

# One Lincoln Street

After more than six months of seemingly daily e-mails, conference calls, and presentations, John Hynes still couldn't believe what he was hearing on the other end of the phone from Frank Mattson, a Real Estate Investment Officer for Midwest State Teachers Retirement System ("STRS").

"Wait a minute. I *know* it looks like a good deal. But John, I've tried to be clear from the start: we're a public pension fund. Our policies are we only invest in fully entitled land and, even then, we don't build on spec. We need at least 25% pre-leasing. And I still want to talk to you about that residual profit split.

All I can say right now is get me those revised unlevered cash flows and maybe I can bring the issues up at the Investment Committee meeting this week. But don't get too optimistic – we learned our lesson the last go-round, and it wasn't pretty.

I've got to get home for dinner or my kids are going to forget my name. I'll be in early tomorrow. Thanks, partner."

"O.K. then, Frank, I guess we'll talk in the morning. Bye."

As he released the call from his speaker phone, John Hynes muttered angrily:

"Spare me that partner crap, please! *Partners take risks.*"

John knew his discussions with Frank needed to evolve. He just worried that he didn't have much time.

## **Context**

John B. Hynes, III was the Senior Vice President and Principal in charge of the Boston office for Gale & Wentworth LLC ("G&W"), a diversified real estate investment and services firm. Gale & Wentworth owned approximately 12 million square feet of suburban

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This case was prepared by W. Tod McGrath for the purpose of class discussion. The case describes an actual situation, but in the interests of confidentiality, certain names and other identifying information have been changed. The situation described herein is not intended to illustrate either effective or ineffective handling of a fiduciary situation.

office properties and provided fee-based services to another 17.5 million square feet of such product. Gale & Wentworth had offices in seven states and the United Kingdom, employing over 350 people.

John Hynes was G&W's newest addition to its senior management team. A lifelong Bostonian and real estate professional, John was transitioning from a successful career in commercial brokerage back to one centered on real estate investment, development, and management. John had been there before. From 1983 to 1992, he directed Lincoln Property Company's Boston office as its Operating Partner where he was responsible for developing approximately 850,000 square feet of office space in Boston and Chelsea, Massachusetts.

John's primary responsibility at G&W was to use its resources and network of relationships to expand its presence in the Boston office market. John knew that the principal resource available to him was the \$50 million in capital that had recently been raised in MSGW III, G&W's latest opportunity fund co-sponsored with Morgan Stanley Real Estate. Similar to its two predecessor funds, MSGW III had been launched to acquire (with leverage) about \$200 million of "value added" real estate (i.e., largely empty buildings in improving markets). Levered investment returns were targeted at about 25%, down considerably from the 40%+ returns achieved in its first fund through the acquisition, repositioning, and disposition of formerly distressed assets.

G&W had recently finished investing MSGW II, its second opportunity fund co-sponsored with Morgan Stanley. This fund was subscribed in 1997 with \$50 million of equity and, somewhat unexpectedly, became fully invested in a single transaction with the levered acquisition of a national portfolio of office properties referred to in the marketplace as the Chubb Portfolio.

With regard to MSGW III, John was aware that it had become increasingly difficult to find existing investment opportunities that both matched the fund's investment objectives and could deliver the targeted level of investment returns. In many respects, the Boston market as of mid 1999 didn't seem to offer a great deal of promise in terms of opportunistic investing. Over the past 5 years, the vacancy rate for Class A & B space in the City of Boston had dropped from 13% to less than 4% and asking rental rates had more than doubled (Exhibit 1). John knew he was late to the party, but also knew that a dynamic metro area such as Boston would continue to offer smart investment opportunities over time.

Others thought so, too. That's how John came to meet Frank Mattson.

## **STRS**

From the standpoint of commercial real estate investment, STRS was one of the most progressive public pension plan sponsors in the country. Unlike most public pension plan sponsors, STRS had made a conscious decision to internally staff its real estate investment

function as opposed to outsourcing such responsibilities to third-party pension investment managers. More significantly, perhaps, STRS was willing to venture a little further out on the risk/reward frontier than most other plan sponsors.

But STRS appetite for risk was buffered by a strategic decision to concentrate their investment in only about 10 MSAs nationwide. The rationale for such concentration stemmed from the practical requirements of both internal management efficiency and depth of external (i.e., joint venture partner) investment resources in the private property markets. To be blunt, in order not to be preyed upon in the quirky and inefficient private real estate equity markets, STRS Real Estate Investment Committee wanted to make sure they were aligning themselves only with the most reputable partners and only in those markets with the most depth, stability, and transparency. STRS had come to regard Boston as one of those markets.

As of September 1999, STRS commercial real estate portfolio had a market value in excess of \$5.5 billion and funding commitments for another \$700 million. Although the portfolio was generally well diversified across property types, geographic regions, and investment structures, Frank Mattson believed that additional investment exposure to the higher cost, supply-constrained Northeast property markets was desirable. As he continued to follow the rapid escalation of rents and asset values in the Northeast, he began to more formally explore investment opportunities in Boston, both for STRS, individually, and with selected joint-venture partners. Early in 1999, G&W had been recommended to him as a possible source for investment opportunities by his contacts at Morgan Stanley Real Estate, with whom STRS had previous investment experience. Frank Mattson wasted no time in calling for a meeting with John Hynes, and soon the two were scavenging the Boston metro area looking for deals.

Unfortunately, after many months of search and due diligence, neither had identified a prospective investment that met their objectives. For John, “opportunistic” acquisitions had become ancient history by 1999; for Frank, “core” investments in fully-leased office buildings were generating initial unlevered cash returns of only about 7.0% to 7.5% (Exhibit 2) and expected unlevered IRRs in the 9.0% to 9.5% range. Frank was more than a little dismayed that even 30 year old buildings (with a host of issues related to functional obsolescence) were trading at cap rates in the 7.50% to 7.75% range.

A strong appetite to invest, enthusiasm for the Boston market, and an underwhelming array of acquisition opportunities: it was no surprise that Frank and John’s discussions quickly turned to development.

