CONFIDENTIAL

THE ARMED FORCES RETIREMENT HOME ZONE A DEVELOPMENT (WASHINGTON, DC CAMPUS)

INVESTMENT MEMORANDUM

Crescent Resources, LLC
Mid-Atlantic Commercial Division
Arlington, VA 22202

May 2008

THE AFRH-W ZONE A PROJECT

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I. Executive Summary

A. Authorization Requests

- Crescent Mid-Atlantic is requesting authorization to form three (3) Single Purpose Entities necessary to develop the Armed Forces Retirement Home - Washington (AFRH) Project. The three (3) entities include:
  - Crescent North Capitol Development (CNCD), LLC to act as the Infrastructure Operations, Repair, and Maintenance (ORM) Guarantor.
  - Crescent North Capitol Development Two (CNCD2), LLC to act as Master Developer.
  - Crescent North Capitol Development Three (CNCD3), LLC to act as the Fixed Rent Guarantor.

- Crescent Mid-Atlantic is requesting authorization for Crescent Resources, CNCD, and CNCD2 (collectively the "Crescent Entities") to execute an Agreement to Sign the Transaction Documents (the Development Agreement and Master Lease). The Agreement to Sign stipulates that negotiations have concluded and that all parties will execute the Transaction Documents within three (3) business days of the Master Plan Approval. The Master Plan is scheduled to go before the National Capital Planning Commission (NCPC) on June 5, 2008, with approval to occur eight (8) to ten (10) days thereafter if no further changes are required.

B. Funding and Capitalization Requests

- In accordance with the obligation and requirements set forth in the Transaction Documents, Crescent Mid-Atlantic is requesting funding approval for the following uses:
  - Capitalization of CNCD Entity (ORM Guarantor) with approximately $4 million. Capitalization is estimated to occur on March 15, 2009.
  - Capitalization of CNCD3 Entity (the Fixed Rent Guarantor) with $1 million. Capitalization is estimated to occur on December 15, 2008.
  - Land Development Design, Permitting, and Preservation for $2,200,000. Funding needed by September 2008.
  - Land Development Demo and Remediation Phase 1 for $4,250,000. Funding needed by March 2009.
  - Land Development Phase 1 (New Construction) for $30,000,000. Funding needed by January 2010.
  - Land Development Phase 2 (New Construction including Phase 2 Demo and Remediation) for $13,550,000. Funding needed by January 2013.

- NOTE: The amount and scope of funding requests will be determined by the ultimate financing strategy.

C. Transaction Document Approval Timeline (see Exhibit A – Approval Timeline)

- The Crescent Entities and AFRH intend to conclude negotiations and execute an Agreement to Sign by June 1, 2008.
- Master Plan approval is scheduled to occur between June 5, 2008 and July 1, 2008. Following Master Plan approval, both parties will execute the Transaction Documents. In the event a material change occurs during the Master Plan approval process, both parties will have the ability to assess the impact of the change and modify the Transaction Documents if necessary. Terms unaffected by the Master Plan process will not be subject to changes.
- Following execution of the Transaction Documents, AFRH will forward the documents to the Secretary of Defense for approval. This process is expected to take no more than 60 days.
- Following approval by the Secretary of Defense, the documents will be forwarded to the U.S. House and Senate Armed Services Committees for a 120 day notice period. The expiration of the Congressional notice period determines the Effective Date of the documents.
- The anticipated Effective Date is December 15, 2008.

D. Overall Project Returns (see Exhibit B – Financial Model Summary)

- Overall project returns are based on a two (2) part payment from each parcel developer to CNCD2, the Master Developer.
- The first revenue generator is an infrastructure repayment made at the parcel takedown date by the parcel lessee or sublessee. This payment is based on a parcel's pro rata share of the site wide infrastructure costs plus a reasonable carrying factor.
- The second revenue generator is a parcel lease spread payment made by the parcel lessee or sublessee. The parcel lease spread payment could be in the form of an annuity or a capitalized payment. The current returns assume a capitalized payment that occurs at substantial completion of each parcel.
- Total levered profit to the Master Developer (assuming 70% LTC at 7%) is projected to be $57.6 million. The corresponding IRR is 46.6%.

II. Property Summary

A. Project History

- The Armed Forces Retirement Home (AFRH) manages the nation's oldest continuously operating retirement community for enlisted military personnel, with facilities in Washington, DC and Gulfport, MS. The AFRH finances operations from interest income generated by the AFRH Trust Fund; current income sources are insufficient to fund campus operations and future improvements. To supplement the trust fund, Congress authorized the Secretary of Defense in 2002 to sell, lease, or otherwise dispose of AFRH real property excess.

- The Washington, D.C. campus of the Armed Forces Retirement Home (AFRH) is the site of a National Monument, a National Historic Landmark District, and was recently acknowledged in its entirety as a Historic District. Additionally, four (4) buildings are listed individually as National Historic Landmarks.

- The AFRH issued a Request for Qualifications (RFQ) in October 2005 to solicit general concepts for mixed use redevelopment of Zone A. In June 2006, the AFRH announced a short list of three developers, with a Request for Proposals (RFP) due October 2006. On March 26, 2007, Crescent Resources was selected as preferred developer for Zone A. Since that time, Crescent and AFRH have been in negotiations.

B. Project Location (see Exhibit C – Site Aerial and Metro Locations)

- The AFRH is a 272 acre campus located approximately two miles north of the U.S. Capital in Washington, DC. Zone A is 77 acres on the southeastern portion of the campus, and is bordered by North Capitol Street to the east (the major north-south thoroughfare in DC) and Irving Street to the south.

- Public transportation near the site consists of Metro bus and Metro rail service. Four Metro rail stations are within 1.25 miles of the site.

- The area west of the AFRH is categorized moderate density residential. The area to the south is categorized institutional, federal, and residential; Washington Hospital Center, Children's Hospital, and the VA Hospital are located just south of Zone A. East of the site is also categorized as institutional and is the location of Catholic University and The Basilica of the Shrine of the Immaculate Conception. The area to the north is categorized as Parks, Recreation, and Open Space.

C. Physical Description (see Exhibit D – Master Plan)

- Zone A elevations above sea level reach 270 feet at the northern section of the site and slope downward until 175 feet at the southern border along Irving Street. The AFRH campus occupies the third highest elevation point in Washington, DC.

- The 77 acre site consists of 18 parcels for development (16 parcels for new vertical development and 2 parcels for adaptive reuse). There is also the likelihood that an additional parcel (the current LaGarde facility) will transfer to Zone A by 2012. The site also consists of over 23 acres of open space. New building heights will range from 65 feet to 120 feet.

- The AFRH is federal land within the District of Colombia. As such, a Memorandum of Understanding between the National Capital Planning Commission (NCPC) and the DC Office of Planning (DCOP) was drafted to outline the entitlement process for the development. The MOU states that upon NCPC approval of the Master Plan, the DCOP will develop zoning in conformance with the Master Plan.

III. Development Summary

A. General Overview

- Zone A development will be a mixed-use project of 4.1 million square feet located on 18 parcels, with over 23 acres of open space including parks, bike paths, and trails. Approximately 2.28 million square feet will be residential (split 50/50 between for sale and rental, with the flexibility to adapt to market conditions with AFRH approval), 1.48 million square feet will be office, and 125k square feet will be hotel/meeting space. The remaining square footage will be retail, including a 45k square foot grocery store.

- The residential development program includes an affordable housing requirement of 15% of residential units. Affordable housing is defined as up to 80% of AMI for apartments and up to 100% of AMI for condos. The affordable units will be dispersed throughout the residential program except that there may be a 80 - 120 unit stand-alone building of affordable rental housing. Additionally, the top two floors of a building may be reserved exclusively for market-rate units.

- The Zone A redevelopment plan will also incorporate a new Veterans Transitional Housing Facility. The 25k square foot building will contain 100 beds.

- The Zone A redevelopment area also contains the LaGarde Building, an existing 214k square foot long-term care facility that is currently utilized by AFRH. AFRH intends to construct new space within the campus and offer the LaGarde facility for redevelopment in approximately 2012. CNCD2 has a right of first offer on the LaGarde facility.

B. Land Development Overview

- Crescent's strategy for infrastructure development is based on a site-wide system that defines future vertical development parcels while enabling market responsive parcel development.

- Preliminary plans include the construction of approximately 11,200 LF of new streets, including associated utilities to serve the development program. A preliminary budget prepared by Shirley Contracting, the Potomac Yard Site Contractor, estimated road construction costs to be approximately $1,650 per LF. Actual infrastructure costs for Potomac Yard Arlington, which included 3,900 LF of new roads and 2,500 LF of reconstructed roads, yielded an average cost of $950.00 per LF in 2003 dollars.

- Current plans are to construct the infrastructure improvements in two (2) phases to most efficiently complete the improvements necessary for parcel takedowns.

C. Land Development Phases (see Exhibit E – Infrastructure and Parcel Phases)

- The initial phase includes all mass excavation, implementation of site erosion and sediment controls, storm water and other environmental improvements, utility relocation, primary roadway development including the new main entrances from Irving and North Capitol Streets, building demolition, environmental remediation (reimbursable by AFRH through a rent credit), and the relocation/installation of the perimeter security fence.

- Zone A is divided into two distinct topographic drainage areas by a drainage divide running through the King Health Center buildings. The majority of drainage area required for stormwater management will be provided for by a series of ponds north of Pershing Drive. The remainder of drainage capacity will be provided by each parcel development.

