

TAUBMAN CENTERS INC

FORM 10-K (Annual Report)

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE

ACT OF 1934 For the fiscal year ended December 31, 1997.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____ Commission File Number 1-11530

TAUBMAN CENTERS, INC.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|--|--------------------------------------|
| Michigan | 38-2033632 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|--------------------------|
| 200 East Long Lake Road Suite 300, P.O. Box 200 Bloomfield Hills, Michigan (Address of principal executive office) | 48303-0200 (Zip Code) |
|---|--------------------------|

Registrant's telephone number, including area code: (248) 258-6800
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, \$0.01 Par Value | New York Stock Exchange |
| 8.3% Series A Cumulative Redeemable Preferred Stock, \$0.01 Par Value | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such report(s)) and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 25, 1998, the aggregate market value of the 42,100,227 shares of Common Stock held by non-affiliates of the registrant was \$542.0 million, based upon the closing price (\$12 7/8) on the New York Stock Exchange composite tape on such date. (For this computation, the registrant has excluded the market value of all shares of its Common Stock reported as beneficially owned by executive officers and directors of the registrant and certain other shareholders; such exclusion shall not be deemed to constitute an admission that any such person is an "affiliate" of the registrant.) As of March 25, 1998, there were outstanding 50,828,785 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual shareholders meeting to be held in 1998 are incorporated by reference into Part III.

PART I

Item 1. BUSINESS

The Company

Taubman Centers, Inc. (the "Company" or "TCO") was incorporated in Michigan in 1973 and had its initial public offering ("IPO") in 1992. Upon completion of the IPO, the Company became the managing general partner of The Taubman Realty Group Limited Partnership ("TRG"). The Company has a 38.4% partnership interest in TRG (which has increased from 36.7% at December 31, 1997 because of TRG's redemption of a partner's interest in January 1998). The Company, through TRG, engages in the ownership, management, leasing, acquisition, development, and expansion of regional shopping centers ("Taubman Shopping Centers" or "Centers") and interests therein. TRG's portfolio, as of December 31, 1997, includes 25 urban and suburban Taubman Shopping Centers located in 12 states. Two additional Centers are under construction and are expected to open in November 1998 and March 1999. Twenty-two of the Centers are "super-regional" centers because they have more than 800,000 square feet of gross leasable area. TRG also owns certain regional retail shopping center development projects and more than 99% of The Taubman Company Limited Partnership (the "Manager"), which manages the Taubman Shopping Centers and provides other services to TRG and the Company. See the table on pages 12 and 13 of this report for information regarding the Taubman Shopping Centers and TRG's interests in them.

The Company is a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended (the "Code"). In order to satisfy the provisions of the Code applicable to REITs, the Company must distribute to its shareholders at least 95% of its REIT taxable income and meet certain other requirements. TRG's partnership agreement provides that TRG will distribute, at a minimum, sufficient amounts to its partners such that the Company's pro rata share will enable the Company to pay shareholder dividends (including capital gains dividends that may be required upon TRG's sale of an asset) that will satisfy the REIT provisions of the Code.

Recent Developments

For a discussion of business developments that occurred in 1997, see the response to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Shopping Center Business

There are several types of retail shopping centers, varying primarily by size and marketing strategy. Retail shopping centers range from neighborhood centers of less than 100,000 square feet of GLA to regional and super-regional shopping centers. Retail shopping centers in excess of 400,000 square feet of GLA are generally referred to as "regional" shopping centers, while those centers having in excess of 800,000 square feet of GLA are generally referred to as "super-regional" shopping centers. In this annual report on Form 10-K, the term "regional shopping centers" refers to both regional and super-regional shopping centers. The term "GLA" refers to gross retail space, including anchors and mall tenant areas, and the term "Mall GLA" refers to gross retail space, excluding anchors. The term "anchor" refers to a department store or other large retail store. The term "mall tenants" refers to stores (other than anchors) that are typically specialty retailers and lease space in shopping centers.

Business of the Company

The Company, as managing general partner of TRG, is engaged in the ownership, management, leasing, acquisition, development and expansion of regional shopping centers.

The Taubman Shopping Centers:

o are strategically located in major metropolitan areas, many in communities that are among the most affluent in the country, including New York City, Chicago, Los Angeles, San Francisco, Denver, Columbus, Detroit, Miami, Phoenix, and Washington, D.C.;

o range in size between 438,000 and 2.3 million square feet of GLA and between 133,000 and 942,000 square feet of Mall GLA. The smallest Center has approximately 50 stores, and the largest has approximately 250 stores. Of the 25 Centers, 22 are super-regional shopping centers;

o have approximately 3,400 stores operated by its mall tenants under approximately 1,250 trade names;

o have 88 anchors, operating under 17 trade names;

o lease approximately 76% of Mall GLA to national chains, including subsidiaries or divisions of The Limited (The Limited, Limited Express, Victoria's Secret, and others), The Gap (The Gap, Banana Republic, and others), and Woolworth Corporation (Foot Locker, Kinney Shoes, and others); and

o are among the most productive (measured by mall tenants' average per square foot sales) in the United States. In 1997, mall tenants in the Taubman Shopping Centers portfolio had average per square foot sales of \$384, which is substantially greater than the average for all regional shopping centers owned by public companies.

The most important factor affecting the revenues generated by the Taubman Shopping Centers is leasing to mall tenants (primarily specialty retailers), which represents over 90% of revenues. Anchors account for approximately 5% of revenues because many own their stores and, in general, those that lease their stores do so at rates substantially lower than those in effect for mall tenants.

TRG's ownership is concentrated in highly productive super-regional shopping centers. Of its 25 Centers, 19 had annual rent rolls at December 31, 1997 of over \$10 million and 21 had annualized sales per square foot in excess of \$300. The Company believes that this level of productivity in the Taubman Shopping Centers is indicative of their strong competitive position and is, in significant part, attributable to TRG's business strategy and philosophy. The Company believes that large shopping centers (including regional and especially super-regional shopping centers) are the least susceptible to direct competition because (among other reasons) anchors and large specialty retail stores do not find it economically attractive to open additional stores in the immediate vicinity of an existing location for fear of competing with themselves. In addition to the advantage of size, the Company believes that the Centers' success can be attributed in part to their other physical characteristics, such as design, layout, and amenities.

Business Strategy And Philosophy

The Company and TRG believe that the regional shopping center business is not simply a real estate development business, but rather an operating business in which a retailing approach to the on-going management and leasing of the Taubman Shopping Centers is essential. Thus TRG:

o offers a large, diverse selection of retail stores in each Center to give customers a broad selection of consumer goods and variety of price ranges;

o endeavors to increase overall mall tenants' sales, and thereby increase achievable rents, by leasing space to a constantly changing mix of tenants; and

o seeks to anticipate trends in the retailing industry and emphasizes ongoing introductions of new retail concepts into the Centers. Due in part to this strategy, a number of successful retail trade names have opened their first mall stores in the Taubman Shopping Centers. TRG believes that its execution of this leasing strategy is unique in the industry and is an important element in building and maintaining customer loyalty and increasing mall productivity.

The Taubman Shopping Centers compete for retail consumer spending through diverse, in-depth presentations of predominantly fashion merchandise in an environment intended to facilitate customer shopping. While some Taubman Shopping Centers include stores that target high-end, upscale customers, each Center is individually merchandised in light of the demographics of its potential customers within convenient driving distance.

TRG's leasing strategy involves assembling a diverse mix of mall tenants in each of the Taubman Shopping Centers in order to attract customers, thereby generating higher sales by mall tenants. High sales by mall tenants make the Taubman Shopping Centers attractive to prospective tenants, thereby increasing the rental rates that prospective tenants are willing to pay. TRG implements an active leasing strategy to increase the Taubman Shopping Centers' productivity and to set minimum rents at higher levels. Elements of this strategy include terminating leases of under-performing tenants, renegotiating existing leases, and not leasing space to prospective tenants that (though viable or attractive in certain ways) would not enhance a Taubman Shopping Center's retail mix.

TRG's strategy is carried out by the Manager, which is more than 99% beneficially owned by TRG and which has been engaged to provide property management and leasing services for the Taubman Shopping Centers and to provide corporate, development, administrative, and acquisition services for TRG and the Company. The Manager has been a leading developer and manager in the regional shopping center business for more than 25 years.

Potential For Growth

The Company's principal objective is to enhance shareholder value, and it conducts all of its operations through TRG to achieve that result. TRG seeks to maximize the financial results of its dominant assets, while pursuing a growth strategy that includes the following key elements
1) an active new center development program, 2) strategic acquisitions, 3) expansion of the Centers, and
4) internal growth.

Development of New Centers

The Company believes that TRG has attractive development opportunities and intends to continue to pursue an active program of regional shopping center development. The Company believes that TRG has the expertise, through the Manager, to develop economically attractive regional shopping centers through intensive analysis of local retail opportunities. TRG believes that the development of new centers is the best use of TRG's capital and an area in which TRG excels. At any time, TRG has numerous potential development projects in various stages, with the objective of opening, on average, one new center each year. During 1997, TRG's program of development produced the opening of two centers. In July, TRG opened The Mall at Tuttle Crossing, a super-regional shopping center located in Columbus, Ohio. This Center was 95% leased at year end. In November, TRG opened Arizona Mills, a value super-regional shopping center located in Tempe, Arizona. The Center opened 90% leased.

Additionally, two centers from TRG's development program are currently under construction. In 1997, TRG began construction on Great Lakes Crossing, an enclosed value super-regional mall in Auburn Hills, Michigan, owned by a partnership in which TRG has an 80% controlling interest. The 1.4 million square foot Center is scheduled to open in November 1998, at an expected cost of approximately \$210 million. Construction continues on MacArthur Center, a new Center in Norfolk, Virginia, which is expected to open in March 1999 with 930 thousand square feet of GLA. The three-level Center will initially be anchored by Nordstrom and Dillard's. The project is a joint venture in which TRG has a 70% controlling interest and is projected to cost approximately \$150 million.

TRG's policies with respect to development activities are designed to limit the risks otherwise associated with development. For instance, TRG entered into an agreement to lease Memorial City Mall, a center adjacent to one of the most affluent residential areas in Houston, Texas, while TRG investigates the redevelopment opportunities of the center (see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Capital Spending" for further discussion of the transaction). Also, TRG generally does not intend to acquire land early in the development process, but will instead generally acquire options on land or form partnerships with landholders holding potentially attractive development sites, typically exercising options only once it is prepared to begin construction. In addition, TRG does not intend to begin construction until a sufficient number of anchor stores have agreed to operate in the shopping center, such that TRG is confident that the projected sales and rents from Mall GLA are sufficient to earn a return on invested capital in excess of TRG's cost of capital. Having historically followed these two principles, TRG's experience indicates that less than 20% of the costs of the development of a regional shopping center will be incurred prior to the construction period; however, no assurance can be given that TRG will continue to be able to so minimize pre-construction costs.

While the Company anticipates that TRG will continue to evaluate development projects using criteria, including financial criteria for rates of return, similar to those employed in the past, no assurances can be given that the adherence to these policies will produce comparable results in the future. In addition, the costs of shopping center development opportunities that are explored but ultimately abandoned will, to some extent, diminish the overall return on development projects.

Strategic Acquisitions

TRG's objective is to acquire existing centers that are compatible with the quality of TRG's portfolio (or can be redeveloped to that level) and that satisfy TRG's strategic plans and pricing requirements. In 1997, TRG completed three acquisitions totaling over \$356 million.

In September 1997, TRG acquired Regency Square shopping center, the dominant fashion center in the greater Richmond, Virginia area, for \$123.9 million. Regency Square has 825,000 square feet of GLA and is anchored by Hecht's, JCPenney and Sears.

In December 1997, TRG acquired The Falls shopping center in Miami for \$156 million. Representing TRG's entry into the Florida market, The Falls is an 812,000 square foot Center, anchored by Bloomingdale's and Macy's.

Also in December, TRG completed the \$76.3 million acquisition of the participating leasehold interest in The Mall at Tuttle Crossing. Tuttle Crossing opened in July as the second of TRG's two properties in the Columbus, Ohio market.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- Acquisitions" and Note 3 to the Consolidated Financial Statements of TRG for further discussion of these acquisitions.

The Company and TRG believe that TRG will have additional opportunities to acquire regional shopping centers, or interests therein, and will have certain advantages in doing so.

o First, the management expertise of the Manager will enhance the leasing and operation of newly acquired regional shopping centers. If opportunities exist to expand, remodel, or re-merchandise the center through new leasing, the Manager's expertise will assist TRG in making an informed and timely evaluation of the economic consequences of such activities prior to acquisition, as well as facilitate implementation of such activities.

o Second, a center can be acquired for any combination of cash or equity interests in TRG or (subject to certain limitations) the Company, possibly creating the opportunity for tax-advantaged transactions for the seller, thereby reducing the price that might otherwise have to be paid in an all cash transaction or making an opportunity available that would not otherwise exist. TRG is able to offer partnership interests in itself in exchange for shopping center interests, allowing sellers to diversify their interests, attain liquidity not otherwise available, possibly defer taxes that might otherwise be due if the interests were instead sold for cash, maintain an investment in the regional shopping center business, and resolve concerns sellers otherwise may have regarding future management of their properties. For instance, Biltmore Fashion Park's selling group included private investors who found it tax efficient to accept TRG partnership units as part of the consideration when TRG acquired the Center in 1994.

Expansions of the Taubman Shopping Centers

A key element of growth is the strategic expansion of existing properties to update and enhance their market positions, by replacing or adding new anchor stores or increasing mall tenant space. Most of the Taubman Shopping Centers have been designed to accommodate expansions. Expansion projects can be as significant as new shopping center construction in terms of scope and cost, requiring governmental and existing anchor store approvals, design and engineering activities, including rerouting utilities, providing additional parking areas or decking, acquiring additional land, and relocating anchors and mall tenants (all of which must take place with a minimum of disruption to existing tenants and customers). In 1997, for example, TRG opened a 135,000 square foot expansion at Westfarms in August (followed by a new Nordstrom in September) and new mall stores totaling 50,000 square feet of Mall GLA at Biltmore throughout the year. Additionally, construction is in process at Cherry Creek, where a 132,000 square foot expansion of the Mall GLA will open in the fall of 1998.

Consolidation of department stores has also strengthened TRG's portfolio, as retailers continue to be attracted to TRG's dominant and highly productive locations. A recent department store conversion includes Bloomingdale's at Beverly Center, which opened in March of 1997.

The following table includes information regarding TRG's development, acquisition, and expansion activities during 1997 and 1998.

Developments:

| Completion Date | Center | Location |
|-----------------|----------------------|------------------------|
| July 1997 | Tuttle Crossing | Columbus, Ohio |
| November 1997 | Arizona Mills | Tempe, Arizona |
| November 1998 | Great Lakes Crossing | Auburn Hills, Michigan |
| March 1999 | MacArthur Center | Norfolk, Virginia |

Acquisitions:

| Completion Date | Center | Location |
|-----------------|--------------------------|---------------------------|
| June 1996 | Paseo Nuevo (1) | Santa Barbara, California |
| July 1996 | Fairlane Town Center (2) | Dearborn, Michigan |
| December 1996 | La Cumbre Plaza | Santa Barbara, California |
| September 1997 | Regency Square | Richmond, Virginia |
| December 1997 | Tuttle Leasehold | Columbus, Ohio |
| December 1997 | The Falls (3) | Miami, Florida |

Expansions and Anchor Conversions:

| Completion Date | Center | Location |
|-----------------|--------------------|-------------------------------|
| June 1996 | Biltmore (4) | Phoenix, Arizona |
| August 1996 | Fair Oaks (5) | Fairfax, Virginia |
| August 1996 | Lakeforest (5) | Gaithersburg, Maryland |
| November 1996 | Marley Station (6) | Anne Arundel County, Maryland |
| November 1996 | Stoneridge (6) | Pleasanton, California |
| March 1997 | Beverly Center (7) | Los Angeles, California |
| August 1997 | Westfarms (8) | West Hartford, Connecticut |
| November 1997 | Cherry Creek (9) | Denver, Colorado |
| December 1997 | Biltmore (10) | Phoenix, Arizona |

(1) Broadway converted to Macy's immediately prior to TRG's acquisition of Paseo Nuevo.

(2) Acquired partner's 75% interest in the Center.

(3) Completely redeveloped and expanded in 1996 before TRG's acquisition of The Falls.

(4) Broadway converted to Macy's.

(5) Woodward & Lothrop converted to Lord & Taylor.

(6) Sears opened new store.

(7) Broadway converted to Bloomingdale's.

(8) 135,000 square foot expansion followed by the opening of a new Nordstrom in September.

(9) Lord & Taylor opened new and expanded store. Additional 132,000 square foot expansion of mall tenant space will open in the Fall of 1998.

(10) 50,000 square foot expansion of mall tenant space completed.

Internal Growth

The Taubman Shopping Centers are among the most productive in the nation, when measured by mall tenant's average sales per square foot. Higher sales per square foot enable mall tenants to remain profitable while paying occupancy costs that are a greater percentage of total sales. As leases expire at the Centers, TRG has consistently been able, on a portfolio basis, to lease the available space to an existing or new tenant at higher rates.

Augmenting this growth, TRG is pursuing a number of new sources of revenue from the Taubman Shopping Centers. For example, TRG expects increased revenue from its specialty leasing efforts. In recent years a new industry -- beyond traditional carts and kiosks -- has evolved, with more and better quality specialty tenants. TRG has put in place a company-wide program to maximize this opportunity.

Rental Rates

As leases have expired in the Taubman Shopping Centers, TRG has generally been able to rent the available space, either to the existing tenant or a new tenant, at rental rates that are higher than those of the expired leases. In a period of increasing sales, rents on new leases will tend to rise as tenants' expectations of future growth become more optimistic. In periods of slower growth or declining sales, rents on new leases will grow more slowly or will decline for the opposite reason. However, Center revenues nevertheless increase as older leases roll over or are terminated early and replaced with new leases negotiated at current rental rates that are usually higher than the average rates for existing leases. The following table contains certain information regarding per square foot base rent, excluding renewals, at Taubman Shopping Centers that have been owned and open for five years.

| All Mall Tenants | Store Closings During Year | | Store Openings During Year | | Difference Between Opening and Closing Rents |
|------------------------|-------------------------------------|-------------------------|-------------------------------------|-------------------------|---|
| | Average | Average | Average | Average | Average |
| | Base Rent | Annualized Base Rent | Annualized Base Rent | Annualized Base Rent | Base Rent |
| 1997 (1)..... | \$38.79 | \$37.62 | \$41.67 | \$ 4.05 | |
| 1996 (1)..... | \$37.90 | \$33.39 | \$42.39 | \$ 9.00 | |
| 1995 (1)..... | \$36.33 | \$32.96 | \$41.27 | \$ 8.31 | |
| 1994 (2)..... | \$34.72 | \$30.46 | \$41.02 | \$10.56 | |
| 1993 (3)..... | \$32.64 | \$29.56 | \$35.86 | \$ 6.30 | |

(1) Includes 18 centers owned and open prior to January 1, 1991.

(2) Includes 17 centers owned and open prior to January 1, 1990.

(3) Includes 16 centers owned and open prior to January 1, 1989.

Average annualized rent on stores opening in 1997 excludes rent on stores with greater than 40,000 square feet. TRG anticipates that the spread in 1998 will be somewhat higher than in 1997. However, this statistic is difficult to predict in part because TRG's leasing policies and practices may result in early lease terminations with actual average closing rents which may vary from the average rent per square foot of scheduled lease expirations. In addition, the opening or closing of large tenant spaces, which generally pay a lower rent per square foot, can significantly affect the spread in a given year.

Lease Expirations

The following table shows lease expirations based on information available as of December 31, 1997 for the next ten years for the Taubman Shopping Centers in operation at that date:

| Lease Year | Expiration | Number of Leases Expiring | Leased Area in Square Footage | Annualized Base Rent Under Expiring Leases (in thousands) | Annualized Base Rent Under Expiring Leases Per Square Foot | Percent of Total Leased Square Footage Represented by Expiring Leases |
|------------|------------|---------------------------|-------------------------------|---|--|---|
| 1998 | (1) | 173 | 423,828 | \$ 14,527 | \$ 34.27 | 4.5% |
| 1999 | | 281 | 749,483 | 27,081 | 36.13 | 7.9% |
| 2000 | | 346 | 845,160 | 31,682 | 37.49 | 8.9% |
| 2001 | | 335 | 825,406 | 33,050 | 40.04 | 8.7% |
| 2002 | | 376 | 920,849 | 36,971 | 40.15 | 9.7% |
| 2003 | | 362 | 1,037,080 | 41,446 | 39.96 | 11.0% |
| 2004 | | 310 | 996,685 | 41,044 | 41.18 | 10.5% |
| 2005 | | 318 | 1,029,162 | 42,362 | 41.16 | 10.9% |
| 2006 | | 198 | 612,522 | 25,835 | 42.18 | 6.5% |
| 2007 | | 258 | 913,452 | 35,264 | 38.61 | 9.7% |

(1) Excludes leases that expire in 1998 for which renewal leases or leases with replacement tenants have been executed as of December 31, 1997.

The Company believes that the information in the table is not necessarily indicative of what will occur in the future because of several factors, but principally because TRG's leasing policies and practices create a significant level of early lease terminations at the Taubman Shopping Centers. For example, the average remaining term of the leases that were terminated during the period 1992 to 1997 was approximately 1.9 years. The average term of leases signed during 1997 and 1996 was approximately 7.3 years.

In addition, mall tenants at Taubman Shopping Centers may seek the protection of the bankruptcy laws, which could result in the termination of such tenants' leases and thus cause a reduction in the cash flow generated by the Taubman Shopping Centers. Prior to 1992, such bankruptcies had not affected more than 3% of leases in the Taubman Shopping Centers in any one calendar year. In 1997, approximately 1.5% of leases were so affected compared to 2.8% in 1996, 3.2% in 1995, 3.1% in 1994 and 4.0% in 1993. Since 1991, the annual provision for losses on accounts receivable has been less than 2% of TRG's annual revenues.

Occupancy

Mall tenant average occupancy rates of the Taubman Shopping Centers for the last five years are as follows:

| Year | Mall Tenant Average Occupancy |
|------|-------------------------------|
| 1997 | 87.6% |
| 1996 | 87.4% |
| 1995 | 88.0% |
| 1994 | 86.6% |
| 1993 | 86.5% |

Historically, average annual occupancy for TRG as a whole has been within a narrow band. In the last ten years, average annual occupancy has ranged between 86.5% and 88.7%.

Major Tenants

The combined operations of The Limited, Inc. accounted for approximately 12% of leased Mall GLA as of December 31, 1997 and for approximately 10% of the 1997 base rent. The largest of these, in terms of square footage and rent, is The Limited, which accounted for approximately 2.3% of leased Mall GLA and 2.1% of 1997 base rent. No other single retail company accounted for more than 4% of leased Mall GLA or 1997 base rent.

Environmental Matters

All of the Taubman Shopping Centers presently owned by TRG (not including option interests in the Development Projects or any of the real estate managed by the Manager but not included in TRG's portfolio) have been subject to environmental assessments. The Company, TRG, and the Manager are not aware of any environmental liability relating to the Taubman Shopping Centers or any other property in which they have or had an interest (whether as an owner or operator) that the Company believes would have a material adverse effect on the Company's business, assets, or results of operations. No assurances can be given, however, that all environmental liabilities have been identified or that no prior owner, operator, or current occupant has created an environmental condition not known to the Company, TRG, or the Manager. Moreover, no assurances can be given that (i) future laws, ordinances, or regulations will not impose any material environmental liability or that (ii) the current environmental condition of the Taubman Shopping Centers will not be affected by tenants and occupants of the Taubman Shopping Centers, by the condition of properties in the vicinity of the Taubman Shopping Centers (such as the presence of underground storage tanks), or by third parties unrelated to TRG, the Company, or the Manager.

With respect to the matters described below, while there can be no assurances, the Company believes that such matters will not have a material adverse effect on the Company's business, assets, or results of operations.

Beverly Center is located over an oil field and several abandoned oil wells, and is adjacent to an active oil production facility that operates numerous oil and gas wells. In the Los Angeles basin, where Beverly Center is located, pockets of methane gas may be found in oil fields; however, elevated levels of methane have not been detected at Beverly Center.

Cherry Creek is situated on land that was used as a landfill prior to 1950. Because of the past use of the site as a landfill, the site is listed on the United States Environmental Protection Agency's Comprehensive Environmental Response, Compensation and Liability Information System list.

In the summer of 1997, geotechnical drilling activities were undertaken in the former gasoline station area as part of a parking lot expansion at the southeastern corner of the Cherry Creek site. The geotechnical soil samples were observed to have petroleum odors and staining. A subsurface environmental investigation subsequently revealed a limited zone of hydrocarbon contaminated soils, with no significant impacts to groundwater. Discussions with the Colorado Department of Labor and Employment, Oil Inspection Section, held in September 1997, resulted in a "passive retardation" remedial approach that relies on natural processes to degrade the hydrocarbon contamination. A Corrective Action Plan was submitted in February 1998 that proposes monitoring the soil and groundwater quarterly for a period of two years. Acceptance of the plan is anticipated by May 1998. Implementation of the plan poses no constraints to the current expansion activity.

Paseo Nuevo is located in an area of known groundwater contamination by tetrachloroethylene ("PCE"). The groundwater under and around the site was monitored for six years before, during, and after construction of the center. No on-site sources of PCE were identified during construction. The Regional Water Quality Control Board has given approval to discontinue the monitoring program because the PCE levels remained relatively constant over the six-year period and do not exceed the state standard for PCE in drinking water.

There are asbestos containing materials ("ACMs") at most of the Taubman Shopping Centers, primarily in the form of floor tiles, roof coatings and mastics. The floor tiles, roof coatings and mastics are generally in good condition. Fire-proofing material containing asbestos is present at some of the Taubman Shopping Centers in limited concentrations or in limited areas. The Manager has developed and is implementing an operations and maintenance program that details operating procedures with respect to ACMs prior to any renovation and that requires periodic inspection for any change in condition of existing ACMs.

Personnel

The Company has engaged the Manager to provide certain management, accounting, and other administrative services to the Company. TRG has engaged the Manager to provide real estate management, acquisition, development, and administrative services required by (or of) TRG or any of its properties.

As of December 31, 1997, the Manager had 449 full-time employees. The following table provides a breakdown of employees by operational areas as of December 31, 1997:

| | Number Of Employees |
|--------------------------|---------------------|
| Property Management..... | 188 |
| Leasing..... | 73 |
| Development..... | 47 |
| Financial Services..... | 77 |
| Other | 64 |
| Total..... | 449 |
| | == |

The Manager considers its relations with its employees to be good.

Item 2. PROPERTIES

Taubman Shopping Centers

Ownership

The following table sets forth certain information about each of the Taubman Shopping Centers. The table includes only Centers in operation at December 31, 1997. Excluded from this table are Great Lakes Crossing, which will open in November 1998, and MacArthur Center, which will open in March 1999. Also excluded is Memorial City Mall, a development project. Centers are owned in fee other than: Beverly Center, Cherry Creek, Columbus City Center, La Cumbre Plaza and Paseo Nuevo, which are held under ground leases expiring between 2028 and 2083 (exclusive of three ten-year renewal options at Columbus City Center), and a portion of the parking area at Hilltop (the ground lease of which expires in 2073).

Certain of the Centers are partially owned through joint ventures. Generally, TRG's joint venture partners have ongoing rights with regard to the disposition of TRG's interest in the joint ventures, as well as the approval of certain major matters.

| Centers | Anchors | Sq. Ft of GLA/ Mall GLA as of 12/31/97 | Year Opened/ Expanded | Year Acquired | TRG's % Ownership as of 12/31/97 | Percent of Mall GLA Occupied as of 12/31/97 | 1997 Rent (1) (in Thousands) |
|---|---|--|--------------------------|------------------|---|--|---------------------------------|
| | | | | | | | |
| Beverly Center Los Angeles, CA | Bloomingdale's, Macy's | 908,000/ 600,000 | | 1982 | 70%(2) | 92% | \$ 24,797 |
| Biltmore Fashion Park Phoenix, AZ | Macy's, Saks Fifth Avenue | 569,000/ 330,000 | 1963/1992/ 1997 | 1994 | 100% | 95% | 10,071 |
| Briarwood Ann Arbor, MI | Hudson's, JCPenney, Jacobson's, Sears | 990,000/ 369,000 | 1973/1980 | | 100% | 95% | 12,433 |
| Cherry Creek Denver, CO | Foley's, Lord & Taylor, Neiman Marcus, Saks Fifth Avenue | 903,000/ 430,000 (3)(4) | | 1990 | 50% | 96% | 18,306 |
| Columbus City Center Columbus, OH | Jacobson's, Lazarus, Marshall Field's | 1,209,000/ 415,000 | | 1989 | 100% | 98% | 16,335 |
| Fair Oaks Fairfax, VA (Washington, D.C. Metropolitan Area) | Hecht's, JCPenney, Lord & Taylor, Sears | 1,398,000/ 582,000 | 1980/1987/ 1988 | | 50% | 88% | 18,409 |
| Fairlane Town Center Dearborn, MI (Detroit Metropolitan Area) | Hudson's, JCPenney, Lord & Taylor, Saks Fifth Avenue, Sears | 1,484,000/(5) 594,000 | 1976/1978/ 1980 | | 100% | 79% | 13,632 |
| The Falls Miami, FL | Bloomingdale's, Macy's | 812,000/ 357,000 | 1980/1996 | 1997 | 100% | 90% | 884(1) |
| Hilltop Richmond, CA (San Francisco Metropolitan Area) | JCPenney, Macy's, Sears | 1,096,000/ 367,000 | 1976/1991 | | 100% | 85% | 5,811 |
| La Cumbre Plaza Santa Barbara, CA | Robinsons-May, Sears | 478,000/ 178,000 | 1967/1989 | 1996 | 100% | 95% | 4,042 |
| Lakeforest Gaithersburg, MD (Washington, D.C. Metropolitan Area) | Hecht's, JCPenney, Lord & Taylor, Sears | 1,107,000/ 437,000 | 1978/1992 | | 100% | 88% | 13,045 |
| Lakeside Sterling Heights, MI (Detroit Metropolitan Area) | Crowley's, Hudson's, JCPenney, Lord & Taylor, Sears | 1,474,000/ 513,000 | 1976/1980 | | 50% | 88% | 16,398 |

(1) Includes minimum and percentage rent for the year ended December 31, 1997. Excludes rent from certain peripheral properties. For Centers opened or acquired in 1997, the amounts reflect rents for the period subsequent to the opening or acquisition date. 1997 openings and acquisitions include The Mall at Tuttle Crossing (July), Regency Square (September), Arizona Mills (November), and The Falls (December).

(2) TRG has an option to acquire the remaining 30%. The results of Beverly Center are consolidated in TRG's financial statements.

(3) GLA excludes approximately 166,000 square feet for the renovated buildings on adjacent peripheral land.

(4) An expansion of the Center of approximately 132,000 square feet of Mall GLA will open in the fall of 1998.

(5) A 30-screen theater will be added and is anticipated to open by the summer of 1999.

| Centers | Anchors | Sq. Ft of GLA/ Mall GLA as of 12/31/97 | Year Opened/ Expanded | Year Acquired | TRG's % Ownership as of 12/31/97 | Percent of Mall GLA Occupied as of 12/31/97 | 1997 Rent (1) (in Thousands) |
|--|---|--|--------------------------|------------------|---|--|---------------------------------|
| | | | | | | | |
| Marley Station Anne Arundel County, MD (Washington, D.C. Metropolitan Area) | Hecht's, JCPenney, Macy's, Sears | 1,088,000/ 375,000 | 1987/1994/ 1996 | | 100% | 77% | \$ 9,447 |
| Meadowood Mall Reno, NV | JCPenney, Macy's (two locations), Sears | 889,000/ 312,000 | 1979/1995 | | 100% | 93% | 9,666 |
| Paseo Nuevo Santa Barbara, CA | Macy's, Nordstrom | 438,000/ 133,000 | 1990 | 1996 | 100% | 88% | 4,193 |
| Regency Square Richmond, VA | Hecht's (two locations), JCPenney, Sears | 825,000/ 238,000 | 1975/1987 | 1997 | 100% | 100% | 2,888(1) |
| The Mall at Short Hills Short Hills, NJ | Bloomingdale's, Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue | 1,372,000/ 550,000 | 1980/1994/ 1995 | | 100% | 96% | 31,095 |
| Stamford Town Center Stamford, CT | Filene's, Macy's, Saks Fifth Avenue | 875,000/ 382,000 | 1982 | | 50% | 90% | 15,678 |
| Stoneridge Pleasanton, CA (San Francisco Metropolitan Area) | JCPenney, Macy's (two locations), Nordstrom, Sears | 1,291,000/ 449,000 | 1980/1990/ 1996 | | 100% | 92% | 15,608 |
| The Mall at Tuttle Crossing Columbus, OH | JCPenney, Lazarus, Marshall Field's, Sears | 974,000/ 383,000 | 1997 | | 100% | 93% | 5,748(1) |
| Twelve Oaks Mall Novi, MI (Detroit Metropolitan Area) | Hudson's, JCPenney, Lord & Taylor, Sears | 1,224,000/ 486,000 | 1977/1980 | | 50% | 95% | 18,729 |
| Westfarms West Hartford, CT | Filene's, Filene's Men's Store/Furniture Gallery, JCPenney, Lord & Taylor, Nordstrom | 1,298,000/ 528,000 | 1974/1997 | | 79% | 83% | 17,230 |
| Woodfield Schaumburg, IL (Chicago Metropolitan Area) | JCPenney, Lord & Taylor, Marshall Field's, Nordstrom, Sears | 2,267,000/ 942,000 | 1971/1972/ 1995 | | 50% | 89% | 35,286 |
| Woodland Grand Rapids, MI | Hudson's, JCPenney, Sears | 1,094,000/ 369,000 | 1968/1974/ 1984/1989 | | 50% | 96% | 13,843 |
| Value Center: ----- | | | | | | | |
| Arizona Mills Tempe, AZ (Phoenix Metropolitan Area) | Off 5th Saks, Rainforest Cafe, JCPenney Outlet, Oshman's Supersports USA, GameWorks, Harkins Cinemas | 1,157,000/ 531,000 ----- | 1997 | | 37% | 80% | 2,611(1) |
| Total GLA/Total Mall GLA: | | 27,220,000/ 10,850,000 | | | | | |
| Average GLA/Average Mall GLA: | | 1,089,000/ 434,000 | | | | | |

Anchors

The following table summarizes certain information regarding the anchors at the Taubman Shopping Centers.

| Name | Number of Anchor Stores | 12/31/97 GLA (in thousands) | % of GLA |
|--|----------------------------|--------------------------------|----------|
| Federated | ----- | ----- | ----- |
| Macy's | 12 | 2,156 | |
| Lazarus | 2 | 658 | |
| Bloomingdale's | 3 | 604 | |
| -- | -- | ----- | |
| Total | 17 | 3,418 | 13.1% |
| Sears | 15 | 3,099 | 11.9% |
| JCPenney | 15 | 2,710 | 10.4% |
| May Company | ----- | ----- | ----- |
| Lord & Taylor | 8 | 1,035 | |
| Hecht's | 5 | 749 | |
| Filene's | 2 | 379 | |
| Filene's Men's Store/ Furniture Gallery | 1 | 80 | |
| Foley's | 1 | 178 | |
| Robinsons-May | 1 | 150 | |
| -- | -- | ----- | |
| Total | 18 | 2,571 | 9.9% |
| Dayton Hudson | ----- | ----- | ----- |
| Hudson's | 5 | 1,040 | |
| Marshall Field's | 3 | 686 | |
| -- | -- | ----- | |
| Total | 8 | 1,726 | 6.6% |
| Nordstrom | 5(1) | 877 | 3.4% |
| Saks | 5 | 450 | 1.7% |
| Jacobson's | 2 | 221 | 0.8% |
| Neiman Marcus | 2 | 216 | 0.8% |
| Crowley's | 1 | 115 | 0.4% |
| -- | -- | ----- | |
| Total | 88 | 15,403 | 59.1% |
| == | == | ===== | ==== |

(1) An additional Nordstrom store will be added along with Dillard's in connection with the development of MacArthur Center.

Mortgage Debt

The following table sets forth certain information regarding the mortgages encumbering the Taubman Shopping Centers as of December 31, 1997. All mortgage debt in the table below is nonrecourse to TRG, except for debt encumbering Arizona Mills and MacArthur Center. TRG has guaranteed the payment of principal and interest on the mortgage debt of these Centers (the guarantee on the Arizona Mills mortgage is limited to the extent of TRG's 37% ownership interest in the joint venture owning the Center). The loan agreements provide for the reduction of the amounts guaranteed as certain center performance and valuation criteria are met. Biltmore, Hilltop and Stoneridge are also encumbered by assessment bonds totaling approximately \$4.8 million, which are not included in the table.

| Centers Consolidated in TRG's Financial Statements | Interest Rate | Principal Balance as of 12/31/97 (000's) | Annual Debt Service (000's) | Maturity Date | Balance Due on Maturity (000's) | Earliest Prepayment Date | |
|---|------------------|---|-----------------------------------|------------------|---------------------------------------|--------------------------------|-------|
| | | | | | | ----- | ----- |
| Beverly Center | 8.36% | \$146,000 | Interest Only | 07/15/04 | \$146,000 | 30 Days' Notice(1) | |
| Columbus City Center | 7.00% | 8,022 | \$ 725 | 08/01/19 | 0 | At Any Time(2) | |
| MacArthur Center (70%) | Floating | 42,241(3) | Interest Only | 10/27/00 | 42,241 | 4 Days' Notice(2) | |
| Stoneridge | Floating(4) | 74,762 | Interest Only | (4) | 75,000 | | (4) |
| Centers Owned by Unconsolidated Joint Ventures/TRG's % Ownership | | | | | | | |
| Arizona Mills (37%) | Floating(5) | 121,991(5) | Interest Only | 02/01/02 | 121,991 | 5 Days' Notice(2) | |
| Cherry Creek (50%) | Floating(6) | 130,000 | Interest Only | 08/01/98 | 130,000 | 4 Days' Notice(2) | |
| Fair Oaks (50%) | 9.00% | 39,119 | 4,304 | 12/01/16 | 0 | 12/01/97(7) | |
| Lakeside (50%) | 6.47% | 88,000 | Interest Only | 12/15/00 | 88,000 | 30 Days' Notice(1) | |
| Stamford Town Center (50%) | 11.69%(8) | 55,630 | 7,207 | 12/01/17 | 0 | 01/01/00(9) | |
| Twelve Oaks Mall (50%) | Floating(10) | 49,940 | Interest Only | 10/15/01 | 50,000 | 30 Days' Notice(2) | |
| Westfarms (79%) | 7.85% | 100,000 | Interest Only | 07/01/02 | 100,000 | 07/01/98(11) | |
| Woodfield (50%) | Floating(12) | 51,792(12) | Interest Only | 07/01/02 | 51,792 | 4 Days' Notice(2) | |
| Woodland (50%) | Floating(13) | 172,000 | Interest Only | 10/13/98 | 172,000 | 30 Days' Notice(2) | |
| | 8.20% | 66,000 | Interest Only | 05/15/04 | 66,000 | 30 Days' Notice(1) | |

(1) Debt may be prepaid with a yield maintenance prepayment penalty.

(2) Prepayment can be made without penalty.

(3) The loan is a construction facility with a maximum availability of \$150 million.

(4) Commercial paper facility. The maximum availability under the facility is \$75 million. Commercial paper is generally sold with a 30 day maturity.

(5) The loan is a construction facility with a maximum availability of \$145 million. The rate is capped at 9.5% until maturity, plus credit spread, based on one month LIBOR.

(6) The rate is capped at 6.5% through January 1998 and from February 1998 to maturity at 7%, plus credit spread, based on one month LIBOR.

(7) The mortgage was prepayable on 12/01/97 (the earliest prepayment date) with a penalty of 4.5% of outstanding principal. In March 1998, the mortgage was extinguished with the proceeds of a \$140 million, 6.60%, secured financing maturing 2008. The net proceeds were also used to pay the prepayment penalty of approximately \$1.8 million. In addition, proceeds of \$5.6 million were used to close out a treasury lock agreement entered into in 1997, which resulted in an effective rate on the financing of approximately 7%. The remaining proceeds were distributed to the owners.

(8) The lender is entitled to contingent interest equal to 20% of annual applicable receipts in excess of approximately \$9.0 million.

(9) The mortgage has a prepayment penalty of 6%, declining by one-half of 1% for each year after the earliest prepayment date, reducing to a minimum penalty of 1%, plus an amount equal to ten times the greater of (i) contingent interest payable for the year immediately preceding prepayment or (ii) the average amount of contingent interest for the three years immediately prior to prepayment.

(10) The rate is capped at 8.55% until maturity, plus credit spread, based on one month LIBOR.

(11) If the loan is prepaid between 7/1/98 and 1/3/02 there is a yield maintenance prepayment penalty.

(12) The loan is a construction facility with a maximum availability of \$55 million. The rate on the construction facility is capped until maturity at 6.5%, plus credit spread.

(13) The interest rate on \$93.5 million was swapped to maturity at an effective annual rate of 5.4%. The rate on the balance of the financing, which has been capped at a maximum annual rate, including credit spread, of 6.5% to maturity, floats at a rate of three month LIBOR plus 0.5%.

For additional information regarding the Taubman Shopping Centers and their operation, see the responses to Item 1 of this report.

Item 3. LEGAL PROCEEDINGS

Neither the Company, TRG, the Consolidated Businesses, nor any of the joint ventures is presently involved in any material litigation nor, to the Company's knowledge, is any material litigation threatened against the Company or TRG or any of their properties. Except for routine litigation involving present or former tenants of Taubman Shopping Centers (generally eviction or collection proceedings), substantially all litigation is covered by TRG's and the joint ventures' liability insurance.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of Taubman Centers, Inc. is listed and traded on the New York Stock Exchange (Symbol: TCO). As of March 25, 1998, the 50,828,785 outstanding shares of Common Stock were held by 682 holders of record. The following table presents the dividends declared and range of share prices for each quarter of 1997 and 1996.

| 1997 Quarter Ended | Market Quotations | | |
|--------------------|-------------------|----------|-----------|
| | High | Low | Dividends |
| | --- | --- | ----- |
| March 31 | \$15 | \$12 3/8 | \$0.23 |
| June 30 | 13 5/8 | 12 5/8 | 0.23 |
| September 30 | 13 11/16 | 12 1/2 | 0.23 |
| December 31 | 13 7/16 | 11 5/8 | 0.235 |

| 1996 Quarter Ended | Market Quotations | | |
|--------------------|-------------------|----------|-----------|
| | High | Low | Dividends |
| | --- | --- | ----- |
| March 31 | \$10 1/8 | \$ 9 1/4 | \$0.22 |
| June 30 | 11 1/8 | 9 1/2 | 0.22 |
| September 30 | 11 5/8 | 10 1/4 | 0.22 |
| December 31 | 13 1/8 | 10 5/8 | 0.23 |

Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the Company and TRG and should be read in conjunction with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this report.

| | Year ended December 31 | | | | |
|--|------------------------|-------------|-------------|-------------|-------------|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| (In thousands of dollars, except as noted) | | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | |
| I. TAUBMAN CENTERS, INC. (TCO) | | | | | |
| Income before extraordinary items from investment in TRG: | | | | | |
| Equity in TRG's income allocable to partnership unitholders | 25,291 | 21,368 | 19,831 | 17,654 | 15,904 |
| Series A Preferred Equity interest in TRG | 4,058 | | | | |
| Other income/expenses, net | (687) | (638) | (564) | (640) | (830) |
| Income before extraordinary items | 28,662 | 20,730 | 19,267 | 17,014 | 15,074 |
| Equity in TRG's extraordinary items | (444) | (5,836) | (16,087) | (3,400) | |
| Net income | 28,662 | 20,286 | 25,103 | 927 | 11,674 |
| Preferred dividends | (4,058) | | | | |
| Net income available to common shareowners | 24,604 | 20,286 | 25,103 | 927 | 11,674 |
| Income before extraordinary items per common share (1) | 0.48 | 0.47 | 0.44 | 0.38 | 0.34 |
| Net income per common share (1) | 0.48 | 0.46 | 0.57 | 0.02 | 0.26 |
| Dividends per common share declared | 0.925 | 0.89 | 0.88 | 0.88 | 0.88 |
| Weighted average number of common shares outstanding | 50,737,333 | 44,444,833 | 44,249,617 | 44,589,709 | 44,589,913 |
| Number of common shares outstanding at end of period | 50,759,657 | 50,720,358 | 44,134,913 | 44,570,913 | 44,589,913 |
| Ownership percentage of TRG at end of period | 36.70% | 36.68% | 35.10% | 35.10% | 35.97% |
| II. TRG | | | | | |
| Revenues | 313,426 | 263,696 | 228,918 | 197,134 | 177,107 |
| Operating Costs | 270,402 | 231,355 | 207,159 | 176,194 | 161,934 |
| Equity in income before extraordinary items of Unconsolidated Joint Ventures | 52,270 | 51,753 | 57,940 | 51,263 | 54,153 |
| Income before extraordinary items | 95,294 | 84,094 | 79,699 | 72,203 | 69,326 |
| Extraordinary items (2) | | (1,328) | 16,627 | (44,731) | (9,454) |
| Net income | 95,294 | 82,766 | 96,326 | 27,472 | 59,872 |
| Preferred distributions to TCO | (4,058) | | | | |
| Net income available to unitholders | 91,236 | 82,766 | 96,326 | 27,472 | 59,872 |
| Income before extraordinary items per unit of partnership interest (1) | 0.66 | 0.65 | 0.64 | 0.59 | 0.57 |
| Net income per unit of partnership interest (1) | 0.66 | 0.64 | 0.77 | 0.22 | 0.49 |
| Weighted average number of units of partnership interest outstanding (3) | 138,271,014 | 128,579,312 | 125,459,939 | 122,509,799 | 122,418,156 |
| Number of units of partnership interest outstanding at end of period (3) | 138,299,310 | 138,251,907 | 125,459,939 | 125,459,939 | 122,418,156 |
| Distributions to partnership unitholders | 128,094 | 119,099 | 116,225 | 113,479 | 110,939 |
| Preferred distributions to TCO | 4,058 | | | | |
| III. UNCONSOLIDATED JOINT VENTURES | | | | | |
| Revenues (4) | 258,783 | 265,336 | 291,144 | 268,815 | 268,563 |
| Operating Costs (4) | 166,402 | 171,063 | 183,814 | 174,950 | 167,846 |
| Income before extraordinary items | 92,381 | 94,273 | 107,330 | 93,865 | 100,717 |
| TRG's share of income before extraordinary items | 52,270 | 51,753 | 57,940 | 51,263 | 54,153 |

As of December 31

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|-----------|-----------|---------|---------|---------|
| | ---- | ---- | ---- | ---- | ---- |
| (In thousands of dollars, except as noted) | | | | | |
| BALANCE SHEET DATA: | | | | | |
| I. TAUBMAN CENTERS, INC. | | | | | |
| Investment in TRG | 547,859 | 369,131 | 307,190 | 322,316 | 361,568 |
| Total assets | 556,824 | 378,527 | 315,076 | 333,316 | 371,609 |
| II. TRG | | | | | |
| Real estate before accumulated depreciation | 1,593,350 | 1,136,416 | 926,207 | 843,960 | 665,978 |
| Total assets | 1,396,826 | 978,262 | 804,356 | 739,811 | 574,456 |
| Total debt and capital lease obligation (5) | 1,284,327 | 1,041,254 | 969,667 | 872,158 | 695,517 |

| | Year Ended December 31 | | | | |
|---|------------------------|-----------|-----------|-----------|-----------|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| (In thousands of dollars, except as noted) | | | | | |
| SUPPLEMENTAL INFORMATION: | | | | | |
| I. TAUBMAN CENTERS, INC. | | | | | |
| Funds from Operations (6) | 53,137 | 44,104 | 40,798 | 38,989 | 37,024 |
| II. TRG | | | | | |
| EBITDA (6) | 255,743 | 229,811 | 216,130 | 186,657 | 174,714 |
| TRG's Beneficial Interest Expense (6) | 102,902 | 98,192 | 96,254 | 74,322 | 67,407 |
| Distributable Cash Flow (6) | 146,701 | 129,714 | 117,847 | 110,257 | 105,237 |
| Consolidated Coverage Ratio (7) | 2.5 | 2.3 | 2.2 | 2.5 | 2.6 |
| Ratio of Earnings to Fixed Charges and Preferred Distributions | 1.6 | 1.7 | 1.7 | 1.7 | 1.9 |
| OPERATING DATA: | | | | | |
| Mall tenant sales (8) | 3,086,259 | 2,827,245 | 2,739,393 | 2,561,555 | 2,483,342 |
| Sales per square foot (8) | 384 | 377 | 364 | 348 | 338 |
| Number of shopping centers at end of period | 25 | 21 | 19 | 20 | 19 |
| Ending Mall GLA in thousands of square feet | 10,850 | 9,250 | 8,996 | 9,088 | 8,823 |
| Average occupancy | 87.6% | 87.4% | 88.0% | 86.6% | 86.5% |
| Ending occupancy | 90.3% | 88.0% | 89.4% | 89.3% | 88.7% |
| Leased space (9) | 92.3% | 89.0% | 90.6% | 90.9% | 90.1% |
| Average base rent per square foot (10): | | | | | |
| All mall tenants | \$38.79 | \$37.90 | \$36.33 | \$34.72 | \$32.64 |
| Stores closing during year | \$37.62 | \$33.39 | \$32.96 | \$30.46 | \$29.56 |
| Stores opening during year | \$41.67 | \$42.39 | \$41.27 | \$41.02 | \$35.86 |

- (1) TCO's basic and diluted earnings per share amounts are equal, except for 1993, for which diluted income before extraordinary items per share was 0.33. TRG's basic and diluted earnings per unit amounts are equal, except for 1993, for which diluted income before extraordinary items per unit and diluted net income per unit were 0.56 and 0.48, respectively.
- (2) In 1995, TRG recognized an \$18.9 million extraordinary gain related to the disposition of Bellevue Center and the related extinguishment of debt. Also included in extraordinary items are extraordinary charges in 1993 through 1996 related to the extinguishment of debt.
- (3) Effective September 30, 1997, TRG split its existing units of partnership interest at a ratio of 1,975.08 to one, establishing a one-for-one equivalency of TRG's units of partnership interest and TCO's common shares. The split did not alter the ownership percentage of any of TRG's partners. Prior years' amounts have been adjusted to reflect the unit split on a retroactive basis.
- (4) Amounts are reported net of intercompany profits.
- (5) Includes the Tuttle Crossing capital lease obligation of \$39.8 million and \$14.4 million at December 31, 1996 and 1995, respectively, which was extinguished during 1997. TRG's pro rata share of its Consolidated Businesses' and Unconsolidated Joint Ventures' debt (excluding capital lease obligations) was \$1.737 billion and \$1.398 billion at December 31, 1997 and 1996, respectively.
- (6) Funds from Operations, EBITDA, Beneficial Interest Expense, and Distributable Cash Flow are defined and discussed in MD&A-Liquidity and Capital Resources-Distributions. Funds from Operations and Distributable Cash Flow were restated for 1994 and 1993 from the previously reported amounts to reflect the deduction of non-real estate depreciation and amortization, as specified in NAREIT's definition of Funds from Operations. Funds from Operations, EBITDA, and Distributable Cash Flow do not represent cash flow from operations, as defined by generally accepted accounting principles, and should not be considered to be an alternative to net income as a measure of operating performance or to cash flows as a measure of liquidity.
- (7) Defined as EBITDA divided by TRG's Beneficial Interest Expense.
- (8) Based on reports of sales furnished by mall tenants.
- (9) Leased space comprises both occupied space and space that is leased but not yet occupied.
- (10) Amounts include Centers owned and open for at least five years.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Selected Financial Data, the Financial Statements of Taubman Centers, Inc. and the Notes thereto and the Consolidated Financial Statements of The Taubman Realty Group Limited Partnership and the Notes thereto.

General Background and Performance Measurement

The Company, through its interest in and as managing general partner of TRG, participates in TRG's Managed Businesses. TRG's Managed Businesses consist of:

(i) Taubman Shopping Centers that TRG controls by ownership or contractual agreement, development projects for future regional shopping centers (Development Projects) and The Taubman Company Limited Partnership (the Manager), (collectively, the Consolidated Businesses); and (ii) Taubman Shopping Centers partially owned through joint ventures with third parties that are not controlled (Unconsolidated Joint Ventures). The Unconsolidated Joint Ventures are accounted for under the equity method in TRG's Consolidated Financial Statements.

Certain aspects of the performance of the Managed Businesses are best understood by measuring their performance as a whole, without regard to TRG's ownership interest. For example, mall tenant sales and shopping center occupancy trends fit this category and are so analyzed below. In addition, trends in certain items of revenue and expense are often best understood in the same fashion, and the discussions following take this approach when appropriate. When relevant, these items are also discussed separately with regard to the Consolidated Businesses and the Unconsolidated Joint Ventures.

Mall Tenant Sales and Center Revenues

Over the long term, the level of mall tenant sales is the single most important determinant of revenues of the Taubman Shopping Centers because mall tenants provide over 90% of these revenues and because mall tenant sales determine the amount of rent, percentage rent, and recoverable expenses (together, total occupancy costs) that mall tenants can afford to pay. However, levels of mall tenant sales can be considerably more volatile in the short run than total occupancy costs.

The Company believes that the ability of tenants to pay occupancy costs and earn profits over long periods of time increases as sales per square foot increase, whether through inflation or real growth in customer spending. Because most mall tenants have certain fixed expenses, the occupancy costs that they can afford to pay and still be profitable are a higher percentage of sales at higher sales per square foot.

The following table summarizes occupancy costs, excluding utilities, for mall tenants as a percentage of mall tenant sales.

| | 1997 | 1996 | 1995 |
|--|-------------|-------------|-------------|
| | ---- | ---- | ---- |
| Mall tenant sales (in thousands) | \$3,086,259 | \$2,827,245 | \$2,739,393 |
| Sales per square foot | 371 | 365 | 346 |
| Sales per square foot (excluding theaters and tenants greater than 40,000 square feet) | 384 | 377 | 364 |
| | | | |
| Minimum rents | 10.1% | 10.4% | 10.4% |
| Percentage rents | 0.3 | 0.3 | 0.3 |
| Expense recoveries | 4.4 | 4.5 | 4.4 |
| | --- | --- | --- |
| Mall tenant occupancy costs | 14.8% | 15.2% | 15.1% |
| | ==== | ==== | ==== |

Mall tenant occupancy costs as a percentage of sales decreased in 1997 primarily due to Centers acquired in 1997 and late 1996 (Results of Operations -- Acquisitions). These Centers have lower occupancy costs than the portfolio average and consequently provide a source of future revenue growth.

Occupancy

Historically, average annual occupancy for TRG as a whole has been within a narrow band. In the last ten years, average annual occupancy has ranged between 86.5% and 88.7%. Mall tenant average occupancy rates for the last three years are as follows:

| Year | Mall Tenant Average Occupancy |
|------|-------------------------------|
| --- | ----- |
| 1997 | 87.6% |
| 1996 | 87.4 |
| 1995 | 88.0 |

Rental Rates

As leases have expired in the Taubman Shopping Centers, TRG has generally been able to rent the available space, either to the existing tenant or a new tenant, at rental rates that are higher than those of the expired leases. In a period of increasing sales, rents on new leases will tend to rise as tenants' expectations of future growth become more optimistic. In periods of slower growth or declining sales, rents on new leases will grow more slowly or will decline for the opposite reason. However, Center revenues nevertheless increase as older leases roll over or are terminated early and replaced with new leases negotiated at current rental rates that are usually higher than the average rates for existing leases. The following table contains certain information regarding per square foot base rent, excluding renewals, at the 18 Taubman Shopping Centers that have been owned and open for five years.

| All Mall Tenants | Store Closings During Year | Store Openings During Year | Difference Between Opening and Closing Rents |
|------------------------|-------------------------------------|-------------------------------------|---|
| | Average | Average | Average |
| | Base Rent | Annualized Base Rent | Annualized Base Rent |
| | ---- | ----- | ----- |
| 1997 | \$38.79 | \$37.62 | \$41.67 |
| 1996 | \$37.90 | \$33.39 | \$42.39 |
| 1995 | \$36.33 | \$32.96 | \$41.27 |

Average annualized rent on stores opening in 1997 excludes rent on stores with greater than 40,000 square feet. TRG anticipates that the spread in 1998 will be somewhat higher than in 1997. However, this statistic is difficult to predict in part because TRG's leasing policies and practices may result in early lease terminations with actual average closing rents which may vary from the average rent per square foot of scheduled lease expirations. In addition, the opening or closing of large tenant spaces, which generally pay a lower rent per square foot, can significantly affect the spread in a given year.

Seasonality

The regional shopping center industry is seasonal in nature, with mall tenant sales highest in the fourth quarter due to the Christmas season, and with lesser, though still significant, sales fluctuations associated with the Easter holiday and back-to-school events. While minimum rents and recoveries are generally not subject to seasonal factors, most leases are scheduled to expire in the first quarter, and the majority of new stores open in the second half of the year in anticipation of the Christmas selling season. Accordingly, revenues and occupancy levels are generally highest in the fourth quarter.

The following table summarizes certain quarterly operating data for TRG's Managed Businesses for 1997:

| | 1st Quarter 1997 | 2nd Quarter 1997 | 3rd Quarter 1997 | 4th Quarter 1997 | Total 1997 |
|-------------------|------------------------|------------------------|------------------------|------------------------|---------------|
| (in thousands) | | | | | |
| Mall tenant sales | \$600,709 | \$629,906 | \$692,487 | \$1,163,157 | \$3,086,259 |
| Revenues | 130,677 | 134,756 | 137,728 | 157,192 | 560,353 |
| Occupancy: | | | | | |
| Average Occupancy | 86.5% | 86.8% | 87.0% | 89.5% | 87.6% |
| Ending Occupancy | 86.4% | 87.1% | 87.2% | 90.3% | 90.3% |
| Leased Space | 88.7% | 89.5% | 90.8% | 92.3% | 92.3% |

Because the seasonality of sales contrasts with the generally fixed nature of minimum rents and recoveries, mall tenant occupancy costs (the sum of minimum rents, percentage rents and expense recoveries) relative to sales are considerably higher in the first three quarters than they are in the fourth quarter. The following table summarizes occupancy costs, excluding utilities, for mall tenants as a percentage of sales for each quarter of 1997:

| | 1st Quarter 1997 | 2nd Quarter 1997 | 3rd Quarter 1997 | 4th Quarter 1997 | Total 1997 |
|-----------------------------|------------------------|------------------------|------------------------|------------------------|---------------|
| ----- | | | | | |
| Minimum rents | 12.6% | 11.8% | 11.3% | 7.3% | 10.1% |
| Percentage rents | 0.2 | 0.3 | 0.3 | 0.2 | 0.3 |
| Expense recoveries | 5.2 | 5.1 | 4.7 | 3.5 | 4.4 |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Mall tenant occupancy costs | 18.0% | 17.2% | 16.3% | 11.0% | 14.8% |
| ===== | ===== | ===== | ===== | ===== | ===== |

Results of Operations

Equity Transactions

In October 1997, the Company used the \$200 million public offering of eight million shares of 8.3% Series A Cumulative Redeemable Preferred Stock to acquire a Series A Preferred Equity interest in TRG that entitles the Company to income and distributions (in the form of guaranteed payments) in amounts equal to the dividends payable on the Company's Series A Preferred Stock. In addition to the income from the Company's preferred equity interest in TRG, the Company continues to participate in the income allocable to TRG partnership unitholders to the extent of the Company's ownership in TRG, including adjustments arising from the Company's additional basis in TRG's net assets. TRG bore all expenses of the offering, which have been accounted for as a reduction of the proceeds. TRG used the net proceeds to pay down debt under TRG's existing revolving credit and commercial paper facilities, which were used to fund the acquisition of Regency Square in September 1997.

In December 1996, the Company purchased newly issued TRG units of partnership interest with the \$75 million proceeds from the Company's December 1996 offering of 5.97 million shares of common stock. TRG bore all expenses of the Company's offering which have been accounted for as a reduction of the proceeds from TRG's issuance of units. TRG used the net proceeds to pay down short term floating rate debt and to acquire La Cumbre Plaza. Also in December 1996, the Company exchanged common shares for TRG units of partnership interest newly issued under TRG's incentive option plan. Additionally in 1996, TRG issued units of partnership interest in connection with the acquisition of the remaining interest in Fairlane Town Center.

Acquisitions

The following discussion of TRG's 1997 acquisitions contains forward-looking statements regarding the impact of these acquisitions on EBITDA (EBITDA is defined and described in Liquidity and Capital Resources -- Distributions). The actual impact may vary based on a variety of factors, including actual occupancy, rents achieved and operating expenses of the Centers. See Note 3 to TRG's consolidated financial statements for further discussion of the acquisitions.

The Falls

In December 1997, TRG acquired The Falls shopping center for \$156 million in cash. The operating results of The Falls have been consolidated in TRG's financial statements from the acquisition date. TRG borrowed under an existing revolving credit facility to fund the acquisition. The acquisition is expected to produce EBITDA of about 8% of the acquisition cost in 1998.

Regency Square

In September 1997, TRG acquired Regency Square (Regency) shopping center, located in Richmond, Virginia, for \$123.9 million in cash. The acquisition was initially funded with borrowings under TRG's revolving credit facilities, which were paid down in October 1997 with the proceeds from TRG's issuance of Series A Preferred Equity. The operating results of Regency have been consolidated in TRG's financial statements from the acquisition date. Regency is expected to add EBITDA of approximately 8% of the acquisition cost in 1998.

La Cumbre Plaza

In December 1996, TRG acquired a 100% leasehold interest in La Cumbre Plaza (La Cumbre) located in Santa Barbara, California for \$22.25 million in cash. The acquisition was funded with proceeds from an issuance of TRG units of partnership interest. The operating results of La Cumbre have been consolidated in TRG's financial statements from the acquisition date.

Fairlane Town Center

In July 1996, TRG completed transactions that resulted in the acquisition of the 75% interest in Fairlane Town Center (Fairlane) previously held by a Joint Venture Partner. In connection with the transaction, TRG issued to the former Joint Venture Partner units of partnership interest, exchangeable for approximately 6.1 million shares of the Company's common stock, which had a closing price of \$10.75 per share on the day prior to the issuance date. TRG also assumed mortgage debt of approximately \$26 million, representing the former Joint Venture Partner's beneficial interest in the \$34.6 million mortgage encumbering the property. TRG used unsecured debt to fund the repayment of the 9.73% mortgage and the prepayment penalty of approximately \$1.2 million. The operating results of Fairlane have been consolidated in TRG's financial statements from the acquisition date. Prior to the acquisition date, TRG's interest in Fairlane was accounted for under the equity method as an Unconsolidated Joint Venture. In January 1998, TRG redeemed the former Joint Venture Partner's units of partnership interest for approximately \$77.7 million (including costs).

Paseo Nuevo

In June 1996, TRG acquired a 100% leasehold interest in Paseo Nuevo, located in Santa Barbara, California, for \$37 million in cash. TRG borrowed under its existing lines of credit to fund the acquisition. The operating results of Paseo Nuevo have been consolidated in TRG's financial statements from the acquisition date.

New Centers and Expansions

In November 1997, TRG opened Arizona Mills, a 37% owned value super-regional shopping center located in Tempe, Arizona. The Center opened 90% leased.

In July 1997, TRG opened The Mall at Tuttle Crossing, a super-regional shopping center located in Columbus, Ohio. The Center was 95% leased at year end. TRG's ownership interest in The Mall at Tuttle Crossing was subject to a long-term participating lease with Tuttle Crossing Holding Co., a subsidiary of The Limited, Inc. (The Limited) for land and leasehold improvements. In December 1997, TRG purchased The Limited's interests in the lease for \$76.3 million in cash and took fee simple title to the underlying land and buildings. The lease had been accounted for as a capital lease with capital lease assets and a capital lease obligation of \$55.3 million at the date of the acquisition. The purchase is anticipated to produce a return of approximately 8% of the acquisition cost in 1998.

TRG opened a 135,000 square foot expansion at Westfarms in August 1997. The expansion was approximately 90% leased as of year end. In addition, approximately 50,000 square feet of new mall stores opened at Biltmore in 1997. See also Liquidity and Capital Resources -- Capital Spending for discussions of other planned expansion and development activities.

Memorial City Mall Lease

In November 1996, TRG entered into an agreement to lease Memorial City Mall (Memorial City), a 1.4 million square foot shopping center located in Houston, Texas. The lease of this unencumbered property grants TRG the exclusive right to manage, lease and operate the property. TRG has the option to terminate the lease after the third full lease year by paying \$2 million to the lessor. TRG is using this option period to evaluate the redevelopment opportunities of the Center. As a development project, Memorial City has been excluded from all operating statistics in this report, and Memorial City's results of operations have been presented as a net line item in the following tabular comparisons of TRG's results of operations. Memorial City is expected to have an immaterial effect on EBITDA and net income during the option period.

Comparison of Fiscal Year 1997 to Fiscal Year 1996

Taubman Centers, Inc.

The Company is the managing general partner of TRG and shares in TRG's financial performance to the extent of its ownership percentage, as well as earning an 8.3% return on its preferred equity interest in TRG. The Company's average ownership percentage of TRG was 36.7% for 1997 and 34.5% for 1996. As of December 31, 1997, the Company had 50.8 million shares outstanding, up from 50.7 million at December 31, 1996.

The Company's income from TRG in 1997 consists of \$4.1 million from its preferred equity interest in TRG and the Company's \$33.5 million proportionate share of TRG's income before extraordinary item. In 1996, the Company's income from TRG consisted of its \$29.0 million proportionate share of TRG's income before extraordinary item. The Company's proportionate share of TRG's income before extraordinary item was reduced by \$8.2 million in 1997 and \$7.6 million in 1996, representing adjustments arising from the Company's additional basis in TRG's net assets. Income before extraordinary item for 1997 was \$28.7 million or \$0.48 per common share as compared to \$20.7 million or \$0.47 per common share in 1996.

The Company recognized an extraordinary item of \$(0.4) million in 1996, consisting of the Company's share of TRG's extraordinary item related to the extinguishment of debt. Net income for 1996 was \$20.3 million or \$0.46 per common share. After reduction of \$4.1 million in dividends on the Company's Series A Preferred Stock, net income available to common shareowners for 1997 was \$24.6 million or \$0.48 per common share.

TRG

Occupancy and Mall Tenant Sales

Average occupancy in the Taubman Shopping Centers was 87.6% in 1997 versus 87.4% in 1996. Ending occupancy for the Taubman Shopping Centers at December 31, 1997 was 90.3% versus 88.0% at December 31, 1996. Leased space at December 31, 1997 was 92.3% compared to 89.0% at the same date in 1996.

Total sales for Taubman Shopping Center mall tenants increased in 1997 by 9.2% to \$3.09 billion from \$2.83 billion in 1996. Tenant sales per square foot increased by 1.6% to \$371 in 1997 from \$365 in 1996. Tenant sales per square foot, excluding theaters and tenants greater than 40,000 square feet, increased by 1.9% to \$384 in 1997 from \$377 in 1996. Mall tenant sales for Centers that were owned and open for all of 1997 and 1996 (which excludes all Centers acquired in those years, as well as Tuttle Crossing and Arizona Mills) were \$2.85 billion, a 1.6% increase over 1996. Sales statistics for the first three quarters of 1997 were negatively affected by new competition near certain Centers. The effect of the competition on sales moderated in the fourth quarter, after the anniversary date of the opening of the competing centers.

Comparison of Fiscal Year 1997 to Fiscal Year 1996

The following table sets forth operating results for TRG's Managed Businesses for 1997 and 1996, showing the results of the Consolidated Businesses and Unconsolidated Joint Ventures:

| | 1997 | | | 1996 | | |
|---|--------------------------------------|--|--------------------------------|--------------------------------------|--|--------------------------------|
| | TRG CONSOLIDATED BUSINESSES(1) | UNCONSOLIDATED JOINT VENTURES(2) | TOTAL MANAGED BUSINESSES | TRG CONSOLIDATED BUSINESSES(1) | UNCONSOLIDATED JOINT VENTURES(2) | TOTAL MANAGED BUSINESSES |
| (in millions of dollars) | | | | | | |
| REVENUES: | | | | | | |
| Minimum rents | 173.3 | 155.9 | 329.2 | 149.2 | 157.2 | 306.4 |
| Percentage rents | 7.2 | 3.1 | 10.2 | 6.0 | 4.0 | 9.9 |
| Expense recoveries | 97.5 | 89.7 | 187.1 | 85.1 | 95.2 | 180.4 |
| Management, leasing and development | 8.8 | | 8.8 | 8.5 | | 8.5 |
| Other | 14.9 | 10.2 | 25.0 | 13.0 | 8.9 | 22.0 |
| Total revenues | 301.6 | 258.8 | 560.4 | 261.9 | 265.3 | 527.2 |
| OPERATING COSTS: | | | | | | |
| Recoverable expenses | 82.0 | 76.4 | 158.4 | 71.6 | 81.8 | 153.4 |
| Other operating | 28.1 | 11.9 | 39.9 | 25.4 | 12.8 | 38.2 |
| Management, leasing and development | 4.7 | | 4.7 | 4.7 | | 4.7 |
| General and administrative | 25.7 | | 25.7 | 21.8 | | 21.8 |
| Interest expense | 73.6 | 54.5 | 128.2 | 70.5 | 53.5 | 124.0 |
| Depreciation and amortization | 44.5 | 23.7 | 68.1 | 35.7 | 22.9 | 58.7 |
| Total operating costs | 258.5 | 166.4 | 424.9 | 229.7 | 171.1 | 400.8 |
| Net results of Memorial City (1) | 0.0 | | 0.0 | 0.2 | | 0.2 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 43.0 | 92.4 | 135.4 | 32.3 | 94.3 | 126.6 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Equity in income of Unconsolidated Joint Ventures | 52.3 | | | 51.8 | | |
| Income before extraordinary item | 95.3 | | | 84.1 | | |
| Extraordinary item | | | | (1.3) | | |
| Net income | 95.3 | | | 82.8 | | |
| Preferred distributions to TCO | (4.1) | | | | | |
| Net income available to unitholders | 91.2 | | | 82.8 | | |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| SUPPLEMENTAL INFORMATION (3): | | | | | | |
| EBITDA contribution | 161.4 | 94.4 | 255.7 | 138.6 | 91.2 | 229.8 |
| TRG's Beneficial Interest Expense | (73.6) | (29.3) | (102.9) | (70.5) | (27.7) | (98.2) |
| Non-real estate depreciation | (2.1) | | (2.1) | (1.9) | | (1.9) |
| Preferred distributions to TCO | (4.1) | | (4.1) | | | |
| Distributable Cash Flow contribution | 81.6 | 65.1 | 146.7 | 66.2 | 63.5 | 129.7 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

- (1) The results of operations of Memorial City are presented net in this table. TRG expects that Memorial City's net operating income will approximate the ground rent payable under the lease for the immediate future.
- (2) With the exception of the Supplemental Information, amounts represent 100% of the Unconsolidated Joint Ventures. Amounts are net of intercompany profits. The Unconsolidated Joint Ventures are accounted for under the equity method in TRG's Consolidated Financial Statements.
- (3) EBITDA, TRG's Beneficial Interest Expense and Distributable Cash Flow are defined and discussed in Liquidity and Capital Resources -- Distributions.
- (4) Amounts in this table may not add due to rounding.
- (5) Certain 1996 amounts have been reclassified to conform to 1997 classifications.

TRG --Consolidated Businesses

Total revenues for 1997 were \$301.6 million, a \$39.7 million or 15.2% increase over 1996. Minimum rents increased \$24.1 million, of which \$21.4 million was caused by the 1997 and 1996 acquisitions, and the opening of Tuttle Crossing. The results of Fairlane have been consolidated in TRG's results subsequent to the acquisition date in July 1996 (prior to that date Fairlane was accounted for under the equity method as an Unconsolidated Joint Venture). Minimum rents also increased due to the expansion at Biltmore and tenant rollovers. Percentage rent increased primarily due to the acquisitions. The increase in expense recoveries was primarily due to the acquired Centers and Tuttle Crossing. Other revenue increased \$1.9 million primarily due to an insurance recovery, a litigation settlement, and an increase in lease cancellation revenue.

Total operating costs increased \$28.8 million, or 12.5%. Recoverable and depreciation and amortization expenses increased primarily due to the acquisitions and Tuttle Crossing. Other operating expenses increased primarily due to the acquisitions and Tuttle Crossing, offset by a decrease in the charge to operations for development pre-construction reserves. General and administrative expense increased by \$3.9 million primarily due to increases in compensation (including the continuing phase-in of the long-term compensation plan), recruiter fees and relocation charges, travel, and training. Interest expense increased due to an increase in debt used to finance Tuttle Crossing and capital expenditures at other Consolidated Businesses, partially offset by an increase in capitalized interest. The acquisitions were initially funded with debt which was subsequently paid down with the proceeds from the December 1996 and the October 1997 equity issuances.

Revenues and expenses as presented in the preceding table differ from the amounts shown in TRG's consolidated statement of operations by the amounts representing Memorial City's revenues and expenses, which are presented in the preceding table as a net amount.

Unconsolidated Joint Ventures

Total revenues for 1997 were \$258.8 million, a \$6.5 million, or 2.5%, decrease from 1996, representing a \$15.0 million decrease caused by the change of Fairlane from an Unconsolidated Joint Venture to a Consolidated Business, offset by increases due to the openings of Arizona Mills and the expansion at Westfarms, in addition to increases at other Centers. The decrease in minimum rents was primarily due to Fairlane, offset by Arizona Mills, Westfarms and increases due to tenant rollovers at other Centers. The decrease in expense recoveries was primarily due to Fairlane, offset by Arizona Mills. Other revenue increased by \$1.3 million primarily due to gains on peripheral land sales, offset by a decrease in lease cancellation revenue and interest income.

Total operating costs decreased by \$4.7 million, or 2.7%, to \$166.4 million for 1997 including a \$10.1 million decrease due to Fairlane. Recoverable expenses decreased \$5.4 million primarily due to Fairlane, offset by increases due to Arizona Mills. Other operating costs decreased primarily due to Fairlane and a decrease in bad debt expense. Additionally, included in 1996 other operating expense was a nonrecurring \$0.5 million payment to an anchor at one of the Centers. Interest expense increased \$1.0 million primarily due to an increase in debt used to finance Arizona Mills and the Westfarms expansion, partially offset by a decrease in debt related to Fairlane. Operating costs as presented in the preceding table differ from the amounts shown in the combined, summarized financial statements of the Unconsolidated Joint Ventures (Note 4 to TRG's financial statements) by the amount of intercompany profit.

As a result of the foregoing, net income of the Unconsolidated Joint Ventures decreased by \$1.9 million, or 2.0%, to \$92.4 million. TRG's equity in net income of the Unconsolidated Joint Ventures was \$52.3 million, a 1.0% increase from 1996.

Net Income

As a result of the foregoing, TRG's income before extraordinary item increased by \$11.2 million, or 13.3%, to \$95.3 million for 1997. In 1996, TRG recognized a \$(1.3) million extraordinary charge related to the prepayment of Fairlane's debt. After payment of \$4.1 million in preferred distributions to the Company, net income available to partnership unitholders for 1997 was \$91.2 million, compared to \$82.8 million in 1996.

Comparison of Fiscal Year 1996 to Fiscal Year 1995

Taubman Centers, Inc.

The Company's average ownership percentage of TRG was 34.5% for 1996 and 35.1% for 1995. Equity in income of TRG consists of the Company's \$29.0 million proportionate share of TRG's income before extraordinary items for 1996 and \$28.0 million for 1995. These amounts were reduced by \$7.6 million in 1996 and \$8.1 million in 1995, representing adjustments arising from the Company's additional basis in TRG's net assets. Equity in income of TRG for 1995 includes a \$1.8 million gain related to the disposition of Bellevue Center. Income before extraordinary items for 1996 was \$20.7 million or \$0.47 per common share as compared to \$19.3 million or \$0.44 per common share in 1995.

The Company recognized an extraordinary item of \$(0.4) million in 1996, consisting of its share of TRG's extraordinary item related to the extinguishment of debt. In 1995, the Company recognized extraordinary items of \$5.8 million consisting of its share of TRG's extraordinary items related to the disposition of Bellevue Center and the related extinguishment of Bellevue Center's debt, and other extinguishment of debt. Net income for 1996 was \$20.3 million or \$0.46 per common share compared to \$25.1 million or \$0.57 per common share in 1995.

TRG

Occupancy and Mall Tenant Sales

Average occupancy in the Taubman Shopping Centers was 87.4% in 1996 versus 88.0% in 1995. Ending occupancy for the Taubman Shopping Centers at December 31, 1996 was 88.0% versus 89.4% at December 31, 1995. Leased space at December 31, 1996 was 89.0% compared to 90.6% at the same date in 1995. Average occupancy for 1996 was somewhat less than the previous year's level but comfortably within TRG's historic range of average annual occupancy.

Total sales for Taubman Shopping Center mall tenants increased in 1996 by 3.2% to \$2.83 billion from \$2.74 billion in 1995. Tenant sales per square foot increased by 5.2% to \$365 in 1996 from \$346 in 1995. Sales per square foot in 1995 was \$352, excluding Bellevue Center. Mall tenant sales for Centers that were owned and open for all of 1996 and 1995 were \$2.81 billion, a 3.9% increase over 1995.

Comparison of Fiscal Year 1996 to Fiscal Year 1995

The following table sets forth operating results for TRG's Managed Businesses for 1996 and 1995, showing the results of the Consolidated Businesses and Unconsolidated Joint Ventures:

| | 1996 | | | 1995 | | |
|---|--------------------------------------|--|--------------------------------|-----------------------------------|--|--------------------------------|
| | TRG CONSOLIDATED BUSINESSES(1) | UNCONSOLIDATED JOINT VENTURES(2) | TOTAL MANAGED BUSINESSES | TRG CONSOLIDATED BUSINESSES | UNCONSOLIDATED JOINT VENTURES(2) | TOTAL MANAGED BUSINESSES |
| (in millions of dollars) | | | | | | |
| REVENUES: | | | | | | |
| Minimum rents | 149.2 | 157.2 | 306.4 | 130.4 | 166.2 | 296.6 |
| Percentage rents | 6.0 | 4.0 | 9.9 | 5.6 | 3.6 | 9.2 |
| Expense recoveries | 85.1 | 95.2 | 180.4 | 75.3 | 101.5 | 176.8 |
| Other | 21.5 | 8.9 | 30.4 | 17.6 | 11.5 | 29.1 |
| Gain on disposition of Bellevue | | | | | 8.3 | 8.3 |
| Total revenues | 261.9 | 265.3 | 527.2 | 228.9 | 291.1 | 520.0 |
| OPERATING COSTS: | | | | | | |
| Recoverable expenses | 71.6 | 81.8 | 153.4 | 62.9 | 88.2 | 151.1 |
| Other operating | 25.4 | 12.8 | 38.2 | 22.5 | 12.3 | 34.8 |
| Management, leasing and development | 4.7 | | 4.7 | 3.7 | | 3.7 |
| General and administrative | 21.8 | | 21.8 | 19.8 | | 19.8 |
| Interest expense | 70.5 | 53.5 | 124.0 | 65.8 | 58.6 | 124.4 |
| Depreciation and amortization | 35.7 | 22.9 | 58.7 | 32.4 | 24.7 | 57.1 |
| Total operating costs | 229.7 | 171.1 | 400.8 | 207.1 | 183.8 | 390.9 |
| Net results of Memorial City (1) | 0.2 | | 0.2 | | | |
| | 32.3 | 94.3 | 126.6 | 21.8 | 107.3 | 129.1 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Equity in income before extraordinary items of Unconsolidated Joint Ventures (including \$5.0 million in 1995 related to the disposition of Bellevue) | 51.8 | | | 57.9 | | |
| Income before extraordinary items | 84.1 | | | 79.7 | | |
| Extraordinary items | (1.3) | | | 16.6 | | |
| Net income | 82.8 | | | 96.3 | | |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| SUPPLEMENTAL INFORMATION(3): | | | | | | |
| EBITDA contribution | 138.6 | 91.2 | 229.8 | 120.0 | 96.1 | 216.1 |
| TRG's Beneficial Interest Expense | (70.5) | (27.7) | (98.2) | (65.8) | (30.4) | (96.2) |
| Non-real estate depreciation | (1.9) | | (1.9) | (2.0) | | (2.0) |
| Distributable Cash Flow contribution | 66.2 | 63.5 | 129.7 | 52.1 | 65.7 | 117.8 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

- (1) The results of operations of Memorial City are presented net in this table. TRG expects that Memorial City's net operating income will approximate the ground rent payable under the lease for the immediate future.
- (2) With the exception of the Supplemental Information, amounts represent 100% of the Unconsolidated Joint Ventures. Amounts are net of intercompany profits.
- (3) EBITDA, TRG's Beneficial Interest Expense and Distributable Cash Flow are defined and discussed in Liquidity and Capital Resources -- Distributions. EBITDA for 1995 does not include the gain related to the disposition of Bellevue Center.
- (4) Amounts in this table may not add due to rounding.
- (5) Certain 1996 amounts have been reclassified to conform to 1997 classifications.

