The Acadia at Metropolitan Park

INVESTMENT REPORT

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Executive Summary

The Project

The Lion Properties Fund ("LPF") through its investment manager, Clarion Partners ("Clarion"), is investing up to $154,066,669 in a joint venture with KETTLER to develop The Acadia (the "Property"), an apartment building at 1201 South Fern Street in Pentagon City, Arlington, Virginia. The Acadia will be developed as part of Metropolitan Park (the "Site"). The development site contains 91,050 square feet of land.

The Acadia, presently under construction, will have 411 luxury residential units on 19 stories and include ground floor retail space. An underground garage will contain 502 parking spaces, with 66 spaces dedicated for the retail use. The Acadia will complete the third phase of Metropolitan Park, owned by LPF, with the first two phases being the adjacent apartment buildings, The Gramercy (399 units) and The Millennium (300), respectively. The Acadia will exhibit the same high level of design and finishes consistent with the Balance of Metropolitan Park.

The Opportunity

The Acadia is designed as an apartment building. However, the residential condominium market in the Washington, D.C. MSA is currently flourishing and poised for growth. Relevant factors include record low residential mortgage interest rates, and a relatively low condominium unit inventory in the Washington, D.C. MSA. Currently, condominium prices in Arlington are higher than average prices in larger Washington, D.C. MSA. Also, residential unit rent prices continue to rise in Arlington. This report will consider three options available to the Lion Properties Fund:

Option 1: Continue with the development as planned and rent the 411 units of The Acadia as apartments.

Option 2: Convert the 411 units of The Acadia into condominiums, and sell.

Option 3: Convert approximately 200 units on the top floors of The Acadia into condominium units, and rent remaining 211 units on the lower levels as apartments.

This report will attempt to assist Clarion Lion Properties Fund decide whether to continue with The Acadia as apartments, develop a condominium building, or employ a mix of the two options. This report and the analysis contained here within will set the framework and provide data necessary to determine whether to proceed with The Property as planned. This report will make its final recommendation based on The Property's features, market conditions, and financial analyses of the three options.

Property Analysis

Property Introduction

The Acadia (the "Property") represents a proposed Class-A high-rise apartment building located in the Pentagon City submarket of Arlington, Virginia. The Property will be located adjacent to two existing apartment buildings, The Gramercy (399 units) and The Millennium (300 units), on a site branded Metropolitan Park (the "Site"). Construction of The Acadia represents the third phase of construction of Metropolitan Park, as The Acadia is also identified as Metropolitan Park III.

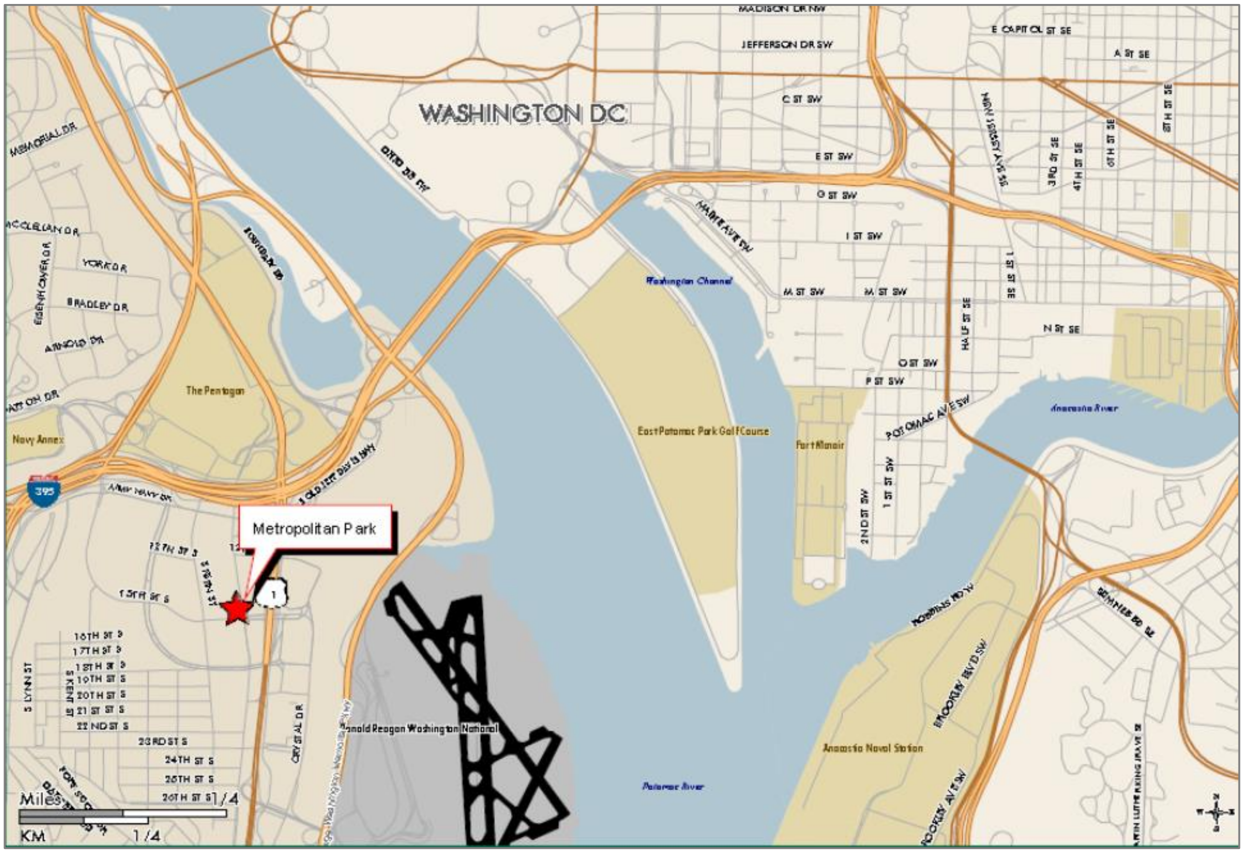
Metropolitan Park is a large planned development of multiple residential buildings, retail space, and green area in Arlington, Virginia. The development provides community centered urban living in a highly desirable and well-connected area within the Washington, D.C. MSA. The Acadia is on the northwest corner of the Metropolitan Park site, at the intersection of S. Fern and 12th Streets. This location allows pedestrian traffic from nearby retailers, and provides clear views of Washington, D.C. and the Pentagon.

