Arent Fox
ATTORNEYS AT LAW

Arent Fox Kintner Plotkin & Kahn, PLLC
1050 Connecticut Avenue, NW
Washington, DC 20036-5339
Phone 202/857-6000
Fax 202/857-6395
www.arentfox.com

Sana D. Coleman
202/775-5753
colemans@arentfox.com

December 5, 2000

VIA FEDERAL EXPRESS

ORIGINAL

001757-TX

Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Application of Kernan Associates, Ltd. to Provide Alternative Local Exchange Service Within the State of Florida

Dear Sir/Madam:

Enclosed for filing are an original and six (6) copies of the Application to Provide Alternative Local Exchange Service Within the State of Florida ("Application") of Kernan Associates, Ltd. ("Kernan"). Also enclosed is check in the amount of $ 250.00 to cover the filing fee for this Application. Please note that the Applicant Acknowledgment Statement, Affidavit, and Affirmation of Financial Statement contain signatures provided by facsimile. We will forward to the Commission, under separate cover, the original copies of these documents once they are available.

Please date-stamp the enclosed additional copy of the Application and return it to us in the self-addressed, postage-paid envelope that is provided. If you have any questions concerning this filing, please do not hesitate to contact us.

Respectfully submitted,

Sana D. Coleman

Sana D. Coleman

Enclosures

cc: Jack Nace
John Murphy, Jr.

** FLORIDA PUBLIC SERVICE COMMISSION **

DIVISION OF REGULATORY OVERSIGHT
CERTIFICATION SECTION

ORIGINAL

APPLICATION FORM
for
AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

Instructions

- This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Page 12).

- Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.

- Use a separate sheet for each answer which will not fit the allotted space.

- Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of Records and Reporting
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6770

- If you have questions about completing the form, contact:

  Florida Public Service Commission
  Division of Regulatory Oversight
  Certification Section
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6480

APPLICATION

1. **This is an application for √ (check one):**

   (x) Original certificate (new company).

   ( ) Approval of transfer of existing certificate: Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

   ( ) Approval of assignment of existing certificate: Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

   ( ) Approval of transfer of control: Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. **Name of company:**

   Kernan Associates, Ltd. ("Kernan" or the "Applicant")

3. **Name under which the applicant will do business (fictitious name, etc.):**

   Applicant will do business under the name: St. Johns Estates

4. **Official mailing address (including street name & number, post office box, city, state, zip code):**

   Kernan Associates, Ltd.
   3591 South Kernan Boulevard
   Jacksonville, Florida 32224

5. **Florida address (including street name & number, post office box, city, state, zip code):**

   Kernan's registered agent in Florida is:
   Thomas V. Infantino
   180 South Knowles Avenue, Suite 7
   Winter Park, Florida 32789

6. **Structure of organization:**

( ) Individual	( ) Corporation
( ) Foreign Corporation	( ) Foreign Partnership
( ) General Partnership	(x) Limited Partnership
( ) Other	

7. **If individual, provide:** Not applicable.

Name:
Title:
Address:
City/State/Zip:
Telephone No.:_____ Fax No.:
Internet E-Mail Address:
Internet Website Address:

8. **If incorporated in Florida, provide proof of authority to operate in Florida:**

(a) The Florida Secretary of State corporate registration number:

Not applicable.

9. **If foreign corporation, provide proof of authority to operate in Florida:**

(a) The Florida Secretary of State corporate registration number:

Not applicable.

10. **If using fictitious name-d/b/a, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:**

(a) The Florida Secretary of State fictitious name registration number:

Applicant's fictitious name registration number is: G99349900094.

11. If a limited liability partnership, provide proof of registration to operate in Florida:

Applicant is a limited partnership organized under the Florida Revised Uniform Limited Partnership Act. A copy of Applicant's Certificate of Limited Partnership is attached hereto as Exhibit A.

(a) The Florida Secretary of State registration number: A 99000001473.

12. <u>If a partnership</u>, provide name, title and address of all partners and a copy of the partnership agreement.

Freeport Partners, Inc.
General Partner
c/o John Murphy, Jr.
180 South Knowles
Winter Park, Florida 32789

SunAmerica Housing Fund 797
Limited Partner
c/o SunAmerica Inc.
1 SunAmerica Center
Los Angeles, California 90067-6022

A copy of the partnership agreement is provided herewith as Exhibit D.

13. <u>If a foreign limited partnership,</u> provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

Not applicable.

(a) The Florida registration number:

14. Provide <u>F.E.I. Number</u>(if applicable):

Applicant's F.E.I. Number is 593597801.

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. <u>Provide explanation.</u>

None of Kernan's officers, directors, or stockholders has been previously adjudged as bankrupt, mentally incompetent, or found guilty of any felony or of any crime.

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, <u>give reason why not.</u>

None of Kernan's officers, directors, partners, or stockholders has been previously an officer, director, partner or stockholder in any other Florida certificated telephone company.

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Alan G. Fishel, Esq.
Sana D. Coleman, Esq.
Arent Fox Kintner Plotkin and Kahn, PLLC
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036-5339
Telephone: 202.857.6450 (Fishel)
202.775.5753 (Coleman)
Facsimile: 202.857.6395
Web Address: fishela@arentfox.com
colemans@arentfox.com
www.arentfox.com

(b) Official point of contact for the ongoing operations of the company:

Mr. John Murphy, Jr.
President, Freeport Partners, Inc.,
(General Partner of Kernan Associates, Ltd.)
180 South Knowles Ave. Suite 7
Winter Park, FL 32789
Telephone: 407.698.2900
Facsimile: 407.698.8740

With a copy to:

Mr. Jack Nace
Project Manager
Skyway Partners, Inc.
3441 St Peters Road
St Peters, PA 19470
Telephone: 610.469.8771
Facsimile: 610.469.8694
Web Address: jack_nace@skypartners.com
www.skywaypartners.com

(c) Complaints/Inquiries from customers:

Mr. Jack Albanese
Customer Service Coordinator
200 Motor Parkway
Suite C – 17
Happauge, NY 11788
Telephone: 631.231.5595 ext. 213
Facsimile: 631.231.5565

17. List the states in which the applicant:

In response to questions 17(a)-(f), Applicant is not currently providing, and has not provided, local exchange or alternative local exchange service in the State of Florida or any other jurisdiction.

(a) has operated as an alternative local exchange company.

Not applicable.

(b) has applications pending to be certificated as an alternative local exchange company.

Not applicable.

(c) is certificated to operate as an alternative local exchange company.

Not applicable.

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

Not applicable.

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

Not applicable.

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

Not applicable.

18. Submit the following:

A. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

See response to question 18 (B).

B. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

Applicant has engaged the management consulting services team of Skyway Partners, Inc. ("Skyway") to assist with the managerial and technical provisioning of alternative local exchange services to tenants located at various properties in the State of Florida. Information pertaining to the managerial and technical qualifications of the management and consulting team of Skyway is provided herewith as Exhibit B.

C. Financial capability.

The application should contain the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. **the balance sheet:**
2. **income statement: and**
3. **statement of retained earnings.**

NOTE: ***This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.***

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.**

2. **written explanation that the applicant has sufficient financial capability to maintain the requested service.**

3. **written explanation that the applicant has sufficient financial capability to meet its lease or ownership obligations.**

Applicant is financially qualified to offer its proposed alternative local exchange services in the State of Florida. Specifically, as a building management firm seeking to provide alternative local exchange services to its tenants, Applicant is financially capable of: (1) providing its proposed services in the geographic area it expects to serve; (2) maintaining the service requested; and (3) meeting its lease and/or ownership obligations. Applicant is a limited partnership formed on September 2, 1999 and Applicant does not yet have audited financial statements available. Applicant does possess an unaudited financial statement, attached hereto as Exhibit C, which is signed and affirmed by an officer duly authorized to represent the Applicant.

THIS PAGE MUST BE COMPLETED AND SIGNED

APPLICANT ACKNOWLEDGMENT STATEMENT

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

John Murphy, Jr. for Knowles

Signature

John Murphy, Jr.
President, Freeport Partners, Inc.,
(General Partner of Kernan Associates, Ltd.)
180 South Knowles Ave. Suite 7
Winter Park, Fl. 32789
Tel: 407.628.2900
Fax: 407.628.8740

12.5.00

Date

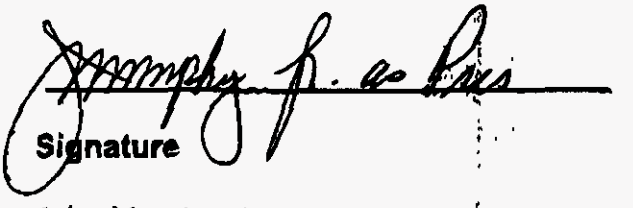
THIS PAGE MUST BE COMPLETED AND SIGNED

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents, and that the applicant, together with its management consulting team, Skyway Partners, Inc., has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:



Signature

John Murphy, Jr.
President, Freeport Partners, Inc.,
(General Partner of Kernan Associates, Ltd.)
180 South Knowles Ave. Suite 7
Winter Park, Fl. 32789
Tel: 407.628.2900
Fax: 407.628.8740

12.5.00

Date

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.

   Applicant owns a POP located at 3591 South Kernan Boulevard, Jacksonville, Florida 32224.

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

   Applicant will lease a Lucent switch located at 3591 South Kernan Boulevard, Jacksonville, Florida 32224.

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

   Applicant will lease the copper transmission facilities of the underlying local exchange carrier.

EXHIBITS

EXHIBIT A	**CERTIFICATE OF LIMITED PARTNERSHIP**
EXHIBIT B	**FINANCIAL CAPABILITY**
EXHIBIT C	**MANAGERIAL AND TECHNICAL CAPABILITY**

EXHIBIT A

CERTIFICATE OF LIMITED PARTNERSHIP

State of Florida

Department of State

I certify from the records of this office that KERNAN ASSOCIATES, LTD. is a limited partnership organized under the laws of the State of Florida, filed on September 8, 1999.

The document number of this limited partnership is A99000001473.

I further certify that said limited partnership has paid all fees due this office through December 31, 1999, and its status is active.

Given under my hand and the Great Seal of the State of Florida at Tallahassee, the Capitol, this the Second day of November, 1999

Katherine Harris

Katherine Harris
Secretary of State

CR2EO22 (1-99)

EXHIBIT B

MANAGERIAL AND TECHNICAL CAPABILITY

MANAGERIAL AND TECHNICAL QUALIFICATIONS

As stated above, Applicant has engaged the management consulting services of Skyway Partners, Inc. ("Skyway"). Accordingly, descriptions of the managerial and technical qualifications of Skyway's management team are attached hereto as Exhibit B.

MANAGERIAL AND TECHNICAL QUALIFICATIONS OF KERNAN ASSOCIATES, LTD'S MANAGEMENT TEAM, SKYWAY PARTNERS, INC.

Christopher J. Catranis is Skyway Partners, Inc.'s chief executive officer (CEO). Mr. Catranis has a number of years of experience in providing data services via satellite. He developed the first private label consumer lease program for DIRECTV and Echostar. As part of that program, he recruited over 2,000 dealers through a national seminar program where he trained satellite technicians on satellite equipment leasing for direct broadcast satellite applications. From 1991-1995, Mr. Catranis was the Managing Director of Patriot Cable and Satellite in Kuwait. There he directed marketing, product development, programming services, production and finance for 30 private cable systems at expatriate housing compounds and installed the first Conditional Access Television (CATV) systems in the Persian Gulf. From 1990 to 1991, Mr. Catranis served as Regional Vice President for Integrated Control Systems, a productivity consulting company, where he developed CEO prospects and performed productivity analyses on companies with marketing operations.

Harry B. Feingold, president of Skyway Partners, Inc. since May 1999 and the former chief operating officer (COO) for the company, was managing partner of two real estate partnerships in 1994-1997: Dollar Storage, Riverhead, NY and The Pines, Saluda, SC. Prior to his involvement in real estate, Mr. Feingold, as a sole proprietor, factored accounts receivables to Europe, the Middle East and Africa on U.S. Ex-Im Bank insured telecommunications exports transactions for General Electric, American Antenna, Corp. and Echostar Corp.

Jack Albanese joined Skyway as Contract's Administrator in January, 2000. He has over fifteen years experience in the foreign and domestic market of military and commercial assembly components. As National Sales Manager & Corporate Branch Coordinator of Allmetal Screw Products he supervised the daily operations for five satellite branches. As a government certified,ISO-9000 supplier , Mr Albanese was responsible for daily operations and contract fulfillment. From 1985-1989 he served as Director of Purchasing for Liberty Fasteners Inc. He maintained inventory control, forecasting of purchases and the coordination of all foreign corporate purchases of industrial fasteners from around the world.

Don Olender joined the company in September, 1999. He is working as the CFO providing strategic direction on various financial , tax, treasury and operational functions of the Company. Prior to joining Skyway, Mr. Olender served as the Controller of Sarnoff Corporation, a for-profit research and development company for 12 years. At Sarnoff he was responsible for the managing a staff of 22 finance professionals in the areas of cash flow and finance, taxes, insurance, accounting and business systems development. He also was also responsible for establishing ten hi-tech companies with an

aggregate market value of approximately $200 million. From 1985 to 1987, he was Assistant Controller at Cooper Technicon, Inc., a public company specializing in diagnostic chemical reagents and analytical equipment for the biomedical industry. Mr Olender established 5 international subsidiaries for Cooper Technicon. From 1979 to 1985, Mr Olender was a Manager of Reporting and Consolidation at Rorer International Corporation, a public pharmaceutical company. Mr. Olender started his career as an auditor at Touche Ross & Co. in 1974.

Lucas C. Catranis has served as Regional Vice President of SkyWay Partners, Inc. since 1999, and as Chief Analyst since 1998. Mr. Catranis started with SkyWay in 1995 as a project coordinator. From 1993 to 1994, Mr. Catranis worked as a systems installer and sales representative for Patriot Satellite in Kuwait.

Edward Decort, Vice President of Sales, joined Skyway Partners, Inc. as a project coordinator in February of 1999. Mr. Decort quickly moved to Account Executive Status. Mr. Decort has 5 years experience in Foreign and Domestic marketing. His responsibilities included marketing to several overseas markets in Japan and Europe, as well as Domestic markets. Mr. Decort was also responsible for developing new markets and building customer bases.

Andrew Marshall joined SkyWay as Chief Technology Officer in 1999, having been on the advisory board of the Company since its inception. From 1997 to 1999, Mr. Marshall worked with GE Capital and Volt Delta Europe, where he was responsible for technology development, strategy, eCommerce and Internet strategy for European financial, retail and telecommunications corporates. From 1985 to 1997 he was CTO of a $13 billion dollar international Bank, and was CEO and a board member of their high technology R&D subsidiary. Prior to 1985, Mr. Marshall consulted for various blue chip technology companies such as IBM, Ernst & Young, Cable & Wireless and Pirelli cable. He is a Chartered Information Systems Practitioner and MBCS (Member of the British Computer Society, under Royal Charter in the United Kingdom).

Robert Fendelander joined SkyWay as Director of Engineering and Design in 1998. From 1987 to 1998, Mr. Fendelander served as President and managing principal of Northeast Cable, Inc., a company that builds and maintains cable systems for franchise cable operators in eastern Pennsylvania and northern New Jersey. During his career, Mr. Fendelander has installed private telecommunications systems in over 300 apartment complexes. Mr. Fendelander received his BS in Electrical and Electronic Engineering from University of Sacramento and He also received a title of Broadband Communication Engineer from the Society of CATV Engineers in 1990. During 1992-1995 Mr. Fendelander continued his education in CATV tests and measurements, TV/Video Production and fiber optics at the National Cable Television Institute.

EXHIBIT C

FINANCIAL CAPABILITY

FINANCIAL CAPABILITY

As stated above, Applicant is financially qualified to offer its proposed alternative local exchange services in the State of Florida. Specifically, as a building management firm seeking to provide alternative local exchange services to its tenants, Applicant is financially capable of: (1) providing its proposed services in the geographic area it expects to serve; (2) maintaining the service requested; and (3) meeting its lease and/or ownership obligations. Applicant is a limited partnership formed on September 2, 1999 and Applicant does not yet have audited financial statements available. Applicant does possess an unaudited financial statement, attached hereto as Exhibit C, which is signed and affirmed by an officer duly authorized to represent the Applicant.

KATHLEEN S. ANDERSON P.A., CPA

Certified Public Accountant

311 Altamonte Commerce Boulevard, Suite 1612
Altamonte Springs, Florida 32714
(407) 862-8672
FAX (407) 862-5731

Kernan Associates, Ltd.
Winter Park, FL 32789

We have compiled the accompanying statement of assets, liabilities, and capital - income tax basis of Kernan Associates, Ltd. as of October 25, 2000, and the related statement of revenues and expenses and cash flows - income tax basis for the period then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

We are not independent with respect to Kernan Associates, Ltd.

Kathleen S. Anderson CPA

KERNAN ASSOCIATES, LTD.
BALANCE SHEET
AS OF OCTOBER 25, 2000

ASSETS		
Cash		
First Union	7,406.86	
National Bank of Commerce - Escrow	195,828.19	
Total Cash		203,235.05
Construction in Progress		11,151,216.05
Other Assets		
Organizational Costs, Net		210.50
TOTAL ASSETS		**11,354,661.60**
LIABILITIES		
Accounts Payable		
Trade	18,021.83	
Retainage	579,374.34	
Total Accounts Payable		597,396.17
Loans Payable		
Loan Payable - Freeport Partners		14,000.00
Deferred Liabilities		
Freeport - Developer Fee		700,000.00
Funds Held in Escrow		189,000.00
Mortgage Payable - Southtrust		9,837,988.96
TOTAL LIABILITIES		11,338,385.13
PARTNERS' EQUITY		
Equity - General Partner	0.00	
Equity - Limited Partner	0.00	
Current Earnings	16,276.47	
Current Distributions	0.00	
TOTAL STOCKHOLDERS EQUITY		16,276.47
TOTAL LIABILITIES & STOCKHOLDERS EQUITY		**11,354,661.60**

KERNAN ASSOCIATES, LTD.
STATEMENT OF INCOME
FOR THE PERIOD ENDED OCTOBER 25, 2000

	OCTOBER	YEAR TO DATE
OPERATING REVENUE		
Rental Income	0.00	0.00
Interest Income	2,788.00	16,276.47
TOTAL OPERATING REVENUE	2,788.00	16,276.47
OPERATING EXPENSES		
Payroll		
Management & Leasing Salaries	0.00	0.00
Maintenance & Security Salaries	0.00	0.00
Payroll Taxes	0.00	0.00
Insurance - Workers Comp & Health	0.00	0.00
Total Payroll	0.00	0.00
Utilities		
Electric & Gas	0.00	0.00
Water & Sewer	0.00	0.00
Trash Removal	0.00	0.00
Telephone & Pagers	0.00	0.00
Total Utilities	0.00	0.00
Maintenance & Repairs		
Building & Roof	0.00	0.00
Electrical, HVAC & Plumbing	0.00	0.00
Carpet, Tile & Vinyl	0.00	0.00
Grounds Maintenance	0.00	0.00
Janitorial Supplies & Services	0.00	0.00
Total Maintenance & Repairs	0.00	0.00
Taxes & Insurance	0.00	0.00
Other Operating Expenses		
Office Supplies	0.00	0.00
Management Fee	0.00	0.00
Legal & Accounting	0.00	0.00
Total Other Operating Expenses	0.00	0.00
TOTAL OPERATING EXPENSES	0.00	0.00
NET OPERATING INCOME	**2,788.00**	**16,276.47**
FINANCIAL & OTHER EXPENSES		
Interest Expense	0.00	0.00
Depreciation	0.00	0.00
Amortization	0.00	0.00
Abandoned Projects - Bermuda	0.00	0.00
Other Expenses	0.00	0.00
TOTAL FINANCIAL & OTHER EXPENSES	0.00	0.00
NET INCOME	**2,788.00**	**16,276.47**

KERNAN ASSOCIATES, LTD.
STATEMENT OF CHANGES IN FINANCIAL POSITION (CASH BASIS)
FOR THE PERIOD ENDED OCTOBER 25, 2000
" YEAR TO DATE "

RESOURCES PROVIDED		
BY OPERATIONS:		
Net Income		16,276.47
Add (or deduct) items not affecting cash		
Depreciation	0.00	
Amortization	0.00	
Change in Accounts Receivable	0.00	
Increase in Accounts Payable	597,396.17	
Change in Funds Held in Escrow	0.00	
Total Items Not Affecting Cash		597,396.17
Other Sources of Cash		
Loan - Freeport Partners		21,000.00
Construction Loan - SouthTrust		6,714,176.83
TOTAL RESOURCES PROVIDED		7,348,849.47
RESOURCES APPLIED TO:		
Freeport Partners - Loan Payment	7,000.00	
Construction in Progress	7,327,614.42	
Organizational Costs	0.00	
Distributions	0.00	
TOTAL RESOURCES APPLIED		7,334,614.42
INCREASE IN CASH		**14,235.05**

Affirmation of Financial Statement

I, John Murphy, Jr., the President of Freeport Partners, Inc., the General Partner of Kernan Associates, Ltd., do hereby affirm, to the best of my knowledge and belief, that the attached Kernan Associates, Ltd. Balance Sheet, Statement of Income, and Statement of Changes in Financial Position, dated October 25, 2000, are true and correct.

John Murphy, Jr.
President, Freeport Partners, Inc.,
(General Partner of Kernan Associates, Ltd.)

Sworn to and subscribed before me this 5th day of Dec., 2000.

State of Florida and County of Orange.

Notary Public Judy M. Persol

JUDY M. PERSOL
MY COMMISSION # CC 665266
EXPIRES: October 2, 2001
Bonded Thru Notary Public Underwriters

FORM PSC/CMU 8 (11/95)
Required by Commission Rule Nos. 25-24.805, 25-24.810, and 25-24.815

EXHIBIT D

SECOND AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF KERNAN ASSOCIATES, LTD. A FLORIDA LIMITED PARTNERSHIP

DATED AS OF NOVEMBER 30, 1999

SECOND AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF KERNAN ASSOCIATES, LTD., A FLORIDA LIMITED PARTNERSHIP

DATED AS OF NOVEMBER 30, 1999

TABLE OF CONTENTS

Exhibits

SECOND AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP
OF
KERNAN ASSOCIATES, LTD.,
a Florida limited partnership

THIS SECOND AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP ("Agreement" or "Partnership Agreement") is entered into effective as of November 30, 1999, by and between FREEPORT PARTNERS, INC., a Florida corporation (the "General Partner"), as general partner, and SUNAMERICA HOUSING FUND 797, A NEVADA LIMITED PARTNERSHIP ("SHF" or the "Investor Partner"), as limited partner.

RECITALS

WHEREAS, the General Partner and MLP #1, LTD., a Florida limited partnership (the "Initial Limited Partner") entered into an Agreement of Limited Partnership of Kernan Associates, Ltd., a Florida limited partnership (the "Partnership"), dated September 2, 1998 (the "Original Agreement"), and the Partnership filed a Certificate of Limited Partnership with the Florida Secretary of State on September 8, 1998; and

WHEREAS, on or about September 29, 1999, the Initial Limited Partner withdrew as a limited partner of the Partnership, SHF was admitted as the limited partner of the Partnership, and the Original Agreement was amended and restated in its entirety by that certain Amended and Restated Agreement of Limited Partnership of the Partnership dated as of September 29, 1999 (the "Amended Agreement"); and

WHEREAS, the Partnership has acquired certain land located in the County of Duval, State of Florida, and more particularly described on Exhibit B hereto (the "Land"), on which the Partnership intends to develop, construct, own, maintain and operate a 240-unit multifamily apartment complex to be known as St. John's Estates (the "Apartment Complex"); and

WHEREAS, in anticipation of entering into this Agreement, the Investor Partner, on or about September 29, 1999, made a loan to the Partnership in the original principal amount of $2,600,000.00, which is evidenced by a certain promissory note from the Partnership dated September 29, 1999, payable to the order of the Investor Partner in the original principal amount of $2,600,000.00 (the "LP Loan"); and

WHEREAS, the parties hereto desire to enter into this Agreement to provide for, among other things: (i) the continuation of the Partnership and (iii) the amendment and restatement of the Amended Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, of mutual promises of the parties hereto and of other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties hereby agree to continue the Partnership pursuant to the Act, as set forth in this Second Amended and Restated Agreement of Limited Partnership, which reads in its entirety as follows:

ARTICLE 1.
CONTINUATION OF THE PARTNERSHIP.

1.1 Continuation. The undersigned hereby continue the Partnership as a limited partnership under the Act.

1.2 Name. The name of the Partnership is Kernan Associates, Ltd., a Florida limited partnership.

1.3 Principal Executive Offices; Agent for Service of Process. The principal executive office of the Partnership shall be 1075 West Morse Boulevard, Winter Park, Florida 23789. The Partnership may change the location of its principal executive office to such other place or places as may hereafter be determined by the General Partner. The General Partner shall promptly notify all other Partners of any change in the principal executive office. The Partnership may maintain such other offices at such other place or places as the General Partner may from time to time deem advisable. The name and address of the Agent for service of process is Thomas V. Infantino, Esq. and the address for service of process is Suite 7, 180 South Knowles Avenue, Winter Park, Florida 32789. The agent for service of process of the Partnership may be changed from time to time by the General Partner in its sole and absolute discretion, subject to applicable law. The agent for service of process shall promptly deliver to the General Partner copies of any documents served on him.

1.4 Term. The term of the Partnership commenced on the date of filing of the Certificate with the Secretary of State of the State of Florida, and shall continue until December 31, 2049, unless the Partnership is sooner dissolved in accordance with the provisions of this Agreement.

1.5 Filing of Certificate. Upon the execution of this Second Amended and Restated Agreement of Limited Partnership by the parties hereto, the General Partner shall take all actions necessary to assure the prompt filing of an amendment to the Certificate if and as required by the Act, including filing with the Florida Secretary of State. All fees for filing shall be paid out of the Partnership's assets. The General Partner shall take all other necessary action required by law to perfect and maintain the Partnership as a limited partnership under the laws of the State, and shall register the Partnership under any assumed or fictitious name statute or similar law in force and effect in the State.

ARTICLE 2.
DEFINED TERMS

In addition to the terms defined in the preamble to this Agreement, the following terms used in this Agreement shall have the meanings specified below:

"Accountants" means KPMG Peat Marwick, or such other firm of independent certified public accountants as may be engaged by the General Partner, with the Consent of the Investor Partner, to prepare the Partnership income tax returns.

"Act" means the Revised Uniform Limited Partnership Act of the State, as may be amended from time to time during the term of the Partnership.

"Adjusted Capital Account" means, with respect to any Partner, such Partner's Capital Account as of the end of the relevant taxable year, after crediting to such Capital Account any amounts which such Partner is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to the penultimate sentences of Section 1.704-2(g)(1) and 1.704-2(i)(5) of the Regulations.

"Affiliate" means any Person that directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with the General Partner, or with another designated Person, as the context may require.

"Affiliated Partnership" means a limited partnership in which the General Partner, Guarantor or an Affiliate thereof is a general partner, and in which an Affiliate of the Investor Partner is a limited partner.

"Agreement" means this Second Amended and Restated Agreement of Limited Partnership, as amended from time to time.

"Apartment Complex" means the land currently owned by the Partnership in Jacksonville, Duval County, Florida, and the multifamily rental housing development and other improvements to be constructed, owned and operated thereon by the Partnership, and to be known as St. Johns Estates Apartments. A description of the Land on which the Apartment Complex is located is provided in Exhibit B attached hereto.

"Asset Management Fee" means the fee payable by the Partnership to the Investor Partner pursuant to Section 8.11 hereof.

"Authority" or "Authorities" means any nation or government, any state or other political subdivision thereof, and any entity exercising its executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including but not limited to, any federal, state or municipal department, commission, board, bureau, agency, court, tribunal or instrumentality.

"Bankruptcy" or "Bankrupt" as to any Person means the filing of a petition for relief as to any such Person as debtor or bankrupt under the Bankruptcy Code of 1978 or like provision of law (except if such petition is contested by such Person and has been dismissed within 60 days); insolvency of such Person as finally determined by a court proceeding; filing by such Person of a petition or application to accomplish the same or for the appointment of a receiver or a trustee for such Person or a substantial part of its assets; commencement of any proceedings relating to such Person under any other reorganization, arrangement, insolvency, adjustment of debt or liquidation law of any jurisdiction, whether now in existence or hereinafter in effect, either by such Person or by another, provided that if such proceeding is commenced by another, such Person indicates its approval of such proceeding, consents thereto or acquiesces therein, or such proceeding is contested by such Person and has not been finally dismissed within 60 days.

"Capital Account" means the capital account of a Partner as described in Section 11.5.

"Capital Contribution" means the total amount of money or other property contributed or agreed to be contributed, as the context requires, to the Partnership by each Partner pursuant to the terms of this Agreement. Any reference to the Capital Contribution of a Partner shall include the Capital Contribution made by a predecessor holder of the Interest of such Partner.

"Capital Transaction" means any transaction the proceeds of which are not includable in determining Net Cash Flow, including without limitation the disposition, whether by partial sale (except when such sale proceeds are to be used pursuant to a plan or budget approved by all of the Partners), casualty (where the proceeds are not to be used for reconstruction), condemnation, refinancing or similar event of any part of the Apartment Complex, prior to the sale of the Apartment Complex, where the gross proceeds from such transaction exceed $50,000.00.

"Certificate" means the Partnership's Certificate of Limited Partnership or any certificate of limited partnership or any other instrument or document which is required under the laws of the State to be signed and sworn to by the Partners of the Partnership and filed in the appropriate public offices within the State to perfect or maintain the Partnership as a limited partnership under the laws of the State, to effect the admission, withdrawal or substitution of any Partner of the Partnership, or to protect the limited liability of the Limited Partners as limited partners under the laws of the State.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any corresponding provision or provisions of succeeding law.

"Consent" means the prior written consent or approval of the Investor Partner and/or any other Partner, as the context may require, to do the act or thing for which the consent is solicited.

"Construction Advisory Services Fee" means the fee payable by the Partnership to the Investor Partner pursuant to Section 8.10 hereof.

"Construction Contract" means the construction contract (including all exhibits and attachments thereto) to be entered into between the Partnership and the Contractor, pursuant to which the Apartment Complex is to be constructed.

"Construction Lender" means South Trust Bank, N.A., in its capacity as the holder of the Construction Loan, or its successor and assigns in such capacity.

"Construction Loan" means the construction loan in the anticipated principal amount of not less than $18,770,000.00 to be made to the Partnership by the Construction Lender at the Initial Closing, which is to be evidenced by the promissory note given by the Partnership to the Construction Lender at the Initial Closing, and which is to be secured by the Construction Mortgage and other related security documents and financing statements.

"Construction Mortgage" means the mortgage or deed of trust to be given by the Partnership at the Initial Closing in favor of the Construction Lender as holder of the Construction Loan securing the Construction Loan.

"Construction Period Cash Flow" means Net Cash Flow received by the Partnership prior to the Term Loan Closing.

"Contractor" means Essex Builders Group, Inc., a Florida corporation, which is the general construction contractor for the Apartment Complex.

"Cost Savings" means the amount, if any, by which (i) the Permitted Sources exceed (ii) Development Costs.

"Counsel" or "Counsel for the Partnership" means Thomas V. Infantino, Esq., 180 South Knowles Avenue, Suite 7, Winter Park, Florida 32789, or such other attorney or law firm upon which the Investor Partner and the General Partner shall agree; provided, however, that if any section of this Agreement either (i) designates particular counsel for the purpose described therein, or (ii) provides that counsel for the purpose described therein shall be chosen by another method or by another Person, then such designation or provision shall prevail over this general definition.

"Counterparty" means the counter-party designated by the Hedge Manager in connection with a Hedge Agreement.

"Credit Support Provider" means a Person designated by the Hedge Manager to act as credit support provider in connection with the Hedge Agreement.

"Debt Service Coverage Ratio"means for any specified period, the net operating income for such period, divided by the greater of (i) all payments due to the Project Lenders with respect to the Project Loans during such period, and (ii) all payments which would be required if all Project Loans

were self amortizing loans based on a 30 year amortization schedule at the rate of interest set forth in such Project Loans.

"Deferred Development Fee" means that portion of the Development Fee (the final $700,000, subject to reduction as set forth in Section 8.12(f)) which is not payable until closing of the Term Loan or sale of the Project.

"Developer" means the General Partner.

"Development Agreement" means the development agreement between the Partnership and the General Partner as of even date herewith relating to the development of the Apartment Complex and providing for the payment of the Deferred Development Fee, in the form set forth in Exhibit A.

"Development Budget" means the construction, development and financing budget for the construction development and financing of the Apartment Complex, including without limitation the construction of the Improvements, the furnishing of all personalty in connection therewith, and the operation of the Apartment Complex prior to the Term Loan Closing, which Budget is attached hereto as Exhibit G, and any amendments thereto made with the Consent of the Investor Partner.

"Development Costs" means all of the following: (i) all direct or indirect costs paid or accrued by the Partnership related to the acquisition of the Land and the development and construction of the Apartment Complex, amounts due under the Construction Contract, any construction cost overruns, the cost of any change orders and all costs necessary to achieve Final Completion, excluding only the Development Fee; (ii) all costs to achieve Initial Closing and the renewal, extension or replacement of the Construction Loan with a Term Loan (excluding only the cost of funding a Shortfall), and satisfy any escrow deposit requirements which are conditions to the foregoing, including any amounts necessary for local taxes, utilities, mortgage insurance premiums, casualty and liability insurance premiums, and other amounts which are required in connection with the foregoing, and any applicable loan fees, discounts or other expenses; (iii) all costs, payments and deposits needed to avoid a default under the Construction Loan, including without limitation, all required deposits to satisfy any requirements of the Construction Lender "in balance"; (iv) all Operating Deficits incurring prior to the Final Completion; and (v) all costs and expenses relating to remedying any environmental problem or condition or Hazardous Materials, which condition existed prior to the Term Loan Closing.

"Development Fee" means the fee payable by the Partnership to the General Partner pursuant to the Development Agreement.

"Equity Bridge Loan" shall have the meaning set forth in Section 5.4(d) of this Agreement.

"Excess Development Costs" means as of any particular date the amount, if any, by which the Permitted Sources received by the Partnership as of such date, is less than the total Development Costs which the Partnership has an obligation to pay as of such date.

"Final Completion" means satisfaction of all of the following: (A) final completion of construction of the Improvements in compliance with the Plans and Specifications (subject only to minor and inconsequential field changes and other changes Consented to by the Investor Partner); (B) each apartment unit shall be rent-ready, including, without limitation, the installation of all appliances (including, without limitation, refrigerators, ranges and dishwashers), light fixtures, floor coverings and window coverings required by the Plans and Specifications or otherwise required for the use and operation of the apartment units; (C) the clubhouse and other amenities specified in the Plans and Specifications shall have been completed and shall be ready for their intended use; (D) payment and release of, or bonding off of, all liens of contractors, subcontractors, materialmen, and other providers of labor, equipment, material and/or services to the Apartment Complex as evidenced by the receipt of all unconditional lien releases from all such subcontractors, materialmen and all other providers of labor, equipment, material and/or services to the Apartment Complex or with respect to liens which have been bonded off a title endorsement or report showing that the such liens are no longer liens of record; and (E) receipt of a title date down from the date of the owner's title insurance policy through the date of final completion.

"Fiscal Year" means a Fiscal Year of the Partnership determined in accordance with the Code. Initially, the Fiscal Year shall be a calendar year.

"Funding Agreement" means that certain Funding Agreement of even date among the Partnership, SunAmerica and the Construction Lender.

"General Partner" means Freeport Partners, Inc., a Florida corporation, and any other Person admitted as a general partner pursuant to this Agreement, and their respective successors pursuant to this Agreement.

"General Partner First Priority Pledge" means the Pledge and Security Agreement in the form of Exhibit D hereto, given by the General Partner for the benefit of the Investor Partner.

"GP Junior Priority Return" for any period means a cumulative annual return of eighteen percent (18.0%) payable to the General Partner when and as specified under Sections 11.1(a) and 11.4, compounded annually on the first day of each Fiscal Year, computed on the the Weighted Average GP Junior Term Loan Capital Contribution for the applicable period.

"GP Junior Term Loan Capital Contribution" shall have the definition given it in Section 5.2(b) of this Agreement.

"GP Net Junior Term Loan Capital Contribution" means the GP Junior Term Loan Capital Contributions funded by the General Partner reduced by the amount of all distributions to the General Partner pursuant to Sections 11.1(a)(iv)(A), 11.1(a)(v), 11.4(f)(A) and 11.4(g) of this Agreement.

"GP Net Optional Capital Contribution" means the GP Optional Capital Contributions funded by the General Partner reduced by the amount of all distributions to the General Partner pursuant to Sections 11.1(a)(viii)(A), 11.1(a)(ix), 11.4(j)(A) and 11.4(k) of this Agreement.

"GP Optional Capital Contribution"means a Capital Contribution made by the General Partner to the Partnership pursuant to Section 5.4(a) hereof.

"GP Pledged Payments" shall have the definition given it in Section 8.14.

"Greatest IP Net Excess Optional Capital Contribution" means as of any date the greatest IP Net Excess Optional Contribution on such date or any prior date. Accordingly, once the Sharing Percentages change based on the Greatest IP Net Excess Optional Capital Contribution reaching a certain level, no subsequent reduction in the IP Net Excess Optional Capital Contribution shall decrease the Sharing Percentage of the Investor Partner or restore it to what it was prior to the Greatest IP Net Excess Optional Capital Contribution reaching such level.

"Guarantor" means, collectively, Richard T. Coley, Sr. and John J. Murphy, Jr.

"Guaranty" means the guaranty of the performance of the obligations of the General Partner under this Agreement and the Development Agreement executed by the Guarantor for the benefit of the Investor Partner, which Guaranty is in the form of Exhibit C.

"Hedge Agreement" shall have the definition given it in Section 8.12(c)(i) of this Agreement.

"Hedge Guaranty" shall have the definition given it in Section 8.12(b)(i) of this Agreement.

"Hedge Management Agreement" means that certain Hedge Management Agreement between the Partnership and the Hedge Manager or its designee of even date herewith; the form of Hedge Management Agreement is attached hereto as Exhibit E-2.

"Hedge Manager" means SAHP or its designee.

"Hedge Reimbursement Agreement" means that certain Hedge Reimbursement Agreement by the Partnership for the benefit of SunAmerica and its Affiliates of even date herewith; the form of Hedge Reimbursement Agreement is attached hereto as Exhibit E-1.

"Initial Closing" means the date on which the Construction Loan is closed. The Initial Closing is anticipated to occur in November 1999.

"Interest" or "Partnership Interest" means the ownership interest of a Partner in the Partnership at any particular time, including the right of such Partner to any and all benefits to which such Partner may be entitled as provided in this Agreement and in the Act, together with the obligations of such Partner to comply with all the terms and provisions of this Agreement and of said

Act. Such Interest of each Partner shall, except as otherwise specifically provided herein, be that percentage of the aggregate of such benefit or obligation specified by Section 5.1 as such Partner's Percentage Interest.

"Investor Partner" means SunAmerica Housing Fund 797, A Nevada Limited Partnership.

"IP Junior Priority Return" for any period means a cumulative annual return of eighteen percent (18.0%) payable to the Investor Partner when and as specified under Sections 11.1(a) and 11.4, compounded annually on the first day of each Fiscal Year, computed on the (i) the Weighted Average IP Junior Term Loan Capital Contribution for the applicable period, and (ii) the weighted average principal balance of the Equity Bridge Loans during such year (but not including any Equity Bridge Loans made in substitution for IP Senior Term Loan Capital Contributions).

"IP Junior Term Loan Capital Contribution" shall have the definition given it in Section 5.3(b) of this Agreement.

"IP Net Excess Optional Capital Contribution" at any date means the positive difference between (A) the IP Net Optional Capital Contribution, as of such date, and (B) the GP Net Optional Capital Contribution as of such date.

"IP Net Junior Term Loan Capital Contribution" means the IP Junior Term Loan Capital Contributions funded by the Investor Partner reduced by the amount of all distributions to the Investor Partner pursuant to Sections 11.1(a)(iv)(B), 11.1(a)(v), 11.4(f)(B) and 11.4(g) of this Agreement.

"IP Net Optional Capital Contribution" means the IP Optional Capital Contributions funded by the Investor Partner reduced by the amount of all distributions to the Investor Partner pursuant to Sections 11.1(a)(viii)(B), 11.1(a)(ix), 11.4(j)(B) and 11.4(k) of this Agreement.

"IP Net Senior Term Loan Capital Contribution" means the IP Senior Term Loan Capital Contributions funded by the Investor Partner reduced by the amount of all distributions to the Investor Partner pursuant to Sections 11.1(a)(i) and 11.4(c) of this Agreement.

"IP OCC Priority Return" for any period means a cumulative annual return of eighteen percent (18.0%), payable when and as specified under Sections 11.1(a) and 11.4, compounded annually on the first day of each Fiscal Year, computed on the Weighted Average IP Net Excess Optional Capital Contribution for the applicable period.

"IP Optional Capital Contribution" means the Capital Contributions which may be made by the Investor Partner to the Partnership pursuant to Section 5.4(b) hereof.

"IP Senior Priority Return" for any period means a cumulative annual return of eighteen percent (18.0%) payable to the Investor Partner when and as specified under Sections 11.1(a) and

11.4, compounded annually on the first day of each Fiscal Year, computed on the (i) the Weighted Average IP Senior Term Loan Capital Contribution for the applicable period, and (ii) the weighted average principal balance of the Equity Bridge Loans during such year (but not including any Equity Bridge Loans made in substitution for IP Junior Term Loan Capital Contributions).

"IP Senior Term Loan Capital Contribution" means a Capital Contribution made by the General Partner to the Partnership pursuant to Section 5.4(a) hereof.

"IP Term Commitment" shall have the definition given it in Section 8.12(d)(ii).

"IP Term Loan" shall have the definition given it in Section 8.12(d)(ii).

"Land" means the tract of land currently owned or to be purchased by the Partnership upon which the Apartment Complex will be located, as more particularly described in Exhibit B.

"Limited Partner(s)" means the Investor Partner, or any other Limited Partner in such Person's capacity as a limited partner of the Partnership.

"Liquidator" means the General Partner or, if there is none at the time in question, such other Person who may be appointed in accordance with applicable law and who shall be responsible for taking all action necessary or appropriate to wind up the affairs of, and distribute the assets of, the Partnership upon its dissolution.

"LP Loan" shall have the definition given it in the Recitals to this Agreement.

"Management Agreement" means the agreement between the Partnership and the Property Manager providing for the marketing and property management of the Apartment Complex by the Property Manager.

"Net Cash Flow" means the following: (i) all cash received from rents, lease payments, forfeited tenant security deposits, and all other sources, but excluding (A) unforfeited tenant security or other deposits, (B) Capital Contributions and interest thereon (other than if used to pay for an item deducted below in determining Net Cash Flow), (C) proceeds from Capital Transactions, (D) interest on reserves not available for distribution, and (E) proceeds from OD Capital Contributions; plus (ii) the net proceeds of any insurance, other than fire and extended coverage and title insurance (other than interest or earnings thereon), plus (iii) any Net Periodic Payments made to the Partnership by the Counterparty; plus (iv) any other funds deemed available for distribution by the General Partner with the approval of the Construction Lender or the Term Lender, if required; minus (v) all cash expenditures, and all expenses unpaid but properly accrued (other than depreciation), which have been incurred in the operation of the Partnership's business (whether or not such expenditure is deducted, amortized or capitalized for tax purposes), including the management fee to the Property Manager and the Asset Management Fee; minus (vi) all payments on account of any loans made to the Partnership and any Net Periodic Payments made by the Partnership to the Counterparty; minus

(vii) any cash reserves for Term Loan fees, working capital, capital expenditures, repairs, replacements, retainage and anticipated expenditures, in such amounts as may be required by the Construction Lender, the Term Lender or the Investor Partner, or may be determined from time to time by the General Partner with the approval of the Investor Partner and the Construction Lender or the Term Lender, if required, to be advisable for the operation of the Partnership.

