One Lincoln Street (B)

Timing, luck, and a little bit of guts. That's how John Hynes summarized the recipe for the success of the One Lincoln Street development to Linda Douglass, Senior Acquisition Officer for Atlantic-Pacific Property Corp. Linda had bought more than a billion dollars of property over the past five years, but she wasn't buying John's latest attempt at humility. She'd been around the block and knew all too well the amount of negotiating, positioning, persuasion and determination needed to develop a spec building in Boston.

As coffee was being served and their lunch was ending, it was clear that Linda wanted to know more about the construction and financial status of the development, and to pick up on John's seemingly off-hand comment regarding how Gale & Wentworth might best proceed to monetize the substantial investment value it had created during the development process. Linda had known John for over 15 years, but this was the first time she had the sense there might be a real transaction for her and John to explore.

Background

In mid-1999, John Hynes identified, and then secured, a million square foot office development opportunity adjacent to South Station in Boston. The project, known as One Lincoln Street, had been kicking around for years but could never find its way to get off the ground. That is, not until the office market came storming back and John Hynes and his partners at Morgan Stanley stepped into the breach and committed enough capital to complete the required site assemblage and perfect the entitlements necessary to proceed to construction. Beyond that, they just needed about $300 million more capital, along with a tenant or two.

As it turned out, the capital was delivered first, courtesy of Midwest State Teachers Retirement System ("STRS"). They, too, believed in the long-term vibrancy of the Boston office market and committed over $150 million of equity to commence construction and secure required debt financing. And to everyone's surprise, John (with a little help from the overheated office market) actually convinced STRS to flex their investment policies just a wee bit and proceed to construction on a speculative basis.

That's when the unexpected occurred.

This case was prepared by W. Tod McGrath for the purpose of class discussion. The case describes a hypothetical situation and is not intended to illustrate either effective of ineffective handling of a fiduciary situation.

So much of John's time and energy had been spent negotiating the terms and conditions of the site acquisition, construction loan documentation, and joint-venture structure that he hadn't even begun to seriously engage the marketing effort for the project. Day-in and day-out his focus was on finalizing the papering of the deal so he could break ground. He never really expected to have a lease (or even a letter of intent) signed before the heavy site work began. And he certainly never expected to receive a call from Commonwealth Avenue Custody Corporation asking if he could respond to an RFP for 700,000 square feet of space before the construction drawings were even submitted to the city for review.

But what was really unexpected was the actual signing of a lease with Commonwealth Avenue before the first yard of concrete was poured. And not for 700,000 square feet; for *every* square foot. For 20 years. With rent bumps.

Now that was unexpected.[1]

<u>Venture Dynamics</u>

You'd think a 20-year lease with AA- rated credit would simplify things. Not necessarily. As John motioned to the waiter for the check, he mentioned to Linda that he had to catch a shuttle to New York for a late afternoon meeting with Morgan Stanley. Despite the project being on schedule, slightly under budget, and ready for certificates of occupancy on the first 20 floors, there was a certain restlessness brewing within the venture. MSGW III, the fund that supplied the remaining 10% of the required equity not otherwise committed by STRS, was strategically reviewing its asset allocations and debating the wisdom of monetizing or selling its equity position in the project. After all, MSGW III was an opportunity fund that advertised a 5-year expected life, and had a substantial amount of capital committed to One Lincoln Street without any return for over 3 years.

While thrilled with the overall outcome of the Commonwealth Avenue lease, the space and capital markets had changed rather dramatically since the initial equity funding. In the space markets, Class-A vacancy rates (including sublease space) increased from under 4% in 1999 to approximately 5%, 10% and 15% in 2000, 2001, and 2002, respectively. Current (early 2003) vacancy rates approached 16%. Asking rents for Class-A space had decreased from about $65 per rentable square foot in 2000 to about $50 in early 2003, in annual increments of about $5. Current effective rents (incorporating free rent concessions, above-standard tenant improvements, etc.) were now at least 10% lower than asking rents.

In the capital markets, interest rates on both long and short term debt instruments had also declined. In particular, yields on 10-year Treasury securities had decreased from about 6.50% in early 2000 to about 4.00% in early 2003. Yields on 15 and 20-year Treasury securities were currently about 4.25% and 4.50%, respectively. The combination of these

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[1] The unusually prolonged closing festivities, however, were not.

trends – weakening space market fundamentals and historically low interest rates – made the Morgan Stanley crowd fairly serious about the idea of harvesting profits.

And then there was STRS. As part of its ongoing asset management discipline, STRS was similarly reviewing its asset allocations, particularly within regions like greater Boston that had recently exhibited a high degree of demand and rental rate volatility. Due to its relatively unique leasing profile, STRS was quite comfortable with its investment in the One Lincoln Street development; so much so that members of the asset management staff routinely joked about transferring their joint-venture interest to the fixed income group in exchange for a few more days of paid vacation.

