

CLAREMONT UNIVERSITY CONSORTIUM
Serving THE CLAREMONT COLLEGES

EXECUTIVE OFFICE

August 1, 2016

Jeffrey Kuan PhD.
President
Claremont School of Theology
1325 North College Avenue
Claremont, CA 91711

Re: Revised Term Sheet

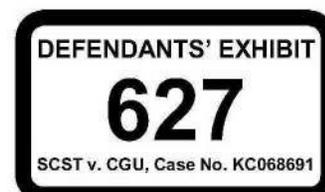
Dear Jeffrey:

As you know, the Claremont University Consortium (CUC) has worked with your team at CST in good faith to purchase a portion of the CST campus. We seek to establish terms and a price that would maximize the value to CST (as you seek to improve the school's financial sustainability) and manage CUC's capital in a responsible manner.

As you are aware, CUC is highly confident in the validity of its repurchase rights set forth in that certain grant deed dated June 5, 1957 (the "**Grant Deed**") and under the subsequent agreement in 2001 (the "**2001 Agreement**"). Notwithstanding these legal rights, CUC has offered to purchase a portion of the campus for an amount that CUC believes is commensurate with the market value of the property.

As we have discussed previously, CUC has retained an appraiser. This same appraiser has worked on the methodologies for our own internal transfers of property to member institutions. The appraiser also has also performed a peer review (the "**CUC Review**") of the appraisal CST obtained from Valbridge Property Advisors (the "**CST Appraisal**"). The CUC Review found substantial flaws in the process used and the value asserted by the CST Appraisal. Consequently, CUC does not believe that the CST Appraisal has established a fair market value, and CUC will not pay the amount requested by CST.

Based on the dual work of our appraiser, we have revised a final Purchase Price offer. I would like to offer some perspective on this offer by highlighting some of the more obvious high-level causes of our differing valuations:



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- Condition and Amenities of Units. The CST Appraisal was not based on a tour of the student housing units and assumed that those units were in average condition. The CUC Review included a tour of the units and found their condition to be “far inferior to market rate apartment projects” used by the CST Appraisal to establish value. In fact, one of the recent sales to which the housing was compared had just been renovated at a cost of \$40,000 per unit. In addition, the amenities provided at CST’s student housing are not consistent with the amenities provided at other properties used by the CST Appraisal to establish value.
- Parking. The apartment buildings used as comparable sales in the CST Appraisal all had adequate parking. No parking is contained on Lot 2 with the student housing. Consequently, Lot 1 needs to be used for parking to serve Lot 2 and would have no independent value above that which is assigned to Lot 2. This in and of itself results in the removal of \$1,785,000 from the aggregate value of the property to be transferred.
- Income. The CST Appraisal assumes market rate rents for apartments in general and then does not deduct for vacancy or collection issues. However, as CST pointed out to us in our most recent meeting and in its draft of the Term Sheet, the student housing is not rentable to the population in general, given its location and zoning, and is really only rentable to students (which CST has stated lowers markets rents). Therefore, CST’s assertion that the building should be valued based on general market rents is incorrect. Further, as CST has informed us, CST’s student housing suffers from summer vacancies, and the CST Appraisal does not take the resulting loss of income into account.
- Highest and Best Use. Standard appraisal practice is for highest and best use determinations be made subject to the current zoning of the property. The current zoning of the property is Institutional Educational, which allows only for educational uses without additional discretionary action, which is unlikely to be granted by the City. Further, even if there were a chance that the City would amend its general plan and change the zoning for the site, a multi-year process would be required, and the amendments and changes would be subject to litigation. However, the CST Appraisal assumes that the property could be used for residential, commercial or church purposes – none of which are currently allowed. Moreover, the CST Appraisal frankly stated that use of the property for “a new school at this time is not feasible.”

In sum, the CST Appraisal recognizes that the current zoning restricts other uses, and a new school purchase of the property appears infeasible. These facts nearly eliminate any external market for the property. The absence of a market in turn profoundly discounts the economic value of the property.

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Developers or churches would likely offer to purchase the campus contingent upon obtaining the desired general plan amendment and zone change – which would take several years – or at a very low price that would allow them to internalize the entitlement risk, while an academic user (other than CUC) is unlikely to be found.

