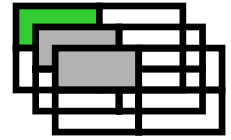




THE SUSTAINABILITY REPORT



Chicago, IL

Target Corporation is building a 158,000 SF urban infill LEED-Certified retail super center, one of the first green retail projects in the country.

Chicago's Mayor Daley has been a big proponent of green building in a drive to make Chicago the "greenest city in the world".

Washington, DC

Buchanan Partners is building two nearly identical office buildings side-by-side in a technology-oriented business park in Manassas, VA.

One building is designed and constructed "green" while the other is following regular construction conventions in an effort to analyze differences in tenant demand.

New York, NY

The Solaire, the nation's first high-rise green apartment project located in Battery Park City, continues to see strong demand. The building is 100% occupied with original rents ranging from 5-7% above proforma and turnover rents 7-10% in excess of proforma.

Groundbreaking of a second 299,000 SF, 24-story tower took place in 4Q04.

London, England

The 41-story Swiss RE Tower opened in late 2004. Computer energy simulations predict the cylindrical pine-cone shaped glass tower will consume 50% less energy than a comparable conventional office building.

Beijing, China

The Beijing Olympics Organizing Committee aims to host the first zero-net-emissions games which includes constructing all buildings and sports venues using green architecture and engineering principals.

Volume I Issue I

Summer 2005

FINANCING GREEN

2005 will likely be a watershed year for high-performance, environmentally responsible (aka "green" or "sustainable") real estate projects. This industry niche has garnered a great deal of attention of late as leading companies incorporate the underpinnings of sustainable design into their corporate mission and, by extension, their space consumption.

MARKET LEADERS

Leading companies such as Toyota, Starbucks, Target, PNC Bank, SC Johnson, and numerous others understand both the obvious and hidden benefits of sustainable design from a strategic positioning standpoint impacting consumer sales, employee productivity, and corporate marketing initiatives. Each has made a commitment to being early adopter leaders in this arena.

The federal government put a stake in the ground by mandating that all new construction must be built using standards put forth by the US Green Building Council's Leadership in Energy and Environmental Design (LEED™) rating system.

Various state and local government agencies have adopted sustainable principles into their RFP processes and to some extent their permitting processes, most notably the State of California.

Certain municipalities such as Arlington County in the Washington, DC MSA encourage sustainable design through FAR bonuses and expedited permitting. The cities of Seattle and Portland have their own programs. It has become clear momentum is building and we are fast approaching a major tipping point in this regard.

As an added incentive, tax credits for green buildings are available in New York, Maryland, Oregon, and other states and the federal government's New Markets Tax Credit program allows for certain funds to be targeted in this area.

FINANCING CONSIDERATIONS

For cutting edge development firms who see the future and are out ahead of the curve, reconciling benefits with costs has been an exercise in modeling many unknowns including construction cost trade-offs, projected market rents with and without a green position, estimated operating cost differentials, and the overall holding period.

Ultimately, these decisions come down to financial metrics; the more moving parts putting pressure on return uncertainty, the more hesita-

Continued on Page 2

TOYOTA IMPLEMENTS GREEN LEASE PROVISIONS

Toyota Motor Sales leased 25,000 SF of Class A office space in Washington, DC's East End based on the US Green Building Council's LEED-Commercial Interiors scorecard.

The firm implemented the LEED-CI criteria via an Environmental Impact Qualification attachment to the RFP; it was very important to Toyota

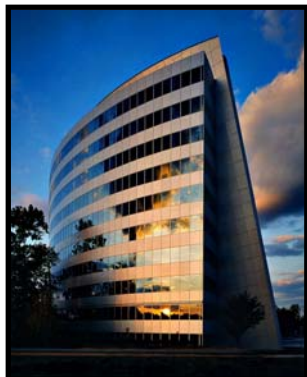
that the building meet a high-level of environmental standards, particularly on energy usage and indoor air quality.

Lease provisions included the right to sub-meter the space, purchase green power, use of low-VOC material during TI buildout, and a recycling program. It also committed the owner to future green improvements.