- The existing site is well served by water and sewer service provided by the DC Water and Sewer Authority (DCWASA). The water is supplied from multiple locations, with a 48-inch main immediately adjacent to the property line of the AFRH.

- Sanitary sewer within the Home is provided by a 30-inch combined storm and sanitary trunk system that flows south through the center of Zone A. Per DCWASA requirements, any new sanitary sewer system installed within Zone A must be a separate sanitary system. Once the sanitary system exits the development zone, it can then be connected to the current 30-inch combined main.

- The existing buildings are served by the steam plant located north of Parcel H. Crescent will utilize this existing steam service during the renovation of the Forwood and Mess Hall facilities with the intent of utilizing individual systems for newly developed parcels.

- The level of natural gas service anticipated for the site is substantially higher than the current capability of the existing natural gas distribution system. New site gas distribution will be required to accommodate the development.

- The level of electrical service anticipated for the site is substantially higher than the current power utilization. PEPCO will provide underground electrical service to the development.

- The final phase will complete the road network necessary to facilitate the second phase of parcel take-downs.

- Several infrastructure development strategies can be considered to best mitigate cost risk associated with this scope of work:
    - A two (2) phase strategy that spans five (5) years of construction, or
    - A one (1) phase strategy that spans three (3) years and does not phase construction. This strategy would require a faster deployment of capital. However, this strategy would enable a lump sum contract for site development that would minimize price inflation risk and the time exposure of the Completion Guaranty.

D. Vertical Development Overview (see Exhibit E – Infrastructure and Parcel Phases and Exhibit F – Proposed Land Uses)

- The project consists of 18 parcels totaling 4.1 million square feet of development density.
    - 1.48 million square feet of Commercial/Medical Office density is spread over five (5) parcels located along the southern portion of the site adjacent to the Washington Hospital complex.
    - 2.28 million square feet of Residential, split approximately 50/50 between for-sale and rental, is spread over ten (10) parcels located along the northeastern and eastern portion of the site.
    - 214k square feet of neighborhood-oriented retail is dispersed within nine (9) mixed-use parcels. A small retail outparcel is conveniently located adjacent to the hotel meeting facility.
    - A complex of nine (9) historically contributing buildings is planned to be adaptively reused into a hotel and meeting facility totaling 125k square feet.
    - An assisted living facility totaling 214k square feet currently remains a part of the AFRH-W campus. AFRH plans to vacate the building around 2012 and offer the facility for adaptive re-use, with CNCD2 having a right of first offer.

- Each parcel of development will be taken down and substantially completed based on a project schedule. Parcel take-down dates and substantial completion dates can be extended subject to AFRH approval The dates are also subject to extensions and tolling based on an event of Force Majeure or an excusable delay. Excusable delays include governmental delays such as permitting, approvals, inspections, and "any other cause not within the reasonable control of developer".

- The parcel take-down schedule was based on the following rates of absorption:
    - Commercial/Medical Office parcels are to be taken down at a rate of 140,000 square feet per year. Children's Hospital and the Washington Hospital

Center have expressed immediate needs for more than 550,000 square feet.
    - Residential rental parcels are to be taken down at a rate of twenty (20) rental units per month.
    - Residential for-sale parcels are to be taken down at a rate of 180 units per year.

- Residential parcels can be changed from rental to for-sale with the approval of AFRH.

- Parcels have an average of 24 months to substantially complete the improvements. Parcels can be phased provided all of the improvements are completed by the substantial completion date.

- Individual parcel completion schedules have been developed by Davis Construction, General Contractor for One and Two Potomac Yard. One and Two Potomac Yard totaled approximately 660,000 square feet. Potomac One and Two consisted of a nine (9)-story office tower stacked on top of six (6) levels of structured parking (three above ground, three below ground). The entire project was completed in 22.5 months.

- By comparison, Parcel E (the largest commercial office parcel), is approximately 440,000 square feet, an eight (8)-story tower with four (4) levels of structured parking (two above ground, two below ground). Parcel H, the largest residential parcel, is approximately 360,000 square feet, an eight (8)-story tower with three (3) levels of structured parking (two above ground, one below ground).

- In addition to the new development parcels, Parcel A includes the adaptive reuse of nine (9) historic buildings. Parcel A is planned as a small (88-106 room) event hotel and meeting facility. Robert Charles Lesser and Co. (RCLCO) recently completed a hotel market study and identified five (5) hospitality land uses for the AFRH site to consider:
    1) Boutique Hotel
    2) Transient / Business Class Hotel
    3) Executive Conference Center
    4) Events Hotel
    5) Medical/Spa Hotel

- CNCD2 plans to seek a hotel partner to enable development of the hotel in the initial phase of vertical development.

IV. Market Summary

A. Washington, DC Office Market

- The Washington, DC office market remains one of the most stable real estate markets in the United States due to constant demand and the backing of the federal government. The city is set to deliver a record number of development projects within the next three years with a focus on green building and LEED certification.
- The DC office market continued its historical trend of positive net absorption during first quarter 2008 with a total of 212,500 square feet. Vacancy was 7.5 percent as of first quarter 2008, one of the lowest rates in the country. The DC office market is expected to deliver 2.3 million square feet by year end, with another 4 million square feet expected in 2009.
- Low vacancy and steady demand continue to push average rental rates up across all classes; average asking rental rates are between $40 and $50 per square foot for triple net leases. Higher operating costs and owners' needs to ensure return on equity have led to an increased use of triple net leases while simultaneously forcing asking rates up.

B. Washington, DC Apartment Market

- The Washington metro area continues to perform as well as any metro area in the nation due to (i) a solid job market, (ii) a transient work force that has produced a large pool of Class-A renters by choice, and (iii) a condo market in flux that has turned would-be condo purchasers into renters.
- The otherwise strong market began to experience stress in 2007 due to (i) a cooling housing market combined with "shadow rentals" of investor-owned condo units, (ii) a ballooning pipeline of supply, and (iii) a moderating job market. During Q1 2008, however, the supply pipeline began to decline for the first time since 2005.
- The District's 36-month pipeline of projects expected to deliver has grown to 7,407 units as of March 2008, up from 4,616 units one year ago. As of Q1 2008, the stabilized vacancy rate for Class A and B apartments was 3.9%, and rent growth was 6.8% per annum. With over 1,800 units expected to deliver in the next 12 months, occupancy rates will be under pressure. The projected vacancy rate for March 2011 is 6.1%.

C. Washington, DC Condo Market

- Q1 2008 new condo sales prices remained relatively flat compared to March 2007, increasing 1.6%. The effective price (net of concessions) increased .5% during the same time period. New condo prices per square foot averaged $505.

- Unsold condos in projects currently marketing within the metro area is approximately 16,195 units. This translates to 5.5 years worth of inventory on the market, with history suggesting that prices start moving up at 3 years. The Q1 2008 inventory to sales ratio in the District was 4.7 years. In addition, there are also 11,843 units planned for the metro area with sales likely to begin within the next 36 months. The total 36 month pipeline is down almost 33% since March 2007.

D. Land Sale Comps

- Conversations with local appraisers and a review of recent land sales for various Washington, DC submarkets suggest the following ranges for land values per FAR for a developable site comparable to the AFRH Zone A (all infrastructure in place):
  - Apartment = $35 - $45
  - Condo = $45 - $55
  - Office = $65 - $75

E. Large Mixed-use Development Projects on the Horizon (see Exhibit G – Other Project Locations)

- McMillan Reservoir Redevelopment: Located south of the Washington Hospital Center Complex, this historic 25-acre site will be re-developed in partnership with The Alexander Companies, Street Sense, Jair Lynch Companies, Smoot Construction, USSC, and MacFarlane Partners. Initial plans for the mixed-use development include rowhomes, multifamily homes, retail, and office space set amidst a carefully preserved reservoir site with significant cultural resources, open space and historic preservation. Preliminary plans include 200k-300k square feet of medical office space. The site has had numerous stops and starts since its sale to the District of Columbia in 1986. Excessive infrastructure costs of nearly $50 million dollars, vocal community opposition, and historic preservation considerations make development of this site improbable.

- Catholic University Development Site: This site is located immediately east of the AFRH project, with 49-acres acquired from the AFRH in 2004. Congressional intervention forced the sale of the site to the Catholic University of America. There are no plans in the foreseeable future to develop the site. It is widely believed that the Catholic University intends to hold the land for future expansion of the campus and student dormitories.

- Old Convention Center Site: Developer Hines Archstone Smith is preparing plans for the 10-acre site, a mix of housing, retail, and offices that officials say will become a downtown destination. Current plans call for a total of nine (9) buildings that will contain 477k square feet of office space, 267k square feet of retail and 670 apartments and condominiums on the 10.2 acre site. Plans also include the reopening of 10th and I Streets and creating a public plaza at the corner of New York Avenue and 11th Street. There will be approximately 1,700 parking spaces (657 available to the public) and one acre of public open space. Estimated project costs are approximately $800 million, but depend on the final design. The office buildings plan to be LEED certified, the residential portion is part of the LEED-NC program, and the entire site will be LEED-ND Silver.

- NoMa: National Public Radio recently announced a move to this emerging neighborhood, where there are plans for 8,000 residential units, 1,200 hotel rooms, ten (10) million square feet of office space, and 750k square feet of retail space.

- Constitution Square: StonebridgeCarras LLC and Walton Street Capital plan to develop this seven-acre site with up to 2.5 million square feet of development. The first phase of this project is expected to include a 320k square foot office building and a 625k square foot apartment building to deliver in 1Q 2010. The first phase ($126.9 million) will also include approximately 80k square feet of retail, including space for a full service grocery store. Phase II will include one (1) million square feet of office and 20k square feet of retail. Both buildings in phase one will front First Street, NE and deliver in 2010. The total project is expected to take between five (5) to eight (8) years to complete after the start of Phase I.