The Acadia will contain 411 units and 16,350 square feet of retail space on the ground floor, for a total rentable area of 381,968 square feet. The primary tower of The Acadia will be 19 stories high, and have a connected wing, with terrace, 7 stories high.

Property Facts

- The building will feature concrete and steel construction, a brick and masonry façade, and rubber membrane roof.
- The unit mix is approximated 11% studio, 58% one bedroom, and 31% two bedroom units.
- Buildings amenities will include a pool, fitness center, conference rooms, cyber café, grill areas, a pet grooming area, and a rooftop clubroom with demonstration kitchen.
- Unit amenities will include movable kitchen islands, tile backsplashes and tub surrounds, wood flooring, plantation blinds, stainless steel appliances, quartz countertops, washer and dryer units, and a keyless entry system. In addition, select units will include balconies.
- The building will provide 502 parking spaces, with 66 spaces reserved for retail users.

Location



Source: Clarion Partners, "The Acadia at Metropolitan Park FIM"

Metropolitan Park is located in the Pentagon City submarket of Arlington, Virginia, and is part of the Washington, D.C. MSA. Arlington is largely built-out, and most new construction involves the demolition of existing structures. There has been a shift toward increasing Arlington's downtown density and taking advantage of the county's outstanding access to mass transit.

The Property is located one block from The Fashion Centre at Pentagon City and the Pentagon City Metro Station, which offers access to the Blue and Yellow Metro Lines. The Property is located in close proximity to downtown Washington, D.C. (three miles), Reagan National Airport (one mile), and has access to I-395, Route 1, and the George Washington Parkway. Residents of Metropolitan Park have convenient access to large employment centers in Washington, D.C., Crystal City, Old Town Alexandria, the Rosslyn-Ballston-Clarendon corridor, as well as to the Pentagon, where 23,000 Department of Defense employees and 3,000 non-defense support personnel work.

Site & Zoning

Metropolitan Park covers 2.09 acres in Arlington, Virginia and is zoned C-O-2.5: Commercial Office Building, Hotel and Apartment District. As two separate phases of Metropolitan Park have already been constructed on the Site, there should be relatively few unexpected issues during site work. The construction budget includes an allowance of $1.16 million for alleviating potential environmental issues, including the removal of contaminated soil and filtering the groundwater during excavation. The Site is flat and requires no special topographical changes. There are currently mature trees at the site, and during Phase I and Phase II oak, maple and honeysuckle trees were planted. The Metropolitan Park site organization is planned to revolve around central green spaces and encourage a pedestrian lifestyle.

Linkages

Employment

Due to the convenient access to different transportation options, Pentagon City has always been an attractive location for employers. Pentagon City has adopted many 'Green' initiatives as well. Pentagon City is an ideal location for office property because of the ample amenities required of office buildings, and the abundance of restaurants and shopping nearby. Prominent office buildings in Pentagon City include Washington Tower, Lincoln Place, and Pentagon City One and Two.