TRG --Consolidated Businesses

Total revenues for 1996 were \$261.9 million, a \$33.0 million or 14.4% increase from 1995. Minimum rents for 1996 increased \$18.8 million, of which \$8.7 million was caused by the Fairlane and Paseo Nuevo acquisitions. The results of Fairlane have been consolidated in TRG's results subsequent to the acquisition date (prior to that date Fairlane was accounted for under the equity method as an Unconsolidated Joint Venture). Minimum rent also increased due to the expansions at Short Hills and Meadowood and tenant rollovers. The increase in expense recoveries was also primarily due to the Fairlane and Paseo Nuevo acquisitions and recoveries of increased maintenance costs and property taxes. The increase in other revenues of \$3.9 million was primarily due to increases in revenue from management, leasing, and development services, rental fees on exterior advertising signs and gains on sales of peripheral land, partially offset by a decrease in lease cancellation revenue.

Total operating costs increased \$22.6 million, or 10.9%, to \$229.7 million. The increase in recoverable expenses for 1996 was due to Fairlane and Paseo Nuevo and to increases in maintenance costs and property taxes, including those related to the expansion at Short Hills. Other operating expenses increased due to Fairlane and Paseo Nuevo, and an increase in the charge to operations for development pre-construction reserves. General and administrative expenses increased \$2.0 million due primarily to increases in compensation, including costs of the new long-term performance compensation plan and the allocation of internal acquisition costs, travel, and professional fees in 1996, offset by a decrease resulting from a \$0.8 million charge in 1995 for severance and termination benefits. Interest expense increased \$4.7 million due primarily to an increase in debt levels, including debt used to finance the acquisition of Paseo Nuevo and capital expenditures and the assumption of debt relating to the Fairlane acquisition, and a decrease in capitalized interest, partially offset by decreased interest rates. The increase in depreciation and amortization was due primarily to the acquisitions of Fairlane and Paseo Nuevo and the expansions at Short Hills and Meadowood.

Revenues and expenses as presented in the preceding table differ from the amounts shown in TRG's consolidated income statements by the amounts representing Memorial City's revenues and expenses, which are presented in the preceding table as a net amount.

Unconsolidated Joint Ventures

Total revenues for 1996 were \$265.3 million, a \$25.8 million or 8.9% decrease from 1995, primarily representing a \$23.8 million decrease caused by the change in Fairlane from an Unconsolidated Joint Venture to a Consolidated Business and by the November 1995 disposition of Bellevue Center (Bellevue). Minimum rent decreases due to Fairlane and Bellevue were offset by increases due to the expansion at Woodfield and tenant rollovers. Expense recoveries decreased primarily due to Fairlane and Bellevue, offset by increases at other Centers. Other income decreased due to a gain on the sale of peripheral land in 1995 and decreased interest income in 1996, offset by an increase in lease cancellation revenue in 1996. In 1995, an ordinary gain of \$8.3 million was recognized on the disposition of Bellevue.

Total operating costs decreased by \$12.7 million, or 6.9%, to \$171.1 million for 1996, representing a \$19.9 million decrease due to Fairlane and Bellevue, offset by increases at other Centers. Recoverable expenses decreased \$6.4 million due to Fairlane and Bellevue, offset by increases in maintenance costs and property taxes. Other operating costs increased \$0.5 million reflecting increases in property management costs, promotion and advertising costs, bad debt expense and a nonrecurring \$0.5 million payment to an anchor at one of the Centers, offset by decreases due to Bellevue and Fairlane. Interest expense decreased \$5.1 million due to a decrease in debt related to Fairlane and Bellevue and an increase in capitalized interest, partially offset by increases due to an increase in debt used to finance capital expenditures and to higher interest rates on certain debt refinanced in 1995. Operating costs as presented in the preceding table differ from the amounts shown in the combined, summarized financial statements of the Unconsolidated Joint Ventures (Note 4 to TRG's financial statements) by the amount of intercompany profit.

As a result of the foregoing, income before extraordinary items of the Unconsolidated Joint Ventures was \$94.3 million in 1996, a decrease of 12.1% from 1995. TRG's equity in income before extraordinary items of the Unconsolidated Joint Ventures decreased \$6.1 million, or 10.5%, to \$51.8 million for 1996.

Net Income

As a result of the foregoing, TRG's income before extraordinary items increased by \$4.4 million, or 5.5%, to \$84.1 million for 1996. In 1996, TRG recognized a \$(1.3) million extraordinary charge related to the prepayment of Fairlane's debt. In 1995, TRG recognized an \$18.9 million extraordinary gain related to the disposition of Bellevue and the related extinguishment of Bellevue's debt, and \$(2.2) million in extraordinary charges related to the prepayment of debt at TRG and at one of its Unconsolidated Joint Ventures. Net income for 1996 was \$82.8 million, compared to \$96.3 million in 1995.

Liquidity and Capital Resources

Taubman Centers, Inc.

As of December 31, 1997, the Company had a cash balance of \$9.0 million, the source of which was primarily TRG's distributions, and had incurred no indebtedness. As of December 31, 1997, the Company had 50.8 million shares outstanding compared to 50.7 million at December 31, 1996.

On October 3, 1997, the Company issued eight million shares of 8.3% Series A Preferred Stock under its \$500 million equity shelf registration statement. Dividends accrue from the date of original issuance and are payable in arrears on or before the last day of each calendar quarter. The Company used the proceeds to acquire a Series A Preferred Equity interest in TRG that entitles the Company to distributions (in the form of guaranteed payments) in amounts equal to the dividends payable on the Company's Series A Preferred Stock.

During 1997 and 1996, the Company received distributions from its partnership interest in TRG of \$47.0 million and \$41.3 million, respectively. Additionally, the Company received preferred distributions from TRG of \$4.1 million in 1997.

The Company pays regular quarterly dividends to its common and preferred shareowners. The Company's ability to pay dividends is affected by several factors, most importantly, the receipt of distributions from TRG. Dividends to its common shareowners are at the discretion of the Board of Directors and depend on the cash available to the Company, its financial condition, capital and other requirements, and such other factors as the Board of Directors deems relevant. Preferred dividends accrue regardless of whether earnings, cash availability, or contractual obligations were to prohibit the current payment of dividends.

On December 11, 1997, the Company declared a quarterly dividend of \$0.235 per common share payable January 20, 1998 to shareowners of record on December 31, 1997. The Board of Directors also declared a quarterly dividend of \$0.50722 per share on the Company's 8.3% Series A Preferred Stock for the partial quarterly dividend period of October 3, 1997 to December 31, 1997, paid December 31, 1997 to shareowners of record on December 19, 1997.

Common dividends declared totaled \$0.925 per common share in 1997, of which \$0.324 represented return of capital and \$0.601 represented ordinary income, compared to dividends declared in 1996 of \$0.89 per common share, of which \$0.41 represented return of capital and \$0.48 represented ordinary income. The tax status of total 1998 common dividends declared and to be declared, assuming continuation of a \$0.235 per common share quarterly dividend, is estimated to be approximately 45% return of capital, and approximately 55% of ordinary income. Preferred dividends declared were \$0.50722 per preferred share in 1997, all of which represented ordinary income. The tax status of total 1998 dividends to be paid on Series A Preferred Stock is estimated to be 100% ordinary income. These are forward-looking statements and certain significant factors could cause the actual results to differ materially, including: 1) the amount of dividends declared; 2) changes in the Company's share of anticipated taxable income of TRG due to the actual results of TRG; 3) changes in the number of the Company's outstanding shares; 4) property acquisitions or dispositions; 5) financing transactions, including refinancing of existing debt; and 6) changes in the Internal Revenue Code or its application.

As of December 31, 1997, TRG had a cash balance of \$3.3 million. TRG has available for general partnership purposes an unsecured revolving credit facility of \$300 million, which expires in March 2000. Included in the credit facility is a competitive bid option program which allows TRG to hold auctions, among the banks participating in the facility, for short term borrowings of up to \$150 million. Borrowings under this facility at December 31, 1997 were \$210 million. TRG also has available an unsecured bank line of credit of up to \$30 million with borrowings of \$10.2 million at December 31, 1997. This line expires in August 1998. TRG also has available a secured commercial paper facility of up to \$75 million, with borrowings of \$75 million at December 31, 1997. Commercial paper is generally sold with a 30 day maturity. This facility is supported by a line of credit facility, which is renewable quarterly for a twelve month period.

Proceeds from short term borrowings provided \$487.3 million of funding for 1997 (including \$358.2 million, including transaction costs, for the acquisitions of Regency Square, The Falls and interests in Tuttle Crossing) compared to \$121.2 million in 1996 (including \$103.6 million for the acquisitions of Paseo Nuevo and an interest in Fairlane Town Center). In November 1997, proceeds from TRG's revolving credit facilities were also used to repay \$100 million of floating rate notes. Additionally, proceeds in both 1997 and 1996 were used to fund capital expenditures for the Consolidated Businesses and contributions to Unconsolidated Joint Ventures for construction costs.

In October 1997, TRG used the net proceeds from the issuance of its Series A Preferred Equity to pay down floating rate debt under TRG's existing revolving credit and commercial paper facilities, which were used to fund the acquisition of Regency Square. During 1996, proceeds from the issuance of TRG units of partnership interest were used to pay down short term borrowings of \$124.7 million and for the \$22.3 million acquisition of La Cumbre.

TRG has a medium-term note program under TRG's \$500 million shelf registration statement. During July 1997, TRG issued \$55 million of unsecured 10-year notes at a coupon rate of 7%. The net proceeds were used to pay down floating rate debt under TRG's revolving credit facilities. In 1996, TRG used the proceeds from the issuance of \$154 million of notes to pay down floating rate debt under TRG's revolving credit facilities as well as to pay off the \$34.6 million mortgage on Fairlane and the related prepayment penalty of approximately \$1.2 million. Including the issuance in July 1997, TRG has issued a total of \$342 million of notes since the program's inception in 1995.

In October 1997, TRG closed on a three year \$150 million secured construction facility for MacArthur Center, which is owned by a consolidated 70% owned venture. The loan bears interest at one month LIBOR plus 1.2%. Borrowings under the facility were \$42.2 million at December 31, 1997. The payment of the principal and interest is guaranteed by TRG. The loan agreement provides for the reduction of the amount guaranteed as certain center performance and valuation criteria are met.

In November 1997, TRG entered into an unsecured \$210 million construction facility maturing in 2001 to finance the construction of Great Lakes Crossing. Under the loan agreement, the maturity date may be extended for one year. The loan bears interest at one month LIBOR plus 0.90%. Borrowings under the facility at December 31, 1997 were \$46.9 million.

Scheduled principal payments on installment notes were \$838 thousand and \$793 thousand in 1997 and 1996, respectively.

At December 31, 1997, TRG's debt and its beneficial interest in the debt of its consolidated and Unconsolidated Joint Ventures totaled \$1,737.2 million. As shown in the following table, \$79.8 million of this debt was floating rate debt that remained unhedged at December 31, 1997. Interest rates shown do not include amortization of debt issuance costs and interest rate hedging costs. These items are reported as interest expense in TRG's results of operations. In the aggregate, these costs accounted for 0.36% of the effective rate of interest in TRG's beneficial interest in debt at December 31, 1997. Included in TRG's beneficial interest in debt at December 31, 1997 is debt used to fund development and expansion costs. TRG's beneficial interest in assets on which interest is being capitalized totaled \$149.0 million as of December 31, 1997. TRG's beneficial interest in capitalized interest was \$13.7 million for the year ended December 31, 1997.

| Beneficial Interest in Debt | | | | | |
|---|---------------------------------------|---------------------------------|----------------------|--------------------------------|-------------------------|
| | Amount (In millions of dollars) | Interest Rate at 12/31/97 | LIBOR Cap Rate | Frequency of Rate Resets | LIBOR at 12/31/97 |
| Total beneficial interest in fixed rate debt | 1,066.3 | 7.65%(1) | | | |
| Floating rate debt hedged via interest rate caps: | | | | | |
| Through January 1998 | 65.0 | 6.72 | 6.50% | Monthly | 5.72% |
| Through October 1998 | 39.3 | 6.25 | 6.00 | Three Months | 5.81 |
| Through December 1998 | 100.0 | 6.72(1) | 6.50 | Three Months | 5.81 |
| Through July 1999 | 65.0 | 6.72(1) | 7.00 | Monthly | 5.72 |
| Through December 1999 | 200.0 | 6.72(1) | 9.50(2) | Monthly | 5.72 |
| Through October 2001 | 25.0 | 6.43 | 8.55 | Monthly | 5.72 |
| Through January 2002 | 53.4 | 7.18(1) | 9.50 | Monthly | 5.72 |
| Through July 2002 | 43.4 | 7.67(1) | 6.50 | Monthly | 5.72 |
| Other floating rate debt | 79.8 | 6.72(1) | | | |
| | ===== | | | | |
| Total beneficial interest in debt | 1,737.2 | 7.32(1) | | | |
| | ===== | | | | |

(1) Denotes weighted average interest rate.

(2) Rate reduces to 7.0% in December 1998.

TRG's loan and facility agreements and indenture contain various restrictive covenants including limitations on the amount of secured and unsecured debt and minimum debt service coverage ratios, the latter being the most restrictive. TRG is in compliance with all of such covenants.

Subsequent to year end, Fairfax Company of Virginia L.L.C. (successor-in-interest to Fairfax Associates, a 50% owned Unconsolidated Joint Venture) completed a \$140 million, 6.60%, secured financing maturing in 2008. The net proceeds were used to extinguish an existing mortgage on Fair Oaks of approximately \$39 million and pay a prepayment penalty of approximately \$1.8 million. In addition, proceeds of \$5.6 million were used to close out a treasury lock agreement entered into in 1997, which resulted in an effective rate on the financing of approximately 7%. The remaining proceeds were distributed to the owners. TRG used its 50% share of the distribution to pay down its revolving credit facilities.

Distributions

A principal factor considered by TRG in deciding upon distributions to partners is an amount, which TRG defines as Distributable Cash Flow, equal to EBITDA less TRG's Beneficial Interest Expense, non-real estate depreciation and amortization, and preferred distributions. This measure of performance is influenced not only by operations but also by capital structure. EBITDA is defined as TRG's beneficial interest in revenues, less operating costs before interest, depreciation and amortization, meaning TRG's pro rata share of this result for each of the Managed Businesses, after recording appropriate intercompany eliminations. TRG's Beneficial Interest Expense is defined as TRG's pro rata share of the interest expense of each of TRG's Managed Businesses. Funds from Operations is calculated by adding the Company's beneficial interest in TRG's Distributable Cash Flow to the Company's other income, less the Company's operating expenses. EBITDA, Distributable Cash Flow and Funds from Operations do not represent cash flows from operations, as defined by generally accepted accounting principles, and should not be considered to be an alternative to net income as an indicator of operating performance or to cash flows from operations as a measure of liquidity. However, the National Association of Real Estate Investment Trusts (NAREIT) suggests that Funds from Operations is a useful supplemental measure of operating performance for REITs.

The following table summarizes TRG's Distributable Cash Flow and the Company's Funds from Operations for the years ended December 31, 1997 and 1996:

| | Year ended December 31, 1997 | | | Year ended December 31, 1996 | | |
|--|-----------------------------------|--|---------|-----------------------------------|--|--------|
| | TRG CONSOLIDATED BUSINESSES | UNCONSOLIDATED JOINT VENTURES(1) | TOTAL | TRG CONSOLIDATED BUSINESSES | UNCONSOLIDATED JOINT VENTURES(1) | TOTAL |
| (in millions of dollars) | | | | | | |
| TRG's Net Income (2)(3) | | | 95.3 | | | 82.8 |
| Extraordinary item (3) | | | | | | 1.3 |
| Depreciation and amortization (4) | | | 57.5 | | | 47.5 |
| TRG's Beneficial Interest Expense | | | 102.9 | | | 98.2 |
| EBITDA | 161.4 | 94.4 | 255.7 | 138.6 | 91.2 | 229.8 |
| TRG's Beneficial Interest Expense | (73.6) | (29.3) | (102.9) | (70.5) | (27.7) | (98.2) |
| Non-real estate depreciation | (2.1) | | (2.1) | | (1.9) | |
| Preferred distributions to TCO | (4.1) | | (4.1) | | | (1.9) |
| Distributable Cash Flow | 81.6 | 65.1 | 146.7 | 66.2 | 63.5 | 129.7 |
| Funds from Operations | ===== | ===== | ===== | ===== | ===== | ===== |
| TCO's share of Distributable Cash Flow | | | 53.8 | | | 44.7 |
| Other income/expenses, net | | | (0.7) | | | (0.6) |
| Funds from Operations | | | 53.1 | | | 44.1 |
| | | | ===== | | | ===== |

(1) Amounts represent TRG's beneficial interest in the operations of its Unconsolidated Joint Ventures.

(2) Includes TRG's share of gains on peripheral land sales of \$2.5 million and \$1.0 million in 1997 and 1996, respectively.

(3) Extraordinary charge related to the extinguishment of debt, primarily consisting of a prepayment penalty.

(4) Includes \$3.7 million and \$3.3 million of amortization of mall tenant allowances in 1997 and 1996, respectively.

(5) Amounts may not add due to rounding.

For 1997, EBITDA and Distributable Cash Flow were \$255.7 million and \$146.7 million, compared to \$229.8 million and \$129.7 million in 1996. In addition to \$4.1 million representing preferred distributions to the Company on TRG's Series A Preferred Equity, TRG distributed \$128.1 million to its partners in 1997, compared to \$119.1 million in 1996. The Company's Funds from Operations for 1997 was \$53.1 million, compared to \$44.1 million in 1996.

The Partnership Committee of TRG makes an annual determination of appropriate distributions for each year. The determination is based on anticipated Distributable Cash Flow available after preferred distributions to the Company on TRG's Series A Preferred Equity, as well as financing considerations and such other factors as the Partnership Committee considers appropriate. Further, the Partnership Committee has decided that the growth in distributions will be less than the growth in Distributable Cash Flow for the immediate future.

Except under unusual circumstances, TRG's practice is to distribute equal monthly installments of the determined amount of distributions throughout the year. Due to seasonality and the fact that cash available to TRG for distributions may be more or less than net cash provided from operating activities plus distributions from Joint Ventures during the year, TRG may borrow from unused credit facilities (described in Liquidity and Capital Resources -- TRG above) to enable it to distribute the amount decided upon by the TRG Partnership Committee.

Distributions by each Joint Venture may be made only in accordance with the terms of its partnership agreement. TRG, in general, acts as the managing partner and has the right to determine the amount of cash available for distribution from the Joint Venture. In general, the provisions of these agreements require the distribution of all available cash (as defined in each partnership agreement), but most do not allow borrowing to finance distributions without approval of the Joint Venture Partner.

As a result, distribution policies of many Joint Ventures will not parallel those of TRG. While TRG may not, therefore, receive as much in distributions from each Joint Venture as it intends to distribute with respect to that Joint Venture, the Company does not believe this will impede TRG's intended distribution policy because of TRG's overall access to liquid resources, including borrowing capacity.

Any inability of TRG or its Joint Ventures to secure financing as required to fund maturing debts, capital expenditures and changes in working capital, including development activities and expansions, may require the utilization of cash to satisfy such obligations, thereby possibly reducing distributions to partners of TRG and funds available to the Company for the payment of dividends.

In addition, if the GM Trusts exercise their rights under the Cash Tender Agreement (see Liquidity and Capital Resources -- Cash Tender Agreement below), TRG will be required to pay the GM Trusts \$10.9 million and may borrow to finance such expenditures.

Capital Spending

Capital spending for routine maintenance of the Taubman Shopping Centers is generally recovered from tenants. Excluding acquisitions, capital spending by the Managed Businesses not recovered from tenants is summarized in the following table:

| 1997 | | | |
|--|---|----------------------|---|
| | Unconsolidated Consolidated Businesses Businesses | Joint Ventures(1) | TRG's Share of Consolidated Businesses and Unconsolidated Joint Ventures(1)(2) |
| (in millions of dollars) | | | |
| Development, renovation, and expansion: | | | |
| Existing centers | 12.1 | 52.8 | 46.5 |
| New centers | 110.8 | 134.3 | 140.7 |
| Pre-construction development activities, net of charge to operations | 11.5 | | 11.5 |
| Mall tenant allowances | 5.3 | 4.0 | 7.5 |
| Corporate office improvements and equipment | 2.9 | | 2.9 |
| Other | 0.8 | 0.5 | 1.1 |
| Total | 143.4 | 191.6 | 210.2 |
| | ===== | ===== | ===== |

(1) Costs are net of intercompany profits.

(2) Includes TRG's share of construction costs for Great Lakes Crossing (an 80% owned consolidated joint venture) and MacArthur Center (a 70% owned consolidated joint venture).

| | Consolidated Businesses | Unconsolidated Ventures(1) | Joint and Unconsolidated Joint Ventures(1)(2) | TRG's Share of Consolidated Businesses |
|---|-------------------------|----------------------------|---|--|
| (in millions of dollars) | | | | |
| Development, renovation, and expansion: | | | | |
| Existing centers | 5.2 | 40.3 | 35.7 | |
| New centers | 14.9 | 58.4 | 33.8 | |
| Pre-construction development activities, | | | | |
| net of charge to operations | 4.1 | | 4.1 | |
| Mall tenant allowances | 4.5 | 5.2 | 7.0 | |
| Corporate office improvements and equipment | 1.5 | | 1.5 | |
| Other | 2.3 | 1.4 | 3.1 | |
| Total | 32.5 | 105.3 | 85.2 | |
| | ===== | ===== | ===== | ===== |

(1) Costs are net of intercompany profits.

(2) Includes TRG's share of construction costs for Great Lakes Crossing (an 80% owned consolidated joint venture) and MacArthur Center (a 70% owned consolidated joint venture).

In 1997 and 1996, TRG's share of mall tenant allowances per square foot leased during the year, excluding expansion space and new developments, was \$8.34 and \$9.96, respectively. In addition, TRG's share of its Consolidated Businesses' and Unconsolidated Joint Ventures' capitalized leasing costs, excluding new developments, was \$10.9 million, or \$10.72 per square foot leased during the year in 1997, and \$8.5 million or \$10.47 per square foot leased during the year in 1996.

At Cherry Creek, an ongoing expansion includes a newly constructed Lord & Taylor store, which opened in November 1997, and the addition of 132 thousand square feet of mall GLA, which will open in the fall of 1998. The expansion is expected to cost approximately \$50 million. TRG has a 50% ownership interest in Cherry Creek.

Great Lakes Crossing, an enclosed value super-regional mall being developed by TRG in Auburn Hills, Michigan, is expected to open in November 1998. The Center will be 1.4 million square feet and its anchors will include Off 5th-Saks Fifth Avenue Outlet, Oshman's Supersports USA, Rainforest Cafe, Jeepers!, and a 25-screen 100,000 square foot Star Theater complex. This Center will be owned by a joint venture in which TRG has a controlling 80% interest and is projected to cost approximately \$210 million.

MacArthur Center, a new Center under construction in Norfolk, Virginia, is expected to open in March 1999. The Center is expected to open with 930 thousand square feet and will initially be anchored by Nordstrom and Dillard's. This Center will be owned by a joint venture in which TRG has a 70% controlling interest and is projected to cost approximately \$150 million.

In 1996, TRG entered into an agreement to lease Memorial City Mall, a 1.4 million square foot shopping center located in Houston, Texas. Memorial City is anchored by Sears, Foley's, Montgomery Ward and Mervyn's. TRG has the option to terminate the lease after the third full year by paying \$2 million to the lessor. TRG is using this option period to evaluate the redevelopment opportunities of the Center. Under the terms of the lease, TRG has agreed to invest a minimum of \$3 million during the three year option period. If the redevelopment proceeds, TRG is required to invest an additional \$22 million in property expenditures not recoverable from tenants during the first 10 years of the lease term.

Assuming no acquisitions, planned capital spending by the Managed Businesses not recovered from tenants for 1998 is summarized in the following table:

| | 1998 | | |
|--|-------------------------|----------------------------|---|
| | Consolidated Businesses | Unconsolidated Ventures(1) | Joint and Unconsolidated Joint Ventures(1)(2) |
| (in millions of dollars) | | | |
| Development, renovation, and expansion | 240.9(3) | 39.0(4) | 208.4 |
| Mall tenant allowances | 4.6 | 9.0 | 9.6 |
| Pre-construction development and other | 22.1 | 1.4 | 22.8 |
| Total | 267.6 | 49.4 | 240.8 |
| | ===== | ===== | ===== |

(1) Costs are net of intercompany profits.

(2) Includes TRG's share of construction costs for Great Lakes Crossing (an 80% owned consolidated joint venture) and MacArthur Center (a 70% owned consolidated joint venture).

(3) Includes costs related to MacArthur Center and Great Lakes Crossing.

(4) Includes costs related to the expansion project at Cherry Creek.

TRG's share of costs for development projects scheduled to be completed in 1999 is anticipated to be as much as \$58 million in 1999. TRG's estimates of 1998 and 1999 capital spending include only projects approved by TRG's Partnership Committee and, consequently, TRG's estimates will change as new projects are approved. Currently, TRG expects to open on average one \$175 million to \$200 million shopping center each year. TRG's estimates regarding capital expenditures presented above are forward-looking statements and certain significant factors could cause the actual results to differ materially, including but not limited to: 1) actual results of negotiations with anchors, tenants and contractors; 2) changes in the scope and number of projects; 3) cost overruns; 4) timing of expenditures; and 5) actual time to complete projects.

Capital Resources

TRG believes that its net cash provided by operating activities, distributions from the Joint Ventures, the unutilized portion of its credit facilities, and its ability to access the credit markets assure adequate liquidity to conduct its operations in accordance with its distribution and financing policies. TRG's borrowings are not and will not be recourse to the Company without its consent.

Cash Tender Agreement

A. Alfred Taubman and the GM Trusts each have the annual right to tender to the Company units of partnership interest in TRG (provided that the aggregate value is at least \$50 million) and cause the Company to purchase the tendered interests at a purchase price based on a market valuation of the Company on the trading date immediately preceding the date of the tender (the Cash Tender Agreement). The Company will have the option to pay for these interests from available cash, borrowed funds, or from the proceeds of an offering of the Company's common stock. Generally, the Company expects to finance these purchases through the sale of new shares of its stock. The tendering partners will bear all market risk if the market price at closing is less than the purchase price. Any proceeds of the offering in excess of the purchase price will be for the sole benefit of the Company. At A. Alfred Taubman's election, his family, and Robert C. Larson and his family may participate in tenders. The GM Trusts will be entitled to receive from TRG an amount (not to exceed \$10.9 million in the aggregate over the term of the Partnership) equal to 5.5% of the amounts that the Company pays to the GM Trusts under the Cash Tender Agreement.

Based on a market value at December 31, 1997 and 1996 of \$13.00 and \$12.875 per common share, the aggregate value of interests in TRG that may be tendered under the Cash Tender Agreement was approximately \$960 million and \$954 million, respectively. Purchase of these interests at December 31, 1997 would have resulted in the Company owning an additional 53% interest in TRG.

The Company is not aware of any present intention of any partner to sell its interest in TRG under the Cash Tender Agreement.

Item 8. FINANCIAL STATEMENTS

The Financial Statements of Taubman Centers, Inc. and The Taubman Realty Group Limited Partnership, and the Independent Auditors' Reports thereon are filed pursuant to this Item 8 and are included in this report at Item 14.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III *

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is hereby incorporated by reference to the material appearing in the Company's definitive proxy statement for the annual meeting of shareholders to be held in 1998 (the "Proxy Statement") under the captions "Management--Directors and Executive Officers" and "Security Ownership of Certain Beneficial Owners and Management -- Section 16(a) Beneficial Ownership Reporting Compliance."

Item 11. EXECUTIVE COMPENSATION

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions "Executive Compensation" and "Management -- Compensation of Directors."

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is hereby incorporated by reference to the table and related footnotes appearing in the Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management."

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "Management--Certain Transactions."

* The Compensation Committee Report on Executive Compensation and the Shareholder Return Performance Graph appearing in the Proxy Statement are not incorporated by reference in this Annual Report on Form 10-K or in any other report, registration statement, or prospectus of the Registrant.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

14(a)(1) The following financial statements of Taubman Centers, Inc. and the Independent Auditors' Report thereon are filed with this report:

| | <u>Page</u> |
|---|-------------|
| TAUBMAN CENTERS, INC. | |
| Independent Auditors' Report..... | F-2 |
| Balance Sheet as of December 31, 1997 and 1996 | F-3 |
| Statement of Operations for the years ended December 31, 1997, 1996 and 1995..... | F-4 |
| Statement of Shareowners' Equity for the years ended December 31, 1997, 1996 and 1995..... | F-5 |
| Statement of Cash Flows for the years ended December 31, 1997, 1996 and 1995..... | F-6 |
| Notes to Financial Statements..... | F-7 |
| | |
| THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP | |
| Independent Auditors' Report | F-15 |

Consolidated Balance Sheet as of December 31, 1997 and 1996...F-16 Consolidated Statement of Operations for the years ended December 31, 1997, 1996 and 1995.....F-17 Consolidated Statement of Accumulated Deficiency in Assets for the years ended December 31, 1997, 1996 and 1995.....F-18 Consolidated Statement of Cash Flows for the years ended December 31, 1997, 1996 and 1995.....F-19 Notes to Consolidated Financial Statements.....F-20

14(a)(2) There are no required Taubman Centers, Inc. financial statement schedules. The following is a list of the financial statement schedules required by Item 14(d).

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP

Schedule II - Valuation and Qualifying Accounts.....F-37 Schedule III - Real Estate and Accumulated Depreciation.....F-38

UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP

| | |
|---|------|
| Independent Auditors' Report..... | F-41 |
| Combined Balance Sheet as of December 31, 1997 and 1996..... | F-42 |
| Combined Statement of Operations for the years ended December 31, 1997, 1996 and 1995..... | F-43 |
| Combined Statement of Accumulated Deficiency in Assets for the three years ended December 31, 1997, 1996 and 1995..... | F-44 |
| Combined Statement of Cash Flows for the years ended December 31, 1997, 1996 and 1995..... | F-45 |
| Notes to Combined Financial Statements..... | F-46 |

UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP

Schedule II - Valuation and Qualifying Accounts.....F-54 Schedule III - Real Estate and Accumulated Depreciation.....F-55

14(a)(3)

3(a) -- By-Laws of Taubman Centers, Inc., as amended (incorporated herein by reference to Exhibit 3 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996).

3(b) -- Form of Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 4(a) to the Registrant's Post-Effective Amendment No. 1 to Form S-3 Registration Statement No. 333-35433).

4(a) -- Amended and Restated Indenture dated as of March 4, 1994 between The Taubman Realty Group Limited Partnership and Chemical Bank, as Trustee (incorporated herein by reference to Exhibit 4(a) filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 ("1993 Form 10-K").

4(b) -- Officers' Certificate designating the terms of TRG's 7% Notes due 2003 (incorporated herein by reference to Exhibit 4(d) filed with the 1993 Form 10-K).

4(c) -- Officers' Certificate designating the terms of TRG's 8% Notes due 1999 (incorporated herein by reference to Exhibit 4(g) filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (the "1994 Second Quarter Form 10-Q").

4(d) -- Indenture dated as of July 22, 1994 among Beverly Finance Corp., La Cienega Associates, the Borrower, and Morgan Guaranty Trust Company of New York, as Trustee (incorporated herein by reference to Exhibit 4(h) filed with the 1994 Second Quarter Form 10-Q).

4(e) -- Deed of Trust, with assignment of Rents, Security Agreement and Fixture Filing, dated as of July 22, 1994, from La Cienega Associates, Grantor, to Commonwealth Land Title Company, Trustee, for the benefit of Morgan Guaranty Trust Company of New York, as Trustee, Beneficiary (incorporated herein by reference to Exhibit 4(i) filed with the 1994 Second Quarter Form 10-Q).

4(f) -- TRG's Medium-Term Notes due June 15, 2002 (incorporated herein by reference to Exhibit 4(j) filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995).

4(g) -- Amended and Restated Revolving Loan Agreement dated as of March 5, 1997 (the "Revolving Loan Agreement"), among The Taubman Realty Group Limited Partnership, as Borrower, Union Bank of Switzerland, (New York Branch), as a Bank, the other Banks signatory to the Revolving Loan Agreement, each as a Bank, and Union Bank of Switzerland (New York Branch), as Administrative Agent (incorporated herein by reference to Exhibit 4, filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (the "1997 First Quarter Form 10-Q").

4(h) -- Form of Contribution and Acceptance of Preferred Equity, Designation of Series A Preferred Equity, and Establishment of Preferred Rate (incorporated herein by reference to Exhibit 4(d) to the Registrant's Post-Effective Amendment No. 1 to Form S-3 Registration Statement No. 333-35433).

4(i) -- Construction Loan Agreement among Taubman MacArthur Associates Limited Partnership, as Borrower, and Bayerische Hypotheken - Und Wechsel - Bank, Aktiengesellschaft, New York Branch and The Other Banks and Financial Institutions from time to time Parties hereto, as Lenders and Bayerische Hypotheken - Und Wechsel

- Bank Aktiengesellschaft, New York Branch, as Agent, dated as of October 28, 1997.

4(j) -- Loan Agreement dated as of November 25, 1997 among The Taubman Realty Group Limited Partnership, as Borrower, Fleet National Bank, as a Bank, PNC Bank, National Association, as a Bank, the other Banks signatory hereto, each as a Bank, and PNC Bank, National Association, as Administrative Agent.

10(a) -- Form of The Amended and Restated Agreement of Limited Partnership of The Taubman Realty Group Limited Partnership, as amended through September 30, 1997 (incorporated herein by reference to Exhibit 4(c) to the Registrant's Post-Effective Amendment No. 1 to Form S-3 Registration Statement No. 333-35433).

* 10(b) -- The Taubman Realty Group Limited Partnership 1992 Incentive Option Plan, as Amended and Restated Effective as of September 30, 1997.

10(c) -- Corporate Services Agreement between Taubman Centers, Inc. and The Taubman Company Limited Partnership (the "Manager") (incorporated herein by reference to Exhibit 10(c) filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992 (the "1992 Form 10-K").

10(d) -- Registration Rights Agreement among Taubman Centers, Inc., General Motors Hourly-Rate Employees Pension Trust, General Motors Retirement Program for Salaried Employees Trust, and State Street Bank & Trust Company, as trustee of the AT&T Master Pension Trust (incorporated herein by reference to Exhibit 10(e) filed with the 1992 Form 10-K).

10(e) -- Master Services Agreement between The Taubman Realty Group Limited Partnership and the Manager (incorporated herein by reference to Exhibit 10(f) filed with the 1992 Form 10-K).

10(f) -- Cash Tender Agreement among Taubman Centers, Inc., A. Alfred Taubman, acting not individually but as Trustee of The A. Alfred Taubman Restated Revocable Trust, as amended and restated in its entirety by Instrument dated January 10, 1989 (as the same has been and may hereafter be amended from time to time), TRA Partners, and GMPTS Limited Partnership (incorporated herein by reference to Exhibit 10(g) filed with the 1992 Form 10-K).

* 10(g) -- Supplemental Retirement Savings Plan (incorporated herein by reference to Exhibit 10(i) filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994).

* 10(h) -- The Taubman Company Long-Term Performance Compensation Plan (incorporated herein by reference to Exhibit 10(k) filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).

* 10(i) -- Employment agreement between The Taubman Company Limited Partnership and Lisa A. Payne (incorporated herein by reference to Exhibit 10 filed with the 1997 First Quarter Form 10-Q).

* 10(j) -- Amended and Restated Continuing Offer, dated as of September 30, 1997 (incorporated herein by reference to Exhibit 10 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).

12(a) -- Statement Re: Computation of Taubman Centers, Inc. Ratio of Earnings to Preferred Stock Dividends.

12(b) -- Statement Re: Computation of TRG's Ratios of Earnings to Fixed Charges and Preferred Distributions.

21 -- Subsidiaries of The Taubman Realty Group Limited Partnership.

23 -- Consent of Deloitte & Touche LLP.

24 -- Powers of Attorney.

27 -- Financial Data Schedule.

99(a) -- Purchase and Sale Agreement By and Between One Federal Street Joint Venture and The Taubman Realty Group Limited Partnership, dated July 16, 1997 (Purchase and Sale Agreement) (without exhibits or schedules, which will be supplementally provided to the Securities and Exchange Commission upon its request) (incorporated herein by reference to Exhibit 99(a) filed with the Registrant's Current Report on Form 8-K dated September 4, 1997).

99(b) -- First Amendment to Purchase and Sale Agreement, dated August 15, 1997 (without exhibits or schedules, which will be supplementally provided to the Securities and Exchange Commission upon its request) (incorporated herein by reference to Exhibit 99(b) filed with the Registrant's Current Report on Form 8-K dated September 4, 1997).

99(c) -- Agreement of Purchase and Sale By and Between The Falls Limited L.P. and The Taubman Realty Group Limited Partnership, dated November 5, 1997, as amended by First Amendment to Agreement of Purchase and Sale entered into on November 6, 1997, and Second Amendment to Agreement of Purchase and Sale entered into on November 13, 1997 (without exhibits or schedules, which will be supplementally provided to the Securities and Exchange Commission upon its request).

* A management contract or compensatory plan or arrangement required to be filed pursuant to Item 14(c) of Form 10-K.

14(b) Current Reports on Form 8-K.

The Company voluntarily filed a current report on Form 8-K dated December 8, 1997 to report a press release announcing TRG's acquisition of The Falls Shopping Center in Miami, Florida and the agreement to purchase The Limited, Inc.'s interest in The Mall at Tuttle Crossing, a Taubman Shopping Center located in Columbus, Ohio.

The Company voluntarily filed a current report on Form 8-K dated December 4, 1997 to report the completion of TRG's acquisition of The Falls. The 8-K included the following financial statements and pro forma information regarding the acquisition of The Falls:

Independent Auditors' Report.

The Falls, Historical Summary of Revenues and Direct Operating Expenses for the Year Ended December 31, 1996.

Taubman Centers, Inc., Pro Forma Condensed Statement of Operations, Year Ended December 31, 1996 and the Nine Months Ended September 30, 1997 (unaudited).

The Taubman Realty Group Limited Partnership, Pro Forma Condensed Consolidated Balance Sheet, September 30, 1997 (unaudited).

The Taubman Realty Group Limited Partnership, Pro Forma Condensed Consolidated Statement of Operations, Year Ended December 31, 1996 (unaudited).

The Taubman Realty Group Limited Partnership, Pro Forma Condensed Consolidated Statement of Operations, Nine Months Ended September 30, 1997 (unaudited).

14(c) The list of exhibits filed with this report is set forth in response to Item 14(a)(3). The required exhibit index has been filed with the exhibits.

14(d) The financial statement schedules of The Taubman Realty Group Limited Partnership and the financial statements and the financial statement schedules of the Unconsolidated Joint Ventures of The Taubman Realty Group Limited Partnership listed at Item 14(a)(2) are filed pursuant to this Item 14(d).

TAUBMAN CENTERS, INC.

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1997 AND 1996
AND FOR EACH OF THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995**

F-1

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareowners
Taubman Centers, Inc.

We have audited the accompanying balance sheets of Taubman Centers, Inc. as of December 31, 1997 and 1996, and the related statements of operations, shareowners' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Taubman Centers, Inc. as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Detroit, Michigan
February 18, 1998

TAUBMAN CENTERS, INC.

BALANCE SHEET
(in thousands, except share data)

| | December 31 | |
|--|-------------|------------|
| | 1997 | 1996 |
| | --- | --- |
| Assets: | | |
| Investment in TRG (Note 2): | | |
| Partnership interest | \$ 347,859 | \$ 369,131 |
| Series A Preferred Equity interest | 200,000 | |
| | ----- | ----- |
| | \$ 547,859 | \$ 369,131 |
| Cash and cash equivalents | 8,965 | 9,388 |
| Other assets | 8 | |
| | ----- | ----- |
| | \$ 556,824 | \$ 378,527 |
| | ===== | ===== |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 277 | \$ 351 |
| Dividends payable | 11,929 | 11,666 |
| | ----- | ----- |
| | \$ 12,206 | \$ 12,017 |
| Commitments and Contingencies (Note 5) | | |
| Shareowners' Equity (Notes 2 and 4): | | |
| Preferred Stock, \$0.01 par value, | | |
| 50,000,000 shares authorized; 8.3% Series | | |
| A Cumulative Redeemable Preferred Stock, | | |
| \$200 million liquidation preference, | | |
| 8,000,000 shares issued and outstanding at | | |
| December 31, 1997 | \$ 80 | |
| Common Stock, \$0.01 par value, 250,000,000 shares | | |
| authorized, 50,759,657 and 50,720,358 issued | | |
| and outstanding at December 31, 1997 and 1996 | 508 | \$ 507 |
| Additional paid-in capital | 668,951 | 468,590 |
| Dividends in excess of net income | (124,921) | (102,587) |
| | ----- | ----- |
| | \$ 544,618 | \$ 366,510 |
| | ----- | ----- |
| | \$ 556,824 | \$ 378,527 |
| | ===== | ===== |

See notes to financial statements.

TAUBMAN CENTERS, INC.

STATEMENT OF OPERATIONS
(in thousands, except share data)

| | Year Ended December 31 | | |
|---|------------------------|-------------------|-------------------|
| | 1997 | 1996 | 1995 |
| Income: | --- | --- | --- |
| Income before extraordinary items from investment in TRG (Note 2): | | | |
| Equity in TRG's income allocable to partnership unitholders | \$25,291 | \$21,368 | \$19,831 |
| Series A Preferred Equity interest in TRG | 4,058 | | |
| Interest and other | 322 | 284 | 331 |
| | ----- | ----- | ----- |
| | \$29,671 | \$21,652 | \$20,162 |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| General and administrative | \$ 759 | \$ 672 | \$ 645 |
| Management fee (Note 3) | 250 | 250 | 250 |
| | ----- | ----- | ----- |
| | \$ 1,009 | \$ 922 | \$ 895 |
| | ----- | ----- | ----- |
| Income before extraordinary items | \$28,662 | \$20,730 | \$19,267 |
| Equity in TRG's extraordinary items (Note 2) | | (444) | 5,836 |
| | ----- | ----- | ----- |
| Net Income | \$28,662 | \$20,286 | \$25,103 |
| Preferred dividends (Note 4) | (4,058) | | |
| | ----- | ----- | ----- |
| Net income available to common shareowners | \$24,604 | \$20,286 | \$25,103 |
| | ===== | ===== | ===== |
| Basic and diluted earnings per common share (Note 6): | | | |
| Income before extraordinary items | \$.48 | \$.47 | \$.44 |
| Extraordinary items | | (.01) | .13 |
| | ----- | ----- | ----- |
| Net Income | \$.48 | \$.46 | \$.57 |
| | ===== | ===== | ===== |
| Cash dividends declared per common share | \$.925 | \$.89 | \$.88 |
| | ===== | ===== | ===== |
| Weighted average number of common shares outstanding | 50,737,333 | 44,444,833 | 44,249,617 |
| | ===== | ===== | ===== |

See notes to financial statements.

TAUBMAN CENTERS, INC.

STATEMENT OF SHAREOWNERS' EQUITY
YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995
(in thousands, except share data)

| | Series A | | Common Stock | | Additional Paid-in Capital | Dividends in excess of Net Income | |
|--|-----------------|--------|--------------|--------|----------------------------------|---|-----------|
| | Preferred Stock | Shares | Shares | Amount | | | Total |
| | | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, January 1, 1995 | | | 44,570,913 | \$446 | \$390,849 | \$ (68,303) | \$322,992 |
| Purchases of stock | | | (436,000) | (5) | (4,169) | | (4,174) |
| Cash dividends declared | | | | | | (38,903) | (38,903) |
| Net income | | | | | | 25,103 | 25,103 |
| Balance, December 31, 1995 | | | 44,134,913 | \$441 | \$386,680 | \$ (82,103) | \$305,018 |
| Proceeds from equity offering (Note 2) | | | 5,970,000 | 60 | 74,938 | | 74,998 |
| Issuance of stock pursuant to Continuing Offer (Note 5) | | | 652,245 | 7 | 7,319 | | 7,326 |
| Purchases of stock | | | (36,800) | (1) | (347) | | (348) |
| Cash dividends declared | | | | | | (40,770) | (40,770) |
| Net income | | | | | | 20,286 | 20,286 |
| Balance, December 31, 1996 | | | 50,720,358 | \$507 | \$468,590 | \$ (102,587) | \$366,510 |
| Proceeds from equity offering (Note 2) | 8,000,000 | \$80 | | | 199,920 | | 200,000 |
| Issuance of stock pursuant to Continuing Offer (Note 5) | | | 39,299 | 1 | 441 | | 442 |
| Cash dividends declared | | | | | | (50,996) | (50,996) |
| Net income | | | | | | 28,662 | 28,662 |
| Balance, December 31, 1997 | 8,000,000 | \$80 | 50,759,657 | \$508 | \$668,951 | \$ (124,921) | \$544,618 |
| | ===== | == | ===== | ==== | ===== | ===== | ===== |

See notes to financial statements.

TAUBMAN CENTERS, INC.

STATEMENT OF CASH FLOWS
(in thousands)

| | Year Ended December 31 | | |
|---|------------------------|------------|------------|
| | 1997 | 1996 | 1995 |
| Cash Flows From Operating Activities: | | | |
| Income before extraordinary items | \$ 28,662 | \$ 20,730 | \$ 19,267 |
| Decrease in other assets and accounts payable and accrued liabilities | (66) | (5) | (166) |
| Net Cash Provided By Operating Activities | \$ 28,596 | \$ 20,725 | \$ 19,101 |
| Cash Flows From Investing Activities: | | | |
| Purchase of additional interests in TRG | \$(200,000) | \$(74,998) | |
| Distributions from TRG in excess of income before extraordinary items | 21,714 | 19,939 | \$ 20,961 |
| Net Cash Provided By (Used In) Investing Activities | \$(178,286) | \$(55,059) | \$ 20,961 |
| Cash Flows From Financing Activities: | | | |
| Cash dividends to common shareowners | \$ (46,675) | \$(38,814) | \$(39,002) |
| Cash dividends to preferred shareowners | (4,058) | | |
| Proceeds from stock issuances | 200,000 | 74,998 | |
| Purchases of stock | (348) | (4,174) | |
| Net Cash Provided By (Used In) Financing Activities | \$ 149,267 | \$ 35,836 | \$(43,176) |
| Net Increase (Decrease) In Cash | \$ (423) | \$ 1,502 | \$ (3,114) |
| Cash and Cash Equivalents at Beginning of Year | 9,388 | 7,886 | 11,000 |
| Cash and Cash Equivalents at End of Year | \$ 8,965 | \$ 9,388 | \$ 7,886 |

See notes to financial statements.

TAUBMAN CENTERS, INC.

NOTES TO FINANCIAL STATEMENTS **Three Years Ended December 31, 1997**

Note 1 - Summary of Significant Accounting Policies

General

The Company, a real estate investment trust, or REIT, is the managing general partner of The Taubman Realty Group Limited Partnership (TRG). TRG is an operating partnership that engages in the ownership, management, leasing, acquisition, development, and expansion of regional retail shopping centers (Taubman Shopping Centers) and interests therein. TRG's portfolio, as of December 31, 1997, includes 25 urban and suburban Taubman Shopping Centers in 12 states. Two additional Centers are under construction in Norfolk, Virginia, and Auburn Hills, Michigan. The Company's investment in TRG consists of a general partnership interest and a preferred equity interest (Note 2).

The Company accounts for its investment in TRG under the equity method of accounting. The excess of the Company's cost of its investment in TRG partnership units over its proportionate share of TRG's accumulated partners' deficit has been allocated to the Company's basis in the underlying assets and liabilities of TRG. Depreciation related to amounts allocated to depreciable assets is recognized by the Company on a straight-line basis over 40 years. The excess of the Company's cost of its investment in TRG partnership units over its proportionate share of TRG's accumulated partners' deficit at December 31, 1997 and 1996, was \$468.4 million and \$476.3 million, respectively.

Income Taxes

Federal income taxes are not provided because the Company operates in such a manner as to qualify as a REIT under the provisions of the Internal Revenue Code, and therefore applicable taxable income is included in the taxable income of its shareowners. As a REIT, the Company must distribute at least 95% of its REIT taxable income to its shareowners and meet certain other requirements.

Dividends per common share declared in 1997 were \$0.925, of which \$0.324 represented return of capital and \$0.601 represented ordinary income. Dividends per common share declared in 1996 were \$0.89, of which \$0.41 represented return of capital and \$0.48 represented ordinary income. Dividends per common share declared in 1995 were \$0.88, of which \$0.52 represented return of capital and \$0.36 represented ordinary income. The tax status of the Company's common dividends in 1997, 1996 and 1995 may not be indicative of future periods. Dividends per preferred share declared in 1997 were \$0.50722, all of which represented ordinary income. The difference between net income for financial reporting purposes and taxable income results primarily from differences in depreciation expense.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with a maturity of 90 days or less at the date of purchase.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**TAUBMAN CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)**

Note 2 - Investment in TRG

The Company's investment in TRG at December 31, 1997 and 1996 consists of a 36.70% and 36.68%, respectively, managing general partnership interest. Additionally, at December 31, 1997, the Company's investment in TRG includes a preferred equity interest. TRG's net income and distributions are allocable first to the preferred equity interest, and the remaining amounts to the general and limited TRG partners in accordance with their percentage ownership. In January 1998, the Company's ownership of TRG increased to 38.4% due to TRG's redemption of a partner's interest (Note 8).

In October 1997, the Company used the proceeds from a \$200 million public offering of eight million shares of 8.3% Series A Cumulative Redeemable Preferred Stock (Series A Preferred Stock) to acquire a Series A Preferred Equity interest in TRG that entitles the Company to income and distributions (in the form of guaranteed payments) in amounts equal to the dividends payable on the Company's Series A Preferred Stock. TRG bore all expenses of the offering. TRG used the net proceeds to pay down short term debt under TRG's existing revolving credit and commercial paper facilities.

The Company's average ownership in TRG for 1997, 1996, and 1995 was 36.7%, 34.5% and 35.1%, respectively, as the result of the following transactions.

In December 1996, the Company purchased newly issued TRG units of partnership interest with the \$75 million proceeds from the Company's December 1996 offering of 5.97 million shares of common stock. TRG bore all expenses of the Company's offering. TRG used the net proceeds to pay down short term floating rate debt and to acquire La Cumbre Plaza. Additionally in 1996, TRG issued units of partnership interest in connection with its acquisition of the 75% interest in Fairlane Town Center held by a joint venture partner.

Also in 1997 and 1996, TRG issued units of partnership interest in connection with the exercise of incentive options. The Company exchanged shares of common stock for these newly issued units of TRG partnership interest pursuant to the Company's Continuing Offer (Note 5).

The Company's income from its investment in TRG included \$4.1 million for the year ended December 31, 1997 from its Series A Preferred Equity interest in TRG. Additionally, the Company's proportionate share of TRG's income before extraordinary items available to partnership unitholders for the years ended December 31, 1997, 1996, and 1995, was \$33.5 million, \$29.0 million, and \$28.0 million (including the Company's \$1.8 million share of the gain related to TRG's disposition of Bellevue Center in 1995), respectively, reduced by \$8.2 million, \$7.6 million, and \$8.1 million, respectively, representing adjustments arising from the Company's additional basis in TRG's net assets.

In 1996 and 1995, TRG recognized extraordinary items relating to the extinguishment of debt. Of the 1995 amount, an \$18.9 million gain was recognized related to TRG's disposition of Bellevue Center and the extinguishment of Bellevue Center's debt. Extraordinary charges in 1996 and 1995 consisted primarily of prepayment penalties. The Company's share of TRG's extraordinary items was approximately \$(0.4) million and \$5.8 million in 1996 and 1995, respectively.

TAUBMAN CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)

TRG's summarized balance sheet and results of operations information (in thousands) are presented below, followed by information about TRG's beneficial interest in the operations of its unconsolidated joint ventures. Beneficial interest is calculated based on TRG's ownership interest in each of the joint ventures.

| | December 31 | | |
|--|------------------------|-------------|-----------|
| | 1997 | 1996 | |
| | --- | --- | |
| Assets: | | | |
| Properties | \$1,593,350 | \$1,136,416 | |
| Accumulated depreciation and amortization | 268,658 | 234,030 | |
| | ----- | ----- | |
| | \$1,324,692 | \$ 902,386 | |
| Other assets | 72,134 | 75,876 | |
| | ----- | ----- | |
| | \$1,396,826 | \$ 978,262 | |
| | ===== | ===== | |
| Liabilities: | | | |
| Unsecured notes payable | \$1,008,459 | \$ 796,805 | |
| Mortgage notes payable | 275,868 | 204,600 | |
| Capital lease obligation | | 39,849 | |
| Accounts payable and other liabilities | 106,404 | 86,779 | |
| Distributions in excess of net income of unconsolidated joint ventures | 141,815 | 142,367 | |
| | ----- | ----- | |
| | \$1,532,546 | \$1,270,400 | |
| Accumulated Deficiency in Assets: | | | |
| Series A Preferred Equity | 192,840 | | |
| Partners' Accumulated Deficit | (328,560) | (292,138) | |
| | ----- | ----- | |
| | \$1,396,826 | \$ 978,262 | |
| | ===== | ===== | |
| | Year Ended December 31 | | |
| | 1997 | 1996 | 1995 |
| | --- | --- | --- |
| Revenues | \$313,426 | \$263,696 | \$228,918 |
| | ----- | ----- | ----- |
| Operating costs other than interest and depreciation and amortization | \$152,044 | \$125,128 | \$108,908 |
| Interest expense | 73,639 | 70,454 | 65,858 |
| Depreciation and amortization | 44,719 | 35,773 | 32,393 |
| | ----- | ----- | ----- |
| | \$270,402 | \$231,355 | \$207,159 |
| | ----- | ----- | ----- |
| Equity in income before extraordinary items of unconsolidated joint ventures (including \$5.0 million related to the disposition of Bellevue in 1995) | 52,270 | 51,753 | 57,940 |
| | ----- | ----- | ----- |
| Income before extraordinary items | \$ 95,294 | \$ 84,094 | \$ 79,699 |
| Extraordinary items | | (1,328) | 16,627 |
| | ----- | ----- | ----- |
| Net income | \$ 95,294 | \$ 82,766 | \$ 96,326 |
| Preferred distributions | (4,058) | | |
| | ----- | ----- | ----- |
| Net income available to unitholders | \$ 91,236 | \$ 82,766 | \$ 96,326 |
| | ===== | ===== | ===== |

TAUBMAN CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)

| | Year Ended December 31 | | |
|---|------------------------|-----------|-----------|
| | 1997 | 1996 | 1995 |
| TRG's beneficial interest in unconsolidated joint ventures' operations: | | | |
| Revenues less recoverable and other operating expenses | \$ 94,361 | \$ 91,243 | \$ 96,120 |
| Ordinary gain on disposition of Bellevue | | | 5,005 |
| Interest expense | (29,263) | (27,738) | (30,396) |
| Depreciation and amortization | (12,828) | (11,752) | (12,789) |
| ----- | ----- | ----- | ----- |
| Income before extraordinary items | \$ 52,270 | \$ 51,753 | \$ 57,940 |
| | ===== | ===== | ===== |

Note 3 - Corporate Services Agreement

The Taubman Company Limited Partnership (the Manager), which is approximately 99% beneficially owned by TRG, provides various administrative, management, accounting, shareowner relations, and other services to the Company. The Manager is paid an annual fee of \$250 thousand under an agreement expiring November 30, 2000. The agreement can be renewed for consecutive three-year terms.

Note 4 - Preferred Stock

The 8.3% Series A Preferred Stock has no stated maturity, sinking fund or mandatory redemption and is not convertible into any other securities of the Company. The Series A Preferred Stock has a liquidation preference of \$200 million (\$25 per share). Dividends are cumulative and accrue at an annual rate of 8.3% from the date of the original issuance, October 3, 1997, and are payable in arrears on or before the last day of each calendar quarter. The 1997 accrued dividends were paid in 1997. The Series A Preferred Stock can be redeemed by the Company beginning in October 2002 at \$25 per share plus any accrued dividends. The redemption price can be paid solely out of the sale of capital stock of the Company.

Note 5 - Commitments and Contingencies

At the time of the Company's initial public offering (IPO) and acquisition of its partnership interest in TRG, the Company entered into an agreement with A. Alfred Taubman and the General Motors Hourly-Rate Employes Pension Trust and the General Motors Salaried Employes Pension Trust (the GM Trusts), each of whom indirectly owns an interest in TRG, whereby each has the annual right to tender to the Company units of partnership interest in TRG (provided that the aggregate value is at least \$50 million) and cause the Company to purchase the tendered interests at a purchase price based on a market valuation of the Company on the trading date immediately preceding the date of the tender (the Cash Tender Agreement). The Company will have the option to pay for these interests from available cash, borrowed funds or from the proceeds of an offering of the Company's common stock. Generally, the Company expects to finance these purchases through the sale of new shares of its stock. The tendering partners will bear the costs of sale. Any proceeds of the offering in excess of the purchase price will be for the sole benefit of the Company. At Mr. A. Alfred Taubman's election, his family and Robert C. Larson and his family may participate in tenders. The GM Trusts will be entitled to receive from TRG an amount (not to exceed \$10.9 million in the aggregate over the term of the Partnership) equal to 5.5% of the amounts that the Company pays to the GM Trusts under the Cash Tender Agreement.

TAUBMAN CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)

Based on a market value at December 31, 1997 and 1996 of \$13.00 and \$12.875, respectively, per common share, the aggregate value of partnership interests in TRG which may be tendered under the Cash Tender Agreement was approximately \$960 million and \$954 million, respectively, at December 31, 1997 and 1996. The purchase of these interests at December 31, 1997 would have resulted in the Company owning an additional 53% interest in TRG.

Shares of common stock that were acquired by the GM Trusts and the AT&T Master Pension Trust in connection with the IPO may be sold through a registered offering. Pursuant to a registration rights agreement with the Company, the owners of each of these shares have the annual right to cause the Company to register and publicly sell their shares of common stock (provided that the shares have an aggregate value of at least \$50 million and subject to certain other restrictions). The annual right is deemed to have been exercised if they initiate or participate in a sale pursuant to the Cash Tender Agreement, as described above. All expenses of such a registration are to be borne by the Company, other than the underwriting discounts or selling commissions, which will be borne by the exercising party.

The Company has made a continuing, irrevocable offer to all present holders (other than certain excluded holders, including A. Alfred Taubman and the GM Trusts), assignees of all present holders, those future holders of partnership interests in TRG as the Company may, in its sole discretion, agree to include in the continuing offer, and all existing and future optionees under TRG's incentive option plan (described below) to exchange shares of common stock for partnership interests in TRG (the Continuing Offer).

Effective September 30, 1997, TRG amended its partnership agreement to split existing units of partnership interest at a ratio of 1,975.08 to one. Also effective September 30, 1997, the Continuing Offer was amended to change the number of shares exchangeable for a unit of partnership interest. Formerly, the number was based on market valuation of the Company on the trading date immediately preceding the date of exchange. Under the amended agreement, one unit of TRG partnership interest is exchangeable for one share of the Company's common stock.

TRG has an incentive option plan for employees of the Manager. Currently, options for 8.2 million units of partnership interest, as restated for the unit split, may be issued under the plan, including options outstanding for 7.0 million units. The exercise price of all options outstanding was equal to market value on the date of the grant. Incentive options generally become exercisable to the extent of one-third of the units on each of the third, fourth, and fifth anniversaries of the date of grant. Options expire ten years from the date of grant.

A summary of the status of the plan as of December 31, 1997, 1996, and 1995, and changes during the years ending on those dates is presented below:

| Options | 1997 | | 1996 | | 1995 | |
|-------------------------------------|-----------|------------------------------------|-----------|------------------------------------|-----------|------------------------------------|
| | Units | Weighted-Average Exercise Price | Units | Weighted-Average Exercise Price | Units | Weighted-Average Exercise Price |
| | | Per Unit | | Per Unit | | Per Unit |
| Outstanding at beginning of year | 6,983,804 | \$11.19 | 8,129,819 | \$11.18 | 7,221,282 | \$11.37 |
| Granted | 100,828 | 13.14 | | | 932,238 | 9.66 |
| Exercised | (39,299) | 11.25 | (652,245) | 11.23 | | |
| Cancelled | (21,728) | 10.86 | (493,770) | 11.06 | (23,701) | 11.41 |
| Outstanding at end of year | 7,023,605 | 11.22 | 6,983,804 | 11.19 | 8,129,819 | 11.18 |
| Options vested at year end | 5,530,263 | 11.29 | 3,768,452 | 11.23 | 2,360,220 | 11.19 |

TAUBMAN CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)

Note 6 - Earnings Per Share

Basic earnings per common share are calculated by dividing earnings available to common shareowners by the average number of common shares outstanding during each period. For diluted earnings per common share, the Company's ownership interest in TRG (and therefore earnings) are adjusted assuming the exercise of all options for units of partnership interest under TRG's incentive option plan having exercise prices less than the average market value of the units using the treasury stock method. For the years ended December 31, 1997, 1996 and 1995, options for 0.4 million, 1.0 million and 7.2 million units of partnership interest with average exercise prices of \$13.58, \$12.64 and \$11.37, respectively, were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price for the period calculated.

| | Year Ended December 31 | | |
|--|------------------------|------------|------------|
| | 1997 | 1996 | 1995 |
| (in thousands, except share data) | | | |
| Income allocable to common shareowners (Numerator): | | | |
| Basic income before extraordinary items | \$24,604 | \$20,730 | \$19,267 |
| Effect of dilutive options | (241) | (37) | (1) |
| ----- | ----- | ----- | ----- |
| Diluted income before extraordinary items | \$24,363 | \$20,693 | \$19,266 |
| ===== | ===== | ===== | ===== |
| Shares (Denominator) - basic and diluted | 50,737,333 | 44,444,833 | 44,249,617 |
| ===== | ===== | ===== | ===== |
| Per common share - basic and diluted | \$ 0.48 | \$ 0.47 | \$0.44 |
| ===== | ===== | ===== | ===== |

Note 7 - Quarterly Financial Data (Unaudited)

The following is a summary of quarterly results of operations for 1997 and 1996.

| | 1997 | | | |
|--|---------------|----------------|---------------|----------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| (in thousands, except share data) | | | | |
| Income before extraordinary item from Investment in TRG | \$ 6,606 | \$ 6,088 | \$ 6,408 | \$10,246 |
| Income before extraordinary item | 6,425 | 5,914 | 6,214 | 10,109 |
| Net Income | 6,425 | 5,914 | 6,214 | 10,109 |
| Preferred dividends | | | | (4,058) |
| Net income available to common shareowners | 6,425 | 5,914 | 6,214 | 6,051 |
| Basic and diluted earnings per common share: | | | | |
| Income before extraordinary item | \$ 0.13 | \$ 0.12 | \$ 0.12 | \$ 0.12 |
| Net Income | 0.13 | 0.12 | 0.12 | 0.12 |

TAUBMAN CENTERS, INC.
NOTES TO FINANCIAL STATEMENTS - (Continued)

| | 1996 | | | |
|---|------------------|-------------------|------------------|-------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| ----- | | | | |
| (in thousands, except share data) | | | | |
| Income before extraordinary item | | | | |
| from Investment in TRG | \$ 5,414 | \$ 4,583 | \$ 5,161 | \$ 6,210 |
| Income before extraordinary item | 5,244 | 4,398 | 5,036 | 6,052 |
| Net Income | 5,244 | 4,398 | 4,592 | 6,052 |
| Basic and diluted earnings per common share: | | | | |
| Income before extraordinary item | \$ 0.12 | \$ 0.10 | \$ 0.11 | \$ 0.13 |
| Net Income | 0.12 | 0.10 | 0.10 | 0.13 |

Note 8 - Subsequent Event

In January 1998, TRG redeemed 6.1 million units of partnership interest from a partner for approximately \$77.7 million (including costs), which increased the Company's ownership in TRG to 38.4%. TRG funded the redemption through the use of an existing revolving credit facility.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1997 AND 1996 AND FOR
EACH OF THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995**

F-14

INDEPENDENT AUDITORS' REPORT

Partners

The Taubman Realty Group Limited Partnership

We have audited the accompanying consolidated balance sheets of The Taubman Realty Group Limited Partnership and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, accumulated deficiency in assets, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedules listed in the Index at Item 14. These financial statements and financial statement schedules are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Taubman Realty Group Limited Partnership and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Detroit, Michigan
February 18, 1998

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEET
(in thousands)

| | December 31 | |
|---|-------------|-------------|
| | 1997 | 1996 |
| | --- | --- |
| Assets: | | |
| Properties (Notes 5 and 8) | \$1,593,350 | \$1,136,416 |
| Accumulated depreciation and amortization | 268,658 | 234,030 |
| | ----- | ----- |
| | \$1,324,692 | \$ 902,386 |
| Cash and cash equivalents | 3,250 | 7,912 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$414 and \$393 in 1997 and 1996 | 17,803 | 20,162 |
| Accounts receivable from related parties (Note 10) | 7,400 | 6,293 |
| Deferred charges and other assets (Notes 6 and 9) | 43,681 | 41,509 |
| | ----- | ----- |
| | \$1,396,826 | \$ 978,262 |
| | ===== | ===== |
| Liabilities: | | |
| Unsecured notes payable (Note 8) | \$1,008,459 | \$ 796,805 |
| Mortgage notes payable (Note 8) | 275,868 | 204,600 |
| Capital lease obligation (Note 3) | | 39,849 |
| Accounts payable and other liabilities (Note 7) | 106,404 | 86,779 |
| Distributions in excess of net income of Unconsolidated Joint Ventures (Note 4) | 141,815 | 142,367 |
| | ----- | ----- |
| | \$1,532,546 | \$1,270,400 |
| Commitments and Contingencies (Notes 4, 8, 9, 11, and 14) | | |
| Accumulated Deficiency in Assets (Note 2): | | |
| Series A Preferred Equity | 192,840 | |
| Partners' Accumulated Deficit | (328,560) | (292,138) |
| | ----- | ----- |
| | (135,720) | (292,138) |
| | ----- | ----- |
| | \$1,396,826 | \$ 978,262 |
| | ===== | ===== |

See notes to financial statements.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except unit data)

| | Year Ended December 31 | | |
|---|------------------------|------------------|------------------|
| | 1997 | 1996 | 1995 |
| Revenues: | | | |
| Minimum rents | \$181,291 | \$150,577 | \$130,418 |
| Percentage rents | 7,655 | 6,073 | 5,617 |
| Expense recoveries | 100,348 | 85,502 | 75,293 |
| Other | 15,376 | 13,044 | 12,227 |
| Revenue from management, leasing and development services (Note 10) | 8,756 | 8,500 | 5,363 |
| | ----- | ----- | ----- |
| | \$313,426 | \$263,696 | \$228,918 |
| | ----- | ----- | ----- |
| Operating Costs: | | | |
| Recoverable expenses | \$ 85,750 | \$ 72,093 | \$ 62,910 |
| Other operating | 35,904 | 26,518 | 22,512 |
| Management, leasing and development services | 4,675 | 4,714 | 3,696 |
| General and administrative | 25,715 | 21,803 | 19,790 |
| Interest expense | 73,639 | 70,454 | 65,858 |
| Depreciation and amortization | 44,719 | 35,773 | 32,393 |
| | ----- | ----- | ----- |
| | \$270,402 | \$231,355 | \$207,159 |
| | ----- | ----- | ----- |
| Income before equity in income of Unconsolidated Joint Ventures and before extraordinary items | \$ 43,024 | \$ 32,341 | \$ 21,759 |
| Equity in income before extraordinary items of Unconsolidated Joint Ventures (including \$5,005 in 1995, related to the disposition of Bellevue) (Note 4) | 52,270 | 51,753 | 57,940 |
| | ----- | ----- | ----- |
| Income before extraordinary items | \$ 95,294 | \$ 84,094 | \$ 79,699 |
| Extraordinary items (Notes 4 and 8) | (1,328) | (1,328) | 16,627 |
| | ----- | ----- | ----- |
| Net Income | \$ 95,294 | \$ 82,766 | \$ 96,326 |
| Preferred distributions to TCO (Note 2) | (4,058) | ----- | ----- |
| | ----- | ----- | ----- |
| Net income available to unitholders | \$ 91,236 | \$ 82,766 | \$ 96,326 |
| | ===== | ===== | ===== |
| Allocation of net income to unitholders: | | | |
| General Partners | \$ 70,663 | \$ 64,804 | \$ 77,077 |
| Limited Partners | 20,573 | 17,962 | 19,249 |
| | ----- | ----- | ----- |
| | \$ 91,236 | \$ 82,766 | \$ 96,326 |
| | ===== | ===== | ===== |
| Basic and Diluted Earnings per Unit of Partnership Interest (Note 12): | | | |
| Income before extraordinary items | \$.66 | \$.65 | \$.64 |
| Extraordinary items | ----- | (.01) | .13 |
| | ----- | ----- | ----- |
| Net Income | \$.66 | \$.64 | \$.77 |
| | ===== | ===== | ===== |
| Weighted Average Number of Units of Partnership Interest Outstanding | | | |

(Notes 2 and 12) 138,271,014 128,579,312 125,459,939

See notes to financial statements.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP

CONSOLIDATED STATEMENT OF ACCUMULATED DEFICIENCY IN ASSETS
Years Ended December 31, 1997, 1996 and 1995
(in thousands)

| | Partners' Accumulated Deficit | | | |
|---|-------------------------------|---------------------|---------------------|--------------|
| | Series A Preferred Equity | General Partners | Limited Partners | |
| | | | Total | |
| Balance, January 1, 1995 | | \$ (306,423) | \$ (76,525) | \$ (382,948) |
| Distributions | | (93,000) | (23,225) | (116,225) |
| Net income | | 77,077 | 19,249 | 96,326 |
| Balance, December 31, 1995 | | \$ (322,346) | \$ (80,501) | \$ (402,847) |
| Change of ownership (Notes 2 and 3) | | 124,813 | 22,229 | 147,042 |
| Distributions | | (93,513) | (25,586) | (119,099) |
| Net income | | 64,804 | 17,962 | 82,766 |
| Balance, December 31, 1996 | | \$ (226,242) | \$ (65,896) | \$ (292,138) |
| Issuance of Series A Preferred Equity (Note 2) | \$192,840 | | | 192,840 |
| Change of ownership (Note 2) | | 310 | 126 | 436 |
| Distributions | (4,058) | (99,205) | (28,889) | (132,152) |
| Net income | 4,058 | 70,663 | 20,573 | 95,294 |
| Balance, December 31, 1997 | \$192,840 | \$ (254,474) | \$ (74,086) | \$ (135,720) |
| | ===== | ===== | ===== | ===== |

See notes to financial statements.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP

CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

| | Year Ended December 31 | | |
|--|------------------------|--------------------|-------------------|
| | 1997 | 1996 | 1995 |
| | --- | --- | --- |
| Cash Flows From Operating Activities: | | | |
| Income before extraordinary items | \$ 95,294 | \$ 84,094 | \$ 79,699 |
| Adjustments to reconcile income before extraordinary items to net cash provided by operating activities: | | | |
| Depreciation and amortization | 44,719 | 35,773 | 32,393 |
| Income before extraordinary items in excess of distributions from Unconsolidated Joint Ventures | | | (206) |
| Provision for losses on accounts receivable | 1,027 | 1,295 | 818 |
| Amortization of deferred financing costs | 2,392 | 2,024 | 2,250 |
| Other | 724 | 615 | 3,062 |
| Gains on sales of land | (880) | (1,041) | (818) |
| Increase (decrease) in cash attributable to changes in assets and liabilities: | | | |
| Receivables, deferred charges and other assets | (9,162) | (8,326) | (11,254) |
| Accounts payable and other liabilities | 19,603 | 999 | 5,501 |
| Net Cash Provided By Operating Activities | <hr/> \$ 153,717 | <hr/> \$ 115,433 | <hr/> \$ 111,445 |
| | <hr/> ----- | <hr/> ----- | <hr/> ----- |
| Cash Flows From Investing Activities: | | | |
| Purchase of interests in Centers | \$(358,227) | \$(125,904) | |
| Additions to properties | (142,420) | (33,806) | \$ (70,691) |
| Proceeds from sales of land | 1,795 | 1,936 | 1,966 |
| Contributions to Unconsolidated Joint Ventures | (18,822) | (14,653) | |
| Distributions from Unconsolidated Joint Ventures in excess of income before extraordinary items | 18,270 | 10,921 | |
| Net Cash Used In Investing Activities | <hr/> \$ (499,404) | <hr/> \$ (161,506) | <hr/> \$ (68,725) |
| | <hr/> ----- | <hr/> ----- | <hr/> ----- |
| Cash Flows From Financing Activities: | | | |
| Debt proceeds | \$ 630,585 | \$ 275,212 | \$ 200,747 |
| Debt payments | (347,838) | (229,212) | (13,689) |
| Early extinguishment of debt | | (35,964) | (105,827) |
| Debt issuance costs | (2,846) | (830) | (1,599) |
| Issuance of units of partnership interest | 436 | 147,042 | |
| Issuance of Series A Preferred Equity | 192,840 | | |
| Cash distributions to partnership unitholders | (128,094) | (119,099) | (116,225) |
| Cash distributions to TCO for Series A Preferred Equity interest | (4,058) | | |
| Net Cash Provided By (Used In) Financing Activities | <hr/> \$ 341,025 | <hr/> \$ 37,149 | <hr/> \$ (36,593) |
| Net Increase (Decrease) In Cash | <hr/> \$ (4,662) | <hr/> \$ (8,924) | <hr/> \$ 6,127 |
| Cash and Cash Equivalents at Beginning of Year | 7,912 | 16,836 | 10,709 |
| Cash and Cash Equivalents at End of Year | <hr/> \$ 3,250 | <hr/> \$ 7,912 | <hr/> \$ 16,836 |
| | <hr/> ===== | <hr/> ===== | <hr/> ===== |

See notes to financial statements.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Three Years Ended December 31, 1997

Note 1 - Summary of Significant Accounting Policies

General

The Taubman Realty Group Limited Partnership (TRG) engages in the ownership, management, leasing, acquisition, development and expansion of regional retail shopping centers (Taubman Shopping Centers) and interests therein. TRG's portfolio, as of December 31, 1997, includes 25 urban and suburban Taubman Shopping Centers in 12 states. Two additional Centers are under construction in Norfolk, Virginia, and Auburn Hills, Michigan. Taubman Centers, Inc. (TCO) is the managing general partner of TRG. GMPTS Limited Partnership (GMPTS), TG Partners Limited Partnership (TG) and Taub-Co Management, Inc. are also general partners.

At December 31, 1997, TRG had 138,299,310 units of partnership interest outstanding, of which 107,114,443 units represented general partnership interests. At December 31, 1997, TRG was owned 36.70% by TCO, 36.17% by GMPTS, 20.22% by certain present and former key executives (and certain of their family members) of the predecessor to The Taubman Company Limited Partnership, the Manager (collectively, the Taubman Group), and TG, and 6.91% by certain former joint venture partners and others (Note 16). The members of the Taubman Group (other than Taub-Co Management, Inc.), the former joint venture partners and others are limited partners of TRG. Additionally, TCO owns the Series A Preferred Equity interest in TRG (Note 2).

Income and distributions of TRG are allocated first to the Series A Preferred Equity interest, and the remaining amounts to the general and limited partners of TRG in accordance with their percentage ownership. The financial statements include only those assets, liabilities, and results of operations which relate to the business of TRG. No provision has been made for income taxes since these taxes are the responsibility of the individual partners.

Basis of Presentation

The consolidated financial statements include the accounts of TRG and its consolidated subsidiaries. Investments in entities unilaterally controlled by ownership or contractual agreements are consolidated; investments in entities not unilaterally controlled (Unconsolidated Joint Ventures) are accounted for under the equity method.

The Manager, which is approximately 99% beneficially owned by TRG, provides property management and leasing services for Taubman Shopping Centers and provides corporate, development and acquisition services. Intercompany balances and profits are eliminated in consolidation.

Dollar amounts presented in tables within the notes to the consolidated financial statements are stated in thousands of dollars, except for unit data or as otherwise noted.

Revenue Recognition

Shopping center space is generally leased to specialty retail tenants under short and intermediate term leases which are accounted for as operating leases. Minimum rents are recognized on an accrual basis as earned, the result of which does not differ materially from a straight-line method. Percentage rents are recognized on an accrual basis as earned. Expense recoveries, which include an administrative fee, are recognized as revenue in the period applicable costs are chargeable to tenants.

**THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

Depreciation and Amortization

Buildings, improvements and equipment, stated at cost, are depreciated on straight-line or double-declining balance bases over the estimated useful lives of the assets, which range from 5 to 50 years. Tenant allowances and deferred leasing costs are amortized on a straight-line basis over the lives of the related leases.

Capitalization

Costs related to the acquisition, development, construction and improvement of properties are capitalized. Interest costs are capitalized until construction is substantially complete. Properties are reviewed for impairment if events or changes in circumstances indicate that the carrying amounts of the properties may not be recoverable. Costs of potentially unsuccessful development pre-construction activities are provided for by charges to operations and written off if abandoned.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with a maturity of 90 days or less at the date of purchase.

Deferred Charges

Direct financing and interest rate hedging costs are deferred and amortized over the terms of the related agreements as a component of interest expense. Direct costs related to leasing activities are capitalized and amortized on a straight-line basis over the lives of the related leases. All other deferred charges are amortized on a straight-line basis over the terms of the agreements to which they relate.

Stock-Based Compensation Plans

Stock-based compensation plans are accounted for under APB Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations, as permitted under FAS 123, "Accounting for Stock-Based Compensation".

Interest Rate Hedging Agreements

Premiums paid for interest rate caps are amortized to interest expense over the terms of the cap agreements. Amounts received under the cap agreements are accounted for on an accrual basis, and recognized as a reduction of interest expense. The differential to be paid or received on swap agreements is accounted for on an accrual basis and recognized as an adjustment to interest expense.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

The carrying value of cash and cash equivalents, accounts and notes receivable, and accounts payable approximates fair value due to the short maturity of these instruments.

**THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The fair value of TRG's debt is estimated based on quoted market prices if available, or on the current rates available to TRG for debt of similar terms and maturity and the assumption that debt will be prepaid at the earliest possible date.

The fair value of interest rate hedging instruments is the amount that TRG would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates.

Reclassifications

Certain prior year amounts have been reclassified to conform to 1997 classifications.

Note 2 - Equity Transactions

In October 1997, TCO used the \$200 million proceeds of its offering of 8.3% Series A Cumulative Redeemable Preferred Stock (Series A Preferred Stock) to acquire a Series A Preferred Equity interest in TRG that entitles TCO to distributions (in the form of guaranteed payments) in amounts equal to the dividends payable on TCO's Series A Preferred Equity. TRG bore all expenses of the offering, which were accounted for as a reduction of the proceeds from the Series A Preferred Equity. TRG used the net proceeds to pay down floating rate debt under TRG's existing revolving credit and commercial paper facilities, which were used to fund the acquisition of Regency Square in September 1997 (Note 3).

The Series A Preferred Equity has no stated maturity, sinking fund requirement or mandatory redemption. In the event of partnership liquidation, the \$200 million Series A Preferred Equity and any unpaid guaranteed payments would be paid prior to any distributions to holders of units of partnership interest.

Effective September 30, 1997, TRG amended its partnership agreement to split existing units of partnership interest at a ratio of 1,975.08 to one. The split did not alter the ownership percentage of any of TRG's partners. All unit and per unit amounts have been adjusted to reflect the unit split on a retroactive basis.

In December 1996, TRG issued units of partnership interest to TCO for the \$75 million proceeds from TCO's December 1996 equity offering. TRG bore all expenses of TCO's offering, which have been accounted for as a reduction of the proceeds from TRG's issuance of units. Also in December 1996, TRG issued units of partnership interest in connection with the exercise of incentive options (Note 11). Concurrently under TCO's continuing offer to exchange shares of common stock for certain partnership interests in TRG, TCO exchanged 652 thousand shares of common stock for these newly issued units of TRG partnership interest. TRG used the net proceeds from the issuance of units to pay down short term floating rate debt and to acquire La Cumbre Plaza (Note 3). Additionally in 1996, TRG issued units of partnership interest in connection with the acquisition of the remaining interest in Fairlane Town Center (Note 3), which were subsequently redeemed in January 1998 (Note 16).

