

# MILLENNIUM

REAL ESTATE ADVISORS, INC.



APPRAISAL  
REPORT:  
3333 K STREET, NW  
WASHINGTON, DC  
DOV 7/3/2002

PREPARED FOR:  
LEGAL SERVICES CORPORATION  
OFFICE OF THE INSPECTOR GENERAL  
3333 K STREET, NW 3<sup>RD</sup> FLOOR  
WASHINGTON, DC 20007

#05-004

# MILLENNIUM

REAL ESTATE ADVISORS, INC.

February 11, 2005

Mr. Kirt West  
Inspector General  
Legal Services Corporation  
3333 K Street, NW  
3<sup>rd</sup> Floor  
Washington, DC 20007-3522

Re: Appraisal of Real Property  
3333 K Street, NW  
Washington, DC

Dear Mr. West:

In fulfillment of our agreement, **MILLENNIUM REAL ESTATE ADVISORS** is pleased to transmit our narrative report estimating the market value of the above referenced property, as if free and clear of debt, subject to the various special and general assumptions and limiting conditions.

This report was prepared for the Client and it is intended only for the specified use of the Client. It may not be distributed to or relied upon by other persons or entities without written permission of the Appraiser. The value was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

The property was inspected, and the report was prepared, by Stuart I. Smith, MAI, in accordance with the provisions of the Uniformed Standards of Professional Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

This is a complete, summary report.

*The "complete" report references the act or process of estimating value without invoking the Departure Provision in USPAP. The "summary" designation is used to connote a summary level of detail in presentation of information. The reliability of the results is not affected by the type of report selected for presentation purposes.*

As a result of our analysis, we have formed an opinion that:

***THE RETROSPECTIVE MARKET VALUE OF THE LEASED FEE ESTATE IN 3333 K STREET, NW, WASHINGTON, DC, ASSUMING OCCUPANCY BY A TYPICAL MARKET RATE TENANT IN THE LSC SPACE, SUBJECT TO BOTH GENERAL AND SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS, AS OF JULY 3, 2002, WITH A CURRENT REPORT DATE OF JANUARY 4, 2005, WAS:***

***THIRTEEN MILLION DOLLARS***  
***\$13,000,000***

This letter is invalid as an opinion of value if detached from the reports, exhibits and addenda contained in the following report.

In addition, you have requested that we respond to several questions related to this assignment:

1. *Whether the building should be considered a Class A or Class B building for valuation purposes.*

Based on our physical inspection, the property's location, situs and age, it is our opinion that the market would consider this to be a **Class-B building**. In addition, CoStar, a national database organization also classifies this asset as a Class-B property.

2. *Whether rent paid by LSC for 3333 K Street, N.W., is not more than the dollar per square foot rate in the LSC's lease agreement at 750 First Street, NE [ as of July 2002 ].*

Our analysis reports a basic rental rate of \$38.00 per square foot of rentable area for the LSC space at 3333 K Street, NW; and an assumed rate of \$35.50 per square foot of rentable area at 750 1<sup>st</sup> Street, NE. The \$35.50 per square foot rate was predicated on the rate specified in the Fourth Amendment to Lease, dated November 7, 2001 for the renewal term beginning May 31, 2002. Thus, **in terms of initial base rent, the LSC rent per square foot for 3333 K Street was higher** than the rate contemplated in the LSC renewal at 750 1<sup>st</sup> Street.

3. Whether the lease terms for the ten-year period for 3333 K Street, NW, would have compared favorably to the lease terms that LSC would have had had if it remained for ten years at 750 1<sup>st</sup> Street.

This analysis compares the aforementioned Fourth Amendment to Lease for 750 1<sup>st</sup> Street, to the July 2, 2002 lease between Friends of the Legal Services Corporation (lessor) and the Legal Services Corporation (lessee). It extrapolates the initial five-year lease renewal for a ten-year term.

LSC Lease at 3333 K Street, NW										
Rentable Area	45,000									
Term	1	2	3	4	5	6	7	8	9	10
Basic rent	\$38.00									
Annual Escalation		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Escalated Base Rent	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00
OpEx & ReTx Reimbursement	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Gross Rental psf	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00	\$38.00
Gross Annual Rent	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000	\$1,710,000
Escalation Factor PT	3.0%									
Parking Spaces	50									
Parking Rate/month	\$100.00	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
Escalation in Parking	0.0%									
LSC "Annual Cash Outlay"	\$1,770,000	\$1,770,000	\$1,770,000	\$1,770,000	\$1,770,000	\$1,770,000	\$1,770,000	\$1,770,000	\$1,770,000	\$1,770,000
Implied Total psf/rentable	\$39.33	\$39.33	\$39.33	\$39.33	\$39.33	\$39.33	\$39.33	\$39.33	\$39.33	\$39.33
LSC "Gross Tenant Outlay"	\$17,700,000									
Tenant Allowance	-\$2,000,000									
Free Rent	\$0									
<b>Net Tenant Outlay Over Lease Term</b>	<b>\$15,700,000</b>									
Per square foot equivalent	\$348.89	per year	\$34.89							
LSC Lease at 750 1st Street, NW										
Rentable Area	40,103									
Term	1	2	3	4	5	Option Yr 6	Option Yr 7	Option Yr 8	Option Yr 9	Option Yr 10
Basic rent	\$35.50									
Annual Escalation		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Escalated Base Rent	\$35.50	\$36.21	\$36.93	\$37.67	\$38.43	\$39.19	\$39.98	\$40.78	\$41.59	\$42.43
OpEx & ReTx Reimbursement	\$0.40	\$0.00	\$0.41	\$0.00	\$0.42	\$0.00	\$0.44	\$0.00	\$0.45	\$0.00
Gross Rental psf	\$35.50	\$36.62	\$36.93	\$38.10	\$38.43	\$39.63	\$39.98	\$41.23	\$41.59	\$42.89
Gross Annual Rent	\$1,423,657	\$1,468,652	\$1,481,172	\$1,527,814	\$1,541,012	\$1,589,360	\$1,603,268	\$1,653,388	\$1,668,040	\$1,719,997
Escalation Factor PT	3.0%									
Parking Spaces	25									
Parking Rate/month	\$140.00	\$42,000	\$42,000	\$42,000	\$42,000	\$42,000	\$42,000	\$42,000	\$42,000	\$42,000
Escalation in Parking	0.0%									
LSC "Annual Cash Outlay"	\$1,465,657	\$1,510,652	\$1,523,172	\$1,569,814	\$1,583,012	\$1,631,360	\$1,645,268	\$1,695,388	\$1,710,040	\$1,761,997
Implied Total psf/rentable	\$32.57	\$33.57	\$33.85	\$34.88	\$35.18	\$36.25	\$36.56	\$37.68	\$38.00	\$39.16
LSC "Gross Tenant Outlay"	\$16,096,361									
Tenant Allowance	-\$50,000									
Free Rent	\$0									
<b>Net Tenant Outlay Over Lease Term</b>	<b>\$16,046,361</b>									
Per square foot equivalent	\$400.13	per year	\$40.01							

The preceding chart is a current-dollar analysis of the two leases. Considering the impact of base rent, annual escalations, operating expense and real estate tax pass-throughs, parking spaces leased, and monthly rent for those spaces; **it is our opinion that the LSC gross outlay (excluding tenant concessions) was more for the existing LSC lease at 3333 K Street than the lease renewal contemplated for 750 1<sup>st</sup> Street.** (However, if the respective tenant improvement allowances are included, the result is reversed; with the net tenant outlay for the LSC space at 3333 K Street less than the lease renewal contemplated for 750 1<sup>st</sup> Street.)

4. *Whether LSC's lease terms for 3333 K Street, NW, as of July 1, 2002, compared favorably to the lease terms for other 3333 K Street, NW, tenants as of July 1, 2002.*

The LSC is paying a higher dollar rate for its space than other tenants housed at 3333 K Street. However, the quality and location of the space are superior to most other tenants.

5. *Whether LSC's lease terms for 3333 K Street, NW, compare favorably to the lease terms for other 3333 K Street, NW, tenants as of November 2004.*

As of November 2004, the LSC lease rate remained flat at \$38.00 per square foot. The following table summarizes the major lease provisions for leases signed after July 2002. The following three new tenant leases for 3333 K Street, were signed in 2003 and 2004. The base rent lease rates range from \$22.00 to \$30.45 per square foot. Thus, **from the LSC perspective, the LSC lease is less favorable.** While there are some provisions in the new leases for operating expense and real estate tax pass-throughs and for an annual escalation in base rent, it is our view that these additional provisions are not enough to offset their competitive advantage in base rent.

<b>Other Tenant Leases</b>	<b>Date</b>	<b>Sq. Ft.</b>	<b>\$'s/psf</b>	<b>Pass-through</b>	<b>TI's</b>
Form	8/30/2004	1,694	\$24.25	Base Year	\$0.00
Victor Prop	2/4/2003	2,035	\$22.00	Base Year	\$0.00
National Energy Mkt	2/1/2003	2,139	\$23.00	Base Year	\$0.00
Penzance	3/23/2004	2,035	\$30.45	Base Year	\$5.00

6. Whether LSC's leases terms for 3333 K Street, NW, as of July 1, 2002, compared favorably to the lease terms LSC would have had at comparable locations in Georgetown.

Tenant	Address	Submarket	Bldg Class	SF	Term	Type	Spst	Exec Date	Months				
					Months				TI's	Abatement	Escal	Bump	Bump Yr
Turtle, Taylor & Heron	1250 24th Street, NW	Ctown	B	9,900	96	Relet	\$31.50	Apr-02	\$25.00	n/a	2.00%	n/a	n/a
The Event Network	1255 22nd Street, NW	Ctown	B	35,484	120	Relet	\$29.75	Aug-02	\$0.00	n/a	2.25%	\$2.00	6
Kattan, Muchin & Zavis	2440 M Sreet, NW	Ctown	B	10,815	78	Relet	\$30.46	Aug-02	\$20.00	n/a	2.00%	n/a	n/a

Based on an analysis of leases for the Georgetown submarket, we concluded a gross comparable market face rent of \$27.25 per square foot, and assumed that base rent would escalate annually by 2.5%. (The base rent includes an allowance for a market rate tenant improvements allowance.)

The LSC rent at \$38.00 per square foot for 3333 K Street is flat for the 10-year term. Therefore, in order to compare the two rates we calculated two 10-year current-dollar outlay streams.

Other things being equal, it is our view that the terms for the 3333 K Street, NW, property as of July 1, 2002 were **LESS favorable** than the lease terms for comparable properties from both a year-one base rent perspective, and a ten-year total dollar perspective.

7. Whether the lease terms for 3333 K Street, NW, compares favorably to the lease terms LSC could have had at comparable locations in Georgetown as of November 2004.

The following table summarizes comparable lease transactions in Georgetown as of November 2004:

Tenant	Address	Submarket	Bldg Class	SF	Term	Type	Spst	Exec Date	Months				
					Months				TI's	Abatement	Escal	Bump	Bump Yr
Somafit	1025 Thomas Jefferson St, NW	Ctown	B	2,015	16	Sublease	\$29.00	Jul-03	\$0.00	n/a	n/a	n/a	n/a
HQ Global Workplaces	1055 Thomas Jefferson St, NW	Ctown	B	6,000	54	Sublease	\$28.00	Oct-03	\$0.00	n/a	n/a	n/a	n/a
Lightningcast, Inc	1000 Potomac Ave, NW	Ctown	B	3,766	36	Relet	\$24.70	Jun-04	\$0.00	n/a	n/a	n/a	n/a
Urban Land Institute	1020 Thomas Jefferson St., NW	Ctown	B	34,565	144	Relet	\$29.18	Jul-04	\$10.00	n/a	2.50%	n/a	n/a
PADCO	1025 Thomas Jefferson St, NW	Ctown	B	25,457	120	Relet	\$30.00	Aug-04	\$30.00	n/a	2.50%	\$2.50	6
Columbia Fertility Assoc	2300 M	Ctown	B	20,493	60	Expansion	\$35.00	Nov-04	\$35.00	n/a	2.50%	n/a	n/a
Congressional Quarterly	1055 Thomas Jefferson St, NW	Ctown	B	11,891	120	n/a	\$35.00	2004	\$32.00	n/a	2.25%	\$2.25	6

Based on these transactions, taking into account location and situs as well as providing for a market rate level of tenant allowances, it is our opinion that a comparable target rent for the subject property is (on a gross, full service basis) \$30.00 per square foot – ranging from \$21.00 per square foot for the ground level to \$34.00 per square foot for the two top floors (3 and 4) with River views. On a weighted average, basis this equates to ~\$31.75 per square foot rent. Typical market terms would provide for an

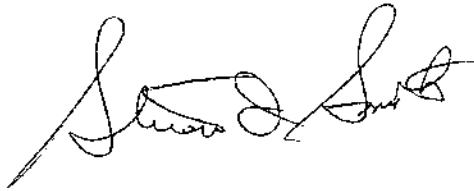
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annual escalation in base rent, say 2.5%, plus the payment of increases in operation expenses and taxes over a lease year base.

Other things being equal, it is our view that the terms for the 3333 K Street, NW, property as of November 2004, were **LESS favorable** than the lease terms for comparable Georgetown properties from both a year-one base rent perspective and a ten-year total dollar perspective.

Respectfully submitted,  
**MILLENNIUM REAL ESTATE ADVISORS, INC.**

A handwritten signature in black ink, appearing to read "Stuart J. Smith". The signature is fluid and cursive, with a large initial "S" and "J".

Stuart J. Smith, MAI

## *Summary of Salient Facts & Conclusions*

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<b>Property Identification:</b>	<b>Georgetown Landings</b>
<b>Location:</b>	3333 K Street, NW Washington, DC
<b>Assessor's Number:</b>	Square 1184, Lot 0049
<b>FEMA Zone and Map Number:</b>	Per Community Panel Number 110001-0015 B, dated November 15, 1985. The property appears to be in Zone C, but is directly adjacent to Zone B. Zone C is an area of minimal flooding. Zone B are those areas between limits of the 100-year flood and 500-year flood; or certain areas subject to 100-year flooding with average depths less than one foot or where the contributing drainage area is less than one square mile, or areas projected by levees from the base flood.
<b>Interest Appraised:</b>	Leased Fee Estate
<b>Date of Value:</b>	July 3, 2002
<b>Report Date:</b>	January 4, 2005
<b>Ownership:</b>	Friends of Legal Services
<b>Land Area:</b>	32,159 square feet
<b>Building Area:</b>	The property is improved with a five-story, class-B office building that contains approximately 84,664 square feet of gross building area and 63,833 square feet of rental area. In addition, the property has a two-level parking garage located adjacent to and partially below the office portions of the building. Initial redevelopment of the property as office was completed in 1989.
<b>Zoning</b>	W-2
<b>Risk Assessment:</b>	The property is located on the north side of K Street approximately three blocks west of its intersection with Wisconsin Avenue. Geographically, it is described as situated between the Potomac River to the south and the C&O Canal to the north. The building is partially obscured by the Whitehurst Freeway at the first three levels. The site line from the rear of the property offers an unobstructed view of the C&O Canal.



## ***Summary of Salient Facts & Conclusions***

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Although the property offers a 'Georgetown address' and ostensibly views of the River for the upper floors, the building is not well located along K Street and offers generally obstructed views of the River. Traffic noise is reportedly a minor issue at peak rush hour periods.

For purposes of this retrospective report, we are assuming that the property is fully leased / stabilized to multiple tenants paying a typical market rate for the space.

As of the date of value, the market rent for Class-B space was in the mid-to-high \$20s per square foot. Market vacancy rates for class A & B office space are about 5.4% for the Georgetown submarket and about 4.5%, Citywide.

Overall, it is our view that the property known as Georgetown Landings, 3333 K Street, NW, would be reasonably well received by investors for urban office product. In the larger scope, Washington DC remains as one of the most secure and one of lowest-price Capital cities in the world.

### **Environmental Conditions:**

The estimated value herein reflects the total value of the subject property as if unaffected by hazardous substances. The presence of hazardous substances, if any, may have a negative influence on value. The consideration of the effects on value is beyond the purpose and scope of this appraisal.

### **Americans with Disabilities Act:**

We are not experts in these matters and suggest that a qualified consultant who is familiar with both the requirements of the ADA and local building codes perform a detailed inspection to determine compliance. Accordingly, unless otherwise stated, the value opinion assumes the property is currently in compliance with the provisions of the ADA. Any deficiencies could have a negative impact on value.

### **Highest and Best Use: As-improved**

Continued use as-is

## ***Summary of Salient Facts & Conclusions***

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### ***Value Indications***

Cost Approach:	Not used
Sales Comparison Approach:	\$13,090,000 to \$13,720,000
Income Approach	
Direct Capitalization	\$12,300,000 to \$13,000,000

### **Special Assumptions:**

Please refer to the complete list of special and general assumptions and limiting conditions included in the Addenda section of this report.

Note, this is a retrospective valuation with a July 3, 2002, date of value. Market and economic conditions as well as financial assumptions are presented as of this date. Under the concept of a retrospective value, factors that may subsequently be known should not necessarily be applied unless a reasonable investor would have known that information as of the date of value.

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***Property Ownership and Recent History***

As of the date of value, Friends of the Legal Services Corporation. Owned the property. It was acquired by the ownership on July 3, 2002. The purchase price was \$14,200,000.

The property was previously owned by 3333 K Street Associates. The property traded with about 60% of space vacant. To the best of our knowledge there were no other relevant transactions recorded within the preceding three years of the date of value.

***Purpose and Function of the Appraisal***

The purpose of this appraisal is to estimate the retrospective market value of the leased fee estate as of July 3, 2004.

The function of this appraisal is to provide a value for internal management purposes.

***Scope of the Appraisal***

In the process of preparing this appraisal, we inspected the property, reviewed comparable market data and related documents, conducted market research, ascertained prices and rents and expenses of comparable properties, and developed a value estimate by the sales comparison approach and income approaches to value.

***Date of Property Inspection and Value***

Stuart I. Smith inspected the property on January 4, 2005. The date of value for this report is retrospective to July 3, 2002.

***Property Rights Appraised***

The market value as encumbered; or, leased-fee interest.

***Definitions of Value, Interest Appraised, and Other Pertinent Terms***

The definition of *market value* is taken from the Uniformed Standards of Professional Appraisal Practice of the Appraisal Institute, as follows:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

### ***Other Terms and Definitions***

Definitions of pertinent terms taken from the *Dictionary of Real Estate Appraisal*, Second Edition (1989), published by the American Institute of Real Estate Appraisers, are as follows:

#### ***Fee Simple Estate***

Implies and ownership interest which is unencumbered by any other interest or estate.

#### ***Leased Fee Estate***

An ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others; usually consists of the right to receive rent and the right to repossession at the termination of the lease.

#### ***Market Rent***

The rental income that a property would most probably command on the open market indicated by current rents paid and asked for comparable space as of the date of the appraisal.

#### ***Value "as-is"***

Value as-is on the appraisal date is equal to market value of a property in the condition observed upon inspection and as it physically and legally exists without hypothetical conditions, assumptions or qualifications as of the date the appraisal is prepared; this could apply to a proposed property or non-stabilized property as of the appraisal date; for a non-stabilized property, this would include all lease-up costs such as rent loss, concessions, tenant improvements and leasing commissions.