Source: Clarion Partners

Entertainment & Shopping

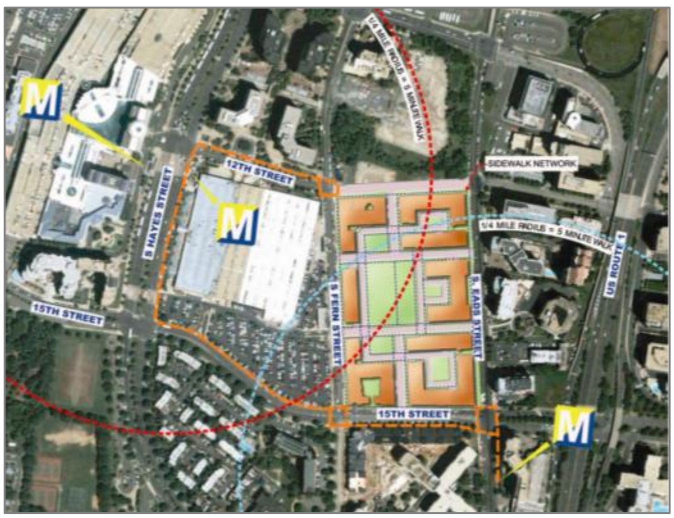
Arlington offers movie theaters, a wide range of restaurants, specialty stores, bike trails and community events. In addition. Metropolitan Park holds events like outdoor movie screening and others year-round.

Most residents of Arlington and Washington, D.C. view Pentagon City as a shopping destination, as the area contains an assortment of shops, cafés, and restaurants.

The Fashion Centre at Pentagon City, located only one-quarter mile from the Site, contains the large retailers Macy's and Nordstrom, and over 150 other shops and restaurants. Flanking the Fashion Center at Pentagon City are several other high-quality shopping centers with trendy eateries and designer coffee shops. In addition, Pentagon Row, a shopping center located one half mile from the Site, has an outdoor ice rink during the winter months.

Future residents of The Acadia will have easy access to basic goods and groceries. Grocery stores within a one mile radius of The Acadia include Giant, Harris Teeter, and Costco Wholesale. Although not certain, it is worth nothing current discussions of a Whole Foods Grocery store in a site adjacent to Metropolitan Park.

Transportation



Source: Clarion Partners

Pentagon City lies at the center of a unique collection of transportation options. The Ronald Reagan Washington National Airport is a short distance away from the site, as is a Virginia Railways Express train station. Multiple Metro stations within walking distance of the site provide access to the WMATA Yellow and Blue Metro Rail Lines. Together, the Yellow and Blue Metro Rail Lines provide prompt access to all of Washington, D.C., and parts of Maryland and Virginia. There are numerous regional bus connections near the Site. More active residents will appreciate the easy access to the Mount Vernon Trail, the region's premier bicycle commuting route.

Improvements

Upon completion of construction, The Acadia will be a 19 story apartment building containing 381,968 total square feet of rentable area, of which 16,350 square feet will be retail space at ground level. The location offers pedestrian traffic along 12th Street, and clear views of downtown Washington, D.C.

Architecture & Design

Source: Clarion Partners

The property will be constructed with concrete and steel, with a brick and masonry façade, and rubber membrane roof. Unit features include 8.8'–10' foot ceilings, fully equipped kitchens with mobile islands, tiled backsplashes and tub surrounds, upgraded lighting package, laminated wood plank flooring in foyers, keyless unit entry, washer/dryers, and balconies on select floor plans.

Amenities

Amenities will include a pool, fitness center, conference room, cyber café, three grill areas, pet grooming area, and a rooftop clubroom with demonstration kitchen.

Unit Mix

The improvement has total 411 dwelling units. The unit mix is approximately comprised of 11% studios, 58% one bedrooms, and 31% two bedrooms.

Unit Mix	Unit Count	Square Feet
Studio	46	553
One Bedroom	170	742
One Bedroom w/ Den	67	873
Two Bedroom	83	1,112
Large Two Bedroom	22	1,376
Two Bedroom w/ Den	15	1,212
One Bedroom Penthouse	1	825
Two Bedroom Penthouse	1	1,380
Two Bedroom w/ Den PH	6	1,834
Total/Average	**411**	**886**

Construction Costs

The Acadia at Metropolitan Park is currently under construction. Construction began in July 2012, and is estimated to take 30 months.

Construction Start Date	July 1, 2012
Projected Construction Completion Date	December 31, 2014
Projected Construction Duration	30 months

The construction cost for Acadia at Metropolitan Park total $155,408,936.

