices not relating to payments:

If to The Prudential Insurance Company of America, to:

The Prudential Insurance Company of America
c/o The Prudential Corporate Finance Group
Attn: John P. Mullman
Four Gateway Center, 9th Floor
100 Mulberry Street
Newark, NJ 07102-4069
FAX: (201) 802-2662

Peter J. Gurfein, Esq.
Sonnenschein Nath & Rosenthal
601 S. Figueroa Street, Suite 1500
Los Angeles, CA 94104-2675
FAX: (213) 623-9924

- (4) Tax Identification No. 22-1211670

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PRUCO LIFE INSURANCE COMPANY:

- (1) All payments on account of Notes held by such noteholder shall be made by wire transfer of immediately available funds for credit to:

Account No. 000-55-455

Morgan Guaranty Trust Company of New York
23 Wall Street
New York, New York 10015
(ABA No.: 021-000-238)

Each such wire transfer shall set forth the name of the Company, a reference to 8.5% Senior Notes due October 1, 2000, and the due date and application (as among principal and interest) of the payment being made.

- (2) Address for all notices relating to payments:

Pruco Life Insurance Company
c/o The Prudential Life Insurance Company of America
Three Gateway Center
100 Mulberry Street
Newark, New Jersey 07102
Attn: Managing Director in Charge of the Investment Operations Group

(3) Address for all notices not relating to payments:

Pruco Life Insurance Company
c/o The Prudential Insurance Company of America
Four Gateway Center
100 Mulberry Street
Newark, NJ 07102
FAX: (201) 802-2662
Attn: Managing Director in Charge of the
Specialized Finance Group

Peter J. Gurfein, Esq.
Sonnenschein Nath & Rosenthal
601 S. Figueroa Street, Suite 1500
Los Angeles, CA 94104-2675
FAX: (213) 623-9924

(4) Tax Identification No. 22-1944557

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TCW SPECIAL CREDITS FUND IV

(1) All payments on account of Notes held by such noteholder shall be made by wire transfer of immediately available funds for credit to:

Account No. 400-1129

Sanwa Bank California
Trust Operation Center
Monterey Park, CA
ABA #122-003-516
A/C Name: TCW Special Credits Fund IV

Each such wire transfer shall set forth the name of the Company, a reference to 8.5% Senior Notes due October 1, 2000, and the due date and application (as among principal and interest) of the payment being made.

(2) Address for all notices relating to payments:

TCW Special Credits Fund IV
c/o Trust Company of the West
865 So. Figueroa Street
Suite 1800
Los Angeles, CA 90017

Attention: Richard Masson

(3) Address for all notices not relating to payments:

Richard Masson
Managing Director
Trust Company of the West
865 S. Figueroa Street, Suite 1800
Los Angeles, CA 90017
FAX: (213) 244-0549

Brian Kilb, Esq.
Gibson, Dunn & Crutcher
333 S. Grand Avenue, 46th Floor

(4) Tax Identification No.: 95-4424460

141

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TCW SPECIAL CREDITS PLUS FUND

(1) All payments on account of Notes held by such noteholder shall be made by wire transfer of immediately available funds for credit to:

Account No. 400-1130

Sanwa Bank California
Trust Operation Center
Monterey Park, CA
ABA #122-003-516
A/C Name: TCW Special Credits Plus Fund

Each such wire transfer shall set forth the name of the Company, a reference to 8.5% Senior Notes due October 1, 2000, and the due date and application (as among principal and interest) of the payment being made.

(2) Address for all notices relating to payments:

TCW Special Credits Plus Fund
c/o Trust Company of the West
865 So. Figueroa Street
Suite 1800
Los Angeles, CA 90017

Attention: Richard Masson

(3) Address for all notices not relating to payments:

Richard Masson
Managing Director
Trust Company of the West
865 S. Figueroa Street, Suite 1800
Los Angeles, CA 90017
FAX: (213) 244-0549

Brian Kilb, Esq.
Gibson, Dunn & Crutcher
333 S. Grand Avenue, 46th Floor
Los Angeles, CA 90071
FAX: (213) 229-7520

(4) Tax Identification No.: 95-4424461

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TCW SPECIAL CREDITS TRUST IV

(1) All payments on account of Notes held by such noteholder shall be made by wire transfer of

immediately available funds for credit to:

Account No. 400-1131

Sanwa Bank California
Trust Operation Center
Monterey Park, CA
ABA #122-003-516
A/C Name: TCW Special Credits Trust IV

Each such wire transfer shall set forth the name of the Company, a reference to 8.5% Senior Notes due October 1, 2000, and the due date and application (as among principal and interest) of the payment being made.

- (2) Address for all notices relating to payments:

TCW Special Credits Trust IV
c/o Trust Company of the West
865 So. Figueroa Street
Suite 1800
Los Angeles, CA 90017

Attention: Richard Masson

- (3) Address for all notices not relating to payments:

Richard Masson
Managing Director
Trust Company of the West
865 S. Figueroa Street, Suite 1800
Los Angeles, CA 90017
FAX: (213) 244-0549

Brian Kilb, Esq.
Gibson, Dunn & Crutcher
333 S. Grand Avenue, 46th Floor
Los Angeles, CA 90071
FAX: (213) 229-7520

- (4) Tax Identification No.: 95-6955426

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TCW SPECIAL CREDITS TRUST IVA

- (1) All payments on account of Notes held by such noteholder shall be made by wire transfer of immediately available funds for credit to:

Account No. 400-1180

Sanwa Bank California
Trust Operation Center
Monterey Park, CA
ABA #122-003-516
A/C Name: TCW Special Credits Trust IV-A

Each such wire transfer shall set forth the name of the Company, a reference to 8.5% Senior Notes due October 1, 2000, and the due date and application (as among principal and interest) of the payment being made.

(2) Address for all notices relating to payments:

TCW Special Credits Trust IVA
c/o Trust Company of the West
865 So. Figueroa Street
Suite 1800
Los Angeles, CA 90017

Attention: Richard Masson

(3) Address for all notices not relating to payments:

Richard Masson
Managing Director
Trust Company of the West
865 S. Figueroa Street, Suite 1800
Los Angeles, CA 90017
FAX: (213) 244-0549

Brian Kilb, Esq.
Gibson, Dunn & Crutcher
333 S. Grand Avenue, 46th Floor
Los Angeles, CA 90071
FAX: (213) 229-7520

(4) Tax Identification No.: 95-6958283

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WEYERHAEUSER COMPANY MASTER RETIREMENT TRUST

(1) All payments on account of Notes held by such noteholder shall be made by wire transfer of immediately available funds for credit to:

Account No. 400-0733

Sanwa Bank California
Trust Operation Center
Monterey Park, CA
ABA #122-003-516
A/C Name: TCW Weyerhaeuser Co.

Each such wire transfer shall set forth the name of the Company, a reference to 8.5% Senior Notes due October 1, 2000, and the due date and application (as among principal and interest) of the payment being made.

(2) Address for all notices relating to payments:

Weyerhaeuser Company Master Retirement Trust
c/o Trust Company of the West
865 So. Figueroa Street
Suite 1800
Los Angeles, CA 90017

Attention: Richard Masson

(3) Address for all notices not relating to payments:

Richard Masson
Managing Director
Trust Company of the West
865 S. Figueroa Street, Suite 1800
Los Angeles, CA 90017

FAX: (213) 244-0549

Brian Kilb, Esq.
Gibson, Dunn & Crutcher
333 S. Grand Avenue, 46th Floor
Los Angeles, CA 90071
FAX: (213) 229-7520

(4) Tax Identification No.: 13-6351459

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PACIFIC MUTUAL LIFE INSURANCE COMPANY

(1) All payments on account of Notes held by such noteholder shall be made by wire transfer of immediately available funds for credit to:

Account No. 473-633

U.S. TR NYC/Trust
ABA #021001318
A/C Name: Commonwealth Equity Trust

Each such wire transfer shall set forth the name of the Company, a reference to 8.5% Senior Notes due October 1, 2000, and the due date and application (as among principal and interest) of the payment being made.

(2) Address for all notices relating to payments:

Pacific Mutual Life Insurance Company
Attention: Fixed Income Securities Dept.
700 Newport Center Drive
Newport Beach, California 92660

Attention: Ronn C. Cornelius

(3) Address for all notices not relating to payments:

Ronn C. Cornelius
Pacific Mutual Life Insurance Company
700 Newport Center Drive
Newport Beach, CA 92660
FAX: (714) 640-3199

Sharon A. Cheever, Esq.
Pacific Mutual Life Insurance Company
700 Newport Center Drive
Newport Beach, CA 92660
FAX: (714) 640-3706

Margaret Sheneman, Esq.
Murphy, Weir & Butler
101 California Street, 39th Floor
San Francisco, CA 94111
FAX: (415) 421-7879

(4) Tax Identification No.: 95-1079000

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ORIX USA CORPORATION

- (1) All payments on account of Notes held by such noteholder shall be made by wire transfer of immediately available funds for credit to:

Account No. 0060890010

ORIX USA Corporation
Sanwa Bank, Ltd.
ABA# 026009823

Each such wire transfer shall set forth the name of the Company, a reference to 8.5% Senior Notes due October 1, 2000, and the due date and application (as among principal and interest) of the payment being made.

- (2) Address for all notices relating to payments:

Orix USA Corporation
600 Wilshire Blvd., Suite 1460
Los Angeles, CA 90017

Orix USA Corporation
780 Third Avenue, 48th Floor
New York, NY 10017-7088

- (3) Address for all notices not relating to payments:

Peter A. Sforzo, Jr.
ORIX USA Corp.
780 Third Avenue, 48th Floor
New York, New York 10017
FAX: (212) 418-8308

Denise L. Getty
ORIX USA Corp.
600 Wilshire Blvd., Suite 1460
Los Angeles, CA 90017
FAX: (213) 955-6530

- (4) Tax Identification No.: 13-3095268

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SCHEDULE 4.1(a): CET LEGAL STATUS

NONE.

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SCHEDULE 4.1(b): CALREIT LEGAL STATUS

NONE.

SCHEDULE 4.7: CET LITIGATION

NONE.

(FORM OF)
SECURED PROMISSORY NOTE
(Principal Note)

\$ _____ San Francisco, California
Dated as of _____, 1994

FOR VALUE RECEIVED, the undersigned, Commonwealth Equity Trust, a California Real Estate Investment Trust ("Maker"), promises to pay to the order of _____ or its successors and assigns ("Holder") at its offices at _____, or at such other place as the Holder hereof may designate, the principal sum of _____ DOLLARS (\$_____), in lawful money of the United States of America and in immediately available funds, with interest thereon prior to default at the rate of eight and one-half percent (8.5%) per annum (computed on the basis of a 360 day year, actual days elapsed).

For the period commencing on _____ and ending September 30, 1996 (the "PIK Period"), interest accruing hereunder shall be paid quarterly, in arrears, on the last day of each calendar quarter (the "Payment Date"). Unless an Event of Default has occurred and is continuing during the PIK Period, Maker may, in lieu of paying interest accrued hereunder in cash, execute and deliver to Holder, on or before each Payment Date, an Interest Deferral Note in the principal amount equal to the sum of the interest and other monies then due and payable to Holder on such Payment Date.

Commencing on November 1, 1996 and at all times thereafter, interest accruing hereunder from and after October 1, 1996, shall be paid monthly, in arrears, in cash, on the first day of each successive month.

Notwithstanding any provision contained herein or any other agreement between Maker and Holder to the contrary, the entire balance due hereunder, including principal, accrued interest, and any other sums owing hereunder, shall be due and payable, in full on October 1, 2000 (the "Maturity Date"). Payments of principal made by Maker to Holder on account of this Secured Promissory Note (the "Note") may not be reborrowed.

This Note may be prepaid, in whole or in part, without penalty or premium as provided in the Note Agreement. Any prepayment shall be applied against principal and interest installments hereunder in the manner set forth in that certain Second Amended and Restated Note Agreement of even date herewith (the "Note Agreement").

Maker, for itself and its legal representatives, successors and assigns, and all endorsers, guarantors, or any others who may at any time become liable for payment hereunder, hereby waives presentment, demand, protest, notice of dishonor, notice of non-payment, notice of maturity, presentment for the purposes of accelerating maturity, and diligence in collection.

Maker agrees to pay all fees and costs of expenses incurred by or on behalf of the Holder hereof in the collection or enforcement of this Note as provided in Section 8.2 of the Note Agreement.

This Note is made pursuant to and in connection with the Note Agreement, and is subject to all of the terms thereof. All capitalized terms that are not defined herein shall have the meanings as set forth in the Note Agreement. Payment and performance of Maker's obligations under this Note is secured by a security interest in certain Collateral, pursuant to and as defined in that certain Amended and Restated Pledge and Security Agreement, dated as of _____, 1994, among Maker, U.S. Trust Company, of California, N.A., as Collateral Agent for Holder and certain other parties (the "Security Agreement"), and by liens against certain real property and improvements pursuant to certain Deeds of Trust. This Note amends and restates in its entirety that certain Secured Promissory Note (One Year Note) dated July 17, 1992, in the original principal amount of _____ (\$ _____), made by Maker in favor of Holder.

Maker's failure to make timely payment of any installment of principal or other sums due hereunder, or the occurrence of any Event of Default under the Note Agreement, shall constitute a default under this Note. Upon the occurrence of a default hereunder, regardless of the cause therefor, Holder may immediately declare the entire balance of this Note to be immediately due and payable and exercise any and all of the rights and remedies available under the Note Agreement, the Security Agreement, the Deeds of Trust, and applicable law. From and after the occurrence of a Default hereunder or an Event of Default under the Note Agreement, the unpaid principal balance hereunder shall, at Holder's option as provided in the Note Agreement, bear interest at the Default Rate specified in the Note Agreement. Any installment or principal or interest that is not paid when due hereunder shall be added to the principal balance hereof and shall thereafter bear interest, at Holder's option, at the Default Rate until paid.

In no contingency or event whatsoever shall the aggregate of all amounts deemed interest hereunder and charged or collected by Holder or any holder hereof exceed the highest rate

permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such a court determines that Holder has charged or received interest hereunder in excess of the highest applicable rate, the rate in effect hereunder shall automatically be reduced to the maximum rate permitted by applicable law and Holder shall apply all interest paid in excess of the maximum lawful rate to the principal balance of this Note. It is the intent of the parties hereto that Maker not pay or contract to pay, and that Holder not receive or contract to receive, directly or indirectly in any manner whatsoever, interest in excess of that which may be paid by Maker to Holder under applicable law.

This Note shall be governed by and construed in accordance with the laws of the State of California, except to the extent Holder has greater rights or remedies under federal law, in which case such choice of

California law shall not be deemed to deprive Holder of such rights and remedies as may be available under federal law.

If any provision of this Note or the application hereof to any person or circumstance shall, for any reason or to any extent, be invalid or unenforceable, neither the remainder of this Note nor the application of such provision to any other person or circumstance shall be affected thereby, but rather the same shall be enforced to the greatest extent permitted by law, except that if such provision relates to the payment of any monetary sum, then Holder may, at its option, declare the entire indebtedness evidenced hereby immediately due and payable.

IN WITNESS WHEREOF, the undersigned Maker has executed this Note as of the day and year set forth on the first page hereof.

THE PEREGRINE REAL ESTATE TRUST,
formerly known as
COMMONWEALTH EQUITY TRUST,
A California Real Estate
Investment Trust

By: _____

Its: _____

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(FORM OF)
SECURED PROMISSORY NOTE
(Cash Principal Note)

\$ _____

Sacramento, California
Dated as of _____, ____

FOR VALUE RECEIVED, the undersigned, Commonwealth Equity Trust, a California Real Estate Investment Trust ("Maker"), promises to pay to the order of _____ or its successors and assigns ("Holder") at its offices at _____, or at such other place as the Holder hereof may designate, the principal sum of _____ DOLLARS (\$_____), in lawful money of the United States of America and in immediately available funds, with interest thereon prior to default at the rate of eight and one-half percent (8.5%) per annum (computed on the basis of a 360 day year, actual days elapsed).

Interest accruing hereunder shall be paid monthly, in arrears, on the first day of each calendar month, commencing _____.

Notwithstanding any provision contained herein or any other agreement between Maker and Holder to the contrary, the entire balance due hereunder, including principal, accrued interest, and any other sums owing hereunder, shall be due and payable, in full on October 1, 2000 (the "Maturity Date"). Payments of principal made by Maker to Holder on account of this Secured Promissory Note (the "Note") may not be reborrowed.

This Note may be prepaid, in whole or in part, without penalty or premium, provided that (a) Maker provides Agent with ten business days

written notice of Maker's intent to prepay this Note in whole or in part, and (b) any partial principal prepayment made by Maker is in multiples of \$5,000,000, plus interest accrued thereon on the prepayment date. Any prepayment shall be applied against principal and interest installments hereunder in the manner set forth in that certain Second Amended and Restated Note Agreement of even date herewith (the "Note Agreement").

Maker, for itself and its legal representatives, successors and assigns, and all endorsers, guarantors, or any others who may at any time become liable for payment hereunder, hereby waives presentment, demand, protest, notice of dishonor, notice of non-payment, notice of maturity, presentment for the purposes of accelerating maturity, and diligence in collection.

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Maker agrees to pay all fees and costs of expenses incurred by or on behalf of the Holder hereof in the collection or enforcement of this Note as provided in Section 8.2 of the Note Agreement.

This Note is made pursuant to and in connection with the Note Agreement, and is subject to all of the terms thereof. All capitalized terms that are not defined herein shall have the meanings as set forth in the Note Agreement. Payment and performance of Maker's obligations under this Note is secured by a security interest in certain Collateral, pursuant to and as defined in that certain Amended and Restated Pledge and Security Agreement, dated as of _____, 1994, among Maker, U.S. Trust Company, of California, N.A., as Collateral Agent for Holder, and certain other parties (the "Security Agreement") and by liens against certain real property and improvements pursuant to certain Deeds of Trust.

Maker's failure to make timely payment of any installment of principal or other sums due hereunder, or the occurrence of any Event of Default under the Note Agreement shall constitute a default under this Note. Upon the occurrence of a default hereunder, regardless of the cause therefor, Holder may immediately declare the entire balance of this Note to be immediately due and payable and exercise any and all of the rights and remedies available under the Note Agreement, the Security Agreement, the Deeds of Trust, and applicable law. From and after the occurrence of a default hereunder or an Event of Default under the Note Agreement, the unpaid principal balance hereunder shall, at Holder's option, bear interest at the Default Rate specified in the Note Agreement. Any installment or principal or interest that is not paid when due hereunder shall be added to the principal balance hereof and shall thereafter bear interest, at Holder's option, at the Default Rate until paid.

In no contingency or event whatsoever shall the aggregate of all amounts deemed interest hereunder and charged or collected by Holder or any holder hereof exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such a court determines that Holder has charged or received interest hereunder in excess of the highest applicable rate, the rate in effect hereunder shall automatically be reduced to the maximum rate permitted by applicable law and Holder shall apply all interest paid in excess of the maximum lawful rate to the principal balance of this Note. It is the intent of the parties hereto that Maker not pay or contract to pay, and that Holder not receive or contract to receive, directly or indirectly in any manner whatsoever, interest in excess of that which may be paid by Maker to Holder under applicable law.

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This Note shall be governed by and construed in accordance with the laws of the State of California, except to the extent Holder has greater rights or remedies under federal law, in which case such choice of California law shall not be deemed to deprive Holder of such rights and remedies as may be available under federal law.

If any provision of this Note or the application hereof to any person or circumstance shall, for any reason or to any extent, be invalid or unenforceable, neither the remainder of this Note nor the application of such provision to any other person or circumstance shall be affected thereby, but rather the same shall be enforced to the greatest extent permitted by law, except that if such provision relates to the payment of any monetary sum, then Holder may, at its option, declare the entire indebtedness evidenced hereby immediately due and payable.

IN WITNESS WHEREOF, the undersigned Maker has executed this Note as of the day and year set forth on the first page hereof.

THE PEREGRINE REAL ESTATE TRUST,
formerly known as
COMMONWEALTH EQUITY TRUST,
A California Real Estate
Investment Trust

By: _____

Its: _____

(FORM OF)
INTEREST DEFERRAL NOTE

\$ _____ Sacramento, California
Dated as of _____, ____

FOR VALUE RECEIVED, the undersigned, Commonwealth Equity Trust, a California Real Estate Investment Trust ("Maker"), promises to pay to the order of _____ or its successors and assigns ("Holder") at its offices at _____, or at such other place as the Holder hereof may designate, the principal sum of _____ DOLLARS (\$ _____), in lawful money of the United States of America and in immediately available funds, with interest thereon prior to default at the rate of eight and one-half percent (8.5%) per annum (computed on the basis of a 360 day year, actual days elapsed).

For the period commencing on _____ and ending September 30, 1996 (the "PIK Period"), interest accruing hereunder shall be paid quarterly, in arrears, on the last day of each calendar quarter (the "Payment Date"). Unless an Event of Default has occurred and is continuing during the PIK Period, Maker may, in lieu of paying interest accrued hereunder in cash, execute and deliver to Holder, on or before each Payment Date, an Interest Deferral Note in the principal amount equal to the sum of the interest and other monies then due and payable to Holder on such Payment Date.

Commencing on November 1, 1996 and at all times thereafter, interest accruing hereunder from and after October 1, 1996 shall be payable monthly, in arrears, in cash, on the first day of each successive month.

Notwithstanding any provision contained herein or any other agreement between Maker and Holder to the contrary, the entire balance due hereunder, including principal, accrued interest, and any other sums owing hereunder, shall be due and payable, in full on October 1, 2000 (the "Maturity Date"). Payments of principal made by Maker to Holder on account of this Interest Deferral Note (the "Note") may not be reborrowed.

This Note may be prepaid, in whole or in part, as provided in the Note Agreement. Any prepayment shall be applied against principal and interest installments hereunder in the manner set forth in that certain Second Amended and Restated Note Agreement of even date herewith (the "Note Agreement").

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Maker, for itself and its legal representatives, successors and assigns, and all endorsers, guarantors, or any others who may at any time become liable for payment hereunder, hereby waives presentment, demand, protest, notice of dishonor, notice of non-payment, notice of maturity, presentment for the purposes of accelerating maturity, and diligence in collection.

Maker agrees to pay all fees and costs of expenses incurred by or on behalf of the Holder hereof in the collection or enforcement of this Note as provided in Section 8.2 of the Note Agreement.

This Note is made pursuant to and in connection with the Note Agreement, and is subject to all of the terms thereof. All capitalized terms that are not defined herein shall have the meanings as set forth in the Note Agreement. Payment and performance of Maker's obligations under this Note is secured by a security interest in certain Collateral, pursuant to and as defined in that certain Amended and Restated Pledge and Security Agreement, dated as of _____, 1994, among Maker, U.S. Trust Company, of California, N.A., as Collateral Agent for Holder and certain other parties (the "Security Agreement"), and by liens against certain real property and improvements pursuant to certain Deeds of Trust.

Maker's failure to make timely payment of any installment of principal or other sums due hereunder, or the occurrence of any Event of Default under the Note Agreement shall constitute a default under this Note. Upon the occurrence of a default hereunder, regardless of the cause therefor, Holder may immediately declare the entire balance of this Note to be immediately due and payable and exercise any and all of the rights and remedies available under the Note Agreement, the Security Agreement, the Deeds of Trust, and applicable law. From and after the occurrence of a Default hereunder or an Event of Default under the Note Agreement, the unpaid principal balance hereunder shall, at Holder's option, bear interest at the Default Rate specified in the Note Agreement. Any installment or principal or interest that is not paid when due hereunder shall be added to the principal balance hereof and shall thereafter bear interest, at Holder's option, at the Default Rate until paid.

In no contingency or event whatsoever shall the aggregate of all amounts deemed interest hereunder and charged or collected by Holder or any holder hereof exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such a court determines that Holder has charged or received interest hereunder in excess of the highest applicable rate, the rate in effect hereunder shall automatically be reduced to the maximum rate

apply all interest paid in excess of the maximum lawful rate to the principal balance of this Note. It is the intent of the parties hereto that Maker not pay or contract to pay, and that Holder not receive or contract to receive, directly or indirectly in any manner whatsoever, interest in excess of that which may be paid by Maker to Holder under applicable law.

This Note shall be governed by and construed in accordance with the laws of the State of California, except to the extent Holder has greater rights or remedies under federal law, in which case such choice of California law shall not be deemed to deprive Holder of such rights and remedies as may be available under federal law.

If any provision of this Note or the application hereof to any person or circumstance shall, for any reason or to any extent, be invalid or unenforceable, neither the remainder of this Note nor the application of such provision to any other person or circumstance shall be affected thereby, but rather the same shall be enforced to the greatest extent permitted by law, except that if such provision relates to the payment of any monetary sum, then Holder may, at its option, declare the entire indebtedness evidenced hereby immediately due and payable.

IN WITNESS WHEREOF, the undersigned Maker has executed this Note as of the day and year set forth on the first page hereof.

THE PEREGRINE REAL ESTATE TRUST,
formerly known as
COMMONWEALTH EQUITY TRUST,
A California Real Estate
Investment Trust

By: _____

Its: _____

SCHEDULE OF DOCUMENTS
FOR PLAN OF REORGANIZATION FOR
COMMONWEALTH EQUITY TRUST

This Schedule of Documents lists the information to be provided, the actions to be taken, and the documents to be executed and delivered in connection with the restructuring of the indebtedness of Commonwealth Equity Trust ("Company") to the following senior secured lenders (collectively, "Noteholders" and individually "Lender"): The Prudential Insurance Company of America ("Prudential"); Pruco Life Insurance Company ("Pruco"); Pacific Mutual Life Insurance Company ("Pac Mutual"), Orix USA Corporation ("Orix"); Weyerhaeuser Company Master Retirement Company, TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Company IV, and TCW Special Credits Company IVA (collectively "TCW"); and Prudential, as Agent for the Noteholders.

The documents are delivered and the actions are taken pursuant to the Third Amended Plan of Reorganization for Company confirmed by order the United States Bankruptcy Court for the Eastern District of California on August

8, 1994 (the "Plan"). All capitalized terms shall have their respective meanings set forth in the Plan and the New Noteholder Documents described below. "Company" as used herein shall mean Commonwealth Equity Trust in its capacity as a real estate investment trust as "Reorganized CET" under and as defined in the Plan.

Some or all of the Documents described below may be executed in counterparts and may be executed and delivered prior to the Effective Date of Plan (as defined in the Note Agreement), but no Document shall become effective until all Documents have been executed and delivered and all Documents have become effective and the Effective Date of Plan shall have occurred. Upon the Effective Date of Plan and upon satisfaction of all conditions precedent set forth in the Documents, all Documents shall be executed and delivered and become effective as of the Effective Date of Plan.

Unless otherwise specified herein, all information and Documents required hereunder shall be in form and substance acceptable to Agent, Noteholders, the Company, the Official Equity Security Holders' Committee and their respective counsel, and (except as otherwise specified) _____ originals of the Note Agreement, one (1) original of each Note, and _____ originals of each other Document shall be executed and delivered.

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Documents	Responsible Party
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The following references to "GGFCM," "SNR", and "MWB" mean, respectively, Greenburg, Glusker, Fields, Claman & Machtinger; Sonnenschein, Nath & Rosenthal; and Murphy, Weir & Butler.

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<TABLE>
<CAPTION>

Documents	Responsible Party
<S>	<C>
1.	PLEADINGS AND DOCUMENTS IN THE BANKRUPTCY CASE
1.1	Third Amended Plan of Reorganization dated June 9, 1994, as modified. Done
1.2	Disclosure Statement for Third Amended Plan of Reorganization dated June 9, 1994. Done
1.3	Order Approving Disclosure Statement and Procedures For Balloting, Fixing Time For Filing Objections to Confirmation, and Setting Date For Hearing on Confirmation of Plan. Done

- A. Ballot For Present or Former Shareholders in Classes 17(a), 17(b), 18(a) and 18(b) For Accepting or Rejecting the Third Amended Plan of Reorganization.
- B. Ballot For Creditors in All Classes Except 17(a), 17(b), 18(a) and 18(b) For Accepting or Rejecting the Third Amended Plan of Reorganization.

1.4	Settlement Agreement and Mutual Release among CET, CalREIT, Berger and Related Entities and consented to by Noteholders.	Done
1.5	Stipulation and Settlement Agreement Re: Luebkehan Lawsuit.	Done
1.6	Amendment to Stipulation and Settlement Agreement Re: Luebkehan Lawsuit.	Done
1.7	Agreement Re: Return of B&B Art.	GGFCM
1.8	Order Confirming Plan of Reorganization, Approving Settlements, and Fixing Bar Date for Administrative Expense Claims and for Claims Arising from Rejection of Executory Contracts.	Done

</TABLE>

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<TABLE>
<CAPTION>

<S>	<C> <C>	Documents	Responsible Party
2.		CORPORATE DOCUMENTS.	<C>
2.1		Restated Declaration of Trust of Company certified by a Responsible Officer of Company as complete and correct as of the Effective Date of Plan.	Done
2.2		[Intentionally Omitted]	
2.3		With respect to Company:	Done
	A.	A Statement By Unincorporated Association filed with the Secretary of State of each state listed below, identifying the address of the principal office and designating the agent for the service of process.	
		(i) California	
	B.	A Statement By Unincorporated Association filed with the county clerk/ recorder for each county listed below, identifying the address of the principal office and designating the agent for the service of process.	

(i) Sacramento County, California

C. [Intentionally Omitted]

2.4 With respect to CalREIT: GGFCM

A. A Statement By Unincorporated Association filed with the Secretary of State of each state listed below, identifying the address of the principal office and designating the agent for the service of process.

(i) California

</TABLE>

<TABLE>

Documents				Responsible Party
<S>	<C>	<C>	<C>	<C>
B.	A Statement By Unincorporated Association filed with the county clerk/ recorder for each county listed below, identifying the address of the principal office and designating the agent for the service of process.			
	(i)	Sacramento County, California		
	(ii)	Maricopa County, Arizona		
C.	A long form certificate from the Secretary of State of each state listed below, certifying that CalREIT is duly organized and in good standing.			
	(i)	Arizona		

2.5 Certificate of a Responsible Officer of Company certifying and attaching: GGFCM

A. Copy of a resolution of Company's Board authorizing Company to enter into and perform the transactions contemplated by the Documents;

B. The minutes of Company's Board meeting at which such Resolutions were adopted and certifying that such meeting was duly noticed and held; and

C. Specimen signatures certified to be genuine of each officer of Company who has executed or will execute any of Documents, certifying that each such officer was duly elected, qualified and incumbent as of the date such officer executed such Document and as of the Effective Date of Plan, together with evidence of the incumbency of such

</TABLE>

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Documents		Responsible Party
<S>	<C> <C>	<C>
3.	FINANCIAL STATEMENTS.	
3.1	Copies of the Form 10-K Annual Report for the fiscal year ended September 30, 1993, and December 31, 1993, respectively, for each of the companies listed below.	Done
	A. Company	
	B. CalREIT	
3.2	Copies of the Form 10-Q Quarterly Report, for the quarters ending on December 31, 1993, March 30, 1994, and June 30, 1994, for each of the companies listed below.	Done
	A. Company	
	B. CalREIT	
3.3	Unaudited consolidated statements of income, stockholders' equity, and cash flows and an unaudited consolidated balance sheet of each of the companies listed below, certified by a Responsible Officer of each respective company as complete and correct as of the Effective Date of Plan.	GGFCM
	A. Company	
	B. CalREIT	
3.4	Financial projections covering a period of at least one year from the Effective Date of Plan, showing Company's estimated cash flow, revenues, expenses, results of operations, and balance sheet certified by a Responsible Officer of the Company as representing the best estimates of Company's future financial performance, based on reasonable and conservative assumptions.	GGFCM

</TABLE>

<TABLE>
<CAPTION>

Responsible

Documents			Party
<S>	<C>	<C>	<C>
	3.5	Letter from Company to Company's independent certified public accountants and tax advisors authorizing such entities to disclose to Agent, Collateral Agent, and Noteholders any and all financial statements and other supporting financial documents and schedules, including without limitation, any management representation letter, with respect to the business, financial condition and other affairs of the Company.	GGFCM
4.	DOCUMENTS FOR SECURITIES TO BE ISSUED UNDER THE PLAN.		
	4.1	Preferred Stock Purchase Agreement by and among Company and Noteholders named therein. Exhibit A - Note Purchase Agreement Exhibit B - Registration Rights Agreement Exhibit C - Certificate of Incorporation Exhibit D - Bylaws	Done
	4.2	Registration Rights Agreement by and among Company and the Noteholders named therein.	Done
	4.3	Documents for New Stock Options to be issued to Reorganized CET Initial Board of Trustees.	GGFCM
	4.4	[Intentionally Omitted]	
5.	FINANCING STATEMENTS, LIEN SEARCHES, AND TITLE REPORT DATEDOWNS TO BE DELIVERED BEFORE THE EFFECTIVE DATE OF PLAN.		