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 3 - Acquisitions

In 1997 and 1996, TRG acquired interests in various shopping centers. These acquisitions were recorded at fair value and the operating results of the Centers have been consolidated in TRG's financial statements from the acquisition dates.

| Center | Date Acquired | Purchase Price |
|-----------------------------|----------------|----------------|
| The Falls | December 1997 | \$ 156,000 |
| The Mall at Tuttle Crossing | December 1997 | 76,268 |
| Regency Square | September 1997 | 123,880 |
| La Cumbre Plaza | December 1996 | 22,250 |
| Fairlane Town Center | July 1996 | 91,552 |
| Paseo Nuevo | June 1996 | 37,000 |

In 1997, TRG acquired interests in The Mall at Tuttle Crossing (Tuttle Crossing) from Tuttle Crossing Holding Co., a subsidiary of The Limited, Inc. (The Limited). TRG's ownership interest in Tuttle Crossing was subject to a long-term participating lease with The Limited for land and leasehold improvements. TRG purchased The Limited's interest in the lease and took fee simple title to the underlying land and buildings. The lease had been accounted for as a capital lease with capital lease assets and a capital lease obligation of \$55.3 million at the acquisition date. Tuttle Crossing opened in July 1997.

La Cumbre Plaza was purchased subject to four ground leases (three of which are participating). The leases expire in 2028. Paseo Nuevo was purchased subject to two participating ground leases expiring in 2065.

In 1996, TRG completed transactions that resulted in the acquisition of the 75% interest in Fairlane Town Center (Fairlane) previously held by a Joint Venture Partner. In connection with the transactions, which resulted in TRG owning 100% of Fairlane, TRG issued to the former Joint Venture Partner units of partnership interest, exchangeable for approximately 6.1 million shares of TCO common stock, which had a closing price of \$10.75 per share on the day prior to the issuance date. The units issued represented limited partnership units. TRG also assumed mortgage debt of approximately \$26 million, representing the former Joint Venture Partner's beneficial interest in the \$34.6 million mortgage encumbering the property. TRG used unsecured debt to fund the repayment of the 9.73% mortgage and prepayment penalty of \$1.2 million. Prior to the acquisition date, TRG's interest in Fairlane was accounted for under the equity method as an Unconsolidated Joint Venture. The units issued to the former Joint Venture Partner were redeemed in January 1998 (Note 16).

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Pro forma results of TRG's operations, assuming the acquisitions had occurred on January 1, 1996 are as follows:

| | Pro Forma | |
|--|------------------------|-----------|
| | Year ended December 31 | |
| | 1997 | 1996 |
| Revenues | \$337,823 | \$308,487 |
| Income before extraordinary item | 89,054 | 80,425 |
| Net income | 89,054 | 79,079 |
| Earnings per unit of partnership interest: | | |
| Income before extraordinary item | \$ 0.61 | \$ 0.61 |
| Net income | 0.61 | 0.60 |

The pro forma results are not necessarily indicative of what actual results would have been had the acquisitions occurred on January 1, 1996, nor are they necessarily indicative of future results.

Note 4 - Investments in Unconsolidated Joint Ventures

Following are TRG's investments in various real estate Unconsolidated Joint Ventures which own regional retail shopping centers. TRG is generally the managing general partner of these Unconsolidated Joint Ventures. TRG's interest in each Unconsolidated Joint Venture is as follows:

| Unconsolidated Joint Venture | Taubman Shopping Center | TRG's % Ownership as of December 31, 1997 |
|---|-------------------------|--|
| Arizona Mills, L.L.C. | Arizona Mills | 37% |
| Fairfax Associates | Fair Oaks | 50 |
| Lakeside Mall Limited Partnership | Lakeside | 50 |
| Rich-Taubman Associates | Stamford Town Center | 50 |
| Taubman-Cherry Creek Limited Partnership | Cherry Creek | 50 |
| Twelve Oaks Mall Limited Partnership | Twelve Oaks Mall | 50 |
| West Farms Associates | Westfarms | 79 |
| Woodfield Associates | Woodfield | 50 |
| Woodland | Woodland | 50 |

Arizona Mills, L.L.C. developed Arizona Mills, a value super-regional mall in Tempe, Arizona, which opened in November 1997. TRG's ownership interest in Arizona Mills, L.L.C. increased in January 1997 to 37% from 35% as a result of Arizona Mills, L.L.C.'s redemption of a former owner's 5% interest for \$2.8 million (the former owner is an affiliate of a partner in TRG).

In January 1997, Arizona Mills, L.L.C. closed on a secured \$145 million construction facility maturing in 2002. The loan bears interest at one month LIBOR plus 1.3%. The loan is hedged until maturity at a one month LIBOR cap rate of 9.5%, plus credit spread. The payment of the principal and interest is guaranteed by each of the owners of Arizona Mills, L.L.C., to the extent of its ownership percentage. The loan agreement provides for the reduction of the amount guaranteed as certain center performance and valuation criteria are met. Borrowings on the facility at December 31, 1997 were \$122 million.

**THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

In December 1995, TRG recognized an ordinary gain of \$5.0 million on the disposition of Bellevue Center (Bellevue), a 60% owned Unconsolidated Joint Venture, based on the carrying value of TRG's investment in Bellevue. TRG also recognized an extraordinary gain of \$18.9 million on the related extinguishment of Bellevue's debt. The carrying value of TRG's investment in Bellevue differed from TRG's 60% share of Bellevue's net deficiency in assets due to the elimination of intercompany profits on sales of services.

TRG reduces its investment in Unconsolidated Joint Ventures to eliminate intercompany profits on sales of services that are capitalized by the Unconsolidated Joint Ventures. As a result, the carrying value of TRG's investment in Unconsolidated Joint Ventures is less than TRG's share of the deficiency in assets reported in the Balance Sheet of the Unconsolidated Joint Ventures of the Taubman Realty Group Limited Partnership by \$8.1 million and \$7.4 million in 1997 and 1996, respectively. These differences are amortized over the useful lives of the related assets.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Combined balance sheet and results of operations information is presented below for all Unconsolidated Joint Ventures, followed by TRG's beneficial interest in the combined information. Beneficial interest is calculated based on TRG's ownership interest in each of the Unconsolidated Joint Ventures.

| | December 31 | | |
|--|------------------------|-------------|-----------|
| | 1997 | 1996 | |
| | --- | --- | |
| Assets: | | | |
| Properties | \$ 623,981 | \$ 450,469 | |
| Other assets | 84,397 | 71,252 | |
| | ----- | ----- | |
| | \$ 708,378 | \$ 521,721 | |
| | ===== | ===== | |
| Liabilities and partners' accumulated deficiency in assets: | | | |
| Debt | \$ 875,356 | \$ 724,162 | |
| Capital lease obligations | 6,509 | 5,000 | |
| Other liabilities | 94,801 | 51,691 | |
| TRG's accumulated deficiency in assets | (133,680) | (134,986) | |
| Unconsolidated Joint Venture Partners' accumulated deficiency in assets | (134,608) | (124,146) | |
| | ----- | ----- | |
| | \$ 708,378 | \$ 521,721 | |
| | ===== | ===== | |
| TRG's accumulated deficiency in assets (above) | \$(133,680) | \$(134,986) | |
| Elimination of intercompany profit | (8,135) | (7,381) | |
| | ----- | ----- | |
| Distributions in excess of net income of Unconsolidated Joint Ventures | \$(141,815) | \$(142,367) | |
| | ===== | ===== | |
| | Year Ended December 31 | | |
| | 1997 | 1996 | 1995 |
| | --- | --- | --- |
| Revenues | \$258,635 | \$265,337 | \$287,180 |
| | ----- | ----- | ----- |
| Recoverable and other operating expenses | \$ 94,131 | \$100,164 | \$106,859 |
| Interest expense | 54,018 | 52,994 | 57,857 |
| Depreciation and amortization | 24,180 | 23,837 | 25,471 |
| | ----- | ----- | ----- |
| Total operating costs | \$172,329 | \$176,995 | \$190,187 |
| | ----- | ----- | ----- |
| Income before extraordinary items | \$ 86,306 | \$ 88,342 | \$ 96,993 |
| Extraordinary items | | | 30,761 |
| | ----- | ----- | ----- |
| Net income | \$ 86,306 | \$ 88,342 | \$127,754 |
| | ===== | ===== | ===== |
| Net income attributable to TRG | \$ 46,857 | \$ 47,413 | \$ 68,498 |
| Extraordinary items attributable to TRG | | | (18,327) |
| Realized intercompany profit | 5,413 | 4,340 | 7,769 |
| | ----- | ----- | ----- |
| Equity in income before extraordinary items of Unconsolidated Joint Ventures | \$ 52,270 | \$ 51,753 | \$ 57,940 |
| | ===== | ===== | ===== |
| | Year Ended December 31 | | |
| | 1997 | 1996 | 1995 |
| | --- | --- | --- |
| TRG's beneficial interest in Unconsolidated Joint Ventures' operations: | | | |
| Revenues less recoverable and other operating expenses | \$ 94,361 | \$ 91,243 | \$ 96,120 |
| Ordinary gain on disposition of Bellevue | | | 5,005 |
| Interest expense | (29,263) | (27,738) | (30,396) |
| Depreciation and amortization | (12,828) | (11,752) | (12,789) |
| | ----- | ----- | ----- |
| Income before extraordinary items | \$ 52,270 | \$ 51,753 | \$ 57,940 |
| | ===== | ===== | ===== |

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 5 - Properties

Properties, including peripheral land and development pre-construction costs, at December 31, 1997 and 1996 are summarized as follows:

| | 1997 | 1996 |
|---|-------------|-------------|
| | --- | --- |
| Land | \$ 132,308 | \$ 65,127 |
| Buildings, improvements and equipment | 1,326,731 | 957,185 |
| Construction in process | 94,500 | 42,429 |
| Assets under capital lease (Notes 3 and 13) | | 39,849 |
| Peripheral land | 6,630 | 7,414 |
| | ----- | ----- |
| | \$1,560,169 | \$1,112,004 |
| Development pre-construction costs (See below) | 33,181 | 24,412 |
| | ----- | ----- |
| | \$1,593,350 | \$1,136,416 |
| | ===== | ===== |

Depreciation expense for 1997, 1996, and 1995 was \$37.6 million, \$29.6 million, and \$26.6 million. Peripheral land consists primarily of undeveloped land generally adjacent to the Taubman Shopping Centers. Construction in process includes costs related to the construction of new centers, and expansions and other improvements at various existing centers.

TRG actively pursues opportunities for the development of new regional shopping centers. Development pre-construction activities, including market research, site location, environmental work, zoning permits and obtaining of anchor commitments, may take years to accomplish and ultimately may be abandoned. TRG provides a reserve for the cost of such potentially unsuccessful pre-construction activities.

The activity in development pre-construction costs and the related reserve for 1997 and 1996 is summarized as follows:

| | Costs | Reserve | Net |
|---|----------|------------|----------|
| | --- | --- | --- |
| Balance, January 1, 1996 | \$35,872 | \$(10,198) | \$25,674 |
| Costs incurred | 12,556 | | 12,556 |
| Charged to operations | | (8,501) | (8,501) |
| Transfers to construction in process and investments in Unconsolidated Joint Ventures | (5,317) | | (5,317) |
| Costs of projects written off | (6,223) | 6,223 | |
| | ----- | ----- | ----- |
| Balance, December 31, 1996 | \$36,888 | \$(12,476) | \$24,412 |
| Costs incurred | 16,988 | | 16,988 |
| Charged to operations | | (5,454) | (5,454) |
| Transfers to construction in process | (2,765) | | (2,765) |
| Costs of projects written off | (1,870) | 1,870 | |
| | ----- | ----- | ----- |
| Balance, December 31, 1997 | \$49,241 | \$(16,060) | \$33,181 |
| | ===== | ===== | ===== |

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 6 - Deferred Charges and Other Assets

Deferred charges and other assets at December 31, 1997 and 1996 are summarized as follows:

| | 1997 | 1996 |
|-------------------------------|-----------|-----------|
| Leasing | \$ 39,480 | \$ 38,353 |
| Accumulated amortization | (20,534) | (21,284) |
| | ----- | ----- |
| Prepaid ground rent (Note 9) | \$ 18,946 | \$ 17,069 |
| Deferred financing costs, net | 6,043 | 6,122 |
| Other, net | 10,486 | 9,343 |
| | 8,206 | 8,975 |
| | ----- | ----- |
| | \$ 43,681 | \$ 41,509 |
| | ===== | ===== |

Note 7 - Other Liabilities

In November 1992, the General Motors Hourly-Rate Employes Pension Trust and the General Motors Salaried Employes Pension Trust (GM Trusts), which indirectly own interests in TRG, entered into an agreement with TCO (the Cash Tender Agreement) pursuant to which the GM Trusts have certain rights to cause TCO to purchase their interests in TRG. TRG will pay the GM Trusts an amount (not to exceed \$10.9 million in the aggregate over the term of the Partnership) equal to 5.5% of the amounts that TCO pays to the GM Trusts under the Cash Tender Agreement.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 8 - Debt

Unsecured Notes Payable

Unsecured notes payable at December 31, 1997 and 1996 consists of the following:

| | 1997 | 1996 |
|---|----------------------|---------------------|
| | ---- | ---- |
| 7% Notes due 2003 | \$ 199,719 | \$ 199,679 |
| 8% Notes due 1999 | 199,969 | 199,950 |
| Floating Rate Notes due 1997 | | 99,955 |
| Notes payable to banks: | | |
| Construction facility, maximum borrowing available of \$210 million, interest at LIBOR plus 0.90%, maturing December 2001 | 46,900 | |
| Line of credit, maximum borrowing available of \$300 million, interest at LIBOR plus 0.90%, maturing March 2000 | 210,000 | |
| Line of credit, maximum borrowing available of \$30 million, interest based on a variable bank borrowing rate, 6.75% at December 31, 1997, maturing August 1998 | 10,175 | 10,100 |
| Medium-Term Notes: | | |
| Floating rate notes: | | |
| Three month LIBOR plus 0.80% due 1998 | \$ 20,000 | \$ 20,000 |
| Three month LIBOR plus 0.77% due 1998 | 14,000 | 14,000 |
| Three month LIBOR plus 0.90% due 1999 | 20,000 | 20,000 |
| Three month LIBOR plus 1.05% due 2001 | 30,000 | 30,000 |
| Fixed rate notes: | | |
| 7.38% Notes due 2000 | 13,000 | 13,000 |
| 7.31% Notes due 2000 | 2,000 | 2,000 |
| 7.19% Notes due 2000 | 5,000 | 5,000 |
| 7.22% Notes due 2001 | 8,400 | 8,400 |
| 8.00% Notes due 2001 | 69,981 | 69,976 |
| 7.40% Notes due 2002 | 5,000 | 5,000 |
| 7.50% Notes due 2002 | 99,791 | 99,745 |
| 7.00% Notes due 2007 | 54,524 | |
| Total Medium-Term Notes | ----- \$ 341,696 | ----- \$ 287,121 |
| Total Unsecured Notes Payable | ----- \$1,008,459 | ----- \$ 796,805 |
| | ===== | ===== |

As of December 31, 1997, TRG has available for general partnership purposes an unsecured revolving credit facility of \$300 million. Included in the credit facility is a competitive bid option program which allows TRG to hold auctions, among the banks participating in the facility, for short term borrowings of up to \$150 million.

TRG has used the proceeds from the \$210 million construction facility to make contributions to Taubman Auburn Hills Associates Limited Partnership, a consolidated 80% owned venture, to finance the construction of Great Lakes Crossing. TRG is entitled to preferred distributions on these contributions at a rate of prime plus 1.5%. The preferred distributions will be paid from available cash as defined in the partnership agreement. The maturity date on the construction facility may be extended to December 2002.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

TRG has issued \$342 million of Medium-Term Notes since the program's inception in 1995 under TRG's \$500 million shelf registration statement.

TRG's loan and facility agreements and indenture contain various restrictive covenants including limitations on the amount of secured and unsecured debt and minimum debt service coverage ratios, the latter being the most restrictive. TRG is in compliance with all covenants.

Mortgage Notes Payable

Mortgage notes payable at December 31, 1997 and 1996 consists of the following:

| Center | 1997 | 1996 | Interest Rate | Maturity Date | Balance Due on Maturity |
|-----------------------------|-----------|-----------|---------------|---------------|----------------------------|
| Beverly Center | \$146,000 | \$146,000 | 8.36% | 07/15/04 | \$146,000 |
| Columbus City Center | 8,022 | 8,175 | 7.00% | 08/01/19 | 0 |
| MacArthur Center | 42,241 | | Floating | 10/27/00 | 42,241 |
| Stoneridge | 74,762 | 44,897 | Floating | 01/20/98 | 75,000 |
| Assessment bonds payable | 4,843 | 5,528 | Various | Various | 0 |
| | \$275,868 | \$204,600 | | | |
| | ===== | ===== | | | |

Mortgage debt is collateralized by properties with a net book value of \$208.7 million as of December 31, 1997. The assessment bonds payable are due in monthly installments with maturities at various dates through 2019, and fixed interest rates between 6.0% and 7.2%.

In October 1997, TRG closed on a three year, \$150 million construction facility for MacArthur Center, which is owned by a consolidated 70% owned venture. The loan bears interest at one month LIBOR plus 1.2%. Under the facility agreement the maturity date may be extended for two years. The payment of the principal and interest is guaranteed by TRG. The loan agreement provides for the reduction of the amount guaranteed as certain center performance and valuation criteria are met.

Stoneridge is encumbered by a deed of trust securing a commercial paper facility. The facility is supported by an underlying credit facility of up to \$75 million, which is renewable quarterly for a twelve month period. Commercial paper is generally sold with a 30 day maturity.

The following table presents scheduled principal payments on mortgage debt, excluding commercial paper, as of December 31, 1997.

| | |
|------------|---------|
| 1998 | \$ 896 |
| 1999 | 738 |
| 2000 | 42,804 |
| 2001 | 602 |
| 2002 | 643 |
| Thereafter | 155,423 |

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Interest Expense

Interest paid in 1997, 1996 and 1995, net of amounts capitalized of \$9.5 million, \$5.7 million and \$6.9 million in 1997, 1996 and 1995, approximated \$69.8 million, \$69.8 million and \$62.2 million.

Extraordinary Items

In 1996, TRG recognized an extraordinary charge to income of \$1.3 million primarily consisting of a prepayment penalty related to the extinguishment of debt at a wholly owned Center. In 1995, TRG recognized an extraordinary gain of approximately \$18.9 million, related to the extinguishment of debt at Bellevue (Note 4) and \$2.2 million of extraordinary charges, consisting primarily of prepayment penalties, related to the extinguishment of debt of TRG and an Unconsolidated Joint Venture.

Interest Rate Hedging Instruments

TRG enters into interest rate agreements to reduce its exposure to changes in the cost of its floating rate debt. The derivative agreements generally match the notional amounts, reset dates and rate bases of the hedged debt to assure the effectiveness of the derivatives in reducing interest rate risk. As of December 31, 1997, the following interest rate cap agreements were outstanding:

| Notional Amount | LIBOR Cap Rate | Frequency of Rate Resets | Term |
|--------------------|-------------------|--------------------------------|-------------------------------------|
| \$100,000 | 6.5% | Three Months | November 1997 through December 1998 |
| 200,000 | 9.5% | Monthly | December 1997 through December 1999 |

The 9.5% cap rate of the \$200 million notional amount cap agreement decreases to 7.0% beginning in December 1998.

TRG is exposed to credit risk in the event of nonperformance by the counterparties to its interest rate cap and swap agreements, but has no off-balance sheet risk of loss. TRG anticipates that its counterparties will fully perform their obligations under the agreements.

Fair Value of Financial Instruments Related to Debt

The estimated fair values of TRG's financial instruments at December 31, 1997 and 1996 are as follows:

| | December 31 | | | |
|----------------------------|-------------------|---------------|-------------------|---------------|
| | 1997 | | 1996 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Unsecured notes payable | \$1,008,459 | \$1,031,983 | \$ 796,805 | \$ 804,928 |
| Mortgage notes payable | 275,868 | 286,961 | 204,600 | 213,126 |
| Interest rate instruments: | | | | |
| In a receivable position | 842 | 135 | 964 | 412 |
| In a payable position | | | (17) | (76) |

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Beneficial Interest in Debt and Interest

TRG's beneficial interest in the debt (excluding capital lease obligations), capitalized interest, and interest expense (net of capitalized interest) of TRG, its consolidated subsidiaries and its Unconsolidated Joint Ventures (Note 4) is summarized in the following table. TRG's beneficial interest for 1997 excludes the 30% minority interest in the debt outstanding on the MacArthur Center construction facility.

| | Unconsolidated Joint Ventures | TRG's Share of Unconsolidated Joint Ventures | TRG's Consolidated Subsidiaries | TRG's Beneficial Interest |
|---|-------------------------------------|--|---------------------------------------|---------------------------------|
| Debt as of: | ----- | ----- | ----- | ----- |
| December 31, 1997 | \$875,356 | \$ 465,556 | \$1,284,327 | \$1,737,211 |
| December 31, 1996 | 724,162 | 396,962 | 1,001,405 | 1,398,367 |
| Capitalized interest: | | | | |
| 1997 | \$ 9,438 | \$ 4,371 | \$ 9,469 | \$ 13,676 |
| 1996 | 4,790 | 3,187 | 5,682 | 8,869 |
| 1995 | 3,481 | 1,799 | 6,852 | 8,651 |
| Interest expense (net of capitalized interest): | | | | |
| 1997 | \$54,018 | \$29,263 | \$73,639 | \$102,902 |
| 1996 | 52,994 | 27,738 | 70,454 | 98,192 |
| 1995 | 57,857 | 30,396 | 65,858 | 96,254 |

Note 9 - Leases

Operating Leases

Shopping center space is leased to tenants and certain anchors pursuant to lease agreements. Tenant leases typically provide for guaranteed minimum rent, percentage rent and other charges to cover certain operating costs. Future minimum rent under operating leases in effect at December 31, 1997 for operating centers, assuming no new or renegotiated leases or option extensions on anchor agreements, is summarized as follows:

| | |
|------------|------------|
| 1998 | \$ 205,779 |
| 1999 | 196,423 |
| 2000 | 173,580 |
| 2001 | 157,597 |
| 2002 | 139,594 |
| Thereafter | 461,160 |

Certain Taubman Shopping Centers, as lessees, have ground leases expiring at various dates through the year 2076. In addition, the Manager leases its office facilities. Rental payments under ground and office leases were \$9.8 million, \$8.0 million and \$7.3 million in 1997, 1996 and 1995. Included in these amounts are related party office rental payments of \$3.1 million, \$3.0 million and \$2.8 million in 1997, 1996 and 1995.

**THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The following is a schedule of future minimum rental payments required under operating leases.

| | |
|------------|----------|
| 1998 | \$ 8,677 |
| 1999 | 8,752 |
| 2000 | 8,537 |
| 2001 | 8,259 |
| 2002 | 8,095 |
| Thereafter | 189,935 |

The table above includes \$2.9 million, \$3.0 million, \$2.9 million, \$2.6 million, \$2.6 million and \$6.2 million of related party amounts in 1998, 1999, 2000, 2001, 2002 and thereafter.

Included in deferred charges is approximately \$6.0 million representing lump-sum payments for base rent on two parcels of adjacent land. These costs are being charged to operations over the 87 and 99 year terms of the leases.

Memorial City Mall Lease

In November 1996, TRG entered into an agreement to lease Memorial City Mall, located in Houston, Texas. The lease of this unencumbered property grants TRG the exclusive right to manage, lease and operate the property. The annual rent is initially \$7 million. TRG has the option to terminate the lease after the third full lease year by paying \$2 million to the lessor. Accordingly, the lease will be accounted for as an operating lease during the option period. TRG is using this option period to evaluate the redevelopment opportunities of the center.

If TRG does not exercise its option to terminate the lease at the end of the third full lease year, the lease continues for another 52 years and provides for increases in rent every ten years based on 75% of the increase in the Consumer Price Index between 1996 and the then current year. Under the terms of the lease, TRG has agreed to invest a minimum of \$3 million during the three year option period. If the redevelopment proceeds, TRG is required to invest an additional \$22 million in property expenditures not recoverable from tenants during the first 10 years of the lease term.

Note 10 - Transactions with Affiliates

The revenue from management, leasing and development services is derived primarily from transactions with affiliates. Accounts receivable from related parties includes amounts related to reimbursement of third-party (non-affiliated) costs.

During 1997, TRG acquired an option from a related party to purchase certain real estate on which TRG may develop a shopping center. The option agreement requires option payments of \$150 thousand during each of the first five years, \$400 thousand in the sixth year, and \$500 thousand in the seventh year. If TRG exercises the option, the purchase price for the property will be between \$5 million and \$10 million, depending upon the year of purchase. While the optionor will have no interest in the shopping center itself, the optionor may, under certain circumstances, participate in the proceeds from TRG's future sales of the peripheral land contiguous to the shopping center.

Other related party transactions are described in Notes 4, 9 and 11.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 11 - The Manager

The Manager, The Taubman Company Limited Partnership, provides property management, leasing and development services to the Taubman Shopping Centers and affiliates.

The Manager has a voluntary retirement savings plan established in 1983 and amended and restated effective January 1, 1994 (the Plan). The Plan is qualified in accordance with Section 401(k) of the Internal Revenue Code (the Code). The Manager contributes an amount equal to 2% of the qualified wages of all qualified employees and matches employee contributions in excess of 2% up to 7% of qualified wages. In addition, the Manager may make discretionary contributions within the limits prescribed by the Plan and imposed in the Code. Costs relating to the Plan were \$1.7 million, \$1.6 million, and \$1.5 million in the years ended December 31, 1997, 1996 and 1995, respectively.

TRG has an incentive option plan for employees of the Manager. Currently, options for 8.2 million units of partnership interest, as restated for the unit split (Note 2), may be issued under the plan, including options outstanding for 7.0 million units. The exercise price of all options outstanding is equal to market value on the date of the grant. Incentive options generally become exercisable to the extent of one-third of the units on each of the third, fourth, and fifth anniversaries of the date of grant. Options expire ten years from the date of grant.

A summary of the status of the plan as of December 31, 1997, 1996, and 1995, and changes during the years ending on those dates are presented below:

| Options | 1997 | | | 1996 | | | 1995 | | |
|----------------------------------|-----------|---------------------------------|--|-----------|---------------------------------|--|-----------|---------------------------------|--|
| | Units | Weighted-Average Exercise Price | | Units | Weighted-Average Exercise Price | | Units | Weighted-Average Exercise Price | |
| | | Per Unit | | | Per Unit | | | Per Unit | |
| Outstanding at beginning of year | 6,983,804 | \$11.19 | | 8,129,819 | \$11.18 | | 7,221,282 | \$11.37 | |
| Granted | 100,828 | 13.14 | | | | | 932,238 | 9.66 | |
| Exercised | (39,299) | 11.25 | | (652,245) | 11.23 | | | | |
| Cancelled | (21,728) | 10.86 | | (493,770) | 11.06 | | (23,701) | 11.41 | |
| Outstanding at end of year | 7,023,605 | 11.22 | | 6,983,804 | 11.19 | | 8,129,819 | 11.18 | |
| Options vested at year end | 5,530,263 | 11.29 | | 3,768,452 | 11.23 | | 2,360,220 | 11.19 | |

Options outstanding at December 31, 1997 have a remaining weighted-average contractual life of 5.4 years and range in exercise price from \$9.39 to \$13.89. The weighted average fair value per unit of options granted during 1997 and 1995 was \$2.33 and \$1.37. There were no grants in 1996. TRG used a binomial option pricing model to determine the grant date fair values of the 1997 and 1995 grants based on the following assumptions: volatility rates of 21% and 22%, risk-free rates of return of approximately 6.8% and 8%, and dividend yields of approximately 7% and 9%, respectively.

TRG applies APB Opinion 25 and related Interpretations in accounting for the plan. The exercise price of all options outstanding granted under the plan was equal to market value on the date of grant. Accordingly, no compensation expense has been recognized for the plan. Had compensation cost for the plan been determined based on the fair value of the options at the grant dates for 1997 and 1995 awards (there were no grants in 1996) consistent with the method of FAS Statement 123, the pro forma effect on TRG's earnings and earnings per unit of partnership interest would not have been material.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Effective January 1, 1996, the Manager adopted The Taubman Company Long-Term Performance Compensation Plan. Annually, eligible employees will be granted contingent notional TRG units of partnership interest, the ultimate number of which will be based on the employee's performance. These awards, which will vest on the third anniversary of the date of grant, will also accrue distribution equivalents in the form of additional notional units each time TRG makes a distribution to its partners. Upon vesting, additional notional units may be granted based on the performance of the employee and the Manager and/or TRG. The awards will be paid to the employee in cash upon vesting, based on the value of TRG's units of partnership interest, unless the employee elects to defer payment as provided in the plan. The cost of this plan was approximately \$4.5 million and \$2.0 million for 1997 and 1996, respectively.

Note 12 - Earnings Per Unit of Partnership Interest

Basic earnings per unit of partnership interest are based on the average number of units of partnership interest outstanding during each period. Diluted earnings per unit of partnership interest are based on the average number of units of partnership interest outstanding during each period, assuming exercise of all options for units of partnership interest having exercise prices less than the average market value of the units using the treasury stock method. For the years ended December 31, 1997, 1996 and 1995, options for 0.4 million, 1.0 million and 7.2 million units of partnership interest with average exercise prices of \$13.58, \$12.64 and \$11.37, respectively, were excluded from the computation of diluted earnings per unit because the options' exercise prices were greater than the average market price for the period calculated. In January 1998, TRG redeemed a partner's interest in TRG (Note 16), which will affect the number of units of partnership interest outstanding in 1998.

| | Year Ended December 31 | | |
|--|------------------------|--------------------|--------------------|
| | 1997 | 1996 | 1995 |
| Income before extraordinary items allocable to unitholders (Numerator) | \$ 91,236 ===== | \$ 84,094 ===== | \$ 79,699 ===== |
| Partnership units (Denominator): | | | |
| Basic | 138,271,014 | 128,579,312 | 125,459,939 |
| Effect of dilutive options | 1,002,634 | 160,594 | 4,148 |
| ----- | ----- | ----- | ----- |
| Diluted | 139,273,648 | 128,739,906 | 125,464,087 |
| ===== | ===== | ===== | ===== |
| Per unit - basic and diluted | \$ 0.66 ===== | \$ 0.65 ===== | \$ 0.64 ===== |

Note 13 - Supplemental Disclosures of Non-Cash Activities

In connection with the construction of Tuttle Crossing, additions to assets under capital lease and the capital lease obligation were recognized for \$15.5 million, \$25.4 million, and \$14.4 million in 1997, 1996, and 1995, respectively. The outstanding capital lease obligation was extinguished in connection with the 1997 acquisition of interests in Tuttle Crossing (Note 3).

Note 14 - Contingencies

TRG is currently involved in certain litigation arising in the ordinary course of business. Management believes that this litigation will not have a material adverse effect on TRG's assets or results of operations.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Note 15 - Quarterly Financial Data (Unaudited)

The following is a summary of quarterly results of operations for 1997 and 1996.

| | 1997 | | | |
|---|------------------|-------------------|------------------|-------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| ----- (in thousands, except unit data) | | | | |
| Revenues | \$72,897 | \$73,027 | \$78,037 | \$89,465 |
| Equity in income of Unconsolidated Joint Ventures | 12,328 | 14,340 | 12,205 | 13,397 |
| Income before extraordinary item | 23,584 | 22,170 | 23,041 | 26,499 |
| Net Income | 23,584 | 22,170 | 23,041 | 26,499 |
| Basic and diluted earnings per unit of partnership interest: | | | | |
| Income before extraordinary item | \$0.17 | \$0.16 | \$0.17 | \$0.16 |
| Net Income | 0.17 | 0.16 | 0.17 | 0.16 |
| | 1996 | | | |
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| ----- (in thousands, except unit data) | | | | |
| Revenues | \$59,914 | \$60,073 | \$66,318 | \$77,391 |
| Equity in income of Unconsolidated Joint Ventures | 13,276 | 12,628 | 13,432 | 12,417 |
| Income before extraordinary item | 20,868 | 18,500 | 20,940 | 23,786 |
| Net Income | 20,868 | 18,500 | 19,612 | 23,786 |
| Basic and diluted earnings per unit of partnership interest: | | | | |
| Income before extraordinary item | \$0.17 | \$0.15 | \$0.16 | \$0.18 |
| Net Income | 0.17 | 0.15 | 0.15 | 0.18 |

Note 16 - Subsequent Events

In January 1998, TRG redeemed a partner's 6.1 million units of partnership interest for approximately \$77.7 million (including costs). The redemption was funded through the use of an existing revolving credit facility.

Subsequent to December 31, 1997, Fairfax Company of Virginia L.L.C. (successor-in-interest to Fairfax Associates, a 50% owned Unconsolidated Joint Venture) completed a \$140 million, 6.60%, secured financing maturing in 2008. The net proceeds were used to extinguish an existing mortgage on Fair Oaks of approximately \$39 million and pay a prepayment penalty of approximately \$1.8 million. In addition, proceeds of \$5.6 million were used to close out a treasury lock agreement entered into in 1997, which resulted in an effective rate on the financing of approximately 7%. The remaining proceeds were distributed to the owners. TRG used its 50% share of the distribution to pay down its revolving credit facilities.

Schedule II
THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
 Valuation and Qualifying Accounts

For the years ended December 31, 1997, 1996, and 1995

(in thousands)

| | Additions | | | | |
|--------------------------------------|------------------------------------|-------------------------------------|---------------------------------|------------|------------------------------|
| | Balance at beginning of year | Charged to costs and expenses | Charged to other accounts | Write-offs | Balance at end of year |
| Year ended December 31, 1995: | | | | | |
| Allowance for doubtful receivables | \$ 502 | 818 | 0 | (939) | \$ 381 |
| | ===== | ===== | ===== | ===== | ===== |
| Development pre-construction reserve | \$ 8,348 | 6,814 | 0 | (4,964) | \$10,198 |
| | ===== | ===== | ===== | ===== | ===== |
| Year ended December 31, 1996: | | | | | |
| Allowance for doubtful receivables | \$ 381 | 1,295 | 42(1) | (1,325) | \$ 393 |
| | ===== | ===== | ===== | ===== | ===== |
| Development pre-construction reserve | \$10,198 | 8,501 | 0 | (6,223) | \$12,476 |
| | ===== | ===== | ===== | ===== | ===== |
| Year ended December 31, 1997: | | | | | |
| Allowance for doubtful receivables | \$ 393 | 1,027 | 0 | (1,006) | \$ 414 |
| | ===== | ===== | ===== | ===== | ===== |
| Development pre-construction reserve | \$12,476 | 5,454 | 0 | (1,870) | \$16,060 |
| | ===== | ===== | ===== | ===== | ===== |

- (1) Represents the balance of Fairlane's allowance for doubtful receivables as of the date of TRG's acquisition of additional interests in Fairlane. Subsequent to the acquisition date, the accounts of Fairlane have been consolidated in TRG's financial statements.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 1997
(in thousands)

Schedule III

| | Gross Amount at Which Carried at Close of Period | | | | | | | | | | Total Cost Net of A/D | |
|--|---|-------------------------------|---|------------------|--------------------------------------|--------------------|------------------|--------------------|-------|-------|-----------------------------|--|
| | Initial Cost to Company | | Cost | | Accumulated Depreciation (A/D) | | | | | | | |
| | Land | Buildings and Improvements | Capitalized Subsequent to Acquisition | Land | BI&E | Total | | | | | | |
| Taubman Shopping Centers: | | | | | | | | | | | | |
| Beverly Center, Los Angeles, CA | \$ 0 | \$ 131,187 | \$ 22,104 | \$ 0 | \$ 153,291 | \$ 153,291 | \$ 48,058 | \$ 105,233 | | | | |
| Biltmore, Phoenix, AZ | 18,000 | 96,864 | 8,320 | 18,000 | 105,184 | 123,184 | 9,390 | 113,794 | | | | |
| Briarwood, Ann Arbor, MI | 4,027 | 47,761 | 5,964 | 4,027 | 53,725 | 57,752 | 28,663 | 29,089 | | | | |
| Columbus City Center, Columbus, OH | 0 | 57,787 | 278 | 0 | 58,065 | 58,065 | 15,383 | 42,682 | | | | |
| Fairlane Town Center, Dearborn, MI | 14,067 | 88,023 | 771 | 14,067 | 88,794 | 102,861 | 9,869 | 92,992 | | | | |
| The Falls, Miami, FL | 25,479 | 131,347 | 0 | 25,479 | 131,347 | 156,826 | 229 | 156,597 | | | | |
| Hilltop, Richmond, CA | 2,522 | 36,139 | 7,788 | 2,522 | 43,927 | 46,449 | 16,740 | 29,709 | | | | |
| La Cumbre Plaza, Santa Barbara, CA | 0 | 23,048 | 39 | 0 | 23,087 | 23,087 | 844 | 22,243 | | | | |
| Lakeforest, Gaithersburg, MD | 4,047 | 18,137 | 7,245 | 4,047 | 25,382 | 29,429 | 16,107 | 13,322 | | | | |
| Marley Station, Glen Burnie, MD | 3,692 | 45,072 | 11,118 | 3,692 | 56,190 | 59,882 | 26,968 | 32,914 | | | | |
| Meadowood Mall, Reno, NV | 1,890 | 14,116 | 13,734 | 1,890 | 27,850 | 29,740 | 12,598 | 17,142 | | | | |
| Paseo Nuevo, Santa Barbara, CA | 0 | 35,210 | 385 | 0 | 35,595 | 35,595 | 1,832 | 33,763 | | | | |
| Regency Square, Richmond, VA | 21,702 | 103,062 | 0 | 21,702 | 103,062 | 124,764 | 980 | 123,784 | | | | |
| The Mall at Short Hills, Short Hills, NJ | 16,000 | 116,054 | 120,709 | 16,000 | 236,763 | 252,763 | 36,729 | 216,034 | | | | |
| Stoneridge, Pleasanton, CA | 882 | 25,265 | 16,496 | 882 | 41,761 | 42,643 | 23,644 | 18,999 | | | | |
| The Mall at Tuttle Crossing, Columbus, OH | 20,000 | 118,078 | 0 | 20,000 | 118,078 | 138,078 | 2,629 | 135,449 | | | | |
| Other: | | | | | | | | | | | | |
| Manager's Office Facilities | 0 | 0 | 23,505 | 0 | 23,505 | 23,505 | 17,796 | 5,709 | | | | |
| Peripheral Land | 6,630 | 0 | 5 | 6,630 | 5 | 6,635 | 0 | 6,635 | | | | |
| Construction in Process and Development Pre-construction Costs | 0 | 122,011 | 5,670 | 0 | 127,681 | 127,681 | 0 | 127,681 | | | | |
| Other | 0 | 1,120 | 0 | 0 | 1,120 | 1,120 | 199 | 921 | | | | |
| TOTAL | \$138,938 | \$1,210,281 | \$244,131 | \$138,938 | \$1,454,412 | \$1,593,350 | \$268,658 | \$1,324,692 | | | | |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== | |

| | Date of Completion of Construction or Acquisition | | | Depreciable Life | |
|--|--|-------|----------|---------------------|-------|
| | Encumbrances | | | Acquisition | Life |
| | | ----- | ----- | | |
| Taubman Shopping Centers: | | | | | |
| Beverly Center, Los Angeles, CA | \$146,000 | 1982 | 40 Years | | |
| Biltmore, Phoenix, AZ | 2,979 | 1994 | 40 Years | | |
| Briarwood, Ann Arbor, MI | 0 | 1973 | 33 Years | | |
| Columbus City Center, Columbus, OH | 8,022 | 1989 | 31 Years | | |
| Fairlane Town Center, Dearborn, MI | 0 | 1996 | 40 Years | | |
| The Falls, Miami, FL | 0 | 1997 | 40 Years | | |
| Hilltop, Richmond, CA | 607 | 1976 | 50 Years | | |
| La Cumbre Plaza, Santa Barbara, CA | 0 | 1996 | 40 Years | | |
| Lakeforest, Gaithersburg, MD | 0 | 1978 | 30 Years | | |
| Marley Station, Glen Burnie, MD | 0 | 1987 | 40 Years | | |
| Meadowood Mall, Reno, NV | 0 | 1979 | 40 Years | | |
| Paseo Nuevo, Santa Barbara, CA | 0 | 1996 | 40 Years | | |
| Regency Square, Richmond, VA | 0 | 1997 | 40 Years | | |
| The Mall at Short Hills, Short Hills, NJ | 0 | 1980 | 40 Years | | |
| Stoneridge, Pleasanton, CA | 76,019 | 1980 | 40 Years | | |
| The Mall at Tuttle Crossing, Columbus, OH | 0 | 1997 | 50 Years | | |
| Other: | | | | | |
| Manager's Office Facilities | 0 | | | | |
| Peripheral Land | 0 | | | | |
| Construction in Process and Development Pre-construction Costs | 42,241 | | | | |
| Other | 0 | | | | |
| TOTAL | \$275,868 | | | | |
| | ===== | ===== | ===== | ===== | ===== |

The changes in total real estate assets for the three years ended December 31, 1997 are as follows:

| | 1997 | 1996 | 1995 |
|----------------------------------|-------------|------------|------------|
| Balance, beginning of year | \$1,136,416 | \$ 926,207 | \$ 843,960 |
| Acquisitions | 358,227 | 150,522 | |
| New development and improvements | 142,420 | 59,237 | 85,109 |
| Disposals (1) | (43,713) | (3,808) | (2,862) |
| Transfers In, net (2) | | 4,258 | |

| | | | |
|----------------------|-------------|-------------|------------|
| Balance, end of year | \$1,593,350 | \$1,136,416 | \$ 926,207 |
| | ===== | ===== | ===== |

(Schedule III (cont.))

The changes in accumulated depreciation and amortization for the three years ended December 31, 1997 are as follows:

| | 1997 | 1996 | 1995 |
|----------------------------|-------------|-------------|-------------|
| Balance, beginning of year | \$(234,030) | \$(200,440) | \$(175,358) |
| Depreciation for year | (37,642) | (29,570) | (26,574) |
| Disposals | 3,014 | 1,290 | 1,492 |
| Transfers In (2) | (5,310) | | |
| | ----- | ----- | ----- |
| Balance, end of year | \$(268,658) | \$(234,030) | \$(200,440) |
| | ===== | ===== | ===== |

(1) 1997 disposal amount includes \$39,849 representing the net decrease in Tuttle Crossing's assets under capital lease.

(2) Primarily represents consolidation in 1996 of TRG's original 25% interest in Fairlane's assets (costs of acquiring the remaining 75% interest are included in Acquisitions above), net of transfers of pre-construction costs to construction in process of an Unconsolidated Joint Venture.

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**

**COMBINED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1997 AND 1996 AND
FOR EACH OF THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995**

F-40

INDEPENDENT AUDITORS' REPORT

Partners

The Taubman Realty Group Limited Partnership

We have audited the accompanying combined balance sheets of Unconsolidated Joint Ventures of The Taubman Realty Group Limited Partnership (the "Partnership") as of December 31, 1997 and 1996, and the related combined statements of operations, accumulated deficiency in assets, and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedules listed in the Index at Item 14. These financial statements and financial statement schedules are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of Unconsolidated Joint Ventures of The Taubman Realty Group Limited Partnership as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic combined financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Detroit, Michigan
February 18, 1998

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**

COMBINED BALANCE SHEET
(in thousands)

| | December 31 | |
|--|-------------|-------------|
| | 1997 | 1996 |
| | ---- | ---- |
| Assets: | | |
| Properties (Notes 2, 4 and 6) | \$ 829,640 | \$ 638,960 |
| Accumulated depreciation and amortization | 205,659 | 188,491 |
| | ----- | ----- |
| | \$ 623,981 | \$ 450,469 |
| Cash and cash equivalents | 36,875 | 25,914 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$314 and \$90 in 1997 and 1996 | 8,531 | 7,142 |
| Note receivable from Joint Venture Partner (Note 6) | 1,294 | 1,600 |
| Deferred charges and other assets (Notes 3 and 6) | 37,697 | 36,596 |
| | ----- | ----- |
| | \$ 708,378 | \$ 521,721 |
| | ===== | ===== |
| Liabilities: | | |
| Mortgage notes payable (Note 4) | \$ 874,472 | \$ 721,809 |
| Other notes payable (Note 4) | 884 | 2,353 |
| Capital lease obligations (Note 5) | 6,509 | 5,000 |
| Accounts payable and other liabilities | 94,801 | 51,691 |
| | ----- | ----- |
| | \$ 976,666 | \$ 780,853 |
| Commitments (Note 5) | | |
| Accumulated deficiency in assets: | | |
| TRG | \$(133,680) | \$(134,986) |
| Joint Venture Partners | (134,608) | (124,146) |
| | ----- | ----- |
| | \$(268,288) | \$(259,132) |
| | ----- | ----- |
| | \$ 708,378 | \$ 521,721 |
| | ===== | ===== |

See notes to financial statements.

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**

COMBINED STATEMENT OF OPERATIONS
(in thousands)

| | Year Ended December 31 | | |
|--|------------------------|-----------|-----------|
| | 1997 | 1996 | 1995 |
| Revenues: | | | |
| Minimum rents | \$155,912 | \$157,212 | \$166,244 |
| Percentage rents | 3,057 | 3,951 | 3,629 |
| Expense recoveries | 89,653 | 95,244 | 101,455 |
| Other | 10,013 | 8,930 | 11,444 |
| Gain on disposition of Bellevue (Note 1) | | | 4,408 |
| | ----- | ----- | ----- |
| | \$258,635 | \$265,337 | \$287,180 |
| | ----- | ----- | ----- |
| Operating costs: | | | |
| Recoverable expenses (Note 6) | \$ 76,493 | \$ 81,799 | \$ 88,250 |
| Other operating (Note 6) | 17,638 | 18,365 | 18,609 |
| Interest expense (Note 4) | 54,018 | 52,994 | 57,857 |
| Depreciation and amortization | 24,180 | 23,837 | 25,471 |
| | ----- | ----- | ----- |
| | \$172,329 | \$176,995 | \$190,187 |
| | ----- | ----- | ----- |
| Income before extraordinary items | \$ 86,306 | \$ 88,342 | \$ 96,993 |
| Extraordinary items (Notes 1 and 4) | | | 30,761 |
| | ----- | ----- | ----- |
| Net Income | \$ 86,306 | \$ 88,342 | \$127,754 |
| | ===== | ===== | ===== |
| Allocation of net income: | | | |
| Attributable to TRG | \$ 46,857 | \$ 47,413 | \$ 68,498 |
| Attributable to Joint Venture Partners | 39,449 | 40,929 | 59,256 |
| | ----- | ----- | ----- |
| | \$ 86,306 | \$ 88,342 | \$127,754 |
| | ===== | ===== | ===== |

See notes to financial statements.

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**

COMBINED STATEMENT OF ACCUMULATED DEFICIENCY IN ASSETS
Years ended December 31, 1997, 1996 and 1995
(in thousands)

| | Joint Venture | | |
|---|---------------|-------------|-------------|
| | TRG | Partners | Total |
| | --- | ----- | ----- |
| Balance, January 1, 1995 | \$(165,328) | \$(167,603) | \$(332,931) |
| Cash distributions | (53,287) | (49,413) | (102,700) |
| Net income | 68,498 | 59,256 | 127,754 |
| | ----- | ----- | ----- |
| Balance, December 31, 1995 | \$(150,117) | \$(157,760) | \$(307,877) |
| Cash contributions | 14,457 | 24,958 | 39,415 |
| Non-cash contributions (Note 1) | 4,797 | 8,050 | 12,847 |
| Cash distributions | (55,146) | (51,154) | (106,300) |
| TRG purchase of Fairlane interest (Note 1) | 3,610 | 10,831 | 14,441 |
| Net income | 47,413 | 40,929 | 88,342 |
| | ----- | ----- | ----- |
| Balance, December 31, 1996 | \$(134,986) | \$(124,146) | \$(259,132) |
| Cash contributions | 18,822 | 9,800 | 28,622 |
| Cash distributions | (64,373) | (59,711) | (124,084) |
| Net income | 46,857 | 39,449 | 86,306 |
| | ----- | ----- | ----- |
| Balance, December 31, 1997 | \$(133,680) | \$(134,608) | \$(268,288) |
| | ===== | ===== | ===== |

See notes to financial statements.

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**

COMBINED STATEMENT OF CASH FLOWS
(in thousands)

| | Year Ended December 31 | | |
|---|------------------------|-------------------|-------------------|
| | 1997 | 1996 | 1995 |
| Cash Flows From Operating Activities: | | | |
| Income before extraordinary items | \$ 86,306 | \$ 88,342 | \$ 96,993 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 24,180 | 23,837 | 25,471 |
| Provision for losses on accounts receivable | 697 | 1,303 | 974 |
| Gains on sales of land | (2,748) | | (1,303) |
| Gain on disposition of Bellevue (Note 1) | | | (4,408) |
| Other | 3,806 | 2,922 | 2,493 |
| Increase (decrease) in cash attributable to changes in assets and liabilities: | | | |
| Receivables, deferred charges and other assets | (7,760) | (1,821) | (10,128) |
| Accounts payable and other liabilities | 43,110 | 4,841 | 4,258 |
| Net Cash Provided By Operating Activities | <hr/> \$ 147,591 | <hr/> \$ 119,424 | <hr/> \$ 114,350 |
| Cash Flows From Investing Activities: | | | |
| Additions to properties | \$(190,188) | \$ (97,137) | \$ (48,320) |
| Restricted cash for expansion | | 1,309 | 40,879 |
| Proceeds from sales of land | 3,452 | | 1,390 |
| Net Cash Used In Investing Activities | <hr/> \$(186,736) | <hr/> \$ (95,828) | <hr/> \$ (6,051) |
| Cash Flows From Financing Activities: | | | |
| Debt proceeds | \$ 158,255 | \$ 20,529 | \$ 235,030 |
| Debt payments | (8,267) | (2,670) | (6,665) |
| Extinguishment of debt | | | (189,705) |
| Debt issuance costs | (4,420) | | (6,198) |
| Cash contributions from partners | 28,622 | 39,415 | |
| Cash distributions to partners | (124,084) | (106,300) | (102,700) |
| Net Cash Provided By (Used In) Financing Activities | <hr/> \$ 50,106 | <hr/> \$ (49,026) | <hr/> \$ (70,238) |
| Net Increase (Decrease) In Cash | \$ 10,961 | \$ (25,430) | \$ 38,061 |
| Cash and Cash Equivalents at Beginning of Year | 25,914 | 51,344 | 13,283 |
| Cash and Cash Equivalents at End of Year | <hr/> \$ 36,875 | <hr/> \$ 25,914 | <hr/> \$ 51,344 |

See notes to financial statements.

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**

**NOTES TO COMBINED FINANCIAL STATEMENTS
Three Years Ended December 31, 1997**

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The Taubman Realty Group Limited Partnership (TRG) engages in the ownership, management, leasing, acquisition, development and expansion of regional retail shopping centers (Taubman Shopping Centers) and interests therein. TRG has engaged the Manager (The Taubman Company Limited Partnership, which is approximately 99% beneficially owned by TRG) to provide property management and leasing services for the Taubman Shopping Centers and to provide corporate, development, and acquisition services. For financial statement reporting purposes, the accounts of Taubman Shopping Centers owned through joint ventures with third parties that are not controlled (Unconsolidated Joint Ventures) have been combined in these financial statements. Generally, net profits and losses of the Unconsolidated Joint Ventures are allocated to TRG and the outside partners (Joint Venture Partners) in accordance with their ownership percentages.

Dollar amounts presented in tables within the notes to the combined financial statements are stated in thousands.

Investments in Unconsolidated Joint Ventures

TRG's interest in each of the Unconsolidated Joint Ventures at December 31, 1997, is as follows:

| Unconsolidated Joint Venture | Taubman Shopping Center | TRG's % Ownership |
|--|-------------------------|-------------------|
| Arizona Mills, L.L.C. | Arizona Mills | 37% |
| Fairfax Associates | Fair Oaks | 50 |
| Lakeside Mall Limited Partnership | Lakeside | 50 |
| Rich-Taubman Associates | Stamford Town Center | 50 |
| Taubman-Cherry Creek Limited Partnership | Cherry Creek | 50 |
| Twelve Oaks Mall Limited Partnership | Twelve Oaks Mall | 50 |
| West Farms Associates | Westfarms | 79 |
| Woodfield Associates | Woodfield | 50 |
| Woodland | Woodland | 50 |

Arizona Mills, L.L.C. developed Arizona Mills, a value super-regional mall in Tempe, Arizona, which opened in November 1997. TRG's ownership interest in Arizona Mills, L.L.C. increased in January 1997 to 37% from 35% as a result of Arizona Mills, L.L.C.'s redemption of a former owner's 5% interest for \$2.8 million. The former owner is an affiliate of a partner in TRG. In 1996, Arizona Mills, L.L.C. purchased for \$24.8 million approximately 116 acres of land on which the Center was constructed from an affiliate of a partner in TRG and of a former owner in Arizona Mills. Also in 1996, TRG and the other owners of Arizona Mills contributed non-cash pre-construction costs related to this center totaling \$12.8 million.

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

In July 1996, TRG completed transactions that resulted in it acquiring the 75% interest in Fairlane Town Center (Fairlane) previously held by a Joint Venture Partner. TRG also assumed mortgage debt of approximately \$26 million, representing the former Joint Venture Partner's beneficial interest in the \$34.6 million mortgage encumbering the property. The accounts of Fairlane are included in these combined financial statements until the acquisition date. On the acquisition date, the book values of Fairlane's assets and liabilities were approximately \$25 million and \$39 million, respectively.

In December 1995, the bank group holding the \$99.5 million nonrecourse mortgage encumbering Bellevue Center acquired title to the Center through a nonjudicial foreclosure sale. The mortgage matured on November 1, 1995. TRG ceased to recognize the results of Bellevue Associates (Bellevue), TRG's 60% owned Unconsolidated Joint Venture that owned the Center, as of November 1, 1995, and, accordingly, the accounts of Bellevue Associates are not included in these combined financial statements from that date.

As a result of the foreclosure and debt extinguishment, Bellevue recognized in 1995 an extraordinary gain of approximately \$31.4 million, representing the difference between the carrying value of the debt and the fair value of the Center, net of related transaction costs, and an ordinary gain of approximately \$4.4 million, representing the excess of the fair value of the Center over its carrying value. The extinguishment of the debt and write off of the Center's carrying value represent non-cash transactions.

Revenue Recognition

Shopping center space is generally leased to specialty retail tenants under short and intermediate term leases which are accounted for as operating leases. Minimum rents are recognized on an accrual basis as earned, the result of which does not differ materially from a straight-line method. Percentage rents are recognized on an accrual basis as earned. Expense recoveries, which include an administrative fee, are recognized as revenue in the period applicable costs are chargeable to tenants.

Depreciation and Amortization

Buildings, improvements and equipment, stated at cost, are depreciated on straight-line or double-declining balance bases over the estimated useful lives of the assets which range from 3 to 55 years. Tenant allowances and deferred leasing costs are amortized on a straight-line basis over the lives of the related leases.

Capitalization

Costs related to the acquisition, development, construction, and improvement of properties are capitalized. Interest costs are capitalized until construction is substantially complete. Properties are reviewed for impairment if events or changes in circumstances indicate that the carrying amounts of the properties may not be recoverable.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with a maturity of 90 days or less at the date of purchase.

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)**

Deferred Charges

Direct financing and interest rate hedging costs are deferred and amortized over the terms of the related agreements as a component of interest expense. Direct costs related to leasing activities are capitalized and amortized on a straight-line basis over the lives of the related leases. All other deferred charges are amortized on a straight-line basis over the terms of the agreements to which they relate.

Interest Rate Hedging Agreements

Premiums paid for interest rate caps are amortized to interest expense over the terms of the cap agreements. Amounts received under the cap agreements are accounted for on an accrual basis, and recognized as a reduction of interest expense. The differential to be paid or received on swap agreements is accounted for on an accrual basis and recognized as an adjustment to interest expense.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments:

The carrying value of cash and cash equivalents, accounts and notes receivable, and accounts payable approximates fair value due to the short maturity of these instruments.

The fair value of mortgage notes and other notes payable is estimated based on quoted market prices if available, or on the current rates available to the Unconsolidated Joint Ventures for debt of similar terms and maturity and the assumption that debt will be prepaid at the earliest possible date.

The fair value of interest rate hedging instruments is the amount the Unconsolidated Joint Venture would pay or receive to terminate the agreement at the reporting date, taking into account current interest rates.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to 1997 classifications.

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

Note 2 - Properties

Properties, at December 31, 1997 and 1996, are summarized as follows:

| | 1997 | 1996 |
|---------------------------------------|-----------|-----------|
| Land | \$ 45,549 | \$ 43,477 |
| Buildings, improvements and equipment | 753,859 | 476,283 |
| Construction in process | 27,443 | 115,953 |
| Peripheral land | 2,789 | 3,247 |
| | ----- | ----- |
| | \$829,640 | \$638,960 |
| | ===== | ===== |

Depreciation expense for 1997, 1996 and 1995 was \$18.7 million, \$18.0 million and \$18.4 million. Peripheral land primarily consists of undeveloped land generally adjacent to the Taubman Shopping Centers. Construction in process includes costs related to expansions and other improvements at various centers. Assets under capital lease of \$6.5 million and \$5.0 million at December 31, 1997 and 1996, respectively, are included in the table above in buildings, improvements and equipment.

Note 3 - Deferred Charges and Other Assets

Deferred charges and other assets at December 31, 1997 and 1996 are summarized as follows:

| | 1997 | 1996 |
|--------------------------|-----------|-----------|
| Leasing | \$ 41,568 | \$ 39,924 |
| Accumulated amortization | (20,562) | (19,298) |
| | ----- | ----- |
| Deferred financing, net | \$ 21,006 | \$ 20,626 |
| Other, net | 12,442 | 11,810 |
| | 4,249 | 4,160 |
| | ----- | ----- |
| | \$ 37,697 | \$ 36,596 |
| | ===== | ===== |

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

Note 4 - Debt

Mortgage Notes Payable

Mortgage notes payable at December 31, 1997 and 1996 consists of the following:

| Center | 1997 | 1996 | Interest Rate | Maturity Date | Balance Due on Maturity |
|----------------------|-----------|-----------|---------------|---------------|-------------------------|
| Arizona Mills | \$121,991 | | Floating | 02/01/02 | \$121,991 |
| Cherry Creek | 130,000 | \$130,000 | Floating | 08/01/98 | 130,000 |
| Fair Oaks | 39,119 | 39,865 | 9.00% | 12/01/16 | 0 |
| Lakeside | 88,000 | 88,000 | 6.47% | 12/15/00 | 88,000 |
| Stamford Town Center | 55,630 | 56,291 | 11.69% | 12/01/17 | 0 |
| Twelve Oaks Mall | 49,940 | 49,924 | Floating | 10/15/01 | 50,000 |
| Westfarms | 100,000 | 100,000 | 7.85% | 07/01/02 | 100,000 |
| Westfarms | 51,792 | 19,729 | Floating | 07/01/02 | 51,792 |
| Woodfield | 172,000 | 172,000 | Floating | 10/13/98 | 172,000 |
| Woodland | 66,000 | 66,000 | 8.20% | 05/15/04 | 66,000 |
| | ----- | ----- | | | |
| | \$874,472 | \$721,809 | | | |
| | ===== | ===== | | | |

The Arizona Mills loan is a construction facility with a maximum availability of \$145 million. The rate is capped at 9.5% until maturity, plus credit spread. The payment of principal and interest is guaranteed by each of the owners of Arizona Mills to the extent of its ownership percentage. The loan agreement provides for the reduction of the amount guaranteed as certain center performance and valuation criteria are met.

The other Unconsolidated Joint Ventures with floating rate debt have entered into interest rate agreements to reduce their exposure to increases in interest rates. The rate on Cherry Creek's loan is capped at 6.5% through January 1998 and from February 1998 to maturity at 7%, plus credit spread, based on one month LIBOR. The loan can be extended up to an additional three years. The rate on the Twelve Oaks loan is capped at 8.55% until maturity, plus credit spread, based on one month LIBOR. The interest rate on \$93.5 million of the Woodfield loan was swapped to maturity at an effective annual rate of 5.4%. The rate on the balance of the Woodfield financing, which has been capped at a maximum annual rate, including credit spread, of 6.5% to maturity by an interest rate agreement, floats at a rate of three month LIBOR plus 0.5%. The Westfarms balance of \$51.8 million represents borrowings under a construction facility with a maximum availability of \$55 million. The rate on the construction facility is capped until maturity at 6.5%, plus credit spread.

The Stamford note also requires payment of additional interest (\$1.3 million, \$1.6 million, and \$1.4 million in 1997, 1996, and 1995) based on operating results.

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

Scheduled principal payments on mortgage debt are as follows as of December 31, 1997:

| | |
|------------|-----------|
| 1998 | \$303,559 |
| 1999 | 1,727 |
| 2000 | 89,914 |
| 2001 | 52,121 |
| 2002 | 276,135 |
| Thereafter | 151,016 |
| | ----- |
| Total | \$874,472 |
| | ===== |

Other Notes Payable

Other notes payable at December 31, 1997 and 1996 consists of the following:

1997 1996

Notes payable to banks, line of credit, interest generally at prime (8.5% at December 31, 1997), maximum borrowings available up to \$7.5 million to fund tenant loans, allowances and buyouts

| | | |
|----------------------|--------|---------|
| and working capital. | \$ 832 | \$2,293 |
| Other | 52 | 60 |
| | ----- | ----- |
| | \$ 884 | \$2,353 |
| | ===== | ===== |

Interest Expense

Interest paid on mortgages and other notes payable in 1997, 1996 and 1995, net of amounts capitalized of \$9.4 million, \$4.8 million, and \$3.5 million, approximated \$48.7 million, \$49.9 million, and \$55.6 million.

Extraordinary Items

In 1995, Bellevue Associates recognized an extraordinary gain of approximately \$31.4 million (Note 1). The extraordinary charge to income totaling \$0.6 million in 1995 primarily represented a prepayment penalty relating to the extinguishment of mortgage debt.

Interest Rate Hedging Instruments

Certain of the Unconsolidated Joint Ventures have entered into interest rate swap and cap agreements to reduce their exposure to changes in the cost of floating rate debt. The terms of the derivative agreements are equivalent to the notional amounts, reset dates and rate bases of the underlying hedged debt to assure the effectiveness of the derivatives in reducing interest rate risk. These Unconsolidated Joint Ventures are exposed to credit risk in the event of nonperformance by their counterparties to the agreements, but have no off-balance sheet risk of loss. These Unconsolidated Joint Ventures anticipate that their counterparties will be able to fully perform their obligations under the agreements.

In 1997, Fairfax Associates entered into a treasury lock agreement to effectively fix the rate on its anticipated refinancing of the mortgage on Fair Oaks. At December 31, 1997, Fairfax Associates would have paid \$4.2 million to close out the agreement (Note 7).

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

Fair Value of Debt Instruments

The estimated fair values of financial instruments at December 31, 1997 and 1996 are as follows:

| | December 31 | | | |
|----------------------------|-------------------|---------------|-------------------|---------------|
| | 1997 | | 1996 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Mortgage notes payable | \$874,472 | \$910,250 | \$721,809 | \$757,438 |
| Other notes payable | 884 | 884 | 2,353 | 2,353 |
| Interest rate instruments: | | | | |
| In a receivable position | 4,787 | 2,164 | 4,065 | 3,263 |
| In a payable position | | (4,241) | | |

Note 5 - Leases

Shopping center space is leased to tenants and certain anchors pursuant to lease agreements. Tenant leases typically provide for guaranteed minimum rent, percentage rent and other charges to cover certain operating costs. Future minimum rent under operating leases in effect at December 31, 1997 for operating centers, assuming no new or renegotiated leases or option extensions on anchor agreements, is summarized as follows:

| | |
|------------|-----------|
| 1998 | \$177,731 |
| 1999 | 171,664 |
| 2000 | 158,214 |
| 2001 | 141,862 |
| 2002 | 124,068 |
| Thereafter | 377,803 |

Minimum rent received from former related parties was \$0.9 million in 1995. There are no related party amounts in the table above.

One Unconsolidated Joint Venture, as lessee, has a ground lease expiring in 2083. Rental payments under the lease were \$1.8 million, \$1.7 million and \$1.7 million in each of 1997, 1996 and 1995. All of the ground lease rental payments and scheduled future payments represent minimum rental expense payable to its Joint Venture Partner.

The following is a schedule of future minimum rental payments required under the lease:

| | |
|------------|----------|
| 1998 | \$ 1,984 |
| 1999 | 1,984 |
| 2000 | 1,984 |
| 2001 | 1,984 |
| 2002 | 2,058 |
| Thereafter | 656,417 |

**UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**
NOTES TO COMBINED FINANCIAL STATEMENTS -- (Continued)

Capital Lease Obligations

Certain Unconsolidated Joint Ventures have entered into lease agreements for property improvements with three to five year terms. As of December 31, 1997, future minimum lease payments for these capital leases are as follows:

| | |
|-----------------------------------|----------|
| 1998 | \$ 1,976 |
| 1999 | 1,976 |
| 2000 | 1,933 |
| 2001 | 1,803 |
| 2002 | 65 |
| | ----- |
| Total minimum lease payments | \$ 7,753 |
| Less amount representing interest | (1,244) |
| | ----- |
| Capital lease obligations | \$ 6,509 |
| | ===== |

Note 6 - Transactions with Affiliates

Charges from the Manager under various written agreements were as follows for the years ended December 31:

| | 1997 | 1996 | 1995 |
|-----------------------------------|-----------------|-----------------|-----------------|
| | ---- | ---- | ---- |
| Management and leasing services | \$17,352 | \$16,720 | \$18,668 |
| Security and maintenance services | 9,468 | 11,608 | 15,468 |
| Development services | 4,661 | 5,410 | 5,708 |
| | ----- | ----- | ----- |
| | \$31,481 | \$33,738 | \$39,844 |
| | ===== | ===== | ===== |

TRG is a one-third owner of an entity providing management, leasing, and development services to Arizona Mills, L.L.C. Charges from this entity were \$9.7 million in 1997.

Westfarms previously loaned \$2.4 million to one of its Joint Venture Partners to purchase a portion of a deceased Joint Venture Partner's interest. The note bears interest at approximately 7.9% and requires monthly principal payments of \$25 thousand, plus accrued interest, with the final payment due in 2001. The balance at December 31, 1997 and 1996 was \$1.3 million and \$1.6 million, respectively. Interest income related to the loan was approximately \$0.1 million in 1997, 1996, and 1995.

Other related party transactions are described in Notes 1 and 5.

Note 7 - Subsequent Event

Subsequent to December 31, 1997, Fairfax Company of Virginia L.L.C. (successor-in-interest to Fairfax Associates) completed a \$140 million, 6.60%, secured financing maturing in 2008. The net proceeds were used to extinguish an existing mortgage on Fair Oaks of approximately \$39 million and pay a prepayment penalty of approximately \$1.8 million. In addition, proceeds of \$5.6 million were used to close out a treasury lock agreement entered into in 1997 (Note 4), which resulted in an effective rate on the financing of approximately 7%. The remaining proceeds were distributed to the owners.

UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP
 LIMITED PARTNERSHIP
 Valuation and Qualifying Accounts
 For the years ended December 31, 1997, 1996 and 1995
 (in thousands)

| | Additions | | | | |
|--------------------------------------|------------------------------------|-------------------------------------|---------------------------------|------------------|------------------------------|
| | Balance at beginning of year | Charged to costs and expenses | Charged to other accounts | Write-offs | Balance at end of year |
| | ----- | ----- | ----- | ----- | ----- |
| Year ended December 31, 1995: | | | | | |
| Allowance for doubtful receivables | \$ 402 ===== | 974 ===== | 0 ===== | (1,219) ===== | \$ 157 ===== |
| Year ended December 31, 1996: | | | | | |
| Allowance for doubtful receivables | \$ 157 ===== | 1,303 ===== | 0 ===== | (1,370) ===== | \$ 90 ===== |
| Year ended December 31, 1997: | | | | | |
| Allowance for doubtful receivables | \$ 90 ===== | 697 ===== | 0 ===== | (473) ===== | \$ 314 ===== |

UNCONSOLIDATED JOINT VENTURES OF THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
 REAL ESTATE AND ACCUMULATED DEPRECIATION
 December 31, 1997
 (in thousands)

| | Gross Amount at Which Carried at Close of Period | | | | | | | | Total Cost Net of A/D | |
|---------------------------------------|---|-------------------------------|---|-----------------|------------------|------------------|--------------------------------------|------------------|-----------------------------|--|
| | Initial Cost to Company | | Cost | | | | | | | |
| | Land | Buildings and Improvements | Capitalized Subsequent to Acquisition | Land | BI&E | Total | Accumulated Depreciation (A/D) | | | |
| Taubman Shopping Centers: | | | | | | | | | | |
| Arizona Mills, Tempe, AZ | \$22,017 | \$162,406 | \$ 0 | \$22,017 | \$162,406 | \$184,423 | \$ 1,371 | \$183,052 | | |
| Cherry Creek, Denver, CO | 0 | 103,795 | 20,457 | 0 | 124,252 | 124,252 | 34,043 | 90,209 | | |
| Fair Oaks, Fairfax, VA | 5,167 | 36,182 | 10,638 | 5,167 | 46,820 | 51,987 | 27,736 | 24,251 | | |
| Lakeside, Sterling Heights, MI | 2,667 | 21,182 | 10,110 | 2,667 | 31,292 | 33,959 | 21,277 | 12,682 | | |
| Stamford Town Center, Stamford, CT | 1,977 | 43,461 | 11,318 | 1,977 | 54,779 | 56,756 | 26,950 | 29,806 | | |
| Twelve Oaks Mall, Novi, MI | 803 | 28,787 | 14,786 | 803 | 43,573 | 44,376 | 23,500 | 20,876 | | |
| Westfarms, Farmington, CT | 5,287 | 38,657 | 111,001 | 5,287 | 149,658 | 154,945 | 22,418 | 132,527 | | |
| Woodfield, Schaumburg, IL | 5,264 | 18,450 | 94,034 | 5,264 | 112,484 | 117,748 | 30,552 | 87,196 | | |
| Woodland, Grand Rapids, MI | 2,367 | 19,078 | 9,517 | 2,367 | 28,595 | 30,962 | 17,812 | 13,150 | | |
| Other Properties: | | | | | | | | | | |
| Peripheral land | 2,789 | 0 | 0 | 2,789 | 0 | 2,789 | 0 | 2,789 | | |
| Construction in Process | 0 | 0 | 27,443 | 0 | 27,443 | 27,443 | 0 | 27,443 | | |
| TOTAL | \$48,338 | \$471,998 | \$309,304 | \$48,338 | \$781,302 | \$829,640 | \$205,659 | \$623,981 | | |
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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TAUBMAN CENTERS, INC.

Date: March 27, 1998

By: /s/ ROBERT S. TAUBMAN

Robert S. Taubman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature ----- | Title ----- | Date ----- |
|--|--|----------------|
| * | Chairman of the Board | March 27, 1998 |
| A. Alfred Taubman | Vice Chairman of the Board | March 27, 1998 |
| * | President, Chief Executive Officer, and Director | March 27, 1998 |
| /s/ ROBERT S. TAUBMAN ----- Robert S. Taubman | Chief Financial Officer and Director | March 27, 1998 |
| /s/ LISA A. PAYNE ----- Lisa A. Payne | Vice President, Controller and Chief Accounting Officer | March 27, 1998 |
| /s/ ESTHER R. BLUM ----- Esther R. Blum | Director | March 27, 1998 |
| * | Director | March 27, 1998 |
| Graham Allison | Director | March 27, 1998 |
| * | Director | March 27, 1998 |
| Claude M. Ballard | Director | March 27, 1998 |
| * | Director | March 27, 1998 |
| Allan J. Bloostein | Director | March 27, 1998 |
| * | Director | March 27, 1998 |
| Jerome A. Chazen | Director | March 27, 1998 |
| * | Director | March 27, 1998 |
| Thomas E. Dobrowski | Director | March 27, 1998 |
| * | Director | March 27, 1998 |
| S. Parker Gilbert | Director | March 27, 1998 |
| * | Director | March 27, 1998 |
| W. Allen Reed | | |
| *By: /s/ LISA A. PAYNE ----- Lisa A. Payne, as Attorney-in-Fact | | |

EXHIBIT INDEX

Exhibit Number

3(a) -- By-Laws of Taubman Centers, Inc., as amended (incorporated herein by reference to Exhibit 3 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996).

3(b) -- Form of Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 4(a) to the Registrant's Post-Effective Amendment No. 1 to Form S-3 Registration Statement No. 333-35433).

4(a) -- Amended and Restated Indenture dated as of March 4, 1994 between The Taubman Realty Group Limited Partnership and Chemical Bank, as Trustee (incorporated herein by reference to Exhibit 4(a) filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 ("1993 Form 10-K")).

4(b) -- Officers' Certificate designating the terms of TRG's 7% Notes due 2003 (incorporated herein by reference to Exhibit 4(d) filed with the 1993 Form 10-K).

4(c) -- Officers' Certificate designating the terms of TRG's 8% Notes due 1999 (incorporated herein by reference to Exhibit 4(g) filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 (the "1994 Second Quarter Form 10-Q").

4(d) -- Indenture dated as of July 22, 1994 among Beverly Finance Corp., La Cienega Associates, the Borrower, and Morgan Guaranty Trust Company of New York, as Trustee (incorporated herein by reference to Exhibit 4(h) filed with the 1994 Second Quarter Form 10-Q).

4(e) -- Deed of Trust, with assignment of Rents, Security Agreement and Fixture Filing, dated as of July 22, 1994, from La Cienega Associates, Grantor, to Commonwealth Land Title Company, Trustee, for the benefit of Morgan Guaranty Trust Company of New York, as Trustee, Beneficiary (incorporated herein by reference to Exhibit 4(i) filed with the 1994 Second Quarter Form 10-Q).

4(f) -- TRG's Medium-Term Notes due June 15, 2002 (incorporated herein by reference to Exhibit 4(j) filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995).

4(g) -- Amended and Restated Revolving Loan Agreement dated as of March 5, 1997 (the "Revolving Loan Agreement"), among The Taubman Realty Group Limited Partnership, as Borrower, Union Bank of Switzerland, (New York Branch), as a Bank, the other Banks signatory to the Revolving Loan Agreement, each as a Bank, and Union Bank of Switzerland (New York Branch), as Administrative Agent (incorporated herein by reference to Exhibit 4, filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (the "1997 First Quarter Form 10-Q").

4(h) -- Form of Contribution and Acceptance of Preferred Equity, Designation of Series A Preferred Equity, and Establishment of Preferred Rate (incorporated herein by reference to Exhibit 4(d) to the Registrant's Post-Effective Amendment No. 1 to Form S-3 Registration Statement No. 333-35433).

4(i) -- Construction Loan Agreement among Taubman MacArthur Associates Limited Partnership, as Borrower, and Bayerische Hypotheken - Und Wechsel - Bank, Aktiengesellschaft, New York Branch and The Other Banks and Financial Institutions from time to time Parties hereto, as Lenders and Bayerische Hypotheken - Und Wechsel - Bank Aktiengesellschaft, New York Branch, as Agent, dated as of October 28, 1997.

EXHIBIT INDEX

Exhibit Number

4(j) -- Loan Agreement dated as of November 25, 1997 among The Taubman Realty Group Limited Partnership, as Borrower, Fleet National Bank, as a Bank, PNC Bank, National Association, as a Bank, the other Banks signatory hereto, each as a Bank, and PNC Bank, National Association, as Administrative Agent.

10(a) -- Form of The Amended and Restated Agreement of Limited Partnership of The Taubman Realty Group Limited Partnership, as amended through September 30, 1997 (incorporated herein by reference to Exhibit 4(c) to the Registrant's Post -Effective Amendment No. 1 to Form S-3 Registration Statement No. 333-35433).

* 10(b) -- The Taubman Realty Group Limited Partnership 1992 Incentive Option Plan, as Amended and Restated Effective as of September 30, 1997.

10(c) -- Corporate Services Agreement between Taubman Centers, Inc. and The Taubman Company Limited Partnership (the "Manager") (incorporated herein by reference to Exhibit 10(c) filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992 (the "1992 Form 10-K").

10(d) -- Registration Rights Agreement among Taubman Centers, Inc., General Motors Hourly-Rate Employes Pension Trust, General Motors Retirement Program for Salaried Employes Trust, and State Street Bank & Trust Company, as trustee of the AT&T Master Pension Trust (incorporated herein by reference to Exhibit 10(e) filed with the 1992 Form 10-K).

10(e) -- Master Services Agreement between The Taubman Realty Group Limited Partnership and the Manager (incorporated herein by reference to Exhibit 10(f) filed with the 1992 Form 10-K).

10(f) -- Cash Tender Agreement among Taubman Centers, Inc., A. Alfred Taubman, acting not individually but as Trustee of The A. Alfred Taubman Restated Revocable Trust, as amended and restated in its entirety by Instrument dated January 10, 1989 (as the same has been and may hereafter be amended from time to time), TRA Partners, and GMPTS Limited Partnership (incorporated herein by reference to Exhibit 10(g) filed with the 1992 Form 10-K).

* 10(g) -- Supplemental Retirement Savings Plan (incorporated herein by reference to Exhibit 10(i) filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1994).

* 10(h) -- The Taubman Company Long-Term Performance Compensation Plan (incorporated herein by reference to Exhibit 10(k) filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).

* 10(i) -- Employment agreement between The Taubman Company Limited Partnership and Lisa A. Payne (incorporated herein by reference to Exhibit 10 filed with the 1997 First Quarter Form 10-Q).

* 10(j) -- Amended and Restated Continuing Offer, dated as of September 30, 1997 (incorporated herein by reference to Exhibit 10 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).

12(a) -- Statement Re: Computation of Taubman Centers, Inc. Ratio of Earnings to Preferred Stock Dividends.

12(b) -- Statement Re: Computation of TRG's Ratios of Earnings to Fixed Charges and Preferred Distributions.

EXHIBIT INDEX

Exhibit Number

21 -- Subsidiaries of The Taubman Realty Group Limited Partnership.

23 -- Consent of Deloitte & Touche LLP.

24 -- Powers of Attorney.

27 -- Financial Data Schedule.

99(a) -- Purchase and Sale Agreement By and Between One Federal Street Joint Venture and The Taubman Realty Group Limited Partnership, dated July 16, 1997 (Purchase and Sale Agreement) (without exhibits or schedules, which will be supplementally provided to the Securities and Exchange Commission upon its request) (incorporated herein by reference to Exhibit 99(a) filed with the Registrant's Current Report on Form 8-K dated September 4, 1997).

99(b) -- First Amendment to Purchase and Sale Agreement, dated August 15, 1997 (without exhibits or schedules, which will be supplementally provided to the Securities and Exchange Commission upon its request) (incorporated herein by reference to Exhibit 99(b) filed with the Registrant's Current Report on Form 8-K dated September 4, 1997).

99(c) -- Agreement of Purchase and Sale By and Between The Falls Limited L.P. and The Taubman Realty Group Limited Partnership, dated November 5, 1997, as amended by First Amendment to Agreement of Purchase and Sale entered into on November 6, 1997, and Second Amendment to Agreement of Purchase and Sale entered into on November 13, 1997 (without exhibits or schedules, which will be supplementally provided to the Securities and Exchange Commission upon its request).

* A management contract or compensatory plan or arrangement required to be filed pursuant to Item 14(c) of Form 10-K.