Land Cost	$	32,904,636	(21.20%*)
Hard Costs	$	96,173,519	(61.96%)
Soft Costs	$	21,801,036	(14.05%)
Operating Shortfall	$	127,930	
Interest Expense	$	4,401,815	
Financing Fees	$	0	
Total Construction Cost	$	155,408,936	

** % of total construction cost*

Mr. Robert C. Kettler, chief executive officer of KETTLER, will provide a personal guarantee for cost overruns and completion, and KETTLER will be paid a development fee of 3%. The 3% development fee paid to KETTLER excludes the cost of land, financing costs, and any expenses arising from cost overruns.

Construction costs will be funded by Lion Properties Fund with 100% equity. However, to calculate KETTLER's fee, the construction costs used will include assumed carrying costs equal to a 65% LTC loan with a fixed interest rate. The construction loan interest shown in the table proceeding is not the interest of a genuine loan associated with the project, but the incentive fee for KETTLER.

Land		
Land Cost	$	30,359,955
Buy-Out Premium	$	350,000
Board up & Demo	$	0
Lease income	$	0
Land Broker Fee	$	0
LOC Fee	$	43,710
2007 Land Loan Fee	$	194,875
2007 Land Loan Interest	$	1,956,096
Subtotal Land Cost	**$**	**32,904,636**

Hard Costs		
Vertical Construction (Includes Retail)	$	86,314,882
Other Construction	$	5,040,850
Hard Cost Contingency	$	4,567,787
Clarion Contingency	$	250,000
Subtotal Hard Costs	**$**	**96,173,519**

Construction and Land Costs	**$**	**146,241,598**

Soft Costs		
Clarion legal	$	125,000
Site Utilities / Connection Fees	$	1,141,332
Marketing / Sales Office	$	641,801
Legal	$	451,383
Architectural	$	2,901,874
Engineering	$	2,710,210
Condo HOA	$	90,000
Consultants	$	52,216
Permits & Fees	$	1,196,508
Proffers	$	3,361,059
Environmental	$	(237,075)
Retail Leasing Commissions	$	474,825
Closing Costs	$	973,056
Insurance	$	479,973
Operations, Management, FF&E	$	369,416
Organization	$	109,179
Real Estate Taxes	$	2,322,686
Subtotal Soft Costs	**$**	**21,801,036**

Development Fee	$	3,436,152
Soft Cost Contingency	$	1,201,441
Total Soft Costs	**$**	**21,801,036**
Total Costs Before Debt	**$**	**150,879,191**
Construction Loan Interest	$	4,329,176
Financing Fees	$	0
Subtotal Cost of Debt	$	4,329,176
TOTAL COSTS AFTER DEBT	**$**	**155,408,936**

Market Analysis

Washington-Arlington-Alexandria Economic Outlook

Washington, D.C. has been one of the best performing real estate markets in the nation since the most recent economic downturn. The unemployment rate of the Washington-Arlington-Alexandria market was at a stable 5.2% in December 2012, down from its peak of 6.6% in the first quarter of 2010 and well below the current national average of 7.9% (January 2013). Federal spending cuts and "The Sequester" are predicted to have a noticeable impact on the local economy. Although a large number of Washington, D.C. residents work in the government sector, the Washington-Arlington-Alexandria area is poised to handle any possible economic turbulence.

Figure 1.

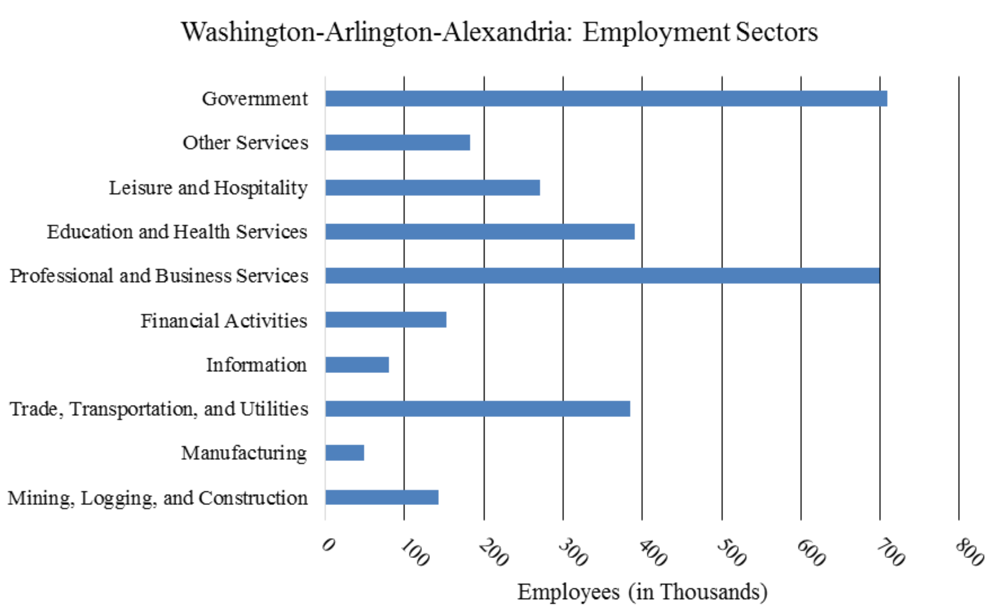
Washington-Arlington-Alexandria Employment Outlook