</TABLE>

Documents			Responsible Party
<S>	<C>	<C>	<C>
	5.1	UCC-2 Financing Statements, to be executed by Company in favor of Collateral Agent for the benefit of Noteholders, to be filed in the following governmental offices at least one day prior to the Effective Date of Plan: A. California Secretary of State B. [Intentionally Omitted]	Done
	5.2	Datedowns of existing title reports for each property listed on Appendix A for which Noteholders' modification to Deeds of Trust	MWB

are to be recorded.

6. SCHEDULES OF COLLATERAL AND OTHER INFORMATION TO BE DELIVERED BEFORE THE EFFECTIVE DATE OF PLAN.

6.1	Schedule of Real Property Leases (Rent Roll) listing all real property leases under which Company is lessor, and specifying (i) the address of each such property, (ii) the name and address of the lessee, (iii) the amount of all monthly lease payments (including CAM and other fees), (iv) the terms of the lease, (v) any renewal or other options, and (vi) the amount of any security deposit held by the Company, and at the Effective Date of Plan, a certificate signed by a Responsible Officer of the Company certifying that the Schedule is complete and correct as of the Effective Date of Plan.	GGFCM
-----	---	-------

6.2	Schedule of Ground Leases, listing all real property ground leases under which Company is the lessee, and specifying (i) the address of each such property, (ii) the name and address of the lessor, (iii) the amount of all monthly lease payments (including CAM and other fees), (iv) the terms of the lease, (v) any renewal or other options, and attaching copies of any amendments or modifications thereto, and at the Effective Date of Plan, a certificate	GGFCM
-----	--	-------

</TABLE>

<TABLE>

Documents

Responsible Party

<S>	<C>	<C>			<C>
-----	-----	-----	--	--	-----

signed by a Responsible Officer of the Company certifying that the Schedule is complete and correct as of the Effective Date of Plan and estoppel certificates executed by the ground lessors of the Timberlake and Downtown Mini-Storage properties.

6.3	Schedule of Real Property, listing all Real Property in which Company holds or will hold, as of the Effective Date of Plan, any interest other than a leasehold, including (i) the address of each such Real Property, and (ii) the nature of the Company's interest therein (i.e., fee, option to purchase, etc.), and at the Effective Date of Plan, a certificate signed by a Responsible Officer of the Company certifying that the Schedule is complete and correct as of the Effective Date of Plan.	GGFCM
-----	--	-------

6.4	Schedule of Notes Receivable, identifying all promissory notes or other instruments owned by or pledged to Company, and, with respect to each note, specifying (i) the name and address of the maker of such note, (ii) the original principal amount of such note, (iii) the amount of each	GGFCM
-----	--	-------

monthly payment required under such note, (iv) the outstanding balance under such note as of the Effective Date of Plan, (v) the maturity date of such note, (vi) a general description of any collateral securing the note, and (vii) summary of the payment history of the note, and, at the Effective Date of Plan, a certificate signed by a Responsible Officer of the Company certifying that the Schedule is complete and correct as of the Effective Date of Plan.

</TABLE>

87

<TABLE>
<CAPTION>

		Documents	Responsible Party
<S>	<C>	<C>	<C>
6.5		Schedule of Deposit Accounts, listing all banks and other financial institutions at which Company maintains or will maintain any checking, operating, payroll, or other deposit accounts, including (i) the name, branch, and address of each bank and financial institution, (ii) the type of each such account, (iii) the account number for such account, and (iv) copies of the signature cards for each account, and at the Effective Date of Plan, a certificate signed by a Responsible Officer of the Company certifying that the Schedule is complete and correct as of the Effective Date of Plan.	GGFCM
6.6		Schedule of Insurance Policies, listing all policies of property, fire, and casualty, replacement cost, hazard, liability, umbrella, and/or rent insurance and other types of insurance in which Company is named insured, beneficiary, loss payee or assignee for each of the interests listed below, or in which Company has any interest as of the Effective Date of Plan, and at the Effective Date of Plan, a certificate signed by a Responsible Officer of Company certifying that the Schedule is complete and correct, as of the Effective Date of Plan.	GGFCM
	(a)	Real Property as listed in section 6.3 herein;	
	(b)	Properties securing Notes Receivable as listed in section 6.4 herein; and	
	(c)	Partnerships and Joint Ventures as listed in section 6.9 herein.	

</TABLE>

88

<TABLE>
<CAPTION>

Documents			Responsible Party
<S>	<C>	<C>	<C>
	6.7	Schedule of Tenant Insurance Policies with respect to all types of coverage listed in Item 6.6. listing the name of the tenant, property address, name of insurer, and policy number with respect to the Real Property as listed in Item 6.3 herein, and at the Effective Date of Plan, a certificate signed by a Responsible Officer of the Company certifying that the Schedule is complete and correct as of the Effective Date of Plan.	GGFCM
	6.8	Schedules of Instruments and Securities, listing all chattel paper, letters or credit, warehouse receipts, documents of title, stock certificates, certificated securities or other instruments in which Company has any interest, and at the Effective Date of Plan, a certificate signed by a Responsible Officer of the Company certifying that the Schedule is complete and correct as of the Effective Date of Plan.	GGFCM
	6.9	Schedule of Investments, Partnerships, and Joint Ventures, listing all investments, general partnership interests, limited partnership interests, joint venture interests, and uncertificated securities or other instruments in which Company has any interest, and at the Effective Date of Plan, a certificate signed by a Responsible Officer of the Company certifying that the Schedule is complete and correct as of the Effective Date of Plan.	GGFCM

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<TABLE>
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Documents			Responsible Party
<S>	<C>	<C>	<C>
	6.10	Schedule of Material Contracts, Agreements, and Guarantees listing all material contracts and agreements between Company and any person or entity, whether written or oral, express or implied or having any other legally binding basis upon the Company, whether direct, indirect, absolute or contingent, and with respect to each such contract (i) identifying all parties thereto, (ii) describing the nature of the goods or services to be provided or received thereunder, and (iii) summarizing the payment terms thereof, and at the Effective Date	GGFCM

of Plan, a certificate signed by a Responsible Officer of the Company certifying that the Schedule is complete and correct as of the Effective Date of Plan.

7. DOCUMENTS FOR THE NEW SECURED DEBT TO BE EXECUTED AND DELIVERED ON OR BEFORE THE EFFECTIVE DATE OF PLAN.

7.1	Second Amended and Restated Note Agreement, with the following exhibits and schedules:	Done
	Exhibit A -- Schedule of Documents	
	Exhibit B -- Form of Secured Promissory Note (Promissory Note)	Done
	Exhibit C -- Form of Interest Deferral Note	Done
	Exhibit D -- Form of Secured Promissory Note (Cash Principal Note) to be Issued After October 1, 1996	Done
	Exhibit E -- Form of Certificate of Compliance and Financial Condition	
	Schedule for Notices	
	Schedule 4.1(a): CET Legal Status	GGFCM
	Schedule 4.1(b): CalREIT Legal Status	GGFCM
	Schedule 4.7: CET Litigation	GGFCM

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<TABLE>

-----	Documents	Responsible Party
-----	-----	-----
<S>	<C>	<C>
7.2	Secured Promissory Notes executed by Company in favor of each of the Noteholders, as follows:	Done
	A. Pruco for \$3,994,674	
	B. Prudential for \$3,249,001	
	C. Prudential for \$3,408,788	
	D. Pac Mutual for \$10,652,463	
	E. Orix USA for \$1,597,870	
	F. Weyerhaeuser Company Master Retirement Company for \$1,538,748	
	G. TCW Special Credits Fund IV for \$4,958,189	
	H. TCW Special Credits Plus Fund for \$5,300,134	
	I. TCW Special Credits Company IV for \$4,274,301	
	J. TCW Special Credits Company IVA \$1,025,832	
7.3	Prepetition Notes to be marked "Superseded by Secured Promissory Note dated as of September 27, 1994" and returned to Company at closing.	MWB

7.4 Modifications of Deeds of Trust and Assignments of Rents, to be executed by Company, as trustor, in favor of Collateral Agent, with respect to the Deeds of Trust and Assignments of Rents encumbering each of the Real Properties listed in Appendix A hereto, to be recorded in the official records of the county in which each property is located. Done

7.5 Amended and Restated Pledge and Security Agreement, to be executed by Company in favor of Collateral Agent on behalf of Noteholders, with the following exhibits: Done

- Exhibit A -- Description of Collateral
- Exhibit B -- Permitted Encumbrances
- Exhibit C -- Pledged Interests
- Exhibit D -- Pledged Shares
- Exhibit E -- Form of Stock Power
- Exhibit F -- Form of Pledge Amendment

</TABLE>

<TABLE>

Documents			Responsible Party
<S>	<C>	<C>	<C>
		to be delivered on the Effective Date of Plan together with the following:	
	A.	Evidence of re-delivery as of the Effective Date of Plan to Collateral Agent of all shares of the CalREIT stock in which Company has an interest	
	B.	Receipt executed by Collateral Agent for delivery of Item 7.5A	
	C.	Evidence of re-delivery as of the Effective Date of Plan to Collateral Agent of the Notes Receivable	
	D.	Receipt executed by Collateral Agent for delivery of Item 7.5C	
	E.	Execution by Company, and evidence of mailing by Noteholders' Agent to each obligor and guarantor with respect to Notes Receivable, of notice of Noteholders' security interest in all Notes Receivable	
7.6		Intercreditor Agreement, to be executed by each of the Noteholders, with the following exhibit:	Done
		Exhibit A -- Wire Transfer Information for Each Noteholder	
7.7		With respect to Collateral Agent,	MWB

A.	Amended and Restated Collateral Agent Agreement, to be executed by Collateral Agent, Noteholders and Agent.	Done
B.	Receipt and confirmation from Collateral Agent that it has received all Documents required by the Second Amended and Restated Note Agreement and the Amended and Restated Collateral Agent Agreement to be delivered by the Effective Date of Plan.	Done

</TABLE>

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<TABLE>
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<S>	<C>	Documents	Responsible Party
		C. Acknowledgement and Agreement between Collateral Agent and Company.	
7.8		Documents for perfection of Noteholders' security interest in all deposit accounts in which Company has an interest or in which proceeds of Collateral or cash Collateral may be deposited.	MWB
		A. (Short form) Notice of Security Interest, to be given to each institution at which a Deposit Account is maintained (Item 6.5 herein).	
		B. Notice of Security Interest given with respect to each Note Receivable.	
7.9		[intentionally omitted]	
7.10		Assignment of Contracts and other property service contracts and/or documents to be executed by Company in favor of Collateral Agent.	MWB
7.11		Insurance.	GGFCM
		A. Certificates of Insurance with respect to each insurance policy issued in connection with the following:	
		(i) Real Properties as listed in Item 6.3 herein;	
		(ii) Partnerships and joint ventures as listed in Item 6.9 herein;	
		(iii) Properties securing Notes Receivable as listed in Item 6.4 herein.	
		B. Endorsements and Noteholder's loss payable endorsements in favor of	

<TABLE>
<CAPTION>

Documents			Responsible Party
<S>	<C>	<C>	<C>
		Collateral Agent for each insurance policy issues in Item 6.6.	
		C. Notices to all of Company's and Company's tenants' insurance carriers under Section 9302(h) of the California Commercial Code.	
7.12		Confirmation Letters from Company stating that the entities listed below have duly registered that certain pledge of Company's partnership or joint venture interest to Collateral Agent on the books and records of such partnership or joint venture.	GGFCM
		A. Placer Ranch Partners, L.P.	
		B. Placer Ranch Inc.	
		C. CR Properties, G.P.	
		D. Company/RJB Properties, G.P.	
		E. Richard J. Benvenuti	
		F. The Sacramento Renaissance, L.P.	
		G. Joseph Benvenuti	
		H. Nancy Benvenuti	
7.13		Release Agreement to be executed by Company in favor of each of the Noteholders and to be executed by each of the Noteholders in favor of Company	Done
7.14		Subordination and Attornment Agreement to be executed by any future or prospective lessee or operator of any of Company's hotels in favor of Collateral Agent, subordinating its leases and management/operating agreement to the fee Deed of Trust in favor of Collateral Agent and agreeing to attorn to the foreclosure sale purchaser and acknowledging ownership of certain personal property.	MWB

</TABLE>

<TABLE>

Documents			Responsible Party
<S>	<C>	<C>	<C>

<S>	<C>	<C>	<C>
	7.15	Opinion letter of Greenberg, Glusker, Fields, Claman & Machtinger addressed to Noteholders.	GGFCM
	7.16	Post-Closing Items Letter, to be executed by Company or its counsel and Noteholders or their counsel regarding items, if any, to be executed, delivered or performed after the Effective Date of Plan.	MWB
8.	DOCUMENTS WITH RESPECT TO NEW CREDIT LINE FROM FOOTHILL CAPITAL TO COMPANY.		
	8.1	Loan Agreement	GGFCM
	8.2	Note	GGFCM
	8.3	Security Agreement	GGFCM
	8.4	UCC-1 Financing Statement to be filed with California Secretary of State	GGFCM
	8.5	Deed of Trust, Assignment of Rents, and Fixtures Filing Recorded in the appropriate county for each of the following properties: (CET to Provide List of Properties)	GGFCM
9.	DOCUMENTS WITH RESPECT TO EACH SENIOR MORTGAGEE TO BE DELIVERED ON THE EFFECTIVE DATE OF PLAN.		
	9.1	Redding Holiday Inn: Commercial Federal	GGFCM
	A.	Amended and Restated First Trust Deed Note	
	B.	Amendment to Deed of Trust	
	C.	[Intentionally Omitted]	
	9.2	Regency Plaza: SunLife of America	
	A.	Reconveyance of Deed of Trust, Security Agreement, Fixture Filing, and Assignment of Leases and Rents	
	B.	Promissory Note	Done

</TABLE>

<TABLE>
<CAPTION>

Documents				Responsible Party
<S>	<C>	<C>	<C>	<C>
	C.	Deed of Trust, Security Agreement, Fixture Filing, Financing Statement and Assignment of Leases and Rents		Done
	D.	[Intentionally Omitted]		

	E.	[Intentionally Omitted]	
	F.	UCC-1 financing statements to be filed in California and Sacramento County, California	Done
	G.	Subordination Agreement	Done
	H.	Certificate Concerning Leases	Done
	I.	Receipt and Agreement	Done
	J.	Substitution of Trustee	Done
	K.	Full Reconveyance	Done
9.3		Sierra Oaks: SunLife of America	MWB
	A.	Reconveyance of Deed of Trust, Security Agreement, Fixture Filing, Financing Statement, and Assignment of Leases and Rents	
	B.	Promissory Note	Done
	C.	Deed of Trust, Security Agreement, Fixture Filing, Financing Statement and Assignment of Leases and Rents	Done
	D.	[Intentionally Omitted]	
	E.	[Intentionally Omitted]	
	F.	UCC-1 financing statements to be filed in California and Placer County, California	Done
	G.	Subordination Agreement	Done
	H.	Certificate Concerning Leases	Done
	I.	Receipt and Agreement	Done

</TABLE>

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<TABLE>

Documents				Responsible Party
<S>	<C>	<C>	<C>	<C>
		J.	Substitution of Trustee	Done
		K.	Full Reconveyance	Done
9.4			Sunrise Hills: SunLife of America	MWB
		A.	Reconveyance of Deed of Trust, Security Agreement, Fixture Filing, and Assignment of Leases and Rents	
		B.	Promissory Note	Done

	C.	Deed of Trust, Security Agreement, Fixture Filing, Financing Statement and Assignment of Leases and Rents	Done
			Done
	D.	[Intentionally Omitted]	
	E.	[Intentionally Omitted]	
	F.	UCC-1 financing statements to be filed in California and Sacramento County, California	Done
	G.	Subordination Agreement	Done
	H.	Certificate Concerning Leases	Done
	I.	Receipt and Agreement	Done
	J.	Substitution of Trustee	Done
	K.	Full Reconveyance	Done
9.5		University Village: SunLife of America	MWB
	A.	Amended and Restated Secured Promissory Note	Done
	B.	Amendment to Deed of Trust, Security Agreement, Fixture Filing, Financing Statement and Assignment of Leases and Rents	Done
	C.	[Intentionally Omitted]	Done

</TABLE>

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<TABLE>

Documents				Responsible Party
-----				-----
<S>	<C>	<C>	<C>	<C>
		D.	UCC-2 financing statements to be filed in California and Sacramento County, California	Done
		E.	Subordination Agreement	Done
		F.	Certificate Concerning Leases	Done
		G.	Receipt and Agreement	
9.6			Hurley-Ethan I: State Farm	GGFCM
		A.	Amended and Restated Promissory Note	
		B.	Amendment to Deed of Trust	
		C.	[Intentionally omitted]	
9.7			Systems Integrators on Freeway Boulevard: HomeFed/RTC	GGFCM
		A.	Amended and Restated Secured Promissory	

Note

B. Amendment to Deed of Trust

C. [Intentionally Omitted]

9.8 Systems Integrators on Lanane Way: HomeFed/RTC GGFCM

A. Amended and Restated Secured Promissory Note

B. Amendment to Deed of Trust

C. [Intentionally Omitted]

9.9 Hurley-Ethan II: First Nationwide GGFCM

A. Amended and Restated Secured Promissory Note

B. Amendment to Deed of Trust

C. [Intentionally Omitted]

</TABLE>

<TABLE>
<CAPTION>

Documents

Responsible Party

<S> <C> <C> <C>

9.10 Timberlake: SunLife Assurance Company of Canada GGFCM

A. Amended and Restated California Note Secured by Deed of Trust

B. Amendment to Deed of Trust

C. [Intentionally Omitted]

9.11 [Intentionally Omitted]

9.12 [Intentionally Omitted]

10. DOCUMENTS TO BE DELIVERED AFTER THE EFFECTIVE DATE OF PLAN.

10.1 File stamped copies of each Modification of Deed of Trust and Assignment of Deed of Trust described in Item 7.4, 7.9 and Appendix A hereto showing that each was duly recorded. MWB

10.2 File stamped copies of each UCC Financing Statement and fixtures filings described in Item 5.1 Appendix B showing that each such Financing Statement was duly filed. MWB

10.3 [Intentionally Omitted]

10.4 Updates of ALTA Noteholder's policies of title insurance, issued by Chicago Title Insurance Company in favor of Collateral Agent, together MWB

with ALTA endorsement no. 110.5 insuring the validity and priority of each of the Deeds of Trust described in Appendix C.

10.5 Copies of a Commercial Finance Lender's License issued by the California Department of Corporations to: GGFCM

- A. Company
- B. CalREIT

10.6 Documents for New Stock Options which may be issued to management upon the approval of CET's Board of Trustees. GGFCM

</TABLE>

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APPENDIX A
LIST OF REAL PROPERTIES OWNED BY COMPANY
(SEE ITEM 6.3)

<TABLE>

<S>	<C>
CET No. 601	Chico, CA
One Sunrise Park	
2893 Sunrise Blvd.	
Rancho Cordova, CA	

CET No. 603
Milpitas
500 E. Calavares
Milpitas, CA

CET No. 605
Regency Plaza
7143-7263 Greenback Lane
Citrus Heights, CA

CET No. 606
16th & K
1600 "K" St.
Sacramento, CA

CET No. 607
Burbank Mini Storage
1435 Sebastopol Rd.
Santa Rosa, CA

CET No. 608
Villa Del Sol
305 N. Harbor Blvd.
Fullerton, CA

CET No. 609
Holiday Inn
1900 Hilltop Dr.
Redding, CA

CET No. 611
Holiday Inn
2730 No. Main St.
Walnut Creek, CA

CET No. 614

Holiday Inn
5321 Date Ave.
Sacramento, CA

CET No. 615
Holiday Inn
685 Manzanita Court
</TABLE>

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<TABLE>
<S>

CET No. 618
University Village
400-448 Howe Ave.
Sacramento, CA

CET No. 620
T.G.I. Friday
6307 Sunrise Blvd.
Citrus Heights, CA

CET No. 623
Town Center Garden Office Park
2501-2525 Cherry Ave.
Signal Hill, CA

CET No. 624
Mallory Service Building
1421 Lesnick Lane
Walnut Creek, CA

CET No. 625
Parkway Center
5200 Golden Foothill Parkway
El Dorado Hills, CA

CET No. 630
Hurley Ethan Office Park I
1300 Ethan Way
Sacramento, CA

CET No. 631
Trade Center "A"
11135 Trade Center Dr.
Rancho Cordova, CA

CET No. 632
Trade Center "C"
11167 Trade Center Dr.
Rancho Cordova, CA

CET No. 634
Systems Integrators Buildings
3755 N. Freeway/3900 Lenane
Sacramento, CA

CET No. 635
Hurley Ethan Office Park II
2025-35-45 Harley Way
Sacramento, CA
</TABLE>

<C>

CET No. 636
Sunrise Hills (w/o T.G.I. Friday)
6241-6301 Sunrise Blvd.
Citrus Heights, CA

CET No. 637
Sierra Oaks
4040-4130 Douglas Blvd.
Roseville, CA

CET No. 640
Florin Perkins
Sacramento, CA

CET No. 619
Timberlake
7501 Timberlake Way
Sacramento, CA

CET No. 628
Downtown Mini Storage
2318 16th St.
Sacramento, CA

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APPENDIX B
LIST OF UCC-2 FINANCING STATEMENT AND
FIXTURES FILING FILED BY COMPANY IN
FAVOR OF NOTEHOLDERS
(SEE ITEM 10.2)

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APPENDIX C
LIST OF EXISTING DEEDS OF TRUST, ASSIGNMENT
OF RENTS, SECURITY AGREEMENT AND FIXTURE
FILING EXECUTED BY COMPANY IN FAVOR OF
COLLATERAL AGENT

<TABLE>

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PROPERTY

- - - - -

<S>

CET No. 601
One Sunrise Park
2893 Sunrise Blvd.
Rancho Cordova, CA

CET NO. 603
Milpitas
500 E. Calavares
Milpitas, CA

CET No. 605
Regency Plaza
7143-7263 Greenback Lane
Citrus Heights, CA

CET No. 606
16th & K
1600 "K" St.
Sacramento, CA

CET No. 607
Burbank Mini Storage
1435 Sebastopol Rd.
Santa Rosa, CA

CET No. 608
Villa Del Sol
305 N. Harbor Blvd.
Fullerton, CA

CET No. 609
Holiday Inn
1900 Hilltop Dr.
Redding, CA

CET No. 611
Holiday Inn
2730 No. Main St.

RECORDING INFORMATION

- - - - -

<C>

Recorded on 7/21/92 in
Book 920721,
Page 1157

Recorded on 7/22/92 as
Instrument No. 11461924

Recorded on 7/21/92 in
Book 920721,
Page 1144

Recorded on 7/21/92 in
Book 920721,
Page 1152

Recorded on 7/21/92 as
Instrument No. 1992-00889572

Recorded on 7/23/92 as
Instrument No. 92-493292

Recorded on 7/21/92 as
Instrument No. 3319
Book 2885
Page 722

Recorded on 7/21/92 as
Instrument No.
92-183844

Walnut Creek, CA

CET No. 614
Holiday Inn
5321 Date Ave.
Sacramento, CA
</TABLE>

Recorded on 7/21/92 in
Book 920721,
Page 1156

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<TABLE>
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CET No. 615
Holiday Inn
685 Manzanita Court
Chico, CA

<C>
Recorded on 7/21/92 as
Serial No.
92-032767

CET No. 618
University Village
400-448 Howe Ave.
Sacramento, CA

Recorded on 7/21/92 in
Book 920721,
Page 1147

CET No. 620
T.G.I. Friday
6307 Sunrise Blvd.
Citrus Heights, CA

Recorded on 7/21/92 in
Book 920721,
Page 1158

CET No. 623
Town Center Garden Office Park
2501-2525 Cherry Ave.
Signal Hill, CA

Recorded on 7/21/92 as
Instrument No. 92-1324800

CET No. 624
Mallory Service Building
1421 Lesnick Lane
Walnut Creek, CA

Recorded on 7/21/92 as
Instrument No.
92-183874

CET No. 625
Parkway Center
5200 Golden Foothill Parkway
El Dorado Hills, CA

Recorded on 7/21/92 as
Instrument No. 44878,
Book 3827,
Page 215

CET No. 630
Hurley Ethan Office Park I
1300 Ethan Way
Sacramento, CA

Recorded on 7/21/92 in
Book 920721,
Page 1150

CET No. 631
Trade Center "A"
11135 Trade Center Dr.
Rancho Cordova, CA

Recorded on 7/21/92 in
Book 920721,
Page 1154

CET No. 632
Trade Center "C"
11167 Trade Center Dr.
Rancho Cordova, CA

Recorded on 7/21/92 in
Book 920721,
Page 1153

CET No. 634
Systems Integrators Buildings
3755 N. Freeway/3900 Lenane
Sacramento, CA

Recorded on 7/21/92 in
Book 920721
Page 1146

CET No. 635
Hurley Ethan Office Park II
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Recorded on 7/21/92 in
Book 920721,

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<TABLE>
<S>
2025-35-45 Harley Way
Sacramento, CA

<C>
Page 1159

CET No. 636
Sunrise Hills (w/o T.G.I. Friday)
6241-6301 Sunrise Blvd.
Citrus Heights, CA

Recorded on 7/21/92 in
Book 920721,
Page 1145

CET No. 637
Sierra Oaks
4040-4130 Douglas Blvd.
Roseville, CA

Recorded on 7/21/92 as
Instrument No.
92-056160

CET No. 640
Florin Perkins
Sacramento, CA

Recorded on 7/21/92 in
Book 920721,
Page 1155

CET No. 619
Timberlake
7501 Timberlake Way
Sacramento, CA

Recorded on 7/21/92 in
Book 920721
Page 1149

CET No. 628
Downtown Mini Storage
2318 16th St.
Sacramento, CA
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LOAN AND SECURITY AGREEMENT

BY AND BETWEEN

COMMONWEALTH EQUITY TRUST

AND

FOOTHILL CAPITAL CORPORATION

DATED AS OF OCTOBER 6, 1994

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SCHEDULE R-1

PROPERTY NAME	ADDRESS	CITY	COUNTY	PARCEL NUMBER	RELEASE AMOUNT
<S>	<C>	<C>	<C>	<C>	<C>
16th & K Streets	1600 K Street	Sacramento	Sacramento	006-0124-001	\$1,600,000
11135 Trade Center	11135 Trade Center Dr.	Rancho Cordova	Sacramento	072-0222-021	\$1,160,000
11167 Trade Center	11167 Trade Center Dr.	Rancho Cordova	Sacramento	072-0222-033	\$ 540,000
Burbank Mini-Warehouse	1435 Sabastopol Rd	Santa Rosa	Sonoma	125-091-028-000	\$ 965,000
Downtown Mini-Storage	2318 16th St.	Sacramento	Sacramento	009-0217-001	\$ 670,000
Holiday Inn Chico	685 Manzanita Ct.	Chico	Butte	006-240-022	\$3,350,000
Holiday Inn Sacramento	5321 Date Avenue	Sacramento	Sacramento	228-0143-023	\$5,050,000
Holiday Inn Walnut Creek	2730 N. Main St.	Walnut Creek	Contra Costa	171-070-039-2	\$1,700,000
Mallory Service	2740 N. Main	Walnut Creek	Contra Costa	171-070-011-1	\$ 505,000
Milpitas	500 E. Calaveras Blvd.	Milpitas	Santa Clara	086-28-021	\$1,750,000
One Sunrise	2893 Sunrise*	Rancho Cordova	Sacramento	072-0450-054	\$ 880,000
Parkway Center	5200 Golden Hills Pkwy.	El Dorado Hills	El Dorado	86-830-46	\$ 900,000
TGIF Sunrise	6245 Sunrise Blvd.	Citrus Heights	Sacramento	243-0060-040-000	\$ 790,000
Town Center	2501-2525 Cherry Avenue	Signal Hill	Los Angeles	7214-002-042-043	\$2,350,000

* Also 11500 & 11492 Sunrise Gold Circle

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT, is entered into as of October 6, 1994, between FOOTHILL CAPITAL CORPORATION, a California corporation ("Foothill"), with a place of business located at 11111 Santa Monica Boulevard, Suite 1500, Los Angeles, California 90025-3333, and COMMONWEALTH EQUITY TRUST, a California real estate investment trust ("Borrower"), with its chief executive office located at 1300 Ethan Way, Suite 200, Sacramento, California 95825-6797.

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 DEFINITIONS. As used in this Agreement, the following terms shall have the following definitions:

"Accounts" means all currently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods or the rendition of services by Borrower, irrespective of whether earned by performance, and any and all credit insurance, guaranties, or security therefor.

"Affiliate" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For purposes of this definition, "control" as applied to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities, by contract, or otherwise.

"After Acquired Property" means real property or fixtures acquired by Borrower on or after entry of the Confirmation Order, to the extent that the purchase money for such property consists solely of the proceeds of any equity offering, unsecured financing, or purchase money Permitted Lien on such property.

"Agreement" means this Loan and Security Agreement and any extensions, riders, supplements, notes, amendments, or modifications to or in connection with this Loan and Security Agreement.

"Allowed Mechanic's Lien Claim" shall have the meaning ascribed it in the Plan.

"Allowed Secured Real Property Tax Claim" shall have the meaning ascribed it in the Plan.

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"Authorized Officer" means any officer of Borrower.

"Available Cash Flow" means, with respect to Borrower for any fiscal period, EBITDA minus (i) taxes; and (ii) Capital Expenditures in each case actually due or paid during such fiscal period.

"Average Unused Portion of Maximum Amount" means the Maximum Amount less the average Daily Balance of advances made by Foothill under Section 2.1 that were outstanding during the immediately preceding month.