The 4% vacancy rate in Boston’s downtown office market had prompted five new office developments totaling approximately 2.7 million square feet to break ground in time for tenants to take occupancy between 2000 and 2002 (Exhibit 3). These five developments included:

- World Trade Center East
- World Trade Center West

- 10 Saint James Avenue
- 470 Atlantic Avenue
- 111 Huntington Avenue

Across these five developments, approximately 1.7 million square feet (60%) had been pre-leased and the remainder was in high demand by a dozen or so legal, financial services, and professional services firms which were strapped for available expansion space. Recently signed leases were generally in the \$50.00 to \$60.00 per rentable square foot range. Based on the nature of development timelines in Boston, it was pretty clear that the next wave of available supply couldn't be delivered until 2003 or 2004. What seemed to be holding the other proposed developments back from a groundbreaking was a combination of final entitlements and pre-leasing commitments.

John believed that the next building to break ground would have a first-mover advantage that would effectively cause the remaining proposed developments to stop and watch. While Frank certainly wasn't prepared to base his investment strategy on that premise, he did believe strongly that each of the remaining proposed developments would need significant amounts of equity capital to move forward and, in some cases, additional development expertise. After carefully reviewing the location, development program, and sponsorship of each of the remaining development opportunities, One Lincoln Street quickly emerged as a potentially attractive opportunity.

### **One Lincoln Street**

One Lincoln Street was a proposed 36-storey office development located in the Financial District of downtown Boston on a site bordered by Lincoln, Bedford, Kingston, and Essex Streets. The development program consisted of approximately \$1 million rentable square feet of office space, 15,000 rentable square feet of retail space, some below-grade storage space, and a five-level underground parking garage totaling 345,000 square feet with 725 parking spaces (parking for 900 cars with valet service). The development was projected to cost approximately \$330 million if built on an "all cash" basis (Exhibit 4).

The development was ostensibly controlled by Columbia Plaza Associates ("CPA"), a minority-owned development consortium which had originally received developer designation for the project by the Boston Redevelopment Authority ("BRA") back in the late '80's. More specifically, the BRA had awarded CPA the right to acquire two parcels of land owned by the City of Boston. The first parcel was the 27,000 square foot site of the nearly condemned Kingston-Bedford Public Parking Garage located on the northern half of the block bounded by Bedford, Kingston, Essex and Columbia Streets. The second parcel was an adjacent 20,000 square foot surface parking lot.

The acquisition of two other privately-owned parcels of land totaling approximately 16,000 square feet was needed to complete the development plan. As a condition to the extension of CPA's designation as developer, CPA had recently entered into a preliminary joint-venture agreement with a local Boston developer who was responsible for arranging the

debt and equity financing for the venture as well as the acquisition of the privately-owned land parcels. To date, none of those development milestones had been achieved and John had just been able to confirm with city officials that the preliminary joint-venture agreement previously approved by the BRA was set to expire within 30 days. That's all he needed to hear.

John immediately called the managing partner of CPA and asked if they could meet. Unfortunately, he was rather clinically informed that, under the terms of its existing joint-venture agreement, CPA was precluded from discussing any aspect of ownership in the proposed development with any other party. John wasn't exactly sure what that meant -- and he wasn't exactly sure that he cared. Within 72 hours of his phone call with CPA, he had flown to New York and put the two privately-owned parcels under agreement for \$22 million. The terms of sale were simple: \$2 million upon execution of the purchase and sale agreement (which was fully refundable within the negotiated 30-day "due diligence" period) and the remaining \$20 million at closing, which was also scheduled to occur in 30 days.

John knew that control of the privately-owned land parcels was essential to the proposed development becoming a reality. Without that site area, the land assemblage was inadequate for large-scale development. No one knew that better than CPA. John also knew that the BRA would be hesitant to even threaten to use its power of eminent domain in order to complete the assemblage for CPA. They'd had the chance for over a decade and never bit.

As the purchase and sale agreement was being executed, John placed his second call to CPA, this time introducing himself as their new partner. He followed that call with one to Frank Mattson, suggesting that he may have found what they were looking for.

A few weeks passed and the preliminary joint-venture agreement between CPA and their local development partner expired. It was August of 1999. Within a matter of days, John had reached agreement with both CPA and his money source, MSGW III, to conditionally move forward with the project subject to the approval of the Mayor of Boston and the BRA Board.

### **Morgan Stanley**

Investment approvals from MSGW were ultimately granted by Morgan Stanley Real Estate -- guys who liked to ask a lot of questions. Question number one to John was something like:

“You don't really think we're going to go hard on a dollar without all the approvals, do you?”

John smiled nervously yet assured them that he fully understood the investment objectives of MSGW III, and that the necessary approvals would be in place before the due diligence

period expired. Another phone call was quickly placed; this time to the mayor's office. John needed a meeting, and fast.

Two weeks remained before the due diligence period expired. Everything seemed to be moving forward (as well as could be expected) until John received a call from the Mayor's office informing him that, while the Mayor would support the project moving ahead, the Director of the BRA had suddenly resigned and the BRA Board meeting scheduled for later that week would need to be postponed for at least another two weeks. Breathing somewhat anxiously into his cell phone, John placed a call to the owner of the private land parcels. Twenty minutes later, he had negotiated an extension of the due diligence period until the day after the rescheduled BRA Board meeting and an extension of the closing date until the end of the year. Price tag: \$500,000 plus a \$2 million contingent purchase payment if lease commitments for 250,000 square feet of space in the new development were executed within 12 months of the closing. Simple enough.

His next call was to his partners at Morgan Stanley. He updated them on his various discussions and politely reminded them that G&W had invested 10% of the capital (\$5 million) into MSGW III and that there was no way they could realistically move forward on the deal without going hard on the \$2 million deposit after the BRA Board vote. As John had painfully become aware, the venture still needed a handful of miscellaneous city (and state) permits in order to break ground. The good news was that the Mayor had agreed to try to expedite the issuance of all remaining permits by the closing of the purchase and sale agreement. The mayor had an obvious incentive to cooperate; the acquisition of the city-owned parcels had been negotiated to occur on the same day. Price tag: \$15 million, half payable at closing, half payable three years thereafter upon certificate of occupancy for the first tenant.

After listening to John's pitch, reviewing the pro forma financial information relating to the operations of the venture (Exhibit 5), and reflecting on the real estate investment climate in downtown Boston, Morgan Stanley signed on to going hard not only on the \$2 million deposit, but funding for an additional \$5 million of required design, professional, and permitting costs by year's end. John ended the call feeling a strange mix of elation and dread. Although he got the green light to proceed, Morgan Stanley not-so-politely reminded him that no more than 50% of the equity raised in their fund could be invested in any one asset.

John immediately thought of his new buddy Frank.

### **Venture Structure**

After a few perfunctory meetings and conference calls, John cut to the chase and proposed the following deal structure to Frank for his review and recommendation to STRS Real Estate Investment Committee.