Some others within the asset management group, however, were thinking a bit more seriously. Included within the venture documentation were heavily negotiated provisions relating to mechanisms by which both STRS and MSGW could either acquire each other's interest in the venture or divest their existing interests. Indeed, one senior asset manager was openly debating the long-term alignment of interest between STRS and MSGW, essentially asking why (now that the building is completed) is MSGW such a good long-term partner?

The leasing profile of One Lincoln Street made it exactly the type of asset STRS sought to acquire: one that generated safe, long-term cash flows with predictable built-in growth and little or no future capital expenditures. And STRS was having more than a bit of trouble finding similar type assets, particularly ones that were fairly priced. It was because STRS believed that the negotiated acquisition mechanisms within the venture would deliver fair prices to either party, that some serious discussions had begun regarding triggering the operation of the venture's Buy/Sell provisions to acquire MSGW's interest.

And, yes, Morgan Stanley (and now Gale & Wentworth) had gotten wind of it.

The Buy/Sell Provisions

They worked like this:

- Any time on or after shell completion, either STRS or MSGW could submit an offer to purchase the other party's entire equity interest in the development by delivering to the other party a Buy/Sell Offering Notice that includes a "Specified Valuation Amount" which the offering party would be willing to pay *in cash* for one hundred percent (100%) fee ownership of the development;

- The non-offering party would then have 45 days to notify the offering party whether or not it elects to

    - sell (as "Seller") its entire equity interest in the development to the offering party for an amount equal to the amount the non-offering party would have received had the development been sold for the Specified Valuation Amount, or

- acquire (as "Purchaser") the entire equity interest in the development of the offering party for an amount equal to the amount the offering party would have received had the development been sold for the Specified Valuation Amount;

- If the non-offering party fails to notify the offering party of its election prior to the 45-day Buy/Sell election period, then the offering party shall acquire as Purchaser the entire equity interest of the non-offering party;

- At the time of any party's election to purchase, the Purchaser must make a non-refundable deposit to the Seller equal to five percent (5%) of the amount the Seller will otherwise receive;

- If the Purchaser fails to perform, in default of the Buy/Sell provisions, then the Purchaser shall forfeit its five percent (5%) deposit, shall be responsible for all closing costs actually incurred (including, without limitation, escrow costs and transfer taxes), and shall lose all future rights to trigger the Buy/Sell provisions thereafter; and

- As a result of the breach of the Purchaser's obligations, the Seller shall have the option, within 30 days of default by the Purchaser, of substituting itself as Purchaser and thereupon have the right to Purchase the other party's entire equity interest in the development for eighty-five percent (85%) of the amount that the other party would have otherwise received had the development been sold for the Specified Valuation Amount.

Trouble in Paradise?

On the shuttle to Manhattan, John couldn't help but think of how much he wanted to preserve an ownership interest in the asset he had worked so hard to create. From his perspective, he was in the development business for the long haul – not the quick flip. He understood only too well that a development deal like One Lincoln Street happens once in a career – and only if your timing's damn good and you're damn lucky and you've got a lot of guts. The guys at Morgan Stanley didn't understand that; or even if they did, they couldn't care less about his personal philosophy. He knew the conversation would be about "harvesting" and "rebalancing" and "posting numbers". And he knew he wasn't going to be happy with a decision to sell out to STRS.

Unfortunately, however, the meeting went pretty much as predicted. Morgan Stanley reiterated their understanding that STRS was preparing a Buy/Sell Offering Notice that contained the required Specified Valuation Amount, and that such Specified Valuation Amount was being established through an independent MAI appraisal process. In addition, Morgan Stanley presented all of their high-brow reasons for why they needed to cash out and how they would try to position STRS to get the highest possible valuation for One Lincoln Street. But despite all the pinstriped bravado, one thing was clear from the meeting: if MSGW didn't like the Specified Valuation Amount offered to them by STRS, they weren't in a very good position to come up with over a half billion dollars in 45 days to exercise their option to buy out STRS' interest. They didn't have a plan for that. They didn't even have a plan for a plan. At least not until John Hynes was waiting to board the shuttle back to Boston and put a call into Linda Douglass to set up a meeting at his office for the following morning.

Plan B

Linda arrived at John's office at 8:30 am. She was more than a little curious as to why he wanted to meet so quickly. Before she even had time to put milk in her coffee, John had already launched into his discourse on the status of the One Lincoln Street development and the impending issues within the ownership venture. Then John pointedly asked Linda if Atlantic-Pacific had the financial capacity to make a credible purchase offer for the property and if she was willing to conditionally explore such an acquisition.

She responded "Yes. Yes. And what exactly do you mean by conditionally?"

