

PAYMENT IN LIEU OF TAXES AGREEMENT

THIS PAYMENT IN LIEU OF TAXES AGREEMENT (this "Agreement"), made as of July 1, 2006, by and between PROSPECT AVENUE APARTMENTS LIMITED PARTNERSHIP, a limited partnership organized and existing under the laws of the State of New York (the "Company"), and the NASSAU COUNTY INDUSTRIAL DEVELOPMENT AGENCY, a corporate governmental agency constituting a body corporate and politic and a public benefit corporation of the State of New York (the "Agency"). Capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Lease (as hereinafter defined).

WITNESSETH

WHEREAS, the Agency is authorized and empowered by the provisions of Chapter 1030 of the 1969 Laws of New York, constituting Title 1 of Article 18-A of the General Municipal Law, Chapter 24 of the Consolidated Laws of New York, as amended (the "Enabling Act") and Chapter 674 of the 1975 Laws of New York, as amended, constituting Section 922 of said General Municipal Law (said Chapter and the Enabling Act, as amended from time to time, being hereinafter collectively referred to as the "Act") to promote, develop, encourage and assist in the acquiring, constructing, reconstructing, improving, maintaining, equipping and furnishing of industrial, manufacturing, warehousing, commercial, research, recreation and civic facilities, among others, for the purpose of promoting, attracting and developing economically sound commerce and industry to advance the job opportunities, health, general prosperity and economic welfare of the people of the State of New York, to improve their prosperity and standard of living, and to prevent unemployment and economic deterioration; and

WHEREAS, the Agency, which has been created and established pursuant to the Act for the benefit of the County of Nassau and its residents, proposes to undertake the Project described below; and

WHEREAS, the Agency on behalf of the Company intends to (i) acquire fee simple title to certain land known as 735-765 Prospect Avenue, New Cassel, Town of North Hempstead, NY and more particularly described on Schedule A hereto (the "Land"); (ii) undertake certain construction and improvements on the Land (the "Improvements"); and (iii) acquire the equipment more particularly described in Schedule B to the Lease (the "Equipment") (acquisition of the Land and the acquisition, renovation and installation of the Improvements and Equipment are collectively hereinafter referred to as the "Project"); and

WHEREAS, the Agency is or will be the owner of a fee simple interest in the Land and the Improvements (collectively, "Facility"); and

WHEREAS, the Agency proposes to undertake the Project as an authorized project under the Act and to lease the interest of the Agency to the Company pursuant to a Lease Agreement dated as of the date hereof between the Agency, as lessor, and the Company, as lessee (as amended, modified, supplemented or restated from time to time, the "Lease"); and

WHEREAS, under the present provisions of the Act and under the present Section 412-a of the Real Property Tax Law of the State of New York (the "RPTL"), the Agency is required to pay no taxes or assessments upon any of the property acquired by it or under its jurisdiction or supervision or under its control; and

WHEREAS, the payment and performance of the Company's obligations under this Agreement shall be secured by a Mortgage and Assignment of Leases and Rents dated as of the date hereof (as amended, modified, supplemented or restated from time to time, the "PILOT Mortgage") from the Company and the Agency, as mortgagor, to the County of Nassau (the "PILOT Mortgagee"), its successors and assigns, as mortgagee, pursuant to which the Agency and the Company grant a second mortgage lien on the Facility;

NOW, THEREFORE, in consideration of the premises and the payments, agreements, and covenants hereinafter contained, the Company and the Agency covenant and agree as follows:

Section 1. Tax-Exempt Status of Facility.

A. Application. (1) The Company shall complete, and the Agency shall file, an application for tax exemption pursuant to Section 412-a of the RPTL (the "Application"). The Application shall be filed with the assessor for each of the various taxing entities having jurisdiction over the Facility, including, without limitation, the County of Nassau (the "County"), the Town of North Hempstead, and each school district and village within which the Facility is located (such taxing entities, and any successors thereto, being hereinafter collectively referred to as the "Taxing Entities" and each individually as a "Taxing Entity"). The Facility shall be entitled to exempt status on the tax rolls of each Taxing Entity hereunder commencing on the date that the Agency acquires fee title to the Facility (such date, the "PILOT Commencement Date").