- Reservation 13: Hill East Waterfront (aka Reservation 13) is a 67-acre site that will be transformed into a riverfront community. The current plan calls for five (5) distinct components: 1) a 1.2 million square foot health care and social services center on the far north section of the site (former DC General site); 2) 700-800 residential units in the center of the site along with 35k square feet of retail near the southern entrance to the Stadium-Armory Metrorail station; 3) 2 million square feet of office development along Massachusetts Avenue 4) 16-acre park, including a new monument or memorial at the end of Massachusetts Avenue along the Anacostia River; and 5) existing DC jail at the southernmost point.

- Southwest Waterfront: PN Hoffman is working on plans to develop the Southwest Waterfront into a mixed-use, maritime, commercial, residential, and cultural destination. The project will improve public access to the waterfront with 13 acres designated for a waterfront promenade, public piers, and public plazas or parks. Washington's historic Fish Market will be preserved and renovated and the maritime heritage of the site promoted. New residential, commercial, and cultural opportunities will integrate neighborhood and regional interests, and integrate affordable and luxury housing. Other proposed amenities may include a Washington maritime aquarium, a replica of a former slave ship, and a facility for the Living Classrooms Foundation. A draft plan created in 2003 called for more than 700 mixed-income housing units, a 150k square foot maritime cultural center, a 360-room hotel, 150k square feet of office, 230k square feet of retail, 2,000 parking spaces, and new marinas and piers. Phase one is expected to deliver in 2012 and the entire project could potentially deliver by 2015.

- 401 M Street SW: Waterfront Associates (a partnership of Forest City Washington, Vornado/Charles E Smith and Bresler & Reiner) are developing the 13-acre site into 2.5 million square feet of office, residential, and retail space. The plan also calls for re-opening Fourth Street, which was closed off when the 1960s-era urban renewal project was built. The DC Government will lease 500k square feet and anchor Phase 1, which will total two (2) office buildings and 360 apartments (400k square feet) in two (2) renovated buildings (LEED Silver). Phase 1 is expected to deliver in late 2009 or early 2010. Overall, the project will include about 1.2 million square feet of housing, at least 110k square feet of retail, and more than 1.2 million square feet of class-A office space.

- The Yards, Formerly Southeast Federal Center: Forest City is redeveloping the 42-acre Yards (formerly the Southeast Federal Center), which will ultimately consist of 1.8 million square feet of office space, approximately 3.2 million square feet of residential dwellings (1,800 for-sale units and 900 rental units), 300k square feet of retail space, and ample areas reserved for open space and cultural uses including a large public park and riverfront esplanade. The 25-building development will be new construction and adaptive reuse of historic structures. The first phase, which broke ground in October 2007, is scheduled to deliver in 2009 or 2010 and includes 420 residential units (250 condos & 170 apartments) and 10k square feet of retail. The first office building (401 M Street) will offer 376k square feet of office, 5,700 square feet of retail, and 296 parking spaces with plans to break ground in Spring 2008 with a 2010 expected delivery. The second phase includes 271 condos, 382k square feet of office, and 49k square feet of retail. The $10 million, 5.5-acre park will be designed by M. Paul Friedberg & Partners and is expected to be completed by 2010. The development is a multi-phased project which is projected to take approximately ten (10) years to be fully built out.

- Poplar Point: Clark Realty was chosen to develop 40 of 110-acres along the Anacostia River. The 100-acre Poplar Point will serve as a green gateway to the Anacostia River and river parks and could support five (5) to six (6) million square feet of development. The District is currently in the midst of a development partner selection process and no development program has been established for the site. As part of the land-transfer agreement from the federal government, 70 of the 110 acres are designated as public park land. A preliminary plan created by DCOP & AWC in 2005 called for 1,400 to 2,300 residential units - 30 percent of which would be priced below market rate, to make them affordable to residents of the surrounding Anacostia neighborhoods - two to four office buildings and one or two hotels. The project will include homes, offices, hotels and a possible soccer stadium.

- St. Elizabeth's East Campus: District planning officials have completed a proposal for more than two (2) million square feet of office buildings, shops and high-end apartment units at the historic St. Elizabeth's Hospital in Southeast Washington. The hospital campus is designated a National Historic Landmark, so some of its buildings would have to be preserved. About 70 percent of the development is to be new construction.

- In addition to the large mixed-use projects outlined above, several smaller projects are located within Wards 4 and 5.

V. Organizational Risk Summary *(see Exhibit H)*

A. Crescent Resources, LLC	• Guaranty the final completion of the infrastructure improvements in accordance with the final plans. • Proposed language to release portions of the guaranty upon the completion of each phase of the infrastructure improvements.
B. Crescent North Capitol Development, LLC (Operating, Repair, and Maintenance Guarantor)	• Guaranty Developer's performance of the operations, repair, and maintenance of the infrastructure improvements, existing infrastructure, and existing buildings. Capitalization limited to $1M plus the first two years operating, repair, and maintenance budget. • Burn Down provisions are as follows: Once total developed gfa equals 50%, capitalization is reduced on a 2:1 basis for each additional 5% of developed gfa until balance reaches $1M.
C. Crescent North Capitol Development Two, LLC (Master Developer)	• Must be at least an 80% owned subsidiary of Crescent Resources, LLC. Executes the Development Agreement, Master Lease, and Declaration.
D. Crescent North Capitol Development Three, LLC (Parcel Fixed Rent Guarantor)	• Guaranty the fixed rent with respect to any portion of a parcel subleased to a Crescent Resources affiliate. Capitalization is limited to $1M in cash and covers all parcels. Guaranty is for the period of time beginning with monetary default and ending on the earlier to occur of (i) the date of execution by a non-Crescent Resources affiliate of a new sublease or (ii) the date which is 6 months from the date of default for all uses other than a hotel and 10 months for a hotel use.
E. Crescent North Capitol Development #, LLC (executes each Parcel Lease)	• Must be at least an 80% owned subsidiary of Crescent Resources, LLC. Parcel Lessee will enter into subleases with either a Crescent Resources, LLC affiliate or a third party. • Sublessee will provide Lessee vertical completion guaranty that mirrors Lender requirements.

VI. Master Developer Financial Summary *(see Exhibit B – Financial Model Summary)*

A. Maximum Equity Outlay

- The maximum amount of equity outstanding at any point in time, assuming no debt, is approximately $19 million during the month prior to the first parcel takedown. The actual amount will be less based on the financing strategies implemented for the land development.

B. Infrastructure Repayment

- Each parcel will make an infrastructure repayment to the Master Developer on the date of parcel takedown equal to approximately $15.75 psf. This payment will reimburse the Master Developer for the infrastructure costs plus a reasonable carrying cost of capital.
- The financial returns based only on the infrastructure repayment are (levered returns assume 70% LTC at 7% interest):
  - Unlevered Profit $15.4 million, IRR 12%
  - Levered Profit $11 million, IRR 18%

C. Capitalized Parcel Lease Spreads

- In addition to the infrastructure repayment at parcel takedown, a second payment based on a capitalized parcel lease spread will occur at substantial completion of each parcel (approximately 24 months after parcel takedown).
- The financial returns based on both payments are:
  - Unlevered Profit $62 million, IRR 28.5%
  - Levered Profit $57.6 million, IRR 46.6%