CONSTRUCTION LOAN AGREEMENT

among

TAUBMAN MACARTHUR ASSOCIATES LIMITED PARTNERSHIP,
as Borrower,

**BAYERISCHE HYPOTHEKEN- UND WECHSEL-BANK,
AKTIENGESELLSCHAFT, NEW YORK BRANCH and
THE OTHER BANKS AND FINANCIAL INSTITUTIONS
FROM TIME TO TIME PARTIES HERETO,**
as Lenders,

and

**BAYERISCHE HYPOTHEKEN- UND WECHSEL-BANK
AKTIENGESELLSCHAFT, NEW YORK BRANCH,
as Agent**

Dated as of October 28, 1997

TABLE OF CONTENTS

| | Page |
|---|-----------|
| SECTION 1. DEFINITIONS..... | 2 |
| 1.1 Defined Terms..... | 2 |
| 1.2 Other Definitional Provisions..... | 17 |
| SECTION 2. AMOUNT AND TERMS OF COMMITMENTS..... | 17 |
| 2.1 Agreement to Lend and to Borrow; Notes..... | 17 |
| 2.2 Determination of Amounts of Loan Advances..... | 18 |
| 2.3 Budget Evaluation..... | 19 |
| 2.4 Budget Reallocation and Adjustments..... | 19 |
| 2.5 Use of Proceeds..... | 20 |
| SECTION 3. BORROWING PROCEDURES..... | 20 |
| 3.1 Procedure for Borrowing..... | 20 |
| 3.2 First Advance and Subsequent Advances..... | 20 |
| 3.3 Waivers of Conditions..... | 21 |
| 3.4 Advances to Pay Interest..... | 21 |
| 3.5 Optional Prepayments..... | 22 |
| 3.6 Conversion and Continuation Options..... | 22 |
| 3.7 Minimum Amounts of Tranches; Maximum Number of Tranches..... | 23 |
| 3.8 Interest Rates and Payment Dates..... | 23 |
| 3.9 Computation of Interest and Fees..... | 23 |
| 3.10 Inability to Determine Interest Rate..... | 24 |
| 3.11 Pro Rata Treatment and Payments..... | 24 |
| 3.12 Illegality..... | 25 |
| 3.13 Legal Requirements..... | 25 |
| 3.14 Taxes..... | 27 |
| 3.15 Indemnity..... | 28 |
| 3.16 Substitution of Lenders..... | 29 |
| 3.17 Extension of Maturity Date..... | 30 |
| SECTION 4. REPRESENTATIONS AND WARRANTIES..... | 31 |
| 4.1 Formation and Existence..... | 31 |
| 4.2 Power and Authority..... | 32 |
| 4.3 Authorization; Enforceable Obligations..... | 32 |
| 4.4 No Litigation..... | 32 |
| 4.5 Consents, Approvals, Authorizations, Etc..... | 32 |
| 4.6 No Legal Bar..... | 33 |
| 4.7 Compliance with Building Codes, Zoning Laws, Etc..... | 33 |
| 4.8 No Default..... | 33 |
| 4.9 Taxes..... | 33 |
| 4.10 Availability of Utilities..... | 33 |
| 4.11 Brokerage..... | 33 |
| 4.12 Permits, Etc..... | 34 |
| 4.13 Financial Statements..... | 34 |
| 4.14 ERISA..... | 34 |
| 4.15 Solvency..... | 35 |

| | |
|--|----|
| 4.16 Roads..... | 35 |
| 4.17 REA and Leases..... | 35 |
| 4.18 Accuracy of Information; Full Disclosure..... | 35 |
| 4.19 Mall Site in Buildable Condition..... | 36 |
| 4.20 Plans under REA..... | 36 |
| SECTION 5. AFFIRMATIVE COVENANTS..... | 36 |
| 5.1 Construction..... | 36 |
| 5.2 Performance under Other Agreements..... | 37 |
| 5.3 No Encroachments..... | 37 |
| 5.4 Application of Insurance and Condemnation Proceeds..... | 37 |
| 5.5 Certain Notices..... | 38 |
| 5.6 Plan Changes..... | 38 |
| 5.7 Indemnification..... | 39 |
| 5.8 Expenses..... | 39 |
| 5.9 Construction Schedule..... | 40 |
| 5.10 Inspection of Books and Records..... | 40 |
| Movement of Unincorporated Materials..... | 40 |
| 5.12 Inspection Reports..... | 41 |
| 5.13 Financial Statements; Other Information..... | 41 |
| 5.14 Administration Fee..... | 42 |
| 5.15 Leasing..... | 42 |
| SECTION 6. NEGATIVE COVENANTS..... | 43 |
| 6.1 Additional Debt..... | 43 |
| 6.2 Changes in Plans..... | 43 |
| 6.3 | 43 |
| 6.4 Changes in Agreements..... | 43 |
| 6.5 Transactions with Affiliates..... | 44 |
| 6.6 Appointment of Manager; Amendment of Third Party Management Agreement. | 44 |
| SECTION 7. CONDITIONS PRECEDENT TO FIRST ADVANCE..... | 44 |
| 7.1 Closing Documents..... | 44 |
| 7.2 Fees..... | 48 |
| 7.3 Agency Construction Funding..... | 49 |
| 7.4 Accounting..... | 49 |
| 7.5 Representations and Warranties..... | 49 |
| 7.6 No Default or Event of Default..... | 49 |
| 7.7 Notices of Leasehold Mortgage..... | 49 |
| 7.8 Surety Bonds; Construction Contracts..... | 49 |
| 7.9 Additional Matters..... | 49 |
| SECTION 8. CONDITIONS PRECEDENT TO SUBSEQUENT ADVANCES..... | 49 |

| | | |
|-------------|--|----|
| 8.1 | All Subsequent Advances..... | 49 |
| 8.2 | Completion of Improvements..... | 52 |
| SECTION 9. | EVENTS OF DEFAULT..... | 53 |
| 9.1 | Events of Default..... | 53 |
| 9.2 | Lenders' Right to Apply Loan Proceeds..... | 56 |
| 9.3 | Lenders' Right to Stop Advancing Funds and to Accelerate the Loans..... | 57 |
| 9.4 | Lenders' Right to Complete..... | 57 |
| 9.5 | Power of Attorney..... | 58 |
| SECTION 10. | THE AGENT..... | 58 |
| 10.1 | Appointment..... | 58 |
| 10.2 | Delegation of Duties..... | 58 |
| 10.3 | Exculpatory Provisions..... | 59 |
| 10.4 | Reliance by Agent..... | 59 |
| 10.5 | Notice of Default..... | 59 |
| 10.6 | Non-Reliance on Agent and Other Lenders..... | 60 |
| 10.7 | Indemnification..... | 60 |
| 10.8 | Agent in Its Individual Capacity..... | 61 |
| 10.9 | Successor Agent..... | 61 |
| 10.10 | Rights of Agent and the Lenders..... | 61 |
| 10.11 | Participation..... | 63 |
| 10.12 | Liability of Agent..... | 64 |
| SECTION 11. | GENERAL CONDITIONS..... | 65 |
| 11.1 | No Waivers..... | 65 |
| 11.2 | Lenders and Agent Sole Beneficiary..... | 65 |
| 11.3 | Notices..... | 65 |
| 11.4 | Modifications..... | 66 |
| 11.5 | Rights Cumulative..... | 66 |
| 11.6 | Sign..... | 67 |
| 11.7 | Schedules..... | 67 |
| 11.8 | Successors and Assigns..... | 67 |
| 11.9 | Governing Law..... | 67 |
| 11.10 | Submission to Jurisdiction..... | 67 |
| 11.11 | WAIVERS OF JURY TRIAL..... | 68 |
| 11.12 | Captions..... | 68 |
| 11.13 | Adjustments; Set-off..... | 68 |
| 11.14 | Counterparts..... | 68 |
| 11.15 | Severability..... | 69 |
| 11.16 | Integration..... | 69 |
| 11.17 | Cure Rights of Agency..... | 69 |
| 11.18 | Exculpation..... | 69 |
| 11.19 | Non-Recourse to TRG Partners..... | 70 |

SCHEDULES

Schedule 1 Borrower Construction Plans

EXHIBITS

| | |
|-----------|---|
| Exhibit A | Form of Borrowing Certificate and Requisition |
| Exhibit B | Form of Note |
| Exhibit C | Form of Assignment and Acceptance |
| Exhibit D | Solvency Certificate |

CONSTRUCTION LOAN AGREEMENT

THIS AGREEMENT is made as of the 28th day of October, 1997 among TAUBMAN MACARTHUR ASSOCIATES LIMITED PARTNERSHIP, a Delaware limited partnership ("Borrower"), BAYERISCHE HYPOTHEKEN- UND WECHSEL-BANK AKTIENGESELLSCHAFT, NEW YORK BRANCH, the New York branch of a German banking corporation as administrative agent (in such capacity, the "Agent") for itself and the other banks and financial institutions from time to time parties to this Agreement (the Agent, together with such other banks and financial institutions, being sometimes referred to collectively as "Lenders" and individually as a "Lender").

RECITALS

A. The Borrower is developing and constructing a regional shopping mall in the Downtown North Area of Norfolk, Virginia to be known as "MacArthur Center", containing approximately 930,000 square feet of gross leasable area (the "Mall"), which Mall may include an entertainment center. The Norfolk Redevelopment and Housing Authority in its capacity as the Redevelopment Commission of the City of Norfolk (the "Agency") is leasing to Borrower a portion of the Mall, as more particularly described in Schedule A to the Mortgage (the "Leased Premises"). The Mall is to be anchored by Nordstrom, Inc., which will lease its site (the "Nordstrom Site") directly from the Agency and Dillards, Inc. which will lease its site (the "Dillards Site") directly from Borrower.

B. Borrower has requested Lenders to make loans to Borrower in the aggregate principal amount not to exceed \$150,000,000 in order to provide the financing for (i) construction of improvements to be located on the Leased Premises and (ii) certain other costs, as described in the Budget referred to below.

C. Subject to the terms and conditions of this Agreement, Lenders will make the loans to Borrower.

AGREEMENT**SECTION 1. DEFINITIONS**

1.1 Defined Terms. For the purposes of this Agreement each of the following terms shall have the meaning given such term below:

Administrative Fee: As defined in Section 3.14.

Affected Bank: As defined in Section 3.16

Agent: As defined in the Preamble, including any successor agent appointed pursuant to this Agreement.

Affiliate: As to any Person, any other Person (other than a subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition "control" of a Person means the power, directly or indirectly, either to (a) vote 10% or more of the securities having ordinary voting power for the election of directors of such Person or (b) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

Agency: As defined in the Recitals.

Agency Construction Plans: Any schematic plan, design development document, plan or specification delivered by the Agency to Agent with respect to the Public Components (as defined in the Project Agreement).

Agency Estoppel: The certificate dated as of the date of this Agreement addressed to the Agent for the benefit of the Lenders from the Agency in which the Agency certifies the amount it has funded to date for completion of the Agency's Work and other amounts which it is required to fund pursuant to the Project Documents and other matters reasonably requested by the Agent.

Agency Documents: The collective reference to the Project Agreement and the Mall Lease.

Agency's Work: shall mean the design and construction of the Public Components (as defined in the Project Agreement).

Agreement: This Construction Loan Agreement, as it may be amended, supplemented or otherwise modified from time to time.

Anchor Leases: The collective reference to the Dillards Lease, the Nordstrom's Lease, the Nordstrom Supplement, the Dillards' Supplement and any lease or other agreement entered into by Borrower with a department store which occupies the Third Anchor Parcel (as defined in the Mortgage).

Applicable Margin: with respect to each Type of Loan at any date, the applicable percentage per annum set forth below:

Eurodollar Loans 1.20%

Prime Rate Loans 0.50%

provided, if during any Interest Period the Negative Rating Condition exists, the Applicable Margin shall be increased by 0.15% with respect to the Guarantied Principal for such Interest Period (and remain as stated above with respect to the Non-Guarantied Principal) and provided, further, during the Second Extension Period, the then Applicable Margin (after giving effect to any increase pursuant to the proviso above) shall be increased by 0.15% with respect to the entire principal amount of the Loans outstanding.

Architect: Hobbs & Black Associates, Inc. or such architect as Borrower may engage from time to time with the prior written consent of Agent if required under the terms of this Agreement.

Architect's Agreement: The Agreement dated January 15, 1996 between Borrower and the Architect as the same may be amended, supplemented or otherwise modified from time to time with the prior written consent of Agent in accordance with the terms of this Agreement.

Architect's Certificate: A certificate (which shall include standard form G-702) by the Architect delivered to the Agent on or before the date of the initial advance of the Loan, satisfactory in form and substance to Agent.

Assignee: As defined in subsection 10.11(b).

Assignment of Leases: The Assignment of Leases dated as of the date this Agreement made by Borrower to Agent, as it may be amended, supplemented or otherwise modified from time to time.

Automatic Acceleration Default: As defined in the Mortgage.

Available Commitment: As to any Lender at any time, an amount equal to the excess, if any, of (a) the amount of

such Lender's Commitment over (b) the aggregate principal amount of all Loans theretofore made by such Lender, provided that from and after the Termination Date, the Available Commitment shall equal zero.

Borrower: As defined in the Preamble.

Borrowing Certificate and Requisition: A certificate by a Responsible Officer, delivered to Agent on each Borrowing Date, substantially in the form of Exhibit A.

Borrowing Date: Any Business Day (or LIBOR Business Day for a Eurodollar Loan) specified in a notice pursuant to subsection 3.1 as a date on which Borrower requests Lenders to make Loans hereunder.

Borrower Construction Plans: The plan, design development document and specifications delivered by Borrower to Agent with respect to the Private Components (as defined in the Project Agreement), a schedule of which is attached hereto as Schedule 1.

Borrower Documents: The collective reference to the Management Agreement, the Partnership Agreement, the REA, the Dillards' Supplement, the Nordstrom Supplement and the Construction Documents.

Borrower's Work: Shall mean the design and Construction of the Private Components (as defined in the Project Agreement).

Budget: The budget previously delivered to and approved by Agent, as it may be amended, supplemented or otherwise modified from time to time in accordance with this Agreement.

Budget Deficit: As defined in subsection 2.3.

Business Day: A day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Collateral: The collective reference to the Leased Premises and any other property encumbered by the Security Documents.

Commitment: As to any Lender, the obligations of such Lender to make Loans to Borrower hereunder in an aggregate principal amount not to exceed the amount set forth opposite such Lender's name on the signature page to this Agreement.

Commitment Amount: At any time, the aggregate principal amount of the Loans outstanding at such time plus the sum of the Available Commitment of each Lender at such time.

Commitment Percentage: As to any Lender at any time, the percentage which such Lender's Commitment then constitutes of the aggregate Commitments (or, at any time after the Commitments shall have expired or terminated, the percentage which the aggregate principal amount of such Lender's Loans then outstanding constitutes of the aggregate principal amount of the Loans then outstanding).

Commitment Period: The period from and including the date hereof to but not including the Termination Date or such earlier date as the Commitments shall terminate as provided herein.

Commonly Controlled Entity: An entity, whether or not incorporated, which is under common control with the Borrower within the meaning of

Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

Completion or Completed: Shall mean, with respect to the Improvements, completion of the Improvements in accordance with each of the conditions set forth in Section 8.2.

Completion Guaranty: The Completion Guaranty dated of even date herewith made by Guarantor in favor of Agent, as it may be amended, supplemented or otherwise modified from time to time.

Construction Agreement: The agreement dated on or about the date hereof, between Borrower and the Construction Manager, providing for the construction of the Improvements, as the same may be amended, supplemented or otherwise modified from time to time in accordance with the terms of this Agreement.

Construction Documents: The collective reference to the Construction Agreement, the Architect's Agreement, the Engineer's Agreement and the Permits.

Construction Manager: Sordoni Skanska Construction Co. or such other construction manager or general contractors as may be engaged by Borrower from time to time in connection with the construction of the Improvements with the Agent's prior written approval if required under the terms of this Agreement.

Construction Manager's Certificate: A certificate by the Construction Manager (which shall include standard form

G-702) delivered to the Agent on or before the date of the initial advance of the Loan, satisfactory in Form and substance to Agent.

Consulting Professional: Inspection & Valuation International, Inc., or such other architectural or engineering consultant as Lenders may engage from time to time to examine the Plans, changes in the Plans and Budget cost breakdowns and estimates, to make periodic inspections of the progress on construction of the Improvements on Lenders' behalf and to advise and render reports to Lenders.

Contractual Obligation: As to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

Default: Any of the events specified in subsection 9.1, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition has been satisfied.

Dillards: Dillards Department Stores, Inc., a Delaware corporation.

Dillards' Improvements: The improvements constituting a Dillards retail department store containing approximately 260,000 square feet of space to be constructed on the Dillards' Site and to be operated by Dillards.

Dillards' Lease: The Land Sublease dated as of November 22, 1996 between Dillards and the Borrower for the occupancy of the Dillards' Site.

Dillards' Site: As defined in the Recitals.

Dillards' Supplement: The Supplemental Agreement dated as of November 22, 1996 by and between Borrower and Dillards.

Dollars and \$: Dollars in lawful currency of the United States of America.

Engineer: Michael Baker Jr., Inc or such other engineer as may be engaged by Borrower from time to time in connection with the construction of the Improvements with the Agent's prior written approval if required under this Agreement.

Engineer's Agreement: The agreement dated on or about the date hereof between Borrower and the Engineer, as the same may be amended, supplemented or otherwise modified from time to time with the prior written consent of Agent if required under this Agreement.

Engineer's Certificate: A certificate from the Engineer delivered to the Agent on or before the date of the initial advance of the Loan, satisfactory in form and substance to Agent.

Environmental Indemnity: The Environmental Indemnity Agreement dated as of the date of this Agreement made by Borrower and the Guarantor in favor of Lenders as the same may be amended, supplemented or otherwise modified from time to time.

ERISA: The Employee Retirement Income Security Act of 1974, as amended from time to time.

ERISA Plan: At a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

Eurodollar Loans: Loans the rate of interest applicable to which is based upon the Eurodollar Rate.

Eurodollar Rate: with respect to each Eurodollar Loan during a specified Interest Period, the rate of interest per annum obtained by dividing (i) the Eurodollar rate commencing on the first day of such Interest Period, appearing on Page 3750 of the Telerate Service as of 11:00 A.M., London time, two LIBOR Business Days prior to the beginning of such Interest Period by (ii) a percentage equal to 100% minus the stated maximum rate (expressed as a percentage, rounded upward to the next 1/100th of one percent) of all reserve requirements (including any marginal, emergency, supplemental, special or other reserves) applicable as of a date which is two LIBOR Business Days prior to the beginning of such Interest Period to any member bank of the Federal Reserve System in respect of "Eurocurrency liabilities" as defined in Regulation D (or any successor category of liabilities under Regulation D). In the event that such rate does not appear on Page 3750 of the Telerate Service (or otherwise on such service), the "Eurodollar Rate" shall be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks (the "Reference Banks") at or about 11:00 A.M., London time, two LIBOR Business Days prior to the beginning of such Interest Period, to prime banks in the interbank eurodollar market for delivery on the first day of such Interest Period, for a period equal to such Interest Period, and in an amount comparable to the amount of its Eurodollar Loan to be outstanding during such Interest Period, as adjusted for reserve requirements pursuant to the previous sentence. Agent will request the principal London office of each of the Reference Banks to provide a quotation of its

rate. If at least two such quotations are provided, the rate for that Interest Period will be the arithmetic mean of the quotations.

If fewer than two quotations are provided as requested, the rate for that Interest Period will be the arithmetic mean of the rates quoted by major banks in New York City, selected by Agent, at approximately 11:00 A.M., New York City time, on the date that is two LIBOR Business Days prior to the beginning of such Interest Period for loans in U.S. dollars to leading European banks for a period equal to such Interest Period, and in an amount comparable to the amount of its Eurodollar Loan to be outstanding during such Interest Period, as adjusted for reserve requirements pursuant the above definition.

Event of Default: Any of the events specified in subsection 9.1, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

Federal Funds Rate: For any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions, as published by the Federal Reserve Bank of New York for such day provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the immediately preceding Business Day as so published on the next succeeding Business Day, and (b) if such rate is not so published for any day which is a Business Day, the Federal Funds Rate for such day shall be the average of the rates quoted to Agent by three federal funds brokers of recognized standing selected by it on such day on such transactions.

Financing Lease: Any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with GAAP to be capitalized on a balance sheet of the lessee.

First Extended Maturity Date: As defined in Section 3.17.

First Extension: The extension of the Initial Maturity Date until the First Extended Maturity Date pursuant to Section 3.17.

Force Majeure Delay: Any cause or event which is beyond the reasonable control and not due to the fault or negligence of Borrower, which delays, prevents or prohibits the construction of the Improvements, including, without limitation, acts of God or the elements, fire, strikes, labor disputes, delays in delivery of material and disruption of shipping.

GAAP: Generally accepted accounting principles in the United States of America in effect from time to time.

Garage Agreement: as defined in the definition of REA.

Governmental Authority: Any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

Guaranteed Obligations: As defined in the Payment Guaranty.

Guaranteed Principal: As defined in the Payment Guaranty.

Guarantees: The collective reference to (i) the Completion Guaranty, (ii) the Payment Guaranty and (iii) the Environmental Indemnity.

Guarantor: The Taubman Realty Group Limited Partnership, a Delaware limited Partnership.

Guaranty Percentage: As defined in the Payment Guaranty.

Hypo: Bayerische Hypotheken-Und Wechsel-Bank Aktiengesellschaft, New York Branch.

Improvements: The Borrower's Work to be constructed on the Leased Premises in accordance with Borrower Construction Plans.

Indebtedness: Of any Person at any date, means, without duplication

(a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (including trade obligations), (b) all obligations of such Person as the lessee under Financing Leases, (c) current liabilities in respect of unfunded vested benefits under any ERISA Plan, (d) obligations under letters of credit issued for the account of such Person, (e) obligations under bankers' or trade acceptance facilities, (f) all guarantees of such Person of any Indebtedness or other obligation of any other Person, (g) all endorsements (other than for collection or deposit in the ordinary course of business) and other contingent obligations to purchase any of the items included in this definition, to provide funds for payment, to supply funds to invest in any Person or otherwise to assure a creditor against loss, (h) all obligations secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof, (i) all obligations under any agreement providing for contingent participation or other hedging mechanisms with respect to

interest on any other indebtedness of such Person payable on any of the items described above in this definition and (j) any other indebtedness of such Person which is evidenced by a note, bond, debenture or similar instrument.

Initial Maturity Date: October 27, 2000.

Insolvency: With respect to any Multiemployer Plan, the condition that such ERISA Plan is insolvent within the meaning of Section 4245 of ERISA.

Insolvent: Pertaining to a condition of Insolvency.

Interest Payment Date: The first Business Day of each calendar month.

Interest Period: With respect to any Eurodollar Loan:

(i) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months (to the extent funds are available for such six-month period) thereafter, as selected by Borrower in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and

(ii) thereafter, each period commencing on the last day of the immediately preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months (to the extent funds are available for such six-month period) thereafter, as selected by Borrower by irrevocable notice to Agent not less than three LIBOR Business Days prior to the last day of the then current Interest Period with respect thereto;

provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(A) if any Interest Period pertaining to a Eurodollar Loan would otherwise end on a day that is not a LIBOR Business Day, such Interest Period shall be extended to the next succeeding LIBOR Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding LIBOR Business Day;

(B) any Interest Period that would otherwise extend beyond the Maturity Date shall end on the Maturity Date; and

(C) any Interest Period pertaining to a Eurodollar Loan that begins on the last LIBOR Business

Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last LIBOR Business Day of a calendar month.

Land: the parcel of land demised by the Agency to Borrower under the Mall Lease.

Leased Premises: As defined in the Recitals.

Leases: All subleases, underlettings, concession agreements and licenses of any portion of the Leased Premises, now existing or entered into in the future to which Borrower is a party.

Legal Requirement: As to any Person, any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

Lender or Lenders: As defined in the Preamble.

LIBOR Business Day: A day other than a Saturday, Sunday or other day on which commercial banks in London, England are authorized or required by law to close.

Lien: Any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Financing Lease having substantially the same economic effect as any of the foregoing).

Loan: Any loan made by any Lender pursuant to this Agreement.

Loan Documents: The collective reference to this Agreement, the Notes, the Security Documents, the Guaranties, the Environmental Indemnity and all other documents and instruments from time to time evidencing or securing the Loan.

Major Agreements: The collective reference to the Project Documents, the Construction Documents and the Anchor Leases, as the same may be amended, supplemented, modified or replaced from time to time with the prior written consent of Agent in accordance with the terms hereof.

Major Leases: Any lease or sublease of space by Borrower which demises in excess of 10,000 square feet.

Mall: As defined in the Recitals.

Mall Lease: The Deed of Ground Lease dated as of June 14, 1996 between the Agency, as lessor, and Borrower, as lessee, as it may be amended, supplemented or otherwise modified with Lenders' prior written approval in accordance with subsection 6.4.

Management Agreement: any management agreement entered into by Borrower and Manager in accordance with the terms of this Agreement, as it may be amended, supplemented or otherwise modified from time to time with Lenders' prior written approval in accordance with subsection 6.4.

Manager: an entity engaged by Borrower from time to time in accordance with this Agreement to operate and lease the Mall.

Material Adverse Effect: A material adverse effect on (a) the business, operations, property, financial condition or prospects of Borrower or Guarantor which would materially impair Borrower's or the Guarantor's ability to perform its obligations under this Agreement or any of the other Loan Documents or any of the Project Documents or (b) the validity or enforceability of any of the Loan Documents or the material rights or remedies of the Agent or the Lenders thereunder.

Maturity Date: The Initial Maturity Date, the First Extended Maturity Date or the Second Extended Maturity Date, whichever is applicable.

Moody's: Moody's Investors Service, Inc. and its successors.

Mortgage: The Leasehold Deed of Trust, Assignment of Leases and Rents and Security Agreement dated as of the date of this Agreement made by Borrower to the trustee named therein for the benefit of Agent, as it may be amended, supplemented or otherwise modified from time to time.

Multiemployer Plan: An ERISA Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

Negative Rating Condition: At any time, (a) the Guarantied Obligations of the Loan is above zero and (b) the Guarantor has a long-term senior unsecured debt rating of below BBB- by S&P and below Baa3 by Moodys.

provided that if S&P and/or Moody's shall cease to issue ratings of debt securities of Guarantor, then the Agent and the Borrower shall negotiate in good faith to agree upon a substitute rating agency or agencies (and to correlate the system of ratings of each substitute rating agency with that of the rating agency for which it is substituting) and (a) until such substitute rating agency or agencies are agreed upon, the existence of the Negative Rating Condition shall be determined on the basis of the rating assigned by the other rating agency (or, if both S&P and Moody's shall have so ceased to issue such ratings, on the basis of the rating in effect immediately prior thereto) and (b) after such substitute rating agency or agencies are agreed upon, the existence of the Negative Rating Condition shall be determined on the basis of the rating assigned by the other rating agency and such substitute rating agency or the two substitute rating agencies, as the case may be.

Non-Excluded Taxes: As defined in subsection 3.14.

Non-Guaranteed Principal: As defined in the Payment Guaranty.

Nordstrom: Nordstrom, Inc., a Washington corporation.

Nordstrom Improvements: The improvements constituting a retail department store containing approximately 160,000 square feet of space to be constructed on the Nordstrom Site and to be operated by Nordstrom.

Nordstrom's Lease: The Lease dated as of November 22, 1996 between Nordstrom and the Agency for the occupancy of the Nordstrom Site and improvements.

Nordstrom's Supplement: The Supplemental Agreement dated as of November 22, 1996 by and between Borrower and Nordstrom.

Note or Notes: The collective reference to the Notes dated as of the date of this Agreement made by Borrower to the order of each Lender, as the same may be amended, supplemented, modified, extended, restated or replaced from time to time (including, without limitation, any new or replacement notes issued to any Lender pursuant to subsection 10.11(d) of this Agreement).

NPA: Norfolk Place Associates, L.P., a Virginia limited partnership.

Outside Completion Date: February 15, 2000 subject to extension for Force Majeure delays, but in no event later than March 10, 2000.

Participants: As defined in subsection 10.11(a).

Partnership Agreement: The Agreement of Limited Partnership of Borrower dated as of May 11, 1995, as it may be amended, supplemented or otherwise modified from time to time in accordance with Section 6.4(b).

Payment Guaranty: The Payment Guaranty dated as of the date of this Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

PBGC: The Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

Permits: All consents, licenses and building permits required for construction, completion, occupancy and operation of the Improvements in accordance with all Legal Requirements affecting the Project.

Permitted Encumbrances: As defined in the Mortgage.

Permitted Exceptions: As defined in the Mortgage.

Person: An individual, partnership, limited liability company, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

Plans: The collective reference to the Agency Construction Plans and Borrower Construction Plans, as such plans and specifications may be amended, supplemented or otherwise modified from time to time in accordance with subsections 6.2 and 6.3.

Prime Rate: The rate of interest publicly announced by Agent's New York Branch in New York, New York from time to time as its prime commercial lending rate. The prime commercial lending rate is not intended to be the lowest rate of interest charged by such Branch in connection with the extension of credit to debtors.

Prime Rate Loans: Loans the rate of interest applicable to which is based upon the Prime Rate.

Project: The collective reference to the Land and the Improvements.

Project Agreement: The Land Disposition and Development Contract dated May 31, 1994 between the Agency and NPA as assigned by NPA to Borrower pursuant to an Assignment and Assumption Agreement dated May 11, 1995 and as amended by a First Amendment dated as of May 8, 1995, a Second Amendment dated November 13, 1995 and a Third Amendment dated March 11, 1996 and as it may be further amended, supplemented or otherwise modified from time to time in accordance with subsection 6.4.

Project Documents: The collective reference to the Agency Documents and the Borrower Documents.

REA: The collective reference to (i) the Construction, Operation and Reciprocal Easement Agreement dated as of November 22, 1996 by and among Borrower, Nordstrom, Dillards and the Agency and (ii) the Parking Development, Operation and Maintenance Agreement (the "Garage Agreement") dated as of June 14, 1996 by and among the City, the Agency, Borrower, Nordstrom and Dillards, as each may be further amended, supplemented or otherwise modified from time to time in accordance with subsection 6.4.

Regal Lease: That certain Lease dated February 12, 1997 between Borrower and Regal Cinema, Inc, as it may be amended, supplemented or otherwise modified from time to time.

Register: As defined in subsection 10.11(c).

Reorganization: With respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

Reportable Event: Any of the events set forth in Section 4043(b) of ERISA, other than those events as to which the thirty day notice period is waived under subsections .13, .14, .16, .18, .19 or .20 of PBGC Reg. ss. 2615.

Required Lenders: At any time, Lenders the Commitment Percentages of which aggregate at least 66 2/3%.

Rents: All rights of Borrower in respect of cash and securities deposited under any Lease and the right to receive and collect the revenues, income, rents, issues and profits of any Lease.

Responsible Officer: Shire Rothbart, Brian Lasher, Richard McGlinn or Mary Zebrowski or such other individual as shall be named by a Responsible Officer by notice to Agent.

S&P: Standard & Poor's Ratings Group and its successors.

Second Extension: The extension of the First Extended Maturity Date until the Second Extended Maturity Date pursuant to Section 3.17.

Second Extension Period: As defined in Section 3.17.

Security Agreement: The Security Agreement and Assignment of Contracts made by Borrower to Agent dated as

of the date of this Agreement as it may be amended, supplemented or otherwise modified from time to time.

Security Documents: The collective reference to the Mortgage, the Assignment of Leases, the Security Agreement and all other documents from time to time entered into or consented to by Borrower which secure the repayment of the Notes.

Single Employer Plan: Any ERISA Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

Solvency Certificate: A certificate substantially in the form of Exhibit D.

Solvent: means, when used with respect to any Person, that (1) the fair value of the property of such Person, on a going concern basis, is greater than the total amount of liabilities (including, without limitation, contingent liabilities) of such Person; (2) the present fair saleable value of the assets of such Person, on a going concern basis, is not less than the amount that will be required to pay the probable liabilities of such Person on its debts as they become absolute and matured; (3) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature; (4) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such Person is engaged; and (5) such Person has sufficient resources, provided that such resources are prudently utilized, to satisfy all of such Person's obligations. Contingent liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

Termination Date: the date that is six months after the Outside Completion Date.

Title Company: Lawyers Title Insurance Company, or such other title company as may be approved in writing by Agent.

Tranche: The collective reference to Eurodollar Loans the then current Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day); Tranches may be identified as "Eurodollar Tranches".

Transferee: As defined in subsection 11.8(f).

Trust Property: As defined in the Mortgage.

Type: As to any Loan, its nature as a Prime Rate Loan or a Eurodollar Loan.

Unincorporated Materials: Materials purchased or manufactured for incorporation in the Improvements but, at the time an advance under the Loan is made to pay the cost therefor, not yet incorporated in the Improvements.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or any certificate or other document made or delivered pursuant hereto.

(b) As used herein and in the Notes, and any certificate or other document made or delivered pursuant hereto, accounting terms relating to Borrower not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. AMOUNT AND TERMS OF COMMITMENTS

2.1 Agreement to Lend and to Borrow; Notes. (a) Subject to the conditions and upon the terms provided for in this Agreement, each Lender severally agrees to make loans to Borrower in an aggregate principal amount not to exceed the amount of the Commitment of such Lender, but only during the Commitment Period. The Loans may from time to time be (a) Eurodollar Loans, (b) Prime Rate Loans or (c) a combination thereof, as determined by Borrower and notified to Agent in accordance with subsection 3.1.

(b) The Loans made by each Lender shall be evidenced by a Note of Borrower, substantially in the form of Exhibit B, with appropriate insertions therein as to payee, date and principal amount, payable to the order of such Lender. Each Lender is hereby authorized to record the date and amount of each advance and payment or prepayment of principal of its Loan, each continuation thereof, each conversion of all or a portion thereof to another Type and, in the case of Eurodollar Loans, the length

of each Interest Period with respect thereto, on the schedule annexed to and constituting a part of its Note, and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded. The Note of each Lender shall (a) be dated the date hereof, (b) be stated to mature on the Maturity Date and (c) provide for the payment of interest in accordance with subsection 3.8.

2.2 Determination of Amounts of Loan Advances.

(a) Disbursements for costs of constructing and equipping the Improvements included in the Budget, shall be made as such costs are incurred; the amount of the costs which have been incurred shall be determined by the Agent, in its reasonable discretion, based upon certifications of Borrower, the Construction Manager and the Consulting Professional and such other evidence as may be reasonably required by the Agent, less the amount which Borrower retains under the relevant construction contracts. Upon final completion of the work performed by any contractor or subcontractor substantially in accordance with the Plans, as certified to Agent by the Construction Manager and confirmed by the Consulting Professional, Agent shall release that portion of the retention allocated to the work performed by such contractor or subcontractor in accordance with the Budget, provided that Agent shall have received a final lien waiver and sworn statement from such contractor or subcontractor.

(b) The Lenders, upon instruction by the Agent, shall advance from time to time portions of the Loans to pay costs of Unincorporated Materials; provided, that, in no event shall the outstanding amount of the Loans disbursed to pay the costs of Unincorporated Materials at any one time exceed the sum of \$3,500,000. Any such advances shall be made subject to satisfaction of all other conditions of this Agreement applicable to advances of the Loan and each of the following conditions:

(1) the Unincorporated Materials, whether stored on or off the Leased Premises, shall be secured, segregated and identifiable in a manner reasonably satisfactory to the Agent;

(2) the Agent shall be given the complete address of the place of storage of any Unincorporated Materials stored off the Land and the Consulting Professional shall be allowed access at reasonable times to inspect such Unincorporated Materials;

(3) the Agent shall be provided with insurance with respect to the Unincorporated Materials of kinds, in form and amount and written by insurers satisfactory to the Agent and covering the Agent as an insured;

- (4) except as provided in clause (8) below, the Agent shall have received evidence satisfactory to it that Borrower has good title to the Unincorporated Materials, free from any lien or encumbrances, upon payment therefor;
- (5) the Agent shall have received copies of any documents of title and warehouse receipts that evidence title to the Unincorporated Materials;
- (6) the Agent shall have received such documents and instruments, including, without limitation, financing statements, security agreements, consents of manufacturers, vendors, warehousemen and bailees, as the Agent may reasonably require to evidence or perfect the Agent's lien on the Unincorporated Materials;
- (7) upon request by Agent, the Agent shall have received evidence satisfactory to it that all specially fabricated Unincorporated Materials have been fabricated in accordance with the Plans; and
- (8) if the Agent advances amounts to pay contract deposits for Unincorporated Materials, and title has not passed to Borrower, the Agent shall have received a first, perfected, enforceable security interest in Borrower's rights in the contract for the purchase of such materials and any sums payable or refundable to Borrower thereunder, and, if requested by the Agent, the contract vendor shall have consented to such assignment and agreed to perform its obligations under such contract for the benefit of the Agent.

2.3 Budget Evaluation. If at any time Agent, after reallocation of any amounts under subsection 2.4, reasonably determines after consultation with Borrower that the portion of the Available Commitment allocated to any line item of the Budget is not sufficient to pay the cost of completing such line item, except, so long as no Event of Default is continuing, the line item for interest, (any such deficiency, a "Budget Deficit"), Borrower shall be required to pay costs of such line item or items as to which the Budget Deficit exists with funds from some other source (including the contingency line item) before Lenders advance proceeds of the Loans to pay such costs and upon such payment by Borrower, such Budget Deficit shall be remedied.

2.4 Budget Reallocation and Adjustments. If at any time the Available Commitment allocated to any line item shown on the Budget exceeds the amount necessary for such line item, then Borrower, with the approval of Agent, which approval shall not be unreasonably withheld or delayed, may allocate the amount of such excess to any other line item shown on the Budget that Agent deems to be insufficient, or if no other line item is insufficient Borrower may reallocate the amount of such excess to

any other line item shown on the Budget (including contingency), provided, however, such reallocation shall require Agent's prior approval, such approval not to be unreasonably withheld and which approval shall not be required if the aggregate amount of such reallocation is for an amount less than \$5,000,000.

2.5 Use of Proceeds. The proceeds of the Loans shall be used by Borrower only for payment of costs specified in the Budget.

SECTION 3. BORROWING PROCEDURES

3.1 Procedure for Borrowing. Borrower shall give Agent irrevocable notice (which notice must be received by Agent prior to 10:00 A.M., New York City time, seven Business Days prior to the Borrowing Date (which date shall be prior to the Termination Date) requesting that Lenders make loans on the Borrowing Date and specifying (i) the amount to be borrowed, (ii) whether the Loans are to be initially Eurodollar Loans, Prime Rate Loans, or a combination thereof, and (iii) if the Loans are to be entirely or partly Eurodollar Loans, the respective amounts of each such Type of Loan and the respective lengths of the initial Interest Periods therefor. Upon receipt of such notice Agent shall promptly notify each Lender thereof. Provided all conditions to an advance of the Loan proceeds have been satisfied or otherwise waived by Agent in accordance with the terms hereof, Lenders shall deposit in an account designated by Borrower for transmittal upon Borrower's order, in immediately available funds, the amount of the advance then requested. Upon the occurrence and during the continuance of an Event of Default, at Agent's option, Lenders may advance funds by payment directly to the third party to whom an amount is payable and Agent shall provide Borrower with notice promptly after such advance is made. The execution of this Agreement by Borrower constitutes an irrevocable authorization to Lenders to advance Loan proceeds as provided in this subsection. No further authorization shall be necessary to warrant such direct advances. All sums advanced by direct payment to third parties shall reduce the Available Commitment, shall be evidenced by the Notes and shall be secured by the Security Documents. Lenders shall have no obligation to make advances of the Loan proceeds more often than once in each calendar month. Lenders shall have no obligation to see to the disposition of any direct payments to any contractor or other Person.

3.2 First Advance and Subsequent Advances. The first advance of Loan proceeds shall be made upon satisfaction of all conditions specified in Section 7 of this Agreement. All advances after the first advance shall be made upon satisfaction of all conditions specified in Section 8 of this Agreement.

3.3 Waivers of Conditions. (a) Agent, in its sole discretion may, but shall have no obligation to, waive any requirements imposed on Borrower for giving notice of borrowing.

(b) If any or all conditions precedent to an advance of Loan proceeds have not been satisfied on any Borrowing Date, Agent, in its sole discretion, may, but shall have no obligation to, waive such conditions and disburse all or a part of the requested advance subject however, to the provisions of Section 11.4 hereof. No person dealing with Borrower, directly or indirectly, shall have standing to object to such waiver. Such waivers and advances pursuant to such waivers shall be deemed made pursuant to this Agreement and not in modification of this Agreement.

3.4 Advances to Pay Interest. (a) Included in the Budget are amounts allocated to pay interest on the Loans. Subject to the conditions set forth below, Borrower shall request advances to be made on each Interest Payment Date for the purpose of paying the interest due or to become due at such time, in which event Lenders shall be authorized and are hereby directed to disburse the amount of such interest by crediting the bank account maintained by Borrower with Agent. No separate fund or account shall be created for such interest. In no event shall Lenders be obligated to make any advance if the request for such advance does not contain a direction to pay interest on the Loans due at the time of such advance unless Borrower has paid interest to Lenders directly from a source other than the Loan proceeds. Any such request for an advance of interest shall be accompanied by a direction by Borrower to Lenders to charge such bank account for the amount of such interest then due and advanced to Borrower by Lenders. Notwithstanding the foregoing, Borrower hereby requests Lenders to make advances to pay such interest on the day when each interest payment is due in the amount of interest then due, by crediting such amount to the bank account maintained by Borrower with Agent and charging such account for such interest. Lenders may comply with the foregoing request at any time, notwithstanding any failure by Borrower to make a more specific request.

(b) Agent, in its discretion, may refuse to advance for the payment of interest at such time and so long as either a Default or an Event of Default has occurred and is continuing. If Agent determines not to advance for the payment of interest for such reason, Agent shall so notify Borrower and Borrower shall be obligated to pay all interest becoming due on the Loans after such notice from a source other than Loan proceeds, in the manner and at the times provided in the Notes, provided that if Agent is stayed or otherwise prohibited from providing such notice, Borrower shall nevertheless be liable for all interest becoming due.

3.5 Optional Prepayments. Borrower may at any time and from time to time prepay the Loans, in whole or in part,

without premium or penalty, provided that (a) Borrower shall have given at least four Business Days' prior notice to Agent, specifying the date and amount of prepayment and whether the prepayment is of Eurodollar Loans, Prime Rate Loans or a combination thereof, and, if of a combination thereof, the amount allocable to each, (b) all accrued and unpaid interest to the date of such prepayment on the amount being prepaid is then paid and (c) any amounts payable pursuant to subsection 3.15 are then paid. Upon receipt of any such notice Agent shall promptly notify each Lender thereof. Amounts prepaid on account of the Loans may not be reborrowed. Partial prepayments shall be in an aggregate principal amount of \$100,000 or a whole multiple thereof.

3.6 Conversion and Continuation Options. (a) Borrower may elect from time to time to convert Eurodollar Loans to Prime Rate Loans by giving Agent irrevocable notice no later than 11:00 A.M. at least three LIBOR Business Days prior to such requested conversion, provided that any such conversion of Eurodollar Loans may only be made on the last day of an Interest Period with respect thereto. Borrower may elect from time to time to convert Prime Rate Loans to Eurodollar Loans by giving Agent irrevocable notice no later than 11:00 A.M. at least three LIBOR Business Days prior to such requested conversion. Any such notice of conversion to Eurodollar Loans shall specify the length of the initial Interest Period or Interest Periods therefor. Upon receipt of any such notice Agent shall promptly notify each Lender thereof. All or any part of outstanding Eurodollar Loans and Prime Rate Loans may be converted as provided herein, provided that (i) no Loan may be converted into a Eurodollar Loan when any Event of Default has occurred and is continuing and Agent has determined that such a conversion is not appropriate and (ii) no Loan may be converted into a Eurodollar Loan after the date that is one month prior to the Maturity Date.

(b) Any Eurodollar Loans may be continued as such upon the expiration of the then current Interest Period with respect thereto by Borrower giving notice to Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in subsection 1.1, of the length of the next Interest Period to be applicable to such Loans, provided that no Eurodollar Loan may be continued as such (i) when any Event of Default has occurred and is continuing and Agent has determined that such a continuation is not appropriate or (ii) after the date that is one month prior to the Maturity Date and provided, further, that if Borrower shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Loans shall be automatically converted, at Agent's election, to Prime Rate Loans or one-month Eurodollar Loans on the last day of such then expiring Interest Period.

3.7 Minimum Amounts of Tranches; Maximum Number of Tranches. All borrowings, conversions and continuations of Loans

hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of the Loans comprising each Eurodollar Tranche shall be at least equal to \$1,000,000. No more than five Eurodollar Tranches in the aggregate may be outstanding at any time under this Agreement and the Notes.

3.8 Interest Rates and Payment Dates. (a) Each Eurodollar Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each Prime Rate Loan shall bear interest at a rate per annum equal to the Prime Rate plus the Applicable Margin.

(c) If all or a portion of (i) the principal amount of any Loan, (ii) any interest payable thereon or (iii) any fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum which is

(x) in the case of overdue principal, the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this subsection plus 4% or (y) in the case of overdue interest, fee or other amount, the rate described in paragraph (b) of this subsection plus 4%, in each case from the date of such non-payment until such amount is paid in full (as well after as before judgment); provided, however, that in the case of overdue interest, the rate described in clause (y) shall not apply if such interest is paid within three Business Days after written notice to Borrower.

(d) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (c) of this subsection shall be payable from time to time on demand.

3.9 Computation of Interest and Fees. (a) Fees and interest shall be calculated on the basis of a 360-day year for the actual days elapsed. Agent shall as soon as practicable notify Borrower and Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the Prime Rate, or the Eurocurrency Reserve Requirements, shall become effective as of the opening of business on the day on which such change becomes effective. Agent shall as soon as practicable notify Borrower and Lenders of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by Agent pursuant to any provision of this Agreement shall be conclusive and binding on Borrower in the absence of manifest error. Agent shall, at the request of Borrower, deliver to Borrower a

statement showing the quotations used by Agent in determining any interest rate pursuant to subsection 3.9(a).

3.10 Inability to Determine Interest Rate. If prior to the first day of any Interest Period:

- (a) Agent shall have determined (which determination shall be conclusive and binding upon Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or
- (b) Agent shall have received notice from the Required Lenders that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their affected Loans during such Interest Period,

Agent shall give telecopy or telephonic notice thereof to Borrower and Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans requested to be made on the first day of such Interest Period shall be made as Prime Rate Loans, (y) any Loans that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be converted to or continued as Prime Rate Loans and (z) any outstanding Eurodollar Loans shall be converted, on the first day of such Interest Period, to Prime Rate Loans. Until such notice has been withdrawn by Agent, no further Eurodollar Loans shall be made or continued as such, nor shall Borrower have the right to convert Loans to Eurodollar Loans.

3.11 Pro Rata Treatment and Payments. (a) Each borrowing by Borrower from the Lenders hereunder, each payment by Borrower on account of any fees hereunder shall be made pro rata according to the respective Commitment Percentages of the Lenders. Each payment (including each prepayment) by Borrower on account of principal of and interest on the Loans shall be made pro rata according to the respective outstanding principal amounts of the Loans then held by Lenders. All payments (including prepayments) to be made by Borrower hereunder and under the Notes, whether on account of principal, interest, fees or otherwise, shall be made without set off or counterclaim and shall be made prior to 12:00 Noon, New York City time, on the due date thereof to Agent, for the account of Lenders, at Agent's office specified in subsection 11.3, in Dollars and in immediately available funds. Agent shall distribute such payments to Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day, and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension. If any payment on a

Eurodollar Loan becomes due and payable on a day other than a LIBOR Business Day, the maturity thereof shall be extended to the next succeeding LIBOR Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding LIBOR Business Day.

(b) Unless Agent shall have been notified in writing by any Lender prior to a borrowing that such Lender will not make the amount that would constitute its Commitment Percentage of such borrowing available to Agent, Agent may assume that such Lender is making such amount available to Agent, and Agent may (but shall be under no obligation), in reliance upon such assumption, make available to Borrower a corresponding amount. If such amount is not made available to Agent by the required time on the Borrowing Date therefor, such Lender shall pay to Agent, on demand, such amount with interest thereon at a rate equal to the daily Federal Funds Rate for the period until such Lender makes such amount immediately available to Agent. A certificate of Agent submitted to any Lender with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error. If such Lender's Commitment Percentage of such borrowing is not made available to Agent by such Lender within three Business Days of such Borrowing Date, Agent shall also be entitled to recover such amount with interest thereon at the rate per annum applicable to Prime Rate Loans hereunder, on demand, from Borrower, provided that (i) the foregoing shall not impair any of Borrower's rights or remedies against such Lender and (ii) Agent shall promptly notify such Lender that it has defaulted under this Agreement.

3.12 Illegality. Notwithstanding any other provision herein, if the adoption of or any change in any Legal Requirement or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Lender hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Prime Rate Loans to Eurodollar Loans shall forthwith be cancelled and

(b) such Lender's Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Prime Rate Loans on the respective last days of the then current Interest Periods with respect to such Loans or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, Borrower shall pay to such Lender such amounts, if any, as may be required pursuant to subsection 3.15.

3.13 Legal Requirements. (a) If the adoption of or any change in any Legal Requirement or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority, in any such case made subsequent to the date hereof:

- (i) shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any Note or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for Non-Excluded Taxes covered by subsection 3.15 and changes in the rate of tax on the overall net income of such Lender);
- (ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender which is not otherwise included in the determination of the Eurodollar Rate; or
- (iii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount which such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or to reduce any amount receivable hereunder in respect thereof, then, in any such case, Borrower shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify Borrower after it becomes aware of such increased costs, through Agent, of the event by reason of which it has become so entitled. A certificate as to any additional amounts payable pursuant to this subsection submitted by such Lender, through Agent, to Borrower shall be conclusive in the absence of manifest error. No Lender shall be entitled to any compensation pursuant to this Section relating to any period more than 90 days prior to the date notice thereof is given to Borrower by such Lender.

- (b) If any Lender shall have determined that any change in any Legal Requirement regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority, in any such case made subsequent to the date hereof, does or shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to Borrower (with a copy to Agent) of a written request therefor, Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction.

(c) If, subsequent to the date of this Agreement, any Lender obtains actual knowledge of any increased costs or losses of yield as described above or any indemnified Non-Excluded Taxes described in subsection 3.14(a) below (collectively, "Indemnified Losses"), Agent, on behalf of such Lender, shall promptly notify Borrower thereof, and Lenders agree to use reasonable efforts (without incurring material costs and without undertaking to restructure or reallocate any assets other than the Loans) to minimize any Indemnified Losses. Notwithstanding any provision to the contrary in this subsection or subsection 3.15, Borrower shall not be required to reimburse or indemnify Lenders for any Indemnified Losses to the extent any such Indemnified Losses are incurred or attributable to the period ending 90 days after Borrower's receipt of notice of such Indemnified Losses, provided such Indemnified Losses shall not apply retroactively and Borrower shall prepay the Loans pursuant to subsection 3.5 hereof within such 90-day period (such prepayment to be made at Borrower's sole option).

3.14 Taxes. (a) All payments made by Borrower under this Agreement and the Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding income taxes and franchise taxes (imposed in lieu of or in addition to income taxes) imposed on Agent or any Lender as a result of a present or former connection between Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to Agent or any Lender hereunder or under the Notes, the amounts so payable to Agent or such Lender shall be increased to the extent necessary to yield to Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes, provided, however, that Borrower shall not be required to increase any such amounts payable to any Lender that is not organized under the laws of the United States of America or a state thereof if such Lender fails to comply with the requirements of paragraph (b) of this subsection. Whenever any Non-Excluded Taxes are payable by Borrower, as promptly as possible thereafter Borrower shall send to Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by Borrower showing payment thereof. If Borrower fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to Agent the required receipts or other required documentary evidence, Borrower shall indemnify Agent and Lenders for any incremental taxes, interest or penalties that may become payable by Agent or any Lender as a result of any such

failure. Any Lender making a claim against Borrower for the payment of Non-Excluded Taxes under this Section shall provide prompt notice to Borrower that such taxes are due. Notwithstanding anything contained herein to the contrary, Borrower shall not be responsible for the payment of any Taxes incurred more than 90 days prior to Borrower's receipt of such notice.

(b) Each Lender that is not incorporated under the laws of the United States of America or a state thereof shall:

(i) deliver to Borrower and Agent (A) two duly completed copies of United States Internal Revenue Service Form 1001 or 4224, or successor applicable form, as the case may be, and (B) an Internal Revenue Service Form W-8 or W-9, or successor applicable form, as the case may be;

(ii) deliver to Borrower and Agent two further copies of any such form or certification on or before the date that any such form or certification expires or becomes obsolete and after the occurrence of any event requiring a change in the most recent form previously delivered by it to Borrower; and

(iii) obtain such extensions of time for filing and complete such forms or certifications as may reasonably be requested by Borrower or Agent;

unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender so advises Borrower and Agent. Such Lender shall certify (i) in the case of a Form 1001 or 4224, that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes and (ii) in the case of a Form W-8 or W-9, that it is entitled to an exemption from United States backup withholding tax. Each Person that shall become a Transferee pursuant to Section 10.11 shall, upon the effectiveness of the related transfer, be required to provide all of the forms and statements required pursuant to this subsection, provided that in the case of a Participant such Participant shall furnish all such required forms and statements to the Lender from which the related participation shall have been purchased.

3.15 Indemnity. Borrower agrees to indemnify each Lender and to hold each Lender harmless from any loss or expense which such Lender may sustain or incur as a consequence of (a) default by Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after Borrower has given a notice requesting the same in accordance with the provisions of this Agreement,

(b) failure by Borrower in making any prepayment

after Borrower has given a notice thereof in accordance with the provisions of this Agreement or (c) the making of a prepayment of Eurodollar Loans on a day which is not the last day of an Interest Period with respect thereto. Such indemnification may include an amount equal to the excess, if any, of (i) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) which would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market.

3.16 Substitution of Lenders. (a) If any Lender (an "Affected Bank")

(i) makes demand upon Borrower for (or if Borrower is otherwise required to pay) amounts pursuant to Section 3.13 (any such amounts referred to as "Additional Costs") or (ii) is unable to make or maintain a Eurodollar Loan as a result of a condition described in Section 3.12, or (iii) defaults in its obligations to make Advances in accordance with the terms of this Agreement, Borrower may, within 90 days of receipt of such demand or notice (or the occurrence of such other event causing Borrower to be required to pay Additional Costs or causing said Section 3.12 to be applicable) or the occurrence of such default, as the case may be, give notice (a "Replacement Notice") to Agent (which will promptly forward a copy of such notice to each Lender) of Borrower's intention either (x) to prepay in full the Affected Bank's Note and to terminate the Affected Bank's entire Commitment or (y) to replace the Affected Bank with another financial institution (the "Replacement Bank") designated in such Replacement Notice.

In the event Borrower gives the notice provided for in clause (x) above, and if the Affected Bank shall not agree within 30 days of its receipt thereof to waive the payment of the Additional Costs in question or the effect of the circumstances described in Section 3.12 or if the Affected Bank shall not cure such default within five days of its receipt thereof, then, so long as no Default or Event of Default shall exist, Borrower may (notwithstanding the provisions of Section 3.11) terminate the Affected Bank's entire Commitment, provided that in connection therewith it pays to the Affected Bank all outstanding principal and accrued and unpaid interest under the Affected Bank's Note, together with all other amounts, if any, due from Borrower to the Affected Bank, including all amounts properly demanded and unreimbursed under Sections 3.5 and all Additional Costs.

In the event Borrower gives the notice provided for in clause (y) above, and if (i) Agent shall, within 30 days of its receipt of the Replacement Notice, notify Borrower and each Lender in writing that the Replacement Bank is reasonably satisfactory to Agent and (ii) the Affected Bank shall not, prior to the end of such 30-day period, agree to waive the payment of the Additional Costs in question or the effect of the circumstances described in Section 3.12 or if the Affected Bank shall not cure such default, then the Affected Bank shall, so long as no Default or Event of Default shall exist, assign its Note and all of its rights and obligations under this Agreement to the Replacement Bank, and the Replacement Bank shall assume all of the Affected Bank's rights and obligations, pursuant to an agreement, substantially in the form of an Assignment and Assumption Agreement, executed by the Affected Bank and the Replacement Bank and otherwise in accordance with the provisions of Section

10.11(b). In connection with such assignment and assumption, the Replacement Bank shall pay to the Affected Bank an amount equal to the outstanding principal amount under the Affected Bank's Note plus all interest accrued thereon, plus all other amounts, if any (other than the Additional Costs in question), then due and payable to the Affected Bank; provided, however, that prior to or simultaneously with any such assignment and assumption, Borrower shall have paid to such Affected Bank all amounts properly demanded and unreimbursed under Section 3.15. Upon the effective date of such assignment and assumption, the Replacement Bank shall become a Lender under this Agreement and shall have all the rights and obligations of a Lender as set forth in such Assignment and Assumption Agreement, and the Affected Bank shall (except to the extent of any damages caused by a default by such Lender) be released from its obligations hereunder, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this Section, a substitute Note shall be issued to the Replacement Bank by Borrower, in exchange for the return of the Affected Bank's Note. The obligations evidenced by such substitute note shall constitute "Obligations" for all purposes of this Agreement and the other Loan Documents. If the Replacement Bank is not incorporated under the laws of the United States of America or a state thereof, it shall, prior to the first date on which interest or fees are payable hereunder for its account, deliver to Borrower and Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 3.14.

Borrower, Agent and the Lenders shall execute such modifications to the Loan Documents as shall be reasonably required in connection with and to effectuate the foregoing.

3.17 Extension of Maturity Date. Borrower shall have the option to extend the Initial Maturity Date for a period of one year, from the date that is one day after the Initial Maturity Date to the date that is one year after the Initial Maturity Date (the "First Extended Maturity Date") and for a

further period (the "Second Extension Period") of one year from the date that is one day after the First Extended Maturity Date to the date (the "Second Extended Maturity Date") that is one year after the First Extended Maturity Date, provided that the following conditions are satisfied for each such extension:

- (a) at least 60 days prior to the Initial Maturity Date or the First Extended Maturity Date, as the case may be, Agent shall have received:
 - (i) written notice from Borrower of its election to extend the Initial Maturity Date or the First Extended Maturity Date, as the case may be; and
 - (ii) an extension fee, for the account of the Lenders, in an amount equal to (a) 0.10% for the First Extension and (b) 0.25% for the Second Extension, of the Commitment Amount as of the Initial Maturity Date or the First Extended Maturity Date, as the case may be;
- (b) no Default or Event of Default shall have occurred and be continuing as of the Initial Maturity Date or the First Extended Maturity Date, as the case may be.

SECTION 4. REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Agreement and to make the Loan, Borrower covenants, represents and warrants to Lenders as follows:

4.1 Formation and Existence. (a) Borrower (i) is a duly organized and validly existing limited partnership, formed under the laws of the State of Delaware, (ii) has all requisite power and authority to consummate the transactions contemplated in the Loan Documents and the Project Documents and (iii) is in compliance with all applicable Legal Requirements, except to the extent that the failure to comply would not be likely to result in a Material Adverse Effect.

(b) The Guarantor (i) is a duly organized and validly existing limited partnership, formed and in good standing under the laws of the State of Delaware, (ii) has all requisite power and authority to be a Partner, (iii) has all requisite power and authority to authorize and has authorized Borrower to consummate the transactions contemplated in the Loan Documents and (iv) is in compliance with all applicable Legal Requirements, except to the extent that the failure to comply would not reasonably be expected to have a Material Adverse Effect.

4.2 Power and Authority. The consummation of the transactions contemplated in the Loan Documents and the Project Documents and the performance or observance of Borrower's

obligations under the Loan Documents and the Project Documents have been duly authorized by all necessary action on the part of Borrower and Guarantor.

4.3 Authorization; Enforceable Obligations. (a) The Loan Documents have been duly executed and delivered on behalf of Borrower and each constitutes, the legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally.

(b) The Project Documents have been duly executed and delivered, constitute the legal, valid and binding obligations of Borrower, and to the best of Borrower's knowledge, the other parties to such agreements, have not been amended, modified or terminated (except for certain amendments thereto, copies of which have been furnished to Agent) and are in full force and effect. The rights of Borrower under each of the Project Agreement, the Management Agreement, the REA and the Mall Lease may be assigned to Lenders without the consent of any Person. Borrower has done all things required to be done as of the date of this Agreement to keep unimpaired the leasehold created by the Mall Lease (other than the Permitted Exceptions). To the best of Borrower's knowledge, there exists no default of any party under the Project Documents and no event has occurred and is continuing which with notice or the passage of time or both would constitute a default under the Project Documents.

4.4 No Litigation. There is no action, suit or proceeding pending against or directly involving Borrower or the Collateral, or to the best of Borrower's knowledge threatened in writing against or directly involving Borrower or the Collateral which would have a Material Adverse Effect or would materially adversely affect the Collateral in any court, or before or by any Governmental Authority, whether federal, state, county or municipal, which has not been disclosed in writing to Agent.

4.5 Consents, Approvals, Authorizations, Etc. No consent, approval, order or authorization of or registration, declaration or filing with any Governmental Authority is required in connection with the valid execution and delivery of the Loan Documents or the Agency Documents or the carrying out or performance of any of the transactions required or contemplated by the Loan Documents or the Agency Documents in each case by Borrower or, if required, such consent, approval, order or authorization has been obtained or such registration, declaration or filing has been accomplished (other than the recording of the Mortgage and filing of UCC-1 Financing Statements) or will be obtained or accomplished prior to the time any such action requiring consent is undertaken.

4.6 No Legal Bar. The execution, delivery and performance of the Loan Documents and the Project Documents, borrowings under this Agreement and the use of the proceeds of the Loan will not violate any Legal Requirement affecting or any Contractual Obligation of Borrower or Guarantor and will not result in, or require, the creation or imposition of any Lien on any of Borrower's properties or revenues pursuant to any Legal Requirement or Contractual Obligation, except for the Lien of the Security Documents.

4.7 Compliance with Building Codes, Zoning Laws, Etc. To the best of Borrower's knowledge, there are no existing violations of any Legal Requirement affecting the Land or the construction, use or occupancy of the Improvements.

4.8 No Default. Borrower is not in default under or with respect to any Contractual Obligation in any respect which has a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

4.9 Taxes. Borrower has filed or caused to be filed all tax returns that are required to be filed, and has paid all taxes shown to be due and payable on such returns or on any assessments made against Borrower or the Project and all other taxes, fees or other charges imposed on Borrower or the Project by any Governmental Authority (other than those taxes, the amount or validity of which is being contested in good faith by appropriate proceedings diligently prosecuted and with respect to which prior notice has been given to Agent and reserves reasonably satisfactory to Agent have been provided or a bond reasonably satisfactory to Agent has been posted); and no tax Liens have been filed and no claims are being asserted with respect to any such taxes, fees or other charges.

4.10 Availability of Utilities. All utility services and facilities necessary for the construction of the Improvements without impediment or delay (including, without limitation, gas, electrical, water and storm and sanitary sewage services and facilities) will be available at the boundaries of the Land upon the commencement of construction and all utility services necessary for the operation of the Improvements for their intended purposes will be available at or within the boundaries of the Land when needed.

4.11 Brokerage. No brokerage or other fee, commission or compensation is to be paid by Lenders in connection with this Loan as a result of any actions by Borrower or any Affiliate of Borrower or Lender.

4.12 Permits, Etc. All Permits for the construction of Borrower's Work and to the extent that Borrower is obligated to perform any of the Agency's Work in accordance with any of the Project Documents, all permits for the Construction of such Agency's Work that Borrower is obligated to obtain and which are

required to the date that this representation is being made or reaffirmed have been obtained and are in full force and effect.

4.13 Financial Statements. Any and all financial statements delivered to Lenders by or on behalf of Borrower or Guarantor are true and correct in all material respects and fairly present the financial conditions of their subjects as of their respective dates, no material adverse change has occurred in the financial conditions reflected since their respective dates and no additional Indebtedness has been incurred by Borrower since the respective dates of the latest statements, other than the borrowings contemplated by this Agreement or other Indebtedness which has been approved by Lenders in writing. No such financial statement or any certificate or statement furnished to Lenders by or on behalf of Borrower or Guarantor in connection with the transactions contemplated by this Agreement, and no representation or warranty in this Agreement, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in such financial statements, certificates or other statements or this Agreement not misleading in any material respect.

4.14 ERISA. Neither a Reportable Event nor an "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any ERISA Plan, and each ERISA Plan has complied in all material respects with the applicable provisions of ERISA and the Code. No termination of a Single Employer Plan has occurred, and no Lien in favor of the PBGC or an ERISA Plan has arisen, during such five-year period. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Single Employer Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such ERISA Plan allocable to such accrued benefits. Neither Borrower nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan, and neither Borrower nor any Commonly Controlled Entity would become subject to any liability under ERISA if Borrower or any such Commonly Controlled Entity were to withdraw completely from all Multiemployer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made. No such Multiemployer Plan is in Reorganization or Insolvent. The present value (determined using actuarial and other assumptions which are reasonable in respect of the benefits provided and the employees participating) of the liability of Borrower and each Commonly Controlled Entity for post retirement benefits to be provided to their current and former employees under ERISA Plans which are welfare benefit plans (as defined in Section 3(1) of ERISA) does not, in the aggregate, exceed the assets under all such ERISA Plans allocable to such benefits.

4.15 Solvency. Borrower is, and upon consummation of the transactions contemplated by this Agreement, the other Loan Documents and any other documents, instruments or agreements relating thereto, will be, Solvent.

4.16 Roads. All roads necessary for the use of the Improvements for their intended purposes and required by Governmental Authorities have either been completed or the necessary rights of way therefor are owned by Borrower or have been acquired by appropriate Governmental Authorities or dedicated to public use and accepted by said Governmental Authorities, and all necessary steps have been taken by Borrower and said Governmental Authorities to assure the complete construction and installation thereof no later than the Outside Completion Date or any earlier date required by any Legal Requirement, any Lease or the REA.

4.17 REA and Leases. The REA and all existing Leases in respect of the Project are unmodified and in full force and effect, there exists no default by Borrower, or to the best of Borrower's knowledge, by any other party under the REA or any existing Leases, and all conditions to the effectiveness and continuing effectiveness the REA and all existing Leases required to be satisfied as of the date hereof have been satisfied.

4.18 Accuracy of Information; Full Disclosure. All written information, reports and other papers and data with respect to Borrower furnished to Lenders by Borrower were, to the best of Borrower's knowledge, at the time the same were so furnished or as of the date of such report or information, correct in all material respects, or have been subsequently supplemented by other information, reports or other papers or data, to the extent necessary to give Lenders a true and accurate knowledge of the subject matter of such information, reports, or other papers and data in all material respects. All projections with respect to Borrower furnished to Lenders by or on behalf of Borrower, as supplemented, were prepared and presented in good faith by Borrower. No fact is known to Borrower which has or is reasonably likely to have a Material Adverse Effect, which has not been set forth in the financial statements referred to in subsection 4.13 or in such information, reports, papers and data or otherwise disclosed in writing to Lenders prior to the date hereof. Neither this Agreement nor any documents, financial statements, reports, notices, schedules, certificates, statements or other writings furnished by or on behalf of Borrower to Agent or any Lender in connection with the negotiation of this Agreement or the consummation of the transactions contemplated hereby, or required herein to be furnished by or on behalf of Borrower, contains to Borrower's knowledge any untrue or misleading statement of a material fact or omits a material fact necessary to make the statements herein or therein not misleading. There is no fact known to Borrower which Borrower has not disclosed to Agent and Lenders in writing which materially affects adversely nor, so far as Borrower can now

foresee, will materially affect adversely the business, prospects, profits or financial condition of Borrower or the ability of Borrower to perform this Agreement.

4.19 Mall Site in Buildable Condition. The Agency has delivered the Leased Premises in "Buildable Condition" as such term is defined in the Project Agreement.

4.20 Plans under REA. Borrower has delivered all Plans required to be delivered under the REA to the other parties to the REA and such Plans have either been approved or deemed approved pursuant to the terms of the REA by all of such parties.

SECTION 5. AFFIRMATIVE COVENANTS.

Borrower agrees, unless otherwise consented to in writing by Agent or Lenders, as applicable, that, so long as the Commitments remain in effect or the Notes remain outstanding and unpaid or any amount is owing to any Lender hereunder or under any of the other Loan Documents, Borrower shall fully keep and perform each of the covenants set forth in this Section.

5.1 Construction. (a) Borrower shall complete the erection and equipping of Borrower's Work with due diligence on or before the Outside Completion Date subject to and in accordance with the Borrower Construction Plans, this Agreement, the REA, the Project Agreement and the Leases, and shall diligently enforce all of its rights, if any, under any of the Project Documents to cause the Agency to complete the erection and equipping of the Agency's Work with due diligence, subject to and in accordance with the Agency Construction Plans and the Project Agreement. Borrower shall construct and equip Borrower's Work and shall diligently enforce all of its rights, if any, under any of the Project Documents to cause the Agency to construct and equip the Agency's Work in full compliance with the Legal Requirements affecting the Project and all requirements of the appropriate Board of Fire Underwriters or other similar body acting in and for the locality in which the Project is situated.

(b) Upon demand of the Agent, Borrower at its sole cost and expense, shall correct promptly any structural defect in the Improvements, any material departure from the Plans in violation of this Agreement and any failure to comply with applicable Legal Requirements in all material respects (unless such Legal Requirements are being contested by Borrower in accordance with the terms of the Mortgage).

5.2 Performance under Other Agreements. Borrower shall duly perform and observe in all material respects all of (a) the covenants, agreements and conditions on its part to be performed and observed under each of the Loan Documents and the Leases, and (b) the covenants, agreements and conditions on its part to be performed and observed under each of the Project Documents. Borrower shall diligently enforce its rights and remedies under the Agency Documents, the REA and the Anchor Leases in a commercially reasonable manner.

5.3 No Encroachments. The Improvements shall be constructed entirely on the Leased Premises and shall not encroach upon or overhang any easement or right-of-way or the land of others in any material manner. When erected the Improvements shall be wholly within any building restriction lines, however established. Borrower shall furnish to Agent promptly after the foundations for the Improvements have been completed, a foundation survey prepared by a registered surveyor or engineer.

5.4 Application of Insurance and Condemnation Proceeds. Any proceeds of insurance or condemnation received as a result of a casualty or taking shall be applied as provided in the Mortgage. In the event that Agent shall make available to Borrower the proceeds of any fire or other casualty insurance or condemnation actually paid to Agent in respect of such damage or destruction of the Improvements (after deducting therefrom any sums retained by Agent in reimbursement for costs of collection) to pay the cost of restoration, as provided in the Mortgage, Borrower shall, and shall diligently enforce its rights, if any, under the Project Documents to cause the Agency to, proceed promptly with the work of restoration of the Improvements or any other improvements located at the Mall in accordance with the Plans and shall prosecute the work of restoration diligently to completion. Except as otherwise provided in the Mortgage with respect to insurance proceeds in an amount less than \$3,000,000, all insurance proceeds shall be held by Agent to secure payment of Borrower's obligations under this Agreement, the Notes and the Security Documents and disbursed in accordance with the procedures and subject to the conditions specified in this Agreement and the Mortgage for the disbursement of Loan proceeds. If any Event of Default or payment Default shall occur prior to completion of such work of restoration, then Agent, at its option, may apply such insurance or condemnation proceeds in payment of sums due under this Agreement or on the Notes or any of the Security Documents, in such order as Agent may elect in its sole discretion. Any insurance or condemnation proceeds remaining after restoration of the Improvements is completed shall be, (a) if completion of such restoration occurs prior to the Completion Date, at Agent's election, applied in prepayment of the principal amount of the Loans, in the inverse order of maturity if payable in installments, or paid over to Borrower or (b) if such completion of restoration occurs after the Completion Date, paid over to Borrower.

5.5 Certain Notices. Borrower shall give notice to Agent promptly upon the occurrence of:

- (a) the receipt by Borrower of any notice given to Borrower that a default by Borrower has occurred under any Anchor Lease, Major Lease, the REA, or any Project Document;
- (b) the giving by Borrower of any notice of default or other material notice under any Anchor Lease, the REA, any Agency Document and any Construction Document;
- (c) the giving by Borrower of any notice under any Major Lease alleging that a default has occurred under such Major Lease or indicating Borrower's intent to terminate such Major Lease, provided that the foregoing notice requirement shall be satisfied if the default giving rise to such notice is described in the report delivered by Borrower to Agent pursuant to subsection 5.13(a)(iii);
- (d) the receipt by Borrower of any notice given to Borrower or with respect to the Project or the giving by Borrower of any notice which alleges that any portion of construction or equipping or furnishing of the Improvements does not comply with any Legal Requirement;
- (e) Borrower becoming aware of any development or event which is reasonably likely to have a Material Adverse Effect;
- (f) any condition which results or is reasonably likely to result in a Force Majeure Delay in completion of the Improvements; and
- (g) the following events, as soon as possible and in any event within 30 days after Borrower knows or has reason to know thereof: (i) the occurrence or expected occurrence of any Reportable Event with respect to any ERISA Plan, a failure to make any required contribution to a ERISA Plan, the creation of any Lien in favor of the PBGC or a ERISA Plan or any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any ERISA Plan.

Each notice pursuant to this subsection shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to in such notice and stating what action Borrower proposes to take with respect to such occurrence.

5.6 Plan Changes. Borrower, without the prior written consent of the Agent but subject to the provisions of Section

2.3, shall not make (a) any single change to the Plans or direct or make change orders or change bulletins that would require Borrower to incur greater than \$500,000 in additional costs or (b) any changes to the Plans or direct or make change orders or change bulletins that would, in the aggregate, require Borrower to incur greater than \$3,000,000 in additional costs, provided, however, once the aggregate increased costs resulting from approved or unapproved changes to the Plans or change orders exceeds \$3,000,000, Agent's prior approval shall be necessary prior to Borrower's making any change to the Plans that would require Borrower to incur greater than \$250,000 in additional costs.

Furthermore, Borrower shall provide copies of all change orders, change bulletins and other revisions of the Plans and the Construction Agreement to the Consulting Professional and, if Agent's prior approval is required under this Section, to Agent, prior to commencement of any work reflecting such changes or revisions, and, if Agent's prior approval is not required pursuant to this Section, to the Agent, promptly after such work is commenced.

5.7 Indemnification. Borrower hereby indemnifies Agent and Lenders against any claims for brokerage fees or commissions asserted in connection with the Loans arising out of or in connection with any act or omission of Borrower or any Affiliate of Borrower and agrees to pay all reasonable out-of-pocket expenses incurred by Lenders in connection with the defense of any such action or proceeding brought to collect any such brokerage fees or commissions.

5.8 Expenses. (a) Borrower shall pay or reimburse Agent and Lenders for all reasonable out-of-pocket expenses incurred by Agent and Lenders before and after the date of this Agreement with respect to any and all transactions contemplated by this Agreement including, without limitation, the preparation of any document reasonably required by Agent and the enforcement of any of Agent's and/or Lenders' rights under this Agreement, but excluding expenses incurred by any Lender in connection with its sale of participating interests in, or assignment of, all or any part of its rights and obligations hereunder pursuant to subsection 10.11(b) and (c) of this Agreement. From time to time after the closing, Borrower may receive statements for such expenses, including, without limitation, attorneys' fees and disbursements. Borrower shall pay such statements promptly upon receipt. Agent acknowledges that the Administrative Fee is payable in consideration for the ordinary administration of the Loan by Agent and that no additional compensation shall be due therefor.

(b) If, with respect to the Loans or the Project, any action or proceeding is commenced by Agent (including, without limitation, any action to foreclose under the Mortgage or to collect the Loans or enforce the Guarantees) or to which Agent and/or one or more Lenders are made a party, or in which it becomes necessary to defend or uphold the lien of the Mortgage,

or in which Agent and/or one or more Lenders are served with any legal process, discovery notice or subpoena relating to Lenders' lending to Borrower or accepting the Guaranties, Borrower will reimburse Agent and Lenders for all expenses (including, without limitation, attorney's fees and costs) which have been or may be incurred by Agent and Lenders arising from or in connection with such action or proceeding promptly upon receipt of statements for such expenses.

(c) Any amounts payable or reimbursable by Borrower under this subsection which are not paid or reimbursed within thirty days after demand by Agent shall bear interest at the rate of interest payable under subsection 3.8(c) from the date of such demand until payment. Agent shall furnish Borrower with supporting information for such statements as reasonably requested by Borrower.

5.9 Construction Schedule. As soon as reasonably available after commencement of construction, Borrower shall provide Agent, at Borrower's expense, with a critical path method schedule for completion of the construction and equipping of the Improvements, which schedule shall be in form and substance reasonably satisfactory to Agent.

5.10 Inspection of Books and Records. Agent and the Consulting Professional, and designated representatives of either of them, shall, upon reasonable prior notice and at reasonable times, have the right of entry and free access to the Improvements (subject to the rights of lessees) and the right in the presence of a representative of Borrower (provided Borrower makes its representative available on a timely basis) to inspect all work done, labor performed and materials furnished in and about the Improvements and to inspect all books, contracts, records and plans and shop drawings of Borrower relating to the Project or the construction of the Improvements. Upon reasonable prior notice and at reasonable times, Borrower shall make its representatives available for Agent or the Consulting Professional and any designated representative of either, to discuss Borrower's affairs, finances and accounts relating to the Project and the construction of the Improvements and Borrower will cooperate, and cause the Construction Manager to cooperate, with Agent and the Consulting Professional and any designated representative of either of them.

5.11 Movement of Unincorporated Materials. With respect to any Unincorporated Materials for which advances of the Loan have been made, Borrower shall give notice to Agent not less than five days prior to any change in the location of such Unincorporated Materials, which notice shall state the date on which transfer shall commence, the destination and the name and address of the carrier. If requested by Agent at the time such notice is given, Borrower shall furnish to Agent, promptly when available, copies of bills of lading, certificates of bailment, warehouse receipts and other documents and instruments evidencing

Borrower's rights in the Unincorporated Materials in transit and on arrival at destination.

5.12 Inspection Reports. Borrower shall furnish, or cause to be furnished, to the Consulting Professional as soon as available: (a) copies of all construction contracts and purchase orders entered into after the date hereof, (b) copies of contractor trade payment breakdowns and monthly job cost reports prepared by Borrower and the Construction Manager and (c) such other information as may be reasonably requested by the Consulting Professional in order to make reports to Agent as to the status of the Project. Upon request by Agent, Borrower shall furnish or cause to be furnished to the Consulting Professional, copies of all testing and quality control reports and Architect's field reports prepared for and delivered to Borrower.

5.13 Financial Statements; Other Information. (a) Borrower shall deliver to the Agent (i) within 90 days after the end of each of its fiscal years after the opening of the Project to the general public, annual audited operating statements and a rent roll for the Project and a copy of the balance sheet and statement of sources and uses of funds of Borrower as at the end of such year, and related statements of income and retained earnings and changes in financial position for such year, (ii) within 45 days after the end of each of its fiscal quarters after the opening of the Project to the general public, (other than the last) quarterly operating statements and a rent roll for the Project and a copy of the balance sheet and statement of sources and uses of funds of Borrower as at the end of such quarter, and related statements of income and retained earnings and changes in financial position for such quarter and a statement of Borrower's calculation of the Guarantied Obligations as of the end of such fiscal quarter and (iii) within 20 days after the end of each two-month period, a leasing status report, tenant sales reports, tenant receivable reports and a current rent roll, each in the form reasonably acceptable to Agent. The foregoing financial statements of Borrower shall be certified by a Responsible Officer and, with respect to the annual financial statements of Borrower, also by Deloitte & Touche or such other nationally recognized certified public accountant reasonably approved by the Agent. All financial statements of Borrower delivered to the Agent shall be true and correct in all material respects, shall be prepared in accordance with generally accepted accounting principles, consistently applied, and in each case shall fairly present the financial condition of the subject as of the dates thereof and each of the operating statements shall be in reasonable detail and include cash flow and any other information reasonably requested by the Agent. Any material adverse change that occurs in the financial condition of Borrower after the date of the most recent financial statements shall be reported to the Agent promptly. None of the financial statements of Borrower or any certificate or statement furnished to the Agent by or on behalf of Borrower in connection with the transactions contemplated hereby, shall contain any untrue statement of a

material fact or omit to state a material fact necessary in order to make the statements contained therein or herein not misleading.

(b) Borrower shall furnish to the Agent:

(i) concurrently with the delivery of the financial statements referred to in subsection (a), a certificate of a Responsible Officer (A) stating that, to the best of such person's knowledge, after such examination or investigation as is necessary to enable such person to make an informed judgment, Borrower during such period has, in all material respects, observed or performed all of its covenants and other agreements, and satisfied every condition, contained in this Agreement and all other Loan Documents to be observed, performed or satisfied by it, and that such person has obtained no knowledge of any Default or any Event of Default, except as specified in such certificate and (B) stating Borrower's calculation of the Guarantied Obligations as of the end of such fiscal year;

(ii) not later than November 30th of each year commencing after Completion, a copy of the projections by Borrower of the operating budget and cash flow for the Project for the following year; and

(iii) promptly, such additional financial and other information as the Agent may from time to time reasonably request.

5.14 Administration Fee. Borrower agrees to pay on the first day of each calendar quarter, for the immediately preceding calendar quarter, to the Agent an administrative fee (the "Administrative Fee") in an amount equal to (i) \$30,000 (i.e., \$120,000 per calendar year) for the period beginning on the date hereof and ending on the date of Completion of the Improvements and (ii) \$15,000 (i.e., \$60,000 per calendar year) for the period beginning after Completion of the Improvements and ending on the date that the Loans are repaid in full. The Administrative Fee shall be pro rated for any partial calendar quarter during which this Agreement is in effect.

5.15 Leasing. Borrower shall generally lease space in the Project to quality tenants at prevailing market rents and other market terms.

SECTION 6. NEGATIVE COVENANTS

Borrower agrees, unless otherwise consented to in writing by Agent or Lenders, which consent shall not be unreasonably withheld with respect to subsections 6.3, 6.4 and 6.6, that, so long as the Commitments remain in effect, any Note remains outstanding and unpaid or any other amount is owing to any Lender hereunder or under any of the other Loan Documents, Borrower shall not take or permit the actions set forth in this Section.