"Net Periodic Payment" shall mean all periodic payments by the Counterparty or the Partnership to the Partnership or the Counterparty, as applicable, pursuant to a Hedge Agreement, other than payments due to the Partnership or by the Partnership upon termination of the Hedge Agreement.

"Notice" means a writing containing the information required by this Agreement to be communicated to a Partner and sent by express courier or telephone facsimile transmission, or by registered or certified mail, with postage prepaid and return receipt requested, to such Partner at such Partner's address as specified pursuant to Section 16.8, the date of receipt thereof (or the next business day if the date of receipt is not a business day) (or, in the case of registered or certified mail, the date of registry thereof or the date of the certification receipt, as applicable) being deemed the date of such Notice; provided, however, that any written communication containing such information sent to such Partner actually received by such Partner shall constitute Notice for all purposes of this Agreement.

"OD Capital Contribution" shall have the meaning given it in Section 5.2(a) of this Agreement.

"Operating Deficit" means the amount by which the income of the Partnership from rental payments made by tenants of the Apartment Complex, and all other income of the Partnership (other than proceeds of any loans to the Partnership and investment earnings on funds on deposit in the Reserve For Replacements, and other such reserve or escrow funds or accounts) for a particular period of time, is exceeded by the sum of all the operating expenses, including all debt service (including any Net Periodic Payments due from the Partnership), operating and maintenance expenses, required deposits into the Reserve For Replacements, any fees to the Construction Lender or the Term Lender and/or any applicable mortgage insurance premium payments and all other Partnership obligations or expenditures, and excluding payments for construction and equipping of the Apartment Complex.

"Optional Capital Contribution" means an IP Optional Capital Contribution or a GP Optional Capital Contribution.

"Partnership" means Kernan Associates, Ltd., a Florida limited partnership.

"Payment Date" means (i) the date which is ninety (90) days after the end of the Partnership's fiscal year with respect to the preceding fiscal year, (ii) the date of the Term Loan Closing, and (iii)

any other date for payment and distribution of Net Cash Flow chosen by the General Partner with the Consent of the Investor Partner.

"Percentage Interest" means the percentage Interest of each Partner as set forth in Section 5.1.

"Permitted Sources" means the proceeds of the Construction Loan not to exceed $18,770,000.00.

"Person" means any individual, partnership, corporation, trust, limited liability company or other entity.

"Plans and Specifications" means the plans and specifications for the Apartment Complex stamped with the seal of an architect and/or engineer, which are subject to the approval of the Investor Partner, and any changes thereto made in accordance with the terms of this Agreement.

"Prime Rate" means the prime commercial lending rate as published from time to time by Citibank, N.A.

"Project Documents" means and includes all documents evidencing or securing any Project Loan, including, but not limited to, the Construction Mortgage, the promissory note delivered by the Partnership evidencing the Construction Loan, the Management Agreement, the Term Loan Mortgage, the note evidencing the Term Loan, the Term Loan Agreement, the Funding Agreement, the Hedge Agreement, the Hedge Reimbursement Agreement, the Hedge Management Agreement, the SunAmerica Reimbursement Agreement and all other instruments delivered to (or required by) any Project Lender and all other documents relating to the Apartment Complex and by which the Partnership is bound, as amended or supplemented from time to time.

"Project Loans" means the Construction Loan (including all extensions and renewals), the Term Loan, or any other loan obtained by the Partnership replacing the Construction Loan or any Term Loan, and the Partnership's obligations to SunAmerica pursuant to the SunAmerica Reimbursement Agreement.

"Property Manager" means the property manager for the Apartment Complex designated pursuant to Section 8.17.

"Reserve For Replacements" means the Reserve For Replacements to be established by the Partnership and administered in accordance with Section 8.15 of this Agreement. "Reserve for Replacement" shall include any funds of the Partnership held by the Construction Lender or the Term Lender as a reserve for repairs and replacements.

"SAHP" means SunAmerica Affordable Housing Partners, Inc.

"SAI Credit Enhancement Fee" shall have the definition given it in Section 8.12(f)(ii) of this Agreement

"Sharing Percentages" means, as of any date, the following:

Greatest IP Net Excess Optional Capital Contribution on such date	Sharing Percentage of General Partner	Sharing Percentage of Investor Partner
$0	50.0%	50.0%
$1 to $100,000	40.0%	60.0%
$100,001 to $200,000	30.0%	70.0%
$200,001 to $300,000	20.0%	80.0%
$300,001 to $400,000	10.0%	90.0%
Above $400,000	0.1%	99.9%

"Shortfall" shall mean the following:

(i) in connection with a Term Loan Closing, the positive amount, if any equal to the following: (A) $19,371,027; plus (B) the amount of any loss incurred by the Partnership in connection with the termination of a Hedge Agreement on or prior to the Term Loan Closing; minus (C) the principal amount of the Term Loan on the date of the Term Loan Closing; minus (D) the amount of any gain incurred by the Partnership in connection with the termination of a Hedge Agreement on or prior to the Term Loan Closing; or

(ii) in connection with the sale or transfer of the Apartment Complex prior to a Term Loan Closing, the positive amount, if any equal to the following: (A) $19,371,027; plus (B) the amount of any loss incurred by the Partnership in connection with the termination of a Hedge Agreement on or prior to such sale or transfer; minus (C) the proceeds of the sales or transfer of the Apartment complex, less brokerage commissions, title charges and other costs and expenses of such sale; minus (D) the amount of any gain incurred by the Partnership in connection with the termination of a Hedge Agreement on or prior to the Term Loan Closing .

"Stabilization" means the date on which the Apartment Complex shall have attained a Debt Service Coverage Ratio of not less than one hundred twenty percent (120%) for a period of six consecutive months.

"State" means the State of Florida.

"Substitute Limited Partner" means any Person admitted to the Partnership as a Limited Partner pursuant to Section 9.2.

"SunAmerica" means SunAmerica Inc., a Delaware corporation.

"SunAmerica Reimbursement Agreement" means that certain SunAmerica Reimbursement and Indemnification Agreement by the Partnership for the benefit of SunAmerica and its Affiliates of even date herewith; the form of SunAmerica Reimbursement Agreement is attached hereto as Exhibit L.

"SunAmerica Reimbursement Guaranty" means that certain the guaranty of the performance of the obligations of the Partnership under the SunAmerica Reimbursement Agreement by the General Partner and the Guarantors for the benefit of SunAmerica and its Affiliates of even date herewith; the form of SunAmerica Reimbursement Guaranty is attached hereto as Exhibit K.

"Term Lender" means the holder of the Term Loan.

"Term Loan" shall mean a loan obtained by the Partnership pursuant to Section 8.12(e) of the Partnership, which will replace the Construction Loan.

"Term Loan Agreement" means the loan agreement and/or similar agreement with respect to the terms and conditions of the making of the Term Loan, which will be entered into between the Partnership and the Term Lender at or prior to the Term Loan Closing.

"Term Loan Closing" means the closing of the Term Loan.

"Term Loan Mortgage" means the deed of trust to be given by the Partnership at the Term Loan Closing in favor of the Term Lender as holder of the Term Loan, constituting a first lien on the Apartment Complex and securing the Term Loan.

"Title Company" means Attorney's Title Insurance Fund, Inc., Orlando, Florida.

"Weighted Average GP Junior Term Loan Capital Contribution" for any period, means the sum of the GP Net Junior Term Loan Capital Contributions on each day of such period, divided by the number of days in such period.

"Weighted Average IP Net Excess Optional Capital Contribution" for any period, means the sum of the IP Net Excess Optional Capital Contributions on each day of such period, divided by the number of days in such period.

"Weighted Average IP Junior Term Loan Capital Contribution" for any period, means the sum of the IP Net Junior Term Loan Capital Contributions on each day of such period, divided by the number of days in such period.

"Weighted Average IP Senior Term Loan Capital Contribution" for any period, means the sum of the IP Net Senior Term Loan Capital Contributions on each day of such period, divided by the number of days in such period.

ARTICLE 3.
PURPOSE AND BUSINESS OF THE PARTNERSHIP

3.1 Purpose of the Partnership. The Partnership has been organized exclusively to acquire the Land and to develop, finance, construct, own, maintain, operate and sell or otherwise dispose of the Apartment Complex, and in order to obtain long-term appreciation and cash income.

3.2 Authority of the Partnership. In order to carry out its purpose, the Partnership is empowered and authorized to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of its purpose, and for the protection and benefit of the Partnership, including but not limited to the following:

(a) acquire the Land on which the Apartment Complex is to be located;

(b) construct, operate, maintain, improve, buy, own, sell, convey, assign, mortgage, rent or lease any real estate and any personal property necessary to the operation of the Apartment Complex;

(c) provide housing consistent with the requirements of the Project Documents;

(d) enter into any kind of activity, and perform and carry out contracts of any kind necessary to, in connection with, or incidental to, the accomplishment of the purposes of the Partnership;

(e) borrow money and issue evidences of indebtedness, including without limitation, letters of credit related to utility deposits, in furtherance of the Partnership business and secure any such indebtedness by mortgage, pledge, or other lien, including, without limitation, the Construction Loan and the Term Loan, as evidenced by the Project Documents;

(f) maintain and operate the Apartment Complex, including hiring a Property Manager, entering into a Management Agreement and engaging brokers to rent units;

(g) subject to the approval of the Construction Lender or the Term Lender, if required, and to other limitations expressly set forth elsewhere in this Agreement, negotiate for and conclude agreements for the sale, exchange, lease or other disposition of all or substantially all of the property of the Partnership, or for the refinancing of any mortgage loan on the property of the Partnership;

(h) enter into any Project Document providing for regulations with respect to rents, profits, dividends and the disposition of property;

(i) rent dwelling units in the Apartment Complex from time to time, in accordance with the provisions of applicable federal, state and local regulations, collecting the rents therefrom, paying the expenses incurred in connection with the Apartment Complex, and distributing the net proceeds to the Partners, subject to any requirements which may be imposed by the Project Documents; and

(j) do any and all other acts and things necessary or proper in furtherance of the Partnership business.

ARTICLE 4.
REPRESENTATIONS, WARRANTIES AND COVENANTS; DUTIES AND OBLIGATIONS

4.1 Representations, Warranties and Covenants Relating to the Apartment Complex and the Partnership. As of the date hereof, the General Partner hereby represents, warrants and covenants to the Partnership and to the Partners that:

(a) the execution and delivery of this Agreement by the General Partner and the performance by the General Partner of the transactions contemplated hereby have been duly authorized by all requisite corporate, partnership or trust actions or proceedings. The General Partner is duly organized, validly existing and in good standing under the laws of the state of its formation with power to enter into this Agreement and to consummate the transactions contemplated hereby;

(b) the construction and development of the Apartment Complex shall be undertaken and shall be completed in a timely and workmanlike manner in accordance with (i) all applicable requirements of the Construction Loan and the Project Documents, (ii) all applicable requirements of all appropriate governmental entities, the violation of which would have, or would be likely to have, an adverse effect on the Apartment Complex or the Partnership, and (iii) the Plans and Specifications of the Apartment Complex that have been or shall be hereafter approved by the Partnership and the Construction Lender or the Term Lender, if required, and any applicable governmental entities, as such Plans and Specifications may be changed from time to time with the approval of the Investor Partner and the Construction Lender or the Term Lender, if required, and any applicable governmental entities, if such approval shall be required; it shall provide copies of all change orders to the Investor Partner promptly after the preparation and prior to the execution thereof;

(c) at the date hereof, at the Initial Closing, at the time of commencement of construction and upon closing of the Term Loan, the Land is and will be properly zoned for the

Apartment Complex, all consents, permissions and licenses required by all applicable governmental entities have been or will be obtained, and the Apartment Complex conforms and will conform to all applicable federal, state and local land use, zoning, environmental and other governmental laws and regulations, the violation of which would have, or would be likely to have, an adverse effect on the Apartment Complex or the Partnership;

(d) all appropriate public utilities, including sanitary and storm sewers, water, gas and electricity, are currently available and will be operating properly for all units in the Apartment Complex at the time of first occupancy of such units;

(e) mortgagees' title insurance policies of a financially responsible institution in amounts acceptable to the Construction Lender or the Term Lender, and an owner's title insurance policy of a financially responsible institution acceptable to the Investor Partner, in an amount not less than the aggregate of the principal amount of the Project Loan and the Capital Contributions of the General Partner and the Investor Partner, in favor of the Construction Lender or the Term Lender and the Partnership, respectively, will be issued at or prior to the Initial Closing, and shall remain in full force and effect, subject only to such easements, covenants, restrictions and such other standard exceptions as are normally included in owner's or mortgagee's title insurance policies and which are acceptable to the Construction Lender or the Term Lender and the Investor Partner, respectively; good and marketable fee simple title to the Land will be held by the Partnership. The General Partner has not made any misrepresentation or failed to make any disclosure that will or could result in the Partnership lacking title insurance coverage based on imputation of knowledge of the General Partner to the Partnership;

(f) it is not aware of any default under any agreement, contract, lease, or other commitment, or of any claim, demand, litigation, proceedings or governmental investigation pending or threatened against the General Partner, the Guarantor, the Apartment Complex or the Partnership, or related to the business or assets of the Partnership or of the Apartment Complex, which claim, demand, litigation, proceeding or governmental investigation could result in any judgment, order, decree, or settlement which would materially and adversely affect the business or assets of the Partnership or of the Apartment Complex;

(g) to the best of its knowledge after due inquiry, the execution of this Agreement, the incurrence of the obligations set forth in this Agreement, and the consummation of the transactions contemplated by this Agreement do not violate any provision of law, any order, judgment or decree of any court binding on the Partnership or the General Partner or any Affiliate(s) thereof, any provision of any indenture, agreement, or other instrument to which the Partnership or the General Partner is a party or by which the Partnership or the Apartment Complex is affected, and is not in conflict with, and will not result in a breach of or constitute a default under any such indenture, agreement, or other instrument or result in creating or imposing any lien, charge, or encumbrance of any nature whatsoever upon the Apartment Complex;

(h) the Construction Contract has been entered into between the Partnership and the Contractor; no other consideration or fee shall be paid to the Contractor in its capacity as the Contractor for the Apartment Complex other than the amounts set forth in the Construction Contract or as evidenced by change orders approved by the Construction Lender or the Term Lender and as otherwise disclosed in writing to and approved by the Investor Partner; and all change orders to date on which payment currently is due, if any, have been paid in full. In addition, no consideration or fee shall be paid to the General Partner by the Contractor;

(i) to the extent required by the Construction Lender, one hundred percent (100%) payment and performance bonds issued by a nationally, financially recognized bonding company, in forms acceptable to the Construction Lender, and in amounts satisfactory to the Construction Lender, will be obtained by the Contractor at or before Initial Closing and shall remain in full force and effect under terms and conditions as shall be acceptable to the Construction Lender; in the alternative, the obligations of the Contractor will be guaranteed by the General Partner and the Guarantors and secured by cash, letter of credit or other security acceptable to the Construction Lender;

(j) the General Partner will cause the Partnership to obtain and maintain insurance, at the Partnership's expense, in accordance with the requirements of Exhibit I;

(k) the General Partner has not, either individually or on behalf of the Partnership, and the Partnership has not incurred any financial responsibility with respect to the Apartment Complex prior to the date of execution of this Agreement, other than (i) as disclosed in Schedule 4.1(k) hereto, or (ii) obligations which will be fully satisfied at or prior to the Initial Closing;

(l) at Initial Closing and upon closing of the Term Loan, the Partnership will be and will continue to be a valid limited partnership, duly organized under the laws of the State, and shall have and shall continue to have full power and authority to acquire the Land and to develop, construct, operate and maintain the Apartment Complex in accordance with the terms of this Agreement, and shall have taken and shall continue to take all action under the laws of the State and any other applicable jurisdiction that is necessary to protect the limited liability of the Limited Partners and to enable the Partnership to engage in its business;

(m) no restrictions on the sale or refinancing of the Apartment Complex exist as of the date hereof, and no such restrictions shall, at any time while the Investor Partner is a Limited Partner, be placed upon the sale or refinancing of the Apartment Complex other than those restrictions set forth in the Agreement or in the loan documents for the Construction Loan and the Term Loan to which the Investor Partner has given its Consent or other restrictions to which the Investor Partner has given its Consent;

(n) to the best of its knowledge after due inquiry, at the time of the execution of this Agreement, the General Partner has fully complied with all applicable provisions and requirements of any and all purchase and/or lease agreements, loan agreements, stormwater

management agreements and other agreements with respect to the purchase of the Land and the development, financing and operation of the Apartment Complex; it shall take, and/or cause the Partnership to take, all actions as shall be necessary to achieve and maintain continued compliance with the provisions, and fulfill all applicable requirements, of such agreements;

(o) during the term of this Agreement, Richard T. Coley, Sr. and John J. Murphy, Jr. own and shall continue to own one-hundred percent (100%) of all classes of interest in the General Partner;

(p) no representation, warranty or statement of the General Partner in this Agreement or in any document, certificate or schedule furnished or to be furnished to the Investor Partner pursuant hereto contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements or facts contained therein not misleading;

(q) the General Partner shall keep all sources of funding "in-balance" and as adequate sources of funds to timely cause Final Completion of the Apartment Complex and satisfaction of other obligations of the Partnership in accordance with this Agreement;

(r) the General Partner shall prevent a default from occurring under the Project Documents resulting from a breach by the General Partner, the Guarantors or their Affiliates of any term, condition or restriction applicable to such parties under the Project Documents, including, without limitation, a breach of a restriction on the ownership of the General Partner or the financial condition of the General Partner, the Guarantors or their Affiliates; and

(s) all of the representations, warranties and covenants contained herein shall survive closing of the Term Loan. The General Partner shall indemnify and hold harmless the Investor Partner against a breach of any of the foregoing representations, warranties and covenants and any damage, loss or claim caused thereby, including reasonable attorneys' fees and costs and expenses of litigation and collection.

4.2 Duties and Obligations Relating to the Apartment Complex and the Partnership. The General Partner shall have the following duties and obligations with respect to the Apartment Complex and the Partnership:

(a) the General Partner shall ensure that all requirements shall be met which are necessary to obtain or achieve (i) issuance of all necessary permanent, unconditional certificates of occupancy, including all governmental approvals required to permit occupancy of all of the apartment units in the Apartment Complex, (ii) Initial Closing and the extension, renewal or replacement of the Construction Loan consistent with the requirements set forth below; provided however, that should the Construction Lender extend, renew or replace the Construction Loan consistent with the requirements set forth below, then SunAmerica shall agree to extend the Funding

Agreement pursuant to the terms and conditions therein, and (iii) compliance with all material provisions of the Project Documents;

(b) while conducting the business of the Partnership, the General Partner shall not act in any manner which it knows or should have known after due inquiry will (i) cause the termination of the Partnership for federal income tax purposes without the Consent of the Investor Partner, or (ii) cause the Partnership to be treated for federal income tax purposes as an association taxable as a corporation;

(c) the General Partner shall exercise good faith in all activities relating to the conduct of the business of the Partnership, including the development, operation and maintenance of the Apartment Complex, and the General Partner shall take no action with respect to the business and property of the Partnership which is not reasonably related to the achievement of the purpose of the Partnership;

(d) all of (i) the fixtures, maintenance supplies, tools, equipment and the like now and to be owned by the Partnership or to be appurtenant to, or to be used in the operation of the Apartment Complex, as well as (ii) the rents, revenues and profits earned from the operation of the Apartment Complex, will be free and clear of all security interests and encumbrances except for the Construction Mortgage, the Mortgage, and any additional security agreements executed in connection therewith; provided, however, that (A) the Partnership in the ordinary course of business may enter into leases for office equipment, furnishings for the common areas, exercise equipment, washers and dryers and similar items with the Consent of the Investor Partner, which Consent shall not be unreasonably withheld, and (B) the Partnership may enter into agreement regarding cable television and telephone with the Consent of the Investor Partner which Consent shall not be unreasonably withheld; provided, however, that the Investor Partner may withhold its Consent in its sole discretion if such agreement is with an Affiliate of the General Partner;

(e) the General Partner will execute on behalf of the Partnership all documents necessary to elect, pursuant to Sections 734, 743 and 754 of the Code, to adjust the basis of the Partnership's property upon the request of the Investor Partner, if, in the sole opinion of the Investor Partner, such election would be advantageous to the Investor Partner;

(f) the General Partner shall, during and after the period in which it is a Partner, provide the Partnership with such information and sign such documents as are necessary for the Partnership to make timely, accurate and complete submissions of federal and state income tax returns;

(g) the General Partner shall comply and cause the Partnership to comply with the provisions of all applicable governmental and contractual obligations;

(h) the General Partner shall be responsible for the payment of any fines or penalties imposed by any Project Lender pursuant to the Project Documents (other than with respect

to payments of principal or interest under the Project Loans) attributable to any action or inaction of it or its Affiliates;

(i) the General Partner shall immediately notify the Investor Partner of any written or oral notice of (i) any default or failure of compliance with respect to any Project Loan or any other financial, contractual or governmental obligation of the Partnership or the General Partner, or (ii) any IRS proceeding regarding the Apartment Complex or the Partnership; and

(j) if at any time during the construction or rehabilitation of the Apartment Complex, (i) construction or rehabilitation stops or is suspended for a period of ten (10) consecutive days, or (ii) construction or rehabilitation has been delayed so that in the reasonable determination of the General Partner Final Completion may not be achieved by the date set forth in the Construction Contract, the General Partner shall immediately send Notice of such occurrence, together with an explanation of the circumstances surrounding such occurrence, to the Investor Partner.

4.3 Single Purpose Entity. The General Partner shall engage in no other business or activity other than that of being the General Partner of the Partnership and being the Developer. The General Partner was formed exclusively for the purpose of acting as the General Partner of the Partnership and has never engaged in any other activity, business or endeavor. As of the date of this Agreement, the General Partner has no liabilities or indebtedness other than its liability for the debts of the Partnership, and the General Partner shall not incur any indebtedness other than its liability for the debts of the Partnership. If the General Partner determines it needs additional funds for any purpose, it shall obtain such funds solely from capital contributions from its shareholders. The General Partner has observed and shall continue to observe all necessary or appropriate corporate formalities in the conduct of its business. The General Partner shall keep its books and records separate and distinct from those of its shareholders and Affiliates. The General Partner shall clearly identify itself as a legal entity separate and distinct from its shareholders and its Affiliates in all dealings with other Persons. The General Partner has been adequately capitalized for the purposes of conducting its business and will not make distributions at a time when it would have unreasonably small capital for the continued conduct of its business.

ARTICLE 5.
PARTNERS, PARTNERSHIP INTERESTS AND OBLIGATIONS OF THE PARTNERSHIP

5.1 Partners and Partnership Interests.

(a) General Partner. The General Partner, its principal address or place of business and its Percentage Interest are as follows:

Freeport Partners, Inc.	50.00%

1075 West Morse Boulevard
Winter Park, Florida 32789

(b) Limited Partner. The Investor Partner, its principal address or place of business and its Percentage Interests are as follows:

SunAmerica Housing Fund 797, A Nevada Limited Partnership c/o SunAmerica Inc. 1 SunAmerica Center Los Angeles, California 90067-6022	50.00%

5.2 Capital Contributions of the General Partner.

(a) OD Capital Contributions. If during the period from Final Completion until the fifth anniversary of Stabilization, the Partnership incurs any Operating Deficits, the General Partner shall make a Capital Contribution to fund such Operating Deficits (any Capital Contribution made to fund Operating Deficits pursuant to this Section 5.2(a), an "OD Capital Contribution"); provided, however, that in no event shall the General Partner be obligated to make OD Capital Contributions in excess of $840,000.00.

(b) GP Junior Term Loan Capital Contributions. If a Shortfall occurs and if and to the extent required under Section 8.12(e)(iv)(A) of this Agreement, then the General Partner shall make a "GP Junior Term Loan Capital Contribution" in the amount specified in such Section 8.12(e)(iv)(A). The maximum amount of the GP Junior Term Loan Capital Contribution shall be $575,000.

(c) GP Optional Capital Contributions. The General Partner shall have the right to make GP Optional Capital Contributions when and as specified in Section 5.4(a) hereof.

5.3 Capital Contributions of the Investor Partner.

(a) IP Senior Term Loan Capital Contribution. If a Shortfall occurs and if required under Section 8.12(e)(iii)(B) of this Agreement, then the Investor Partner shall make an "IP Senior Term Loan Capital Contribution" in the amount specified in such Section 8.12(e)(iii)(B). The maximum amount of the IP Senior Term Loan Capital Contribution shall be $700,000.

(b) IP Junior Term Loan Capital Contributions. If a Shortfall occurs and if required under Section 8.12(e)(iv)(B) of this Agreement, then the Investor Partner shall make an "IP Junior Term Loan Capital Contribution" in the amount specified in such Section 8.12(e)(iv)(B). The maximum amount of the IP Junior Term Loan Capital Contribution shall be $575,000.

(c) IP Optional Capital Contributions. The Investor Partner shall have the right to make IP Optional Capital Contributions when and as specified in Section 5.4(b) hereof.

5.4 Optional Capital Contributions.

(a) GP Optional Capital Contributions. At any time after the Term Loan Closing, and provided that the General Partner has satisfied all its other obligations under this Partnership Agreement, including, without limitation, its obligation to fund Excess Development Costs under its Construction Completion Guaranty under Section 8.8(a), or to make OD Capital Contributions to fund Operating Deficits, the General Partner shall have the right, but not the obligation, to make "GP Optional Capital Contributions" pursuant to this Section 5.4(a) to fund Operating Deficits of the Partnership, to fund a Shortfall pursuant to Section 8.12(e)(v) of this Agreement, or to fund other reasonable and necessary obligations of the Partnership. By making a GP Optional Capital Contribution, the General Partner does not waive any claim of, or remedies with respect to a default, if any, by the Investor Partner in its obligations under this Agreement.

(b) IP Optional Capital Contributions. The Investor Partner shall have the right, but not the obligation, to make "IP Optional Capital Contributions" pursuant to this Section 5.4(b) to fund Operating Deficits of the Partnership, to fund a Shortfall pursuant to Section 8.12(e)(v) of this Agreement, or to fund other reasonable and necessary obligations of the Partnership. By making an IP Optional Capital Contribution, the Investor Partner does not waive any claim of, or remedies with respect to, a default, if any, by the General Partner in its obligations under this Agreement.

(c) Notice of Optional Capital Contributions. If a Partner desires to make an Optional Capital Contribution to the Partnership, such Partner (the "Initiating Partner") shall give the other Partner (the "Non-Initiating Partner") notice of the Initiating Partner's intent to fund an Optional Capital Contribution, which notice shall state (i) the total amount of Optional Capital Contribution proposed to be funded, (ii) the purpose for such Optional Capital Contribution, and (iii) the proposed funding date of such Optional Capital Contribution, which date ("Contribution Date") shall be not less than ten (10) days following the date of such notice; provided that the notice requirement shall be shortened to the extent necessary to permit a Partner to fund an Optional Capital Contribution for the purpose of curing a default under a Project Loan. The Non-Initiating Partner shall notify the Initiating Partner at least five (5) days prior to the Contribution Date whether and in what amount the Non-Initiating Partner intends to make an Optional Capital Contribution to the Partnership, which amount may be up to, but not in excess of, fifty percent (50%) of the total proposed Optional Capital Contribution. The Initiating Partner and the Non-Initiating Partner shall each fund the portion of the Optional Capital Contribution it agreed to make by the Contribution Date. If a Partner fails to make such Optional Capital Contribution to the Partnership on or before the Contribution Date, any Partner who makes such Partner's share of the Optional Capital Contribution may, at such Partner's option, advance to the Partnership the amount of the non-contributing Partner's share of the Optional Capital Contribution. Without limiting the generality of any of the foregoing, the Investor Partner shall have the right to propose and fund an Optional Capital Contribution for the purposes of paying any indebtedness owed to SunAmerica in connection

with the SunAmerica Reimbursement Agreement or in connection with the Hedge Reimbursement Agreement. No Partner shall have the right to propose and fund an Optional Capital Contribution to fund distributions and/or payments to be made pursuant to Sections 11.1 or 11.4.

(d) Equity Bridge Loans. As an alternative to funding its IP Senior Term Loan Capital Contribution and its IP Junior Term Loan Capital Contribution, the Investor Partner shall have the right to make either the IP Senior Term Loan Capital Contributions or the IP Junior Term Loan Capital Contributions in the form of either making or arranging one or a series of "Equity Bridge Loans". The Equity Bridge Loans shall be unsecured and subordinated to the Construction Loan on terms acceptable to the Construction Lender. If the Investor Partner selects the Equity Bridge Loan alternative, then (i) the Investor Partner shall be obligated to make IP Senior Term Loan Capital Contributions or IP Junior Term Loan Capital Contribution, as applicable, in an amount and at times sufficient to fund all payments of interest and principal on the Equity Bridge Loans, (ii) only the amount of the IP Senior Term Loan Capital Contributions or IP Junior Term Loan Capital Contributions, as applicable, used to pay principal on the applicable Equity Bridge Loan shall be treated as IP Senior Term Loan Capital Contributions or IP Junior Term Loan Capital Contributions, as applicable, (iii) the Investor Partner shall be specially allocated all interest expense attributable to the Equity Bridge Loans under Section 11.1(h), and (iv) the Investor Partner shall cause the Equity Bridge Loans to be paid in full on or prior to the date of liquidation of the Partnership by making an IP Senior Term Loan Capital Contribution or IP Junior Term Loan Capital Contribution, as applicable, to the Partnership.

5.5 Draw Procedures. The Investor Partner has designated SAHP as its agent for the purpose of reviewing, on behalf of the Investor Partner, copies of requests for draws under the Construction Loan and Capital Contributions to pay costs of constructing the Apartment Complex. A draw is sometimes hereinafter referred to as "Draw." The Investor Partner shall have the right, exercisable from time to time as hereinafter provided, to appoint another person or entity as its agent for such purpose by delivering to the Partnership written notice of the appointment of a successor agent in which the Investor Partner terminates the appointment of the prior agent. The agent at any time serving as the agent of the Investor Partner hereunder shall hereinafter be called the "Agent";

(i) Not less than five (5) business days before the date on which the Partnership desires a Draw to be funded, the Partnership shall have delivered to the Agent the following documents (together, the "Draw Documents"):

(A) an original Contractor's requisition for payment (the "Contractor's Requisition") in a form reasonably satisfactory to the Agent (American Institute of Architects standard form G-722 or G-702/G-703 shall be deemed satisfactory) certified by the architect for actual improvements in place and for materials securely stored on site through the date of that requisition;

(B) an original of Schedule of Values showing costs incurred in the various construction and soft cost categories, summarized in a format provided by the Investor Partner;

(C) a copy of the Owner's and Contractor's Affidavit (construction in progress) in the form of Exhibit F, duly executed and acknowledged on behalf of the Contractor and the Partnership;

(D) copies of the partial waiver of liens (subject to retainages) of each subcontractor and material supplier, as to all work performed and materials purchased for which the immediately preceding Draw, if any, had been made, in form acceptable to the Title Company, and an accounting prepared by the Contractor of all payments made under the immediately preceding Draw;

(E) a foundation survey of the real property (locating the foundations only, and only for Draws prior to which foundations were poured, which foundations were not shown on prior foundation surveys); and

(F) a copy of project schedule, updated monthly, showing the progress of the work.

(ii) The Agent shall have five (5) business days after receiving the Draw Documents in which he has the right, exercisable by notice by facsimile transmittal to the Partnership, to object to the Draw on the basis that the Draw Documents are incomplete or inaccurate. As soon as practical after receipt of such notice, the Partnership shall complete the Draw Documents, correct all inaccuracies and resubmit the Draw Documents for approval. If the Agent does not object to the Draw Documents within such five-day period, the Draw Documents shall be deemed approved.

(iii) Upon approval of the Draw Documents, the Partnership shall have the examination of title to the Property updated through the date of the Draw and have the Title Company deliver endorsements issued by the Title Company to the owner's title insurance policy for the Partnership's protection as to the Apartment Complex (the "Owner's Title Policy") which (a) increases the coverage thereunder by the amount of the Draw, (b) updates the date thereof through the date of the Draw and (c) reports no exceptions for filed mechanics or materialmen's liens (or if such liens are reported, affirmatively insures the insured thereunder against loss or damage caused by such liens).

5.6 Payment of Legal Fee Amount. The Partnership shall pay the legal fees, costs and expenses incurred by the Investor Partner in connection with this Agreement, the due diligence activities of the Investor Partner and the closing of the transactions described herein ("Legal Fees"). The Partnership shall pay the Legal Fees at the Initial Closing or within 10 days after receipt of invoices, with respect to Legal Fees billed after the Initial Closing.

5.7 Additional Limited Partners. Without the Consent of all of the Partners, no additional Persons may be admitted as additional Limited Partners and Capital Contributions may be accepted only as and to the extent expressly provided for in this Article 5.

5.8 Deposits of Capital Contributions. The cash portion of the Capital Contributions of each Partner shall be deposited at the General Partner's discretion in a checking, savings and/or money market or similar account to be established and maintained in the name of the Partnership or invested in government securities or certificates of deposit issued by any bank. Thereafter, such amounts shall be utilized for the conduct of the Partnership business pursuant to the terms of this Agreement.

5.9 Liability for Partnership Obligations. Except as may otherwise be provided under applicable law, no Limited Partner shall be bound by, or personally liable for, the expenses, liabilities or obligations of the Partnership.

5.10 Payment of Environmental Assessment Consultant Fees. The General Partner acknowledges that, on behalf of the Investor Partner, SAHP will retain an environmental consultant (the "Environmental Consultant") to review and give recommendations related to environmental reports that are provided to the Investor Partner by the General Partner (including, but not limited to, Phase I and Phase II environmental assessments, wetlands reports, abatement reports and other environmental reports reasonably required by the Environmental Consultant, to the reasonable satisfaction of the Environmental Consultant) for the Land or the rehabilitation of existing buildings. SAHP shall be solely liable for the payment of fees charged by the Environmental Consultant up to a maximum of $1,000.00. The Partnership shall be solely responsible for the payment of the fees of the Environmental Consultant in excess of $1,000.00, up to a maximum of $5,000.00, any such excess to be paid by the Partnership within ten (10) days after receipt of invoices.

5.11 Return of Capital Contribution. Except as provided in this Agreement, no Partner shall be entitled to demand or receive the return of its Capital Contribution.

5.12 Withholding of Capital Contribution Upon Default. If (a) the General Partner, or any successor General Partner shall not have substantially complied with any material provisions under this Agreement after Notice from the Investor Partner of such noncompliance and failure to cure such noncompliance within a period of thirty (30) days from and after the date of such Notice (or, if such event is not reasonably susceptible to cure within 30 days (as determined by the Investor Partner in its sole discretion) and the General Partner is actively and continuously pursuing such cure, such longer period as the Investor Partner shall determine in its sole discretion), or (b) the Construction Lender or Term Lender shall have declared the Partnership to be in default under the Project Loan, or (c) foreclosure proceedings shall have been commenced against the Apartment Complex, or (d) the Partnership shall not have substantially complied with any material provision of SunAmerica Reimbursement Agreement, then the Partnership and the General Partner shall be in default of this Agreement, and the Investor Partner, at its sole election, may cause the withholding of payment of any Capital Contribution or other obligation otherwise payable by it to the Partnership.

All amounts so withheld by the Investor Partner under this Section 5.12 shall be promptly released to the Partnership only after the General Partner or the Partnership have cured the default

justifying the withholding, as demonstrated by evidence reasonably acceptable to the Investor Partner.

5.13 Legal Opinions. As a condition precedent to the Investor Partner (or an Affiliate of the Investor Partner) entering into this Agreement and performing each of its obligations hereunder, the Investor Partner shall have received the opinion of Thomas V. Infantino, Esq., special counsel to the Partnership, the Guarantors, and the General Partner, which opinion shall state that Brownstein Hyatt & Farber, P.C., of Denver, Colorado, counsel to the Investor Partner, may rely thereon and that:

(a) the Partnership is a duly formed and validly existing limited partnership under the Act, and the Partnership has full power and authority to own and operate the Apartment Complex and to conduct its business hereunder; the Partnership is duly qualified to transact its business in the State of Florida; the Investor Partner has been validly admitted as a Limited Partner of the Partnership entitled to all the benefits of a Limited Partner under this Agreement, and the Interest of the Investor Partner in the Partnership is the Interest of a limited partner with no personal liability for the obligations of the Partnership;

(b) the General Partner is duly and validly organized and is validly existing in good standing as a corporation under the laws of the State, with full power and authority to enter into and perform its obligations hereunder and under the General Partner First Priority Pledge, and the Development Agreement; the General Partner is duly qualified to transact its business in the State of Florida;

(c) execution of this Agreement, the Development Agreement, the General Partner First Priority Pledge, the SunAmerica Reimbursement Guaranty, the SunAmerica Reimbursement Agreement, the Hedge Reimbursement Agreement, the Hedge Management Agreement and the Hedge Agreement by the General Partner has been duly and validly authorized by or on behalf of such General Partner and, having been executed and delivered in accordance with their respective terms, this Agreement, the SunAmerica Reimbursement Agreement, the Development Agreement, the General Partner First Priority Pledge, the SunAmerica Reimbursement Guaranty, the SunAmerica Reimbursement Agreement, the Hedge Reimbursement Agreement, the Hedge Management Agreement and the Hedge Agreement constitute the valid and binding agreement of the General Partner or the Partnership, as applicable, enforceable in accordance with their respective terms, and execution hereof and thereof by the General Partner is not in violation of any contract, agreement, charter, bylaw, resolution, judgment, order, decree, law or regulation to which the General Partner or the Partnership is bound or as to which it is subject;

(d) to the best of its knowledge after due inquiry, there are no defaults existing with respect to any of the Project Documents;

(e) to the best of its knowledge after due inquiry, no event of Bankruptcy has occurred with respect to the Partnership or the General Partner; and

(f) execution of the Guaranty by the Guarantors has been duly and validly authorized by or on behalf of each Guarantor and, having been executed and delivered in accordance with its terms, the Guaranty constitutes the valid and binding agreement of the Guarantors, enforceable in accordance with its terms.

5.14 Payment of the LP Loan. All amounts outstanding under the LP Loan or any of the documentation evidencing or securing the LP Loan shall be paid and satisfied in full at the Initial Closing from the first draw of the Construction Loan.

ARTICLE 6.
CHANGES IN PARTNERS

6.1 Withdrawal of the General Partner.

(a) Except for an Involuntary Withdrawal, the General Partner may not withdraw from the Partnership or sell, transfer or assign its Interest as General Partner without the Consent of the Investor Partner which Consent may be withheld in its sole and absolute discretion, and only after being given written approval by the necessary parties as provided in Section 6.2, of the General Partner(s) to be substituted for it or to receive all or part of its Interest as General Partner.

(b) In the event of a Bankruptcy of a General Partner or in the case of a General Partner who is an individual, the death or adjudication of incompetence of such General Partner (any of which is an "Involuntary Withdrawal"), such General Partner shall cease to be a General Partner and shall have the interest of a Special Limited Partner as described in Section 6.3(c).

6.2 Admission of a Successor or Additional General Partner.

(a) A Person shall be admitted as a General Partner of the Partnership (an "Additional General Partner") only if the following terms and conditions are satisfied, or waived by the Investor Partner:

(i) the admission of such Person shall have been Consented to by the General Partner or its successor and the Investor Partner, and consented to by the Construction Lender or Term Lender, if required;

(ii) the successor or additional Person shall have accepted and agreed to be bound by (i) all the terms and provisions of this Agreement by executing a counterpart thereof, and (ii) all the terms and provisions of the Project Documents by executing counterparts thereof, if required by the Construction Lender or Term Lender, and (iii) all the terms and provisions of such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a General Partner, and (iv) if required under the Act as a condition precedent to the admission of a General Partner, an amendment to the Certificate shall have been filed;

(iii) if the successor or additional Person is a corporation, it shall have provided the Partnership with evidence satisfactory to counsel for the Partnership of its authority to become a General Partner, to do business in the State and to be bound by the terms and provisions of this Agreement; and

(iv) Counsel for the Partnership shall have rendered an opinion that the admission of the successor or additional Person is in conformity with the Act and that none of the actions taken in connection with the admission of the successor Person will cause the termination or dissolution of the Partnership or will cause it to be classified other than as a partnership for federal income tax purposes.

(b) The Investor Partner shall have the right to cause the admission of an Affiliate of the Investor Partner as an additional General Partner (the "Additional General Partner"), and the General Partner irrevocably Consents to any admission of a General Partner pursuant to this Section 6.2(b). Upon the admission of the Additional General Partner, the General Partner shall continue to exercise sole and exclusive control over the management of the Partnership's activities as managing General Partner, unless and until the General Partner withdraws as General Partner. In such event, the Additional General Partner shall act as the managing General Partner and shall have the sole and exclusive control over the management of the Partnership's activities. The interest of the Additional General Partner in all items of profits, losses, credits and distributions shall be derived by a corresponding reduction in such items from the Investor Partner as agreed upon in writing between the Investor Partner and the Additional General Partner, but in no event shall the Investor Partner transfer more than twenty percent (20%) of the Investor Partner's Interest to the Additional General Partner, and the interest of the General Partner in profits, losses, credits and distributions and any right of the General Partner to receive fees as elsewhere provided herein shall be unaffected by the admission of the Additional General Partner pursuant to this Section 6.2(b). The General Partner shall execute an amendment to the certificate of limited partnership and such other documents as the Investor Partner may reasonably require to effect the admission of the Additional General Partner. Notwithstanding the foregoing, the General Partner agrees that if the General Partner does not execute such documents within five (5) days after Notice, the Investor Partner may execute such documents on behalf of the General Partner, and the General Partner hereby grants the Investor Partner its power of attorney for such purpose, which grant is irrevocable and coupled with an interest.

6.3 Effect of Withdrawal of General Partner.

(a) In the event of the removal or any other withdrawal of the General Partner, excluding only an Involuntary Withdrawal, the business of the Partnership shall be continued by the other General Partner(s); provided, however, that if the withdrawn General Partner is then the sole General Partner, or if such General Partner withdraws from the Partnership in contravention of the provisions of Section 6.1(a) of this Agreement, then the Partnership shall be terminated, unless within ninety (90) days after receiving Notice of such withdrawal, a majority-in-interest of the other

Partners elect to designate a successor General Partner and continue the Partnership upon the admission of such successor General Partner to the Partnership.

(b) In the event of a withdrawal of a General Partner, including a withdrawal of the General Partner in connection with its removal pursuant to Section 8.16 (but excluding an Involuntary Withdrawal), then (i) the General Partner shall cease to have any Interest in the Partnership, (ii) the General Partner shall not be entitled to any distributions or allocations from the Partnership, and (iii) the General Partner shall not be entitled to any payments of the Development Fee or Construction Administration Fee after the date of its Withdrawal. The General Partner shall be entitled, however, to receive any fees expressly provided for under this Agreement which have been fully earned and accrued prior to the date of Withdrawal, which fee shall be paid when and as specified in this Agreement.

(c) In the event of an Involuntary Withdrawal of a General Partner, such General Partner shall immediately cease to be a General Partner and its Interest shall without further action be converted to the Interest of a "Special Limited Partner" which shall have the same Percentage Interest in and right to allocations and distributions from the Partnership as it previously did except that (i) the IP Percentage shall equal ninety nine percent (99%), and (ii) the General Partner shall not be entitled to receive any fees which have not been fully earned and accrued prior to the date of Involuntary Withdrawal.