(2) The Company hereby waives any claim or cause of action against the Agency, and releases the Agency from any liability to the Company, arising from any denial of an exemption from real property taxes and assessments, except to the extent that such denial results solely from the willful failure of the Agency, after demand by the Company, to file the completed Application for tax exemption as set forth in this Agreement.

B. Special Assessments. The parties hereto understand that the tax exemption extended to the Agency by Section 874 of the General Municipal Law of the State of New York and Section 412-a of the RPTL does not entitle the Agency to exemption from special assessments and special ad valorem levies. Pursuant to the Lease, the Company will be required

to pay all special assessments and special ad valorem levies levied and/or assessed against the Facility.

C. Other Charges. If any taxes, assessments, service charges or other governmental charges become payable by the Company or the Agency on the Project or the rents paid pursuant to the Lease or the occupancy of or any interest of the Company or the Agency in the Facility or any part thereof or any personal property used in connection with the business conducted and located therein, the amount of any such taxes, assessments or charges shall be paid by the Company as and when due. Furthermore, water charges, sewer rentals, sewage treatment charges, solid waste charges and any other charges in the nature of utility charges shall be paid as and when due directly by the Company and shall not be credited against nor be affected in any manner by any payment in lieu of real property taxes and assessments in any year and shall be computed pursuant to the formula adopted by the relevant Taxing Entity.

Section 2. Payments.

A. Tax Payments. Prior to the PILOT Commencement Date, the applicable real property taxes and assessments levied and/or assessed against the Facility shall be payable in full by the Company to the applicable Taxing Entity as if the Agency were not the owner of the Facility or otherwise involved in the Project, subject to any other exemption that the Facility may then be entitled to.

B. PILOT Payments. From the PILOT Commencement Date and until fee title to the Facility is conveyed to the Company pursuant to the terms of the Lease and the Facility has been returned to the tax rolls as taxable property, the Company shall make payments in lieu of real property taxes and assessments levied and/or assessed by the Taxing Entities against the Facility (collectively, the "PILOT Payments") equal to one hundred percent (100%) of the amount of real property taxes and assessments that would have been levied and/or assessed against the Facility if the Facility were owned by the Company and the Agency were not otherwise involved in the Project.

"PILOT Obligations" shall mean all amounts required to be paid by the Company under this Agreement, including, without limitation, those amounts set forth in Sections 2.A and 2.B hereof.

C. Payments. (1) Amounts due and payable under this Agreement shall be payable to the Treasurer of the County of Nassau (the "Treasurer"), One West Street, Mineola, NY 11501, or at such other address as the Treasurer may notify the Company of in writing.

(2) All PILOT Payments hereunder shall be allocated among the affected tax jurisdictions in proportion to the amount of real property and other taxes and assessments that would have been received by each Taxing Entity had the Project not been tax exempt due to the status of the Agency.

D. Due Dates; Interest; and Penalties. (1) The Company may be billed for PILOT Payments as if the Facility were on the tax rolls at the time when taxes for each Taxing Entity are due.

(2) If any payment required under this Agreement is not made on or before the due date thereof, such payment shall be delinquent and the Company shall pay a late charge equal to the greater of (a) five (5%) percent of the payment, and for each month, or part thereof, that the payment is delinquent beyond the first month, the Company shall pay an additional late charge equal to one (1%) percent per month of the total amount payable; and (b) the late charge applicable from time to time to real property tax levies and assessments that are not paid when due.