6.1 Additional Debt. Borrower shall not create, incur, assume or suffer to exist any Indebtedness other than (a) the Loans, (b) trade payables incurred in the ordinary course of business, (c) unsecured loans made to Borrower by any partner in Borrower, provided that such loans are subordinated to the Loans in a manner reasonably acceptable to Agent and (d) unsecured loans incurred for working capital purposes of the Project (which shall include the right to enter into Financing Leases), provided that such loans and Financing Leases described in clause (d) shall (i) not become effective until after the Completion of the Project, (ii) be subordinated to the Loans in a manner reasonably satisfactory to Agent and (iii) be in an aggregate amount not to exceed \$10,000,000 at any time outstanding.

6.2 Changes in Plans. (a) Borrower shall not modify or supplement, or permit the modification or supplementing of, the Plans in any respect, which in the reasonable determination of the Consulting Professional would (i) materially adversely affect the structural integrity of the Improvements or alter the nature of the Improvements as a regional shopping center or (ii) cause the Improvements to be Completed after the Outside Completion Date and (b) Borrower shall not modify or supplement, or permit the modification or supplementing of, the Plans in any respect without the prior written consent of lessees under Leases which specify construction requirements, parties to any Project Document which have the authority to approve any changes in Plans and all Governmental Authorities which previously have approved the matters to be changed.

6.3 Intentionally Deleted.

6.4 Changes in Agreements. Borrower shall not:

(a) surrender, terminate, cancel, rescind or supplement, alter, revise, modify or amend any Agency Document, Anchor Lease or the REA (including, without limitation, allowing the ipso facto amendment which is contemplated by the penultimate paragraph of Section 13.2 of the REA to occur) or permit any such action to be taken.

(b) amend, modify or waive any of the provisions of the Partnership Agreement which would result in (i) the reduction or impairment of authority of Guarantor, (ii) the loss by Guarantor

of control over the operation and management of Borrower or the Project or (iii) the reduction of Guarantor's ownership interest in Borrower to an amount less than 51% of the total ownership and economic interests in Borrower.

(c) enter into a Management Agreement which does not expressly provide (i) that the Agent shall have the right to terminate such Management Agreement without penalty or cost to Agent after the occurrence and during the continuance of an Event of Default and (ii) that the Agent or its designee shall have the right to continue the Management Agreement in full force in accordance with the terms of such Management Agreement for a period not to exceed 120 days from the date that the Agent or its designee takes over the Project.

(d) amend, modify or waive any of the material provisions of any of the Construction Documents or permit any such action to be taken, except to the extent such changes do not materially affect the rights or interests of Agent or the Lenders (which rights shall include the Agent's right to succeed to Borrower's interest under the Construction Documents after an Event of Default).

6.5 Transactions with Affiliates. Borrower shall not enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of property or the rendering of any service, with any Affiliate except for transactions which (a) are upon fair and reasonable terms no less favorable to Borrower than it would obtain in a hypothetical comparable arm's length transaction with a Person not an Affiliate or (b) neither the Agent nor the Lenders or any of their successors or assigns would be bound upon the foreclosure or assignment-in-lieu of foreclosure of the Project.

6.6 Appointment of Manager; Amendment of Third Party Management Agreement. Borrower shall not appoint any Manager other than an Affiliate of Guarantor. If Agent consents to Borrower entering into a Management Agreement with a Manager that is not an Affiliate of Guarantor, Borrower shall not amend, modify or terminate such Management Agreement.

SECTION 7. CONDITIONS PRECEDENT TO FIRST ADVANCE

Lenders shall not be obligated to make the first advance of Loan proceeds until all of the conditions set forth in this Section shall have been satisfied.

7.1 Closing Documents. Agent shall have received all the items set forth in this subsection, in each case in form and substance satisfactory to Agent.

(a) Taxes. Evidence that all past and current taxes and assessments (or installments thereof, if payable in

installments) applicable to the Project or payable by Borrower have been paid, except for any taxes or assessments which are not yet delinquent.

(b) Title Insurance Policy. A mortgagee's policy of title insurance or satisfactory evidence of Title Company's unconditional obligation to issue such a policy, dated as the date of the first advance of the Loan (the "Title Insurance Policy"). Such Title Insurance Policy shall (i) be in the amount of the Loan; (ii) be issued at ordinary rates; (iii) insure the Agent that the Mortgage creates a valid Lien on the Leased Premises and the Improvements located thereon, free and clear of all defects and encumbrances, except for the Permitted Exceptions; (iv) be in the form of policies providing the Agent with the broadest coverage that is then offered by Title Company to mortgagees of properties located in the City of Norfolk and Commonwealth of Virginia and that is otherwise satisfactory to the Agent; (v) provide full coverage against mechanics' liens and against survey exceptions not specified as Permitted Exceptions; (vi) contain a pending disbursements clause or endorsement in form and substance satisfactory to Agent and a commitment of Title Company to provide notices of title continuation or endorsement sufficient to enable Agent to determine that title to the Project is satisfactory prior to Agent's making any subsequent advance of the Loan; and (vii) contain such other endorsements and affirmative coverage as Agent may request. The Agent shall be furnished with copies of all documents that appear as exceptions in the Title Insurance Policy.

(c) Payment of Title Insurance Premium. Evidence satisfactory to Agent that all premiums in respect of such title insurance policy have been paid.

(d) Survey. A survey of the Leased Premises (current to within 60 days of the date of the first advance of the Loan), certified to Lenders by an independent professional licensed land surveyor satisfactory to Agent, which survey shall be made in accordance with the Minimum Standard Detail Requirements for Land Title Surveys jointly established and adopted by the American Title Association and the American Congress on Surveying and Mapping in 1988. Without limiting the generality of the foregoing, there shall be surveyed and shown on such survey the following: (i) the locations of all buildings and other structures, if any, on the Leased Premises and the established building setback lines; (ii) the lines and the width of streets abutting the Leased Premises; (iii) all access and other easements appurtenant to or necessary to the use of the Leased Premises; (iv) all roadways, paths, driveways, easements, encroachments and overhanging projections and similar encumbrances affecting the Leased Premises, whether recorded, apparent from a physical inspection of the Leased Premises or otherwise.

known to the surveyor; (v) any party walls with structures on adjoining property any encroachments on any adjoining property by the building structures and improvements on the Leased Premises; and (vi) if the Leased Premises is described by reference to a filed map, a legend relating the survey to such map.

(e) Availability of Utilities. Letters from local utility companies or Governmental Authorities stating, or such other evidence satisfactory to Agent, showing that gas, electric power, sanitary and storm sewers, water and all other utilities (i) that are necessary and required during the construction period have been completed and will be available in such a manner as to assure Agent that construction will not be impeded by a lack of utilities and (ii) that are necessary for operation and occupancy of the Improvements will be completed in such a manner and at such a time as will assure the opening and operation of the Improvements on or before the Outside Completion Date.

(f) Architect's Certificate. The Architect's Certificate.

(g) Construction Manager's Certificate. The Construction Manager's Certificate and a certified list of all construction contracts entered into in connection with the Improvements.

(h) Hazard Insurance. Policies or certificates of insurance required by the Mortgage and any of the other Security Documents, accompanied by evidence of the payment of the premiums for such policies, with mortgagee loss payable endorsements naming Lenders as loss payees and confirmation by Agent's insurance consultant that the insurance in place complies with all requirements of the Mortgage.

(i) Flood Insurance. If required by the Mortgage, a policy of flood insurance in an amount equal to the lesser of (i) the maximum limit of coverage available under the National Flood Insurance Act of 1968, as amended, and (ii) the amount of the Loan.

(j) Permits, Etc. Copies of all Permits required for Borrower's Work as available, and, to the extent available to Borrower, copies of all Permits required for Agency's Work.

(k) Soils and Geological Report. If requested by Agent, a soils and geological report, including a summary of soils tests borings issued by a professional engineer satisfactory to Agent.

- (l) Opinion of Counsel for Borrower. An opinion of counsel for Borrower.
- (m) Opinion of Counsel for Guarantor. An opinion of counsel for Guarantor.
- (n) Project Documents. Certified copies of duly executed counterparts of the Major Agreements.
- (o) Plans. A copy of the Plans.
- (p) Loan Documents. Duly executed copies of all Loan Documents.
- (q) Budget. The Budget, together with the cost breakdown and schedule for construction of the Improvements setting forth all items of costs and expenses and estimating the construction trade schedules required to complete the construction and equipping of the Improvements.
- (r) Organizational Documentation. For Borrower and Guarantor, with respect to each such entity:
 - (1) the partnership agreement including all amendments and attachments, certified by a general partner;
 - (2) the partnership certificate including all amendments, certified by an official in whose office it is filed or recorded;
 - (3) any certificates filed or recorded or required to be filed or recorded by such partnership in the state of its formation and the state where the Land is located in order for it to do business in those states;
 - (4) any consents by other partners required for the borrowing contemplated by this Agreement and the execution, delivery and performance of the Loan Documents or the execution, delivery and performance of the Guaranty, as applicable; and
 - (5) if requested by Lender, an acknowledgement by each of the partners in Borrower of his or its continued membership in Borrower.
- (s) Borrowing Certificate and Requisition. A Borrowing Certificate and Requisition, duly executed by Borrower.
- (t) Pre-Leasing Requirement. Fully executed counterparts of the Nordstrom's Lease and the Dillards' Lease. In addition, each of Nordstrom and Dillards shall

have executed the REA in form and substance satisfactory to the Lenders.

(u) Environmental Report. An environmental report with respect to the Leased Premises in form and substance satisfactory to Agent, in its sole discretion.

(v) Construction Schedule. The Agent shall have received a critical path method schedule for completion of the construction and equipping of the Improvements in form and substance satisfactory to Agent.

(w) Engineer's Certificate. The Engineer's Certificate.

(x) Lien Searches. The results of a recent search by a Person satisfactory to Agent, of the Uniform Commercial Code, judgment and tax lien filings which may have been filed with respect to personal property of Borrower.

(y) Solvency Certificates. A Solvency Certificate, duly executed, from each of Borrower and Guarantor.

(z) Appraisal. An independent M.A.I. appraisal which shall comply in all respects with the standards for real estate appraisals established pursuant to the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

(aa) Leases. Copies of all fully executed Leases of the Improvements existing on the date of this Agreement, together with, to the extent in Borrower's possession and not prohibited by the terms of the Lease, current financial statements of the tenants (and guarantors of the tenants' obligations, if applicable) thereunder.

(ab) Standard Form of Lease. The standard form of lease Borrower intends to use in connection with the leasing of space in the Improvements.

(ac) REA. A copy, certified to be true and complete, of the REA, together with estoppel certificates with respect thereto from each of Dillards, Nordstrom and the Agency.

(ad) Management and Leasing Contracts. Copies of all existing contracts providing for the management, maintenance, operation or leasing of the Project or any improvements thereon, together with, in each case, such collateral assignments as Agent may require.

7.2 Fees. Agent shall have received any fees payable hereunder and all reasonable legal fees and disbursements of Lenders' counsel payable in connection with the preparation, execution and delivery of the Loan Documents and the consummation of the transactions contemplated by the Loan Documents.

7.3 Agency Construction Funding. Agent shall have received evidence, satisfactory to Agent, that the Agency has appropriated and funded no less than \$95,000,000 to cause the completion of the Agency's Work in accordance with the Project Agreement and the Agency Construction Plans.

7.4 Accounting. Agent shall have received and approved an accounting of all expenditures for costs shown on the Budget incurred prior to the first advance of the Loan.

7.5 Representations and Warranties. The representations and warranties which are contained in any of the Loan Documents or any certificate, document or financial or other statement furnished under or in connection with the Loan Documents, shall be correct in all material respects on and as of the date of the first advance as if made on and as of such date.

7.6 No Default or Event of Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the advance to be made on such Borrowing Date.

7.7 Notices of Leasehold Mortgage. Borrower shall have provided Agent executed notices to the Agency, as lessor under the Mall Lease and each party to the REA, informing such parties of the existence of the Mortgage and the notice address of Agent, in a manner which will ensure that Agent will be afforded all rights of a leasehold mortgagee under the Mall Lease and the REA and otherwise in form and substance reasonably satisfactory to Agent.

7.8 Surety Bonds; Construction Contracts. Borrower shall have provided evidence reasonably satisfactory to Agent and the Consulting Professional that the Construction Manager and all subcontractors which are required pursuant to the terms of the relevant Construction Documents or subcontracts to procure payment and performance bonds have procured such bonds in form and substance as required by such Construction Documents. Agent shall have received executed copies of all trade contracts for any contractors which are being paid with the proceeds of the Loans.

7.9 Additional Matters. All of the foregoing items and all other documents and legal matters in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to Agent and its counsel.

SECTION 8. CONDITIONS PRECEDENT TO SUBSEQUENT ADVANCES

8.1 All Subsequent Advances. Lenders shall not be obligated to make any advance of Loan proceeds subsequent to the initial advance until all of the conditions set forth in this subsection shall have been satisfied.

(a) Satisfactory Title. The Security Documents shall constitute a valid first lien on the Collateral for the full

amount of the Loan advanced to and including such date, free and clear of all Liens except for Permitted Exceptions and Permitted Encumbrances. Agent shall have been furnished with a notice of title continuation or an endorsement to the title insurance policy issued to Lenders in connection with the first advance of the Loan, which continuation or endorsement shall state that since the last disbursement of the Loan there have been no changes in the state of title to the Project and that there are no additional survey exceptions not previously approved by Agent.

(b) No Other Security Interests. Except as otherwise permitted herein, all materials and fixtures incorporated in the construction of the Improvements shall have been purchased so that their absolute ownership shall have vested in Borrower immediately upon delivery to the Land and Borrower shall have produced and furnished, if required by Agent, the contracts, bills of sale or other agreements under which title to such materials and fixtures is claimed.

(c) Statement of Expenditures. Agent shall have received with respect to Borrower's Work, a statement of Borrower, in form and substance satisfactory to Agent, setting forth the names, addresses and amounts due or to become due as well as the amounts previously paid to every contractor, subcontractor, and supplier furnishing materials for or performing labor on the construction of any part of Borrower's Work.

(d) Representations and Warranties. The representations and warranties contained in any of the Loan Documents or any certificate, document or financial or other statement furnished under or in connection with the Loan Documents, shall be correct in all material respects on and as of the Borrowing Date for such advance as if made on and as of such date.

(e) No Default or Event of Default. No Default or Event of Default shall have occurred and be continuing on such date or result from the advance to be made on such Borrowing Date.

(f) Borrower's Work. Agent shall have received and approved (i) an inspection report of the Consulting Professional and the Architect covering the progress of construction, conformity of Borrower's Work with the Borrower Construction Plans, quality of work completed and percentage of work completed and standard form G-702 (or such alternate form reasonably approved by Agent) executed by the Architect and the Construction Manager,

(ii) a draw request signed by the Construction Manager, satisfactory in form and substance to Agent, with appropriate insertions, accompanied by true copies of unpaid invoices, receipted bills and lien waivers for all items paid with the previous advance of the Loans, and such other supporting information as Agent may request. Agent shall have also received

(i) an inspection report of the Consulting Professional and the Architect covering the progress of

construction, conformity of the Agency's Work relating to items covered by the Garage Agreement with the Agency Plans, quality of work completed and percentage of work completed and standard AIA form G-702 (or such alternate form reasonably approved by Agent) executed by the Architect and the Construction Manager and with respect to any request for an advance for Borrower's contribution towards the construction of the parking garage under the Garage Agreement, Agent shall have confirmed that the conditions to Borrower's obligation to make such contribution under the Garage Agreement have been satisfied.

(g) Other Costs. In the case of advances to pay the costs included in the Budget that are not among the costs described in the preceding paragraph, Agent shall have received such evidence as it may reasonably require that such costs have been properly incurred and are due and payable.

(h) Evidence of Compliance. All instruments relating to each advance and all actions taken on or prior to each advance in connection with the performance of the Loan Documents shall be satisfactory to Agent, and Agent shall have been furnished with such documents, reports, certificates, affidavits and other information, in form and substance satisfactory to Agent, as Agent may require to evidence compliance with all of the provisions of the other Loan Documents.

(i) Lien Waivers. Borrower shall have furnished to Lender with respect to Borrower's Work, lien waivers in form and substance satisfactory to Agent from the Construction Manager and all contractors, subcontractors, suppliers and materialmen, evidencing that they have been paid in full for all work performed or materials supplied to the date of the preceding advance, except for retentions provided for in this Agreement.

(j) Agreements. Each of the Major Agreements shall be in full force and effect. There shall exist no default, after the giving of notice, if applicable, and/or expiration of cure periods, if applicable, by (i) any party other than Borrower under any Major Agreement that, in the reasonable judgement of Agent, could have a Material Adverse Effect and (ii) Borrower under any Agency Document, any Anchor Lease, the REA or any Construction Document, subject to Borrower's right, with respect to the Construction Documents, to dispute in consultation with Agent, both acting in good faith to determine the proper course of action to be taken under such agreements, the charges or amounts which may be due under such agreements.

(k) Damage or Injury. The Improvements shall not have been materially damaged by fire or other casualty unless there shall have been received by Agent or a person approved by Agent, or unless the relevant insurance company shall have confirmed coverage for such casualty and committed to disburse, insurance proceeds sufficient in the sole judgment of Agent and the Consulting Professional, to effect satisfactory restoration and

completion of the Improvements on or before the Outside Completion Date.

(l) Taxes. Agent shall have received evidence that all past and current (if then due and payable) taxes and assessments applicable to the Project or payable by Borrower in connection with the Project have been paid.

(m) Waived Conditions. Upon the request of Agent, all conditions waived with respect to the initial advance or any subsequent advance shall be met.

(n) Borrowing Certificate and Requisition. Agent shall have received a Borrowing Certificate and Requisition dated the date of such advance.

(o) No Litigation. There shall be no action, suit or proceeding (zoning or otherwise) pending against or involving Borrower or the Collateral or with respect to any of the Permits in any court, or before or by any Governmental Authority, whether federal, state, county or municipal which Agent determines to have a reasonable likelihood to be adversely determined and which, if adversely determined, would be reasonably likely to have a Material Adverse Effect.

(p) Surety Bonds; Construction Contracts. To the extent not previously delivered to Agent, Borrower shall have provided evidence reasonably satisfactory to Agent and the Consulting Professional that the Construction Manager and all subcontractors which are required in accordance with the terms of the relevant Construction Documents or subcontracts to procure payment and performance bonds have procured such bonds in form and substance as required by such Construction Documents. Agent shall have received executed copies of all trade contracts for any contractors which are being paid with the proceeds of the Loans.

8.2 Completion of Improvements. The Improvements shall not be deemed completed for purposes of this agreement until all of the conditions set forth in this subsection shall have been satisfied.

(a) The Improvements shall have been completed substantially in accordance with the Plans and accepted by Borrower subject to completion of minor "punch list" items having an aggregate cost to complete or repair not to exceed \$1,500,000;

(b) The Agency's Work shall have been completed substantially in accordance with the Agency Plans;

(c) The Agent shall have received the following, in each case in form and substance satisfactory to the Agent:

- (i) evidence of the approval by all appropriate Governmental Authorities of the Improvements as being complete as to construction including, without limitation, a copy of the Temporary Certificate of Occupancy;
- (ii) the certificate of (a) the Architect and (b) the Construction Manager that the Improvements have been completed substantially in accordance with the Plans, that connection has been made to all appropriate utility facilities; and
- (iii) a perimeter survey showing the completed Improvements, all easements on and appurtenant to the Leased Premises and the location of access to the Leased Premises and all utility and water easements directly affecting the Leased Premises with a certification that the Improvements do not encroach on any property other than the Leased Premises, that no buildings, other structures or appurtenances on other property encroach on the Leased Premises and that all set-back requirements have been complied with.

SECTION 9. EVENTS OF DEFAULT

9.1 Events of Default. The occurrence of any of the events set forth in this subsection shall constitute an Event of Default.

- (a) Payment of Note. Borrower shall fail to pay any principal of any Note when due in accordance with the terms thereof or hereof; or Borrower shall fail to pay any interest, fees, charges or other amounts payable hereunder, under any Note or any other Loan Document within three Business Days after written notice to Borrower.
- (b) Unsatisfactory Title. Title to any part of the Collateral shall not be satisfactory to Agent, in its reasonable judgment, by reason of any Lien or other defect (even though any such defect may have existed at the time of any prior advance), except the Permitted Exceptions, the Permitted Encumbrances and the Liens of the Security Documents, and such Lien, encumbrance or other defect shall not be removed or bonded or insured over within 30 days after notice to Borrower.
- (c) Unauthorized Assignments, Etc. Borrower shall assign any interest in this Agreement or any advance to be made or any interest in either.
- (d) Damage or Destruction. The Improvements are partially or totally damaged or destroyed by fire or any other cause prior to Completion and the restoration of the Improvements cannot with the exercise of ordinary diligence reasonably be expected to be completed on or prior to the Outside Completion Date, subject to extensions by the period of any Force Majeure Delay.

(e) Cessation of Construction. For the period commencing on the date of the first advance hereunder through the Outside Completion Date, there is any cessation of construction of Borrower's Work for any period after the date construction commences in excess of 60 successive calendar days, unless the conditions of each of subparagraphs (i), (ii), (iii) and (iv) of this subparagraph shall be satisfied at all times during such cessation:

(i) the cessation of construction shall have been caused by reason of a Force Majeure Delay;

(ii) Borrower shall have made adequate provision, acceptable to Agent, for the protection of materials acquired by Borrower stored on site and for the protection of the tenant finish work constituting Borrower's Work, to the extent then constructed, against deterioration and against other loss or damage and theft;

(iii) Borrower shall have furnished to Agent satisfactory evidence that such cessation of construction will not (x) materially adversely affect or jeopardize the rights of Borrower under agreements relating to the construction or operation of the Project (including any Leases) or (y) increase the cost of construction of Borrower's Work, unless Borrower shall either demonstrate to Agent's satisfaction that an adequate source of funds is and shall remain available to cover such increased costs or deposit with Agent additional funds in an amount equal to such increased costs; and

(iv) from time to time upon Agent's request during any such cessation of construction, Borrower shall furnish to Agent satisfactory evidence that (notwithstanding such cessation of construction) the completion of the Improvements can be accomplished on or prior to the Outside Completion Date, subject to extensions by the period of any Force Majeure Delay.

(f) Nonconforming Work. The construction of all or any material part of the Improvements, including, without limitation, materials, fixtures and articles, is performed in a manner other than substantially in accordance with the Plans and Borrowers does not promptly remedy the same after Borrower is aware of such variance.

(g) Other Security Agreements. Any of the following occurs: (i) Borrower executes any chattel mortgage or other security agreement on any materials, fixtures or articles of personal property used in the construction of Borrower's Work, which, for security agreements securing an amount less than \$1,000,000, are not discharged within 5 days after notice from Agent of the existence of such security agreement or if any such materials, fixtures or articles are purchased pursuant to any

conditional sales contract or other security agreement or otherwise so that the ownership of such materials, fixtures or articles will not vest unconditionally in Borrower upon delivery, unconditionally and free from encumbrance or (ii) Borrower does not furnish to Agent within 30 days after request the contracts, bills of sale, statements, receipted vouchers and agreements, or any of them, under which Borrower claims title to such materials, fixtures or articles.

(h) Insufficient Funds. Borrower shall fail to remedy any Budget Deficit within (i) 30 days after demand by Agent if such Budget Deficit shall occur prior to the making of the first advance hereunder and (ii) 30 days after demand by Agent if such Budget Deficit shall occur after the making of the first advance hereunder.

(i) Defaults under Other Agreements. Any default by Borrower shall occur under the Ground Lease, the REA, the Project Agreement, any Anchor Lease, the Construction Documents (subject to Borrowers right to dispute amounts due under the Construction Documents in accordance with Section 8.1(j)), and any notice, if required, shall have been given and any grace or cure period, if applicable, shall have expired.

(j) Failure to Complete. The Improvements shall not be completed, as provided in this Agreement, as of the close of business on the Outside Completion Date.

(k) Other Covenants. Borrower shall default in the performance or observance of any of the provisions contained in Section 6.1 or 6.4 of this Agreement.

(l) Other Defaults. An Event of Default (as defined in the Mortgage) shall have occurred and be continuing, or Borrower shall default in the performance or observance of any other term, covenant, condition or obligation contained in this Agreement or any of the Loan Documents (other than the Mortgage) and such default shall continue for 30 days after notice shall have been given to Borrower by Agent specifying such default and requiring such default to be remedied, which 30-day period may be extended to the extent required (provided that such extended period shall not be longer than 180 days at any time when the Guaranty Percentage is less than 100%) if such default is not susceptible of cure within 30 days so long as Borrower has commenced to cure such default within such 30-day period and is thereafter diligently prosecuting such cure to completion and so long as such delay is not likely to have a Material Adverse Effect; provided, however, any default in the payment of an obligation to pay a liquidated amount (including, without limitation, discharging any non-permitted Liens) shall be promptly cured after notice by Agent.

(m) Security Documents. Any of the Security Documents or the Guarantees shall cease for any reason to be in full force

and effect (except in accordance with their terms), or Borrower or any other Person executing any Security Document or any Guaranty shall so assert in writing.

(n) Acceleration Events. Any Automatic Acceleration Default shall occur.

(o) ERISA. (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any ERISA Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any ERISA Plan or any Lien in favor of the PBGC or an ERISA Plan shall arise on the assets of Borrower or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of Required Lenders, likely to result in the termination of such Single Employer Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) Borrower or any Commonly Controlled Entity shall, or in the reasonable opinion of Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist with respect to an ERISA Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could subject Borrower to any tax, penalty or other liability which, in the aggregate, is material in relation to the business, operations, property or financial or other condition of Borrower.

(p) Guarantor Covenants. Guarantor shall default in the performance or observance of any of the covenants contained in any of the Guarantees, after any required notice has been provided and applicable cure period has expired.

9.2 Lenders' Right to Apply Loan Proceeds. During the continuance of an Event of Default, Lenders shall have the right, but not the obligation, to disburse and directly apply proceeds of the Loans to satisfy Borrower's obligations if and to the extent the same are due and payable. Borrower hereby authorizes Lenders during the continuance of any Event of Default to hold, use, disburse and apply advances of the Loans for costs incurred in constructing and equipping Borrower's Work, payment or performance of obligations of Borrower under the Loan Documents (including payment of interest on the Loans) and preservation and protection of the Collateral. Such disbursements shall be deemed advances of the Loans for all purposes and shall be secured by the Security Documents.

9.3 Lenders' Right to Stop Advancing Funds and to Accelerate the Loans. In addition to any other rights and remedies Lenders may have pursuant to the Loan Documents or otherwise, and without limitation, if any Event of Default shall occur, (a) if such Event of Default is an Automatic Acceleration Default, automatically the Commitments shall terminate and the Loans (together with accrued interest) and all other amounts owing under this Agreement, the Notes, the Security Documents and the other Loan Documents immediately shall become due and payable, and (b) if such event is any other Event of Default, either or both of the following actions may be taken: (i) Agent may by notice to Borrower, declare the Commitments to be terminated, in which case the Commitments shall immediately terminate; and (ii) Agent may, by notice to Borrower, declare the Loans (together with accrued interest thereon) and all other amounts payable under this Agreement, the Notes, the Security Documents and the other Loan Documents to be due and payable, in which case such amounts immediately shall become due and payable. Except as expressly provided above in this subsection, Borrower hereby expressly waives presentment, demand, protest and all other notices of any kind.

9.4 Lenders' Right to Complete. Upon the occurrence and during the continuance of any Event of Default, in addition to any other remedies which Lenders may have pursuant to the Loan Documents, or as provided by statute or rule of law, Agent may enter upon the Leased Premises and construct, equip and complete Borrower's Work in accordance with the Borrower Construction Plans with such changes in the Borrower Construction Plans as Lenders may from time to time and in their sole discretion deem appropriate, all at the risk, cost and expense of Borrower. Lenders shall have the right at any and all times to discontinue any work commenced by it in respect of Borrower's Work or to change any course of action undertaken by it and shall not be bound to Borrower by any limitations or requirements of time whether set forth in this Agreement or otherwise. Lenders shall have the right and power, but shall not be obligated, to assume Borrower's interest under any contract made by or on behalf of Borrower in any way relating to Borrower's Work or the construction of Borrower's Work and to take over and use all or any part or parts of the labor, materials, supplies and equipment contracted for by or on behalf of Borrower, whether or not previously incorporated into Borrower's Work, all in the sole and absolute discretion of Lenders. In connection with any construction of Borrower's Work undertaken by Lenders pursuant to the provisions of this subsection, Lenders may (i) engage builders, contractors, architects, engineers and others for the purpose of furnishing labor, materials and equipment in connection with any construction of Borrower's Work, (ii) pay, settle or compromise all bills or claims which may become Liens against the Leased Premises, or any part of the Leased Premises, or which have been or may be incurred in any manner in connection with the construction, completion and equipping of Borrower's Work or for the discharge of Liens or defects in the title of the Leased Premises, or any part of the Leased Premises, and (iii) take such other action (including the employment of watchmen to protect the Leased Premises) or refrain from acting under this Agreement, as Lenders may in their

sole and absolute discretion from time to time determine without any limitation whatsoever. Borrower shall be liable to reimburse Lenders for all sums paid or incurred for the construction, completion and equipping of Borrower's Work, whether such sums shall be paid or incurred pursuant to the provisions of this subsection or otherwise. At Lenders' option, all such sums shall be treated as advances hereunder for all purposes or as demand obligations of Borrower, bearing interest at the non-default interest rate provided in this Agreement plus 4% from the date of payment by Lenders to the date of repayment by Borrower. All of the foregoing amounts, including interest, shall be deemed to constitute advances under this Agreement, be evidenced by the Note and secured by the Security Documents. Upon the occurrence and during the continuance of any Event of Default, the rights, powers and privileges provided in this subsection and all other remedies available to Lenders under this Agreement or by statute or by rule of law may be exercised by Lenders at any time and from time to time whether or not the Loan shall be due and payable, and whether or not Lenders shall have instituted any foreclosure or other action for the enforcement of the Security Documents or the Note.

9.5 Power of Attorney. For the purpose of carrying out the provisions and exercising the rights, powers and privileges granted in this Section, Borrower hereby irrevocably constitutes and appoints Agent, effective upon the occurrence and during the continuance of an Event of Default, its true and lawful attorney-in-fact to execute, acknowledge and deliver any instruments and do and perform any acts such as are referred to in this Section in the name and on behalf of Borrower. This power of attorney is a power coupled with an interest and cannot be revoked.

SECTION 10. THE AGENT

10.1 Appointment. Each Lender hereby irrevocably designates and appoints Bayerische Hypotheken-Und Wechsel-Bank Aktiengesellschaft, New York Branch as Agent of such Lender under this Agreement and the other Loan Documents, and each such Lender irrevocably authorizes Hypo as Agent for such Lender, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agent.

10.2 Delegation of Duties. Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice

of counsel concerning all matters pertaining to such duties. Agent shall not be responsible for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

10.3 Exculpatory Provisions. Neither Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable to any Lenders for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except for its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any Lenders for any recitals, statements, representations or warranties made by Borrower or any Partner therein contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or the Notes or any other Loan Document or for any failure of Borrower to perform its obligations hereunder or thereunder. Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of Borrower.

10.4 Reliance by Agent. Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to Borrower), independent accountants and other experts selected by Agent. Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with Agent. Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate or it shall first be indemnified to its satisfaction by Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Agent shall in all cases be fully protected by all Lenders in acting, or in refraining from acting, under this Agreement and the Notes and the other Loan Documents in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon all Lenders and all future holders of the Notes.

10.5 Notice of Default. Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless Agent has received notice from a Lender or Borrower referring to this Agreement, describing such Default or

Event of Default and stating that such notice is a "notice of default". In the event that Agent receives such a notice, Agent shall give notice thereof to Lenders. Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided that unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of Lenders. In no event shall Agent be required to take any such action which it determines to be contrary to law.

10.6 Non-Reliance on Agent and Other Lenders. Each Lender expressly acknowledges that neither Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by Agent hereinafter taken, including any review of the affairs of Borrower, shall be deemed to constitute any representation or warranty by Agent to any Lender. Each Lender represents to Agent that it has, independently and without reliance upon Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of Borrower. Except for notices, reports and other documents expressly required to be furnished to Lenders by Agent hereunder, Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of Borrower which may come into the possession of Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

10.7 Indemnification. Lenders agree to indemnify Agent in its capacity as such (to the extent not reimbursed by Borrower and without limiting the obligation of Borrower to do so), ratably according to their respective Commitment Percentages in effect on the date on which indemnification is sought under this subsection (or, if indemnification is sought after the date upon which the Commitments shall have terminated and the Loans shall have been paid in full, ratably in accordance with their Commitment Percentages immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes) be imposed on, incurred by or asserted against

Agent in any way relating to or arising out of this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for (a) the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from Agent's gross negligence or willful misconduct, (b) any loss of principal or interest with respect to Agent's Loans or (c) any loss suffered by Agent in connection with an interest rate cap, swap or other interest rate hedging arrangement entered into with Borrower. The agreements in this subsection shall survive the payment of the Notes and all other amounts payable hereunder.

10.8 Agent in Its Individual Capacity. Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with Borrower as though Agent were not Agent hereunder and under the other Loan Documents. With respect to its Loans made or renewed by it and any Note issued to it, Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not Agent, and the terms "Lender" and "Lenders" shall include Agent in its individual capacity.

10.9 Successor Agent. Agent agrees not to resign without the prior consent of Borrower, which consent shall not be unreasonably withheld, provided, however, Agent shall have the right to resign without Borrower's consent if an Event of Default has occurred and is continuing or in the event it becomes an Affected Bank and is removed or replaced as a Lender pursuant to Section 3.16. If Agent shall resign as Agent under this Agreement and the other Loan Documents, then the Required Lenders shall appoint from among Lenders a successor agent for Lenders, provided that the appointment of any successor agent other than Hypo shall be subject to the consent of Borrower, which consent shall not be unreasonably withheld or delayed. Upon the appointment of a successor agent for Lenders, such successor agent shall succeed to the rights, powers and duties of Agent, and the term "Agent" shall mean such successor agent effective upon such appointment and approval, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's resignation as Agent, the provisions of this subsection shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement and the other Loan Documents.

10.10 Rights of Agent and the Lenders. Notwithstanding anything to the contrary herein or in any other Loan Documents:

(a) with the written consent of the Required Lenders, the Agent may, from time to time, (i) enter into with the Borrower written amendments, supplements or modifications hereto and to

the Notes and the other Loan Documents, or change in any manner the rights of the Lenders or of Borrower hereunder or thereunder (including, without limitation, modifying any financial covenant contained herein) or (ii) waive, on such terms and conditions as the Required Lenders or the Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement, the Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (A) without the written consent of each Lender affected thereby (i) reduce or forgive the amount of any Note or of any installment thereof, (ii) extend the scheduled date of maturity of the Loans or any mandatory principal payment thereon, (iii) reduce the stated rate of any interest or fee payable hereunder or extend the scheduled date of any payment thereof or (iv) forgive any portion of interest or principal, fees or other amounts due hereunder, (B) without the written consent of all the Lenders, (i) amend, modify or waive any provision of this subsection, (ii) reduce the number specified in the definition of Required Lenders, (iii) consent to the assignment or transfer by Borrower of any of its rights and obligations under this Agreement and the other Loan Documents or (iv) release any collateral or subordinate the Lien of the Mortgage to any other mortgage, and (C) without the written consent of the Agent, amend, modify or waive any provision of Section 10 of this Agreement. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon each of the Borrower, the Lenders, the Agent and all future holders of any of the Notes. In the case of any waiver, the Borrower, the Lenders and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes and any other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

- (b) In addition to the Agent, the Required Lenders shall have the right to determine that conversion to a Eurodollar Loan is inappropriate pursuant to subsection 3.6(a) or 3.6(b) above;
- (c) If clause (b) of subsection 3.10 is invoked, the Required Lenders shall certify that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to the Lenders of making or maintaining the affected Eurodollar Loan during the applicable Interest Period; and
- (d) Under clause (b) of Section 9.3, (i) the Agent may only accelerate the Obligations with the consent of the Required Lenders and (ii) the Agent shall accelerate the Obligations upon the direction of the Required Lenders.

10.11 Participation; Assignments. (a) Except as provided in paragraph 10.11(g), any Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender in connection with the Loans. In the event of any such sale by a Lender of a participating interest to a Participant, such Lender's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any such Note for all purposes under this Agreement and the other Loan Documents, and Borrower and Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Loan Documents. Borrower agrees that each Participant shall be entitled to the benefits of subsections 3.13, 3.14 and 3.15 with respect to its participation in the Commitments outstanding from time to time; provided, that no Participant shall be entitled to receive any greater amount pursuant to such provisions than the transferor Lender would have been entitled to receive in respect of the amount of the participation transferred by such transferor Lender to such Participant had no such transfer been made.

(b) Except as provided in paragraph 10.11(g), any Lender, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time and from time to time may sell to any Lender or any Affiliate thereof without Borrower's consent or to one or more additional banks or financial institutions with the prior written consent of Agent and Borrower, which consent of Borrower shall not be unreasonably withheld and which consent shall not be required during the continuance of an Event of Default ("an Assignee") all or any part of its rights and obligations under this Agreement, the Notes and the other Loan Documents pursuant to an Assignment and Acceptance, substantially in the form of Exhibit C, executed by such Assignee and such assigning Lender (and Borrower, if required) and delivered to Agent for its acceptance and recording in the Register. Upon such execution, delivery, acceptance and recording, from and after the effective date determined pursuant to such Assignment and Acceptance, (x) the Assignee thereunder shall be a party hereto and shall have the rights and obligations of a Lender hereunder with a Commitment as set forth therein, and (y) the assigning Lender thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such assigning Lender shall cease to be a party hereto). Notwithstanding the foregoing, provided that an Event of Default has not occurred, (a) Hypo shall retain Commitments in an amount not less than \$25,000,000 and (b) no Lender may assign any portion of its Commitment (other than to an existing Lender) in an amount less than \$15,000,000 unless it assigns its entire Commitment.

(c) Agent shall maintain at its address referred to in subsection 11.3 a copy of each Assignment and Acceptance delivered to it and a register (the "Register") for the recordation of the names and addresses of Lenders and the Commitment of, and principal amount of the Loans owing to, each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and Borrower, Agent and Lenders may treat each Person whose name is recorded in the Register as the owner of the Loan recorded therein for all purposes of this Agreement. The Register shall be available for inspection by Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an Assignee (and Borrower, if required), together with payment to Agent of a registration and processing fee of \$3,000 (payable by such assigning Lender), Agent shall (i) promptly accept such Assignment and Acceptance and (ii) on the effective date determined pursuant thereto record the information contained therein in the Register and give notice of such acceptance and recordation to Lenders and Borrower. On or prior to such effective date, Borrower shall execute and deliver to Agent (in exchange for the Note of the assigning Lender) a new Note, as the case may be, to the order of such Assignee in an amount equal to the Commitment or Loan, as the case may be, assumed by it pursuant to such Assignment and Acceptance and, if the assigning Lender has retained a Commitment or Loan hereunder, a new Note, as the case may be, to the order of the assigning Lender in an amount equal to the Commitment or Loan, as the case may be, retained by it hereunder. Such new Note shall be dated the date of this Agreement, and shall otherwise be in the form of the Note replaced thereby.

(e) Borrower authorizes each Lender to disclose to any Participant or Assignee (each, a "Transferee") and any prospective Transferee, on a confidential basis, any and all financial information in such Lender's possession concerning Borrower and its Affiliates which has been delivered to such Lender by or on behalf of Borrower pursuant to this Agreement or which has been delivered to such Lender by or on behalf of Borrower in connection with such Lender's credit evaluation of Borrower and its Affiliates prior to becoming a party to this Agreement.

(f) Nothing herein shall prohibit any Lender from pledging or assigning any Note to any Federal Reserve Bank in accordance with applicable law, provided that no such assignment shall release such Lender from its obligations hereunder.

(g) Notwithstanding the foregoing provisions of this Section, so long as an Event of Default is not continuing, no Lender shall assign, grant, convey, or transfer all or any portion of or interest (participation or otherwise) in the Loan to any Person if such Person is a partner in Borrower. Any Person who becomes a Lender or Participant in accordance with the terms of this Agreement agrees to be bound by the provisions of this Paragraph and, other than in connection with a bankruptcy proceeding of a partner in

Borrower or during the continuance of an Event of Default, agrees not to take any action that would make it a partner in Borrower. Any Lender may conclusively rely upon the certificate of any proposed Transferee stating that such proposed Transferee is not a partner in Borrower and the assigning or participating Lender shall have no liability to Borrower or any partner in Borrower for assigning or participating any interest in the Loan in reliance on such certification.

10.12 Liability of Agent. Agent shall not have any liabilities or responsibilities to Borrower on account of the failure of any Lender to perform its obligations hereunder (without affecting any rights of Borrower hereunder) or to any Lender on account of the failure of Borrower to perform its obligations hereunder or under any other Loan Document.

SECTION 11. GENERAL CONDITIONS

The following conditions shall be applicable throughout the term of this Agreement:

11.1 No Waivers. No advance of proceeds of the Loans shall constitute a waiver of any of the conditions of Lenders' obligation to make further advances. No waiver of any such condition shall constitute a waiver of any Default or Event of Default related to or predicated upon such condition. Any advance made by Lenders and any sums expended by Lenders pursuant to the Loan Documents shall be deemed to have been made pursuant to this Agreement, notwithstanding the existence of an uncured Default or Event of Default. No advance of the Loans at a time when an Event of Default exists, whether or not Lenders had actual knowledge of such default, shall constitute a waiver of any right or remedy of Lenders existing by reason of such Event of Default, including, without limitation, the right to accelerate the maturity of the Loan or to foreclose the Lien of the Security Documents or to refuse to make further advances of the Loan.

11.2 Lenders and Agent Sole Beneficiary. All conditions of the obligation of Lenders and Agent to make advances of the Loan are imposed solely and exclusively for the benefit of Lenders and Agent and their assigns and no other Person shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that Lenders will refuse to make advances in the absence of strict compliance with any or all such terms and no Person shall, under any circumstances, be deemed to be a beneficiary of such conditions, any or all of which may be freely waived in whole or in part by Agent and/or Lenders at any time if in their sole discretion they deem such waiver to be advisable. Lenders' obligation to make advances of the Loan, subject to the terms and conditions of this Agreement, is solely for the benefit of Borrower and no other Person shall be deemed to be a beneficiary of such obligation nor entitled to require any advance of Loan proceeds. Inspections and approvals of the Plans and the Improvements and the

workmanship and materials used in the construction of the Improvements shall impose no responsibility or liability of any nature whatsoever on Agent and/or Lenders, and no Person shall, under any circumstances, be entitled to rely upon such inspections and approvals by Agent and/or Lenders for any reason. Lenders are only obligated under this Agreement to make the advances if and to the extent required by this Agreement.

11.3 Notices. All notices, demands, consents and approvals hereunder shall be in writing and shall be deemed to have been sufficiently given or served when presented personally, when delivered to an overnight courier service with guaranteed next business day delivery or, 5 days after being deposited in the mail, postage prepaid, certified or registered, return receipt requested, addressed as follows:

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| Borrower: | Taubman MacArthur Associates Limited Partnership c/o The Taubman Company 200 East Long Lake Road, Suite 300 P.O. Box 200 Bloomfield Hills, Michigan 48303-0200 Attention: Shire Rothbart |
| with a copy to: | Miro Weiner & Kramer Suite 100 500 North Woodward Avenue Bloomfield Hills, Michigan 48303 Attention: Martin Katz, Esq. |
| Agent: | Bayerische Hypotheken- Und Wechsel-Bank Aktiengesellschaft, New York Branch 32 Old Slip Financial Square New York, New York 10005 Attention: William Rogers |
| with a copy to: | Simpson Thacher & Bartlett 425 Lexington Avenue New York, New York 10017 Attention: Gregory J. Ressa |

provided that any notice, request or demand to or upon the Agent or Lenders pursuant to subsection 3.1, 3.4, 3.5, 3.6 or 3.11 shall not be effective until received. Any party may change its address by notice to the other parties.

11.4 Modifications. Neither this Agreement, any Note or any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except in a writing duly executed by Borrower and Agent in accordance with the terms of this Agreement. Any such waiver and any such amendment, supplement or modification shall apply equally to each of Lenders and shall be binding upon Borrower, Lenders, Agent and all future holders of the Notes. In the case of any waiver, Borrower, Lenders and Agent shall be restored to

their former position and rights hereunder and under the outstanding Notes and any other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

11.5 Rights Cumulative. All rights, powers and remedies given to Agent and Lenders under this Agreement are cumulative and not alternative, and are in addition to all rights, powers and remedies otherwise afforded Agent and Lenders under all statutes and rules of law (all rights, powers and remedies collectively, "Lenders' Rights"); any forbearance or delay by Agent or Lenders in exercising any of Lenders' Rights shall not be deemed to be a waiver, and the exercise or partial exercise of any of Lenders' Rights shall not preclude the further exercise of any of Lenders' Rights which shall continue in full force and effect until specifically waived by an instrument in writing executed by Agent or Lenders. All representations, warranties and covenants contained in any of the Loan Documents shall survive the making of the Loans.

11.6 Sign. Prior to the Outside Completion Date, at Lenders' option, Borrower will, to the extent it has the right to do so under the Agency Documents and in compliance with Legal Requirements and at its sole cost and expense, erect and maintain a sign on the Land indicating the source of the construction financing, which sign shall be subject to Agent's and Borrower's reasonable approval.

11.7 Schedules. The Schedules attached to this Agreement are essential to and are made a part of this Agreement.

11.8 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Borrower, Lenders, Agent, all future holders of the Notes and their respective successors and assigns, except that Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Lender.

11.9 Governing Law. THIS AGREEMENT IS MADE AND DELIVERED IN NEW YORK, NEW YORK AND SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS.

11.10 Submission to Jurisdiction. All judicial actions, suits or proceedings brought against Borrower and its property with respect to its obligations, liabilities or any other matter under or arising out of or in connection with this Agreement or any other Loan Document or for recognition or enforcement of any judgment rendered in any such proceedings may be brought in any trial or appellate state or federal court of competent jurisdiction in the City of New York. By execution and delivery of this Agreement, Borrower accepts, generally and unconditionally, the non-exclusive jurisdiction of such courts and irrevocably waives, and agrees not to plead or claim, any objection that it may ever have to the venue of any such action or

proceeding in any such court or that such action or proceeding was brought in an inconvenient court. Borrower irrevocably agrees that all process in any proceeding or any court arising out of or in connection with this Agreement or any of the other Loan Documents, may be effected by mailing to Borrower a copy by registered or certified mail or any substantially similar form of mail, postage prepaid, to Borrower at its address set forth in subsection 11.3 or at such other address of which Lenders shall have been notified in accordance with the terms of such subsection. Such service shall be effective ten days after such mailing. Such service will be effective and binding service in every respect. Borrower shall not assert that such service did not constitute effective and binding service within the meaning of any applicable state or federal law, rule, regulation or the like. Borrower irrevocably waives any objections, including without limitation any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or in the future have to the bringing of any such action or proceeding in any such jurisdiction. Nothing in this Agreement shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

11.11 WAIVERS OF JURY TRIAL. BORROWER, Agent AND LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR THE NOTES OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

11.12 Captions. The captions in this Agreement are for convenience of reference only, and in no way limit or amplify the provisions of this Agreement.

11.13 Adjustments; Set-off. (a) If any Lender (a "benefitted Lender") shall at any time receive any payment of all or part of its Loans, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 19(a)(v) of the Mortgage, or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of such other Lender's Loans, or interest therein, such benefitted Lender shall purchase for cash from the other Lenders a participating interest in such portion of each such other Lender's Loan, or shall provide such other Lenders with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefitted Lender to share the excess payment or benefits of such collateral or proceeds ratably with each of the Lenders; provided, however, if all or any portion of such excess payment or benefits is thereafter recovered from such benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

(b) In addition to any rights and remedies of Lenders provided by law, each Lender shall have the right, without prior notice to Borrower, any such notice being expressly waived by

Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by Borrower hereunder or under the Notes (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of Borrower. Each Lender agrees promptly to notify Borrower and Agent after any such set-off and application made by such Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application.

11.14 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with Borrower and Agent.

11.15 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11.16 Integration. This Agreement and the other Loan Documents represent the agreement of Borrower, Agent and the Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by Agent or any Lender or Borrower relative to subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

11.17 Cure Rights of Agency. Lenders agree that the Agency shall have the right to cure any Default hereunder and under the other Loan Documents during the applicable cure period provided herein and in the other Loan Documents and Lenders shall accept such cure by the Agency. Notwithstanding the foregoing, neither the Agent nor any Lender shall have any obligation to provide a notice of default to the Agency.

11.18 Exculpation. Notwithstanding anything to the contrary contained in this Agreement, the Notes, the Security Documents, any other Loan Documents or any certificates, documents or instruments executed in connection with the Loan, except as provided below, (a) no partner in Borrower nor any partner, director, officer, trustee, shareholder, member, employee or principal in any such partner, nor any of their successors and assigns (collectively, "Exculpated Persons") shall have any personal liability for the payment of the Notes or any other fee, charge or other amount which may become due under this Agreement, the Notes, the Security

Documents or the other Loan Documents or for the performance of the obligations under this Agreement, the Notes, the Security Documents or the other Loan Documents and (b) Lenders' and Agent's sole recourse shall be against Borrower, all of Borrower's assets, Borrower's interests in the Trust Property, the security of any of the other Security Documents and Guarantor under the Guaranties, and no deficiency judgment or judgment for payment of money or damages shall lie against any Exculpated Person in any suit or action to collect on the Notes or to foreclose upon the Mortgage or to realize upon the security of any of the other Security Documents; provided, however, that the foregoing shall not apply to liability (to the extent hereafter provided) arising from:

- (a) the fraudulent acts and intentional misrepresentations of any Exculpated Persons;
- (b) the failure of Borrower during the continuance of an Event of Default to apply the rents, income and other revenues of the Trust Property to the payment of real estate taxes, operating expenses, maintenance and other expenses of the Trust Property in accordance with the terms of the Mortgage and to amounts due under the Loan Documents, to the extent of the funds not so applied; and
- (c) the willful failure of Borrower to apply or use any insurance proceeds or condemnation awards or proceeds of any taking under power of eminent domain or conveyance in lieu thereof in accordance with the terms of the Mortgage, to the extent of the awards or proceeds not so applied.

Nothing contained in this paragraph shall (i) prevent Lenders' full recourse against Borrower, all of Borrower's assets and Borrower's interests in the Trust Property and the security of any of the other Loan Documents, (ii) impair the validity of the indebtedness evidenced by the Notes, (iii) except as set forth in this paragraph, in any way affect or impair the right of the holder of the Notes, the Security Documents or any of the other Loan Documents to exercise any or all of its rights under the Notes, the Security Documents or any of the other Loan Documents, or affect or impair the obligations of Borrower hereunder so long as recourse to any Exculpated Person is limited as aforesaid and (iv) modify, qualify or affect in any manner whatsoever the personal recourse undertakings, obligations and liabilities of any Person under any guaranty of payment or other guaranty now or hereafter executed and delivered to Agent or Lenders in connection with the Loan.

11.19 Non-Recourse to TRG Partners. Notwithstanding anything to the contrary contained in this Agreement, in any of the other Loan Documents, or in any other instruments, certificates, documents or agreements executed in connection with the Loans (all of the foregoing, for purposes of this subsection, hereinafter referred to, individually and collectively, as the "Relevant Documents"), no recourse under or upon any Obligation, representation, warranty, promise or other matter whatsoever shall be had against any of the

constituent partners of the Guarantor and their successors or assigns (said constituent partners of the Guarantor and their successors or assigns for purposes of this subsection, hereinafter referred to, individually and collectively, as the "TRG Partners") and each Lender expressly waives and releases, on behalf of itself and its successors and assigns, all right to assert any liability whatsoever under or with respect to the Relevant Documents against, or to satisfy any claim or obligation arising thereunder against, any of the TRG Partners or out of any assets of the TRG Partners, provided, however, that nothing in this subsection shall be deemed to: (i) release the Guarantor or Borrower from any personal liability pursuant to, or from any of its respective obligations under this Agreement or the Guaranties or the other Relevant Documents, or from personal liability for its fraudulent actions or fraudulent omissions; (ii) release any TRG Partner from personal liability for its or his own fraudulent actions or fraudulent omissions; (iii) constitute a waiver or impairment of any obligation evidenced or secured by, or contained in, the Relevant Documents or affect in any way the validity or enforceability of the Relevant Documents; or (iv) limit the right of Agent and/or the Lenders to proceed against or realize upon any collateral now or hereafter given for the Loans or any and all of the assets of Borrower or the Guarantor (notwithstanding the fact that the TRG Partners have an ownership interest in Borrower and the Guarantor and, thereby, an interest in the assets of Borrower and the Guarantor) or to name Borrower or the Guarantor (or, to the extent that the same are required by applicable law or are determined by a court to be necessary parties in connection with an action or suit against Borrower or the Guarantor or any collateral now or hereafter given for the Loans, any of the TRG Partners) as a party defendant in, and to enforce against any collateral now or hereafter given for the Loans and/or assets of Borrower or the Guarantor any judgment obtained by Agent and/or the Lenders with respect to, any action or suit under the Relevant Documents so long as no judgment shall be taken (except to the extent taking a judgment is required by applicable law or determined by a court to be necessary to preserve Agent's and/or the Lenders' rights against any collateral now or hereafter given for the Loans or Guarantor, but not otherwise) or shall be enforced against the TRG Partners, their successors and assigns, or their assets.

TO CONFIRM THEIR AGREEMENT, this Agreement has been duly executed by Lenders, Borrower and Agent as of the date first written above.

**BAYERISCHE HYPOTHEKEN- UND WECHSEL-
BANK, AKTIENGESELLSCHAFT, NEW YORK
BRANCH**

By: /s/ William J. Rogers

*Name: William J. Rogers
Title: Vice President*

By: /s/ Stephen G. Melidones

*Name: Stephen G. Melidones
Title: Assistant Vice President*

**TAUBMAN MACARTHUR ASSOCIATES LIMITED
PARTNERSHIP**

*By: Taubman Realty Group Limited
Partnership, its general partner*

By: /s/ Shire Rothbart

*Name: Shire Rothbart
Title: Authorized Signatory*

LOAN AGREEMENT

dated as of November 25, 1997

among

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP,
as Borrower,

FLEET NATIONAL BANK,
as a Bank,

PNC BANK, NATIONAL ASSOCIATION,
as a Bank,

the other Banks signatory hereto, each as a Bank

and

PNC BANK, NATIONAL ASSOCIATION,
as Administrative Agent

TABLE OF CONTENTS

| | Page |
|--|-----------|
| ARTICLE I. DEFINITIONS; ETC..... | 1 |
| Section 1.01 Definitions..... | 1 |
| Section 1.02 Accounting Terms..... | 14 |
| Section 1.03 Computation of Time Periods..... | 14 |
| Section 1.04 Rules of Construction..... | 15 |
| ARTICLE II. THE LOANS..... | 15 |
| Section 2.01 The Loans..... | 15 |
| Section 2.02 Purpose..... | 15 |
| Section 2.03 Advances Generally..... | 15 |
| Section 2.04 Procedures for Advances..... | 16 |
| Section 2.05 Extension of Maturity Date..... | 16 |
| Section 2.06 Interest Periods; Renewals..... | 16 |
| Section 2.07 Interest..... | 17 |
| Section 2.08 Fees..... | 17 |
| Section 2.09 Notes..... | 17 |
| Section 2.10 Prepayments..... | 18 |
| Section 2.11 Changes of Commitments..... | 18 |
| Section 2.12 Method of Payment..... | 18 |
| Section 2.13 Elections, Conversions or Continuation of Loans..... | 19 |
| Section 2.14 Minimum Amounts..... | 19 |
| Section 2.15 Certain Notices Regarding Elections, Conversions and Continuations of Loans..... | 19 |
| Section 2.16 Late Payment Premium..... | 19 |
| ARTICLE III. YIELD PROTECTION; ILLEGALITY; ETC..... | 20 |
| Section 3.01 Additional Costs..... | 20 |
| Section 3.02 Limitation on Types of Loans..... | 21 |
| Section 3.03 Illegality..... | 21 |
| Section 3.04 Treatment of Affected Loans..... | 22 |
| Section 3.05 Certain Compensation..... | 22 |
| Section 3.06 Capital Adequacy..... | 23 |
| Section 3.07 Substitution of Banks..... | 23 |
| ARTICLE IV. CONDITIONS PRECEDENT..... | 24 |
| Section 4.01 Conditions Precedent to the Initial Advance..... | 24 |
| Section 4.02 Conditions Precedent to Advances After the Initial Advance..... | 26 |
| Section 4.03 Deemed Representations..... | 26 |
| ARTICLE V. REPRESENTATIONS AND WARRANTIES..... | 26 |
| Section 5.01 Due Organization..... | 26 |
| Section 5.02 Power and Authority; No Conflicts; Compliance With Laws..... | 26 |
| Section 5.03 Legally Enforceable Agreements..... | 27 |

| | | |
|--|---|----|
| Section 5.04 | Litigation..... | 27 |
| Section 5.05 | Good Title to Properties..... | 27 |
| Section 5.06 | Taxes..... | 27 |
| Section 5.07 | ERISA..... | 27 |
| Section 5.08 | No Default on Outstanding Judgments or Orders..... | 28 |
| Section 5.09 | No Defaults on Other Agreements..... | 28 |
| Section 5.10 | Government Regulation..... | 28 |
| Section 5.11 | Environmental Protection..... | 28 |
| Section 5.12 | Solvency..... | 28 |
| Section 5.13 | Financial Statements..... | 28 |
| Section 5.14 | Valid Existence of Affiliates..... | 29 |
| Section 5.15 | Insurance..... | 29 |
| Section 5.16 | Accuracy of Information; Full Disclosure..... | 29 |
| ARTICLE VI. AFFIRMATIVE COVENANTS..... 29 | | |
| Section 6.01 | Maintenance of Existence..... | 29 |
| Section 6.02 | Maintenance of Records..... | 29 |
| Section 6.03 | Maintenance of Insurance..... | 29 |
| Section 6.04 | Compliance with Laws; Payment of Taxes..... | 30 |
| Section 6.05 | Right of Inspection..... | 30 |
| Section 6.06 | Compliance With Environmental Laws..... | 30 |
| Section 6.07 | Payment of Costs..... | 30 |
| Section 6.08 | Maintenance of Properties..... | 30 |
| Section 6.09 | Reporting and Miscellaneous Document Requirements..... | 30 |
| ARTICLE VII. NEGATIVE COVENANTS..... 34 | | |
| Section 7.01 | Mergers Etc..... | 34 |
| Section 7.02 | Investments..... | 34 |
| Section 7.03 | Sale of Assets..... | 34 |
| Section 7.04 | Interest Rate Hedging..... | 34 |
| Section 7.05 | Partnership Committee of Borrower..... | 34 |
| ARTICLE VIII. FINANCIAL COVENANTS..... 35 | | |
| Section 8.01 | Net Worth..... | 35 |
| Section 8.02 | Relationship of Total Outstanding Indebtedness to Gross Asset Value..... | 35 |
| Section 8.03 | Relationship of Secured Indebtedness to Gross Asset Value..... | 35 |
| Section 8.04 | Relationship of Combined EBITDA to Interest Expense..... | 35 |
| Section 8.05 | Relationship of Combined EBITDA to Adjusted Total Outstanding Indebtedness..... | 35 |
| Section 8.06 | Combined EBTDA..... | 35 |
| Section 8.07 | Unsecured Debt Yield..... | 35 |
| Section 8.08 | Relationship of Unencumbered Combined EBITDA to Interest Expense on Unsecured Indebtedness..... | 35 |
| ARTICLE IX. EVENTS OF DEFAULT..... 36 | | |
| Section 9.01 | Events of Default..... | 36 |
| Section 9.02 | Remedies..... | 38 |
| ARTICLE X. ADMINISTRATIVE AGENT; RELATIONS AMONG BANKS..... 38 | | |

| | | |
|--|---|----|
| Section 10.01 | Appointment, Powers and Immunities of Administrative Agent..... | 38 |
| Section 10.02 | Reliance by Administrative Agent..... | 38 |
| Section 10.03 | Defaults..... | 39 |
| Section 10.04 | Rights of Administrative Agent as a Bank..... | 39 |
| Section 10.05 | Indemnification of Administrative Agent..... | 39 |
| Section 10.06 | Non-Reliance on Administrative Agent and Other Banks..... | 40 |
| Section 10.07 | Failure of Administrative Agent to Act..... | 40 |
| Section 10.08 | Resignation or Removal of Administrative Agent..... | 40 |
| Section 10.09 | Amendments Concerning Agency Function..... | 41 |
| Section 10.10 | Liability of Administrative Agent..... | 41 |
| Section 10.11 | Transfer of Agency Function..... | 41 |
| Section 10.12 | Non-Receipt of Funds by Administrative Agent..... | 41 |
| Section 10.13 | Withholding Taxes..... | 41 |
| Section 10.14 | Minimum Commitment by Fleet and PNC..... | 42 |
| Section 10.15 | Pro Rata Treatment..... | 42 |
| Section 10.16 | Sharing of Payments Among Banks..... | 42 |
| Section 10.17 | Possession of Documents..... | 42 |
| ARTICLE XI. NATURE OF OBLIGATIONS..... | | 43 |
| Section 11.01 | Absolute and Unconditional Obligations..... | 43 |
| Section 11.02 | Non-Recourse to TRG Partners..... | 43 |
| ARTICLE XII. MISCELLANEOUS..... | | 44 |
| Section 12.01 | Binding Effect of Request for Advance..... | 44 |
| Section 12.02 | Amendments and Waivers..... | 44 |
| Section 12.03 | Usury..... | 44 |
| Section 12.04 | Expenses; Indemnification..... | 44 |
| Section 12.05 | Assignment; Participation..... | 45 |
| Section 12.06 | Documentation Satisfactory..... | 47 |
| Section 12.07 | Notices..... | 47 |
| Section 12.08 | Intentionally Omitted..... | 47 |
| Section 12.09 | Table of Contents; Headings..... | 47 |
| Section 12.10 | Severability..... | 47 |
| Section 12.11 | Counterparts..... | 47 |
| Section 12.12 | Integration..... | 47 |
| Section 12.13 | GOVERNING LAW..... | 48 |
| Section 12.14 | Waivers..... | 48 |
| Section 12.15 | JURISDICTION; IMMUNITIES..... | 48 |
| EXHIBIT A | - Authorization Letter | |
| EXHIBIT B | - Solvency Certificate | |
| EXHIBIT C | - Note | |
| EXHIBIT D | - List of Affiliates | |
| EXHIBIT E | - Assignment and Assumption Agreement | |

LOAN AGREEMENT ("this Agreement") dated as of November 25, 1997 among THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP, a limited partnership organized and existing under the laws of the State of Delaware ("Borrower"), FLEET NATIONAL BANK ("Fleet"), PNC BANK, NATIONAL ASSOCIATION (in its individual capacity and not as Administrative Agent, "PNC") and the lenders signatory hereto (Fleet, PNC, said other lenders signatory hereto, and the lenders who from time to time become Banks pursuant to Section 3.07 or 12.05, each a "Bank" and collectively, the "Banks") and PNC BANK, NATIONAL ASSOCIATION, as administrative agent for the Banks (in such capacity, together with its successors in such capacity, "Administrative Agent").

Borrower has requested that the Banks extend credit as provided herein, and the Banks are prepared to extend such credit.

NOW, THEREFORE, in consideration of the premises and the mutual agreements, covenants and conditions hereinafter set forth, Borrower, Administrative Agent and each of the Banks agree as follows:

ARTICLE I. DEFINITIONS; ETC.

Section 1.01 Definitions. As used in this Agreement the following terms have the following meanings (except as otherwise provided, terms defined in the singular to have a correlative meaning when used in the plural and vice versa):

"Acquisition Indebtedness Adjustment" means, as of any date, the aggregate, for all acquisitions that occurred during the twelve (12)-month period ending on such date, of the product of (1) the increase in Total Outstanding Indebtedness as a result of indebtedness assumed and/or incurred in connection with the acquisition and which is still outstanding as of such date, multiplied by (2) the ratio of (A) three hundred sixty five (365) minus the number of days between the closing of the acquisition and such date to (B) three hundred sixty five (365).

"Acquisition Unsecured Indebtedness Adjustment" means, as of any date, the aggregate, for all acquisitions that occurred during the twelve (12)-month period ending on such date, of the product of (1) the increase in Unsecured Indebtedness as a result of unsecured indebtedness assumed and/or incurred in connection with the acquisition and which is still outstanding as of such date, multiplied by (2) the ratio of (A) three hundred sixty five (365) minus the number of days between the closing of the acquisition and such date to (B) three hundred sixty five (365).

"Adjusted Total Outstanding Indebtedness" means, as of any date, Total Outstanding Indebtedness plus the Disposition Indebtedness Adjustment less the Acquisition Indebtedness Adjustment.

"Adjusted Unsecured Indebtedness" means, as of any date, Unsecured Indebtedness plus the Disposition Unsecured Indebtedness Adjustment less the Acquisition Unsecured Indebtedness Adjustment.

"Administrative Agent" has the meaning specified in the preamble.

"Administrative Agent's Office" means Administrative Agent's address located at One PNC Plaza, 249 Fifth Avenue, P1-POPP-19-2, Pittsburgh, Pennsylvania 15222, Attention: Real Estate Banking, or such other address in the United States as Administrative Agent may designate by notice to Borrower and the Banks.

"Affiliate" means, with respect to any Person (the "first Person"), any other Person: (1) which directly or indirectly controls, or is controlled by, or is under common control with the first Person; or (2) ten percent (10%) or more of the beneficial interest in which is directly or indirectly owned or held by the first Person. The term "control" means the possession, directly or indirectly, of the power, alone, to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

"Agreement" means this Loan Agreement, as amended, supplemented or modified from time to time.

"Applicable Lending Office" means, for each Bank and for its LIBOR Loan or Base Rate Loan, as applicable, the lending office of such Bank (or of an Affiliate of such Bank) designated as such on its signature page hereof or in the applicable Assignment and Assumption Agreement, or such other office of such Bank (or of an Affiliate of such Bank) as such Bank may from time to time specify to Administrative Agent and Borrower as the office by which its LIBOR Loan or Base Rate Loan, as applicable, is to be made and maintained.

"Applicable Margin" means, with respect to Base Rate Loans and LIBOR Loans, the respective rates per annum determined, at any time, based on Borrower's Credit Rating at the time, in accordance with the following table. Any change in Borrower's Credit Rating causing it to move to a different range on the table shall effect an immediate change in the Applicable Margin.

| Borrower's Credit Rating (S&P/Moody's/Duff & Phelps/Fitch Ratings) | Applicable Margin for Base Rate Loans (% per annum) | Applicable Margin for LIBOR Loans (% per annum) |
|--|---|---|
| A/A2/A/A or higher | 0.00 | 0.60 |
| A-/A3/A-/A- | 0.00 | 0.70 |
| BBB+/Ba1/Baa+/BBB+ | 0.00 | 0.80 |
| BBB/Baa2/BBB/BBB | 0.00 | 0.90 |
| BBB-/Baa3/BBB-/BBB- | 0.00 | 1.00 |
| Below BBB-/Baa3/BBB-/BBB- or unrated | 0.35 | 1.35 |

"Assignee" has the meaning specified in Section 12.05.

"Assignment and Assumption Agreement" means an Assignment and Assumption Agreement, substantially in the form of EXHIBIT E, pursuant to which a Bank assigns and an Assignee assumes rights and obligations in accordance with Section 12.05.

"Authorization Letter" means a letter agreement executed by Borrower in the form of EXHIBIT A.

"Bank" and "Banks" have the respective meanings specified in the preamble.

"Bank Parties" means Administrative Agent and the Banks.

"Banking Day" means (1) any day on which commercial banks are not authorized or required to close in Pittsburgh and Boston and (2) whenever such day relates to a LIBOR Loan, an Interest Period with respect to a LIBOR Loan or notice with respect to a LIBOR Loan, a day on which dealings in Dollar deposits are also carried out in the London interbank market and banks are open for business in London.

"Banks' Valuation Consultant" means Landauer Associates, Inc. or such other appraisal firm(s) reasonably acceptable to Borrower, Fleet and PNC.

"Base Rate" means, for any day, the higher of (1) the Federal Funds Rate for such day plus one-half percent (.50%), or (2) the Prime Rate for such day.

"Base Rate Loan" means all or any portion (as the context requires) of a Bank's Loan which shall accrue interest at a rate determined in relation to the Base Rate.

"Borrower's Accountants" means Deloitte & Touche, or such other accounting firm(s) selected by Borrower and reasonably acceptable to the Required Banks.

"Borrower" has the meaning specified in the preamble.

"Borrower's Credit Rating" means the lower of the two (2) ratings (if there are only two (2) ratings) or the lower of the two (2) highest ratings (if there are more than two (2) ratings) assigned from time to time to Borrower's unsecured and unsubordinated long-term indebtedness by, respectively, S&P, Moody's, Duff & Phelps and Fitch. Unless such indebtedness of Borrower is rated by at least two (2) of the Rating Agencies, at least one (1) of which must be either S&P or Moody's, "Borrower's Credit Rating" shall be considered unrated for purposes of determining both the Applicable Margin and Facility Fee Rate.

"Capital Lease" means any lease which has been or should be capitalized on the books of the lessee in accordance with GAAP.

"Closing Date" means the date this Agreement has been executed by all parties.

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

"Combined EBTDA" means, for any period of time, Combined EBITDA less Interest Expense.

"Combined EBITDA" means, for any period of time, (1) revenues less operating costs before interest, depreciation and amortization and unusual items for Borrower and its Consolidated Businesses (based on the accounting principles reflected in the TRG Consolidated Financial Statements as of and for the year ended December 31, 1996 contained in the Form 10-K for such period of TRG, and assuming that any dividends paid on any equity security shall not be deducted in calculating Combined EBITDA unless such equity security may be converted into a debt security at any time or is mandatory redeemable for cash within twenty (20) years from its initial issuance) plus (2) Borrower's beneficial interest in revenues less operating costs before interest, depreciation and amortization and unusual items (after eliminating appropriate intercompany amounts) applicable to each of the UJVs.

"Consolidated Businesses" means, collectively (1) each Affiliate of Borrower, all of the equity interests of which are, or, under GAAP, are deemed to be, owned by Borrower and (2) Taub-Co Management Inc., The Taubman Company Limited Partnership and their respective Affiliates so long as more than ninety percent (90%) of the equity interests in the entities referred to in this clause (2) are owned directly or indirectly by Borrower.

"Consolidated Outstanding Indebtedness" means, as of any time, mortgage notes payable and other notes payable of Borrower and its Consolidated Businesses, as reflected in the TRG Consolidated Financial Statements.

"Contingent Liabilities" means the sum of (1) those liabilities, as determined in accordance with GAAP, set forth and quantified as contingent liabilities in the notes to the TRG Consolidated Financial Statements and (2) contingent liabilities, other than those described in the foregoing clause (1), which represent direct payment guaranties of Borrower; provided, however, that Contingent Liabilities shall exclude contingent liabilities which represent the "Other Party's Share" of "Duplicated Obligations" (as such quoted terms are hereinafter defined). "Duplicated Obligations" means, collectively, all those payment guaranties in respect of Debt of UJVs for which Borrower and another party are jointly and severally liable, where the other party is, in the sole judgment of the Required Banks, capable of satisfying the Other Party's Share of such obligation. "Other Party's Share" means such other party's fractional beneficial interest in the UJV in question.

"Continue", "Continuation" and "Continued" refer to the continuation pursuant to Section 2.13 of a LIBOR Loan as a LIBOR Loan from one Interest Period to the next Interest Period.

"Convert", "Conversion" and "Converted" refer to a conversion pursuant to Section 2.13 of a Base Rate Loan into a LIBOR Loan or a LIBOR Loan into a Base Rate Loan, each of which may be accompanied by the transfer by a Bank (at its sole discretion) of all or a portion of its Loan from one Applicable Lending Office to another.

"Debt" means: (1) indebtedness or liability for borrowed money, or for the deferred purchase price of property or services (including trade obligations); (2) obligations as lessee under Capital Leases; (3) current liabilities in respect of unfunded vested benefits under any Plan; (4) obligations under letters of credit issued for the account of any Person; (5) all obligations arising under bankers' or trade acceptance facilities; (6) all guarantees, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent

obligations to purchase any of the items included in this definition, to provide funds for payment, to supply funds to invest in any Person, or otherwise to assure a creditor against loss; (7) all obligations secured by any Lien on property owned by the Person whose Debt is being measured, whether or not the obligations have been assumed; and (8) all obligations under any agreement providing for contingent participation or other hedging mechanisms with respect to interest payable on any of the items described above in this definition.

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

"Default Rate" means a rate per annum equal to: (1) with respect to Base Rate Loans, a variable rate three percent (3%) above the rate of interest then in effect thereon (including the Applicable Margin); and (2) with respect to LIBOR Loans, a fixed rate three percent (3%) above the rate(s) of interest in effect thereon (including the Applicable Margin) at the time of Default until the end of the then current Interest Period therefor and, thereafter, a variable rate three percent (3%) above the rate of interest for a Base Rate Loan (including the Applicable Margin).

"Disposition" means a sale (whether by assignment, transfer or Capital Lease) of an asset.

"Disposition Indebtedness Adjustment" means, as of any date, the aggregate, for all Dispositions that occurred during the twelve (12)-month period ending on such date, of the product of (1) the reduction in Total Outstanding Indebtedness as a result of indebtedness repaid in connection with the Disposition, multiplied by (2) the ratio of (A) three hundred sixty five (365) minus the number of days between the closing of the Disposition and such date to (B) three hundred sixty five (365).

"Disposition Unsecured Indebtedness Adjustment" means, as of any date, the aggregate, for all Dispositions that occurred during the twelve (12)-month period ending on such date, of the product of (1) the reduction in Unsecured Indebtedness as a result of unsecured indebtedness repaid in connection with the Disposition, multiplied by (2) the ratio of (A) three hundred sixty five (365) minus the number of days between the closing of the Disposition and such date to (B) three hundred sixty five (365).

"Dollars" and the sign "\$" mean lawful money of the United States of America.

"Duff & Phelps" means Duff & Phelps Credit Rating Company.

"Elect", "Election" and "Elected" refer to election, if any, by Borrower pursuant to Section 2.13 to have all or a portion of an advance of the Loans be outstanding as LIBOR Loans.

"Environmental Discharge" means any discharge or release of any Hazardous Materials in violation of any applicable Environmental Law.

"Environmental Law" means any Law relating to pollution or the environment, including Laws relating to noise or to emissions, discharges, releases or threatened releases of Hazardous Materials into the work place, the community or the environment, or otherwise

relating to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

"Environmental Notice" means any written complaint, order, citation, letter, inquiry, notice or other written communication from any Person (1) affecting or relating to Borrower's compliance with any Environmental Law in connection with any activity or operations at any time conducted by Borrower, (2) relating to the occurrence or presence of or exposure to or possible or threatened or alleged occurrence or presence of or exposure to Environmental Discharges or Hazardous Materials at any of Borrower's locations or facilities, including, without limitation: (a) the existence of any contamination or possible or threatened contamination at any such location or facility and (b) remediation of any Environmental Discharge or Hazardous Materials at any such location or facility or any part thereof; and (3) any violation or alleged violation of any relevant Environmental Law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, including any rules and regulation promulgated thereunder.

"ERISA Affiliate" means any corporation or trade or business which is a member of the same controlled group of organizations (within the meaning of Section 414(b) of the Code) as Borrower or is under common control (within the meaning of Section 414(c) of the Code) with Borrower.

"Event of Default" has the meaning specified in Section 9.01.

"Facility Fee Rate" means the rate per annum determined, at any time, based on Borrower's Credit Rating, in accordance with the following table. Any change in Borrower's Credit Rating which causes it to move into a different range on the table shall effect an immediate change in the Facility Fee Rate.

| Borrower's Credit Rating (S&P/Moody's/Duff & Phelps/Fitch Ratings) | Facility Fee Rate (% per annum) |
|---|------------------------------------|
| A/A2/A/A or higher | 0.15 |
| A-/A3/A-/A- | 0.15 |
| BBB+/Baa1/BBB+/BBB+ | 0.20 |
| BBB/Baa2/BBB/BBB | 0.20 |
| BBB-/Baa3/BBB-/BBB- | 0.25 |
| Below BBB-/Baa3/BBB-/BBB- or unrated | 0.25 |

"Federal Funds Rate" means, for any day, the rate per annum (based on a year of 360 days) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight Federal funds transactions arranged by Federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the "Federal Funds Effective Rate" as of the date of this Agreement; provided, however, that if such Federal Reserve Bank (or its

successor) does not announce such rate on any day, the "Federal Funds Rate" for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

"Fiscal Year" means each period from January 1 to December 31.

"Fitch" means Fitch Investors Service, L.P.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time, applied on a basis consistent with those used in the preparation of the financial statements referred to in Section 5.13 (except for changes concurred in by Borrower's Accountants).

"Good Faith Contest" means the contest of an item if: (1) the item is diligently contested in good faith, and, if appropriate, by proceedings timely instituted; (2) adequate reserves are established with respect to the contested item; (3) during the period of such contest, the enforcement of any contested item is effectively stayed; and (4) the failure to pay or comply with the contested item during the period of the contest is not likely to result in a Material Adverse Change.

"Governmental Approvals" means any authorization, consent, approval, license, permit, certification, or exemption of, registration or filing with or report or notice to, any Governmental Authority.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Great Lakes Crossing" means the single-level, enclosed, super-regional value shopping center containing approximately 1,340,000 square feet of gross leasable area to be constructed and operated by TAH on an approximately 300 acre site located in Auburn Hills, Michigan owned by it.

"Gross Asset Value" means, as of any time, an amount, determined annually as of June 30th of each year and effective for the twelve (12)-month period beginning on the day after such date (it being agreed that Gross Asset Value determined as of June 30, 1997 is \$3,712,416,000), equal to the sum of:

(i) the lesser of (1) the aggregate book value of the long-term assets of Borrower, as reflected in the TRG Consolidated Financial Statements as of and for the year ended such June 30th, other than those assets described in clause (ii) below, or (2) five percent (5%) of the amount determined pursuant to said clause (ii); and

(ii) the amount, determined by Borrower with the concurrence of the Banks' Valuation Consultant, equal to the aggregate of the then-current values, on a free and clear basis, of the real properties owned or leased, directly or indirectly, in whole or part, by Borrower, which are included in the TRG Consolidated Financial Statements as of and for the year ended as of such June 30th, multiplied by Borrower's respective beneficial interests in such assets (it being understood that the Banks' Valuation Consultant shall not determine the fractional beneficial interest of Borrower in such real properties);

in each case, as adjusted for any Dispositions or acquisitions subsequent to the most recent annual determination of Gross Asset Value by:

- (1) in the case of Dispositions of assets described in clause (i) above, deducting the book value of the asset disposed of, as reflected in such annual determination, less the excess, if any, of the amount determined pursuant to clause (i)(1) above over the amount determined pursuant to clause (i)(2) above (in each case, prior to the Disposition in question),
- (2) in the case of Dispositions of assets described in clause (ii) above, deducting the value for the asset determined pursuant to clause (ii) above,
- (3) in the case of acquisitions of assets described in clause (i) above, adding the Purchase Price for the acquired asset, and
- (4) in the case of acquisitions of assets described in clause (ii) above, adding the lesser of (A) the Purchase Price for the acquired asset or (B) the acquired asset's trailing twelve (12)-month net operating income, less any management fee adjustment, if applicable, capitalized at a rate of eight percent (8%) per annum; provided, however, that at Borrower's request and expense, Administrative Agent shall promptly cause the Banks' Valuation Consultant to appraise the acquired asset and, upon the completion of such appraisal, provided such appraisal is reasonably satisfactory to Administrative Agent, the appraised value of the acquired asset as determined in such appraisal shall be substituted for the amount calculated pursuant to clauses (A) and (B) above.

In no event shall any adjustment pursuant to clauses (2) or (3) above cause the component of Gross Asset Value determined pursuant to clause (i) above to exceed five percent (5%) of the component determined pursuant to clause (ii) above. Any adjustment, pursuant to the operation of clauses (2) or (4) above, to the amount determined pursuant to clause (ii) above shall also effect an automatic adjustment to the component of Gross Asset Value determined pursuant to clause

(i) above by reason of the operation of clause (i)(2).

"Hazardous Materials" means any pollutant, effluents, emissions, contaminants, toxic or hazardous wastes or substances, as any of those terms are defined from time to time in or for the purposes of any relevant Environmental Law, including asbestos fibers and friable asbestos, polychlorinated biphenyls, and any petroleum or hydrocarbon-based products or derivatives.

"Initial Advance" means the first advance of proceeds of the Loans.