"Bankruptcy Code" means the United States Bankruptcy Code (11 U.S.C. Section 101 et seq.), as amended, and any successor statute.

"Bankruptcy Court" means the United States Bankruptcy Court for the East District of California.

"Base NOI" means Four Million Seven Hundred Sixty-three Thousand Dollars (\$4,763,000).

"Benefit Plan" means an employee benefit plan (as defined in Section 3(3) of ERISA) which Borrower or any ERISA Affiliate sponsors or maintains or to which Borrower or any ERISA Affiliate makes, is making, or is obligated to make contributions, including any Multiemployer Plan or Qualified Plan.

"Borrower" has the meaning set forth in the preamble to this Agreement.

"Borrower's Books" means all of Borrower's books and records including: ledgers; records indicating, summarizing, or evidencing the

Collateral or liabilities; all information relating to Borrower's business operations at the Real Property or financial condition; and all computer programs, disc or tape files, printouts, runs, or other computer prepared information, and the equipment containing such information.

"Business Day" means any day which is not a Saturday, Sunday, or other day on which national banks are authorized or required to close.

"CalREIT" means California Real Estate Investment Trust, a California real estate investment trust.

"Capital Expenditures" means any expenditure by a Person for the acquisition or construction of fixed assets that would be capitalized on a balance sheet of Borrower prepared in accordance with GAAP, including deferred maintenance charges and

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tenant improvements or leasing commissions (whether in connection with a new lease or with existing lease).

"Cash Equivalents" means (a) securities issued guaranteed or insured by the United States of America or any of its agencies with maturities of not more than one year from the date acquired, (b) certificates of deposit with maturities of not more than one year from the date acquired that have been issued by a federal or state chartered commercial bank of recognized standing, which bank has capital and unimpaired surplus in excess of \$500,000,000, based on its most recent publicly available financial statements, and (c) commercial paper or finance company paper issued by any entity incorporated under the laws of the United States of America or any state thereof and having a rating of at least A-1 or the equivalent by Moody's Investors Service, Inc., in each case with maturities of not more than 60 days from the date acquired.

"Change of Control" shall be deemed to have occurred at such time as a "person" or "group" (within the meaning of Sections 13(d) and 14(d) (2) of the Securities Exchange Act of 1934 exclusive, however, of Pacific Mutual Life Insurance Company, The Prudential Insurance Company of America, or Trust Company of the West, or their respective Affiliates) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of 50% or more of the total voting power of all classes of stock then outstanding of Borrower normally entitled to vote in the election of directors.

"Closing Date" means the date of the initial advance.

"Code" means the California Uniform Commercial Code.

"Collateral" means each of the following: the Real Property; the Related Rents; the Related Accounts; the Related Equipment; the Related General Intangibles; any money, or other assets of Borrower which now or hereafter come into the possession, custody, or control of Foothill; and the proceeds and products, whether tangible or intangible, of any of the foregoing including proceeds of insurance covering any or all of the Collateral, and any and all money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof, including any awards made for any taking by eminent domain.

"Collateral Agent" means U.S. Trust Company of California, N.A., as the collateral agent for the Noteholders, or any Person that becomes a successor Collateral Agent.

"Confirmation Order" means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code entered by the Bankruptcy Court on August 8, 1994.

"Consolidated Current Assets" means, as of any date of determination, the aggregate amount of all current assets of Borrower and its subsidiaries calculated on a consolidated basis that would, in accordance with GAAP, be classified on a balance sheet as current assets.

"Consolidated Current Liabilities" means, as of any date of determination, the aggregate amount of all current liabilities of Borrower and its subsidiaries, calculated on a consolidated basis that would, in accordance with GAAP, be classified on a balance sheet as current liabilities. For purposes of this definition, all advances outstanding under this Agreement shall be deemed to be current liabilities without regard to whether they would be deemed to be so under GAAP.

"Daily Balance" means the amount of the Obligations owed at the end of a given day.

"Declaration of Trust" means that certain Declaration of Trust of Commonwealth Equity Trust dated July 31, 1973, as amended from time to time.

"Early Termination Premium" has the meaning set forth in Section 3.4.

"EBITDA" means, with respect to Borrower, for any fiscal period (i) income before interest and taxes, plus (ii) to the extent deducted in determining such income, depreciation, amortization and other similar non-cash charges, minus (iii) to the extent recognized in determining such income, extraordinary gains, in each case for such fiscal period.

"Effective Date of Plan" means the Effective Date as defined in the Plan.

"Environmental Indemnity" means an environmental indemnity executed by Borrower in favor of Foothill, the form and substance of which shall be reasonably satisfactory to Foothill.

"Environmental Law" means all present and future laws, regulations, statutes, common law, rules, ordinances, codes, licenses, permits, orders, approvals, plans, authorizations, concessions, franchises, and similar items of any federal, state or local government, instrumentality or body, as the same may be amended, modified or supplemented from time to time related to Hazardous Materials.

"Equipment" means all of Borrower's present and hereafter acquired machinery, machine tools, motors, equipment, furniture, furnishings, fixtures, vehicles (including motor vehicles and trailers), tools, parts, goods (other than consumer goods, farm products, or Inventory), wherever located, and any interest of Borrower in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any predecessor, successor, or superseding laws of the United States of America, together with all regulations promulgated thereunder.

"ERISA Affiliate" means any trade or business (whether or not incorporated) which, within the meaning of Section 414 of the IRC, is: (i) under common control with Borrower; (ii) treated, together with Borrower, as a single employer; (iii) treated as a member of an affiliated service group of which Borrower is also treated as a member; or (iv) is otherwise aggregated with the Borrower for purposes of the employee benefits requirements listed in IRC Section 414(m) (4).

"ERISA Event" shall mean any one or more of the following: (i) a Reportable Event with respect to a Qualified Plan or a Multiemployer Plan; (ii) a Prohibited Transaction with respect to any Benefit Plan; (iii) a complete or partial withdrawal by Borrower or any ERISA Affiliate from a Multiemployer Plan; (iv) the complete or partial withdrawal of Borrower or an ERISA Affiliate from a Qualified Plan during a plan year in which it was, or was treated as, a "substantial employer" as defined in Section 4001(a) (2) of ERISA; (v) a failure to make full payment when due of all amounts which, under the provisions of any Benefit Plan or applicable law, Borrower or any ERISA Affiliate is required to make; (vi) the filing of a notice of intent to terminate, or the treatment of a plan amendment as a termination, under Sections 4041 or 4041A of ERISA; (vii) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Qualified Plan or Multiemployer Plan; (viii) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon Borrower or any ERISA Affiliate; and (ix) a violation of the applicable requirements of Sections 404 or 405 of ERISA, or the exclusive benefit rule under Section 403(c) of ERISA, by any fiduciary or disqualified person with respect to any Benefit Plan for which Borrower or any ERISA Affiliate may be directly or indirectly liable.

"Event of Default" has the meaning set forth in Section 8.

"FEIN" means Federal Employer Identification Number.

"Florin-Perkins Bond Claims" means all such claims listed in the Plan.

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"Foothill" has the meaning set forth in the preamble to this Agreement.

"Foothill Expenses" means all reasonable: costs or expenses (including taxes, photocopying, notarization, telecommunication and insurance premiums) required to be paid by Borrower under any of the Loan Documents that are paid or advanced by Foothill pursuant to the provisions of the Loan Documents including property taxes or insurance paid by Foothill with respect to the Collateral; documentation, filing, recording, publication, appraisal (including periodic Collateral appraisals), real estate survey, environmental audit and search fees assessed, paid, or incurred by Foothill in connection with Foothill's transactions with Borrower; costs and expenses incurred by Foothill in the disbursement of funds to Borrower (by wire transfer or otherwise); charges paid or incurred by Foothill resulting from the dishonor of checks; costs and expenses paid or incurred by Foothill to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated; costs and expenses paid or incurred by Foothill in examining Borrower's Books; costs and expenses paid or incurred by Foothill in connection with third party claims or any other suit that Foothill is entitled to be reimbursed for in accordance with the Loan Documents; costs and expenses paid or incurred by Foothill in enforcing or defending the Loan Documents; and Foothill's reasonable attorneys fees and expenses incurred in advising, structuring, drafting, reviewing, administering, amending, terminating, enforcing (including attorneys fees and expenses

incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning Borrower or any guarantor of the Obligations), defending, or concerning the Loan Documents, irrespective of whether suit is brought.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied.

"General Intangibles" means all of Borrower's present and future general intangibles and other personal property (including contract rights, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, trademarks, servicemarks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringements, claims, computer programs, computer discs, computer tapes, literature, reports, catalogs, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims), other than goods and Accounts.

"Hazardous Materials" means:

(a) those substances as defined as "hazardous substances," "hazardous materials," "toxic substances," or "solid waste" in the Comprehensive

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Environmental Response, Compensation and Liability Act, Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. ("RCRA"), or the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq., and in the regulations promulgated pursuant thereto;

(b) those substances designated as a "hazardous substance" under or pursuant to the Federal Water Pollution Control Act, 33 U.S.C. Section 1257 et seq., or defined as a "hazardous waste" under or pursuant to RCRA and in the regulations promulgated pursuant thereto;

(c) those substances listed in the United States Department of Transportation Table (40 CFR 172.101 and amendments there to) or by the Environmental Protection Agency (or any successor agency) as hazardous substances (40 CFR Part 302 and amendments thereto); and

(d) such other substances, materials and wastes which are regulated under any act, or which are classified as hazardous or toxic under any Environmental Law.

"Holiday" means Holiday Inns, Inc. and Holiday Inns Franchising, Inc.

"Indebtedness" shall mean: (a) all obligations of Borrower for borrowed money; (b) all obligations of Borrower evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations of Borrower in respect of letters of credit, letter of credit guaranties, bankers acceptances, interest rate swaps, controlled disbursement accounts, or other financial products; (c) all obligations under capital leases; (d) all obligations or liabilities of others secured by a lien or security interest on any property or asset of Borrower, irrespective of whether such obligation or liability is assumed; and (e) any obligation of Borrower guaranteeing or intended to guarantee (whether guaranteed, endorsed, co-made, discounted, or sold with recourse to Borrower) any indebtedness, lease, dividend, letter of credit, or other obligation of any other Person.

"Indemnified Persons" means Foothill and its parents, subsidiaries and affiliates, attorneys and each of their officers, directors, agents, employees, trustees, receivers, executors and administrators, and the heirs, successors and assigns of all of the foregoing. The foregoing to the contrary notwithstanding, purchasers of all or any portion of the Real Property at a foreclosure sale or through a private sale following a foreclosure or

transfer of all or a portion of the Real Property to Foothill shall not be Indemnified Persons; it being the intent of the parties that the term "Indemnified Persons" shall include only those Persons (including their parents, subsidiaries, affiliates, attorneys, officers, directors, agents, employees, trustees, receivers, executors, administrators, successors, and assigns in connection with such capacity) acting in the capacity of Borrower's lender and

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not successor owners of the Real Property other than Foothill (or an affiliate of Foothill) that acquires the same after foreclosure or acceptance of a deed-in-lieu of foreclosure.

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Insurance Policy" means any and all policies of insurance which Borrower obtains, or is required to obtain, on the Collateral and shall include, but not be limited to, the policies described in Section 6.6 hereof.

"Interest Deferral Notes" means the promissory notes to be delivered by Borrower to each Noteholder pursuant to the Note Agreement.

"Interest Expense" means, for each fiscal period, Borrower's cash interest expense due during such period on Indebtedness of Borrower that should be reported on Borrower's financial statements prepared in accordance with GAAP.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Loan" has the meaning set forth in Section 2.1 hereof.

"Loan Documents" means this Agreement, the Environmental Indemnity, the Subordination Agreement, the Mortgages, any other note or notes executed by Borrower and payable to Foothill, and any other agreement entered into in connection with this Agreement.

"Lockbox Account" shall mean the depositary account established pursuant to the Lockbox Account Agreement.

"Lockbox Account Agreement" means a Lockbox Account Agreement, in form and substance satisfactory to Foothill, among Borrower, Foothill, and the Lockbox Account Bank.

"Lockbox Account Bank" means the depositary institution at which Borrower's operating accounts are maintained.

"Losses" shall mean any and all losses, liabilities contingent liabilities, damages, obligations, claims, contingent claims, actions, suits, proceedings, disbursements, penalties, costs and expenses (including reasonable attorneys fees and costs and all other

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professional or consultants fees and expenses), whether or not an action or proceeding is commenced or threatened, incurred by Foothill and arising out of or relating to Borrower's ownership of the Real Property or Borrower's performance or non-performance of its obligations under the Loan Documents.

"Material Adverse Effect" means (a) a material adverse effect on (i) the business, assets, operations, prospects, or financial or other condition of Borrower, on a consolidated basis; (ii) the ability of Borrower to pay or perform the Obligations; (iii) the Collateral or Foothill's liens or security interests on the Collateral or the priority of any such liens or security interests; or (iv) Foothill's rights and remedies under this Agreement and the other Loan Documents, or (b) the incurrence by Borrower of any liability, contingent or liquidated, that has an actual or estimated incurrence of liability, or dollar exposure or loss, greater than \$1,000,000 to Borrower, on a consolidated basis, which loss or liability would not be reflected as a liability on Borrower's financial statement.

"Material Lease" means any lease which represents more than twenty percent (20%) of the net rentable square footage of any parcel of Real Property.

"Maximum Amount" means Ten Million Dollars (\$10,000,000); provided, however, that the Maximum Amount automatically shall be reduced or increased, as applicable, in accordance with Section 2.1(d) hereof; provided further, however, that the Maximum Amount automatically shall be reduced in accordance with Section 2.1(e) hereof.

"Mortgages" means one or more mortgages, deeds of trust, or deeds to secure debt, executed by Borrower in favor of Foothill, the form and substance of which shall be reasonably satisfactory to Foothill, that encumber the Real Property and the related improvements thereto.

"Multiemployer Plan" shall mean a multiemployer plan as defined in Sections 3(37) or 4001(a) (3) of ERISA or Section 414 of the IRC in which employees of Borrower or an ERISA Affiliate participate or to which Borrower or any ERISA Affiliate contribute or are required to contribute.

"New CET Preferred Stock" means the New CET Preferred Stock defined in and issued pursuant to the Plan.

"New CET Unsecured Notes" means the New CET Unsecured Notes defined in the Plan.

"New Kroeger Note" means the New Kroeger Note as defined in the Plan.

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"NOI" means, with respect to a particular parcel of the Real Property, the positive number by which the sum of all revenues generated by such Real Property exceeds the sum of all operating expenses (exclusive of debt service and general and administrative expenses) relative to such Real Property.

"Note Agreement" means that certain Second Amended and Restated Note Agreement, dated as of September 27, 1994, by and among Borrower and each of the Noteholders.

"Noteholders" means Pacific Mutual Life Insurance Company, The Prudential Insurance Company of America, Pruco Life Insurance Company, ORIX USA Corporation, TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Trust IV, TCW Special Credits Trust IVA, and Weyerhaeuser Company Master Retirement Trust.

"Obligations" means all loans, advances, debts, principal, interest (including any interest that, but for the provisions of the

Bankruptcy Code, would have accrued), premiums, liabilities (including all amounts charged to Borrower's loan account pursuant to any agreement authorizing Foothill to charge Borrower's loan account), obligations, fees (including the Early Termination Premium), lease payments, guaranties, covenants, and duties owing by Borrower to Foothill of any kind and description (pursuant to or evidenced by the Loan Documents), whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all interest not paid when due and all Foothill Expenses that Borrower is required to pay or reimburse by the Loan Documents, by law, or equity.

"Overadvance" has the meaning set forth in Section 2.1(a).

"PBGC" means the Pension Benefit Guaranty Corporation as defined in Title IV of ERISA, or any successor thereto.

"Permitted Disposition" means the sale, mortgage financing, or other disposition of one or more of the parcels composing the Real Property so long as, in connection therewith, each of the conditions set forth in Section 4.4 hereof are satisfied in full.

"Permitted Liens" means: (a) liens and security interests held by Foothill; (b) subject to the terms and conditions of the Subordination Agreement, the liens and security interests of the Collateral Agent for the benefit of the Noteholders; (c) liens for unpaid taxes that are not yet due and payable; (d) liens extant on the Closing Date securing the Allowed Secured Real Property Tax Claims; (e) liens extant on the Closing Date securing the Allowed Mechanic's Lien Claims; (f) easements, rights of way, reservations, covenants, conditions, restrictions, zoning variances, and other similar

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encumbrances that do not materially interfere with the use or value of the property subject thereto; (g) obligations and duties as lessee under any lease existing on the date of this Agreement; and (h) exceptions listed in the title insurance or commitment therefor delivered by Borrower hereunder in respect of the Real Property that on or before the Closing Date are found to be acceptable by Foothill and its counsel in the exercise of their reasonable discretion.

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Personal Property Collateral" means all of the Collateral other than the Real Property.

"Plan" means Borrower's Third Amended Plan of Reorganization, as modified, that was approved by the Bankruptcy Court pursuant to the Confirmation Order.

"Principal Notes" means the promissory notes to be delivered by Borrower to each Noteholder pursuant to the Note Agreement.

"Prohibited Transaction" means any transaction described in Section 406 of ERISA which is not exempt by reason of Section 408 of ERISA, and any transaction described in Section 4975(c) of the IRC which is not exempt by reason of Section 4975(d) of the IRC.

"Real Property" means the parcel or parcels of real property, and the related improvements, fixtures, and personal property, identified on Schedule R-1.

"Redding Hotel Improvement Loan" means the Redding

Hotel Improvement Loan under as defined in the Plan.

"Reference Rate" means the highest of the variable rates of interest, per annum, most recently announced by (a) Bank of America, N.T. & S.A., (b) Mellon Bank, N.A., and (c) Citibank, N.A., or any successor to any of the foregoing institutions, as its "prime rate" or "reference rate," as the case may be, irrespective of whether such announced rate is the best rate available from such financial institution.

"Related Accounts" means all of Borrower's present or future Accounts relating to, or arising out of, Borrower's ownership, management, or operation of the Real Property or any business conducted thereon.

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"Related Equipment" means all of Borrower's present or future Equipment relating to, or arising out of, Borrower's ownership, management, or operation of the Real Property or any business conducted thereon.

"Related General Intangibles" means all of Borrower's present or future General Intangibles relating to, or arising out of, Borrower's ownership, management, or operation of the Real Property or any business conducted thereon.

"Related Rents" means all of Borrower's present or future rents, issues, profits, royalties, and other income derived from any lease, sublease, franchise agreement, license, or concession or other agreement affecting all or any portion of the Real Property or any business conducted thereon.

"Release Amount" means the amount set forth on Schedule R-1 as the amount that must be paid to Foothill in order for Foothill to release its liens and security interests therein.

"Remediate" and "Remediation" means the investigation of the environmental condition of the Real Property, the preparation of any feasibility studies, reports, or remedial plans, and the performance of any cleanup, abatement, removal, remediation, containment, operation, maintenance, monitoring, or restoration work relating to the presence or suspected presence of Hazardous Materials on or under the Real Property in violation of Environmental Laws, whether on or off of the Real Property.

"Reportable Event" shall mean any event described in Section 4043 (other than Subsections (b) (7) and (b) (9)) of ERISA.

"Qualified Plan" means a pension plan (as defined in Section 3(2) of ERISA) intended to be tax-qualified under Section 401(a) of the IRC which Borrower or any ERISA Affiliate sponsors, maintains, or to which any such person makes, is making, or is obligated to make, contributions, or, in the case of a multiple-employer plan (as described in Section 4064(a) of ERISA), has made contributions at any time during the immediately preceding period covering at least five (5) plan years, but excluding any Multiemployer Plan.

"Senior Mortgages" means the Senior Mortgages as defined in the Plan.

"Six Properties" means the following parcels of Real Property: (a) 16th & K Street, (b) Milpitas, (c) Towne Center, (d) Holiday Inn - Chico, (e) Holiday Inn - Sacramento, and (f) Holiday Inn - Walnut Creek.

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"Solvent" means, with respect to any Person on a particular date, that on such date (a) at fair valuations, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair salable value of the properties and assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature, and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual or matured liability.

"Subordination Agreement" means that certain Subordination Agreement, dated on or before the Closing Date, between Foothill and Collateral Agent, the form and substance of which shall be reasonably satisfactory to Foothill.

"Tangible Net Worth" means, as of the date any determination thereof is to be made, the difference of (a) Borrower's total stockholder's equity, minus (b) (i) all intangible assets of Borrower, (ii) all of Borrower's prepaid expenses, and (iii) all amounts due to Borrower from Affiliates, calculated on a unconsolidated basis, as determined in accordance with GAAP.

"Unfunded Benefit Liability" means the excess of a Benefit Plan's benefit liabilities (as defined in Section 4001(a) (16) of ERISA) over the current value of such Benefit Plan's assets, determined in accordance with the assumptions used by the Benefit Plan's actuaries for funding the Benefit Plan pursuant to Section 412 of the IRC for the applicable plan year.

"Voidable Transfer" has the meaning set forth in Section 15.8.

"Working Capital" means the result of subtracting Consolidated Current Liabilities from Consolidated Current Assets.

1.2 ACCOUNTING TERMS. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include any notes and schedules thereto. Whenever the term "Borrower" is used in respect of a financial covenant or a related definition, it shall be

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understood to mean Borrower on a consolidated basis unless the context clearly requires otherwise.

1.3 CODE. Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein.

1.4 CONSTRUCTION. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including"

is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Section, subsection, clause, schedule, and exhibit references are to this Agreement unless otherwise specified. Any reference in this Agreement or in the Loan Documents to this Agreement or any of the Loan Documents shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, and supplements, thereto and thereof, as applicable.

1.5 SCHEDULES AND EXHIBITS. All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. LOAN AND TERMS OF PAYMENT.

2.1 ADVANCES.

(a) Subject to the terms and conditions of this Agreement, Foothill agrees to make advances to Borrower (the "Loan") in an aggregate amount outstanding at any one time equal to the Maximum Amount. If, at any time or for any reason, the amount of Obligations owed by Borrower to Foothill pursuant to this Section 2.1 is greater than the Maximum Amount, as such amount may be reduced as a result of a Permitted Disposition or otherwise (an "Overadvance"), Borrower immediately shall pay to Foothill, in cash, the amount of such excess.

(b) Anything to the contrary in subsection (a) above notwithstanding, Foothill may create reasonable reserves against the Maximum Amount without declaring an Event of Default if it determines, in its reasonable discretion, that there is a material impairment of the prospect of repayment of all or any portion of the Obligations or a material impairment of the value or priority of Foothill's security interests in the Collateral. Borrower and Foothill understand and agree that any such reserve amount shall not be considered a disbursement bearing interest hereunder, but rather simply shall be an amount that is not available for borrowing by Borrower.

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(c) Foothill is authorized to make advances under this Agreement based upon written instructions received from an Authorized Officer of Borrower or, without instructions, if pursuant to Section 2.2(d). Provided Borrower satisfies all conditions precedent in Section 3.1 or 3.2, as the case may require, Foothill shall advance funds to Borrower on a reasonably prompt basis. Borrower and Foothill agree that there shall be no minimum amount required of any advance requested by Borrower pursuant to the terms and conditions of this Agreement; provided, however, Borrower shall not make more than one (1) request for an advance per day. Borrower agrees to establish and maintain a single designated deposit account for the purpose of receiving the proceeds of the advances requested by Borrower and made by Foothill hereunder. Unless otherwise agreed by Foothill and Borrower, any advance requested by Borrower and made by Foothill hereunder shall be made to such designated deposit account. Amounts borrowed pursuant to this Section 2.1 may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

(d) Anything to the contrary in this Agreement notwithstanding, in the event that, at any time and from time to time, the NOI for the preceding twelve (12) months ("Comparison NOI") for all of the parcels then composing the Real Property taken as a whole does not exceed seventy percent (70%) of the Base NOI, then the then current Maximum Amount automatically shall be reduced to the following percentage of the Maximum Amount:

<TABLE>

<CAPTION>

Actual Percentage of Base NOI

Percentage of Maximum Amount

<S>	<C>
70% or less, but greater than 69%	96%
69% or less, but greater than 68%	92%
68% or less, but greater than 67%	88%
67% or less, but greater than 66%	84%
66% or less, but greater than 65%	80%
65% or less, but greater than 64%	76%

</TABLE>

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<TABLE>

<S>	<C>
64% or less, but greater than 63%	72%
63% or less, but greater than 62%	68%
62% or less, but greater than 61%	64%
61% or less, but greater than 60%	60%
60% or less, but greater than 59%	56%
59% or less, but greater than 58%	52%
58% or less, but greater than 57%	48%
57% or less, but greater than 56%	44%
56% or less, but greater than 55%	40%
55% or less, but greater than 54%	36%
54% or less, but greater than 53%	32%
53% or less, but greater than 52%	28%
52% or less, but greater than 51%	24%

51% or less, but greater than 50%	20%
50% or less	--0--

</TABLE>

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For purposes of the foregoing, upon the consummation of a Permitted Disposition, the Base NOI and the Comparison NOI each shall be recalculated to eliminate permanently the effects of the Real Property that was the subject of such Permitted Disposition. If, at any time after a reduction of the Maximum Amount as a result of the provisions of this Section 2.1(d), the Comparison NOI again exceeds seventy percent (70%) of the Base NOI, in each case as they may be adjusted, Foothill may elect, in its sole and unrestricted discretion, to increase the Maximum Amount to an amount up to the amount which the Maximum Amount would equal were it not for reductions made pursuant to this Section 2.1(d), but subject to the reductions in the Maximum Amount made pursuant to Section 2.1(e).

(e) Immediately upon the consummation of each Permitted Disposition, the then current Maximum Amount automatically shall be reduced permanently by an amount equal to eighty percent (80%) of the Release Amount applicable to the Real Property that is the subject of such Permitted Disposition; provided, however, that in the case of a Permitted Disposition of one of the Six Properties, if Borrower has given Foothill thirty (30) days prior written notice thereof and if Foothill does not agree to reduce the foregoing percentage to fifty-five percent (55%) of the Release Amount applicable to the Real Property that is the subject of such Permitted Disposition on or before the date of the consummation thereof, then, for a period of one hundred and twenty (120) days following such consummation, Borrower shall have the option to terminate this Agreement by paying to Foothill, in cash, the Obligations, without any penalty or premium (including the Early Termination Premium).

2.2 INTEREST: RATES, PAYMENTS, AND CALCULATIONS.

(a) Interest Rate. The Obligations shall bear interest, on the average Daily Balance, at a rate of two and one-quarter (2-1/4) percentage points above the Reference Rate.

(b) Default Rate. The Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default at a rate equal to four and three-quarters (4-3/4) percentage points above the Reference Rate.

(c) Minimum Interest. In no event shall the rate of interest chargeable hereunder be less than eight and one-half percent (8-1/2%) per annum, nor shall the annual interest charged be less than One Hundred Thousand Dollars (\$100,000.00). To the extent that interest accrued hereunder at the rate set forth herein (including the minimum interest rate) would yield less than the foregoing minimum amount, the interest rate chargeable hereunder for the period in question automatically shall be deemed increased to that rate that would result in the minimum amount of interest being accrued and payable hereunder.

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(d) Payments. Interest hereunder shall be due and payable, in arrears, on the first day of each month during the term

hereof. Borrower hereby authorizes Foothill, at its option, without prior notice to Borrower, to charge such interest, all Foothill Expenses (as and when incurred), and all installments or other payments due under this Agreement or any note or other Loan Document to Borrower's loan account, which amounts shall thereafter accrue interest at the rate then applicable hereunder. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder.

(e) Computation. The Reference Rate as of the date of this Agreement is seven and three quarters percent (7.75%) per annum. In the event the Reference Rate is changed from time to time hereafter, the applicable rate of interest hereunder automatically and immediately shall be increased or decreased by an amount equal to such change in the Reference Rate. All interest and fees chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

(f) Intent to Limit Charges to Maximum Lawful Rate. In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrower and Foothill, in executing this Agreement, intend to legally agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, ipso facto as of the date of this Agreement, Borrower is and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrower in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.3 CREDITING PAYMENTS. The receipt of any wire transfer of funds, check, or other item of payment by Foothill (whether from transfers to Foothill by Borrower, from the Lockbox Bank pursuant to the Lockbox Agreement, or otherwise) immediately shall be applied to provisionally reduce the Obligations, but shall not be considered a payment on account unless such wire transfer is of immediately available federal funds and is made to the appropriate deposit account of Foothill or unless and until such check or other item of payment is honored when presented for payment. Anything to the contrary contained herein notwithstanding, any wire transfer, check, or other item of payment shall be deemed received by Foothill only if it is received into Foothill's operating account (as such account is identified by Foothill to Borrower) on or before 11:00 a.m. Los Angeles time. If any wire transfer, check, or other item of payment is received into Foothill's operating account (as such account is identified by Foothill to Borrower) after 11:00 a.m. Los Angeles time it shall be deemed to have been received by Foothill as

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of the opening of business on the immediately following Business Day. Any advance requested by Borrower and made by Foothill hereunder shall not begin to accrue interest unless and until the date on which Foothill has transferred immediately available funds to the designated deposit account of Borrower.

2.4 STATEMENTS OF OBLIGATIONS. Foothill shall render statements to Borrower of the Obligations, including principal, interest, fees, and including an itemization of all charges and expenses constituting Foothill Expenses owing, and such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrower and Foothill unless, within sixty (60) days after receipt thereof by Borrower, Borrower shall deliver to Foothill by registered or certified mail at its address specified in Section 12, written objection thereto describing the error or errors contained in any such statements.

2.5 FEES. Borrower shall pay to Foothill the

following fees:

(a) Closing Fee. A one time closing fee of Fifty Thousand Dollars (\$50,000), which is earned, in full, and is due and payable by Borrower to Foothill on the Closing Date;

(b) Unused Line Fee. On the first day of each month during the term of this Agreement, a fee in an amount equal to three-eighths of one percent (0.375%) per annum times the Average Unused Portion of the Maximum Amount, such fee to first begin accruing on the Closing Date; and

(c) Financial Examination, Documentation, and Appraisal Fees. Foothill's fee of Six Hundred Fifty Dollars (\$650) per day per examiner, plus out-of-pocket expenses for each financial analysis and examination of Borrower performed by Foothill or its agents; Foothill's appraisal fee of One Thousand Dollars (\$1,000) per day per appraiser, plus out-of-pocket expenses for each appraisal of the Collateral performed by Foothill or its agents, subject to the terms and conditions of Section 4.7; and

(d) Servicing Fee. On the first day of each month during the term of this Agreement, and thereafter so long as any Obligations are outstanding, a servicing fee in an amount equal to Four Thousand Dollars (\$4,000) per month.