(3) Anything contained in this subparagraph to the contrary notwithstanding, the Company shall have the obligation to make all payments of PILOT Obligations (other than payments of penalties, if any) in two equal semi-annual installments on or prior to the date which is five (5) Business Days prior to January 1 and July 1 for the General Tax portion of the PILOT Obligation, and October 1 and April 1 for the School Tax portion of the PILOT Obligation, as applicable, of each year of the term of the Lease or on such other due dates as may be established by the Agency or the Treasurer from time to time during the term of the Lease.

E. Partial Sale; Transferee's Obligation; Apportionment of Reduction to Local Taxing Entities. During the term of this Agreement, in the event that the Facility, or any portion thereof, is sold, transferred, assigned or otherwise disposed of by the Agency, the transferees thereof will thereafter pay the real property taxes and assessments on such Land and the Improvements located on the Land, or on such portion of the Land, that was sold, transferred, assigned or otherwise disposed of, as may be required by applicable law.

F. Sale; Company's Obligation. In the event that the Agency sells, transfers, assigns or otherwise disposes of the Facility to any party other than the Company, the Company's obligation for PILOT Obligations shall be prorated to the date of the closing of the transaction and thereupon all obligations of the Company for payment of PILOT Obligations shall cease, but the Agency shall take such steps with the purchaser other than the Company to assure that each of the Taxing Entities shall suffer no loss of revenue until such Facility can be placed back on the tax rolls and taxes levied and billed therefor.

Section 3. Effective Date; Duration of Agreement. This Agreement shall become effective upon the execution and delivery of the Lease and this Agreement by both the Company and the Agency and the execution and delivery of the deed for the Facility to the Agency and shall continue in effect until the earlier of (i) the termination of this Agreement pursuant to the terms of the Lease or of this Agreement, or (ii) the date on which title to the Facility is conveyed to the Company by the Agency pursuant to the Lease or this Agreement and has been placed back on the tax rolls as taxable property.

Section 4. Events of Default. The following shall constitute an "Event of Default" under this Agreement:

A. Failure by the Company to make any payment specified herein and the continuance of such failure for a period of ten (10) days after receipt by the Company of written notice from the Agency and/or any Taxing Entity.

B. Failure by the Company to comply with or perform any provision of this Agreement other than the payment provisions hereof and the continuance of such failure for a period of thirty (30) days after receipt by the Company of written notice thereof from the Agency, or, if such provision is capable of cure but cannot be cured within such thirty (30) day period, the failure of the Company to commence to cure within such thirty (30) day period and to prosecute the cure to completion with due diligence, provided, however, in no event shall such cure period exceed ninety (90) days.

C. The occurrence of an Event of Default under the Lease or any other agreement between the Agency and the Company, including, without limitation, the payment in lieu of taxes agreement dated as of the date hereof between the Agency and the Company with respect to the Related Facility.

If the Company fails to make any payments pursuant to this Agreement when due, the amount or amounts so in default shall continue as an obligation of the Company until fully paid.

Upon the occurrence and continuance of an Event of Default hereunder, the Company shall be required to make PILOT Payments as if the Facility were owned by the Company, such amounts to commence to be paid for the period subsequent to the date it is determined by the Agency that there is an Event of Default hereunder. In such event, the tax rate, interest and penalties shall be those then in effect in the Taxing Entities in which the Facility is located.

Upon the occurrence and continuance of an Event of Default hereunder, the Agency shall be entitled to sue to enforce any provision of this Agreement and to recover the payments of PILOT Obligations in default from the Company, together with all the costs and expenses of the Agency, its successors or assigns, paid or incurred in such recovery (including court costs and attorneys' fees and expenses) and interest at the rate charged by the respective Taxing Entities on overdue payments of taxes. In addition, the Agency shall have the right to terminate the Lease at any time, and the Company shall accept such termination and any tender of reconveyance from the Agency of title to the Facility.

The Agency, in enforcing payment by the Company of the PILOT Obligations, may take whatever action and exercise any or all of the rights and remedies specified in this Agreement or any other remedy provided by law.