VII. Crescent Development Team

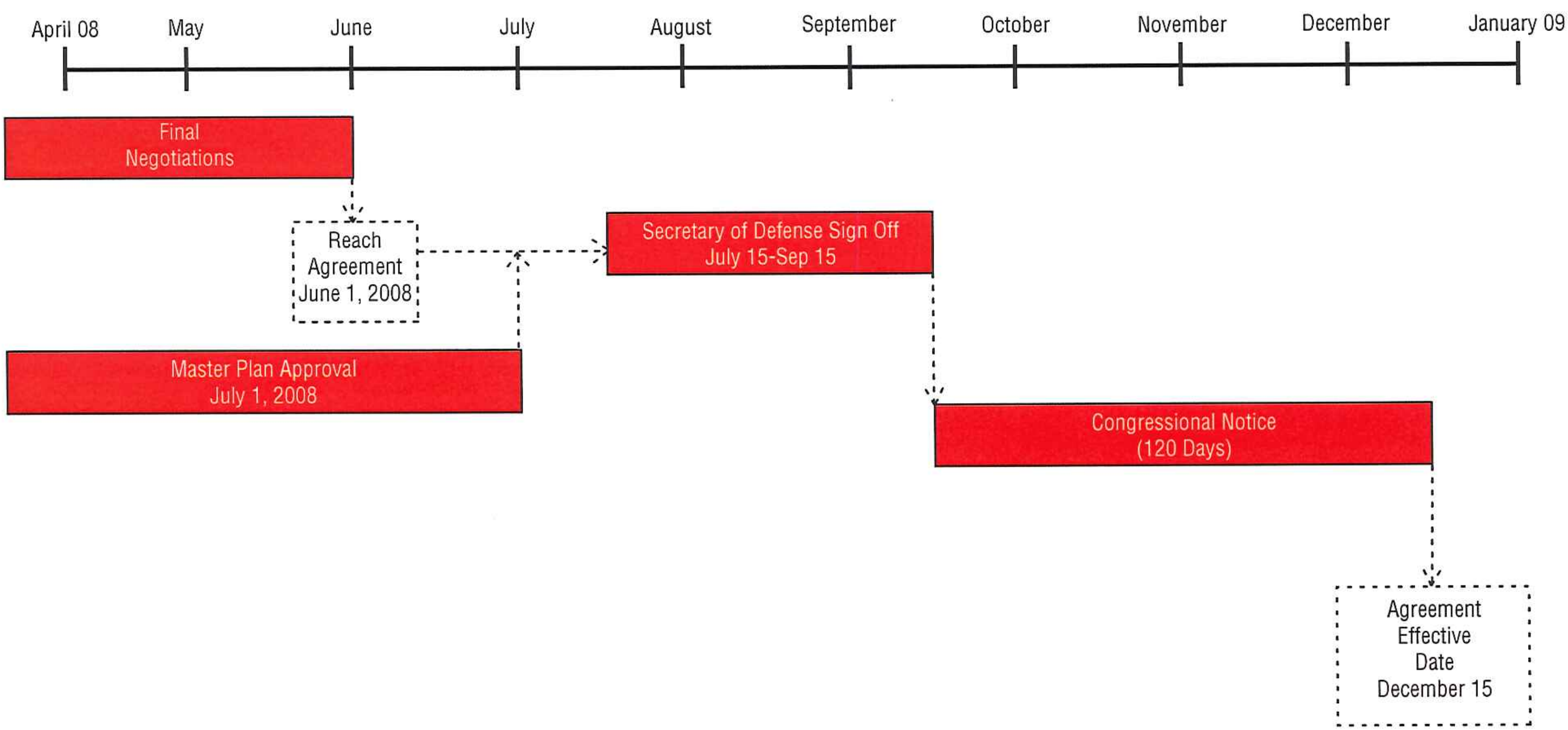
A. Crescent Team Members

- Art Fields, President and CEO
- Dan Kohlhepp, President Commercial
- Todd Farrell, President Multi-Family
- Henry Lomax, Chief Investment Officer
- Bobby Zeiller, Regional Vice President Mid-Atlantic Commercial
- Zac Vuncannon, Assistant Project Manager
- Stacy Outlaw, Senior Marketing Specialist
- Willa Peters, Project Administrator

B. Trijan Development, LLC

- Trijan Development is Crescent's development partner on the AFRH project. Trijan is an emerging development company based in Washington, DC led by Mike Walker, a service-disabled veteran.

EXHIBIT A
Approval Timeline



Armed Forces Retirement Home

EXHIBIT B
Financial Model Summary

Project Summary

Gross Revenue	
Infrastructure Reimbursements	$64,572,829
Parcel Lease Residual Sales	$46,646,595
TOTAL	**$111,219,424**
Land Development Costs	
GC Contract	($29,500,000)
Landscaping	($3,500,000)
Design	($5,000,000)
Permits and Fees	($2,350,000)
Testing	($2,500,000)
Other	($1,050,000)
Contingency (8%)	($3,512,000)
Development Fee (5%)	($1,782,000)
TOTAL COSTS	**($49,194,000)**
Unlevered Returns	
Profit	$62,025,424
IRR	28.5%
Financing Costs (70% LTC @ 7%)	
Interest	($4,382,967)
Levered Returns	
Profit	$57,642,458
IRR	46.6%

AFRH Land Development Model

As of 05/12/2008

Year		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Absorption (sf)														
Residential	Takedown													
Parcel H	6/30/2011	0	0	0	369,659	0	0	0	0	0	0	0	0	0
Parcel I	5/31/2012	0	0	0	0	349,345	0	0	0	0	0	0	0	0
Parcel K	3/31/2013	0	0	0	0	0	283,972	0	0	0	0	0	0	0
Parcel M	11/30/2013	0	0	0	0	0	297,664	0	0	0	0	0	0	0
Parcel O	8/31/2014	0	0	0	0	0	0	288,184	0	0	0	0	0	0
Parcel Q	4/30/2015	0	0	0	0	0	0	0	138,884	0	0	0	0	0
Parcel N	8/31/2015	0	0	0	0	0	0	0	286,895	0	0	0	0	0
Parcel P	4/30/2016	0	0	0	0	0	0	0	0	115,207	0	0	0	0
Parcel S	7/31/2016	0	0	0	0	0	0	0	0	358,934	0	0	0	0
Parcel T	5/31/2017	0	0	0	0	0	0	0	0	0	133,772	0	0	0
Office														
Parcel C	6/30/2011	0	0	0	239,228	0	0	0	0	0	0	0	0	0
Parcel D	3/31/2013	0	0	0	0	0	279,716	0	0	0	0	0	0	0
Parcel E	4/30/2015	0	0	0	0	0	0	0	439,355	0	0	0	0	0
Parcel F	7/31/2018	0	0	0	0	0	0	0	0	0	0	367,864	0	0
Hotel														
Parcel A	6/30/2011	0	0	0	124,417	0	0	0	0	0	0	0	0	0
Parcel L	6/30/2011	0	0	0	2,925	0	0	0	0	0	0	0	0	0
Transitional Housing / Assisted Living														
Parcel B1	12/31/2015	0	0	0	0	0	0	0	25,000	0	0	0	0	0
TOTAL ABSORPTION		sf	sf	sf	736,229 sf	349,345 sf	861,352 sf	288,184 sf	890,134 sf	474,141 sf	133,772 sf	367,864 sf	sf	sf
Parcel Payments	$ PSF													
Parcel A	$15.75	0	0	0	1,959,014	0	0	0	0	0	0	0	0	0
Parcel B1	$15.75	0	0	0	0	0	0	0	393,639	0	0	0	0	0
Parcel C	$15.75	0	0	0	3,766,776	0	0	0	0	0	0	0	0	0
Parcel D	$15.75	0	0	0	0	0	4,404,282	0	0	0	0	0	0	0
Parcel E	$15.75	0	0	0	0	0	0	0	6,917,886	0	0	0	0	0
Parcel F	$15.75	0	0	0	0	0	0	0	0	0	0	5,792,221	0	0
Parcel H	$15.75	0	0	0	5,820,484	0	0	0	0	0	0	0	0	0
Parcel I	$15.75	0	0	0	0	5,500,629	0	0	0	0	0	0	0	0
Parcel K	$15.75	0	0	0	0	0	4,471,295	0	0	0	0	0	0	0
Parcel L	$15.75	0	0	0	46,056	0	0	0	0	0	0	0	0	0
Parcel M	$15.75	0	0	0	0	0	4,686,883	0	0	0	0	0	0	0
Parcel N	$15.75	0	0	0	0	0	0	0	4,517,319	0	0	0	0	0
Parcel O	$15.75	0	0	0	0	0	0	4,537,615	0	0	0	0	0	0
Parcel P	$15.75	0	0	0	0	0	0	0	0	1,813,998	0	0	0	0
Parcel Q	$15.75	0	0	0	0	0	0	0	2,186,805	0	0	0	0	0
Parcel S	$15.75	0	0	0	0	0	0	0	0	5,651,613	0	0	0	0
Parcel T	$15.75	0	0	0	0	0	0	0	0	0	2,106,314	0	0	0
TOTAL PAYMENTS	$15.75	$0	$0	$0	$11,592,330	$5,500,629	$13,562,460	$4,537,615	$14,015,649	$7,465,611	$2,106,314	$5,792,221	$0	$0
Infrastructure Costs	Total													
GC Contract	($29,500,000)	0	(2,500,000)	(1,750,000)	(10,500,000)	(5,250,000)	(950,000)	(5,700,000)	(2,850,000)	0	0	0	0	0
Landscaping	($3,500,000)	0	(500,000)	(500,000)	(500,000)	(1,500,000)	0	(250,000)	(250,000)	0	0	0	0	0
Hard Cost Contingency	($2,640,000)	0	(240,000)	(180,000)	(880,000)	(540,000)	(76,000)	(476,000)	(248,000)	0	0	0	0	0
Design	($5,000,000)	(500,000)	(3,500,000)	(500,000)	(500,000)	0	0	0	0	0	0	0	0	0
Permits and Fees	($2,350,000)	(500,000)	(500,000)	(1,350,000)	0	0	0	0	0	0	0	0	0	0
Testing	($2,500,000)	0	(200,000)	(200,000)	(750,000)	(250,000)	(100,000)	(750,000)	(250,000)	0	0	0	0	0
Other	($1,050,000)	(20,000)	(30,000)	(50,000)	(150,000)	(250,000)	(200,000)	(200,000)	(150,000)	0	0	0	0	0
Soft Cost Contingency	($872,000)	(81,600)	(338,400)	(168,000)	(112,000)	(40,000)	(24,000)	(76,000)	(32,000)	0	0	0	0	0
Development Fee	($1,782,000)	0	(162,000)	(121,500)	(594,000)	(364,500)	(51,300)	(321,300)	(167,400)	0	0	0	0	0
TOTAL COSTS	($49,194,000)	($1,101,600)	($7,970,400)	($4,819,500)	($13,986,000)	($8,194,500)	($1,401,300)	($7,773,300)	($3,947,400)	$0	$0	$0	$0	$0
Unlevered Cash Flow	$15,378,829	($1,101,600)	($7,970,400)	($4,819,500)	($2,393,670)	($2,693,871)	$12,161,160	($3,235,685)	$10,068,249	$7,465,611	$2,106,314	$5,792,221	$0	$0
IRR = 12.0%		($1,101,600)	($9,072,000)	($13,891,500)	($16,285,170)	($18,979,041)	($6,817,880)	($10,053,565)	$14,684	$7,480,294	$9,586,608	$15,378,829	$15,378,829	$15,378,829
Interest Expense	($4,382,967)	$0	($237,534)	($576,801)	($767,618)	($925,493)	($756,261)	($608,287)	($409,943)	($101,029)	$0	$0	$0	$0
Loan Proceeds (incl Interest Expense)	$37,503,877	$771,120	$5,745,554	$3,777,410	$10,327,533	$6,383,995	$1,510,293	$5,867,111	$3,050,140	$70,720	$0	$0	$0	$0
Loan Payments	($37,503,877)	$0	$0	$0	($8,114,631)	($3,850,440)	($9,493,722)	($3,176,331)	($9,810,954)	($3,057,798)	$0	$0	$0	$0
Levered Cash Flow	$10,995,862	($330,480)	($2,462,380)	($1,618,890)	($948,386)	($1,085,809)	$3,421,470	($1,153,192)	$2,897,492	$4,377,504	$2,106,314	$5,792,221	$0	$0
IRR = 18.0%		($330,480)	($2,792,860)	($4,411,751)	($5,360,137)	($6,445,946)	($3,024,476)	($4,177,668)	($1,280,176)	$3,097,328	$5,203,641	$10,995,862	$10,995,862	$10,995,862