#### ***Cash Equivalent***

A price expressed in terms of cash, as distinguished from a price expressed totally or partly in terms of the face amounts of notes or other securities that cannot be sold at their face amounts.

Definitions of other terms taken from various sources are as follows:

#### ***Stabilized Occupancy***

Reflects the value of the property appraised upon reaching a long-term sustainable occupancy

**Floor Area Ratio**

A figure that expresses the total gross floor area as a multiple of the area of the lot. This figure is determined by dividing the gross floor area of all buildings on a lot by the area of that lot.

**Exposure Time**

Reasonable exposure is always presumed to precede the effective date of appraisal. Exposure time may be defined as follows:

*The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of appraisal; a retrospective opinion based upon an analysis of past events assuming a competitive and open market..*

Based on our market analysis, it is our opinion that a reasonable exposure for an office-building asset comparable to the subject property located in the District of Columbia office market, as of the date of value, is less than 6 months.

## Section I Introduction

### Identification of Property

The property contains approximately 63,833 square feet of net rentable area and an estimated 84,664 square feet of above grade gross building area in a five-story class-B office building. There is garage parking for about 92 cars. The improvements are situated in lot 1184, square 0049, recorded among the land records of the District of Columbia. The asset is located on the north side of K Street, approximately three blocks west of the "bottom of Wisconsin Avenue".

The site is a corner lot, however, its K-Street façade is partially obscured by the Whitehurst Freeway. This part of K Street is not a pedestrian friendly area and because the street dead-ends under the Key Bridge there is little vehicular traffic.



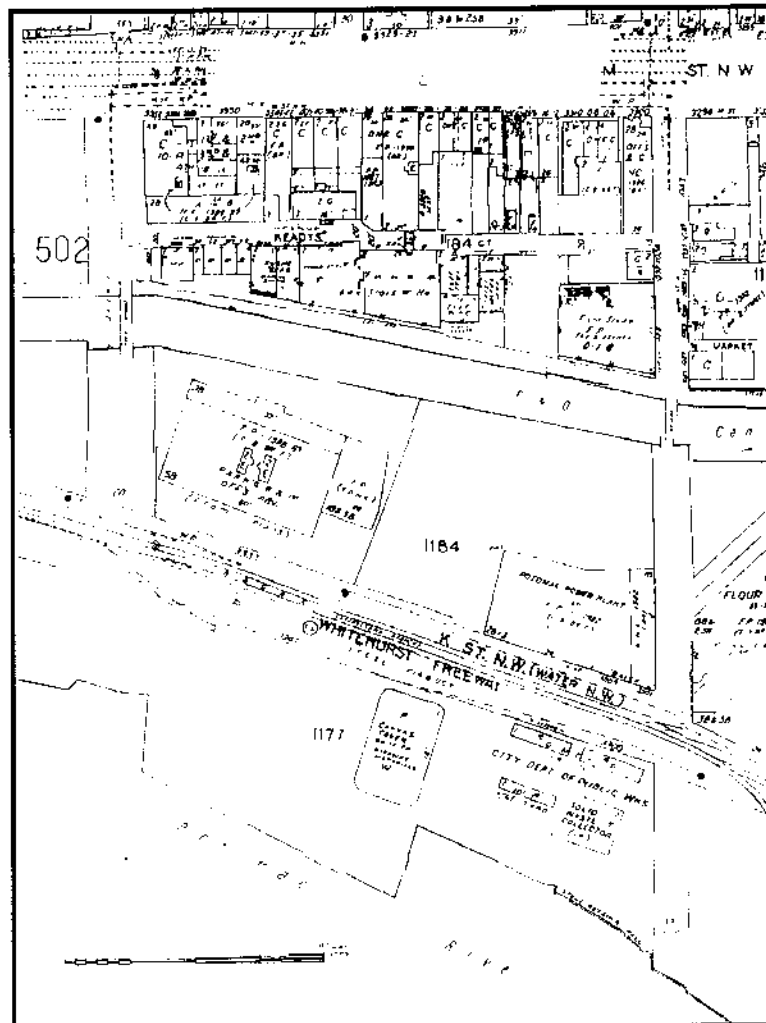
The site and floor plate are generally rectangular and offer an efficient layout. Adjacent uses are predominantly commercial, office and residential

Thirty-fourth Street and the nearby Georgetown shopping area can be reached by crossing over the C&O Canal using an adjacent pedestrian bridge.

The building has been well maintained and, in our view, reflects relatively little accrued depreciation / deferred maintenance.

**Legal Description**

The property can be identified as lot 0049 in square 1184, among the land records of the District of Columbia. The property can also be identified by its street address as 3333 K Street, NW, Washington, DC. Assessment records indicated that the site contains 32,159 square feet of land area (~0.738 acres), as shown below:





## **Section II**

### **Economic Context**

Land provides the foundation for the social and economic activities of people and is both a commodity and a source of wealth. Land value is an economic concept with an evolved common understanding of its attributes -- uniqueness, immobility, durability, finite supply and utility. Real estate appraisers view these attributes as the foundation of real estate's value. Within this context "real estate" is the physical land and appurtenances affixed to the land, e.g. structures. This concept is distinct from "real property" which includes all interests benefits and rights inherent in the ownership of physical real estate.

A real estate market is simply the interaction of individuals who exchange real property rights for other assets. With regard to "value and real estate", value is extrinsic to the commodity, good or service to which it is ascribed; it is created in the minds of the individuals who constitute the market. The relationships that create value are complex, values change when the factors that influence value change. Typically four interdependent economic factors create value: utility, scarcity, desire and effective purchasing power. Utility is the ability of a product to satisfy a human want, need or desire. Scarcity is the present or anticipated supply of an item relative to demand for it. Desire is a purchaser's wish for an item to satisfy human needs and effective purchasing power is the ability of an individual or group to participate in a market.

The complex interaction of the four factors that create value is reflected in the basic principles of supply and demand. The following examines those factors of supply and demand in terms of:

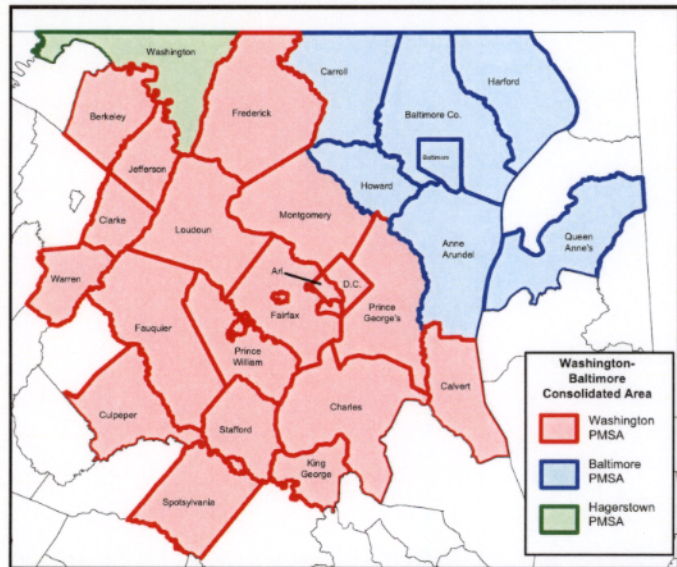
- Demographics
- Economic trends
- Governmental influences, and
- Financial factors

Washington, DC is, arguably, the most important city in the world! It is the seat of government for the most powerful country in the world, economically, militarily and culturally. The export of free-market capitalism and our MTV-era pop culture has placed the United States in the role as the most envied country in the world and Washington, as capital of the United States, is at its epicenter.

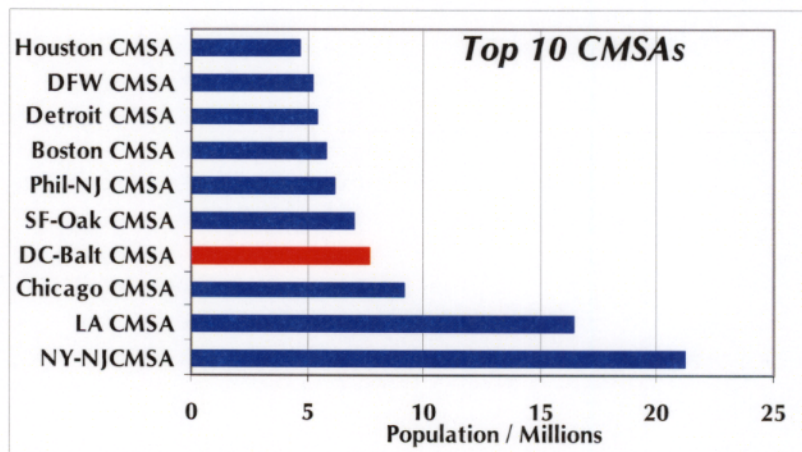
**REGIONAL DELINEATION**

The regional area used for many of our analyses is the Washington Primary Metropolitan Statistical Area (PMSA). This regional area is depicted in the map below and includes the District of Columbia, as well as counties and independent cities in Maryland, Virginia and West Virginia. The majority of the data used in this analysis is drawn from either the US Census or Claritas, Inc. data base. These statistics reflect the year-2000 census and the most current updates.

Data are shown for the member jurisdictions, comprising the Washington Metropolitan Statistical Area, to include: the District of Columbia; Frederick, Montgomery and Prince George's Counties in Maryland; and Fairfax, Arlington, Loudoun and Prince William Counties, and the independent cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park in Virginia.



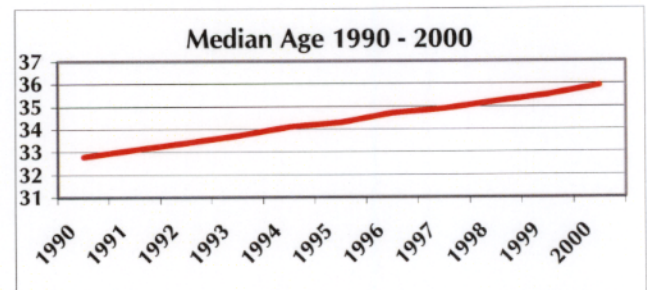
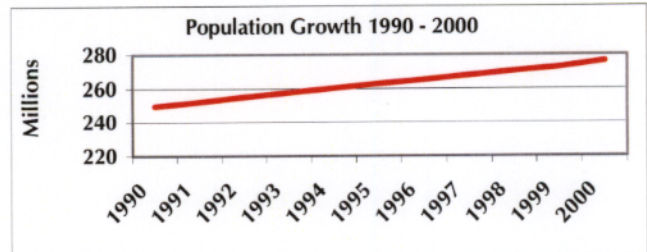
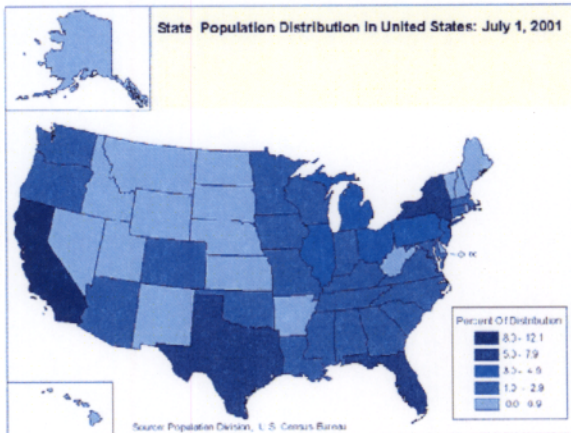
Washington is also part of the Washington-Baltimore "CMSA" or Combined Metropolitan Statistical Area. Under this concept both the Baltimore, Maryland PMSA and the Hagerstown, Maryland PMSA are included, making the region rank number 4 in the country by population size as shown below. Interestingly, approximately 31% of the country's total metropolitan area population resided in the top 10 metropolitan statistical areas.



## Economic Context

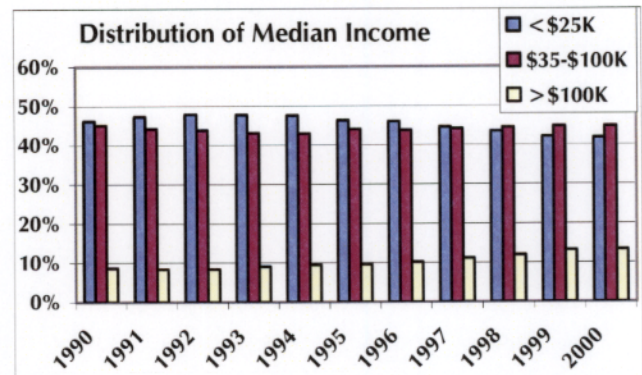
Washington Metropolitan Area  
2002 - 2003

On a macro basis, we find continued strong growth in population with national shifts toward the southern and western states.



In terms of median age, the national population continues to grow older with the median increases from just under 33 years in 1990 to just below 36 years in 2000.

As the population centers have shifted and the populous have grown old, we have also grown wealthier. The largest percentage growth in income being in the over \$100,000 median range – at an estimated 13.4% of the population, up from 8.7% in 1990.

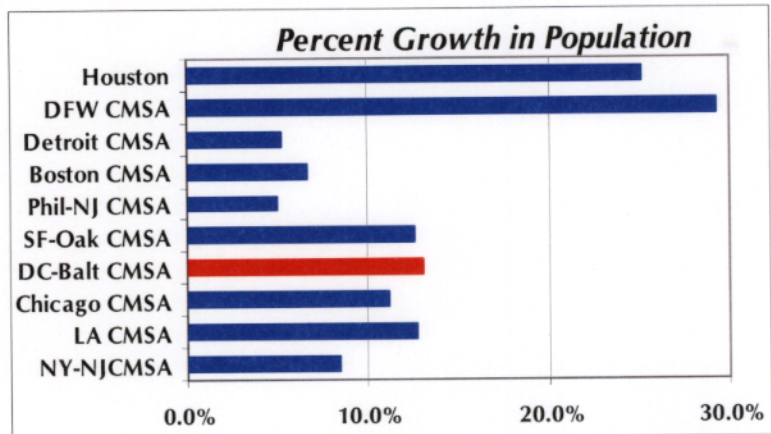


**DEMOGRAPHICS**

**Population Size and Growth**

At the CMSA level, the following table illustrates the relative growth rates over the last decade for the 10-largest statistical areas. Clearly this targeted view of national growth patterns shows a comparable shift in population to the south and west.

Within this category of the 10-largest CMSAs, the DC-Baltimore CMSA is among the top 3 'fastest' growing population centers, behind Houston and Dallas-Ft. Worth and in a virtual percentage tie for growth over the last decade with the San Francisco-Oakland and the Los Angeles CMSAs.



This rate of growth is expected to continue at about the same pace per year over the next ten years. The area's generally stable economy, mild climate, cultural attractions, as well as its enduring political and related business base makes it one of the most appealing metropolitan regions throughout the United States.

Within the Washington, PMSA, the suburban counties of Fairfax (VA) and Montgomery (MD) are the largest, followed by Prince George's, the city of Washington, and Prince William. The independent cities of Alexandria, Manassas, Fairfax City and Manassas Park are the smallest components.

On an overall basis, the Bureau of Economic Analysis highlights the following facts for the Washington MSA – DC-MD-VA-WV

- In year 2000, the per capital personal income (PCPI) was \$40,046. This ranked 12<sup>th</sup> in the United States and was 136 percent of the national average of \$29,469. In 1990, the PCPI was \$26,790 and ranked 8<sup>th</sup> in the US. The average annual growth rate of PCPI over the past 10-years was 4.1 percent versus 4.2 percent for the nation.
- In 2000, Washington had a total personal income of \$198.2 billion. The average annual growth rate for total personal income over the past 10 years was 5.7 percent. The average annual growth rate for the nation was 5.5 percent.

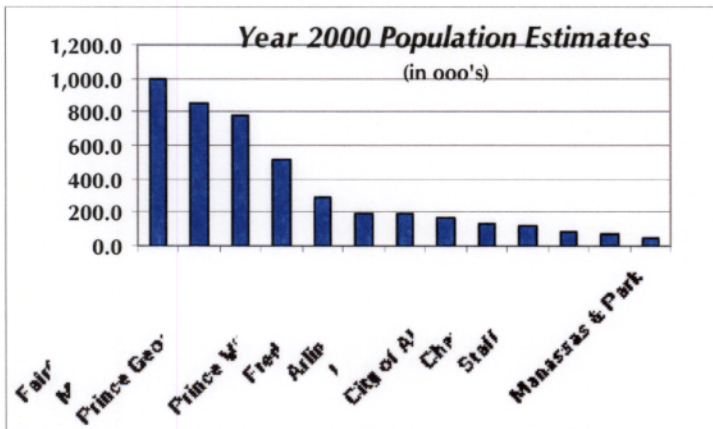
## Economic Context

Washington Metropolitan Area  
2002 - 2003

- Employee earnings in Washington increased from \$94.9 billion in 1990 to \$166.6 billion in 2000, an average annual growth rate of 5.8 percent. The largest industries in 2000 were services; federal civilian government 17.6 percent; and state and local government, 7.1 percent. In 1990, the largest industries were services; 32.6 percent of earnings; federal and civilian government 21.1 percent; and state and local government 8.7 percent. Of the industries that accounted for at least 5 percent of earnings in 2000, the slowest growth from 1990 to 2000 was retail trade (5.9 percent of earnings in 2000), which increased at an average annual rate of 3.3 percent, the fastest was finance, insurance and real estate.

Within this larger context, we now examine more narrow trends and conditions for the Washington MSA.

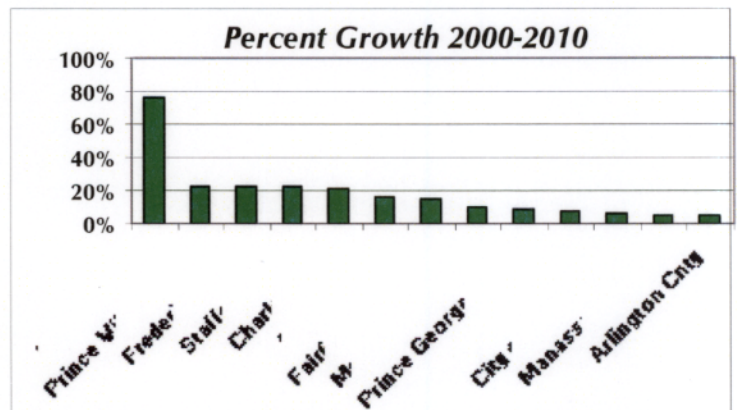
Interestingly, in terms of earlier Census projections, the population growth for the City of Washington DC is projected to increase by ~7% over the next decade. Previous estimates consistently showed the City with a declining population base.



Currently, the largest counties in 2000 are Fairfax, Montgomery and Prince Georges Counties.