Each and every Event of Default shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises.

No delay or omission in exercising any right or power accruing upon the occurrence of any Event of Default hereunder shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. Further, no payment by the Agency or receipt by the Agency or a Taxing Entity of a lesser amount than the correct amount or manner of payment due hereunder shall be deemed to be other than a payment on account, nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed to effect or evidence an accord and satisfaction, and the Agency and/or any Taxing Entity may accept any check or payment as made without prejudice to the right to recover the balance or pursue any other remedy in this Agreement or otherwise provided at law or in equity.

In no event shall the Agency be liable to any of the Taxing Entities for the payments specified herein, whether or not the Company makes such payments. The Company hereby agrees to indemnify, defend (with counsel selected by the Agency) and hold harmless the Agency and its officers, members, agents (other than the Company), attorneys, servants and employees, past, present and future, against any such liability for such payments and against all penalties, interest, and other charges resulting from the delinquency of such payments.

The Agency and the Company hereby acknowledge the right of the County, as beneficiary of this Agreement (on behalf of itself and all other Taxing Entities), to pursue any appropriate remedies, including an action or proceeding in the courts, to recover directly from the Company any payments of PILOT Obligations in default hereunder and/or to exercise its rights and remedies under the PILOT Mortgage. The Company shall promptly notify the Agency of any action or proceeding brought, or other measure taken, by a Taxing Entity to recover such payments in default hereunder. It is understood that the right of any Taxing Entity herein acknowledged is in addition to, and shall not impair, the Agency's own rights arising from a breach of this Agreement.

In the event that fee title to the Facility is conveyed to the Company or any other party prior to expiration of the term of the Lease, this Agreement shall become null and void and any remaining tax abatement hereunder shall be canceled.

Section 5. Additional Facilities. If any structural additions shall be made to the buildings or other improvements included in the Facility subsequent to the Completion Date, or if any additional buildings or improvements shall be constructed on the Land (such structural additions, buildings and improvements being referred to hereinafter as "Additional Facilities"), the Company agrees to increase its PILOT Obligations hereunder in an amount, as determined by the Agency or a tax assessor selected by the Agency, equal to the increased tax payments that would have been payable on such increase if this Agreement were not in effect.

Section 6. Change of Law. In the event the Facility, or any part thereof, is declared to be subject to taxation for real property taxes or assessments by an amendment to the
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Act, other legislative change or a final judgment of a court of competent jurisdiction, the obligations of the Company hereunder shall, to such extent, be null and void.

Section 7. Waiver of Tax Exemption. The Company, in recognition of the benefits provided under this Agreement, and for so long as the Lease is in effect, hereby expressly waives any rights it may have for any exemption under Section 485-b of the RPTL or any other exemption under any other law or regulation (except, however, for the exemption provided under Article 18-A of the General Municipal Law) with respect to the Facility.

The Company, in recognition of the benefits provided under this Agreement and the Lease, hereby expressly waives the right to institute judicial or other review of an assessment of the real property with respect to the Facility, whether pursuant to the provisions of Article 7 of the Real Property Tax Law or other applicable law, as the same may be amended from time to time. In addition, the Obligor hereby represents and warrants that it has stipulated to the discontinuance (with prejudice) of any and all pending tax certiorari proceedings with respect to the Facility on or before the date hereof.

Section 8. Delivery of PILOT Statement. The Company shall deliver to the Comptroller of the County of Nassau, at One West Street, Mineola, NY 11501, on or before the dates set forth for payment of the PILOT Obligations in Section 2 hereof, in each year during the term of the Lease, a verified statement setting forth the amount of such payments and the dates of such payments.

Section 9. Limited Obligation. The obligations, covenants and agreements of the Agency hereunder shall not constitute or give rise to an obligation of the State of New York, the County, the Town of North Hempstead or any school district or village within which the Facility is located and neither the State of New York, the County, the Town of North Hempstead nor any such school district or village shall be liable thereon, and further, such obligations, covenants and agreements shall not constitute or give rise to a general obligation of the Agency.