EXHIBIT B
Financial Model Summary

OFFICE (2008$)

Gross Income	$40.00
Vacancy at 5.0%	($2.00)
EGI	$38.00
OpEx at 30.0%	($11.40)
NOI	**$26.60**
Land Value	$70.00
Less Infrastructure	($15.75)
AFRH Parcel Land Value	$54.25
AFRH Rent at 6.0%	**($3.26)**
Development Costs (incl Infra)	($325.00)
Developer Return on Cost at 7.0%	**($22.75)**
Parcel Lease Spread	$0.59
Cap Rate at 6.0%	**$9.91**

APARTMENTS (2008$)

Gross Income	$33.00
Vacancy at 5.0%	($1.65)
EGI	$31.35
OpEx at 30.0%	($9.41)
NOI	**$21.95**
Land Value	$40.00
Less Infrastructure	($15.75)
AFRH Parcel Land Value	$24.25
AFRH Rent at 6.0%	**($1.46)**
Development Costs (incl Infra)	($275.00)
Developer Return on Cost at 7.0%	**($19.25)**
Parcel Lease Spread	$1.24
Cap Rate at 6.0%	**$20.66**

CONDOS (2008$)

Sales Price	$575.00	
Marketing Cost at 10.0%	($57.50)	
Net Sales Price	**$517.50**	
Land Value	$50.00	
Less Infrastructure	($15.75)	
Parcel Land Value	$34.25	
Development Costs	($350.00)	87.5%
Infrastructure	($15.75)	3.9%
AFRH Parcel Value Payment	($34.25)	8.6%
Profit	**$117.50**	
AFRH Profit Share	$10.06	
Developer Profit	$102.81	
Crescent Profit	**$4.63**	