3. CONDITIONS; TERM OF AGREEMENT.

3.1 CONDITIONS PRECEDENT TO INITIAL ADVANCE. The obligation of Foothill to make the initial advance under the Loan is subject to the fulfillment, to the satisfaction of Foothill and its counsel, of each of the following conditions on or before the Closing Date:

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(a) The Closing Date shall occur on or before October 28, 1994;

(b) The occurrence of the Effective Date of Plan on or before the Closing Date and in any event no later than October 7, 1994;

(c) Foothill shall have received confirmation of the filing of its financing statements and fixture filings;

(d) Foothill shall have received each of the following documents, duly executed, and each such document shall be in full force and effect:

(i) the Environmental Indemnity;

(ii) the Mortgages; and

(iii) the Subordination Agreement;

(e) Foothill shall have received a certificate from the Secretary of Borrower attesting to the resolutions of Borrower's Board of Trustees authorizing its execution and delivery of all of the documents evidencing the execution and delivery of this Agreement and the other Loan Documents to which Borrower is a party and authorizing specific officers of Borrower to execute same;

(f) Foothill shall have received copies of the Declaration of Trust, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of Borrower;

(g) Foothill shall have received the

certified copies of the policies of insurance, together with the endorsements thereto, as are required by Section 6.6 hereof, the form and substance of which shall be reasonably satisfactory to Foothill;

(h) Each of the Mortgages shall have been recorded in the appropriate county recording office;

(i) Foothill shall have received ALTA 1970 Form Lenders Policies of Title Insurance in form and content acceptable to Foothill, in its reasonable discretion, with respect to all of the Real Property;

(j) Foothill shall have received an opinion of Borrower's counsel in form and substance satisfactory to Foothill in its reasonable discretion;

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(k) Foothill shall have received environmental reports with respect to each parcel of the Real Property; the environmental consultants retained for such reports, the scope of the reports, and the results of the reports shall be satisfactory to Foothill, in its reasonable discretion; and

(l) all other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered or executed or recorded and shall be in form and substance reasonably satisfactory to Foothill and its counsel.

3.2 CONDITIONS PRECEDENT TO ALL ADVANCES. The following shall be conditions precedent to all advances under the Loan:

(a) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of such advance as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) no Event of Default or event which, with the giving of notice or passage of time and nothing else, would constitute an Event of Default shall have occurred and be continuing on the date of such advance, nor shall either result from the making thereof; and

(c) no injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the making of such advance shall have been issued and remain in force by any governmental authority against Borrower, Foothill, or any of their Affiliates.

3.3 TERM. This Agreement shall become effective upon the execution and delivery hereof by Borrower and Foothill and shall continue in full force and effect for a term, unless earlier terminated pursuant to the terms hereof, ending on the date that is three (3) years from the Effective Date of Plan, at which such time all Obligations should be due and payable.

3.4 EFFECT OF TERMINATION. On the date of termination, all Obligations immediately shall become due and payable without notice or demand. No termination of this Agreement, however, shall relieve or discharge Borrower of Borrower's duties, Obligations, or covenants hereunder, and Foothill's continuing security interests in the Collateral shall remain in effect until all Obligations have been fully and finally discharged and Foothill's obligation to provide advances hereunder is terminated.

3.5 EARLY TERMINATION BY BORROWER. Borrower has the option, at any time upon thirty (30) days prior written notice to Foothill, to terminate this

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Agreement by paying to Foothill, in cash, the Obligations. If Borrower elects to terminate this Agreement prior to its scheduled maturity date, Borrower shall pay Foothill, in cash, in addition to the Obligations a premium ("Early Termination Premium") in an amount equal to the greater of: (a) the total amount of interest paid by Borrower to Foothill hereunder during the prior six (6) months (including a prorated portion of the minimum annual interest charge), and (b) Two Hundred Fifty Thousand Dollars (\$250,000). The provisions of this Section 3.5 to the contrary notwithstanding, (a) in the event that Foothill creates a reserve against the Maximum Amount pursuant to Section 2.1(b), then for a period of ninety (90) days after such reserve is first imposed or until the removal thereof by Foothill, whichever first occurs, Borrower shall be entitled to prepay the Obligations in cash and terminate this Agreement, in which event the Early Termination Premium shall not be payable, and (b) in the event that Borrower seeks and obtains a commitment from another financial institution to refinance the Obligations hereunder, and if Foothill participates as a lender in such financing, the Early Termination Premium shall not be payable.

3.6 TERMINATION UPON EVENT OF DEFAULT. If Foothill terminates this Agreement upon the occurrence of an Event of Default, in view of the impracticability and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Foothill's lost profits as a result thereof, Borrower shall pay to Foothill upon the effective date of such termination, a premium in an amount equal to the Early Termination Premium. The Early Termination Premium shall be presumed to be the amount of damages sustained by Foothill as the result of the early termination and Borrower agrees that it is reasonable under the circumstances currently existing. The Early Termination Premium shall be deemed included in the Obligations.

4. CREATION OF SECURITY INTEREST.

4.1 GRANT OF SECURITY INTEREST. Borrower hereby grants to Foothill a continuing security interest in all currently existing and hereafter acquired or arising Personal Property Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Foothill's security interests in the Personal Property Collateral shall attach to all Collateral without further act on the part of Foothill or Borrower.

4.2 NEGOTIABLE COLLATERAL. In the event that any Collateral, including proceeds, is evidenced by or consists of an instrument or other negotiable collateral, Borrower shall, immediately upon the request of Foothill, endorse and assign such negotiable collateral to Foothill and deliver physical possession of such negotiable Collateral to Foothill.

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4.3 COLLECTION OF RENTS, ISSUES, PROFITS, ACCOUNTS, GENERAL INTANGIBLES, AND NEGOTIABLE COLLATERAL. On and after the occurrence of, and during the continuation of, an Event of Default, Foothill, Borrower, and the Lockbox Bank shall, at Foothill's election, which election must be made during the continuation of an Event of Default and in a writing sent by Foothill to Borrower, enter into the Lockbox Agreement, in form and substance reasonably satisfactory to Foothill, pursuant to which all of Borrower's cash receipts, checks, and other items of payment relating to the Collateral (including, insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds) will be forwarded to Foothill on a daily basis. On and after such an election by Foothill, Borrower agrees that it will hold in

trust for Foothill, as Foothill's trustee, any cash receipts, checks, and other items of payment (including, insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds) that it receives and immediately will deliver said cash receipts, checks, and other items of payment to the Lockbox Bank for deposit to the Lockbox Account in their original form as received by Borrower.

4.4 RELEASE OF PORTIONS OF THE REAL PROPERTY. So long as no Event of Default has occurred and is continuing, so long as no Event of Default would occur as a result thereof, and subject to the satisfaction of each of the following conditions, Foothill shall, from time to time, upon twenty (20) Business Days prior written request therefor, deliver to an escrow or title company, a partial reconveyance or release of its lien upon a parcel composing the Real Property:

(i) Foothill shall have received or shall receive, concurrent with the delivery of such release or reconveyance, the Release Amount for the subject parcel of the Real Property;

(ii) the proposed release or reconveyance is of one of the fourteen (14) legal parcels set forth on Schedule R-1 attached hereto and not a subdivision thereof;

(iii) prior to the transfer date, Borrower shall have delivered an irrevocable instruction to the escrow or title company directing that they are only authorized to record the release or the reconveyance upon payment of the applicable Release Amount to Foothill; and

(iv) prior to or on the transfer date, Beneficiary shall reimburse Foothill for the reasonable cost of preparing, reviewing, and delivering the releases or reconveyances.

Neither the acceptance of any payment nor the issuance of any partial reconveyance by Foothill shall affect Borrower's liability to pay all amounts owing under this Agreement or the lien of any Mortgage on the remainder of the Real Property not reconveyed. Upon written request of Foothill and surrender of any Mortgage to the

applicable trustee for cancellation or endorsement, and upon payment of its fees and charges, said trustee shall reconvey, without warranty, all or any part of the Real Property then subject to the applicable Mortgage. Any reconveyance, whether full or partial, may be made in terms to "the person or persons legally entitled thereto," and the recitals in such reconveyance of any matters or facts shall be conclusive proof of the truthfulness thereof.

4.5 DELIVERY OF ADDITIONAL DOCUMENTATION REQUIRED. At any time upon the request of Foothill, Borrower shall execute and deliver to Foothill all financing statements, continuation financing statements, fixture filings, security agreements, chattel mortgages, mortgages, deeds of trust, pledges, assignments, endorsements, affidavits, reports, notices, letters of authority, and all other documents that Foothill may reasonably request, in form satisfactory to Foothill, to perfect and continue perfected Foothill's security interests in the Collateral and in order to fully consummate all of the transactions contemplated hereby and under the other the Loan Documents.

4.6 POWER OF ATTORNEY. Borrower hereby irrevocably makes, constitutes, and appoints Foothill (and any of Foothill's officers, employees, or agents designated by Foothill) as Borrower's true and lawful attorney, with power to: (a) if Borrower refuses to, or fails timely to execute and deliver any of the documents described in Section 4.5, sign the name of Borrower on any of the documents described in Section 4.5; (b) at any time that an Event of Default has occurred and is continuing, sign Borrower's name on any invoice or bill relating to any Related Account or Related Rents,

drafts against account debtors with respect to Related Accounts or Related Rents, schedules and assignments of Related Accounts or Related Rents, verifications of Related Accounts or Related Rents, and notices to account debtors with respect to Related Accounts or Related Rents; (c) send requests for verification of Related Accounts or Related Rents; (d) at any time that an Event of Default has occurred and is continuing or that the Lockbox Agreement is in effect, endorse Borrower's name on any checks, notices, acceptances, money orders, drafts, or other item of payment or security that may come into Foothill's possession; (e) at any time that an Event of Default has occurred and is continuing, make, settle, and adjust all claims under Borrower's policies of insurance respecting the Collateral and make all determinations and decisions with respect to such policies of insurance; and (f) at any time that an Event of Default has occurred and is continuing, settle and adjust disputes and claims respecting the Related Accounts directly with the account debtors thereof, for amounts and upon terms which Foothill determines to be reasonable, and Foothill may cause to be executed and delivered any documents and releases which Foothill determines to be necessary. The appointment of Foothill as Borrower's attorney, and each and every one of Foothill's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and Foothill's obligation to extend credit hereunder is terminated.

4.7 RIGHT TO INSPECT. Foothill (through any of its officers, employees, or agents) shall have the right, from time to time hereafter to inspect

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Borrower's Books and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral; provided, however, that Foothill (i) may conduct no more than one financial examination per quarter and one Collateral appraisal per annum, unless either (a) an Event of Default has occurred and is continuing, or (b) the NOI for the preceding twelve (12) months with respect to a parcel of the Real Property is less than seventy percent (70%) of the Base NOI applicable to such parcel of Real Property, in which case Foothill may conduct as many financial examinations or Collateral appraisals as it reasonably deems necessary; and (ii) exercises its rights to perform or cause to be performed such inspections, checks, tests and appraisals in a manner so as not to interfere unreasonably with Borrower's operations conducted on the Real Property.

5. REPRESENTATIONS AND WARRANTIES.

In order to induce Foothill to enter into this Agreement, Borrower makes the following representations and warranties, which shall be true, correct, and complete in all material respects as of the Closing Date and at and as of the date of each advance under the Loan, as though made on and as of the date of such advance under the Loan (except to the extent that such representations and warranties expressly relate solely to an earlier date), such representations and warranties to survive the execution and delivery of this Agreement:

5.1 STATUS. Borrower (a) is duly organized and validly formed as a real estate investment trust under California law, formed pursuant to the Declaration of Trust, and has not been dissolved, revoked, or terminated, and no action has been taken to dissolve, revoke, or terminate Borrower, (b) has all requisite power and authority and all necessary licenses and permits to own and operate its properties and to carry on its business as now conducted and as currently proposed to be conducted, where failure to have such power, authority, licenses, and permits might have a Material Adverse Effect, and (c) has been duly qualified and is authorized to do business in each jurisdiction, if any, where failure to qualify might have a Material Adverse Effect.

5.2 NO PRIOR ENCUMBRANCES. Borrower has good and indefeasible title to the Collateral, free and clear of liens, claims, security

interests, or encumbrances, except for Permitted Liens.

5.3 COMPLIANCE WITH LAWS. To the best of Borrower's knowledge, after due inquiry, all state and federal laws have been complied with in conjunction with Borrower's ownership or operation of the Collateral, the non-compliance with which would have a material adverse effect upon the value of the Collateral.

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5.4 AUTHORITY TO ASSIGN. Borrower has such title to the Real Property as it acquired and full right and authority to pledge, assign, and encumber the same.

5.5 LOCATION OF CHIEF EXECUTIVE OFFICE; FEIN. The chief executive offices of Borrower is located at the address indicated in the preamble to this Agreement and its FEIN number is 94-2255677.

5.6 DUE AUTHORIZATION; NO CONFLICT. The execution, delivery, and performance of the Loan Documents are within Borrower's trust powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Declaration of Trust, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which its properties or assets may be bound.

5.7 LITIGATION. There are no actions or proceedings pending by or against Borrower before any court or administrative agency and Borrower does not have knowledge or belief of any pending, threatened, or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving Borrower or any guarantor of the Obligations, except for ongoing collection matters in which Borrower is the plaintiff and matters arising after the date hereof that, if decided adversely to Borrower, would not materially impair the prospect of repayment of the Obligations or materially impair the value or priority of Foothill's security interests in the Collateral.

5.8 NO MATERIAL ADVERSE CHANGE IN FINANCIAL CONDITION. All financial statements relating to Borrower or any guarantor of the Obligations that have been delivered by Borrower to Foothill have been prepared in accordance with GAAP and fairly present Borrower's financial condition as of the date thereof and Borrower's results of operations for the period then ended. There has not been a material adverse change in the financial condition of Borrower since the date of the latest financial statements submitted to Foothill on or before the Closing Date.

5.9 SOLVENCY. Borrower is Solvent. No transfer of property is being made by Borrower and no obligation is being incurred by Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of Borrower.

5.10 EMPLOYEE BENEFITS. Each Benefit Plan is in compliance in all material respects with the applicable provisions of ERISA and the IRC. Each Qualified Plan and Multiemployer Plan has been determined by the Internal Revenue Service to qualify under Section 401 of the IRC, and the trusts created thereunder have been determined to be exempt from tax under Section 501 of the IRC, and, to the best knowledge of Borrower, nothing has occurred that would cause the loss of such

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qualification or tax-exempt status. There are no outstanding liabilities under Title IV of ERISA with respect to any Benefit Plan maintained or sponsored by Borrower or any ERISA Affiliate, nor with respect to any Benefit Plan to which Borrower or any ERISA Affiliate contributes or is obligated to contribute which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. No Benefit Plan subject to Title IV of ERISA has any Unfunded Benefit Liability which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. Neither Borrower nor any ERISA Affiliate has transferred any Unfunded Benefit Liability to a person other than Borrower or an ERISA Affiliate or has otherwise engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. Neither Borrower nor any ERISA Affiliate has incurred nor reasonably expects to incur (x) any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan, or (y) any liability under Title IV of ERISA (other than premiums due but not delinquent under Section 4007 of ERISA) with respect to a Benefit Plan, which could, in either event, reasonably be expected to have a material adverse effect on the financial condition of Borrower. No application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the IRC has been made with respect to any Benefit Plan. No ERISA Event has occurred or is reasonably expected to occur with respect to any Benefit Plan which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. Borrower and each ERISA Affiliate have complied in all material respects with the notice and continuation coverage requirements of Section 4980B of the IRC.

5.11 ENVIRONMENTAL CONDITION.

(a) Borrower has not used Hazardous Materials at or affecting the Real Property in any manner which violates any Environmental Law governing the use, storage, treatment, transportation, manufacturing, refinement, handling, production, or disposal of Hazardous Materials.

(b) To the actual knowledge of Borrower, no prior or current owner, occupant, or operator of the Real Property has used Hazardous Materials at or affecting the Real Property in any manner which violates any Environmental Law governing the use, storage, treatment, transportation, manufacturing, refinement, handling, production, or disposal of Hazardous Materials.

5.12 RELIANCE BY FOOTHILL; CUMULATIVE. Each warranty and representation contained in this Agreement shall be conclusively presumed to have been relied on by Foothill regardless of any investigation made or information possessed by Foothill. The warranties and representations set forth herein shall be cumulative and in

addition to any and all other warranties and representations that Borrower now or hereafter shall give, or cause to be given, to Foothill.

6. AFFIRMATIVE COVENANTS.

Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, and unless Foothill shall otherwise consent in writing, Borrower shall do all of the following:

6.1 ACCOUNTING SYSTEM. Borrower shall maintain a standard and modern system of accounting in accordance with GAAP with ledger and account cards or computer tapes, discs, printouts, and records pertaining to the Collateral which contain information as from time to time reasonably may be requested by Foothill.

6.2 FINANCIAL STATEMENTS, REPORTS, CERTIFICATES.

Borrower agrees to deliver to Foothill: (a) as soon as available, but in any event within thirty-five (35) days after the end of each month during each of Borrower's fiscal years, a company prepared unconsolidated balance sheet, income statement, and cash flow statement covering Borrower's operations during such period; and (b) as soon as available, but in any event within ninety (90) days after the end of each of Borrower's fiscal years, financial statements of Borrower for each such fiscal year, audited by independent certified public accountants reasonably acceptable to Foothill and certified, without any qualifications, by such accountants to have been prepared in accordance with GAAP, together with a certificate of such accountants addressed to Foothill stating that such accountants do not have knowledge of the existence of any event or condition constituting an Event of Default, or that would, with the passage of time or the giving of notice, constitute an Event of Default, provided that such accountants shall not be liable for the failure to disclose such event or condition to the extent that it would not reasonably be discovered during the course of an audit conducted in accordance with GAAP. Such audited financial statements shall include a balance sheet, profit and loss statement, and cash flow statement, and, if and when prepared, such accountants' letter to management. Borrower shall have issued written instructions to its independent certified public accountants authorizing them to communicate with Foothill and to release to Foothill whatever financial information concerning Borrower that Foothill reasonably may request.

Each month, together with the financial statements provided for above, Borrower shall deliver to Foothill a certificate signed by its chief financial officer to the effect that: (i) all reports, statements, or computer prepared information of any kind or nature delivered or caused to be delivered to Foothill hereunder have been prepared in accordance with GAAP and fairly present the financial condition of Borrower; (ii) Borrower is in timely compliance with all of its covenants and agreements hereunder; (iii) the representations and warranties of Borrower contained in this Agreement and the other Loan Documents are true and correct in all material respects on and as of the date of such

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certificate, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date); and (iv) on the date of delivery of such certificate to Foothill there does not exist any condition or event that constitutes an Event of Default (or, in each case, to the extent of any non-compliance, describing such non-compliance as to which he or she may have knowledge and what action Borrower has taken, is taking, or proposes to take with respect thereto).

Upon the occurrence of an Event of Default, Borrower shall issue written instructions to its independent certified public accountants authorizing them to communicate with Foothill and to release to Foothill whatever financial information concerning Borrower that Foothill may require. Borrower hereby irrevocably authorizes and directs all auditors, accountants, or other third parties to deliver to Foothill, at Borrower's expense, copies of Borrower's financial statements, papers related thereto, and other accounting records of any nature in their possession, and to disclose to Foothill any information they may have regarding Borrower's business affairs and financial conditions.

6.3 TAX RETURNS. Borrower agrees to deliver to Foothill copies of each of Borrower's future federal income tax returns, and any amendments thereto, within thirty (30) days of the filing thereof with the Internal Revenue Service.

6.4 COLLATERAL REPORTS. Borrower shall deliver to Foothill from time to time hereafter, but not less frequently than monthly, (a) a rental delinquency report, prepared on a per property basis with respect to the Real Property, (b) a report that details the amount of real property taxes that are currently delinquent, those that are currently due and payable,

and those that are to become due and payable within twelve months of the date of the report, such report to be prepared on a per property basis with respect to the Real Property, (c) a report that details those parcels of the Real Property that have been sold by Borrower within the last three months, the net cash proceeds received therefrom, the application of such net cash proceeds, those parcels of Real Property that currently are held for sale, the listing price, and the length of time that such property has been held for sale, (d) a report that details the NOI of each of the parcels of Real Property, and (e) a report that details the vacancy rate of each of the parcels of Real Property. In addition, from time to time hereafter, Borrower shall deliver to Foothill such other and additional information or documentation as Foothill reasonably may request.

6.5 TAXES. Except as otherwise provided by the Plan, all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against Borrower or any of its property shall be paid in full, before delinquency or before the expiration of any extension period. From and after the Closing Date, Borrower shall make due and timely payment or deposit of all federal, state, and local taxes, assessments, or contributions required of it by law (including giving effect to the terms and conditions of the Plan), and will execute and deliver to Foothill, on demand, appropriate certificates attesting to the payment thereof or deposit with respect

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thereto. From and after the Closing Date, Borrower will make timely payment or deposit of all tax payments and withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Foothill with proof satisfactory to Foothill indicating that Borrower has made such payments or deposits.

6.6 INSURANCE.

(a) Borrower, at its expense, shall keep the Collateral (exclusive of the Real Property) insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as are ordinarily insured against by other owners in similar businesses. Borrower also shall maintain, in appropriate amounts, business interruption, public liability, product liability, and property damage insurance, as well as insurance against larceny, embezzlement, and criminal misappropriation.

(b) Borrower will obtain and maintain (i) insurance of the type necessary to insure the Improvements and Chattels (as such terms are defined in the Mortgages), for the full replacement cost thereof, against any loss by fire, lightning, windstorm, hail, explosion, aircraft, smoke damage, vehicle damage, elevator collision, and other risks from time to time included under "extended coverage" policies, (ii) combined single limit bodily injury and property damages insurance against any loss, liability, or damages on, about or relating to each parcel of Real Property, in an amount of not less than Two Million Dollars (\$2,000,000); and (iii) such other risks (other than earthquake and flood as to any property not located in a flood plane) as Foothill reasonably may require. Replacement costs, at Foothill's option, may be redetermined by an insurance appraiser, satisfactory to Foothill, not more frequently than once every twelve months at Borrower's cost.

(c) All insurance required herein shall be written by companies of recognized financial standing, reasonably satisfactory to Foothill, which are authorized to do insurance business in the State of California. Such insurance shall be in form satisfactory to Foothill, shall with respect to hazard insurance and such other insurance as Foothill shall specify, name Foothill as the loss payee thereunder, and shall contain a California Form 438BFU (NS) mortgagee endorsement, or its local equivalent. Every policy of insurance referred to in this Section shall contain an

agreement by the insurer that it will not cancel such policy except after thirty (30) days prior written notice to Foothill and that any loss payable thereunder shall be payable notwithstanding any act or negligence of Borrower or Foothill that might, absent such agreement, result in a forfeiture of all or a part of such insurance payment and notwithstanding (i) occupancy or use of the Real Property for purposes more hazardous than permitted by the terms of such policy, (ii) any foreclosure or other action or proceeding taken by Foothill pursuant to the

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Mortgages upon the happening of an Event of Default, or (iii) any change in title or ownership of the Real Property.

(d) Original policies or certificates thereof satisfactory to Foothill evidencing such insurance shall be delivered to Foothill at least thirty (30) days prior to the expiration of the existing or preceding policies. Borrower shall give Foothill prompt notice of any loss covered by such insurance and Foothill shall have the right to adjust any loss. Foothill shall have the right to participate in the adjustment of all loss payable under any such insurance policies without any liability to Borrower whatsoever in respect of such adjustments. Any monies received as payment for any loss under any Insurance Policy including, but not limited to, the insurance policies mentioned above, shall be paid over to Foothill to be applied at the option of Borrower either to the prepayment of the Obligations without premium, in such order and with such effect as Foothill may elect, or shall be disbursed to Borrower under staged payment terms satisfactory to Foothill for application to the cost of repairs, replacements, or restorations in accordance with Section 6.6(f). All restorations shall be effected with reasonable promptness and shall be of a value at least equal to the value of the items or property to destroyed prior to such damage or destruction. Upon the occurrence of an Event of Default, all prepaid premiums shall be the sole and absolute property of Foothill to be applied by Foothill to the payment of the Obligations in such order or form as Foothill shall determine.

(e) Borrower shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 6.6, unless Foothill is included thereon as named insured with the loss payable to Foothill under a standard California Form 438BFU (NS) mortgagee endorsement, or its local equivalent. Borrower shall immediately notify Foothill whenever such separate insurance is taken out, specifying the insurer thereunder and full particulars as to the policies evidencing the same, and originals of such policies shall immediately thereafter be provided to Foothill.

(f) If Borrower elects to cause Foothill to disburse any monies received as payment for any loss under any insurance policy pursuant to Section 6.6(d), Foothill only be obligated to disburse such money for the repair, replacement or restoration of the Real Property which has been damaged, if all of the following conditions are satisfied: (i) no event or condition then exists constituting an Event of Default then exists, or that with the passage of time or the giving of notice (but nothing else) would constitute an Event of Default; (ii) Borrower shall not be in default under any of the terms, covenants and conditions of any Material Lease which Borrower has entered into with respect to the damaged Real Property; (iii) the damage or destruction of the Real Property shall not cause the termination of any Material Lease of the damaged Real Property prior to the anticipated completion date of the repair, replacement or restoration of the Real Property; (iv) Borrower has in force rental continuation and business interruption insurance covering the damaged Real Property for twelve (12) months; (v) Foothill is reasonably

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satisfied that during the period from the time of damage until the repair, replacement or restoration of such Real Property is completed, the sum of Borrower's NOI plus the proceeds of the rental and business interruption insurance is sufficient to satisfy Borrower's Obligations under all of the Loan Documents as they become due; (vi) Foothill is reasonably satisfied that the insurance proceeds, together with other amounts to be contributed to the repair, replacement, or restoration by Borrower (such amounts to be applied first), shall be sufficient to fully repair, replace or restore the damaged parcel of Real Property; (vii) construction and completion of the repair, replacement or restoration of the Real Property shall be completed in accordance with plans, specifications and drawings submitted to and approved (which approval shall not be unreasonably withheld) by Foothill, which plans, specification and drawings shall not be substantially modified, changed or revised without Foothill's prior written consent, which consent shall not be unreasonably withheld; and (viii) Foothill shall have approved (which approval shall not be unreasonably withheld) all prime contractors and subcontractors, and all contracts Borrower proposes to enter into with respect to the repair, replacement and restoration of the Real Property.

6.7 NO SETOFFS OR COUNTERCLAIMS. All payments hereunder and under the other Loan Documents made by or on behalf of Borrower shall be made without setoff or counterclaim and free and clear of, and without deduction or withholding for or on account of, any federal, state, or local taxes.

6.8 COMPLIANCE WITH LAWS. Borrower shall comply with the requirements of all applicable laws, rules, regulations, and orders of any governmental authority, including the Fair Labor Standards Act and the Americans With Disabilities Act.

6.9 EMPLOYEE BENEFITS.

(a) Borrower shall deliver to Foothill a written statement by the chief financial officer of Borrower specifying the nature of any of the following events and the actions which Borrower proposes to take with respect thereto promptly, and in any event within ten (10) days of becoming aware of any of them, and when known, any action taken or threatened by the Internal Revenue Service, PBGC, Department of Labor, or other party with respect thereto: (i) an ERISA Event with respect to any Benefit Plan; (ii) the incurrence of an obligation to pay additional premium to the PBGC under Section 4006(a) (3) (E) of ERISA with respect to any Benefit Plan; and (iii) any lien on the assets of Borrower arising in connection with any Benefit Plan.

(b) Borrower shall also promptly furnish to Foothill copies prepared or received by Borrower or an ERISA Affiliate of: (i) at the request of Foothill, each annual report (Internal Revenue Service Form 5500 series) and all accompanying schedules, actuarial reports, financial information concerning the financial status of each Benefit Plan, and schedules showing the amounts contributed to each Benefit Plan by or

on behalf of Borrower or its ERISA Affiliates for the most recent three (3) plan years; (ii) all notices of intent to terminate or to have a trustee appointed to administer any Benefit Plan; (iii) all written demands by the PBGC under Subtitle D of Title IV of ERISA; (iv) all notices required to be sent to employees or to the PBGC under Section 302 of ERISA or Section 412 of the IRC; (v) all written notices received with respect to a Multiemployer Plan concerning (x) the imposition or amount of withdrawal liability pursuant to Section 4202 of ERISA, (y) a termination described in Section 4041A of ERISA, or (z) a reorganization or insolvency described in Subtitle E of Title IV of ERISA; (vi) the adoption of any new Benefit Plan that is subject to Title IV of ERISA or Section 412 of the IRC by Borrower or any ERISA Affiliate; (vii) the adoption of any amendment to any Benefit Plan that is subject to Title IV of ERISA or Section 412 of the IRC, if such amendment results in a material increase in benefits or Unfunded Benefit Liability; or (viii) the commencement

of contributions by Borrower or any ERISA Affiliate to any Benefit Plan that is subject to Title IV of ERISA or Section 412 of the IRC.

6.10 ENVIRONMENTAL CONDITION.

(a) Borrower shall keep or cause the Real Property to be kept free of Hazardous Materials and not cause or permit the Real Property to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, produce, or process Hazardous Materials except, in each case, in compliance with all applicable Environmental Laws.

(b) Borrower shall use diligent efforts to ensure compliance by all owners, operators, and occupants, if any, of the Real Property with all applicable Environmental Laws and will use diligent efforts to ensure that all such owners, operators, and occupants obtain and comply with any and all required approvals, registrations, or permits.

(c) Upon the reasonable request of Foothill, Borrower shall conduct and complete such investigations, studies, samplings, and testings relative to Hazardous Materials at or affecting the Real Property as are requested. Upon the reasonable request of Foothill from time to time, Borrower shall provide to Foothill, at Borrower's sole cost and expense and without any liability to Foothill, with an environmental site assessment or an environmental audit report, or an update of such assessment or report, by an environmental engineering firm acceptable to Foothill, all in scope, form and content reasonably satisfactory to Foothill, to assess with a reasonable degree of certainty the presence or absence of Hazardous Materials and the potential cost in connection with the Remediation of any Hazardous Materials at or related to the Real Property. Upon demand of Foothill, and at Borrower's sole cost and expense, Borrower shall promptly take all actions to Remediate the Real Property that are required by federal, state, or local governmental agency or political subdivision or that are reasonably necessary to mitigate a spill or a violation of any Environmental Law or to allow full economic use

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of the Real Property. All such work shall be performed by one or more contractors selected by Borrower and reasonably approved in advance and in writing by Foothill. Borrower shall proceed continuously and diligently with such investigatory and remedial actions, provided that in all cases, such actions shall be in accordance with all applicable requirements of all Environmental Laws. Any such actions shall be performed in a good, safe, and workman like manner and shall minimize any impact on the business or occupation at or near the Real Property. Borrower shall pay all costs in connection with such investigatory and remedial activities, including but not limited to all power and utility costs and any and all taxes or fees that may be applicable to such activities. Borrower shall promptly provide to Foothill copies of testing results and reports that are generated in compliance with the above activities. Promptly upon completion of such investigation and Remediation, Borrower shall permanently seal or cap all monitoring wells and test holes to industrial standards and compliance with all Environmental Laws, remove all associated equipment, and restore the Real Property to the condition existing prior to the commencement of Remediation, which shall include the repair of any surface damage, including paving caused by such investigation or Remediation hereunder. If the estimated cost of any performance under this section exceeds \$250,000 in the aggregate, then within ten (10) days of demand therefor, Borrower shall provide Foothill with a bond, letter of credit, or similar financial assurance evidencing that the necessary funds are available for the obligations established by this subparagraph or shall instruct Foothill to reserve such amounts against the amount of the Loan available under Section 2.1.