- A new joint-venture between MSGW, STRS and CPA would be formed to undertake the development. The venture would raise equity capital in an amount equal to the greater of \$175 million or 50% of the total development cost. The remaining capital required to complete construction and lease-up would be borrowed under a construction loan with a commercial lender. Upon maturity of the construction loan, the venture would likely arrange permanent mortgage financing to take out the construction loan.
- Of the equity capital required, MSGW would contribute 10% and STRS would contribute 90%. CPA had no obligation (or desire or ability) to contribute capital to the venture. In fact, as part of its understanding with John, CPA was entitled to a \$5 million reimbursement at closing for previous expenditures made and services performed since the late '80's.
- MSGW and STRS would each receive an annually compounded 11% cumulative preferred return on their invested equity capital; thereafter, CPA would be entitled to receive 15% of all remaining cash flows, while MSGW and STRS would receive 51% and 34%, respectively. STRS would control a majority of the voting interests in the venture.
- Construction and permanent financing commitments would be approved by STRS in its sole discretion.

The bottom line was that Frank liked what he heard, both from a financial and managerial (control) standpoint. Frank had previously stressed to John the importance that STRS placed, for example, on the monitoring role an experienced construction lender performed during the construction period. He was pleased that John had wisely offered up -- without posturing or pretense -- exclusive approval rights to STRS on all project financings. STRS was putting up 90% of the equity.

With regard to requiring the use of a construction lender during the construction stage, Frank realized he would have to review the cash flow impact of such use on the development and operating budgets. He also knew from previous experience that the venture would be required to expend available equity capital on project expenditures prior to draws being approved by the construction lender under the construction loan. The venture would also have to guarantee completion of the development to the construction lender.

Frank expected to be able to negotiate a construction loan with a four-year term-to-maturity, quarterly interest-only payments, and a fixed interest rate (compounded quarterly) no higher than 8%. He estimated that the construction lender would charge \$2 million in fees at closing and would require an additional \$200,000 per year of direct expense reimbursement for inspections during the three-year base building construction period. John had previously provided Frank with an annual and quarterly breakdown of expected

construction period expenditures on hard construction and soft development costs (Exhibit 6), which Frank assumed would occur ratably throughout each quarter.

That essentially left Frank needing to do what he liked to do best: calculating and evaluating the expected cash flows and investment returns from the venture to each venturer in accordance with the proposed distribution priorities. Although Frank already felt comfortable with the development and operating budgets John had prepared for the property, knew he would need to make a few assumptions regarding capital events and related market-based investment parameters. In particular, Frank assumed that

- i. The property could be sold at the end of its tenth year of stabilized operations for a price equal to its then current net operating income capitalized at 7.5%. Frank reasoned that in Year 10 (not unlike in the Boston market at the time), the owner of the property would likely be on the verge of receiving significant increases in base rental revenues through lease renewals at market rental rates. Using a 7.5% capitalization rate to arrive at an expected sale price for the property seemed to be as good a guess as any, particularly in light of current market conditions; and
- ii. Transaction costs for an asset this size would be no more than 1.25%.

Frank knew that, for presentation purposes to STRS Real Estate Investment Committee, he would principally focus on the expected unlevered cash flows and investment returns (IRR) both to the venture as a whole and to STRS individually. Analyses of levered investment returns could also be prepared, but he was a bit uncomfortable trying to forecast permanent financing rates four years into the future. One of the committee members was a real estate academic who undoubtedly would feel the need to comment on his estimation of future interest rates. Frank was generally aware that permanent financing rates for current fundings to properties that meet conventional underwriting criteria were in the 7.5% range, about 200 basis points over Treasury Bills.

But Frank also knew that the proposed investment was more than just a little different than STRS had seen in a while. Even for an institution that prided itself on taking the long view of real estate investment, three years of consecutive cash outflows followed by an uncertain year of initial lease-up was a long time indeed. He mused that, for a variety of reasons, he might not even be around to see it completed.

That got Frank thinking, in a practical sense, about when and how STRS could get out of the deal and what the project might be worth upon construction completion and lease-up. He figured he should be prepared to discuss those issues since they seemed particularly relevant for this investment. He also knew that if he were inclined to recommend the investment for approval, he would have to step off the curb and justify it from the standpoint of it adequately compensating STRS for bearing the risks associated with both construction and lease-up.

Even though he knew the venture would obtain a guaranteed maximum price contract from their chosen general contractor, their construction lender would require a completion



guarantee that would, in all likelihood, devolve into negotiations over the venturers guaranteeing individual line item costs in the development budget. Frank knew that based on the magnitude of the overall construction budget, STRS would have to be the front line guarantor on the construction loan. Frank also knew that STRS would require significant backup guarantees from Morgan Stanley (corporately) for certain budgeted line items, and that Morgan Stanley would in turn require Gale & Wentworth to provide certain backup guarantees. After all, it was G&W who sourced the deal and who had presumably vetted the thousands of assumptions that went into it. John had already informed Frank that \$5 million of G&W's \$9 million share of the budgeted development fees were being proposed to be deposited into escrow accounts to ensure performance under its guarantees. Frank wondered whether or not Morgan Stanley would feel that was enough. Regardless, he knew he needed to give the issue of risk-adjusted investment returns a lot more thought in order to formalize his analyses and recommendations. He needed to think hard about how to price construction and lease-up risk in real estate development.

### **Crunch Time**

It was September 1999. In the afternoon before the regularly scheduled monthly Real Estate Investment Committee meeting, Frank's assistant pulled him out of a staff meeting and informed him that John Hynes was on the phone and needed to talk.

John had just gotten off the phone with Morgan Stanley and Morgan Stanley had given him an ultimatum of sorts. It seemed that Morgan Stanley was getting a bit uncomfortable with the thought of carrying through with the deal. By their calculations, they would need to invest in excess of \$40 million over the next few months in order to close on the City-owned and privately-owned land parcels and to pay CPA and the venture's permitting, design, and legal consultants. In the context of managing MSGW III in the near term, that was becoming a problem.

But the guys at Morgan were smart -- although maybe too smart from John's perspective. Their message to John was simple: get STRS or someone else on board right now to fund 90% of the equity requirements of the development or the day after the closing on the land parcels they were going to flip the site with its existing entitlements to a large Boston-based REIT they had recently done some investment banking work for. Price tag: for \$60 million. Morgan told John, unequivocally, that they were prepared to execute such an agreement within 60 days. They also reminded John that G&W would pocket their share of the profits.