The Homer Building
Washington, DC

FINANCING GREEN (continued from Page 1)



The Tower Building, a 263,000 SF Super Class A office building in the Washington, DC suburbs, opened in 2002 at an estimated construction cost premium of \$2.00 per SF (1.5%).

Top-of-market rents averaged in excess of 115% compared to prevailing market rates in the building's specific submarket. Ongoing energy costs are \$0.50 per SF below other buildings in the company's portfolio.

The project won the Washington, DC AOBA Green Building of the Year Award in 2002.



tion to embracing new development and design techniques.

The key financial decision variables are:

- Blended cost of capital
- Rental rates obtained by building "green"
- Time to lease-up
- Annual operating costs
- Tenant retention rate
- Cap rate upon sale

Lesser apparent because of their difficulty to value are project-specific marketing and public relations advantages gained by the leasing team as they seek to obtain top of market rents. Also, there is the indeterminate measure of organizational achievement and balance sheet goodwill obtained by the development firm.

RISK AND RATES

The construction financing decision equation involves many moving pieces among which include overall interest rate, total amount of proceeds, recourse requirements, and carve out guarantees. Generally, permanent debt and equity financing must be lined up simultaneously with focus on the same issues.

When it comes to debt financing there is the notion that the project, just by its nature of being "green", will command an interest rate discount. Given all the factors that play into a lender's decision process, it is not possible to attribute the "greenness" of a building to the overall terms achieved.

However, it is true that competition for a deal increases as "greenness" positively correlates to lessening both market risk and project risk, the two macro underwriting decision categories. Solid deal metrics coupled with deal competition decreases the spread and hence the project's interest rate.

Positioned properly, a green project becomes a highly competitive investment opportunity in both the debt and equity markets.

Lenders begin to really sharpen their pencils and compete hard for the lending opportunity causing spreads to compress. Equity investors are attracted to the "core" characteristics found within most green projects based on the high-quality design, construction and strong market appeal.

The current financial market has created a landscape perfectly situated for sustainable building techniques to take off during this cycle. At the macro level, 3 month LIBOR rates increased 200 basis points over the May 2004—May 2005 time horizon making floating rate financing more expensive, yet still near historic lows.

The yield curve flattened leaving the cost of long-term fixed-rate money relatively inexpensive as well. This low-interest rate environment coupled with the significant amount of institutional joint venture equity capital targeted at high-quality real estate projects makes an enticing environment for developers building green product.

FINANCING SOURCES

Traditional real estate capital sources have a varying degree of understanding of green building benefits and market dynamics generally ranging from none to moderate. Those with a deeper understanding give preference to these deals and compete harder for the business. The rationale is that the value of leading edge design through the project's ongoing market appeal and future operating cost reduction justifies a reduction in risk premium.

Within a debt underwriting environment, a project's market appeal positively correlates to higher rental rates, faster absorption, lower expenses, and lower turnover. Of particular interest are operating cost reductions that give the project a competitive advantage in the tenant market if at some future point price becomes the market driver.

Ultimately, lower operating costs result in more money flowing to the bottom line allowing for greater certainty in meeting debt-service-coverage ratios and loan-to-value ratios. Equity investors gravitate to the quality inherent to a green building, the high-quality tenants it attracts, and the enduring asset value.

Add to this a projected cap rate advantage at time of sale and going green makes for a most compelling scenario.

Next Issue:

Financial Structuring and Weighted Avg Cost of Capital

WASHINGTON, DC'S LARGEST GREEN ROOF

In June 2004, the developers of 1425 K Street unveiled the largest green roof on a commercial office building in the Washington, DC CBD. Spanning over 8,000 SF, the green roof provides an exceptional amenity enhancing the building's roof deck where tenants take in stunning views down Vermont Avenue to the White House. The roof deck has seating for 60 people and holds over 200 for special functions.

Casey Trees Foundation, one of the tenants, provided a significant financial grant to top off additional financial incentives which led to the roof's implementation. A major challenge stemmed from the fact that installing the green roof was an afterthought. The building was built and occupied and regular membrane covered with white rock was in place; the green roof was installed over the membrane at additional cost.