(d) The obligations of Borrower and the rights of Foothill with respect to Hazardous Materials are in addition to and not in substitution of the obligations of Borrower and the rights of Foothill under all applicable, federal, state and local laws, regulations and ordinances relating to health and safety, and protection of the environment. The

obligations of Borrower and the rights of Foothill, notwithstanding anything contained herein or in any other document or agreement which may be construed to the contrary, (i) shall not be subject to any antideficiency laws or protections, if any, (ii) shall survive (a) a non-judicial sale, judicial sale or deed or other transaction in lieu of such sale hereunder, and (b) the repayment of the Obligations. In the event Borrower does not timely perform any of its obligations with respect to Hazardous Materials, Foothill may, but is not required to, after first giving Borrower (a) concurrent written notice, in the case of an emergency or continuing release, or (b) ten (10) days prior written notice, in all other cases, and, in the latter circumstance, only if Borrower fails to commence and thereafter diligently pursue the required performance, perform such obligations, but is not obligated to, at the expense of Borrower and such expense shall be added to the Obligations and shall not cure Borrower's breach under this Agreement.

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6.11 LEASES. Borrower shall comply in all material respects with all of its obligations under all leases existing on the Effective Date of Plan or thereafter entered into by it with respect to Real Property. Borrower shall provide Foothill with a copy of each notice of default or termination received by Borrower from any tenant under any Material Lease within five (5) Business Days after receiving any such notice, and deliver to Foothill a copy of each notice of default or termination sent by Borrower to the tenant under any lease simultaneously with its delivery of such notice under such lease, and shall notify Foothill, not later than thirty (30) days prior to the date of the expiration of the term of any lease, and, if Borrower shall intend to renew such lease, the terms and conditions of renewal of any such lease. Upon Foothill's request, Borrower shall use its best efforts to obtain and deliver to Foothill, an estoppel certificate, in form and substance satisfactory to Foothill, executed by such tenants as Foothill may specify, certifying, among other things, that Borrower is not in default under such lease, the amount of rent payable under such lease, the term of such lease, any extra-contractual rent adjustments or discounts, and any purchase, extension or termination option.

6.12 FINANCIAL COVENANT. Borrower shall maintain a Tangible Net Worth of at least Eight Million Dollars (\$8,000,000), measured on a fiscal quarter-end basis.

7. NEGATIVE COVENANTS.

Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Borrower will not do any of the following without Foothill's prior written consent:

7.1 INDEBTEDNESS. Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement;

(b) Indebtedness evidenced by the New Kroeger

Note;

(c) Indebtedness evidenced by the New CET

Unsecured Notes;

(d) Indebtedness evidenced by the Note Agreement, the Principal Notes, or the Interest Deferral Notes; it being acknowledged that there are certain fees and expenses payable under the Note Agreement, the incurrence or payment of which is not restricted hereunder;

(e) Indebtedness arising in connection with the Redding Hotel Improvement Loan in an amount not to exceed \$1,000,000;

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(f) Indebtedness extant on the date hereof and secured by the Senior Mortgages;

(g) unsecured Indebtedness due and payable after October 30, 2000; provided, however, that at the time such unsecured Indebtedness is created, incurred, or assumed the ratio of Available Cash Flow to Interest Expense for the immediately preceding period meets or exceeds two to one (2.0:1.0);

(h) purchase money Indebtedness secured by a purchase money security interest or lien, so long as such security interest or lien only secures the purchase price of the property or asset acquired with such Indebtedness; and

(i) refinancings, renewals, or extensions of Indebtedness permitted under clauses (b), (c), (d), (e), (f), (g), or (h) of this Section 7.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations by Borrower, (ii) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended, (iii) such refinancings, renewals, refundings, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, and (iv) to the extent that Indebtedness that is refinanced was subordinated in right of payment to the Obligations, then the subordination terms and conditions of the refinancing Indebtedness must be at least as favorable to Foothill as those applicable to the refinanced Indebtedness.

7.2 LIENS. Create, incur, assume, or permit to exist, directly or indirectly, any lien on or with respect to any of the Collateral, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens.

7.3 RESTRICTIONS ON FUNDAMENTAL CHANGES. Except for the merger of CalREIT with and into Borrower with CalREIT as the surviving entity and except for the incorporation of Borrower, in each case subject to Borrower's compliance with Section 4.5 hereof, enter into any acquisition, merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, assign, lease, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business, property, or assets, whether now owned or hereafter acquired, or acquire by purchase or otherwise all or substantially all of the properties, assets, stock, or other evidence of beneficial ownership of any Person.

7.4 EXTRAORDINARY TRANSACTIONS AND DISPOSAL OF ASSETS. Enter into any transaction not in the ordinary and usual course of Borrower's business, including the sale, lease, or other disposition of, moving, relocation, or transfer, whether by sale or otherwise,

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of any of the Collateral; provided, however, that the foregoing shall not prevent the making of any Permitted Disposition.

7.5 CHANGE NAME. Other than the change of Borrower's name to "The Peregrine Real Estate Trust" effective on the Effective Date of Plan, change Borrower's name, FEIN, business structure, or identity, or add any

new fictitious name.

7.6 GUARANTEE. Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except by endorsement of instruments or items of payment for deposit to the account of Borrower or which are transmitted or turned over to Foothill. The foregoing notwithstanding, Borrower may issue one or more guaranties from time to time so long as the aggregate amount paid or payable under all such guaranties as of any date of determination does not exceed \$1,000,000.

7.7 RESTRUCTURE. Make any change in the principal nature of Borrower's business operations or the date of its fiscal year (other than to change Borrower's fiscal year to be a calendar fiscal year).

7.8 PREPAYMENTS. Except (a) in connection with a refinancing permitted by Section 7.1(i), or (b) for prepayments that are contractually required to be made with the net cash proceeds of the sale of any property or asset of Borrower or its subsidiaries, prepay any Indebtedness owing to any third Person or prepay the Florin-Perkins Bond Claim. Borrower shall not pay in cash any interest with respect to Indebtedness as to which it has the contractual right to make such payment by the issuance of additional promissory notes of the same kind.

7.9 CHANGE OF CONTROL. Without Foothill's consent, which consent will not be unreasonably withheld, cause, permit, or suffer, directly or indirectly, any Change of Control.

7.10 CAPITAL EXPENDITURES. Make any capital expenditure, or any commitment therefor, in excess of any reasonable and necessary amount for any individual transaction or where the aggregate amount of such capital expenditures, made or committed for in any single fiscal year, is in excess of any reasonable and necessary amount.

7.11 DISTRIBUTIONS. Make any distribution or declare or pay any dividends (in cash or property or assets, other than in-kind) on, or purchase, acquire, redeem, or retire any of Borrower's capital stock, of any class, whether now or hereafter outstanding; provided, however, that if permitted under applicable law, Borrower may declare dividends to the extent, in the opinion of counsel to Borrower satisfactory to Foothill, such payment is required to maintain Borrower's status as a real estate investment trust.

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7.12 ACCOUNTING METHODS. Modify or change its method of accounting or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Borrower's accounting records without said accounting firm or service bureau agreeing to provide Foothill information regarding the Collateral and the Real Property or Borrower's financial condition. Borrower waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by Foothill pursuant to or in accordance with this Agreement, and agrees that Foothill may contact directly any such accounting firm or service bureau in order to obtain such information.

7.13 INVESTMENTS. Except for (a) investments in Cash Equivalents, (b) seller financing permitted by Section 6.6(b) of the Note Agreement, and (c) the purchase, with After Acquired Property, of 100% of the stock of a corporation whose primary assets are real property, Borrower shall not make any loans, guarantees (including guarantees of any lease in connection with a sale/leaseback transaction), capital contributions, or advances to or for the benefit of, or investments in any Person, unless such loans, guarantees, capital contributions, advances or investments are made in the ordinary course of business by real estate operators of property of like kind to the applicable parcel of Real Property.

7.14 TRANSACTIONS WITH AFFILIATES. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms, that are fully disclosed to Foothill, and that are no less favorable to Borrower than would be obtained in arm's length transaction with a non-Affiliate. Borrower and Foothill hereby acknowledge that the foregoing shall not prohibit any transactions between Borrower and the Noteholders pursuant to the terms and conditions of the Note Agreement.

7.15 SUSPENSION. Suspend or go out of a substantial portion of its business.

7.16 USE OF PROCEEDS. Use the proceeds of the advances made hereunder for any purpose other than: (a) to pay transactional costs and expenses incurred in connection with this Agreement; (b) to pay those amounts which Borrower is obligated to pay under the provisions of the Plan in order for the Plan to become effective; and (c) thereafter, consistent with the terms and conditions hereof, for its lawful and permitted purposes; provided, however, that no advance hereunder shall be used to purchase real property or to make tenant improvements on After Acquired Property.

7.17 CHANGE IN LOCATION OF CHIEF EXECUTIVE OFFICE; RELATED EQUIPMENT WITH BAILEES. Borrower covenants and agrees that it will not, without thirty (30) days prior written notification to Foothill, relocate its chief executive office to a new location and so long as, at the time of such written notification, Borrower provides any financing

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statements or fixture filings necessary to perfect and continue perfected Foothill's security interests. The Related Equipment shall not at any time now or hereafter be stored with a bailee, warehouseman, or similar party without Foothill's prior written consent.

7.18 AMENDMENT OF CERTAIN DOCUMENTS.

(a) Agree to any amendment to, or waive any of its rights with respect to, the terms and provisions regarding interest rates, principal or interest payment amounts, total principal amounts or the maturity of principal amounts under the Principal Notes, the Interest Deferred Notes, the Note Agreement, or any of the agreements, or any amendments or waivers with respect to any of the foregoing, without in each case obtaining the prior written consent of Foothill to such amendment or waiver.

(b) Alter, amend, or otherwise change or supplement any term or condition contained in Borrower's Declaration of Trust relative to the rights and preferences of the New CET Preferred Stock in order to (i) provide for the mandatory redemption thereof or mandatory dividends with respect thereto at any time that any of the Obligations are outstanding or Foothill has any commitment to Borrower under any of the Loan Documents, or (ii) provide terms and conditions that reasonably could be expected to have a Material Adverse Effect.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

8.1 MONETARY OBLIGATIONS. If Borrower fails to pay when due and payable or when declared due and payable, any portion of the Obligations (whether of principal, interest (including any interest which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due Foothill, reimbursement of Foothill Expenses, or other amounts constituting Obligations) unless in any case under this Section 8.1 (except as set forth in the following proviso) such payment is made within five

(5) Business Days after the date such payment was first due; provided, however, that the five (5) Business Day grace period set forth herein only shall apply to (i) Overadvances that are caused by the charging of interest or Foothill Expenses to Borrower's loan account with Foothill, or (ii) Overadvances that are caused by the decrease in the Maximum Amount pursuant to Section 2.1(d).

8.2 NON-MONETARY OBLIGATIONS. (a) If Borrower fails or neglects to perform, keep, or observe, in any material respect, any term, provision, condition, covenant, or agreement contained in Sections 6.2, 6.4, or 6.10 of this Agreement and such failure continues for a period of fifteen (15) days from the date of such failure or neglect; (b) If Borrower fails or neglects to perform, keep, or observe, in any material respect, any

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term, provision, condition, covenant, or agreement contained in Sections 6.3, 6.5, or 6.8 of this Agreement and such failure continues for a period of thirty (30) days from the date of such failure or neglect; or (c) If Borrower fails or neglects to perform, keep, or observe, in any material respect, any other term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Foothill (other than any such term, provision, condition, covenant, or agreement contained in Article 5 hereof or that is the subject of another provision of this Article 8);

8.3 BREACH OF MORTGAGES. If Borrower fails or neglects to perform, keep or observe any term, provision, condition, or agreement contained in the Mortgages or the Environmental Indemnity after the expiration of any applicable cure period contained therein;

8.4 MATERIAL IMPAIRMENT. If there is a material impairment of the value of, or priority of Foothill's security interests in, the Collateral. In this regard, the parties hereby agree that the termination or other loss of Borrower's franchise agreement with Holiday with respect to the Chico, Sacramento, or Walnut Creek, California hotels would, ipso facto, constitute a material impairment of the value of the Collateral unless such franchise agreement or agreements, as the case may be, are replaced by Borrower with a franchise agreement with a franchisor of a comparable or better franchise within a period of one hundred eighty (180) days of the date of the termination or loss;

8.5 SEIZURE OF BORROWER'S PROPERTIES. If any material portion of Borrower's properties or assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any third Person;

8.6 VOLUNTARY INSOLVENCY PROCEEDING. If an Insolvency Proceeding is commenced by Borrower;

8.7 INVOLUNTARY INSOLVENCY PROCEEDING. If an Insolvency Proceeding is commenced against Borrower and any of the following events occur: (a) Borrower consents to the institution of the Insolvency Proceeding against it; (b) the petition commencing the Insolvency Proceeding is not timely controverted; (c) the petition commencing the Insolvency Proceeding is not dismissed within sixty (60) calendar days of the date of the filing thereof; provided, however, that, during the pendency of such period, Foothill shall be relieved of its obligation to make additional advances hereunder; (d) an interim trustee is appointed to take possession of all or a substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, Borrower; or (e) an order for relief shall have been issued or entered therein;

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8.8 COURT ORDERS. If Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

8.9 GOVERNMENTAL LIENS. If a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's properties or assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a lien, whether inchoate or otherwise, upon any of Borrower's properties or assets and the same is not paid on the payment date thereof;

8.10 JUDGMENTS. If any judgments or other claims that are junior in priority to any of Foothill's Mortgages in excess of One Million Dollars (\$1,000,000) in the aggregate amount become liens or encumbrances upon any material portion of Borrower's properties or assets;

8.11 MATERIAL DEFAULTS. If there is a default in any material agreement to which Borrower is a party with one or more third Persons resulting in a right by such third Persons, irrespective of whether exercised, to accelerate the maturity of Borrower's obligations thereunder or if there is a material default by Borrower in the payment or performance of any of its obligations under the Plan; provided, however, the preceding sentence notwithstanding, in the event that an Event of Default occurs under this Agreement because of the occurrence of an event of default under the Note Agreement, such Event of Default automatically shall be annulled (and any acceleration rescinded) if the applicable event of default under the Note Agreement has been cured or waived and any acceleration of the Indebtedness thereunder rescinded, and written notice of such cure, waiver, or rescission, as the case may be, shall have been given to Foothill and no other Event of Default has occurred that has not been cured or waived during such period. No rescission or annulment referred to above shall affect any subsequent Event of Default or any right, power, or remedy arising out of such subsequent Event of Default.

8.12 MISREPRESENTATIONS BY BORROWER. If any material misstatement or misrepresentation exists in any warranty, representation, statement, or report as of the date when made to Foothill by Borrower or any officer, employee, agent, or director of Borrower, or if any such material warranty or representation is withdrawn;

8.13 TERMINATION OF SUBORDINATION AGREEMENT. If the obligation of any third Person under the Subordination Agreement is limited or terminated by operation of law, or terminated or purported to be terminated by the third Person thereunder, or any such third Person becomes the subject of an Insolvency Proceeding; or

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8.14 EMPLOYEE BENEFITS.

(a) With respect to any Benefit Plan, the occurrence of any of the following which could reasonably be expected to have a material adverse effect on the financial condition of Borrower: (i) the violation of any of the provisions of ERISA; (ii) the loss by a Benefit Plan intended to be a Qualified Plan of its qualification under Section 401(a) of the IRC; (iii) the incurrance of liability under Title IV of ERISA; (iv) a failure to make full payment when due of all amounts which, under the provisions of any Benefit Plan or applicable law, Borrower or any ERISA Affiliate is required to make; (v) the filing of a notice of intent to terminate a Benefit Plan under Sections 4041 or 4041A of ERISA; (vi) a complete or partial withdrawal of Borrower or an ERISA Affiliate from any Benefit Plan; (vii) the receipt of a notice by the plan administrator of a Benefit Plan that the PBGC has instituted proceedings to terminate such Benefit Plan or appoint a trustee to administer such Benefit Plan; (viii) a commencement or increase of

contributions to, or the adoption of or the amendment of, a Benefit Plan; and (ix) the assessment against Borrower or any ERISA Affiliate of a tax under Section 4980B of the IRC.

(b) The Unfunded Benefit Liability of all of the Benefit Plans of Borrower and its ERISA Affiliates shall, in the aggregate, exceed \$1.00.

8.15 REAL PROPERTY.

(a) If there shall occur during any consecutive twelve month period, one or more uninsured losses, thefts, damage or destruction of the Real Property, or any part thereof, having an aggregate value in excess of ten percent of the aggregate amount of the Release Amounts for the then remaining Real Property Collateral; or

(b) If an event of default shall occur under any Permitted Lien that encumbers the Real Property and the effect thereof is to cause a Material Adverse Effect.

Foothill has agreed to endeavor, in good faith, to provide Borrower with telephonic notice of the occurrence of an Event of Default under Sections 8.2, 8.3, 8.4, 8.11, 8.12 or 8.13 at or prior to time at which Foothill declares such Event of Default to be extant; provided, however, that Foothill shall suffer no liability whatsoever for any failure (other than a wilful failure) to send such notification.

9. FOOTHILL'S RIGHTS AND REMEDIES.

9.1 RIGHTS AND REMEDIES. In addition to the remedies set forth in the Mortgages, upon the occurrence of an Event of Default Foothill may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

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(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable;

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement, under any of the Loan Documents, or under any other agreement between Borrower and Foothill;

(c) Terminate this Agreement and any of the other Loan Documents as to any future liability or obligation of Foothill, but without affecting Foothill's rights, liens, and security interests in the Collateral and without affecting the Obligations;

(d) Without notice to or demand upon Borrower, make such payments and do such acts as Foothill considers necessary or reasonable to protect its security interests in the Collateral. Borrower authorizes Foothill to pay, purchase, contest, or compromise any encumbrance, charge, or lien that in Foothill's determination appears to conflict with its security interests and to pay all expenses incurred in connection therewith. The foregoing shall include the right to discharge any Allowed Mechanic's Lien Claim or Allowed Secured Real Property Tax Claim;

(e) Without notice to Borrower (such notice being expressly waived), and without constituting a retention of any collateral in satisfaction of an obligation (within the meaning of Section 9505 of the Code), set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Foothill, or (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Foothill;

(f) Hold, as cash collateral, any and all balances and deposits of Borrower held by Foothill, to secure the full and final repayment of all of the Obligations;

(g) Prepare for sale, advertise for sale, and sell (in the manner provided for herein or in the Mortgages) the Collateral. Foothill is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in advertising for sale, and selling any Collateral and Borrower's rights under all licenses and all franchise agreements shall inure to Foothill's benefit;

(h) Sell the Personal Property Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Foothill

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50 determines is commercially reasonable. It is not necessary that the Collateral be present at any such sale;

(i) Foothill shall give notice of the disposition of the Personal Property Collateral as follows:

(1) Foothill shall give Borrower and each holder of a security interest in the Personal Property Collateral who has filed with Foothill a written request for notice, a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Personal Property Collateral, then the time on or after which the private sale or other disposition is to be made;

(2) The notice shall be personally delivered or mailed, postage prepaid, to Borrower as provided in Section 12, at least five (5) days before the date fixed for the sale, or at least five (5) days before the date on or after which the private sale or other disposition is to be made; no notice needs to be given prior to the disposition of any portion of the Personal Property Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market. Notice to Persons other than Borrower claiming an interest in the Personal Property Collateral shall be sent to such addresses as they have furnished to Foothill;

(3) If the sale is to be a public sale, Foothill also shall give notice of the time and place by publishing a notice one time at least five (5) days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held;

(j) Foothill may credit bid and purchase at any public sale; and

(k) Any deficiency that exists after disposition of the Personal Property Collateral as provided above will be paid immediately by Borrower. Any excess will be returned, without interest and subject to the rights of third Persons, by Foothill to Borrower.

9.2 REMEDIES CUMULATIVE. Foothill's rights and remedies under this Agreement, the other Loan Documents, all other agreements shall be cumulative. Foothill shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Foothill of one right or remedy shall be deemed an election, and no waiver by Foothill of any Event of Default shall be deemed a continuing waiver. No delay by Foothill shall constitute a waiver, election, or acquiescence by it.

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9.3 FORECLOSURE NOT A DISCHARGE. Foreclosure shall not operate as a discharge to Borrower's obligations to Foothill as to Hazardous Materials and the indemnity provisions in Section 11 hereof; and in the event Borrower tenders a deed in lieu of foreclosure for all or part of the Real Property, Borrower shall deliver such property to Foothill (or its designee) free of any and all Hazardous Materials that were not permitted, under the terms and conditions of this Agreement, to be on or under such property. The indemnity provisions in Section 11 hereof shall not be discharged or affected in any way by foreclosure or by Foothill's acceptance of a deed in lieu thereof, and the same shall continue for a period equal to the longest living child born in Los Angeles County on October 1, 1994, plus twenty-one (21) years.

10. TAXES AND EXPENSES REGARDING THE COLLATERAL.

10.1 FAILURE TO PAY. If Borrower fails to pay, or cause the payment of, any monies (whether taxes, rents, assessments, insurance premiums, or otherwise) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement or the Mortgages, after having been given notice and the opportunity to make any such payment within the applicable cure period, then, to the extent that Foothill reasonably determines that such failure by Borrower could have a material adverse effect on Foothill's interests in the Collateral, in its reasonable discretion and without further notice to Borrower, Foothill may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves in Borrower's loan account as Foothill deems necessary to protect Foothill from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type described in Section 6.6, and take any action with respect to such policies as Foothill deems prudent. Any such amounts paid by Foothill shall constitute Foothill Expenses. Any such payments made by Foothill shall not constitute an agreement by Foothill to make similar payments in the future or a waiver by Foothill of any Event of Default under this Agreement. Foothill need not inquire as to, or contest the validity of, any such expense, tax, security interest, encumbrance, or lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

10.2 RIGHT TO CONTEST. Notwithstanding the provisions set forth in Sections 6.5 and 10.1 regarding Borrower's obligation to pay taxes, Borrower shall not be required to pay or discharge any taxes levied against any parcel of Real Property so long as Borrower shall in good faith and at its own expense contest the same or the validity thereof by appropriate legal proceedings which shall operate to prevent the collection thereof or other realization thereon or the sale, forfeiture or loss of the Real Property or any part thereof to satisfy the same; provided that (i) during such contest Borrower shall, at the option of Foothill, provide security in forms and amounts satisfactory to Foothill assuring the discharge of Borrower's obligation to pay such taxes and of any additional charge, penalty or expense arising from or incurred as a result of such contest, (ii) any such contest shall not subject Foothill to any civil or criminal liability whatsoever, and (iii)

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Borrower diligently and rapidly prosecutes such contest to completion. However, if at any time payment of any taxes levied against any parcel of Real Property shall become necessary to prevent foreclosure on the Real Property or any portion thereof because of non-payment, or if Foothill or Borrower shall incur any civil or criminal liability as a result of such non-payment, Foothill

may, without any liability to Borrower whatsoever, apply such security to the payment of the same, or otherwise pay the same pursuant to the provisions of Section 10.1 in sufficient time to prevent the delivery of such tax deed or the incurrence of such civil or criminal liability, as the case may be.

11. WAIVERS; INDEMNIFICATION.

11.1 DEMAND; PROTEST; ETC. Except as expressly provided for herein, Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Foothill on which Borrower may in any way be liable.

11.2 FOOHILL'S LIABILITY FOR COLLATERAL. So long as Foothill complies with its obligations, if any, under Section 9207 of the Code, Foothill shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any other Person. All risk of loss, damage, or destruction of the Collateral shall be borne by Borrower.

11.3 INDEMNIFICATION. Borrower agrees to defend, indemnify, save, and hold all Indemnified Persons harmless against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other Person arising out of or relating to the transactions contemplated by this Agreement or any other Loan Document including those claimed by any broker or finder, except to the extent that such indemnified liability arises proximately from the gross negligence or wilful misconduct of the Indemnified Person asserting its rights under this indemnity, (b) all Losses, and (c) all losses (including reasonable attorneys' fees) suffered or incurred by any Indemnified Person, regardless of negligence (except to the extent that such indemnified liability arises proximately from the gross negligence or wilful misconduct of the Indemnified Person asserting its rights under this indemnity), whether as a holder of security interests in Real Property, as mortgagee in possession, or as successor in interest to Borrower as owner of the Real Property by virtue of foreclosure or acceptance of a deed or other transaction in lieu of foreclosure, or after partial or total reconveyance of the mortgage, arising from, in respect of, as a consequence of (whether foreseeable or unforeseeable) or in connection with the use, storage, disposal, generation, transportation, spill or treatment of any Hazardous Materials at or related to the Real Property whether or not originating or emanating from the Real Property. The foregoing indemnity shall not apply, however, to any losses suffered or

incurred by any Person as the result of any act or omission with respect to the Real Property that occurs or fails to occur on or after the date on which any Indemnified Person has foreclosed thereon or taken title thereto. This section shall survive the termination of this Agreement. Borrower and Foothill understand and acknowledge that Borrower's covenant regarding Remediation of Hazardous Materials is contained in Section 6.10 and nothing in this section is intended to modify or expand Borrower's obligations to Foothill under Section 6.10 hereof.

12. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail, postage prepaid, return receipt requested, or by prepaid telex, TWX, telefacsimile, or telegram (with messenger delivery specified) to Borrower or to Foothill, as the case may be, at its address set forth below:

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If to Borrower: THE PEREGRINE REAL ESTATE TRUST
1300 Ethan Way, Suite 200
Sacramento, California 95825
Attention: Arnold E. Brown
Telefacsimile No.: (916) 929-1122

With a copy to: GREENBERG, GLUSKER, FIELDS, CLAMAN & MACHTINGER
1900 Avenue of the Stars, Suite 2000
Los Angeles, California 90067
Attention: Paula J. Peters, Esq.
Telefacsimile No.: (310) 553-0687

If to Foothill: Foothill Capital Corporation
11111 Santa Monica Boulevard
Suite 1500
Los Angeles, California 90025-3333
Attention: Business Finance Division Manager
Telefacsimile No.: (310) 478-4860

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With a copy to: BROBECK, PHLEGER & HARRISON
550 South Hope Street, Suite 2100
Los Angeles, California 90071-2604
Attention: John Francis Hilson, Esq.
Telefacsimile No.: (213) 239-1324

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The parties here to may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 12, other than notices by Foothill in connection with Sections 9504 or 9505 of the Code, shall be deemed received on the earlier of the date of actual receipt or three (3) Business Days after the deposit thereof in the mail. Borrower acknowledges and agrees that notices sent by Foothill in connection with Sections 9504 or 9505 of the Code shall be deemed sent when deposited in the mail or transmitted by telefacsimile or other similar method set forth above.

13. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

THE VALIDITY OF THIS AGREEMENT, ITS CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT, AND THE RIGHTS OF THE PARTIES HERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR RELATED HERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA OR, AT THE SOLE OPTION OF Foothill, IN ANY OTHER COURT IN WHICH Foothill SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. EACH OF BORROWER AND Foothill WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 13. BORROWER AND Foothill HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. BORROWER AND Foothill REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF

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LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

14. DESTRUCTION OF BORROWER'S DOCUMENTS.

All documents, schedules, invoices, agings, or other papers delivered by Borrower to Foothill may be destroyed or otherwise disposed of by Foothill four (4) months after they are delivered to or received by Foothill, unless Borrower requests, in writing, the return of said documents, schedules, or other papers and makes arrangements, at Borrower's expense, for their return.

15. GENERAL PROVISIONS.

15.1 EFFECTIVENESS. This Agreement shall be binding and deemed effective when executed and delivered by Borrower and Foothill.

15.2 SUCCESSORS AND ASSIGNS. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Borrower may not assign this Agreement or any rights or duties hereunder without Foothill's prior written consent and any prohibited assignment shall be absolutely void. No consent to an assignment by Foothill shall release Borrower from its Obligations. Foothill may assign this Agreement and its rights and duties hereunder and no consent or approval by Borrower is required in connection with any such assignment. Foothill reserves the right to sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in Foothill's rights and benefits hereunder. In connection with any such assignment or participation, Foothill may disclose all documents and information which Foothill now or hereafter may have relating to Borrower or Borrower's business. To the extent that Foothill assigns its rights and obligations hereunder to a third Person, Foothill shall thereafter be released from such assigned obligations to Borrower and such assignment shall effect a novation between Borrower and such third Person. Foothill and Borrower hereby agree that the provisions of this Section 15.2 shall not expand the eligible classes of Persons included within the definition of Indemnified Persons.

15.3 SECTION HEADINGS. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each section applies equally to this entire Agreement.

15.4 INTERPRETATION. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against Foothill or Borrower, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

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15.5 SEVERABILITY OF PROVISIONS. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

15.6 AMENDMENTS IN WRITING. This Agreement cannot be changed or terminated orally. All prior agreements, understandings, representations, warranties, and negotiations, if any, are merged into this Agreement.

15.7 COUNTERPARTS; TELEFACSIMILE EXECUTION. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of a manually executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver a manually executed counterpart of this Agreement but the failure to deliver a manually executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

15.8 REVIVAL AND REINSTATEMENT OF OBLIGATIONS. If the incurrence or payment of the Obligations by Borrower or the transfer by Borrower to Foothill of any property of Borrower should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, and other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if Foothill is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that Foothill is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of Foothill related thereto, the liability of Borrower automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

15.9 LENDING RELATIONSHIP. Nothing contained in this Agreement or any of the other Loan Documents shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venture or any association between Borrower and Foothill, it being expressly understood and agreed that nothing contained in this Agreement or the other Loan Documents shall be deemed to create any relationship between Borrower and Foothill other than the relationship of borrower and lender.

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15.10 INTEGRATION. This Agreement, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, whether before or after the date hereof.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in Los Angeles, California.

FOOTHILL CAPITAL CORPORATION,
a California corporation

By _____
Title: _____

COMMONWEALTH EQUITY TRUST, a
California real estate investment trust

By _____
Title: _____

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PREFERRED STOCK PURCHASE AGREEMENT

by and among

THE PEREGRINE REAL ESTATE TRUST

and

THE BUYERS NAMED HEREIN

Dated as of October 1, 1994

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PREFERRED STOCK PURCHASE AGREEMENT

This Preferred Stock Purchase Agreement ("Agreement"), dated as of October 1, 1994, is by and among The Peregrine Real Estate Trust f/k/a Commonwealth Equity Trust, a real estate investment trust organized under the laws of the State of California ("Peregrine"), and the buyers named herein (each a "Buyer," and collectively, the "Buyers").

RECITALS

A. Peregrine incurred certain indebtedness to the Buyers (or their predecessors in interest) pursuant to the Old Note Agreement.

B. On August 2, 1993, Peregrine filed a petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of California, Case No. 93-26727-C11.

C. Pursuant to the Plan of Reorganization of Peregrine, a portion of the indebtedness of Peregrine to the Buyers under the Old Note Agreement is being satisfied in consideration of, among other things, the execution, delivery and performance of this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and

premises contained herein and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 Defined Terms. As used herein, the terms below shall have the following meanings:

"Affiliate" shall mean any entity controlling, controlled by or under common control with Peregrine. For the purposes of this definition, "control" shall have the meaning presently specified for that word in Rule 405 promulgated by the SEC under the Securities Act. With respect to any person who is a limited partnership, Affiliate shall also mean any general partner or limited partner of such limited partnership, or any person which is a general partner in a general or limited partnership, which is a general partner of such limited partnership.

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"Agreement" shall mean this Preferred Stock Purchase Agreement, together with all schedules and exhibits referenced herein.