Not surprisingly, John's message to Frank was equally simple: STRS had 15 days to get investment committee approval for the deal and 45 days to completely document the transaction. In addition, assuming all of the entitlements were in place at the time of the land closings, there would be no pre-leasing contingencies or thresholds to permit STRS to defer funding its 90% equity share. They didn't have time for that. STRS was either in or out. Welcome to the real world of high stakes real estate development.

Frank knew that if his analyses supported a recommendation to pursue the deal, he would have to be persuasive to gain approval by the investment committee the following day. The thought of having to prepare his analyses and remarks in one evening started to make him feel a bit anxious. And it didn't really help to have John jump off the call saying,

"I've got to go hook up with a few people. Get back to me tomorrow as soon as you can and tell me how the meeting went. And, Frank, I wouldn't even think about coming back to me on that residual profit split. It is what it is.

Hey remember, partner, pre-leasing is for sissies."

## Exhibit 1

### *Boston Central Business District Class A & Class B Office Market Performance History*

<u>Year</u>	<u>Total Class A</u>	<u>Class A Net Gain</u>	<u>Total Class B</u>	<u>Class B Net Gain</u>	<u>Total Net Gain</u>	<u>Total Space</u>	<u>Vacancy Rate</u>	<u>Vacant Space</u>	<u>Occupied Space</u>	<u>Asking Rents Class B / A</u>	<u>Class A / B Absorption</u>
1975	14,166,000	3,813,000	380,000	15,000	3,828,000	14,546,000	15.25%	2,218,265	12,327,735	\$6.50/\$14.00	2,150,000
1976	15,406,000	1,240,000	753,000	373,000	1,613,000	16,159,000	14.50%	2,343,055	13,815,945	\$6.50/\$12.00	1,488,210
1977	16,465,000	1,059,000	847,000	94,000	1,153,000	17,312,000	12.75%	2,207,280	15,104,720	\$6.50/\$12.00	1,288,775
1978	16,465,000		1,388,000	541,000	541,000	17,853,000	9.50%	1,696,035	16,156,965	\$6.50/\$14.00	1,052,245
1979	16,465,000		1,766,000	378,000	378,000	18,231,000	6.25%	1,139,438	17,091,563	\$8.00/\$16.00	934,598
1980	16,465,000		2,590,000	824,000	824,000	19,055,000	3.50%	666,925	18,388,075	\$10.00/\$20.00	1,296,513
1981	17,475,000	1,010,000	3,914,000	1,324,000	2,334,000	21,389,000	4.75%	1,015,978	20,373,023	\$12.00/\$22.00	1,984,948
1982	17,612,000	137,000	5,506,000	1,592,000	1,729,000	23,118,000	3.50%	809,130	22,308,870	\$16.00/\$25.00	1,935,848
1983	17,812,000	200,000	6,493,000	987,000	1,187,000	24,305,000	3.75%	911,438	23,393,563	\$22.00/\$30.00	1,084,693
1984	21,722,000	3,910,000	7,884,000	1,391,000	5,301,000	29,606,000	11.50%	3,404,690	26,201,310	\$24.00/\$35.00	2,807,748
1985	22,491,000	769,000	8,825,000	941,000	1,710,000	31,316,000	9.50%	2,975,020	28,340,980	\$26.00/\$38.00	2,139,670
1986	22,641,000	150,000	12,154,000	3,329,000	3,479,000	34,795,000	10.00%	3,479,500	31,315,500	\$26.00/\$42.00	2,974,520
1987	24,280,000	1,639,000	13,187,000	1,033,000	2,672,000	37,467,000	10.00%	3,746,700	33,720,300	\$28.00/\$44.00	2,404,800
1988	27,510,000	3,230,000	14,577,000	1,390,000	4,620,000	42,087,000	14.00%	5,892,180	36,194,820	\$30.00/\$50.00	2,474,520
1989	28,220,000	710,000	15,091,000	514,000	1,224,000	43,311,000	16.00%	6,929,760	36,381,240	\$30.00/\$55.00	186,420
1990	30,085,000	1,865,000	15,894,000	803,000	2,668,000	45,979,000	17.25%	7,931,378	38,047,623	\$25.00/\$40.00	1,666,383
1991	30,335,000	250,000	16,022,000	128,000	378,000	46,357,000	19.00%	8,807,830	37,549,170	\$20.00/\$30.00	(498,453)
1992	30,835,000	500,000	16,077,000	55,000	555,000	46,912,000	17.00%	7,975,040	38,936,960	\$18.00/\$25.00	1,387,790
1993	31,585,000	750,000	16,077,000	-	750,000	47,662,000	15.10%	7,196,962	40,465,038	\$18.00/\$26.00	1,528,078
1994	31,585,000		16,077,000	-	-	47,662,000	13.00%	6,196,060	41,465,940	\$20.00/\$27.00	1,000,902
1995	31,005,000	(580,000)	16,172,000	95,000	(485,000)	47,177,000	10.50%	4,953,585	42,223,415	\$24.00/\$30.00	757,475
1996	31,005,000	-	16,422,000	250,000	250,000	47,427,000	7.50%	3,557,025	43,869,975	\$26.00/\$34.00	1,646,560
1997	31,585,000	580,000	16,305,000	(117,000)	463,000	47,890,000	6.00%	2,873,400	45,016,600	\$30.00/\$40.00	1,146,625
1998	31,585,000	-	16,305,000	-	-	47,890,000	4.15%	1,987,435	45,902,565	\$34.00/\$50.00	885,965
1999	32,185,000	600,000	16,595,000	290,000	890,000	48,780,000	3.75%	1,829,250	46,950,750	\$35.00/\$60.00	1,048,185