"Interest Expense" means, for any period of time, the consolidated interest expense (without deduction of consolidated interest income) of Borrower and its Consolidated Businesses (based on the accounting principles reflected in the TRG Consolidated Financial Statements as of and for the year ended December 31, 1996 contained in the Form 10-K for such period of TRG), including, without limitation or duplication (or, to the extent not so included, with the addition of), (1) the portion of any rental obligation in respect of any Capital Lease obligation allocable to interest expense in accordance with GAAP; (2) the amortization of Debt discounts; (3) any payments or receipts (other than up-front fees) with respect to interest rate swap or similar agreements; (4) any dividends attributable to any equity security which may be

converted into a debt security of Borrower at any time or is mandatorily redeemable for cash within twenty (20) years from its initial issuance; and (5) the interest expense and items listed in clauses (1) through (4) above applicable to each of the UJVs multiplied by Borrower's respective beneficial interests in the UJVs (it being understood that the items listed in clauses (1), (2) and (3) above shall be considered part of Interest Expense even if, due to a change in GAAP, such items would no longer be considered interest expense under GAAP).

"Interest Period" means, with respect to any LIBOR Loan, the period commencing on the date the same is advanced, converted from a Base Rate Loan or Continued, as the case may be, and ending, as Borrower may select pursuant to Section 2.06, on the numerically corresponding day in the first, second, third, or, if available to all of the Banks, sixth or twelfth, calendar month thereafter, provided that each such Interest Period which commences on the last Banking Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Banking Day of the appropriate calendar month.

"Law" means any federal, state or local statute, law, rule, regulation, ordinance, order, code, or rule of common law, now or hereafter in effect, and any judicial or administrative interpretation thereof by a Governmental Authority or otherwise, including any judicial or administrative order, consent decree or judgment.

"LIBOR Base Rate" means, with respect to any Interest Period therefor, the rate per annum for the first day of the Interest Period ("the Reset Date") for deposits in Dollars for a period of the number of months contained in the Interest Period (the "Designated Maturity") which appears on Dow Jones Page 3750 (or such other display page on the Dow Jones System as may replace such Page 3750) as of 11:00 A.M. (London time) on the day that is two

(2) Banking Days prior to that Reset Date for a period, and in an amount, comparable to such Interest Period and principal amount of the LIBOR Loan in question outstanding during such Interest Period. If such rate does not appear on Dow Jones Page 3750 (or such replacement page), the rate for a Reset Date will be determined on the basis of the rates at which deposits in Dollars are offered by four (4) major banks in the London interbank market as selected by Administrative Agent and agreed to by Borrower (the "Reference Banks") at approximately 11:00 A.M. (London time) on the day that is two (2) Banking Days preceding that Reset Date to prime banks in the London interbank market for a period of the Designated Maturity commencing on that Reset Date and in an amount comparable to the amount of the LIBOR Loan to be outstanding during such Interest Period (the "Representative Amount"). Administrative Agent will request the principal London office of each of the Reference Banks to provide a quotation of its rate. If at least two (2) such quotations are provided, the rate for that Interest Period will be the arithmetic mean of the quotations. If fewer than two (2) quotations are provided as requested, the rate for that Reset Date will be the arithmetic mean of the rates quoted by major banks in New York City, selected by Administrative Agent and agreed to by Borrower, at approximately 11:00 A.M. (New York time) on that Reset Date for loans in Dollars to leading European banks for a period of the Designated Maturity commencing on that Reset Date and in a Representative Amount.

"LIBOR Interest Rate" means, for any LIBOR Loan, a rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) determined by Administrative Agent to be equal to the quotient of (1) the LIBOR Base Rate for such LIBOR Loan for the Interest Period

therefor divided by (2) one minus the LIBOR Reserve Requirement for such LIBOR Loan for such Interest Period.

"LIBOR Loan" means all or any portion (as the context requires) of any Bank's Loan which shall accrue interest at rate(s) determined in relation to LIBOR Interest Rate(s).

"LIBOR Reserve Requirement" means, for any LIBOR Loan, the rate at which reserves (including any marginal, supplemental or emergency reserves) are actually required to be maintained during the Interest Period for such LIBOR Loan under Regulation D by the applicable Bank against "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the LIBOR Reserve Requirement shall also reflect any other reserves actually required to be maintained by any Bank by reason of any Regulatory Change against (1) any category of liabilities which includes deposits by reference to which the LIBOR Base Rate is to be determined as provided in the definition of "LIBOR Base Rate" in this Section 1.01 or (2) any category of extensions of credit or other assets which include loans the interest rate on which is determined on the basis of rates referred to in said definition of "LIBOR Base Rate".

"Lien" means any mortgage, deed of trust, pledge, security interest, hypothecation, assignment for collateral purposes, deposit arrangement, lien (statutory or other), or other security agreement or charge of any kind or nature whatsoever of any third party (excluding any right of setoff but including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction to evidence any of the foregoing).

"Loan" and "Loans" have the respective meanings specified in Section 2.01.

"Loan Commitment" means, with respect to each Bank, the obligation to make a Loan in the principal amount set forth below or in the applicable Assignment and Assumption Agreement, as such amount may be reduced from time to time in accordance with the provisions of Section 2.11 or pursuant to an Assignment and Assumption Agreement:

| Bank | Loan Commitment |
|---|-----------------|
| ----- | ----- |
| Fleet | \$ 46,000,000 |
| PNC | 46,000,000 |
| Dresdner Bank AG | 30,000,000 |
| Commerzbank AG | 30,000,000 |
| Comerica Bank | 20,000,000 |
| Bayerische Hypotheken-und Wechsel-Bank AG | 20,000,000 |
| Landesbank Hessen-Thuringen Girozentrale | 18,000,000 |
| Total | \$210,000,000 |
| | ===== |

"Loan Documents" means this Agreement, the Notes and the Solvency Certificates.

"Material Adverse Change" means either (1) a material adverse change in the status of the business, results of operations, financial condition, property or prospects of Borrower or (2) any event or occurrence of whatever nature which is likely to have a material adverse effect on the ability of Borrower to perform its obligations under the Loan Documents.

"Maturity Date" means December 1, 2001, subject to extension in accordance with Section 2.05.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a Plan defined as such in Section 3(37) of ERISA to which contributions have been made by Borrower or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Net Worth" means the excess of Gross Asset Value over Total Outstanding Indebtedness.

"Note" and "Notes" have the respective meanings specified in Section 2.09.

"Obligations" means each and every obligation, covenant and agreement of Borrower, now or hereafter existing, contained in this Agreement, and any of the other Loan Documents, whether for principal, reimbursement obligations, interest, fees, expenses, indemnities or otherwise, and any amendments or supplements thereto, extensions or renewals thereof or replacements therefor, including but not limited to all indebtedness, obligations and liabilities of Borrower to Administrative Agent and any Bank now existing or hereafter incurred under or arising out of or in connection with the Notes, this Agreement, the other Loan Documents, and any documents or instruments executed in connection therewith; in each case whether direct or indirect, joint or several, absolute or contingent, liquidated or unliquidated, now or hereafter existing, renewed or restructured, whether or not from time to time decreased or extinguished and later increased, created or incurred, and including all indebtedness of Borrower, under any instrument now or hereafter evidencing or securing any of the foregoing.

"Parent" means, with respect to any Bank, any Person controlling such Bank.

"PBGC" means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

"Person" means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan" means any employee benefit or other plan established or maintained, or to which contributions have been made, by Borrower or any ERISA Affiliate of Borrower and which is covered by Title IV of ERISA or to which Section 412 of the Code applies.

"presence", when used in connection with any Environmental Discharge or Hazardous Materials, means and includes presence, generation, manufacture, installation, treatment, use, storage, handling, repair, encapsulation, disposal, transportation, spill, discharge and release.

"Prime Rate" means that rate of interest from time to time announced by PNC at its Principal Office as its then prime rate, which rate may not be the lowest rate then being charged to commercial borrowers by PNC.

"Principal Office" means the principal office of PNC in the United States, presently located at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222.

"Pro Rata Share" means, for purposes of this Agreement and with respect to each Bank, a fraction, the numerator of which is the amount of such Bank's Loan Commitment and the denominator of which is the Total Loan Commitment.

"Prohibited Transaction" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Code.

"Purchase Price" means, with respect to an acquisition, the total consideration paid, including in the amount of such consideration (without duplication) (1) any Debt that, at the time of such acquisition, is directly or indirectly secured by a Lien on all or any portion of the property so acquired and any Debt to which such property is subject, including, in the case of an acquisition of any Person, any Debt of such Person, regardless of whether such Debt is secured or unsecured, or recourse or non-recourse to such Person and (2) the fair market value of any other non-cash consideration.

"Rating Agencies" means S&P, Moody's, Duff & Phelps and Fitch.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System, as the same may be amended or supplemented from time to time, or any similar Law from time to time in effect.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, as the same may be amended or supplemented from time to time.

"Regulatory Change" means, with respect to any Bank, any change after the date of this Agreement in United States federal, state, municipal or foreign laws or regulations (including Regulation D) or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks including such Bank of or under any United States, federal, state, municipal or foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"Reportable Event" means any of the events set forth in Section 4043(b) of ERISA.

"Required Banks" means at any time the Banks holding at least sixty six and two-thirds percent (66-2/3%) of the then aggregate unpaid principal amount of the Loans.

"Secured Indebtedness" means that portion of Total Outstanding Indebtedness that is secured.

"Solvency Certificate" means a certificate in substantially the form of EXHIBIT B, to be delivered by Borrower pursuant to the terms of this Agreement.

"Solvent" means, when used with respect to any Person, that (1) the fair value of the property of such Person, on a going concern basis, is greater than the total amount of liabilities (including, without limitation, contingent liabilities) of such Person; (2) the present fair saleable value of the assets of such Person, on a going concern basis, is not less than the amount that will be required to pay the probable liabilities of such Person on its debts as they become absolute and matured; (3) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature; (4) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such Person is engaged; and (5) such Person has sufficient resources, provided that such resources are prudently utilized, to satisfy all of such Person's obligations. Contingent liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"S&P" means Standard & Poor's Ratings Services, a division of McGraw-Hill Companies.

"Supplemental Fee Letter" means that certain letter agreement, dated the date hereof, among Fleet, PNC, Administrative Agent, Syndication Agent and Borrower.

"Syndication Agent" means Fleet National Bank.

"TAH" means Taubman Auburn Hills Associates Limited Partnership, a Delaware limited partnership in which Borrower owns an eighty percent (80%) general partnership interest.

"TCI" means Taubman Centers, Inc., a Michigan corporation.

"Total Loan Commitment" means Two Hundred Ten Million Dollars (\$210,000,000).

"Total Outstanding Indebtedness" means the sum, without duplication, of (1) Consolidated Outstanding Indebtedness, (2) TRG's Share of UJV Combined Outstanding Indebtedness and (3) Contingent Liabilities.

"TRG Consolidated Financial Statements" means the consolidated balance sheet and related consolidated statement of operations, accumulated deficiency in assets and cash flows, and footnotes thereto, of Borrower, prepared in accordance with GAAP.

"TRG's Share of UJV Combined Outstanding Indebtedness" means the sum of the indebtedness of each of the UJVs contributing to UJV Combined Outstanding Indebtedness multiplied by Borrower's respective beneficial interests in each such UJV.

"UJV Combined Outstanding Indebtedness" means, as of any time, the sum of (1) mortgage notes payable and (2) other notes payable, of the UJVs, on a combined basis, as reflected in the balance sheets of each of the UJVs, prepared in accordance with GAAP.

"UJVs" means the unconsolidated joint ventures in which Borrower owns a beneficial interest and which are accounted for under the equity method in the TRG Consolidated Financial Statements.

"Unencumbered Combined EBITDA" means that portion of Combined EBITDA attributable to Unencumbered Wholly-Owned Assets.

"Unencumbered Wholly-Owned Assets" means assets, reflected on the TRG Consolidated Financial Statements, wholly owned, directly or indirectly, by Borrower and not subject to any Lien to secure all or any portion of Secured Indebtedness; provided, however, that, for purposes of this definition only, the loans described in the following table, so long as the documents in respect of the same permit secondary financing, shall not be considered part of Secured Indebtedness:

| Description of Debt Obligation | Obligor | Affected Asset | Amount (\$) |
|--|--------------------------------------|----------------------|-------------|
| UDAG Loan | TL-Columbus Associates | Columbus City Center | 8,022,470 |
| Assessment Bonds - City of Richmond | Richmond Associates | Hilltop land | 801,077 |
| Assessment Bonds - City Pleasanton | Stoneridge Properties | Stoneridge land | 1,312,368 |
| Assessment Bond - City of Phoenix | Biltmore Shopping Center Partners | Biltmore land | 3,182,742 |
| Capital South Centrum Parking Right | TL - Columbus Associates | Columbus City Center | 1,000,000 |

"Unsecured Debt Yield" means, for any calendar quarter, the ratio, expressed as a percentage, of (1) Unencumbered Combined EBITDA for the twelve (12)-month period ending with such calendar quarter to (2) Adjusted Unsecured Indebtedness as of the end of such calendar quarter.

"Unsecured Indebtedness" means that portion of Total Outstanding Indebtedness that is unsecured.

Section 1.02 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP, and all financial data required to be delivered hereunder shall be prepared in accordance with GAAP.

Section 1.03 Computation of Time Periods. Except as otherwise provided herein, in this Agreement, in the computation of periods of time from a specified date to a later

specified date, the word "from" means "from and including" and words "to" and "until" each means "to but excluding".

Section 1.04 Rules of Construction. When used in this Agreement: (1) "or" is not exclusive; (2) a reference to a Law includes any amendment or modification to such Law; (3) a reference to a Person includes its permitted successors and permitted assigns; (4) except as provided otherwise, all references to the singular shall include the plural and vice versa; (5) except as provided in this Agreement, a reference to an agreement, instrument or document shall include such agreement, instrument or document as the same may be amended, modified or supplemented from time to time in accordance with its terms and as permitted by the Loan Documents; (6) all references to Articles or Sections shall be to Articles and Sections of this Agreement unless otherwise indicated; and (7) all Exhibits to this Agreement shall be incorporated into this Agreement.

ARTICLE II. THE LOANS

Section 2.01 The Loans. (a) Subject to the terms and conditions of this Agreement, each of the Banks severally agrees to make a loan to Borrower (each such loan by a Bank, a "Loan"; such loans, collectively, the "Loans") pursuant to which the Bank shall from time to time advance to Borrower up to an amount equal to such Bank's Loan Commitment. The Loans may be outstanding as: (1) Base Rate Loans; (2) LIBOR Loans; or (3) a combination of the foregoing, as Borrower shall elect and notify Administrative Agent in accordance with Section 2.15. The LIBOR Loan and Base Rate Loan of each Bank shall be maintained at such Bank's Applicable Lending Office for its LIBOR Loan and Base Rate Loan, respectively.

(b) The obligations of the Banks under this Agreement are several, and no Bank shall be responsible for the failure of any other Bank to make any advance of a Loan to be made by such other Bank. However, the failure of any Bank to make any advance of the Loan to be made by it hereunder on the date specified therefor shall not relieve any other Bank of its obligation to make any advance of its Loan specified hereby to be made on such date.

Section 2.02 Purpose. Borrower shall use the proceeds of the Loans solely (i) as a contribution of capital to TAH to pay all or part of TAH's pre-development, development and construction costs in connection with Great Lakes Crossing and (ii) to pay interest on the Loans and transaction costs relating to the consummation of the transaction contemplated hereby.

Section 2.03 Advances Generally. The Initial Advance shall be in the minimum amount of Two Million Dollars (\$2,000,000) and in integral multiples of One Hundred Thousand Dollars (\$100,000) above such amount and shall be made upon satisfaction of the conditions set forth in Section 4.01. Subsequent advances shall be made no more frequently than monthly thereafter, upon satisfaction of the conditions set forth in Section 4.02. The amount of each advance subsequent to the Initial Advance shall be (x) in the case of advances of Base Rate Loans, in the minimum amount of One Hundred Thousand Dollars (\$100,000) and in integral multiples of One Hundred Thousand Dollars (\$100,000) above such amount and (y) in the case of advances of LIBOR Loans, in the minimum amount of One Million Dollars (\$1,000,000) and in integral multiples of One Hundred Thousand Dollars (\$100,000) above such amount.

Notwithstanding anything to the contrary contained herein, Borrower shall not be entitled to any advances of proceeds of the Loans subsequent to the original Maturity Date (i.e. during the one(1)-year extension term contemplated by Section 2.05).

Section 2.04 Procedures for Advances. Borrower shall submit to Administrative Agent a request for each advance hereunder, stating the amount requested, and certifying that (x) no Default or Event of Default then exists or would exist as a result of such advance, (y) the advance will be, and all prior advances have been, used solely for the purposes described in Section 2.02 and (z) none of the costs covered by said request for advance were the subject of any previous request for advance, no later than 10:00 a.m. (Pittsburgh time) on the date, in the case of advances of Base Rate Loans, which is two (2) Banking Days, and, in the case of advances of LIBOR Loans, which is three (3) Banking Days, prior to the date the advance is to be made. Administrative Agent, upon its receipt and approval of the request for advance, will so notify the Banks either by telephone or by facsimile. Not later than 10:00 a.m. (Pittsburgh time) on the date of each advance, each Bank shall, through its Applicable Lending Office and subject to the conditions of this Agreement, make the amount to be advanced by it on such day available to Administrative Agent, at Administrative Agent's Office and in immediately available funds, for the account of Borrower. The amount so received by Administrative Agent shall, subject to the conditions of this Agreement, be made available to Borrower, in immediately available funds, by Administrative Agent's crediting an account of Borrower designated by Borrower.

Section 2.05 Extension of Maturity Date. Provided there exists no Default or Event of Default, Borrower shall have the option, exercisable once, to extend the Maturity Date for a period of one (1) year, subject to (i) Administrative Agent's receipt of (x) a written request from Borrower for such extension between sixty (60) and ninety (90) days prior to the Maturity Date, (y) an extension fee, for the account of the Banks, in the amount of .05% of the outstanding principal amount of the Loans as of the Maturity Date and (z) such note extension agreement(s) as Administrative Agent may reasonably require, (ii) Borrower's Credit Rating, as of the date of Borrower's exercise of such option, being "investment grade" (i.e., BBB- or better by S&P, Baa3 or better by Moody's and BBB- or better by Duff & Phelps and Fitch) by at least two (2) of the Rating Agencies, one (1) of which must be either S&P or Moody's and (iii) Administrative Agent's determination (which shall be conclusive so long as made on a reasonable basis) that, as of the Maturity Date, Borrower will remain in compliance with the financial covenants set forth in Article VIII.

Section 2.06 Interest Periods; Renewals In the case of the LIBOR Loans, Borrower shall select an Interest Period of any duration in accordance with the definition of Interest Period in Section 1.01, subject to the following limitations: (1) no Interest Period may extend beyond the Maturity Date; (2) if an Interest Period would end on a day which is not a Banking Day, such Interest Period shall be extended to the next Banking Day, unless such Banking Day would fall in the next calendar month, in which event such Interest Period shall end on the immediately preceding Banking Day; and (3) only five (5) discrete segments of a Bank's Loan bearing interest at a LIBOR Interest Rate, for a designated Interest Period, pursuant to a particular Election, Conversion or Continuation, may be outstanding at any one time (each such segment of each Bank's Loan corresponding to a proportionate segment of each of the other Banks' Loans).

Upon notice to Administrative Agent as provided in Section 2.15, Borrower may Continue any LIBOR Loan on the last day of the Interest Period of the same or different duration in accordance with the limitations provided above. If Borrower shall fail to give notice to Administrative Agent of such a Continuation, such LIBOR Loan shall automatically become a Base Rate Loan on the last day of the current Interest Period.

Section 2.07 Interest. Borrower shall pay interest to Administrative Agent for the account of the applicable Bank on the outstanding and unpaid principal amount of the Loans, at a rate per annum as follows: (1) for Base Rate Loans at a rate equal to the Base Rate plus the Applicable Margin; and (2) for LIBOR Loans at a rate equal to the applicable LIBOR Interest Rate plus the Applicable Margin. Any principal amount not paid when due (when scheduled, at acceleration or otherwise) shall bear interest thereafter, payable on demand, at the Default Rate.

The interest rate on Base Rate Loans shall change when the Base Rate changes. Interest on Base Rate Loans and LIBOR Loans shall not exceed the maximum amount permitted under applicable law. Interest shall be calculated for the actual number of days elapsed on the basis of, in the case of both Base Rate Loans and LIBOR Loans, three hundred sixty (360) days.

Accrued interest shall be due and payable in arrears, in the case of both Base Rate Loans and LIBOR Loans, on the first Banking Day of each calendar month; provided, however, that interest accruing at the Default Rate shall be due and payable on demand.

Section 2.08 Fees. (a) Borrower shall, during the term of the Loans, pay to Administrative Agent for the account of each Bank a facility fee computed on the daily Loan Commitment of such Bank (irrespective of usage), at a rate per annum equal to the daily Facility Fee Rate, calculated on the basis of a year of three hundred sixty (360) days for the actual number of days elapsed. The accrued facility fee shall be due and payable in arrears on the tenth (10th) day of December, March, June and September of each year (for the respective periods September 1 through November 30, December 1 through February 28/29, March 1 through May 31 and June 1 through August 31), commencing on the first such date after the Closing Date, and upon the Maturity Date or earlier termination of the Loan Commitments.

(b) Borrower shall pay, for the accounts of the parties specified therein, the fees provided for, on the dates specified, in the Supplemental Fee Letter.

Section 2.09 Notes. The Loan made by each Bank under this Agreement shall be evidenced by, and repaid with interest in accordance with, a promissory note of Borrower in the form of EXHIBIT C duly completed and executed by Borrower, in the principal amount equal to such Bank's Loan Commitment, payable to such Bank for the account of its Applicable Lending Office (each such note, as the same may hereafter be amended, modified, extended, severed, assigned, substituted, renewed or restated from time to time, including any substitute note pursuant to Section 3.07 or 12.05, a "Note"; all such notes, as so amended, modified, extended, severed, assigned, substituted, renewed or restated from time to time, collectively, the "Notes"). Each Note shall mature, and all outstanding principal and accrued interest and other sums thereunder shall be paid in full, on the Maturity Date, as the same may be accelerated or extended.

Each Bank is hereby authorized by Borrower to endorse on a schedule attached to the Note held by it, the amount of each advance, and each payment of principal received by such Bank for the account of its Applicable Lending Office(s) on account of its Loan, which endorsements, if made, shall, in the absence of manifest error, be conclusive as to the outstanding balance of the Loan made by such Bank; provided, however, that the failure to make such notations with respect to the Loans or each advance or payment shall not limit or otherwise affect the obligations of Borrower under this Agreement or the Note held by such Bank.

Section 2.10 Prepayments. Borrower may, upon at least one (1) Banking Day's notice to Administrative Agent in the case of the Base Rate Loans, and at least two (2) Banking Days' notice to Administrative Agent in the case of LIBOR Loans (in each case to be received by Administrative Agent no later than 1:00 P.M., Pittsburgh time), prepay the Loans, provided that (1) any partial prepayment under this Section shall be in integral multiples of One Million Dollars (\$1,000,000); (2) a LIBOR Loan may be prepaid only on the last day of the Applicable Interest Period for such LIBOR Loan; and (3) each prepayment under this Section shall include all interest accrued on the amount of principal prepaid through the date of prepayment. Any prepayment shall effect a permanent reduction in the Total Loan Commitment by the amount prepaid.

Section 2.11 Changes of Commitments. (a) At any time, Borrower shall have the right, without premium or penalty, to terminate the unused Loan Commitments, in whole or in part, from time to time, provided that: (1) Borrower shall give notice of each such termination to Administrative Agent, specifying the amount of the termination, no later than 10:00 a.m. (Pittsburgh time) on the date which is fifteen (15) days prior to the effectiveness of such termination;

(2) the Loan Commitments of each of the Banks must be terminated ratably and simultaneously with those of the other Banks; and (3) each partial termination of the Loan Commitments as a whole (and corresponding reduction of the Total Loan Commitment) shall be in an integral multiple of One Million Dollars (\$1,000,000).

(b) The Loan Commitments, to the extent terminated, may not be reinstated.

Section 2.12 Method of Payment. Borrower shall make each payment under this Agreement and under the Notes not later than 11:00 A.M. (Pittsburgh time) on the date when due in Dollars to Administrative Agent at Administrative Agent's Office in immediately available funds. Administrative Agent will thereafter, on the day of its receipt of each such payment (assuming receipt by 11:00 A.M.), cause to be distributed to each Bank (1) such Bank's appropriate share (based upon the respective outstanding principal amounts and rate(s) of interest under the Notes of the Banks) of the payments of principal and interest in like funds for the account of such Bank's Applicable Lending Office; and (2) fees payable to such Bank in accordance with the terms of this Agreement. Borrower hereby authorizes Administrative Agent and the Banks, if and to the extent payment by Borrower is not made when due under this Agreement or under the Notes, to charge from time to time against any account Borrower maintains with Administrative Agent or any Bank any amount so due to Administrative Agent and/or the Banks.

Except to the extent provided in this Agreement, whenever any payment to be made under this Agreement or under the Notes is due on any day other than a Banking Day, such payment shall be made on the next succeeding Banking Day, and such extension of time shall in

such case be included in the computation of the payment of interest and other fees, as the case may be.

Section 2.13 Elections, Conversions or Continuation of Loans. Subject to the provisions of Article III and Sections 2.06 and 2.14, Borrower shall have the right to Elect to have all or a portion of any advance of the Loans be LIBOR Loans, to Convert Base Rate Loans into LIBOR Loans, to Convert LIBOR Loans into Base Rate Loans, or to Continue LIBOR Loans as LIBOR Loans, at any time or from time to time, provided that: (1) Borrower shall give Administrative Agent notice of each such Election, Conversion or Continuation as provided in Section 2.15; and (2) a LIBOR Loan may be Converted or Continued only on the last day of the applicable Interest Period for such LIBOR Loan. Except as otherwise provided in this Agreement, each Election, Continuation and Conversion shall be applicable to each Bank's Loan in accordance with its Pro Rata Share.

Section 2.14 Minimum Amounts. With respect to the Loans as a whole, each Election and each Conversion shall be in an amount at least equal to One Million Dollars (\$1,000,000) and in integral multiples of One Hundred Thousand Dollars (\$100,000).

Section 2.15 Certain Notices Regarding Elections, Conversions and Continuations of Loans. Notices by Borrower to Administrative Agent of Elections, Conversions and Continuations of LIBOR Loans shall be irrevocable and shall be effective only if received by Administrative Agent not later than 10:00

a.m. (Pittsburgh time) on the number of Banking Days prior to the date of the relevant Election, Conversion or Continuation specified below:

| Notice | Number of Banking Days Prior |
|--|---------------------------------|
| Conversions into Base Rate Loans | ----- |
| Election of, Conversions into or Continuations as, LIBOR Loan | three (3) |
| | three (3) |

Promptly following its receipt of any such notice, Administrative Agent shall so advise the Banks either by telephone or by facsimile. Each such notice of Election shall specify the portion of the amount of the advance that is to be LIBOR Loans (subject to Section 2.14) and the duration of the Interest Period applicable thereto (subject to Section 2.06); each such notice of Conversion shall specify the LIBOR Loans or Base Rate Loans to be Converted; and each such notice of Conversion or Continuation shall specify the date of Conversion or Continuation (which shall be a Banking Day), the amount thereof (subject to

Section 2.14) and the duration of the Interest Period applicable thereto (subject to Section 2.06). In the event that Borrower fails to Elect to have any portion of an advance of the Loans be LIBOR Loans, the entire amount of such advance shall constitute Base Rate Loans. In the event that Borrower fails to Continue LIBOR Loans within the time period and as otherwise provided in this Section, such LIBOR Loans will be automatically Converted into Base Rate Loans on the last day of the then current applicable Interest Period for such LIBOR Loans.

Section 2.16 Late Payment Premium. Borrower shall, at Administrative Agent's option, pay to Administrative Agent for the account of the Banks a late payment premium in the

amount of four percent (4%) of any payments of interest under the Loans made more than fifteen (15) days after the due date thereof, which shall be due with any such late payment.

ARTICLE III. YIELD PROTECTION; ILLEGALITY; ETC.

Section 3.01 Additional Costs. Borrower shall pay directly to each Bank from time to time on demand such amounts as such Bank may determine to be necessary to compensate it for any increased costs which such Bank determines are attributable to its making or maintaining a LIBOR Loan, or its obligation to make or maintain a LIBOR Loan, or its obligation to Convert a Base Rate Loan to a LIBOR Loan hereunder, or any reduction in any amount receivable by such Bank hereunder in respect of its LIBOR Loan or such obligations (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), in each case resulting from any Regulatory Change which:

- (1) changes the basis of taxation of any amounts payable to such Bank under this Agreement or the Notes in respect of any such LIBOR Loan (other than changes in the rate of general corporate, franchise, branch profit, net income or other income tax imposed on such Bank or its Applicable Lending Office by the jurisdiction in which such Bank has its principal office or such Applicable Lending Office); or
- (2) (other than to the extent the LIBOR Reserve Requirement is taken into account in determining the LIBOR Rate at the commencement of the applicable Interest Period) imposes or modifies any reserve, special deposit, deposit insurance or assessment, minimum capital, capital ratio or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Bank (including any LIBOR Loan or any deposits referred to in the definition of "LIBOR Interest Rate" in Section 1.01), or any commitment of such Bank (including such Bank's Loan Commitment hereunder); or
- (3) imposes any other condition affecting this Agreement or the Notes (or any of such extensions of credit or liabilities).

Notwithstanding the foregoing, in the event that any Bank determines that it shall incur Additional Costs in maintaining a LIBOR Loan, such Bank shall provide written notice thereof to Borrower (with a copy to Administrative Agent), which notice shall include the dollar amount of the Additional Costs, and Borrower shall have the option, which option must be exercised within five

(5) Banking Days of Borrower's receipt of such notice, to prepay such LIBOR Loan or to Convert such LIBOR Loan into a Base Rate Loan, subject, however, to the provisions of Section 3.05.

Without limiting the effect of the provisions of the first paragraph of this Section, in the event that, by reason of any Regulatory Change, any Bank either (1) incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits of other liabilities of such Bank which includes deposits by reference to which the LIBOR Interest Rate is determined as provided in this Agreement or a category of extensions of credit or other assets of such Bank which includes loans based on the LIBOR Interest Rate or (2) becomes subject to restrictions on the amount of such a category of liabilities or assets which it may hold, then, if such Bank so elects by notice to Borrower (with a copy to Administrative

Agent), the obligation of such Bank to permit Elections of, to Continue, or to Convert Base Rate Loans into, LIBOR Loans shall be suspended (in which case the provisions of Section 3.04 shall be applicable) until such Regulatory Change ceases to be in effect.

Determinations and allocations by a Bank for purposes of this

Section of the effect of any Regulatory Change pursuant to the first or second paragraph of this Section, on its costs or rate of return of making or maintaining its Loan or portions thereof or on amounts receivable by it in respect of its Loan or portions thereof, and the amounts required to compensate such Bank under this Section, shall be conclusive absent manifest error.

To the extent that changing the jurisdiction of a Bank's Applicable Lending Office would have the effect of minimizing Additional Costs, each such Bank shall use reasonable efforts to make such a change, provided that same would not otherwise be disadvantageous to each such Bank.

No Bank shall be entitled to any compensation pursuant to this

Section relating to any period more than ninety (90) days prior to the date notice thereof is given to Borrower by such Bank.

Section 3.02 Limitation on Types of Loans. Anything herein to the contrary notwithstanding, if, on or prior to the determination of the LIBOR Interest Rate for any Interest Period:

(1) Administrative Agent determines (which determination shall be conclusive) that quotations of interest rates for the relevant deposits referred to in the definition of "LIBOR Interest Rate" in Section 1.01 are not being provided in the relevant amounts or for the relevant maturities for purposes of determining rates of interest for the LIBOR Loans as provided in this Agreement; or

(2) a Bank determines (which determination shall be conclusive) and promptly notifies Administrative Agent that the relevant rates of interest referred to in the definition of "LIBOR Interest Rate" in Section 1.01 upon the basis of which the rate of interest for LIBOR Loans for such Interest Period is to be determined do not adequately cover the cost to such Bank of making or maintaining such LIBOR Loan for such Interest Period;

then Administrative Agent shall give Borrower prompt notice thereof, and so long as such condition remains in effect, the Banks (or, in the case of the circumstances described in clause (2) above, the affected Bank) shall be under no obligation to permit Elections of LIBOR Loans, to Convert Base Rate Loans into LIBOR Loans or to Continue LIBOR Loans and Borrower shall, on the last day(s) of the then current Interest Period(s) for the affected outstanding LIBOR Loans, either (x) prepay the affected LIBOR Loans or (y) Convert the affected LIBOR Loans into Base Rate Loans in accordance with Section 2.13.

Section 3.03 Illegality. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Bank or its Applicable Lending Office to honor its obligation to make or maintain a LIBOR Loan hereunder, to allow Elections of a LIBOR Loan or to Convert a Base Rate Loan into a LIBOR Loan, then such Bank shall promptly notify Administrative Agent and Borrower thereof and such Bank's obligation to make or maintain a

LIBOR Loan, or to permit Elections of, to Continue, or to Convert its Base Rate Loan into, a LIBOR Loan shall be suspended (in which case the provisions of Section 3.04 shall be applicable) until such time as such Bank may again make and maintain a LIBOR Loan.

Section 3.04 Treatment of Affected Loans. If the obligations of any Bank to make or maintain a LIBOR Loan, or to permit an Election of a LIBOR Loan, to Continue its LIBOR Loan, or to Convert its Base Rate Loan into a LIBOR Loan, are suspended pursuant to Sections 3.01 or 3.03 (each LIBOR Loan so affected being herein called an "Affected Loan"), such Bank's Affected Loan shall be automatically Converted into a Base Rate Loan on the last day of the then current Interest Period for the Affected Loan (or, in the case of a Conversion required by Sections 3.01 or 3.03, on such earlier date as such Bank may specify to Borrower).

To the extent that such Bank's Affected Loan has been so Converted, all payments and prepayments of principal which would otherwise be applied to such Bank's Affected Loan shall be applied instead to its Base Rate Loan and such Bank shall have no obligation to Convert its Base Rate Loan into a LIBOR Loan.

In the event that the conditions giving rise to the suspension of any Bank's obligations to permit an Election of a LIBOR Loan, to Continue its LIBOR Loan, or to Convert its Base Rate Loan into a LIBOR Loan shall cease to exist, such Bank shall provide Borrower with prompt written notice of same (with a copy to Administrative Agent), and such Bank shall again be obligated to permit an Election of a LIBOR Loan, to Continue its LIBOR Loan, or to Convert its Base Rate Loan into a LIBOR Loan in accordance with this Agreement.

Section 3.05 Certain Compensation. Borrower shall pay to Administrative Agent for the account of the applicable Bank, upon the request of such Bank through Administrative Agent, such amount or amounts as shall be sufficient (in the reasonable opinion of such Bank) to compensate it for any loss, cost or expense which such Bank determines is attributable to:

- (1) any payment, prepayment, Conversion or Continuation of a LIBOR Loan made by such Bank on a date other than the last day of an applicable Interest Period for such LIBOR Loan, whether by reason of acceleration or otherwise; or
- (2) any failure by Borrower for any reason to Convert or Continue a LIBOR Loan to be Converted or Continued by such Bank on the date specified therefor in the relevant notice under Section 2.15; or
- (3) any failure by Borrower to borrow (or to qualify for a borrowing of) a LIBOR Loan which would otherwise be made hereunder on the date specified in the relevant Election notice under Section 2.15 given or submitted by Borrower.

Without limiting the foregoing, such compensation shall include an amount equal to the present value (using as the discount rate an interest rate equal to the rate determined under (2) below) of the excess, if any, of (1) the amount of interest which otherwise would have accrued on the principal amount so paid, prepaid, Converted or Continued (or not Converted, Continued or borrowed) for the period from the date of such payment, prepayment, Conversion or Continuation (or failure to Convert, Continue or borrow) to the last day of the then current applicable Interest Period (or, in the case of a failure to Convert, Continue or borrow, to the last

day of the applicable Interest Period which would have commenced on the date specified therefor in the relevant notice) at the applicable rate of interest for the LIBOR Loan provided for herein, over (2) the amount of interest (as reasonably determined by such Bank) based upon the interest rate which such Bank would have bid in the London interbank market for Dollar deposits, for amounts comparable to such principal amount and maturities comparable to such period. A determination of any Bank as to the amounts payable pursuant to this Section shall be conclusive absent manifest error.

Section 3.06 Capital Adequacy. If any Bank shall have determined that, after the date hereof, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such Governmental Authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Bank (or its Parent) as a consequence of such Bank's obligations hereunder to a level below that which such Bank (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within fifteen (15) days after demand by such Bank (with a copy to Administrative Agent), Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank (or its Parent) for such reduction. A certificate of any Bank claiming compensation under this Section, setting forth in reasonable detail the basis therefor, shall be conclusive absent manifest error.

Section 3.07 Substitution of Banks. If any Bank (an "Affected Bank")

(i) makes demand upon Borrower for (or if Borrower is otherwise required to pay) Additional Costs pursuant to Section 3.01 or (ii) is unable to make or maintain a LIBOR Loan as a result of a condition described in Section 3.03 or clause (2) of Section 3.02, Borrower may, within ninety (90) days of receipt of such demand or notice (or the occurrence of such other event causing Borrower to be required to pay Additional Costs or causing said Section 3.03 or clause (2) of Section 3.02 to be applicable), as the case may be, give notice (a "Replacement Notice") to Administrative Agent (which will promptly forward a copy of such notice to each Bank) of Borrower's intention either (x) to prepay in full the Affected Bank's Note and to terminate the Affected Bank's entire Loan Commitment or (y) to replace the Affected Bank with another financial institution (the "Replacement Bank") designated in such Replacement Notice.

In the event Borrower opts to give the notice provided for in clause

(x) above, and if the Affected Bank shall not agree within thirty (30) days of its receipt thereof to waive the payment of the Additional Costs in question or the effect of the circumstances described in Section 3.03 or clause (2) of Section 3.02, then, so long as no Default or Event of Default shall exist, Borrower may (notwithstanding the provisions of clause (2) of Section 2.11(a)) terminate the Affected Bank's entire Loan Commitment, provided that in connection therewith it pays to the Affected Bank all outstanding principal and accrued and unpaid interest under the Affected Bank's Note, together with all other amounts, if any, due from Borrower to the Affected Bank, including all amounts properly demanded and unreimbursed under Sections 3.01 and 3.05.

In the event Borrower opts to give the notice provided for in clause

(y) above, and if (i) Administrative Agent shall, within thirty (30) days of its receipt of the Replacement Notice,

notify Borrower and each Bank in writing that the Replacement Bank is reasonably satisfactory to Administrative Agent and (ii) the Affected Bank shall not, prior to the end of such thirty (30)- day period, agree to waive the payment of the Additional Costs in question or the effect of the circumstances described in

Section 3.03 or clause (2) of Section 3.02, then the Affected Bank shall, so long as no Default or Event of Default shall exist, assign its Note and all of its rights and obligations under this Agreement to the Replacement Bank, and the Replacement Bank shall assume all of the Affected Bank's rights and obligations, pursuant to an agreement, substantially in the form of an Assignment and Assumption Agreement, executed by the Affected Bank and the Replacement Bank. In connection with such assignment and assumption, the Replacement Bank shall pay to the Affected Bank an amount equal to the outstanding principal amount under the Affected Bank's Note plus all interest accrued thereon, plus all other amounts, if any (other than the Additional Costs in question), then due and payable to the Affected Bank; provided, however, that prior to or simultaneously with any such assignment and assumption, Borrower shall have paid to such Affected Bank all amounts properly demanded and unreimbursed under Sections 3.01 and 3.05. Upon the effective date of such assignment and assumption, the Replacement Bank shall become a Bank Party to this Agreement and shall have all the rights and obligations of a Bank as set forth in such Assignment and Assumption Agreement, and the Affected Bank shall be released from its obligations hereunder, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this Section, a substitute Note shall be issued to the Replacement Bank by Borrower, in exchange for the return of the Affected Bank's Note. The obligations evidenced by such substitute note shall constitute "Obligations" for all purposes of this Agreement and the other Loan Documents. If the Replacement Bank is not incorporated under the laws of the United States of America or a state thereof, it shall, prior to the first date on which interest or fees are payable hereunder for its account, deliver to Borrower and Administrative Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 10.13.

Borrower, Administrative Agent and the Banks shall execute such modifications to the Loan Documents as shall be reasonably required in connection with and to effectuate the foregoing.

ARTICLE IV. CONDITIONS PRECEDENT

Section 4.01 Conditions Precedent to the Initial Advance. The obligations of the Banks hereunder and the obligation of each Bank to make the Initial Advance are subject to the condition precedent that Administrative Agent shall have received on or before the Closing Date each of the following documents, and each of the following requirements shall have been fulfilled:

- (1) Fees and Expenses. The payment of (A) all fees and expenses incurred by Administrative Agent and Syndication Agent (including, without limitation, the reasonable fees and expenses of legal counsel); and (B) those fees specified in the Supplemental Fee Letter to be paid on or before the Closing Date;
- (2) Note. The Notes for Fleet, PNC and each of the other Banks signatory hereto, duly executed by Borrower;

(3) Financials of Borrower. Audited TRG Consolidated Financial Statements as of and for the year ended December 31, 1996 and unaudited TRG Consolidated Financial Statements as of and for the quarter ended September 30, 1997, each acceptable to the Banks;

(4) Evidence of Formation of Borrower. Certified (as of the Closing Date) copies of Borrower's certificate and agreement of limited partnership, with all amendments thereto, and a certificate of the Secretary of State of the jurisdiction of formation as to its good standing therein;

(5) Evidence of All Partnership Action. Certified (as of the Closing Date) copies of all documents evidencing partnership action taken by Borrower authorizing the execution, delivery and performance of the Loan Documents and each other document to be delivered by or on behalf of Borrower pursuant to this Agreement;

(6) Incumbency and Signature Certificate of Borrower. A certificate (dated as of the Closing Date) of the Secretary of the Partnership Committee of Borrower certifying the names and true signatures of each person authorized to sign on behalf of Borrower;

(7) Solvency Certificate. A Solvency Certificate, duly executed, from Borrower;

(8) Compliance Certificate. A certificate of the sort required by paragraph (4) of Section 6.09;

(9) Opinion of Counsel for Borrower. A favorable opinion, dated the Closing Date, of Miro Weiner & Kramer, counsel for Borrower, as to such matters as Administrative Agent may reasonably request;

(10) Authorization Letter. The Authorization Letter, duly executed by Borrower;

(11) Request for Advance. A request for an advance in accordance with Section 2.04;

(12) Certificate. The following statements shall be true and Administrative Agent shall have received a certificate dated the Closing Date signed by a duly authorized signatory of Borrower stating, to the best of the certifying party's knowledge, the following:

(a) All representations and warranties contained in this Agreement and in each of the other Loan Documents are true and correct on and as of the Closing Date as though made on and as of such date, and

(b) No Default or Event of Default has occurred and is continuing, or could result from the transactions contemplated by this Agreement and the other Loan Documents;

(13) Supplemental Fee Letter. The Supplemental Fee Letter, duly executed by Borrower;

(14) Project Budget. A budget setting forth, on an item-by-item basis, all hard and soft costs incurred, and estimated by Borrower to be incurred, by TAH in connection with its development and construction of Great Lakes Crossing; and

(15) Additional Documentation. Such other approvals, opinions or documents as Administrative Agent or any Bank may reasonably request.

Section 4.02 Conditions Precedent to Advances After the Initial Advance. The obligation of each Bank to make advances of the Loans subsequent to the Initial Advance shall be subject to satisfaction of the following conditions precedent:

(1) All conditions of Section 4.01 shall have been and remain satisfied as of the date of the advance;

(2) No Default or Event of Default shall have occurred and be continuing as of the date of the advance;

(3) Each of the representations and warranties contained in this Agreement and in each of the other Loan Documents shall be true and correct as of the date of the advance; and

(4) Administrative Agent shall have received a request for an advance in accordance with Section 2.04.

Section 4.03 Deemed Representations. Each request by Borrower for, and acceptance by Borrower of, an advance of proceeds of the Loans shall constitute a representation and warranty by Borrower that, as of both the date of such request and the date of the advance (1) no Default or Event of Default has occurred and is continuing, and (2) if any representation or warranty contained in this Agreement or the other Loan Documents is untrue or incorrect, the condition giving rise to such untruthfulness or incorrectness is not likely to result in a Material Adverse Change.

ARTICLE V. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Administrative Agent and each Bank as follows:

Section 5.01 Due Organization. Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has the partnership power and authority to own its assets and to transact the business in which it is now engaged, and, if applicable, is duly qualified as a foreign partnership and in good standing under the laws of each other jurisdiction in which such qualification is required.

Section 5.02 Power and Authority; No Conflicts; Compliance With Laws. The execution, delivery and performance of the obligations required to be performed by Borrower of

the Loan Documents does not and will not (a) require the consent or approval of its partners or such consent or approval has been obtained, (b) contravene its partnership agreement, (c) violate any provision of, or require any filing, registration, consent or approval under, any Law (including, without limitation, Regulation U), order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to it, (d) result in a breach of or constitute a default under or require any consent under any indenture or loan or credit agreement or any other agreement, lease or instrument to which it may be a party or by which it or its properties may be bound or affected except for consents which have been obtained, (e) result in, or require, the creation or imposition of any Lien, upon or with respect to any of its properties now owned or hereafter acquired, or (f) cause it to be in default under any such Law, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument; to the best of its knowledge, Borrower is in compliance with all Laws applicable to it where the failure to be in compliance would cause a Material Adverse Change to occur.

Section 5.03 Legally Enforceable Agreements. Each Loan Document is a legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally.

Section 5.04 Litigation. There are no actions, suits or proceedings pending or, to its knowledge, threatened against Borrower or any of its Affiliates before any court or arbitrator or any Governmental Authority except actions, suits or proceedings which have been disclosed to Administrative Agent and the Banks in writing and which are fully covered by insurance or would, if adversely determined, not substantially impair the ability of Borrower to pay when due any amounts which may become payable under the Notes or to otherwise pay and perform its obligations in connection with the Loan.

Section 5.05 Good Title to Properties. Borrower and each of its Affiliates have good, marketable and legal title to all of the properties and assets each of them purports to own (including, without limitation, those reflected in the June 30, 1997 financial statements referred to in Section 5.13) and, in the case of all of Borrower's shopping center properties, only with exceptions which do not materially detract from the value of such property or assets or the use thereof in Borrower's and such Affiliate's business, and except to the extent that any such properties and assets have been encumbered or disposed of since the date of such financial statements without violating any of the covenants contained in Article VII or elsewhere in this Agreement. Borrower and its Affiliates enjoy peaceful and undisturbed possession of all leased property necessary in any material respect in the conduct of their respective businesses. All such leases are valid and subsisting and are in full force and effect.

Section 5.06 Taxes. Borrower has filed all tax returns (federal, state and local) required to be filed and has paid all taxes, assessments and governmental charges and levies due and payable without the imposition of a penalty, including interest and penalties, except to the extent they are the subject of a Good Faith Contest.

Section 5.07 ERISA. Borrower is in compliance in all material respects with all applicable provisions of ERISA. Neither a Reportable Event nor a Prohibited Transaction has occurred with respect to any Plan; no notice of intent to terminate a Plan has been filed nor has any Plan been terminated within the past five (5) years; no circumstance exists which constitutes

grounds under Section 4042 of ERISA entitling the PBGC to institute proceedings to terminate, or appoint a trustee to administer, a Plan, nor has the PBGC instituted any such proceedings; Borrower and the ERISA Affiliates thereof have not completely or partially withdrawn under Sections 4201 or 4204 of ERISA from a Multiemployer Plan; Borrower and the ERISA Affiliates thereof have met the minimum funding requirements of each under ERISA with respect to the plans of each and there are no unfunded vested liabilities with respect to any plan established or maintained by each; and Borrower and the ERISA Affiliates thereof have not incurred any liability to the PBGC under ERISA.

Section 5.08 No Default on Outstanding Judgments or Orders. Borrower has satisfied all judgments which are not being appealed and is not in default with respect to any judgment, order, writ, injunction, decree, rule or regulation of any court, arbitrator or federal, state, municipal or other Governmental Authority, commission, board, bureau, agency or instrumentality, domestic or foreign.

Section 5.09 No Defaults on Other Agreements. Except as disclosed to the Bank Parties in writing, including anything disclosed on financial statements, Borrower, to the best of its knowledge, is not a party to any indenture, loan or credit agreement or any lease or other agreement or instrument or subject to any partnership, trust or other restriction which is likely to result in a Material Adverse Change. To the best of its knowledge, Borrower is not in default in any respect in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement or instrument which is likely to result in a Material Adverse Change.

Section 5.10 Government Regulation. Borrower is not subject to regulation under the Investment Company Act of 1940, the Interstate Commerce Act, the Federal Powers Act or any statute or regulation limiting any such Person's ability to incur indebtedness for money borrowed as contemplated hereby.

Section 5.11 Environmental Protection. To the best of Borrower's knowledge, none of Borrower's or its Affiliates' properties contains any Hazardous Materials that, under any Environmental Law currently in effect, (1) would impose liability on Borrower that is likely to result in a Material Adverse Change, or (2) is likely to result in the imposition of a Lien on any assets of Borrower or its Affiliates, in each case if not properly handled in accordance with applicable Law. To the best of Borrower's knowledge, neither it nor any of its Affiliates is in violation of, or subject to any existing, pending or threatened investigation or proceeding by any Governmental Authority under, any Environmental Law.

Section 5.12 Solvency. Borrower is, and upon consummation of the transactions contemplated by this Agreement, the other Loan Documents and any other documents, instruments or agreements relating thereto, will be, Solvent.

Section 5.13 Financial Statements. The TRG Consolidated Financial Statements most recently delivered to the Banks pursuant to the terms of this Agreement are in all material respects complete and correct and fairly present the financial condition of the subjects thereof as of the dates of and for the periods covered by such statements, all in accordance with GAAP, and there has been no Material Adverse Change since the date of such most recently delivered TRG Consolidated Financial Statements.

Section 5.14 Valid Existence of Affiliates. As of the Closing Date, the only material Affiliates of Borrower which own or lease operating shopping centers or shopping centers under construction are listed on EXHIBIT D. Each such Affiliate is a partnership, limited liability company or joint venture duly organized and existing in good standing under the laws of the jurisdiction of its formation. As to each such Affiliate, its correct name, the jurisdiction of its formation and Borrower's percentage of beneficial interest therein are set forth on said EXHIBIT D. Borrower and each of such Affiliates have the power to own their respective properties and to carry on their respective businesses now being conducted. Each of Borrower and such Affiliates is duly qualified as a foreign partnership, company or venture to do business and is in good standing in every jurisdiction in which the nature of the respective businesses conducted by it or its respective properties, owned or held under lease, make such qualification necessary.

Section 5.15 Insurance. Borrower and each of its Affiliates has in force paid insurance with financially sound and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by companies engaged in the same or a similar business and similarly situated.

Section 5.16 Accuracy of Information; Full Disclosure. Neither this Agreement nor any documents, financial statements, reports, notices, schedules, certificates, statements or other writings furnished by or on behalf of Borrower to Administrative Agent or any Bank in connection with the negotiation of this Agreement or the consummation of the transactions contemplated hereby, or required herein to be furnished by or on behalf of Borrower, contains any untrue or misleading statement of a material fact or omits a material fact necessary to make the statements herein or therein not misleading. There is no fact which Borrower has not disclosed to Administrative Agent and the Banks in writing which materially affects adversely nor, so far as Borrower can now foresee, will materially affect adversely the business, prospects, profits or financial condition of Borrower or the ability of Borrower to perform this Agreement and the other Loan Documents.

ARTICLE VI. AFFIRMATIVE COVENANTS

So long as any of the Notes shall remain unpaid or the Loan Commitments remain in effect, or any other amount is owing by Borrower to any Bank hereunder or under any other Loan Document, Borrower shall:

Section 6.01 Maintenance of Existence. Preserve and maintain its legal existence and, if applicable, good standing in the jurisdiction of organization and, if applicable, qualify and remain qualified as a foreign partnership in each jurisdiction in which such qualification is required, except to the extent that failure to so qualify is not likely to result in a Material Adverse Change.

Section 6.02 Maintenance of Records. Keep adequate records and books of account, in which complete entries will be made in accordance with GAAP, reflecting all of its financial transactions.

Section 6.03 Maintenance of Insurance. At all times, maintain and keep in force, and cause each of its Affiliates to maintain and keep in force, insurance with financially

sound and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by companies engaged in the same or a similar business and similarly situated, which insurance may provide for reasonable deductibility from coverage thereof.

Section 6.04 Compliance with Laws; Payment of Taxes. Comply in all respects with all Laws applicable to it or to any of its properties or any part thereof, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed upon it or upon its property, except to the extent they are the subject of a Good Faith Contest.

Section 6.05 Right of Inspection. At any reasonable time and from time to time upon reasonable notice, permit Administrative Agent or any Bank or any agent or representative thereof (provided that a representative of any Bank must, at Borrower's request, be accompanied by a representative of Borrower), to examine and make copies and abstracts from the records and books of account of, and visit the properties of, Borrower and to discuss the affairs, finances and accounts of Borrower with the independent accountants of Borrower.

Section 6.06 Compliance With Environmental Laws. Comply in all material respects with all applicable Environmental Laws and immediately pay or cause to be paid all costs and expenses incurred in connection with such compliance, except to the extent there is a Good Faith Contest.

Section 6.07 Payment of Costs. Pay all costs and expenses required for the satisfaction of the conditions of this Agreement.

Section 6.08 Maintenance of Properties. Borrower will do all things reasonably necessary to maintain, preserve, protect and keep its and its Affiliates' properties in good repair, working order and condition.

Section 6.09 Reporting and Miscellaneous Document Requirements. Furnish directly to each of the Banks:

(1) Annual Financial Statements. As soon as available and in any event within ninety (90) days after the end of each Fiscal Year, the TRG Consolidated Financial Statements as of the end of and for such Fiscal Year, in reasonable detail and stating in comparative form the respective figures for the corresponding date and period in the prior Fiscal Year and audited by Borrower's Accountants;

(2) Quarterly Financial Statements. As soon as available and in any event within forty-five (45) days after the end of each calendar quarter (other than the last quarter of the Fiscal Year), the unaudited TRG Consolidated Financial Statements as of the end of and for such calendar quarter, in reasonable detail and stating in comparative form the respective figures for the corresponding date and period in the prior Fiscal Year;

(3) Statement of Gross Asset Value. As soon as available and in any event within ninety (90) days after June 30th of each year, a statement by Borrower setting forth the calculation of Gross Asset Value, including individual ten (10)-year projections for each asset (described in clause (ii) of the definition of Gross Asset Value in Section 1.01) contributing to Gross Asset Value and a summary of material assumptions,

accompanied by a concurrence letter from the Banks' Valuation Consultant confirming that, based on their review of all relevant materials, there is no more than a ten percent (10%) variation between the contribution to Gross Asset Value from all the assets described in clause (ii) of the definition of Gross Asset Value in Section 1.01, as determined by Borrower, and the contribution from said assets to Gross Asset Value if the same had been estimated by the reviewer in a full appraisal of the same interests, which concurrence letter shall contain a one (1)-page summary of its analysis for each of the individual assets contributing to Gross Asset Value;

(4) Certificate of No Default and Financial Compliance. Within forty five (45) days after the end of each of the first three quarters of each Fiscal Year and within ninety (90) days after the end of each Fiscal Year, a certificate of Borrower's chief financial officer or Treasurer (a) stating that, to the best of his or her knowledge, no Default or Event of Default has occurred and is continuing, or if a Default or Event of Default has occurred and is continuing, specifying the nature thereof and the action which is proposed to be taken with respect thereto; (b) stating that the covenants contained in Sections 7.02, 7.03 and 7.04 and in Article VIII have been complied with (or specifying those that have not been complied with) and including computations demonstrating such compliance (or non-compliance); and (c) setting forth the details of all items comprising Total Outstanding Indebtedness (including amount, maturity, interest rate and amortization requirements), Unencumbered Combined EBITDA, Unsecured Interest Expense and Unsecured Indebtedness;

(5) Certificate of Borrower's Accountants. Simultaneously with the delivery of the annual financial statements required by paragraph (1) of this Section, a statement of Borrower's Accountants who audited such financial statements comparing the computations set forth in the financial compliance certificate required by paragraph (4) of this Section to the audited financial statements required by paragraph (1) of this Section (where such information appears in such financial statements);

(6) Notice of Litigation. Promptly after the commencement and knowledge thereof, notice of all actions, suits, and proceedings before any court or arbitrator, affecting Borrower which, if determined adversely to Borrower is likely to result in a Material Adverse Change;

(7) Notices of Defaults and Events of Default. As soon as possible and in any event within ten (10) days after Borrower becomes aware of the occurrence of a material Default or any Event of Default a written notice setting forth the details of such Default or Event of Default and the action which is proposed to be taken with respect thereto;

(8) Dispositions or Acquisitions of Assets. Within thirty (30) days after the occurrence thereof, written notice of any Disposition or acquisition of assets (other than acquisitions or Dispositions of investments such as certificates of deposit, Treasury securities and money market deposits in the ordinary course of Borrower's cash management) in excess of Twenty Five Million Dollars (\$25,000,000), together with, in the case of any acquisition of such an asset, (i) a certificate of the sort required by paragraph (4)(b) of this Section, containing covenant compliance calculations that include the pro-forma adjustments set forth at the end of this Section, which calculations

shall demonstrate Borrower's compliance, on a pro-forma basis, as of the end of the most recently ended calendar quarter for which financial results are required hereunder to have been reported by Borrower, with all covenants enumerated in said paragraph (4)(b) and (ii) such other information relating to the acquisition as Administrative Agent may reasonably request, including, without limitation, (x) copies of the agreements governing the acquisition and (y) historical balance sheets (to the extent available) and statements of income and cash flows with respect to the property acquired for at least the preceding three (3) years and Borrower's revenue and expense projections for the property acquired for at least the next five (5) years (all of the foregoing to be in form and detail satisfactory to Administrative Agent);

(9) Material Adverse Change. As soon as is practicable and in any event within five (5) days after knowledge of the occurrence of any event or circumstance which is likely to result in or has resulted in a Material Adverse Change, written notice thereof;

(10) Bankruptcy of Tenants. Promptly after becoming aware of the same, written notice of the bankruptcy, insolvency or cessation of operations of any tenant in any property of Borrower or in which Borrower has an interest to which five percent (5%) or more of minimum rent payable to Borrower directly or through its Consolidated Businesses or UJVs is attributable;

(11) Offices. Thirty (30) days' prior written notice of any change in the chief executive office or principal place of business of Borrower;

(12) Environmental and Other Notices. As soon as possible and in any event within five (5) days after receipt, copies of all Environmental Notices received by Borrower which are not received in the ordinary course of business and which relate to a situation which is likely to result in a Material Adverse Change;

(13) Insurance Coverage. Promptly, such information concerning Borrower's insurance coverage as Administrative Agent may reasonably request;

(14) Change in Borrower's Credit Rating. Within two (2) Banking Days after any change in Borrower's Credit Rating, written notice of such change;

(15) SEC Filings, Etc. As soon as possible and in any event within ten (10) days of the sending or filing thereof, copies of all proxy statements, financial statements and reports which TCI sends to its shareholders, and copies of all annual reports on Form 10-K (without exhibits), quarterly reports on Form 10-Q (without exhibits) and current reports on Form 8-K (without exhibits), and all registration statements which are declared effective which Borrower or TCI files with the Securities and Exchange Commission or any Governmental Authority which may be substituted therefor; and

(16) General Information. Promptly, such other information respecting the condition or operations, financial or otherwise, of Borrower or any properties of Borrower as Administrative Agent may from time to time reasonably request.

In connection with each acquisition of assets that is required to be reported pursuant to paragraph (8) of this Section, the following pro-forma adjustments shall be made to the covenant compliance calculations required as of the end of the most recently ended calendar quarter for which financial results are required hereunder to have been reported by Borrower:

- (i) Gross Asset Value shall be adjusted by adding thereto the lesser of (A) the Purchase Price Borrower paid for the acquired asset or (B) the acquired asset's trailing twelve (12)-month net operating income, less any management fee adjustment, if applicable, capitalized at a rate of eight percent (8%) per annum; provided, however, that, at Borrower's request and expense, Administrative Agent shall promptly cause the Banks' Valuation Consultant to appraise the acquired asset and, upon the completion of such appraisal, provided such appraisal is reasonably satisfactory to Administrative Agent, the appraised value of the acquired asset as determined in such appraisal shall be substituted for the amount calculated pursuant to clauses (A) and (B) above.
- (ii) Total Outstanding Indebtedness, Secured Indebtedness and Unsecured Indebtedness shall be adjusted by adding thereto, respectively, all indebtedness, secured indebtedness and unsecured indebtedness that is assumed and/or incurred by Borrower in connection with the acquisition. For purposes of such adjustments, indebtedness, secured indebtedness and unsecured indebtedness in connection with the acquisition shall be treated in a manner consistent with the treatment of Total Outstanding Indebtedness, Secured Indebtedness and Unsecured Indebtedness in the TRG Consolidated Financial Statements.
- (iii) Combined EBITDA, for any period, shall be adjusted by adding (or subtracting, in the case of a loss) thereto actual revenues less operating costs before interest, depreciation, amortization and extraordinary items, for the same period (based on the same accounting principles and assumptions as are set forth in the definition of "Combined EBITDA" in Section 1.01, to the extent possible based on information reasonably available with respect to the acquired asset), from the acquired asset.
- (iv) If, upon its acquisition, the acquired asset becomes part of Unencumbered Wholly-Owned Assets, Unencumbered Combined EBITDA, for any period, shall be adjusted by adding (or subtracting, in the case of a loss) thereto actual income before interest expense, income taxes, depreciation, amortization and extraordinary items, for the same period, from the acquired asset.
- (v) Interest Expense and Unsecured Interest Expense, for any period, shall be adjusted by adding thereto interest expense to be incurred on, respectively, all indebtedness and unsecured indebtedness that is assumed and/or incurred by Borrower in connection with the acquisition, assuming, for purposes of this calculation, that such indebtedness were to bear interest at a rate 1.75% per annum in excess of the rate of interest that would be payable on a ten (10)-year United States Treasury Note issued as of the date of the acquisition.

ARTICLE VII. NEGATIVE COVENANTS

So long as any of the Notes shall remain unpaid, or the Loan Commitments remain in effect, or any other amount is owing by Borrower to Administrative Agent or any Bank hereunder or under any other Loan Document, Borrower shall not do any or all of the following:

Section 7.01 Mergers Etc. Merge or consolidate with (except where Borrower or a Person wholly-owned by Borrower is the surviving entity), or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) (or enter into any agreement to do any of the foregoing).

Section 7.02 Investments. Make any loan or advance to any Person or purchase or otherwise acquire any capital stock, assets, obligations or other securities of, make any capital contribution to, or otherwise invest in, or acquire any interest in, any Person (any such transaction, an "Investment") if

(1) the Investment is in connection with something other than a retail shopping center and the amount of any single such Investment (or the aggregate amount of any single such Investment together with all related Investments), would exceed twenty percent (20%) of Net Worth; (2) except to the extent permitted by clause

(3) below, such Investment constitutes the acquisition of a minority interest in a Person (a "Minority Interest") and the amount of such Investment, together with the value of all other Minority Interests acquired after the Closing Date contributing to Gross Asset Value, would exceed ten percent (10%) of Net Worth, or (3) such Investment constitutes the acquisition of a Minority Interest in a regional shopping center or portfolio of regional shopping centers and the amount of such Investment, together with the value of all other such Minority Interests, would exceed twenty percent (20%) of Net Worth. A fifty percent (50%) beneficial interest in a Person, in connection with which the holder thereof exercises joint control over such Person with the holder(s) of the other fifty percent (50%) beneficial interest, shall not constitute a "Minority Interest" for purposes of this Section.

Section 7.03 Sale of Assets. Effect a Disposition of any of its now owned or hereafter acquired assets, including assets in which Borrower owns a beneficial interest through its ownership of interests in joint ventures, aggregating more than forty percent (40%) of Gross Asset Value.

Section 7.04 Interest Rate Hedging. At any time, permit or suffer more than twenty five percent (25%) of Total Outstanding Indebtedness not to be "hedged"; for purposes of this Section, "hedged" shall mean bearing interest at an effective fixed rate, either pursuant to the debt instrument itself or through the operation of a "cap", "collar", "swap" or comparable interest rate protection contract, such debt instrument, or instrument creating the "cap", "collar", "swap" or comparable interest rate protection contract, as the case may be, having an original term of at least twelve (12) months.

Section 7.05 Partnership Committee of Borrower. At any time, permit or suffer the failure or inability of any one (1) or more of (1) TG Partners Limited Partnership and/or Taub-Co Management, Inc.; (2) the General Motors Hourly-Rate Employees Pension Trust and/or the General Motors Salaried Employees Pension Trust, directly or indirectly (or a single

"GMPTS Transferee," as such quoted term is defined in Borrower's Amended and Restated Agreement of Limited Partnership); and (3) TCI, to designate a majority of Borrower's partnership committee.

ARTICLE VIII. FINANCIAL COVENANTS

So long as any of the Notes shall remain unpaid, or the Loan Commitments remain in effect, or any other amount is owing by Borrower to Administrative Agent or any Bank under this Agreement or under any other Loan Document, Borrower shall not permit or suffer:

Section 8.01 Net Worth. At any time, Net Worth to be less than One Billion Dollars (\$1,000,000,000); or

Section 8.02 Relationship of Total Outstanding Indebtedness to Gross Asset Value. At any time, Total Outstanding Indebtedness to exceed fifty percent (50%) of Gross Asset Value; or

Section 8.03 Relationship of Secured Indebtedness to Gross Asset Value. At any time, Secured Indebtedness to exceed thirty five percent (35%) of Gross Asset Value; or

Section 8.04 Relationship of Combined EBITDA to Interest Expense. As of the end of any calendar quarter, the ratio of (1) Combined EBITDA to (2) Interest Expense, each for the twelve (12)-month period then ended and taken as a whole, to be less than 1.85 to 1.0; or

Section 8.05 Relationship of Combined EBITDA to Adjusted Total Outstanding Indebtedness. As of the end of any calendar quarter, the ratio (expressed as a percentage) of (1) Combined EBITDA for the twelve (12)-month period then ended and taken as a whole to (2) Adjusted Total Outstanding Indebtedness as of the end of such calendar quarter to be less than thirteen percent (13%); or

Section 8.06 Combined EBTDA. As of the end of any calendar quarter, Combined EBTDA for such calendar quarter to be less than Twelve Million Five Hundred Thousand Dollars (\$12,500,000); or

Section 8.07 Unsecured Debt Yield. As of the end of any calendar quarter, Unsecured Debt Yield for such calendar quarter to be less than eleven and one half percent (11- 1/2%); or

Section 8.08 Relationship of Unencumbered Combined EBITDA to Interest Expense on Unsecured Indebtedness. As of the end of any calendar quarter, the ratio of (1) Unencumbered Combined EBITDA to (2) that portion of Interest Expense attributable to Unsecured Indebtedness, each for the prior twelve (12)-month period then ended and taken as a whole, to be less than 1.50 to 1.00.

ARTICLE IX. EVENTS OF DEFAULT

Section 9.01Events of Default. Any of the following events shall be an "Event of Default":

- (1) If Borrower shall: fail to pay the principal of any Notes as and when due; or fail to pay interest accruing on any Notes as and when due and such failure to pay shall continue unremedied for five (5) days after the due date of such amount; or fail to pay any fee or interest or any other amount due under this Agreement or any other Loan Document as and when due and such failure to pay shall continue unremedied for two (2) days after notice by Administrative Agent of such failure to pay; or
- (2) If any representation or warranty made by Borrower in this Agreement or in any other Loan Document or which is contained in any certificate, document, opinion, financial or other statement furnished at any time under or in connection with a Loan Document shall prove to have been incorrect in any material respect on or as of the date made; or
- (3) If Borrower shall fail (a) to perform or observe any term, covenant or agreement contained in Article VII or Article VIII; or (b) to perform or observe any term, covenant or agreement contained in Article VI or otherwise contained in this Agreement (other than obligations specifically referred to elsewhere in this Section) or any Loan Document, or any other document executed by Borrower and delivered to Administrative Agent and/or the Banks in connection with the transactions contemplated hereby and such failure shall remain unremedied for thirty (30) consecutive calendar days after the occurrence thereof (or such shorter cure period as may be expressly prescribed in the applicable Loan Document); provided, however, that if any such default under clause (b) above cannot by its nature be cured within such thirty (30) day, or shorter, as the case may be, grace period and so long as Borrower shall have commenced cure within such thirty (30) day, or shorter, as the case may be, grace period and shall, at all times thereafter, diligently prosecute the same to completion, Borrower shall have an additional period, not to exceed sixty (60) days, to cure such default; in no event, however, is the foregoing intended to effect an extension of the Maturity Date; or
- (4) If Borrower shall fail (a) to pay any Debt (other than the payment obligations described in paragraph (1) of this Section) in an amount equal to or greater than Ten Million Dollars (\$10,000,000) when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise), or (b) to perform or observe any material term, covenant, or condition under any agreement or instrument relating to any such Debt, when required to be performed or observed, if the effect of such failure to perform or observe is to accelerate, or to permit the acceleration of, after the giving of notice or the lapse of time, or both (other than in cases where, in the judgment of the Required Banks, meaningful discussions likely to result in (i) a waiver or cure of the failure to perform or observe, or (ii) otherwise averting such acceleration are in progress between Borrower and the obligee of such Debt), the maturity of such Debt, or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled or otherwise required prepayment), prior to the stated maturity thereof; or

(5) If Borrower, or any Affiliate of Borrower to which One Hundred Fifty Million Dollars (\$150,000,000) or more of Gross Asset Value is attributable, shall: (a) generally not, or be unable to, or shall admit in writing its inability to, pay its debts as such debts become due; or (b) make an assignment for the benefit of creditors, petition or apply to any tribunal for the appointment of a custodian, receiver or trustee for it or a substantial part of its assets; or (c) commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or (d) have had any such petition or application filed or any such proceeding shall have been commenced, against it, in which an adjudication or appointment is made or order for relief is entered, or which petition, application or proceeding remains undismissed or unstayed for a period of sixty (60) days or more; or (e) be the subject of any proceeding under which all or a substantial part of its assets may be subject to seizure, forfeiture or divestiture; or (f) by any act or omission indicate its consent to, approval of or acquiescence in any such petition, application or proceeding or order for relief or the appointment of a custodian, receiver or trustee for all or any substantial part of its property; or (g) suffer any such custodianship, receivership or trusteeship for all or any substantial part of its property, to continue undischarged for a period of sixty (60) days or more; or

(6) If one or more judgments, decrees or orders for the payment of money in excess of Ten Million Dollars (\$10,000,000) in the aggregate shall be rendered against Borrower, and any such judgments, decrees or orders shall continue unsatisfied and in effect for a period of thirty (30) consecutive days without being vacated, discharged, satisfied or stayed or bonded pending appeal; or

(7) If any of the following events shall occur or exist with respect to Borrower, or any ERISA Affiliate of Borrower: (a) any Prohibited Transaction involving any Plan; (b) any Reportable Event with respect to any Plan; (c) the filing under Section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan; (d) any event or circumstance which might constitute grounds entitling the PBGC to institute proceedings under Section 4042 of ERISA for the termination of, or for the appointment of a trustee to administer, any Plan, or the institution by the PBGC of any such proceedings; or (e) complete or partial withdrawal under Section 4201 or 4204 of ERISA from a Multiemployer Plan or the reorganization, insolvency, or termination of any Multiemployer Plan; and in each case above, if such event or conditions, if any, could in the opinion of any Bank subject Borrower or any ERISA Affiliate of Borrower to any tax, penalty, or other liability to a Plan, Multiemployer Plan, the PBGC or otherwise (or any combination thereof) which in the aggregate exceeds or may exceed Fifty Thousand Dollars (\$50,000); or

(8) If at any time TCI is not a qualified real estate investment trust under Sections 856 through 860 of the Code or is not listed on the New York Stock Exchange or the American Stock Exchange; or

(9) If at any time Borrower fails to operate as a real estate operating company for ERISA purposes (within the meaning of C.F.R. ss.2510.3-101); or

(10) If the Taubman Company Limited Partnership, the entity presently providing property management and leasing services for all the regional shopping center properties in which Borrower has an ownership interest, shall discontinue providing such services for twenty five percent (25%) or more of the regional shopping center properties then owned in whole or in part by Borrower.

Section 9.02 Remedies. If any Event of Default shall occur and be continuing, Administrative Agent shall, upon request of the Required Banks, by notice to Borrower, (1) declare the outstanding Notes, all interest thereon, and all other amounts payable under this Agreement, and any other Loan Documents to be forthwith due and payable, whereupon the Notes, all such interest, and all such amounts due under this Agreement, and under any other Loan Document shall become and be forthwith due and payable, without presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by Borrower; and/or (2) exercise any remedies provided in any of the Loan Documents or by law.

ARTICLE X. ADMINISTRATIVE AGENT; RELATIONS AMONG BANKS

Section 10.01 Appointment, Powers and Immunities of Administrative Agent. Each Bank hereby irrevocably appoints and authorizes Administrative Agent to act as its agent hereunder and under any other Loan Document with such powers as are specifically delegated to Administrative Agent by the terms of this Agreement and any other Loan Document, together with such other powers as are reasonably incidental thereto. Administrative Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and any other Loan Document or required by law, and shall not by reason of this Agreement be a fiduciary or trustee for any Bank except to the extent that Administrative Agent acts as an agent with respect to the receipt or payment of funds (nor shall Administrative Agent have any fiduciary duty to Borrower nor shall any Bank have any fiduciary duty to Borrower or to any other Bank). Administrative Agent shall not be responsible to the Banks for any recitals, statements, representations or warranties made by Borrower or any officer, partner or official of Borrower or any other Person contained in this Agreement or any other Loan Document, or in any certificate or other document or instrument referred to or provided for in, or received by any of them under, this Agreement or any other Loan Document, or for the value, legality, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or any other document or instrument referred to or provided for herein or therein, for the perfection or priority of any Lien securing the Obligations or for any failure by Borrower to perform any of its obligations hereunder or thereunder. Administrative Agent may employ agents and attorneys-in-fact and shall not be responsible, except as to money or securities received by it or its authorized agents, for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. Neither Administrative Agent nor any of its directors, officers, employees or agents shall be liable or responsible for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith, except for its or their own gross negligence or willful misconduct. Borrower shall pay any fee agreed to by Borrower and Administrative Agent with respect to Administrative Agent's services hereunder.

Section 10.02 Reliance by Administrative Agent. Administrative Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telex, telegram or cable) believed by it to be genuine and correct and to have been

signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by Administrative Agent. Administrative Agent may deem and treat each Bank as the holder of the Loan made by it for all purposes hereof and shall not be required to deal with any Person who has acquired a participation in any Loan or participation from a Bank. As to any matters not expressly provided for by this Agreement or any other Loan Document, Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions signed by the Required Banks, and such instructions of the Required Banks and any action taken or failure to act pursuant thereto shall be binding on all of the Banks and any other holder of all or any portion of any Loan or participation.

Section 10.03 Defaults. Administrative Agent shall not be deemed to have knowledge of the occurrence of a Default or Event of Default unless Administrative Agent has received notice from a Bank or Borrower specifying such Default or Event of Default and stating that such notice is a "Notice of Default." In the event that Administrative Agent receives such a notice of the occurrence of a Default or Event of Default, Administrative Agent shall give prompt notice thereof to the Banks. Administrative Agent, following consultation with the Banks, shall (subject to Section 10.07) take such action with respect to such Default or Event of Default which is continuing as shall be directed by the Required Banks; provided that, unless and until Administrative Agent shall have received such directions, Administrative Agent may take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Banks; and provided further that Administrative Agent shall not send a notice of Default or acceleration to Borrower without the approval of the Required Banks. In no event shall Administrative Agent be required to take any such action which it determines to be contrary to law.

Section 10.04 Rights of Administrative Agent as a Bank. With respect to its Loan Commitment and the Loan provided by it, Administrative Agent in its capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not acting as Administrative Agent, and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include Administrative Agent in its capacity as a Bank. Administrative Agent and its Affiliates may (without having to account therefor to any Bank) accept deposits from, lend money to (on a secured or unsecured basis), and generally engage in any kind of banking, trust or other business with Borrower (and any Affiliates of Borrower) as if it were not acting as Administrative Agent.

Section 10.05 Indemnification of Administrative Agent. Each Bank agrees to indemnify Administrative Agent (to the extent not reimbursed under

Section 12.04 or under the applicable provisions of any other Loan Document, but without limiting the obligations of Borrower under Section 12.04 or such provisions), for its Pro Rata Share of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against Administrative Agent in any way relating to or arising out of this Agreement, any other Loan Document or any other documents contemplated by or referred to herein or the transactions contemplated hereby or thereby (including, without limitation, the costs and expenses which Borrower is obligated to pay under Section 12.04) or under the applicable provisions of any other Loan Document or the enforcement of any of the terms hereof or thereof or of any such other documents or instruments; provided that no Bank shall be liable for (1) any

of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified, (2) any loss of principal or interest with respect to Administrative Agent's Loan or (3) any loss suffered by Administrative Agent in connection with a swap or other interest rate hedging arrangement entered into by Administrative Agent with Borrower.

Section 10.06 Non-Reliance on Administrative Agent and Other Banks. Each Bank agrees that it has, independently and without reliance on Administrative Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of Borrower and the decision to enter into this Agreement and that it will, independently and without reliance upon Administrative Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any other Loan Document. Administrative Agent shall not be required to keep itself informed as to the performance or observance by Borrower of this Agreement or any other Loan Document or any other document referred to or provided for herein or therein or to inspect the properties or books of Borrower. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by Administrative Agent hereunder, Administrative Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of Borrower (or any Affiliate of Borrower) which may come into the possession of Administrative Agent or any of its Affiliates. Administrative Agent shall not be required to file this Agreement, any other Loan Document or any document or instrument referred to herein or therein, for record or give notice of this Agreement, any other Loan Document or any document or instrument referred to herein or therein, to anyone.

Section 10.07 Failure of Administrative Agent to Act. Except for action expressly required of Administrative Agent hereunder, Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall have received further assurances (which may include cash collateral) of the indemnification obligations of the Banks under Section 10.05 in respect of any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

Section 10.08 Resignation or Removal of Administrative Agent. Provided there exists no Event of Default, Administrative Agent hereby agrees not to unilaterally resign except in the event it becomes an Affected Bank and is removed or replaced as a Bank pursuant to Section 3.07, in which event it shall have the right to resign. Administrative Agent may be removed at any time with or without cause by the Required Banks, provided that Borrower and the other Banks shall be promptly notified thereof. Upon any such resignation or removal, the successor Administrative Agent shall, at Fleet's option, be Fleet. If Fleet elects not to become the successor Administrative Agent, the Required Banks shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by the Required Banks and shall have accepted such appointment within thirty (30) days after the Required Banks' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent, which shall be one of the Banks. The Required Banks or the retiring Administrative Agent, as the case may be, shall upon the appointment of a successor Administrative Agent promptly so notify Borrower and the other Banks. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor

Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's removal hereunder as Administrative Agent, the provisions of this Article X shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Administrative Agent.

Section 10.09 Amendments Concerning Agency Function. Notwithstanding anything to the contrary contained in this Agreement, Administrative Agent shall not be bound by any waiver, amendment, supplement or modification of this Agreement or any other Loan Document which affects its duties, rights, and/or function hereunder or thereunder unless it shall have given its prior written consent thereto.

Section 10.10 Liability of Administrative Agent. Administrative Agent shall not have any liabilities or responsibilities to Borrower on account of the failure of any Bank to perform its obligations hereunder or to any Bank on account of the failure of Borrower to perform its obligations hereunder or under any other Loan Document.

Section 10.11 Transfer of Agency Function. Without the consent of Borrower or any Bank, Administrative Agent may at any time or from time to time transfer its functions as Administrative Agent hereunder to any of its offices wherever located in the United States, provided that Administrative Agent shall promptly notify Borrower and the Banks thereof.

Section 10.12 Non-Receipt of Funds by Administrative Agent. Unless Administrative Agent shall have received notice from a Bank or Borrower (either one as appropriate being the "Payor") prior to the date on which such Bank is to make payment hereunder to Administrative Agent of the proceeds of a Loan or Borrower is to make payment to Administrative Agent, as the case may be (either such payment being a "Required Payment"), which notice shall be effective upon receipt, that the Payor will not make the Required Payment in full to Administrative Agent, Administrative Agent may assume that the Required Payment has been made in full to Administrative Agent on such date, and Administrative Agent in its sole discretion may, but shall not be obligated to, in reliance upon such assumption, make the amount thereof available to the intended recipient on such date. If and to the extent the Payor shall not have in fact so made the Required Payment in full to Administrative Agent, the recipient of such payment shall repay to Administrative Agent forthwith on demand such amount made available to it together with interest thereon, for each day from the date such amount was so made available by Administrative Agent until the date Administrative Agent recovers such amount, at the customary rate set by Administrative Agent for the correction of errors among Banks for three (3) Banking Days and thereafter at the Base Rate.