(d) If, at the time of the withdrawal of a General Partner, the withdrawing General Partner was not the sole General Partner of the Partnership, the remaining General Partner or General Partners shall immediately (i) give Notice to the Limited Partners of such withdrawal, and (ii) make such amendments to this Agreement and execute and file such amendments or documents or other instruments as are necessary to reflect the disposition of the Interest of the withdrawing General Partner pursuant to this Article 6. Such action or actions by the remaining General Partner or General Partners shall, if the permission of a bankruptcy court is necessary, be deemed to have been taken subject to the provisions of Section 6.3(e) below. The remaining General Partner or General Partners are hereby granted an irrevocable power of attorney, coupled with an interest, to execute any or all documents on behalf of the Partners and the Partnership and to file such documents as may be required to effectuate the provisions of this Section 6.3.

(e) If the General Partner withdraws from the Partnership for any reason, including without limitation an Involuntary Withdrawal and a withdrawal in connection with the removal of the General Partner, then the General Partner shall be and shall remain liable for all damages to the Investor Partner resulting from the withdrawal of the General Partner in breach of this Agreement and for all its obligations and liabilities under this Agreement, including without limitation all its liabilities and obligations under Article 8 and liabilities and obligations based on facts and circumstances which occur after the date of its withdrawal, except that the (i) former General Partner shall not be liable for any liabilities and obligations directly arising from the gross negligence, intentional misconduct or breach of this Agreement by any successor General Partner,

and (ii) the General Partner shall not have the obligation to continue to act as a General Partner of the Partnership.

(f) The General Partner hereby grants to the Investor Partner the right to purchase from the General Partner its Partnership Interest if such Interest is converted to that of a Special Limited Partner pursuant to Section 6.3(c) hereof (the "Option"). At any time after the conversion of a General Partner's Interest to that of a Special Limited Partner, the Investor Partner may direct an appraiser selected by it to determine the fair market value of the Interest of the Special Limited Partner. The appraiser must have not less than 10 years experience in valuing real estate and/or partnership interests and must not be an Affiliate of the Investor Partner. The Investor Partner shall not cause an appraisal to be prepared more than one time in any one calendar year. The cost of the appraisal shall be shared equally by the Investor Partner and the Special Limited Partner. The Investor Partner may exercise the Option by providing written notice of such exercise to the Special Limited Partner no later than ten days after the Investor Partner's receipt of the appraisal. Such notice shall specify the date on which the closing of such purchase shall occur, which date shall be no later than sixty days after the date of such notice. The purchase by the Investor Partner shall be consummated at the principal place of business of the Partnership or such other place as the parties may agree. On the closing date, the following shall occur: (i) the Investor Partner, or its designee (the "Purchaser") shall pay the Special Limited Partner the purchase price by wire transfer or other delivery of immediately available funds, which purchase price shall be the fair market value of the Partnership Interest set forth in the appraisal; (ii) the Special Limited Partner shall execute transfer documents reasonably requested by the Investor Partner, including without limitation, an Assignment of Partnership Interest, and an indemnity from the Special Limited Partner for the benefit of the Purchaser regarding any liability incurred by the Purchaser based on any acts or omissions by the Special Limited Partner during the time it was General Partner; (iii) the Special Limited Partner shall transfer the Interest to the Purchaser free and clear of any lien, claim encumbrance or interest of any third party; (iv) the Special Limited Partner shall deliver to the Investor Partner evidence of such lien free transfer, including without limitation, the results of a UCC search with respect to the Special Limited Partner in each appropriate jurisdiction; and (v) the Special Limited Partner shall deliver to the Purchaser an opinion of counsel regarding the Assignment of the Partnership Interest and other closing documents in form reasonably satisfactory to the Purchaser, which opinion addresses the due authorization, execution and delivery and enforceability of such documents.

(g) The General Partner, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, agrees that if the General Partner becomes the subject of Bankruptcy proceedings pursuant to the United States Bankruptcy Code, as it may be amended (the "Bankruptcy Code"), then (i) any other Partner shall thereupon be entitled to immediate relief from any automatic stay imposed by Section 362 of the Bankruptcy Code or otherwise, on or against the exercise of the rights and remedies available to such Partner pursuant to this Agreement or otherwise, and (ii) any Partner may apply or move the bankruptcy court in which the Bankruptcy proceedings are pending for a change of venue to the bankruptcy court where the Partnership has its principal place of business and the General Partner agrees not to oppose or object to such application

or motion in any way. The foregoing shall in no way preclude, restrict or prevent the General Partner from filing for protection under the Bankruptcy Code.

(h) This is an agreement under which applicable law excuses the Investor Partner from accepting performance from any General Partner which is a debtor in a case under the Bankruptcy Code, 11 U.S.C. § 101 et seq., from a trustee of any such debtor and from the assignee of any such debtor or trustee. The Investor Partner has entered into this Agreement with the General Partner in reliance upon their unique knowledge, experience and expertise, and their officers in the planning and implementation of the acquisition of the Apartment Complex and in the area of affordable housing and development in general. The foregoing restriction on transfer is based in part on the above factors. The General Partner expressly agrees that the Investor Partner shall not be required to accept performance under this agreement from any person other than the General Partner, including, without limitation, any trustee of the General Partner appointed under the Bankruptcy Code, 11 U.S.C. § 101 et seq., and any assignee of any such trustee.

ARTICLE 7.
ASSIGNMENT TO THE PARTNERSHIP

7.1 The General Partner hereby transfers and assigns to the Partnership all of its right, title and interest in and to the Apartment Complex, including the following:

(a) all contracts with architects, contractors and supervising architects with respect to the development of the Apartment Complex;

(b) all plans, specifications and working drawings, heretofore prepared or obtained in connection with the Apartment Complex and all governmental approvals obtained, including planning, zoning and building permits;

(c) any and all commitments with respect to all Project Loans;

(d) any and all rights under and pursuant to the Project Documents; and

(e) any other work product related to the Apartment Complex.

ARTICLE 8.
RIGHTS, OBLIGATIONS AND POWERS OF THE GENERAL PARTNER; FEES; FINANCING OF THE APARTMENT COMPLEX

8.1 Management of the Partnership.

(a) Except as otherwise set forth in this Agreement (including, but not limited to the Investor Partner's right to cause the Partnership to sell the Apartment Complex pursuant to

Section 8.22 hereof), the General Partner, within the authority granted to it under this Agreement, shall have full, complete and exclusive discretion to manage and control the business of the Partnership for the purposes stated in Article 3, shall make all decisions affecting the business of the Partnership and shall manage and control the affairs of the Partnership to the best of its ability and use its best efforts to carry out the purpose of the Partnership. In so doing, the General Partner shall take all actions necessary or appropriate to protect the interests of the Limited Partners and of the Partnership. The General Partner shall devote such time as is necessary to the affairs of the Partnership.

(b) Except as otherwise set forth in this Agreement and subject to the Term Lender's or the Construction Lender's rules and regulations and the provisions of the Project Documents, the General Partner (acting for and on behalf of the Partnership), in extension and not in limitation of the rights and powers given by law or by the other provisions of this Agreement, shall, in its sole discretion, have the full and entire right, power and authority in the management of the Partnership business to do any and all acts and things necessary, proper, convenient or advisable to effectuate the purpose of the Partnership. In furtherance and not in limitation of the foregoing provisions, the General Partner is specifically authorized and empowered to execute and deliver, on behalf of the Partnership, the Project Documents to be executed by the General Partner or the Partnership as of the date of this Agreement, and to execute any and all other instruments and documents, and amendments thereto, as shall be required in connection with the Project Loans, including, but not limited to, executing any mortgage, note, contract, building loan agreement, bank resolution and signature card, release, discharge, or any other document or instrument in any way related thereto or necessary or appropriate in connection therewith; provided, however, that copies of all applications for advances of the Project Loan proceeds shall be provided to the Investor Partner prior to the disbursement of any funds pursuant thereto; and provided further that any such applications which provide for the disbursement of funds of the Partnership in lieu of or in addition to the Project Loan proceeds shall be subject to the reasonable approval of the Investor Partner. All decisions made for and on behalf of the Partnership by the General Partner shall be binding upon the Partnership. No person dealing with the General Partner shall be required to determine its authority to make any undertaking on behalf of the Partnership, nor to determine any facts or circumstances bearing upon the existence of such authority.

8.2 Limitations Upon the Authority of the General Partner.

(a) The General Partner shall not have any authority to:

(i) perform any act in violation of any applicable law or regulation thereunder;

(ii) perform any act in violation of the provisions of the Project Documents;

(iii) do any act required to be approved or ratified in writing by the Limited Partners under the Act unless the right to do so is expressly otherwise given in this Agreement;

(iv) borrow from the Partnership or commingle Partnership funds with funds of any other Person.

(b) The General Partner shall not, without the Consent of the Investor Partner, which Consent may be withheld in the Investor Partner's sole and absolute discretion, have any authority to:

(i) except in accordance with the terms of this Agreement, sell or otherwise dispose of, at any time, all or any material portion of the assets of the Partnership;

(ii) except as provided by Section 8.19, execute documents in connection with a Project Loan or modify or amend any documents executed in connection with a Project Loan;

(iii) execute or deliver any general assignment for the benefit of the creditors of the Partnership or file a petition or acquiesce in the filing of a petition for Bankruptcy;

(iv) borrow in excess of $10,000.00 in the aggregate at any one time outstanding on the general credit of the Partnership, except as and to the extent provided for in an approved budget pursuant to Section 8.21;

(v) following Final Completion, construct any new or replacement capital improvements on the Apartment Complex which substantially alter the Apartment Complex or its use or which are at a cost in excess of $10,000.00 in a single Partnership Fiscal Year, except (a) replacements and remodeling in the ordinary course of business or under emergency conditions, or (b) reconstruction paid with insurance proceeds, or (b) as and to the extent provided for in an approved budget pursuant to Section 8.21;

(vi) acquire any real property in addition to the Apartment Complex other than easements reasonable and necessary for the operation of the Apartment Complex;

(vii) following Initial Closing, refinance the Project Loan, except as expressly permitted by this Agreement; or

(viii) enter into the Project Loan or agree to any amendment or alteration of the Project Loan including without limitation, any extension of the term of the Project Loan.

8.3 Management Purposes. In conducting the business of the Partnership, the General Partner shall be bound by the Partnership's purposes set forth in Article 3.

8.4 Delegation of Authority. The General Partner may delegate all or any of its powers, rights and obligations hereunder, and may appoint, employ, contract or otherwise deal with any Person for the transaction of the business of the Partnership, which Person may, under supervision of the General Partner, perform any acts or services for the Partnership as the General Partner may approve.

8.5 General Partner or Affiliates Dealing with Partnership. The General Partner or any Affiliates thereof shall have the right to contract or otherwise deal with the Partnership for the sale of goods or services to the Partnership in addition to those set forth herein, if (A) compensation paid or promised for such goods or services is reasonable (i.e., at fair market value) and is paid only for goods or services actually furnished to the Partnership, (B) the goods or services to be furnished shall be reasonable for and necessary to the Partnership, (C) the fees, terms and conditions of such transaction are at least as favorable to the Partnership as would be obtainable in an arm's-length transaction, (D) no agent, attorney, accountant or other independent consultant or contractor who also is employed on a full-time basis by the General Partner or any Affiliate shall be compensated by the Partnership for its services, and (E) the Investor Partner shall have given its Consent to the particular contract or other dealings between the Partnership and the General Partner or its Affiliates. Any contract covering such transactions shall be in writing and shall be terminable without penalty on sixty (60) days Notice. Any payment made to the General Partner or any Affiliate for such goods or services shall be fully disclosed to all Limited Partners in the reports required under Section 13.4. Neither the General Partner nor any Affiliate shall, by the making of lump sum payments to any other Person for disbursement by such other Person, circumvent the provisions of this Section 8.5.

8.6 Other Activities. This Agreement shall not prohibit any Affiliate of the General Partner from engaging in or possessing interests in other business ventures of every kind and description for their own account, including, without limitation, serving as general partner of other partnerships which own, either directly or through interests in other partnerships, housing projects similar to the Apartment Complex. Neither the Partnership nor any of the Partners shall have any rights by virtue of this Agreement in or to such other business ventures or to the income or profits derived therefrom. The General Partner, however, shall be bound by the restrictions set forth in this Agreement, including Section 4.3 hereof.

8.7 Liability for Acts and Omissions. No General Partner or Affiliate thereof shall be liable, responsible or accountable in damages or otherwise to any of the Partners for any act or omission performed or omitted by it or any of them in good faith on behalf of the Partnership and in a manner reasonably believed by it or any of them to be within the scope of the authority granted to it or any of them by this Agreement and in the best interest of the Partnership, provided that the protection afforded the General Partner pursuant to this Section 8.7 shall not apply in the case of negligence, misconduct, fraud or any breach of fiduciary duty as General Partner with respect to such acts or omissions. Any loss or damage incurred by any General Partner or Affiliate thereof by reason of any act or omission performed or omitted by it or any of them in good faith on behalf of the Partnership and in a manner reasonably believed by it or any of them to be within the scope of the authority granted by this Agreement and in the best interests of the Partnership (but not, in any event,

any loss or damage incurred by the General Partner or Affiliate thereof by reason of negligence, misconduct, fraud or any breach of fiduciary duty as General Partner with respect to such acts or omissions) shall be paid from Partnership assets to the extent available (but the Limited Partners shall not have any personal liability to the General Partner or Affiliate(s) thereof under any circumstances on account of any such loss or damage incurred by the General Partner or Affiliate(s) thereof or on account of the payment thereof).

8.8 Construction of the Apartment Complex, Construction Cost Overruns, Other General Partner Guarantees.

(a) Construction Completion Guaranty.

(i) The Partnership has entered into the Construction Contract. The General Partner shall be responsible for the following ("Construction Completion Guaranty"):

(A) achieving completion of construction of the Apartment Complex on a timely basis in accordance with (i) the Plans and Specifications for the Apartment Complex, (ii) the terms of this Agreement and the Project Documents, and (iii) Development Budget attached hereto as Exhibit G;

(B) paying all Development Costs in excess of $18,770,000.00;

(C) meeting all requirements for obtaining all necessary permanent, unconditional certificates of occupancy for all the apartment units in the Apartment Complex;

(D) causing the making of the Construction Loan by the Construction Lender; and

(E) causing closing of the Term Loan to occur.

(ii) The General Partner hereby is obligated to fund all Excess Development Costs when and as incurred; the Partnership shall have no obligation to fund any Excess Development Costs. Any amounts funded by the General Partner pursuant to this clause (ii) shall not be repaid by the Partnership, nor shall such amounts be considered or treated as Capital Contributions of the General Partner to the Partnership. All amounts funded by the General Partner with respect to Excess Development Costs (excluding payments used to fund Operating Deficits) shall constitute payments with respect to the obligation of the General Partner in its capacity as developer to pay any Excess Development Costs.

(iii) The General Partner shall pay any Excess Development Cost pursuant to this Section 8.8(a) by the earlier of (A) the date required to avoid a default or penalties under Partnership obligations, including without limitation the Project Loan, (B) the date required to keep all sources of funding for the Apartment Complex "in-balance" and as adequate sources of funds to

timely cause Final Completion of the Apartment Complex and satisfaction of other obligations of the Partnership in accordance with this Agreement, or (C) such earlier date as may be set forth in this Agreement.

(iv) If at any time or from time to time the Investor Partner, in the exercise of its reasonable business judgment, determines that the then undisbursed proceeds of the Construction Loan plus any cash in the Partnership's accounts are insufficient to pay the total amount of the unpaid Development Costs, the Investor Partner may require the General Partner to deposit into the Partnership's account an amount equal to such deficiency. Any amounts funded by the General Partner pursuant to this clause (iv) shall not be repaid by the Partnership, nor shall such amounts be considered or treated as Capital Contributions of, or a loan by, the General Partner to the Partnership; provided, however, that should the General Partner deposit funds into the Partnership's account in accordance with this Section 8.8(a)(iv) and such funds are ultimately determined to not be required (*i.e.* such funds remain after the fulfillment of the Construction Completion Guaranty), such remaining funds shall be refunded to the General Partner.

(b) Guaranty of IP Senior Priority Return. If on any particular Payment Date after the second anniversary of the Term Loan Closing, or upon liquidation of the Partnership, if Net Cash Flow and/or the proceeds resulting from the liquidation of the Partnership assets, as applicable, are insufficient to make a distribution under Section 11.1(a)(ii) or 11.4(d) hereof to the Investor Partner of all accrued but unpaid IP Senior Priority Return, then on such Payment Date the General Partner shall immediately make a payment to the Investor Partner in the amount of and in satisfaction of such accrued but unpaid IP Senior Priority Return. The General Partner acknowledges and agrees that any payment by it pursuant to this Section 8.8(b) is in satisfaction of its obligation to the Investor Partner and that any amounts paid by the General Partner pursuant to this Section 8.8(b) shall not be repaid by the Partnership or the Investor Partner, nor shall such amounts be considered or treated as Capital Contributions of, or a loan by, the General Partner to the Partnership.

8.9 Development Fee. The Partnership has entered into a Development Agreement of even date herewith with the General Partner for its services in connection with the development and construction of the Apartment Complex. In consideration for such services, a Development Fee in a total amount not to exceed $1,000,000.00 shall be payable by the Partnership, in accordance with the terms of the Development Agreement.

8.10 Construction Advisory Services Fee. On the date of the Initial Closing, the Partnership shall pay SAHP, a Construction Advisory Services Fee in an amount equal to $25,000.00.

8.11 Asset Management Fee. The Partnership shall pay SAHP (or to such other entity as the Investor Partner shall designate) an annual "Asset Management Fee" in an amount equal to $10,000.00. Such fee shall accrue beginning with the commencement of leasing or marketing activity for the Apartment Complex. Such fee shall be due on the Payment Date following the end of each Fiscal Year with respect to the fee earned for such Fiscal Year.

8.12 Project Financing.

(a) The General Partner shall cause the Partnership to obtain and close a construction loan in an amount not less than $18,770,000, a term of at least three (3) years, and a provision for at least three 1-year extension options, in accordance with that certain Commitment Letter dated October 6, 1999, from SouthTrust Bank, N.A., as Lender, to the Partnership as Borrower, as amended by that certain Letter of Amendment dated Occtober 29, 1999 (collectively, the "Construction Loan"). The documents in connection with the Construction Loan shall be negotiated and executed by the General Partner, but shall be subject to the Consent of the Investor Partner. The General Partner shall not amend the approved Construction Loan Documents in any material respect without the Consent of the Investor Partner.

(b) In connection with the Construction Loan, SunAmerica shall execute a Funding Agreement in form and substance acceptable to SunAmerica, the Construction Lender and the Partnership. Concurrently with the execution of this Agreement, the Partnership shall execute for the benefit of SunAmerica, a reimbursement agreement wherein the Partnership agrees to indemnify and hold harmless SunAmerica against any loss, liability or demand it may suffer as a result of its entering into the Funding Agreement ("SunAmerica Reimbursement Agreement"); the form of the SunAmerica Reimbursement Agreement is attached hereto as Exhibit L. Richard T. Coley, Sr. and John J. Murphy, Jr. will unconditionally guaranty the obligations of the Partnership in connection with the SunAmerica Reimbursement Agreement; the form of such guaranty is attached hereto as Exhibit K.

(c) Hedge Agreement.

(i) If and as directed by the Hedge Manager, the Partnership shall enter into one or more agreements for an interest rate swap, interest rate cap, interest rate collar, or other financial product used for hedging interest rate risk (the "Hedge Agreement") with a counter-party (the "Counterparty") designated by the Hedge Manager. SunAmerica or an Affiliate of SunAmerica may act as the Credit Support Provider in connection with the Hedge Agreement and deliver to the Counterparty a Guaranty (the "Hedge Guaranty") of the Partnership's obligations under the Hedge Agreement or may provide collateral for such obligations. Concurrently with the execution of this Agreement, the Partnership shall enter into (A) Hedge Management Agreement with the Hedge Manager (the "Hedge Management Agreement") in the form of Exhibit E-2 hereto, pursuant to which the Partnership will grant SAHP the exclusive right to control all matters with respect to the Hedge Agreement, including, but not limited to, termination of the Hedge Agreement in accordance with the Hedge Management Agreement, and (B) a Hedge Reimbursement Agreement for the benefit of SunAmerica and its Affiliates ("Hedge Reimbursement Agreement") in the form of Exhibit E-1 hereto. The General Partner hereby appoints SAHP or its designee as exclusive agent for the Partnership with respect to the Hedge Agreement, with full power and authority to negotiate the terms and conditions of such agreement and to execute and deliver any such agreement on behalf of the Partnership.

(ii) Net Periodic Payments made to the Partnership, if any, shall be treated in the same manner as operating revenues from the Apartment Complex. Net Periodic Payments made by the Partnership, if any, shall be treated in the same manner as interest expense on Project Loans. Payments made to the Partnership upon termination of the Hedge Agreement, if any, shall be used as follows: first, to pay SAHP or its designee for any loss, liability, demand or cost incurred by SunAmerica or its Affiliates pursuant to the terms of the Hedge Reimbursement Agreement which have not been previously reimbursed; second, to make a principal payment on the Construction Loan, if it is then outstanding; and third, it shall be treated as Cash From Capital Event.

(iii) If upon termination of the Hedge Agreement, the Partnership, SunAmerica or any Affiliate of the Partnership or SunAmerica is required to make a payment to Counterparty resulting from such termination, then (A) if such termination is concurrently with or prior to the closing of a Term Loan, then the loss from such Hedge termination shall be used in calculating the Shortfall and shall be funded in the same manner as the balance of the Shortfall, if any, and (B) otherwise, the Partnership shall fund the loss from such Hedge termination from its assets, including Optional Capital Contributions, if and to the extent a Partner or Partners agrees to make an Optional Capital Contribution for such purpose.

(d) Funding Agreement. On the date of the Initial Closing, (A) the Partnership shall execute and deliver to SunAmerica the SunAmerica Reimbursement Agreement in the form of Exhibit L hereto, pursuant to which the Partnership will be obligated to reimburse and indemnify SunAmerica against any loss, liability or demand that SunAmerica or its Affiliates may incur in connection with the Funding Agreement, and (B) the General Partner will cause the Guarantor to deliver to SunAmerica the SunAmerica Reimbursement Guaranty, in the form of Exhibit K hereto, pursuant to which the Guarantor guarantees the Partnership's obligations under the SunAmerica Reimbursement Agreement.

(e) Term Loan.

(i) Initiated by the General Partner. Subject to the Investor Partner's right to require the Partnership to obtain a Term Loan in accordance with Section 8.12(e)(ii), at any time but no later than 120 days prior to the maturity of the Construction Loan (including all extensions as of right), the General Partner shall cause the Partnership to obtain a Term Loan in an amount and on terms acceptable to the Investor Partner in its sole and absolute discretion. The terms, conditions and documentation required in connection with the Term Loan shall be subject to the Consent of the Investor Partner. Once the Investor Partner provides Notice pursuant to Section 8.12(e)(ii), unless the Investor Partner otherwise Consents, then the General Partner shall only pursue a Term Loan on the terms set forth in such Notice.

(ii) Initiated by the Investor Partner. At the direction of the Investor Partner given at any time, the General Partner shall cause the Partnership to obtain a Term Loan (an "IP Term Loan") pursuant to either (a) a written proposal submitted by the Investor Partner for a Term Loan to be funded by a third party, or (b) a commitment or application from a third party

lender submitted by the Investor Partner (an "IP Term Commitment"). An IP Term Loan may or may not provide for credit support from SunAmerica or its Affiliates or for no third party credit support or enhancement as determined by the Investor Partner in its sole discretion. The General Partner shall use its best efforts using the Partnership's resources to cause the Partnership to close the IP Term Loan in accordance with the proposal or the IP Term Commitment submitted by the Investor Partner. In addition, if the Investor Partner requests the Partnership to enter into an IP Term Commitment, the General Partner shall cause the Partnership to execute such IP Term Commitment. The General Partner shall have the right to disapprove of a proposal for an IP Term Loan or an IP Term Commitment only if the IP Term Loan is or will be a recourse obligation of the General Partner, other than for customary exceptions or "carveouts" to the nonrecourse nature of the obligations required by institutional lenders; provided, however, that prior to thirty (30) months following the Initial Closing, the General Partner shall not be required to obtain an IP Term Loan on terms or conditions which would result in a Shortfall. If, upon execution of an IP Term Commitment prior to the earlier of (A) the sale of the Apartment Complex, or (B) the closing of a Term Loan, any of the Partnership, SunAmerica or any Affiliate of the Partnership or SunAmerica is required to pay for costs incurred as a result of executing an IP Term Commitment, the Partnership shall fund such costs first from available proceeds of the Construction Loan, second from available Construction Period Cash Flow and third, from Optional Capital Contributions.

(iii) Refinancing of Term Loan. Once a Term Loan is closed, the General Partner may cause the Term Loan to be refinanced only with the Consent of the Investor Partner. In addition, the Investor Partner shall have the right at any time to submit a proposal for a replacement Term Loan or to submit a replacement IP Term Commitment, in which event the General Partner shall attempt to close such replacement Term Loan or execute a replacement Term Loan Commitment all in accordance with Section 8.12(e)(ii).

(f) Shortfall. Concurrently with the Term Loan Closing or the sale or transfer of the Apartment Complex prior to a Term Loan Closing, as applicable, the Partnership shall fund or otherwise cover a Shortfall, if one exists, as follows:

(i) first, all Cost Savings shall be used to pay or reduce any remaining Shortfall;

(ii) second, all Construction Period Cash Flow shall be used to pay any remaining Shortfall;

(iii) third, any remaining Shortfall up to a maximum of $1,400,000 shall be covered (A) fifty percent (50%) by a reduction in the maximum Development Fee payable to the General Partner pursuant to the Development Agreement, and (B) fifty percent (50%) by the Investor Partner's making an IP Senior Term Loan Capital Contribution;

(iv) fourth, any remaining Shortfall up to a maximum of $1,150,000 shall be funded (A) fifty percent (50%) by the General Partner making a GP Junior Term Loan Capital

Contribution, and (B) fifty percent (50%) by the Investor Partner making an IP Junior Term Loan Capital Contribution; and

(v) thereafter, any remaining Shortfall shall be funded by Optional Capital Contributions (no Partner, however, has any obligation to make such Optional Capital Contributions).

(g) Fees to SunAmerica. In consideration of SunAmerica entering into the Funding Agreement and its obligations under Section 8.12 hereof, the Partnership shall pay to SunAmerica or its designee the following fees (the "SAI Credit Enhancement Fees") as follows:

(i) On the date of the Initial Closing, the Partnership shall pay to SunAmerica or its designee an amount equal to $46,678, which is 1% of the Guaranteed Amount; and

(ii) thereafter on each anniversary of the Initial Closing, the Partnership shall pay SunAmerica or its designee an amount equal to $46,678.

8.13 Withholding of Fee Payments. If (a) the General Partner or any successor General Partner shall not have substantially complied with any material provisions under this Agreement, after Notice from the Investor Partner of such noncompliance and failure to cure such noncompliance within a period of thirty (30) days from and after the date of such Notice, or (b) the Construction Lender or Term Lender shall have declared the Partnership to be in default under any Project Loan, or (c) foreclosure proceedings shall have been commenced against the Apartment Complex, then the General Partner shall be in default of this Agreement, and the Partnership shall withhold payment of any installment of fees and/or allowance payable pursuant to the Development Agreement. All amounts so withheld by the Partnership under this Section 8.13 shall be promptly released to the payees thereof only after the General Partner has cured the default justifying the withholding, as demonstrated by evidence reasonably acceptable to the Investor Partner.

8.14 GP Pledged Payments. To secure the payment and performance by the General Partner of its obligations under this Agreement, the General Partner hereby collaterally assigns, pledges and grants a security interest to the Investor Partner in all right, title and interest the General Partner has in the right to receive any distributions and payments under this Agreement and the Development Agreement, including without limitation, any payments of the Development Fee, the Construction Administration Fee, distributions of Net Cash Flow and Cash From capital Events ("GP Pledged Payments"). The General Partner irrevocably directs the Partnership to pay to the Investor Partner any GP Pledged Payments at any time that the General Partner has breached its obligations to pay any amounts due hereunder. All amounts received by the Investor Partner shall be applied against amounts due and owing from the General Partner hereunder. During any period the General Partner has no accrued but unsatisfied payment obligation hereunder, it shall have the right to receive GP Pledged Payments, and any payments so received shall be free and clear of the lien created by this Section 8.14. The Partnership and the Partners shall treat any GP Pledged Payments made by

the Partnership to the Investor Partner as a payment by the Partnership to the General Partner of the particular GP Pledged Payment and a payment by the General Partner to the Investor Partner of the particular obligation which it secures. If there is more than one type of outstanding obligation secured at the time a GP Pledged Payment is made to the Investor Partner, the Investor Partner in its sole discretion shall decide to which secured obligation the GP Pledged Payments shall be applied. This Section 8.14 shall constitute a security agreement under the laws of the State of Florida. In addition, the General Partner grants the Investor Partner a right of offset against GP Pledged Payments with respect to all amounts due to the Investor Partner from the General Partner under this Agreement.

8.15 Reserve For Replacements. On the first day of each calendar month commencing after Final Completion of the Apartment Complex, the Partnership shall fund a Reserve For Replacements (the annual amount of contributions to the Reserve For Replacements shall be funded in twelve (12) equal monthly payments). The Reserve For Replacements shall be funded as follows: (i) from the date thirty (30) days after Final Completion until the date five (5) years after such date, the Reserve for Replacements shall be funded based on $200.00 per apartment unit per year; (ii) from the date five (5) years from the date of Final Completion until the date ten (10) years after the date of Final Completion, the Reserve For Replacements shall be funded based on $250.00 per apartment unit per year; (iii) with respect to each subsequent five (5) year period, the required funding shall be increased by $50.00 per apartment unit per five-year period, provided that the General Partner shall increase the minimum funding of the Reserve For Replacements if necessary to ensure that such increase is necessary to comply with sound asset management principles. With the Consent of the Investor Partner (which Consent shall not be unreasonably withheld), the General Partner may make withdrawals from the Reserve For Replacements solely for the purpose of paying the cost of capital items, which shall consist of the acquisition or replacement of property expected to have a useful life of ten (10) years or more and the cost of repairs to property that will extend the useful life of such property by ten (10) years or more. Examples of such capital items and repairs are outlined in Exhibit J attached hereto. If the terms of the Project Loan imposes more strict requirements regarding the funding and/or use of Reserve For Replacements, such more strict requirements shall apply.

8.16 Removal of the General Partner.

(a) The Investor Partner, so long as it is a Partner, shall have the right to remove the General Partner:

(i) for any intentional misconduct or failure to exercise reasonable care with respect to any material matter in the discharge of its duties and obligations as General Partner (provided that such violation results in, or is likely to result in, a material detriment to or an impairment of the Apartment Complex or assets of the Partnership), or

(ii) upon the occurrence of any of the following:

(A) the General Partner or the Partnership shall have violated any material provisions of the Project Documents, or any material provisions of any other document required in connection with any Project Loan or any material provisions of the Construction Lender's or the Term Lender's requirements applicable to the Apartment Complex, which violation has not been explicitly waived in writing by the Construction Lender or Term Lender;

(B) the General Partner shall have violated any material provision of this Agreement including or violated any material provision of applicable law;

(C) any Project Loan shall have gone into default, which default remains uncured after the expiration of any applicable cure period;

(D) the Partnership shall have defaulted in its obligations under the SunAmerica Reimbursement Agreement and such default remains uncured after the expiration of any applicable cure period;

(E) the General Partner shall have conducted its affairs or the affairs of the Partnership in such manner as would:

a. cause the termination of the Partnership for federal income tax purposes; or

b. cause the Partnership to be treated for federal income tax purposes as an association, taxable as a corporation;

(F) cause for removal as a general partner of an Affiliated Partnership shall exist pursuant to the partnership agreement of an Affiliated Partnership, which cause consists of gross negligence, wilful misconduct, breach of a fiduciary duty, or breach of an obligation under such Partnership Agreement which resulted in damages to the limited partner of such Partnership in an amount greater than $250,000.00;

(G) the making of a general assignment by a Guarantor for benefit of its creditors, the filing by Guarantor with any bankruptcy court of competent jurisdiction of a voluntary petition under Title 11 of U.S. Code, as amended from time to time, the filing by a Guarantor of any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any present or future federal or state act or law relating to bankruptcy, insolvency, or other relief for debtors, Guarantor being the subject of any order for relief issued under such Title 11 of the U.S. Code, as amended from time to time, or the dissolution or liquidation of Guarantor; or

(H) a default by a Guarantor under the Guaranty.

(b) The Investor Partner shall give Notice to all Partners of its determination that cause for removal of the General Partner exists hereunder. The General Partner shall have thirty (30) days after the date of such Notice to cure any default or other reason for such removal (or, if such event is not reasonably susceptible to cure within thirty (30) days (as determined by the Investor Partner in its sole discretion) and the General Partner is actively and continuously pursuing such cure, such longer period as the Investor Partner shall determine in its sole discretion), in which event it shall remain as General Partner; provided, however, no cure period shall be allowed with respect to the events described in Sections 8.16(a)(ii)(C) and (D). If, at the end of such period, the General Partner has not cured any default or other reason for such removal, it shall, upon Notice from the Investor Partner, cease to be General Partner and the powers and authorities conferred on it as General Partner under this Agreement shall cease and the Interests of such General Partner shall be transferred to a designee of the Investor Partner which, without further action, shall become the General Partner; provided that with respect to the events described in Sections 8.16(a)(ii)(C) and (D), removal shall be effective upon the date specified by the Investor Partner in its notice of removal.

(c) If the General Partner is removed pursuant to this Section 8, the effect of such removal shall be as described in Section 6.3 of this Agreement.

(d) The Investor Partner hereby is granted an irrevocable power of attorney, coupled with an interest, to execute any and all documents on behalf of the Partners and the Partnership as shall be legally necessary and sufficient to effect all of the foregoing provisions of this Section 8.16. The election by the Investor Partner to remove the General Partner under this Section shall not limit or restrict the availability and use of any other remedy which the Investor Partner or any other Partner might have with respect to the General Partner in connection with its undertakings and responsibilities under this Agreement.

8.17 Selection of Property Manager; Management Agreement.

(a) The General Partner shall cause the Partnership at all times during which the Partnership owns the Apartment Complex to engage a Property Manager to provide property management services for the Partnership with respect to the Apartment Complex pursuant to a Management Agreement meeting the requirements of this Agreement. Southern Apartments Specialists, Inc., is approved by the Partners as the initial Property Manager.

(b) The General Partner shall at least once each fiscal year review the performance of the Property Manager and recommend to the Investor Partner in writing whether to continue the Management Agreement with the then current Property Manager or whether to replace such Property Manager. The recommendation of the General Partner shall be implemented by the General Partner, provided that the General Partner has obtained the Consent of the Investor Partner, which Consent shall not be unreasonably withheld or delayed, except as provided in Section 8.17(d).

(c) Unless the Investor Partner otherwise Consents, any Management Agreement must satisfy the following terms and conditions: (i) the Partnership shall pay the Property Manager

a monthly management fee not to exceed four percent (4%) of the gross operating revenues of the Apartment Complex for the month preceding payment; (ii) the Management Agreement shall be cancelable upon thirty (30) days' prior notice from the Partnership without cause and without the payment of any fee, penalty, premium or additional charge; (iii) if the Property Manager is an Affiliate of the General Partner, the Property Manager will accrue the management fee to the extent necessary at any time to prevent a default under the Project Loan; (iv) all security deposits shall be maintained in a segregated account for the benefit of the Partnership; and (v) the Management Agreement shall be in the form of Exhibit H hereto with only such changes to which the General Partner and the Investor Partner have given their respective Consent.

(d) Notwithstanding anything provided herein to the contrary, no Affiliate shall act as the Property Manager without the prior written Consent of the Investor Partner which may be withheld in its sole discretion. The Consent to the use of an Affiliate Property Manager as to the initial Property Management Agreement or any renewal thereof shall not prevent the Investor Partner from withholding its Consent in connection with a periodic performance review pursuant to Section 8.17(b). In accordance with Section 8.17(a) of this Agreement, the Investor Partner hereby consents to Southern Apartment Specialists, Inc. as the initial Property Manager.

8.18 Removal of the Property Manager. At the request of the Investor Partner, the General Partner shall cause the Partnership to terminate the Management Agreement then in place and appoint a replacement Property Manager and execute a new Property Management Agreement in accordance with Section 8.17 if any of the following events occur: (i) if the Property Manager becomes Bankrupt; (ii) if the Property Manager defaults in its obligations under the Management Agreement and fails to cure such default within any applicable cure period provided therein; (iii) if (a) the Investor Partner has made IP Optional Capital Contributions in an aggregate amount greater than $100,000.00, or (b) the IP Net Excess Optional Capital Contributions is greater than zero. The General Partner shall cause such replacement to occur on the date designated by the Investor Partner in such written request, which date must be not less than forty-five (45) days from the date of such written request. Upon termination of the Management Agreement, the General Partner shall cause the Partnership to pay any accrued but unpaid management fees to the Property Manager.

8.19 Loans to the Partnership. If (A) additional funds are required by the Partnership for any purpose relating to the business of the Partnership or for any of its obligations, expenses, costs or expenditures, and (B) the Partnership has not received an OD Capital Contribution or an Optional Capital Contribution to pay such amounts, then the Partnership may borrow such funds as are needed from a Person or organization other than a Partner or its Affiliate in accordance with the terms of this Section 8.19, for such period of time and on such terms as the General Partner and the Investor Partner may agree; provided, however, that no such additional loans shall be secured by any mortgage or other encumbrance on the property of the Partnership without the prior approval of the Investor Partner except that such approvals shall not be required in the case of the hypothecation of personal property purchased by the Partnership and not included in the security agreements executed by the Partnership at the time of Initial Closing. Nothing in this Section 8.19 shall modify or effect

the obligation of the General Partner to make OD Capital Contributions and to perform its obligations when and as required by this Agreement.

8.20 Guaranty. Concurrently with the execution of this Agreement, the General Partner shall deliver to the Investor Partner and to SunAmerica, as appropriate, (A) the Guaranty, fully executed by each Guarantor, (B) the General Partner First Priority Pledge,(C) the SunAmerica Reimbursement Guaranty, and (D) an opinion of counsel to the Guarantors in form satisfactory to the Investor Partner regarding the Guaranty and the pledge and security agreements.

8.21 Operating and Capital Budgets. Not less than seventy-five (75) days prior to the commencement of each fiscal year, the General Partner shall submit to the Investor Partner for its review and approval (which approval shall not be unreasonably withheld), proposed operating and capital budgets for the Apartment Complex and the Partnership for the next fiscal year. Such budgets shall specifically list all budgeted expenses in all major categories including, but not limited to, administration, operation, repairs and maintenance, utilities, taxes, insurance, interest, debt service with respect to the Project Loan, capital improvements, and all budgeted expenses which are to be paid to the General Partner or its Affiliates. The Investor Partner shall submit its response to such proposed budgets to the General Partner within forty-five (45) days (or such shorter period of time as may be requested by the Construction Lender or Term Lender, but in no event less than thirty (30) days) after its receipt of such proposed budgets; such response shall either evidence its approval of the proposed budgets or shall contain specific comments and recommendations with respect thereto. If no such response is submitted to the General Partner within such period, the Investor Partner will be deemed to have approved such budgets.

8.22 Sale of the Apartment Complex. The General Partner shall not, without the Consent of the Investor Partner (which Consent may be withheld in the sole discretion of the Investor Partner), cause the Partnership to sell the Apartment Complex. Upon Notice from the Investor Partner, the General Partner and the Partnership will begin actively marketing the Apartment Complex and shall use its best efforts to obtain a bona-fide written offer from a Person not an Affiliate of any Partner to purchase the Apartment Complex from the Partnership. Such Notice shall include the minimum sales price at which the Partnership is to sell the Apartment Complex, and such other terms and conditions for the sale of the Apartment Complex as the Investor Partner shall determine in its sole discretion, including, but not limited to a sale subject to the Project Loan. The General Partner shall use its best efforts to cause the Partnership to consummate a sale of the Apartment Complex on terms no less favorable than those specified in the Notice; provided, however, that prior to forty (40) months following the Initial Closing, the General Partner shall not be required to sell the Apartment Complex on terms or conditions which would result in a Shortfall. No sale of the Project pursuant to this Section 8.22 shall release the General Partner from any of its obligations hereunder or in connection herewith, or give rise to any liability of the Investor Partner or its designee (or any Affiliate of the foregoing) to the General Partner.

At any time after the fourth anniversary of the Initial Closing, the Investor Partner or its designee may, upon Notice to the General Partner, assume the exclusive right to sell the Apartment

Complex. After receipt of such notice, the General Partner shall cease all marketing and other activities in connection with the sale of the Apartment Complex, and thereafter shall cooperate fully with the Investor Partner in its efforts to sell the Apartment Complex. Such cooperation shall include, but not be limited to, the execution of and delivery of all documents reasonably required in connection with any proposed sale of the Apartment Complex.

ARTICLE 9.
TRANSFERS AND RESTRICTIONS ON TRANSFERS OF INTERESTS OF LIMITED PARTNERS

9.1 Restrictions on Transfer of Limited Partners' Interests.

(a) Under no circumstances will any offer, sale, transfer, assignment, hypothecation or pledge of any Limited Partner Interest be permitted unless the General Partner and the other Limited Partners, each in their sole discretion, shall have Consented thereto, and the Construction Lender or Term Lender, if required, also shall have Consented thereto, provided however, that no Partner shall unreasonably withhold its Consent to the pledge by the Investor Partner of its Limited Partner Interest or a transfer of its right to receive distributions hereunder, so long as no pledgee or transferee shall have any right to become a Substitute Limited Partner in the Partnership or exercise any voting rights of the Limited Partner.

(b) The Limited Partner whose interest is being transferred shall pay such reasonable expenses as may be incurred by the Partnership in connection with such transfer.

(c) Nothing in this Section 9.1 shall limit the authority of the Investor Partner to sell, transfer and/or assign interests within the Investor Partner, in the sole discretion of the Investor Partner.

9.2 Admission of Substitute Limited Partners.

(a) Subject to the other provisions of this Article 9, an assignee of the Interest of a Limited Partner (which shall be understood to include any purchaser, transferee, donee, or other recipient of any disposition of such Interest) shall be deemed admitted as a Substitute Limited Partner of the Partnership only upon the satisfactory completion of the following:

(i) Consent of the General Partner (which may be withheld in its sole discretion), and the consent of the Construction Lender or Term Lender, if required, shall have been given; such Consent of the General Partner may be evidenced by the execution by the General Partner of an amended Agreement and/or Certificate evidencing the admission of such Person as a Limited Partner pursuant to the requirements to the Act;

(ii) the assignee shall have accepted and agreed to be bound by the terms and provisions of this Agreement by executing a counterpart thereof or an appropriate amendment

hereto, and such other documents or instruments as the General Partner may require in order to effect the admission of such Person as a Limited Partner;

(iii) an amended Agreement and/or Certificate evidencing the admission of such Person as a Limited Partner shall have been filed for recording pursuant to the requirements of the Act;

(iv) if the assignee is a corporation, the assignee shall have provided the General Partner with evidence satisfactory to Counsel for the Partnership of its authority to become a Limited Partner under the terms and provisions of this Agreement; and

(v) the assignee or the assignor shall have reimbursed the Partnership for all reasonable expenses, including all reasonable legal fees and recording charges, incurred by the Partnership in connection with such assignment.

(b) For the purpose of allocation of profits, losses and credits, and for the purpose of distributing cash of the Partnership, a Substitute Limited Partner shall be treated as having become, and as appearing in, the records of the Partnership as a Partner upon its signing of an amendment to this Agreement agreeing to be bound hereby.

(c) The General Partner shall cooperate with the Person seeking to become a Substitute Limited Partner by preparing the documentation required by this Section and making all official filings and publications. The Partnership shall take all such action, including the filing, if required, of any amended Agreement and/or Certificate evidencing the admission of any Person as a Limited Partner, and the making of any other official filings and publications, as promptly as practicable after the satisfaction by the assignee of the Interest of a Limited Partner of the conditions contained in this Article 9 to the admission of such Person as a Limited Partner of the Partnership. Any cost or expense incurred in connection with such admission shall be borne by the Substitute Limited Partner.