John explained "conditionally": in short, he was willing to give Linda an exclusive opportunity to submit an informal purchase offer to acquire a majority ownership interest in One Lincoln Street. Her final offer, if formally requested by MSGW and formally submitted by Atlantic-Pacific, would be a "backstop" offer: that is,

- it could be formally submitted to MSGW (when formally requested by MSGW) on the same basis that STRS would be required to submit its Specified Valuation Amount for the development (i.e., 100% fee ownership);

- if Atlantic-Pacific's final offer was greater than or equal to the Specified Valuation Amount submitted by STRS, MSGW would exercise its option to acquire STRS' interest at a price equal to what STRS would otherwise receive if the development were sold for the Specified Valuation Amount;

- the extent, if any, to which Atlantic-Pacific's purchase offer exceeded the Specified Valuation Amount would be paid to MSGW in cash at closing; and

- MSGW, or its assignee, could continue to own its current equity interest in the venture (or could elect to be partially cashed-out on a proportionate basis) and would continue to manage the development. John was confident he could get Morgan Stanley to participate, at some level, within that framework. Simple enough.

Simple, but not that simple. Linda quickly pointed out to John that, as a vertically-integrated public real estate operating company, Atlantic-Pacific would never make a substantial acquisition without both controlling the management of the asset and being fairly compensated to do so. If John wanted a formal backstop offer from Atlantic-Pacific, he could forget amount retaining management or any portion of the management fee (of which an estimated 75% was net profit after allocated staff cost).

After a somewhat long and uncomfortable silence, John agreed to Linda's rather firm position, but felt obligated to impose a few conditions of his own: namely, that (i) her informal purchase offer was due within 10 calendar days, irrespective of when, or if, STRS ever actually delivered a Buy/Sell Offering Notice, (ii) as part of their formal purchase offer, Atlantic-Pacific would be required to indemnify MSGW against any and all financial loss or damage relating to Atlantic-Pacific's failure to perform under their purchase offer, if such offer were formally accepted by MSGW, and (iii) based on the tenant's credit, the absence of future capital expenditures, and the built-in rent steps throughout the initial 20-year lease term, the offer price for the development had better start with a "6". Linda wasn't exactly sure how to evaluate John's last condition, but she thought she understood the other two.

She left John's office with an abstract of the 400+-page office lease with Commonwealth Avenue Custody Corporation and a promise to immediately receive mountains of due diligence materials on the legal and physical status of the building. As she walked back to her office, she thought about two things: one, she'd need to quickly marshal the resources of her acquisition team to commence the necessary due diligence; and two, the lease abstract and attached projection of Property Before Tax Cash Flow (see **Exhibit 1**) were the first, and potentially most important, documents she'd need to review. She'd done this before so she knew where to start and what to focus on.

The Lease and Lessee

The lease executed with Commonwealth Avenue was a 20-year full service gross lease with tax and operating expense stops that ensure the lessor that any increases in property taxes and operating expenses throughout the 20-year term of the lease will be fully reimbursable by Commonwealth Avenue as additional required rent. Under the terms of the lease, MSGW has provided a fixed tenant improvement allowance to Commonwealth Avenue (which has already been fully dispersed for interior construction improvements), paid all required brokerage commissions, and agreed to limit its annual property management fees to $0.75 per square foot, increasing at 3% per annum. The scheduled commencement date for the lease is only about a month away.

With over $6 trillion of assets under custody and more than three-quarters of a trillion dollars of assets under management, Commonwealth Avenue Custody Corporation ("Commonwealth Avenue") is one of the leading servicers of financial assets in the world. Based in Boston, Commonwealth Avenue occupies well over a million square feet in the greater Boston area and is the sole tenant of One Lincoln Street.

Commonwealth Avenue is publicly-traded and has an issuer credit rating of AA-, enabling it to borrow money in the long-term public debt markets at approximately 125 basis points over comparable-term U.S. Treasury securities.

<u>Atlantic-Pacific Property Corporation</u>

Linda started with Atlantic-Pacific shortly after it went public in the mid '90's. As an acquisitions officer working for a publicly-traded REIT, Linda's responsibility is to understand not only the micro-level dynamics of specific property markets, but the application of proven capital budgeting techniques and mandated financial accounting conventions to arrive at investment decisions that add value to Atlantic-Pacific's growing franchise. An important part of Linda's responsibility is to thoroughly understand the financial performance of Atlantic-Pacific and to integrate that understanding into value-enhancing capital investment decisions. Selected summary (historical) financial data for Atlantic-Pacific is presented in **<u>Exhibit 2</u>**.