**Exhibit 2**  
**ONE LINCOLN STREET**  
**Boston, MA**  
**Building Sales**

<b>Building</b>	<b>Built/ Rehab</b>	<b>Flrs.</b>	<b>Square Feet</b>	<b>Sale Date</b>	<b>% Leased</b>	<b>Buyer</b>	<b>Seller</b>	<b>Price</b>	<b>PSF</b>	<b>Going-In Cap</b>
One Boston Place	1970	41	779,213	Dec-99	95%	G. Hines Ltd.	Lend Lease	200,000,000	257	7.75%
99 High Street	1971	32	731,204	Dec-99	99%	Boston Capital	Keystone-Centrose Associates	168,500,000	230	7.71%
75 State Street	1988	31	770,000	Oct-98	100%	World Financial Properties	Lend Lease Real Estate Investments	311,000,000	404	7.40%
745 Atlantic Avenue	1987	11	168,000	Oct-99	100%	Lend Lease	Tishman Speyer	39,500,000	235	7.00%
399 Boylston Street	1983	13	255,000	Nov-98	90%	CentreMark	MetLife Real Estate Investments	52,000,000	204	7.50%
265 Franklin Street	1985	20	329,205	Apr-99	100%	Westbrook Partners/Divco West	Shuwa Investments	70,000,000	213	7.70%
260 Franklin Street	1985	23	348,901	Jan-00	100%	Heitman/State of Florida	JMB Property Company/TIAA	76,000,000	218	7.00%
245 Summer Street	1975	14	867,249	N/A	N/A	N/A	N/A	187,500,000	216	N/A
125 High Street <sup>1</sup>	1990	30	1,437,930	May-99	100%	Jamestown	Tishman Speyer	496,600,000	345	7.75%
116 Huntington Avenue	1990	15	261,000	Jun-99	100%	IDX Partners	IDX	55,200,000	211	6.95%
100 Summer Street	1974	32	1,020,000	Mar-98	80%	EOP Trust	Blue Cross Blue Shield/Emerik	225,000,000	221	7.50%
100 Federal Street	1971	44	1,355,612	N/A	N/A	N/A	N/A	366,000,000	270	N/A

<b>Weighted Average</b>	<b>PSF \$270</b>
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Note: <sup>1</sup> 76% interest

### Exhibit 3

#### *Boston New Development Projects*

	Building	District	Developer/Owner Tenant	Total RSF	S	Leased Space	Date	1999	2000	2001	2002	2003	2004	2005
1.	Lafayette Place Corp. Center	Financial District	Amerimar (State Street, MFS)	600,000	UC	600,000	1999	600,000						
2.	Landmark Center	Fenway	Abbey Group (BC/BS, Partners)	950,000	UC	750,000	1999	950,000						
3.	World Trade Center East	Seaport	Drew/Fidelity (Fidelity, AEW, Cabot)	500,000	UC	500,000	2000		500,000					
4.	10 St. James Avenue	Back Bay	Millenium (LM, Pearson, H&K)	585,000	UC	450,000	2001			585,000				
5.	470 Atlantic Avenue (Class B)	Financial District	Modern Continental	335,000	UC	0	2001			335,000				
6.	111 Huntington Avenue	Back Bay	Boston Properties (Bain, P&D, T&P)	850,000	UC	550,000	2001			850,000				
7.	World Trade Center West	Seaport	Drew/Fidelity (Foley Hoag)	500,000	UC	175,000	2002				500,000			
8.	One Lincoln Street	Financial District	Gale & Wentworth	1,000,000	P	0	2003					1,000,000		
9.	Seaport Center	Seaport	Chiofaro (State Street Global)	500,000	P	500,000	2003					500,000		
10.	Two Financial Center	Financial District	Rose Associates	250,000	P	0	2003					250,000		
11.	131 Dartmouth Street	Back Bay	Sullivan & Associates	350,000	P	0	2003					350,000		
12.	33 Arch Street (possible Residential)	Financial District	Krulewich/NorthStar	600,000	P	0	2004						600,000	
13.	700 Boylston Street	Back Bay	Boston Properties	150,000	P	0	2004						150,000	
14.	650 Atlantic Avenue South Station Center	Financial District	Hines/Tufts	1,250,000	P	0	2005							1,250,000
15.	One Fan Pier	Seaport	Spaulding & Slye/ Pritzker	750,000	P	0	2005							750,000
<b>SUB TOTALS:</b>				<b>9,240,000</b>		<b>3,525,000</b>		<b>1,550,000</b>	<b>500,000</b>	<b>1,770,000</b>	<b>500,000</b>	<b>2,100,000</b>	<b>750,000</b>	<b>2,000,000</b>
<b>PRELEASING:</b>						<b>(70% of UC)</b>		<b>1,350,000 (87%)</b>	<b>500,000 (100%)</b>	<b>1,000,000 (85%)</b>	<b>175,000 (35%)</b>	<b>500,000 (23%)</b>	<b>0 (0%)</b>	<b>0 (0%)</b>

## Exhibit 4

# ONE LINCOLN STREET

### DEVELOPMENT BUDGET

	<u>Line Item Cost</u>	<u>Cost Per Sq.Ft. of GBA</u>	<u>Cost Per Sq.Ft. of NRA</u>	<u>% of Total Cost</u>
<b>SITE ACQUISITION:</b>				
BRA Parcel	\$15,000,000	\$13.95	\$14.79	4.5%
O'Connor Parcel	24,500,000	22.79	24.16	7.4%
CPA Entitlement Cost Reimbursement	5,000,000	4.65	4.93	1.5%
Legal (Due Diligence)	250,000	0.23	0.25	0.1%
Legal (Closing, Title Insurance, Misc.)	<u>600,000</u>	<u>0.56</u>	<u>0.59</u>	<u>0.2%</u>
<b>Total Site Acquisition</b>	<b>45,350,000</b>	<b>42.19</b>	<b>44.72</b>	<b>13.7%</b>
<b>HARD CONSTRUCTION COSTS:</b>				
Base Building: Guaranteed Maximum Price	162,975,000	151.60	160.70	49.3%
Tenant Improvements	55,335,000	51.47	54.56	16.7%
Window Coverings	250,000	0.23	0.25	0.1%
Allowance for Common Corridors	1,000,000	0.93	0.99	0.3%
Parking Garage Equipment	100,000	0.09	0.10	0.0%
Abutter Improvement Allowance	500,000	0.47	0.49	0.2%
Bell Atlantic Conduit Relocation	1,700,000	1.58	1.68	0.5%
Building Security Equipment	250,000	0.23	0.25	0.1%
FF&E / Interior Artwork	500,000	0.47	0.49	0.2%
Landscaping	<u>500,000</u>	<u>0.47</u>	<u>0.49</u>	<u>0.2%</u>
<b>Total Hard Construction Costs</b>	<b>223,110,000</b>	<b>207.54</b>	<b>219.99</b>	<b>67.5%</b>
<b>SOFT DEVELOPMENT COSTS:</b>				
Architectural & Engineering	7,200,000	6.70	7.10	2.2%
Space Planning	300,000	0.28	0.30	0.1%
Construction Coordination Website	270,000	0.25	0.27	0.1%
Building Permit	1,600,000	1.49	1.58	0.5%
Other Permits	100,000	0.09	0.10	0.0%
MEPA EIR, Consulting Fees	200,000	0.19	0.20	0.1%
Builder's Risk Insurance	525,000	0.49	0.52	0.2%
Bonds to City	250,000	0.23	0.25	0.1%
Testing & Inspections	800,000	0.74	0.79	0.2%
Legal (Contracts)	75,000	0.07	0.07	0.0%
Legal (Approvals)	350,000	0.33	0.35	0.1%
Legal (Leasing)	1,000,000	0.93	0.99	0.3%
Leasing Commissions	8,113,000	7.55	8.00	2.5%
Real Estate Taxes During Construction	2,500,000	2.33	2.47	0.8%
Advertising & Marketing	1,000,000	0.93	0.99	0.3%
Linkage & Public Benefits:				
Neighborhood Housing Trust	1,900,000	1.77	1.87	0.6%
Neighborhood Jobs Trust	852,000	0.79	0.84	0.3%
Chinatown Childcare	1,250,000	1.16	1.23	0.4%
Dudley Street Initiative	50,000	0.05	0.05	0.0%
Community Development Fund	10,000,000	9.30	9.86	3.0%
Owners's Representative	200,000	0.19	0.20	0.1%
Development Fee: CPA	1,500,000	1.40	1.48	0.5%
Development Fee: G&W	9,000,000	8.37	8.87	2.7%
Contingency	<u>13,000,000</u>	<u>12.09</u>	<u>12.82</u>	<u>3.9%</u>
<b>Total Soft Development Costs</b>	<b>62,035,000</b>	<b>57.71</b>	<b>61.17</b>	<b>18.8%</b>
<b>TOTAL DEVELOPMENT COSTS</b>	<b>\$330,495,000</b>	<b>\$307.44</b>	<b>\$325.87</b>	<b>100.0%</b>