Over the next decade, major growth is anticipated for Loudoun, Prince William, Frederick and Stafford

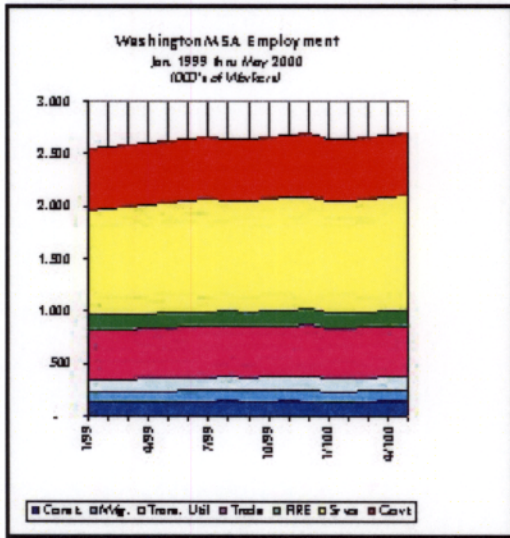
Counties in Virginia and Charles County in southern Maryland. Loudoun County is expected to growth some 77% by 2010. The current "largest" counties of Fairfax, Montgomery and Prince Georges are projected to grow by 15%, 11% and 9% respectively.



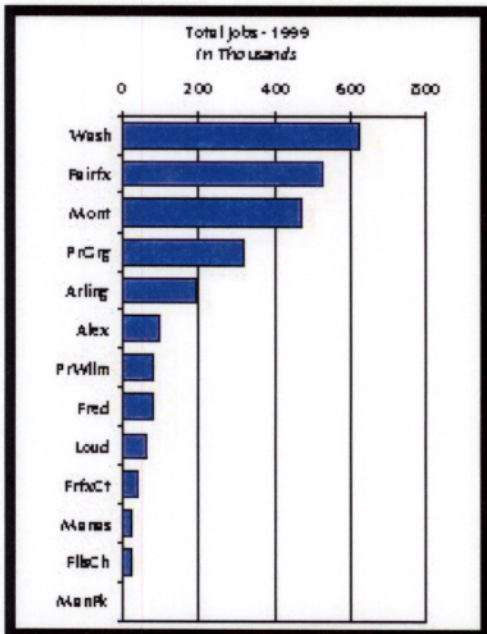
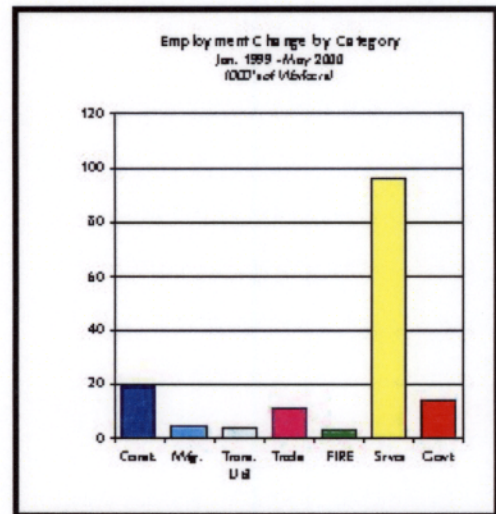
Grouping these counties by "central jurisdictions", "Inner Suburbs" and "Outer Suburbs", the growth patterns over the next decade anticipate 6.5%; 11.5%; and, 30.7%; respectively.

**Employment Trends**

Although ranking fifth in population, the region ranks fourth in total jobs of all metropolitan regions in the nation. There is a perception that the area's economy may have suffered in the mid-1990's as a result of reductions in federal employment and contracting. It now appears that instead of an absolute reduction, a process of "privatizing" has occurred where job increases in professional services have exceeded the contractions in government jobs. Over the last two reported years, government employment at all levels has actually increased, while growth in the services sector



(including professional services) continues to drive gains for the regional economy.

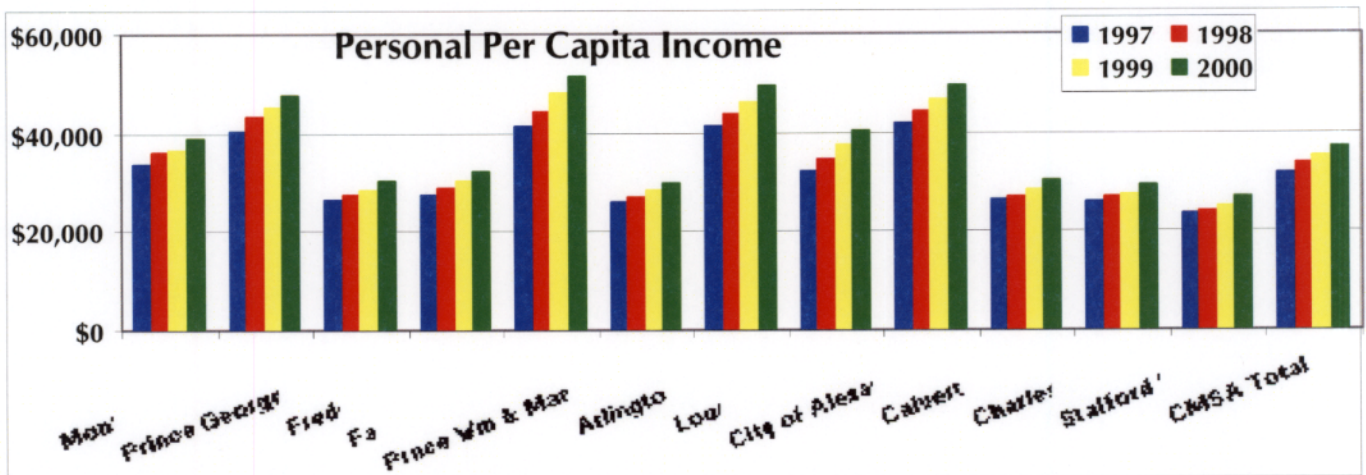


## Economic Context

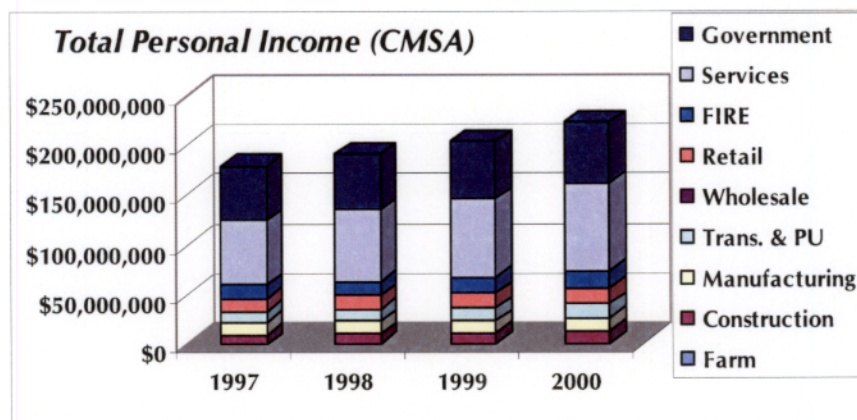
Washington Metropolitan Area  
2002 - 2003

### Personal Income

Of the component jurisdictions of the Washington metropolitan area, Montgomery, Fairfax and Arlington counties and the City of Alexandria are the leaders, followed by Loudoun County and the city of Washington.



In terms of total personal income, the total "pool" of personal income available for housing and personal consumption for the CMSA (non-farm and farm components) have increased from \$247.6 billion in 1997 to \$303.2 billion in 2000. This represents a 22.5% increase over the period or roughly 7.5% per year.



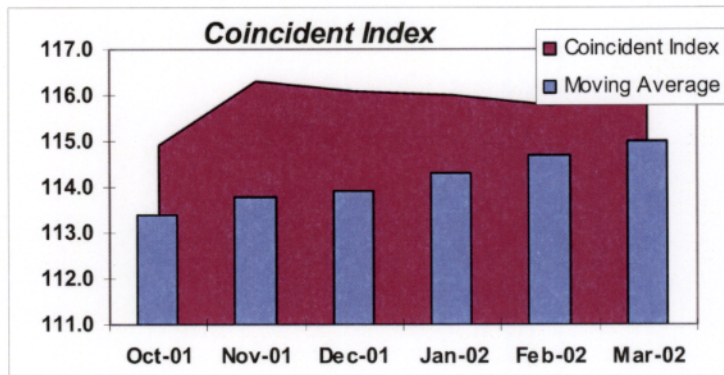
Future income growth is anticipated to be similar but a somewhat slower than that experienced during the 1990's.

**ECONOMIC TRENDS**

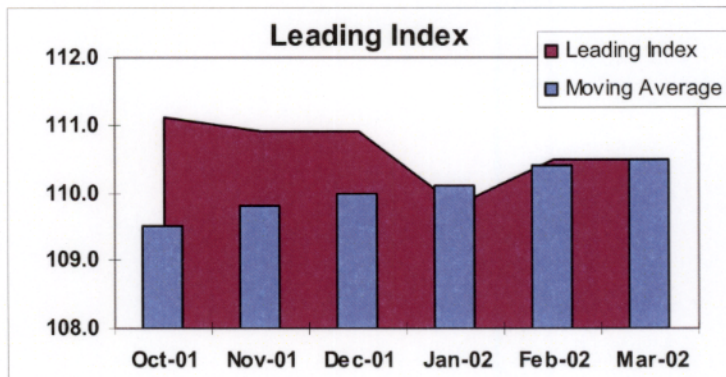
**Economic Indicators**

The Metropolitan Washington "Coincident" and "Leading" Economic Indices are compiled by The Institute of Public Policy at George Mason University. These charts and the following narrative are taken from those reports. (The Leading Index forecasts the state of the economy nine to twelve months into the future. The current state of the economy is represented by the Coincident Index. Moving averages help interpret the indices.)

The Washington area economy increased to 104.8 in March, for a gain of 4.04 percent and its strongest monthly gain in more than a year. The Index's March gain built on its more modest increase in February reversing a negative trend extending back for five consecutive months to September 2001. However, even with the strong gain in March, the Index is still 7.5 percent below its March 2001 level. Yet, the strength of the Area economy in March is demonstrated by all of the Index's four component indicators being positive for the first time in more than a year – wage & salary employment increased; consumer confidence was positive; domestic airport passenger volume grew; and nondurable goods retail sales increased.



The Washington Leading Index is designed to forecast the performance of the metropolitan area economy nine to twelve months in advance. The Leading Index increased to 11.15 for a gain of 1.8 percent. The Index's March increase reversed a two-month decline. The Leading Index has now been up in four of the last six months and is now tracking above its twelve-month moving average. In March, four of the Index's five components contributed to its gain – total residential permits increased sharply in March; consumer expectations increased; The Help Wanted Index increased; initial claims for unemployment insurance decreased; while durable goods retail sales declined following two monthly increases.





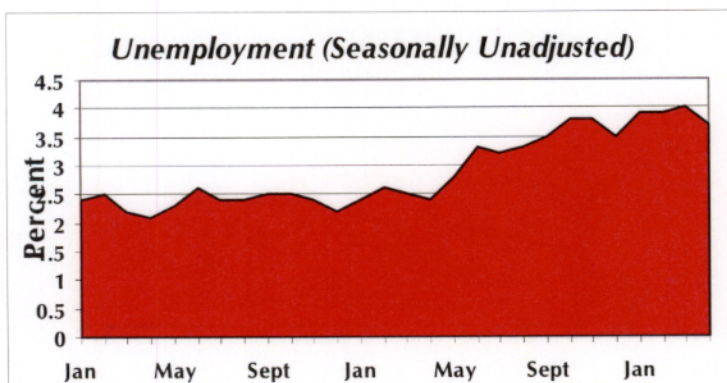
## Economic Context

Washington Metropolitan Area  
2002 - 2003

The sharp increase in the Coincident Index, with all four components positive, confirms the economy's renewed expansion. While the Index's value in March remained well below its values at the peak of the last expansion, the economy appears well positioned for accelerating growth over the remainder of the year.

The Leading Index has regained its losses following the September 11<sup>th</sup> terrorist attack. From its low point in September 2001, the Leading Index has grown 4.3 percent. In fact, the Leading Index in March surpassed its levels in all months during 2001 and now equals its October 2001 level. With gains in four of the last six months, it appears that the leading Index has confirmed its turning signal and its twelve-month moving average trend line should not move higher over the remainder of the year. With a nine to twelve month lead in the Coincident Index, the turning point for the broader economy should occur by end of the second quarter.

During much of the last 2+ years, the **unemployment rate** has been relatively constant, ranging from an annual average of 2.4 percent in CY-2000 to 3.1 percent in CY 2001. Beginning September / October 2001, the index has shown an uptick reaching a maximum 4.0 percent in March of 2002. The current unemployment rate for the Washington Area MSA/PMSA is 3.7 percent as of April 2002; down 0.3 percent from its March high.



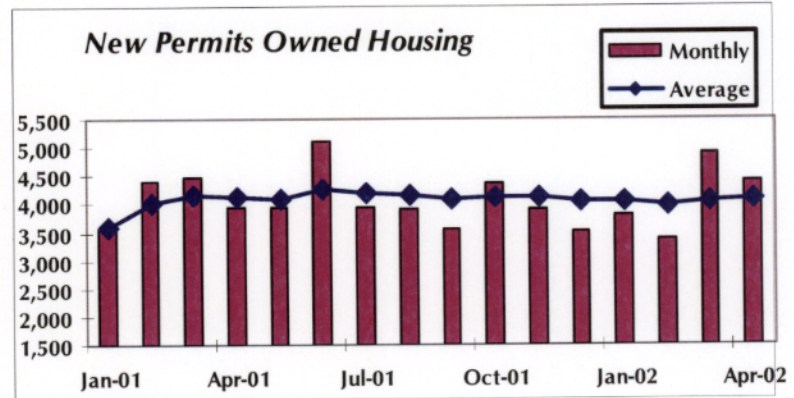
Numerically, of the under 3-million persons in the local labor force, the number of unemployed increased by 18.5 thousand from a year-end 2001 average of 96.5 thousand to 103.4 thousand persons as of April 2002.

## Economic Context

Washington Metropolitan Area  
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**Residential development** activity has been positive for the past few months following its Fall 2001 low point.

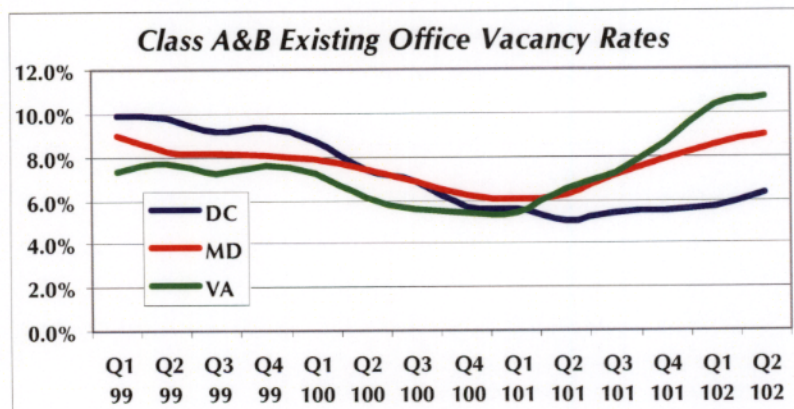
On a moving average basis beginning January 2001, residential building permit volume for the Washington MSA hovered about 4,000 units per month. Although there was some slow down from the high of  $\pm 5,100$  units in June 2001, the markets remain strong with the moving average very consistent over the last 12-calendar months.



**Office vacancy** rates which were in the 4 to 6 percent range at the end of Cy-2000, have jumped into the 6 to 10 percent range. Realtors generally regard vacancy rates below 10% as "tight", and 5% as a "frictional" rate below which new construction is typically warranted. According to COSTAR, a data service for commercial property, vacancy rates in Washington were as low as 5.05% at the end of the 2<sup>nd</sup> quarter 200,1 and have risen, as of the 2<sup>nd</sup> quarter of 2002, to 6.3%.

During the same time, Maryland (Montgomery & Prince George's Counties) vacancy rates increased from 6.3% to just under 9%; and for Northern Virginia, the increase has been from 6.5% to 10.7%.

Interestingly, just as the earlier high demand for space was directly related to the "dot.com" industry, so too, is the current downturn; particularly in the Dulles Corridor submarkets. The market anticipates that much of northern Virginia will regain some of its luster over the next 12 to 24 months.



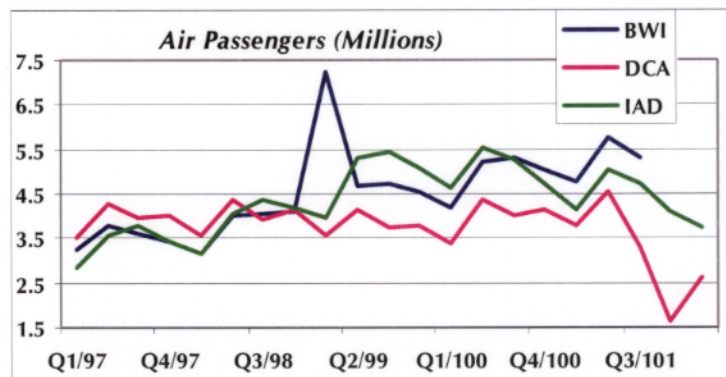
## Economic Context

Washington Metropolitan Area  
2002 - 2003

The District of Columbia office sector is one of the nation's premier markets. Despite economic exigencies, the city-proper has held up with vacancy rates in the 6 to 7 percent rates and rental rates continuing to grow. However, the Washington suburbs have not fared so well with vacancies in Suburban Maryland and Northern Virginia nearly doubling over the last year. Most market watchers expect vacancies to climb somewhat, with rental gains remaining steady in the 2 to 3% per year range.

Notwithstanding the events of September 11<sup>th</sup>, **Tourism** remains a major industry for Washington, in terms of both business travel and personal touring. Air passenger volume of all

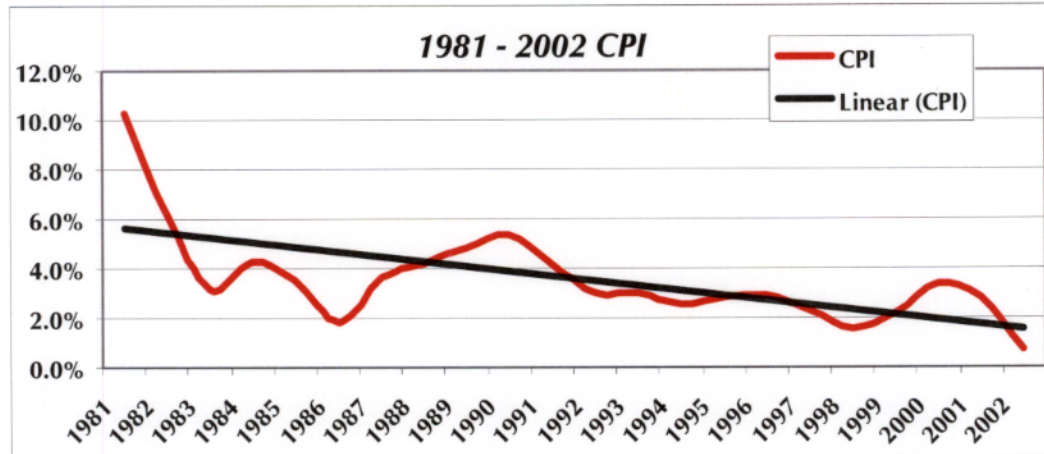
three major regional airports has been gradually increasing over the last four years, reflecting the completion of major improvements at each terminal. Reagan National Airport last year completed a multi-million dollar construction of a new terminal, one of the most modern in the world, and a new parking garage. Dulles is undergoing a significant expansion that doubled the size of the distinctive main terminal. BWI has also remodeled its terminal and added additional air handling facilities to enable further expansion of its operations.