	November		December	
Year	**2011**	**2012**	**2011**	**2012**
Employment* (000s)	3,183.2	3,234.7	3,181.6	3,230.6
Unemployment (000s)	169.6	162.2	170.9	168.0
Unemployment (percent)	5.3	5.0	5.4	5.2

*Civilian Labor Force

Data Source: BLS

Figure 2.



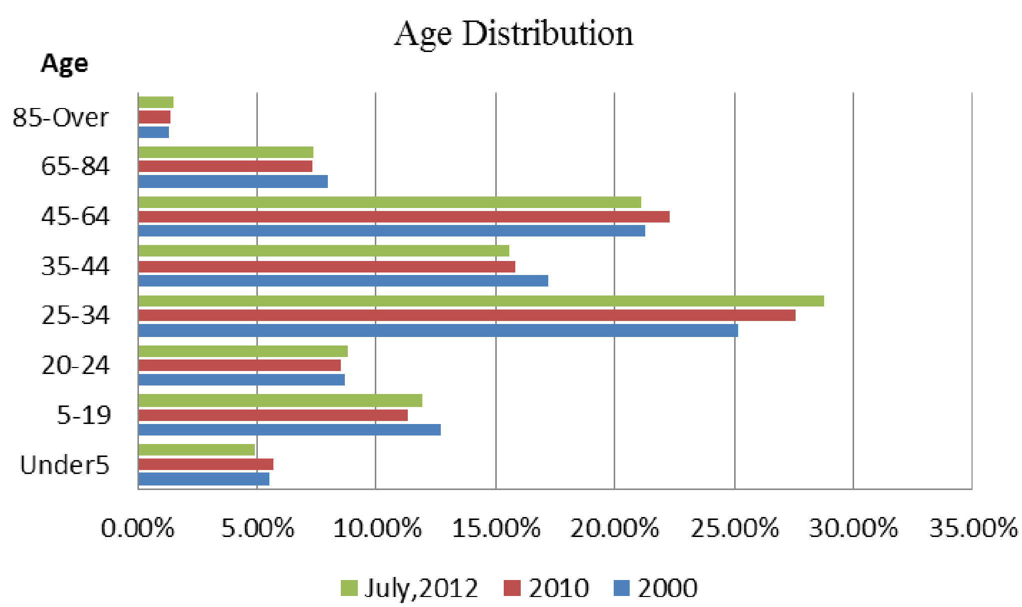
Data Source: BLS

Demographics

Age Distribution

As a whole, the residents in Arlington, Virginia is quite young with the people aged 65 and older representing less than 10% of the total population. The average age distribution in Arlington has changed over the past ten years. The most notable change is that the population of people aged 25-34 is getting larger, while the population aged 10 years and older is decreasing, making for an even younger community.

Figure 3.