Armed Forces Retirement Home

AFRH Land Development Model

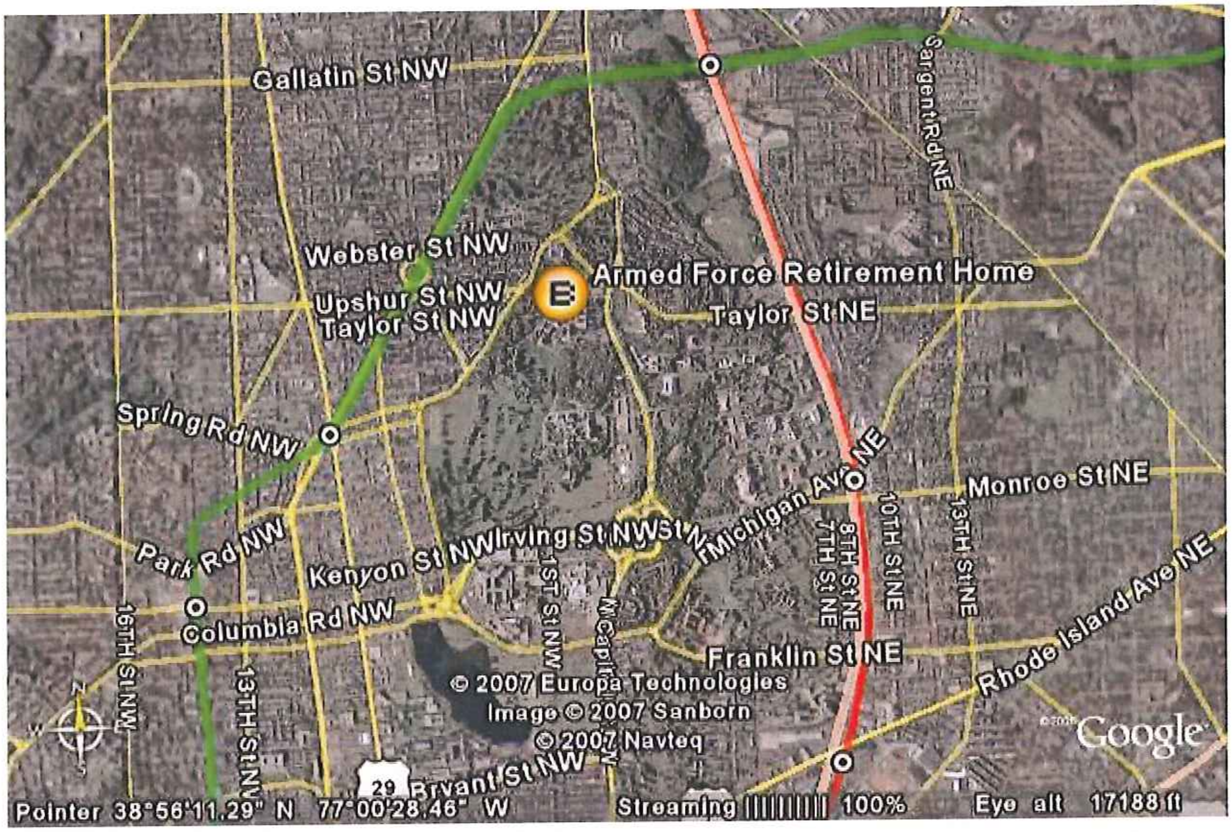
As of 05/12/2008

	Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Absorption (sf)														
Residential	Takedown													
Parcel H	6/30/2011	0	0	0	369,659	0	0	0	0	0	0	0	0	0
Parcel I	5/31/2012	0	0	0	0	349,345	0	0	0	0	0	0	0	0
Parcel K	3/31/2013	0	0	0	0	0	283,972	0	0	0	0	0	0	0
Parcel M	11/30/2013	0	0	0	0	0	297,664	0	0	0	0	0	0	0
Parcel O	8/31/2014	0	0	0	0	0	0	288,184	0	0	0	0	0	0
Parcel Q	4/30/2015	0	0	0	0	0	0	0	138,884	0	0	0	0	0
Parcel N	8/31/2015	0	0	0	0	0	0	0	286,895	0	0	0	0	0
Parcel P	4/30/2016	0	0	0	0	0	0	0	0	115,207	0	0	0	0
Parcel S	7/31/2016	0	0	0	0	0	0	0	0	358,934	0	0	0	0
Parcel T	5/31/2017	0	0	0	0	0	0	0	0	0	133,772	0	0	0
Office														
Parcel C	6/30/2011	0	0	0	239,228	0	0	0	0	0	0	0	0	0
Parcel D	3/31/2013	0	0	0	0	0	279,716	0	0	0	0	0	0	0
Parcel E	4/30/2015	0	0	0	0	0	0	0	439,355	0	0	0	0	0
Parcel F	7/31/2018	0	0	0	0	0	0	0	0	0	0	367,864	0	0
Hotel														
Parcel A	6/30/2011	0	0	0	124,417	0	0	0	0	0	0	0	0	0
Parcel L	6/30/2011	0	0	0	2,925	0	0	0	0	0	0	0	0	0
Transitional Housing / Assisted Living														
Parcel B1	12/31/2015	0	0	0	0	0	0	0	25,000	0	0	0	0	0
TOTAL ABSORPTION		**sf**	**sf**	**sf**	**736,229 sf**	**349,345 sf**	**861,352 sf**	**288,184 sf**	**890,134 sf**	**474,141 sf**	**133,772 sf**	**367,864 sf**	**sf**	**sf**
Parcel Payments	$ PSF													
Parcel A	$15.75	0	0	0	1,959,014	0	0	0	0	0	0	0	0	0
Parcel B1	$15.75	0	0	0	0	0	0	0	393,639	0	0	0	0	0
Parcel C	$25.66	0	0	0	3,766,776	0	2,371,280	0	0	0	0	0	0	0
Parcel D	$25.66	0	0	0	0	0	4,404,282	0	2,772,605	0	0	0	0	0
Parcel E	$25.66	0	0	0	0	0	0	0	6,917,886	0	4,354,982	0	0	0
Parcel F	$25.66	0	0	0	0	0	0	0	0	0	0	5,792,221	0	3,646,347
Parcel H	$20.37	0	0	0	5,820,484	0	1,709,767	0	0	0	0	0	0	0
Parcel I	$20.37	0	0	0	0	5,500,629	0	1,615,810	0	0	0	0	0	0
Parcel K	$20.37	0	0	0	0	0	4,471,295	0	1,313,443	0	0	0	0	0
Parcel L	$15.75	0	0	0	46,056	0	0	0	0	0	0	0	0	0
Parcel M	$36.41	0	0	0	0	0	4,686,883	0	6,150,398	0	0	0	0	0
Parcel N	$20.37	0	0	0	0	0	0	0	4,517,319	0	1,326,963	0	0	0
Parcel O	$36.41	0	0	0	0	0	0	4,537,615	0	5,954,520	0	0	0	0
Parcel P	$36.41	0	0	0	0	0	0	0	0	1,813,998	0	2,380,432	0	0
Parcel Q	$36.41	0	0	0	0	0	0	0	2,186,805	0	2,869,651	0	0	0
Parcel S	$36.41	0	0	0	0	0	0	0	0	5,651,613	0	7,416,372	0	0
Parcel T	$36.41	0	0	0	0	0	0	0	0	0	2,106,314	0	2,764,026	0
TOTAL PAYMENTS	$27.12	**$0**	**$0**	**$0**	**$11,592,330**	**$5,500,629**	**$17,643,507**	**$6,153,425**	**$24,252,095**	**$13,420,131**	**$10,657,909**	**$15,589,025**	**$2,764,026**	**$3,646,347**
Infrastructure Costs	Total													
GC Contract	($29,500,000)	0	(2,500,000)	(1,750,000)	(10,500,000)	(5,250,000)	(950,000)	(5,700,000)	(2,850,000)	0	0	0	0	0
Landscaping	($3,500,000)	0	(500,000)	(500,000)	(500,000)	(1,500,000)	0	(250,000)	(250,000)	0	0	0	0	0
Hard Cost Contingency	($2,640,000)	0	(240,000)	(180,000)	(880,000)	(540,000)	(76,000)	(476,000)	(248,000)	0	0	0	0	0
Design	($5,000,000)	(500,000)	(3,500,000)	(500,000)	(500,000)	0	0	0	0	0	0	0	0	0
Permits and Fees	($2,350,000)	(500,000)	(500,000)	(1,350,000)	0	0	0	0	0	0	0	0	0	0
Testing	($2,500,000)	0	(200,000)	(200,000)	(750,000)	(250,000)	(100,000)	(750,000)	(250,000)	0	0	0	0	0
Other	($1,050,000)	(20,000)	(30,000)	(50,000)	(150,000)	(250,000)	(200,000)	(200,000)	(150,000)	0	0	0	0	0
Soft Cost Contingency	($872,000)	(61,600)	(338,400)	(168,000)	(112,000)	(40,000)	(24,000)	(76,000)	(32,000)	0	0	0	0	0
Development Fee	($1,782,000)	0	(162,000)	(121,500)	(594,000)	(364,500)	(51,300)	(321,300)	(167,400)	0	0	0	0	0
TOTAL COSTS	($49,194,000)	**($1,101,600)**	**($7,970,400)**	**($4,819,500)**	**($13,986,000)**	**($8,194,500)**	**($1,401,300)**	**($7,773,300)**	**($3,947,400)**	**$0**	**$0**	**$0**	**$0**	**$0**
Unlevered Cash Flow	$62,025,424	**($1,101,600)**	**($7,970,400)**	**($4,819,500)**	**($2,393,670)**	**($2,693,871)**	**$16,242,207**	**($1,619,875)**	**$20,304,695**	**$13,420,131**	**$10,657,909**	**$15,589,025**	**$2,764,026**	**$3,646,347**
IRR = 28.5%		($1,101,600)	($9,072,000)	($13,891,500)	($16,285,170)	($18,979,041)	($2,736,834)	($4,356,709)	$15,947,987	$29,368,117	$40,026,026	$55,615,051	$58,379,077	$62,025,424
Interest Expense	($4,382,967)	$0	($237,534)	($576,801)	($767,618)	($925,493)	($756,261)	($608,287)	($409,943)	($101,029)	$0	$0	$0	$0
Loan Proceeds (incl Interest Expense)	$37,503,877	$771,120	$5,745,554	$3,777,410	$10,327,533	$6,383,995	$1,510,293	$5,867,111	$3,050,140	$70,720	$0	$0	$0	$0
Loan Payments	($37,503,877)	$0	$0	$0	($8,114,631)	($3,850,440)	($9,493,722)	($3,176,331)	($9,810,954)	($3,057,798)	$0	$0	$0	$0
Levered Cash Flow	$57,642,458	**($330,480)**	**($2,462,380)**	**($1,618,890)**	**($948,386)**	**($1,085,809)**	**$7,502,517**	**$462,618**	**$13,133,938**	**$10,332,024**	**$10,657,909**	**$15,589,025**	**$2,764,026**	**$3,646,347**
IRR = 46.6%		($330,480)	($2,792,860)	($4,411,751)	($5,360,137)	($6,445,946)	$1,056,570	$1,519,189	$14,653,127	$24,985,151	$35,643,060	$51,232,084	$53,996,110	$57,642,458