## Exhibit 5

### ONE LINCOLN STREET

#### PROJECTED NET OPERATING INCOME AND CASH FLOW FROM OPERATIONS

(\$ in Thousands)

Calendar Years Ending:	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Base Rental Revenue	\$53,141	\$53,141	\$53,141	\$53,141	\$53,141	\$54,435	\$56,008	\$58,012	\$60,425	\$60,425	\$66,309
Absorption and Turnover Vacancy	<u>(21,736)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,477)</u>	<u>0</u>	<u>(3,939)</u>	<u>0</u>	<u>0</u>	<u>(3,568)</u>
Scheduled Base Rental Revenue	31,405	53,141	53,141	53,141	53,141	50,958	56,008	54,073	60,425	60,425	62,741
Operating Expense Reimbursement	120	434	716	1,007	1,306	1,399	1,468	1,461	1,419	1,766	1,151
Real Estate Tax Reimbursement	120	434	716	1,007	1,306	1,399	1,468	1,461	1,419	1,766	1,151
Parking Garage Revenue (net)	4,000	5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334	6,524
General Vacancy	<u>0</u>	<u>(2,950)</u>	<u>(2,986)</u>	<u>(3,023)</u>	<u>(3,061)</u>	<u>(3,143)</u>	<u>(3,237)</u>	<u>(3,345)</u>	<u>(3,471)</u>	<u>(3,514)</u>	<u>(3,757)</u>
Effective Gross Income	35,645	56,059	56,737	57,437	58,156	56,241	61,503	59,620	65,941	66,777	67,810
Operating Expenses	<u>(9,128)</u>	<u>(9,401)</u>	<u>(9,683)</u>	<u>(9,974)</u>	<u>(10,273)</u>	<u>(10,582)</u>	<u>(10,899)</u>	<u>(11,226)</u>	<u>(11,563)</u>	<u>(11,910)</u>	<u>(12,267)</u>
Real Estate Taxes	<u>(9,128)</u>	<u>(9,401)</u>	<u>(9,683)</u>	<u>(9,974)</u>	<u>(10,273)</u>	<u>(10,582)</u>	<u>(10,899)</u>	<u>(11,226)</u>	<u>(11,563)</u>	<u>(11,910)</u>	<u>(12,267)</u>
<b>NET OPERATING INCOME</b>	<b>17,389</b>	<b>37,257</b>	<b>37,371</b>	<b>37,489</b>	<b>37,610</b>	<b>35,077</b>	<b>39,705</b>	<b>37,168</b>	<b>42,815</b>	<b>42,957</b>	<b>43,276</b>
Tenant Improvements	(55,335)	0	0	0	0	(7,496)	0	(8,478)	0	0	(9,096)
Leasing Commissions	(4,057)	0	0	0	0	(1,874)	0	(2,119)	0	0	(2,326)
Capital Reserve	<u>(152)</u>	<u>(157)</u>	<u>(161)</u>	<u>(166)</u>	<u>(171)</u>	<u>(176)</u>	<u>(182)</u>	<u>(187)</u>	<u>(193)</u>	<u>(198)</u>	<u>(204)</u>
<b>PROPERTY BEFORE-TAX CASH FLOW</b>	<b>(42,155)</b>	<b>37,100</b>	<b>37,210</b>	<b>37,323</b>	<b>37,439</b>	<b>25,531</b>	<b>39,523</b>	<b>26,384</b>	<b>42,622</b>	<b>42,759</b>	<b>31,650</b>