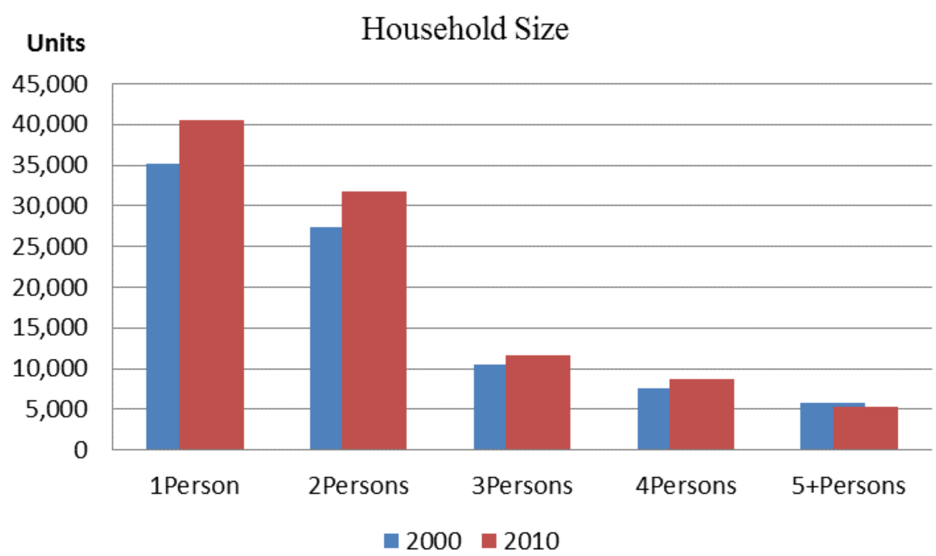


Data Source: U.S. Census Bureau - Census 2000 SF1: P004; 2010 Decennial Census 2010 SF1: P5; Arlington Planning Division estimates, January 2012 Update.

Household Size

The average household size in Arlington, Virginia varies from a single person to more than five people. According to United States Census Bureau Data, smaller sized household account for a greater percentage of total households. This seems to be an increasing trend, and Figure 4 shows that the number single person households has increased the most over the past 10 years.

Figure 4.

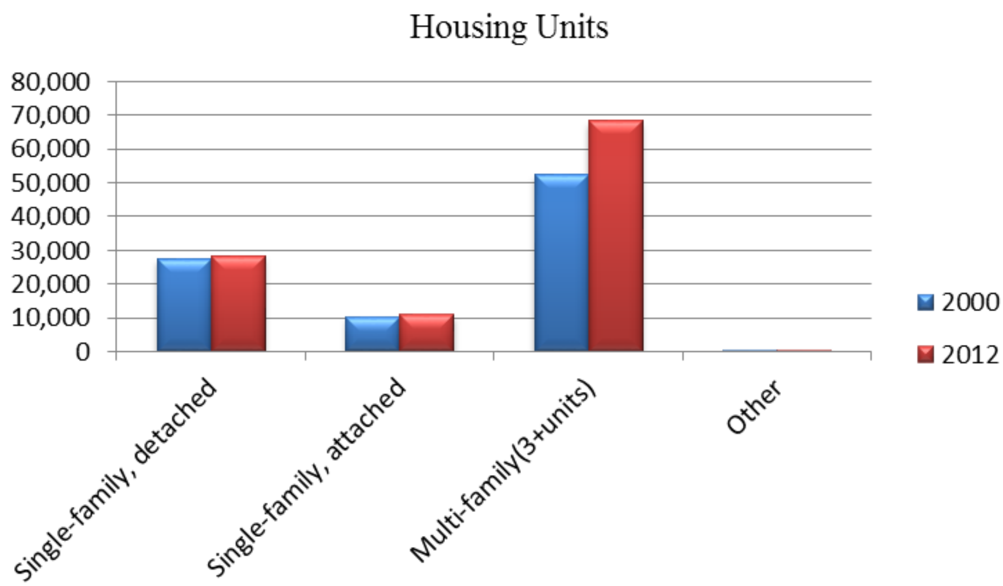


Data Source: U.S. Census Bureau - Census 2000 SF1: P26; Census 2010 SF1: H14 and H12.

Housing Units

Arlington, Virginia, and Pentagon City in particular are unique markets with respect to housing units. More households live in multifamily buildings rather than in single family homes, and this trend is becoming more pronounced. Over the past 12 years, a greater number of households are choosing to live in multifamily buildings.

Figure 5.