9.3 Rights of Assignee of Partnership Interest.

(a) Except as provided in this Article and as required by operation of law, the Partnership shall not be obligated for any purpose whatsoever to recognize the assignment by any Limited Partner of its Interest until the Partnership has received actual Notice thereof.

(b) Any Person who is the assignee of all or any portion of a Limited Partner's Interest, but does not become a Substitute Limited Partner, and who desires to make a further assignment of such Interest, shall be subject to all the provisions of this Article 9 to the same extent and in the same manner as any Limited Partner desiring to make an assignment of its Interest.

ARTICLE 10.
RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

10.1 Management of the Partnership. No Limited Partner shall take part in the management or control of the business of the Partnership nor transact any business in the name of the Partnership. Except as otherwise expressly provided in this Agreement, no Limited Partner shall have the power or authority to bind the Partnership or to sign any agreement or document in the name of the Partnership. No Limited Partner shall have any power or authority with respect to the Partnership except insofar as the consent of any Limited Partner shall be expressly required and except as otherwise expressly provided in this Agreement.

10.2 Limitation on Liability of Limited Partners. The liability of each Limited Partner shall be limited to its Capital Contribution as and when payable under the provisions of this Agreement, and as provided under the Act. No Limited Partner shall have any other liability to contribute money to, or in respect of the liabilities or obligations of, the Partnership, nor shall any Limited Partner be personally liable for any obligations of the Partnership, except as and to the extent provided in the Act. No Limited Partner shall be obligated to make loans to the Partnership.

10.3 Other Activities. Any Limited Partner may engage in or possess interests in other business ventures of every kind and description for its own account, including without limitation, serving as general or limited partner of other partnerships which own, either directly or through interests in other partnerships, government-assisted housing projects similar to the Apartment Complex. Neither the Partnership nor any of the Partners shall have any right by virtue of this Agreement in or to such other business ventures to the income or profits derived therefrom.

ARTICLE 11.
PROFITS, LOSSES AND DISTRIBUTIONS

11.1 Allocation of Profits, Losses, Credits and Cash Distributions.

(a) Subject to the special allocations contained in Sections 11.1(d), (e), (f), (g), (h), (i) and (k), all profits, losses and credits, except those items in Sections 11.3, 11.6 and 11.10 below, shall be allocated to the Partners in accordance with their Percentage Interests. Net Cash Flow shall be paid or distributed on each Payment Date in the following priority:

(i) first,

(A) until any Equity Bridge Loan which was funded in place of an IP Senior Term Loan Capital Contribution has been paid in full, to the lender of the Equity Bridge Loan as payment of such Equity Bridge Loan; and then

(B) to the Investor Partner as a distribution, until the IP Net Senior Term Loan Capital Contribution equals zero;

(ii) second, until the accrued but unpaid IP Senior Priority Return has been paid in full, one hundred percent (100%) to the Investor Partner as a distribution in payment of the IP Senior Priority Return;

(iii) third, until the accrued but unpaid IP OCC Priority Return has been paid in full, one hundred percent (100%) to the Investor Partner as a distribution in payment of the IP OCC Priority Return;

(iv) fourth, either:

(A) if the GP Net Junior Term Loan Capital Contribution is greater than the sum of (1) the outstanding principal balance of any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution, plus (2) the IP Net Junior Term Loan Capital Contribution; then until such amounts are equal, one hundred percent (100%) to the General Partner as a distribution in reduction of the GP Net Junior Term Loan Capital Contribution;

(B) if the sum of (1) the outstanding principal balance of any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution, plus (2) the IP Net Junior Term Loan Capital Contribution, is greater than the GP Net Junior Term Loan Capital Contribution, then until such amounts are equal:

(I) until any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution has been paid in full, to the lender of the Equity Bridge Loan as payment of such Equity Bridge Loan; and then

(II) to the Investor Partner as a distribution in reduction of the IP Net Junior Term Loan Capital Contribution;

(v) fifth, until any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution has been paid in full and each of the GP Net Junior Term Loan Capital Contribution and the IP Net Junior Term Loan Capital Contribution equals zero, fifty percent (50%) to the General Partner as a distribution in reduction of the GP Net Junior Term Loan Capital Contribution, and fifty percent (50%) as follows:

(A) until any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution has been paid in full, to the lender of the Equity Bridge Loan as payment of such Equity Bridge Loan; and then

(B) to the Investor Partner as a distribution in reduction of the IP Net Junior Term Loan Capital Contribution;

(vi) sixth, either:

(A) if the outstanding GP Junior Priority Return is greater than the outstanding IP Junior Priority Return, then until they are equal, one hundred percent (100%) to the General Partner as a distribution in reduction of the GP Junior Prior Return; or

(B) if the outstanding IP Junior Priority Return is greater than the outstanding GP Junior Priority Return, then until they are equal, one hundred percent (100%) to the Investor Partner as a distribution in reduction of the IP Junior Priority Return;

(vii) seventh, until each of the GP Junior Priority Return and the IP Junior Priority Return equals zero, fifty percent (50%) to the General Partner as a distribution in reduction of the GP Junior Priority Return and fifty percent (50%) to the Investor Partner as a distribution in reduction of the IP Junior Priority Return;

(viii) eighth, either:

(A) if the GP Net Optional Capital Contribution is greater than the IP Net Optional Capital Contribution, then until they are equal, one hundred percent (100%) to the General Partner as a distribution in reduction of the GP Net Optional Capital Contribution; or

(B) if the IP Net Optional Capital Contribution is greater than the GP Net Optional Capital Contribution, then until they are equal, one hundred percent (100%) to the Investor Partner as a distribution in reduction of the IP Net Optional Capital Contribution;

(ix) ninth, fifty percent (50%) to the General Partner as a distribution and fifty percent (50%) to the Investor Partner as a distribution until the IP Net Optional Capital Contribution and the GP Net Optional Capital Contribution each equal zero; and

(x) thereafter, to the Partners *pro rata* in accordance with their respective Sharing Percentages.

(b) In any year in which a Partner sells, assigns or transfers all or any portion of an Interest to any Person who during such year is admitted as a substitute Partner, the share of all profits and losses allocated to, and of all Net Cash Flow and of all cash proceeds distributable under Section 11.4 distributed to, all Partners which is attributable to the Interest sold, assigned or transferred shall be divided between the assignor and the assignee ratably on the basis of the number of monthly periods in such year before, and the number of monthly periods on and after, the first day of the month during which such Person is admitted as a substitute Partner.

(c) The Partnership shall not distribute Net Cash Flow until the first Payment Date following the earliest to occur of (i) the date of the Term Loan Closing, (ii) the sale of the Apartment Complex, and (iii) Notice from the Investor Partner directing that Net Cash Flow be

distributed. Thereafter, the Partnership shall distribute Net Cash Flow not less frequently than annually in the manner provided in Section 11.1(a).

(d) If there is a determination that there is any original issue discount or imputed interest attributable to the Capital Contribution of any Partner, or any loan between a Partner and the Partnership, any income or deduction of the Partnership attributable to such imputed interest or original issue discount on such Capital Contribution or loan (whether stated or unstated) shall be allocated solely to such Partner.

(e) If the deduction of all or a portion of any fee paid or incurred by the Partnership to a Partner or an Affiliate of a Partner is disallowed for federal income tax purposes by the Internal Revenue Service with respect to a taxable year of the Partnership, the Partnership shall then allocate to such Partner an amount of gross income of the Partnership for such year equal to the amount of such fee as to which the deduction is disallowed.

(f) If any Partner's Interest in the Partnership is reduced but not eliminated because of the admission of new Partners or otherwise, or if any Partner is treated as receiving any items of property described in Section 751(a) of the Code, the Partner's Interest in such items of Section 751(a) property that was property of the Partnership while such Person was a Partner shall not be reduced, but shall be retained by the Partner so long as the Partner has an Interest in the Partnership and so long as the Partnership has an Interest in such property.

(g) In accordance with Section 704(c) of the Code (relating to allocations with respect to appreciated contributed property) and the Regulations thereunder, income, gain, loss, and deduction with respect to any property contributed to the capital of the Partnership shall be allocated, solely for tax purposes, among the Partners so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its fair market value. Any elections or other decisions relating to such allocations shall be made by the General Partner in any manner that reasonably reflects the purpose and intention of this Agreement.

(h) The payment by the General Partner of Excess Development Costs (excluding only payments used to fund Operating Deficits) shall not be treated as an item of income or gain to the Partnership. If the General Partner funds any OD Capital Contributions to fund Operating Deficits, any deductions or losses of the Partnership attributable to the use of those funds shall be specially allocated to the General Partner, and in any year, if there is a repayment of all or part of such funds, the General Partner shall be allocated in such year an amount of gross income equal to the amount of such repayment. If the Investor Partner makes either IP Senior Term Loan Capital Contributions or IP Junior Term Loan Capital Contributions to fund interest on Equity Bridge Loans pursuant to Section 5.4(d), any deductions or losses of the Partnership attributable to the use of those funds shall be specially allocated to the Investor Partner.

(i) Any Partnership depreciation or other cost recovery deductions not otherwise allocated pursuant to Section 11.10(e) hereof shall be allocated among the Partners in accordance with their Percentage Interests.

(j) If Cost Savings exist on the earlier to occur of (i) the date of the Term Loan Closing, and (ii) the sale of the Apartment Complex, the Partnership shall use such savings for the following purposes: (A) first, to fund or reduce any Shortfall; and (B) second, to fund a special development fee to the General Partner (payable only if such Cost Savings are available, and, in all other instances, such fee shall not be payable) in the maximum amount of $200,000; and (C) finally, to fund a special distribution fifty percent (50%) to the General Partner and fifty percent (50%) to the Investor Partner. The Accountants shall determine Cost Savings on or about the date of the Term Loan Closing.

(k) Notwithstanding any other provision of this Agreement, if the Partnership has made or does make distributions of priority returns to the Partners under Sections 11.1(a)(ii), 11.1(a)(iii), 11.1(a)(vi), and 11.1(a)(vii) above, or 11.4(d), 11.4(e), 11.4(h) and 11.4(i) below, each Partner shall be allocated items of Partnership gross income and gain for such Fiscal Year (and, if necessary, for future years) until the cumulative total allocations under this Section 11.1(k) to each Partner equal the total amount of such distributions to such Partner.

11.2 Determination of Profits, Losses and Credits. Profits, losses and credits for all purposes of this Agreement shall be determined in accordance with the accrual accounting method, except that any adjustments made pursuant to Section 754 of the Code, other than the adjustments made with respect to the admission of the Investor Partner to the Partnership, shall not be taken into account. Every item of income, gain, loss, deduction, credit or tax preference entering into the computation of such profits or losses, or applicable to the period during which such profits and losses were realized, shall be considered allocated to each Partner in the same proportion as profits and losses are allocated to such Partner.

11.3 Allocation of Gains and Losses. Except to the extent provided in Sections 11.6 and 11.10 below, gains and losses recognized by the Partnership upon the sale, exchange or other disposition of all or substantially all of the property owned by the Partnership shall be allocated in the following manner:

(a) Gains shall be allocated (i) first, to the Partners with negative Adjusted Capital Account balances, that portion of gains (including any gains treated as ordinary income for federal income tax purposes) which is equal in amount to, and in proportion to, such Partners' respective negative Adjusted Capital Accounts in the Partnership; provided that no gain shall be allocated under this Section 11.3(a)(i) to a Partner once such Partner's Adjusted Capital Account balance is brought to zero and (ii) second, gains in excess of the amount allocated under (i) shall be allocated to the Partners in the amounts and to the extent necessary to increase the Partners' respective Adjusted Capital Accounts so that the proceeds distributed under Section 11.4 will be distributed in accordance with the Partners' respective Adjusted Capital Account balances.

(b) Losses shall be allocated (i) first, to the Partners in the amounts and to the extent necessary so that the proceeds distributed under Section 11.4 will be distributed in accordance with the Partners' respective Adjusted Capital Account balances, and (ii) second, any remaining loss to the Partners in accordance with the manner in which they bear the economic risk of loss associated with such loss or, if none, to the Partners in accordance with their Percentage Interests.

(c) Any portion of the gains treated as ordinary income for federal income tax purposes under Sections 1245 and 1250 of the Code shall be allocated on a dollar for dollar basis to those Partners to whom the items of Partnership deduction or loss giving rise to such gains had been previously allocated.

11.4 Distribution of Proceeds from Sale and Liquidation of Partnership Property. The proceeds resulting from the liquidation of the Partnership assets pursuant to Section 12.2, and the net proceeds resulting from any sale of the property of the Partnership or refinancing of the Project Loan or a Capital Transaction, as the case may be, shall be distributed and applied in the following order of priority:

(a) to the payment of all matured debts and liabilities of the Partnership (including amounts due pursuant to the Project Loan and all expenses of the Partnership incident to any such sale or refinancing), including any debt owed to the Investor Partner and its Affiliates;

(b) to the setting up of any reserves which the Liquidator (or the General Partner if the distribution is not pursuant to the liquidation of the Partnership) deems reasonably necessary for contingent, unmatured or unforeseen liabilities or obligations of the Partnership;

(c) (A) until any Equity Bridge Loan which was funded in place of an IP Senior Term Loan Capital Contribution has been paid in full, to the lender of the Equity Bridge Loan as payment of such Equity Bridge Loan; and then

(B) to the Investor Partner as a distribution, until the IP Net Senior Term Loan Capital Contribution equals zero;

(d) until the accrued by unpaid IP Senior Priority Return has been paid in full, one hundred percent (100%) to the Investor Partner as a distribution in payment of the IP Senior Priority Return;

(e) until the accrued by unpaid IP OCC Priority Return has been paid in full, one hundred percent (100%) to the Investor Partner as a distribution;

(f) (A) if the GP Net Junior Term Loan Capital Contribution is greater than the sum of (1) the outstanding principal balance of any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution, plus (2) the IP Net Junior Term Loan Capital Contribution; then such

amounts are equal, one hundred percent (100%) to the General Partner as a distribution in reduction of the GP Net Junior Term Loan Capital Contribution; or

(B) if the sum of (1) the outstanding principal balance of any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution, plus (2) the IP Net Junior Term Loan Capital Contribution, is greater than the GP Net Junior Term Loan Capital Contribution, then until such amounts are equal:

(I) until any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution has been paid in full, to the lender of the Equity Bridge Loan as payment of such Equity Bridge Loan; and then

(II) to the Investor Partner as a distribution in reduction of the IP Net Junior Term Loan Capital Contribution;

(g) until any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution has been paid in full and each of the GP Net Junior Term Loan Capital Contribution and the IP Net Junior Term Loan Capital Contribution equals zero, fifty percent (50%) to the General Partner as a distribution in reduction of the GP Net Junior Term Loan Capital Contribution, and fifty percent (50%) as follows:

(A) until any Equity Bridge Loan which was funded in place of an IP Junior Term Loan Capital Contribution has been paid in full, to the lender of the Equity Bridge Loan as payment of such Equity Bridge Loan; and then

(B) to the Investor Partner as a distribution in reduction of the IP Net Junior Term Loan Capital Contribution;

(h) (A) if the outstanding GP Junior Priority Return is greater than the outstanding IP Junior Priority Return, then until they are equal, one hundred percent (100%) to the General Partner as a distribution in reduction of the GP Junior Priority Return; or

(B) if the outstanding IP Junior Priority Return is greater than the outstanding GP Junior Priority Return, then until they are equal, one hundred percent (100%) to the Investor Partner as a distribution in reduction of the IP Junior Priority Return;

(i) until each of the GP Junior Priority Return and the IP Junior Priority equals zero, fifty percent (50%) to the General Partner as a distribution in reduction of the GP Junior Priority Return, and fifty percent (50%) to the Investor Partner as a distribution in reduction of the IP Junior Priority Return;

(j) (A) if the GP Net Optional Capital Contribution is greater than the IP Net Optional Capital Contribution, then until they are equal, one hundred percent (100%) to the General Partner as a distribution in reduction of the GP Net Optional Capital Contribution; or

(B) if the IP Net Optional Capital Contribution is greater than the GP Net Optional Capital Contribution, then until they are equal, one hundred percent (100%) to the Investor Partner as a distribution in reduction of the IP Net Optional Capital Contribution;

(k) fifty percent (50%) to the General Partner as a distribution and fifty percent (50%) to the Investor Partner as a distribution until the IP Net Optional Capital Contribution and the GP Net Optional Capital Contribution each equal zero; and

(l) thereafter, to the Partners *pro rata* in accordance with their respective Sharing Percentages.

11.5 Capital Accounts. A separate Capital Account shall be maintained and adjusted for each Partner. There shall be credited to each Partner's Capital Account the amount of its Capital Contribution, the fair market value of any property contributed to the Partnership (net of any liabilities secured by such property) and such Partner's distributive share of the profits for tax purposes of the Partnership; and there shall be charged against each Partner's Capital Account the amount of all cash flow distributed to such Partner, the fair market value of any property distributed to such Partner (net of any liabilities secured by such property), the net proceeds resulting from the liquidation of the Partnership's assets or from any sale or refinancing of the Apartment Complex distributed to such Partner, and such Partner's distributive share of the losses for tax purposes of the Partnership. Each Partner's Capital Account shall be maintained and adjusted in accordance with the Code and the Treasury Regulations thereunder. The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Treas. Reg. §1.704-1(b), and shall be interpreted and applied in a manner consistent with such regulations. It is the intention of the Partners that the Capital Accounts maintained under this Agreement be determined and maintained throughout the full term of this Agreement in accordance with the accounting rules of Treas. Reg. §1.704-1(b)(2)(iv).

If the Partnership is liquidated within the meaning of Treasury Reg. Section 1.704-1(b)(2)(ii)(g), if the General Partner's Capital Account has a deficit balance (after giving effect to all contributions, distributions and allocations), the General Partner shall make Capital Contributions in the amount of such deficit in compliance with Regulations

Section 1.704-1(b)(2)(ii)(b)(3). Notwithstanding the foregoing, if the Partnership is liquidated within the meaning of Treas. Reg. §1.704-1(b)(2)(ii)(g) but no event has occurred under Section 12.1 to dissolve the Partnership, the Partnership assets shall not be liquidated, the Partnership's liabilities shall not be paid or discharged, and the Partnership's affairs shall not be wound up. Instead, the Partnership shall be deemed to have distributed its assets in-kind to the Partners who shall be deemed to have assumed and taken subject to all Partnership liabilities, all in accordance with their respective Capital Accounts. Immediately thereafter, the Partners shall be deemed to have recontributed the assets in-kind to the Partnership, which shall be deemed to have assumed and taken subject to all such liabilities.

11.6 Authority of the General Partner to Vary Allocations to Preserve and Protect Partners' Intent.

(a) It is the intent of the Partners that each Partner's distributive share of income, gain, loss, deduction, or credit (or item thereof) shall be determined and allocated in accordance with this Article 11 and Section 5.1 to the fullest extent permitted by Section 704(b) of the Code. In order to preserve and protect the determinations and allocations provided for in this Article 11 and Section 5.1, the General Partner hereby is authorized and directed to allocate income, gain, loss, deduction, or credit (or item thereof) arising in any year differently than otherwise provided for in this Article 11 and Section 5.1 to the extent that allocating income, gain, loss, deduction or credit (or item thereof) in the manner provided for in Article 11 and Section 5.1 would cause the determinations and allocations of each Partner's distributive share of income, gain, loss, deduction, or credit (or item thereof) not to be permitted by Section 704(b) of the Code and Treasury Regulations promulgated thereunder. Any allocation made pursuant to this Section 11.6 shall be deemed to be a complete substitute for any allocation otherwise provided for in this Article 11 and Section 5.1 and no amendment of this Agreement or approval of any Partner shall be required.

(b) In making any allocation (the "new allocation") under Section 11.6(a), the General Partner is authorized to act only after having been advised by the Accountants that, under Section 704(b) of the Code and the Treasury Regulations thereunder, (i) the new allocation is necessary and (ii) the new allocation is the minimum modification of the allocations otherwise provided for in this Article 11 and Section 5.1 necessary in order to assure that, either in the then current year or in any preceding year, each Partner's distributive share of income, gain, loss, deduction, or credit (or item thereof) is determined and allocated in accordance with this Article 11 and Section 5.1 to the fullest extent permitted by Section 704(b) of the Code and the Treasury Regulations thereunder.

(c) If the General Partner is required by Section 11.6(a) to make any new allocation in a manner less favorable to the Limited Partners than is otherwise provided for in this Article 11 and Section 5.1, then the General Partner is authorized and directed, only after having been advised by the Accountants that it is permitted by Section 704(b) of the Code, to allocate income, gain, loss, deduction, or credit (or item thereof) arising in later years in such manner so as to bring the allocations of income, gain, loss, deduction, or credit (or item thereof) to the Limited

Partners as nearly as possible to the allocations thereof otherwise contemplated by this Article 11 and Section 5.1.

(d) New allocations made by the General Partner under Section 11.6(a) and Section 11.6(c) in reliance upon the advice of the Accountants shall be deemed to be made pursuant to the fiduciary obligation of the General Partner to the Partnership and the Limited Partners, and no such allocation shall give rise to any claim or cause of action by the Limited Partner.

11.7 Designation of Tax Matters Partner. The General Partner hereby is designated as Tax Matters Partner of the Partnership, and shall engage in such undertakings as are required of the Tax Matters Partner of the Partnership, as provided in regulations pursuant to Section 6231 of the Code; provided, however that if the Investor Partner exercises its right to cause the admission of an Additional General Partner, upon written notice to the Partnership and each Partner from the Investor Partner, the Additional General Partner shall be the successor Tax Matters Partner, and the General Partner shall take all actions necessary to cause the Additional General Partner to be designated as such. Each Partner, by its execution of this Agreement, Consents to such designation of the Tax Matters Partner and agrees to execute, certify, acknowledge, deliver, swear to, file and record at the appropriate public offices such documents as may be necessary or appropriate to evidence such Consent.

11.8 Authority of Tax Matters Partner. The Tax Matters Partner is hereby authorized, but not required:

(a) to enter into any settlement with the Internal Revenue Service or the Secretary with respect to any tax audit or judicial review, in which agreement the Tax Matters Partner may expressly state that such agreement shall bind the other Partners, except that such settlement agreement shall not bind any Partner who (within the time prescribed pursuant to the Code and regulations thereunder) files a statement with the Secretary providing that the Tax Matters Partner shall not have the authority to enter into a settlement agreement on behalf of such Partner;

(b) if a notice of a final administrative adjustment at the Partnership level of any item required to be taken into account by a Partner for tax purposes (a "final adjustment") is mailed to the Tax Matters Partner, to seek judicial review of such final adjustment, including the filing of a petition for readjustment with the Tax Court, the District Court of the United States for the district in which the Partnership's principal place of business is located, or the United States Claims Court;

(c) to intervene in any action brought by any other Partner for judicial review of a final adjustment;

(d) to file a request for an administrative adjustment with the Internal Revenue Service at any time and, if any part of such request is not allowed by the Internal Revenue Service, to file a petition for judicial review with respect to such request;

(e) to enter into an agreement with the Internal Revenue Service to extend the period for assessing any tax which is attributable to any item required to be taken into account by a Partner for tax purposes, or an item affected by such item; and

(f) to take any other action on behalf of the Partners or the Partnership in connection with any administrative or judicial tax proceeding to the extent permitted by applicable law or regulations.

11.9 Expenses of Tax Matters Partner. The Partnership shall indemnify and reimburse the Tax Matters Partner for all expenses, including legal and accounting fees, claims, liabilities, losses and damages incurred in connection with any administrative or judicial proceeding with respect to the tax liability of the Partners. The payment of all such expenses shall be made before any distributions are made from Net Cash Flow or any discretionary reserves are set aside by the General Partner. The General Partner shall have the obligation to provide funds for such purpose to the extent that Partnership funds are not otherwise available therefor. The taking of any action and the incurring of any expense by the Tax Matters Partner in connection with any such proceeding, except to the extent required by law, is a matter in the sole discretion of the Tax Matters Partner and the provisions on limitations of liability of the General Partner and indemnification set forth in Section 8.7 of this Agreement shall be fully applicable to the Tax Matters Partner in its capacity as such.

11.10 Minimum Gain Provisions.

(a) Notwithstanding any other provision of this Agreement, no allocation of loss or deduction (or item thereof) shall be made by the Partnership to a Partner if such allocation would cause the sum of the deficit Capital Account balances of the Partner or Partners otherwise receiving such allocation (excluding the portion of such deficit balances that must be restored (or which the Partner is deemed to have to restore) to the Partnership under this Agreement, if any) to exceed the Partner's share of "Partnership Minimum Gain" (as defined in Treas. Reg. §1.704-2(b)(2) and §1.704-2(d), and "Partner Nonrecourse Debt Minimum Gain" (as defined in Treas. Reg. §1.704-2(i)(2), both determined at the end of the Partnership taxable year to which the allocation relates. Any allocations in excess of the limitation contained in this Section 11.10(a) shall be allocated to the General Partner.

(b) Notwithstanding any other provision of this Agreement, if there is a net decrease in Partnership Minimum Gain or in Partner Nonrecourse Debt Minimum Gain during a Partnership taxable year, items of income and gain for such year (and if necessary, for future years) shall be allocated to each Partner in an amount equal to the Partner's share of the net decrease in Partnership Minimum Gain or Partner Nonrecourse Debt Minimum Gain, as applicable.

(c) If any Partner unexpectedly receives any adjustments, allocations or distributions described in Treas. Reg. §1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Partnership income and gain shall be specially allocated to each such Partner in an amount and manner sufficient to

eliminate (to the extent required by the Regulations under Code Section 704(b)) the deficit balance in each such Partner's Capital Account as quickly as possible, provided that an allocation pursuant to this Section 11.10(c) shall be made if and only to the extent that such Partner would have a deficit Capital Account after all other allocations provided for in this Article 11 have been tentatively made as if this Section 11.10(c) were not in the Agreement.

(d) If any Partner has a deficit Capital Account at the end of any fiscal year in excess of the sum of (i) the amount that such Partner must restore to the Partnership upon liquidation, if any, and (ii) the amount such Partner is deemed obligated to restore pursuant to the penultimate sentence of Treas. Reg. §1.704-2(g) and §1.704-2(i)(5), such Partner shall be specially allocated items of Partnership income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 11.10(d) shall be made if and only to the extent that such Partner would have a deficit Capital Account in excess of such sum after all other allocations provided for in this Article 11 have been tentatively made as if this Section 11.10(d) and Section 11.10(c) hereof were not in the Agreement.

(e) "Nonrecourse deductions" (within the meaning of Treas. Reg. §1.704-2(b)(1)) shall be allocated to the Partners in accordance with their Percentage Interests. "Partner nonrecourse deductions" (within the meaning of Treas. Reg. § 1.704-(2)(c)) shall be allocated to the Partner who bears the economic risk of loss associated with such deductions, in accordance with Treas. Reg. §1.704-2(i).

(f) If income, loss or items thereof are allocated to one or more Partners pursuant to the last sentence of Section 11.10(a) or Sections 11.10(b), (c), (d) or (e), subsequent income, loss or items thereof shall be allocated (subject to the provisions of Sections 11.10(a), (b), (c), (d) or (e)) to the Partners so that, to the extent possible in the judgment of the General Partner, the net amount of allocations shall be equal to the amount that would have been allocated had Sections 11.10(a), (b), (c), (d) and (e) not been applied. In making such judgment, the General Partner shall be permitted to take into account that allocations made pursuant to Section 11.10(e) are likely to be offset by allocations to be made pursuant to Section 11.10(b).

ARTICLE 12.
SALE, DISSOLUTION AND LIQUIDATION

12.1 Dissolution of the Partnership. The Partnership shall be dissolved upon the earlier of the expiration of the term of the Partnership, or upon:

(a) the withdrawal, Bankruptcy, death, dissolution or adjudication of incompetency of the General Partner who is at that time the sole General Partner, subject to the provisions of Section 6.3, unless a majority in Interest of the other Partners, within ninety (90) days after receiving Notice of such withdrawal, Bankruptcy, death, dissolution or adjudication of incompetence, elects to designate a successor General Partner(s) and continue the Partnership upon the admission of such successor General Partner(s) to the Partnership;

(b) the sale or other disposition of all or substantially all of the assets of the Partnership;

(c) the election by the General Partner, with the Consent of a majority in interest of the other Partners; or

(d) any other event causing the dissolution of the Partnership under the laws of the State.

12.2 Winding Up and Distribution.

(a) Upon the dissolution of the Partnership pursuant to Section 12.1, (i) a Certificate of Cancellation shall be filed in such offices within the State as may be required or appropriate, and (ii) the Partnership business shall be wound up and its assets liquidated as provided in this Section 12.2 and the net proceeds of such liquidation, except as provided in Section 12.2(b) below, shall be distributed in accordance with Section 11.4.

(b) It is the intent of the Partners that, upon liquidation of the Partnership, any liquidation proceeds available for distribution to the Partners to be distributed in accordance with the Partners' respective Capital Account balances, and the Partners believe that distributions under Section 11.4 will effect such intent. In any event, the proceeds of a liquidation shall be distributed in accordance with Section 11.4.

(c) The Liquidator shall file all certificates and notices of the dissolution of the Partnership required by law. The Liquidator shall proceed without any unnecessary delay to sell and otherwise liquidate the Partnership's property and assets; provided, however, that if the Liquidator shall determine that an immediate sale of part or all of the Partnership property would cause undue loss to the Partners, then in order to avoid such loss, the Liquidator may, except to the extent provided by the Act, defer the liquidation as may be necessary to satisfy the debts and liabilities of the Partnership to Persons other than the Partners. Upon the complete liquidation and distribution of the Partnership assets, the Partners shall cease to be Partners of the Partnership, and the Liquidator shall execute, acknowledge and cause to be filed all certificates and notices required by the law to terminate the Partnership.

(d) Upon the dissolution of the Partnership pursuant to Section 12.1, the Accountants shall promptly prepare, and the Liquidator shall furnish to each Partner, a statement setting forth the assets and liabilities of the Partnership upon its dissolution. Promptly following the complete liquidation and distribution of the Partnership property and assets, the Accountants shall prepare, and the Liquidator shall furnish to each Partner, a statement showing the manner in which the Partnership assets were liquidated and distributed.

ARTICLE 13.
BOOKS AND RECORDS, ACCOUNTING, TAX ELECTIONS, ETC.

13.1 Books and Records. The books and records of the Partnership shall be maintained on an accrual basis in accordance with sound federal income tax accounting principles. These and all other records of the Partnership, including information relating to the status of the Apartment Complex and information with respect to the sale by the General Partner or any Affiliate of goods or services to the Partnership, shall be kept at the principal office of the Partnership and shall be available for examination there by any Partner, or its duly authorized representative, at any and all reasonable times. Any Partner, or its duly authorized representative, upon paying the costs of collection, duplication and mailing, shall be entitled to a copy of the list of names and addresses of all Partners.

13.2 Bank Accounts. All funds of the Partnership not otherwise invested shall be deposited in one or more accounts maintained in such banking institutions as the General Partner shall determine, and withdrawals shall be made only in the regular course of Partnership business on such signature or signatures as the General Partner may, from time to time, determine. No funds of the Partnership shall be deposited in any financial institution in which any Partner is an officer, director or holder of any proprietary interest.

13.3 Accountants. The Accountants shall annually prepare for execution by the General Partner all tax returns of the Partnership, shall annually audit the books of the Partnership, and shall certify, in accordance with generally accepted accounting principles, a balance sheet, a profit and loss statement, and a cash flow statement. With respect to each fiscal year during the Partnership's operations, at such time as the Accountants shall have prepared the proposed tax return for such year, the Accountants shall provide copies of such proposed tax return to the Investor Partner for its review and comment. Any changes in such proposed tax return recommended by the Investor Partner's accountants shall be made by the Accountants prior to the completion of such tax return for execution by the General Partner. The Partnership shall reimburse the Investor Partner for its expenses incurred in causing the Partnership's proposed tax return to be reviewed by the Investor Partner's accountants. A full detailed statement shall be furnished to all Partners showing such assets, properties, and net worth and the profits and losses of the Partnership for the preceding fiscal year. All Partners shall have the right and power to examine and copy, at any and all reasonable times, the books, records and accounts of the Partnership.

13.4 Reports to Partners.

(a) The General Partner shall cause to be prepared and distributed to all Persons who were Partners at any time during a fiscal year of the Partnership:

(i) within seventy-five (75) days after the close of each fiscal year of the Partnership, audited financial statements prepared by KPMG Peat Marwick (or other independent accountants approved by the Limited Partner) in accordance with generally accepted accounting

principles, and such financial information with respect to each fiscal year of the Partnership as shall be reportable for federal and state income tax purposes.

(ii) within thirty-five (35) days after the end of each month, a report of operations for such month containing:

(A) a balance sheet, which may be unaudited; and

(B) a statement of income and expense and a cash flow statement for the month and the period then ended, which may be unaudited; and

(C) other pertinent information regarding the Partnership and its activities during the period covered by the report.

(b) Within seventy-five (75) days after the end of each fiscal year of the Partnership, the General Partner shall provide to the Investor Partner:

(i) A certification by the General Partner that (A) all Project Loan payments and taxes and insurance payments with respect to the Apartment Complex are current as of the date of the year-end report, (B) there is no material default under the Project Documents or this Agreement, or if there is any material default, a description thereof, and (C) it has not received notice of any building, health or fire code violation or similar violation of a governmental law, ordinance or regulation against the Apartment Complex or, if any such notice of any violation has been received, a description thereof;

(ii) the information specified in Section 13.4(c);

(iii) a descriptive statement of all transactions during the fiscal year between the Partnership and the General Partner and/or any Affiliate, including the nature of the transaction and the payments involved (including accrued cash or other payments); and

(iv) a Cash Flow and Net Cash Flow statement.

(c) Upon the written request of the Investor Partner for further information with respect to any matter covered in items (a) or (b) above, the General Partner shall furnish such information within 30 days of receipt of such request.

(d) The General Partner, on behalf of the Partnership, shall send to the Investor Partner, on or before July 31 in each year, a report which shall state:

(i) the then occupancy level of the Apartment Complex;

(ii) if there are any Operating Deficits or anticipated Operating Deficits, the manner in which such Deficits will be funded; and

(iii) such other matters as shall be material to the operation of the Partnership, including, without limitation, any building, health or fire code violation or similar violation of a governmental law, ordinance or regulation by the Apartment Complex of which the General Partner is aware.

(e) Within fifteen (15) days after the end of any calendar quarter during which:

(i) there is a material default by the Partnership under the Project Documents or in payment of any mortgage, taxes, interest or other obligation on secured or unsecured debt;

(ii) any reserve has been reduced or terminated by application of funds therein for purposes materially different from those for which such reserve was established;

(iii) the General Partner has received any notice of a material fact which may substantially affect further distributions; or

(iv) any Partner has pledged or collateralized its Interest in the Partnership.

The General Partner shall send the Investor Partner a detailed report of such event.

(f) After the date of Final Completion, the General Partner, on behalf of the Partnership, shall send to the Investor Partner, a copy of all applicable periodic reports covering the status of the Apartment Complex as may be required by the Construction Lender or Term Lender, within ten (10) days of submission of such reports to the Construction Lender or Term Lender.

(g) (i) If the reports or information provided for in Sections 13.4(a) and/or (b) above are, at any time, not provided within the time frames set forth therein and if the General Partner fails to cause such reports or information to be provided within 10 days of notice from the Investor Partner requesting such reports, the General Partner shall be obligated to pay to the Investor Partner the sum of $250.00 per day, as liquidated damages, for each day from the date upon which such reports or information is (are) due pursuant to the provisions of the aforesaid Sections until the date upon which such reports or information is (are) provided; however, that any delays beyond the aforesaid dates in the provision of the applicable reports or information due to factors beyond the control of the General Partner and the Accountants may be a cause for waiver of the aforesaid liquidated damages, but only if the delayed reports or information were supplied by the applicable aforesaid date in a draft or estimated form.

(ii) If the reporting requirements set forth in any of the above provisions of this Section 13.4 are not met, the Investor Partner, in its reasonable discretion, may direct the

General Partner to dismiss the Accountants, and to designate successor Accountants, subject to the approval of the Investor Partner; provided, however, that if the General Partner and the Investor Partner cannot agree on the designation of successor Accountants, the successor Accountants shall be designated by the Investor Partner in its sole reasonable discretion, and the fees of such successor Accountants shall be paid by the Partnership.

13.5 Section 754 Elections. In the event of a transfer of all or any part of the Interest of a General Partner or of a Limited Partner, the Partnership may elect, pursuant to Sections 743 and 754 of the Code (or any corresponding provision of succeeding law), to adjust the basis of the Partnership property if, in the opinion of the Investor Partner, based upon the advice of the Accountants, such election would be most advantageous to the Investor Partner. Each Partner agrees to furnish the Partnership with all information necessary to give effect to such election.

13.6 Fiscal Year and Accounting Method. The fiscal year of the Partnership shall be the fiscal year of the Investor Partner, which ends on December 31. All Partnership accounts shall be determined on the accrual basis.

ARTICLE 14.
AMENDMENTS

14.1 Proposal and Adoption of Amendments. This Agreement may be amended only by a written amendment executed by the General Partner and the Investor Partner. The General Partner agrees to execute amendments proposed by the Investor Partner which (a) do not affect the obligations of the General Partner under this Agreement, (b) increases or imposes upon the Investor Partner the obligation to restore a deficit balance in its Capital Account, or (c) prospectively decreases the obligation of the Investor Partner to restore a deficit balance in its Capital Account in a subsequent fiscal year of the Partnership. The General Partner agrees to cooperate and to act promptly with respect to amendments proposed by the Investor Partner.

ARTICLE 15.
CONSENTS, VOTING AND MEETINGS

15.1 Method of Giving Consent. Any Consent required by this Agreement may be given by a written Consent given by the consenting Partner and received by the General Partner at or prior to the doing of the act or thing for which the Consent is solicited.

15.2 Submissions to Limited Partners. The General Partner shall give the Limited Partners Notice of any proposal or other matter required by any provision of this Agreement or by law to be submitted for consideration and approval of the Limited Partners. Such Notice shall include any information required by the relevant provision or by law.

15.3 Meetings; Submission of Matter for Voting. Subject to the provisions of Section 10.1, a majority in Interest of the Limited Partners shall have the authority to convene meetings of the Partnership and to submit matters to a vote of the Partners.

ARTICLE 16.
GENERAL PROVISIONS

16.1 Burden and Benefit. The covenants and agreements contained herein shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors and assigns of the respective parties hereto.

16.2 Applicable Law. This Agreement shall be construed and enforced in accordance with the laws of the State.

16.3 Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original copy and all of which together shall constitute one agreement binding on all parties hereto, notwithstanding that all the parties shall not have signed the same counterpart.

16.4 Separability of Provisions. Each provision of this Agreement shall be considered separable, and if for any reason any provision which is not essential to the effectuation of the basic purposes of this Agreement is determined to be invalid and contrary to any existing or future law, such invalidity shall not impair the operation of or affect those provisions of this Agreement which are valid.

16.5 Entire Agreement. This Agreement sets forth all (and is intended by all parties to be an integration of all) of the representations, promises, agreements and understandings among the parties hereto with respect to the Partnership, the Partnership business and the property of the Partnership, and there are no representations, promises, agreements or understandings, oral or written, express or implied, among them other than as set forth or incorporated herein.

16.6 Liability of the Investor Partner. Notwithstanding anything to the contrary contained herein, neither the Investor Partner nor any of its partners, general or limited, shall have any personal liability to any of the parties to this Agreement with regard to the representations and covenants extended, or the obligations undertaken, by the Investor Partner under this Agreement. If the Investor Partner shall be in default under any of the terms of this Agreement, the sole recourse of any party hereto for any indebtedness due hereunder, or for any damages resulting from any such default by the Investor Partner, shall be against the Interest of the Investor Partner and the capital contributions of the investor limited partners of the Investor Partner (either directly or through another Investor Partner) allocated to, and remaining for investment in, the Partnership; provided, however, that under no circumstances shall the liability of the Investor Partner for any such default be in excess of the amount of Capital Contribution payable by the Investor Partner to the Partnership,

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this ___ day of December, 1999, by John J. Murphy, Jr., President of Freeport Partners, Inc., a Florida corporation, on behalf of said corporation.

WITNESS my hand and official seal.

[SEAL]

_____
Notary Public

My Commission expires: _____

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

Before me, the undersigned Notary Public in and for the aforesaid County and State, personally appeared Michael L. Fowler, in his capacity as Vice President of SunAmerica Inc., as General Partner of SunAmerica Housing Fund 797, A Nevada Limited Partnership, as Limited Partner of Kernan Associates, Ltd., a Florida limited partnership, and being duly sworn, acknowledged the execution of the foregoing instrument.

Witness my hand and notarial seal this 22ND day of December, 1999.

[SEAL]

Lynn R Joshua
Notary Public

My Commission expires: _____

LYNN R. JOSHUA
Commission # 1141088
Notary Public - California
Los Angeles County
My Comm. Expires Jun 23, 2001

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TABLE OF EXHIBITS

EXHIBIT A

DEVELOPMENT AGREEMENT

DEVELOPMENT AGREEMENT

THIS AGREEMENT is made and entered into as of November 30, 1999, between KERNAN ASSOCIATES, LTD., a Florida limited partnership (the "Partnership"), and FREEPORT PARTNERS, INC., a Florida corporation (referred to herein as the "Developer").

WHEREAS, the Partnership is governed by its Second Amended and Restated Agreement of Limited Partnership dated as of November 30, 1999 (the "Partnership Agreement") (capitalized terms herewith shall have the definitions given them in the Partnership Agreement); and

WHEREAS, the Partnership has been formed to develop, construct, own, maintain and operate a 240-unit multifamily apartment complex, to be known as St. Johns Estates Apartments located in Jacksonville, Duval County, Florida (the "Apartment Complex"); and

WHEREAS, the Developer and SunAmerica Housing Fund 797, A Nevada Limited Partnership (the "Investor Partner") are the sole Partners in the Partnership; and

WHEREAS, the Partnership desires to appoint the Developer to provide certain services for the Partnership with respect to overseeing the development of the Apartment Complex until all development work is completed; and

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises of the parties hereto and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

1. Appointment. The Partnership hereby appoints the Developer to render services for the Partnership, and confirms and ratifies the appointment of the Developer with respect to services rendered for the Partnership to date, in supervising and overseeing the development of the Apartment Complex as herein contemplated.