Despite industry challenges, if the economy revives by late 2002 and the national vulnerabilities and uncertainties surrounding security continue to subside, the emerging trend toward a return to historic volumes of passenger traffic should materialize.

**INFLATION AND ESCALATION RATES**

The **Consumer Price Index (CPI)** was initiated in 1912 and has been measured on a monthly basis since then. Intended to track the change in the cost of living from year to year, it measures the cost of a market-basket of goods and services monthly and compares those prices with the previous months cost.

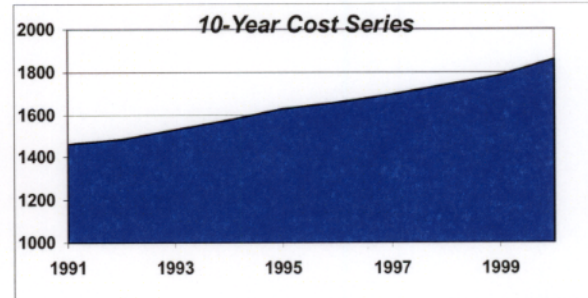
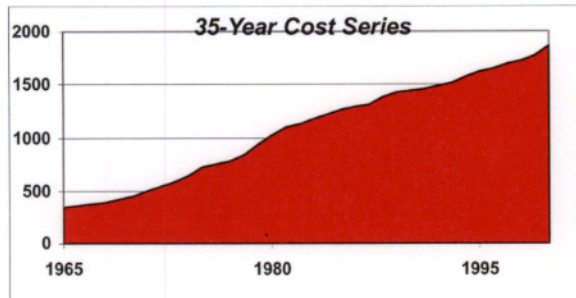


For the period 1981 to 2002, the 'long term' cost of living was ~5.3% annually. This compares with ~5.9% for the period 1980 to 1990 showing the influence of the moderation in inflation during the 1990's.

For the period, 1990 to 2002, the average annual inflation rate has been ~3.0%. The most recent data reflects CPI, on a seasonally adjusted annual rate of 2.5% in the third quarter of 2002. The historical data and the current emphasis on monetary policy with inflation as the number-one-enemy of long-term economic growth, argues for a short term rate of between 2.5 and 3.0 percent. This estimated range of growth in the CPI is also consistent with assumptions being used by dominant investors in commercial real estate.

**Construction Cost Index**

Using average construction cost indices for fireproofed steel frame facilities as a surrogate for industry trends, the following tables illustrate the climb in costs since the 1960's. Overall, we find that costs have had a gentle rise through the early 1980's, a dramatic acceleration in costs through the late 1980's and early 1990's, with a leveling off in costs for the period 1991 through 2002.



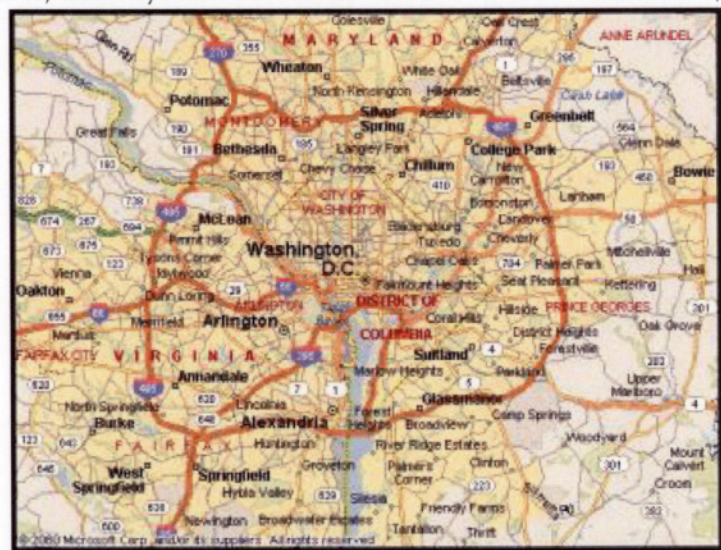
**GOVERNMENTAL INFLUENCES**

In terms of governmental influences we examined uses and impositions mandated by society. In our discussion, these influences manifest in several major ways to include: roads and public transportation, government borrowing and state and local taxes.

**Roads and Public Transportation**

On the one hand the Washington region benefits from a very strong transportation system replete with federal highways, interstates, beltways and connector routes. On the other hand, continued growth has pushed road capacities to overflowing in some jurisdictions – notably the I-95 and Route 66 corridors in Northern Virginia, and the I-270 corridor in suburban Maryland as well as the shared congestion on the Washington Beltway, Route 495, which encircles the City and provides the single north/south link to Interstate 95.

The adjacent map depicts the major roadways and their juxtaposition to the counties in the Metro-Region.



## Economic Context

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In addition, to the complex maze of roads, bridges and highways, the Washington area is served by a subway or MetroRail system initially developed in the 1970's to complement public bus transportation. The development of the MetroRail system has been one of the most significant development factors affecting real estate projects over the last two decades.

With the completion of the original 103-mile system set for 2001, the Washington Metropolitan Area Transit Authority is focused on doubling transit ridership by the year 2025 through the Transit Service Expansion Plan which includes expanding access through station improvements and more feeder buses as well as new stations.

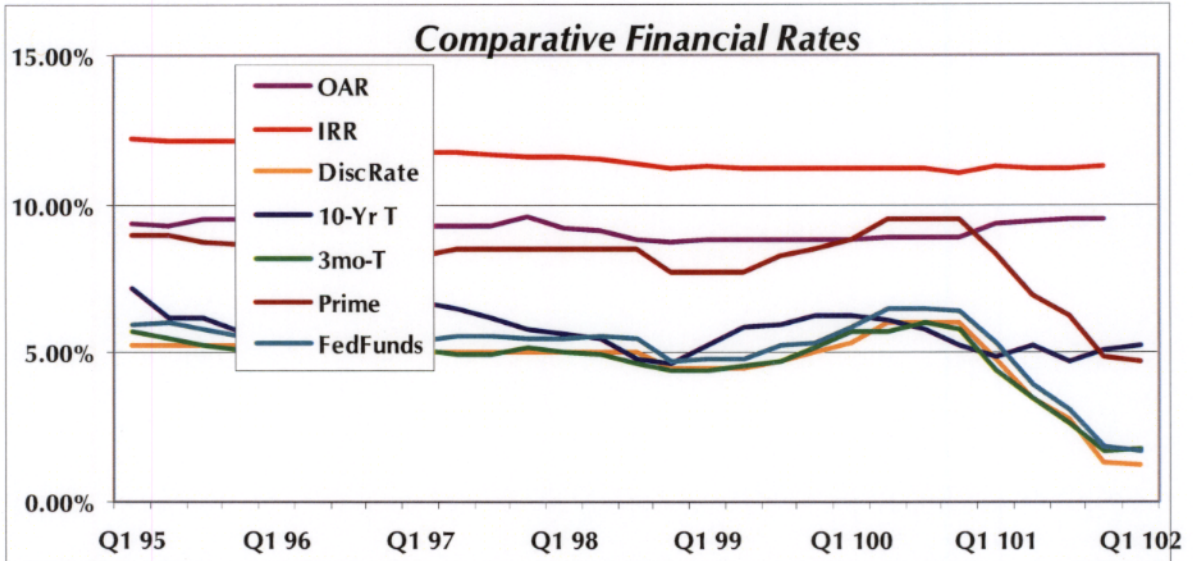
Transit to the central employment areas is also enhanced by growing MARC and VRE ridership.



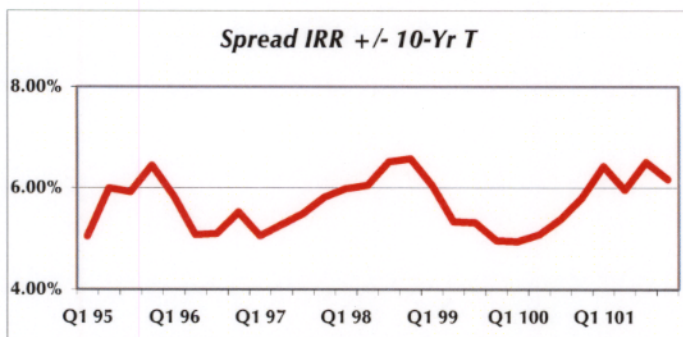
## Government and Financial Influences

Monetary policy has become the major tool of the Federal government to influence the conduct of the economy. The central manager for money and credit is the Federal Reserve. The primary manifestations of monetary policy through the Federal Reserve are reserve requirements, the discount and Federal funds rates, and the operations of the Federal Open market Committee. Key rates reflecting the movement of monetary policy include the "prime rate", the "discount rate", the "Federal funds rate" and various Treasury bill and bond rates.

The following chart provides some perspective of these rates over the last 10-years:



Within this chart, we have overlaid an average national capitalization rate and average yield rate for CBD office space (taken from a publication of the Appraisal Institute) which shows the close relationship among the various financial rates and the earnings rate demanded by investors in real estate. The rates presented correlate the apparent lagged reaction of real estate investors to changes in underlying financial conditions, the close trending between real estate rates and the 10-year Treasury, and the apparent (presumed short-term) anomaly of higher cap and yield rates with lower rate trends for other financial instruments.



Maximum:	6.6%
Minimum:	4.9%
Average:	5.7%

The adjacent chart illustrates the rather stable, albeit lagged, relationship between investment grade yield rates and 10-year Treasury bond rates, which approximate the financing term for permanent debt. The spread has averaged 570 basis points since 1995 with a range of from 490 to 660 basis points.

**Real Estate Taxes**

Another governmental influence is real estate taxes. Typically, in the Metro Region taxes are predicated on what is described as "market value". Thus, while the concept is comparable among jurisdictions, the imposition of rates differs. The following presents the current commercial rates for several of the major jurisdictions:

Jurisdiction	Assessed Value as % of Market Value	Tax Rate per Hundred Dollars of Assessed Value
Washington DC	100%	\$1.850
Montgomery County, MD	100%	\$1.105
Fairfax County	100%	\$1.230
Arlington County	100%	\$1.023
City of Alexandria	100%	\$1.110

**Economic Outlook**

By examining the factors of supply and demand we are able to develop a picture of the local economy.

Overall, the economic outlook for the metropolitan area continues to be one of great strength and promise. Certain specific cautions need to be noted for some land uses and locations, but the underlying economic strength of the region is vital, and appears poised for continued, but moderately paced growth. The preceding review of economic trends allows us to base these considerations on certain shared views.

In the Washington, DC, metropolitan area, the federal government is the dominant economic force, through its employment procurement and military and nonmilitary installations. According to Dr. Stephen Fuller, professor of public policy at George Mason University, the "DC metropolitan area is starkly different from the rest of Virginia and Maryland. What makes it different is the economic influence of the federal government, increasingly due to federal procurement rather than employment. The largest industries -- after the federal government -- are technology, internal business, hospitality and construction. The increasingly diversified nature of the economic base offset the effects of downsizing of federal employment in the 1990s, accounted for accelerating economic growth over the last five years, and will provide the foundation for future growth".

After years of disinvestments and a declining residential base, the District of Columbia is experiencing an increase in residential investment and development, emerging as one of the strongest housing markets along the East Coast, so reports the Urban Land Institute, May 2002. This investment activity covers the full spectrum of the residential product, including renovation and conversion of existing units, high-end rentals and condominiums, and a mix of affordable units. Much of this development is located across the city, concentrated in those areas with underused property and sites, attracting empty nesters and young urban dwellers and families.



Over the last 20-years, economic growth in Northern Virginia has been driven by information technology, Internet services, network communications and professional services. Emerging industries include energy, satellites and biotechnology. The region's strengths have been technology services, software and applications rather than hardware.

Maryland's economic performance increased in the late 1990s largely due to the state's strong embrace of the technology sector. While the Maryland suburbs have a variety of technology-related firms, they are best known for the biosciences industry, which is centered in Montgomery County along a stretch of Interstate 270, dubbed "DNA Alley".

More specifically, we anticipate the following general market conditions:

**Residential:**

Growth is expected to continue region-wide. Generally speaking, Virginia jurisdictions have been more receptive to residential growth, while Maryland jurisdictions have been more concerned with growth policy issues. However, as the close-in locations attain build-out, residential growth will tend to be dispersed over an expanding and more remote suburban fringe. In terms of residentially improved properties, neighborhood-specific conditions will tend to have the most direct effect on value and desirability.

Metropolitan Washington's multi-family market has become one of the nation's strongest. The area's high quality of life has always been a draw to traditional apartment dwellers.

Short and long-term interest rates remain low, supporting a robust housing market. This, as well as other economic and industry factors, have contributed to a slowing in the multi-family markets, with some increases in vacancy rates, a slow down in rental increases and the selective introduction of concessions. Nationally, apartment developers are facing the problem of overbuilding and the consensus of experts who believe that the multi-family sector will underperform for all of 2002. Interestingly, however, national institutional investor's demand for class-A apartments in good markets has remained strong with investment allocations shifting to favor the Washington area.

Despite challenges in this sector, overall demand and absorption in the metropolitan-area will probably hold up with some lower drift in rental rate increases, continued concessions, and a small rise in vacancy levels as new projects are introduced and as the impact of 9/11 works its way through the local economy.

## ***Economic Context***

*Washington Metropolitan Area  
2002 - 2003*

### **Office:**

The downturn in the during the last 18 months has had a decided effect on commercial real estate. The millions of square feet nationally, that have been dumped back in the market has been caused by the economy, not a lack of discipline as occurred in the early 1990s. Real estate is fully dependent on an economic recovery to jumpstart the real estate markets, so says, the Real Estate Research Corporation (RERC). RERC does not see any recognizable positive trends emerging nationally for real estate until early 2003. Although capital is available, strict underwriting and issues involving insurance have slowed or prevented some deals from taking place. Unlike other business cycles, delinquency levels and foreclosure rates are not significant issues and are not expected to be of concern as most properties are not in an over-leveraged position.

On a national basis, RERC, reports increasing office vacancies and lower rents, which are expected to continue throughout 2002, spurred by new construction coming on-line, business mergers, profit losses and employee layoffs. Sublease space and concessions will continue to hamper the national office market over the next year. Existing properties with dot-com level incomes will see the going-in overall capitalization rate exceed the terminal overall capitalization rate – an inverted rate structure.

Notwithstanding the national trends, Washington, DC, remains one of the strongest office markets in the country. The Federal government's presence, along with the lack of quality space has kept supply and demand in relative equilibrium. Although demand for space was down for year-end 2001 – largely as a result of "9/11" and continued economic fallout out in the "dot.com" industry – it is expected to pick up as government leasing activity increases and as increased federal procurements take place.

Currently, the Northern Virginia market and, in particular, the Dulles Corridor, appears to be overwhelmed by the economic downturn in the "dot.com" industry with significant sublet vacancies. Most analysts believe that this economically driven downturn is not a long-term issue with new incubator industries eventually absorbing the vacant space.

The Maryland markets (particularly Montgomery County) have been more stable, building on the successes of the medical and bio-tech industries. Most analysts do not see overbuilding or industry slow-down as a major risk over the next few years. Clearly, the market's perception is that Maryland's bio-tech industry is viewed as more stable and viable for the long term than Northern Virginia's volatile dot-com enterprises. However, this very trend and the resulting escalating price of land in Montgomery County, is driving biotech-manufacturing operations further out I-270 into Frederick County.

## **Economic Context**

*Washington Metropolitan Area  
2002 - 2003*

### **Retail:**

To a degree, the success and attractiveness of the Washington region and retail market has been this area's biggest challenge. The region has long been recognized as a powerful consumer market, and a choice target for most of the national and regional retailers, and shopping center developers. Overall, the region is heavily served by retail outlets.

Nationally, the U.S. continues to be over-stored. According to RERC, while real personal growth, or the amount of money that consumers have available to spend, has declined during the recent recession, the supply growth has increased, pushing the current inventory of shopping center space to an all-time high of 10 square feet per capita. Due to the large amount of supply, which has led to strong competition in many areas, rent rates have decreased. Although investment conditions continued down for regional malls and for power centers, they were up for neighborhood/community centers. Neighborhood/community centers continue to perform well due to continued purchases of non-discretionary items by consumers from various discount stores, and the ease of accessibility.

Two apparent industry trends include: (a) big-box giants that traditionally have set up camp in suburbia surrounded by acres of parking are now squeezing their hefty prototypes in downtown locations in pursuit of high sales figures; and (b) upscale, pedestrian-friendly, village-type storefronts with commanding architectural programs (known variously as "entertainment centers, hybrid malls, retail oases and/or urban villages" are being developed in pursuit of the upscale market with "typical average sales per square foot exceeding \$500".

In terms of life cycle product, the Washington region is probably in an oversupply mode with increasing vacancies as new product has and continues to be delivered.

**Industrial:**

In the Washington region, there is very little large scale manufacturing. Although frequently perceived as office rather than industrial functions, computer-based and communications service industries comprise a significant proportion of the Washington areas' industrial base. Warehousing is increasingly important particularly in servicing the Baltimore to Richmond market.

Until a solid, long-lasting improvement in the economy is seen, a strong recovery in the industrial sector is not anticipated. However, history has proven that industrials are one of the fastest recovering property types as development is both quick and projects are easily put on hold.

Hurt nationally by the glut of high-tech properties put back into the market there is some increased absorption materializing but at prices reported to be half of what they originally cost to buy and develop.

Within the Washington region, the small industrial/warehouse sector is anticipated to remain stable with some risk of overbuilding and oversupply.

**Lodging &  
Entertainment:**

The tourism and entertainment industry continues to experience a downturn both locally and nationally. The public's heightened fear of terrorism sends shudders through the travel and hotel industry. Travelers look to cheaper alternatives and operators lower their rates to retain market share -- profits are shrinking.

Despite the current malaise, after ten years of strong profit growth and cost cutting, hotels are much better fortified to withstand lower occupancies and room rates during rough economic times, according to PWC in its year 2000 "Emerging Trends". Business falloff after "9/11" was unprecedented. The new generation of mid-priced hotels without food and beverage operations are positioned to do better, attracting business travelers whose more limited expense accounts will not cover the tab at higher-end full-service lodgings.

PWC's position is that this is no time to sell full-service hotels. Do not expect many trades in 2002. Everyone is counting on 2003 to bring a resumption of profit-growth trends. The best future markets include Florida destinations, California, Washington DC and Boston.

High-end products, especially luxury resorts are taboo for now. Luxury properties are capital drains and management intensive. The hotel sector is now capital starved and new rooms are plentiful, construction peaked in 1998 but has tracked more slowly. Hotel development is non-starter.

Overall, the lodging industry may stay profitable, but it continues to face the challenges of "9/11".

## CONCLUSIONS

During 2000 and early 2001, the Washington area experienced a momentum virtually unheard of in real estate circles. Then came "9/11" and the economic recession.