"Assets" shall mean all real and personal property and other assets of Peregrine and its Subsidiaries.

"Bankruptcy Code" shall mean Title 11 of the United States Bankruptcy Code, as amended.

"Bankruptcy Court" shall mean the United States Bankruptcy Court for the Eastern District of California.

"Closing Date" shall mean the business day on which each of the conditions set forth in Articles V and VI of this Agreement is satisfied or waived, or such other date as may be mutually agreed upon in writing by Peregrine and Buyers.

"Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

"Common Stock" shall mean Peregrine's Common Stock.

"Conversion Stock" shall mean Common Stock issued upon conversion of the Preferred Shares.

"Declaration of Trust" shall mean the Declaration of Trust of

Peregrine as in effect on the date hereof.

"Dividends Received Deduction" shall mean the deduction for dividends received provided by Section 243(a) of the Code as in effect on the date hereof and as hereafter amended, or any successor provision.

"Encumbrances" shall mean any claim, lien, pledge, option, charge, easement, security interest, right-of-way, encumbrance or other rights of third parties, and, with respect to any securities, any agreements, understandings or restrictions affecting the voting rights or other incidents of record or beneficial ownership pertaining to such securities.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"GAAP" shall mean U.S. generally accepted accounting principles.

"Indebtedness" shall mean, with respect to any person, without duplication, (i) all items (excluding items of contingency reserves or of reserves for deferred income taxes) which in accordance with GAAP would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person as of the date on which Indebtedness is to

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be determined, (ii) all indebtedness secured by any lien on any property or asset owned or held by such Person subject thereto, whether or not the indebtedness secured thereby shall have been assumed, and (iii) all indebtedness of others with respect to which such Person has become liable by way of a guarantee.

"Material Adverse Effect" with respect to any person or entity shall mean a material adverse effect on the business, condition (financial or otherwise), Permits, assets, Liabilities, working capital, reserves, earnings or operations of such person or entity.

"Note Agreement" shall mean that certain Second Amended and Restated Note Agreement by and among Peregrine and Buyers substantially in the form of Exhibit A hereto.

"Old Note Agreement" shall mean that certain Amended and Restated Note Agreement dated July 17, 1992 by and among Peregrine and Buyers (or their predecessors in interest), as amended.

"Permits" shall mean all licenses, permits, orders, consents, approvals, registrations, authorizations, qualifications and filings with and under all federal, state, local or foreign laws and governmental or regulatory bodies and all industry or other non-governmental self-regulatory organizations.

"Plan" shall mean the Third Amended Plan of Reorganization of Peregrine under chapter 11 of the Bankruptcy Code dated July 27, 1994 as confirmed by order of Bankruptcy Judge Christopher Klein dated August 8, 1994.

"Preferred Stock" shall mean Peregrine's preferred stock.

"Registration Rights Agreement" shall mean that certain Registration Rights Agreement by and among Peregrine and Buyers, substantially in the form of Exhibit B hereto.

"SEC" shall mean the Securities and Exchange Commission.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Significant Holder" shall mean a holder of Preferred Shares which are convertible into 5% or more of the initial number of shares of Conversion Stock issuable upon conversion of the Preferred Shares, as adjusted from time to time pursuant to the respective terms thereof.

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"Subsidiary" shall mean any corporation or other entity of which Peregrine owns, directly or indirectly, a majority of the capital stock or a majority of the other equity interests.

1.2 Other Defined Terms. The following terms shall have the meanings defined for such terms in the Sections set forth below:

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ARTICLE II

PURCHASE AND SALE OF SECURITIES

2.1 Authorization of Securities. On or before the Closing Date, Peregrine will have authorized the issuance of the Preferred Shares.

2.2 Purchase and Sale of Securities. Upon the terms and

subject to the conditions contained herein, on the Closing Date, Peregrine will sell to Buyers, and Buyers will purchase from Peregrine, all of the Preferred Shares (as hereinafter defined). The aggregate number of shares of Preferred Stock to be purchased by each Buyer shall be the amount set forth opposite such Buyer's name on Schedule 1 hereto. The aggregate number of shares of Preferred Stock to be purchased hereunder ("Preferred Shares") shall be 11,250,000.

2.3 Consideration for Preferred Shares. The consideration for the purchase of the Preferred Shares shall be the restructuring of a portion of the Indebtedness owed to Buyers by Peregrine as provided in the Plan of Reorganization.

ARTICLE III

CLOSING

3.1 Closing. The closing of the transactions contemplated herein (the "Closing") shall be held at 9:00 A.M.

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Pacific Time on the Closing Date at the offices of Greenberg, Glusker, Fields, Claman & Machtinger, 1900 Avenue of the Stars, Los Angeles, California 90067, unless the parties hereto otherwise agree.

3.2 Actions to be Taken and Documents to be Delivered. Subject to the terms and conditions of this Agreement, to effect the purchase and sale of the Preferred Shares and the delivery of the consideration described in Section 2.3 hereof, Peregrine and Buyers shall take the following actions in the following order:

(a) At the Closing:

(i) Peregrine shall issue and deliver to Buyers certificates evidencing the Preferred Shares;

(ii) Peregrine and Buyers shall each deliver all documents required to be delivered pursuant to Articles V and VI.

(b) Immediately prior to or concurrently with the completion of the actions described in subsection (a) above, Peregrine and Buyers shall enter into and consummate the transactions contemplated by the Note Agreement and shall enter into the Registration Rights Agreement.

All instruments and documents executed and delivered to Buyers pursuant hereto shall be in form and substance, and shall be executed in a manner, reasonably satisfactory to Buyers. All instruments and documents executed and delivered to Peregrine pursuant hereto shall be in form and substance, and shall be executed in a manner, reasonably satisfactory to Peregrine.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PEREGRINE

Peregrine hereby represents and warrants only to Buyers with respect to this purchase as follows:

4.1 Organization of Peregrine. Peregrine is a real estate investment trust duly organized, validly existing and in good standing under the laws of the State of California and has full power and authority to conduct its business as it is presently being conducted and to own, lease and operate its properties and assets. Peregrine is duly qualified or otherwise authorized as a foreign entity to conduct the business conducted by it and is in good standing in each jurisdiction in which such qualification or authorization is necessary under the applicable law and where the failure to be so qualified or otherwise authorized would have a Material Adverse Effect on Peregrine and its Subsidiaries, taken as a whole. A copy of the Restated

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Declaration of Trust, and a copy of the Bylaws, attached hereto as Exhibits C and D, respectively, are and will be accurate and complete as of the date hereof.

4.2 Capital Stock. As of the Closing Date the authorized capital stock of Peregrine consists of Fifty Million (50,000,000) shares of Common Stock, not more than Five Million (5,000,000) of which will be issued and outstanding on the Closing Date and Twenty-Five Million (25,000,000) shares of Preferred Stock, no shares of which are issued and outstanding, and no shares of any other class or series of capital stock are authorized, issued or outstanding. All of the outstanding shares of the Common Stock have been duly and validly authorized and issued, are fully paid and non-assessable and were issued pursuant to the Plan, and within the limitations contained in, appropriate and effective Permits of each governmental authority from whom any Permit was required by law. Except as provided in the Plan, other than this Agreement there are no subscriptions, options, warrants, calls, commitments, preemptive rights or other rights of any kind outstanding for the purchase of, nor any securities convertible into or exchangeable for, any securities of Peregrine. Upon consummation of the transactions contemplated by this Agreement the Preferred Shares acquired by Buyers from Peregrine will be duly authorized and validly issued, fully paid and non-assessable and not subject to any preemptive or similar rights. The Conversion Stock, when issued, will be duly authorized and validly issued, fully paid, and non-assessable, and not subject to any preemptive or similar rights. The Conversion Stock has been reserved for issuance upon the conversion of the Preferred Shares in an amount sufficient to permit the conversion of all the Preferred Shares.

4.3 Authorization. Peregrine has all necessary power and

authority to enter into this Agreement and has taken all action necessary to consummate the transactions contemplated hereby and to perform its obligations hereunder. No other corporate proceedings on the part of Peregrine are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Peregrine and is a legal, valid and binding obligation of Peregrine, enforceable against Peregrine in accordance with its terms.

4.4 No Conflict or Violation. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated by this Agreement will (i) result in a violation of or a conflict with any provision of the Declaration of Trust or other organizational document of Peregrine or any Subsidiary, (ii) result in a breach of, or a default under, any term or provision of any contract, agreement, indebtedness, lease, Encumbrance, commitment, license, franchise, Permit, authorization or concession to which Peregrine or any Subsidiary

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is a party or is subject or by which any Assets of Peregrine or its Subsidiaries are bound, which breach or default is reasonably likely to have a Material Adverse Effect on Peregrine and its Subsidiaries, taken as a whole or interfere in any material way with their respective abilities to consummate the transactions contemplated by this Agreement, (iii) result in a violation by Peregrine or any Subsidiary of any statute, rule, regulation, ordinance, code, order, judgment, writ, injunction, decree or award, (iv) result in the imposition of any material Encumbrance, restriction or charge on the business of Peregrine or any Subsidiary or on any Assets of Peregrine or its Subsidiaries except pursuant to the Note Purchase Agreement, (v) give rise to any right of termination, cancellation, acceleration, alteration, modification or amendment under any contract or other agreement to which any Subsidiary or Peregrine is a party or by or to which they or any of their Assets or properties may be bound or subject, the effect of which would have a Material Adverse Effect on Peregrine and its Subsidiaries, taken as a whole, (vi) result in the breach of any of the terms or conditions of, constitute a default under, or otherwise cause any impairment of, any material Permit or (vii) give rise to any right involving the issuance of securities by Peregrine or any Subsidiary other than the Preferred Shares.

4.5 Consents and Approvals. No consent, approval or authorization of, or declaration, filing or registration with, any governmental or regulatory authority, or any other person or entity, is required to be made or obtained by Peregrine or any Subsidiary on or prior to the Closing Date in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYERS

Each Buyer hereby severally represents and warrants only to the Company with respect to this purchase as follows:

5.1 Sophistication. Buyer is experienced in making investments of this type and has such knowledge and background in financial and business matters that it is capable of evaluating the merits and risks of this investment and protecting its own interests.

5.2 Rule 144. Buyer acknowledges that, because they have not been registered under the Securities Act, the Preferred Shares (and the Conversion Stock into which the Shares are convertible) Buyer is purchasing must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available. Buyer is aware of the provisions of Rule 144 promulgated under the Securities Act that permit limited resale of shares purchased in a private placement

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subject to the satisfaction of certain conditions, including, among other things, the existence of a public market for the shares, the availability of certain current public information about the Company, the resale occurring not less than two years after a party has purchased and paid for the security to be sold, the sale being through a "broker's transaction" or in transactions directly with a "market maker" (as provided by Rule 144(f)), and the number of shares being sold during any three-month period not exceeding specified limitations (unless the sale is within the requirements of Rule 144(k)).

5.3 No Public Market. Buyer understands that no public market now exists for any of the securities issued by the Company and that it is uncertain whether a public market will ever exist for the Preferred Shares or for the Conversion Stock into which the Preferred Shares are convertible.

5.4 Access to Data. Buyer has had an opportunity to discuss the Company's business, management, and financial affairs with the Company's management and to obtain any additional information necessary to verify the accuracy of the information given to Buyer.

5.5 Authority. If Buyer is a corporation, trust, or any other entity, (i) it is authorized and has full right and power to purchase the Preferred Shares, and (ii) the person signing this Agreement and the Registration Rights Agreement and any other instrument executed and delivered hereby on behalf of such entity has been duly authorized by such entity and has full power and authority to do so. Such entity has not been formed for the specific purpose of acquiring the Preferred Shares.

5.6 Residence. The residence or principal place of business set forth on the Schedule of Buyers is Buyer's true and correct residence or principal place of business, is the only jurisdiction in which an offer to sell the Shares was made to Purchaser.

ARTICLE VI

CONDITIONS TO PEREGRINE'S OBLIGATIONS

The obligation of Peregrine to consummate the transactions

contemplated hereby on the Closing Date is subject to the satisfaction or waiver, in the discretion of Peregrine, on or prior to the Closing Date, of each of the following conditions:

6.1 Representations, Warranties and Covenants. All representations and warranties of each Buyer contained in this Agreement shall be true and correct in all material respects at and as of the Closing Date as if such representations and warranties were made at and as of the Closing Date and Buyers

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shall have performed in all material respects all agreements and covenants required hereby to be performed by them prior to or at the Closing Date.

6.2 Consents. All consents, approvals, Permits and waivers from governmental authorities and other parties necessary to permit Peregrine to consummate the transactions contemplated hereby shall have been obtained, unless the failure to obtain any such consent, approval, Permit or waiver would not have a Material Adverse Effect upon Peregrine and its Subsidiaries, taken as a whole.

6.3 Note Agreement. Peregrine and Buyers shall have entered into the Note Agreement and the transactions contemplated thereby shall have been consummated.

6.4 Note Agreement and Registration Rights Agreement. Peregrine and Buyers shall have entered into the Note Agreement and the transactions contemplated thereby shall have been consummated, and Peregrine and Buyers shall have entered into the Registration Rights Agreement.

6.5 Declaration of Trust. The Declaration of Trust shall not have been amended, modified or supplemented in any respect from the Declaration of Trust attached hereto as Exhibit C.

ARTICLE VII

CONDITIONS TO BUYERS' OBLIGATIONS

The obligation of each Buyer to consummate the transactions contemplated hereby is subject to the satisfaction or waiver, in the discretion of each Buyer, on or prior to the Closing Date, of each of the following conditions:

7.1 Representations, Warranties and Covenants. All representations and warranties of Peregrine contained in this Agreement shall be true and correct in all material respects at and as of the Closing Date as if such representations and warranties were made at and as of the Closing Date, and Peregrine shall have performed in all material respects all agreements and

covenants required hereby to be performed prior to or at the Closing Date. There shall be delivered to each Buyer a certificate (signed by the President and the Secretary of Peregrine) to the foregoing effect.

7.2 Note Agreement and Registration Rights Agreement. Peregrine and Buyers shall have entered into the Note Agreement and the transactions contemplated thereby shall have been consummated, and Peregrine and Buyers shall have entered into the Registration Rights Agreement.

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7.3 Declaration of Trust. The Declaration of Trust shall not have been amended, modified or supplemented in any respect from the Declaration of Trust attached hereto as Exhibit C.

7.4 Consents. All consents, approvals, permits and waivers from governmental authorities and other parties necessary to permit Peregrine to consummate the transactions contemplated hereby or necessary to avoid a breach of, default under or termination of any contract or Permit of Peregrine or any Subsidiary shall have been obtained, unless the failure to obtain any such consent, approval, Permit or waiver would not have a Material Adverse Effect upon Peregrine and its Subsidiaries, taken as a whole, or Buyer.

7.5 Opinion of Counsel. Peregrine shall have delivered to Buyers an opinion or opinions of counsel for Peregrine reasonably acceptable to Buyers, in form and substance reasonably satisfactory to Buyers, to the effect that (but subject to customary assumptions and limitations):

(a) Peregrine has been duly organized and is validly existing and in good standing under the laws of the State of California with the power and authority to enter into this Agreement and perform its obligations hereunder and, to such counsel's best knowledge to carry on its business as now conducted and to own, lease and operate its properties;

(b) The execution, delivery and performance of this Agreement have been duly authorized by all necessary action of Peregrine, and this Agreement has been duly executed and delivered by Peregrine;

(c) This Agreement constitutes the valid and binding obligation of Peregrine, enforceable against it in accordance with its terms, except as limited by (i) the effect of bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the rights or remedies of creditors, (ii) the effect of general principles of equity, whether enforcement is considered in a proceeding in equity or at law and the discretion of the court before which any proceeding therefor may be brought, and (iii) other customary exceptions;

(d) The authorized capital stock of Peregrine consists of Fifty Million (50,000,000) shares of Common Stock, and Twenty-Five Million (25,000,000) shares of Preferred Stock, and no shares of any other class or series of capital stock are authorized, issued or outstanding. All of the outstanding shares of the Common Stock have been duly authorized and validly issued, and are fully paid and non-assessable and not subject to any

preemptive or similar rights (such opinion to specify the number of shares of Common

Stock issued and outstanding on the date thereof) will not exceed Five Million (5,000,000);

(e) The Preferred Stock has the rights and preferences specified in the Declaration of Trust, and the Preferred Shares are duly authorized, validly issued, fully paid and non-assessable and not subject to any preemptive or similar rights, and the stock certificates representing the Preferred Shares to be sold to Buyer on the Closing Date have been duly executed by the authorized officers of Peregrine and delivered to Buyers or their nominees as provided in this Agreement;

(f) The shares of Common Stock initially issuable upon conversion of the Preferred Shares have been duly authorized and reserved for issuance and, when issued upon such conversion, will be duly authorized, validly issued, fully paid and non-assessable and not subject to any preemptive or similar rights;

(g) The execution and performance of this Agreement by Peregrine will not violate or result in a failure to comply with any statute, law, ordinance, regulation, rule or order of any federal or California government or any other governmental department or agency, or any judgment, decree, injunction, writ or order applicable to the business or operations of Peregrine;

(h) Neither the execution and delivery of this Agreement by Peregrine nor the consummation of the transactions contemplated hereby will (i) violate the Declaration of Trust or any other organizational document of Peregrine, (ii) to the best knowledge of such counsel, result in the breach of, a default under or give rise to any right of termination, cancellation, acceleration, alteration, modification or amendment under, any material agreement or commitment to which Peregrine is a party and which is identified to such counsel by Peregrine as a material agreement or commitment, (iii) to the best knowledge of such counsel, require any consents, approvals, authorizations, registrations, declarations or filings by Peregrine under any federal or California statute, rule or regulation applicable to Peregrine, except for such consents, approvals, authorizations, registrations, declarations or filings as have been obtained or made prior to the Closing Date or (iv) to the best knowledge of such counsel, give rise to any right involving the issuance of securities by Peregrine or any Subsidiary other than the Preferred Shares;

(i) The offer and sale of the Preferred Shares to Buyer by Peregrine pursuant to the Agreement will not necessitate registration under the Securities Act; and

(j) The offer and sale of the Preferred Shares to Buyers by Peregrine pursuant to the Agreement does not require registration, qualification or other action under any state

securities or blue sky laws, other than action which has been taken.

7.6 Certificates. Peregrine shall furnish Buyers with such certificates of the Chief Executive Officer and the Secretary of Peregrine and others to evidence compliance with the conditions set forth in this Article VII as may be reasonably requested by any Buyer.

7.7 Sales to All Buyers. The sales of Preferred Shares provided for herein shall have taken place to all Buyers contemporaneously.

ARTICLE VIII

ACTIONS BY Peregrine AND BUYERS AFTER THE CLOSING

8.1 Trustees' and Officers' Liability Insurance. For so long as any shares of Preferred Stock purchased hereunder are outstanding, Peregrine shall use its best efforts to maintain in full force and effect Peregrine's existing trustees' and officers' liability insurance policy (or such other trustees' and officers' liability policy on terms no less favorable than those of the existing policy in terms of coverage and amounts) covering the trustees and officers of Peregrine with respect to claims made under the policy during the policy period.

8.2 Declaration of Trust. Peregrine will maintain in effect the provisions in its Declaration of Trust which provide for indemnification and limitation of personal liability of Peregrine's officers and trustees.

8.3 Further Assurances. On and after the Closing Date, Peregrine and Buyers will take all appropriate action and execute all documents, instruments or conveyances of any kind which may be reasonably necessary or advisable to carry out any of the provisions hereof.

8.4 Selection of Independent Public Accountants. From and after the Closing Date Peregrine shall retain as its independent public accountants an independent public accounting firm of nationally recognized standing.

8.5 Payment of Taxes; Existence and Licenses; Maintenance of Assets. Peregrine will:

(a) pay and discharge promptly, or cause to be paid and discharged promptly, when due and payable, all taxes, assessments and governmental charges or levies imposed upon it or upon its income or upon any of its Assets or upon any part

thereof, any of which give rise to liens, charges or encumbrances attaching to any material property of Peregrine or any of its Subsidiaries, as well as all claims of any kind (including claims for labor, materials and supplies) which, if unpaid, might by law become a lien, charge or encumbrance upon its Assets; provided, however, that Peregrine shall not be required to pay, or to cause any Subsidiary to pay, any tax, assessment, charge, levy or claim if the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings and if Peregrine or such Subsidiary shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) deemed by Peregrine adequate with respect thereto;

(b) do or cause to be done all things necessary to preserve and keep in full force and effect its existence, and all of its rights, franchises, licenses and permits; provided, however, that nothing in this Subsection (b) shall (i) prevent the abandonment or termination of Peregrine's or any Subsidiary's authorization to do business in any foreign state or jurisdiction, if, in the opinion of Peregrine or its Board of Trustees (in the latter case evidenced by a duly adopted resolution), such abandonment or termination is in the best interest of Peregrine or such Subsidiary and not disadvantageous to the holders of the Securities or the shares of Common Stock issued upon conversion of the Preferred Shares, or (ii) require compliance with any law so long as the validity or applicability thereof shall be disputed or contested in good faith; and

(c) maintain and keep, or cause to be maintained and kept, its material Assets in good repair, working order and condition, and from time to time make, or cause to be made, all repairs, renewals and replacements which, in the opinion of Peregrine or its Board of Trustees, are necessary and proper so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Subsection (c) shall prevent Peregrine or any Subsidiary from selling or otherwise disposing of any Assets whenever in the good faith judgment of Peregrine's management such Assets are obsolete, worn out, without economic value, or unnecessary for the conduct of the business of Peregrine or such Subsidiary.

8.6 Insurance. Peregrine will, and, except as otherwise provided herein, will cause each Subsidiary to keep or cause to be kept insured, with companies that Peregrine believes to be financially sound and reputable, all of its insurable properties or properties in which it has an insurable interest against such risks and in such amounts and with such deductibles as customarily are maintained by other business entities operating similar businesses.

8.7 Payment of Indebtedness; Compliance with Contracts, Leases, Etc.; Purchase of Stock; Other Restrictions. Peregrine will:

(a) pay or cause to be paid the principal of, and the interest and premium, if any, on, all Indebtedness heretofore or hereafter

incurred or assumed by Peregrine when and as the same shall become due and payable where the failure to do so is likely to have a Material Adverse Effect, unless such Indebtedness shall be renewed or extended, in which case, such payments shall be made in accordance with the terms of such renewal or extension;

(b) faithfully observe, perform and discharge in all material respects all the covenants, conditions and obligations which are imposed on it by any and all indentures, agreements, or other instruments securing or evidencing Indebtedness or pursuant to which Indebtedness is issued when failure to do so is likely to have a Material Adverse Effect, and not permit the occurrence or continuance of any act or omission which is or under the provisions thereof may be declared to be a default thereunder and where such default is likely to have a Material Adverse Effect, unless such default (other than default in payment of principal or interest) or the right to declare a default on account of such act or omission is waived pursuant to the provisions thereof; neither Peregrine nor any Subsidiary shall be required to make any payment or to take any other action by reason of Subsection (a) or (b) at any time while it shall be currently contesting in good faith by appropriate proceedings its obligations to make such payment or to take such action, if Peregrine shall have set aside on its books reserves (segregated or classified to the extent required by generally accepted accounting principles) deemed by it adequate with respect thereto; and

(c) not violate any provision of its Declaration of Trust, as amended, or any material provision of any judgment, writ, decree, order, statute, rule or governmental regulation or approval applicable to Peregrine or any material provision of any contract, agreement, indenture, mortgage, lien, lease, sublease or arbitration award to which Peregrine is a party, by which it is bound or to which any of its Property is subject where the failure to do any of the foregoing is likely to have a Material Adverse Effect.

8.8 Financial Statements; Notices. Peregrine covenants that it will deliver to each Significant Holder:

(a) as soon as practicable and in any event within 35 days after the end of each fiscal month, unconsolidated statements of income of Peregrine for such month, setting forth in comparative form figures for the corresponding month in the preceding fiscal year, all in reasonable detail and reasonably satisfactory in form to such Significant Holder;

(b) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, consolidated statements of income, stockholders' equity and cash flows of Peregrine and its Subsidiaries for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated balance sheet of Peregrine and its Subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures

for the corresponding period in the preceding fiscal year, all in reasonable detail and reasonably satisfactory in form to Buyer and certified by the principal accounting officer or controller, or their equivalent, of Peregrine, subject to changes resulting from year-end adjustments; provided, however, that delivery pursuant to subsection (e) below of copies of the Quarterly Report on Form 10-Q of Peregrine for such quarterly period filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this subsection (b);

(c) as soon as practicable and in any event within 90 days after the end of each fiscal year, consolidated statements of income and cash flows and a consolidated statement of stockholders' equity of Peregrine and its Subsidiaries for such year, and a consolidated balance sheet of Peregrine and its Subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail and satisfactory in form to such Significant Holder and, as to the consolidated statements, reported on by independent public accountants of recognized national standing selected by Peregrine whose report shall be without limitation as to the scope of the audit and satisfactory in substance to such Significant Holder and, as to the consolidating statements, certified by the principal accounting officer or controller, or their equivalent, of Peregrine; provided, however, that delivery pursuant to subsection (d) below of copies of the Annual Report on Form 10-K of Peregrine for such fiscal year filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this subsection (c);

(d) promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as it shall send to its public stockholders and copies of all registration statements (without exhibits) and all reports which it files with the SEC or with any domestic securities exchange on which any of its securities are listed, and copies of all press releases and other statements made available to the public concerning material developments in the business of Peregrine and its Subsidiaries;

(e) promptly upon receipt thereof, a copy of each other report submitted to Peregrine or any Subsidiary by independent accountants in connection with any annual, interim or

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special audit made by them of the books and records of Peregrine or any Subsidiary; and

(f) prompt notice of:

(i) any investigation by the SEC, the Internal Revenue Service, or the United States Department of Justice in connection with which Peregrine or any Subsidiary is identified as an object of such investigation;

(ii) any complaint or proceeding instituted against

Peregrine or any Subsidiary by the SEC, the Internal Revenue Service, or the United States Department of Justice;

(iii) any investigation of, or complaint or proceeding against, Peregrine or any Subsidiary instituted by any other federal agency or by any state or local regulatory agency, which, if concluded adversely to Peregrine or such Subsidiary, could have a Material Adverse Effect on the business or Property of Peregrine or of such Subsidiary; and

(iv) any other action at law or suit in equity in any court or any proceeding before any regulatory or administrative body, involving a claim or claims against Peregrine or any Subsidiary which, if concluded adversely to Peregrine or any Subsidiary, could give rise to damages in excess of \$1,000,000 in the aggregate or could otherwise have a Material Adverse Effect on the business or property of Peregrine or such Subsidiary.

(g) with reasonable promptness, such other financial and/or operating data as such Significant Holder may reasonably request.

8.9 Discussion with Officers and Executives. Peregrine will permit any Significant Holder and any Person designated from time to time by such Significant Holder in writing, at the expense of such Significant Holder, upon notice to Peregrine to visit and inspect any of the properties owned by Peregrine and its Subsidiaries, to examine the books and financial records of Peregrine and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of Peregrine with the principal officers and trustees of Peregrine and its independent public accountants, all at such reasonable times and as often as such Significant Holder may reasonably request.

8.10 Blue Sky. From and after the Closing Date, so long as any Preferred Shares are outstanding, if at any time a holder of Preferred Shares converts any Preferred Shares, in whole or in part, the issuance of Common Stock upon such conversion or exercise may not be lawfully made without the

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registration or qualification of such Common Stock under the securities or blue sky laws of any jurisdiction, Peregrine shall promptly use its best efforts to effect such registration or qualification and such action shall not count as a registration under Section 2 of the Registration Rights Agreement.

8.11 Tax Treatment of Dividends.

(a) Peregrine will not take any action which could reasonably be expected by it (i) to cause the Preferred Shares to be treated as indebtedness for purposes of the Code pursuant to Section 385 of the Code or any successor provision of the Code and the regulations promulgated thereunder, or (ii) to cause the Dividends Received Deduction to cease to be available, in whole or in part, with respect to dividends on the Preferred Shares received by

any corporate holder thereof.

(b) Without limiting the generality of the foregoing, Peregrine covenants and agrees that (i) it will not claim a deduction for dividends paid on the Preferred Shares whether as interest or otherwise, in any federal income tax return, claim for refund of federal income tax or other submission to the Internal Revenue Service, and (ii) unless required to do so by GAAP, it will not treat the Preferred Shares other than as equity capital or the dividends paid thereon other than as dividends paid on capital in any report to stockholders or any governmental body having jurisdiction over Peregrine or otherwise.

(c) Peregrine will cooperate with and support any corporate holder of any Preferred Shares in any litigation, appeal or other proceeding challenging or contesting any ruling, technical advice, finding or determination of the Internal Revenue Service that the Preferred Shares are to be treated as indebtedness for purposes of the Code or that dividends paid on the Preferred Shares are not eligible for the Dividends Received Deduction. The cooperation and support required of Peregrine by the preceding sentence shall be at the expense of such corporate holder, except that Peregrine will pay all fees and expenses (whether incurred by it or a corporate holder) in connection with any such submission, litigation, appeal or other proceeding necessitated or caused by a breach by Peregrine of its covenants contained in this Section 7.11.

8.12 Transactions with Affiliates. Peregrine and its Subsidiaries will not enter into any transactions with any Affiliate on terms that are less favorable to Peregrine or such Subsidiary than those that would be obtainable at the time in an ordinary course transaction with an unaffiliated entity or person.

8.13 Specific Performance as Remedy. If Peregrine, or any Subsidiary or Affiliate, fails to perform any act or take any action required pursuant to this Article VIII, Buyers hereby

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waive any rights or remedies which may otherwise be available to them, at law or in equity, other than (a) damage claims arising under Section 8.11 and (b) specific performance, which shall generally be available under this Article VIII.

ARTICLE IX

INDEMNIFICATION

9.1 Survival of Representations, Etc. All statements contained herein or in any certificate or instrument of conveyance delivered by or on behalf of any party pursuant to this Agreement or in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by such party hereunder. The representations and warranties of

Peregrine contained herein shall survive the Closing Date.

9.2 Indemnification. Peregrine shall indemnify and hold harmless each Buyer and its Affiliates, directors, officers, advisors, agents and employees (the "Indemnified Parties") to the fullest extent lawful, from and against any and all losses, damages, claims, liabilities, actions and expenses (including without limitation, costs of investigating, preparing or defending any such claim or action and reasonable legal fees and expenses) (collectively "Losses") arising out of or in connection with the breach of any warranty, representation, covenant or agreement of Peregrine contained in this Agreement, and including without limitation, any such Losses arising out of transactions entered into or events occurring prior to the Closing; provided, however, that no Indemnified Party shall be entitled to indemnification by Peregrine hereunder with respect to any Losses arising solely from the bad faith or gross negligence (as finally determined by a court of competent jurisdiction) of such Indemnified Party or any affiliate director, officer, agent, or employee of such Indemnified Party. The term "Losses" as used in this Section 8.2 is not limited to matters asserted by third parties against an Indemnified Party, but includes Losses incurred or sustained by an Indemnified Party in the absence of third party claims.