2. Authority. In conformity with the provisions of the Partnership Agreement, the Developer shall have, and has had, the authority and the obligation to:

(a) select the architect ("Architect"), coordinate the preparation of the plans and specifications (the "Plans and Specs") and recommend alternative solutions whenever design details affect construction feasibility or schedules;

(b) insure that the Plans and Specs are in compliance with all applicable codes, laws, ordinances, rules and regulations;

(c) negotiate all necessary contracts and subcontracts, including the Construction Contract, for the construction of the Apartment Complex;

(d) choose the products and materials necessary to equip the Apartment Complex in a manner which satisfies all requirements of the Loan and the Plans and Specs;

(e) monitor disbursement and payment of amounts owed Architects, the Contractor and other vendors;

(f) cause the Apartment Complex to be constructed free and clear of all mechanics' and materialmen's liens other than those in the ordinary course of business which are timely discharged;

(g) obtain an Architect's certificate that the work on the Apartment Complex is substantially complete;

(h) secure all building code approvals and obtain certificates of occupancy for all of the Residential Units of the Apartment Complex;

(i) cause the Apartment Complex to be completed in a prompt and expeditious manner, consistent with good workmanship, and in compliance with the following:

(i) the Plans and Specs as they may be amended by the agreement of the parties hereto and with the consent of the mortgagee under the Loan; and

(ii) any and all zoning regulations, county ordinances, including health, fire and safety regulations, and any other requirements of federal, state and local laws, rules, regulations and ordinances applicable to construction of the Apartment Complex;

(j) cause to be performed in a diligent and efficient manner the following:

(i) construction of the Apartment Complex pursuant to the Plans and Specs, including any required off-site work; and

(ii) general administration and supervision of construction of the Apartment Complex, including but not limited to activities of the Contractor and their employees and agents, and others employed as to the Apartment Complex in a manner which complies in all material respects with the Loan and the Plans and Specs;

(k) keep, or cause to be kept, accounts and cost records as to the construction of the Development;

(l) maintain, or cause to be maintained, at its expense, all office and accounting facilities and equipment necessary to adequately perform the foregoing functions;

(m) make available to the Partnership, during normal business hours and upon the Partnership's written request, copies of all material contracts and subcontracts;

(n) deliver to the Partnership a dimensioned as-built survey of the real property (locating only buildings) and as-built drawings of the Apartment Complex construction;

(o) provide and periodically update an Apartment Complex construction time schedule;

(p) investigate and recommend a schedule for purchase by the Partnership of all materials and equipment requiring long lead time procurement, and expedite and coordinate delivery of such purchases;

(q) prepare pre-qualification criteria for bidders interested in the Apartment Complex, establish bidding schedules and conduct pre-bid conferences to familiarize bidders with the bidding documents and management techniques with any special systems, materials or methods;

(r) receive bids, prepare bid analyses and make recommendations to the Partnership for award of contracts or rejection of bids;

(s) coordinate the work of Contractor to complete the Apartment Complex in accordance with the objectives as to cost, time and quality, and provide sufficient personnel at the Apartment Complex with authority to achieve such objectives;

(t) provide a detailed schedule of realistic activity sequences and durations, allocation of labor and materials and processing of shop drawings and samples;

(u) provide regular monitoring of the schedule as construction progresses, identify potential variances between scheduled and probable completion dates, review the schedule for work not started or incomplete, recommend to the Partnership adjustments in the schedule to meet the probable completion date, provide summary reports of such monitoring, and document all changes in the schedule;

(v) recommend courses of action to the Partnership when requirements of the Construction Contract are not being fulfilled;

(w) revise and refine the approved estimate of construction cost, incorporate changes as they occur, and develop cash flow reports and forecasts as needed;

(x) provide regular monitoring of the approved estimate of construction cost, show actual costs for activities in process and estimates for uncompleted tasks, identify variances between actual and budgeted or estimated costs and advise the Partnership whenever projected Costs exceed budgets or estimates;

(y) develop and implement a system for review and processing of change orders as to construction of the Apartment Complex;

(z) develop and implement a procedure for the review and processing of applications for progress and final payments;

(aa) in collaboration with Architect, establish and implement procedures for expediting the processing and approval of shop drawings and samples; and

(bb) record the progress of the Apartment Complex and submit written progress reports to the Partnership, including the percentage of completion and the number and amounts of change orders.

3. Development Fee. For services performed and to be performed under Sections 1 and 2 of this Agreement, the Partnership shall pay the Developer a Development Fee as its sole compensation for the performance of its services under and in connection with this Agreement in the amount of One Million and No/100 Dollars ($1,000,000.00) subject to reduction pursuant to Section 8.12(f)(iii)(A) of the Partnership Agreement. Subject to the terms of the Partnership Agreement, the Partnership shall pay the Development Fee as follows: (i) prior to closing of the Construction Loan with SouthTrust Bank and the funding of the initial draw thereunder no payment of the Development Fee shall be permitted; (ii) after closing of the Construction Loan with SouthTrust Bank and funding of the initial draw thereunder, $300,000.00 of the Development Fee shall be paid in twelve (12) equal monthly draws commencing in the month following the Initial Closing; and (iii) the balance ($700,000.00) shall be paid upon the earliest to occur of (A) the date of the Term Loan Closing, and (B) the sale of the Apartment Complex; provided, however, that the payment due pursuant to Section 3(iii) hereof shall be reduced, but not below zero, as specified in Section 8.12(f)(iii)(A) of the Partnership Agreement.

4. Withholding of Fee Payments. If (a) the Developer, or any successor Developer, shall not have substantially complied with any material provisions under this Agreement and the Partnership Agreement, or (b) any financing commitment of the Lender, or any other lender, or any agreement entered into by the Partnership for financing related to the Apartment Complex shall have terminated prior to its respective termination date(s), or (iii) foreclosure proceedings shall have been commenced against the Apartment Complex, then the Developer shall be in default of this Agreement, and the Partnership shall withhold payment of any installment of the fee payable to the Developer pursuant to Section 3 of this Agreement and Section 8.9 of the Partnership Agreement. All amounts so withheld by the Partnership under this Section 4 or Section 8.12 of the Partnership Agreement shall be promptly released to the Developer only after the Developer has cured the default justifying the withholding, as demonstrated by evidence reasonably acceptable to the Investor Partner.

5. Assignment of Fees. The Developer shall not assign, pledge or otherwise encumber, for security or otherwise, the Development Fee set forth above to be made by the Partnership, or any

portion(s) thereof or any right(s) of the Developer thereto, without the Consent of the Investor Partner. The Investor Partner expressly Consents to the Pledge of the Development Fee by the Developer to the Investor Partner.

6. Construction Warranty.

(a) The Developer hereby warrants to the Partnership and to the Investor Partner that the materials and equipment furnished in accordance with this Agreement will be of good quality, that the work will be free from defects, and that the work will conform with the requirements of the Plans and Specifications. Work not conforming to these requirements, including substitutions not properly approved and authorized, may be considered defective. If requested by the Investor Partner or the Project Lenders, the Developer shall furnish satisfactory evidence as to the kind and quality of materials and equipment used in the construction of the Apartment Complex.

(b) If, within one (1) year after Final Completion, any of the structural or non-structural work performed to construct the Apartment Complex is found to be materially defective or not in accordance in all materials respects with the Plans and Specifications and with all applicable building codes, laws, rules and regulations, the Developer shall correct or cause the Contractor to correct such defect(s) promptly after receipt of written notice from the Partnership or the Investor Partner to do so. With respect to portions of the work first performed after Final Completion, such one (1) year period shall be extended by the period of time between the date of Final Completion and the actual performance of the work. The obligation under this Section shall survive acceptance of the work performed to construct the Apartment Complex. The Partnership or the Investor Partner shall give such notice promptly after discovery of the condition. If a material defect is discovered more than one (1) year after the date of Final Completion, as such period may be extended under this Section, and such defect was known to the Developer or an Affiliate of the Developer and was not disclosed to the Partnership and the Investor Partner or was intentionally concealed by the Developer or such Affiliate, then the Developer shall promptly take such action as may be necessary, at the Developer's sole expense, to correct such defective work to the satisfaction of the Investor Partner. The Partnership or the Investor Partner, as applicable, shall report to the Developer any defective condition discovered more than one (1) year after the date of Final Completion, as such period may be extended under this Section. Notwithstanding the foregoing, the Developer shall not be liable for any damages or obligations hereunder to the extent that the Partnership's claims under this Construction Warranty are satisfied by the Partnership's exercise of its remedies against the General Contractor or any other contractor or subcontractor

7. Successors and Assigns. This Agreement shall be binding on the parties hereto, their heirs, successors and assigns. However, this Agreement may not be assigned by any party hereto without the Consent of the Investor Partner, nor may it be terminated without the Consent of the Investor Partner.

8. Termination. If the General Partner withdraws from the Partnership for any reason whatsoever, including the removal of the General Partner , this Agreement shall terminate effective

on the date of such Withdrawal (an "Early Termination") unless the Partnership and the Investor Partner otherwise elect in writing. If an Early Termination occurs, then Developer shall not be entitled to any payments of the Development Fee and the Developer shall forfeit as additional damages any Development Fee which has been earned but not paid as of the date of such Early Termination, and the Developer shall remain liable for all damages, liabilities and claims ("Claims") arising under or in connection with this Agreement which are based on acts or omissions prior to the date of such termination, including Claims which do not become manifest until after the date of such termination. The Developer shall have no right to terminate this Agreement without the Consent of the Partnership and the Investor Partner, which Consent may be withheld in the sole discretion of either party.

9. No Lien Filings. The Developer hereby represents, warrants and covenants that neither it nor its Affiliates shall file a mechanic's lien, materialman's lien or other lien against the Apartment Complex or any other assets of the Partnership, and hereby waives and releases any right it may have or may hereafter acquire to file a such lien against the Apartment Complex or any other assets of the Partnership. The Developer shall indemnify and hold harmless the Partnership and the Investor Partner from any losses, damages, and/or liabilities, to or as a result of a breach of this provisions.

10. Defined Terms. Capitalized terms used in this Agreement and not specifically defined herein shall have the same meanings assigned to them as in the Partnership Agreement.

11. Separability of Provisions. Each provision of this Agreement shall be considered separable and if for any reason any provision which is not essential to the effectuation of the basic purposes of this Agreement is determined to be invalid and contrary to any existing or future law, such invalidity shall not impair the operation of or affect those provisions of this Agreement which are valid.

12. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original copy and all of which together shall constitute one agreement binding on all parties hereto, notwithstanding that all the parties shall not have signed the same counterpart.

13. No Continuing Waiver. The waiver by any party of any breach of this Agreement shall not operate or be construed to be a waiver of any subsequent breach.

14. Applicable Law. This Agreement shall be construed and enforced in accordance with the laws of Florida.

15. Third Party Beneficiary. The Investor Partner is a third party beneficiary of this Agreement, and the Partnership and the Developer hereby expressly agree that any amendment to this Agreement shall not be effective unless and until same is Consented to by the Investor Partner.

IN WITNESS WHEREOF, the parties have caused this Development Agreement to be duly executed as of the date first written above.

DEVELOPER:

FREEPORT PARTNERS, INC., a Florida corporation

By: _____
John J. Murphy, Jr., President

PARTNERSHIP:

KERNAN ASSOCIATES, LTD., a Florida limited partnership

By: FREEPORT PARTNERS, INC., a Florida corporation

By: _____
John J. Murphy, Jr., President

EXHIBIT B

DESCRIPTION OF PROPERTY

APARTMENT PARCEL

A PORTION OF SECTIONS 33 AND 34, TOWNSHIP 2 SOUTH, RANGE 28 EAST, DUVAL COUNTY, FLORIDA, AND BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS: COMMENCE AT THE INTERSECTION OF THE SOUTHERLY RIGHT-OF-WAY LINE OF BEACH BOULEVARD (A 200 FOOT RIGHT-OF-WAY AS NOW ESTABLISHED) WITH THE EASTERLY RIGHT-OF-WAY LINE OF KERNAN BOULEVARD (A 200 FOOT RIGHT-OF-WAY AS NOW ESTABLISHED): THENCE SOUTH 04°06'38" WEST ALONG SAID EASTERLY RIGHT-OF-WAY LINE, 16.06 FEET TO THE POINT OF CURVATURE OF A CURVE TO THE RIGHT; THENCE CONTINUE ALONG SAID EASTERLY RIGHT-OF-WAY LINE AND ALONG AND AROUND THE ARC OF A CURVE CONCAVE NORTHWESTERLY AND HAVING A RADIUS OF 684.59 FEET, A CHORD BEARING AND DISTANCE OF SOUTH 15°28'42" WEST, 269.72 FEET TO THE POINT OF TANGENCY OF SAID CURVE; THENCE SOUTH 26°48'20" WEST ALONG SAID EASTERLY RIGHT-OF-WAY LINE, 630.96 FEET TO THE POINT OF BEGINNING; THENCE CONTINUE SOUTH 26°48'20" WEST ALONG SAID EASTERLY RIGHT-OF-WAY LINE, 169.90 FEET TO THE CENTERLINE OF A 100 FOOT DEPARTMENT OF TRANSPORTATION DRAINAGE EASEMENT; THENCE ALONG SAID CENTERLINE RUN THE FOLLOWING FOUR COURSES AND DISTANCES; COURSE NO. (1) SOUTH 39°18'47" EAST, 130.61 FEET; COURSE NO. (2) SOUTH 05°43'58" WEST, 294.31 FEET; COURSE NO. (3) SOUTH 19°45'57" EAST, 123.19 FEET; COURSE NO. (4) SOUTH 08°04'57" EAST, 55.98 FEET TO THE CENTERLINE OF A 50 FOOT DEPARTMENT OF TRANSPORTATION DRAINAGE EASEMENT: RUN THENCE ALONG SAID CENTERLINE THE FOLLOWING FOUR COURSES AND DISTANCES; COURSE NO. (1) NORTH 74°45'30" EAST, 114.79 FEET; COURSE NO. (2) NORTH 87°18'42" EAST, 227.98 FEET; COURSE NO. (3) NORTH 86°45'03"EAST, 610.30 FEET; COURSE NO. (4) NORTH 52°59'53" EAST, 299.55 FEET; THENCE NORTH 00°28'27" WEST, 461.89 FEET; THENCE SOUTH 89°31'23" WEST, 300.45 FEET; THENCE SOUTH 00°28'27" EAST, 204.48 FEET; THENCE SOUTH 89°31'33" WEST, 664.72 FEET; THENCE NORTH 63°11'40" WEST, 151.88 FEET; THENCE NORTH 37°38'06" WEST, 180.69 FEET TO THE POINT OF BEGINNING.

LANDS THUS DESCRIBED CONTAIN 14.33 ACRES, MORE OR LESS

POND PARCEL

A PORTION OF SECTIONS 33 AND 34, TOWNSHIP 2 SOUTH, RANGE 28 EAST, DUVAL COUNTY, FLORIDA, AND BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS: COMMENCE AT THE INTERSECTION OF THE SOUTHERLY RIGHT-OF-WAY LINE OF BEACH BOULEVARD (A 200 FOOT RIGHT-OF-WAY AS NOW ESTABLISHED) WITH THE EASTERLY RIGHT-OF-WAY LINE OF KERNAN BOULEVARD (A 200 FOOT RIGHT-OF-WAY AS NOW ESTABLISHED); THENCE SOUTH 04°06'38" WEST ALONG SAID EASTERLY RIGHT-OF-WAY LINE, 16.06 FEET TO THE POINT OF CURVATURE OF A CURVE TO THE RIGHT; THENCE CONTINUE ALONG SAID EASTERLY RIGHT-OF-WAY LINE AND ALONG AND AROUND THE

ARC OF A CURVE CONCAVE NORTHWESTERLY AND HAVING A RADIUS OF 684.59 FEET, A CHORD BEARING AND DISTANCE OF SOUTH 15°28'42" WEST, 269.72 FEET TO THE POINT OF TANGENCY OF SAID CURVE; THENCE SOUTH 26°48'20" WEST ALONG SAID EASTERLY RIGHT-OF-WAY LINE, 403.13 FEET; THENCE SOUTH 63°11'40" EAST, 242.55 FEET TO THE POINT OF BEGINNING; THENCE CONTINUE SOUTH 63°11'40" EAST, 219.55 FEET; THENCE NORTH 89°31'23" EAST, 694.31 FEET; THENCE NORTH 00°28'27" WEST, 315.62 FEET; THENCE SOUTH 89°31'23" WEST, 70.97 FEET; THENCE NORTH 00°28'27" WEST, 19.50 FEET; THENCE SOUTH 89°31'23" WEST, 85.76 FEET; THENCE SOUTH 40°31'23" WEST, 136.05 FEET; THENCE SOUTH 89°31'23" WEST, 329.33 FEET; THENCE NORTH 46°28'50" WEST, 147.82 FEET; THENCE SOUTH 89°31'23" WEST, 93.74 FEET; THENCE SOUTH 25°27'24" WEST, 260.80 FEET TO THE POINT OF BEGINNING.

LANDS THUS DESCRIBED CONTAIN 5.27 ACRES, MORE OR LESS

EXHIBIT C

GUARANTY

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (this "Guaranty Agreement"), made as of November 30, 1999, is by RICHARD T. COLEY, SR. ("Coley") and JOHN J. MURPHY, JR. ("Murphy"), whose addresses are 1075 West Morse Boulevard, Winter Park, Florida 32789, jointly and severally (Coley and Murphy are individually and collectively referred to herein as the "Guarantors"), for the benefit of SUNAMERICA HOUSING FUND 797, A NEVADA LIMITED PARTNERSHIP ("SHF"), whose address is c/o SunAmerica Inc., 1 SunAmerica Center, Century City, Los Angeles, California 90067-6022, Attention: Michael L. Fowler.

W I T N E S S E T H:

WHEREAS, Freeport Partners, Inc., a Florida corporation (the "General Partner" and/or "Developer"), is the general partner of Kernan Associates, Ltd., a Florida limited partnership (the "Partnership");

WHEREAS, the Partnership is governed by its Second Amended and Restated Agreement of Limited Partnership dated as of November 30, 1999 (the "Partnership Agreement");

WHEREAS, the Developer and the Partnership entered into that certain Development Agreement of even date herewith (the "Development Agreement");

WHEREAS, SHF has been requested to enter into the Partnership Agreement and the Partnership with the General Partner;

WHEREAS, each Guarantor is a stockholder of the General Partner, and believes he shall substantially benefit, directly or indirectly, from SHF's entering into the Partnership Agreement and the Partnership with the General Partner; and

WHEREAS, as a condition to entering into the Partnership Agreement and the Partnership, SHF has required the Guarantors to jointly and severally guarantee to SHF the obligations of the Partnership and the General Partner under the Partnership Agreement, under the Development Agreement and certain other items as herein set forth.

NOW, THEREFORE, in order to induce SHF to enter into the Partnership Agreement and the Partnership in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Guarantor hereby jointly and severally covenants and agrees as follows:

1. Each Guarantor irrevocably and unconditionally fully guarantees the due, prompt and complete performance of each and every one of the following obligations: (a) the payment and performance by the General Partner of each and every obligation of the General Partner due under

the Partnership Agreement; (b) the performance by the Developer of each and every obligation of the Developer under the Development Agreement; (c) the payment and performance by the General Partner of each and every obligation of the General Partner under the General Partner Pledge; and (d) the due, prompt and complete payment of all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by SHF in collection of the enforcement of this Guaranty Agreement against the Guarantors (the obligations described in this Paragraph 1 are hereinafter collectively referred to as the "Indebtedness"); provided, however that the liability of the Guarantors hereunder as it relates to the payment of Operating Deficits shall be limited to the amount of $840,000.00, as outlined in Section 5.2(a) of the Partnership Agreement.

2. Each Guarantor hereby grants to SHF, in the uncontrolled discretion of SHF, and without notice to any Guarantor, the power and authority to deal in any lawful manner with the Indebtedness and the other obligations guaranteed hereby, and without limiting the generality of the foregoing, further power and authority, from time to time:

(a) to renew, compromise, extend, accelerate or otherwise change the time or place of payment of or to otherwise change the terms of the Indebtedness;

(b) to modify or to waive any of the terms of the Partnership Agreement, the Development Agreement and/or any other obligations guaranteed hereby;

(c) to take and hold security for the payment of the Indebtedness and/or performance of the other obligations guaranteed hereby and to impair, exhaust, exchange, enforce, waive or release any such security;

(d) to direct the order or manner of sale of any such security as SHF, in its discretion, may determine;

(e) to grant any indulgence, forbearance or waiver with respect to the Indebtedness or any of the other obligations guaranteed hereby; and

(f) to release or waive rights against any one or more Guarantors without releasing or waiving any rights against any other Guarantor.

The liability of each Guarantor hereunder shall not be affected, impaired or reduced in any way by any action taken by SHF under the foregoing provisions or any other provision hereof, or by any delay, failure or refusal of SHF to exercise any right or remedy it may have against the General Partner or any other person, firm or corporation, including other guarantors, if any, liable for all or any part of the Indebtedness or any of the other obligations guaranteed hereby.

3. The Guarantors agree that if any of the Indebtedness is not fully and timely paid or performed according to the tenor thereof, whether by acceleration or otherwise, the Guarantors shall immediately upon receipt of written demand therefor from SHF pay all of the Indebtedness hereby

guaranteed in like manner as if the Indebtedness constituted the direct and primary obligation of the Guarantors. The Guarantors shall not have any right of subrogation as a result of any payment hereunder or any other payment made by the Guarantors or a Guarantor on account of the Indebtedness, and each Guarantor hereby waives, releases and relinquishes any claim based on any right of subrogation, any claim for unjust enrichment or any other theory that would entitle a Guarantor to a claim against the General Partner based on any payment made hereunder or otherwise on account of the Indebtedness until the Investor Partner is paid in full.

4. This Guaranty Agreement and the obligations of the Guarantors hereunder shall be continuing and irrevocable until the Indebtedness has been satisfied in full. Notwithstanding the foregoing or anything else set forth herein, and in addition thereto, if at any time all or any part of any payment received by SHF from a Guarantor under or with respect to this Guaranty Agreement is or must be rescinded or returned for any reason whatsoever (including, but not limited to, determination that said payment was a voidable preference or fraudulent transfer under insolvency, bankruptcy or reorganization laws), then Guarantors' obligations hereunder shall, to the extent of the payment rescinded or returned, be deemed to have continued in existence, notwithstanding such previous receipt of payment by SHF, and Guarantors' obligations hereunder shall continue to be effective or be reinstated as to such payment, all as though such previous payment to SHF had never been made. The provisions of the foregoing sentence shall survive termination of this Guaranty Agreement, and shall remain a valid and binding obligation of each Guarantor until satisfied.

5. Each Guarantor hereby waives notice of acceptance of this Guaranty Agreement by SHF and this Guaranty Agreement shall immediately be binding upon each Guarantor. Any Guarantor who executes this Agreement shall be fully bound hereby regardless of whether or not any other Guarantor subsequently executes this Guaranty Agreement.

6. Each Guarantor hereby waives and agrees not to assert or take advantage of:

(a) any right to require the General Partner to proceed against any other person or to proceed against or exhaust any security held by the General Partner at any time or to pursue any other remedy in the General Partner's power before proceeding against any one or more Guarantors hereunder;

(b) any right to require SHF to proceed against the General Partner or any other person or to proceed against or exhaust any security held by SHF at any time or to pursue any other remedy in SHF's power before proceeding against any one or more Guarantors hereunder;

(c) any defense that may arise by reason of the incapacity, lack of authority, death or disability of any other person or persons or the failure of SHF to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of any other person or persons;

(d) demand, presentment for payment, notice of non-payment, protest, notice of protest and all other notices of any kind, including, without limitation, notice of the existence,

creation or incurring of any new or additional indebtedness or obligation or of any action or non-action on the part of SHF or any endorser or creditor of SHF or any Guarantor or on the part of any other person whomsoever under this or any other instrument in connection with any obligation or evidence of indebtedness held by SHF or in connection with the Indebtedness;

(e) any defense based upon an election of remedies by SHF, the right of Guarantors to proceed against SHF for reimbursement, or both, or if contrary to the express agreement of the parties, California law is deemed to apply to this Guaranty, any rights or benefits under Sections 2809, 2810, 2819, 2845, 2846, 2847, 2848, 2849 and 2850 of the California Civil Code or under Section 580a or 580d of the California Code of Civil Procedure, or under Sections 364 and 1111 of the U.S. Bankruptcy Code as same may be amended or replaced from time to time;

(f) any election by SHF to exercise any right or remedy it may have against the Partnership or any security held by SHF, including, without limitation, the right to foreclose upon any such security by judicial or non-judicial sale, without affecting or impairing in any way the liability of Guarantors hereunder, except to the extent the indebtedness has been paid, and the Guarantors waive any default arising out of the absence, impairment or loss of any right of reimbursement, contribution or subrogation or any other right or remedy of the Guarantors against the Partnership or any such security whether resulting from such election by SHF or otherwise. The Guarantors understand that if all or any part of the liability of the Partnership to SHF for the Indebtedness is secured by real property the Guarantors shall be liable for the full amount of their liability hereunder, notwithstanding foreclosure on such real property by trustee sale or any other reason impairing the Guarantors' right to proceed against the Partnership; and

(g) all duty or obligation on the part of SHF to perfect, protect, not impair, retain or enforce any security for the payment of the Indebtedness or performance of any of the other obligations guaranteed hereby.

7. All existing and future indebtedness of the General Partner to the Guarantors or to any person controlled or owned in whole or in part by any of the Guarantors and, the right of the Guarantors to withdraw or to cause or permit any person controlled or owned in whole or in part by any of the Guarantors to withdraw any capital invested by any Guarantor or such person in either General Partner, is hereby subordinated to the Indebtedness at any time after a default exists under the Indebtedness. Furthermore, without the prior written consent of SHF, such subordinated indebtedness shall not be paid and such capital shall not be withdrawn in whole or in part nor shall any Guarantor accept or cause or permit any person controlled or owned in whole or in part by a Guarantor to accept any payment of or on account of any such subordinated indebtedness or as a withdrawal of capital at any time after a default exists under the Indebtedness. Any payment received by the Guarantors in violation of this Guaranty Agreement shall be received by the person to whom paid in trust for SHF, and Guarantors shall cause the same to be paid to SHF immediately on account of the Indebtedness. No such payment shall reduce or affect in any manner the liability of the Guarantors under this Guaranty Agreement.

8. The amount of each Guarantor's liability and all rights, powers and remedies of SHF hereunder shall be cumulative and not alternative and such rights, powers and remedies shall be in addition to all rights, powers and remedies given to SHF under the Partnership Agreement, any document or agreement relating in any way to the terms and provisions thereof or otherwise by law. With respect to each Guarantor, this Guaranty Agreement is in addition to and exclusive of the guaranty of any other Guarantor executing this Guaranty Agreement or any other person or entity which guarantees the Indebtedness and/or the other obligations guaranteed hereby.

9. The liability of each Guarantor under this Guaranty Agreement shall be an absolute, direct, immediate and unconditional guarantee of payment and not of collectability. The obligations of each Guarantor hereunder are independent of the obligations of the General Partner or any other party which may be initially or otherwise responsible for performance or payment of the obligations hereunder guaranteed and each other Guarantor, and, in the event of any default hereunder, a separate action or actions may be brought and prosecuted against any one or more Guarantors, whether or not the General Partner is joined therein or a separate action or actions are brought against either General Partner. SHF may maintain successive actions for other defaults. SHF's rights hereunder shall not be exhausted by its exercise of any of its rights or remedies or by any such action or by any number of successive actions until and unless the Indebtedness has been paid in full.

10. SHF, in its sole discretion, may at any time enter into agreements with the General Partner or with any other person to amend, modify or change the Partnership Agreement or any document or agreement relating in any way to the terms and provisions thereof, or may at any time waive or release any provision or provisions thereof and, with reference thereto, may make and enter into all such agreements as SHF may deem proper or desirable, without any notice or further assent from any Guarantor and without in any manner impairing or affecting this Guaranty Agreement or any of the rights of SHF or each Guarantor's obligations hereunder.

11. The Guarantors hereby agree to pay to SHF, upon demand, reasonable attorneys' fees and all costs and other expenses which SHF expends or incurs in collecting or compromising the Indebtedness or in enforcing this Guaranty Agreement against each Guarantor whether or not suit is filed, including, without limitation, all costs, attorneys' fees and expenses incurred by SHF in connection with any insolvency, bankruptcy, reorganization, arrangement or other similar proceedings involving a Guarantor which in any way affect the exercise by SHF of its rights and remedies hereunder. Any and all such costs, attorneys' fees and expenses not so paid shall bear interest at an annual interest rate equal to the lesser of (i) eighteen percent (18%), or (ii) the highest rate permitted by applicable law, from the date incurred by SHF until paid by the Guarantors.

12. Should any one or more provisions of this Guaranty Agreement be determined to be illegal or unenforceable, all other provisions nevertheless shall be effective.

13. No provision of this Guaranty Agreement or right of SHF hereunder can be waived nor can any Guarantor be released from such Guarantor's obligations hereunder except by a writing duly executed by SHF. This Guaranty Agreement may not be modified, amended, revised, revoked,

terminated, changed or varied in any way whatsoever except by the express terms of a writing duly executed by SHF.

14. When the context and construction so require, all words used in the singular herein shall be deemed to have been used in the plural, and the masculine shall include the feminine and neuter and vice versa. The word "person" as used herein shall include any individual, company, firm, association, partnership, corporation, trust or other legal entity of any kind whatsoever.

15. If any or all of the Indebtedness is assigned by SHF, this Guaranty Agreement shall automatically be assigned therewith in whole or in part, as applicable, without the need of any express assignment and when so assigned, each Guarantor shall be bound as set forth herein to the assignee(s) without in any manner affecting such Guarantor's liability hereunder for any part of the Indebtedness retained by such SHF.

16. Each Guarantor is jointly and severally liable with each other Guarantor.

17. Coley's Social Security Number is _____. Murphy's Social Security Number is _____.

18. This Guaranty Agreement shall inure to the benefit of and bind the heirs, legal representatives, administrators, executors, successors and assigns of SHF and Guarantors.

19. This Guaranty Agreement shall be governed by and construed in accordance with the laws of the State of Florida without regard to principles of conflicts of law, except to the extent that any of such laws may now or hereafter be preempted by Federal law, in which case, such Federal law shall so govern and be controlling. In any action brought under or arising out of this Guaranty Agreement, each Guarantor hereby consents to the jurisdiction of any competent court within the State of Florida and consents to service of process by any means authorized by the laws of such state. Except as provided in any other written agreement now or at any time hereafter in force between SHF and any Guarantor, this Guaranty Agreement shall constitute the entire agreement of Guarantors with SHF with respect to the subject matter hereof, and no representation, understanding, promise or condition concerning the subject matter hereof shall be binding upon SHF or any Guarantor unless expressed herein.

20. All notices, demands, requests or other communications to be sent by one party to the other hereunder or required by law shall be in writing and shall be deemed to have been validly given or served by delivery of same in person to the addressee or by depositing same with Federal Express for next business day delivery or by depositing same in the United States mail, postage prepaid, registered or certified mail, return receipt requested, addressed as follows:

SHF:	SunAmerica Housing Fund 797, A Nevada Limited Partnership c/o SunAmerica Inc. 1 SunAmerica Center, Century City Los Angeles, California 90067-6022 Attention: Michael L. Fowler Fax No.: (310) 772-6179
With a copy to:	Brownstein Hyatt & Farber, P.C. 410 17th Street, 22nd Floor Denver, Colorado 80202 Attention: Wayne H. Hykan, Esq. Fax No.: (303) 223-1111
Guarantors:	Richard T. Coley, Sr. John J. Murphy, Jr. Freeport Partners, Inc. 1075 West Morse Boulevard Winter Park, Florida 32789 Fax No.: (407) 628-5270
With a copy to:	Thomas V. Infantino, Esq. Infantino & Berman 180 South Knowles Avenue, Suite 7 Winter Park, Florida 32789 Fax No.: (407) 644-4128

All notices, demands and requests shall be effective upon such personal delivery or upon being deposited with Federal Express or in the United States mail as required above. However, with respect to notices, demands or requests so deposited with Federal Express or in the United States mail, the time period in which a response to any such notice, demand or request must be given shall commence to run from the next business day following any such deposit with Federal Express or, in the case of a deposit in the United States mail as provided above, the date on the return receipt of the notice, demand or request reflecting the date of delivery or rejection of the same by the addressee thereof. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to be receipt of the notice, demand or request sent. By giving to the other party hereto at least 30 days' written notice thereof in accordance with the provisions hereof, the parties hereto shall have the right from time to time to change their respective addresses and each shall have the right to specify as its address any other address within the United States of America.

21. Each Guarantor hereby agrees that this Guaranty Agreement, the Indebtedness and all other obligations guaranteed hereby, shall remain in full force and effect at all times hereinafter

until paid and/or performed in full notwithstanding any action or undertakings by, or against, SHF, any Guarantor, and/or any partner in SHF in any proceeding in the United States Bankruptcy Court, including, without limitation, any proceeding relating to valuation of collateral, election or imposition of secured or unsecured claim status upon claims by SHF pursuant to any Chapter of the Bankruptcy Code or the Rules of Bankruptcy Procedure as same may be applicable from time to time.

22. Any married person who signs this Guaranty hereby agrees that recourse may be had against his or her separate property for all of his or her obligations.

23. This Guaranty Agreement may be executed in any number of counterparts, each of which shall be effective only upon delivery and thereafter shall be deemed an original, and all of which shall be taken to be one and the same instrument, with the same effect as if all parties hereto had signed the same signature page. Any signature page of this Guaranty Agreement may be detached from any counterpart of this Guaranty Agreement without impairing the legal effect of any signatures thereon and may be attached to another counterpart of this Guaranty Agreement identical in form hereto but having attached to it one or more additional signature pages. Execution by any Guarantor shall bind such Guarantor regardless of whether any one or more other Guarantors execute this Guaranty Agreement.

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IN WITNESS WHEREOF, the undersigned Guarantors have executed this Guaranty Agreement as of the day and year first above written.

GUARANTORS:

_____
Richard T. Coley, Sr.

_____
John J. Murphy, Jr.

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this _____ day of December, 1999, by Richard T. Coley, Sr.

Witness my hand and notarial seal.

[SEAL]

_____
Notary Public

My Commission expires: _____

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this _____ day of December, 1999, by John J. Murphy, Jr.

Witness my hand and notarial seal.

[SEAL]

_____
Notary Public

My Commission expires: _____

EXHIBIT D

GENERAL PARTNER PLEDGE

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT (this "Agreement") is made as of November 30, 1999, by FREEPORT PARTNERS, INC., a Florida corporation ("Pledgor"), whose address is 1075 West Morse Boulevard, Winter Park, Florida 32789, for the benefit of SUNAMERICA HOUSING FUND 797, A NEVADA LIMITED PARTNERSHIP ("Pledgee"), whose address is c/o SunAmerica Inc., 1 SunAmerica Center, Century City, Los Angeles, California 90067-6022, Attention: Michael L. Fowler.

RECITALS

A. Pledgor is the General Partner in Kernan Associates, Ltd., a Florida limited partnership (the "Partnership"), and the Partnership is governed by its Second Amended and Restated Agreement of Limited Partnership dated as of November 30, 1999 (the "Partnership Agreement") (capitalized terms not otherwise defined herein shall have the definitions given them in the Partnership Agreement).

B. Pledgee is the sole limited partner of the Partnership;

C. The Partnership and the Pledgor have executed that certain Development Agreement of even date herewith pursuant to which the Partnership is to pay the Pledgor the Development Fee (the "Development Agreement").

D. In order to secure the full payment and performance by Pledgor of all of Pledgor's obligations, duties, expenses and liabilities under or in connection with the Partnership Agreement and the Development Agreement as such Partnership Agreement or Development Agreement may be now or hereafter amended, modified or restated (such obligations, duties, expenses and liabilities under and in connection with the Partnership Agreement, the Development Agreement and all other sums of any kind which may or shall become due thereunder are collectively referred to herein as the "Obligations"), Pledgor is entering into this Agreement for the benefit of Pledgee.

AGREEMENT

NOW, THEREFORE, in consideration of the recitals, covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Definitions.

(a) "Collateral" shall mean:

(i) All of Pledgor's right, title and interest in the Partnership, whether now owned or hereafter acquired, including, without limitation, its general partnership interest in the Partnership and its right to receive distributions, allocations and payments under the Partnership Agreement, as such Partnership Agreement may be modified from time to time with the consent of the Pledgee;

(ii) All fees and charges to be paid by the Partnership to the Pledgor, whether now owned or hereafter acquired, whether arising under the Partnership Agreement, the Development Agreement, or otherwise, including without limitation the Development Fee; and

(iii) All products and proceeds, whether cash proceeds or noncash proceeds, and products of any and all of the foregoing.

(b) "Event of Default" shall mean an event of default described in Paragraph 8 herein.

2. Pledge of Collateral and Grant of Security Interest. Pledgor does hereby unconditionally and irrevocably assign, pledge, convey, transfer, deliver, set over and grant unto Pledgee, its successors and assigns, as security for Pledgor's complete and timely payment and performance of the Obligations, a continuing security interest under the Uniform Commercial Code of the State of Florida, subject only to the interest of the Lender providing Project Loans (the "First Priority Pledge") in the Collateral. Pledgor hereby further grants to Pledgee all rights in the Collateral as are available to a secured party of such collateral under the Uniform Commercial Code of the State of Florida (being the principal place of business of Pledgor and the location of Pledgor's chief executive office) and, concurrently herewith, shall deliver to Pledgee duly executed UCC-1 Financing Statements suitable for filing in the State of Florida with respect to the Collateral and agrees, upon request, to deliver any other documents which Pledgee may reasonably request with respect thereto.

3. Delivery to Pledgee.

(a) Pledgor agrees to execute and to cause all other necessary parties, and any successors and assigns thereof, to execute and deliver to Pledgee such other agreements, instruments and documentation as Pledgee may reasonably request from time to time to effect the conveyance, transfer, and grant to Pledgee of each and all of Pledgor's right, title and interest in and to the Collateral as security for the Obligations.

(b) Concurrently with the execution of this Agreement, Pledgor shall cause each of the general and limited partners of the Partnership to execute the Consent and Waiver in the form attached hereto as Exhibit A (the "Consent") evidencing the consent of the general and limited partners to the assignment of Pledgor's partnership interests and its agreement to be bound by Paragraph 4 of this Agreement, and covenants to execute, if required by Pledgee, an amendment to the Partnership Agreement in such form as Pledgee may require to reflect the substitution of the

Pledgee in place of Pledgor as a general partner in the Partnership. Pledgor further agrees to execute and to cause the other partners of the Partnership to execute and deliver to Pledgee such other agreements, instruments and documentation as Pledgee may reasonably request from time to time to effectuate the conveyance, transfer, assignment and grant to Pledgee of all of Pledgor's right, title and interest in and to the Collateral and to evidence the substitution of the Pledgee in place of Pledgor as a general partner in the Partnership.

4. Proceeds and Products of the Collateral.

(a) Unless and until there occurs an Event of Default, Pledgee agrees to forbear in exercising its right to receive all benefits pertaining to the Collateral, and the Pledgor shall have been permitted to exercise all rights and to receive all benefits of the Collateral, including, without limitation, the right to exercise all voting, approval, consent and similar rights of Pledgor pertaining to the Collateral, payments due under, proceeds, whether cash proceeds or noncash proceeds, and products of the Collateral and retain and enjoy the same, provided, however, that Pledgor shall not cast any vote or give any approval, consent, waiver or ratification or take any action which would be inconsistent with or violate any provision of this Agreement.

(b) Pledgor acknowledges and agrees with the Pledgee, that unless Pledgee otherwise consents, in Pledgee's sole discretion, Pledgor shall not exercise any voting, approval, consent or other rights with respect to the Collateral at any time (i) after an Event of Default, and (ii) delivery of notice from the Pledgee instructing Pledgor not to exercise any such voting, approval, consent or other rights with respect to the Collateral; provided, however, that Pledgor shall exercise any such right it may have under the Partnership Agreement with respect to the business affairs of the Partnership as is reasonably necessary to protect and preserve the Collateral.

(c) Upon or at any time after an Event of Default, Pledgee, at its option to be exercised in its sole discretion, may exercise all rights and remedies granted under this Agreement, including, without limitation, the right to require the obligors under the Collateral to make all payments due under and to pay all proceeds, whether cash proceeds or noncash proceeds, and products of the Collateral to Pledgee. Upon the giving of any such notice, the security constituted by this Agreement shall become immediately enforceable by the Pledgee, without any presentment, further demand, protest or other notice of any kind, all of which are hereby expressly and irrevocably waived by Pledgor. Pledgor hereby authorizes and directs each respective obligor under the agreements constituting the Collateral, that upon receipt of written notice from Pledgee of an Event of Default by Pledgor hereunder, to assign, set over, transfer, distribute, pay and deliver any and all Collateral or said payments, proceeds or products of the Collateral to Pledgee, at such address as Pledgee may direct, at such time and in such manner as Collateral and such payments, proceeds and products of the Collateral would otherwise be distributed, transferred, paid or delivered to Pledgor. The respective obligors under the agreements constituting the Collateral shall be entitled to conclusively rely on such notice and make all such assignments and transfers of the Collateral and all such payments with respect to the Collateral and pay all such proceeds and products of the

Collateral to Pledgee and shall have no liability to Pledgor for any loss or damage Pledgor may incur by reason of said reliance.

5. No Assumption. Notwithstanding any of the foregoing, whether or not an Event of Default shall have occurred, and whether or not Pledgee elects to foreclose on its security interest in the Collateral as set forth herein, neither the execution of this Agreement, receipt by Pledgee of any of Pledgor's right, title and interest in and to the Collateral and the payments, proceeds and products of the Collateral, now or hereafter due to Pledgor from any obligor of the Collateral, nor Pledgee's foreclosure of its security interest in the Collateral, shall in any way be deemed to obligate Pledgee to assume any of Pledgor's obligations, duties, expenses or liabilities under the Collateral or any agreements constituting the Collateral, as presently existing or as hereafter amended, or under any and all other agreements now existing or hereafter drafted or executed (collectively, the "Pledgor's Liabilities"), unless Pledgee otherwise agrees to assume any or all of Pledgor's Liabilities in writing. In the event of foreclosure by Pledgee of its security interest in the Collateral, Pledgor shall remain bound and obligated to perform its Pledgor's Liabilities and Pledgee shall not be deemed to have assumed any of Pledgor's Liabilities, except as provided in the preceding sentence. If the entity or person acquiring the Collateral at a foreclosure sale elects to assume Pledgor's Liabilities, such assignee shall agree to be bound by the terms and provisions of the applicable agreement.

6. Indemnification. Pledgor hereby agrees to indemnify, defend and hold Pledgee, its successors and assigns harmless from and against any and all damages, losses, claims, costs or expenses (including reasonable attorneys' fees) and any other liabilities whatsoever that Pledgee or its successors or assigns may incur by reason of this Agreement or by reason of any assignment of Pledgor's right, title and interest in and to any or all of the Collateral.

7. Representations, Warranties and Covenants. In addition to the representations made by Pledgor in the Partnership Agreement, Pledgor makes the following representations and warranties, which shall be deemed to be continuing representations and warranties in favor of Pledgee, and covenants and agrees to perform all acts necessary to maintain the truth and correctness, in all material respects, of the following:

(a) Subject to the First Priority Pledge, Pledgor owns the Collateral free and clear of any claim, lien or encumbrance.

(b) Pledgor has delivered to Pledgee true and complete copies of the Partnership Agreement, the Development Agreement and any other agreements pertinent to the Collateral, and such agreements are currently in full force and effect and have not been amended or modified except as disclosed to Pledgee in writing.

(c) Subject to the First Priority Pledge, Pledgor has the full right and title to its interest in the Collateral and has the full power, legal right and authority to pledge, convey, transfer and assign such interest. Other than First Priority Pledge, none of the Collateral is subject to any

existing or subsequent assignment, claim, lien, pledge, transfer or other security interest of any character, or to any attachment, levy, garnishment or other judicial process or to any claim for set-off, counterclaim, deduction or discount. Other than a pledge for the benefit of SunAmerica Inc., Pledgor shall not, without the prior written consent of Pledgee, which consent may be granted or denied in Pledgee's sole discretion, further convey, transfer, set over or pledge to any party any of its interests in the Collateral. Pledgor agrees to (i) warrant and defend its title to the Collateral and the security interest created by this Agreement against all claims of all persons (other than Pledgee and persons claiming through Pledgee), and (ii) maintain and preserve the Collateral and such security interests.

(d) Pledgor's Employer Identification Number is 59-3597184, and its principal place of business is located at 1075 West Morse Boulevard, Winter Park, Florida 32789.

(e) Pledgor agrees that it shall not, without at least thirty (30) days' prior written notification to Pledgee, move or otherwise change its principal place of business.

(f) Pledgor shall not exercise any voting rights, or give any approvals, consents waiver or other ratifications in respect to the Collateral which would violate or contravene, or which would cause or otherwise authorize Pledgor to violate or contravene, any provision of this Agreement.

8. Event of Default. Each of the following shall constitute an Event of Default hereunder:

(a) An event of default shall have occurred under the Partnership Agreement and such default shall not have been cured within any applicable grace period provided therein; or

(b) Any warranty, representation or statement of the Pledgor in this Agreement proves to have been false in any material respect when made or furnished; or

(c) There occurs the issuance of a writ, order of attachment or garnishment with respect to any of the Collateral and such writ, order of attachment or garnishment is not dismissed and removed within fifteen (15) days thereafter; or

(d) A material breach or violation of any covenant or agreement contained herein shall have occurred, which is not cured within ten (10) days after written notice has been given to Pledgor by Pledgee.