Section 10. No Waiver. Failure by the Agency in any instance to insist upon the strict performance of any one or more of the obligations of the Company under this Agreement, or to exercise any election herein contained, shall in no manner be or be deemed to be a waiver by the Agency of any of the Company's defaults or breaches hereunder or of any of the rights and remedies of the Agency by reason of such defaults or breaches, or a waiver or relinquishment of any and all of the Company's obligations hereunder. No waiver, amendment, release or modification of this Agreement shall be established by conduct, custom or course of dealing. Further, no payment by the Company or receipt by the Agency of a lesser amount than the correct amount or manner of payment due hereunder shall be deemed to be other than a payment on account, nor shall any endorsement or statement on any check or any letter accompanying any check or payment be deemed to effect or evidence an accord and satisfaction, and the Agency may accept any check or payments as made without prejudice to the right to recover the balance or pursue any other remedy in this Agreement or otherwise provided at law or in equity.

Section 11. Notices.

A. All notices, certificates and other communications hereunder shall be in writing and shall be sufficiently given and shall be deemed given on the earlier of (1) three (3) Business Days after being sent to the applicable address stated below by registered or certified mail, return receipt requested, or by such other means as shall provide the sender with documentary evidence of such delivery, or (2) the date on which delivery is refused by the addressee, as evidenced by the affidavit of the Person who attempted to effect such delivery.

B. The addresses to which notices, certificates and other communications hereunder shall be delivered are as follows:

IF TO THE COMPANY:

Prospect Avenue Apartments Limited Partnership
c/o Stoneridge Homes, Inc.
One Cross Island Plaza, Suite LL1A
Rosedale, NY 11422
Attn: Ranjan Batheja

WITH A COPY TO:

Cannon, Heyman & Weiss, LLP
54 State Street, 5th floor
Albany, NY 12207
Attn: Steven S. Heyman, Esq.

IF TO THE AGENCY:

Nassau County Industrial Development Agency
1100 Franklin Avenue, Suite 300
Garden City, NY 11530
Attn: Executive Director

WITH A COPY TO:

Phillips Lytle LLP
1100 Franklin Avenue, 4th Floor
Garden City, NY 11530
Attn: Milan K. Tyler, Esq.

Section 12. Change of Address. The Agency or the Company may, by notice given hereunder to each other, designate any further or different addresses to which subsequent notices, certificates or other communications to them shall be sent.

Section 13. Assignment of Agreement. This Agreement shall be binding upon the successors and permitted assigns of the Company but no assignment shall be effective to relieve the Company of any of its obligations hereunder unless expressly authorized and approved in writing by the Agency.

Section 14. Independent Agreement. Notwithstanding any other provision of this Agreement, including the recitals thereof, the parties agree that the Lease executed between the parties thereto shall be a separate and independent document from this Agreement, and irrespective of whether any provision of this Agreement or the entirety hereof shall be held invalid or unenforceable by any court of competent jurisdiction, the Lease shall be construed, interpreted, and otherwise regarded separate and apart from this Agreement. The parties hereto specifically note that the considerations and terms provided for in this Agreement and provided for in the Lease are the only considerations and terms for which the parties thereto have executed this Agreement.

Section 15. Invalidity. If any one or more phrases, sentences, clauses or provisions of this Agreement or the entirety hereof shall be declared invalid or unenforceable by any order, decree or judgment of any court of competent jurisdiction, then such phrase, sentence, clause or provision or the entirety of this Agreement shall be deemed to be reformed in such manner as shall be determined by such court, or in the absence of such a determination then in the reasonable judgment of the Agency, to render such phrase, sentence, clause or provision of this Agreement valid and enforceable under applicable law. The parties hereto agree to enter into such documents, agreements and instruments as the Agency reasonably determines are necessary to effect any such reformation. In the event that any one more of the phrases, sentences, clauses or provisions of this Agreement cannot be reformed to comply with applicable law, then this Agreement shall be construed as if such phrase, sentence, clause or paragraph had not appeared in this Agreement.