Despite these events, New York, Washington, DC, Boston, Chicago, San Francisco and southern California maintain their grip on investors. Washington is one of those mega-markets where most investors want to own or finance because of perceived potential for better risk-adjusted returns.

The "Emerging Trends in Real Estate 2002" a PWC publication, says the following about Washington, DC.

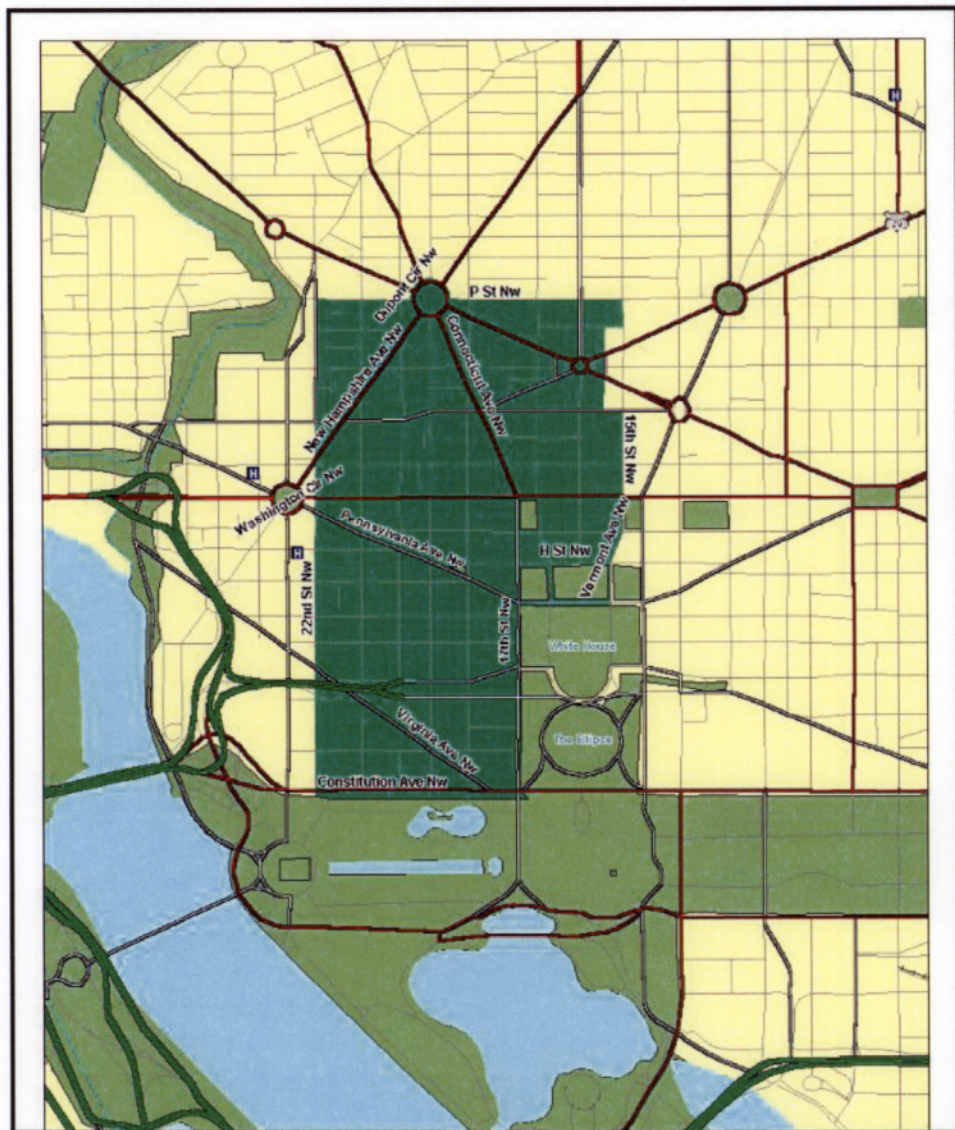
*Everybody's rainy-day market, the nation's capital always looks like a safe haven when the economy sags. The humongous federal government never downsizes – political rhetoric aside. "by all appearances it's as strong as ever." Lawyers, lobbyists, international businesses flock to downtown, close to the political heartbeat. But the Pentagon strike unnerves everyone and security corridors around the White House create inconvenience. Over the past decade, the region has become more diversified as a business and research center. Government actually constitutes only about a quarter of tenancy – down from 40% at its peak ... The Tech Wreck hit certain Northern Virginia suburbs hard, especially in the Dulles corridor. Now, increased defense spending could boost flagging occupancies. The death sciences—defense department contractors centered near the Pentagon—and the life sciences—biotech firms feeding off the National Institutes of Health in Bethesda—are solid. The improved standing of District government has bucked up confidence in the city and East End residential expands. Attractive Northwest neighborhoods continue to be the District's anchor. A new convention center, scheduled for completion in 2003, will put D.C. in the big leagues of meeting destinations.*

Echoing these thoughts, we have observed that while there are market and infrastructure challenges to continued growth, and while the market clearly has its bearish-proponents, it is our view that the area will remain among the top-five markets in the Country as long as we remain home to the White House and Capitol.

### Section III

## Office Market Study

The property is located in the Georgetown office market. While there are several submarkets within this generic jurisdiction, those which are primary competition for the subject include: the Capitol Hill, CBD, East-End, Southwest, Uptown and West-End areas. The largest of these submarkets are the East-End and the CBD, which are illustrated in the following map:

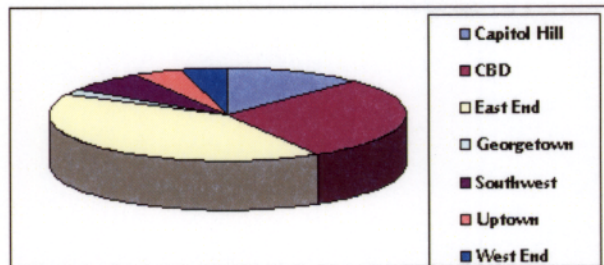


The following table and charts show the distribution of existing space in these primary market areas. For purposes of this analysis, we have limited that data base survey to Class A and Class B office space. The data is current as of the second-quarter of 2002.

**Market Share Analysis**

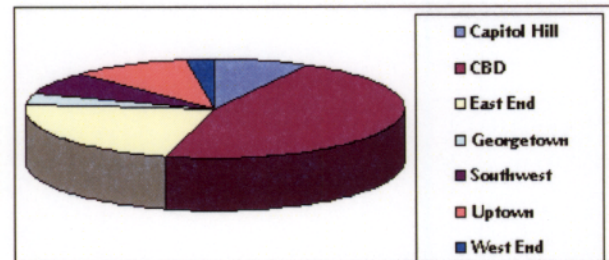
**Class- A**

Capitol Hill	13%	7,239,976
CBD	29%	16,701,595
East End	41%	23,286,752
<b>Georgetown</b>	<b>2%</b>	<b>1,298,845</b>
Southwest	7%	3,886,374
Uptown	5%	2,598,974
West End	4%	2,379,910
Total	100%	57,392,426



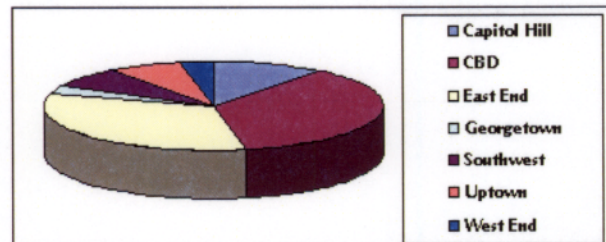
**Class- B**

Capitol Hill	8%	3,418,104
CBD	46%	19,660,212
East End	22%	9,526,516
<b>Georgetown</b>	<b>4%</b>	<b>1,627,659</b>
Southwest	7%	3,084,856
Uptown	10%	4,273,558
West End	2%	1,044,150
Total	100%	42,635,055



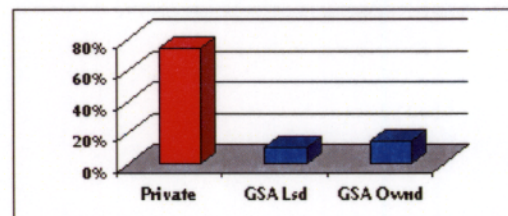
**Total for Existing Office Space**

Capitol Hill	11%	10,658,080
CBD	36%	36,361,807
East End	33%	32,813,268
<b>Georgetown</b>	<b>3%</b>	<b>2,926,504</b>
Southwest	7%	6,971,230
Uptown	7%	6,872,532
West End	3%	3,424,060
Total	100%	100,027,481



**GSA Leased Office Space**

Leased	14,446,830
Owned	19,679,903

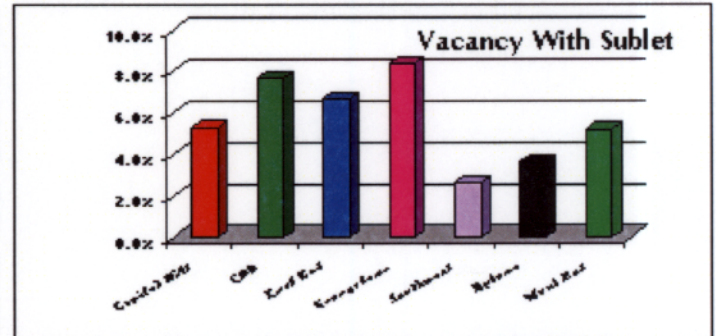
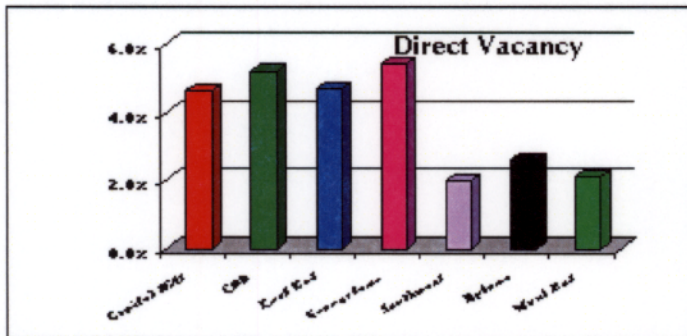


**Market Performance**

There are several conventional measures of market performance; one key indicator is the **direct vacancy level**, i.e., the amount of existing space ready for immediate occupancy divided by the total net rentable area. The following charts illustrate comparative levels among the primary downtown submarkets with the first series of data showing direct vacancy, and the second, total vacancy (including sublet) for both A and B space.

**Vacant Space Analysis**

	<u>Direct Vacancy</u>	<u>Vacancy w/ Sublet</u>
Capitol Hill	4.6%	5.3%
CBD	5.2%	7.7%
East End	4.7%	6.7%
<b>Georgetown</b>	<b>5.4%</b>	<b>8.4%</b>
Southwest	2.0%	2.6%
Uptown	2.6%	3.6%
West End	2.1%	5.2%



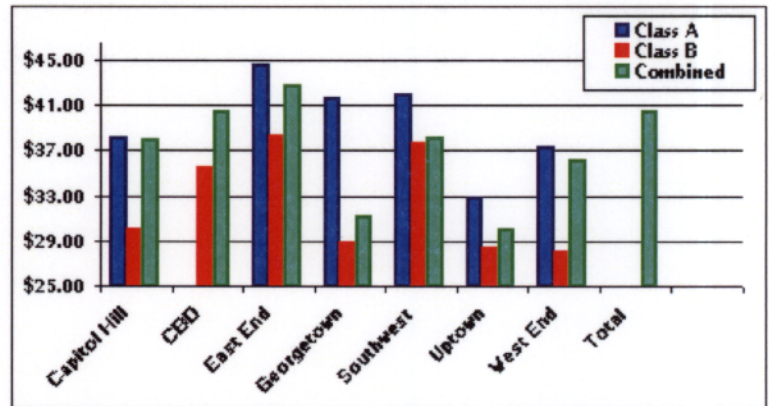
In terms of direct vacancy rates, virtually all submarkets are at an equilibrium level. However, there is evidence of increasing pressure from the overhang in sublet space, which increases the vacancy rate from 5.4% to 8.4% for the Georgetown submarket; and from 4.5% to 6.4% Citywide.



Another major indicator of market performance is **rental rates** – are they adequate to provide a sufficient return on investment, are they high enough to justify new construction and are there major differences among submarkets?

The following provides some insight into these questions for Class A and Class B direct space in the major submarket areas:

<u>Class</u>	<u>A</u>	<u>B</u>	<u>Combined</u>
Capitol Hill	\$38.18	\$30.02	\$37.92
CBD	43.89	\$35.47	\$40.42
East End	\$44.58	\$38.18	\$42.67
<b>Georgetown</b>	<b>\$41.59</b>	<b>\$28.83</b>	<b>\$31.08</b>
Southwest	\$41.89	\$37.51	\$38.09
Uptown	\$32.72	\$28.27	\$29.91
West End	\$37.18	\$28.03	\$36.02
Total			\$40.42



Market activity would indicate that current rents are generally sufficient to warrant continued re-investment in existing facilities for renovation and modernization. Market rates are generally not sufficient throughout the City to warrant new construction.

Looking specifically at the space in Georgetown, there appears to be a statistical anomaly for Class-A space, which we believe is attributable to the dominance of the Washington Harbour project.

As of the date of value, rents had been trending downward – in part because of the lingering impact of 9/11 – and were generally thought to continue that trend or stabilized at those levels in the near term.

**Absorption** of space was evaluated on an overall downtown market basis. As of the date of value gross absorption was a modest 1,033,202 for the second quarter of 2002; net absorption was negative at –321,844 square feet. A negative net absorption implies that there was more space lost to the market, than the market gained from gross leasing activity. On a stand-alone basis, the quarterly statistics for the Georgetown submarket were even weaker.

**Conclusion:** Overall, the downtown office markets were weak and still adversely affected by 9/11 and the general economic challenges. While Washington remains one of the most sought after investment cities, there were no strong evidences of a local turnaround in office-performance in the near term, as of the date of value.

## Section IV Neighborhood Context

The property is located at the south end of the Georgetown submarket. It is situated on the north side of K Street, west of its intersection with Wisconsin Avenue. While there are several attractive office and residential developments in Georgetown, the more prestigious addresses tend to be east of the subject property and north of M Street.

The subject improvements are a redevelopment of a warehouse building that took place in the 1989 time-frame. To some extent, the property still retains its warehouse-look. The west end of K Street dead-ends to commercial vehicular traffic under Key Bridge which tends to create a certain desolation to this end of the street. It also tends to become a bit seedy 'after-hours' and on weekend-evenings with little routine pedestrian traffic.

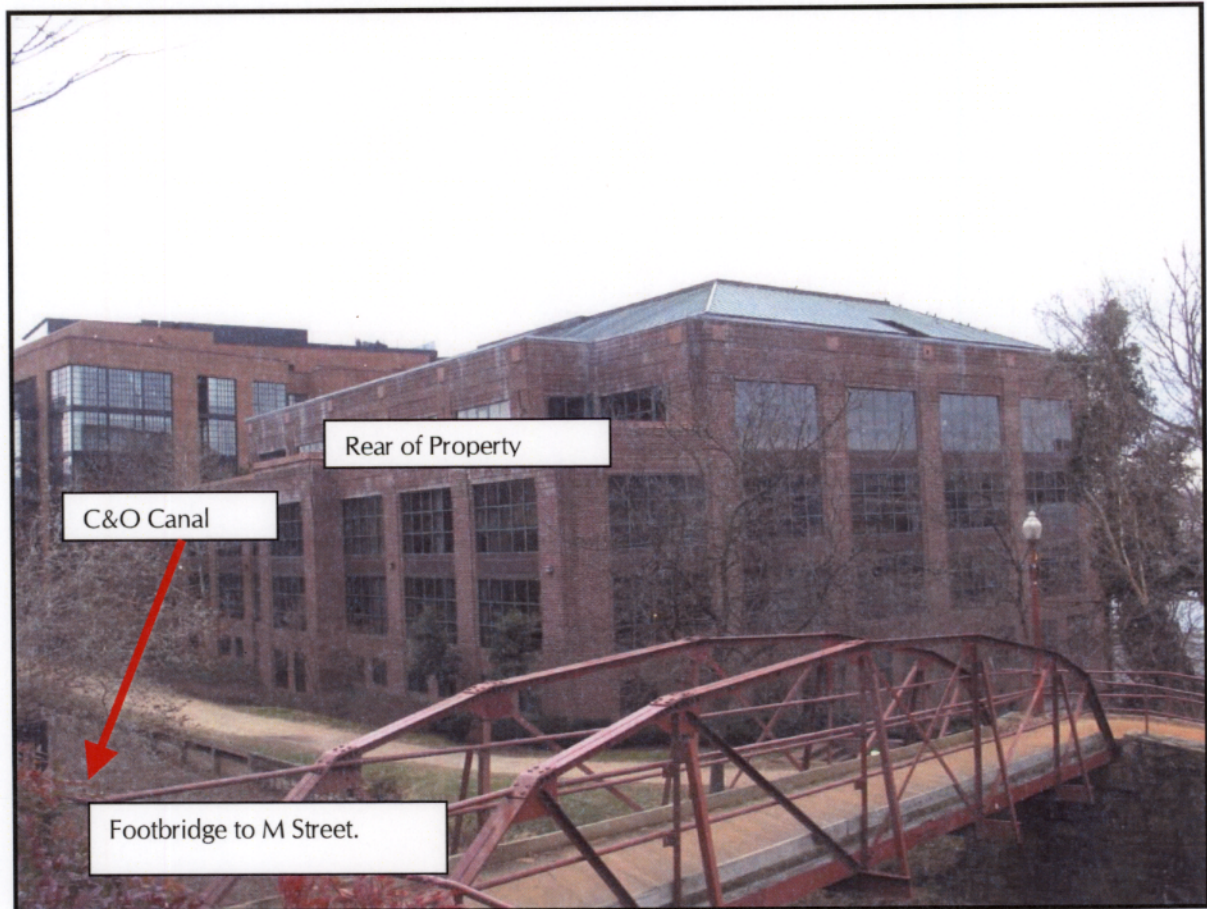
Parts of the property enjoy strong views of downtown Washington DC and the Potomac River. However, this are substantially marred by the Whitehurst Freeway structure which tends to obscure views on the 4<sup>th</sup> & 5<sup>th</sup> floors of the property and tends to industrialize the main-entrance to the property along K Street.



## *Neighborhood Context*

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On a more positive note, the site is just a few blocks south of the fashionable shopping and entertainment areas in the Georgetown district. Both Georgetown University and Georgetown Hospital are a few blocks to the north. M Street, as well as the Universities can be reached by walking across a footbridge that connects the walkway along the rear of the property with the other side of the C&O Canal.



Overall the neighborhood is characterized by its integration of its commercial uses with its distinctive, desirable, high-end residential neighborhoods. We do not anticipate any dramatic changes in development or land use surrounding the subject property.