Any Event of Default under this Agreement shall be an event of default by Pledgor under the Partnership Agreement.

9. Remedies.

(a) Upon an Event of Default, Pledgee may by giving notice of such Event of Default, at its option, do any one or more of the following (subject to the provisions of the First Priority Pledge):

(i) Declare all of the Obligations secured hereby to be immediately due and payable, whereupon all unpaid principal and interest on said Obligations and other amounts declared due and payable shall become immediately due and payable without presentment, demand, protest or notice of any kind; and

(ii) Take possession of all or any of the Collateral, collect, and apply against the Obligations, all payments due, proceeds, whether cash proceeds or noncash proceeds, and products from any obligor under the agreements constituting the Collateral, that would otherwise be paid to the Pledgor; and

(iii) Either personally, or by means of a court appointed receiver, take possession of all or any of the Collateral and exclude therefrom Pledgor and all others claiming under Pledgor, and thereafter exercise all rights and powers of Pledgor with respect to the Collateral or any part thereof. If Pledgee demands, or attempts to take possession of any of the Collateral in the exercise of any rights under this Agreement, Pledgor promises and agrees to promptly turn over and deliver complete possession thereof to Pledgee; and

(iv) Without notice to or demand upon Pledgor, make such payments and do such acts as Pledgee may deem necessary to protect its security interest in the Collateral, including, without limitation, paying, purchasing, contesting or compromising any encumbrance, charge or lien which is prior to or superior to the security interest granted hereunder, and in exercising any such powers or authority to pay all expenses incurred in connection therewith; and

(v) Require Pledgor to take all actions necessary to deliver such Collateral to Pledgee, or an agent or representative designated by it. Pledgee, and its agents and representatives, shall have the right to enter upon any or all of Pledgor's premises and property to exercise Pledgee's rights hereunder; and

(vi) Foreclose upon this Agreement as herein provided or in any manner permitted by law, and exercise any and all of the rights and remedies conferred upon Pledgee by the Partnership Agreement, or in any other document executed by Pledgor in connection with the Obligations secured hereby, either concurrently or in such order as Pledgee may determine; and sell or cause to be sold in such order as Pledgee may determine, as a whole or in such parcels as Pledgee may determine, the Collateral, without affecting in any way the rights or remedies to which Pledgee may be entitled under the other such instruments; and

(vii) Sell or otherwise dispose of the Collateral at public sale, without having the Collateral at the place of sale, and upon terms and in such manner as Pledgee may determine. Pledgee may be a purchaser at any sale; and

(viii) Exercise any remedies of a secured party under the Uniform Commercial Code of the State of Florida or any other applicable law; and

(ix) Exercise any remedies available to Pledgee under the Partnership Agreement, including, but not limited to, the removal of the Pledgor as a General Partner of the Partnership and exercise of any rights of offset in favor of the Pledgee as a general partner of the Partnership; and

(x) Notwithstanding anything to the contrary contained in this Agreement, at any time after an Event of Default, the Pledgee may, by delivering written notice to the Partnership and to the Pledgor, succeed, or designate its nominee or designee to succeed, to all right, title and interest of Pledgor (including, without limitation, the right, if any, to vote on or take any action with respect to Partnership matters) as a general partner of the Partnership in respect of the Collateral. The Pledgor hereby irrevocably authorizes and directs the Partnership on receipt of any such notice (a) to deem and treat the Pledgee or such nominee or designee in all respects as a general partner (and not merely an assignee of a general partner) of the Partnership, entitled to exercise all the rights, powers and privileges (including the right to vote on or take any action with respect to Partnership matters pursuant to the Partnership Agreement, to receive all distributions, to be credited with the capital account and to have all other rights, powers and privileges appertaining to the Collateral to which Pledgor would have been entitled had the Collateral not been transferred to the Pledgee or such nominee or designee), and (b) to file an amended certificate of partnership, if required, admitting the Pledgee or such nominee or designee as general partner of the Partnership in place of Pledgor; and

(xi) The rights granted to the Pledgee under this Agreement are of a special, unique, unusual and extraordinary character. The loss of any of such rights cannot reasonably or adequately be compensated by way of damages in any action at law, and any material breach by Pledgor of any of Pledgor's covenants, agreements or obligations under this Agreement will cause the Pledgee irreparable injury and damage. In the event of any such breach, the Pledgee shall be entitled, as a matter of right, to injunctive relief or other equitable relief in any court of competent jurisdiction to prevent the violation or contravention of any of the provisions of this Agreement or to compel compliance with the terms of this Agreement by Pledgor. The Pledgee is absolutely and irrevocably authorized and empowered by Pledgor to demand specific performance of each of the covenants and agreements of Pledgor in this Agreement. Pledgor hereby irrevocably waives any defense based on the adequacy of any remedy at law which might otherwise be asserted by Pledgor as a bar to the remedy of specific performance in any action brought by the Pledgee against Pledgor to enforce any of the covenants or agreements of Pledgor in this Agreement.

(b) Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Pledgee shall give Pledgor at least ten (10) days' prior written notice of the time and place of any public sale of the Collateral subject to this Agreement or other intended disposition thereof to be made. Such notice shall be conclusively deemed to have been delivered to Pledgor at the address set forth in paragraph 7(c) of this Agreement, unless Pledgor shall notify Pledgee in writing of its change of its principal place of business and provide Pledgee with the address of its new principal place of business.

(c) The proceeds of any sale under Subparagraphs 9(a)(vi) and (vii) above shall be applied as follows:

(i) To the repayment of the costs and expenses of retaking, holding and preparing for the sale and the selling of the Collateral (including actual legal expenses and attorneys' fees) and the discharge of all assessments, encumbrances, charges or liens, if any, on the Collateral prior to the lien hereof (except any taxes, assessments, encumbrances, charges or liens subject to which such sale shall have been made);

(ii) To the payment of the whole amount then due and unpaid of the Obligations;

(iii) To the payment of all other amounts then secured hereby; and

(iv) The aggregate surplus, if any, shall be paid to Pledgor in a lump sum, without recourse to Pledgee, or as a court or competent jurisdiction may direct.

(d) Pledgee shall have the right to enforce one or more remedies hereunder under this Agreement and under the Partnership Agreement, successively or concurrently, and such action shall not operate to estop or prevent Pledgee from pursuing any further remedy which it may have, and any repossession or retaking or sale of the Collateral pursuant to the terms hereof shall not operate to release Pledgor until full payment of any deficiency has been made in cash.

(e) PLEDGOR ACKNOWLEDGES THAT PLEDGEE MAY BE UNABLE TO EFFECT A PUBLIC SALE OF ALL OR ANY PART OF THE COLLATERAL AND MAY BE COMPELLED TO RESORT TO ONE OR MORE PRIVATE SALES TO A RESTRICTED GROUP OF PURCHASERS WHO WILL BE OBLIGATED TO AGREE, AMONG OTHER THINGS, TO ACQUIRE THE COLLATERAL FOR THEIR OWN ACCOUNT, FOR INVESTMENT AND NOT WITH A VIEW TO THE DISTRIBUTION OR RESALE THEREOF. PLEDGOR FURTHER ACKNOWLEDGES THAT ANY SUCH PRIVATE SALES MAY BE AT PRICES AND ON TERMS LESS FAVORABLE THAN THOSE OF PUBLIC SALES, AND AGREES THAT SUCH PRIVATE SALES SHALL BE DEEMED TO HAVE BEEN MADE IN A COMMERCIALLY REASONABLE MANNER AND THAT PLEDGEE HAS NO OBLIGATION TO DELAY SALE OF ANY COLLATERAL TO PERMIT THE ISSUER THEREOF TO REGISTER IT FOR PUBLIC SALE UNDER THE SECURITIES ACT OF 1933. PLEDGOR AGREES THAT PLEDGEE

SHALL BE PERMITTED TO TAKE SUCH ACTIONS AS PLEDGEE DEEMS REASONABLY NECESSARY IN DISPOSING OF THE COLLATERAL TO AVOID CONDUCTING A PUBLIC DISTRIBUTION OF SECURITIES IN VIOLATION OF THE SECURITIES ACT OF 1933 OR THE SECURITIES LAWS OF ANY STATE, AS NOW ENACTED OR AS THE SAME MAY IN THE FUTURE BE AMENDED, AND ACKNOWLEDGES THAT ANY SUCH ACTIONS SHALL BE COMMERCIALLY REASONABLE. IN ADDITION, PLEDGOR AGREES TO EXECUTE, FROM TIME TO TIME, ANY AMENDMENT TO THIS AGREEMENT OF OTHER DOCUMENT AS PLEDGEE MAY REASONABLY REQUIRE TO EVIDENCE THE ACKNOWLEDGMENTS AND CONSENTS OF PLEDGOR SET FORTH IN THIS PARAGRAPH.

10. Right to Make Distributions. Except upon the occurrence and during the continuance of an Event of Default, the Pledgor shall have the right without the consent of the Pledgee to make distributions to its Member ("Permitted Distributions") of proceeds of any distributions and payments received by the Pledgor from the Partnership or from any equity contributions of its Members. Any such Permitted Distributions shall be free and clear of the lien created by this Agreement.

11. Attorneys Fees. Pledgor agrees to pay Pledgee, without demand, reasonable attorneys' fees and all costs and other expenses which Pledgee expends or incurs in collecting any amounts payable by Pledgor hereunder or in enforcing this Agreement against Pledgor whether or not suit is filed.

12. Further Documentation. Pledgor hereby agrees to execute, from time to time, one or more financing statements and such other instruments as may be required to perfect the security interest created hereby, including any continuation or amendments of such financing statements, and pay the cost of filing or recording the same in the public records specified by Pledgee.

13. Waiver and Estoppel. Pledgor represents and acknowledges that it knowingly waives each and every one of the following rights, and agrees that it will be estopped from asserting any argument to the contrary: (a) any promptness in making any claim or demand hereunder; (b) any defense that may arise by reason of the incapacity, lack of authority, death or disability of Pledgor or the failure to file or enforce a claim against Pledgor's estate (in administration, bankruptcy or any other proceeding; (c) any defense based upon an election of remedies by Pledgee which destroys or otherwise impairs any or all of the Collateral; (d) the right of Pledgor to proceed against Pledgee or any other person, for reimbursement; and (e) all duty or obligation of the Pledgee to perfect, protect, retain or enforce any security for the payment of amounts payable by Pledgor hereunder.

TO THE FULLEST EXTENT PERMITTED BY LAW, EACH PARTY TO THIS AGREEMENT SEVERALLY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, SUIT OR COUNTERCLAIM BROUGHT BY ANY PARTY TO THIS

AGREEMENT ARISING IN CONNECTION WITH, OUT OF OR OTHERWISE RELATING TO THIS AGREEMENT.

No delay or failure on the part of Pledgee in the exercise of any right or remedy against Pledgor or any other party against whom Pledgee may have any rights, shall operate as a waiver of any agreement or obligation contained herein, and no single or partial exercise by Pledgee of any rights or remedies hereunder shall preclude other or further exercise thereof or other exercise of any other right or remedy whether contained in this Agreement or in any of the other documents regarding the Obligations, including without limitation the Partnership Agreement. No waiver of the rights of Pledgee hereunder or in connection herewith and no release of Pledgor shall be effective unless in writing executed by Pledgee. No actions of Pledgee permitted under this Agreement shall in any way impair or affect the enforceability of any agreement or obligation contained herein.

14. Independent Obligations. The obligations of Pledgor are independent of the obligations of any other party which may be initially or otherwise responsible for performance or payment of the Obligations, and a separate action or actions for payment, damages or performance may be brought and prosecuted by Pledgee against Pledgor, individually, for the full amount of the Obligations then due and payable, whether or not an action is brought against any other party, whether or not the Pledgee is involved in any proceedings and whether or not the Pledgee or the Pledgor or other person is joined in any action or proceedings.

15. No Offset Rights of Pledgor. No lawful act of commission or omission of any kind or at any time upon the part of Pledgor shall in any way affect or impair the rights of the Pledgee to enforce any right, power or benefit under this Agreement, and no set-off, recoupment, counterclaim, claim, reduction or diminution of any obligation or any defense of any kind or nature which Pledgor has or may have against Pledgee or against any other party shall be available against Pledgee in any suit or action brought by Pledgee to enforce any right, power or benefit under this Agreement.

16. Power of Attorney. Pledgor hereby appoints Pledgee as its attorney-in-fact to execute and file on its behalf any financing statements, continuation statements or other documentation required to perfect or continue the security interest created hereby. This power, being coupled with an interest, shall be irrevocable until all amounts secured hereby have been paid, satisfied and discharged in full.

17. **GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. SUCH PARTIES FURTHER AGREE THAT IN THE EVENT OF DEFAULT, THIS AGREEMENT MAY BE ENFORCED IN ANY COURT OF COMPETENT JURISDICTION IN THE STATE OF FLORIDA AND THEY DO HEREBY SUBMIT TO THE JURISDICTION OF ANY AND ALL SUCH COURTS REGARDLESS OF THEIR RESIDENCE OR WHERE THIS AGREEMENT MAY BE EXECUTED.**

18. Successors and Assigns. All agreements, covenants, conditions and provisions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties hereto.

19. Notices. Whenever any party hereto shall desire to, or be required to, give or serve any notice, demand, request or other communication with respect to this Agreement, each such notice, demand, request or communication shall be in writing and shall be effective only if the same is delivered by personal service (including, without limitation, courier or express service) or mailed certified or registered mail, postage prepaid, return receipt requested, or sent by telegram to the parties at the addresses shown throughout this Agreement or such other addresses which the parties may provide to one another in accordance herewith. If notice is sent to Pledgee, a copy of such notice shall also be given to Wayne H. Hykan, Esq., Brownstein Hyatt & Farber, P.C., 410 17th Street, 22nd Floor, Denver, Colorado 80202. Notices delivered personally will be effective upon delivery to an authorized representative of the party at the designated address; notices sent by mail in accordance with the above paragraph will be effective upon execution by the addressee of the Return Receipt Requested.

20. Consent of Pledgor. Pledgor consents to the exercise by Pledgee of any rights of Pledgor in accordance with the provisions of this Agreement.

21. Severability. Every provision of this Agreement is intended to be severable. If any term or provision hereof is declared by a court of competent jurisdiction to be illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the legality or validity of the balance of the terms and provisions hereof, which terms and provisions shall remain binding and enforceable.

22. Amendment. This Agreement may be modified or rescinded only by a writing expressly relating to this Agreement and signed by all of the parties.

23. Termination. This Agreement shall terminate, and shall be of no further force or effect, upon the earlier to occur of the repayment in full of the Obligations of the Pledgor or upon the mutual consent of Pledgor and the Pledgee.

24. Expenses. Pledgor shall pay all reasonable out-of-pocket fees and charges incurred by Pledgee in connection with this Agreement and the transaction contemplated by this Agreement and the documents entered into in connection therewith, including, without limitation, reasonable attorneys' fees incurred by Pledgee.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Pledgor has executed this Pledge and Security Agreement as of the date first above written.

FREEPORT PARTNERS, INC., a Florida corporation

By: _____
John J. Murphy, Jr., President

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this ____ day of December, 1999, by John J. Murphy, Jr., as President of Freeport Partners, Inc., a Florida corporation, on behalf of said corporation.

Witness my hand and notarial seal.

[SEAL]

_____
Notary Public

My Commission expires: _____

EXHIBIT A

(See Attached Form of Consent and Waiver of the Partnership)

CONSENT TO SECURITY INTEREST AND AGREEMENT
OF PARTNERS OF
KERNAN ASSOCIATES, LTD.,
A FLORIDA LIMITED PARTNERSHIP

The undersigned, being all the partners of Kernan Associates, Ltd., a Florida limited partnership (the "Partnership"), hereby represent and certify to SunAmerica Housing Fund 797, A Nevada Limited Partnership (the "Secured Party"), as follows:

1. Each has received notice from Secured Party that Secured Party has a security interest in the following: 100% of the partnership interest in the Partnership owned by Freeport Partners, Inc., a Florida corporation ("Debtor"), and registered to Debtor (the "Collateral").

2. Other than the notice from Secured Party referred to above and the Permitted Encumbrances, the undersigned has not received any notice from any entity or person claiming an adverse claim against, lien on or security interest in the Collateral.

3. The security interest of Secured Party referred to above was duly registered in the books and records of the Partnership effective November 30, 1999.

4. Partnership interests in the Partnership are not represented in any certificate, instrument or document, and such interest may be assigned, transferred or pledged without the party receiving such assignment, transfer or pledge taking physical possession of any certificate, instrument or document.

5. The Partners hereby consent to the execution and delivery of the Pledge and Security Agreement by the Debtor and agree hereby to be bound by Paragraph 4 thereof to assign, set over, transfer, distribute, pay and deliver the Collateral and any and all payments, proceeds or products due to Debtor under the Collateral to Secured Party.

6. The Partners hereby consent to the admission of the Secured Party, its nominee, designee or any person acquiring its interest under the Pledge and Security Agreement, as a general partner of the Partnership upon receipt of notice by the Secured Party of an Event of Default by the Debtor thereunder, and agree that Secured Party or such nominee, designee or person acquiring Secured Party's interest thereunder shall not be deemed to have assumed any of Debtor's liability by virtue of such admission as the general partner of the Partnership.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

EXECUTED as of the date set forth above.

SOLE GENERAL PARTNER:

FREEPORT PARTNERS, INC.,
a Florida corporation

By: _____
John J. Murphy, Jr., President

SOLE LIMITED PARTNER:

SUNAMERICA HOUSING FUND 797,
A NEVADA LIMITED PARTNERSHIP

By: SUNAMERICA INC., a Delaware corporation, General Partner

By: _____
Michael L. Fowler, Vice President

EXHIBIT E-1

Hedge Reimbursement Agreement

HEDGE REIMBURSEMENT AGREEMENT

THIS HEDGE REIMBURSEMENT AGREEMENT (this "Agreement") is made as of November 30, 1999 by KERNAN ASSOCIATES, LTD., a Florida limited partnership (the "Partnership") for the benefit of SUNAMERICA INC., a Delaware corporation ("SunAmerica").

RECITALS

A. The Partnership is governed by its Second Amended and Restated Agreement of Limited Partnership dated as of November 30, 1999, as amended (the "Partnership Agreement") (except as otherwise defined herein, capitalized terms shall have the definition given them in the Partnership Agreement).

B. Freeport Partners, Inc., a Florida corporation (the "General Partner") is the sole General Partner and SunAmerica Housing Fund 797, A Nevada Limited Partnership (the "Investor Partner") is the sole Limited Partner of the Partnership. (The General Partner and the Limited Partner are sometimes hereinafter collectively referred to as the "Partners".) The Limited Partner is an Affiliate of SunAmerica.

C. It is anticipated by the Partners (if and as requested by the Investor Partner), that the Partnership shall enter into one or more agreements for an interest rate swap, interest rate cap, interest rate collar, or other financial product used for hedging interest rate risk (the "Hedge Agreement").

E. Under the terms of the Partnership Agreement, the Partners have caused the Partnership to enter into this Agreement.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Partnership hereby agrees for the benefit of SunAmerica as follows:

1. Representations of the Partnership. The Partnership represents and warrants to SunAmerica as follows:

a. The Partnership has duly authorized, executed and delivered the Hedge Agreement.

b. This Agreement constitutes the valid obligation of the Partnership enforceable in accordance with its terms, subject to bankruptcy, general principals of equity and other laws effecting creditors' rights generally.

2. Covenants of the Partnership. The Partnership covenants as follows:

a. The Partnership shall timely and fully perform all of its obligations under the Hedge Agreement and without regard to the fact that the Hedge Agreement by its terms is nonrecourse to the Partnership.

b. The Partnership shall not amend, modify, terminate or waive its rights under the Hedge Agreement without the prior written consent of SunAmerica.

3. Reimbursement and Indemnity Obligation. The Partnership shall pay, indemnify, reimburse, exonerate and hold SunAmerica and its Affiliates harmless against any loss, liability, demand or cost incurred by SunAmerica and its Affiliates resulting from a breach by the Partnership of any of the representations, warranties and covenants made in this Agreement or from SunAmerica acting as Credit Support Provider or providing collateral to secure the obligations of the Partnership under the Hedge Agreement. All amounts due hereunder shall be due when incurred by SunAmerica or its Affiliates without notice or demand to the Partnership.

4. Permitted Investments As Collateral. If SunAmerica posts or causes to be posted any collateral to secure the obligations of the Partnership under the Hedge Agreement or SunAmerica as Credit Support Provider, SunAmerica shall be entitled to all earnings thereon and such collateral shall be the property of SunAmerica or such Affiliates, and the Partnership shall have no interest therein.

5. Interest on Amounts Due. Interest on all losses or damages suffered by SunAmerica in connection with this Agreement shall accrue at an annual rate equal to the lesser of (i) eighteen percent (18%), or (ii) the highest rate permitted by law from the time such losses or damages are suffered until such time as SunAmerica or its Affiliates have been compensated by the Partnership in full for such losses.

6. Remedies.

(i) Any of the following shall constitute an "Event of Default": (i) the breach of any monetary obligation of the Partnership arising under this Agreement; and (ii) the breach by the Partnership of any non-monetary obligation (including without limitation the failure to satisfy any non-monetary covenant and the breach of any representation or warranty set forth herein) arising under this Agreement.

(ii) If an Event of Default occurs, SunAmerica shall be entitled to pursue all relief available at law or in equity, including without limitation, an action for damages, specific

performance, or other equitable relief; provided, however, that if any such Event of Default is caused by a breach by the Limited Partner of the Partnership Agreement, then the Partnership shall be entitled to offset the damages caused by such breach against amounts due from the Partnership under this Agreement.

7. Attorneys' Fees and Expenses. The Partnership shall pay to SunAmerica, without demand, all costs of the successful enforcement of this Agreement, whether or not suit is instituted, including without limitation, reasonable attorneys' fees, court costs and other costs of collection.

8. No Fiduciary Duty. The Partnership acknowledges that SunAmerica is an Affiliate of the Limited Partner. Notwithstanding such affiliation, the Partnership and the General Partner agree as follows: (i) that the relationship between SunAmerica and the Partnership is that of a debtor and creditor, and no partnership or joint venture relationship exists between SunAmerica and the Partnership or the General Partner; (ii) that SunAmerica owes no fiduciary or other duty to the Partnership or the General Partner, except for any obligations of SunAmerica set forth in this Agreement; and (iii) that the Limited Partner has no duties or obligations to the General Partner arising from the fact that SunAmerica has acted as Credit Support Provider, and the Limited Partner shall have the right to exercise all its rights and remedies under the Partnership Agreement in its sole and absolute discretion without regard to any affiliation between the Limited Partner and SunAmerica. The Partnership and the General Partner waive and release any claim they may now or hereafter have against SunAmerica or the Limited Partner based on any theory or cause of action that conflicts with the agreements set forth in this Section.

9. Waiver and Estoppel. The Partnership knowingly waives and agrees that it will be estopped from asserting any argument to the contrary: (a) any and all notices of acceptance of this Agreement or of the creation, renewal or accrual of any of the obligations or liabilities hereunder indemnified against, either now or in the future; (b) protest, presentment, demand for payment, notice of default or nonpayment, notice of protest or default; (c) any and all notices or formalities to which the Partnership may otherwise be entitled, including without limitation notice of the granting of any indulgences or extensions of time of payment of any of the liabilities and obligations hereunder and hereby indemnified against; (d) any promptness in making any claim or demand hereunder; (e) the defense of the statute of limitations in any action hereunder or in any action for the collection of amounts payable hereunder; (f) any defense that may arise by reason of the incapacity, lack of authority, death or disability of any other person or persons or the failure to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of any other person or persons; (g) any defense based upon an election of remedies which destroys or otherwise impairs any or all of the subrogation rights of the Partnership or the right of the Partnership to proceed against any other person for reimbursement, or both; (h) all duty or obligation of SunAmerica to perfect, protect, retain or enforce any security for the payment of amounts payable by the Partnership hereunder or to proceed against any one or more persons as a condition to proceeding against the Partnership; (i) any principle or provision of law, statutory or otherwise, which is or might be in conflict with the terms and provisions of this Agreement. No delay or failure on the part of SunAmerica in the exercise of any right or remedy against the Partnership or any other

party against whom SunAmerica may have any rights, shall operate as a waiver of any agreement or obligation contained herein, and no single or partial exercise by SunAmerica of any rights or remedies hereunder shall preclude other or further exercise thereof or other exercise of any other right or remedy. No waiver of the rights of SunAmerica in connection herewith and no release of the Partnership shall be effective unless in writing executed by a duly authorized officer of SunAmerica.

10. Notices. All notices, demands, requests or other communications ("Notices") to be sent by one party to the other hereunder or required by law shall be in writing and shall be deemed to have been validly given or served by delivery of same in person to the addressee or by depositing same with Federal Express or Airborne for next business day delivery or by depositing same in the United States mail, postage prepaid, registered or certified mail, return receipt requested, addressed as follows:

If to the Partnership: 1075 West Morse
Winter Park, Florida 32789
Attention: John J. Murphy, Jr.
Fax No.: (407) 628-5270

With a copy to: Thomas V. Infantino, Esq.
Infantino & Berman
1075 West Morse Boulevard
Winter Park, Florida 32789
Fax No.: (407) 644-4128

If to SunAmerica: SunAmerica Inc.
1 SunAmerica Center, Century City
Los Angeles, California 90067-6022
Attention: Michael L. Fowler
Telephone: (310) 772-6000
Fax No.: (310) 772-6179

With a copy to: Wayne H. Hykan, Esq.
Brownstein Hyatt & Farber, P.C.
410 Seventeenth Street, Suite 2200
Denver, Colorado 80202
Telephone: (303) 223-1497
Fax No.: (303) 223-1111

All Notices shall be effective upon such personal delivery or upon being deposited with Federal Express or Airborne or in the United States mail as required above. However, with respect to Notices so deposited with Federal Express or Airborne or in the United States mail, the time period in which a response to any such notice, demand or request must be given shall commence to run

from the next business day following any such deposit with Federal Express or Airborne, or, in the case of a deposit in the United States mail as provided above, the date on the return receipt of the Notice reflecting the date of delivery or rejection of the same by the addressee thereof. By giving to the other parties hereto at least fifteen (15) days' written notice in accordance with the provisions hereof, a party may change its address for notice purposes.

11. State Law. This Agreement shall be construed and interpreted in accordance with the substantive laws of the State of Florida without regard to principles of conflicts of laws.

12. Headings. The headings used herein are for convenience only and do not limit or alter the terms of this Agreement or in any way affect the meaning or interpretation of this Agreement.

13. Successors And Assigns. All rights of SunAmerica shall inure to the benefit of its successors and assigns, and all obligations, liabilities, and duties of the Partnership hereunder shall bind its successors and assigns.

14. Entire Agreement; Amendment and Modification. This Agreement constitutes the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein, supersedes all prior agreements and understandings, both written and oral, between the parties in respect of the subject matter hereof or thereof and no changes, amendments, or alterations hereto shall be effective unless pursuant to written instrument executed by the Partnership and SunAmerica.

15. Waiver of Strict Compliance. No waiver or failure of SunAmerica to insist upon strict compliance with any obligation, covenant, agreement, representation, warranty, or condition shall operate as a waiver of, or estoppel with respect to, any subsequent or other failure to comply with such obligation, covenant, agreement, representation, warranty, or condition, or with any other obligation, covenant, agreement, representation, warranty, or condition contained herein. Failure to exercise any right, power, or remedy shall not constitute a waiver of any obligation or obligations under this Agreement or constitute a modification of this Agreement. No waiver by SunAmerica of any default shall operate as a waiver of any other default or of the same default on a future occasion. The making of this Agreement shall not waive or impair any other security SunAmerica may have or hereafter acquire for the payment of obligations under this Agreement, and the taking of any additional security it may have in the order it may deem proper.

16. Validity. The invalidity or unenforceability of any terms or provisions of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect, and, if any such unenforceable provision hereof is enforceable in any part or to any lesser extent, such provision shall be enforceable in all such parts and to the greatest extent permissible under applicable law.

17. Remedies Cumulative. Each right and remedy provided for herein shall be cumulative and non-exclusive and shall be in addition to every other right or remedy provided for herein or now or hereafter existing at law or in equity or by statute or otherwise.

EXECUTED as of the date and year first set forth above.

KERNAN ASSOCIATES, LTD., a Florida limited partnership

BY: FREEPORT PARTNERS, INC., a Florida corporation, General Partner

By: _____
John J. Murphy, Jr., President

EXHIBIT E-2

Hedge Management Agreement

HEDGE MANAGEMENT AGREEMENT

THIS HEDGE MANAGEMENT AGREEMENT ("Agreement") is made and entered into as of November 30, 1999, by and among KERNAN ASSOCIATES, LTD., a FLorida limited partnership (the "Partnership") and SUNAMERICA AFFORDABLE HOUSING PARTNERS, INC. (the "Hedge Manager").

RECITALS

A. The Partnership is governed by its Second Amended and Restated Agreement of Limited Partnership dated as of November 30, 1999, as amended (the "Partnership Agreement") (except as otherwise defined herein, capitalized terms shall have the definition given them in the Partnership Agreement).

B. Freeport Partners, Inc., a Florida corporation (the "General Partner") is the sole General Partner and SunAmerica Housing Fund 797, A Nevada Limited Partnership (the "Investor Partner") is the sole Limited Partner of the Partnership. (The General Partner and the Investor Partner are sometimes hereinafter collectively referred to as the "Partners".) The Investor Partner is an Affiliate of the Hedge Manager.

C. It is anticipated by the Partners (if and as requested by the Investor Partner), that the Partnership shall enter into one or more agreements for an interest rate swap, interest rate cap, interest rate collar, or other financial product used for hedging interest rate risk (the "Hedge Agreement").

E. The Partnership desires to appoint the Hedge Manager to act as its exclusive agent and to perform acts related to the Hedge Agreement.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Partnership hereby agrees for the benefit of the Hedge Manager as follows:

1. Appointment. The Partnership appoints and engages the Hedge Manager to act as its exclusive agent (such appointment is irrevocable and coupled with an interest) and to perform acts provided in Section 2 of this Agreement.

2. Authority. The Hedge Manager is hereby authorized, but not required, in its sole and absolute discretion:

a. To make, subject only to the limitations of authority in Section 3 hereof, any and all decisions and elections regarding the negotiation, documentation, execution, management, operation, assignment and termination of the Hedge Agreement.

b. To act as its exclusive agent to execute all documents the Hedge Manager deems necessary or appropriate in connection with the Hedge Agreement without the necessity of any further authorization, resolution or approval from the Partnership or its Partners.

c. In its capacity as agent of the Partnership, to receive funds from the Counterparty. In such event, any such funds, shall be used first, to pay the Hedge Manager or its designee for any loss, liability, demand or cost incurred by SunAmerica or its Affiliates pursuant to the terms of the Hedge Reimbursement Agreement, and second, the balance, if any, shall be delivered to the Partnership. Notwithstanding anything provided herein to the contrary, if (A) the Partnership shall not have complied with any material provision under the Hedge Agreement, or (B) the Partnership shall not have complied with any material provision under the Hedge Reimbursement Agreement, or (C) the Construction Lender or Term Lender shall have declared the Partnership to be in default under any Project Loan, or (D) foreclosure proceedings shall have been commenced against the Apartment Complex, then the Hedge Manager shall withhold payment of any amounts payable to the Partnership. All amounts so withheld by the Hedge Manager, shall be promptly released to the Partnership only after the Partnership has cured the default justifying the withholding, as demonstrated by evidence reasonably acceptable to the Hedge Manager.

d. To advise and direct the Partnership to make payments to the Counterparty on behalf of the Partnership under the Hedge Agreement. In such event, the Partnership shall pay any amount due under the Hedge Agreement no less than three (3) days prior to its due date and provide the Hedge Manager with proof of payment within three (3) days thereof.

e. To cause the Partnership to assign the Hedge Agreement at any time to any person or entity, including without limitation, affiliates of the Hedge Manager or the Investor Partner, which assignments may be made without receipt of any consideration and without regard to the value of the Hedge Agreement at the time of the assignment. In such event, (A) if the Partnership would have owed an amount in connection with the termination of the Hedge Agreement, then the Partnership shall pay such amount to the Hedge Agreement assignee in consideration of such assignment, or (B) if the Partnership would have received an amount in connection with the termination of the Hedge Agreement, then the Hedge Agreement assignee shall pay such amount to the Partnership (through the Hedge Manager) in consideration of such assignment.

4. Covenants.

a. The Partnership specifically assumes all risk of loss and damages from the exercise by the Hedge Manager of its rights and authority under this Agreement, including without

limitation loss and damages attributable to the Hedge Manager, excluding only loss or directly caused by a material breach by the Hedge Manager of the express terms of this Agreement.

b. The General Partner on behalf of the Partnership agrees to cooperate fully with the Hedge Manager in connection with the activities of the Hedge Manager under this Agreement.

c. The General Partner on behalf of the Partnership agrees to execute such documents, instruments and certificates as the Hedge Manager may reasonably request in connection with this Agreement and the Hedge Agreement.

d. The General Partner shall not cause the Partnership to terminate the Hedge Agreement prior to the expiration of its term or make any other material decision relating to the Hedge Agreement without the consent of the Investor Partner, which consent may be withheld in its sole and absolute discretion.

5. Divestiture of Rights. The Partnership and the General Partner hereby divest themselves of any and all power and authority to act on behalf of the Partnership in connection with the Hedge Agreement, it being understood that all such power and authority has been given to the Hedge Manager.

6. Remedies. Any of the following shall constitute an "Event of Default": (i) the breach of any monetary obligation of the Partnership arising under this Agreement; and (ii) the breach by the Partnership of any non-monetary obligation arising under this Agreement. If an Event of Default occurs, the Hedge Manager shall be entitled to pursue all relief available at law or in equity, including without limitation, an action for damages, specific performance, or other equitable relief.

7. Attorneys' Fees and Expenses. The Partnership shall pay to the Hedge Manager, without demand, all costs of the successful enforcement of this Agreement, whether or not suit is instituted, including without limitation, reasonable attorneys' fees, court costs and other costs of collection.

8. No Fiduciary Duty. The Hedge Manager shall not be a fiduciary to the Partnership or the General Partner with respect to its activities under this Agreement.

9. Notices. All notices, demands, requests or other communications ("Notices") to be sent by one party to the other hereunder or required by law shall be in writing and shall be deemed to have been validly given or served by delivery of same in person to the addressee or by depositing same with Federal Express or Airborne for next business day delivery or by depositing same in the United States mail, postage prepaid, registered or certified mail, return receipt requested, addressed as follows:

If to the Partnership: 1075 West Morse Boulevard
Winter Park, Florida 32789
Attention: John J. Murphy, Jr.
Fax No.: (407) 628-5270

With a copies to: Thomas V. Infantino, Esq.
Infantino & Berman
180 South Knowles Avenue, Suite 7
Winter Park, Florida 32789
Fax No.: (407) 644-4128

If to SAHP: SunAmerica Affordable Housing Partners, Inc.
1 SunAmerica Center, Century City
Los Angeles, California 90067-6022
Attention: Michael L. Fowler
Fax No.: (310) 772-6179

With a copy to: Wayne H. Hykan, Esq.
Brownstein Hyatt & Farber, P.C.
410 Seventeenth Street, 22nd Floor
Denver, Colorado 80202
Fax No.: (303) 223-1111

All Notices shall be effective upon such personal delivery or upon being deposited with Federal Express or Airborne or in the United States mail as required above. However, with respect to Notices so deposited with Federal Express or Airborne or in the United States mail, the time period in which a response to any such notice, demand or request must be given shall commence to run from the next business day following any such deposit with Federal Express or Airborne, or, in the case of a deposit in the United States mail as provided above, the date on the return receipt of the Notice reflecting the date of delivery or rejection of the same by the addressee thereof. By giving to the other parties hereto at least fifteen (15) days' written notice in accordance with the provisions hereof, a party may change its address for notice purposes.

10. State Law. This Agreement shall be construed and interpreted in accordance with the substantive laws of the State of Florida without regard to principles of conflicts of laws.

11. Headings. The headings used herein are for convenience only and do not limit or alter the terms of this Agreement or in any way affect the meaning or interpretation of this Agreement.

12. Successors And Assigns. All rights of the Hedge Manager shall inure to the benefit of its successors and assigns, and all obligations, liabilities, and duties of the Partnership hereunder shall bind its successors and assigns.

13. Entire Agreement; Amendment and Modification. This Agreement constitutes the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein, supersedes all prior agreements and understandings, both written and oral, between the parties in respect of the subject matter hereof or thereof and no changes, amendments, or alterations hereto shall be effective unless pursuant to written instrument executed by the Partnership and the Hedge Manager.

14. Waiver of Strict Compliance. No waiver or failure of the Hedge Manager to insist upon strict compliance with any obligation, covenant, agreement, representation, warranty, or condition shall operate as a waiver of, or estoppel with respect to, any subsequent or other failure to comply with such obligation, covenant, agreement, representation, warranty, or condition, or with any other obligation, covenant, agreement, representation, warranty, or condition contained herein. Failure to exercise any right, power, or remedy shall not constitute a waiver of any obligation or obligations under this Agreement or constitute a modification of this Agreement. No waiver by the Hedge Manager of any default shall operate as a waiver of any other default or of the same default on a future occasion. The making of this Agreement shall not waive or impair any other security Hedge Manager may have or hereafter acquire for the payment of obligations under this Agreement, and the taking of any additional security it may have in the order it may deem proper.

15. Validity. The invalidity or unenforceability of any terms or provisions of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect, and, if any such unenforceable provision hereof is enforceable in any part or to any lesser extent, such provision shall be enforceable in all such parts and to the greatest extent permissible under applicable law.

16. Counterparts. This Agreement may be signed in counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have affixed their signatures and seals to this Hedge Management Agreement as of the date first written above.

PARTNERSHIP:

KERNAN ASSOCIATES, LTD., a Florida limited partnership

BY: FREEPORT PARTNERS, INC., a Florida corporation, General Partner

By: _____
John J. Murphy, Jr., President

HEDGE MANAGER:

SUNAMERICA AFFORDABLE HOUSING PARTNERS, INC.

By: _____
Michael L. Fowler, President

EXHIBIT F

OWNER'S AND CONTRACTOR'S AFFIDAVIT

OWNER'S AND CONTRACTOR'S AFFIDAVIT
(CONSTRUCTION IN PROGRESS)

STATE OF _____)
) SS:
CITY OF _____)

On this _____ day of _____, 19___, before me personally appeared Kernan Associates, Ltd., a Florida limited partnership, Owner, and [_____], General Contractor, to me personally known, who, being duly sworn on their oaths, did say that they are the Owner of the property hereinafter described and the General Contractor in connection with the construction or repair of the improvements located on said property as indicated above (if the word "None" appears in the above space preceding General Contractor, Owner stated that construction or repair was made under its own supervision, no general contractor having been employed) and that all of the persons, firms and corporations, except those whose names, if any, appear on the Waiver of Liens on the reverse side hereof, including the General Contractor and all subcontractors who have furnished services, labor, or materials, according to plans and specifications, or extra items, used in the construction or repair of such improvements, have been paid for all labor or services performed and/or for all materials or supplies furnished up to the date hereof, that there are no mechanics' or materialmen's liens against said property and no claims outstanding which would entitle the holder thereof to claim a lien against the property (except those claims, if any, which are waived by the Waiver of Liens on the reverse side hereof). General Contractor hereby waives and releases its right to file a mechanics' or materialman's lien against said property with respect to work for which it has been paid, and

Further, that there are no financing statements, chattel mortgages, conditional bills of sale or retention of title agreements affecting any fixtures or any cabinets, mantles, awnings, doors or windows or screens therefor or any plumbing, lighting, heating, cooking, refrigerating, ventilating or air-conditioning equipment or apparatus used separately or in combination as packaged units or installations in connection with the improvements on the property, and

That this affidavit is made for the purpose of inducing the making of a loan on said property and _____ ("Title Company") to issue its policy or policies insuring the title to said property without exception to, or providing insurance against, claims of mechanics, materialmen and laborers, and said affiants do hereby jointly and severally agree to indemnify and hold Title Company harmless of and from any and all loss, cost, damage and expense of every kind, including attorneys' fees, which said Title Company shall or may suffer or incur or become liable for under its said policy or policies directly or indirectly, out of such improvements, repairs or other construction on the property hereafter described or on account of any such mechanics' or materialmen's lien or liens or claim or claims, or in connection with its enforcement of its rights under this affidavit.

The real estate and improvements referred to herein are situated in Jacksonville, Duval County, Florida, and are briefly described as a 240-unit multifamily apartment complex.

KERNAN ASSOCIATES, LTD., a Florida limited partnership

By: FREEPORT PARTNERS, INC.,
a Florida corporation

[SAMPLE - NOT FOR SIGNATURE]

By: _____
John J. Murphy, Jr., President

GENERAL CONTRACTOR:

[_____]
a [_____] [_____]

[SAMPLE - NOT FOR SIGNATURE]

By: _____
Name: _____
Title: _____

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this ___ day of December, 1999, by John J. Murphy, Jr., President of Freeport Partners, Inc., a Florida corporation, general partner of Kernan Associates, Ltd., a Florida limited partnership, on behalf of said limited partnership.

WITNESS my hand and official seal.

[SEAL]

_____
Notary Public

My Commission expires: _____

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this ___ day of December, 1999, by _____, as _____ of _____, a _____, on behalf of said _____.

WITNESS my hand and official seal.