## Exhibit 6

### ONE LINCOLN STREET

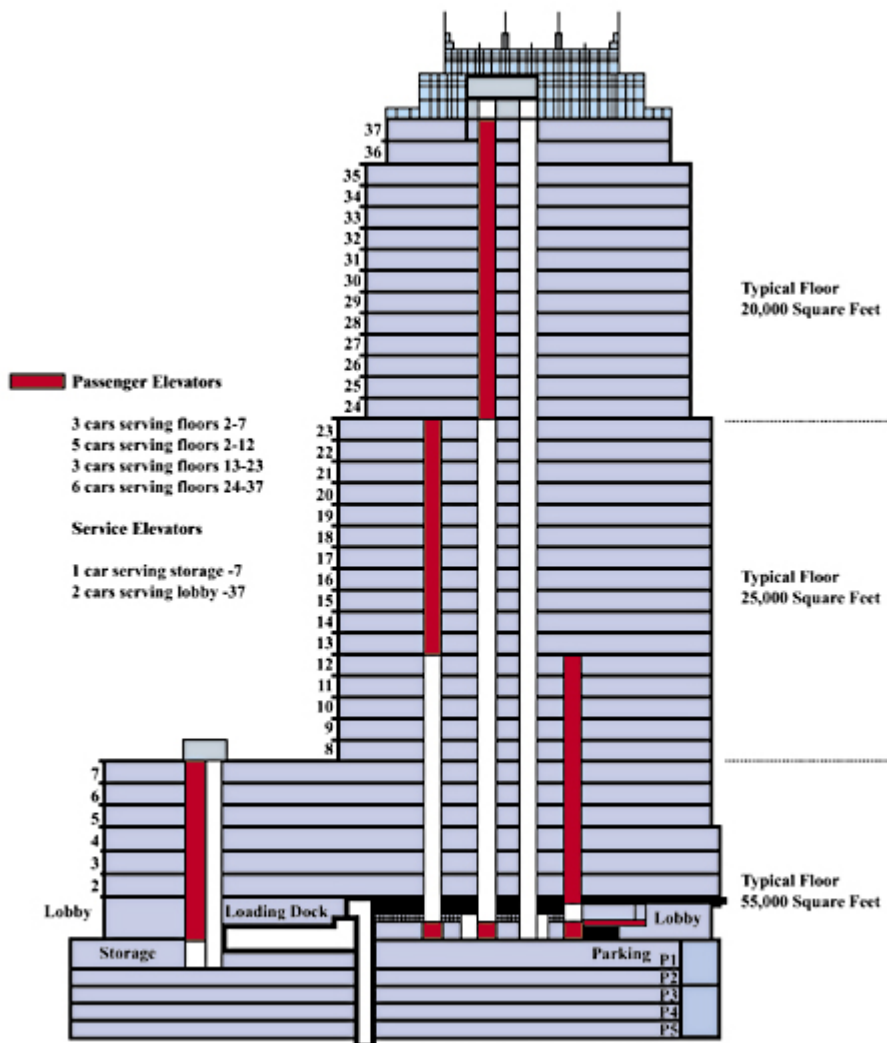
#### CONSTRUCTION PERIOD FUNDING SCHEDULE

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Totals</u>
Base Building Costs	\$14,430,000	\$79,200,000	\$65,350,000	\$3,995,000	\$162,975,000
Tenant Improvements				55,335,000	55,335,000
Other Hard Construction Costs	2,200,000			2,600,000	4,800,000
Linkage & Public Benefits	4,326,000	426,000		9,300,000	14,052,000
Leasing Commissions		4,056,000		4,057,000	8,113,000
Developer Fees	2,140,000	2,188,000	2,203,000	3,969,000	10,500,000
Other Soft Development Costs	<u>13,684,000</u>	<u>6,996,000</u>	<u>5,725,000</u>	<u>2,965,000</u>	<u>29,370,000</u>
<b>Total Funding Requirements</b>	<b>\$36,780,000</b>	<b>\$92,866,000</b>	<b>\$73,278,000</b>	<b>\$82,221,000</b>	<b>\$285,145,000</b>