In addition, CST's plan for a sale is dependent on being able to subdivide the property. As we expect your consultants to have informed you, subdivision of the property is a discretionary act, which may in itself take several years to achieve. The only reason that CUC can purchase the property quickly is that CUC has adjacent land that allows it to use a lot line adjustment process to obtain the property.

As you may be aware, the Grant Deed and the 2001 Agreement set forth a specific process by which CUC is to respond to CST's offer to sell the property. It is our understanding that CST's presentation of a draft Term Sheet to CUC has likely triggered the notice provision under the Grant Deed and the 2001 Agreement. That is why the attached Term Sheet contains a tolling provision that would allow CUC and CST to move forward on a market rate transaction without jeopardizing CUC's rights under the Grant Deed and the 2001 Agreement. Consequently, it is very important that CUC and CST enter into the Term Sheet so that CUC is not compelled to take action to preserve its rights under the Grant Deed and the 2001 Agreement. To that end, we have worked to provide you with a Term Sheet that represents our best final offer of terms, and we hope that you can review it with your board and sign it within the next 10 days.

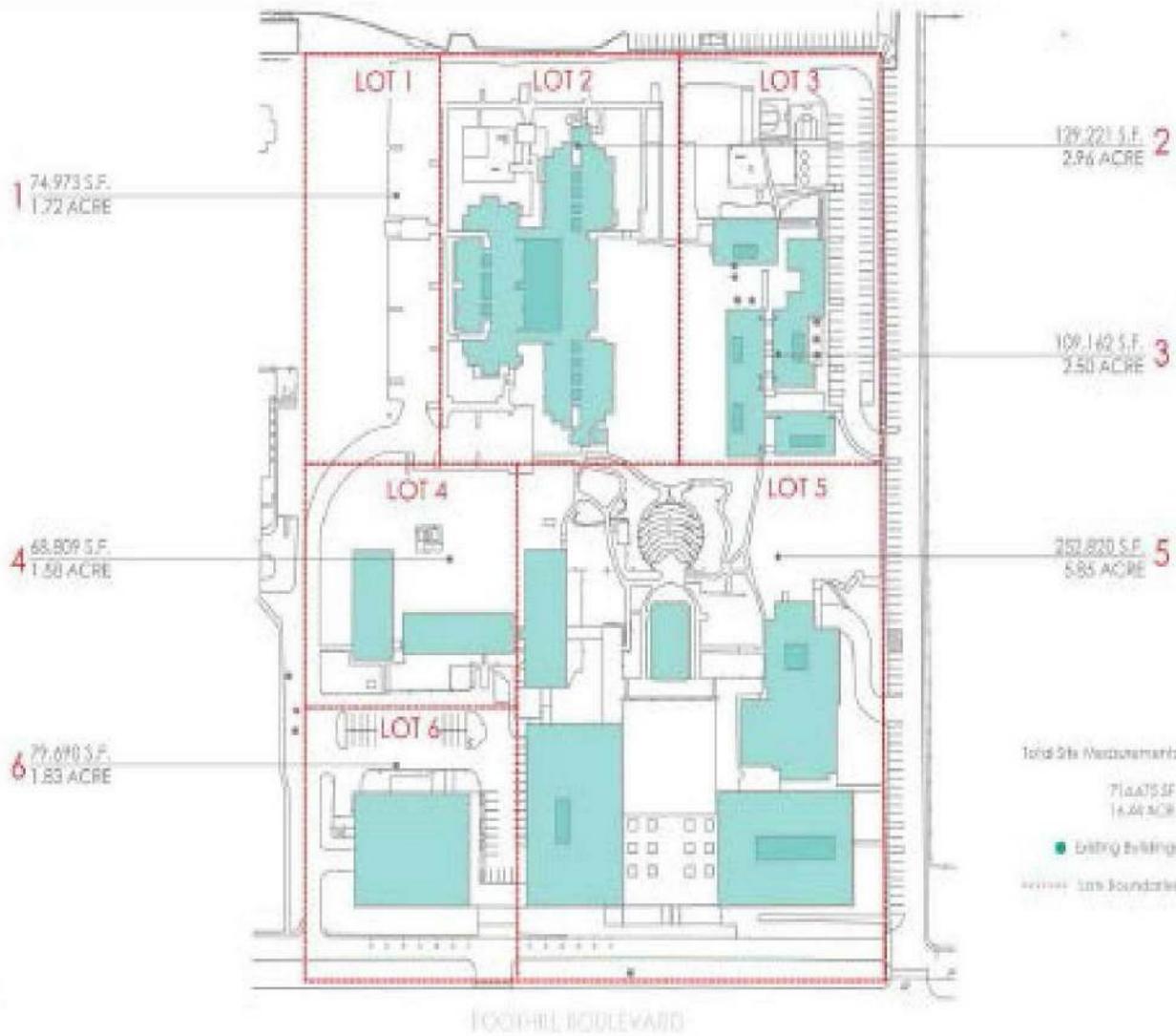
Jeffery, CUC has worked with you to try to create the best possible outcome for your institution in the difficult circumstances it now faces. Thank you again for all of your time and effort in this matter – and we look forward to successfully completing the transaction as set forth in the Term Sheet.