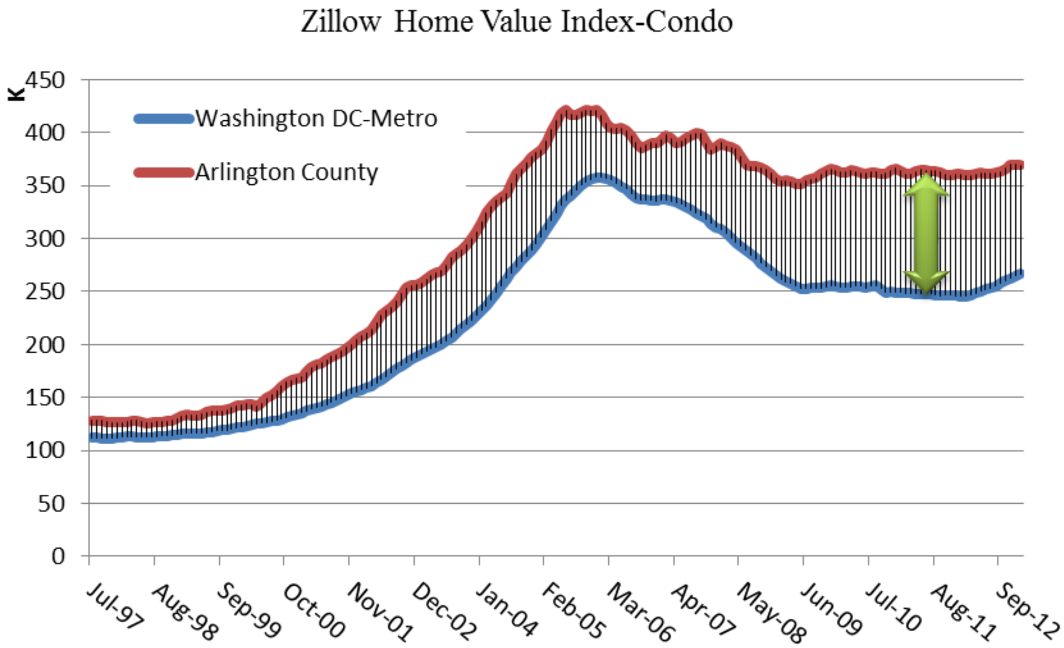
Data Source: U.S. Census Bureau, 2000 Census of Population and Housing and Arlington Planning Division. January 2012 estimates. Figures may not sum due to rounding.

The Condominium & Apartment Market

Condominiums

Figure 6 shows a trend of value of condominium units in the Washington, D.C. Metropolitan Statistical Area and Arlington County, respectively. Zillow Home Value Index (ZHVI) tracks properties that were sold, and also properties which were unsold by estimating their value. As shown in Figure 6, the average condominium value in Arlington, Virginia is than the average value for the Washington, D.C. MSA. Even after the burst of residential bubble, the market for condominium units in Arlington remains stable. The discrepancy in value between Arlington and Washington, D.C. increases year by year. This data shows the potential benefits of choosing to invest in the condominium market in Arlington, Virginia.

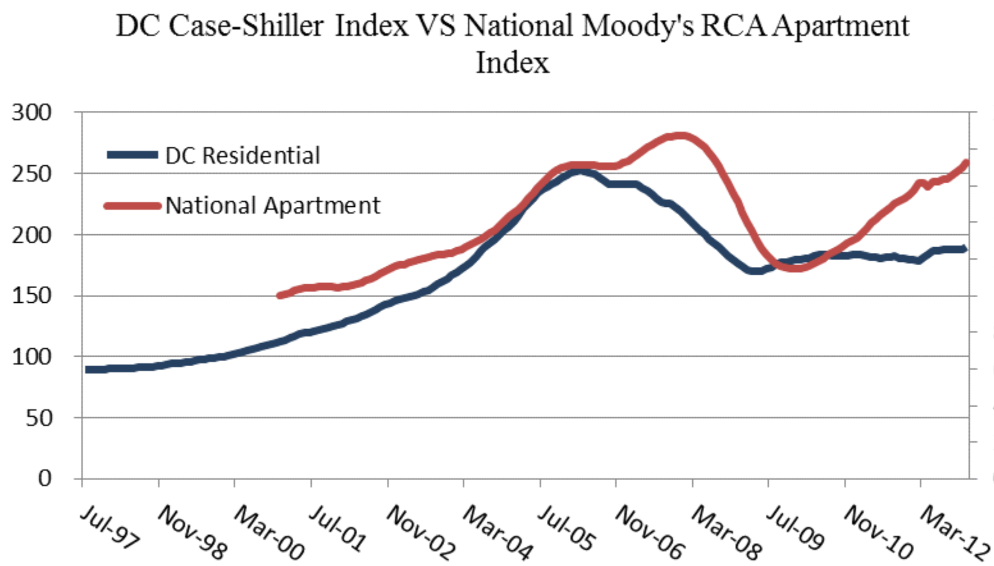
Figure 6.



Data Source: Zillow Real Estate Research

The Washington, DC Case-Shiller Index shows home price change in the Washington, D.C. MSA. National Moody's RCA Apartment Index shows apartment market activity in the United States. Figure 7 shows an interesting relationship between these two markets. The peak of national apartment market lags behind that of DC residential market. The former also bounced back very quickly compared to the latter. These findings may give reason to bet on the market for apartment properties. However, without additional data, this report needs to quantify the risk and return characteristics owning a verses household space.

Figure 7.