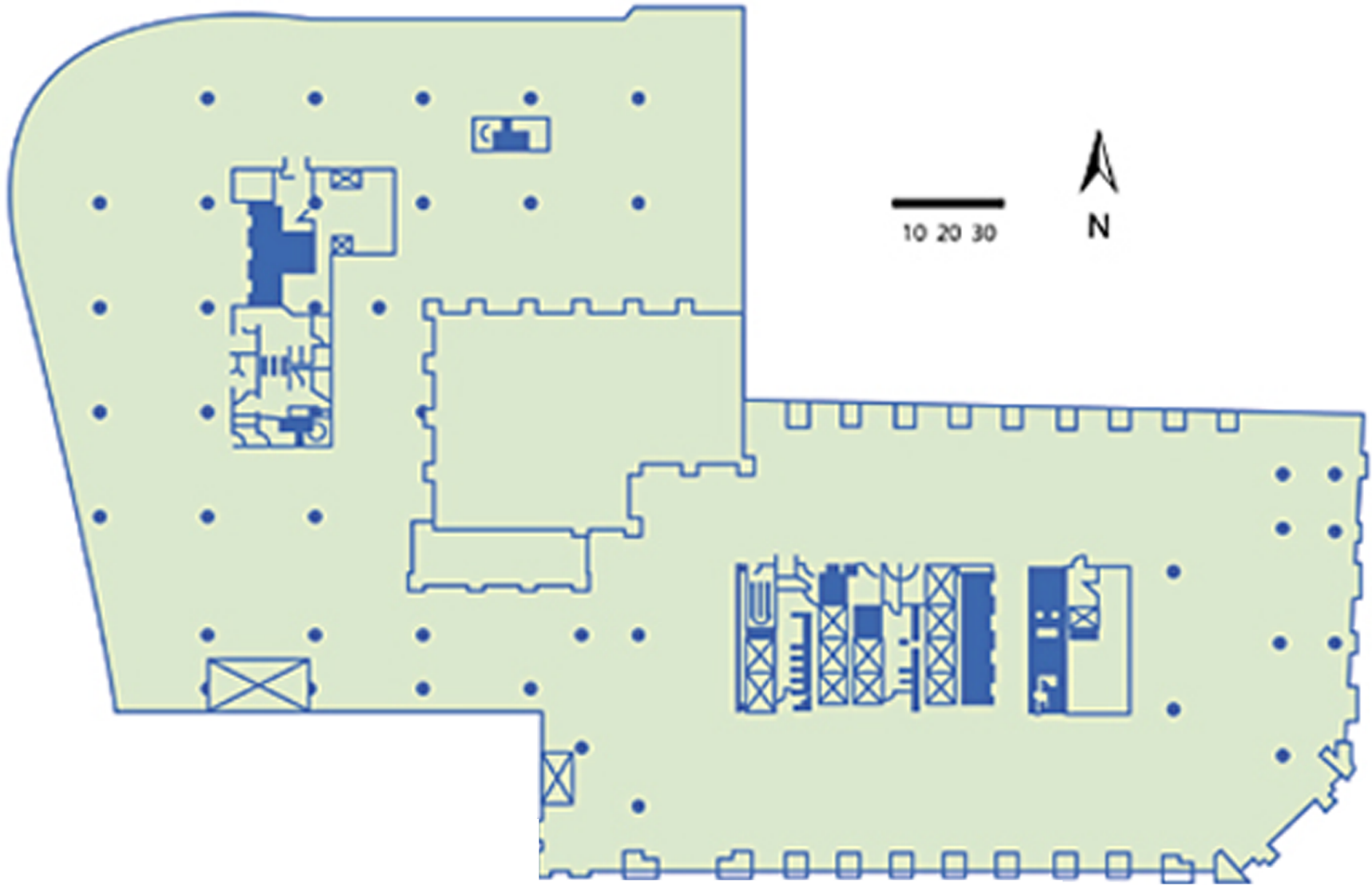
#### SUPPORTING QUARTERLY DETAIL

<u>Quarter</u>	<u>Base Building</u>	<u>Tenant Improvements</u>	<u>Other Hard Construction</u>	<u>Linkage &amp; Public Benefits</u>	<u>Leasing Commissions</u>	<u>Developer Fees</u>	<u>Other Soft Development</u>
2000.1							4,983,000
2000.2	2,030,000			3,150,000		525,000	3,574,000
2000.3	3,146,000		500,000	1,126,000		525,000	3,106,000
2000.4	9,254,000		1,700,000	50,000		1,090,000	2,021,000
2001.1	16,005,000				1,014,000	525,000	1,478,000
2001.2	18,047,000				1,014,000	525,000	1,623,000
2001.3	19,424,000			426,000	1,014,000	525,000	1,816,000
2001.4	25,724,000				1,014,000	613,000	2,079,000
2002.1	19,912,000					525,000	1,734,000
2002.2	20,223,000					525,000	1,398,000
2002.3	14,851,000					525,000	1,467,000
2002.4	10,365,000					628,000	1,126,000
2003.1	1,701,000	32,960,000	1,623,000		1,014,000	525,000	896,000
2003.2	1,134,000	4,421,000	457,000	6,800,000	1,014,000	525,000	734,000
2003.3	673,000	5,181,000	386,000	1,500,000	1,014,000	525,000	691,000
2003.4	<u>486,000</u>	<u>12,773,000</u>	<u>134,000</u>	<u>1,000,000</u>	<u>1,015,000</u>	<u>2,394,000</u>	<u>644,000</u>
<b>Totals</b>	<b>\$162,975,000</b>	<b>\$55,335,000</b>	<b>\$4,800,000</b>	<b>\$14,052,000</b>	<b>\$8,113,000</b>	<b>\$10,500,000</b>	<b>\$29,370,000</b>

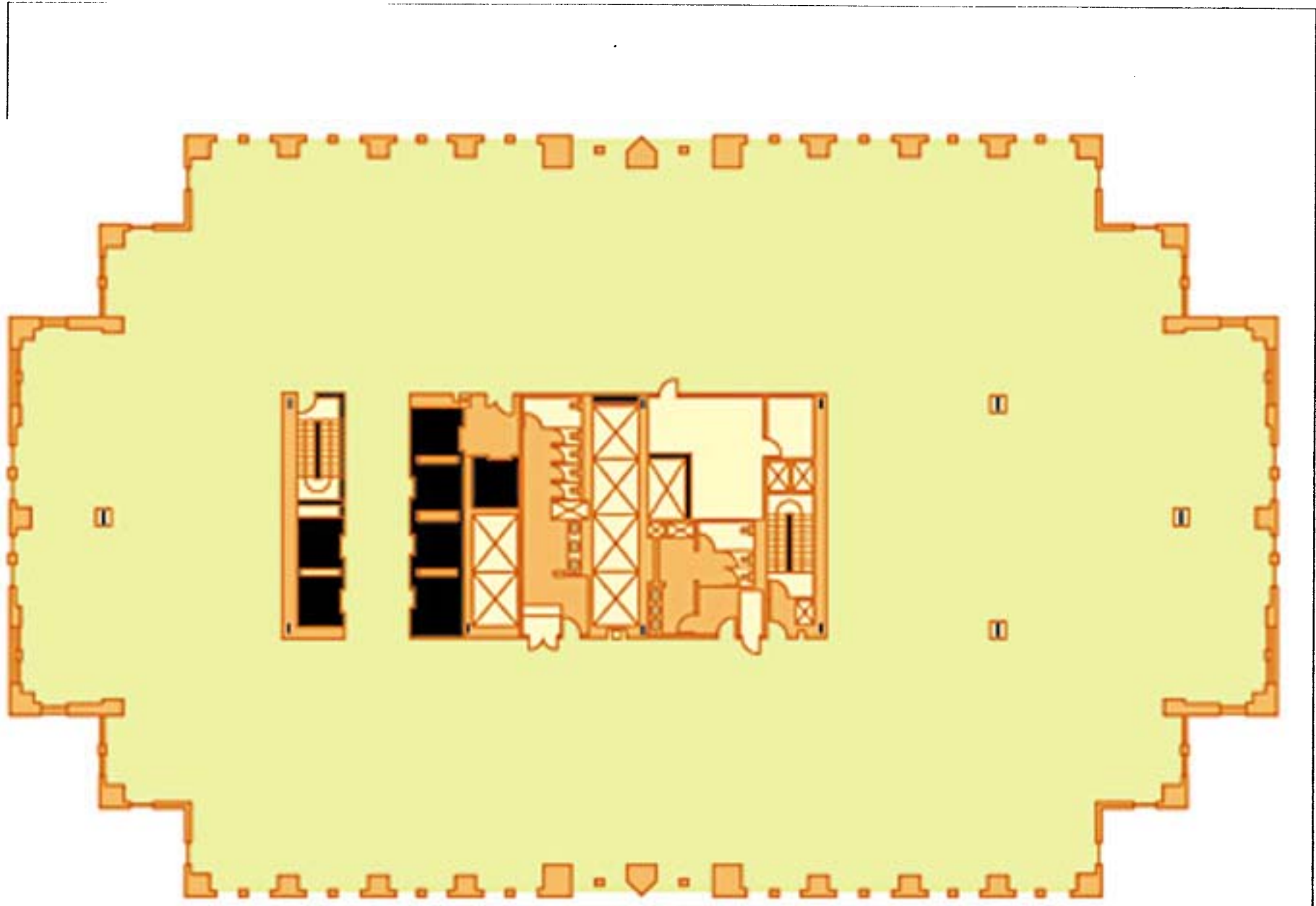




1 Lincoln St - Elevator bank configuration



1 Lincoln St - Typical Floor Plan



1 Lincoln St - Typical 25,000 sf floor - Typical 25,000 sf floor