Sincerely,



Stig Lanesskog
Chief Executive Officer

Claremont School of Theology
Proposed Lot Lines



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EXECUTIVE OFFICE

Term Sheet for Purchase of 10.59 Acres in Claremont

1. **Purpose.** The purpose of this Term Sheet for Purchase of 10.59 Acres in Claremont (this “**Term Sheet**”), dated August 1, 2016 (the “**Effective Date**”), is to generally describe the terms under which Claremont University Consortium (“**CUC**”) and Claremont School of Theology (“**CST**”) would consider entering into an agreement by which CUC would purchase the ten and fifty-nine hundredths (10.59) acre portion (the “**Property**”), depicted as Lots 1 through 4 and 6 on the map (the “**Map**”) attached as Exhibit A, of CST’s Claremont campus (“**CST Campus**”), which is depicted as Lots 1 through 6 on the Map.

(a) **Non-Binding.** Because (i) the terms set forth in this Term Sheet do not include all of the terms necessary to create the purchase and sale agreement (“**PSA**”) between CUC and CST and (ii) CUC and CST do not intend the terms of this Term Sheet (other than those set forth in Sections 1, 2(a), 2(b), 2(c), 7, 8, 9, and 10, collectively, the “**Binding Provisions**”) to create a binding obligation on either party, CUC and CST acknowledge and agree that, except for the Binding Provisions, the following terms shall not be binding on either party, and that no other binding obligation will arise until and unless the PSA has been drafted and signed by both CUC and CST. CUC and CST each acknowledge and agree that each party is receiving adequate consideration for the binding portions of this Term Sheet.

(b) **Acres and Lot Lines.** The total area set forth in this Term Sheet for the Property and for each Lot depicted on the Map are estimations only, and the parties would work together to establish the area of the Property and the location of boundary lines between the Property and the portion of the of the CST Campus (depicted as Lot 5 on the Map, the “**Core Campus**”) that would not be sold to CUC at this time.

(c) **Consideration.** In consideration of the Binding Provisions, within three (3) business days after the Effective Date, CUC shall pay a nonrefundable payment in the amount of twenty-five thousand dollars (\$25,000) to CST (the “**Initial Deposit**”), which shall be credited towards the Purchase Price (defined in Section 3) at Closing (defined in Section 2(d)).

2. **Timeline.** CUC and CST would endeavor to complete the purchase and sale of the Property by the end of January 2017. To attempt to meet that goal, the following timeline is contemplated by the parties:

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(a) Negotiation Period; Exclusive Negotiation. CUC and CST shall work in good faith to negotiate and draft the PSA, which shall be subject to review and approval by each party's board, at such board's sole and absolute discretion, within thirty (30) days after the date of this Term Sheet (the "**Negotiation Period**"). During the Negotiation Period, CST shall not offer or market all or any portion of the CST Campus to any party other than CUC and shall not accept or entertain offers from other parties or enter into any discussions, negotiations or agreements regarding transfer of the CST Campus with any party other than CUC.