In her frequent discussions with Atlantic-Pacific's CFO, Linda had become aware of other issues facing the company as well as the CFO's general perspective and concerns relating to large deployments of investment capital. For any investment over $100 million, she had been informed that Atlantic-Pacific would likely be required to issue both additional equity and additional unsecured debt. Atlantic-Pacific's stock price had just recently regained the $40 per share threshold it enjoyed about three years earlier. Over the past two years, Atlantic-Pacific had been very cautious about issuing new equity; however, after recently acquiring assets on its unsecured credit line, it found itself with a debt-to-total market capitalization ratio of approximately 50% -- a threshold it didn't really want to exceed. Any significant acquisition of property would most likely be financed with 50% equity (through a secondary public offering with a standard underwriters' spread of 5%) and 50% unsecured debt which Atlantic-Pacific could issue at about 200 basis points over comparable-term treasuries, excluding financing fees and closing costs of about 25 basis points (see **<u>Exhibit 3</u>**).

Linda was also acutely aware of the fact that the company's primary investment markets had softened rather significantly. As a result, the company's "same portfolio" year-over-year cash-basis NOI growth rate had decreased from about 6% three years ago, to about 3% two years ago, to virtually no growth last year. Expectations for 2003 are for negative NOI growth (contraction) of about 1%. Based on increased market-based tenant improvement allowances and other structural characteristics of the company's assets and liabilities, Atlantic-Pacific's operating cash flow, as measured by its Funds Available for Distribution (FAD), is currently estimated at about 80% of its Funds From Operations (FFO), or about $3.20 per share.

According to the CFO, Atlantic-Pacific's FFO per share, which had grown significantly over the past five years, was also now likely to plateau due to deteriorating property market fundamentals and the relatively small amount of existing secured mortgage debt available to be refinanced by the company at significantly lower rates. A few stock analysts were even reducing their estimates of Atlantic-Pacific's FFO per share to slightly below the $4.00 level achieved in 2002. The analysts that estimated REIT Net Asset Values (NAV) were currently in the range of $37 to $39 for Atlantic-Pacific's shares.

Screening

Based on everything that was happening at both the property and corporate levels, Linda knew the CFO was as anxious to evaluate her preliminary bid analyses as she and John Hynes were. Yet before taking the time to diligently complete her purchase offer analyses, she quickly put the cash-basis financial projection attached to the lease abstract through her first feasibility screen to determine if, at John Hynes' purported minimum $600 million offer price, a hypothetical acquisition of a 100% fee ownership interest would generate a *pro forma* incremental cash surplus or deficiency to Atlantic-Pacific based on the assumed 50/50 debt/equity capitalization and current dividend payout levels (see **Exhibit 4**).

Her next feasibility screen was the financial reporting analog or *pro forma* accretion/dilution to FFO per share. In this analysis, she specifically assumed that no additional general and administrative (G&A) expense would be incurred by the company in excess of (i) the personnel costs included in the administrative line item of the operating expense budget and (ii) the 25% portion of the annual property management fee assumed to cover direct and/or allocated overhead costs. In order to prepare this analysis, she first needed to adjust the cash-basis rents payable by Commonwealth Avenue to reflect the financial reporting convention under GAAP that all contractual rental revenue (and rental concessions) be reported on a straight-line basis over the term of the respective lease (see **Exhibit 5 & Exhibit 6**)

Bid Preparation – The Final Frontier

Putting financial assumptions through preliminary feasibility screens is one thing; valuing a major real estate asset with conviction is quite another. Linda had a lot of information, and a lot of issues, to synthesize.

She knew that an offer price of $600 million or more would imply a very low acquisition cap rate, even lower than the 7% cap rates observed during the height of the market when the lease with Commonwealth Avenue was signed. She also knew that while the lease had contractual rent steps, it also had contractually limited growth that was below recent historic levels within their existing portfolio. But then again, their markets had been deteriorating and this asset might now represent an excellent long-term performance hedge for their portfolio. Then she thought for a moment about some of the challenges associated with articulating those arguments.

Yet at the most fundamental level, she knew she had to try to explicitly incorporate the somewhat unique characteristics of the 20-year lease and Commonwealth Avenue's strong investment grade credit rating into the valuation of the asset on a stand-alone basis and as an addition to Atlantic-Pacific's existing portfolio cash flows. And she also wanted to think about whether the length of the lease term argued for arranging debt financing for a term in excess of ten years and the effect, if any, that might have on her determination of value.

There were just lots of basic questions that seemed a little harder to answer on this deal. What could the building be sold for in 20 years when the lease expires? Where would market rents and expenses be in 20 years? To her, twenty years was a long time; to her CFO, twenty weeks seemed like an eternity.

This was one of those days when she wondered aloud why she didn't just stick with apartments.