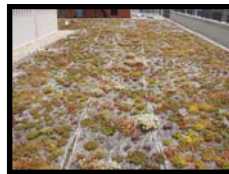
While the installation of this green roof is an outstanding step in the right direction, there is a critical lesson for other developers. Adding green features late in the design/construction phase, otherwise known as "bolt-on green", blows up development budgets and results in misinformation about the costs of green design. Making the decision to go green from the onset, utilizing integrated design and focusing on features that provide strong financial metrics, is where projects derive the greatest benefit.

It's been a full year since initial installation and the plants, which were chosen to withstand heat and intensive sunlight, have now taken root and are spreading. Tenant satisfaction is up as the rooftop terrace is one of the top places for a private party in the District.



Tons of white rock were replaced by small native plants that withstand strong summer sun and require little maintenance. The plants should fill out the barren spaces by Spring 2006.

Before (above) / After (below)



CONSIDER THIS.....

A: \$3.75 per square foot

Q: What is the value of a 1% productivity gain for an office worker with a \$60,000 annual salary and \$15,000 in additional benefits occupying an average of 200 square feet.

Strategic cost advantages are being captured by leading corporate finance and real estate professionals who examine and act upon their full occupancy cost picture as opposed those who make decisions based on a solo expense line item called "rent".

Productivity gains are measured in part through increased employee retention, a corresponding reduction in recruitment and training expenses, reduced absenteeism and sick leave, higher overall workforce health, and general measures of employee satisfaction.

National Association of Realtors Washington, DC June 6, 2005

National Association of Realtors hosts "The Emerging Green Marketplace: Public and Private Initiatives"

NAIOP Green Development Award June 20, 2005 (Due Date)

National award honoring a firm for the years outstanding green development. Award announced at NAIOP Annual Conference on October 18-21 in Hollywood, FL

Urban Land Institute Washington, DC June 28-29, 2005

Urban Land Institute 2-day conference entitled, "Developing Green: The Case For High Performance Buildings and Sustainable Development."

2005 World Sustainability Conference Tokyo, Japan September 27-29, 2005

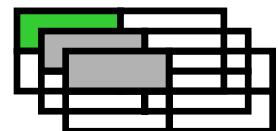
Conference brings together practitioners worldwide to discuss best building practices via case studies and research papers with events broken down by issues, stakeholders, and regional influences.

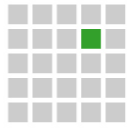
Harvard University Cambridge, MA October 17-18, 2005

Harvard University Real Estate's annual fall meeting. Scheduled topics include green building, the economics of great architecture, and smart growth revisited.

US Green Building Council Greenbuild International Conference and Expo Atlanta, GA November 9-11, 2005

The largest green building conference bringing together design practitioners, developers, investors, and product manufacturers—expected attendance to exceed 5,000.





Thought Leadership For The Real Estate Industry

STRUCTURED FINANCE

Equity
Debt
Tax Favored

STRATEGIC CONSULTING

Corporate Strategy
Project Specific

LEASING ADVISORY

INVESTMENT SALES

Evolution Partners is a boutique real estate private equity and investment banking firm specializing in financing and developing high-performance, environmentally-responsible real estate projects.

Our clients are leading real estate developers and investors across North America who demonstrate commitment to creating and preserving long-term asset value by developing cutting-edge projects that meet or exceed the US Green Building Council's LEED™ and/or EPA EnergyStar™ standards of excellence.

We are specialists in developing structured finance solutions and securing the capital necessary to bring a project to life, sustaining it financially for the long term.

- Construction Financing
- Joint Venture Equity
- Permanent Debt
- Mezzanine Debt

Evolution Partners is passionate about the positive societal impacts represented by LEED™ certified and EnergyStar™ projects. These projects provide structural competitive advantages to their developers and owners at an asset level, while serving as superior workplaces and living environments for their occupants.

Demonstrating proper respect for the environment we all share is the utmost responsibility of any real estate developer—our clients inspire us through their vision which, in turn, inspires us to greater heights.

We maintain the highest standards of excellence and hold ourselves accountable to our clients, our partners, and the members of each community shaped by the projects which we are involved.

Our reputation is grounded in integrity, trust, leadership, and personal responsibility – these are our guiding principals and we make no compromise.

We look forward to working with you on your next great project.



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