(b) Due Diligence. For a period of sixty (60) days following the Effective Date (the "**Due Diligence Period**"), CST shall provide CUC and its employees, consultants and contractors (i) access to the Property to conduct various inspections (including to perform inspections for hazardous substances), access to the CST Campus to perform surveys, and (iii) all architectural and engineering plans, consultant or employee studies, accounting, correspondence from any governmental authority related to the Property, and documents arising from any litigation related to the Property, to the extent they are in CST's possession. CUC shall keep the Property free and clear of any mechanics' or materialmen's liens arising out of any such entry and shall indemnify CST from any claims or liabilities arising out CUC's negligent actions during its entry on the Property. CUC shall maintain general liability insurance and property damage insurance providing coverage against claims arising out of the activities of CUC or its representatives on the Property in form and amounts reasonably satisfactory to CST. CUC shall not conduct any testing or site alterations that involve drilling, boring, or other similar intrusive or invasive action on or under the Parcels without the prior written consent of CST, which consent shall not be unreasonably withheld, conditioned or delayed. CUC shall not disclose the results of its due diligence testing except to its constitute member institutions and CST and their (and CUC's) respective boards, officers, employees, attorneys, and consultants who are engaged in the purchase of the Property. If CUC provides CST written notice during the Due Diligence Period that CUC disapproves the condition of the Property, then both parties would be released from their rights and duties under the PSA (excepting only those rights and duties that expressly survive such termination).

(c) Lot Line Adjustment. During the Negotiation Period, CUC shall prepare the engineering work and application for a lot line adjustment (the "**Lot Line Adjustment**"), the application for which would be filed jointly by CUC and CST with the City of Claremont (the "**City**") upon execution of the PSA (if the parties elect to execute the PSA) or as soon thereafter as is reasonably practicable. The Lot Line Adjustment would add the Property to a legal parcel currently owned by CUC. The cost of the Lot Line Adjustment and related survey shall be paid by CUC.

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(d) Escrow Period. Escrow would be opened within three (3) business days after CUC and CST enter into the PSA. Escrow would close after the satisfaction of all closing conditions set forth in the PSA (including the City's and County's approval and recordation of the Lot Line Adjustment) and the payment of the full Purchase Price (defined in Section 3) to CST (the "**Closing**"). It is the desire of the parties that the Closing occur within five (5) business days after the City's and County's approval and recordation of the Lot Line Adjustment; provided, however, if the Lot Line Adjustment is not completed by March 31, 2017, the PSA would terminate. In accordance with local custom, (i) escrow costs would be split equally between the parties, (ii) CST would pay the cost of a CLTA title policy, (iii) CUC would pay the added cost of an ALTA policy, and (iv) CST would pay all transfer taxes.

3. Purchase Price. The purchase price (the "**Purchase Price**") of the Property would be fourteen million dollars (\$14,000,000).

4. Deposit. CUC would deposit an amount equal to ten percent (10%) of the Purchase Price in escrow on opening of escrow (the "**Additional Deposit**"). The Deposit would be nonrefundable to CUC, if CUC defaults under the PSA and fails to close escrow. At Closing, the Additional Deposit and the Initial Deposit would be credited towards the Purchase Price.

5. "As Is" Condition. CUC would purchase the Property in its current "as is" condition from CST.

6. Reservation, Covenants, Conditions, Restrictions, and Easements.

(a) First Right to Rent. At the Closing, the Parties would cause to be recorded, either as a reservation in the grant deed or as a separate covenant, documentation evidencing CST's perpetual right of first offer ("**Right to Rent**") for eighty-seven (87) family housing units for use by CST students. Such units would be provided in any of (i) existing housing units located on the Property, (ii) new housing units located on the Property or (iii) housing located at another nearby location that was approved by CST (e.g., elsewhere in the North Campus). The Right to Rent would be at market rates for comparable family student housing in the vicinity of the Property. The right would be exercised by CST on an annual basis by a date certain to be set forth in the PSA. The Right to Rent would only terminate if CST ceased to exist, abandoned its current nonprofit mission or moved its campus from its current location. Notwithstanding the foregoing, fewer than eighty-seven (87) units may be offered to CST, if eighty-seven (87) units do not exist in habitable condition and CUC is diligently performing repair, maintenance or updating of such uninhabitable units.