**Section V**  
**Property Description**

**Site Description:**

**Name:** Georgetown Landings  
**Location:** 3333 K Street, NW, Washington, DC  
**Parcel Identification:** Square 1184, Lot 0049  
**Area:** 32,159 square feet of land area

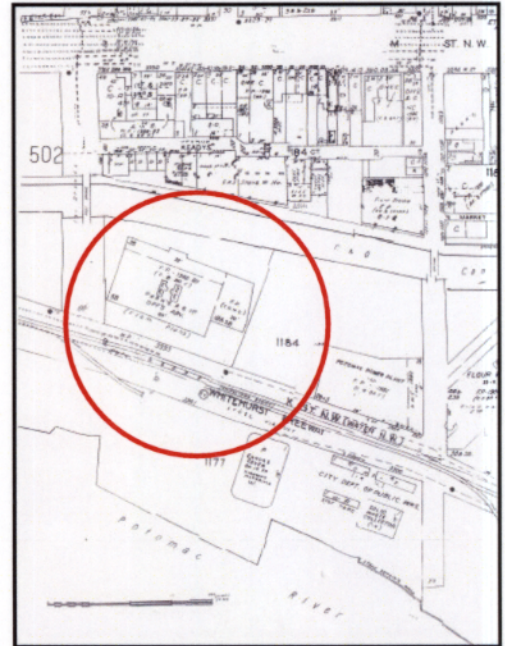
**Shape:** Irregular  
**Frontage:** Located on the north side of K Street on the southeast east corner or its intersection with 34<sup>th</sup> Street, NW. There is an additional entrance on the west side of 34<sup>th</sup> Street.

**Topography/Terrain:** Sloping, at grade with K Street. There is the C&O canal to the north of the property and the Potomac River to the south.

**Street Improvements:** Curbs, street lights, gutters and sewers

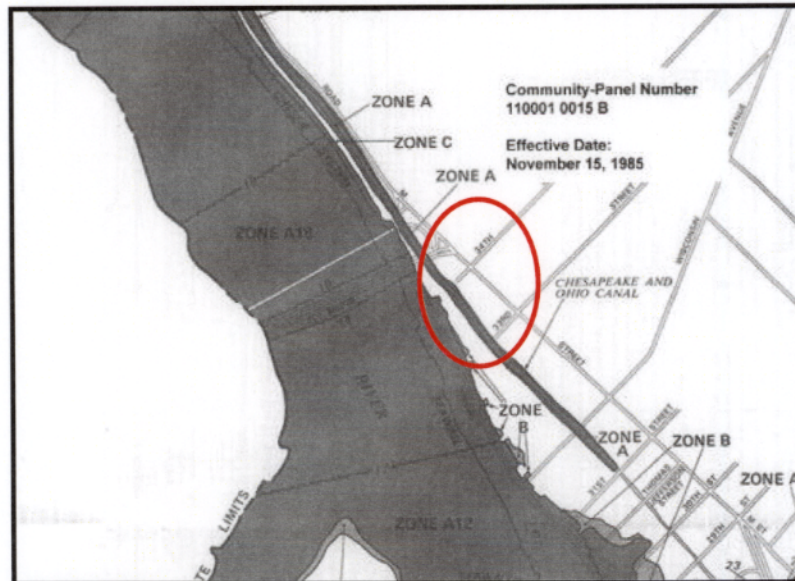
**Soil Condition:** We did not receive nor review a soil report. However, based on our physical inspection of the subject and adjacent improvements, we assume that the soil's load-bearing capacity is sufficient to support the existing structures. We did not observe any evidence to the contrary during our physical inspection of the property. The tract's drainage appears to be adequate.

**Utilities:** At levels to meet highest and best use



## Property Description

- Access:** Not a major vehicular or pedestrian location, but access to the building is adequate.
- Land Use Restrictions:** We were not given a title report to review. We do not know of any easements, or encroachments, that would adversely affect the site's use. However, we recommend a title search to determine whether any adverse conditions exist.
- FEMA Zone and Map Number:** Per Community Panel Number 110001-0015 B, dated November 15, 1985, the property does not lie within any special flood hazard area as established by the Federal Emergency Management Agency, National Flood Insurance Program.



- Hazardous Substances:** We did not notice the presence of any toxic waste materials on the subject site during the course of our physical inspection. However, as appraisers, toxic waste issues go beyond our area of expertise and, therefore, we recommend that a professional survey be conducted to determine whether any adverse conditions exist.

***Improvements Description***

The subject asset is a five-story (lobby + floors 1-4), class-B office building that contains approximately 84,664 square feet of gross building area and 64,406 square feet of rental area. In addition, the property has a two-level parking garage located adjacent to and partially below the office portions of the building. Initial redevelopment of the property as office was completed in 1989. Much of the following information was taken from the "Property Condition Report", dated May 15, 2002, prepared by EMG, Baltimore, Maryland:

- The foundation system is cast-in-place concrete perimeter wall footings with cast-in-place concrete foundation walls. Interior column pads are cast-in-place, reinforced concrete pads with reinforced concrete piers.
- The building is constructed with cast-in-place reinforced concrete slab at the first floor. The superstructure system consists of cast-in-place concrete framing including columns, beams and upper floor and roof slabs with masonry and metal stud non-bearing exterior walls.
- The exterior walls of the building are brick faced metal stud walls in good to fair condition.
- The roof is classified as a low slope or flat roof. The roof deck is constructed of concrete decking on concrete beams. It has a rigid insulation. The roofing material consists of elastomeric single-ply 'rubber' roofing membrane topped with stone ballast. Water is drained from the roof services through internal roof drains, which empty into the municipal storm water system. There is a metal-framed, standing-seam copper metal mansard roof around the perimeter of the building that sits atop the main building roofing system.
- The building's windows are aluminum-framed, double-glazed, single-hung tinted windows.
- There is a terrace on the third floor of the property in apparent good condition.
- There is an interior stairwell connecting third and floor areas occupied by LSC.
- The plumbing systems include the incoming water service, the cold water piping system, and the sanitary sewer and vent system. There are two, 80-gallon electric commercial style water heaters that provide the building's domestic hot water.
- The public restrooms on each floor have ceramic tile floors, drywall walls clad with vinyl wall covering and suspended ceilings.
- Heat is provided by Variable Air Volume boxes with electric reheat coils. A "Tracer" energy management system controls the heating and cooling provided by the systems.
- The building service size is 2,000 amps, 277/480 volt, three-phase, four-wire alternating current. The electrical meters for common areas and individual units are installed in the electrical room and in the parking garage. There is a diesel-powered, 188 KVA emergency electrical generator located on the roof

## ***Property Description***

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- The property has two traction passenger elevators, providing access to all floors of the building.
- The fire protection system contains a wet-pipe sprinkler system, a dry-pipe system in the parking garage, a wet standpipe with fire department hose valves and connections in one stair tower.
- Each access corridor is equipped with smoke detectors wired to the building's electrical system, pull stations and alarm horns. A central fire alarm panel is located in the main lobby, which monitors the pull stations, smoke detectors and flow switches.
- Tenant spaces are generally finished in a modest fashion with wall-to-wall carpet, painted drywall and acoustical tile ceilings.

**Comments:**

Based on the EMG draft report, cited above, and provided to us by the ownership, "the property was constructed within industry standards, has been well maintained over recent years, and appeared to be in good to fair overall condition ..." as of the date of value.

Deferred maintenance:

None

Personal Property:

None

**SUBJECT PHOTOGRAPHS**



*Front view showing freeway*



*34<sup>th</sup> & K Streets looking east*



*Looking east along K Street*



*Looking west along K Street*



*Canal view looking east*



*Main entrance from K Street*





*Lobby Area*



*LSC Space*



*LSC Reception Area*

**Section VI**  
**Real Property Taxes & Assessments**

The District of Columbia operates under an annual assessment system in which all taxable real estate is reviewed each year. The current assessment period applicable to the date of value is from October 1, 2001 to September 30, 2002.

The following is the 2002 tax year assessment and tax liability information as well as the same information for 2003, which may have been know as of the date of value:

	<b>TY 2002</b>	<b>TY 2003</b>
Land	\$3,537,490	\$7,396,570
Improvements	<u>\$5,428,510</u>	<u>\$6,815,210</u>
Total	\$8,966,000	\$14,211,780
Real Estate Tax liability:	\$165,871	\$\$189,902

The applicable property tax rate for this asset is \$1.85 per hundred dollars of assessed value. It is also subject to the Georgetown BID. Gross taxes are shown below:

<u>Analysis of Real Estate Taxes</u>	
2001	\$154,615.50
2002	\$165,871.00
2003	\$206,132.99

## Section VII Zoning

The property is zoned W-2 – Waterfront District.



W-2	Permits matter-of-right medium density residential, commercial, and certain light industrial development in waterfront areas to a maximum lot occupancy of 75% for residential use, a maximum FAR of 4.0 for residential and 2.0 for other permitted uses and a maximum height of sixty (60) feet.
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### Conclusions:

We are not expert in complex zoning matters. Based on our physical inspection, and the fact that the existing improvements have been in place since the late 1980's, it is our opinion that they conform to all existing regulations in place as of the date of occupancy, and therefore represent a legal conforming use.

## Section VIII

# Highest and Best Use

According to the Dictionary of Real Estate Appraisal, a publication of the Appraisal Institute, the highest and best use is defined as:

- (1) The reasonable and probable use that supports the highest present value of vacant land or improved property, as defined, as of the date of appraisal.
- (2) The reasonably probable and legal use of land or sites as though vacant, found to be physically possible, appropriately supported, financially feasible, and that results in the highest present land value.
- (3) The most profitable use.

Highest and best use analysis is an economic study of market forces that is focused on the subject property. It is the basis for all valuation assignments and the foundation for analyzing feasibility.

### ***As-if-Vacant***

We evaluated the site's highest and best use as-if vacant. The highest and best use must meet four criteria. The use must be (1) physically possible, (2) legally permissible (3) financially feasible, and (4) maximally productive.

The first test is what is **physically possible**. As discussed in the *Property Description*, the site's size, topography and available utilities do not physically limit its use, per se. As configured, there are a variety of potential uses, which are physically possible including commercial, retail, residential and institutional projects. A 32,159 square foot site is sufficient size to allow for development of permitted uses.

The second test concerns **legally permissible** uses. According to our understanding of the zoning ordinance noted earlier in this report, the site is zoned W-2 which permits residential, commercial and some industrial uses.

The third and fourth tests are, respectively, what is **financially feasible** and **maximally productive**, i.e., what will produce the highest net return. Based on recent activity, there is domestic financial support for new commercial development. Given the site's location, size, adjacencies and complementary uses, it is our view that an office building or office building with residential component best meets the test of what will produce the highest net returns to development.

Accordingly, the highest and best use of the subject property - as if vacant - would be development the property as an office building, or mixed-use facility, to the optimum FAR density consistent with the site's configuration and parking requirements. Presumably this initial development work would be done in concert with an anchor-tenant search and that actual construction would await acquisition of a major lead-tenant.

### ***As Improved***

As measured against the criterion of physically possible, legally permissible, the existing improvements are consistent with the long-term highest and best use as-if-vacant. Our income analysis shows that at a market driven price, the property provides a financial return capable of attracting and maintaining investment capital. Clearly, the existing improvements significantly contribute to overall value.

Thus, the highest and best use of the property, as-improved, is for continued reinvestment in operation and maintenance of the property as a class-B office building.

## Section IX

# Valuation Process

The valuation process, itself, is accomplished by following specific steps; the number of steps used depends on the nature of the appraisal assignment and the data available. However, the valuation model indicates a pattern that can be used in any appraisal assignment to perform market research and data analysis, to apply appraisal techniques, and to integrate these results of these activities into an estimate of defined value.

Research begins after the appraisal problem has been defined. The analysis of data relevant to the problem commences with an examination of trends observed at all market levels. This examination should lead to an understanding of the interrelationships among the principles, forces and factors that affect real property in a specific area. It also provides raw data from which to extract market trends. These data can be employed in appraisal techniques to estimate defined value.

In assignments to estimate market value, the ultimate goal of the valuation process is a well-supported value conclusion that reflects the appraiser's study of all factors that influence the market value of the property being appraised. In the valuation process, the appraiser integrates information drawn from market research and data analysis and through the application of appraisal techniques forms a conclusion. This conclusion may be presented as a single estimate of value or as a range in which the value may fall. An effective integration of these elements depends on the appraiser's skill, experience and judgment.

Appraisers typically use three approaches in valuing real property: the Cost Approach, the Income Approach and the Sales Comparison Approach.

- The **cost approach** is based on the understanding that market participants related value to cost. In the cost approach, the value of the property is derived by adding the estimated value of the land to the current cost of constructing a reproduction or replacement for the improvements and then subtracting the amount of depreciation. This approach is particularly useful in valuing new or nearly new improvements and properties that are not frequently exchanged in the market.
- The **sales comparison approach** is most useful when a number of similar properties have recently been sold or are currently for sale in the subject property market. Using this approach, an appraiser produces a value indication by comparing a subject property with similar properties. The prices of the properties that are judged to be most comparable tend to indicate a range in which the value indication for the subject property will fall.
- In the **income approach**, the present value of the future benefits of property ownership is measured. Research and data analysis for this approach are conducted against a background of supply and demand relationships which provide information about transactions and market anticipation.

## ***Valuation Process***

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The type and age of the property and the quantity and quality of data affect the applicability of each approach in a specific appraisal situation.

This is a complete summary report where we have evaluated the use of all approaches to value. Based on the properties age and conditions in the local market we have not used the cost approach to value. For existing property, local investors have not shown a reliance on the cost approach to value. Accordingly, we have relied on the Sales Comparison and Income Approaches to value. In reconciliation we gave more consideration to the Income Approach, which has been shown to be the pivotal indicator of value in this market for office properties.

## Section X

# Sales Comparison Approach

### **METHODOLOGY**

In the Sales Comparison Approach, the appraiser estimates the value of a property by comparing it with similar, recently sold properties in the surrounding or competing area. Inherent in this approach is the principle of substitution, which holds that when a property is replaceable in the market, its value tends to be set at the cost of acquiring an equally desirable substitute property, assuming that no costly delay is encountered in making the substitution.

By analyzing sales that qualify as arms-length transactions between willing and knowledgeable buyers and sellers, we can identify market-value and price trends. The sold properties must be comparable to the subject in physical, locational, and economic characteristics. The basic steps of this approach are:

- (1) research recent, relevant property sales and current offerings throughout the competitive area;
- (2) select and analyze properties that are similar to the subject, giving consideration to the date of sale, any changes in economic conditions that may have occurred between the sale date and the date of value, and other physical, functional, or locational factors;
- (3) identify sales that include favorable financing and calculate the cash equivalent price;
- (4) reduce the sales price to a common unit of comparison such as price per square foot;
- (5) make appropriate adjustments to the prices of the comparable properties;
- (6) interpret the adjusted sales data and draw a logical value conclusion.

### **ANALYSIS**

The most widely-used and market-oriented unit of comparison for office buildings such as the subject is the sales price per square foot of net rentable area. Below is a summary of the properties that we compared with the subject property; there were no directly proximate buildings to the subject. Each of these transactions was selected because of its general comparability to the subject and its ability to provide an indication of value for the property. While in different submarkets, each comparable was outside the premium core areas.



## Sales Comparison Approach

As indicated above, there were no comparable building sales in the immediate vicinity of the subject property. We therefore looked to adjacent submarkets, which are proximate but not identical to the Georgetown submarket – adjustments were made for differences.



**DISCUSSION**

**COMPARABLE NO. 1** is the September 21, 2001 sale of 122 C Street, N.W. The property is situated mid-block between 1<sup>st</sup> and 2<sup>nd</sup> Streets, NW, on the south side of C Street.

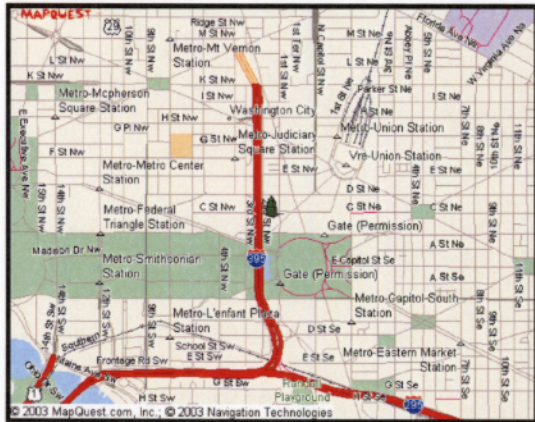
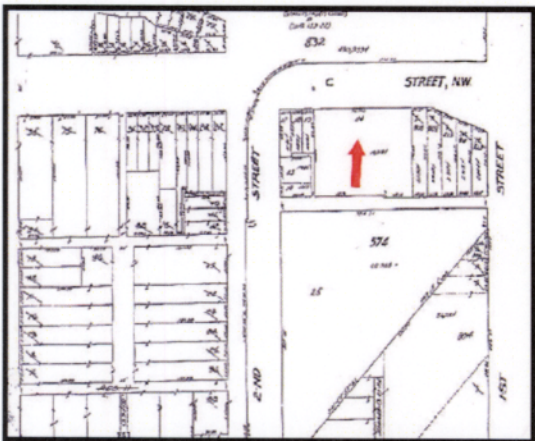
The property sold from Intrepid C. Street, LLC, to 122 C Street, LLC. The sales price was \$23,500,000. Based on a reported net rentable area of 113,124, the unit rate price is \$208 per square foot.

The building was constructed in 1967. It is an 8-story, steel and frame structure with brick and glass veneer. It was in reportedly in 'average' condition at the time of sale. The building is classified as a class-B structure by CoStar. The underlying zoning is C3C. Historical information indicates that the property was approximately 84% leased at the time of sale.



Based on our analysis, an upward adjustment was required for its earlier date of sale. Another adjustment was required for the property's somewhat inferior situs vis-à-vis the Whitehurst Freeway which is offset by its water and canal views. Other adjustments were warranted for the comparable's somewhat superior location, superior metro-rail proximity, its inferior parking availability, and its larger size that is typically associated with a lower unit price (which necessitates an corresponding upward adjustment).

Making these adjustments, it is our view that the indicated price of the subject property is \$218 per square foot of rentable area.



## Sales Comparison Approach

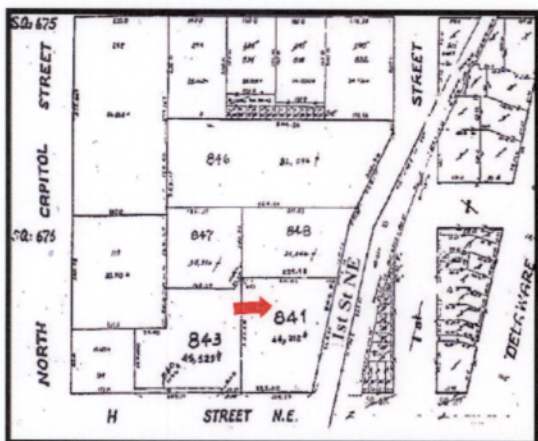
**COMPARABLE NO. 2** is the December 17, 2001 sale of 810 1<sup>st</sup> Street, NE. The property sold from WS/LWS Real Estate, LP to DC First Street Corporation. The purchase price was \$34,500,000, which represented an 8.06% cap rate as calculated by CoStar. Based on a reported 181,740 square feet of rentable area, the price equates to a unit rate of \$190 per square foot. The comparable is located at the corner of 1<sup>st</sup> and H Streets, NE.