Exhibit 1

ONE LINCOLN STREET

PROJECTED NET OPERATING INCOME AND CASH FLOW FROM OPERATIONS

($ in Thousands)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Base Rental Revenue	$56,794	$56,794	$56,794	$56,794	$56,794	$62,879	$62,879	$62,879	$62,879	$62,879
Allowance for Free Rent	(5,600)	0	0	0	0	0	0	0	0	0
Absorption and Turnover Vacancy	0	0	0	0	0	0	0	0	0	0
Scheduled Base Rental Revenue	51,194	56,794	56,794	56,794	56,794	62,879	62,879	62,879	62,879	62,879
Operating Expense Reimbursement	1,015	1,288	1,570	1,861	2,160	2,469	2,786	3,113	3,450	3,797
Real Estate Tax Reimbursement	1,015	1,288	1,570	1,861	2,160	2,469	2,786	3,113	3,450	3,797
Parking Garage Revenue (net)	4,000	5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334
General Vacancy	0	0	0	0	0	0	0	0	0	0
Effective Gross Income	57,223	64,369	65,083	65,820	66,577	73,444	74,246	75,074	75,927	76,806
Operating Expenses	(8,367)	(8,617)	(8,875)	(9,142)	(9,416)	(9,699)	(9,990)	(10,290)	(10,599)	(10,917)
Real Estate Taxes	(9,128)	(9,401)	(9,683)	(9,974)	(10,273)	(10,582)	(10,899)	(11,226)	(11,563)	(11,910)
Management Fees	(761)	(784)	(808)	(832)	(857)	(883)	(909)	(936)	(964)	(993)
NET OPERATING INCOME	**38,967**	**45,567**	**45,717**	**45,872**	**46,031**	**52,280**	**52,448**	**52,622**	**52,801**	**52,986**
Tenant Improvements	0	0	0	0	0	0	0	0	0	0
Leasing Commissions	0	0	0	0	0	0	0	0	0	0
Capital Reserve	(152)	(157)	(161)	(166)	(171)	(176)	(182)	(187)	(193)	(198)
PROPERTY BEFORE-TAX CASH FLOW	**38,815**	**45,410**	**45,556**	**45,706**	**45,860**	**52,104**	**52,266**	**52,435**	**52,608**	**52,788**

	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Base Rental Revenue	$67,950	$67,950	$67,950	$67,950	$67,950	$73,021	$73,021	$73,021	$73,021	$73,021
Allowance for Free Rent	0	0	0	0	0	0	0	0	0	0
Absorption and Turnover Vacancy	0	0	0	0	0	0	0	0	0	0
Scheduled Base Rental Revenue	67,950	67,950	67,950	67,950	67,950	73,021	73,021	73,021	73,021	73,021
Operating Expense Reimbursement	4,154	4,522	4,901	5,292	5,695	6,110	6,537	6,977	7,430	7,896
Real Estate Tax Reimbursement	4,154	4,522	4,901	5,291	5,693	6,107	6,534	6,973	7,426	7,892
Parking Garage Revenue (net)	6,524	6,720	6,922	7,130	7,344	7,564	7,791	8,025	8,266	8,514
General Vacancy	0	0	0	0	0	0	0	0	0	0
Effective Gross Income	82,781	83,713	84,673	85,662	86,681	92,801	93,882	94,995	96,142	97,322
Operating Expenses	(11,244)	(11,581)	(11,928)	(12,286)	(12,655)	(13,035)	(13,426)	(13,829)	(14,244)	(14,671)
Real Estate Taxes	(12,267)	(12,635)	(13,014)	(13,404)	(13,806)	(14,220)	(14,647)	(15,086)	(15,539)	(16,005)
Management Fees	(1,023)	(1,054)	(1,086)	(1,119)	(1,153)	(1,188)	(1,224)	(1,261)	(1,299)	(1,338)
NET OPERATING INCOME	**58,247**	**58,443**	**58,645**	**58,853**	**59,067**	**64,358**	**64,585**	**64,819**	**65,060**	**65,308**
Tenant Improvements	0	0	0	0	0	0	0	0	0	0
Leasing Commissions	0	0	0	0	0	0	0	0	0	0
Capital Reserve	(204)	(210)	(216)	(222)	(229)	(236)	(243)	(250)	(258)	(266)
PROPERTY BEFORE-TAX CASH FLOW	**58,043**	**58,233**	**58,429**	**58,631**	**58,838**	**64,122**	**64,342**	**64,569**	**64,802**	**65,042**