[SEAL]

_____
Notary Public

My Commission expires: _____

EXHIBIT G

DEVELOPMENT BUDGET

Borrower: Keman Associates, L.P.
Project: St. Johns Apartments
Original Date: December 17,1999
Current Date: December 22,1999
Draw #: 1

		A	B	C	D	E	F	G	H
		Project Budget	Reallocations Change Order	Revised Budget	Previous Applications	This Application	Total Funded To Date	Percent Funded	Balance
1000	**Soft Costs:**								
1001	Accounting Fee	12,000.00	$0.00	$12,000.00	$0.00	$0.00	$0.00	0.00%	$12,000.00
1002	Advertising / Marketing/FF+E	204,000.00	$0.00	$204,000.00	$0.00	$8,259.00	$8,259.00	4.05%	$195,741.00
1003	Appraisal/Market Study	27,400.00	$0.00	$27,400.00	$0.00	$27,400.00	$27,400.00	100.00%	$0.00
1004	Architectural Fees	120,000.00	$0.00	$120,000.00	$0.00	$99,680.30	$99,680.30	83.07%	$20,319.70
1005	Construction Insurance	71,310.59	$0.00	$71,310.59	$0.00	$71,310.59	$71,310.59	100.00%	$0.00
1006	Construction Interest	1,000,000.00	$0.00	$1,000,000.00	$0.00	$0.00	$0.00	0.00%	$1,000,000.00
1007	Construction Management Overhead	50,000.00	$0.00	$50,000.00	$0.00	$50,000.00	$50,000.00	100.00%	$0.00
1008	Construction Services Fee	25,000.00	$0.00	$25,000.00	$0.00	$25,000.00	$25,000.00	100.00%	$0.00
1009	Developer's Overhead	300,000.00	$0.00	$300,000.00	$0.00	$0.00	$0.00	0.00%	$300,000.00
1010	Engineering Fees	100,157.27	$0.00	$100,157.27	$0.00	$80,757.27	$80,757.27	80.63%	$19,400.00
1011	Environmental/Geo Technical	7,500.00	$0.00	$7,500.00	$0.00	$5,200.00	$5,200.00	69.33%	$2,300.00
1012	Reimburse Withdrawing Partners	10,223.24	$0.00	$10,223.24	$0.00	$10,223.24	$10,223.24	100.00%	$0.00
1013	Impact & Permit Fees	230,000.00	$0.00	$230,000.00	$0.00	$1,300.00	$1,300.00	0.57%	$228,700.00
1014	Legal Fees	72,728.50	$0.00	$72,728.50	$0.00	$72,728.50	$72,728.50	100.00%	$0.00
1015	Loan Fees	187,700.00	$0.00	$187,700.00	$0.00	$140,775.00	$140,775.00	75.00%	$46,925.00
1016	Construction Inspection-SouthTrust	8,850.00	$0.00	$8,850.00	$0.00	$1,500.00	$1,500.00	16.95%	$7,350.00
1017	Operating Reserve	150,000.00	$0.00	$150,000.00	$0.00	$0.00	$0.00	0.00%	$150,000.00
1018	Real Estate Taxes	38,000.00	$0.00	$38,000.00	$0.00	$18,497.83	$18,497.83	48.68%	$19,502.17
1019	SunAmerica Fees	140,775.00	$0.00	$140,775.00	$0.00	$46,925.00	$46,925.00	33.33%	$93,850.00
1020	Survey(see line 1010)	1,975.00	$0.00	$1,975.00	$0.00	$1,975.00	$1,975.00	100.00%	$0.00
1021	Title & Recording	175,895.00	$0.00	$175,895.00	$0.00	$175,895.00	$175,895.00	100.00%	$0.00
1000	Total Soft Costs:	$2,933,514.60	$0.00	$2,933,514.60	$0.00	$837,426.73	$837,426.73	28.55%	$2,096,088
2000	Land (as of 12-27-99)	$2,286,485.40	$0.00	$2,286,485.40		$2,286,485.40	$2,286,485.40	100.00%	$0.00
3000	Construction	$12,900,000.00	$0.00	$12,900,000.00	$0.00	$0.00	$0.00	0.00%	$12,900,000.00
3400	Contingency	$650,000.00	$0.00	$650,000.00		$0.00	$0.00	0.00%	$650,000.00
	SouthTrust Funding	**$18,770,000.00**	**$0.00**	**$18,770,000.00**	**$0.00**	**$3,123,912.13**	**$3,123,912.13**	**16.64%**	**$15,646,087.87**
	Equity(Defrred Development Fee)	$700,000.00							$0.00
	TOTAL COSTS	$19,470,000.00		$18,770,000.00	$0.00	$3,123,912.13	$3,123,912.13	16.64%	$15,646,087.87

Explanations	
Column	
A	*Project Budget*
B	*Change Orders Reallocations*
C	*Column A + Column B - (No input required)*
D	*Total of previous draws (reflects Column F from previous draws)*
E	*This Draw*
F	*Column D + Column E- (No input required)*
G	*Calculated Column -(No input Required)*
H	*Calculated Column -(No input Required)*

updated 12-22-99 rtc

EXHIBIT H

MANAGEMENT AGREEMENT

MANAGEMENT AGREEMENT

THIS MANAGEMENT AGREEMENT ("Agreement") is made as of November 30, 1999, by and between KERNAN ASSOCIATES, LTD., a Florida limited partnership ("Owner"), and SOUTHERN APARTMENT SPECIALISTS, INC., a Florida corporation ("Manager").

WHEREAS, Owner is the owner of a 240-unit multifamily apartment complex known as St. Johns Estates Apartments and located in Jacksonville, Duval County, Florida (the "Apartment Complex");

WHEREAS, Freeport Partners, Inc., a Florida corporation, as the General Partner and SunAmerica Housing Fund 797, A Nevada Limited Partnership (the "Investor Partner") are the sole partners of Owner;

WHEREAS, Owner is governed by its Second Amended and Restated Agreement of Limited Partnership dated as of November 30, 1999 (the "Partnership Agreement");

WHEREAS, Manager is an Affiliate of the General Partner;

WHEREAS, Manager is engaged in the business of property management; and

WHEREAS, Owner desires to engage Manager as property manager under the terms set forth in this Agreement.

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, Owner and Manager mutually agree as follows:

1. DEFINITIONS.

(a) "Affiliate" means any person that directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with the General Partner or with another designated Person, as the context may require.

(b) "Gross Operating Revenues" means the actual monthly cash collections from the customary operations of the Apartment Complex consisting of rental, vending machine and laundry room receipts net of any costs or expenses, forfeited or applied deposits, rent claim settlements net of any collection fees, lease termination or modification payments, and other operating receipts, excluding applicable sales tax and refundable deposits); Gross Operating Revenues shall not include any revenues from condemnation or casualty proceeds, any cash advances from Owner, loss of rental insurance; refunds or rebates from suppliers or vendors, revenue from the sale of any personal or real property of Owner, late charges, cleaning fees, pet fees, deposits, or from any source other than the customary operations of the Apartment Complex ("Excluded Revenues").

(c) "Person" means any individual, partnership, corporation, trust, limited liability company or other entity.

(d) "Project Lenders" shall mean any Person in its capacity as a holder of a loan on the Apartment Complex.

(e) "Project Loans" shall mean the loans and indebtedness of the Owner to the Project Lenders.

(f) "Reserve For Replacements" means the cash funded reserve for replacements required by the Project Lenders or the Investor Partner in connection with the Project Loans, which shall be used exclusively for replacement expenditures (and not operational expenditures) for the Apartment Complex. The Reserve Fund for Replacements shall be funded as follows: (i) from the date of Substantial Completion until the date five (5) years after Substantial Completion, the Reserve for Replacements shall be funded based on $200.00 per apartment unit per year; (iii) from the date five (5) years from the date of Substantial Completion until the date ten (10) years after the date of Substantial Completion, the Reserve For Replacements shall be funded based on $250.00 per apartment unit per year; (iv) with respect to each subsequent five (5) year period, the required funding shall be increased by $50.00 per apartment unit per five year period, provided that the Owner shall increase the minimum funding of the Reserve For Replacements if necessary to ensure that such increase is necessary to comply with sound asset management principles. If the terms of the Mortgage Loan imposes more strict requirements regarding the funding and/or use of Reserve For Replacements, such more strict requirements shall apply.

(g) "Substantial Completion" means the date that the Partnership receives all necessary permanent certificates of occupancy from the applicable governmental jurisdiction(s) or authority(ies) for one hundred percent (100%) of the apartment units in the Apartment Complex; provided, however, that Substantial Completion shall not be deemed to have occurred if on such date any liens or other encumbrances as to title to the Land and the Apartment Complex exist, other than (A) those securing the Project Loans, (B) those consented to by the Investor Partner, (C) payment and release of, or bonding off of, all liens of contractors, subcontractors, materialmen, and those in favor of providers of labor, equipment, material and/or services to the Apartment Complex for which unconditional lien releases from all such subcontractors, materialmen and all those in favor of providers of labor, equipment, material and/or services to the Apartment Complex have been received, or (D) those which have been bonded off by a title endorsement or report showing that such liens are no longer liens of record.

2. APPOINTMENT OF MANAGER. On and subject to the terms and conditions of this Agreement, Owner hereby retains Manager commencing on _____, 1999 (the "Commencement Date") to manage and lease the Apartment Complex.

3. TERM. This Agreement shall commence on the Commencement Date and, subject to Section 10, shall expire on the date twelve months from the Commencement Date (the "Original

Term"). The term will be automatically renewed at the end of the Original Term or any later Renewal Term (each term after the Original Term being referred to herein as a Renewal Term) for an additional one year, unless terminated in accordance with the provisions of Section 10. The terms and conditions during any Renewal Term shall be the same as the terms and conditions during the Original Term.

4. MANAGEMENT FEES. In consideration of the performance by Manager of its duties and obligations hereunder, Owner shall pay to Manager a management fee ("Management Fee") equal to four percent (4%) of Gross Operating Revenues. Manager shall submit to Owner an invoice detailing the calculation of the Management Fee each month, no later than the fifth day of the next succeeding month. If the first or last month of this Agreement is not a complete calendar month, the Management Fee for such month shall be calculated on the basis of Gross Operating Revenues for the entire month, and the amount payable for such month shall then be prorated based on the number of days during such month that this Agreement was in effect. As an Affiliate of Owner, Manager agrees to accrue the Management Fee to the extent necessary at any time to prevent a default under the Project Loans.

5. AUTHORITY AND RESPONSIBILITIES OF MANAGER.

(a) Independent Contractor. In the performance of its duties hereunder, the Manager shall be and act as an independent contractor, with the sole duty to supervise, manage, operate, control and direct performance of the details of its duties incident to the specified duties and obligations hereunder, subject to the rights of the Owner, as described herein. Nothing contained in this Agreement shall be deemed or construed to create a partnership, joint venture, employment relationship, or otherwise to create any liability for one party with respect to indebtedness, liabilities or obligations of the other party except as otherwise may be expressly set forth herein.

(b) Standard of Care. Manager shall perform its duties and obligations in a professional, competent, businesslike and efficient manner as would a first class property manager of apartment projects similar to the Apartment Complex.

(c) Depository Accounts. All rents and other revenue from the Apartment Complex shall be deposited by Manager into one or more deposit accounts designated by Owner and shall be insured by the Federal Deposit Insurance Corporation (each a "Depository Account"). The Depository Account shall be the sole and exclusive property of Owner, and Manager shall retain no interest therein. Manager shall not commingle the Depository Account with any other funds. Checks may be drawn upon such Depository Account only by persons authorized by Manager in writing to sign checks. Manager shall not use a "standardized clearing account" for any Depository Account. The Depository Account shall be established in the name of the Manager to be held in trust for the Owner.

(d) Security Deposits. Manager shall deposit and maintain all security deposits in a separate account that is interest bearing and distinct from the Depository Account.

(e) Budgets. Manager shall prepare and present to Owner in a format approved by Owner, prior to the Commencement Date and annually thereafter, by November 15, annual operating budgets for the following calendar year for the Apartment Complex; which once approved by Owner, the Investor Partner and Manager shall be the budget ("Budget"). Except in cases of emergency, without the written approval of Owner, Manager shall not incur any expenses that are not included within the approved budget for the current year. Once a Budget is approved by Owner, any variations or changes must be approved by Owner in writing.

(f) Leasing, Collection of Rents, Etc.

(i) Manager shall use its best efforts consistent with the standard of care set forth herein to lease apartment units, retain residents and maximize Gross Operating Revenues.

(ii) Manager shall sign apartment leases in its capacity as property manager hereunder. Manager shall only sign leases in the form of lease approved by Owner. Manager shall not enter into any lease which has a term greater than 12 months.

(iii) Manager shall collect rents, security deposits and other charges payable by tenants in accordance with the tenant leases, and shall collect income due Owner with respect to the Apartment Complex from all other sources, and shall deposit all such income received immediately upon receipt as provided in Section 5(d).

(iv) Manager shall pay all debt service, monthly bills and insurance on the Apartment Complex from the Depository Account as set forth in the Budget.

(v) Manager shall, at Owner's expense, terminate leases, evict tenants, institute and settle suits for delinquent payments as Manager deems advisable, subject to other provisions of this Agreement. In connection therewith, Manager may, at Owner's expense from available cash flow, as limited by the provisions of Section 5(m), consult and retain legal counsel.

(vi) Manager shall, on the twenty-fifth (25th) day of each month, pay Owner an amount equal to the sum of (A) Gross Operating Revenues plus any other funds received by the Manager, including but not limited to Excluded Revenues, less amounts paid for all paproved operating expenses including without limitation, debt service; and (B) working reserves including the Reserve For Replacements not held by the Project Lenders.

(vii) The responsibilities and services included in this Section 5 as part of Manager's duties shall not entitle Manager to any additional compensation over and above the Management Fee. Manager shall not be entitled to any compensation based upon any Apartment Complex financing or sale of the Apartment Complex, unless Manager is engaged pursuant to a separate agreement approved in writing by the Investor Partner of Owner to provide brokerage services in connection therewith, in which case Manager's right to compensation for Apartment Complex financing or sale shall be based upon such separate agreement.

(g) Repair, Maintenance and Service.

(i) Manager shall maintain the Apartment Complex in good repair and condition, consistent with the standard of care set forth herein.

(ii) Subject to the other terms and conditions of this Agreement, Manager in its capacity hereunder shall execute contracts for water, electricity, gas, telephone, television, vermin or pest extermination and any other services which are necessary to properly maintain the Apartment Complex. Manager shall, in Owner's name and at Owner's expense, out of available cash flow, hire and discharge independent contractors for the repair and maintenance of the Apartment Complex. Other than tenant leases, which Manager is authorized to execute hereunder, Manager shall not, without the prior written consent of the Owner, enter into any contract in name of Owner which may not be terminated with thirty (30) days notice. Manager shall act at arms length with all contractors and shall employ no Affiliates of Manager or the General Partner without Owner's and the Investor Partner's prior written consent.

(h) Manager's Employees. Manager shall cause to be employed at all times a sufficient number of employees to enable it to professionally manage the Apartment Complex in accordance with the terms of this Agreement. Manager shall prepare, execute and file all forms, reports and returns required by applicable laws. All payroll costs for on-site employees shall be at Owner's expense from available cash flow. However, Owner shall not pay or reimburse Manager for all or any part of Manager's general, administrative and overhead expenses, including salaries and payroll expenses of personnel of Manager not working full time on-site. All matters pertaining to the employment and supervision of such employees shall be the sole responsibility of the Manager, which in all respects shall be the employer of such employees, and Owner shall have no liability with respect to such matters.

(i) Manager's Insurance. With respect to its operations of the Apartment Complex, Manager shall carry, (i) worker's compensation insurance for compensation to any person engaged in the performance of any work undertaken under this Agreement, including employer's liability coverage with limits of not less than $1,000,000.00 each employee and each disease; such policy must be in compliance with the statutory requirements of the state in which the Apartment Complex is located, (ii) commercial general liability insurance and excess/umbrella liability insurance policies with combined limits of not less than $5,000,000.00 per occurrence and in the aggregate; such policies shall be written on an occurrence basis, and include contractual liability and other provisions as Owner shall reasonably require, (iii) a crime insurance policy including insuring agreement for employee dishonesty, forgery and alteration, theft, disappearance & destruction, and robbery and safe burglary. Limits of liability for each insuring agreement shall not be less than $100,000.00, with a maximum deductible of $1,000.00 per claim, (iv) if the Manager provides services similar to those set forth in this Agreement to third-party clients with which the Manager has no other affiliation, a professional liability insurance policy covering all the activities of Manager; such policy shall be written on a "claims made" basis, with limits of at least $1,000,000.00 in the aggregate and with a maximum deductible of $10,000.00, and (v) such other insurance as a

first class property manager of apartment projects similar to the Apartment Complex would carry, or as reasonably required by Owner. Any loss within the deductibles shall be borne by Manager. All policies of insurance shall be maintained in during the period of the Agreement. Each policy shall be from an insurance company rated "A" or higher by the A.M. Best Insurance Guide, with a financial size category rating of 12 or higher. Each policy shall be endorsed to include the provision giving the Owner at least thirty (30) days prior written notice of cancellation, non-renewal or material change of the policy. The Commercial General Liability insurance policy shall be endorsed to include as additional insured the Owner, SunAmerica Housing Fund 797, A Nevada Limited Partnership, SunAmerica Inc. and SunAmerica Affordable Housing Partners, Inc. Manager shall furnish Owner with copies of all such endorsements, and with Certificates of Insurance evidencing such policies and the renewals thereof. Owner shall further have the right to receive full copies of the insurance policies for its review. Other than the cost for worker's compensation insurance, the Manager shall pay without any right of reimbursement all costs of maintaining the insurance required under this section.

(j) Owner's Insurance. Owner shall carry, at its expense, such insurance as it deems appropriate. Manager shall be named as an additional insured.

(k) Waiver of Subrogation. Manager hereby waives any and all rights of recovery against Owner, its officers, agents, partners in and employees occurring out of the ownership, management and operation of the Apartment Complex for loss or damage as a result of any casualty covered and to the extent covered by its insurance policies. The Manager shall upon obtaining the policies of insurance required by this Section, notify the insurance carrier that the foregoing waiver is contained in this Agreement and shall require such carrier to include an appropriate waiver of subrogation provision in the insurance policies.

(l) Maintenance of Records. Manager agrees to keep and maintain at all times all necessary books and records relating to the leasing, management and operation of the Apartment Complex, and to prepare and render to Owner monthly itemized accounts of receipts and disbursements incurred in connection with its leasing operation and management by the twentieth (20th) day of the following month. Unless Owner, in writing, expressly directs, Manager shall not be required to file any reports other than such monthly statements. An annual audit report shall be prepared at Owner's expense, out of available cash flow, showing a balance sheet and an income and expense statement, all in reasonable detail and certified by an independent Certified Public Accountant. All books, correspondence and data pertaining to the leasing, management and operation of the Apartment Complex shall, at all times, be safely preserved. Such books, correspondence and data shall be available to Owner at all reasonable times, and shall, upon the termination of this Agreement be delivered to Owner in their entirety and upon request of Owner be delivered to Owner within thirty (30) days of such request.

(m) Operating Expenses. Manager shall use reasonable efforts to minimize operating expenses by obtaining competitive pricing on all services and obtaining at least three bids on expenditures exceeding ten thousand dollars ($10,000.00) (a "major expenditure"). Manager

shall use reasonable efforts to comply with the limitations on expenditures set forth in the Budget. Manager shall obtain Owner's prior written consent before incurring on behalf of Owner any single expenditure in excess of five thousand dollars ($5,000.00) excluding utility bills and other normal and recurring expenses included in the Budget, except in an emergency in which case Manager may incur such expenses as are to protect life and property. Manager shall notify Owner of any such emergency expenses as soon as practicable after they are incurred but in no event later than three (3) days thereafter. Manager shall not request payment of any invoices, whether to itself or a third party, marked-up above cost, nor shall Manager request payment of any compliance fees, marketing fees, mark-up on employees' salary or travel or fees for personnel off-site.

(n) Legal Proceedings and Compliance with Applicable Laws.

(i) Manager shall promptly notify Owner in writing of the receipt or service of any demand, notice or legal process upon Manager (although Manager is not authorized to accept service of process on behalf of the Owner), or the occurrence of any casualty loss, injury or damage on or about the Apartment Complex;

(ii) Manager shall fully comply and cause its employees to fully comply, with all applicable laws in connection with this Agreement and the performance of its obligations hereunder, including all federal, state and local laws, ordinances and regulations relative to the leasing, use, operation, repair and maintenance of the Apartment Complex and the operations of Manager, including without limitation, laws prohibiting discrimination in housing, employment laws (including those related to unfair labor practices), laws regarding tenant security deposits and laws regarding the storage, release and disposal of hazardous materials, and toxic substances, including without limitation, asbestos, petroleum and petroleum products.

(iii) Manager agrees that it shall not, and shall cause its employees to not, cause any hazardous materials or toxic substances, to be stored, released or disposed of on or in the Apartment Complex except as may be incidental to the operation of any apartment project (e.g., cleaning supplies, fertilizers, paint, pool supplies and chemicals) and then only in complete compliance with all applicable laws and regulations and in conformity with good property management. If (i) there is a violation of applicable laws regarding the storage, release and disposal of such hazardous materials, or toxic substances, or (ii) Manager reasonably believes that the storage, release or disposal of any hazardous material, petroleum product, or toxic substances, could cause liability to the Owner, including any releases caused by Tenants, third parties or employees, on the Apartment Complex, Manager shall notify Owner immediately.

(iv) Manager agrees that the Apartment Complex shall be offered to all prospective tenants on a nondiscriminatory basis without regard to race, color, religion, sex, family status, handicap or national origin in accordance with applicable law.

(o) Computers. All computers, hardware, software, computer upgrades and maintenance in connection therewith shall be at Owner's expense.

6. REPRESENTATIONS OF MANAGER. The Manager represents, warrants, covenants and agrees that:

(a) it has the authority to enter into and to perform this Agreement, to execute and deliver all documents relating to this Agreement, and to incur the obligations provided for in this Agreement;

(b) when executed, this Agreement, together with all documents executed pursuant hereto, shall constitute the valid and legally binding obligations of the Manager in accordance with its terms;

(c) the Manager has all necessary licenses, consents and permissions to enter into this Agreement, manage the Apartment Complex, and otherwise comply with and perform Manager's obligations and duties hereunder. Manager shall comply with any conditions or requirements set out in any such licenses, consents and permissions, and shall at all times operate and manage the Apartment Complex in accordance with such conditions and requirements;

(d) during the term of this Agreement, the Manager will be a valid corporation, duly organized under the laws of the State, and shall have full power and authority to manage the Apartment Complex, and otherwise comply with and perform Manager's obligations and duties under this Agreement;

(e) the Manager shall comply with any requirements under applicable environmental laws, regulations and orders which affect the Apartment Complex;

(f) the Manager shall cause the Apartment Complex to be operated in a manner so that all requirements shall be met which are necessary to obtain or achieve issuance of all necessary permanent unconditional certificates of occupancy, including all governmental approvals required to permit occupancy of all of the apartment units in the Apartment Complex;

(g) the Manager shall manage the Apartment Complex upon Substantial Completion so that the rental of all units in the Apartment Complex comply with the limitations and restrictions as set forth in the Project Loan documents; and

(h) the Manager shall familiarize itself with the partnership and loan documents for the Reserve For Replacements and comply with the requirements of the Reserve For Replacements. In connection therewith, the Manager shall utilize the Reserve Fund for Replacements only after the satisfaction in full of the obligation of Owner's general partner (or managing member or similar entity, as applicable) to make operating deficit loans to the Owner pursuant to the terms of the Partnership Agreement. Withdrawals from the Reserve For Replacements shall be subject to the approval of the Owner and the Investor Partner, in their sole discretion.

7. REPRESENTATIONS OF OWNER. The Owner represents and warrants, that:

(a) the Owner has the authority to enter into and to perform this Agreement, to execute and deliver all documents relating to this Agreement, and to incur the obligations provided for in this Agreement; and

(b) when executed, this Agreement, together with all documents executed pursuant hereto, shall constitute the valid and legally binding obligations of the Owner in accordance with its terms.

8. INDEMNIFICATION.

(a) Indemnification of Owner. The Manager shall indemnify, protect, defend (with legal counsel approved by Owner) and hold harmless Owner and Owner's partners, together with their respective officers, directors, agents, employees and affiliates (collectively "Indemnitees") from and against any and all claims, demands, actions, liabilities, losses, costs, expenses, damages, penalties, interest, fines, injuries and obligations, including reasonable attorneys' fees, court costs and litigation expenses ("Claims") incurred by any Indemnitee as a result of (a) any act by Manager (or any officer, agent, employee or contractor of Manager) outside the scope of Manager's authority hereunder, (b) any act or failure to act by Manager (or any officer, agent, employee or contractor of Manager) constituting negligence, misconduct, fraud or breach of this Agreement, other than as covered by Owner's insurance (for negligence or misconduct only) and to the extent Owner's insurance is available, (c) Claims made by current or former employees or applicants for employment arising from hiring, supervising or firing same, or (d) any act or omission by Manager, its employees, officers, agents or contractors in violation of any applicable law.

(b) Indemnification of Manager by Owner. Owner shall indemnify, protect, defend and hold harmless Manager from and against any and all Claims incurred by Manager resulting from performance of its obligations under this Agreement, except that this indemnification shall not apply with respect to any Claims (a) resulting from any act by Manager outside the scope of Manager's authority hereunder, (b) resulting from any act or failure to act constituting negligence, misconduct, fraud or breach of this Agreement, (c) resulting from Claims made by current, former employees or applicants for employment arising from hiring, supervising or firing same, or (d) any act by Manager, its employees, agents or contractors in violation of any applicable law. Owner shall control, without recourse, all aspects of Manager's defense against any Claims in matters in which Manager is entitled to indemnification under this Paragraph 8(b). If at any time during the course of such defense Owner determines, in its reasonable judgment, that such Claim results from an event, action or nonaction for which Manager is not entitled to indemnification hereunder, Owner shall automatically be entitled to immediate reimbursement for all losses, costs and expenses incurred on behalf of itself and of Manager incurred to the date of such determination.

(c) Survival. The provisions of this Paragraph 8 shall survive the termination of this Agreement.

9. DEFAULTS.

(a) Manager's Event of Default. Manager shall be deemed to be in default hereunder upon the happening of any of the following ("Manager's Event of Default"):

(i) The failure by Manager to keep, observe or perform any covenant, agreement, term or provision of this Agreement and the continuation of such failure, in full or in part, for a period of ten (10) days after written notice thereof by Owner to Manager, including without limitation, the following:

(A) failure to make any payment or perform any financial obligation required hereby;

(B) failure to collect Gross Operating Revenues, Excluded Revenues and such other funds that should be collected by the Manager for the operation of the Apartment Complex as required hereby;

(C) failure to deposit Gross Operating Revenues, Excluded Revenues and such other funds from the Apartment Complex as required hereby;

(D) failure to maintain the Apartment Complex as required hereby;

(E) failure to meet the standard of care as set forth in Section 5(b) hereof;

(F) failure to maintain Reserve for Replacements in accordance with the terms hereof;

(G) failure to deliver financial reports, legal notices and other reports or notices when and as required by this Agreement; or

(H) an act or omission of Manager, its officers, agents, employees or contractors, in violation of any applicable law.

(ii) Notwithstanding paragraph (1), the occurrence of any of the following shall be a Manager's Event of Default and Manager shall not have the right to cure such default:

(A) The request by Manager of payment of any invoice, whether to itself or a third party, marked-up above cost as prohibited herein;

(B) The making of a general assignment by Manager for benefit of its creditors, the filing by Manager with any bankruptcy court of competent jurisdiction of a voluntary petition under Title 11 of U.S. Code, as amended from time to time, the filing by Manager

of any petition or answer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any present or future federal or state act or law relating to bankruptcy, insolvency, or other relief for debtors, Manager being the subject of any order for relief issued under such Title 11 of the U.S. Code, as amended from time to time, or the dissolution or liquidation of Manager; or

(C) The misapplication, misappropriation or commingling of funds held by Manager for the benefit of Owner, including the payment of fees to Affiliates of the Manager or the loaning of funds to Affiliates.

(b) Remedies of Owner. Upon a Manager's Event of Default, Owner shall be entitled (i) to terminate in writing this Agreement effective as of the date designated by Owner (which may be the date upon which notice is given), and/or (ii) to pursue any remedy at law or in equity, including without limitation, specific performance. All of Owner's rights and remedies shall be cumulative.

(c) Owner's Event of Default. Owner shall be deemed to be in default hereunder (an "Owner's Event of Default") if Owner shall fail to keep, observe or perform any covenant, agreement, term or provision of this Agreement to be kept, observed or performed by Owner, and such default shall continue for a period of thirty (30) days after written notice thereof by Manager to Owner, or if such default cannot be cured within such thirty (30) day period, then such additional period as shall be reasonable, provided Owner commences to cure such default within such thirty (30) day period and proceeds diligently to prosecute such cure to completion.

(d) Remedies of Manager. Upon an Owner's Event of Default, Manager shall be entitled (i) to terminate in writing this Agreement effective as of the date designated by Owner which is at least 10 days after receipt of such notice of termination by Owner provided the Event of Default has not then been cured or such cure commenced, and/or (ii) to pursue an action for the actual compensatory damages incurred by Manager. Manager expressly agrees that termination and compensatory monetary damages are its sole rights and remedies with respect to an Owner's Event of Default and Manager expressly waives and releases the right to seek equitable relief, including specific performance or injunctive relief, and to sue for any consequential or punitive damages.

10. TERMINATION RIGHTS.

(a) Expiration of Term. If not sooner terminated, this Agreement shall terminate on the expiration of its term set forth in Section 3 hereof.

(b) Termination By Owner Upon Manager's Event of Default. Upon a Manager's Event of Default, Owner may terminate this Agreement as specified in Section 9(b) hereof.

(c) Termination By Manager Upon Owner's Event of Default. Upon an Owner's Event of Default, Manager may terminate this Agreement as specified in Section 9(d) hereof.

(d) Termination By Owner Without Cause. Even in the absence of any other express right to terminate this Agreement, Owner may terminate this Agreement upon written notice at any time upon thirty (30) days' prior notice from the Owner.

(e) Termination Upon Sale of the Apartment Complex. If the Apartment Complex is sold, conveyed and transferred during the term hereof, this Agreement shall terminate.

(f) Effect of Termination Upon Payment of Fees. Upon the termination of this Agreement for any reason, Manager shall be entitled to its earned, but unpaid fees, for the period prior to the termination. Manager shall not be entitled to any fees relating to the period after the date of termination of this Agreement.

(g) Delivery of Apartment Complex Upon Termination. Immediately after termination of this Agreement for any reason, Manager shall deliver to or as directed by Owner all funds, checks, keys, lease files, books and records and other Confidential Information (as defined below) to Owner. Immediately after termination, Manager shall leave the Apartment Complex and cause its employees to leave the Apartment Complex without causing any damage thereto. Under no circumstances shall any default by Owner give rise to any lien on the Apartment Complex or give rise to a right of Manager to stay on the Apartment Complex after the date of termination. Termination of this Agreement under any of the provisions of this Agreement shall not release either party as against the other from liability for failure to perform any of its duties or obligations as expressed herein and required to be performed prior to such termination. Manager agrees to cooperate with Owner in the obligations set forth in this Section 10(g).

11. CONFIDENTIALITY.

(a) Preservation of Confidentiality. In connection with the performance of obligations hereunder, Manager acknowledges that it will have access to "Confidential Information" (as defined below). Manager shall treat such Confidential Information as proprietary to Owner and private, and shall preserve the confidentiality thereof and not disclose, or cause or permit its employees, agents or contractors to disclose, such Confidential Information. Notwithstanding the foregoing, Manager shall have the right to disclose Confidential Information if and only to the extent it is required by court order to disclose any Confidential Information. "Confidential Information" shall mean the books, records, business practices, methods of operations, computer software, financial models, financial information, policies and procedures, and all other information relating to Owner and the Apartment Complex (including any such information relating to the Apartment Complex generated by the Manager), which is not available to the public. If Manager or anyone to whom Manager transmits Confidential Information pursuant to this Agreement becomes legally compelled to disclose any of the Confidential Information, Manager shall provide Owner with prompt notice thereof so that Owner may seek a protective order or other appropriate remedy or waive compliance with the provisions of this Agreement. In the event that such protective order or other remedy is not obtained by Owner or Owner waives compliance with the provisions of this Agreement, Manager shall furnish or cause to be furnished only that portion of the Confidential

Information which Manager is required by contract to furnish, and will exercise commercially reasonable efforts to obtain reliable assurances that confidential treatment is accorded the Confidential Information so furnished.

(b) Property Right in Confidential Information. All Confidential Information shall remain the property of Owner and Manager shall have no ownership interest therein.

12. SURVIVAL OF AGREEMENT. All indemnity obligations set forth herein, all obligations to pay earned and accrued fees and expenses, all confidentiality obligations, and all obligations to perform and duties accrued prior to the date of termination shall survive the termination of this Agreement.

13. ENFORCEMENT OF AGREEMENT. This Agreement, its interpretation, performance and enforcement, and the rights and remedies of the parties hereto, shall be governed and construed by and in accordance with the law of the State in which the Apartment Complex is located. In any dispute pertaining to, or litigation or arbitration arising from to enforce or interpret the provisions of this Agreement, the prevailing party shall be entitled to recover its attorneys fees and costs, including those incurred in connection with all appellate levels, bankruptcy, mediation or otherwise to maintain such action, from the losing party.

14. ASSIGNMENT. Manager shall not directly or indirectly (except with the consent of Owner and the Investor Partner, and of any lender of governmental entity, if required) sell, assign or otherwise transfer by operation of law or otherwise all or any part of the legal or beneficial interests in the Manager or all or any part of its rights or obligations under this Agreement. Owner may assign this Agreement to a successor owner of the Apartment Complex. A change in the constituent partners of the Investor Partner shall not constitute an assignment. Manager agrees to the assignment of this Agreement to the Investor Partner if the Investor Partner or its assignee shall become a general partner of Owner. If Owner assigns this agreement to a successor owner of the Apartment Complex, the Agreement shall constitute a novation, releasing Owner of all rights and obligations hereunder. Owner's general partner (or managing member or similar entity, as applicable) shall not directly or indirectly (except with the consent of the Investor Partner, and of any lender or governmental entity if so required) sell, transfer or assign any legal or beneficial interests in such entity.

15. NOTICES. All notices, demands, requests or other communications ("Notices") to be sent by one party to the other hereunder or required by law shall be in writing and shall be deemed to have been validly given or served by delivery of same in person to the addressee or by depositing same with Federal Express or Airborne for next business day delivery or by depositing same in the United States mail, postage prepaid, registered or certified mail, return receipt requested, or by sending by facsimile transmission, addressed as follows:

If to Owner: Kernan Associates, Ltd.
1075 West Morse Boulevard

Winter Park, Florida 32789
Attention: John J. Murphy, Jr.
Fax No.: (407) 628-5270

With copies to:

SunAmerica Housing Fund 797,
A Nevada Limited Partnership
c/o SunAmerica Inc.
1 SunAmerica Center, Century City
Los Angeles, California 90067-6022
Attention: Donald J. Whinfrey, Vice President
Fax No.: (310) 772-6179

Brownstein Hyatt & Farber, P.C.
410 Seventeenth Street, 22nd Floor
Denver, Colorado 80202
Attention: Wayne H. Hykan, Esq.
Facsimile: (303) 223-1111

If to Manager:

Southern Apartment Specialists, Inc.
1075 West Morse Boulevard
Winter Park, Florida 32789
Attention: Dave Dalton, Executive Vice President
Fax No.: (407) 628-5270

With a copy to:

Thomas V. Infantino, Esq.
Infantino & Berman
180 South Knowles Avenue, Suite 7
Winter Park, Florida 32789
Fax No.: (407) 644-4128

All Notices shall be effective upon such personal delivery, upon being deposited with Federal Express or Airborne, in the United States mail or upon facsimile transmission as required above. However, with respect to Notices so deposited with Federal Express or Airborne or the United States mail, the time period in which a response to any such notice, demand or request must be given shall commence to run from the next business day following any such deposit with Federal Express or Airborne, in the case of a deposit in the United States mail as provided above, the date on the return receipt of the Notice reflecting the date of delivery or rejection of the same by the addressee thereof. By giving to the other parties hereto at least 15 days' written notice in accordance with the provisions hereof, a party may change its address for notice purposes.

16. MISCELLANEOUS.

(a) Subordination. All claims of Manager, General Partner and the Affiliates of the General Partner or any guarantor of the General Partner of the obligations under this Agreement, shall be inferior and subordinate to the claims of Investor Partner against Owner under or in connection with the Partnership Agreement.

(b) Third Party Beneficiary. The Investor Partner is a third party beneficiary of the terms of this Agreement.

(c) Limitation on Investor Partner Liability. The Manager agrees that the Investor Partner shall not have any liability for the obligations of the Owner to Manager under or in connection with this Agreement or otherwise, unless the Investor Partner becomes the General Partner under Section 14.

(d) Captions. The captions of this Agreement are inserted only for the purpose of convenient reference and do not define, limit or prescribe the scope or intent of this Agreement or any part hereof.

(e) Modifications and Changes. This Agreement cannot be changed or modified except by another agreement in writing, signed by the parties sought to be charged therewith. In addition, pursuant to the terms of the Partnership Agreement, this Agreement may not be further amended without the further written consent of the Investor Partner.

(f) Entire Agreement. This Agreement embodies the entire understanding of the parties, and there are no further agreements or understandings, written or oral, in effect between the parties relating to the subject matter hereof.

(g) Time is of Essence. Time is the essence hereof.

(h) Construction of Document. This Agreement has been negotiated at arms' length and has been reviewed by counsel for the parties. No provision of this Agreement shall be construed against any party based upon the identity of the drafter.

(i) Severability. If any provision of this Agreement or the application thereof, is held to be invalid or unenforceable, such defect shall not affect other provisions or applications of this Agreement that can be given effect without the invalid or unenforceable provisions or applications, and to this end, the provisions and applications of this Agreement shall be severable.

(j) Waiver of Jury Trial. To the fullest extent permitted by law, each party to this agreement severally, knowingly, irrevocably and unconditionally waives any and all rights to trial by jury in any action, suit or counterclaim brought by any party to this Agreement arising in connection with, out of or otherwise relating to this Agreement.

(k) No Continuing Waiver. The waiver by any party of any breach of this Agreement shall not operate or be construed to be a waiver of any subsequent breach.

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EXECUTED as of the date set forth above.

OWNER:

KERNAN ASSOCIATES, LTD., a Florida limited partnership

By: FREEPORT PARTNERS, INC., a Florida corporation, General Partner

By: _____
John J. Murphy, Jr., President

MANAGER:

SOUTHERN APARTMENTS SPECIALISTS, INC., a Florida corporation

By: _____
David W. Dalton, Executive Vice President

EXHIBIT I

INSURANCE REQUIREMENTS

INSURANCE REQUIREMENTS

Immediately upon purchase of the Land, and throughout the term of this Agreement, General Partner shall obtain, and maintain in full force and effect, at the expense of the Partnership, the following policies of insurance:

♦ Commercial General Liability insurance, insuring for legal liability of the Partnership, and caused by bodily injury, property damage, personal injury or advertising injury, arising out of the ownership or management of the Land and including the costs to defend such actions brought against the Partnership. The policy shall include endorsements adding the Investor Partner, SunAmerica Inc. and SunAmerica Affordable Housing Partners, Inc. as additional insureds, and shall be primary coverage for the additional insureds, without contribution from other valid insurance policies which may be carried directly by the additional insureds. Limits of the policy shall be at least $1,000,000.00 per occurrence and $2,000,000.00 in the aggregate.

♦ Automobile Liability insurance, insuring for legal liability of the Partnership, and caused by bodily injury, property damage, or personal injury arising out of the ownership or use of motor vehicles, including vehicles not owned by the Partnership, and including the costs to defend such actions brought against the Partnership. The policy shall include endorsements adding the Investor Partner, SunAmerica Inc. and SunAmerica Affordable Housing Partners, Inc. as additional insureds, and shall be primary coverage for the additional insureds, without contribution from other valid insurance policies which may be carried directly by the additional insureds. Limits of the policy shall be at least $1,000,000.00 combined single limits per accident.

♦ Worker's Compensation insurance, insuring for occupational disease or injury and employer's liability, and covering the Partnership's full liability for statutory compensation to any person or persons who perform work for the Partnership or perform duties on the site of the Apartment Complex, and liability to the dependents of such persons. The policy will be in a form which complies with the worker's compensation acts and safety laws of the state in which the Apartment Complex is located. Worker's Compensation limits shall be statutory; Employer's Liability limits shall be at least $1,000,000.00 per occurrence.

♦ Umbrella/Excess Liability insurance, with the Commercial General Liability, Automobile Liability and Employers Liability policies scheduled as underlying policies. Limits of the policy shall be at least $4,000,000.00 per occurrence and in the annual aggregate.

♦ Other forms or types of insurance which the Investor Partner may now or hereafter require.

Prior to the commencement of any renovation of the Apartment Complex, General Partner shall obtain (or cause to be obtained the Contractor) and keep in force until initial occupancy of any portion of the Apartment Complex:

♦ Builder's Risk insurance, insuring for all risks of physical loss of or damage (excluding the perils of earthquake and flood, unless specifically required by the Investor Partner) to the real property comprising or intended to comprise the Apartment Complex renovation and personal property of the Partnership used to maintain or service the Apartment Complex renovation, whether located at the site or elsewhere, including while in-transit Coverage and limits shall be extended to include the loss of anticipated rents sustained due to an insured loss, for a period of at least twelve months from the date of such loss. Policy shall provide for claims to be paid based upon replacement cost of the lost or damaged property without deduction for depreciation and for any additional architectural or engineering fees incurred as a result of an insured loss; loss payment shall be to the Partnership. Limits of policy will be at least the estimated replacement value of the completed Apartment Complex. The policy shall have a deductible of no greater than $10,000.00 per occurrence. The policy shall carry no coinsurance provisions. The policy shall include an endorsement naming the Investor Partner as Loss Payee, as its interests may appear, and as an additional insured, and shall allow the Investor Partner to be associated in the adjustment of any claim.

♦ Evidence from the Contractor of Worker's Compensation insurance, insuring for occupational disease or injury and employer's liability, and covering the Contractor's full liability for statutory compensation to any person or persons who perform work in, on, or about the Apartment Complex renovation, including the employees of sub-contractors of any tier, and liability to the dependents of such persons. The policy will be in a form which complies with the worker's compensation acts and safety laws of the state in which the Apartment Complex is located. Worker's Compensation limits shall be statutory; Employer's Liability Limits shall be at least $1,000,000.00 per occurrence.

Prior to any occupancy of the Apartment Complex, General Partner shall obtain, and shall maintain in full force and effect, at the expense of the Partnership, throughout the term of this Agreement, the following policies of insurance:

♦ Property Damage insurance, insuring for all risks of physical loss of or damage (excluding the perils of earthquake and flood, unless specifically required by the Investor Partner) to the real property comprising the Apartment Complex, personal property of the Partnership used to maintain or service the Apartment Complex, and new construction, additions, alterations and repairs to structures. Policy shall provide for claims to be paid based upon replacement cost of the lost or damaged property without deduction for depreciation; loss payment shall be to the Partnership. Limits of policy will be at least the replacement value of the Apartment Complex (excluding the value of the Land, site utilities, foundations and architectural and engineering expenses). The policy shall have a deductible of no greater than $10,000.00 per occurrence. The policy shall carry no coinsurance provisions. Coverage and limits shall be extended to include the actual loss of rents sustained due to an insured loss, for a period of at least twelve months from the date of such loss. Coverage shall be further extended to include debris removal, outdoor trees, shrubs, plants and lawns, and Ordinance or Law coverage for the increased costs of renovation caused by the enforcement of building, zoning or land use law. The policy shall include an endorsement naming the Investor Partner as Loss Payee, as its interests may appear, and as an additional insured, and shall allow the Investor Partner to be associated in the adjustment of any claim.

♦ Evidence of Worker's Compensation insurance from any contractor performing work for the Partnership, insuring for occupational disease or injury and employer's liability, and covering the Contractor's full liability for statutory compensation to any person or persons who perform work in, on, or about the Apartment Complex, including the employees of subcontractors of any tier, and liability to the dependents of such persons. The policy will be in a form which complies with the worker's compensation acts and safety laws of the state in which the Apartment Complex is located. Worker's Compensation limits shall be statutory; Employer's Liability limits shall be at least $1,000,000.00 per occurrence.

All such policies shall be underwritten by companies licensed to write such insurance in the state in which the Apartment Complex is located, and shall be rated in the latest A.M. Best's Insurance Rating Guide with a rating of at least A-, and be in a financial category of at least X. The General Partner shall furnish to the Investor Partner a complete copy of each such policy of insurance. If the policy is not available prior to the Final Completion, then certificates of insurance detailing the policy terms and conditions as noted above shall be provided, but the policies must then be provided within sixty days. All such policies shall include endorsements requiring at least 30 days prior written notice to the Investor Partner of any cancellation, termination or reduction of coverage therein. Notice of the renewal of any policy shall be made at least 10 days prior to the scheduled date of such renewal, and shall be in the form of endorsement to the policy. Notice to the Investor Partner of any replacement of any policy shall be made at least 10 days prior to such replacement, and shall be in the form of a copy of the replacement policy, or by certificate, as noted above.

The General Partner hereby releases and relieves the Investor Partner, SunAmerica Inc. and SunAmerica Affordable Housing Partners, Inc. for any and all liability, and waives its entire right of recovery against them, with respect to any loss or damage of property or for property damage, bodily injury or personal injury to third-parties arising out of or incident to any loss or peril insured against under any for the foregoing policies, and any other perils for which the General Partner has arranged insurance.