The seller property was reportedly 5% vacant at the time of sale. The comparable is a 12 story, steel frame structure with glass veneer. The building is classified as a class-B structure by CoStar. It was reported in 'good' condition at the time of sale. The underlying zoning is CM3. Historical information indicates that the property was 95% leased at the time of sale.

Based on our analysis, an upward adjustment was required for its earlier date of sale. Another adjustment was required for the property's somewhat inferior situs vis-à-vis the Whitehurst Freeway which is offset by its water and canal views. Other adjustments were warranted for the comparables superior metro-rail proximity, its inferior parking availability, and its larger size that is typically associated with a lower unit price (which necessitates an corresponding upward adjustment).

Making these adjustments, it is our view that the indicated price of the subject property is \$199 per square foot of rentable area.



## Sales Comparison Approach

**COMPARABLE NO. 3** is the July 23, 2001 sale of 950 L'Enfant Plaza, SW. The property is situated along the east side of 10<sup>th</sup> street between what is known as Frontage Road and D Street. The property is part of the larger L'Enfant Plaza mixed-use development. The comparable was built in 1967 and is an 8-story, concrete and steel structure in 'average' condition. The property provides parking at the rate of 0.74 spaces per 1000 square feet (or approximately 200 spaces).

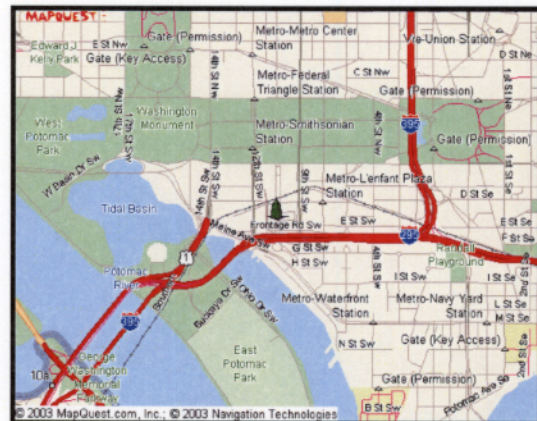
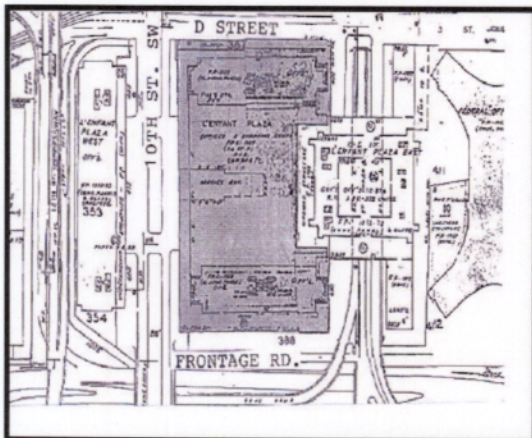
The property sold from 950 L'Enfant Associates to L'Enfant Colony, LL. The purchase price was \$55,000,000. Based on the reported rentable area of 271,774 square feet, the indicated unit rate is \$202 per square feet.



The seller reported a 14% IRR for the purchase based on the anticipated holding period. At the time of sale the property was reported to be 97% leased.

Based on our analysis, an upward adjustment was required for its earlier date of sale. Another adjustment was required for the property's somewhat inferior situs vis-à-vis the Whitehurst Freeway which is offset by its water and canal views. Other adjustments were warranted for the comparable's somewhat superior location, superior metro-rail proximity, its inferior parking availability, and its larger size that is typically associated with a lower unit price (which necessitates an corresponding upward adjustment).

Making these adjustments, it is our view that the indicated price of the subject property is \$212 per square foot of rentable area.



## Sales Comparison Approach

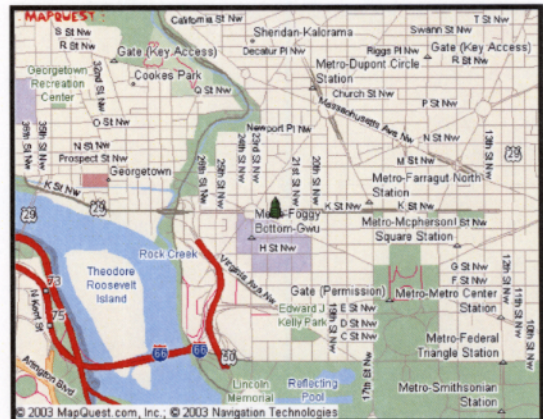
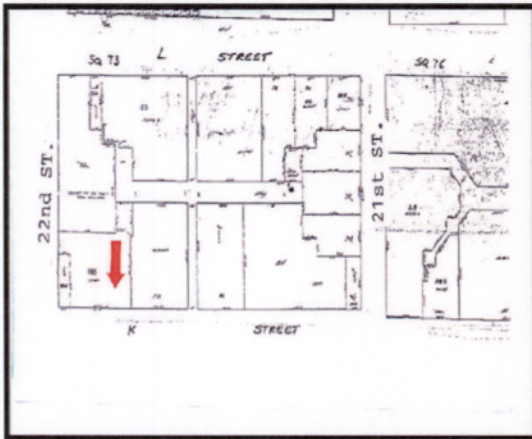
**COMPARABLE NO. 4** is the June 22, 2001 sale of 2175 K Street, NW. The property is situated at the northeast corner of 22<sup>nd</sup> and K Streets. The comparable was built in 1982 and is an 8-story, concrete and steel structure in 'average' condition. The property provides parking at the rate of 0.84 spaces per 1000 square feet (or approximately 86 spaces).



The property sold from Federal District LLC, to Donohoe Wilmington Associates, LP. The purchase price was \$19,936,670 for the leasehold interest. Based on the reported rentable area of 102,235 square feet, the indicated unit rate is \$195 per square foot. The ground lease was subsequently and the total reported price for the fee simple interest was \$20,900,000; or \$204 per square foot of rentable area.

Based on our analysis, an upward adjustment was required for its earlier date of sale. Another adjustment was required for the property's somewhat inferior situs vis-à-vis the Whitehurst Freeway which is offset by its water and canal views. Other adjustments were warranted for the comparable's somewhat superior location, superior metro-rail proximity, its inferior parking availability, and its larger size that is typically associated with a lower unit price (which necessitates an corresponding upward adjustment).

Making these adjustments, it is our view that the indicated price of the subject property is \$215 per square foot of rentable area.



## Sales Comparison Approach

### ADJUSTMENT GRID

The following table summarizes these sales and the adjustments made to equate each to the subject property.

#### Direct Sales Comparison

Georgetown Landing @ 3333 K Street, NW

Location/Names	Subject property 3333 K Street, NW Washington, DC	#1 122 C Street, NW Washington, DC	#2 B10 1st Street, NE Washington, DC	#3 950 L'Enfant Plaza, SW Washington, DC	#4 2175 K Street, NW Washington, DC
Ownership	Friends of Legal Services Corp	122 C Street, LLC	DC First Street Corporation	L'Enfant Colony, LLC	Donahoe Wilmington Assoc., LP
Prior Owner	Contract Seller / Kanyon Pflanz, LLC	Interpod C. Street, LLC	WSA/WS Real Estate, LP	950 L'Enfant Associates	Federal District, LLC
Recording Date	n/a	Sep-01	Dec-01	Jul-01	Jun-01
API/Parcel Number	Square 677, Lot 146	Square 574, Lot 24	Square 675, Lot 841	Square 387, Lot 868	Square 73, Lot 883
Zoning	W2	C3C	OMA	Urban Renewal	C3C
Land Area/Square Feet	32,154	18,075	44,212	67,211	13,153
Net Rentable Area	63,833	113,124	181,740	271,774	102,235
Sales Price	n/a	\$23,500,000	\$34,500,000	\$55,030,000	\$19,936,670
Price PSF of Gross	n/a	\$208	\$190	\$202	\$135
Property Rights Conveyed	Fee Simple	Comparable	Comparable	Comparable	Comparable
Adjustment		0.0%	0.0%	0.0%	4.8%
Adjusted Sales Price		\$208	\$190	\$202	\$204
Adjustment for Financing	@ market	Comparable	Comparable	Comparable	Comparable
Adjustment		0.0%	0.0%	0.0%	0.0%
Adjusted Sales Price		\$208	\$190	\$202	\$204
Adjust for Conditions	@ market	Comparable	Comparable	Comparable	Comparable
Adjustment		0.0%	0.0%	0.0%	0.0%
Adjusted Sales Price		\$208	\$190	\$202	\$204
Adjustment for Market	Current	Earlier Date of Sale	Earlier Date of Sale	Earlier Date of Sale	Earlier Date of Sale
Adjustment		5.0%	5.0%	5.0%	5.0%
Adjusted Sales Price		\$218	\$199	\$212	\$215
Adjustments to:					
Location	Average	Superior	Superior	Superior	Superior
		5.0%	5.0%	5.0%	5.0%
Physical Characteristics	Good	Comparable	Comparable	Comparable	Comparable
		0.0%	0.0%	0.0%	0.0%
Situs	Fair, but with some water views	Superior, but offset by water views	Superior, but offset by water views	Superior, but offset by water views	Superior, but offset by water views
		0.0%	0.0%	0.0%	0.0%
Metro Proximity	Not proximate	Superior	Superior	Superior	Superior
		-5.0%	-5.0%	-5.0%	-5.0%
Parking Availability	46 / X	Inferior	Inferior	Comparable	Inferior
		5.0%	5.0%	0.0%	5.0%
Size	64,406 square feet/NRA	Larger	Larger	Larger	Larger
		4.3%	4.0%	5.0%	5.0%
Total Other Adjustments		0.3%	0.0%	0.0%	0.0%
		\$0.00	\$0.00	\$0.00	\$0.00
Adjusted Sales Price/psf		\$218	\$199	\$212	\$215

***CONCLUSION***

The comparable sales, after adjustment, indicate an average value of \$211 per square with a range of from \$199 to \$218 per square foot of rentable area.

Based on the subject's physical and economic characteristics, it is our opinion that the indicated price of the property by sales comparison is between \$13,090,000 and \$13,720,000 (or, \$205 and \$215 per square foot of net rentable area); as of July 3, 2002.

## Section XI Income Approach

### Methodology

The Income Approach is a method of converting the anticipated economic benefits of owning property into a value estimate through capitalization. The principle of "anticipation" underlies this approach in that investors recognize the relationship between an asset's income and its value. In order to value the anticipated economic benefits of a particular property, potential income and expenses must be estimated, and the most appropriate capitalization method selected.

The two most common methods of converting net income into value are direct capitalization and discounted cash-flow analysis. In direct capitalization, net operating income is divided by an overall rate extracted from market sales to indicate a value. In the discounted cash-flow method, anticipated future net income streams and a reversionary value are discounted to an estimate of net present value at a chosen yield rate (internal rate of return). For purposes of this assignment we will rely on direct capitalization, which we believe best reflects the manner in which the market would respond to this property.

### Analysis of Operations to Date

We have examined operating statements for 2000 and 2001 prepared by the former ownership, and operating statements for 2003 prepared by the current ownership, Friends of LSC.

As of the date of value, the property is assumed to be 100% leased, with the LSC space leased to an assumed "typical" market tenant, paying a then-current market rent.

### Existing Encumbrances

	Lease Commencement	Expiration	Suite	Jul-02 Revised NRA	Base Rent	Current Annual Base Rent	Monthly			Base Rent + Exp + Parking Monthly \$'s	Annual Total \$'s
							Expense PT	Spaces	Parking		
The Artist Agency	3/1/1998	2/29/2004	50	1,140	\$12.69	\$15.89	\$139	3	\$525	\$2,174	\$26,083
World Supply Group*	8/3/1995	2/28/2003	1	-							
Bovis	12/2/2002	m-t-m	50/60	1,757		\$11.61	\$0	6	\$900	\$2,600	\$31,200
Paradigm Corp*	6/1/1999	11/30/2002	100	4,035	\$17.50	\$24.46	\$0		\$0	\$13,938	\$167,257
Richfield Productions, Inc	6/1/1994	5/31/2004	115	2,000	\$19.35	\$20.53	\$75	3	\$350	\$3,847	\$46,160
Government Affairs Institute	6/1/1997	5/31/2006	112	2,615	\$20.00	\$23.76	\$306	2	\$300	\$5,784	\$69,404
John Allen / Vacated*	7/1/2000	4/30/2003	210	-							
Oldcastle Northeast, Inc	8/15/1996	2/29/2004	405,425,450	7,710	\$18.50	\$23.88	\$1,151	4	\$2,450	\$21,800	\$261,595
Subtotal				19,257		\$527,347	\$1,671 (plus misc	18 6	\$4,525 included above)	\$50,142	\$601,699
Vacant/LSC				42,853				50			
Total Rentable Office/Remeasured Basis				63,834				92			
Vacant Storage				399			\$0		\$0		\$0
Wireless Rooftop				-			\$0		\$0		\$4,000



The preceding represents a “snapshot” of leases in place as of the date of value. The “Vacant/LSC” component will be valued as if it were occupied by a typical market tenant paying a then-current market rent. That rental rate is examined in the following section.

**MARKET RENTS**

We completed an assessment of comparables properties in the local market applicable to the date of value. The following table presents the salient property and transaction information:

Tenant	Address	Submarket	Bldg Class	SF	Term		Spf	Exec Date	TI's	Months		Escal	Bump	Bump Yr
					Months	Type				Abatement				
Turtle, Taylor & Heron	1250 24th Street, NW	Ctown	B	9,900	96	Relet	\$31.50	Apr-02	\$25.00	n/a	2.00%	n/a	n/a	
The Event Network	1255 22nd Street, NW	Ctown	B	35,484	120	Relet	\$29.75	Aug-02	\$0.00	n/a	2.25%	\$2.00	6	
Kattan, Muchin & Zavis	2440 M Sreet, NW	Ctown	B	10,815	78	Relet	\$30.46	Aug-02	\$20.00	n/a	2.00%	n/a	n/a	

In addition, we also considered the actual property leases for 3333 K Street, which were in place as of the date of value.

**Rent Conclusions:**

We first converted the rent transactions into an “effective rental rate”, which considers the impact of lease term, tenant improvements, rent abatements and any specified rent bumps in calculating the effective rate.

Based on our analysis, the average effective rate is \$30.43 per square foot full service, adjusted to include an allowance for tenant concessions offered in the market at that time. Then, based on the nature of the comparables, we made a 10% downward adjustment for the comparable’s superior location, which provided us with a \$27.25 per square foot face rent for the subject property. However, since we are assuming that the LSC/space to which this rent will apply is already tenanted, we need to make a downward adjustment for the implied tenant improvements allowance inherent in the opined face rent. Using a 7% allowance for tenant concessions, we derived a target rent for the subject property of \$25.50 per square foot full service. Typically, this rent would include an annual escalation in base rent (say, 2.5% per year), and a provision for the pass-through of increases in operating expenses and taxes over a lease year base.

While the \$25.50 is a target rate for the subject property, it is our contention that it’s location, adjacency to the Freeway and potential river views warrant an adjustment by floor. Accordingly, we have concluded the following typical market rents for a tenant, assumed to be in-place, as of the date of value:

<b>Ground Fl</b>	<b>\$20.00</b>
<b>Floors 2-3</b>	<b>\$25.50</b>
<b>Premium</b>	<b>\$3.00</b>
<b>Floors 4-5</b>	<b>\$28.50</b>

These rates will be applied to the LSC space depending on what floor is being occupied.

The following summarizes our assumptions on floor occupancy for the LSC space that is being valued on a market-rate basis:

	<b>Multi-Tenant ReMeasured</b>	<b>LSC Space Asmd July 2002</b>
<b>Ground</b>	6,716	<b>2,095</b>
<b>First</b>	14,724	<b>6,074</b>
<b>Second</b>	14,792	<b>14,793</b>
<b>Third</b>	14,736	<b>14,736</b>
<b>Fourth</b>	12,865	<b>5,155</b>
	<hr/> 63,833	<hr/> <b>42,853</b>

***Inflation and Escalation Rates***

Based on our market survey and on the analysis and discussion in previous sections of this report, it is our opinion that **market rental rates** are projected to escalate consistent with the growth in the CPI which we have anticipated to be 3.0% per year. **Real estate taxes** are projected to growth at the same long-term rate as market rents.

***ECONOMIC PERFORMANCE***

***REVENUE***

Based on the preceding assumptions and the existing encumbrances, the property should generate gross rental income as follows:

<b>Georgetown Landing</b>			
<b>3333 K Street, NW, Washington, DC</b>			
<b>July 2002 Value at Market Rates for LSC Space</b>			
<b>REVENUE</b>	<b>Sq. Ft.</b>	<b>\$'s / unit</b>	<b>\$'s</b>
Encumbered Office Space & Parking	19,257	\$27.38	\$527,347
Vacant Ground Floor Space	2,095	\$20.00	\$41,900
Vacant Space Levels 2-3	20,867	\$25.50	\$532,109
Vacant Space Levels 4-5	19,891	\$28.50	\$566,894
Vacant Non-Leaseable/Ground Level	<u>1,724</u>	\$0.00	<u>\$0</u>
Subtotal, rental income	63,834		\$1,668,249

## ***Income Approach***

### ***Expense Reimbursement & Other Income***

The lease encumbrances provide for various twists on the theme of passing through expenses and taxes over a lease year base. The reimbursement provision is different for several of the tenants. For renewal and new tenants we would assume a base-year stop.

The level of expense and tax reimbursement is predicated on actual collections, provide to us by the property's ownership. Other income included in deriving potential gross revenue includes: storage, parking and antenna revenue. The parking revenue was based on actual collections for existing tenants plus the assumption that the market rate tenant in LSC's space would be renting all available spaces at the then-market rate of \$150 per square per month.

Subtotal, rental income	63,834		\$1,668,249
Operating Expense & Tax Recapture			\$20,052
Storage	399	\$15.00	\$5,985
Parking Encumbered	24 spaces		\$54,300
Parking / Vacant	68 spaces	\$150.00	\$122,400
Antenna Revenue			\$4,000
Subtotal, other income			\$186,685
Potential Gross Revenue			\$1,874,986

### **Vacancy and Collections Loss**

Based on local investor assumptions and payment histories for this property, we have assumed a 5% global vacancy and collections loss, which is deducted from gross potential revenue in order to derive effective gross income.