Exhibit 2

Atlantic-Pacific Property Corporation: Selected Financial Data

Assets:	**As of: 31-Dec 2002**	**As of: 31-Dec 2001**	**As of: 31-Dec 2000**	**As of: 31-Dec 1999**	**As of: 31-Dec 1998**
Real Estate	$5,780,474	$4,971,937	$4,075,186	$3,741,505	$3,278,129
Less: Accumulated Depreciation	(548,622)	(479,903)	(391,146)	933,441	854,454
Other Assets	386,283	343,639	466,940	506,550	735,003
Total Assets	**$5,618,135**	**$4,835,673**	**$4,150,980**	**$5,181,497**	**$4,867,585**
Liabilities:					
Secured and Unsecured Notes	$3,431,480	$2,876,628	$2,276,594	$2,214,389	$2,059,149
Other Payables and Liabilities	183,875	159,837	124,091	853,904	765,482
Total Liabilities	**$3,615,355**	**$3,036,465**	**$2,400,685**	**$3,068,294**	**$2,824,631**
Owners' Equity (GAAP)	**$2,002,781**	**$1,799,209**	**$1,750,295**	**$2,113,203**	**$2,042,954**
Share Price	**$37.00**	**$38.25**	**$44.50**	**$31.25**	**$30.50**

Revenue:	**For the Year Ending: 31-Dec 2002**	**For the Year Ending: 31-Dec 2001**	**For the Year Ending: 31-Dec 2000**	**For the Year Ending: 31-Dec 1999**	**For the Year Ending: 31-Dec 1998**
Tenant-related	$778,496	$646,781	$545,563	$479,777	$312,316
Parking-related	33,885	34,666	33,928	30,501	12,735
Service-related	7,165	8,111	7,891	9,805	8,274
Interest and Other	3,669	8,122	5,705	4,293	9,239
Total Revenue	823,215	697,680	593,087	524,376	342,565
Less: Operating Expenses	(277,718)	(220,201)	(186,447)	(166,179)	(100,327)
Less: General & Administrative	(31,528)	(25,541)	(23,773)	(19,637)	(15,003)
EBITDA	513,969	451,938	382,867	338,561	227,235
Less: Interest Expense	(181,123)	(148,926)	(144,709)	(136,940)	(83,240)
Less: Depreciation & Amortization	(124,118)	(99,454)	(88,149)	(80,039)	(50,279)
Net Income	$208,728	$203,558	$150,009	$121,581	$93,717
Net Income Per Share	$2.57	$2.51	$2.08	$1.76	$1.63
Plus: Real Property Depreciation Expense	116,671	89,509	82,860	73,636	47,262
Funds From Operations (FFO)	$325,399	$293,067	$232,869	$195,218	$140,979
Funds From Operations (FFO) Per Share	$4.00	$3.61	$3.23	$2.83	$2.45
Dividends Per Share	$2.40	2.25	2.05	1.75	1.65
Shares Outstanding	81,310	81,083	72,145	68,995	57,471

Exhibit 3

One Lincoln Street Acquisition: Pro Forma Capitalization

Acquisition:

Purchase Price		$ 600,000
Plus: Transaction Costs @	0.10%	600
Capital Requirement to Close		$600,600

Debt Capitalization:

Unsecured Debt @	50.00%	$300,000
Term-to-Maturity (Years)		10
Comparable-Term Treasury Yield		4.00%
Financing Spread Over Comparable-Term Treasuries		2.00%
Interest Rate on Unsecured Debt (Interest-Only)		6.00%
Other Financing Costs @	0.25%	$750
Financing Fees Cost Amortization Term		10

Equity Capitalization

Current Stock Price	$40.00
Current Annualized Dividend	$2.40
Current Dividend Yield	6.00%
Underwriters' Spread & Associated Costs	5.00%
Required Equity Raise	$317,211
Required New Share Offering	7,930
Current Quarterly FFO Per Share	$1.02
Annualized Quarterly FFO Per Share	$4.08
Shares Outstanding Before the New Share Offering	81,310
Shares Outstanding After the New Share Offering	89,241