9.3 Indemnification Procedures.

(a) If any action or proceeding shall be brought or asserted against any Indemnified Party in respect of which indemnity may be sought from Peregrine, such Indemnified Party shall promptly notify Peregrine in writing and Peregrine shall assume the defense thereof, including the employment of counsel satisfactory to the Indemnified Party and the payment of expenses as provided in Section 8.2. The Indemnified Party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of

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such counsel shall be borne by such Indemnified Party, unless (i) Peregrine has agreed in writing to pay such fees and expenses, (ii) Peregrine shall have failed promptly to assume the defense of such action or proceeding or shall have failed to employ counsel reasonably satisfactory to such Indemnified Party in any such action or proceeding, or (iii) such Indemnified Party shall have reasonably concluded that there are defenses available to it which are different from or additional to those available to Peregrine which, if Peregrine and the Indemnified Party were to be represented by the same counsel, would constitute a conflict of interest for such counsel or materially prejudice the prosecution of the defenses available to such Indemnified Party (in which case if such Indemnified Party notifies Peregrine in writing that it elects to employ separate counsel at the expense of Peregrine, Peregrine shall not have the right to assume the defense of such action or proceeding on behalf of such Indemnified Party, it being agreed to and understood that Peregrine shall not, in connection with any one such action or proceeding or separate but substantially similar or related actions or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys (together, if appropriate, with one firm of local counsel per jurisdiction) at any time for such Indemnified Party, which counsel or firm shall be designated

in writing by such Indemnified Party or by Buyer if there is more than one Indemnified Party, provided that in the case of (iii) above, Peregrine shall only be liable for the fees and expenses of separate counsel with respect to such different or additional defenses and such Indemnified Party shall instruct such separate counsel to cooperate with Peregrine's counsel in order to reduce the fees and expenses for which Peregrine is liable). Peregrine shall not be liable for any settlement of such action or proceeding, effected without its prior written consent, which consent shall not be unreasonably withheld, but if settled with its written consent, or if there be a final judgment for the plaintiff in any such action or proceeding, Peregrine will indemnify and hold harmless any such Indemnified Party from and against any Losses (to the extent provided for in this Article VIII) by reason of such settlement or judgment.

ARTICLE X

TRANSFER OF SECURITIES

The Preferred Shares and the Conversion Stock shall not be transferable except upon the conditions specified in this Article X, which conditions are intended to insure compliance with the provisions of the Securities Act and state securities laws in respect of the transfer of any such securities.

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10.1 Restrictive Legends.

(a) Unless and until otherwise permitted by this Article, each certificate for Preferred Shares or Conversion Stock issued to a Buyer or its nominee, or to any subsequent transferee of such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, and thus may not be offered for sale, sold, transferred or otherwise disposed of unless registered under the Securities Act of 1933, as amended, or unless an exemption from such registration is available. Further, such transfer is subject to the conditions specified in that certain Preferred Stock Purchase Agreement by and among the Peregrine Real Estate Trust and the Buyers named therein, pursuant to which such shares were issued and sold or otherwise transferred by The Peregrine Real Estate Trust f/k/a Commonwealth Equity Trust ("Peregrine"), a copy of which Agreement is on file and may be inspected at the principal office of Peregrine. A copy of such Agreement will be furnished by Peregrine to the holder hereof upon request and without charge. Under certain circumstances specified in such Agreement, Peregrine has agreed to deliver to the holder hereof a new certificate, not bearing this legend, for all or part of the number of shares evidenced hereby, as the case may be, registered in the name

of such holder or designated nominee."

(b) Each certificate for Preferred Shares shall be stamped or otherwise imprinted with a legend in substantially the following form:

"A statement of the relative rights and preferences of Peregrine's Common Shares and its Preferred Shares will be furnished by Peregrine to the holder hereof upon request and without charge."

(c) Peregrine may order its transfer agents for Preferred Shares and Conversion Stock to stop the transfer of any shares of Preferred Stock or Conversion Stock bearing the legend set forth in Subsection (a) of this Section 10.1 until the conditions of this Article X with respect to the transfer of such shares have been satisfied.

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10.2 Notice of Proposed Transfer. If, prior to any transfer or sale of any Preferred Shares or Conversion Stock, the holder desiring to effect such transfer or sale shall deliver a written notice to Peregrine describing briefly the manner of such transfer or sale and a written opinion of counsel for such holder (provided that such counsel, and the form and substance of such opinion, are reasonably satisfactory to Peregrine) to the effect that such transfer or sale may be effected without the registration of such securities under the Securities Act, Peregrine shall thereupon permit or cause its transfer agent (if any) to permit such transfer or sale to be effected; provided, however, that if in such written notice the transferring holder represents and warrants to Peregrine that the transfer or sale is to a purchaser or transferee whom the transferring holder knows or reasonably believes to be a "qualified institutional buyer," as that term is defined in Rule 144A promulgated by the SEC under the Securities Act ("Rule 144A"), no opinion shall be required.

10.3 Termination of Restrictions.

(a) Notwithstanding the foregoing provisions of this Article IX, the restrictions imposed by this Article IX upon the transferability of Preferred Shares and Conversion Stock shall terminate as to any particular share of Preferred Stock or Conversion Stock, when (1) such security shall have been effectively registered under the Securities Act and sold by the holder thereof in accordance with such registration, or (2) a written opinion to the effect that such restrictions are no longer required or necessary under any federal or state securities law or regulation have been received from counsel for the holder thereof (who may be inside counsel in the case of any institutional holder) or counsel for Peregrine, or (3) such security shall have been sold without registration under the Securities Act in compliance with Rule 144 promulgated by the SEC under the Securities Act ("Rule 144") or Rule 144A, or (4) Peregrine is reasonably satisfied that the holder of such security shall, in accordance with the terms of Subsection (k) of Rule 144, be entitled

to sell such security pursuant to such Subsection, or (5) a letter or an order shall have been issued to the holder thereof by the staff of the SEC or the SEC stating that no enforcement action shall be recommended by such staff or taken by such commission, as the case may be, if such security is transferred without registration under the Securities Act in accordance with the conditions set forth in such letter or order and such letter or order specifies that no subsequent restrictions on transfer are required.

(b) Whenever the restrictions imposed by this Article IX shall terminate, as hereinabove provided, the holder of any particular share of Preferred Stock or Conversion Stock then outstanding as to which such restrictions shall have terminated shall be entitled to receive from Peregrine, without expense to such holder, one or more new certificates for

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Preferred Stock or Conversion Stock not bearing the restrictive legend set forth in Section 10.1(a) hereof.

10.4 Compliance with Rule 144 and Rule 144A. At the written request of any holder of Preferred Shares or Conversion Stock who proposes to sell Preferred Shares or Conversion Stock in compliance with Rule 144, Peregrine shall furnish to such holder, within ten days after receipt of such request, a written statement as to whether or not Peregrine is in compliance with the filing requirements of the SEC as set forth in such Rule. For purposes of effecting compliance with Rule 144A, in connection with any resales of any shares of Preferred Stock or Conversion Stock that hereafter may be effected pursuant to the provisions of Rule 144A, any holder of Preferred Shares or Conversion Stock desiring to effect such resale and each prospective institutional purchaser of such shares designated by such holder shall have the right, at any time Peregrine is not subject to Section 13 or 15(d) of the Exchange Act, to obtain from Peregrine, upon the written request of such holder and at Peregrine's expense, the documents specified in Section (d)(4)(i) of Rule 144A, as such rule may be amended from time to time.

10.5 Non-Applicability of Restrictions on Transfer. Notwithstanding the provisions of Section 10.2 hereof, any record owner of Preferred Shares or Conversion Stock may from time to time transfer all or part of such record owner's Preferred Shares or Conversion Stock (i) to a nominee identified in writing to Peregrine as being the nominee of or for such record owner, and any nominee of or for a beneficial owner of Preferred Shares or Conversion Stock identified in writing to Peregrine as being the nominee of or for such beneficial owner may from time to time transfer all or part of the Preferred Shares or Conversion Stock registered in the name of such nominee but held as nominee on behalf of such beneficial owner, to such beneficial owner, (ii) to an Affiliate, or (iii) if such record owner is a partnership or the nominee of a partnership, to a partner, retired partner, or estate of a partner or retired partner, of such partnership, so long as such transfer is in accordance with the transferee's interest in such partnership and is without consideration; provided, however, that each such transferee shall remain subject to all restrictions on the transfer of securities herein contained.

MISCELLANEOUS

11.1 Notices. Unless otherwise provided herein, any notice, request, instruction or other document to be given hereunder by any party to any other party shall be in writing and delivered by hand-delivery, registered first-class mail, telex, telecopier, or air courier guaranteeing overnight delivery, at

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the address or to the telecopy number on Schedule 1 hereto or to such other place as one party may designate as to itself by written notice to the others.

All such notices, requests, instructions or other documents shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; four business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt acknowledged by addressee, if by telecopier transmission; and on the next business day if timely delivered to an air courier guaranteeing overnight delivery.

11.2 Choice of Law. This Agreement shall be construed, interpreted and the rights of the parties determined in accordance with the internal laws of the State of California, without regard to the conflict of law principles thereof, except with respect to matters of law concerning the internal corporate affairs of any corporate entity which is a party to or the subject of this Agreement, and as to those matters the law of the jurisdiction under which the respective entity derives its powers shall govern.

11.3 Entire Agreement; Amendments and Waivers. This Agreement constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties. Prior to the completion of the Closing, no amendment, supplement, modification or waiver of this Agreement shall be binding unless executed in a written instrument by the party to be bound thereby; thereafter any such amendment, supplement, modification or waiver shall require execution of a written instrument by the beneficial holders of no less than a majority of the Preferred Shares then outstanding and, if it is bound thereby, by Peregrine. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

11.4 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.5 Invalidity. In the event that any one or more of the provisions contained in this Agreement or in any other instrument referred to

herein, shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such instrument.

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11.6 Headings. The headings of the Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

11.7 Attorney's Fees. If any party entitled to do so brings an action to enforce the terms hereof or to declare rights hereunder, the prevailing party in such action shall be entitled to an award of reasonable costs of litigation, including attorneys' fees and related costs, to be paid by the losing party in such action as may be determined by the court having jurisdiction in such action. In addition to costs of litigation, if Buyers incur costs in connection with any effort or action (whether or not litigation is involved) to defend or enforce rights and remedies under this Agreement in connection with a case commenced by or against Peregrine under the federal bankruptcy or reorganization laws or similar laws under applicable state law, Buyers shall be entitled to an award of reasonable costs and expenses, including attorneys' fees, incurred in connection with such efforts or actions.

11.8 Parties in Interest. Except for Sections 8.1 and 8.2, this Agreement shall be binding upon and inure solely to the benefit of each party hereto and their transferees, successors and assigns, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement. Sections 8.1 and 8.2 shall inure to the benefit of each of the directors and officers of Peregrine and its Subsidiaries at the Closing Date as well as to the benefit of each party hereto and such directors and officers shall have the right to enforce the obligations of Peregrine thereunder. Sections 8.1 and 8.2 and the rights to enforce Sections 8.1 and 8.2 shall survive the Closing.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, or have caused this Agreement to be duly executed on their respective behalf by their respective officers thereunto duly authorized, as of the day and year first above written.

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THE PEREGRINE REAL ESTATE TRUST f/k/a
COMMONWEALTH EQUITY TRUST

Name: _____
Frank A. Morrow

Title: President, Chief Executive Officer

PACIFIC MUTUAL LIFE INSURANCE COMPANY

Name: _____

Title: _____

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

Name: _____
John Mullman

Title: Vice President

PRUCO LIFE INSURANCE COMPANY

Name: _____
Gary Trabka

Title: Managing Director

ORIX USA CORPORATION

Name: _____

Title: _____

WEYERHAEUSER COMPANY MASTER RETIREMENT TRUST

By: TCW Special Credits, Its Investment Manager

By: TCW Asset Management Co.,

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS FUND IV

By: TCW Special Credits, Its General Partner

By: TCW Asset Management Co.

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS PLUS FUND

By: TCW Special Credits, Its General Partner

By: TCW Asset Management Co.

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS TRUST IV

By: Trust Company of the West, Trustee

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS TRUST IVA

By: Trust Company of the West, Trustee

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

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SCHEDULE 1

1. The Peregrine Real Estate Trust
1300 Ethan Way
Sacramento, California 95825
Attention: Frank A. Morrow
FAX: (916) 929-1122

<TABLE>
<CAPTION>

	Buyers -----	Shares Purchased -----	FEIN # -----
<S>	<C>	<C>	<C>
2.	The Prudential Insurance Company of America Prudential Specialized Finance Group Four Gateway Center 100 Mulberry Street Newark, New Jersey 07102-4069 Attention: Sr. Managing Director FAX: (201) 802-2662	913,782	22-1211670
3.	The Prudential Insurance Company of America Prudential Specialized Finance Group Four Gateway Center 100 Mulberry Street Newark, New Jersey 07102-4069 Attention: Sr. Managing Director FAX: (201) 802-2662	958,721	22-1211670
2.	PRUCO Life Insurance Company c/o The Prudential Insurance Co. Company of America Prudential Specialized Finance Group Four Gateway Center	1,123,502	22-1944557

100 Mulberry Street
Newark, New Jersey 07102-4069
Attention: Sr. Managing Director
FAX: (201) 802-2662

5.	Pacific Mutual Life Insurance Company Ronn C. Cornelius 700 Newport Beach Newport Beach, California 92660 FAX: (714) 640-3199	2,996,005	95-1079000
6.	Orix USA Corp. Denise L. Getty 600 Wilshire Boulevard, Suite 1460 Los Angeles, California 90017 FAX: (213) 955-6530	449,401	13-3095268
7.	Weyerhaeuser Company Master Retirement Trust c/o Trust Company of the West Attention: Richard Masson 865 South Figueroa Street Suite 1800 Los Angeles, California 90017 FAX: (213) 244-0549	432,773	13-6351459

</TABLE>

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<TABLE>

<S>	<C>	<C>	<C>
8.	TCW Special Credits Fund IV Richard Masson 865 South Figueroa Street Suite 1800 Los Angeles, California 90017 FAX: (213) 244-0549	1,394,490	95-4424460
9.	TCW Special Credits Plus Fund Richard Masson 865 South Figueroa Street Suite 1800 Los Angeles, California 90017 FAX: (213) 244-0549	1,490,663	95-4424461
10.	TCW Special Credits Trust IV Richard Masson 865 South Figueroa Street Suite 1800	1,202,147	95-6955426

Los Angeles, California 90017
FAX: (213) 244-0549

11.	TCW Special Credits Trust IVA Richard Masson 865 South Figueroa Street Suite 1800 Los Angeles, California 90017 FAX: (213) 244-0549	288,516	95-6958283
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</TABLE>

REGISTRATION RIGHTS AGREEMENT

by and among

THE PEREGRINE REAL ESTATE TRUST

and

THE INVESTORS NAMED HEREIN

Dated as of OCTOBER 1, 1994

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REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT, dated as of October 1, 1994 ("Agreement"), by and among The Peregrine Real Estate Trust f/k/a Commonwealth Equity Trust, a trust organized under the laws of the State of California ("Peregrine"), Pacific Mutual Life Insurance Company, The Prudential Insurance Company of America, PRUCO Life Insurance Company, Orix USA Corporation, Weyerhaeuser Company Master Retirement Trust, TCW Special Credits Fund IV, TCW Special Credits Plus Fund, TCW Special Credits Trust IV and TCW Special Credits Trust IVA (individually, an "Investor" and collectively, the "Investors")

RECITALS

(A) Peregrine incurred certain indebtedness to the Investors (or their predecessors in interest) pursuant to the Old Note Agreement.

(B) On August 2, 1993, Peregrine filed a petition for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of California, Case No. 93-26727-C11.

(C) Pursuant to the Plan of Reorganization of Peregrine, a portion of the indebtedness of Peregrine to the Investors under the Old Note Agreement is being satisfied in consideration of, among other things, the issuance of Plan Common and Preferred to the Investors and the execution, delivery and performance of this Agreement and that certain Preferred Stock Purchase Agreement dated as of October 1, 1994 by and among Peregrine and each of the Investors (the "Stock Purchase Agreement").

(D) As provided in the Plan of Reorganization, and as a condition to the consummation of the transactions contemplated by the Stock Purchase Agreement, Peregrine and the Investors have entered into this Agreement to provide certain securities registration rights to the Investors.

AGREEMENTS

In consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. As used in this Agreement:

"Affiliate" shall mean any entity controlling, controlled by or under common control with another entity. For the purposes of this definition, "control" shall have the meaning presently specified for that word in Rule 405 promulgated by the Securities

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and Exchange Commission under the Securities Act. With respect to any person who is a limited partnership, Affiliate shall also mean any general partner or limited partner of such limited partnership, or any Person which is a general partner in a general or limited partnership which is a general partner of such limited partnership.

"Bankruptcy Code" shall mean Title 11 of the United States Code, as amended from time to time, or any successor statute.

"Common" shall mean Peregrine's Common Stock, \$.01 par value per share, and any Stock into which such stock may hereafter be changed.

"Conversion Stock" means Common issued upon conversion of the Preferred.

"Effective Date" shall mean the effective date of the Plan of Reorganization as provided therein.

"Holders" shall mean the Persons who shall, from time to time, own of record any Security. The term "Holder" shall mean any one of the Holders.

"Initial Public Offering" shall mean the initial firm commitment underwritten public offering of Common by means of a Registration Statement filed by Peregrine, which offering does not exclusively relate to the securities under an employee stock option, bonus or other compensation plan, and at a price of not less than \$3 per share of Common (such amount to be ratably adjusted to reflect any stock splits, subdivisions or combinations affecting the Common) and yielding net proceeds to Peregrine of not less than \$20 million (including proceeds received by Peregrine upon exercise of any over-allotment option by the underwriters).

"Investors" shall have the meaning set forth in the Recitals hereto.

"Old Note Agreement" shall mean that certain Amended and Restated Note Agreement dated as of July 17, 1992 among Peregrine and the Investors (or their predecessors in interest).

"Peregrine" shall have the meaning set forth in the Recitals hereto.

"Person" shall mean an individual, a corporation, a partnership, a trust, an unincorporated organization or a governmental organization or any agency or political subdivision thereof.

"Plan Common" shall mean the Common issued to the Investors pursuant to the Plan of Reorganization.

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"Plan of Reorganization" shall mean the Third Amended Plan of Reorganization of Peregrine under Chapter 11, Title 11 of the United States Code, dated July 27, 1994 as confirmed by order of United States Bankruptcy Judge Christopher Klein, dated August 8, 1994.

"Preferred" shall mean Peregrine's Preferred Stock, \$.01 par value per share, and any Stock into which such Stock may hereafter be changed other than by the conversion of such Stock.

"Property" shall mean any kind of interest in any kind of property or assets, whether real, personal or mixed, or tangible or intangible.

"Prospectus" shall mean any prospectus which is a part of a Registration Statement, together with all amendments or supplements thereto.

"Public Offering" shall mean the offering of Securities by Peregrine, the holders of such Securities, or both on an underwritten basis pursuant to a Registration Statement.

"Registrable Stock" shall mean at any time, the shares of the then outstanding Plan Common, the then outstanding Conversion Stock and the Conversion Stock then issuable upon conversion of the then outstanding Preferred owned by any Investor or any subsequent Holder of Registrable Stock having rights hereunder pursuant to Section 10 hereof; provided, however, that Registrable Stock shall not be deemed to include any shares after such shares have been registered under the Securities Act and sold pursuant to such registration or any shares sold, or eligible for sale, without registration under the Securities Act in compliance with Rule 144, or pursuant to any other exemption from registration under the Securities Act to a Person who is free to resell such shares without registration or restriction under the Securities Act.

"Registration Statement" shall mean any registration statement filed with the Securities and Exchange Commission in accordance with the Securities Act, together with all amendments or supplements thereto.

"Securities" shall mean any debt or equity securities of Peregrine, whether now or hereafter authorized, and any instrument convertible into or exchangeable for Securities or a Security. The term "Security" shall mean any one of the Securities.

"Securities Act" shall mean the Securities Act of 1933, as amended prior to or after the date of this Agreement, or any federal statute or statutes which shall be enacted to take the place of such Act, together with all rules and regulations promulgated thereunder.

"Securities and Exchange Commission" shall mean the United States Securities and Exchange Commission or any successor to the functions of such agency.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended prior to or after the date of this Agreement, or any federal statute or statutes which shall be enacted to take the place of such Act, together with all rules and regulations promulgated thereunder.

"Seller" shall mean each Holder of Securities of Peregrine as to which Securities Peregrine could be required to file a Registration Statement or which Securities could be registered under the Securities Act at the request of such Holder pursuant to any of the provisions of this Agreement.

"Stock" shall include any and all shares, interests or other equivalents (however designated) of, or participation in, corporate stock.

"Stock Purchase Agreement" shall have the meaning given such term in the Recitals hereto.

2. Required Registrations.

(A) Subject to Section 2(B) below, upon the written request (made not sooner than 180 days after the Effective Date) to register no less than 20% of the shares of Plan Common or Conversion Stock, as the case may be, or, if fewer than 20% of Plan Common or Conversion Stock, as the case may be, remains Registrable Stock as of the date of such demand all such shares of Registrable Stock under the Securities Act made at any time during the five year period commencing on the Effective Date by Holders of not less than 20% of the then existing shares of Plan Common and Holders of not less than 20% of the then existing shares of Conversion Stock Peregrine will use its best efforts to effect the registration of Registrable Stock under the Securities Act and the registration or qualification thereof under all applicable state securities or blue sky laws, but only to the extent provided for in the following provisions of this Agreement. A request pursuant to this Section 2(A) shall state the intended method of disposition of the Registrable Stock sought to be registered. Whenever Peregrine shall, pursuant to this Section 2(A), be requested to effect the registration of any Registrable Stock under the Securities Act, Peregrine shall promptly give written notice of such proposed registration to all Holders of Registrable Stock, stating that such Holders have the right to request that any or all of the Registrable Stock owned by them be included in such registration. Subject to the Marketing Restrictions described in Section 9. below, Peregrine shall include in such registration all Registrable Stock with respect to which Peregrine receives written requests from the Holders thereof for inclusion therein (stating the intended method of disposition of such Stock); and thereupon Peregrine

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will, as expeditiously as possible, use its best efforts to effect the registration, under the Securities Act, of such Registrable Stock which Peregrine has been requested to register for disposition by such Holders in accordance with the intended method of disposition described in the requests of such Holders, all to the extent requisite to permit such sale or other disposition by such Holders of the Conversion Stock so registered.

(B) The foregoing registration rights of Holders of Registrable Stock shall be deemed satisfied by Peregrine when two Registration Statements respecting the Plan Common and two Registration Statements respecting the Conversion Stock shall have been filed by Peregrine with and made effective by the Securities and Exchange Commission under the Securities Act pursuant to requests made pursuant to Section 2(A) and the offerings pursuant to each such

Registration Statement shall have been completed. The Holders of at least a majority of the Registrable Stock included in a Registration Statement filed pursuant to this Section 2 shall have the right to select the investment banker or bankers who shall serve as the manager and/or co-managers for the offering of Securities covered by such Registration Statement if the offering requested is to be an underwritten offering.

(C) From and after the date, if any, that Peregrine becomes eligible to use Form S-3 to register Common for sale by the Holders thereof under the Securities Act, the Holder or Holders of Registrable Stock in existence at such time having a fair market value of at least \$1,000,000 (fair market value per share to be equal to the reported closing bid price of the Common on the date for which such price is reported last preceding the date of the request) shall be entitled to require Peregrine to register Registrable Stock pursuant to the provisions of Section 2(A) hereof for an unlimited number of times, and Peregrine shall comply with each such request in accordance with the terms of Section 2(A) hereof.

3. Incidental Registration.

If Peregrine at any time during the ten year period commencing on the Effective Date proposes or is required to register any of its Securities under the Securities Act or any applicable state securities or blue sky laws on a form which permits inclusion of the Registrable Stock, it will each such time give written notice to all Holders of then existing Registrable Stock of its intention so to do. Upon the written request of any such Holder given within 30 days after receipt of any such notice, Peregrine will use its best efforts to cause all Registrable Stock which such Holders shall have requested be registered to be registered under the Securities Act and any applicable state securities or blue sky laws all to the extent requisite to permit the sale or other disposition by such Holders of the Registrable Stock so registered. No registrations of

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Registrable Stock under this Section 3 shall relieve Peregrine of its obligation to effect registrations under Section 2 hereof, or shall constitute a registration request by any Holder of Registrable Stock under Section 2. Peregrine shall have the right to select the investment banker or bankers who shall serve as the manager and/or co-managers for all registrations of offerings of Securities under this Section 3.

4. Registration Procedures.

Whenever Peregrine is required by the provisions of this Agreement to use its best efforts to effect the registration of any Registrable Stock under

the Securities Act, Peregrine will:

(A) As expeditiously as possible and in any event not more than 90 days after the end of the period within which requests for registration may be given to the Company, prepare and file with the Securities and Exchange Commission a Registration Statement with respect to such Registrable Stock and use its best efforts to cause such Registration Statement to become and remain effective for a period of not less than nine months, provided that before filing a Registration Statement or Prospectus or any amendments or supplements thereto, Peregrine will furnish to counsel for the Holders of Registrable Stock included in such Registration Statement copies of all such documents proposed to be filed, which documents will be subject to the review of such counsel;

(B) As expeditiously as possible, prepare and file with the Securities and Exchange Commission such amendments and supplements to such Registration Statement and the Prospectus used in connection therewith as may be necessary to keep such Registration Statement effective for a period of not less than nine months and to comply with the provisions of the Securities Act with respect to the sale or other disposition of all Securities covered by such Registration Statement during such period in accordance with the intended method or methods of disposition by the Sellers thereof set forth in such Registration Statement;

(C) furnish to each Seller such number of copies of such Registration Statement, each amendment and supplement thereto, the Prospectus included in the Registration Statement (including each preliminary Prospectus), and such other documents, as such Seller may reasonably request in order to facilitate the public sale or other disposition of the Securities owned by such Seller;

(D) use every reasonable effort to register or qualify all the Securities covered by such Registration Statement under such other securities or blue sky laws of such jurisdictions as each Seller shall reasonably request, and do any and all other acts and things which may be necessary under such securities or blue sky laws to enable such Seller to consummate the public sale or other disposition in such jurisdiction of the Securities owned by

such Seller covered by such Registration Statement; provided, however, that Peregrine shall not be required to (i) qualify to do business as a foreign corporation in any jurisdiction wherein it would not otherwise be required to qualify but for this subparagraph, (ii) subject itself to taxation in any such jurisdiction, or (iii) consent to general service of process in any such jurisdiction;

(E) use its best efforts to cause all Securities covered by such Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the Seller or Sellers thereof to consummate the disposition of such Registrable Securities;

(F) furnish to each Seller of Registrable Stock a signed counterpart, addressed to such Seller (and the underwriters, if any) of

(x) an opinion of counsel for Peregrine, dated the effective date of such Registration Statement (and, if such registration includes an underwritten public offering, dated the date of the closing under the underwriting agreement), reasonably satisfactory in form and substance to such Seller covering substantially the same matters with respect to such Registration Statement and the Prospectus included therein as are customarily covered in opinions of issuer's counsel delivered to the underwriters in underwritten public offerings of securities and such other legal matters as such Seller or Sellers may reasonably request, and

(y) the cold comfort letter referred to in Section 4(M) hereof;

(G) notify each Seller at any time when a Prospectus relating to the Securities of such Seller covered by such Registration Statement is required to be delivered under the Securities Act, of the happening of any event as a result of which the Prospectus included in such Registration Statement contains an untrue statement of a material fact or omits any fact necessary to make the statements therein not misleading, and at the request of any such Seller, prepare a supplement or amendment to such Prospectus so that, as thereafter delivered to the purchasers of the Securities covered by such Registration Statement, such Prospectus will not contain an untrue statement of a material fact or omit to state any fact necessary to make the statements therein not misleading;

(H) otherwise use its best efforts to comply with all applicable rules and regulations of the Securities and Exchange Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen

months, beginning with the first full calendar month after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act, and furnish to each Seller

at least five business days prior to the filing thereof a copy of such Registration Statement or any Prospectus and any amendment or supplement to such Registration Statement or Prospectus, and not file any thereof to which any Seller shall have reasonably objected on the grounds that such document does not comply in all material respects with the requirements of the Securities Act or of the rules or regulations thereunder;

(I) cause all such Securities covered by such Registration Statement to be listed on each securities exchange on which Securities of the same class are then listed;

(J) provide a transfer agent and registrar for Common not later than the effective date of such Registration Statement;

(K) enter into such customary agreements (including an underwriting agreement in customary form) and take all such other actions as the Holders of at least a majority of the Registrable Stock included in such Registration Statement or underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Securities (including, without limitation, effecting a stock split or a combination of shares);

(L) make available for inspection by any Seller, any underwriter participating in any disposition pursuant to such Registration Statement, and any attorney, accountant or other agent retained by any such Seller or underwriter, all financial and other records, pertinent corporate documents and properties of Peregrine, and cause Peregrine's officers, directors and employees to supply all information reasonably requested by any such Seller, underwriter, attorney, accountant or agent in connection with such Registration Statement; and

(M) obtain a cold comfort letter from Peregrine's independent public accountants in customary form and covering such matters of the type customarily covered by cold comfort letters as the Holders of at least a majority of the Registrable Stock included in such Registration Statement or the managing underwriter of the offering covered by such Registration Statement shall reasonably request.

5. Expenses.

To the fullest extent allowable under applicable state securities and blue sky laws, all expenses incurred in effecting the registrations provided for in Sections 2(A), 2(C) and 3 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for Peregrine, fees and disbursements of a single counsel for all of the Sellers, underwriting expenses other than underwriting

discounts and commissions, expenses of any audits incident to or required by any such registration and expenses of complying with the securities or blue sky laws of any jurisdictions pursuant to Subsection (D) of Section 4 hereof, shall be borne and paid by Peregrine.

6. Preparation; Reasonable Investigation.

In connection with the preparation and filing of each Registration Statement under the Securities Act pursuant to this Agreement, Peregrine will give the Holders of Registrable Stock registered under such Registration Statement, their underwriters, if any, and their respective counsel and accountants, the opportunity to participate in the preparation of such Registration Statement, each Prospectus included therein or filed with the Securities and Exchange Commission, and each amendment thereof or supplement thereto, and will give each of them such access to its books and records and such opportunities to discuss the business of Peregrine with its officers and the independent public accountants who have certified its financial statements as shall be necessary, in the opinion of such Holders' and such underwriters' respective counsel, to conduct a reasonable investigation within the meaning of the Securities Act. In addition, if such Registration Statement refers to any Holder including Registrable Stock therein by name or otherwise as the holder of any securities of Peregrine, then such Holder shall have the right to require (x) the insertion therein of language, in form and substance satisfactory to such Holder, to the effect that the holding by such Holder of such securities does not necessarily make such Holder a "controlling person" of Peregrine within the meaning of the Securities Act and is not to be construed as a recommendation by such Holder of the investment quality of Peregrine's debt or equity securities covered thereby and that such holding does not imply that such Holder will assist in meeting any future financial requirements of Peregrine, or (y) in the event that such reference to such Holder by name or otherwise is not required by the Securities Act or any rules and regulations promulgated thereunder, the deletion of the reference to such Holder.