EXHIBIT C
Site Aerial and Metro Locations

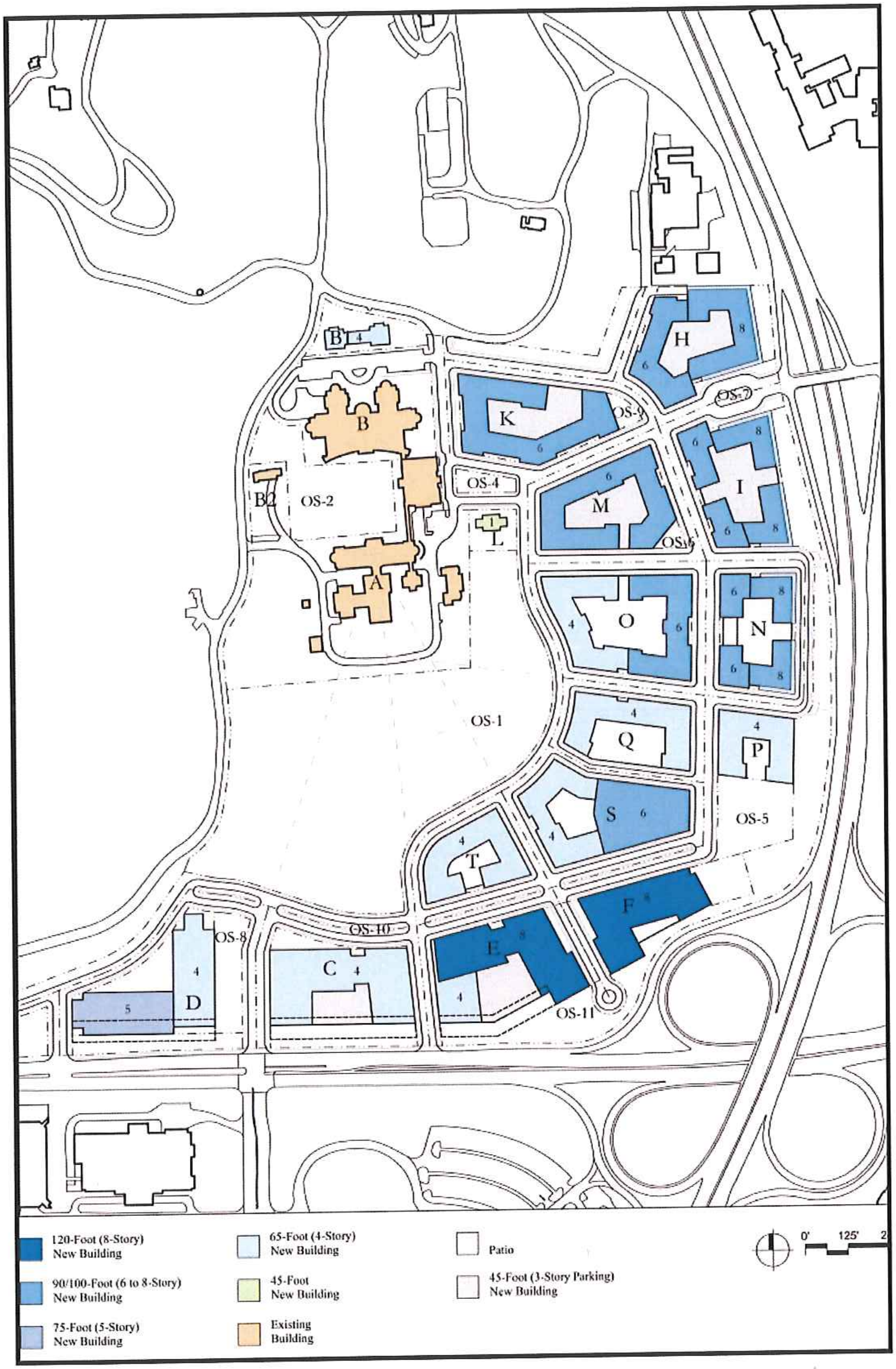
Armed Forces Retirement Home

EXHIBIT C
Site Aerial and Metro Locations



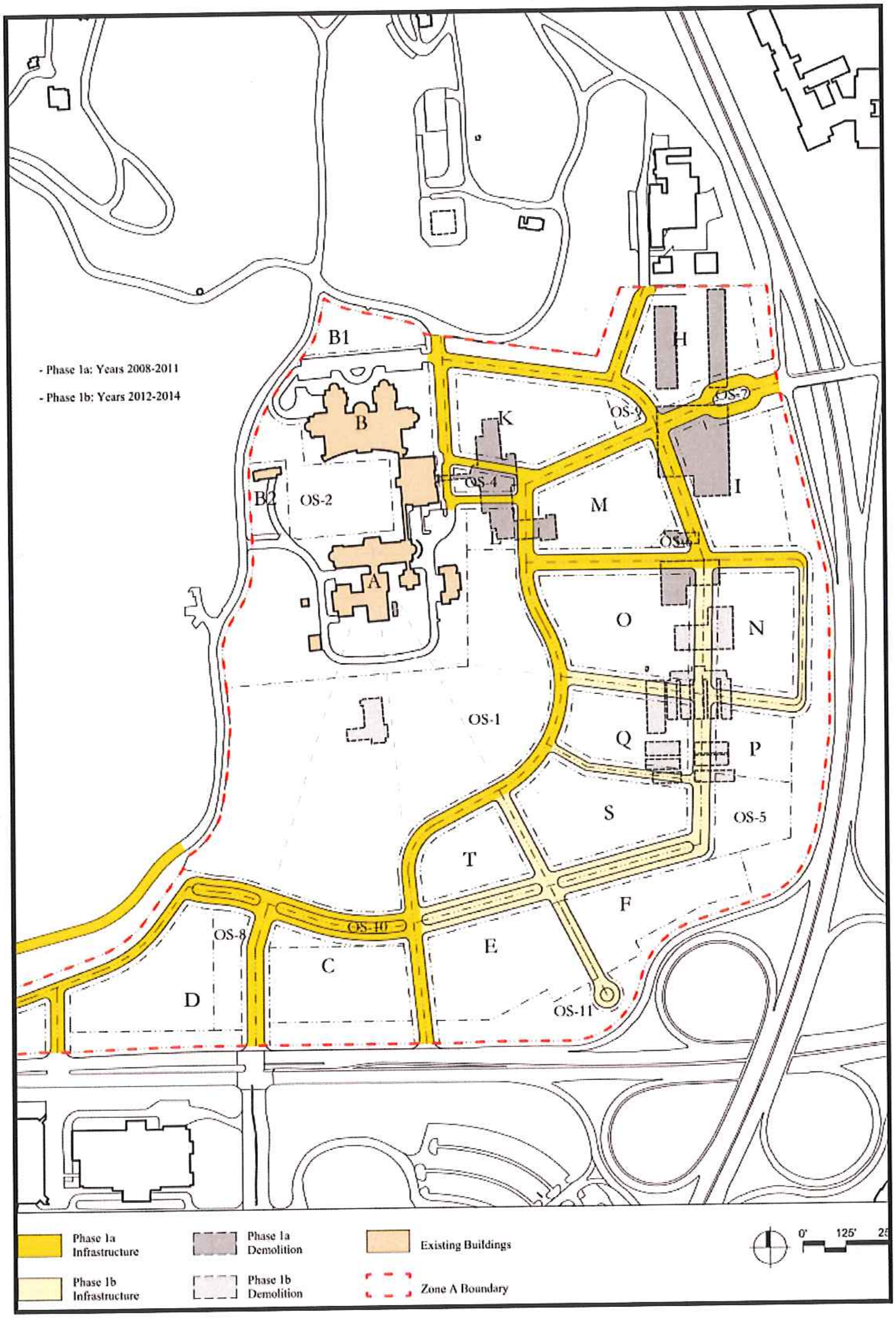
Georgia Ave/Petworth – 0.6 mile (green line)
Columbia Heights – 1.1 mile (green line)
Fort Totten – 1.1. mile (green or red line)
Brookland/CUA - .74 mile (red line)

EXHIBIT D
Master Plan



Armed Forces Retirement Home

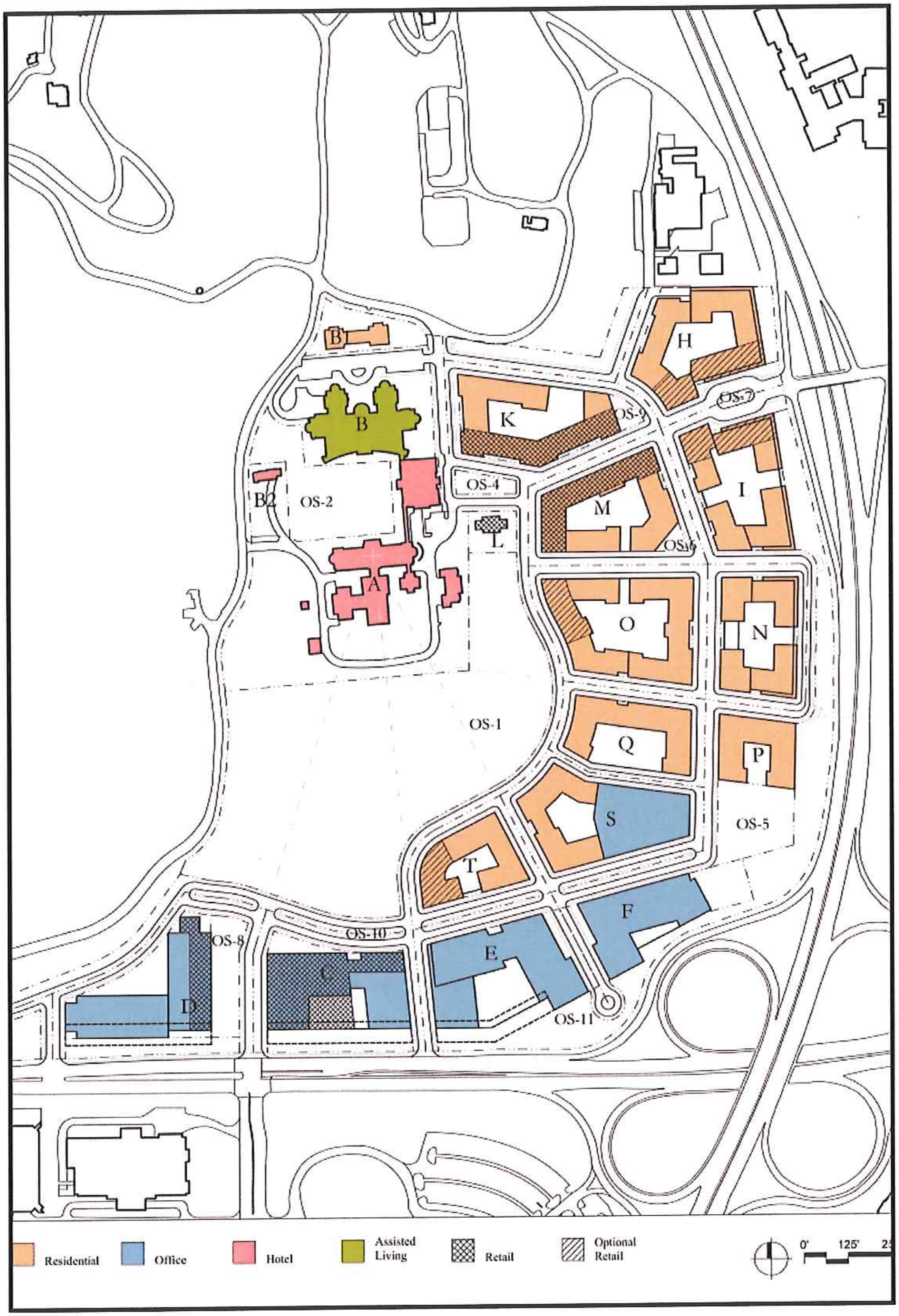
EXHIBIT E
Infrastructure and Parcel Phases



Armed Forces Retirement Home

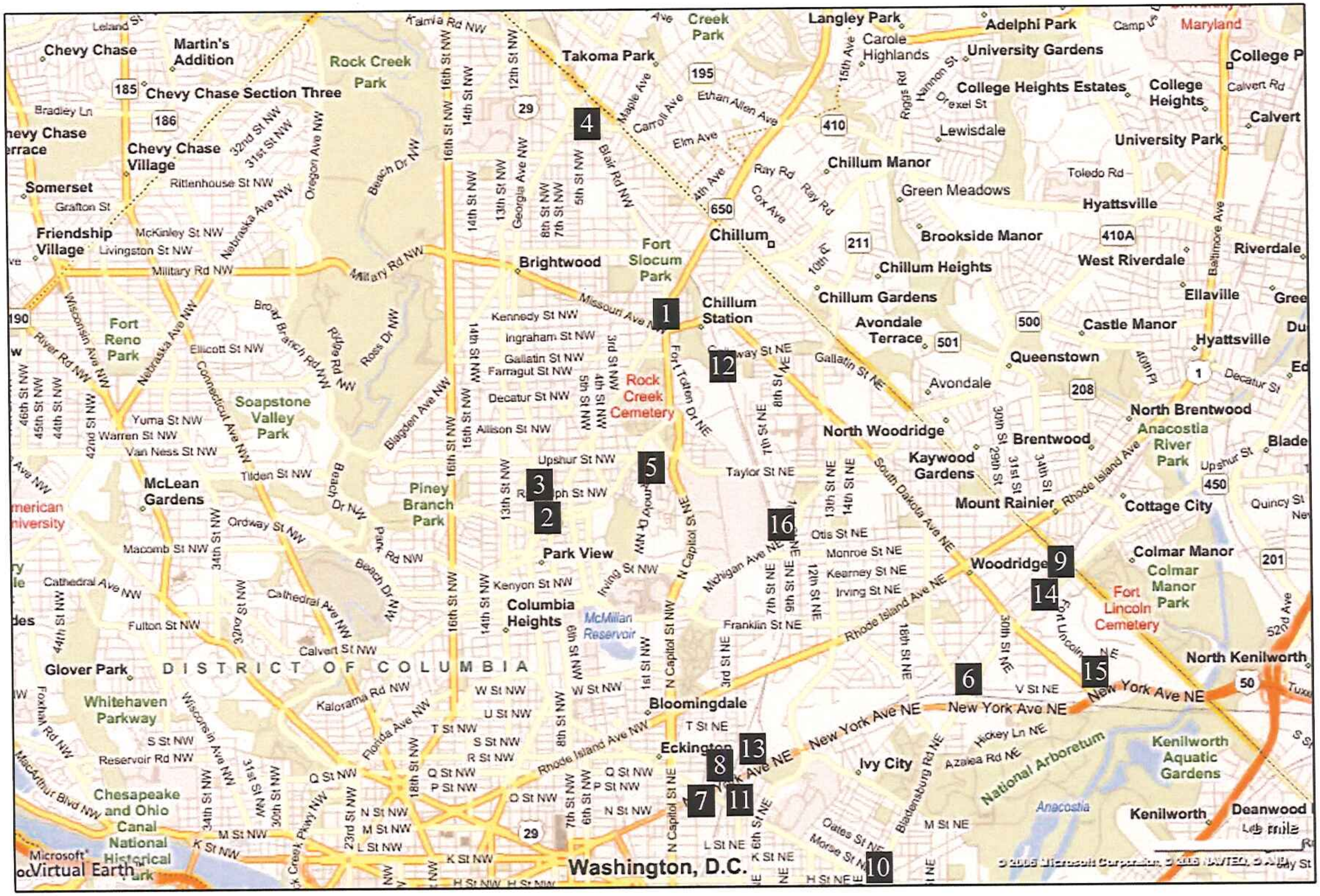
EXHIBIT E
Infrastructure and Parcel Phases