Section 10.13 Withholding Taxes. Each Bank represents that it is entitled to receive any payments to be made to it hereunder without the withholding of any tax and will furnish to Administrative Agent such forms, certifications, statements and other documents as Administrative Agent or Borrower may request from time to time to evidence such Bank's exemption from the withholding of any tax imposed by any jurisdiction or to enable Administrative Agent to comply with any applicable Laws or regulations relating thereto. Without limiting the effect of the foregoing, if any Bank is not created or organized under the laws of the United States of America or any state thereof, such Bank will furnish to

Administrative Agent Form 4224 or Form 1001 of the Internal Revenue Service, or such other forms, certifications, statements or documents, duly executed and completed by such Bank as evidence of such Bank's exemption from the withholding of U.S. tax with respect thereto. Administrative Agent shall not be obligated to make any payments hereunder to such Bank in respect of any Loan or participation or such Bank's Loan Commitment or obligation to purchase participations until such Bank shall have furnished to Administrative Agent the requested form, certification, statement or document.

Section 10.14 Minimum Commitment by Fleet and PNC. Subsequent to the Closing Date, each of Fleet and PNC agree to maintain a Loan Commitment in an amount no less than Twenty Five Million Dollars (\$25,000,000), provided there exists no Event of Default, and each of them further agrees to hold and not to participate or assign any of such amount other than an assignment to a Federal Reserve Bank or to their respective Parent or respective majority-owned subsidiary.

Section 10.15 Pro Rata Treatment. Except to the extent otherwise provided, (1) each advance of proceeds of the Loans shall be made by the Banks, (2) each reduction of the amount of the Total Loan Commitment under Section 2.10 or Section 2.11 shall be applied to the Loan Commitments of the Banks, and (3) each payment of the facility fee accruing under Section 2.08(a) shall be made for the account of the Banks, ratably according to the amounts of their respective Loan Commitments.

Section 10.16 Sharing of Payments Among Banks. If a Bank shall obtain payment of any principal of or interest on any Loan made by it through the exercise of any right of setoff, banker's lien, counterclaim, or by any other means (including direct payment), and such payment results in such Bank receiving a greater payment than it would have been entitled to had such payment been paid directly to Administrative Agent for disbursement to the Banks, then such Bank shall promptly purchase for cash from the other Banks participations in the Loans made by the other Banks in such amounts, and make such other adjustments from time to time as shall be equitable to the end that all the Banks shall share ratably the benefit of such payment. To such end the Banks shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored. Borrower agrees that any Bank so purchasing a participation in the Loans made by other Banks may exercise all rights of setoff, banker's lien, counterclaim or similar rights with respect to such participation. Nothing contained herein shall require any Bank to exercise any such right or shall affect the right of any Bank to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness of Borrower.

Section 10.17 Possession of Documents. Each Bank shall keep possession of its own Note. Administrative Agent shall hold all the other Loan Documents and related documents in its possession and maintain separate records and accounts with respect thereto, and shall permit the Banks and their representatives access at all reasonable times to inspect such Loan Documents, related documents, records and accounts.

ARTICLE XI. NATURE OF OBLIGATIONS

Section 11.01 Absolute and Unconditional Obligations. Borrower acknowledges and agrees that its obligations and liabilities under this Agreement and under the other Loan Documents shall be absolute and unconditional irrespective of: (1) any lack of validity or enforceability of any of the Obligations, any Loan Documents, or any agreement or instrument relating thereto; (2) any change in the time, manner or place of payment of, or in any other term in respect of, all or any of the Obligations, or any other amendment or waiver of or consent to any departure from any Loan Documents or any other documents or instruments executed in connection with or related to the Obligations; (3) any exchange or release of any collateral, or of any other Person from all or any of the Obligations; or (4) any other circumstances which might otherwise constitute a defense available to, or a discharge of, Borrower or any other Person in respect of the Obligations.

The obligations and liabilities of Borrower under this Agreement and other Loan Documents shall not be conditioned or contingent upon the pursuit by any Bank or any other Person at any time of any right or remedy against Borrower or any other Person which may be or become liable in respect of all or any part of the Obligations or against any collateral or security or guarantee therefor or right of setoff with respect thereto.

Section 11.02 Non-Recourse to TRG Partners. Notwithstanding anything to the contrary contained in this Agreement, in any of the other Loan Documents, or in any other instruments, certificates, documents or agreements executed in connection with the Loans (all of the foregoing, for purposes of this Section, hereinafter referred to, individually and collectively, as the "Relevant Documents"), no recourse under or upon any Obligation, representation, warranty, promise or other matter whatsoever shall be had against any of the constituent partners of Borrower or their successors or assigns (said constituent partners and their successors and assigns, for purposes of this Section, hereinafter referred to, individually and collectively, as the "TRG Partners") and each Bank expressly waives and releases, on behalf of itself and its successors and assigns, all right to assert any liability whatsoever under or with respect to the Relevant Documents against, or to satisfy any claim or obligation arising thereunder against, any of the TRG Partners or out of any assets of the TRG Partners, provided, however, that nothing in this Section shall be deemed to:

(1) release Borrower from any personal liability pursuant to, or from any of its respective obligations under, the Relevant Documents, or from personal liability for its fraudulent actions or fraudulent omissions; (2) release any TRG Partner from personal liability for its or his own fraudulent actions or fraudulent omissions; (3) constitute a waiver of any obligation evidenced or secured by, or contained in, the Relevant Documents or affect in any way the validity or enforceability of the Relevant Documents; or (4) limit the right of Administrative Agent and/or the Banks to proceed against or realize upon any collateral hereafter given for the Loans or any and all of the assets of Borrower (notwithstanding the fact that the TRG Partners have an ownership interest in Borrower and, thereby, an interest in the assets of Borrower) or to name Borrower (or, to the extent that the same are required by applicable law or are determined by a court to be necessary parties in connection with an action or suit against Borrower or any collateral hereafter given for the Loans, any of the TRG Partners) as a party defendant in, and to enforce against any collateral hereafter given for the Loans and/or assets of Borrower any judgment obtained by Administrative Agent and/or the Banks with respect to, any action or suit under the Relevant Documents so long as no judgment shall be taken (except to the extent taking a judgment is required by applicable law or determined by a court to be necessary)

to preserve Administrative Agent's and/or Banks' rights against any collateral hereafter given for the Loans or Borrower, but not otherwise) or shall be enforced against the TRG Partners, their successors and assigns, or their assets.

ARTICLE XII. MISCELLANEOUS

Section 12.01 Binding Effect of Request for Advance. Borrower agrees that, by its acceptance of any advance of proceeds of the Loans under this Agreement, it shall be bound in all respects by the request for advance submitted on its behalf in connection therewith with the same force and effect as if Borrower had itself executed and submitted the request for advance and whether or not the request for advance is executed and/or submitted by an authorized person.

Section 12.02 Amendments and Waivers. No amendment or material waiver of any provision of this Agreement or any other Loan Document nor consent to any material departure by Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Banks and, solely for purposes of its acknowledgment thereof, Administrative Agent, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given, provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Banks do any of the following: (1) reduce the principal of, or interest on, the Notes or any fees due hereunder or any other amount due hereunder or under any Loan Document; (2) postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees due hereunder or under any Loan Document, or waive any default in the payment of principal, interest or any other amount due hereunder or under any Loan Documents; (3) change the definition of Required Banks; (4) amend this Section or any other provision requiring the consent of all the Banks or of the Required Banks; (5) waive any default under paragraph (5) of Section 9.01; (6) increase the Loan Commitment of any Bank; or (7) amend Section 10.15 or Section 10.16. Any advance of proceeds of the Loans made prior to or without the fulfillment by Borrower of all of the conditions precedent thereto, whether or not known to Administrative Agent and the Banks, shall not constitute a waiver of the requirement that all conditions, including the non-performed conditions, shall be required with respect to all future advances. No failure on the part of Administrative Agent or any Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof or preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 12.03 Usury. Anything herein to the contrary notwithstanding, the obligations of Borrower under this Agreement and the Notes shall be subject to the limitation that payments of interest shall not be required to the extent that receipt thereof would be contrary to provisions of law applicable to a Bank limiting rates of interest which may be charged or collected by such Bank.

Section 12.04 Expenses; Indemnification. Borrower agrees to reimburse Administrative Agent on demand for all costs, expenses, and charges (including, without limitation, all reasonable fees and charges of engineers, appraisers and external legal counsel) incurred by Administrative Agent in connection with the Loans and to reimburse each of the Banks for reasonable legal costs, expenses and charges incurred by each of the Banks in

connection with the performance or enforcement of this Agreement, the Notes, or any other Loan Documents; provided, however, that Borrower is not responsible for costs, expenses and charges incurred by the Bank Parties in connection with the administration or syndication of the Loans (other than the syndication expenses and administration fee required by the Supplemental Fee Letter). Borrower agrees to indemnify Administrative Agent and each Bank and their respective directors, officers, employees and agents from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them arising out of or by reason of (x) any claims by brokers due to acts or omissions by Borrower, or (y) any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings) relating to any actual or proposed use by Borrower of the proceeds of the Loans, including without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified).

The obligations of Borrower under this Section shall survive the repayment of all amounts due under or in connection with any of the Loan Documents and the termination of the Loans.

Section 12.05 Assignment; Participation. This Agreement shall be binding upon, and shall inure to the benefit of, Borrower, Administrative Agent, the Banks and their respective successors and permitted assigns. Borrower may not assign or transfer its rights or obligations hereunder.

Subject to the provisions of Section 10.14, any Bank may at any time grant to one or more banks or other institutions (each a "Participant") participating interests in its Loan (each a "Participation") subject to the consent of Fleet and PNC, which consents shall not be unreasonably withheld or delayed, and provided that any such Participation shall be in the minimum amount of Ten Million Dollars (\$10,000,000). In the event of any such grant by a Bank of a Participation to a Participant, whether or not Borrower or Administrative Agent was given notice, such Bank shall remain responsible for the performance of its obligations hereunder, and Borrower and Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations hereunder. Any agreement pursuant to which any Bank may grant a Participation shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of Borrower hereunder and under any other Loan Document including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement or any other Loan Document; provided that such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement described in Section 12.02 without the consent of the Participant.

Subject to the provisions of Section 10.14, any Bank having a Loan Commitment in an amount equal to or exceeding Fifteen Million Dollars (\$15,000,000) may at any time assign to any bank or other institution, with the acknowledgment of Administrative Agent and the consent of Fleet, PNC and, provided there exists no Event of Default, of Borrower, which consents shall not be unreasonably withheld or delayed (such assignee, a "Consented Assignee"), or to one or more banks or other institutions which are majority owned subsidiaries of a Bank or to the Parent of a Bank (each Consented Assignee or subsidiary bank or institution, an

"Assignee") all, or a proportionate part of all, of its rights and obligations under this Agreement and its Note, and such Assignee shall assume rights and obligations, pursuant to an Assignment and Assumption Agreement executed by such Assignee and the assigning Bank, provided that, in each case, after giving effect to such assignment, the Assignee's Loan Commitment, and, in the case of a partial assignment, the assigning Bank's Loan Commitment, each will be equal to or greater than Five Million Dollars (\$5,000,000). Upon (i) execution and delivery of such instrument, (ii) payment by such Assignee to the Bank of an amount equal to the purchase price agreed between the Bank and such Assignee and

(iii) payment by such Assignee to Administrative Agent of a fee, for Administrative Agent's own account, in the amount of \$2,500, on account of Administrative Agent's fees and expenses in connection with such assignment, such Assignee shall be a Bank Party to this Agreement and shall have all the rights and obligations of a Bank as set forth in such Assignment and Assumption Agreement, and the assigning Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this paragraph, substitute Notes shall be issued to the assigning Bank and Assignee by Borrower, in exchange for the return of the original Note. The obligations evidenced by such substitute notes shall constitute "Obligations" for all purposes of this Agreement and the other Loan Documents. If the Assignee is not incorporated under the laws of the United States of America or a state thereof, it shall, prior to the first date on which interest or fees are payable hereunder for its account, deliver to Borrower and Administrative Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 10.13.

Any Bank may at any time assign all or any portion of its rights under this Agreement and its Note to a Federal Reserve Bank. No such assignment shall release the transferor Bank from its obligations hereunder.

Borrower recognizes that in connection with a Bank's selling of Participations or making of assignments, any or all documentation, financial statements, appraisals and other data, or copies thereof, relevant to Borrower or the Loans may be exhibited to and retained by any such Participant or assignee or prospective Participant or assignee. In addition, such documentation etc. may be exhibited to and retained by Affiliates of a Bank. In connection with a Bank's delivery of any financial statements and appraisals to any such Participant or assignee or prospective Participant or assignee, such Bank shall also deliver its standard confidentiality statement indicating that the same are delivered on a confidential basis. Borrower agrees to provide all assistance reasonably requested by a Bank to enable such Bank to sell Participations or make assignments of its Loan as permitted by this Section. Each Bank agrees to provide Borrower with notice of all Participations sold by such Bank.

Notwithstanding the foregoing provisions of this Section, no Bank shall assign, grant, convey, or transfer all or any portion of or interest (participation or otherwise) in the Loan to any Person if such Person is (i) a greater than 10% partner (determined in accordance with Treasury Regulations

Section 1.752-2(d)(1) of the Code) of Borrower (a "Greater than 10% Partner"),

(ii) an 80% or greater partner, member or shareholder of any Greater than 10% Partner or (iii) a person who is under 80% or greater common ownership with (x) a Greater than 10% Partner or (y) a shareholder, member or partner of any Greater than 10% Partner. For purposes of clauses (ii) and (iii), percentage ownership shall be determined pursuant to Sections 267(b) and 707(b) of the Code as modified by Treasury Regulations Section 1.752-4. Any Person

described above is referred to as a "Disqualified Person". Any Person who becomes a Bank or Participant in accordance with the terms of this Agreement agrees to be bound by the provisions of this Section and, other than obtaining, in connection with a bankruptcy proceeding of a constituent partner of Borrower, any interest as (a) a partner in Borrower or (b) an 80% or greater interest as a partner, member or shareholder of any partner of Borrower, agrees not to take any action that would make it a Disqualified Person. In addition, any Bank or Participant shall be a "qualified person" within the meaning of Section 465(b)(6)(D)(i) and 49(a)(1)(D)(iv) of the Code.

Section 12.06 Documentation Satisfactory. All documentation required from or to be submitted on behalf of Borrower in connection with this Agreement and the documents relating hereto shall be subject to the prior approval of, and be satisfactory in form and substance to, Administrative Agent, its counsel and, where specifically provided herein, the Banks. In addition, the persons or parties responsible for the execution and delivery of, and signatories to, all of such documentation, shall be acceptable to, and subject to the approval of, Administrative Agent and its counsel and the Banks.

Section 12.07 Notices. Unless the party to be notified otherwise notifies the other party in writing as provided in this Section, and except as otherwise provided in this Agreement, notices shall be given to Administrative Agent by telephone, confirmed by writing, and to the Banks and to Borrower by ordinary mail or overnight courier addressed to such party at its address on the signature page of this Agreement. Notices shall be effective: (1) if by telephone, at the time of such telephone conversation, (2) if given by mail, three (3) days after mailing; and (3) if given by overnight courier, upon receipt.

Section 12.08 Intentionally Omitted.

Section 12.09 Table of Contents; Headings. Any table of contents and the headings and captions hereunder are for convenience only and shall not affect the interpretation or construction of this Agreement.

Section 12.10 Severability. The provisions of this Agreement are intended to be severable. If for any reason any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

Section 12.11 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing any such counterpart.

Section 12.12 Integration. The Loan Documents and Supplemental Fee Letter set forth the entire agreement among the parties hereto relating to the transactions contemplated thereby and supersede any prior oral or written statements or agreements with respect to such transactions.

Section 12.13 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND INTERPRETED AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 12.14 Waivers. In connection with the obligations and liabilities as aforesaid, Borrower hereby waives: (1) promptness and diligence; (2) notice of any actions taken by any Bank Party under this Agreement, any other Loan Document or any other agreement or instrument relating thereto except to the extent otherwise provided herein; (3) all other notices, demands and protests, and all other formalities of every kind in connection with the enforcement of the Obligations, the omission of or delay in which, but for the provisions of this Section, might constitute grounds for relieving Borrower of its obligations hereunder; (4) any requirement that any Bank Party protect, secure, perfect or insure any Lien on any collateral or exhaust any right or take any action against Borrower or any other Person or any collateral; (5) any right or claim of right to cause a marshalling of the assets of Borrower; and (6) all rights of subrogation or contribution, whether arising by contract or operation of law (including, without limitation, any such right arising under the Federal Bankruptcy Code) or otherwise by reason of payment by Borrower, either jointly or severally, pursuant to this Agreement or other Loan Documents.

Section 12.15 JURISDICTION; IMMUNITIES. BORROWER, THE ADMINISTRATIVE AGENT AND EACH BANK HEREBY IRREVOCABLY SUBMIT TO THE JURISDICTION OF ANY NEW YORK STATE OR UNITED STATES FEDERAL COURT SITTING IN NEW YORK CITY OVER ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR ANY OTHER LOAN DOCUMENT. BORROWER, THE ADMINISTRATIVE AGENT, AND EACH BANK IRREVOCABLY AGREE THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE OR UNITED STATES FEDERAL COURT. BORROWER, THE ADMINISTRATIVE AGENT, AND EACH BANK IRREVOCABLY CONSENT TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO BORROWER, THE ADMINISTRATIVE AGENT OR EACH BANK, AS THE CASE MAY BE, AT THE ADDRESSES SPECIFIED HEREIN. BORROWER, THE ADMINISTRATIVE AGENT AND EACH BANK FURTHER WAIVE ANY OBJECTION TO VENUE IN THE STATE OF NEW YORK AND ANY OBJECTION TO AN ACTION OR PROCEEDING IN THE STATE OF NEW YORK ON THE BASIS OF FORUM NON CONVENIENS. BORROWER, THE ADMINISTRATIVE AGENT AND EACH BANK AGREE THAT ANY ACTION OR PROCEEDING BROUGHT AGAINST BORROWER, THE ADMINISTRATIVE AGENT OR ANY BANK, AS THE CASE MAY BE, SHALL BE BROUGHT ONLY IN A NEW YORK STATE COURT SITTING IN NEW YORK CITY OR A UNITED STATES FEDERAL COURT SITTING IN NEW YORK CITY.

Nothing in this Section shall affect the right of Borrower, Administrative Agent or any Bank to serve legal process in any other manner permitted by law.

To the extent that Borrower, Administrative Agent or any Bank have or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether from service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, Borrower, Administrative Agent and each

Bank hereby irrevocably waive such immunity in respect of its obligations under this Agreement, the Notes and any other Loan Document.

BORROWER, ADMINISTRATIVE AGENT AND EACH BANK WAIVE ANY RIGHT EACH SUCH PARTY MAY HAVE TO JURY TRIAL IN CONNECTION WITH ANY SUIT, ACTION OR PROCEEDING BROUGHT WITH RESPECT TO THIS AGREEMENT, THE NOTES OR THE LOANS. IN ADDITION, BORROWER HEREBY WAIVES, IN CONNECTION WITH ANY SUIT, ACTION OR PROCEEDING BROUGHT BY ADMINISTRATIVE AGENT OR THE BANKS WITH RESPECT TO THE NOTES, ANY RIGHT BORROWER MAY HAVE TO (1) INTERPOSE ANY COUNTERCLAIM THEREIN (OTHER THAN A COUNTERCLAIM THAT IF NOT BROUGHT IN THE SUIT, ACTION OR PROCEEDING BROUGHT BY ADMINISTRATIVE AGENT OR THE BANKS COULD NOT BE BROUGHT IN A SEPARATE SUIT, ACTION OR PROCEEDING OR WOULD BE SUBJECT TO DISMISSAL OR SIMILAR DISPOSITION FOR FAILURE TO HAVE BEEN ASSERTED IN SUCH SUIT, ACTION OR PROCEEDING BROUGHT BY ADMINISTRATIVE AGENT OR THE BANKS) OR (2) HAVE THE SAME CONSOLIDATED WITH ANY OTHER OR SEPARATE SUIT, ACTION OR PROCEEDING. NOTHING HEREIN CONTAINED SHALL PREVENT OR PROHIBIT BORROWER FROM INSTITUTING OR MAINTAINING A SEPARATE ACTION AGAINST ADMINISTRATIVE AGENT OR THE BANKS WITH RESPECT TO ANY ASSERTED CLAIM.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Agreement to be duly executed as of the day and year first above written.

**THE TAUBMAN REALTY GROUP LIMITED
PARTNERSHIP, a Delaware
limited partnership**

By: /s/ Shire Rothbart

*Shire Rothbart,
its authorized signatory*

Address for Notices:

c/o The Taubman Company
Limited Partnership
200 East Long Lake Road - Suite 300
Bloomfield Hills, Michigan 48304
Attention: Mr. Shire Rothbart

with copy to:

Miro Weiner & Kramer
500 North Woodward Avenue
Suite 100 - P.O. Box 908
Bloomfield Hills, Michigan 48303-0908
Attention: Martin L. Katz, Esq.

PNC BANK, NATIONAL ASSOCIATION
(as Bank and Administrative Agent)

By: /s/ Dina S. Muth

Name: Dina S. Muth
Title: Real Estate Officer

Address for notices and Applicable Lending Office:

One PNC Plaza 249 Fifth Avenue P1-POPP-19-2 Pittsburgh, Pennsylvania 15222 Attention: Ms. Dina Muth Telephone: (412) 762-9118
Telecopy: (412) 762-6500

with copy to:

One PNC Plaza 249 Fifth Avenue P1-POPP-03-2 Pittsburgh, Pennsylvania 15222 Attention: Ms. Arlene Ohler Telephone: (412) 762-3627
Telecopy: (412) 762-8672

FLEET NATIONAL BANK

By: /s/ Margaret A. Mulcahy

Name: Margaret A. Mulcahy
Title: Senior Vice President

Address for notices and Applicable Lending Office:

75 State Street
MA BOF 11-C
Boston, Massachusetts 02109
Attention: Ms. Margaret Mulcahy
Telephone: (617) 346-4291
Telecopy: (617) 346-3220

DRESDNER BANK AG, New York and Grand Cayman Branches

By /s/ Brigitte Sacin

Name: Brigitte Sacin
Title: Assistant Treasurer

By /s/ Beverly G. Cason

Name: Beverly G. Cason
Title: Vice President

Address for notices and Applicable Lending Office:

Dresdner Bank AG, New York and Grand Cayman Branches 190 South LaSalle Street, Suite 2700 Chicago, Illinois 60603 Attention: Ms. Maureen M. Slentz Telephone: (312) 444-1316 Telecopy: (312) 444-1301 or 1305

COMMERZBANK AG, Chicago Branch

By /s/ Douglas P. Traynor

Name: Douglas P. Traynor
Title: Vice President

By /s/ E. Marcus Perry

Name: E. Marcus Perry
Title: Assistant Treasurer

Address for notices and Applicable Lending Office:

Commerzbank AG, Chicago Branch c/o Commerzbank AG, New York Branch 2 World Financial Center New York, New York 10281-1050
Attention: Mr. Douglas P. Traynor Telephone: (212) 266-7569 Telecopy: (212) 266-7530

KEY BANK NATIONAL ASSOCIATION

By

Name:

Title:

Address for notices and Applicable
Lending Office:

Key Bank National Association
Commercial Real Estate Division
127 Public Square, 6th Floor
Cleveland, Ohio 44114-1306
Attention: Ms. Mary Ellen Fowler
Telephone: (216) 689-4975
Telecopy: (216) 689-4997

**BAYERISCHE HYPOTHEKEN- UND
WECHSEL-BANK AKTIENGESELLSCHAFT**
(New York Branch)

By /s/ Stephen G. Melidones

Name: Stephen G. Melidones
Title: Assistant Vice President

By /s/ Eva Lam

Name: Eva Lam
Title: Assistant Treasurer

Address for notices and Applicable Lending Office:

Bayerische Hypotheken- Und Wechsel-Bank Aktiengesellschaft

(New York Branch)

Financial Square
32 Old Slip
New York, New York 10005
Attention: Mr. Stephen G. Melidones
Telephone: (212) 440-0844
Telecopy: (212) 440-0824

COMERICA BANK

By /s/ Kristine L. Andersen

Name: Kristine L. Andersen
Title: Account Officer

Address for notices and Applicable Lending Office:

Comerica Bank U.S. Banking-East Comerica Tower at Detroit Center 500 Woodward Avenue Detroit, Michigan 48226 Attention: Ms. Kristine L. Andersen Telephone: (313) 222-3648 Telecopy: (313) 222-3330

**LANDESBANK HESSEN-THURINGEN
GIROZENTRALE, New York Branch**

By /s/ Robert W. Becker

Name: Robert W. Becker
Title: Vice President

By /s/ Michael A. Pierro

Name: Michael A. Pierro
Title: Assistant Vice President

Address for notices and Applicable Lending Office:

Landesbank Hessen-Thuringen Girozentrale, New York Branch 420 Fifth Avenue, 24th Floor New York, New York 10018-2729 Attention: Mr. Michael Pierro Telephone: (212) 703-5209 Telecopy: (212) 703-5296

**THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
1992 INCENTIVE OPTION PLAN**

(As Amended and Restated Effective as of September 30, 1997)

Article 1

Background, Amendment and Restatement, and Term.

1.1 Background. THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP, a Delaware limited partnership (including any successor thereto, "TRG") was formed for the purposes of, among other things, owning, operating, acquiring, developing, redeveloping, expanding, leasing, managing, financing and refinancing, disposing of, and generally dealing with, regional retail shopping centers and opportunities to develop regional retail shopping centers (and interests therein). TRG has engaged the Manager, on an exclusive basis, to provide various services, including management, leasing, development, acquisition, and administrative services, to TRG.

1.2 Original Plan. TRG adopted The Taubman Realty Group Limited Partnership 1992 Incentive Option Plan (the "Original Plan") effective as of November 20, 1992, to provide incentives to employees of the Manager to remain in the employ of the Manager for the benefit of TRG, to encourage proprietary interest in TRG, and to attract new employees with outstanding qualifications to serve the Manager on behalf of TRG.

1.3 Amended and Restated Plan. The Original Plan is hereby amended and restated effective as of September 30, 1997 and is referred to hereinafter as the "Plan".

1.4 Term. The Plan will remain in effect until terminated or abandoned by action of the Partnership Committee in accordance with the Partnership Agreement.

Article 2 Definitions

In the Plan, whenever the context so indicates, the singular or plural number, and the masculine, feminine or neuter gender shall each be deemed to include the other, the terms "he," "his," and "him" shall refer to an Optionee, and the capitalized terms shall have the following meanings:

2.1 "Articles of Incorporation" means the Amended and Restated Articles of Incorporation of the Company, as the same may be amended from time to time.

2.2 "Beneficiary" means (i) an individual, trust, estate, or Family Trust who or which, by will or by operation of the laws of descent and distribution, succeeds to the rights and obligations of an Optionee under the Plan and the Option Agreement upon the Optionee's death; or (ii) an individual who, as a result of designation by an Optionee, succeeds to the

rights and obligations of such Optionee under the Plan and the Option Agreement upon such Optionee's death.

2.3 "Board of Directors" means the Board of Directors of the Company.

2.4 "Business Day" means any Day on which the New York Stock Exchange is open for trading.

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

2.6 "Common Stock" means the common stock of the Company, par value \$.01 per share.

2.7 "Company" means Taubman Centers, Inc., a Michigan corporation.

2.8 "Compensation Committee" means the Compensation Committee established for TRG pursuant to the Partnership Agreement.

2.9 "Continuing Offer" means the Continuing Offer, as amended and restated effective as of September 30, 1997, by the Company to certain holders of Units of Partnership Interest and Incentive Options to exchange, subject to certain restrictions, Units of Partnership Interest (or the right, without condition, to receive Units of Partnership Interest pursuant to the Plan) for shares of Common Stock.

2.10 "Date of Exercise", means with respect to an Incentive Option, the Business Day immediately preceding the date on which such Incentive Option is exercised pursuant to the Plan.

2.11 "Date of Grant", means with respect to an Incentive Option, the Business Day immediately preceding the date on which the Compensation Committee grants such Incentive Option pursuant to the Plan.

2.12 "Day" means each calendar day, including Saturdays, Sundays, and legal holidays; provided, however, that if the Day on which a period of time for consent or approval or other action ends is not a Business Day, such period shall end on the next Business Day.

2.13 "Disability" or "Disabled" means, with respect to an Employee, a physical or mental condition resulting from any medically determinable physical or mental impairment that renders such Employee incapable of engaging in any substantial gainful employment and that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than three hundred sixty-five (365) Days. Notwithstanding the foregoing, an Employee shall not be deemed to be Disabled as a result of any condition that:

(a) was contracted, suffered, or incurred while such Employee was engaged in, or resulted from such Employee having engaged in, a felonious activity;

(b) resulted from an intentionally self-inflicted injury or an addiction to drugs, alcohol, or substances which are not administered under the direction of a licensed physician as part of a medical treatment plan; or

(c) resulted from service in the Armed Forces of the United States for which such Employee received a disability benefit or pension from the United States, or from service in the armed forces of any other country irrespective of any disability benefit or pension.

The Disability of an Employee and the date upon which an Employee ceases to be employed by reason of Disability shall be determined by the Compensation Committee, upon the recommendation from the Manager, in accordance with uniform principles consistently applied, upon the basis of such evidence as the Compensation Committee and the Manager deem necessary and desirable, and its good faith determination shall be conclusive for all purposes of this Plan and the relevant Option Agreement. The Compensation Committee or the Manager shall have the right to require an Employee to submit to an examination by a physician or physicians and to submit to such reexaminations as the Compensation Committee or the Manager shall require in order to make a determination concerning the Employee's physical or mental condition; provided, however, that (i) an Employee may not be required to undergo a medical examination more often than once each one hundred eighty (180) Days nor at any time after the normal date of the Employee's Retirement, and (ii) the fees and expenses of any such medical examination(s) shall be considered expenses of administering the Plan. If any Employee engages in any occupation or employment (except for rehabilitation as determined by the Compensation Committee, upon the recommendation from the Manager) for remuneration or profit, which activity would be inconsistent with the finding of Disability, or if the Compensation Committee, upon the recommendation from the Manager, determines on the basis of a medical examination that an Employee no longer has a Disability, or if an Employee refuses to submit to any medical examination properly requested by the Compensation Committee or the Manager, then in any such event, the Employee shall be deemed to have recovered from such Disability.

2.14 "Effective Date" means September 30, 1997. The effective date of the Original Plan was November 20, 1992.

2.15 "Employee" means an individual who is and continues to be employed (within the meaning of Section 3401 of the Code and the regulations promulgated thereunder) by the Manager or a Manager Entity. An Employee shall cease to be an Employee upon the voluntary or involuntary termination of his employment with the Manager or a Manager Entity (as such terms are defined in Sections 2.26 and 2.27 hereof) for any reason, including death, Disability, Retirement, or with or without cause. Transfers of employment between the Manager and a Manager Entity, or between Manager Entities, shall not affect an individual's status as an Employee for purposes of the Plan and shall not be treated as a cessation of employment provided that the cessation of employment with the Manager or a Manager Entity is immediately followed by employment with the Manager or another Manager Entity. Whether an authorized leave of absence, or an absence due to military or government service, Disability, or any other reason, constitutes a cessation of employment shall be determined by the Compensation Committee, upon the recommendation from the Manager.

2.16 "Exercise Price", means with respect to an Incentive Option, the price at which an Optionee may exercise his Incentive Option to acquire one or more Units of Partnership Interest which are the subject of such Optionee's Incentive Option, and in accordance with the following provisions:

(a) Incentive Options Granted prior to or at the time of the Initial Public Offering: The Exercise Price shall be equal to \$11.139 for each Unit of Partnership Interest subject to an Incentive Option granted prior to or at the time of the Initial Public Offering.

(b) Incentive Option Granted After November 20, 1992 but prior to September 30, 1997: The Exercise Price shall be equal to the Fair Market Value of each Unit of Partnership Interest (as defined in the Original Plan) determined as of the Date of Grant, divided by 1975.08 (rounding the quotient up to the nearest 1/10th cent) for each Unit of Partnership Interest subject to an Incentive Option granted on any date after November 20, 1992 but prior to September 30, 1997.

(c) Incentive Options Granted on or after September 30, 1997:

The Exercise Price shall be equal to the Fair Market Value of each Unit of Partnership Interest (as defined in Section 2.18) determined as of the Date of Grant, for each Unit of Partnership Interest subject to an Incentive Option granted on any date on or after September 30, 1997.

2.17 "Fair Market Value of the Common Stock" means the per share value of the Common Stock on the Valuation Date, and is determined as follows:

(a) If the Common Stock is listed or admitted for trading on any national securities exchange, the Fair Market Value of the Common Stock is the closing price per share on such exchange on such Valuation Date (or, if listed on more than one exchange, the principal said exchange).

(b) If the Common Stock is not traded on any national securities exchange, but is quoted on the National Association of Securities Dealers, Inc. Automated Quotation System (NASDAQ System) or any similar system of automated dissemination of quotations of prices in common use, the Fair Market Value of the Common Stock is the price per share equal to the mean between the closing high bid and the closing low bid on such system on such Valuation Date.

(c) If neither paragraph (a) nor paragraph (b) of this definition is applicable, the Fair Market Value of the Common Stock is the fair market value per share, on such Valuation Date, as determined by the Board of Directors (or by the Partnership Committee if the Board of Directors does not, for any reason, provide such determination), in good faith and in accordance with uniform principles consistently applied.

2.18 "Fair Market Value of each Unit of Partnership Interest" means, with respect to an Incentive Option, the value of a Unit of Partnership Interest that is the subject of an Incentive Option granted on or after September 30, 1997 and is equal to the Fair Market Value of the Common Stock.

2.19 "Family Trust" means, with respect to an Optionee, a trust for the benefit of such Optionee or for the benefit of any member or members of such Optionee's Immediate Family, or for the benefit of such Optionee and any member or members of such Optionee's Immediate Family (for the purpose of determining whether or not a trust is a Family Trust, the fact that one or more of the beneficiaries (but not the sole beneficiary) of the trust includes a Person or Persons, other than a member of such Optionee's Immediate Family, entitled to a distribution after the death of the settlor if he, she, it, or they shall have survived the settlor of such trust, which distribution is to be made of something other than a Partnership Interest and/or includes an organization or organizations exempt from federal income taxes pursuant to the provisions of Section 501(a) of the Code and described in Section 501(c)(3) of the Code, shall be disregarded); provided, however, that a trust will be a "Family Trust" hereunder only if the trustee or trustees of such Family Trust shall be solely such Optionee, a member or members of such Optionee's Immediate Family, a responsible financial institution and/or an attorney who is a member of the Bar of any State in the United States and/or an individual or individuals approved by the Partnership Committee.

2.20 "Fractional Unit" means less than one Unit of Partnership Interest.

2.21 "Immediate Family" means, with respect to an Optionee, (i) such Optionee's spouse (former or then current), (ii) such Optionee's parents and grandparents, and (iii) ascendants and descendants (natural or adoptive, of the whole or half blood) of such Optionee's parents or of the parents of such Optionee's spouse (former or then current).

2.22 "Impermissible Holder" is defined in Section 7.17 hereof.

2.23 "Incentive Option" means an option granted pursuant to the Plan to acquire one (1) or more Units of Partnership Interest, general and/or limited.

2.24 "Incumbent Board" is defined in Section hereof.

2.25 "Initial Public Offering" or "IPO" means the initial public offering of shares of Common Stock pursuant to the Company's first effective registration statement for the sale to the public of such Common Stock filed under the Securities Act of 1933, as amended.

2.26 "Manager" means TTC, or such other Person who has by written contract with TRG agreed to provide management, administration, leasing, and development services for the properties of TRG.

2.27 "Manager Entity" means a Person in which the Manager, or one or more of the Persons possessing a beneficial interest in the Manager, possesses a beneficial interest and which Person has agreed to provide personnel, management, administration, leasing and/or development or other services for the properties of TRG, or to the Manager for the benefit of TRG, or for TRG itself.

2.28 "Option Agreement" is defined in Section hereof.

2.29 "Optionee" means an Employee or a former Employee who has received an Incentive Option.

2.30 "Original Plan" means The Taubman Realty Group Limited Partnership 1992 Incentive Option Plan effective as of November 20, 1992.

2.31 "Partnership Agreement" means The Amended and Restated Agreement of Limited Partnership of The Taubman Realty Group Limited Partnership, as the same has been or may be amended and/or supplemented.

2.32 "Partnership Committee" means the Partnership Committee and the Executive Committee established for TRG pursuant to the Partnership Agreement.

2.33 "Partnership Interest" means an interest, as a Partner, in TRG, as such terms are defined in the Partnership Agreement.

2.34 "Partnership Interest Certificate" is defined in Section hereof.

2.35 "Person" or "Persons" means an individual, a partnership (general or limited), corporation, joint venture, business trust, cooperative, association, or other form of business organization, whether or not regarded as a legal entity under applicable law, a trust (inter vivos or testamentary), an estate of a deceased, insane, or incompetent person, a quasi-governmental entity, a government or any agency, authority, political subdivision, or other instrumentality thereof, or any other entity.

2.36 "Plan" means The Taubman Realty Group Limited Partnership 1992 Incentive Option Plan as amended and restated effective as of September 30, 1997, as the same may be amended from time to time.

2.37 "Retirement" means the termination of employment by an Employee after the attainment of the age of sixty-five (65) years or upon such earlier date as required by local law or as otherwise determined by the Compensation Committee, upon the recommendation from the Manager.

2.38 "Special Incentive Options" means those Incentive Options granted for the purpose of converting amounts previously granted to eligible employees under The Taubman Company, Inc. Long Term Management Incentive Plan into Incentive Options under this Plan. All references and provisions in the Plan applicable to Incentive Options shall include and apply equally to Special Incentive Options unless expressly provided otherwise.

2.39 "Transfer" means any assignment, sale, transfer, conveyance, mortgage or other encumbrance, pledge, or other disposition or act of alienation, whether voluntary or involuntary, or by operation of law.

2.40 "Termination for Cause" means termination of employment by reason of an Optionee's action or repeated acts, including without limitation, the commission of a felony, fraud, or wilful misconduct, which has resulted, or is likely to result, in material damage to the Manager, a Manager Entity, or TRG, as the Compensation Committee, upon the recommendation from the Manager, may conclusively determine.

2.41 "TRG" means The Taubman Realty Group Limited Partnership, a Delaware limited partnership, or any successor thereto.

2.42 "TTC" means The Taubman Company Limited Partnership, a Delaware limited partnership.

2.43 "Units of Partnership Interest" means the units into which Partnership Interests are divided.

2.44 "Valuation Date" means, with respect to an Incentive Option, the Date of Grant of such Incentive Option or the Date of Exercise, as applicable. Whenever reference is made to a Valuation Date, it shall mean, with respect to the Common Stock, the price at the close of trading on such Valuation Date, and with respect to any other item, midnight in Detroit, Michigan at the end of such Valuation Date.

Article 3 Administration.

3.1 Administration. The Plan shall be administered by the Compensation Committee in accordance with this Article 3. Except as otherwise provided in the Partnership Agreement or this Plan and except as otherwise expressly reserved to the Partnership Committee in the Plan or in the Partnership Agreement, the Compensation Committee shall have the sole discretionary authority (i) to select the Employees who are to be granted Incentive Options under the Plan, (ii) to determine the number of Units of Partnership Interest in TRG to be optioned to an Employee, (iii) to authorize the granting of Incentive Options, (iv) to interpret the Plan, (v) to establish and modify administrative rules for the Plan, (vi) to impose such conditions and restrictions on Incentive Options as it determines appropriate, (vii) to execute Option Agreements, (viii) to cancel Incentive Options and to substitute new Incentive Options with the consent of an Optionee, and (ix) to take any other actions in connection with the Plan and the Incentive Options and to make all determinations under the Plan as it may deem necessary or advisable.

It is anticipated that the Compensation Committee will act upon a recommendation from the Manager in exercising the discretion granted to the Compensation Committee under the Plan. Action taken or not taken by the Compensation Committee on one or more occasions shall be without obligation to take or not take such action on any other occasion(s).

The Compensation Committee may, subject to the provisions of the Partnership Agreement, delegate to one or more Persons any of its powers, other than its power to authorize the granting of Incentive Options, hereinbefore, hereinafter, or pursuant to the Partnership Agreement provided or conferred, or designate one or more Persons to do or perform those matters to be done or performed by the Compensation Committee, including administration of the Plan. Any Person or Persons delegated or designated by the Compensation Committee shall be subject to the same obligations and requirements imposed on the Compensation Committee and its members under the Plan and the Partnership Agreement.

Notwithstanding the foregoing provisions of this Section 3.1, any selection of an officer or director of the Company to be granted an Incentive Option under the Plan, and any

decisions concerning the timing, pricing, and amount of a grant to an officer or director of the Company, in the event such officer or director is subject to the provisions of Section 16 of the Securities Exchange Act of 1934 at the time of grant, shall be made solely by those members of the Compensation Committee, but in no event fewer than two, who are "disinterested persons" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934. In view of the fact that, subject to certain restrictions, the Units of Partnership Interest acquired upon exercise of an Incentive Option may be exchanged, pursuant to the Continuing Offer, for shares of Common Stock, all grants of Incentive Options to such officers and directors of the Company must further be confirmed by a committee of two or more disinterested directors of the Company (which confirmation shall be deemed made if such disinterested directors who serve on such committee of the Board of Directors also serve on the Compensation Committee).

3.2 Expenses of Administration. TRG shall pay all costs and expenses of administering the Plan.

3.3 Indemnification. The Compensation Committee, members of the Compensation Committee, and each Person or Persons designated or delegated by the Compensation Committee, and the Manager and each Manager Entity and the shareholders, directors and officers of the Manager and each Manager Entity shall be entitled to indemnification and reimbursement from TRG for any action or any failure to act in connection with services performed by or on behalf of the Compensation Committee for the benefit of TRG to the fullest extent provided or permitted by the Partnership Agreement and by any insurance policy or other agreement intended for the benefit of the Compensation Committee, or by any applicable law.

Article 4 Units of Partnership Interest Available Under the Plan

4.1 Units of Partnership Interest Available. Incentive Options may be granted by TRG under the Plan from time to time to purchase an aggregate Eight Million, Eight Hundred Eighty- Seven Thousand, Eight Hundred Sixty (8,887,860) Units of Partnership Interest, as said number may be increased by the action of the Partnership Committee.

4.2 Units of Partnership Interest Subject to Terminated or Expired Incentive Options. In the event that an outstanding Incentive Option is surrendered, expires or is terminated for any reason before it shall have been fully exercised, then all Units of Partnership Interest in TRG formerly subject to such Incentive Option shall again be available for any Incentive Option subsequently granted under the Plan.

4.3 Adjustments. In the event of any change in the Units of Partnership Interest by reason of merger, or by reason of a division or combination of Units of Partnership Interest, or otherwise, the number and kind of Units of Partnership Interest which may thereafter be optioned and sold under the Plan, the number and kind of Units of Partnership Interest subject to option and outstanding Option Agreements, and the Exercise Price per Unit of Partnership Interest, shall be appropriately adjusted in a manner consistent with such change, as the Compensation Committee may deem equitable.

Article 5 Participation

All Employees shall be eligible to receive grants of Incentive Options under the Plan. The Optionees shall be such individuals as the Compensation Committee may select, upon the recommendation from the Manager, from among the Employees (who may include executive officers of the Manager), and shall be based upon the expected future contribution of such Employee to the Manager for the benefit of TRG.

Article 6 Incentive Options

6.1 Power to Grant Incentive Options. The Compensation Committee may grant to such Employees as the Compensation Committee may select, in accordance with Article 5 hereof, Incentive Options entitling the Optionee to purchase Units of Partnership Interest from TRG in such quantity, exercisable at an Exercise Price equal to the Fair Market Value of the Units of Partnership Interest determined as of the Date of Grant, and on such terms and subject to such conditions not inconsistent with the terms of the Plan, as may be established by the Compensation Committee. No Incentive Option covering a Fractional Unit shall be granted under the Plan.

6.2 Modification, Extension, and Renewal of Incentive Options. Subject to the approval of the Partnership Committee, the Compensation Committee may modify, extend, or renew outstanding Incentive Options, or accept the cancellation or surrender of outstanding Incentive Options (to the extent not previously exercised) for the granting of new Incentive Options in substitution therefor. Notwithstanding the foregoing, no modification of an Incentive Option shall, without the consent of the Optionee, alter or impair any rights or obligations under any Incentive Option previously granted.

6.3 Optionee to Have No Rights as a Partner. An Optionee shall have no rights as a partner in TRG with respect to the Units of Partnership Interest made subject to an Incentive Option unless and until such Optionee exercises such Incentive Option, is admitted as a partner in TRG, and is issued a Partnership Interest Certificate evidencing his Units of Partnership Interest. No adjustments shall be made for distributions, allocations, or other rights with respect to any Units of Partnership Interest prior to the last to occur of the foregoing events specified in this Section 6.3.

Article 7 Terms and Conditions of Incentive Options

7.1 Option Agreements. The terms of any Incentive Option shall be as set forth in a written incentive option agreement (an "Option Agreement") in such form as the Compensation Committee shall from time to time determine. Each Option Agreement shall comply with and be subject to the terms and conditions of the Plan, the Partnership Agreement, and such other terms and conditions as the Compensation Committee may deem appropriate. No Person shall have any rights under any Incentive Option granted under the Plan unless and until TRG and the Optionee have executed an Option Agreement setting forth the grant and the terms and conditions of the Incentive Option.

7.2 Plan Provisions Control Incentive Option Terms. The terms of the Plan shall govern all Incentive Options granted under the Plan, and in no event shall the Compensation Committee have the power to grant any Incentive Option under the Plan which is contrary to any of the provisions of the Plan. In the event that any provision of an Incentive Option granted under the Plan shall conflict with any term in the Plan as constituted on the Date of Grant of such Incentive Option, the term in the Plan constituted on the Date of Grant of such Incentive Option shall control.

7.3 Conditions for Exercise (Vesting). Except with respect to Special Incentive Options or in the case of the death, Disability, or Retirement of an Optionee, and subject to the provisions of Sections 7.6, 8.3, and 8.4 hereof, no part of an Incentive Option granted under the Plan may be exercised until the Optionee has completed three (3) years of employment with the Manager after the Date of Grant of such Incentive Option. Except with respect to Special Incentive Options or in the case of the death, Disability, or Retirement of an Optionee, and provided that an Optionee has completed three (3) years of employment with the Manager after the Date of Grant of such Incentive Option, such Incentive Option shall become exercisable (i.e., it shall "vest") as follows:

(a) Subject to paragraph (d) below of this Section 7.3, each Incentive Option (other than a Special Incentive Option) granted under this Plan shall become exercisable (i) on the third (3rd) anniversary date of the Date of Grant of such Incentive Option, to the extent of one-third (1/3) of the Units of Partnership Interest made subject to such Incentive Option; (ii) on the fourth (4th) anniversary date of the Date of Grant of such Incentive Option, to the extent of an additional one-third (1/3) of the Units of Partnership Interest made subject to such Incentive Option; and (iii) on the fifth (5th) anniversary date of the Date of Grant, to the extent of all of the Units of Partnership Interest made subject to such Incentive Option.

(b) The vesting and exercise of Special Incentive Options shall be determined under the terms of the Original Plan.

(c) For purposes of this Section 7.3, in determining the "Units of Partnership Interest made subject to such Incentive Option," account shall be taken of any adjustments made to the Units of Partnership Interest as described in Section 4.3 hereof after the Date of Grant of the Incentive Option, such that the number of Units of Partnership Interest with respect to which an Optionee's Incentive Option is vested shall be redetermined at the time of an adjustment, and the number of Units of Partnership Interest with respect to which an Optionee's Incentive Option becomes vested on any anniversary date shall be determined by reference to the number of Units of Partnership Interest then subject to such Incentive Option, taking any adjustments previously made into account.

(d) An Optionee may exercise all or any portion of an Incentive Option, to the extent vested; however, Incentive Options may not be exercised over less than one (1) Unit of Partnership Interest. If, as a result of the vesting provisions of Section 7.3(a), the Units of Partnership Interest with respect to which an Optionee's Incentive Option(s) become exercisable include a Fractional Unit, then the exercisable Options shall be rounded down to cover whole Units only.

7.4 Conversion of Incentive Options Granted Prior to September 30, 1997. In connection with the division of Units of Partnership Interest effective September 30, 1997, the number of Units of Partnership Interest subject to all unexercised and outstanding Incentive Options granted prior to September 30, 1997 shall be increased (effective as of September 30, 1997) by a factor of 1,975.08, rounding up to the next whole Unit if the product would otherwise include a Fractional Unit.

7.5 Expiration Date. Notwithstanding any other provision of the Plan, no Incentive Option shall be exercisable after the tenth (10th) anniversary of the Date of Grant.

7.6 Acceleration of Exercise Time. Notwithstanding anything to the contrary in the Plan, including Sections 7.3, 7.7 and 7.8 hereof, the Compensation Committee, in its discretion, upon the recommendation from the Manager, may allow the exercise, in whole or in part, at any time more than six (6) months after the Date of Grant, as determined by the Compensation Committee, of any Incentive Option held by an Optionee, which Incentive Option has not previously become exercisable.

7.7 Termination of Employment (Except by Death, Disability, or Retirement) Within Three Years After Date of Grant. Except in the case of the death, Disability, or Retirement of an Optionee, if an Optionee ceases to be an Employee for any reason within three (3) years after the Date of Grant to such Optionee of an Incentive Option under the Plan, such Optionee's right to exercise such Incentive Option or any part thereof shall be forfeited immediately and permanently.

7.8 Termination of Employment (Except by Death, Disability, or Retirement) More Than Three Years After Date of Grant. Except in the case of the death, Disability, or Retirement of an Optionee, if an Optionee ceases to be an Employee for any reason more than three (3) years after the Date of Grant to such Optionee of an Incentive Option under the Plan, such Optionee shall have the right, subject to the restrictions of Sections 7.5, 7.17 and 7.18 hereof, to exercise such Incentive Option, in full or in part, at any time within ninety (90) Days after his cessation of employment, but only to the extent that, on the date of such cessation of employment, such Optionee's right to exercise such Incentive Option had vested pursuant to the terms of Section 7.3 hereof and the applicable Option Agreement and had not previously been exercised.

7.9 Termination for Cause. Notwithstanding the preceding Sections of this Article 7, including without limitation Sections 7.3 and 7.8 hereof, an Incentive Option shall cease to be exercisable and shall be forfeited immediately and permanently on the date of an Optionee's cessation of employment if such cessation is a Termination For Cause (as defined in Section 2.40 hereof).

7.10 Death of Optionee. If an Optionee dies while an Employee and without having fully exercised his Incentive Option(s), then any outstanding Incentive Option(s) of such Optionee shall vest immediately and fully, and the executor, administrator, or other personal representative of the Optionee's estate, or the trustee of any Family Trust receiving such Incentive Option(s) as a result of such Optionee's death, or any heir, successor, assign, or other transferee of the Optionee receiving such Incentive Option(s) by will or by the laws of descent and distribution, shall have the right, subject to the restrictions of Sections 7.5, 7.17 and 7.18 hereof, to exercise such Incentive Option(s) to acquire the Units of Partnership.

Interest in TRG made subject to such Incentive Option(s), in full or in part, at any time within seven hundred thirty (730) Days after the Optionee's death.

7.11 Disability of Optionee. If an Optionee who ceases to be an Employee at any time by reason of Disability has not fully exercised his Incentive Option(s), then any outstanding Incentive Option(s) of such Optionee shall vest immediately and fully, and such Optionee or his guardian or other legal representative, shall have the right, subject to the restrictions of Sections 7.5, 7.17 and 7.18 hereof, to exercise such Incentive Option(s) to acquire the Units of Partnership Interest in TRG made the subject of such Incentive Option(s), in full or in part, at any time prior to the tenth (10th) anniversary date of the Date of Grant.

7.12 Retirement of Optionee. If an Optionee who ceases to be an Employee at any time by reason of Retirement has not fully exercised his Incentive Option(s), then any Incentive Option(s) of such Optionee shall vest immediately and fully, and such Optionee shall have the right, subject to the restrictions of Sections 7.5, 7.17 and 7.18 hereof, to exercise such Incentive Option(s) to acquire the Units of Partnership Interest in TRG made the subject of such Incentive Option(s), in full or in part, at any time prior to the tenth (10th) anniversary date of the Date of Grant.

7.13 Exercise Procedures. Each Incentive Option granted under the Plan shall be exercised by written notice to the Compensation Committee, which notice must be received by the Compensation Committee on or before the earlier of (i) the date such Incentive Option expires pursuant to Section 7.5 hereof, and (ii) the last date on which such Incentive Option may be exercised as provided in Sections 7.7 through 7.12 and in Section 8.3 hereof.

7.14 Payment of the Exercise Price. The purchase price for each Unit of Partnership Interest in TRG to be purchased upon exercise of an Incentive Option granted under the Plan shall be paid in full in cash by the Optionee pursuant to the Option Agreement and in an amount equal to the Exercise Price.

7.15 Taxes. TRG or the Manager, or a Manager Entity, as the case may be, shall be entitled, if the Compensation Committee deems it necessary or desirable, to withhold (or secure payment from an Optionee or Beneficiary in lieu of withholding) the amount of any withholding or other tax required by law to be withheld or paid by TRG or the Manager with respect to any amount payable and/or Units of Partnership Interest issuable under such Optionee's Incentive Option, and TRG may defer payment or issuance of the Units of Partnership Interest upon such Optionee's exercise of an Incentive Option unless indemnified to its satisfaction against any liability for such tax. The amount of any such withholding shall be determined by the Compensation Committee.

7.16 Surrender of Incentive Options. Any Incentive Option granted under the Plan may be surrendered to TRG for cancellation on such terms as the Compensation Committee and the Optionee agree, including, but not limited to, terms which provide that upon such surrender TRG shall pay to the Optionee cash or, subject to the provisions of Section 7.17 hereof, Units of Partnership Interest, or a combination of cash and Units of Partnership Interest.

7.17 Prohibition Against Exercise of Incentive Option. In the event that an Optionee properly exercising an Incentive Option as provided in the Plan, or any other Person properly

exercising an Incentive Option as provided in the Plan, is not a Person to whom a Partner (as that term is defined in the Partnership Agreement) would be permitted to Transfer all or any portion of its Partnership Interest, as provided in Section 8.1(b) of the Partnership Agreement (such Optionee or other Person being hereinafter referred to as an "Impermissible Holder"), then such Impermissible Holder shall nevertheless be permitted to exercise such Incentive Option as provided in Sections 7.3 through 7.12 and in Sections 8.2 and 8.4 hereof, by complying with the procedures provided in Sections 7.13 and 7.15 hereof and by paying or causing to be paid to TRG the Exercise Price pursuant to Section 7.14, but such Impermissible Holder shall not be issued Unit(s) of Partnership Interest but shall, instead, and at the same time, receive shares of Common Stock pursuant to and subject to the terms and conditions of the Continuing Offer.

7.18 Prohibition Against Exercise of Option within Six (6) Months of Date of Grant. Notwithstanding any other provision of the Plan (including Sections 8.3 and 8.4 hereof), no Incentive Option which, but for this Section 7.18 is exercisable, shall be exercised within six (6) months from the Date of Grant.

Article 8 Amendment and Termination of the Plan; Dissolution of TRG

8.1 Amendment of the Plan. The Compensation Committee, with the approval or at the direction of the Partnership Committee, may from time to time suspend or discontinue the Plan or revise or amend the Plan in any respect whatsoever. In addition, the Compensation Committee, with the approval or at the direction of the Partnership Committee and the Company, may cause the Company to adopt an incentive option plan in replacement of the Plan whereby options to purchase shares of Common Stock of the Company are granted to Employees. In such event, all outstanding Incentive Options shall be adjusted to be consistent with the terms and provisions of the Plan and the Continuing Offer, and in such manner as the Compensation Committee may deem equitable or as may be required pursuant to applicable law; provided, however, that except with the written consent of an Optionee or as otherwise specifically provided herein with respect to a replacement plan, no amendment or suspension of the Plan shall alter or impair any Incentive Option previously granted to such Optionee under the Plan.

8.2 Termination of the Plan. The Compensation Committee, with the approval or at the direction of the Partnership Committee, shall have the right and power to terminate the Plan at any time, and no Incentive Option shall be granted under the Plan after the termination of the Plan. Except as otherwise provided in Section 8.3 hereof, the termination of the Plan shall not have any other effect, and any Incentive Option outstanding at the time of the termination of the Plan may be exercised after termination of the Plan, at any time prior to the expiration date of such Incentive Option and to the same extent and subject to the same terms and conditions, as provided in Article 7 hereof, that would have applied to such Incentive Option if the Plan had not been terminated.

8.3 Dissolution of TRG. The dissolution of TRG (provided that TRG is not reconstituted as provided in the Partnership Agreement) shall automatically and without further action cause the Plan to terminate and each outstanding Incentive Option which is not yet vested to vest immediately and fully. Each Optionee holding an outstanding Incentive Option which is then, or by reason of the dissolution of TRG has become, vested and exercisable, as

set forth in Article 7 hereof, shall receive written notice of the dissolution of TRG and shall have fifteen (15) Days from the receipt of such written notice of dissolution to exercise such Optionee's Incentive Option(s) by delivering written notice of such exercise as provided in Section 7.13 hereof and by paying or causing to be paid to TRG the Exercise Price. Except as otherwise provided in this Section 8.3, any Incentive Option exercised upon dissolution shall be exercisable only as provided under the Plan and shall continue to be subject to all of the terms and conditions of the Plan. The grant of any Incentive Option pursuant to the Plan shall not affect in any way the right or power of TRG to make changes to its business structure, or to merge, dissolve, or terminate, or to sell or transfer any or all of its assets.

8.4 Termination of Management Contract/Change of Control Event. Upon the termination of the Master Services Agreement (as defined in the Partnership Agreement) between TRG and the Manager, for any reason, or upon the occurrence of either of the following events (a "change of control" event), all Incentive Options previously granted under the Plan shall vest immediately and fully, but shall otherwise be exercisable only as provided under the Plan and shall continue to be subject to all of the terms and conditions of the Plan. For purposes of this Section 8.4, a "change of control" event means:

(a) The acquisition of beneficial ownership of Units of Partnership Interest in TRG entitling the Person acquiring such beneficial ownership to appoint a majority of the members of the Partnership Committee, if such Person was not, at the time of the Initial Public Offering, a Partner of TRG (as identified in the Preamble to the Partnership Agreement); or

(b) If, at such time as the Company obtains the right to appoint a majority of the members of the Partnership Committee, or at any time thereafter, at least a majority of that number of the individuals who constitute the Board of Directors are not, or cease for any reason to be, the same individuals who constituted the Board of Directors immediately after the consummation of the Initial Public Offering (the "Incumbent Board"); provided, that any individual becoming a director after the Initial Public Offering whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall, for the purposes of this clause (b), be considered as though such individual were a member of the Incumbent Board.

Article 9 Compliance With Other Laws and Regulations

9.1 Exemption or Qualification. The Plan, the grant and exercise of Incentive Options under the Plan, and the obligation of TRG to sell and deliver Units of Partnership Interest under such Incentive Options shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required. TRG shall not be required to issue or deliver any Partnership Interest Certificates for Units of Partnership Interest prior to such time as there is an appropriate exemption available from the registration or qualification requirements for such Units of Partnership Interest under any federal or state law, or any ruling or regulation of any government body which TRG shall, in its discretion, determine to be necessary or advisable. Any determination by TRG and its counsel in connection with any of the matters set forth in this Section 9.1 shall be conclusive and binding on all Persons.

9.2 Representation. The Compensation Committee may require that any Person who is granted an Incentive Option under the Plan represent and agree in writing that if the Units of Partnership Interest made subject to the Incentive Option are issuable under an exemption from registration requirements, the Units of Partnership Interest will be "restricted" securities which may be resold only in compliance with the applicable securities laws, and that such Person is acquiring the Units of Partnership Interest issued upon exercise of an Incentive Option for investment and not with a view toward distribution.

Article 10 Disposition of Units of Partnership Interest

10.1 Limitations on Transfer. An Optionee's rights and interests under the Plan may not be assigned or transferred other than by will or the laws of descent and distribution, and during the lifetime of an Optionee, only the Optionee personally (or the Optionee's personal representative) may exercise the Optionee's rights under the Plan. An Optionee's Beneficiary may exercise the Optionee's rights to the extent they are exercisable under the Plan following the death of the Optionee. Notwithstanding any other provision of the Plan to the contrary, an Optionee's rights and interests under the Plan shall vest in the Company upon the Optionee's exercise of the Incentive Option, acceptance of the Continuing Offer, and payment of the Exercise Price as described in Section 7.17 hereof.

10.2 Partnership Interest Certificates. Units of Partnership Interest shall be represented by a certificate of TRG (a "Partnership Interest Certificate"). Each Partnership Interest Certificate shall bear the following legend:

The Unit(s) of Partnership Interest represented by this certificate is (are) subject to and transferable only in compliance with the Amended and Restated Agreement of Limited Partnership of The Taubman Realty Group Limited Partnership, as the same may be amended and/or supplemented from time to time (the "Partnership Agreement"), a copy of which is on file at the office of The Taubman Realty Group Limited Partnership. Any assignment, sale, transfer, conveyance, mortgage, or other encumbrance, pledge, granting of an Option or proxy, or other disposition or act of alienation, whether voluntary or involuntary, or by operation of law, in respect of a Unit of Partnership Interest made other than as permitted in the Partnership Agreement shall be null and void and have no force or effect whatsoever.

In addition, Partnership Interest Certificates evidencing Units of Partnership Interest acquired under the Plan pursuant to an unregistered transaction shall bear the following restrictive legend and such other restrictive legends as are required or deemed advisable under the provisions of any applicable law:

The sale of the Unit(s) of Partnership Interest represented by this certificate has not been registered under the

Securities Act of 1933 (the "Act"). Any transfer of such Unit(s) of Partnership Interest will be invalid unless a registration statement under the Act is in effect as to such transfer, or, in the opinion of counsel for the Partnership, such registration is unnecessary in order for such transfer to comply with the Act.

Any determination by TRG and its counsel in connection with any of the matters set forth in this Section 10.2 shall be conclusive and binding on all persons.

Article 11 General Provisions

11.1 No Right to Continued Employment. No Employee or any other Person shall have any claim or right to be granted an Incentive Option under the Plan. Neither the adoption and maintenance of the Plan nor the granting of Incentive Options pursuant to the Plan shall be deemed to constitute a contract of employment between the Manager or TRG or the Company and any Employee or to be a condition of the employment of any Person. The Plan and any Incentive Option granted under the Plan shall not confer upon any Optionee any right with respect to continued employment by the Manager or a Manager Entity, nor shall they interfere in any way with the right of the Manager or a Manager Entity to terminate the employment of any Optionee at any time, and for any reason, with or without cause, it being acknowledged, unless expressly provided otherwise in writing, that the employment of any Optionee is "at will."

11.2 Dealings with Beneficiaries or Representatives of an Optionee. The Compensation Committee may require such proper proof of death and such evidence of the right of any Person other than an Optionee to exercise any Incentive Option granted under the Plan, as the Compensation Committee deems necessary or advisable. The Compensation Committee's determination of death or Disability and of the right of any Person other than an Optionee to exercise an Incentive Option shall be conclusive. The Compensation Committee, in its discretion, may require from any Person, other than an Optionee, exercising any Incentive Option under the Plan, such security and indemnity as the Compensation Committee, in its discretion, deems necessary or advisable. The issuance of and acceptance of any Units of Partnership Interest and/or of cash (pursuant to Section 7.14) or the issuance and acceptance of Common Stock pursuant to Section 7.17 hereof, shall constitute a complete acquittance and discharge of full liability of TRG, the Manager, each Manager Entity, and the Company under the Plan, and the Compensation Committee shall be entitled to demand a receipt and/or acquittance in full satisfaction of all claims against TRG, the Manager, each Manager Entity, and the Company.

11.3 Application of Funds. The proceeds received by TRG from the exercise of any Incentive Option to acquire a Unit of Partnership Interest in TRG shall be used for general partnership purposes of TRG.

11.4 Inspection of Records. Copies of the Plan, records reflecting each Optionee's Incentive Option(s), and any other documents and records that an Optionee is entitled by law to inspect shall be open to inspection by the Optionee and his duly authorized representative(s) at the office of TRG at any reasonable business hour.

11.5 Word Meanings. The words such as "herein," "hereinafter," "hereof," and "hereunder" refer to this Plan as a whole and not merely to a subdivision in which such words appear unless the context otherwise requires.

11.6 Section Titles. Section titles are for descriptive purposes only and shall not control or alter the meaning of the Plan as set forth in the text.

11.7 Severability. Whenever possible, each provision in the Plan and every Incentive Option at any time granted under the Plan shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of the Plan or any Incentive Option at any time granted under the Plan shall be held to be prohibited or invalid under applicable law, then, (i) such provision shall be deemed amended to accomplish the objectives of the provision as originally written to the fullest extent permitted by law, and (ii) all other provisions of the Plan and every other Incentive Option at any time granted under the Plan shall remain in full force and effect.

11.8 Compliance with Securities Exchange Act. With respect to persons subject to Section 16 of the Securities Exchange Act of 1934 (the "1934 Act"), transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of the Plan or action by the plan administrators fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the plan administrators.

11.9 Strict Construction. No rule of strict construction shall be implied against TRG, the Partnership Committee, the Compensation Committee, or any other Person in the interpretation of any of the terms of the Plan, any Incentive Option granted under the Plan or any rule or procedure established by the Compensation Committee.

11.10 Choice of Law. All determinations made and actions taken pursuant to the Plan shall be governed by the internal laws of the State of Michigan and construed in accordance therewith.

11.11 Execution. To record the adoption of the Plan, as amended and restated, TRG has caused the execution hereof effective as of the 30th day of September, 1997.

THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP,
a Delaware limited partnership

By: /s/ Lisa A. Payne

Its: Authorized Signatory

Exhibit 12 (a)

Taubman Centers, Inc.

Computation of Ratio of Earnings to Preferred Stock Dividends

(in thousands of dollars, except ratio)

| | Year Ended December 31, 1997 |
|--|---------------------------------|
| Net Earnings from Continuing Operations | \$28,662 |
| Preferred Stock Dividends | 4,058 |
| Ratio of Earnings to Preferred Stock Dividends | 7.1 |

Note: The Company does not have, and has not had, any outstanding indebtedness.
Prior to October 1997, there was no preferred stock.

Exhibit 12 (b)

The Taubman Realty Group Limited Partnership Computation of Ratios of Earnings to Fixed Charges and Preferred Distributions

(in thousands of dollars, except ratios)

| | Year Ended December 31 | | | | |
|--|------------------------|-----------|-----------|-----------|-----------|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| Net Earnings from Continuing Operations | \$ 95,294 | \$ 84,094 | \$ 79,699 | \$ 72,203 | \$ 69,326 |
| Add back: | | | | | |
| Fixed charges | 125,123 | 113,480 | 110,541 | 88,198 | 77,230 |
| Amortization of previously capitalized interest (1) | 2,166 | 1,969 | 2,185 | 2,035 | 1,818 |
| Equity in net income in excess of distributions of less than 50% owned Unconsolidated Joint Ventures | 0 | 0 | (344) | (100) | 0 |
| Deduct: | | | | | |
| Capitalized interest (1) | (13,840) | (8,869) | (8,651) | (8,899) | (4,316) |
| Earnings Available for Fixed Charges and Preferred Distributions | \$208,743 | \$190,674 | \$183,430 | \$153,437 | \$144,058 |
| Fixed Charges | | | | | |
| Interest expense | \$ 73,639 | \$ 70,454 | \$ 65,858 | \$ 47,732 | \$ 45,337 |
| Capitalized interest | 9,469 | 5,682 | 6,852 | 7,098 | 2,640 |
| Interest portion of rent expense | 7,389 | 5,556 | 4,762 | 4,101 | 4,276 |
| Proportionate share of Unconsolidated Joint Ventures' fixed charges | 34,626 | 31,788 | 33,069 | 29,267 | 24,977 |
| Total Fixed Charges | \$125,123 | \$113,480 | \$110,541 | \$ 88,198 | \$ 77,230 |
| Preferred Distributions | 4,058 | 0 | 0 | 0 | 0 |
| Total Fixed Charges and Preferred Distributions | \$129,181 | \$113,480 | \$110,541 | \$ 88,198 | \$ 77,230 |
| Ratio of Earnings to Fixed Charges and Preferred Distributions | 1.6 | 1.7 | 1.7 | 1.7 | 1.9 |

(1) Amounts include TRG's pro rata share of capitalized interest and amortization of previously capitalized interest of the Unconsolidated Joint Ventures.

Exhibit 21**THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP
LIST OF SUBSIDIARIES**

| NAME | JURISDICTION OF FORMATION | DOING BUSINESS AS |
|--|------------------------------|--|
| La Cienega Associates | California | Beverly Center |
| Biltmore Shopping Center Partners | Arizona | Biltmore Fashion Park |
| Briarwood | Michigan | Briarwood |
| TL-Columbus Associates | Michigan | Columbus City Center |
| Fairlane Town Center | Michigan | Fairlane Town Center |
| The Falls Shopping Center Associates | Florida | The Falls |
| Taubman Auburn Hills Associates Limited Partnership | Delaware | Great Lakes Crossing (under construction) |
| Richmond Associates | Michigan | Hilltop |
| La Cumbre Shopping Center Associates | California | La Cumbre Plaza |
| Lakeforest Associates | Maryland | Lakeforest |
| Taubman MacArthur Associates Limited Partnership | Delaware | MacArthur Center (under construction) |
| TKL-East | Michigan | Marley Station |
| Taubman Western Associates No. 2 | Michigan | Meadowood Mall |
| Katy-Gessner Associates Limited Partnership | Delaware | Memorial City Mall (leased) |
| Paseo Nuevo Associates | California | Paseo Nuevo |
| TRG - Regency Square Associates | Virginia | Regency Square |
| Short Hills Associates | New Jersey | The Mall at Short Hills |
| Stoneridge Properties | California | Stoneridge |
| Taub-Co Management, Inc. | Michigan | N/A |
| The Taubman Company Limited Partnership | Delaware | The Taubman Company |
| Tuttle Crossing Associates | Ohio | The Mall at Tuttle Crossing |

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Amendment No. 1 to Form S-11 on Form S-8 Registration Statement No. 33-65934 of Taubman Centers, Inc., in Amendment No. 2 to Form S-3 Registration Statement No. 33-73038 of Taubman Centers, Inc., in Amendment No. 1 to Form S-3 Registration Statement No. 33- 99636 of Taubman Centers, Inc., in Amendment No. 3 to Form S-3 Registration Statement No. 333-19503 of Taubman Centers, Inc., in Form S-3 Registration Statement No. 333-16781 of Taubman Centers, Inc., in Amendment No. 1 to Form S-3 Registration Statement No. 333-35433 of Taubman Centers, Inc., and in Form S-8 Registration Statement No. 33-80650 of The Taubman Realty Group Limited Partnership of our reports dated February 18, 1998 on the financial statements of Taubman Centers, Inc., the consolidated financial statements and the financial statement schedules of The Taubman Realty Group Limited Partnership and the combined financial statements and the financial statement schedules of Unconsolidated Joint Ventures of The Taubman Realty Group Limited Partnership appearing in this Annual Report on Form 10-K of Taubman Centers, Inc. for the year ended December 31, 1997.

Deloitte & Touche LLP
Detroit, Michigan
March 23, 1998

POWER OF ATTORNEY

The undersigned, a Director of Taubman Centers, Inc., a Michigan corporation (the "Company"), does hereby constitute and appoint Robert S. Taubman and Lisa A. Payne and each of them, with full power of substitution, as his true and lawful attorney and agent to execute in his name and on his behalf, as a Director of the Company, the Company's Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Act"), and any and all instruments that such attorneys and agents, or either of them, may deem necessary or advisable to enable the Company to comply with the Act and the rules, regulations, and requirements of the Commission in respect thereof, and the undersigned does hereby ratify and confirm as his own act and deed all that such attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Each such attorney or agent shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his signature this 16th day of February, 1998.

/S/ A. ALFRED TAUBMAN

A. Alfred Taubman

POWER OF ATTORNEY

The undersigned, a Director of Taubman Centers, Inc., a Michigan corporation (the "Company"), does hereby constitute and appoint Robert S. Taubman and Lisa A. Payne and each of them, with full power of substitution, as his true and lawful attorney and agent to execute in his name and on his behalf, as a Director of the Company, the Company's Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Act"), and any and all instruments that such attorneys and agents, or either of them, may deem necessary or advisable to enable the Company to comply with the Act and the rules, regulations, and requirements of the Commission in respect thereof, and the undersigned does hereby ratify and confirm as his own act and deed all that such attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Each such attorney or agent shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his signature this 15th day of February, 1998.

/S/ *GRAHAM ALLISON*

Graham Allison

POWER OF ATTORNEY

The undersigned, a Director of Taubman Centers, Inc., a Michigan corporation (the "Company"), does hereby constitute and appoint Robert S. Taubman and Lisa A. Payne and each of them, with full power of substitution, as his true and lawful attorney and agent to execute in his name and on his behalf, as a Director of the Company, the Company's Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Act"), and any and all instruments that such attorneys and agents, or either of them, may deem necessary or advisable to enable the Company to comply with the Act and the rules, regulations, and requirements of the Commission in respect thereof, and the undersigned does hereby ratify and confirm as his own act and deed all that such attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Each such attorney or agent shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his signature this 15th day of February, 1998.

/S/ *W. ALLEN REED*

W. Allen Reed

POWER OF ATTORNEY

The undersigned, a Director of Taubman Centers, Inc., a Michigan corporation (the "Company"), does hereby constitute and appoint Robert S. Taubman and Lisa A. Payne and each of them, with full power of substitution, as his true and lawful attorney and agent to execute in his name and on his behalf, as a Director of the Company, the Company's Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Act"), and any and all instruments that such attorneys and agents, or either of them, may deem necessary or advisable to enable the Company to comply with the Act and the rules, regulations, and requirements of the Commission in respect thereof, and the undersigned does hereby ratify and confirm as his own act and deed all that such attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Each such attorney or agent shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his signature this 13th day of February, 1998.

/S/ *S. PARKER GILBERT*

S. Parker Gilbert

POWER OF ATTORNEY

The undersigned, a Director of Taubman Centers, Inc., a Michigan corporation (the "Company"), does hereby constitute and appoint Robert S. Taubman and Lisa A. Payne and each of them, with full power of substitution, as his true and lawful attorney and agent to execute in his name and on his behalf, as a Director of the Company, the Company's Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Act"), and any and all instruments that such attorneys and agents, or either of them, may deem necessary or advisable to enable the Company to comply with the Act and the rules, regulations, and requirements of the Commission in respect thereof, and the undersigned does hereby ratify and confirm as his own act and deed all that such attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Each such attorney or agent shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his signature this 12th day of February, 1998.

/S/ JEROME A. CHAZEN

Jerome A. Chazen

POWER OF ATTORNEY

The undersigned, a Director of Taubman Centers, Inc., a Michigan corporation (the "Company"), does hereby constitute and appoint Robert S. Taubman and Lisa A. Payne and each of them, with full power of substitution, as his true and lawful attorney and agent to execute in his name and on his behalf, as a Director of the Company, the Company's Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Act"), and any and all instruments that such attorneys and agents, or either of them, may deem necessary or advisable to enable the Company to comply with the Act and the rules, regulations, and requirements of the Commission in respect thereof, and the undersigned does hereby ratify and confirm as his own act and deed all that such attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Each such attorney or agent shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his signature this 17th day of February, 1998.

/S/ THOMAS E. DOBROWSKI

Thomas E. Dobrowski

POWER OF ATTORNEY

The undersigned, a Director of Taubman Centers, Inc., a Michigan corporation (the "Company"), does hereby constitute and appoint Robert S. Taubman and Lisa A. Payne and each of them, with full power of substitution, as his true and lawful attorney and agent to execute in his name and on his behalf, as a Director of the Company, the Company's Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Act"), and any and all instruments that such attorneys and agents, or either of them, may deem necessary or advisable to enable the Company to comply with the Act and the rules, regulations, and requirements of the Commission in respect thereof, and the undersigned does hereby ratify and confirm as his own act and deed all that such attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Each such attorney or agent shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his signature this 15th day of February, 1998.

/S/ ALLAN J. BLOOSTEIN

Allan J. Bloostein

POWER OF ATTORNEY

The undersigned, a Director of Taubman Centers, Inc., a Michigan corporation (the "Company"), does hereby constitute and appoint Robert S. Taubman and Lisa A. Payne and each of them, with full power of substitution, as his true and lawful attorney and agent to execute in his name and on his behalf, as a Director of the Company, the Company's Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Act"), and any and all instruments that such attorneys and agents, or either of them, may deem necessary or advisable to enable the Company to comply with the Act and the rules, regulations, and requirements of the Commission in respect thereof, and the undersigned does hereby ratify and confirm as his own act and deed all that such attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Each such attorney or agent shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his signature this 20th day of March, 1998.

/S/ CLAUDE M. BALLARD

Claude M. Ballard

POWER OF ATTORNEY

The undersigned, a Director of Taubman Centers, Inc., a Michigan corporation (the "Company"), does hereby constitute and appoint Robert S. Taubman and Lisa A. Payne and each of them, with full power of substitution, as his true and lawful attorney and agent to execute in his name and on his behalf, as a Director of the Company, the Company's Annual Report on Form 10-K for the year ended December 31, 1997, and any and all amendments thereto, to be filed with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, as amended (the "Act"), and any and all instruments that such attorneys and agents, or either of them, may deem necessary or advisable to enable the Company to comply with the Act and the rules, regulations, and requirements of the Commission in respect thereof, and the undersigned does hereby ratify and confirm as his own act and deed all that such attorneys and agents, and each of them, shall do or cause to be done by virtue hereof. Each such attorney or agent shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, the undersigned has hereunto subscribed his signature this 15th day of March, 1998.

/S/ ROBERT C. LARSON

Robert C. Larson

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE TAUBMAN CENTERS, INC. BALANCE SHEET AS OF DECEMBER 31, 1997 AND THE TAUBMAN CENTERS, INC. STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK: 0000890319

NAME: TAUBMAN CENTERS, INC.

MULTIPLIER: 1,000

CURRENCY: U.S. DOLLARS

| PERIOD TYPE | YEAR |
|----------------------------|-------------|
| FISCAL YEAR END | DEC 31 1997 |
| PERIOD START | JAN 01 1997 |
| PERIOD END | DEC 31 1997 |
| EXCHANGE RATE | 1 |
| CASH | 8,965 |
| SECURITIES | 0 |
| RECEIVABLES | 0 |
| ALLOWANCES | 0 |
| INVENTORY | 0 |
| CURRENT ASSETS | 0 |
| PP&E | 0 |
| DEPRECIATION | 0 |
| TOTAL ASSETS | 556,824 |
| CURRENT LIABILITIES | 0 |
| BONDS | 0 |
| PREFERRED MANDATORY | 0 |
| PREFERRED | 80 |
| COMMON | 508 |
| OTHER SE | 544,030 |
| TOTAL LIABILITY AND EQUITY | 556,824 |
| SALES | 0 |
| TOTAL REVENUES | 29,671 |
| CGS | 0 |
| TOTAL COSTS | 0 |
| OTHER EXPENSES | 250 |
| LOSS PROVISION | 0 |
| INTEREST EXPENSE | 0 |
| INCOME PRETAX | 28,662 |
| INCOME TAX | 0 |
| INCOME CONTINUING | 28,662 |
| DISCONTINUED | 0 |
| EXTRAORDINARY | 0 |
| CHANGES | 0 |
| NET INCOME | 28,662 |
| EPS PRIMARY | .48 |
| EPS DILUTED | .48 |

¹ THE COMPANY HAS AN UNCLASSIFIED BALANCE SHEET.

² THE COMPANY'S PRIMARY ASSET IS AN EQUITY INVESTMENT IN THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP.