Potential Gross Revenue		\$1,874,986
Less Vacancy & Collections Loss	5.0%	\$93,749
<b>Effective Gross Income</b>		<b>\$1,781,237</b>

## Income Approach

### EXPENSES

The MILLENNIUM market level estimate for operating expenses was predicated on a careful historical analysis of actual performance. The following summarizes that information:

#### 3333 K Street, NW Expense Analysis

	2000 Actual		2001 Actual		2003 Actual	
	Sq. Ft./Office	63,000	Sq. Ft./Office	63,000	Sq. Ft./Office	63,406
<b>REVENUES</b>						
Tenant Rent	\$1,617,845	\$24.89	\$1,641,287	\$25.25	\$1,418,055	\$600
Storage Rent					\$750	
Other Rent					\$32,459	
Recoveries	\$101,635	\$1.56	\$101,842	\$1.57	\$102,989	
Parking	\$194,950	\$3.00	\$166,425	\$2.56	\$16,219	\$229,020
Non-Rental Income/Misc	\$16,105	\$0.25	\$16,219	\$0.25		
<b>Gross Revenue</b>	<b>\$1,930,535</b>	<b>\$29.70</b>	<b>\$1,925,773</b>	<b>\$29.63</b>	<b>\$1,783,873</b>	
<b>EXPENSES</b>						
Utilities	\$149,479	\$64,991	\$141,823	\$2.18	\$130,805	\$2.00
Janitorial/Cleaning	\$71,918	\$1.11	\$69,932	\$1.08	\$60,086	\$0.92
Elevator					\$7,230	\$0.11
HVAC					\$11,400	\$0.17
R&M	\$124,842	\$1.92	\$144,705	\$2.23	\$12,450	\$0.19
Trash					\$22,160	\$0.34
Security					\$12,648	\$0.19
Other Administrative	\$17,966	\$0.28	\$23,840	\$0.37	\$0	\$0.00
Parking Expense					\$4,450	\$0.07
Management Fee	\$51,376	\$0.79	\$37,324	\$0.57	\$135,960	\$2.08
Insurance	\$10,068	\$0.15	\$10,334	\$0.16	\$30,100	\$0.46
Subtotal	\$425,649	\$6.55	\$427,958	\$6.58	\$427,289	\$6.53
Real Estate Taxes	\$147,177	\$2.26	\$154,615	\$2.38	\$199,200	\$3.05
<b>Total Operating Expenses &amp; Taxes</b>	<b>\$572,826</b>	<b>\$8.81</b>	<b>\$582,573</b>	<b>\$8.96</b>	<b>\$626,489</b>	<b>\$9.58</b>

Predicated on these assumptions, we have concluded the following amounts:

EXPENSES	2003 MREA	
	Sq.Ft./Office	63,834
Utilities	\$143,627	\$2.25
Janitorial/Cleaning	\$76,601	\$1.20
Elevator	\$9,575	\$0.15
HVAC	\$12,767	\$0.20
R&M	\$54,259	\$0.85
Trash	\$22,342	\$0.35
Security	\$12,767	\$0.20
Other Administrative	\$15,959	\$0.25
Parking Expense	\$3,192	\$0.05
Management Fee	\$57,451	\$0.90
Insurance	<u>\$28,725</u>	<u>\$0.45</u>
Subtotal	\$437,263	\$6.85
Real Estate Taxes	<u>\$206,133</u>	<u>\$3.23</u>
<b>Total Operating Expenses &amp; Taxes</b>	<b>\$643,396</b>	<b>\$10.08</b>

## *Income Approach*

### *Net Operating Income*

Net income is the amount remaining after deducting all operating expenses from effective gross income but before deducting mortgage debt service.

<b>REVENUE</b>	<b>Sq. Ft.</b>	<b>\$'s / unit</b>	<b>\$'s</b>
Encumbered Office Space & Parking	19,257	\$27.38	\$527,347
Vacant Ground Floor Space	2,095	\$20.00	\$41,900
Vacant Space Levels 2-3	20,867	\$25.50	\$532,109
Vacant Space Levels 4-5	19,891	\$28.50	\$566,894
Vacant Non-Leaseable/Ground Level	<u>1,724</u>	\$0.00	<u>\$0</u>
Subtotal, rental income	63,834		\$1,668,249
Operating Expense & Tax Recapture			\$20,052
Storage	399	\$15.00	\$5,985
Parking Encumbered	24 spaces		\$54,300
Parking / Vacant	68 spaces	\$150.00	\$122,400
Antenna Revenue			<u>\$4,000</u>
Subtotal, other income			\$186,685
Potential Gross Revenue			\$1,874,986
Less Vacancy & Collections Loss		5.0%	<u>\$93,749</u>
<b>Effective Gross Income</b>			<b>\$1,781,237</b>
<b>EXPENSES</b>			
Operating Expense		\$5.50	\$351,087
Management Fee	3.2%	\$0.90	\$57,451
Insurance		\$0.45	\$28,725
Real Estate Taxes		<u>\$3.23</u>	<u>\$206,133</u>
Total Expense		\$10.08	\$643,396
<b>Net Operating Income</b>			<b><u>\$1,137,841</u></b>

**DIRECT CAPITALIZATION**

Direct capitalization is a method used to convert a single year's income estimate into a value indication in the income capitalization approach. This conversion is accomplished in one step, either by dividing the income estimate by an appropriate income rate or by multiplying it by an appropriate income factor.

In order to identify an appropriate market capitalization rate, we relied on published investor surveys and on direct market evidence. The following are appropriated dated cap-rates (OARs) taken from sales reported in the CoStar database:

The reported rates range from 6.6% to 10.6%, with a mean rate of 8.8%.

For purposes of this analysis, we have identified several property sales and rates which we believe are the most relevant for the subject property – those rates are highlighted in yellow.

Based on this analysis, it is our opinion that the appropriate range of market capitalization rates to apply to the subject property is between 8.75% and 9.25%.

<b>2002 OAR Analysis</b>	
1300 I Street	8.0%
800 K Street	10.0%
3000-3050 K Street	9.0%
1501 K Street	8.1%
1615 L Street	8.3%
2001 K Street	9.0%
2099 Pennsylvania Ave	8.3%
80 M Street, SE	9.5%
601 NJ Ave	8.5%
1990 K Street	8.0%
950 L'enfant Plaza, SW	10.6%
400 Virginia Ave, SW	8.8%
2001 Pennsylvania Ave	9.7%
1120 19th street	8.1%
1015 15th Street	8.6%
900 17th Street	8.8%
1627 I Street	8.5%
810 1st Street, NE	8.1%
400 6th Street, SW	9.3%
1900 M Street, NW	9.2%
1341 C Street	8.0%
1100 17th Street	8.6%
1233 20th Street	8.6%
1925 K Street	6.6%
1133 20th Street	8.8%
122 C Street	8.3%
2175 K Street	9.2%
1225 19th Street	9.0%
100 Vermont Ave	8.5%
2121 Wisconsin Ave	10.5%
1010 Vermont Ave	10.0%
2029 K Street	9.5%
<b>Average</b>	<b>8.8%</b>
<b>High</b>	<b>10.6%</b>
<b>Low</b>	<b>6.6%</b>

## ***Income Approach***

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Recognizing the intrinsic characteristics of the property and the nature of the income stream, we would conclude a capitalization rate toward the mid-point of the range and one, which tended to reflect the most proximate properties. Accordingly, we have concluded an 8.75 to 9.25% range. Applying this to the projected net operating income derived above, the indicated value reached by direct capitalization is: \$12,300,000 to \$13,000,000; rounded.

<b>Net Operating Income</b>		<b>\$1,137,841</b>
OAR	8.75%	
Indicated Value		\$13,003,896
	psf/nra	\$204
OAR	9.25%	
Indicated Value		\$12,300,983
	psf/nra	\$30,830



**Section XII**

**Reconciliation and Final Value Estimate**

According to The Appraisal of Real Estate, 12<sup>th</sup> Edition, Appraisal Institute, *reconciliation* is the “analysis of alternative conclusions to arrive at a final value estimate”. It represents a review of the entire appraisal and an examination and resolution of differences in analysis and conclusions, as appropriate.

Sales Comparison Approach	\$13,090,000 to \$13,720,000
Income Approach	
Direct Capitalization	\$12,300,000 to \$13,000,000

In arriving at a reconciled value, there are several criteria that are necessary to consider in order to form a meaningful, defensible estimate. These criteria are: appropriateness, accuracy and quality of evidence. Briefly, appropriateness refers to the pertinence of each approach to value; accuracy refers to confidence in the correctness of data; and, quality refers to how relevant and correct the value indication derived from a particular approach may be.

The Sales Comparison Approach rests on the premise that the market value of a property is directly related to the prices of comparable, competitive properties. The approach thus focuses on differences between the comparable properties and the subject. In general, the sales comparison approach is applicable to all types of real property interests where there are sufficient reliable transactions to indicate a value pattern in the market. Based on our objectives, we believe that the Sales Comparison Approach is appropriate for this property and that it provides a reasonable indication of value.

The Income Approach is designed to simulate the actions and the decision-making process of the typical investor. Thus, although there are a variety of assumptions that need to be made in this approach, it is thought by many to be the most market-oriented technique. For purposes this report, we believe that direct capitalization provides the pivotal indications of value.

Recognizing the pre-eminent position of income analysis in this market, we have relied on that technique as the primary indication of value.

As a result of our analysis, we have formed opinions that:

***THE RETROSPECTIVE MARKET VALUE OF THE LEASED FEE ESTATE IN 3333 K STREET, NW, WASHINGTON, DC, ASSUMING OCCUPANCY BY A TYPICAL MARKET RATE TENANT IN THE LSC SPACE, SUBJECT TO BOTH GENERAL AND SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS, AS OF JULY 3, 2002, WITH A CURRENT REPORT DATE OF JANUARY 4, 2005, WAS:***

***THIRTEEN MILLION DOLLARS  
\$13,000,000***

*Addenda*

*OTHER DOCUMENTATION*

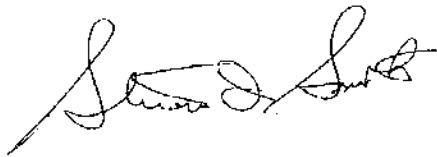
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## *Certification of Appraisal*

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The undersigned do/does certify, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. To the best of our knowledge, the statements of act contained in this report are true and correct.
3. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, are our personal, unbiased professional analyses, opinions and conclusions. The appraisal assignment was not based on a requested minimum value, a specific valuation, or the approval of a loan.
4. We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. Stuart I. Smith has made a personal inspection of the property that is the subject of this report.
8. No one other than the undersigned provided significant real property appraisal assistance to the person(s) signing this certification.
9. We certify that, to the best of our knowledge and belief, the reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.
10. We certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
11. No personal property, unless specified, was included in the valuation of this property.
12. As of the date of this appraisal, Stuart I. Smith has completed the requirements of the continuing education program of the Appraisal Institute.



By: \_\_\_\_\_  
Stuart I. Smith, MAI  
District of Columbia #10025  
State of Maryland #10056

## ***Special Assumptions and Limiting Conditions***

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Our analysis is based on the following special assumptions:

1. We have relied on property and financial data provided to us by ownership and other persons in the market; we have assumed that this information is correct.
2. Valuation is reported without regard to questions of boundaries, encumbrances and encroachments.
3. The reports are subject to the assumption that the properties are environmentally clean. This assumption may not be accurate. We strongly recommend that the client pursue this issue. We have further assumed that the property has been and is in compliance with all applicable federal and state environmental protection statutes and regulations.
4. The property has been inspected with the due diligence expected of a professional real estate appraiser. The appraiser is not qualified to detect hazardous waste and/or toxic materials.
5. All engineering is assumed to be correct. Any plot plans and illustrative materials in this report are included only to assist the reader in visualizing the property.
6. It is assumed that there are no hidden or unapparent property conditions, subsoil or structures than render it more or less valuable.
7. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a non-conformity has been stated, defined and considered in this appraisal report.
8. It is assumed that all required licenses, certifications or other legislative or administrative authority from any local, state or national government or private entity or organizations have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
9. The assessment of future events is predicated on market conditions as of the date of value. The appraiser cannot be held responsible for unforeseeable events that alter market conditions.
10. Should there be any significant changes in these assumptions, we reserve the right to revisit our value conclusion.

## ***Assumptions and Limiting Conditions***

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For purposes of these Assumptions and Limiting Conditions the following words shall have the following meanings:

"Appraisal" means the appraisal report and opinion of value stated therein; or the letter opinion of value, to which these Assumptions and Limiting Conditions are annexed.

"Property" means the subject of the Appraisal.

"Millennium" means Millennium Real Estate Advisors, Inc.

"Appraiser" means the employees of MILLENNIUM who prepared and signed the Appraisal.

The appraisal has been made subject to the following assumptions and limiting conditions:

1. No responsibility is assumed for the legal description or for any matters which are legal in nature. Title to the Property is assumed to be good and marketable and the Property is assumed to be free and clear of all liens unless otherwise stated.
2. The information contained in the appraisal or upon which the Appraisal is based has been gathered from sources the Appraiser assumes to be reliable and accurate. Some of such information may have been provided by the owner of the Property. Neither the Appraiser nor MILLENNIUM shall be responsible for the accuracy or completeness of such information, including the correctness of estimates, opinions, dimensions, sketches, exhibits and other factual matters. The Appraisal and the opinion of value stated therein is as of the date stated in the Appraisal. Changes since that date in external and market factors can significantly affect property value.
3. The Appraisal is to be used in whole and not in part. No part of the Appraisal shall be used in conjunction with any other appraisal. Possession of the Appraisal, or a copy thereof, does not carry with it the right of publication. Publication of the Appraisal or any portion thereof without the prior written consent of MILLENNIUM is prohibited. The Appraisal may not be used for any purposes by any person other than the party, except as may have been expressly provided otherwise in the letter of engagement to prepare the appraisal to whom it is addressed without the written consent of MILLENNIUM, and in any event only with proper written qualification and only in its entirety. No part of the Appraisal or the identity of the Appraiser shall be conveyed to the public through advertising, public relations, news, sales or other media or used in any material without MILLENNIUM's prior written consent. Reference to the Appraisal Institute or to the MAI designation is prohibited.
4. The Appraiser shall not be required to give testimony in any court or administrative proceeding relating to the Property of the Appraisal.
5. The Appraisal assumes: (a) responsible ownership and competent management of the Property; (b) there are no hidden or unapparent conditions of the Property, subsoil, or structures that would render the Property more or less valuable (no responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state and local zoning and

## *Assumptions and Limiting Conditions*

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environmental regulations and laws, unless noncompliance is stated, defined and considered in the Appraisal; and (d) all required licenses, certificates of occupancy and other governmental consents have been or can be obtained and renewed for any use on which the value estimate contained in the Appraisal is based.

6. The physical condition of the improvements considered by the Appraisal is based on visual inspection by the Appraiser or other person identified in the Appraisal. MILLENNIUM assumes no responsibility for the soundness of structural members nor for the condition of mechanical equipment, plumbing or electrical components.
7. The projected potential gross income referred to in the Appraisal may be based on lease summaries provided by the owner or third parties. The Appraiser assumes no responsibility for the authenticity or completeness of lease information provided by others. MILLENNIUM suggests that legal advice be obtained regarding the interpretation of lease provisions and the contractual rights of parties.
8. The projections of income and expenses are not predictions of the future. Rather, they are the Appraiser's best estimates of current market thinking on future income and expenses. The Appraiser and MILLENNIUM make no warranty or representation that these projections will materialize. The real estate market is constantly fluctuating and changing. It is not the Appraiser's task to predict or in any way warrant the conditions of a future real estate market; the Appraiser can only reflect what the investment community, as of the date of the Appraisal, envisions for the future in terms of rental rates, expenses, supply and demand.
9. Unless otherwise stated in the Appraisal, the existence of potentially hazardous or toxic materials which may have been used in the construction or maintenance of the improvements or may be located at or about the Property was not considered in arriving at the opinion of value stated in the Appraisal. These materials (such as formaldehyde foam insulation, asbestos insulation and other potentially hazardous materials) may affect the value of the Property. The Appraisers are not qualified to detect such substances and MILLENNIUM urges that an expert in this field be employed to determine the economic impact of these matters on the opinion of value stated in the Appraisal.
10. If the Appraisal is submitted to a lender or investor with the prior approval of MILLENNIUM, such party should consider the Appraisal as one factor together with its independent investment considerations and underwriting criteria, in its overall investment decision.
11. It is assumed that the land and improvements are confined within the boundaries or property lines described and that there is no encroachment or trespass unless noted in the report.
12. The Americans With Disabilities Act (ADA) became effective January 26, 1992. Notwithstanding any discussion of possible readily achievable barrier removal construction items in this report, we have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a

## ***Assumptions and Limiting Conditions***

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negative effect upon the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible non-compliance with the requirements of ADA in estimating the value of the property.

13. The appraisers are not engineers, and any references to physical property characteristics in terms of quality, condition, cost, suitability, soil conditions, flood risk, obsolescence, etc., are strictly related to their economic impact on the property. No liability is assumed for any engineering related issues.
14. If the appraisal is for property which is to-be-built or under-construction, it is assumed that construction will be completed as outlined in our report. The appraisers reserve the right to review finalized plans, require a current on-site inspection prior to the release of any funds, and/or recertify any values reported herein.
15. Mere possession of this report, or any type of copy thereof, does not carry with it the right of use.

**Stuart I. Smith, MAI**

Principal

Partner; Washington, D.C. office of **MILLENNIUM REAL ESTATE ADVISORS**. Mr. Smith is responsible for appraisal, economics and consulting activities. He has over 25 years of professional experience in real estate and economic evaluations.

**Experience**

1993 to Present

**MILLENNIUM REAL ESTATE ADVISORS, INC.**

Market value appraisals of commercial office buildings, shopping centers, time-share projects, apartments, mixed-use projects, congregate housing, industrial properties and special use properties; as well as market studies and highest and best use analyses. Consultant to private sector clients regarding Federal government lease / purchase activities; and, consultant to Federal agencies regarding a variety of real estate matters (including, the General Accounting Office, the Administrative Office of the Courts, the Department of Justice, the Office of Personnel Management, the Corps of Engineers and the U.S. Postal Service).

1986 to 1993

**Assistant Manager, Cushman & Wakefield Appraisal Division, Washington, D.C.**

Market value appraisals, consulting and brokerage. Brokerage transactions included the following leases to GSA/Federal tenants: Peace Corp Headquarters, Internal Revenue Service, Small Business Administration, National Science Foundation, and the General Services Administration.

1984 to 1986

**Executive Director, GSA/Public Buildings Service**

Responsible for nation-wide activities with regard to financial reporting, the GSA-rent program, capital budgeting, performance management and administration.

1983 to 1984

**Director, Office of Budget and Finance, U.S. Customs Service**

Responsible for Service-wide financial activities.

1977 to 1983

**Senior Examiner, Office of Management & Budget, Executive Office of the President of the United States**

Senior examiner responsible for government-wide civilian real estate issues and for reviewing and making recommendations on the nationwide operations of the General Services Administration.

1971 to 1977

Various positions with the U.S. Treasury Department



## ***Professional Experience***

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### **Education**

American University, M.B.A., Corporate Finance  
Georgetown University, Graduate Work in Economics  
University of Maryland, B.S., Business and Economics  
Appraisal Institute (American Institute of Real Estate Appraisers – course work and training necessary to achieve the MAI designation and complete requirements for continuing education)

### **Licenses**

Real Estate Broker, District of Columbia  
MAI-designation  
Licensed Certified General Appraiser in the District of Columbia  
Licensed Certified General Appraiser in the State of Maryland

### **Affiliations**

MAI Member, Appraisal Institute  
Member, Washington DC Association of Realtors  
Member, American Guild of Appraisers, Guild 44 (AFL-CIO)