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(b) Termination of Existing Agreements; Right of First Offer. All existing agreements, reserved rights and covenants between CUC and CST with respect to the Property and Lot 5 would be terminated at the Closing and replaced with a new option for CUC to purchase Lot 5 from CST at market value, if CST ever elected to transfer Lot 5, cease operations on Lot 5, or abandon its current nonprofit mission.

(c) Easements. The license (the “**License**”) set forth in Section 8.(3) of the 2001 Agreement (defined in Section 7) would be converted to an easement (the “**College Avenue Easement**”) pursuant to an instrument in form attached to the PSA as an exhibit, which instrument would be recorded at Closing. The College Avenue Easement would (i) exclude the proviso set forth in Section 8.3(ii) of the License, (ii) set the northern boundary of the easement area at the northern boundary of the Core Campus and (iii) require fair-share contributions to by CST towards CUC’s maintenance, repair and replacement costs of improvements in the easement area. In addition to the College Avenue Easement, the parties acknowledge that other utility or access easements may be required to facilitate the Lot Line Adjustment. The grant of the College Avenue Easement and any other necessary easement would be a condition precedent to the Closing in CST’s favor.

7. No Notice of Sale; Tolling. CUC asserts that CST’s transmission of a draft term sheet on July 19, 2016 constitutes an offer to sell or an expression of intent to sell by CST under that certain grant deed dated June 5 1957 (the “**Grant Deed**”) and under that certain agreement (the “**2001 Agreement**”) between the parties dated March 1, 2001; however, in order to avoid dispute, CUC and CST agree to waive such notice and that (a) neither this Term Sheet nor any previous written or oral communication constitutes an offer to sell or an expression of intent to sell by CST under that certain grant deed dated June 5, 1957 (the “**Grant Deed**”) nor under that certain agreement (the “**2001 Agreement**”) between the parties dated March 1, 2001, which restated some of the requirements, restrictions and rights under the grant deed and (b) the current discussions between the parties is an attempt at negotiating a transfer outside of the terms contemplated by the Grant Deed and the 2001 Agreement and to avoid any potential dispute or litigation related to the validity or terms set forth in the Grant Deed and the 2001 Agreement. Consequently, CST and CUC agree that (x) CST is not required to provide CUC notice of CST’s offer to transfer the Property to CUC under the Grant Deed and the 2001 Agreement and (y) CUC is not required to provide CST notice of CUC’s acceptance of CST’s offer under the Grant Deed and the 2001 Agreement, prior to the termination of the Negotiation Period and the provisions of the Grant Deed and the 2001 Agreement related to notice and acceptance shall be tolled until such time (the “**Tolling Period**”). In addition, should CUC and CST enter into the PSA, the PSA would extend the Tolling Period until the earliest of the Closing or other termination of the PSA.

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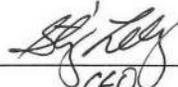
8. **California Law; Attorneys' Fees.** This Term Sheet shall be governed by the laws of the state of California. In the case of any dispute between the parties, the prevailing party shall be entitled to attorneys' fees.

9. **Confidentiality.** Both parties shall keep the terms and conditions of this Term Sheet confidential other than to each other, the constituent member institutions of CUC and their respective experts, consultants, board members, staff, attorneys, and contractors who may have previously been advised, or in the future may be advised, during the reasonable course of effectuating the negotiations and acquisition as detailed herein; provided, however, each party may disclose and discuss any matters pertaining to this Term Sheet or the Property to the extent required by law or pursuant to any litigation between the parties.

10. **Automatic Termination; Survival; Circulation of Drafts.** With the exception of the Binding Provisions, which shall survive the termination of this Term Sheet, all of the terms and conditions set forth in this Term Sheet shall be conclusively deemed to have expired and be of no further force or effect at the end of the Negotiation Period. Until both parties execute this Term Sheet under full authority, neither party shall be bound by any of the terms, conditions, assertions, admissions, or waivers of rights contained herein.

Claremont University Consortium

Claremont School of Theology

By: 
Title: CEO

By: _____
Title: _____

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