AGREEMENT OF PURCHASE AND SALE

**THE FALLS SHOPPING CENTER
MIAMI, FLORIDA**

By and Between
THE FALLS PARTNERS LIMITED L.P.,
a Delaware limited partnership,
Seller
and
**THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP**
a Delaware limited partnership,
Purchaser
DATED: November 5, 1997

Form Date 5/06/97

AGREEMENT OF PURCHASE AND SALE

THE FALLS SHOPPING CENTER MIAMI, FLORIDA

THIS AGREEMENT OF PURCHASE AND SALE is made and entered into this 5th day of November, 1997 by and between THE FALLS PARTNERS LIMITED L.P., a Delaware limited partnership ("Seller"), having an address of c/o Heitman Capital Management Corporation, 180 North LaSalle Street, Suite 3600, Chicago, Illinois 60601-6789, Attention: Howard J. Edelman; facsimile number (312) 541- 6738, and THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP, a Delaware limited partnership ("Purchaser"), having an address of c/o The Taubman Company, 200 East Long Lake Road, Bloomfield Hills, Michigan 48304, Attention: Cordell A. Lietz; facsimile number (248) 258-7297.

RECITALS

Seller is the owner of (i) a parcel of real estate located in Miami, Florida, legally described on Exhibit A attached hereto together with all buildings and improvements situated thereon (excluding any owned by tenants thereof) and all of Seller's right, title and interest in and to all tenements, hereditaments, appurtenances, and rights used in connection therewith, rights, easements and rights-of-way incident thereto and means of access thereto, including strips and gores adjoining or adjacent thereto together with all and singular the rights and appurtenances whatsoever, in anyway belonging, relating or appertaining to such parcel of real estate (collectively, the "Real Property");

(ii) All of the fixtures, appliances, personality and equipment situated on or about the Real Property and owned by Seller or the property manager and used in connection with the operation, maintenance or management of the Real Property, including, without limitation, those items identified on Schedule 1 attached hereto (collectively, the "Personal Property");

(iii) All of the interests of the landlord under all of the leases, license agreements, kiosk agreements and other occupancy agreements and modifications and amendments thereto relating to the Real Property and described on Schedule 2, attached hereto together with any modifications thereof or new leases hereafter entered into, to the extent permitted herein (collectively, the "Leases");

(iv) All of the site plan approvals and development rights (collectively, the "Development Rights");

(v) All contracts and service agreements identified on Schedule 3 attached hereto, together with any modifications thereof or new contracts hereafter entered into, to the extent permitted herein (collectively, the "Service Contracts");

(vi) All of Seller's right, title and interest in and to all tenant lists, telephone exchange numbers, business licenses relating to The Falls Shopping Center, the name "The Falls Shopping Center" and "The Falls", (specifically excluding, however, the names "Heitman"; "Heitman Properties of Florida Ltd.; "Heitman Capital Management Corporation") the advertising materials, surveys, soil and topographical and traffic studies, plans and specifications relating to the Real Property; consents, authorizations, variances, waivers, licenses, permits, certificates of occupancy and approvals from any Federal, state, courts, municipal or other governmental or quasi-governmental agency, department, board, commission, bureau or other entity or instrumentality in respect of the Real Property or the Personal Property; development rights related to the Property, warranties, guarantees and other assurances and all other rights of Seller related to the Real Property (collectively, the "Intangible Property"). Notwithstanding anything in this Agreement to the contrary, Seller makes no representation or warranty that any of the Intangible Property has been registered or otherwise filed with any governmental or quasi-governmental authority.

The Real Property, Personal Property, the Leases, the Development Rights, the Service Contracts and the Intangible Property are hereafter collectively referred to as the "Property". The Property is commonly known as The Falls Shopping Center contains a total of approximately 823,650 square feet of leasable floor area ("GLA"), including approximately (i) 350,250 square feet of in-line mall stores and kiosks; (ii) three developed out-parcel sites leased to Merrill Lynch, (which includes the lease of a building owned by Seller), Hops Brewery (which owns its own building) and Sun Bank (which owns its own building) (collectively, the "Outlot Tenants"); (iii) two leased anchor parcels consisting of an approximate 225,000 square foot Bloomingdale's store and an approximate 230,000 square foot Macy's store (Bloomingdale's and Macy's are hereinafter collectively referred to as the "Anchor Tenants"); and three unimproved parcels of land located south of the canal.

Subject to and on the terms and provisions of and for the considerations set forth in this Agreement, Seller has agreed to sell, and Purchaser has agreed to buy, the Property.

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms have the following meanings:

Closing Date. As agreed between Seller and Purchaser but no later than November 20, 1997.

Due Diligence Period. The period commencing on the date hereof and ending on November 6, 1997.

Escrow Company. Chicago Title Insurance Company.

Offering Materials. That certain brochure prepared by Eastdil Realty Company L.L.C., dated August 1997.

Title Company. Chicago Title Insurance Company.

Tenants. As used in this Agreement, the term "Tenants" shall include the in-line mall and kiosk tenants, the Anchor Tenants and the Outlot Tenants under the Leases.

2. Sale; Purchase Price.

2.1 Subject to the terms and provisions hereof, Seller agrees to sell and convey to Purchaser, and Purchaser agrees to purchase from Seller the Property (the "Closing").

2.2 The total purchase price (hereinafter called the "Purchase Price") to be paid by Purchaser to Seller for the Property shall be One Hundred-Fifty Eight Million Five Hundred Thousand and no/100 Dollars (\$158,500,000.00). The Purchase Price shall be payable in the following manner:

(a) Earnest Money. Purchaser shall, prior to the expiration of the Due Diligence Period deposit with the Title Company, as escrow agent, the amount of Two Million Five Hundred Thousand and 00/100 Dollars (\$2,500,000.00) (hereinafter called the "Earnest Money") which Earnest Money shall be in the form of a wire transfer of immediately available United States of America funds or at Purchaser's option, in the form of an irrevocable letter of credit from a bank and in a form both acceptable to Seller in Seller's sole discretion and with an expiration date of not earlier than March 31, 1998 (the "Letter of Credit"). The Earnest Money shall be held and disbursed by the Title Company acting as escrow agent pursuant to the Earnest Money Escrow Agreement in the form of Exhibit B attached hereto which the parties have executed simultaneously with this Agreement. The Earnest Money shall be invested in a federally issued or insured interest bearing instrument with any interest accruing thereon being deemed part of the Earnest Money and shall be paid to the party to which the Earnest Money is paid pursuant to the

provisions hereof, unless it is applied to the Purchase Price. If the sale hereunder is consummated in accordance with the terms hereof, the Earnest Money and any interest thereon shall be applied to the Purchase Price to be paid by Purchaser at the Closing. In the event of a default hereunder by Purchaser or Seller, the Earnest Money shall be applied as provided herein.

(b) Cash Balance. Purchaser shall pay the balance of the Purchase Price, subject to the prorations described in Section 5 below, in cash (the "Cash Balance") by wire transfer of immediately available United States of America funds to the Title Company for payment to Seller, in accordance with the terms and conditions of this Agreement on the Closing Date. If the Cash Balance and all other documents required to be delivered by Purchaser to close are received by the Escrow Company on the Closing Date but not prior to noon on the Closing Date, then the Closing shall take place on the following business day and the Cash Balance shall be held by the Escrow Company for the account of Purchaser in an interest bearing account until the next business day at which time the Cash Balance shall be immediately disbursed to Seller, all interest on the Cash Balance shall be immediately disbursed to Purchaser, and the Proration Date shall be deemed to be the immediately preceding day. Notwithstanding the immediately previous sentence, if the Cash Balance is received by the Escrow Company later than noon on the Closing Date, Seller shall have the right to waive this paragraph and receive the Cash Balance on the Closing Date without changing the Proration Date.

3. Conditions Precedent. In the event any of the conditions set forth in Sections 3.2(b), 3.3, 3.4 or 3.5 below shall not have been fulfilled, accepted or deemed accepted or waived as provided herein on or before the applicable dates specified herein, Purchaser shall have the right to terminate this Agreement by giving written notice thereof to Seller on or before the respective dates specified herein, and thereupon all Earnest Money shall be refunded to Purchaser and neither party shall have any further rights or obligations hereunder, except for the Surviving Obligations (as hereinafter defined).

3.1 Seller's Deliveries. Seller has delivered or made available to Purchaser complete copies of the following items which are in Seller's possession:

(a) All available plans and specifications pertaining to the Property, including a survey prepared by Fortin, Leavy, Sikes, Inc., dated February 20, 1997, plotted September 24, 1997 (the "Existing Survey").

(b) All financial and operating statements for the years 1994, 1995 and 1996, and year to date 1997, and all other related documentary support pertaining to the Property;

(c) The Leases;

(d) copies of all Lease Proposals (as defined in Section 15(b)) presently outstanding listed on Schedule 4 attached hereto;

(e) Property tax bills for the current and three (3) most recent prior years and a current statement of assessed value;

(f) A current preliminary title report together with copies of all documents referred to as exceptions to title except for existing loan documents;

(g) copies of all the Service Contracts and any proposed service or maintenance contracts currently being negotiated;

(h) Any inspections or studies, including without limitation, feasibility, marketing, soils, asbestos, environmental and engineering studies;

(i) All reciprocal easement and/or operating agreement(s) if any (including supplemental agreements if any), or other such related documents as deemed pertinent by Purchaser;

(j) Tenant files and financial data on all tenants as is available;

(k) Tenant sales report for 1994, 1995 and 1996, and year to date 1997;

(l) Tenant expense recapture calculation worksheets and resulting billings for 1994, 1995, 1996 and 1997;

(m) A schedule of all significant suits, actions, litigation, administrative proceedings or other governmental investigations or inquiries, pending or threatened, affecting businesses or operations of Seller or its affiliates with respect to the Property; and

(n) Any information regarding any ownership by Seller of any Tenants of the Property.

Seller shall provide to Purchaser any documents described in this Section 3.1 and first coming into Seller's possession or produced by Seller after the initial delivery and continue to provide the same during the pendency of this Agreement.

In the event this Agreement terminates for any reason, Purchaser shall immediately return to Seller all information delivered by Seller or Seller's agent(s) to Purchaser or Purchaser's agent(s). The foregoing provision shall survive termination of this Agreement.

3.2 Due Diligence. Purchaser and its representatives shall be permitted to enter upon the Property at any reasonable time and from time to time before the Closing Date to examine, inspect and investigate the Property as well as all records and other documentation provided by Seller or located at the Property (collectively, "Due Diligence"). The Due Diligence shall be subject to the terms, conditions and limitations set forth in this Section 3.2.

(a) Purchaser shall have a right to enter upon the Property for the purpose of conducting its Due Diligence provided that in each such instance (i) Purchaser notifies Seller of its intent to enter the Property to conduct its Due Diligence not less than 48 hours prior to such entry; (ii) the date and approximate time period are scheduled with Seller; and (iii) Purchaser is in full compliance with the insurance requirements set forth in Section 3.2(f) hereof. At Seller's election, a representative of Seller shall be present during any entry by Purchaser or its representatives upon the Property for conducting its Due Diligence. Purchaser shall take all necessary actions to insure that neither it nor any of its representatives interfere with the tenants or ongoing operations occurring at the Property. Purchaser shall not cause or permit any mechanic liens, materialmen's liens or other liens to be filed against the Property as a result of its Due Diligence.

(b) Purchaser shall have through the last day of the Due Diligence Period in which to conduct its Due Diligence and, in Purchaser's sole discretion, to determine whether the Property is acceptable to Purchaser. If during the Due Diligence Period, Purchaser becomes aware of any problem or defect in the Property or any other aspect of the Property which Purchaser determines makes the Property unsuitable to Purchaser, Purchaser may terminate this Agreement by giving written notice of termination to Seller on or before the last day of the Due Diligence Period. If Purchaser does not timely deliver the Earnest Money, this Agreement shall automatically terminate. In the event of such termination, neither party shall have any further obligations to the other party hereunder, except for the Surviving Obligations.

(c) Purchaser shall, at least thirty-one (31) days prior to the Closing Date, notify Seller in writing requesting termination of any or all of the Service Contracts, which are noted on Schedule 2 as being terminable upon thirty (30) days notice, that Purchaser does not elect to assume. If Purchaser does not timely give notice requesting termination of a Service Contract, Purchaser shall be

deemed to have accepted the assumption of such Service Contract. Purchaser shall assume all other Service Contracts in the manner provided herein.

(d) Purchaser shall have the right to conduct, at its sole cost and expense, any inspections, studies or tests that Purchaser deems appropriate in determining the condition of the Property, provided, however, Purchaser is not permitted to perform any intrusive testing (except for limited asbestos sampling to be done as part of Purchaser's Phase I site assessment), including, without limitation, a Phase II environmental assessment or boring, without (i) submitting to Seller the scope and inspections for such testing; and (ii) obtaining the prior written consent of Seller, which consent shall not be unreasonably withheld.

(e) Purchaser agrees and covenants with Seller not to disclose to any third party (other than lenders, accountants, attorneys and other professionals and consultants in connection with the transaction contemplated herein) prior to Closing without Seller's prior written consent, unless Purchaser is obligated by New York Stock Exchange rules or regulations or by law to make such disclosure, any of the reports or any other documentation or information obtained by Purchaser which relates to the Property or Seller in any way, all of which shall be used by Purchaser and its agents solely in connection with the transaction contemplated hereby. In the event that this Agreement is terminated, this subsection 3.2(e) shall survive termination.

(f) Purchaser agrees to indemnify, defend and hold Seller and its partners, trustees, beneficiaries, shareholders, members, managers, advisors and other agents and their respective employees, officers, directors and shareholders (the "Indemnified Parties") harmless from and against any and all claims, losses, damages, costs and expense (including, without limitation, reasonable attorneys' fees and court costs) suffered or incurred by any of the Indemnified Parties as a result of any activities of Purchaser (including activities of any of Purchaser's employees, consultants, contractors or other agents) relating to the Property, including, without limitation, mechanics' liens, damage to the Property, injury to persons or property resulting from such activities, and in the event that the Property is disturbed or altered in any way as a result of such activities, Purchaser shall promptly restore the Property to its condition existing prior to the commencement of such activities which disturb or alter the Property. The foregoing indemnity does not include any claims, losses, damages, costs and expenses (including, without limitation, reasonable attorneys' fees and court costs) resulting from the mere discovery of information on or a condition at the Property. Furthermore, Purchaser agrees to maintain and have in effect workers' compensation insurance, with statutory limits of coverage, and commercial general liability insurance with (i) all risk coverage, (ii) waiver of subrogation, and (iii) limits of not less than One Million and

00/100 (\$1,000,000.00) for personal injury, including bodily injury and death, and property damage. Such insurance shall name Heitman Capital Management Corporation ("HCMC") and Heitman Properties of Florida Ltd. as additional insureds. Purchaser shall deliver to Seller a copy of the certificate of insurance effectuating the insurance required hereunder prior to the commencement of such activities which certificate shall provide that such insurance shall not be terminated or modified without at least thirty (30) days' prior written notice to Seller.

(g) Purchaser acknowledges and agrees that it shall have no right to review or inspect any of the following: (i) internal memoranda, correspondence, analyses, documents or reports prepared by or for Seller in connection with this Agreement or in connection with the transaction contemplated by this Agreement, (ii) communications between Seller and HCMC (except as may be listed in paragraph 3.1 above), (iii) appraisals, assessments or other valuations of the Property in the possession of Seller or HCMC, and (iv) management agreements.

(h) Sections 3.2(e) and 3.2(f) and such other provisions in this Agreement which expressly survive Closing or termination of this Agreement shall survive Closing or any termination of this Agreement (collectively, the "Surviving Obligations").

3.3 Title and Survey. Seller shall, at Seller's sole cost and expense, obtain and deliver to Purchaser for Purchaser's review a commitment for a standard owner's policy of title insurance along with a copy of each instrument listed as an exception thereon other than Seller's debt instruments (the "Title Commitment") on the Real Property issued by the Title Company. Seller has delivered to Purchaser a copy of the Existing Survey which Purchaser shall reimburse Seller for as provided in Section 4 hereof. During the Due Diligence Period, Seller shall obtain from the Title Company at Seller's sole cost and expense a survey endorsement and, if and to the extent available, contiguity, fairway and PUD endorsements. Purchaser may elect to receive an update to the Existing Survey (the "Updated Survey") by notifying Seller of such election in writing prior to November 6, 1997. If Purchaser so elects, Seller shall, at Purchaser's sole cost and expense, obtain and deliver to Purchaser for Purchaser's review the Updated Survey. Purchaser shall have until the later of November 6, 1997 and the date which is fifteen days after receipt of the Title Commitment and Existing Survey (such date being referred to as the "Title Review Date") for examination of Title Commitment and Existing Survey and the making of any objections thereto, said objections to be made in writing and delivered to Seller on or before the end of the Title Review Date. If Purchaser shall fail to make any objections on or before the Title Review Date, Purchaser shall be deemed to have accepted all exceptions to the Title Commitment shown on Schedule B, Section II,

except for exceptions 1, 2, 3 and 4, and the form and substance of the Existing Survey and all matters shown thereon; all such exceptions and matters shall be included in the term "Permitted Exceptions" as used herein. In the event Purchaser elects to receive the Updated Survey, then Purchaser shall have until the Title Review Date for examination of the Updated Survey and the making of objections to matters shown thereon, such objections to be made in writing and delivered to Seller on or before the expiration of the Title Review Date. If Purchaser shall fail to make any such objections to the Updated Survey on or before such date, Purchaser shall be deemed to have accepted the form and substance of the Updated Survey and all matters shown thereon; all such exceptions and matters shall be included as Permitted Exceptions. If any objections to (i) the Title Commitment or Existing Survey or exceptions to title are made within the Title Review Period, or (ii) the Updated Survey are made before the date specified above, then Seller shall have the right, but not the obligation except as hereafter provided, to cure (by removal, endorsement or otherwise) such objections on or before the Closing Date in a manner reasonably acceptable to Purchaser. If the objections are not cured by Seller no later than five (5) days before the scheduled Closing Date, then Purchaser may as its only option, elect to either: (i) waive such objection and consummate the transaction contemplated by this Agreement; or (ii) terminate this Agreement, in which event the Earnest Money shall be returned to Purchaser and neither party shall have any further obligations to the other party except for the Surviving Obligations. Notwithstanding anything to the contrary contained in this Agreement, Seller shall be obligated to remove (or cause the Title Company to affirmatively insure over in a manner reasonably acceptable to Purchaser) (i) any deeds of trust, mortgages, and related loan documents securing any financing obtained by Seller, including, without limitation, the existing loan with Continental Bank, N.A. (the "Existing Loan"), (ii) any mechanic's or materialmen's liens relating to work done by or on behalf of Seller and (iii) any tax or judgment liens against Seller. Seller agrees to use best efforts to satisfy all of the requirements set forth in Schedule B - Section 1 of the Commitment at or prior to the Closing Date.

3.4 Estoppels. Seller shall deliver to Purchaser, no later than five (5) days prior to the Closing Date, (i) estoppel certificates in substance reasonably satisfactory to Purchaser, in the form of Exhibit C attached hereto or in the form of estoppel required under such tenant's lease, from in-line mall tenants and kiosks leasing at least eighty percent (80%) of the in-line and kiosk space excluding United Artists and except for those tenants noted on the last page of Schedule 2; (ii) estoppel certificates in substance reasonably satisfactory to Purchaser from the Anchor Tenants in the form of estoppel required under such Anchor Tenants' lease or in such form as such Anchor Tenant traditionally executes, including confirmation that all construction work has been completed and all construction allowances paid; (iii) estoppel certificates in substance reasonably satisfactory to Purchaser from the

Outlot Tenants in the form of estoppel required under such Outlot Tenants' lease, and (iv) estoppel certificate in substance reasonably satisfactory to Purchaser from United Artists TGI Fridays and Los Ranchos in a form required under their leases; provided that, with respect to Seller's delivery of the TGI Fridays and Los Ranchos estoppels, notwithstanding anything contained in this Agreement to the contrary, it shall not be a condition precedent to Purchasers obligations under this Agreement unless Purchaser has granted all approvals required in connection with the TGI Fridays and Los Ranchos leases.

3.5 Purchaser's Partnership Committee Approval. The obligations of Purchaser under this Agreement are contingent upon obtaining the approval of its partnership committee ("Committee Approval"). Not later than November 6, 1997, Purchaser shall deliver to Seller written notice of Purchaser's receipt of such approval or lack thereof. If no such notice is received by Seller by such date, then Purchaser shall be deemed to have not obtained such approval and this Agreement shall automatically terminate, and thereupon all Earnest Money, if any, shall be refunded to Purchaser and neither party shall have any further rights or obligations hereunder, except for the Surviving Obligations.

4. Closing; Conditions; Deliveries.

4.1 Time, Place and Manner of Closing. The Closing shall be held on the Closing Date in the Miami, Florida offices of the Title Company or at any location mutually acceptable to the parties.

4.2 Condition to Parties' Obligation to Close. In addition to all other conditions set forth herein, the obligation of Seller, on the one hand, and Purchaser, on the other hand, to consummate the transaction contemplated hereunder shall be contingent upon the following:

- (a) The other party's representations and warranties contained herein shall be true and correct in all material respects as of the date of this Agreement and the Closing Date;
- (b) As of the Closing Date, the other party shall have performed its obligations hereunder in all material respects and all deliveries to be made at Closing have been tendered;
- (c) As of the Closing Date, there shall exist no pending action, suit or proceeding with respect to the other party before or by any court or administrative agency which seeks to restrain or prohibit, or to obtain damages or

a discovery order with respect to, this Agreement or the consummation of the transactions contemplated hereby; and

If the condition set forth in paragraphs (a) or (b) above are not satisfied on the Closing Date, the party who is not in breach or default shall have the right to terminate this Agreement by written notice to the other party in which case this Agreement shall terminate and be of no further force or effect whatsoever except for the Surviving Obligations and except that such non-defaulting party shall have the rights and remedies available to such party as provided herein.

In addition, the obligations of Purchaser to consummate the transaction contemplated hereunder shall be contingent upon the following.

(1) There shall have been no "Material Adverse Change" on or prior to the Closing Date. As used herein, "Material Adverse Change" shall mean any changes with respect to The Falls Shopping Center which, individually or in the aggregate, are material and adverse and which first arise after five (5) days before the expiration of the Due Diligence Period, including, without limitation, a change in laws which impose a material additional cost or liability upon the Property or Purchaser, a material change in the environmental condition of the Property or the bankruptcy, closing or announcement of an intent to close of any Anchor Tenant or United Artists.

(2) The Title Company issuing to Purchaser on the Closing Date the policy of title insurance or marked-up commitment for title insurance in the face amount of the Purchase Price which (i) shows title to the Real Property to be vested in Purchaser, (ii) shows the Permitted Exceptions to be the only exceptions to title and (iii) is otherwise in the form and with such endorsements as to which Purchaser and the Title Company agreed upon prior to the end of the Due Diligence Period.

If either of the conditions set forth in paragraphs (1) or (2) above are not satisfied on the Closing Date, Purchaser shall have the right to terminate this Agreement by written notice to Seller in which case this Agreement shall terminate, and thereupon all Earnest Money shall be refunded to Purchaser and neither party shall have any further rights or obligations hereunder except for the Surviving Obligations.

4.3 Deliveries. At Closing each party shall execute and deliver to the other and/or the Title Company the following documents:

(a) Seller shall deliver to Purchaser and/or the Title Company:

- (i) a special warranty deed (the "Deed") to the Property in recordable form, duly executed by Seller and acknowledged and the same form as set forth in Exhibit E attached hereto, conveying to Purchaser title to the Real Property, subject only to the Permitted Exceptions;
- (ii) a bill of sale duly executed by Seller and in the same form as set forth in Exhibit F attached hereto, conveying to Purchaser title to all personal property owned by Seller and located at the Real Property, if any;
- (iii) an assignment to Purchaser of the Leases duly executed by Seller and in the same form as set forth in Exhibit G attached hereto;
- (iv) an assignment to Purchaser of the Service Contracts being assumed hereunder (to the extent assignment is not prohibited by their terms) duly executed by Seller and in the same form as set forth in Exhibit H attached hereto;
- (v) a general assignment to Purchaser of the licenses and permits affecting the Property, the trade names "The Falls" and "The Falls Shopping Center", the Intangible Property and Seller's right with respect to the merchant's association and/or promotional funds, if any and any existing guarantees and warranties under construction contracts, if any, (all to the extent assignment is not prohibited by their terms) duly executed by Seller and in the same form as set forth in Exhibit I attached hereto;
- (vi) a non-foreign transferor certification pursuant to Section 1445 of the Internal Revenue Code and any similar provisions of applicable state law, in the same form as set forth on Exhibit J attached hereto (the "Affidavit"); and
- (vii) a certified resolution of Seller signed by all of the general partners of Seller certifying that Seller has the legal power, right and authority to consummate the sale of the Property, and that HCMC is authorized to sign the Closing Documents, and a certified resolution of HCMC and an incumbency certificate authorizing the person and entity who signed this Agreement and who sign the Closing documents to sign the Closing Documents;
- (viii) All documents and instruments required by the Title Company to satisfy the requirements of the title commitment and issue the policy pursuant thereto to Purchaser.

(ix) Evidence of termination of the existing management agreement and release by property manager from HCMC and Heitman Properties of Florida, Ltd.;

(x) The originals (or if unavailable, a copy certified by Seller as true and correct) of all of the Leases and Service Contracts (which items may be delivered by Seller by leaving the same at the Property);

(xi) To the extent in the possession or control of or reasonably available to Seller, the original (or, if originals are unavailable, copies) of all of the Intangible Property (which items may be delivered by Seller by leaving the same at the Property);

(xii) To the extent in the possession or control of or reasonably available to Seller, all plans and specifications, keys, records and all leasing files and correspondence files relating to and located at the Property (which items may be delivered by Seller by leaving the same at the Property);

(xiii) Duly transferred security deposits which are held in the form of letters of credit;

(xiv) Copies of the most recent aged account receivable trial balance, rent roll and operating statements; and

(xv) A release of any claim against the Property by Eastdil Realty Company, L.L.C., broker for Seller.

(b) Purchaser shall deliver to Seller or the Title Company:

(i) the Cash Balance, by wire transfer, as provided in Section 2.2 hereof;

(ii) an assumption duly executed by the Purchaser of the assignments described in Sections 4.3(a)(iii), (iv) and (v); and

(iii) a certified resolution of Purchaser's partnership committee certifying that Purchaser has the legal power, right and authority to consummate the purchase of the Property and authorizing signatories to execute the Closing Documents and a certified incumbency certificate authorizing the person and entity who signed this Agreement and who sign the Closing Documents to sign such documents.

(c) Seller and Purchaser shall jointly deliver to the Title Company:

- (i) A closing statement;
 - (ii) All transfer declarations or similar documentation required by law;
 - (iii) Letters to the tenants of the Property in the form of Exhibit K attached hereto (Seller shall execute separate letters for the Anchor Tenants, Outlot Tenants and United Artists and, at Purchaser's request, for any other tenant; provided that Purchaser prepares and delivers any such notice to Seller for its review and approval (which shall not be unreasonably withheld) not less than five (5) days prior to Closing); and
 - (iv) Notices in substantially the form attached hereto as Exhibit L attached hereto to the other party to each Service Contract assumed by Purchaser pursuant to Section 3.2(c) of this Agreement.
- (d) The Title Company shall deliver to Purchaser an initialed mark-up of the Title Commitment, extending the effective date to the Closing Date, insuring Purchaser as owner of the Real Property, and removing all exceptions other than Permitted Exceptions.

4.4 Permitted Termination. So long as a party is not in default hereunder, if any condition to such party's obligation to proceed with the Closing hereunder has not been satisfied or waived as of the Closing Date or such earlier date as provided herein, such party may, in its sole discretion, terminate this Agreement by delivering written notice to the other party before the Closing Date, or elect to close, notwithstanding the non-satisfaction of such condition, in which event such party shall be deemed to have waived any such condition.

5. Prorations. All items of income and expense shall be paid, prorated or adjusted as of the close of business on the day prior to the Closing Date (the "Proration Date") in the manner hereinafter set forth:

5.1 Purchaser shall be credited with (i) the amount of (A) all rents and (B) all expense contributions, real estate tax contributions, and other reimbursements from tenants ("Tenant Contributions") received by Seller and attributable to any month commencing after the Closing Date and (ii) all unapplied cash security deposits held by Seller and which were made by tenants under all leases of the Real Property in effect as of the Closing Date, and
(iii) all unfunded tenant allowances and other payments (including leasing commissions for leases listed on Schedule 6) to

be made by Seller and the cost of all construction or tenant improvement work to be done by Seller under all of the Leases and those proposed leases listed on Schedule 6 (whether or not such leases have been entered into as of the Closing Date), except to the extent set forth (x) specifically listed on Schedule 4; or
(y) in the Proposals approved by Purchaser or deemed approved by Purchaser as provided in subsection 15(b) hereof.

5.2 All rents and Tenant Contributions and other income from the Property for the month of Closing shall be prorated between Purchaser and Seller based upon their respective days of ownership for such month in which the Closing occurs. Neither Purchaser nor Seller shall receive credit at Closing for any payments of rental obligations due but not paid as of the Proration Date. At the time of the final calculation and collection from tenants of Tenant Contributions for 1997, whether in the nature of a reconciliation payment or full payment, in arrears, there shall be a reparation between Purchaser and Seller as to the Tenant Contributions. Such reparation shall not be made on the basis of a per diem method of allocation, but shall instead be apportioned between Seller and Purchaser on the basis of the relative share of actual expenses in question incurred and paid by Seller and Purchaser during the lease year in question. Seller covenants to provide Purchaser with any information necessary to finalize such calculation. Purchaser covenants to bill tenants for amounts due from tenants attributable to periods prior to closing and diligently pursue collections from tenants and, as collected, to timely deliver to Seller reparation amounts due Seller.

5.3 Percentage rent shall be prorated between Purchaser and Seller by utilizing the percentage rent payable for such lease year based upon the actual days of ownership of the Property during such tenant's lease year. There shall be no adjustment for percentage rent payments for a particular tenant until after the receipt of any percentage rent payments made by such tenant.

5.4 Any amounts received from tenants after Closing shall be applied on a tenant by tenant basis in the following order: (i) first on account of any amount currently due Purchaser from such tenant(s); (ii) next, on account of any amount due Seller from such tenant(s) for the period up to and including the Proration Date and (iii) finally, any balance then remaining to Purchaser. Seller retains the right to sue tenants after Closing for any delinquent payments or other amounts owed to Seller, except for actions or proceedings affecting a tenant's rights of possession or landlord liens. However, Seller will not exercise any such rights or remedies unless such delinquent rents have not been collected by Purchaser and paid to Seller within six (6) months after the Closing Date.

5.5 Operating expenses, including, without limitation, permits, licenses, membership dues, and any other prepaid expenses, shall be prorated between Purchaser and Seller on an accrual basis based upon the actual days of their respective ownership of the Property utilizing the actual expenses or reasonable estimates, subject to reproration when the actual amounts are known.

5.6 Real estate taxes shall be prorated between Seller and Purchaser based upon the actual days of ownership of the parties for the year in which Closing occurs utilizing the most recent ascertainable tax bill(s). Seller and Purchaser agree to repropate said real estate taxes upon Purchaser's receipt of the actual tax bill for the tax year in question, if any. Seller reserves the right to meet with governmental officials and to contest any reassessment governing or affecting Seller's obligations under this Section, with Purchaser's prior written approval, which will not be unreasonably withheld. Seller shall retain all rights with respect to any refund of taxes applicable to any period prior to the Closing Date, subject to the rights of tenants.

5.7 Except for utilities billed directly to Tenants, utilities shall be prorated as of the Proration Date based upon either meter readings on the Proration Date or the prior month's actual invoices. Seller shall be credited with any unapplied utility deposit in effect as of the Closing Date to the extent such deposit is assignable and actually paid to Purchaser.

5.8 Purchaser shall be responsible for and pay for all costs in connection with (i) Proposals listed on Schedule 4 attached hereto, to the extent such amounts are identified on Schedule 4, and (ii) any Proposal which Purchaser approved, or is deemed to have approved as provided in Section 15(b) herein to the extent such amounts are identified in such Proposals; provided that no commissions shall be paid to HCMC or any of its affiliates.

5.9 All insurance policies and property management agreements shall be terminated as of the Closing Date and there shall be no proration with respect to these items.

5.10 Purchaser shall be credited with the contractor's security deposits listed on Schedule 1 to the General Assignment attached as Exhibit I.

In the event any prorations or computations made under this Section are based on estimates or prove to be incorrect, then either party shall be entitled to an adjustment to correct the same, provided that it makes written demand on the party from whom it is entitled to such adjustment within one hundred and twenty days after the end of the current calendar year or, in the case of percentage rent adjustments, from the

end of the applicable lease year. Purchaser shall indemnify and hold Seller harmless from and against any and all claims for which Purchaser received credits pursuant to this Section 5. The indemnity set forth in the immediately preceding sentence and the covenants contained in this Section 5 shall survive Closing.

6. Seller's Representations, Warranties and Covenants. Seller hereby represents, warrants and covenants as follows:

6.1 Power. Seller has the legal power, right and authority to enter into this Agreement and the instruments referenced herein and to consummate the transactions contemplated hereby.

6.2 Requisite Action. All requisite action (corporate, trust, partnership or otherwise) has been taken by Seller in connection with entering into this Agreement and the instruments referenced herein and the consummation of the transactions contemplated hereby. No consent of any partner, shareholder, member, creditor, investor, judicial or administrative body, authority or other party is required which has not been obtained to permit Seller to enter into this Agreement and consummate the transaction contemplated hereby.

6.3 Authority. The individuals executing this Agreement and the instruments referenced herein on behalf of Seller have the legal power, right and actual authority to bind Seller to the terms and conditions hereof and thereof.

6.4 Validity. This Agreement and all documents required hereby to be executed by Seller are and shall be valid, legally binding obligations of and enforceable against Seller in accordance with their terms.

6.5 Conflicts. None of the execution and delivery of this Agreement and documents referenced herein, the incurrence of the obligations set forth herein, the consummation of the transactions herein contemplated or referenced herein conflicts with or results in the material breach of any terms, conditions or provisions of or constitutes a default under, any bond, note, or other evidence of indebtedness or any contract, lease or other agreements or instruments to which Seller is a party.

6.6 Leases. Attached hereto as Schedule 2 is a complete and accurate list of the Leases, which shall be updated by Seller prior to Closing, if necessary, by adding thereto leases executed after the date hereof through Closing. There are no leases, subleases, occupancy agreements or tenancies, or any modification or amendment thereto, in effect pertaining to the Property, except for the Leases listed on Schedule 2. No party is entitled to any leasing commissions or leasing fees chargeable to the landlord under any of the Leases except as expressly set forth in

the Offering Materials. HCMC is not entitled to any leasing commissions or leasing fees chargeable to the landlord under any of the Leases. Seller owns all of the interest of the landlord under the Leases and has not assigned, pledged, hypothecated or otherwise encumbered or transferred its interest in the Leases, except as provided in the documents evidencing and securing the Existing Loan which will be paid and discharged at or before Closing.

6.7 Service Contracts. Attached hereto as Schedule 3 is a complete and accurate list of the Service Contracts, which shall be updated by Seller prior to Closing, if necessary. There are no service agreements or contracts relating to the Property which will be in force on the Closing Date, except for the Service Contracts (and other agreements set forth in this Agreement).

6.8 Notices. Except as disclosed in writing to Purchaser, Seller has not received any written notice that the Property, and all present uses and operations thereof, are in violation of any applicable zoning, environmental, land-use, building, fire, health and safety laws or any of the Permitted Exceptions.

6.9 Litigation. Except as set forth on Schedule 5 no litigation, condemnation proceedings, or administrative proceedings has been served upon Seller, nor to the best of the Seller's knowledge has been filed, or threatened in writing, affecting the Property. Schedule 5 shall be updated by Seller prior to Closing, if necessary.

6.10 Environmental Condition. Seller has no knowledge of any violation of Environmental Laws related to the Property or the presence or release (other than as permitted by law) of Hazardous Materials on or from the Property except as disclosed in the environmental reports delivered by Seller to Purchaser identified as (i) Report from Allied Environmental dated August 15, 1997; (ii) Inspection Results Report from Dade County Florida Department of Environmental Resources Management dated September 23, 1997; (iii) Draft Report - Environmental Assessment prepared by Camp Dresser & McKee, dated December 16, 1988; (iv) Additional Soil Sample Collection and Analytical Results prepared by Camp Dresser & McKee dated December 29, 1988; (v) Phase I Environmental Assessment Report prepared by Camp Dresser & McKee dated October 1990; (vi) Report of Phase I Environmental Site Assessment and Radon Screening; and (vii) Phase I Environmental Site Assessment/Future Macy's Site prepared by Evans Environmental dated December 5, 1994 (the "Environmental Reports"). There are no agreements between the Seller and any governmental body or agency (Federal, state or local) or any private entity concerning Environmental Laws or relating in any way to the presence, spill, discharge, release, threat of release, storage, treatment, disposal or investigation of any Hazardous Material. Except as disclosed in the Environmental Reports, to Seller's knowledge, there are no underground storage

tanks at the Property. Except as disclosed in the Environmental Reports, Seller has not discharged or released any Hazardous Materials at the Property in violation of Environmental Laws or which could result in cleanup, remediation or any corrective action being required under any applicable Environmental Laws. The term "Environmental Laws" includes, without limitation, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") and other federal laws governing the environment as in effect on the date of this Agreement together with their implementing regulations and guidelines as of the date of this Agreement, and all state, regional, county, municipal and other local laws, regulations and ordinances that are equivalent or similar to the federal laws recited above or that purport to regulate Hazardous Materials in effect as of the date of this Agreement. "Hazardous Materials" means any substance which is (i) designated, defined, classified or regulated as a hazardous substance, hazardous material, hazardous waste, pollutant or contaminant under any Environmental Law, as currently in effect as of the date of this Agreement, (ii) petroleum hydrocarbon, including crude oil or any fraction thereof and all petroleum products, (iii) PCBs, (iv) lead, (v) friable asbestos, (vi) flammable explosives, (vii) infectious materials, or (viii) radioactive materials.

6.11 Financial Statements. The annual operating statements and the audited financial statements prepared on an accrual basis as of December 31 of the years 1994 through 1996, inclusive, and year-to-date annual operating statements delivered to Purchaser by Seller were prepared by Seller in good faith in the ordinary course of business. The general ledger includes all payments made by Seller through its effective date.

6.12 ERISA; Personnel. As of the date hereof, Seller does not employ any person at the Property nor is Seller a party, or obligated to become a party, to any union or other collective bargaining contract pertaining to the operation and maintenance of the Property. There are no employees of Seller or property manager to whom Purchaser shall, at or after Closing, have any obligation in a capacity as a successor employer nor is Seller a party to any employment contracts or agreements respecting the Property.

6.13 No Sales Contracts. Except for this Agreement, there are no contracts to sell, convey or transfer the Property or any purchase or sale options, rights of first refusals, rights of first offer or similar agreements with respect to the Property (other than Purchaser pursuant to the terms hereof).

6.14 Development Rights. Seller will not sell, transfer, modify or amend any of the Development Rights and Seller has not received any written notice challenging, contesting or calling into question any of the Development Rights.

6.15 Indemnity. Seller shall indemnify and hold Purchaser harmless from and against any and all claims, actions, judgments, liabilities, liens, damages, penalties, fines, costs and reasonable attorneys' fees, foreseen or unforeseen, asserted against, imposed on or suffered or incurred by Purchaser (or the Property) directly or indirectly arising out of or in connection with any breach of the warranties, representations and covenants set forth in this Section 6. The indemnification set forth in the immediately preceding sentence shall be limited to an aggregate amount not to exceed Two Million Five Hundred Thousand and no/100's Dollars (\$2,500,000.00) in the aggregate with respect to any breach of the warranties, representation and covenants set forth in this Agreement, or any other document made in connection with the transfer of the Property, except that such limitation shall not apply to any breach of the warranties, representations or covenants set forth in subsections 6.1 through 6.5 herein or subsections 6.6 or 6.13. The warranties and representations set forth in this

Section 6 shall be deemed remade as of Closing, and said warranties and representations as so remade, and the indemnity obligation set forth in herein shall survive Closing, provided that any claim by Purchaser based upon a misrepresentation or breach of any warranty or representation or indemnity obligation under this Section 6 shall be deemed waived unless Purchaser has given Seller notice of such claim prior to the date which is one (1) year after the Closing Date.

As used in this Section 6, the term "to Seller's knowledge" "actual knowledge" or "best of Seller's knowledge" (i) shall mean and apply to the actual knowledge of Howard J. Edelman, Tom Rogers and Gary Kaplan and not to any other parties,

(ii) shall mean the actual knowledge of such individuals, without any investigation or inquiry of any kind, and (iii) shall not mean such individuals are charged with knowledge of the acts, omissions and/or knowledge of Seller's agents or employees.

Notwithstanding anything contained in this Agreement to the contrary, Seller shall have no liability for breaches of any representations, warranties and certifications (the "Representations") which are made by Seller herein or in any of the documents or instruments required to be delivered by Seller hereunder if Philip Hofmann, Hans Schaefer and Michael B. Kolbow had knowledge of such breach by Seller at the Closing Date and Purchaser shall not have the right to bring any lawsuit or other legal action against Seller, nor pursue any other remedies against Seller, as a result of the breach of such Representation caused thereby, but Purchaser's sole right shall be to terminate this Agreement in which event, the Earnest Money shall be returned to Purchaser.

7. Purchase As-Is. EXCEPT FOR THE REPRESENTATIONS WARRANTIES AND COVENANTS OF SELLER EXPRESSLY SET FORTH IN SECTION 6 OF THIS AGREEMENT AND IN ANY OF THE CLOSING DOCUMENTS, PURCHASER

WARRANTS AND ACKNOWLEDGES TO AND AGREES WITH SELLER THAT PURCHASER IS PURCHASING THE PROPERTY IN ITS "AS-IS, WHERE IS" CONDITION "WITH ALL FAULTS" AS OF THE CLOSING DATE AND SPECIFICALLY AND EXPRESSLY WITHOUT ANY WARRANTIES, REPRESENTATIONS OR GUARANTEES, EITHER EXPRESS OR IMPLIED, AS TO ITS CONDITION, FITNESS FOR ANY PARTICULAR PURPOSE, MERCHANTABILITY, OR ANY OTHER WARRANTY OF ANY KIND, NATURE, OR TYPE WHATSOEVER FROM OR ON BEHALF OF SELLER. EXCEPT FOR THE REPRESENTATIONS OF SELLER EXPRESSLY SET FORTH IN SECTION 6 OF THIS AGREEMENT OR IN THE CLOSING DOCUMENTS, SELLER SPECIFICALLY DISCLAIMS ANY WARRANTY, GUARANTY OR REPRESENTATION, ORAL OR WRITTEN, PAST OR PRESENT, EXPRESS OR IMPLIED, CONCERNING (A) THE VALUE, NATURE, QUALITY OR CONDITION OF THE PROPERTY, INCLUDING, WITHOUT LIMITATION, THE WATER, STRUCTURAL INTEGRITY, SOIL AND GEOLOGY; (B) THE INCOME TO BE DERIVED FROM THE PROPERTY; (C) THE SUITABILITY OF THE PROPERTY FOR ANY AND ALL ACTIVITIES AND USES WHICH PURCHASER MAY CONDUCT THEREON, INCLUDING THE POSSIBILITIES FOR FUTURE DEVELOPMENT OF THE PROPERTY; (D) THE COMPLIANCE OF OR BY THE PROPERTY OR ITS OPERATION WITH ANY LAWS, RULES, ORDINANCES OR REGULATIONS OF ANY APPLICABLE GOVERNMENTAL AUTHORITY OR BODY; (E) THE HABITABILITY, MERCHANTABILITY, MARKETABILITY, PROFITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF THE PROPERTY; (F) THE MANNER OR QUALITY OF THE CONSTRUCTION OR MATERIALS, IF ANY, INCORPORATED INTO THE PROPERTY; (G) THE MANNER, QUALITY, STATE OF REPAIR OR LACK OF REPAIR OF THE PROPERTY; (H) THE PRESENCE OR ABSENCE OF HAZARDOUS MATERIALS AT, ON, UNDER, OR ADJACENT TO THE PROPERTY OR ANY OTHER ENVIRONMENTAL MATTER OR CONDITION OF THE PROPERTY; OR (I) ANY OTHER MATTER WITH RESPECT TO THE PROPERTY. PURCHASER ACKNOWLEDGES AND AGREES THAT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES OF SELLER CONTAINED IN SECTION 6 OF THIS AGREEMENT AND IN THE CLOSING DOCUMENTS, ANY INFORMATION PROVIDED BY OR ON BEHALF OF SELLER WITH RESPECT TO THE PROPERTY WAS OBTAINED FROM A VARIETY OF SOURCES AND THAT SELLER HAS NOT MADE ANY INDEPENDENT INVESTIGATION OR VERIFICATION OF SUCH INFORMATION AND MAKES NO REPRESENTATIONS AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. SELLER IS NOT LIABLE OR BOUND IN ANY MANNER BY ANY ORAL OR WRITTEN STATEMENTS, REPRESENTATIONS OR INFORMATION PERTAINING TO THE PROPERTY, OR THE OPERATION THEREOF, FURNISHED BY ANY REAL ESTATE BROKER, AGENT, EMPLOYEE, SERVANT OR OTHER PERSON EXCEPT FOR THE EXPRESS REPRESENTATIONS SET FORTH IN SECTION 6

OF THIS AGREEMENT AND IN THE CLOSING DOCUMENTS. PURCHASER FURTHER ACKNOWLEDGES AND AGREES THAT PURCHASER IS A SOPHISTICATED AND EXPERIENCED PURCHASER OF PROPERTIES SUCH AS THE PROPERTY AND HAS BEEN DULY REPRESENTED BY COUNSEL IN CONNECTION WITH THE NEGOTIATION OF THIS AGREEMENT. EXCEPT AS MAY OTHERWISE BE PROVIDED HEREIN, SELLER HAS MADE NO AGREEMENT TO ALTER, REPAIR OR IMPROVE ANY OF THE PROPERTY.

8. Purchaser's Representations, Warranties and Covenants. Purchaser hereby represents, warrants and covenants as follows:

8.1 Power. Purchaser has the legal power, right and authority to enter into this Agreement and the instruments referenced herein and to consummate the transactions contemplated hereby.

8.2 Requisite Action. Except as provided in Section 3.5 hereof, all requisite action (corporate, trust, partnership or otherwise) has been taken by Purchaser in connection with entering into this Agreement and the instruments referenced herein and the consummation of the transactions contemplated hereby. Except as provided in Section 3.5 hereof, no consent of any partner, shareholder, member, creditor, investor, judicial or administrative body, authority or other party is required which has not been obtained to permit Purchaser to enter into this Agreement and consummate the transaction contemplated hereby.

8.3 Authority. The individuals executing this Agreement and the instruments referenced herein on behalf of Purchaser have the legal power, right and actual authority to bind Purchaser to the terms and conditions hereof and thereof.

8.4 Validity. This Agreement and all documents required hereby to be executed by Purchaser are and shall be valid, legally binding obligations of and enforceable against Purchaser in accordance with their terms.

8.5 Conflicts. Neither the execution and delivery of this Agreement and documents referenced herein, nor the incurrence of the obligations set forth herein, nor the consummation of the transactions herein contemplated, nor referenced herein conflict with or result in the material breach of any terms, conditions or provisions of or constitute a default under, any bond, note, or other evidence of indebtedness or any contract, lease or other agreements or instruments to which Purchaser is a party.

8.6 Litigation. No litigation has been served upon Purchaser, nor to the best of Purchaser's knowledge has been filed, or threatened in writing, against Purchaser in any court or by or before any other governmental agency or instrumentality which would materially and adversely affect the ability of Purchaser to carry out the transactions contemplated by this Agreement.

8.7 Indemnity. Purchaser shall indemnify and hold Seller harmless from and against any and all claims, actions, judgments, liabilities, liens, damages, penalties, fines, costs and reasonable attorneys' fees, foreseen or unforeseen, asserted against, imposed on or suffered or incurred by Seller directly or indirectly arising out of or in connection with any breach of the warranties, representations and covenants set forth in this Section 8. The warranties, representations and indemnities set forth in this Section 8 shall be deemed remade as of Closing and shall survive Closing, and said warranties and representations as so remade, and the indemnity obligation set forth in herein shall be deemed waived unless Seller has given Purchaser written notice of any such claim prior to the date which is one (1) year from the Closing Date.

9. Closing Costs. Seller shall pay the following expenses: (i) the costs to obtain a standard owner's title policy and the cost of a survey endorsement and contiguity, fairway and PUD endorsements, if, and to the extent available, thereto, if available; (ii) all of the total amount of all conveyance fees, documentary, stamp and transfer taxes and surtaxes; (iii) one-half of all recording fees (iv) one half of all closing escrow fees, including "New York Style" closing fees; (v) one-half of the costs for the Updated Survey; and (vi) Seller's legal fees and expenses. Purchaser shall pay the following expenses:

(a) reimbursement to Seller for a portion of the costs of the Existing Survey in an amount equal to Eleven Thousand and no/100's Dollars (\$11,000.00); (b) one-half of all closing escrow fees, including "New York Style" closing fees; (c) one half of all recording fees; (d) all costs and expenses associated with Purchaser's financing, if any; (e) one-half of the costs for the Updated Survey; and (f) Purchaser's legal fees and expenses. Seller shall not be responsible for any costs and expenses incurred in connection with the transfer of any transferable permits, warranties or licenses in connection with the ownership or operation of the Property. The provisions of this Section 9 shall survive Closing, but not any termination of this Agreement.

10. Commissions. Seller shall be solely responsible for the payment of the commission to Eastdil Realty Company, L.L.C. ("Eastdil"). Seller and Purchaser each warrant and represent to the other that (other than Eastdil) neither has had any dealings with any broker, agent, or finder relating to the sale of the Property or the transactions contemplated hereby, and each agrees to indemnify and hold the other and their respective advisors (including HCMC) harmless against any claim for

brokerage commissions, compensation or fees by any broker, agent, or finder in connection the sale of the Property or the transactions contemplated hereby resulting from the acts of the indemnifying party. The provisions of this Section 10 shall survive Closing.

11. New York Style Closing. It is contemplated that the transaction shall be closed by means of a so-called New York Style Closing, with the concurrent delivery of the documents of title, transfer of interest, delivery of the title policy or marked-up title commitment described in Section 4.3(d) and the payment of the Purchase Price. Seller and Purchaser shall each provide any reasonable undertaking to the Title Company necessary to accommodate the New York Style Closing.

12. Attorneys' Fees and Costs. In the event suit or action is instituted to interpret or enforce the terms of this Agreement, or in connection with any arbitration or mediation of any dispute, the prevailing party shall be entitled to recover from the other party such sum as the court, arbitrator or mediator may adjudge reasonable as such party's costs and attorney's fees, including such costs and fees as are incurred in any trial, on any appeal, in any bankruptcy proceeding (including the adjudication of issues peculiar to bankruptcy law) and in any petition for review. Each party shall also have the right to recover its reasonable costs and attorney's fees incurred in collecting any sum or debt owed to it by the other party. The provisions of this Section 12 shall survive Closing or any termination of this Agreement.

13. Notice. All notices, demands, deliveries and communications (a "Notice") under this Agreement shall be delivered or sent by: (i) first class, registered or certified mail, postage prepaid, return receipt requested, (ii) nationally recognized overnight carrier, or (iii) facsimile with original Notice sent via overnight delivery addressed to the address of the party in question set forth in the first paragraph of this Agreement and copies to the parties designated below or to such other address as either party may designate by Notice pursuant to this Section 13. Notices shall be deemed given (x) three business days after being mailed as provided in clause (i) above, (y) one business day after delivery to the overnight carrier as provided in clause (ii) above, or (z) on the day of the transmission of the facsimile so long as it is received in its entirety by 5:00 pm (New York City, New York Time) on such day and the original of such Notice is received the next business day via overnight mail as provided in clause (iii) above.

Notices to Seller copy to: Altheimer & Gray 10 South Wacker Drive, Suite 4000 Chicago, Illinois 60606-7482 Attention: Barry Nekritz, Esq.

facsimile no. 312/715-4800

facsimile no. 248/646-7887

The provisions of this Section 13 shall survive Closing or any termination of this Agreement.

14. Fire or Other Casualty; Condemnation.

14.1 If the Property or any part thereof is damaged by fire or other casualty prior to the Closing Date which would cost in excess of One Hundred Thousand and no/100's Dollars (\$100,000.00) to repair (as determined by an insurance adjuster selected by the insurance carriers), or which may have a material affect on the income generated by the Property and which is not covered by rental loss insurance. Purchaser may terminate this Agreement by written notice to Seller given on or before the earlier of (i) twenty (20) days following such casualty or (ii) the Closing Date. In the event of such termination, this Agreement shall be of no further force and effect and, except for the Surviving Obligations, neither party shall thereafter have any further obligation under this Agreement, and Seller shall direct the Title Company to promptly return all Earnest Money to Purchaser. If Purchaser does not elect to terminate this Agreement or the cost of repair is determined by said adjuster to be less than One Hundred Thousand and no/100's Dollars (\$100,000.00), the Closing shall take place as herein provided without abatement of the Purchase Price, and Seller shall assign and transfer to Purchaser on the Closing Date, without warranty or recourse, all of Seller's right, title and interest to the balance of insurance proceeds paid or payable to Seller on account of such fire or casualty remaining after reimbursement to Seller for the total amount of all costs and expenses incurred by Seller in connection therewith including but not limited to making emergency repairs, securing the Property and complying with applicable governmental requirements. Seller shall pay to Purchaser the amount of the deductible of any of Seller's applicable insurance policies.

14.2 If any material portion of the Property is taken in eminent domain proceedings (or is the subject of a pending or threatened taking or eminent domain proceeding) prior to Closing, Purchaser may terminate this Agreement by notice to Seller given on or before the earlier of (i) twenty (20) days after such taking or pending or threatened taking or (ii) the Closing Date, and, in the event of such

termination, this Agreement shall be of no further force and effect and, except for the Surviving Obligations, neither party shall thereafter have any further obligation under this Agreement, and Seller shall direct the Title Company to promptly return all Earnest Money to Purchaser. If Purchaser does not so elect to terminate or if the taking is not material, then the Closing shall take place as herein provided without abatement of the Purchase Price, and Seller shall deliver or assign to Purchaser on the Closing Date, without warranty or recourse, all of Seller's right, title and interest in and to all condemnation awards paid or payable to Seller. For purposes hereof, a "material portion" of the Property shall mean (i) any access to the Property, (ii) any parking spaces at the Property such that the Property would be rendered in noncompliance with law or the provisions of any of the Leases covering required number of parking spaces, (iii) any gross leasable area of the Property, (iv) if any tenant has the right to terminate its Lease as a result of such action, or (v) any portion of the common area or the portion of the Property which may adversely affect the operations of the Property or the expansion or development thereof.

15. Operations After Date of This Agreement. Seller covenants and agrees with Purchaser that:

- (a) after the date hereof through the Closing, Seller will (except as specifically provided to the contrary herein):
 - (i) Refrain from transferring any of the Property or creating on the Property any easements, liens, mortgages, encumbrances, or other interests which will survive Closing or permitting any changes to the zoning classification of the Land;
 - (ii) Refrain from entering into or amending any contracts, or other agreements (including leases, except as provided in Section 15(b) below) regarding the Property (other than service contracts in the ordinary and usual course of business and which are cancelable by the owner of the Property without penalty within thirty (30) days after giving notice thereof);
 - (iii) Continue to operate, maintain, and repair the Property in a manner consistent with Seller's current practices and not enter into any new commitments with respect to any capital expenditure or construction without Purchaser's prior written consent, which consent shall not be unreasonably delayed, withheld or denied;
 - (iv) Fully comply with the terms of the Leases and Permitted Exceptions;

(v) Refrain from offering the Property for sale or marketing the same; and

(vi) Deliver to Purchaser not less than five (5) days prior to the expiration of the Due Diligence Period copies of all leases entered into after the date hereof and copies of all Proposals (as defined in Section 15(b) below) with respect to which no lease has been executed and which has not expired or been withdrawn, except as provided otherwise in Section 15(b) below.

(vii) Not remove any of the Personal Property from the Real Property, except for items that are replaced with an item of equally suitable value, free and clear of any lien or claim;

(viii) Seller shall immediately notify Purchaser of any pending, or any written threat of, litigation, arbitration or administrative hearing affecting the Property and not covered by insurance promptly following receipt of notice thereof by Seller; and

(ix) Seller shall continue to maintain or cause to be maintained its books and records in accordance with its past practices.

(b) after the date hereof, Seller will refrain from (i) amending any Leases of any portion of the Property, (ii) canceling any of such Leases, or (iii) executing any new leases without the prior written consent of Purchaser (which consent prior to the expiration of the Due Diligence Period shall not be unreasonably withheld and thereafter may be withheld in Purchaser's sole and absolute discretion). As used herein, "Proposal" shall mean a description of the economic and business terms of any proposed lease or amendment along with any financial information on the tenant in Seller's possession (the "Proposal"). Purchaser shall be deemed to have approved: (x) all Proposals listed on Schedule 4 attached hereto; and (y) any Proposals delivered to Purchaser after the date hereof through the date which is five (5) days prior to the expiration of the Due Diligence Period if Purchaser does not object thereto within five (5) business days of receipt. Seller shall have the right to execute the lease documents constituting a Proposal approved or deemed approved by Purchaser.

The provisions of this Section 15 shall survive Closing or any termination of this Agreement.

16. Assignment. Purchaser shall not assign this Agreement without Seller's prior written consent. Such consent may be withheld for any reason or no reason

except in the case of an assignment to an affiliate of Purchaser. Subject to the previous sentence, this Agreement shall apply to, inure to the benefit of and be binding upon and enforceable against the parties hereto and their respective successors and assigns. Purchaser shall have the right to assign and transfer its rights under this Agreement to any entity in which Purchaser owns at least a 50% equity or ownership interest provided that Purchaser delivers to Seller: (i) a duly executed express assumption of all of the duties and obligations of Purchaser by the proposed assignee, and (ii) an ERISA certificate, in the form attached hereto as Exhibit D.

17. Remedies.

(a) IN THE EVENT THAT SELLER SHALL FAIL TO CONSUMMATE THIS AGREEMENT AND SUCH FAILURE IS NOT A RESULT OF PURCHASER'S DEFAULT OR A TERMINATION OF THIS AGREEMENT BY PURCHASER OR SELLER PURSUANT TO A RIGHT TO DO SO UNDER THE PROVISIONS HEREOF, PURCHASER, IN THE CASE WHERE SUCH FAILURE IS BASED UPON A VOLUNTARY ACTION BY SELLER, SHALL ONLY BE ENTITLED TO SEEK AT ITS ELECTION, EITHER: (i) THE REMEDY OF SPECIFIC PERFORMANCE, OR (ii) DAMAGES IN AN AMOUNT NOT TO EXCEED THE AMOUNT OF THE EARNEST MONEY FOR ANY AND ALL OF PURCHASER'S CLAIM FOR DAMAGES UNDER THIS AGREEMENT (IN ADDITION TO A REFUND OF THE EARNEST MONEY). IN NO EVENT SHALL SELLER BE LIABLE TO PURCHASER FOR ANY PUNITIVE, SPECULATIVE OR CONSEQUENTIAL DAMAGES. IN THE CASE WHERE SUCH FAILURE IS BASED UPON AN ACTION OTHER THAN A VOLUNTARY ACTION BY SELLER, PURCHASER, AS ITS SOLE AND EXCLUSIVE REMEDY, MAY TERMINATE THIS AGREEMENT AND RECEIVE A REFUND OF THE EARNEST MONEY. IN NO EVENT SHALL PURCHASER BE ENTITLED TO RECORD A LIS PENDENS OR NOTICE OF PENDENCY OF ACTION AGAINST THE PROPERTY FOR ANY REASON WHATSOEVER, UNLESS PURCHASER IS SEEKING SPECIFIC PERFORMANCE. A VOLUNTARY ACTION HEREUNDER SHALL BE DEEMED TO BE (i) AN AFFIRMATIVE ACTION OF SELLER, OR (ii) AN OMISSION BY SELLER WHERE SELLER HAD A DUTY TO TAKE SUCH ACTION.

(b) IN THE EVENT THAT PURCHASER SHOULD FAIL TO CONSUMMATE THIS AGREEMENT FOR ANY REASON, EXCEPT SELLER'S DEFAULT OR THE TERMINATION OF THIS AGREEMENT BY PURCHASER PURSUANT TO A RIGHT TO DO SO UNDER THE TERMS AND PROVISIONS HEREOF, THEN SELLER, AS ITS SOLE AND EXCLUSIVE REMEDY MAY TERMINATE THIS AGREEMENT BY NOTIFYING PURCHASER THEREOF AND RECEIVE OR RETAIN THE EARNEST MONEY AS LIQUIDATED DAMAGES, PROVIDED THAT THIS PROVISION SHALL NOT LIMIT SELLER'S RIGHTS TO

RECEIVE REIMBURSEMENT FOR ATTORNEYS FEES RESULTING FROM SUCH BREACH AND TO PURSUE AND RECOVER ON A CLAIM WITH RESPECT TO ANY SURVIVING OBLIGATIONS. THE PARTIES AGREE THAT SELLER WILL SUFFER DAMAGES IN THE EVENT OF PURCHASER'S DEFAULT ON ITS OBLIGATIONS. ALTHOUGH THE AMOUNT OF SUCH DAMAGES IS DIFFICULT OR IMPOSSIBLE TO DETERMINE, THE PARTIES AGREE THAT THE AMOUNT OF THE EARNEST MONEY IS A REASONABLE ESTIMATE OF SELLER'S LOSS IN THE EVENT OF PURCHASER'S DEFAULT. THUS, SELLER SHALL ACCEPT AND RETAIN THE EARNEST MONEY AS LIQUIDATED DAMAGES BUT NOT AS A PENALTY. EXCEPT AS OTHERWISE SET FORTH IN THIS SECTION 17(b), SUCH LIQUIDATED DAMAGES SHALL CONSTITUTE SELLER'S SOLE AND EXCLUSIVE REMEDY. IN THE EVENT SELLER IS ENTITLED TO THE EARNEST MONEY AS LIQUIDATED DAMAGES AND TO THE EXTENT SELLER HAS NOT ALREADY RECEIVED THE EARNEST MONEY, THE EARNEST MONEY SHALL BE IMMEDIATELY PAID TO SELLER BY THE TITLE COMPANY, AND PURCHASER AGREES TO TAKE ALL SUCH ACTIONS AND EXECUTE AND DELIVER ALL SUCH DOCUMENTS NECESSARY OR APPROPRIATE TO EFFECT SUCH PAYMENT.

SELLER AND PURCHASER ACKNOWLEDGE THAT THEY HAVE READ AND UNDERSTAND THE PROVISIONS OF THE FOREGOING LIQUIDATED DAMAGES PROVISION AND BY THEIR SIGNATURES IMMEDIATELY BELOW AGREE TO BE BOUND BY ITS TERMS.

SELLER:

THE FALLS PARTNERS LIMITED
L.P., a Delaware limited partnership

By: Heitman Capital Management
Corporation, an Illinois
corporation
its agent and attorney-in-fact

By: /s/ Howard J. Edelman

Name: Howard J. Edelman
Its: Executive Vice President

PURCHASER:

THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP
a Delaware limited partnership

By: /s/ Cordell A. Lietz

Name: Cordell A. Lietz
Its: Authorized Signatory

18. Indemnification.

18.1 Seller's Indemnification of Purchaser. Seller hereby agrees to indemnify, defend, and hold Purchaser harmless from and against all costs, expenses, liabilities, demands, claims, and damages (and any loss of expenses, including, without limitation, interest, penalties and reasonable attorneys' fees and disbursements, asserted against, resulting to, imposed upon, or incurred by Purchaser as a result thereof) by reason of or resulting from (a) all third-party claims relating to the Property that arise, take place, occur or accrue prior to the Closing Date, including, without limitation, under the Leases; and (b) any of the lawsuits, claims or other matters set forth on Schedule 5 hereto. The indemnification set forth in Section 6.15 and in this

Section 18.1 shall be limited (except as specifically set forth in Section 6.15) to an aggregate amount not to exceed Two Million Five Hundred Thousand and no/100's Dollars (\$2,500,000.00) with respect to Purchaser's right to or collection of any funds from Seller under this Agreement or in any other documents made in connection with the transfer of the Property and shall be deemed waived unless Purchaser has given Seller written notice of such claim prior to the date which is one (1) year after the Closing Date. For the period of this indemnity Seller agrees to place in escrow the Two Million Five Hundred Thousand Dollars and no/100s (\$2,500,000.00). The agreement governing the rights of the parties under such escrow shall be in a form reasonably acceptable to Purchaser and Seller. The provisions of this Section 18.1 shall survive Closing or any termination of this Agreement.

18.2 Purchaser's Indemnification of Seller. Purchaser hereby agrees to indemnify, defend, and hold Seller harmless from and against all costs, expenses, liabilities, demands, claims, and damages (and any loss of expenses, including, without limitation, interest, penalties and reasonable attorneys' fees and disbursements, asserted against, resulting to, imposed upon, or incurred by Seller as a result thereof) by reason of or resulting from all third-party claims relating to the Property that arise, take place, occur or accrue after the Closing Date, including, without limitation, under the Leases. The indemnity set forth in this Section 18.2 shall be limited to an aggregate amount not to exceed Two Million Five Hundred Thousand and no/100's Dollars (\$2,500,000.00) and shall be deemed waived unless Seller has given Purchaser written notice of such claim prior to the date which is one (1) year after the Closing Date. The provisions of this Section 18.2 shall survive Closing or any termination of this Agreement.

19. Miscellaneous. The provisions of this Section 19 shall survive Closing or any termination of this Agreement.

19.1 Entire Agreement. This Agreement, together with the exhibits attached hereto, constitute the entire agreement of the parties hereto regarding the purchase and sale of the Property, and all prior agreements, understandings, representations and statements, oral or written, are hereby merged herein. In the event of a conflict

between the terms of this Agreement and any prior written agreements, the terms of this Agreement shall prevail. This Agreement may only be amended or modified by an instrument in writing, signed by the party intended to be bound thereby.

19.2 Time. All parties hereto agree that time is of the essence in this transaction. If the time for performance of any obligation hereunder shall fall on a Saturday, Sunday or holiday (national, in the State of Illinois or the state in which the Property is located) such that the transaction contemplated hereby can not be performed, the time for performance shall be extended to the next such succeeding day where performance is possible.

19.3 Counterpart Execution. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original.

19.4 Governing Law. THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE STATE OF FLORIDA AND FOR ALL PURPOSES SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA.

19.5 Publicity. Seller and Purchaser hereby covenant and agree that, at all times after the date of execution hereof and continuing until the Closing, unless consented to in writing by the other party, no press release or other public disclosure concerning this transaction shall be made, and each party agrees to use reasonable efforts to prevent disclosure of this transaction. Seller shall have the right to approve of Purchaser's first press release after Closing describing this transaction, which approval shall not be unreasonably withheld or delayed except with respect to information regarding the identity of the constituent partners of Seller which Seller may deny release of in its sole and absolute discretion. Notwithstanding any of the foregoing, Purchaser shall have the right to issue a press release with respect to this transaction if required by (i) rules and regulations of the New York Stock Exchange, (ii) applicable law (including, without limitation, the Securities and Exchange Commission), and (iii) if Purchaser believes such release is reasonable and necessary based upon shareholder relations, analyst requests or other bona fide business reasons except for purposes of clause (iii) with respect to information regarding the identity of the constituent partners of Seller which Purchaser agrees not to disclose.

19.6 Recordation. Except as is permitted by Section 17 hereof, Purchaser shall not record this Agreement or a memorandum or other notice thereof in any public office without the express written consent of Seller. A breach by Purchaser of this covenant shall constitute a material default by Purchaser under this Agreement.

19.7 Benefit. This Agreement is for the benefit of Purchaser and Seller, and except as provided in the indemnity granted by Purchaser under Paragraph 3.2 with respect to the Indemnified Parties listed therein, no other person or entity will be entitled to rely on this Agreement, receive any benefit from it or enforce any provisions of it against Purchaser or Seller.

19.8 Section Headings. The Section headings contained in this Agreement are for convenience only and shall in no way enlarge or limit the scope or meaning of the various and several Sections hereof.

19.9 Further Assurances. Purchaser and Seller agree to execute all documents and instruments reasonably required in order to consummate the purchase and sale herein contemplated.

19.10 Severability. If any portion of this Agreement is held to be unenforceable by a court of competent jurisdiction, the remainder of this Agreement shall remain in full force and effect.

19.11 Waiver of Trial by Jury. Seller and Purchaser, to the extent they may legally do so, hereby expressly waive any right to trial by jury of any claim, demand, action, cause of action, or proceeding arising under or with respect to this Agreement, or in any way connected with, or related to, or incidental to, the dealings of the parties hereto with respect to this Agreement or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and irrespective of whether sounding in contract, tort, or otherwise. To the extent they may legally do so, Seller and Purchaser hereby agree that any such claim, demand, action, cause of action, or proceeding shall be decided by a court trial without a jury and that any party hereto may file an original counterpart or a copy of this Section with any court as written evidence of the consent of the other party or parties hereto to waiver of its or their right to trial by jury.

19.12 Independent Counsel. Purchaser and Seller each acknowledge that: (a) they have been represented by independent counsel in connection with this Agreement; (b) they have executed this Agreement with the advice of such counsel; and (c) this Agreement is the result of negotiations between the parties hereto and the advice and assistance of their respective counsel. The fact that this Agreement was prepared by Seller's counsel as a matter of convenience shall have no import or significance. Any uncertainty or ambiguity in this Agreement shall not be construed against Seller because Seller's counsel prepared this Agreement in its final form.

19.13 Governmental Approvals. Nothing contained in this Agreement shall be construed as authorizing Purchaser to apply for a zoning change, variance,

subdivision maps, lot line adjustment, or other discretionary governmental act, approval or permit with respect to the Property prior to the Closing, and Purchaser agrees not to do so. Purchaser agrees not to submit any reports, studies or other documents, including, without limitation, plans and specifications, impact statements for water, sewage, drainage or traffic, environmental review forms, or energy conservation checklists to any governmental agency, or any amendment or modification to any such instruments or documents prior to the Closing, except as may be required by law. Purchaser's obligation to purchase the Property shall not be subject to or conditioned upon Purchaser's obtaining any variances, zoning amendments, subdivision maps, lot line adjustment or other discretionary governmental act, approval or permit.

19.14 No Waiver. No covenant, term or condition of this Agreement other than as expressly set forth herein shall be deemed to have been waived by Seller or Purchaser unless such waiver is in writing and executed by Seller or Purchaser, as the case may be.

19.15 Discharge and Survival. The delivery of the Deed by Seller, and the acceptance thereof by Purchaser shall be deemed to be the full performance and discharge of every covenant and obligation on the part of Seller to be performed hereunder except the Surviving Obligations. No action shall be commenced after the Closing on any covenant or obligation except the Surviving Obligations.

20. Exculpation of Seller and Related Parties. Notwithstanding anything to the contrary contained in this Agreement or in any exhibits attached hereto or in any documents executed in connection herewith (collectively, including this Agreement, said exhibits and any such document, the "Purchase Documents"), it is expressly understood and agreed by and between the parties hereto that: (i) the recourse of Purchaser or its successors or assigns against Seller with respect to the alleged breach by or on the part of Seller of any representation, warranty, covenant, undertaking, indemnity or agreement contained in any of the Purchase Documents (collectively, "Seller's Undertakings") shall be limited to an amount not to exceed Two Million Five Hundred Thousand and no/100's Dollars (\$2,500,000.00) in the aggregate of all recourse of Purchaser under the Purchase Documents except as specifically provided in Section 6.15; and (ii) no personal liability or personal responsibility of any sort with respect to any of Seller's Undertakings or any alleged breach thereof is assumed by, or shall at any time be asserted or enforceable against, Seller (except as set forth in Section 6.15) or HCMC, or against any of their respective shareholders, directors, officers, employees, agents, constituent partners (except as may be provided by law), members, beneficiaries, trustees or representatives except as provided in (i) above with respect to Seller. The provisions of this Section 20 shall survive Closing or any termination of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be made as of the day and year first above stated.

SELLER:

THE FALLS PARTNERS LIMITED L.P., a
Delaware limited partnership

PURCHASER:

THE TAUBMAN REALTY GROUP
LIMITED PARTNERSHIP
a Delaware limited partnership

By: Heitman Capital
Management Corporation, an Illinois
corporation
its agent and attorney-in-fact

By: /s/ Cordell A. Lietz

Name: Cordell A. Lietz
Its: Authorized Signatory

By: /s/ Howard J. Edelman

Name: Howard J. Edelman
Its: Executive Vice President

EXHIBITS AND SCHEDULES

| | |
|-----------|--|
| Exhibit A | - Legal Description |
| Exhibit B | - Form of Earnest Money Escrow Agreement |
| Exhibit C | - Form of Tenant Estoppel Certificate |
| Exhibit D | - Form of ERISA Certificate |
| Exhibit E | - Form of Special Warranty Deed |
| Exhibit F | - Form of Bill of Sale |
| Exhibit G | - Form of Assignment and Assumption of Leases |
| Exhibit H | - Form of Assignment and Assumption of Contracts |
| Exhibit I | - Form of General Assignment |
| Exhibit J | - Form of Non-Foreign Affidavit |
| Exhibit K | - Form of Tenant Notification Letter |
| Exhibit L | - Form of Vendor Notification Letter |

Schedule 1 - List of Personal Property Schedule 2 - List of Leases

Schedule 3 - List of Service Contracts Schedule 4 - List of Proposals

Schedule 5 - List of Litigation

Schedule 6 - List of Leases Out for Signature, Leases Under Negotiation and Agreed Credits to Tenants

FIRST AMENDMENT TO AGREEMENT OF PURCHASE AND SALE

THIS FIRST AMENDMENT TO AGREEMENT OF PURCHASE AND SALE ("Amendment") is entered into on November 6, 1997, by and between THE FALLS PARTNERS LIMITED L.P., a Delaware limited partnership ("Seller"), having an address of c/o Heitman Capital Management Corporation, 180 North LaSalle Street, Suite 3600, Chicago, Illinois 60601- 6789, and THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP, a Delaware limited partnership ("Purchaser"), having an address of c/o The Taubman Company, 200 East Long Lake Road, Bloomfield Hills, Michigan 48304, is based upon the following:

A. Seller and Purchaser entered into a certain Agreement of Purchase and Sale (the "Purchase Agreement"), dated November 5, 1997, with respect to The Falls Shopping Center in Miami, Florida (the "Property").

B. Seller and Purchaser desire to amend the Purchase Agreement in the manner set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants, promises and agreements and subject to the terms and conditions contained herein, the parties hereto hereby agree as follows:

1. The Due Diligence Period described in Section 1 of the Purchase Agreement is hereby changed to November 11, 1997. Purchaser hereby agrees that it has completed its Due Diligence and accepts the condition of the Property, and hereby waives any right to terminate the Purchase Agreement as a result of the Due Diligence or the condition of the Property, except for (i) the matters described in that certain letter from Purchaser to Seller dated November 6, 1997, and (ii) Purchaser's investigation of the Development Rights (including, without limitation, stormwater drainage). If any of the matters described in the foregoing clauses (i) and (ii) are not resolved to Purchaser's sole satisfaction, Purchaser shall have the right to terminate the Purchase Agreement.

2. Purchaser acknowledges that it has received the Committee Approval described in Section 3.5 of the Purchase Agreement and waives any right to terminate the Purchase Agreement as a result of the condition set forth in Section 3.5 of the Purchase Agreement.
3. Seller hereby acknowledges receipt of Purchaser's title objection letter, dated November 4, 1997. Nothing contained herein, or any subsequent waiver of the Due Diligence Period by Purchaser, shall affect such letter or the rights and obligations of the parties relative thereto unless and until the matters set forth in such letter are resolved in accordance with Section 3.3 of the Purchase Agreement.
4. Capitalized terms used herein shall have the meaning ascribed to them in the Purchase Agreement.
5. Except as modified by this Amendment, the Purchase Agreement remains in full force and effect and is hereby ratified and confirmed.
6. This Amendment may be executed in counterparts, each of which shall constitute an original, although not fully executed, but all of which when taken together shall constitute but one Amendment. Delivery of a executed counterpart of this Amendment by telecopy or facsimile shall be effective as delivery of an original executed counterpart hereof.

IN WITNESS WHEREOF, Seller and Purchaser have executed this Amendment as of the date first above written.

THE FALLS PARTNERS LIMITED L.P., a
Delaware limited partnership

By: Heitman Capital Management Corporation,
an Illinois corporation its agent and
attorney-in-fact

By: /s/ Howard J. Edelman

Howard J. Edelman
Its: Executive Vice President

"Seller"

THE TAUBMAN REALTY GROUP LIMITED
PARTNERSHIP, a Delaware limited
partnership

By: /s/ Cordell A. Lietz

Cordell A. Lietz
Its: Authorized Signatory

"Purchaser"

SECOND AMENDMENT TO AGREEMENT OF PURCHASE AND SALE

THIS SECOND AMENDMENT TO AGREEMENT OF PURCHASE AND SALE

("Amendment") is entered into on November 13, 1997, but effective as of November 11, 1997, by and between THE FALLS PARTNERS LIMITED L.P., a Delaware limited partnership ("Seller"), having an address of c/o Heitman Capital Management Corporation, 180 North LaSalle Street, Suite 3600, Chicago, Illinois 60601-6789, and THE TAUBMAN REALTY GROUP LIMITED PARTNERSHIP, a Delaware limited partnership ("Purchaser"), having an address of c/o The Taubman Company, 200 East Long Lake Road, Bloomfield Hills, Michigan 48304, is based upon the following:

A. Seller and Purchaser entered into a certain Agreement of Purchase and Sale, dated November 5, 1997, as amended by a certain First Amendment to Agreement of Purchase and Sale, dated November 6, 1997 (collectively, the "Purchase Agreement"), with respect to The Falls Shopping Center in Miami, Florida (the "Property").

B. Seller and Purchaser desire to further amend the Purchase Agreement in the manner set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants, promises and agreements and subject to the terms and conditions contained herein, the parties hereto hereby agree as follows:

1. Purchaser hereby agrees that it has completed its Due Diligence and accepts the condition of the Property, and hereby waives any right to terminate the Purchase Agreement as a result of the Due Diligence or the condition of the Property. Nothing contained herein shall affect Purchaser's title objection letter, dated November 4, 1997, or the rights and obligations of the parties relative thereto unless and until the matters set forth in such letter are resolved in accordance with Section 3.3 of the Purchase Agreement.

2. The Purchase Price set forth in Section 2.2 of the Purchase Agreement is hereby changed to One Hundred Fifty-Six Million Dollars (\$156,000,000).
3. Section 2.2(a) of the Purchase Agreement is hereby amended to provide that the Earnest Money will be deposited with the Title Company, as escrow agent, within one (1) business day after Purchaser's receipt of a fully-executed counterpart of this Amendment.
4. Purchaser and Seller shall determine on November 14, 1997, whether it is likely that the conditions to closing will be satisfied on or before November 18, 1997. If either Purchaser or Seller determine in its good faith discretion that such conditions to close are not likely to be satisfied on or before November 18, 1997, then such party shall have the right to extend the Closing Date until a date not later than December 4, 1997.
5. Seller and Purchaser acknowledge that certain, relatively minor, changes will be made to the legal description of the Real Property and that the proper legal description will be attached to the Special Warranty Deed delivered by Seller to Purchaser at closing. The legal description set forth on Exhibit A to the Purchase Agreement will be deemed modified to conform to the legal description attached to such Special Warranty Deed.
6. Seller acknowledges that its interest in the portion of the Property located west of the C-100-C Canal is held by City National Bank of Florida, as trustee for the benefit of Seller. Seller acknowledges that it is the sole beneficiary of such trust. Seller agrees to cause such trust to convey such portion of the Property directly to Purchaser at closing pursuant to customary trustee's deeds.
7. Seller hereby consents to the assignment by Purchaser of its rights under the Purchase Agreement to The Falls Shopping Center Associates, a Florida general partnership, the sole partners of which are Purchaser and The TRG Trust XIII, provided that such transferee executes the assumption agreement and ERISA Certificate described in Section 16 of the Purchase Agreement.

8. Capitalized terms used herein shall have the meaning ascribed to them in the Purchase Agreement.
9. Except as modified by this Amendment, the Purchase Agreement remains in full force and effect and is hereby ratified and confirmed.
10. This Amendment may be executed in counterparts, each of which shall constitute an original, although not fully executed, but all of which when taken together shall constitute but one Amendment. Delivery of a executed counterpart of this Amendment by telecopy or facsimile shall be effective as delivery of an original executed counterpart hereof. IN WITNESS WHEREOF, Seller and Purchaser have executed this Amendment as of the date first above written.

THE FALLS PARTNERS LIMITED L.P., a
Delaware limited partnership

By: Heitman Capital Management Corporation, an Illinois corporation its agent and attorney-in-fact

By: /s/ Howard J. Edelman

Howard J. Edelman
Its: Executive Vice President

"Seller"

**THE TAUBMAN REALTY GROUP LIMITED
PARTNERSHIP, a Delaware limited
partnership**

By: /s/ Cordell A. Lietz

Cordell A. Lietz
Its: Authorized Signatory

"Purchaser"

- 3 -

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