Exhibit 4

One Lincoln Street Acquisition: Incremental Cash Flow Per Share Analysis

Year	Property NOI	Leasing Comms.	T.I.s	Capital Reserve	Property Before-Tax Cash Flow	Net Mgt. Fee Profit @ 75.0%	Interest Expense	Principal Amort'n	Incremental Cash Flow To Equity Holders	Incremental Cash Flow Per New Share Issued	Annual Dividend Payable Per Existing Share	Cash Surplus (Deficiency) Per New Share Issued (1)	REIT Incremental Cash Surplus (Deficiency)	Incremental Cash Surplus (Deficiency) Per Share Outstanding (2)
1	$38,967	$0	$0	($152)	$38,815	$571	($18,000)	$0	$21,386	$2.70	$2.40	$0.30	$2,353	$0.03
2	45,567	0	0	(157)	45,410	588	(18,000)	0	27,998	3.53	2.40	1.13	8,965	0.10
3	45,717	0	0	(161)	45,556	606	(18,000)	0	28,162	3.55	2.40	1.15	9,129	0.10
4	45,872	0	0	(166)	45,706	624	(18,000)	0	28,330	3.57	2.40	1.17	9,297	0.10
5	46,031	0	0	(171)	45,860	643	(18,000)	0	28,503	3.59	2.40	1.19	9,470	0.11
6	52,280	0	0	(176)	52,104	662	(18,000)	0	34,766	4.38	2.40	1.98	15,734	0.18
7	52,448	0	0	(182)	52,266	682	(18,000)	0	34,948	4.41	2.40	2.01	15,916	0.18
8	52,622	0	0	(187)	52,435	702	(18,000)	0	35,137	4.43	2.40	2.03	16,105	0.18
9	52,801	0	0	(193)	52,608	723	(18,000)	0	35,331	4.46	2.40	2.06	16,299	0.18
10	52,986	0	0	(198)	52,788	745	(18,000)	0	35,533	4.48	2.40	2.08	16,501	0.18
11	58,247	0	0	(204)	58,043	767	(18,000)	0	40,810	5.15	2.40	2.75	21,777	0.24
12	58,443	0	0	(210)	58,233	791	(18,000)	0	41,024	5.17	2.40	2.77	21,991	0.25
13	58,645	0	0	(216)	58,429	815	(18,000)	0	41,244	5.20	2.40	2.80	22,211	0.25
14	58,853	0	0	(222)	58,631	839	(18,000)	0	41,470	5.23	2.40	2.83	22,437	0.25
15	59,067	0	0	(229)	58,838	865	(18,000)	0	41,703	5.26	2.40	2.86	22,670	0.25
16	64,358	0	0	(236)	64,122	891	(18,000)	0	47,013	5.93	2.40	3.53	27,980	0.31
17	64,585	0	0	(243)	64,342	918	(18,000)	0	47,260	5.96	2.40	3.56	28,227	0.32
18	64,819	0	0	(250)	64,569	946	(18,000)	0	47,515	5.99	2.40	3.59	28,482	0.32
19	65,060	0	0	(258)	64,802	974	(18,000)	0	47,776	6.02	2.40	3.62	28,743	0.32
20	65,308	0	0	(266)	65,042	1,004	(18,000)	0	48,046	6.06	2.40	3.66	29,013	0.33
	$1,102,679	$0	$0	($4,077)	$1,098,602	$15,356	($360,000)	$0	$753,958				$373,305	$4.18

Notes: (1) Relative to Current Dividend Payable Per Existing Share Before the New Share Offering.
(2) Reflects Required New Share Offering; Assumes Existing REIT Dividend Remains Constant.

Exhibit 5

ONE LINCOLN STREET

PROJECTED EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION and AMORTIZATION

($ in Thousands)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Base Rental Revenue	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161
Allowance for Free Rent	(280)	(280)	(280)	(280)	(280)	(280)	(280)	(280)	(280)	(280)
Absorption and Turnover Vacancy	0	0	0	0	0	0	0	0	0	0
Scheduled Base Rental Revenue	64,881	64,881	64,881	64,881	64,881	64,881	64,881	64,881	64,881	64,881
Operating Expense Reimbursement	1,015	1,288	1,570	1,861	2,160	2,469	2,786	3,113	3,450	3,797
Real Estate Tax Reimbursement	1,015	1,288	1,570	1,861	2,160	2,469	2,786	3,113	3,450	3,797
Parking Garage Revenue (net)	4,000	5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334
General Vacancy	0	0	0	0	0	0	0	0	0	0
Effective Gross Income	70,910	72,456	73,170	73,907	74,664	75,446	76,248	77,076	77,929	78,808
Operating Expenses	(8,367)	(8,617)	(8,875)	(9,142)	(9,416)	(9,699)	(9,990)	(10,290)	(10,599)	(10,917)
Real Estate Taxes	(9,128)	(9,401)	(9,683)	(9,974)	(10,273)	(10,582)	(10,899)	(11,226)	(11,563)	(11,910)
Management Fees	(761)	(784)	(808)	(832)	(857)	(883)	(909)	(936)	(964)	(993)
EBITDA	**$52,654**	**$53,654**	**$53,804**	**$53,959**	**$54,118**	**$54,282**	**$54,450**	**$54,624**	**$54,803**	**$54,988**