EXHIBIT J

REPLACEMENT RESERVE ITEMS

The Reserve for Replacements may be used for the following items with the Consent of the Investor Partner:

- Major clubhouse renovation and signage upgrades
- Additions of the newest amenity to stay competitive (e.g., the equivalent of fitness centers, business centers, expanded children's facilities)
- Roof replacements
- Painting and siding rehab
- HVAC and appliance replacements
- Wood replacement due to dry or wet rot or termites
- Security enhancements as neighborhoods change and properties age (e.g., fencing and controlled access gates or improved exterior lighting)
- The addition of facilities that will improve operations or cut costs such as maintenance garage or trash compactor
- Opportunities for remarketing of utilities (sub-metering water and sewer and possibly gas and electric)
- After the fifth year of operations, parking lot repairs

The Reserve for Replacements may not be used for the following items:

- Carpet
- Vinyl Replacement

EXHIBIT K

SUNAMERICA REIMBURSEMENT GUARANTY

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (this "Guaranty Agreement"), made as of November 30, 1999, is by RICHARD T. COLEY, SR. ("Coley"), JOHN J. MURPHY, JR., and FREEPORT PARTNERS, INC., a Florida corporation ("General Partner"), jointly and severally, (Coley, Murphy and the General Partner are individually and collectively referred to herein as the "Guarantors"), each with an address of 1075 West Morse Boulevard, Winter Park, Florida 32789, for the benefit of SUNAMERICA INC. ("SunAmerica"), whose address is 1 SunAmerica Center, Century City, Los Angeles, California 90067-6022, Attention: Michael L. Fowler, Vice President and AMERICAN INTERNATIONAL GROUP, INC., a Delaware corporation ("AIG") (together the "Beneficiaries").

W I T N E S S E T H:

WHEREAS, the General Partner is the sole general partner of Kernan Associates, Inc., a Florida limited partnership (the "Partnership");

WHEREAS, the Partnership is governed by its Second Amended and Restated Agreement of Limited Partnership dated as of November 30, 1999 (the "Partnership Agreement"). Except as otherwise defined herein, capitalized terms shall have the definition ascribed to them in the Partnership Agreement;

WHEREAS, SunAmerica has delivered the Funding Agreement to South Trust Bank, N.A. in connection with the Construction Loan;

WHEREAS, the Partnership entered into that certain Reimbursement Agreement (the "SunAmerica Reimbursement Agreement") dated as of the date hereof setting forth its obligations to the SunAmerica in connection with the Funding Agreement; and

WHEREAS, each of the Guarantors is an affiliate of the General Partner, and believes it shall substantially benefit, directly or indirectly, from SunAmerica entering into the Funding Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Guarantors hereby agrees for the benefit of SunAmerica as follows:

1. Each Guarantor irrevocably and unconditionally fully guarantees the due, prompt and complete performance of each and every one of the following obligations: (a) the payment and performance by the Partnership of each and every obligation of the Partnership due under the SunAmerica Reimbursement Agreement; and (b) the due, prompt and complete payment of all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by Beneficiaries in collection of the enforcement of this Guaranty Agreement against such Guarantor (the obligations described in this Paragraph 1 are hereinafter collectively referred to as the "Indebtedness").

2. Each Guarantor hereby grants to Beneficiaries, in the uncontrolled discretion of Beneficiaries, and without notice to any Guarantor, the power and authority to deal in any lawful manner with the Indebtedness and the other obligations guaranteed hereby, and without limiting the generality of the foregoing, further power and authority, from time to time:

(a) to renew, compromise, extend, accelerate or otherwise change the time or place of payment of or to otherwise change the terms of the Indebtedness;

(b) to modify or to waive any of the terms of the SunAmerica Reimbursement Agreement and/or any other obligations guaranteed hereby;

(c) to take and hold security for the payment of the Indebtedness and/or performance of the other obligations guaranteed hereby and to impair, exhaust, exchange, enforce, waive or release any such security;

(d) to direct the order or manner of sale of any such security as Beneficiaries, in its discretion, may determine;

(e) to grant any indulgence, forbearance or waiver with respect to the Indebtedness or any of the other obligations guaranteed hereby;

(f) to release or waive rights against any one or more Guarantors without releasing or waiving any rights against any other Guarantor; and/or

(g) to agree to any valuation by Beneficiaries of any collateral securing payment of any of the Indebtedness in any proceedings under the United States Bankruptcy Code concerning Beneficiaries or the Guarantors.

The liability of each Guarantor hereunder shall not be affected, impaired or reduced in any way by any action taken by Beneficiaries under the foregoing provisions or any other provision hereof, or by any delay, failure or refusal of Beneficiaries to exercise any right or remedy it may have against the Partnership or any other person, firm or corporation, including other guarantors, if any, liable for all or any part of the Indebtedness or any of the other obligations guaranteed hereby.

3. The Guarantors agree that if any of the Indebtedness is not fully and timely paid or performed according to the tenor thereof, whether by acceleration or otherwise, the Guarantors shall immediately upon receipt of written demand therefor from Beneficiaries pay all of the Indebtedness hereby guaranteed in like manner as if the Indebtedness constituted the direct and primary obligation of the Guarantors. The Guarantors shall not have any right of subrogation as a result of any payment hereunder or any other payment made by the Guarantors or a Guarantor on account of the Indebtedness, and each Guarantor hereby waives, releases and relinquishes any claim based on any right of subrogation, any claim for unjust enrichment or any other theory that would entitle a

Guarantor to a claim against the Partnership based on any payment made hereunder or otherwise on account of the Indebtedness.

4. This Guaranty Agreement and the obligations of the Guarantors hereunder shall be continuing and irrevocable until the Indebtedness has been satisfied in full. Notwithstanding the foregoing or anything else set forth herein, and in addition thereto, if at any time all or any part of any payment received by Beneficiaries from a Guarantor under or with respect to this Guaranty Agreement is or must be rescinded or returned for any reason whatsoever (including, but not limited to, determination that said payment was a voidable preference or fraudulent transfer under insolvency, bankruptcy or reorganization laws), then the Guarantors' obligations hereunder shall, to the extent of the payment rescinded or returned, be deemed to have continued in existence, notwithstanding such previous receipt of payment by Beneficiaries, and Guarantors' obligations hereunder shall continue to be effective or be reinstated as to such payment, all as though such previous payment to Beneficiaries had never been made. The provisions of the foregoing sentence shall survive termination of this Guaranty Agreement, and shall remain a valid and binding obligation of each Guarantor until satisfied.

5. Each Guarantor hereby waives notice of acceptance of this Guaranty Agreement by Beneficiaries and this Guaranty Agreement shall immediately be binding upon each Guarantor. Any Guarantor who executes this Agreement shall be fully bound hereby regardless of whether or not any other Guarantor subsequently executes this Guaranty Agreement.

6. Each Guarantor hereby waives and agrees not to assert or take advantage of:

(a) any right to require the Partnership to proceed against any other person or to proceed against or exhaust any security held by the Partnership at any time or to pursue any other remedy in the Partnership's power before proceeding against any one or more Guarantors hereunder;

(b) any right to require Beneficiaries to proceed against the Partnership or any other person or to proceed against or exhaust any security held by Beneficiaries at any time or to pursue any other remedy in the Beneficiaries power before proceeding against any one or more Guarantors hereunder;

(c) the defense of the statute of limitations in any action hereunder or in any action for the collection of the Indebtedness or the performance of any other obligations guaranteed hereby;

(d) any defense that may arise by reason of the incapacity, lack of authority, death or disability of any other person or persons or the failure of Beneficiaries to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of any other person or persons;

(e) demand, presentment for payment, notice of non-payment, protest, notice of protest and all other notices of any kind, including, without limitation, notice of the existence, creation or incurring of any new or additional indebtedness or obligation or of any action or non-action on the part of Beneficiaries or any endorser or creditor of Beneficiaries or any Guarantor or on the part of any other person whomsoever under this or any other instrument in connection with any obligation or evidence of indebtedness held by Beneficiaries or in connection with the Indebtedness;

(f) any defense based upon an election of remedies by SHF, the right of Guarantors to proceed against SHF for reimbursement, or both, or if contrary to the express agreement of the parties, California law is deemed to apply to this Guaranty, any rights or benefits under Sections 2809, 2810, 2819, 2845, 2846, 2847, 2848, 2849 and 2850 of the California Civil Code or under Section 580a or 580d of the California Code of Civil Procedure, or under Sections 364 and 1111 of the U.S. Bankruptcy Code as same may be amended or replaced from time to time;

(g) Any election by Beneficiaries to exercise any right or remedy it may have against the Partnership or any security held by Beneficiaries including, without limitation, the right to foreclose upon any such security by judicial or non-judicial sale, without affecting or impairing in any way the liability of Guarantors hereunder, except to the extent the indebtedness has been paid, and the Guarantors waive any default arising out of the absence, impairment or loss of any right of reimbursement, contribution or subrogation or any other right or remedy of the Guarantors against the Partnership or any such security whether resulting from such election by Beneficiaries or otherwise. The Guarantors understand that if all or any part of the liability of the Partnership to Beneficiaries for the Indebtedness is secured by real property the Guarantors shall be liable for the full amount of their liability hereunder, notwithstanding foreclosure on such real property by trustee sale or any other reason impairing the Guarantors' right to proceed against the Partnership; and

(h) all duty or obligation on the part of Beneficiaries to perfect, protect, not impair, retain or enforce any security for the payment of the Indebtedness or performance of any of the other obligations guaranteed hereby.

7. All existing and future indebtedness of the Partnership to the Guarantors or to any person controlled or owned in whole or in part by any of the Guarantors and, the right of the Guarantors to withdraw or to cause or permit any person controlled or owned in whole or in part by any of the Guarantors to withdraw any capital invested by any Guarantor or such person in the Partnership, is hereby subordinated to the Indebtedness at any time after a default exists under the Indebtedness. Furthermore, without the prior written consent of Beneficiaries, such subordinated indebtedness shall not be paid and such capital shall not be withdrawn in whole or in part nor shall any Guarantor accept or cause or permit any person controlled or owned in whole or in part by a Guarantor to accept any payment of or on account of any such subordinated indebtedness or as a withdrawal of capital at any time after a default exists under the Indebtedness. Any payment received by the Guarantors in violation of this Guaranty Agreement shall be received by the person

to whom paid in trust for Beneficiaries, and Guarantors shall cause the same to be paid to Beneficiaries immediately on account of the Indebtedness. No such payment shall reduce or affect in any manner the liability of the Guarantors under this Guaranty Agreement.

8. The amount of each Guarantor's liability and all rights, powers and remedies of Beneficiaries hereunder shall be cumulative and not alternative and such rights, powers and remedies shall be in addition to all rights, powers and remedies given to Beneficiaries under the SunAmerica Reimbursement Agreement, any document or agreement relating in any way to the terms and provisions thereof or otherwise by law. With respect to each Guarantor, this Guaranty Agreement is in addition to and exclusive of the guaranty of any other Guarantor executing this Guaranty Agreement or any other person or entity which guarantees the Indebtedness and/or the other obligations guaranteed hereby.

9. The liability of each Guarantor under this Guaranty Agreement shall be an absolute, direct, immediate and unconditional guarantee of payment and not of collectability. The obligations of each Guarantor hereunder are independent of the obligations of the Partnership or any other party which may be initially or otherwise responsible for performance or payment of the obligations hereunder guaranteed and each other Guarantor, and, in the event of any default hereunder, a separate action or actions may be brought and prosecuted against any one or more Guarantors, whether or not the Partnership is joined therein or a separate action or actions are brought against the Partnership. Beneficiaries may maintain successive actions for other defaults. Beneficiaries' rights hereunder shall not be exhausted by its exercise of any of its rights or remedies or by any such action or by any number of successive actions until and unless the Indebtedness has been paid in full.

10. Beneficiaries, in its sole discretion, may at any time enter into agreements with the Partnership or with any other person to amend, modify or change the SunAmerica Reimbursement Agreement or any document or agreement relating in any way to the terms and provisions thereof, or may at any time waive or release any provision or provisions thereof and, with reference thereto, may make and enter into all such agreements as Beneficiaries may deem proper or desirable, without any notice or further assent from any Guarantor and without in any manner impairing or affecting this Guaranty Agreement or any of the rights of Beneficiaries or each Guarantor's obligations hereunder.

11. The Guarantors hereby agree to pay to Beneficiaries, upon demand, reasonable attorneys' fees and all costs and other expenses which Beneficiaries expend or incur in collecting or compromising the Indebtedness or in enforcing this Guaranty Agreement against each Guarantor whether or not suit is filed, including, without limitation, all costs, attorneys' fees and expenses incurred by Beneficiaries in connection with any insolvency, bankruptcy, reorganization, arrangement or other similar proceedings involving a Guarantor which in any way affect the exercise by Beneficiaries of its rights and remedies hereunder. Any and all such costs, attorneys' fees and expenses not so paid shall bear interest at an annual interest rate equal to the lesser of (i) eighteen percent (18%), or (ii) the highest rate permitted by applicable law, from the date incurred by Beneficiaries until paid by the Guarantors.

12. Should any one or more provisions of this Guaranty Agreement be determined to be illegal or unenforceable, all other provisions nevertheless shall be effective.

13. No provision of this Guaranty Agreement or right of Beneficiaries hereunder can be waived nor can any Guarantor be released from such Guarantor's obligations hereunder except by a writing duly executed by Beneficiaries. This Guaranty Agreement may not be modified, amended, revised, revoked, terminated, changed or varied in any way whatsoever except by the express terms of a writing duly executed by Beneficiaries.

14. When the context and construction so require, all words used in the singular herein shall be deemed to have been used in the plural, and the masculine shall include the feminine and neuter and vice versa. The word "person" as used herein shall include any individual, company, firm, association, partnership, corporation, trust or other legal entity of any kind whatsoever.

15. If any or all of the Indebtedness is assigned by Beneficiaries, this Guaranty Agreement shall automatically be assigned therewith in whole or in part, as applicable, and when so assigned, each Guarantor shall be bound as set forth herein to the assignee(s) without in any manner affecting such Guarantor's liability hereunder for any part of the Indebtedness retained by Beneficiaries. Beneficiaries hereby agree to use reasonable efforts to notify Guarantors upon such assignment.

16. Each Guarantor is jointly and severally liable with each other Guarantor.

17. This Guaranty Agreement shall inure to the benefit of and bind the heirs, legal representatives, administrators, executors, successors and assigns of Beneficiaries and Guarantors.

18. This Guaranty Agreement shall be governed by and construed in accordance with the laws of the State of Florida without regard to principles of conflicts of law, except to the extent that any of such laws may now or hereafter be preempted by Federal law, in which case, such Federal law shall so govern and be controlling. In any action brought under or arising out of this Guaranty Agreement, each Guarantor hereby consents to the jurisdiction of any competent court within the State of Florida and consents to service of process by any means authorized by the laws of such state. Except as provided in any other written agreement now or at any time hereafter in force between Beneficiaries and any Guarantor, this Guaranty Agreement shall constitute the entire agreement of Guarantors with Beneficiaries with respect to the subject matter hereof, and no representation, understanding, promise or condition concerning the subject matter hereof shall be binding upon Beneficiaries or any Guarantor unless expressed herein.

19. All notices, demands, requests or other communications to be sent by one party to the other hereunder or required by law shall be in writing and shall be deemed to have been validly given or served by delivery of same in person to the addressee or by depositing same with Federal Express for next business day delivery or by depositing same in the United States mail, postage prepaid, registered or certified mail, return receipt requested, addressed as follows:

SunAmerica:	SunAmerica Inc. 1 SunAmerica Center, Century City Los Angeles, California 90067-6022 Attention: Michael L. Fowler Fax No.: (310) 772-6179
Guarantors:	Richard T. Coley, Sr. 1075 West Morse Boulevard Winter Park, Florida 32789 Fax No.: (407) 628-5270
	John J. Murphy, Jr. 1075 West Morse Boulevard Winter Park, Florida 32789 Fax No.: (407) 628-5270
	Freeport Partners, Inc. 1075 West Morse Boulevard Winter Park, Florida 32789 Attention: John J. Murphy, Jr. Fax No.: (407) 628-5270
With a copy to:	Thomas V. Infantino, Esq. Infantino & Berman 180 South Knowles, Suite 7 Winter Park, Florida 32789 Fax No.: (407) 644-4128

All notices, demands and requests shall be effective upon such personal delivery or upon being deposited with Federal Express or in the United States mail as required above. However, with respect to notices, demands or requests so deposited with Federal Express or in the United States mail, the time period in which a response to any such notice, demand or request must be given shall commence to run from the next business day following any such deposit with Federal Express or, in the case of a deposit in the United States mail as provided above, the date on the return receipt of the notice, demand or request reflecting the date of delivery or rejection of the same by the addressee thereof. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to be receipt of the notice, demand or request sent. By giving to the other party hereto at least 30 days' written notice thereof in accordance with the provisions hereof, the parties hereto shall have the right from time to time to change their respective addresses and each shall have the right to specify as its address any other address within the United States of America.

20. Each Guarantor hereby agrees that this Guaranty Agreement, the Indebtedness and all other obligations guaranteed hereby, shall remain in full force and effect at all times hereinafter until paid and/or performed in full notwithstanding any action or undertakings by, or against, Beneficiaries, any Guarantor, and/or any partner in Beneficiaries in any proceeding in the United States Bankruptcy Court, including, without limitation, any proceeding relating to valuation of collateral, election or imposition of secured or unsecured claim status upon claims by Beneficiaries pursuant to any Chapter of the Bankruptcy Code or the Rules of Bankruptcy Procedure as same may be applicable from time to time.

21. Any married person who signs this Guaranty hereby agrees that recourse may be had against his or her separate property for all of his or her obligations.

22. This Guaranty Agreement may be executed in any number of counterparts, each of which shall be effective only upon delivery and thereafter shall be deemed an original, and all of which shall be taken to be one and the same instrument, with the same effect as if all parties hereto had signed the same signature page. Any signature page of this Guaranty Agreement may be detached from any counterpart of this Guaranty Agreement without impairing the legal effect of any signatures thereon and may be attached to another counterpart of this Guaranty Agreement identical in form hereto but having attached to it one or more additional signature pages. Execution by any Guarantor shall bind such Guarantor regardless of whether any one or more other Guarantors execute this Guaranty Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned Guarantors have executed this Guaranty Agreement as of the day and year first above written.

GUARANTORS:

_____

Richard T. Coley, Sr.

_____

John J. Murphy, Jr.

FREEPORT PARTNERS, INC.,
a Florida corporation

By: _____

John J. Murphy, Jr.

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this _____ day of December, 1999 by Richard T. Coley, Sr.

WITNESS my hand and official seal.

[SEAL] _____
Notary Public

My Commission expires: _____

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this _____ day of December, 1999 by John J. Murphy, Jr.

WITNESS my hand and official seal.

[SEAL] _____
Notary Public

My Commission expires: _____

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this _____ day of December, 1999 by John J. Murphy, Jr., as President of Freeport Partners, Inc., a Florida corporation, on behalf of said corporation.

WITNESS my hand and official seal.

[SEAL] _____
Notary Public

My Commission expires: _____

EXHIBIT L

SUNAMERICA REIMBURSEMENT AGREEMENT

SUNAMERICA REIMBURSEMENT AND INDEMNITY AGREEMENT

THIS SUNAMERICA REIMBURSEMENT AND INDEMNITY AGREEMENT (this "Agreement") is made as of November 30, 1999, by KERNAN ASSOCIATES, LTD., a Florida limited partnership, (the "Partnership") for the benefit of SUNAMERICA INC., a Delaware corporation ("SunAmerica"), and its affiliates and AMERICAN INTERNATIONAL GROUP, INC., a Delaware corporation (collectively, the "SunAmerica Entities").

A. The Partnership is governed by its Second Amended and Restated Agreement of Limited Partnership dated of even date herewith (the "Partnership Agreement"). Except as otherwise defined herein, capitalized terms shall have the definition ascribed to them in the Partnership Agreement.

B. Freeport Partners, Inc., a Florida corporation (the "General Partner") is the General Partner in the Partnership and SunAmerica Housing Fund 797, A Nevada Limited Partnership ("SHF") is the sole limited partner of the Partnership.

C. SunAmerica has delivered the Funding Agreement to South Trust Bank, N.A. (the "Construction Lender") in connection with the Construction Loan;

D. The Partnership is entering into this Agreement setting forth its obligations to the SunAmerica Entities in connection with the Funding Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Partnership hereby agrees for the benefit of SunAmerica Entities as follows:

1. Covenants, Representations and Warranties. The Partnership covenants, represents and warrants to the SunAmerica Entities that:

(a) Each and every representation made by it in the documents, certificates and instruments evidencing and securing the Construction Loan and the Funding Agreement are true and correct and the SunAmerica Entities may rely thereon.

(b) The Partnership shall timely pay all indebtedness and fully perform all its obligations under or in connection with the Construction Loan and the Funding Agreement.

(c) The Partnership shall not cause or permit the Construction Lender to make any claim or demand on the SunAmerica Entities under the Funding Agreement based on the Partnership's default under any documents, certificates or instruments evidencing or securing the Construction Loan.

(d) The Partnership shall not execute, amend or modify any documents in connection with the Construction Loan without the prior written consent of SunAmerica.

The Partnership shall indemnify the SunAmerica Entities and hold them harmless against any and all loss, damage, liability or claim arising from a breach of any of the foregoing covenants, representations and warranties, including reasonable attorneys' fees and costs and expenses of litigation and collection. The representations, warranties and covenants contained herein shall survive the termination of the Funding Agreement.

2. Reimbursement and Indemnity Obligation. The Partnership shall pay, indemnify, reimburse, exonerate and hold the SunAmerica Entities harmless against any loss, damage, liability or claim incurred by the SunAmerica Entities in connection with the Construction Loan and the Funding Agreement. The Partnership shall pay the SunAmerica Entities interest on all losses or damages suffered by the SunAmerica Entities in connection with this Agreement at an annual rate equal to the lesser of (i) 18%, or (ii) the highest rate permitted by law from the time such losses or damages are suffered until such time as the SunAmerica Entities has been compensated by the Partnership in full for such losses. All amounts due hereunder shall be due when incurred by the SunAmerica Entities without notice or demand to the Partnership. If and when SunAmerica makes any payments under the Funding Agreement, the Partnership shall immediately, without notice or demand, cause the reimbursement to the SunAmerica Entities of all payments made by SunAmerica under the Funding Agreement to discharge or acquire indebtedness of the Partnership to the Construction Lender in connection with the Construction Loan and/or the Funding Agreement.

3. Fees. The Partnership shall pay SunAmerica or its designee the SAI Credit Enhancement Fee when and as required under the Partnership Agreement.

4. Collateral for Agreement. This Agreement shall be secured by the Security Agreement of even date herewith given by the General Partner for the benefit of the SunAmerica Entities, wherein the General Partner assigns, pledges and grants a security interest to the SunAmerica Entities in the collateral described therein, subject to any rights of the Construction Lender.

5. Attorneys' Fees and Expenses. The Partnership shall pay to SunAmerica, reasonable attorneys' fees and expenses which the SunAmerica Entities expend or incur in connection with the execution and delivery of all documents in connection with the Construction Loan and the Funding Agreement, the execution and delivery of this Agreement, and all other documents entered into in connection thereto, the collecting of any amounts payable by the SunAmerica Entities hereunder and in enforcing this Agreement whether or not suit is filed.

6. No Fiduciary Duty. The Partnership acknowledges that the SunAmerica Entities are affiliates of SHF. Notwithstanding such affiliation, the Partnership and the General Partner agree as follows: (a) that the relationship between the SunAmerica Entities and the Partnership is that of a debtor and creditor and no partnership or joint venture relationship exists between the SunAmerica

Entities and the Partnership or the General Partner; (b) that the SunAmerica Entities do not owe a fiduciary duty to the Partnership or the General Partner; and (c) SHF may exercise any of its rights and remedies under the Partnership Agreement in its sole and absolute discretion without regard to any affiliation between SHF and the SunAmerica Entities, so long as SHF shall not exercise any right that causes the partnership to default in its obligations to the Construction Lender. The Partnership and the General Partner waive and release any claim they may now or hereafter have against the SunAmerica Entities or SHF based on any theory or cause of action that conflicts with the agreements of the parties set forth in this Section 6.

7. Waiver and Estoppel. The Partnership knowingly waives and agrees that it will be estopped from asserting any argument to the contrary: (a) any and all notice of acceptance of this Agreement or of the creation, renewal or accrual of any of the obligations or liabilities hereunder indemnified against, either now or in the future; (b) protest, presentment, demand for payment, notice of default or nonpayment, notice of protest or default; (c) any and all notices or formalities to which the Partnership may otherwise be entitled, including without limitation notice of the granting of any indulgences or extensions of time of payment of any of the liabilities and obligations hereunder and hereby indemnified against; (d) any promptness in making any claim or demand hereunder; (e) the defense of the statute of limitations in any action hereunder or in any action for the collection of amounts payable hereunder; (f) any defense that may arise by reason of the incapacity, lack of authority, death or disability of any other person or persons or the failure to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of any other person or persons; (g) any defense based upon an election of remedies which destroys or otherwise impairs any or all of the subrogation rights of the Partnership or the right of the Partnership to proceed against any other person for reimbursement, or both; (h) all duty or obligation of the SunAmerica Entities to perfect, protect, retain or enforce any security for the payment of amounts payable by the Partnership hereunder or to proceed against any one or more persons as a condition to proceeding against the Partnership; (i) any principle or provision of law, statutory or otherwise, which is or might be in conflict with the terms and provisions of this Agreement. No delay or failure on the part of the SunAmerica Entities in the exercise of any right or remedy against the Partnership or any other party against whom the SunAmerica Entities may have any rights, shall operate as a waiver of any agreement or obligation contained herein, and no single or partial exercise by the SunAmerica Entities of any rights or remedies as hereunder shall preclude other or further exercise thereof or other exercise of any other right or remedy. No waiver of the rights of the SunAmerica Entities or in connection herewith and no release of the Partnership shall be effective unless in writing executed by a duly authorized officer of SunAmerica.

8. Notices. All notices, demands, requests or other communications ("Notices") to be sent by one party to the other hereunder or required by law shall be in writing and shall be deemed to have been validly given or served by delivery of same in person to the addressee or by depositing same with Federal Express or Airborne for next business day delivery or by depositing same in the United States mail, postage prepaid, registered or certified mail, return receipt requested, addressed as follows:

If to the Partnership: 1075 West Morse Boulevard
Winter Park, Florida 32789
Attention: John J. Murphy, Jr.
Fax No.: (407) 628-5270

With a copy to: Thomas V. Infantino, Esq.
Infantino & Berman
1075 West Morse Boulevard
Winter Park, Florida 32789
Fax No.: (407) 644-4128

If to SunAmerica: SunAmerica Inc.
1 SunAmerica Center, Century City
Los Angeles, California 90067-6022
Attention: Michael L. Fowler
Fax No.: (310) 772-6179

With a copy to: Wayne H. Hykan, Esq.
Brownstein Hyatt & Farber, P.C.
410 Seventeenth Street, 22nd Floor
Denver, Colorado 80202
Fax No.: (303) 223-1111

All Notices shall be effective upon such personal delivery or upon being deposited with Federal Express or Airborne or in the United States mail as required above. However, with respect to Notices so deposited with Federal Express or Airborne or in the United States mail, the time period in which a response to any such notice, demand or request must be given shall commence to run from the next business day following any such deposit with Federal Express or Airborne, in the case of a deposit in the United States mail as provided above, the date on the return receipt of the Notice reflecting the date of delivery or rejection of the same by the addressee thereof. By giving to the other parties hereto at least 15 days' written notice in accordance with the provisions hereof, a party may change its address for notice purposes.

9. State Law. This Agreement shall be construed and interpreted in accordance with the substantive laws of the State of Florida without regard to principles of conflicts of laws.

10. Headings. The headings used herein are for convenience only and do not limit or alter the terms of this Agreement or in any way affect the meaning or interpretation of this Agreement.

11. Successors And Assigns. All rights of the SunAmerica Entities shall inure to the benefit of its successors and assigns, and all obligations, liabilities, and duties of the Partnership hereunder shall bind its successors and assigns.

12. Entire Agreement; Amendment and Modification. This Agreement constitutes the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein, supersedes all prior agreements and understandings, both written and oral, between the parties in respect of the subject matter hereof or thereof and no changes, amendments, or alterations hereto shall be effective unless pursuant to written instrument executed by the Partnership and the SunAmerica Entities.

13. No Waiver of Strict Compliance. No waiver or failure of the SunAmerica Entities to insist upon strict compliance with any obligation, covenant, agreement, representation, warranty, or condition shall operate as a waiver of, or estoppel with respect to, any subsequent or other failure to comply with such obligation, covenant, agreement, representation, warranty, or condition, or with any other obligation, covenant, agreement, representation, warranty, or condition contained herein. Failure to exercise any right, power, or remedy shall not constitute a waiver of any obligations or obligations under this Agreement or constitute a modification of this Agreement. No waiver by the SunAmerica Entities of any default shall operate as a waiver of any other default or of the same default on a future occasion. The making of this Agreement shall not waive or impair any other security the SunAmerica Entities may have or hereafter acquire for the payment of obligations under this Agreement, and the taking of any additional security it may have in the order it may deem proper.

14. Validity. The invalidity or unenforceability of any terms or provisions of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect, and, if any such unenforceable provision hereof is enforceable in any part or to any lesser extent, such provision shall be enforceable in all such parts and to the greatest extent permissible under applicable law.

15. Remedies Cumulative. Each right and remedy provided for herein shall be cumulative and non-exclusive and shall be in addition to every other right or remedy provided for herein or now or hereafter existing at law or in equity or by statute or otherwise. Without limiting the generality of the foregoing, if a SunAmerica Entity acquires indebtedness of the Partnership, whether by subrogation or the other documents executed in connection with the Funding Agreement and the Construction Loan, then the SunAmerica Entities may exercise any and all rights and remedies resulting from the acquisition of such other indebtedness ("Acquired Indebtedness"). The SunAmerica Entities shall have the right, but not the obligation, to elect to proceed against Borrower under the rights and remedies it has with respect to any Acquired Indebtedness and forebear from exercising its rights and remedies hereunder, with or without exercising any rights or remedies hereunder; such election may be made by the SunAmerica Entities at any time and shall be binding on the appropriate SunAmerica Entity only when made in a written election of remedies duly authorized by the appropriate SunAmerica Entity. In no event shall the foregoing be construed as limiting the rights and remedies of the SunAmerica Entities hereunder nor shall any actions taken hereunder be construed as an election of remedies exclusive of any remedies hereunder or with respect to the Acquired Indebtedness. The Partnership and the General Partner hereby consent to the acquisition by any of the SunAmerica Entities of any Acquired Indebtedness.

EXECUTED as of the date and year first set forth above.

KERNAN ASSOCIATES, LTD., a Florida imited partnership

BY: FREEPORT PARTNERS, INC.
a Florida corporation, General Partner

By: _____
John J. Murphy, Jr., President

under the terms of this Agreement, at the time of such default, less the value of the Interest of the Investor Partner, if such Interest is claimed as compensation for damages.

16.7 Environmental Protection and Insurance.

(a) The General Partner represents and warrants that (i) it has no knowledge of any deposit, storage, disposal, burial, discharge, spillage, uncontrolled loss, seepage or filtration of any Hazardous Substances at, upon, under or within the Land or any contiguous real estate and (ii) it has not caused or permitted to occur, and it shall not permit to exist, any condition which may cause a discharge of any Hazardous Substances at, upon, under or within the Land or on any contiguous real estate.

(b) The General Partner further represents and warrants that (i) neither it nor, to the best of its knowledge, any other party has been, is or will be involved in operations at or, pursuant to the General Partner's best knowledge, near the Land, which operations could lead to (A) a determination of liability under the Hazardous Waste Laws as to the Partnership or (B) the creation of a lien on the Land under the Hazardous Waste Laws or under any similar laws or regulations; and (ii) the General Partner has not permitted, and will use best efforts not to permit, any tenant or occupant of the Apartment Complex to engage in any activity that could impose liability under the Hazardous Waste Laws on such tenant or occupant, on the Land or on any other owner of the Apartment Complex.

(c) The General Partner shall comply strictly and in all respects with all material requirements of the Hazardous Waste Laws and related regulations and with all similar laws and regulations.

(d) It shall at all times indemnify and hold harmless the Investor Partner against and from any and all claims, suits, actions, debts, damages, costs, charges, losses, obligations, judgments and expenses, of any nature whatsoever, suffered or incurred by the Investor Partner and arising from its investment in the Partnership, under or on account of the Hazardous Waste Laws or any similar laws or regulations, including the assertion of any lien thereunder.

(e) For purposes of this Section 16.7, "Hazardous Substances" means oil, petroleum or chemical liquids or solids, liquid or gaseous products or any hazardous wastes or hazardous substances, as those terms are used in the Hazardous Waste Laws; and "Hazardous Waste Laws" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, and any other federal, state or local law governing Hazardous Substances, as such laws may be amended from time to time.

(f) (i) The Investor Partner shall have the right, but not the obligation, to obtain an initial policy of environmental property liability insurance and subsequent renewals of any such policy (any of which is an "Environmental Policy") with respect to its interest in the Apartment Complex. If the Investor Partner obtains Environmental Insurance, it will cause the Partnership and

the General Partner to be additional insureds under the Environmental Policy. Upon issuance of the Environmental Policy to the Investor Partner, the Investor Partner agrees to provide a certificate to the Partnership and the General Partner confirming the issuance of the Environmental Policy to the Investor Partner.

(ii) The Investor Partner shall have no claim for a breach of this Section 16.7 if and to the extent that the Investor Partner actually recovers its losses for such claim pursuant to the Environmental Policy.

(iii) The Investor Partner anticipates that Environmental Policy would cover not only the Apartment Complex, but also a large number of other properties. The Environmental Policy would have a deductible, a per discovery policy limit, and an aggregate policy limit that would apply to all claims made under the Environmental Policy and not only claims made with respect to the Apartment Complex. Accordingly, a claim made under the Environmental Policy with respect to an insured property other than the Apartment Complex could adversely effect or eliminate the right of the Partnership and its Partners to recover with respect to an environmental problem affecting the Apartment Complex. Neither the Investor Partner nor its Affiliates shall have any liability to the Partnership, the General Partner or any other Person based on the failure of the Environmental Policy to provide coverage for any claim or loss for any reason whatsoever.

(iv) The Partnership shall pay SAHP (or its designee) the actual out-of-pocket costs and expenses incurred by the Investor Partner, SAHP or their affiliates in obtaining an Environmental Policy that covers the Apartment Complex ("EI Reimbursements") as reasonably determined by SAHP. The Partners acknowledge that in making such determination, SAHP may have to allocate the aggregate cost of the Environmental Policy among various properties covered by the Environmental Policy. The Investor Partner projects that the EI Reimbursements to be paid by the Partnership for inclusion in an initial Environmental Policy having a term of approximately five (5) years will be approximately $1,200.00 payable in a single installment.

16.8 Notices. Any Notice required by the provisions of this Agreement to be given to one or more Partners shall be addressed as follows:

(a) To the Investor Partner:

SunAmerica Inc.
General Partner of SunAmerica Housing Fund 797,
A Nevada Limited Partnership
1 SunAmerica Center, Century City
Los Angeles, California 90067-6022
Attention: Michael Fowler, Vice President
Fax No.: (310) 772-6179

With a copy to:

Brownstein Hyatt & Farber, P.C.
410 17th Street, 22nd Floor
Denver, Colorado 80202-4437
Attention: Wayne H. Hykan, Esq.
Fax No.: (303) 223-1111

(b) To the General Partner:

Freeport Partners, Inc.
1075 West Morse Boulevard
Winter Park, Florida 32789
Attention: John J. Murphy, Jr.
Fax No.: (407) 628-5270

With a copy to:

Thomas V. Infantino, Esq.
Infantino & Berman
1075 West Morse Boulevard
Winter Park, Florida 32789
Fax No.: 407-644-4128

16.9 No Continuing Waiver. The waiver by any party of any breach of this Agreement or any full or partial condition for performance hereunder shall not operate as or be construed to be a waiver of any subsequent breach or condition.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have affixed their signatures and seals to this Second Amended and Restated Agreement of Limited Partnership of Kernan Associates, Ltd., as of the date first written above.

GENERAL PARTNER:

FREEPORT PARTNERS, INC.
a Florida corporation

By: _____
John J. Murphy, Jr., President

LIMITED PARTNER:

SUNAMERICA HOUSING FUND 797,
A NEVADA LIMITED PARTNERSHIP

By: SUNAMERICA INC., a Delaware corporation, General Partner

By: _____
Michael L. Fowler, Vice President

AS TO A CONSENTING PARTY WITH RESPECT TO THE PROVISIONS OF SECTION 8.16:

SOUTHERN APARTMENT SPECIALISTS INC

By: _____
Name: John J. Murphy, Jr.
Title: President

3496\736\544865.5

IN WITNESS WHEREOF, the parties have affixed their signatures and seals to this Second Amended and Restated Agreement of Limited Partnership of Kernan Associates, Ltd., as of the date first written above.

GENERAL PARTNER:

FREEPORT PARTNERS, INC.
a Florida corporation

By: _____
John J. Murphy, Jr., President

LIMITED PARTNER:

SUNAMERICA HOUSING FUND 797,
A NEVADA LIMITED PARTNERSHIP

By: SUNAMERICA INC., a Delaware corporation, General Partner

By: _____
Michael L. Fowler, Vice President

AS TO A CONSENTING PARTY WITH RESPECT TO THE PROVISIONS OF SECTION 8.16:

_____

By: _____
Name: _____
Title: _____

STATE OF FLORIDA)
) ss.
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this 21 day of December, 1999, by John J. Murphy, Jr., President of Freeport Partners, Inc., a Florida corporation, on behalf of said corporation.

WITNESS my hand and official seal.

[SEAL] Carolyn A. Pruett
Notary Public

My Commission expires: Carolyn A Pruett My Commission CC641994 Expires May 3 2001

STATE OF _____)
) ss.
COUNTY OF _____)

Before me, the undersigned Notary Public in and for the aforesaid County and State, personally appeared Michael L. Fowler, in his capacity as Vice President of SunAmerica Inc., as General Partner of SunAmerica Housing Fund 797, A Nevada Limited Partnership, as Limited Partner of Kernan Associates, Ltd., a Florida limited partnership, and being duly sworn, acknowledged the execution of the foregoing instrument.

Witness my hand and notarial seal this _____ day of December, 1999.

[SEAL] _____
Notary Public

My Commission expires: _____

Arent Fox
ATTORNEYS AT LAW

Arent Fox Kintner Plotkin & Kahn, PLLC
1050 Connecticut Avenue, NW
Washington, DC 20036-5339
Phone 202/857-6000
Fax 202/857-6395
www.arentfox.com

Sana D. Coleman
202/775-5753
colemans@arentfox.com

December 5, 2000

DEPOSIT DATE
D395* DEC 06 2000

VIA FEDERAL EXPRESS

Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

001767-TX

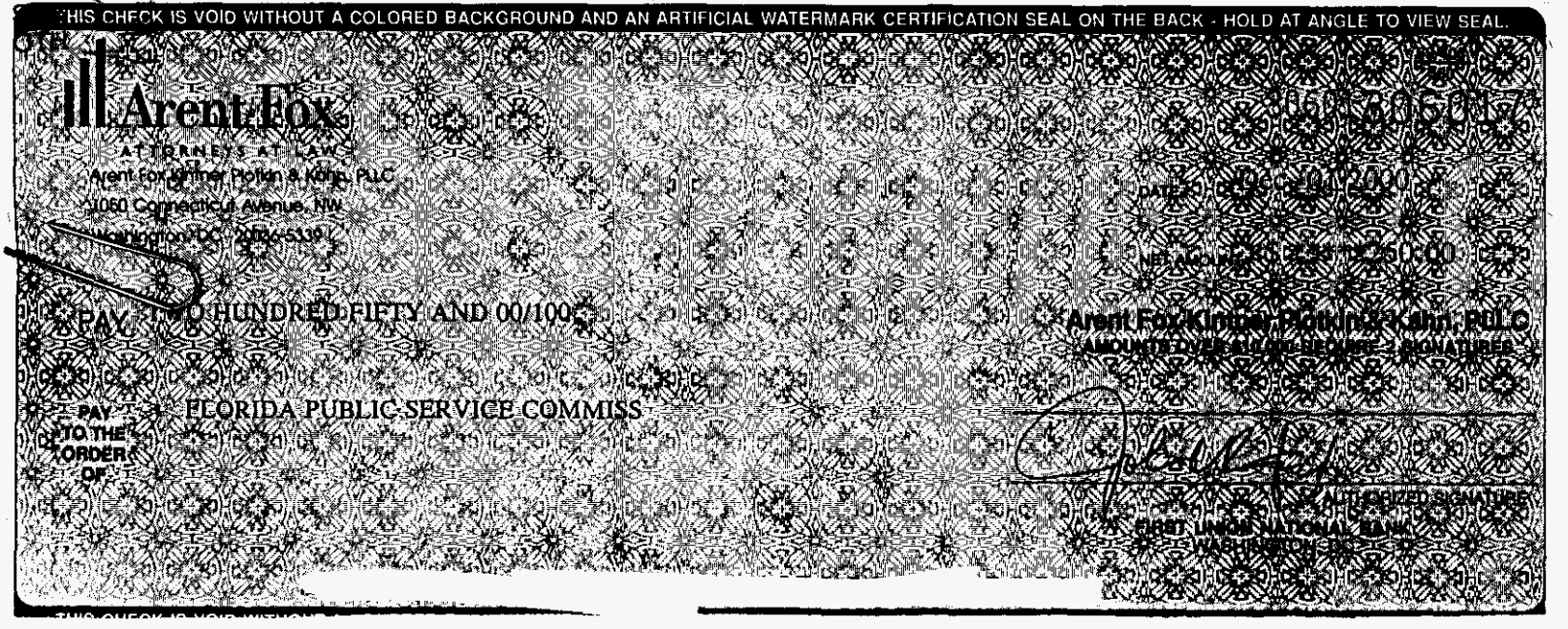
Re: Application of Kernan Associates, Ltd. to Provide Alternative Local Exchange Service Within the State of Florida

Dear Sir/Madam:

Enclosed for filing are an original and six (6) copies of the Application to Provide Alternative Local Exchange Service Within the State of Florida ("Application") of Kernan Associates, Ltd. ("Kernan"). Also enclosed is check in the amount of $ 250.00 to cover the filing fee for this Application. Please note that the Applicant Acknowledgment Statement, Affidavit, and Affirmation of Financial Statement contain signatures provided by facsimile. We will forward to the Commission, under separate cover, the original copies of these documents once they are available.

APP
CAF
CMP
COM
CTR
ECR
LEG
OPC
PAI
RGO
SEC

Please date-stamp the enclosed additional copy of the Application and return it to us in the self-addressed, postage-paid envelope that is provided. If you have any questions concerning this filing, please do not hesitate to contact us.



Arent Fox
ATTORNEYS AT LAW

Arent Fox Kintner Plotkin & Kahn, PLLC
1050 Connecticut Avenue, NW
Washington, DC 20036-5339
Phone 202/857-6000
Fax 202/857-6395
www.arentfox.com

Sana D. Coleman
202/775-5753
colemans@arentfox.com

December 5, 2000

DEPOSIT DATE
D395 DEC 06 2000

VIA FEDERAL EXPRESS

Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Application of Kernan Associates, Ltd. to Provide Alternative Local Exchange Service Within the State of Florida

Dear Sir/Madam:

Enclosed for filing are an original and six (6) copies of the Application to Provide Alternative Local Exchange Service Within the State of Florida ("Application") of Kernan Associates, Ltd. ("Kernan"). Also enclosed is check in the amount of $ 250.00 to cover the filing fee for this Application. Please note that the Applicant Acknowledgment Statement, Affidavit, and Affirmation of Financial Statement contain signatures provided by facsimile. We will forward to the Commission, under separate cover, the original copies of these documents once they are available.

Please date-stamp the enclosed additional copy of the Application and return it to us in the self-addressed, postage-paid envelope that is provided. If you have any questions concerning this filing, please do not hesitate to contact us.

Respectfully submitted,

Sana D. Coleman

Sana D. Coleman

Enclosures

cc: Jack Nace
John Murphy, Jr.