EXHIBIT F
Proposed Land Uses



Armed Forces Retirement Home

EXHIBIT G
Other Project Locations
Ward 4 and 5

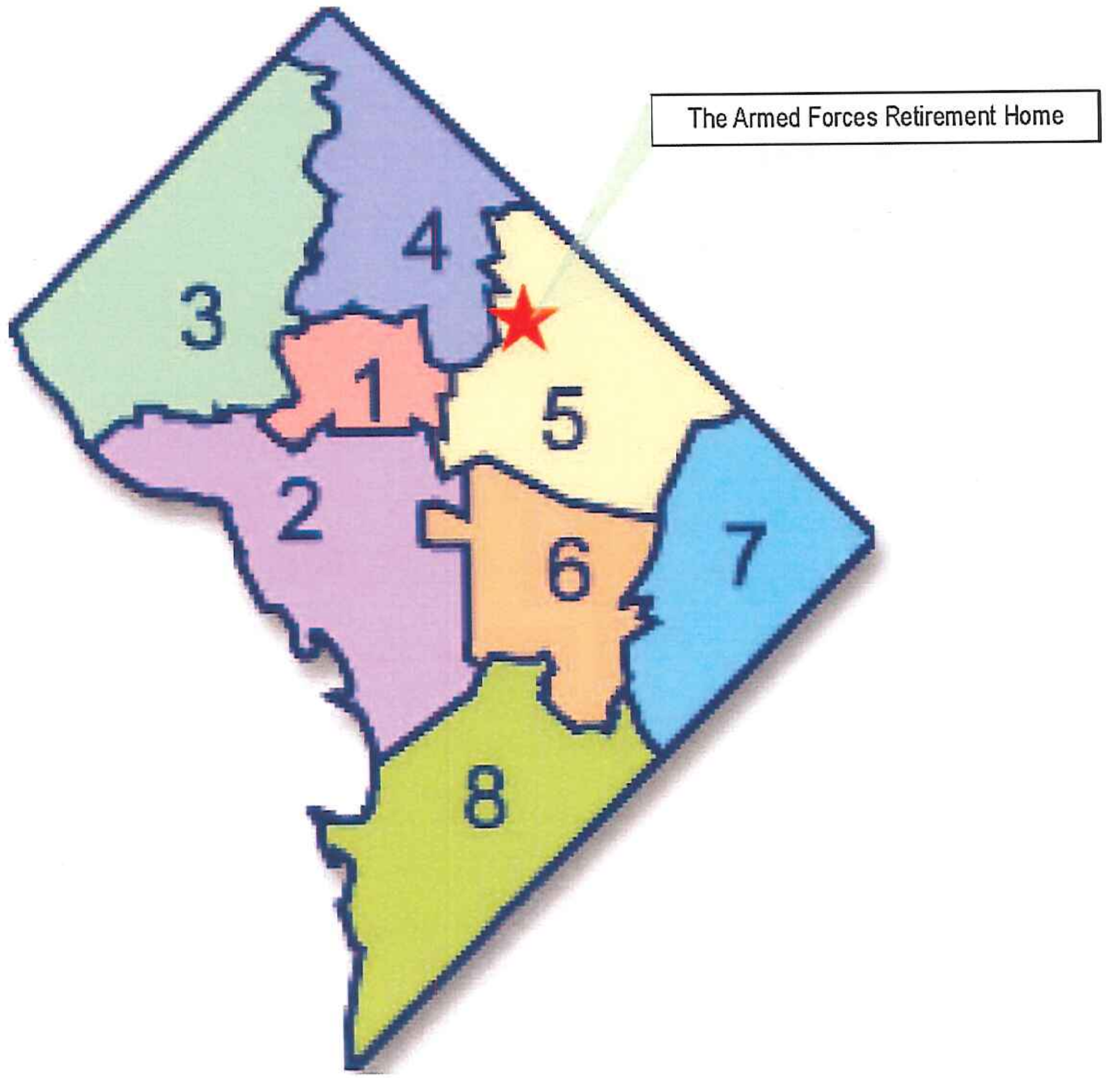


Armed Forces Retirement Home

EXHIBIT G
Other Project Locations
Ward 4 and 5

#	Project	Location	Ward	Developer	Total Sq. Ft.	Major Use	Hotel Rms	Office Sq. Ft.	Residential Units	Retail Sq. Ft.	Status	Expected Groundbreaking	Targeted Delivery	Estimated Project Cost
1	Fort Totten Square	South Dakota Avenue & Riggs Road, NE	4	Lowe Enterprises Real Estate Group	900,000	Residential	0	0	900	100,000	Proposed	Jan-08	Dec-09	$300,000,000
2	Park Place	3700 Georgia Avenue, NW	4	Donatelli Development	165,000	Residential	0	0	156	17,000	Under Construction	Jul-06	Dec-08	$60,000,000
3	Georgia Commons	3910-3912 Georgia Avenue, NW	4	Jair Lynch Companies	149,500	Residential	0	0	110	19,500	Planned	Dec-07	Dec-09	$30,000,000
4	Pavilions at Takoma Park	7023 Blair Road, NW	4	Gables Residential	144,000	Residential	0	0	144	0	Planned	Jan-07	Mar-09	$32,400,000
5	Armed Forces Retirement Home	Irving & North Capitol Streets, NW	5	Crescent Resources LLC	6,500,000	Mixed-use	0	950,000	3,300	140,000	Proposed	Dec-10	Dec-20	$1,000,000,000
6	Arbor Place	New York Avenue & Bladensburg Road, NE	5	Abdo Development	3,500,000	Mixed-use	0	0	3,400	130,000	Planned	Jun-07	Dec-14	$1,100,000,000
7	New Town at the Capital City Market	4th Street & Florida Avenue, NE	5	FLGA LLC Real Estate Group	3,128,190	Mixed-use	0	260,000	1,450	448,890	Proposed	n/a	Oct-07	$1,200,000,000
8	Washington Gateway	Florida & New York Avenues, NE	5	MRP Realty	955,595	Mixed-use	180	591,897	250	12,000	Planned	Sep-08	Sep-10	$350,000,000
9	Village at Washington Gateway	Fort Lincoln Drive & Commodore Joshua Barney Drive, NE	5	Fort Lincoln New Town Corporation	839,664	Residential	0	0	357	0	Planned	Dec-08	Oct-07	$80,000,000
10	Arboretum Place	1600 Maryland Avenue, NE	5	Clark Realty Capital LLC	674,757	Residential	0	0	670	4,728	Planned	n/a	Oct-07	$150,000,000
11	Eckington I	Harry Thomas Way, NE	5	Trammell Crow Company	662,000	Residential	0	0	650	12,000	Proposed	Dec-08	Dec-10	$227,500,000
12	Fort Totten Metro Station Development	Fort Totten Metro Station	5	Cafritz Company	605,000	Residential	0	0	1,000	52,000	Proposed	n/a	Oct-07	$325,000,000
13	Eckington II	Harry Thomas Way, NE	5	Trammell Crow Company	500,000	Residential	0	0	500	0	Proposed	Dec-09	Dec-11	$175,000,000
14	Dakota Crossing	31st Place at Fort Lincoln Drive & New York Avenue, NE	5	Fort Lincoln New Town Corporation	442,000	Residential	0	0	209	0	Completed	Oct-05	Oct-07	$21,000,000
15	Washington Gateway Retail Center	New York & South Dakota Avenue, NE	5	Fort Lincoln New Town Corporation	412,550	Retail	0	0	0	412,550	Proposed	Apr-08	Jun-09	$67,000,000
16	816 Michigan Avenue	816 Michigan Avenue, NE	5	Douglas Development Corporation	400,000	Residential	0	0	400	0	Proposed	n/a	Oct-07	$90,000,000

EXHIBIT G
Other Project Locations
Ward 4 and 5



Armed Forces Retirement Home