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March 20, 1998

HAND DELIVERY

Stanley M. Schwartz  
Assistant City Attorney  
Fifth Floor, Municipal Bldg.  
W. 808 Spokane Falls Blvd.  
Spokane, WA 99201-3326

**CONFIDENTIAL**

Dear Mr. Schwartz:

I am in receipt of your letter of March 19, 1998.

The contents of this letter, since it contains confidential leasing terms, is subject to the terms of the Confidentiality Agreement previously executed by the City, and its contents shall not be disclosed to any third party.

As you know, the terms of the Nordstrom lease and other leases executed in the premises have always been open to review by the City and have been previously reviewed by the three professors from Gonzaga University who undertook a credit analysis concerning the River Park Square project and also by the Coopers & Lybrand accountants. Since the terms and conditions of these leases have previously been disclosed to the City, I do not want my response to your letter of March 19, 1998, to in any fashion suggest that this material has not always been readily available to the City for its review.

I am confident that, if the lease information set out in this letter is made available to the public, such an action would subject the River Park Square ownership to lawsuits by tenants and would result in termination of lease discussions that are currently under way.

Notwithstanding the foregoing, I will respond to your letter as follows:

ROBERT L. MAGNUSON  
NED W. BARNES  
WILLIAM D. SYMMES\*\*  
ROBERT H. LAMP  
K. THOMAS CONNOLLY  
THOMAS O. COCHRAN  
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KARL K. KRIGUE

\* Also admitted in Idaho  
\* Also admitted in New York  
\*\* Also admitted in California  
\*\* Admitted in Idaho only  
\* Also admitted in Oregon  
\* Also admitted in Alaska

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(1) Nordstrom's lease contains an opening requirement that the following tenants shall have executed leases for the amount of floor area indicated. Confirmation of these leases must be provided to Nordstrom in writing on or before May 1, 1998. The following tenants are to execute leases calling for occupancy, and the square footage indicated, by August, 1999:

AMC Theaters	64,000 sq. ft.	(Lease signed)
Ann Taylor	4,100 sq. ft.	(Lease signed)
Williams-Sonoma	4,400 sq. ft.	(Final draft of lease has been negotiated)
Talbots	4,534 sq. ft.	(Lease signed)
Eddie Bauer	11,200 sq. ft.	(Lease signed)
The Gap	5,500 sq. ft.	(Final draft of lease negotiated)
Gap Kids	3,500 sq. ft.	(Final draft of lease negotiated)
Bath & Body	2,300 sq. ft.	(Lease to be in same form as Abercrombie & Fitch, which is currently being negotiated)

The following tenants must occupy space by the Fall of 2000:

AMC Theaters	20,000 sq. ft.	(Lease signed)
Restoration Hardware	7,500 sq. ft.	(Lawyers exchanging comments on lease form)
Banana Republic	6,400 sq. ft.	(Final form of lease has been negotiated)
Abercrombie & Fitch	7,900 sq. ft.	(Attorneys in process of negotiating lease)
Victoria's Secrets	4,100 sq. ft.	(Will not be in project)

(However, a letter of intent has been negotiated with Pottery Barn for 9,300 sq. ft., and Pottery Barn can be substituted as co-anchor tenant for Victoria's Secret.)

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As a result, the necessary co-anchor tenants for opening have either executed leases or leases are in the process of negotiation.

(2) Under the Nordstrom lease, no later than August 1, 2000, 70,000 sq. ft. of co-anchor tenants must be open for business in the mall. The tenants listed above, who all qualify as co-anchor tenants, currently constitute 70,539 sq. ft. This does not include Godiva Chocolatier, which is in the process of negotiating a lease for 300 sq. ft., and which qualifies as a co-anchor tenant. That brings the co-anchor tenant leases that have either been executed or are in the process of negotiation to 70,839 sq. ft.

(3) The Nordstrom lease also provides as an operating covenant that 70% of the floor area of the mall (excluding the floor area of the cinemas) must be occupied and open for business. Excluding the Nordstrom store and the cinema leaves 172,000 sq. ft. of floor area in the mall. However, approximately 55,500 sq. ft. of that area will not be open until Phase II, which is to occur in August of year 2000. As a result, the mall area available for occupancy during Phase I is 116,500 sq. ft. Seventy percent of that amount is 81,550 sq. ft. In addition to the 70,839 sq. ft. described above, the following tenants have executed leases: Anderson-Emami -- 3,800 sq. ft.; Children's Corner Book Store -- 2,700 sq. ft.; and Rings & Things -- 1,200 sq. ft. That means that 78,239 sq. ft. of leases have either been executed or are in negotiation toward the August 1999, goal of 81,550 sq. ft., although the goal obviously is to have the center 100% leased.

Concerning Phase II, 70% of 172,000 sq. ft. is 120,400 sq. ft.

It should be noted that the co-anchor tenancy requirement can also be satisfied if a department store in The Bon Marche building occupying at least 120,000 sq. ft. executes an operating covenant for at least ten years and then continues to operate after that point in time as if an operating covenant were still in effect.

(4) In the event the 70% occupancy requirement is not satisfied, under the terms of the lease, landlord has twelve months to cure the occupancy issue. The same cure period applies to the co-anchor tenancy requirement, with the additional proviso that while written commitments must be obtained from new co-anchor tenants within twelve months, the co-anchor tenants need not actually be in place for an additional eight months after that twelve-month period.

(5) Rental Obligation. Nordstrom pays a minimum rent of \$1.3 million per year. In addition, Nordstrom pays percentage rent as follows: 2.7% of sales between \$40

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Assistant City Attorney  
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- \$50 million; 2.2% of sales between \$50 - \$60 million; 1.7% of sales between \$60 - \$70 million; 1.2% of sales between \$70 - \$80 million; and 1% of sales in excess of \$80 million.

(6) In the event the co-anchor tenancy requirement or 70% occupancy requirement is not satisfied, the minimum rent is reduced to \$520,000 per year, but this does not occur until after the expiration of the landlord's cure period, which would be one year. In addition, the percentage rent obligation is not affected in such a situation.

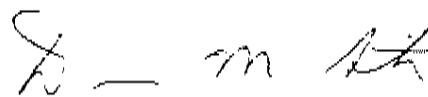
In addition, the minimum rent would be reduced to \$520,000 per year in the event the parking covenants became ineffective. Since the Parking Covenants have been agreed to among the City, Nordstrom and the owner, and will remain in effect for at least so long as the PDA operates the garage, realistically, this situation could not occur for at least twenty years, and it is doubtful that it would ever occur. This covenant should not affect the repayment of the HUD loan, in any event, since it is projected to be paid off prior to the expiration of the twenty-year period.

As I indicated previously, I cannot overstress the need for confidentiality with regard to the terms of this letter. I would appreciate that it not be shown to any third person, although certainly you could discuss its terms with appropriate City officials, who are also bound by the Confidentiality Agreement. As I have indicated, release of the specific terms of the Nordstrom lease or the names of tenants with whom negotiations are in process, or whose tenancies have not been announced, would be absolutely devastating to this project.

Very truly yours,

WITHERSPOON, KELLEY, DAVENPORT  
& TOOLE, P.S.

By



DUANE M. SWINTON

DMS:kje

cc: Robert W. Robideaux  
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