Section 16. Amendments. This Agreement may not be modified, amended, supplemented, or changed without the written consent of the Agency and the Company.

Section 17. Prior Agreements. This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, whether written or oral, among the parties with respect to the subject matter hereof.

Section 18. Delivery of Agreement. The Agency covenants to use reasonable efforts to deliver to each Taxing Entity a copy of this Agreement within fifteen (15) days after its execution.

Section 19. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 20. Service of Process; Consent to Jurisdiction; Forum.

A. The Company represents that it is subject to service of process in the State of New York and covenants that it will remain so subject so long as the Lease shall be in effect. If for any reason the Company should cease to be so subject to service of process in the State of New York, the Company hereby designates and appoints, without power of revocation, Ranjan Batheja, and his successor(s) as its agent for service of process, and if such agent shall cease to act or otherwise cease to be subject to service of process in the State of New York, the Secretary of State of the State of New York, as the agents of the Company upon whom may be served all process, pleadings, notices or other papers which may be served upon the Company as a result of any of its obligations under this Agreement; provided, however, that the serving of such process, pleadings, notices or other papers shall not constitute a condition to the Company's obligations hereunder.

B. The Company irrevocably and unconditionally (1) agrees that any suit, action or other legal proceeding arising out of this Agreement or the other Transaction Documents may be brought in the courts of record of the State of New York in Nassau County or the courts of the United States, Eastern District of New York; (2) consents to the jurisdiction of each such court in any such suit, action or proceeding; and (3) waives any objection which it may have to the laying of venue of any such suit, action or proceeding in any of such courts. For such time as the Lease is in effect, the Company's agents designated above shall accept and acknowledge in the Company's behalf service of any and all process in any such suit, action or proceeding brought in any such court. The Company agrees and consents that any such service of process upon such agents and written notice of such service to the Company in the manner set forth in Section 11 hereof shall be taken and held to be valid personal service upon the Company whether or not the Company shall then be doing, or at any time shall have done, business within the State of New York and that any such service of process shall be of the same force and validity as if service were made upon the Company according to the laws governing the validity and requirements of such service in the State of New York, and waives all claim of error by reason of any such service. Such agents shall not have any power or authority to enter into any appearance or to file any pleadings in connection with any suit, action or other legal proceedings against the Company or to conduct the defense of any such suit, action or any other legal proceeding except as expressly authorized by the Company.

Section 21. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, as the same may be in effect from time to time, without regard to principles of conflicts of laws.

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Section 22. Nature of Obligations. This Agreement shall remain in full force and effect until each and every one of the PILOT Obligations shall have been irrevocably paid in full and all other obligations of the Company under this Agreement shall have been paid and performed in full.

Section 23. Indemnification. The Company agrees indemnify, defend (with counsel selected by the Agency) and hold harmless the Agency and its officers, members, agents (other than the Company), attorneys, servants and employees, past, present and future, against any liability arising from any default by the Company in performing its obligations hereunder or any expense incurred hereunder, including, without limitation, any expenses of the Agency and attorneys' fees and expenses.

IN WITNESS WHEREOF, the Agency and the Company have made this Agreement to be executed in their respective names by their duly authorized officers, all on the date first above written.

NASSAU COUNTY INDUSTRIAL
DEVELOPMENT AGENCY

By: _____

Joseph Gioino

Executive Director

PROSPECT AVENUE APARTMENTS LIMITED
PARTNERSHIP

By: PROSPECT AVENUE
REDEVELOPMENT, LLC, its General
Partner

By: _____

Name: Ranjan Batheja

Title: Manager