7. Indemnification.

(A) In the event of any registration of any of its Securities under the Securities Act pursuant to this Agreement, Peregrine, to the extent permitted by law, shall indemnify and hold harmless the Seller of such Securities, each underwriter (as defined in the Securities Act), each other Person who participates in the offering of such Securities, and each other Person, if any, who controls (within the meaning of the Securities Act) such Seller, underwriter or participating Person, against any losses, claims, damages or liabilities, joint or several, to which such Seller, underwriter, participating Person or controlling Person may become subject under the Securities Act or any other statute or at common law, in so far as such losses,

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claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (1) any alleged untrue statement of any material fact contained, on the effective date thereof, in any Registration Statement under which such Securities were registered under the Securities Act, any preliminary Prospectus or final Prospectus contained therein, or any summary Prospectus issued in connection with any Securities being registered, or any amendment or supplement thereto, or (2) any alleged omission to state in any such document a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse each such Seller, or any such underwriter, participating Person or controlling Person for any legal or other expenses reasonably incurred by such Seller, underwriter, participating Person or controlling Person in connection with investigating or defending any such loss, damage, liability or action; provided, however, that Peregrine shall not be liable to any Seller, or any such underwriter, participating Person, or controlling Person in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any alleged untrue statement or alleged omission made in such Registration Statement, preliminary Prospectus, summary Prospectus, Prospectus, or amendment or supplement thereto in reliance upon and in conformity with written information furnished to Peregrine by such Seller, specifically for use therein.

(B) Each Holder of Registrable Stock, by acceptance thereof, severally and not jointly, indemnifies and holds harmless each other Holder of Registrable Stock, Peregrine, its directors and officers, each underwriter (as defined in the Securities Act), and each other Person, if any, who controls (within the meaning of the Securities Act) Peregrine, any underwriter or any Holder, against any losses, claims, damages, or liabilities, joint or several, to which any such other Holder, Peregrine, any such director or officer, any such underwriter, or any such Person may become subject under the Securities Act or any other statute or at common law, in so far as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (1) any alleged untrue statement of any material fact contained, on the effective date thereof, in any Registration Statement under which Registrable Stock is registered under the Securities Act at the request of such Holder, any preliminary Prospectus or final Prospectus contained therein, or any summary Prospectus issued in connection with any such Securities being registered, or any amendment or supplement thereto, or (2) any alleged omission to state in any such document a material fact required to be stated therein or necessary to make the statements therein not misleading, in either case to the extent, and only to the extent, that such alleged untrue statement or alleged omission was made in such Registration Statement, preliminary Prospectus, summary Prospectus, Prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to Peregrine by such Holder specifically for use therein, and then only to the

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extent that such alleged untrue statements or alleged omissions by such Holder were not based on the authority of an expert as to which such Holder had no reasonable ground to believe, and did not believe, that the statements made on the authority of such expert were untrue or that there was an omission to state a material fact. Notwithstanding the foregoing provisions of this Subsection (B), no Holder shall be required to pay under such provisions an amount in excess of the proceeds received by such Holder in payment for the Securities sold by such Holder pursuant to the Registration Statement.

(C) Indemnification similar to that specified in Subsections (A) and (B) of this Section 7 shall be given by Peregrine and each Seller (with such modifications as shall be appropriate) covered by any registration or other qualification of Securities under any federal or state securities law or regulation other than the Securities Act with respect to any such registration or other qualification effected pursuant to this Agreement.

(D) Any Person which proposes to assert the right to be indemnified under Subsections (A), (B) or (C) of this Section 7 shall, promptly after receipt of notice of commencement of any action, suit or proceeding against such Person in respect of which a claim is to be made against an indemnifying Person under such Subsections (A), (B) or (C), notify each such indemnifying Person of the commencement of such action, suit or proceeding, enclosing a copy of all papers served. The indemnifying Person shall have the right to investigate and defend any such loss, claim, damage, liability or action and to employ separate counsel in any such action and to control the defense thereof. The Person claiming indemnification shall have the right to employ separate counsel in any such action and to control the defense thereof, but the fees and expenses of such counsel shall not be at the expense of the Person against whom indemnification is sought; provided, however, that notwithstanding the foregoing, in any case when indemnification is sought against Peregrine and (i) the Person seeking indemnification has been advised by counsel that its defenses may be different from those of Peregrine, or (ii) Peregrine has not proceeded in a timely manner to effect such defense, then the reasonable fees and expenses of counsel for such Person shall be paid by Peregrine and the indemnified Person shall have the right to control the defense of such action, suit or proceeding. In no event shall a Person against whom indemnification is sought be obligated to indemnify any Person for any settlement of any claim or action effected without the indemnifying Person's consent.

(E) The indemnification provided for under this Section 7 will remain in full force and effect regardless of any investigation made by or on behalf of the indemnified party or any officer, director or controlling Person of such indemnified party and will survive the transfer of Securities.

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8. Participation in Underwritten Registrations.

No Person may participate in any underwritten registration hereunder unless such Person (i) agrees to sell such Person's Securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements. The Holders of Registrable Stock to be sold in an underwritten offering pursuant to this Agreement may, at their option, require that any or all of the representations and warranties by, and the other agreements on the part of, Peregrine to and for the benefit of the underwriters in or pursuant to the underwriting agreement pertaining to such offering shall also be made to and for the benefit of such Holders of Registrable Stock and that any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement be conditions precedent to the obligations of such Holders of Registrable Stock. Any such Holder of Registrable Stock shall not be required to make any representations or warranties to or agreements with Peregrine or the underwriters other than representations, warranties or agreements regarding such Holder, such Holder's Registrable Stock and such Holder's intended method of distribution and any other representation required by law.

9. Marketing Restrictions.

(A) If

(1) any Holder of Registrable Stock is entitled and wishes to register any Registrable Stock in a registration made pursuant to Section 2 hereof, and

(2) the offering proposed to be made by the Holder or Holders for whom such registration is to be made is to be an underwritten public offering, and

(3) Peregrine or one or more Holders of Securities other than Registrable Stock wishes to register Securities in such registration, and

(4) the managing underwriters of such public offering furnish a written opinion that the total amount of Securities to be included in such offering would exceed the maximum amount of Securities (as specified in such opinion) which can be marketed at a price reasonably related to the then current market value of such Securities and without otherwise materially and adversely affecting

such offering,

then the relative rights to participate in such offering of the Holders of Registrable Stock, the Holders of other Securities

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having the right to include such Securities in such registration, and Peregrine shall be in the following order of priority:

First: The Holders of Registrable Stock shall be entitled to participate in accordance with the number of shares of Registrable Stock which each such Holder shall request to be registered, such participation to be pro rata in accordance with the number of shares which each such Holder shall request be registered if, pursuant to clause 4 of this Subsection (A), the total amount of Securities to be included in the offering will be less than the number of shares of Registrable Stock that all of such Holders shall request be registered; and then

Second: Peregrine shall be entitled to participate; and then

Third: All Holders of other Securities having the right to include such Securities in such registration shall be entitled to participate in accordance with the relative priorities, if any, as shall exist among them;

and no Securities (issued or unissued) other than those registered and included in the underwritten offering shall be offered for sale or other disposition by Peregrine or any Holder of Registrable Stock in a transaction which would require registration under the Securities Act until the expiration of 180 days after the effective date of the Registration Statement filed pursuant to Section 2 hereof, or such earlier time consented to by the managing underwriters.

(B) If

(1) any Holder of Registrable Stock entitled to do so requests registration of Registrable Stock under Section 3 hereof, and

(2) the offering proposed to be made is to be an underwritten public offering, and

(3) the managing underwriters of such public offering furnish a written opinion that the total amount of Securities to be included in such offering would exceed the maximum amount of

Securities (as specified in such opinion) which can be marketed at a price reasonably related to the then current market value of such Securities and without materially and adversely affecting such offering,

then the relative rights to participate in such offering of the Holders of Registrable Stock, the Holders of other Securities having the right to include such Securities in such registration, and Peregrine shall be in the following order of priority:

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First: If such offering shall have been initiated by Peregrine, and shall equal or exceed the amount necessary to allow Peregrine to cause an optional conversion to occur pursuant to Section 5.2.5.1. of the Declaration of Trust, and Peregrine makes such an election to effect an Optional Conversion, then Peregrine shall be entitled to include in such Registration Statement all Securities that it shall elect to so include.

Second: If such registration shall have been requested by a Person or Persons other than Peregrine, the Person or Persons requesting such registration shall be entitled to participate in accordance with the relative priorities, if any, as shall exist among them; and then

Third: The Holders of Registrable Stock and all other Holders of Securities having the right to include such Securities in such registration shall be entitled to participate pro rata among themselves in accordance with the number of shares of Common which each such Holder shall have requested be registered (for the purposes of this clause, Securities convertible into or exchangeable or exercisable for Common to be treated as if they were so converted or exchanged or exercised immediately prior to the filing of the Registration Statement covering such registration); and then

Fourth: If such registration shall have been requested by a Person or Persons other than Peregrine, Peregrine shall be entitled to include Securities in such registration; and then

Fifth: All other Holders of other Securities having the right to include such Securities in such registration shall be entitled to participate with the relative priorities , if any, as shall exist among them;

and no Securities (issued or unissued) other than those registered and included

in the underwritten offering shall be offered for sale or other disposition by Peregrine or any Holder of Registrable Stock in a transaction which would require registration under the Securities Act until the expiration of 180 days after the effective date of the Registration Statement in which Registrable Stock was included pursuant to Section 3 hereof, or such earlier time consented to by the managing underwriters.

10. Market Stand-Off.

Each Investor (and any subsequent holder of Securities owned by one or more of the Investors) agrees not to make a demand for registration under Section 2. of this Agreement during the one hundred and eighty (180) day period following the effective date of a registration statement of Peregrine filed under the

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Securities Act in connection with a Public Offering of Peregrine's Common Stock, if so requested by Peregrine. Peregrine may impose stop-transfer restrictions with respect to such Securities, subject to the foregoing restrictions to the end of such period.

In addition to the restrictions in the preceding paragraph, from and after such time as the Investors have sold or otherwise disposed of fifty-one percent (51%) of the aggregate shares of Plan Common held by them as of the Effective Date, in the event of an underwritten public offering of shares of Common and/or equity securities convertible into or exchangeable or exercisable for shares of Common by Peregrine (which offering requires registration of such Securities under the Securities Act) in which Peregrine causes the optional conversion of shares of Preferred into shares of Common pursuant to Section 5.2.5.1 of the Company's Declaration of Trust, no Securities (issued or unissued) other than those registered and included in such offering shall be publicly sold or transferred, or offered for public sale or other public disposition by current or prior Holders of Registrable Stock, or by the transferees of any Securities from such Holders.

11. Assignability of Registration Rights.

The registration rights set forth in this Agreement shall accrue to each subsequent Holder of Registrable Stock who consents in writing to be bound by the terms and conditions of this Agreement; provided, however, that if a Holder transfers any fewer than 150,000 shares (or all of the shares held by such Holder, whichever is less) to any other Holder, those shares so transferred shall no longer be deemed Registrable Stock and the transferee and the shares so transferred shall be entitled to no registration rights, or other rights under this Agreement.

12. Grant of Subsequent Registration Rights.

Peregrine may not grant registration rights to investors in Peregrine other than the Holders of Registrable Stock unless such rights are subordinate to the rights of the Holders of Registrable Stock or the grant of such rights is consented to by the Holders of not less than a majority of the Registrable Stock.

13. Severability.

Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

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14. Descriptive Headings.

The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

15. Notices.

All communications provided for hereunder shall be in writing and delivered by hand or by first-class or certified mail, postage prepaid, to the following addresses, or such other addresses as shall be given by notice delivered hereunder, and shall be deemed to have been received on the day of personal delivery or within three business days after such mailing:

If to any Holders of Registrable Stock, addressed to such Holders at their addresses as shown on the books of Peregrine or its transfer agent;

If to Peregrine, to:

The Peregrine Real Estate Trust
1300 Ethan Way
Sacramento, California 95825
Attention: Frank A. Morrow

or, as to the Investors or Peregrine, to such other persons or at such other addresses as shall be furnished by any such party by like notice to the other

parties.

16. Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same document.

17. Entire Agreement.

This Agreement constitutes the entire agreement by and among the parties hereto with respect to the subject matter hereof.

18. Specific Performance.

The parties hereto recognize and agree that money damages may be insufficient to compensate the Holders of any Registrable Stock for breaches by Peregrine of the terms hereof and, consequently, that the equitable remedy of specific performance of the terms hereof will be available in the event of any such breach.

19. Amendments and Governing Law.

This Agreement may be amended, modified or supplemented only by a written instrument executed by Peregrine and Holders of not less than a majority of the then existing shares of Registrable

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Stock. This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed in that state.

IN WITNESS WHEREOF, each of the parties hereto has executed this Agreement as of the day and year first written above.

ATTEST: THE PEREGRINE REAL ESTATE TRUST f/k/a
COMMONWEALTH EQUITY TRUST

Secretary

Name: _____
Frank A. Morrow
Title: President, Chief Executive
Officer

PACIFIC MUTUAL LIFE INSURANCE COMPANY

Name: _____

Title: _____

THE PRUDENTIAL INSURANCE COMPANY OF
AMERICA

Name: _____
John Mullman

Title: Vice President

PRUCO LIFE INSURANCE COMPANY

Name: _____
Gary Trabka

Title: Managing Director

ORIX USA CORPORATION

Name: _____

Title: _____

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WEYERHAEUSER COMPANY MASTER RETIREMENT TRUST

By: TCW Special Credits, Its
Investment Manager

By: TCW Asset Management Co.,

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS FUND IV

By: TCW Special Credits, Its
General Partner

By: TCW Asset Management Co.

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS PLUS FUND

By: TCW Special Credits, Its
General Partner

By: TCW Asset Management Co.

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS TRUST IV

By: Trust Company of the West, Trustee

By: _____

Richard Masson
Managing Director

By: _____
Name:
Title:

TCW SPECIAL CREDITS TRUST IVA

By: Trust Company of the West, Trustee

By: _____
Richard Masson
Managing Director

By: _____
Name:
Title:

SERVICES AND CONFIDENTIALITY AGREEMENT

1. IDENTIFICATION.

This Services and Confidentiality Agreement (the "Agreement") is made as of October 1, 1994, between Commonwealth Equity Trust, a California Real Estate Investment Trust ("CET"), and Fama Management, Inc., a California corporation ("Fama").

2. RECITALS.

2.1. CET is presently a debtor in possession operating under Chapter 11 of the United States Bankruptcy Code, and in connection with the bankruptcy proceeding has filed a plan of reorganization (the "Plan of Reorganization") with the bankruptcy court for confirmation. CET desires to engage a Chief Executive Officer to provide services to CET commencing October 1, 1994, which services shall continue following confirmation of the Plan of Reorganization in CET's bankruptcy proceeding, and following the effective date of the Plan of Reorganization (the "Effective Date"), to the extent confirmation of the Plan of Reorganization and the Effective Date occur prior to the expiration or termination of the "Term," as set forth in Article 3 below.

2.2. CET wishes to engage Fama to provide the services of Frank A. Morrow ("Morrow") who will act as CET's Chief Executive Officer as of October 1, 1994 pursuant to the terms hereof. Fama desires to provide Morrow's services to CET, as more particularly described below.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

3. TERM.

This Agreement shall commence on October 1, 1994 and shall continue for a period of one (1) year thereafter (the "Original Term"), unless earlier terminated by CET's Board of Trustees on written notice to Fama, with or without cause, in CET's sole discretion, subject to CET's payment of certain severance compensation to Fama as more particularly set forth in Section 5.2 below. The Original Term may be extended mutually by CET and Fama for an additional one (1) year period (the "Extension Period") on the same terms set forth herein which apply during the Original Term; notwithstanding the foregoing, if CET terminates this Agreement and Morrow's services as provided by Fama during the Extension Period, the amount of severance compensation which

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become payable to Fama on such termination shall be limited in the manner described in Section 5.2 below. The Original Term and any extension thereof shall be collectively referred to herein as the "Term."

4. DUTIES.

4.1. During the Term, Morrow shall report solely and directly to, and be under the immediate supervision of, CET's Board of Trustees. Notwithstanding the foregoing, CET's Board of Trustees shall not unduly interfere with the performance of Morrow's duties hereunder or Morrow's decision making with respect to CET's day-to-day operations. Morrow shall serve as CET's Chief Executive Officer, with the powers and duties consistent with such position. The responsibilities to be performed by Morrow shall be such as inhere in the position of Chief Executive Officer, and such other powers, duties and responsibilities as may be delegated or assigned to Morrow by CET's Board of Trustees, so long as Morrow maintains the duties of CET's Chief Executive Officer, i.e. Morrow shall maintain direct responsibility for the operations and administration of CET. Morrow's duties shall include, but are not limited to, responsibility for the planning, supervision, management and coordination of CET's asset and property portfolio, and, specifically, the management and leasing of CET's commercial and retail properties, management and operation of CET's hotels, management of CET's notes receivable portfolio, management of CET's joint venture interests, supervising the administration of CET's financial affairs, coordination of CET's advisors and supervision and administration of CET's employees, including the terms and conditions of employment of CET's employees in consultation with CET's Board of Trustees. Morrow is presently serving and shall continue to serve as Chairman of the Board of Trustees and Chief Executive Officer of California Real Investment Trust ("CalReit"). Morrow's services on behalf of CalReit shall be performed without additional compensation other than as set forth in Article 5 below.

4.2. Fama shall cause Morrow to do and perform all services, acts and obligations necessary and advisable to carry out Morrow's duties hereunder in a competent and diligent manner, subject to and in accordance with the terms of this Agreement, CET's policies, rules and regulations and the direction of CET's Board of Trustees.

4.3. Fama shall provide Morrow's services on a full time basis and Morrow shall not engage in any other business or employment during the Term. Fama shall cause Morrow to devote his full productive time, energy, effort, attention and ability solely to the performance of his duties as set forth herein, and to the proper and efficient management and development of the

business and operations of CET. Notwithstanding the foregoing, CET acknowledges that Morrow currently holds the position of Director on the Board

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of Trustees of the Lansing Pacific Fund, and performs consulting services for McCown DeLeeuw, and further, acknowledges that such activities are not in violation of the provisions of this Section 4.3, conditional that such obligations do not interfere with the performance of Morrow's responsibilities at CET.

5. COMPENSATION.

5.1. During the Term, and conditioned upon Morrow's full and faithful performance of his duties hereunder, CET shall pay to Fama, as full and complete compensation for all of the services to be rendered by Fama and/or Morrow hereunder, a salary equal to Twenty-Five Thousand Dollars (\$25,000) per month. CET shall pay Fama one-half of the monthly salary on the tenth (10th) and the twenty-fifth (25th) day of each month during the Term.

5.2. If CET terminates this Agreement and Morrow's services as provided by Fama during the Original Term, or if CET does not offer to extend the Original Term for an additional one (1) year period on the expiration of the Original Term as set forth in Section 3.1 above, CET shall pay to Fama upon such termination, or upon the expiration of the Original Term, as applicable, severance compensation in the amount of Three Hundred Thousand Dollars (\$300,000) (the "Severance Compensation"). If CET terminates this Agreement and Morrow's services during the Extension Period, CET shall pay Fama the Severance Compensation reduced by the amount of any compensation paid to Fama as consideration for Morrow's services during the Extension Period. Neither Fama nor Morrow shall have any duty or obligation to mitigate any damages arising from CET's termination of this Agreement and Morrow's services, nor shall the amount of the Severance Compensation be reduced based on any mitigating circumstances. The Severance Compensation shall constitute full and complete payment to Fama of any and all amounts which may be or become owing from CET to Fama arising from this Agreement or Morrow's services as set forth herein, or the termination of this Agreement and such services, and neither Fama nor Morrow shall have any additional claim for compensation or damages on CET's termination of this Agreement and Morrow's services other than as set forth in this Section 5.2 and in Article 6 below.

5.3. Fama shall be eligible to participate in any stock option plan adopted by CET, on terms to be determined by CET's Board of Trustees.

5.4. Fama acknowledges that neither Fama nor Morrow shall be an

employee of CET for federal tax purposes, and Fama shall be responsible for paying all of its and Morrow's estimated income and self-employment taxes. CET shall have no obligation to make any withholdings from compensation payable hereunder for state or federal taxes and shall have no other obligations of an employer

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with respect to Fama and/or Morrow. Fama shall indemnify and hold CET harmless from and against any and all costs, liabilities, expenses, damages or fees (including, but not limited to, attorneys' fees and costs) resulting from a failure by Fama and/or Morrow to pay its or his own estimated income and self-employment taxes.

5.5. All compensation payable for Morrow's services shall be payable to Fama directly, and not to Morrow. Morrow shall look solely to Fama to perform and discharge, and Fama shall fully perform and discharge, and CET shall have no responsibility or liability on account of, any obligation of an employer, including, without limitation, the payment and/or withholding of all sums required to be paid and/or withheld by such employer, pension, health and welfare benefits, social security, unemployment, workers' compensation and state disability insurance required in connection with, based on, resulting from or relating to the services to be rendered hereunder and/or the rights to be granted by Morrow under this Agreement and/or the compensation to be paid to Fama therefore. Fama and Morrow agree to indemnify and hold CET harmless from and against any and all liability (including, without limitation, judgments, penalties, interests, damages, costs, expenses and attorneys' fees) which CET may incur by reason of Fama's failure to assume and discharge all obligations imposed on employers (including, without limitation, with respect to income tax withholding as discussed in Section 5.4 above).

6. EXPENSE REIMBURSEMENTS.

6.1. CET shall reimburse Fama for Morrow's actual and reasonable out-of-pocket expenses incurred in the performance of Morrow's duties hereunder. Reimbursable expenses shall include Morrow's commuting costs from San Francisco to Sacramento, which shall include gasoline, tolls, parking, hotels and meals. In addition, CET shall reimburse Fama for Morrow's business expenses related to travel from Sacramento to Los Angeles, or other locations requiring his presence for CET business.

6.2. Notwithstanding the provisions of Section 6.1 above, in no event shall the aggregate reimbursement of expenses from CET to Fama exceed Two Thousand Five Hundred Dollars (\$2,500) in any month during the Term.

6.3. CET's reimbursement of Morrow's expenses, as described in

Sections 6.1 and 6.2 above, is expressly conditioned upon the following in each instance:

(a) Each such expense must be of a nature qualifying it as a proper deduction on CET's federal and state income tax returns as a business expense, and not as deductible compensation to Fama;

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(b) Fama and/or Morrow furnishes CET with adequate records and other documentary evidence required by either federal or state statutes or regulations issued by appropriate taxing authorities for the substantiation of such expenses as deductible business expenses of CET and not as deductible compensation to Fama; and

(c) Reimbursement shall be paid and payable by CET in accordance with its policies and procedures for making such reimbursements in the normal course of its business.

7. CONFIDENTIAL INFORMATION.

7.1. "Confidential Information" means any information relating to CET's business or operations which is not generally known outside of CET or information entrusted to CET by third parties, and includes information known as confidential or secret or which reasonably should be known as confidential or secret. Confidential Information may relate, for example, to financial or other investment information, shareholder information, CET's strategic planning, trade secrets, technology, ideas, processes, computer hardware, computer software, business or marketing plans, the names and locations of employees and/or shareholders, and any and all other information relating to CET and the operation of its business. Confidential Information may be contained in materials (collectively "Materials") such as business records, legal documents, correspondence, data, reports, programs, contracts between CET and third parties, or computer programs, or may be in the nature of, or consist of, unwritten knowledge, techniques, devices, processes, practices, methods or know-how. Notwithstanding the foregoing, "Confidential Information" does not include information (i) which is or becomes generally available to the public other than as a result of a disclosure by Fama, Morrow or its or his agents, (ii) which was available to Fama and/or Morrow on a non-confidential basis prior to disclosure of the information to Fama and/or Morrow by CET, or (iii) which becomes available to Fama and/or Morrow on a non-confidential basis from a person or entity other than CET, who is not otherwise bound by a written confidentiality agreement prohibiting that person or entity from disclosing the information. For purposes hereof, information made public only in connection with CET's Chapter 11 bankruptcy proceeding shall not be deemed information generally available to the public.

7.2. Fama acknowledges that a confidential and fiduciary relationship exists between Fama and Morrow, on the one hand, and CET, on the other hand, in connection with CET's Confidential Information.

7.3. Other than as required in order for Morrow to perform the services contemplated herein, and other than in compliance with

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a subpoena or a court order (if the Confidential Information is not the subject of a protective order), Fama shall not, and shall cause Morrow not to, use, disclose, disseminate or otherwise communicate, directly or indirectly, in whole or in part, at any time or in any manner, whether during the Term or for a period of sixty (60) months thereafter, or twelve (12) months in connection with Confidential Information specific to any property owned by CET, any Confidential Information, without CET's prior written consent in each instance, and Fama shall use its best efforts to prohibit its representatives, or any third person acting for or on Fama's or Morrow's behalf to do any of the foregoing. If at any time Fama and/or Morrow becomes aware of any such unauthorized use, disclosure, dissemination or communication, or any threat thereof, Fama shall immediately notify CET, which notice shall specify the person(s) and circumstances relating to such unauthorized use, disclosure, dissemination, communication or threat.

7.4. All Confidential Information relating to CET's business that comes into Fama's and/or Morrow's knowledge or possession, as between CET on the one hand, and Fama and Morrow on the other, is CET's exclusive property, and except as necessary in order for Morrow to perform the services contemplated herein, may not be reproduced, copied, summarized or removed from CET's premises without CET's prior written consent in each instance. Any such Confidential Information removed from CET's premises shall be immediately returned to CET when it is no longer required in order for Morrow to perform his duties hereunder or upon CET's demand at any time or times.

7.5. Fama acknowledges that all Confidential Information created by Fama and/or Morrow shall be CET's exclusive property, free of any claim or interest of any third party, and Fama, for itself and on behalf of Morrow, hereby irrevocably and perpetually assigns to CET all rights of every kind or nature which arise from Morrow's and/or Fama's creation of any Confidential Information, to the extent that CET does not already own such rights.

7.6. In CET's sole discretion, CET may elect to apply for, obtain, register or take any action to protect or prevent the infringement, dissemination or release of any Confidential Information. If CET chooses to take any such action, either during or after the Term, Fama shall:

(a) take any reasonable action CET determines to be necessary or desirable in connection with the exercise and/or protection of these rights; and

(b) execute and acknowledge before a notary and deliver to CET, in a form suitable to CET, any document reasonably necessary or required to obtain, exercise or protect such rights.

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7.7. Fama hereby irrevocably appoints any of CET's authorized corporate officers to act as its and Morrow's agent and attorney-in-fact, which appointment is coupled with an interest, to perform all acts described in Section 7.6 above.

7.8. Fama's covenants and agreements contained in this Article 7 shall be deemed to be effective as of the date Fama and/or Morrow first acquired knowledge of any Confidential Information.

7.9. Fama's covenants and agreements contained in this Article 7 shall survive the expiration or termination of this Agreement.

8. INDEMNIFICATION.

CET shall, to the maximum extent permitted by law, indemnify and hold Fama and Morrow harmless from and against any and all claims, actions, causes of actions, judgments, liabilities, obligations and expenses, including without limitation, reasonable attorneys' fees, court costs, judgments, fines, settlements, and other amounts actually incurred ("Liabilities") arising out of, relating to, or in connection with the discharge of Fama's and Morrow's duties hereunder; provided, however, that CET shall have no obligation to indemnify Fama or Morrow for any Liabilities resulting from Fama's or Morrow's bad faith, malfeasance, gross negligence or reckless disregard of duties as described herein.

9. REPRESENTATIONS, WARRANTIES AND COVENANTS.

9.1. Fama is and shall remain during the Term a corporation in good standing, duly organized and existing under the laws of the State of California, and authorized to engage in business in the State of California.

9.2. Fama has a valid, binding and subsisting agreement with Morrow pursuant to which Morrow is obligated to render Morrow's services exclusively for Fama for at least the full Term, and pursuant to which Fama has the full right and authority to enter into this Agreement and furnish Morrow's

services and to grant CET the rights herein granted.

9.3. Fama has not undertaken any obligations to any person, firm, corporation or other entity which might conflict with, interfere with, or derogate from the rights granted to CET hereunder, or the obligations incurred by Morrow in this Agreement.

9.4. CET has been authorized by its Board of Trustees to enter into this Agreement, and once such Agreement has been approved by the bankruptcy court, no further approval or authority

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is required in order for this Agreement to constitute a legal and binding obligation of CET.

9.5. CET shall obtain and maintain Directors and Officers Liability Insurance covering Morrow during the Term, to the extent such insurance is reasonably available.

10. MISCELLANEOUS.

10.1. This Agreement is to be governed by and construed under the laws of the State of California.

10.2. Should any provision of this Agreement for any reason be declared invalid, void or unenforceable by a court of competent jurisdiction, such adjudication shall in no way affect any other provision of this Agreement nor the validity or enforcement of the remainder of this Agreement, and any provision so affected shall be curtailed only to the extent necessary to bring this Agreement within the applicable requirements of the law.

10.3. This Agreement contains the sole and entire understanding between the parties pertaining to the subject matter hereof and supersedes all prior and contemporaneous oral and written agreements, understandings, statements and practices among the parties.

10.4. This Agreement may not be modified, except in writing, signed by the parties hereto. No waiver of any provision of this Agreement shall be deemed to be a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the party charged with the waiver.

10.5. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which, when taken

together, shall constitute one and the same instrument.

10.6. Any notices, requests, demands, waivers, consents, approvals or other communications which are required hereunder shall be in writing and shall be deemed given only if delivered personally or sent by telegram or by registered or certified mail, postage prepaid, return receipt requested, to the recipients at the following addresses:

If to CET: Commonwealth Equity Trust
705 University Avenue
Suite A
Sacramento, CA 95825
Attn: Chairman of the Board of Trustees

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with a copy to: Greenberg, Glusker, Fields,
Claman & Machtinger
1900 Avenue of the Stars,
Suite 2000
Los Angeles, CA 90067
Attn: Paula J. Peters, Esq.

If to Fama: Fama Management, Inc.
1249 Lombard Street
San Francisco, CA 94109

10.7. If either party to this Agreement brings an action to enforce the terms hereof or to declare rights hereunder, the prevailing party in such action shall be entitled to an award of reasonable costs of litigation, including attorneys' fees and related costs, to be paid by the losing party in such amount as may be determined by the court having jurisdiction in such action.

10.8. In addition to attorneys' fees and costs as provided for in Section 10.7 above, the parties hereto agree that if any dispute between the parties results in a judgment in favor of either party, the prevailing party shall be entitled to recover from the other all attorneys' fees and costs incurred by the prevailing party in enforcing such judgment. This provision is intended to be severable from any other provision in this Agreement and is not to be deemed merged in the judgment.

10.9. Any dispute, controversy or claim with respect to this Agreement shall be settled by final and binding arbitration in the City of San Francisco, State of California. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association or its successor. Judgment upon the award rendered by the arbitrator in such

proceeding may be entered in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the date set forth below.

Date of Execution: _____, 1994

COMMONWEALTH EQUITY TRUST,
a California Real Estate
Investment Trust

By: _____
Doris V. Alexis, Chairman
of the Board of Trustees

(SIGNATURES CONTINUED ON FOLLOWING PAGE)

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Date of Execution: _____, 1994

FAMA MANAGEMENT, INC.,
a California corporation

By: _____
Its: _____

ACKNOWLEDGED, ACCEPTED
AND AGREED TO:

FRANK A. MORROW

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