	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Base Rental Revenue	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161	$65,161
Allowance for Free Rent	(280)	(280)	(280)	(280)	(280)	(280)	(280)	(280)	(280)	(280)
Absorption and Turnover Vacancy	0	0	0	0	0	0	0	0	0	0
Scheduled Base Rental Revenue	64,881	64,881	64,881	64,881	64,881	64,881	64,881	64,881	64,881	64,881
Operating Expense Reimbursement	4,154	4,522	4,901	5,292	5,695	6,110	6,537	6,977	7,430	7,896
Real Estate Tax Reimbursement	4,154	4,522	4,901	5,291	5,693	6,107	6,534	6,973	7,426	7,892
Parking Garage Revenue (net)	6,524	6,720	6,922	7,130	7,344	7,564	7,791	8,025	8,266	8,514
General Vacancy	0	0	0	0	0	0	0	0	0	0
Effective Gross Income	79,712	80,644	81,604	82,593	83,612	84,661	85,742	86,855	88,002	89,182
Operating Expenses	(11,244)	(11,581)	(11,928)	(12,286)	(12,655)	(13,035)	(13,426)	(13,829)	(14,244)	(14,671)
Real Estate Taxes	(12,267)	(12,635)	(13,014)	(13,404)	(13,806)	(14,220)	(14,647)	(15,086)	(15,539)	(16,005)
Management Fees	(1,023)	(1,054)	(1,086)	(1,119)	(1,153)	(1,188)	(1,224)	(1,261)	(1,299)	(1,338)
EBITDA	**$55,178**	**$55,374**	**$55,576**	**$55,784**	**$55,998**	**$56,218**	**$56,445**	**$56,679**	**$56,920**	**$57,168**

Exhibit 6

One Lincoln Street Acquisition: FFO Per Share Accretion (Dilution) Analysis

Year	Property NOI	GAAP Straight Line Rent Adjusts.	Incr. G & A	Incremental EBITDA	Net Mgt. Fee Profit @ 75.0%	Financing Fee Amort'n	Interest Expense	Incremental Annual FF0	Incremental Annual FFO Per New Share Issued	Existing Annual FFO Per Existing Share	Projected Annual FFO with Property Acquisition (1)	Projected Annual FFO Per Share with Property Acquisition (2)	Accretion (Dilution) Per Share Outstanding	% Accretion (Dilution) Per Share Outstanding
1	$38,967	$13,687	$0	$52,654	$571	($75)	($18,000)	$35,150	$4.43	$4.08	$367,057	$4.11	$0.03	0.7%
2	45,567	8,087	0	53,654	588	(75)	(18,000)	36,167	4.56	4.08	368,074	4.12	0.04	0.9%
3	45,717	8,087	0	53,804	606	(75)	(18,000)	36,335	4.58	4.08	368,242	4.13	0.05	1.2%
4	45,872	8,087	0	53,959	624	(75)	(18,000)	36,508	4.60	4.08	368,415	4.13	0.05	1.2%
5	46,031	8,087	0	54,118	643	(75)	(18,000)	36,686	4.63	4.08	368,593	4.13	0.05	1.2%
6	52,280	2,002	0	54,282	662	(75)	(18,000)	36,869	4.65	4.08	368,776	4.13	0.05	1.2%
7	52,448	2,002	0	54,450	682	(75)	(18,000)	37,057	4.67	4.08	368,964	4.13	0.05	1.2%
8	52,622	2,002	0	54,624	702	(75)	(18,000)	37,251	4.70	4.08	369,158	4.14	0.06	1.4%
9	52,801	2,002	0	54,803	723	(75)	(18,000)	37,451	4.72	4.08	369,358	4.14	0.06	1.4%
10	52,986	2,002	0	54,988	745	(75)	(18,000)	37,658	4.75	4.08	369,565	4.14	0.06	1.4%
11	58,247	(3,069)	0	55,178	767	0	(18,000)	37,945	4.78	4.08	369,852	4.14	0.06	1.4%
12	58,443	(3,069)	0	55,374	791	0	(18,000)	38,165	4.81	4.08	370,072	4.15	0.07	1.7%
13	58,645	(3,069)	0	55,576	815	0	(18,000)	38,391	4.84	4.08	370,298	4.15	0.07	1.7%
14	58,853	(3,069)	0	55,784	839	0	(18,000)	38,623	4.87	4.08	370,530	4.15	0.07	1.7%
15	59,067	(3,069)	0	55,998	865	0	(18,000)	38,863	4.90	4.08	370,770	4.15	0.07	1.7%
16	64,358	(8,140)	0	56,218	891	0	(18,000)	39,109	4.93	4.08	371,016	4.16	0.08	1.9%
17	64,585	(8,140)	0	56,445	918	0	(18,000)	39,363	4.96	4.08	371,270	4.16	0.08	1.9%
18	64,819	(8,140)	0	56,679	946	0	(18,000)	39,625	5.00	4.08	371,532	4.16	0.08	1.9%
19	65,060	(8,140)	0	56,920	974	0	(18,000)	39,894	5.03	4.08	371,801	4.17	0.09	2.2%
20	65,308	(8,140)	0	57,168	1,004	0	(18,000)	40,172	5.07	4.08	372,079	4.17	0.09	2.2%
	$1,102,679	($0)	$0	$1,102,679	$15,356	($750)	($360,000)	$757,285			$7,395,423		$1.22	

Notes: (1) REIT Annualized Current Quarterly FFO Plus Incremental Annual FFO from Property Acquisition.
(2) Reflects Required New Share Offering; Assumes Existing REIT FFO Remains Constant.