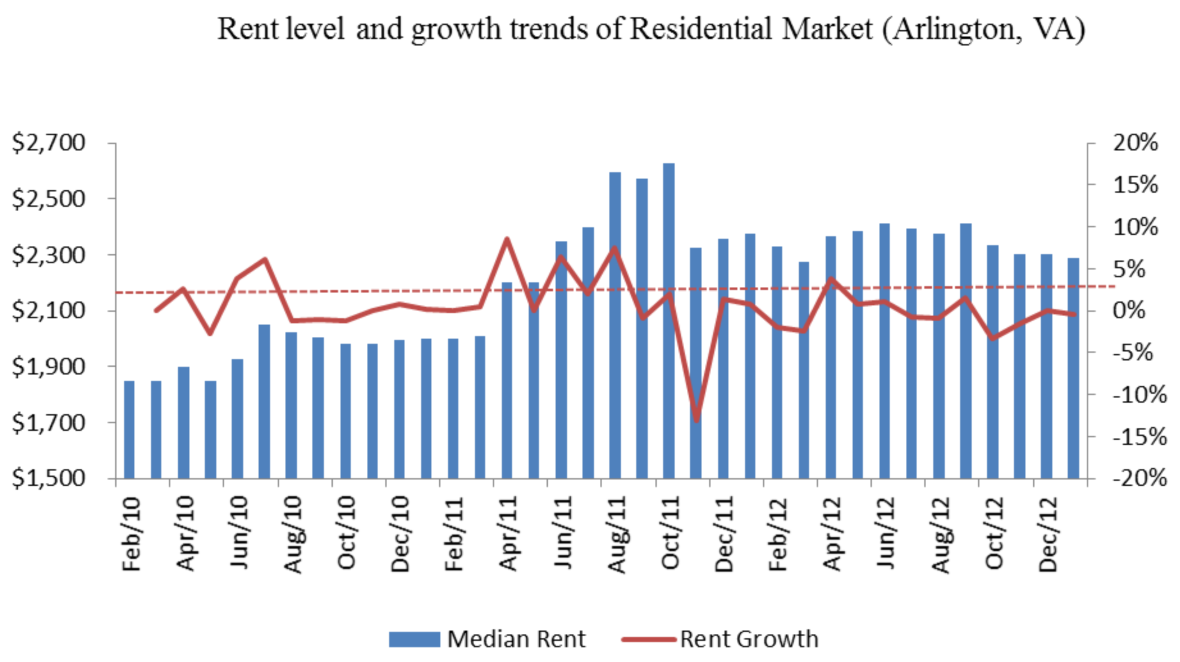
Data Source: S&P's, Real Capital Analytics

Apartments

In recent three years, the median residential rent in Arlington has increased approximately 19%. Rent growth ranged from -13% to 7.5% in 2011 because of the financial crisis, but rent growth has appeared to be relatively stable since December 2011.

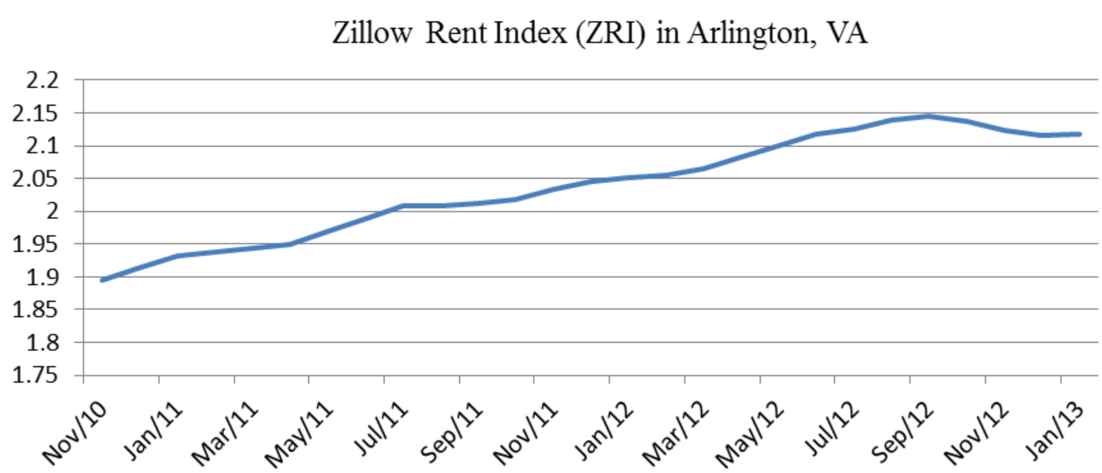
The Zillow Rent Index (ZRI), tracks the monthly median rent in particular regions, and also shows that rent index in Arlington, Virginia have increased for the past three years only with a slight variation. This means that the rent in residential market in Arlington was stable in that period.

Figure 8.



Data Source: Zillow Real Estate Research

Figure 9.

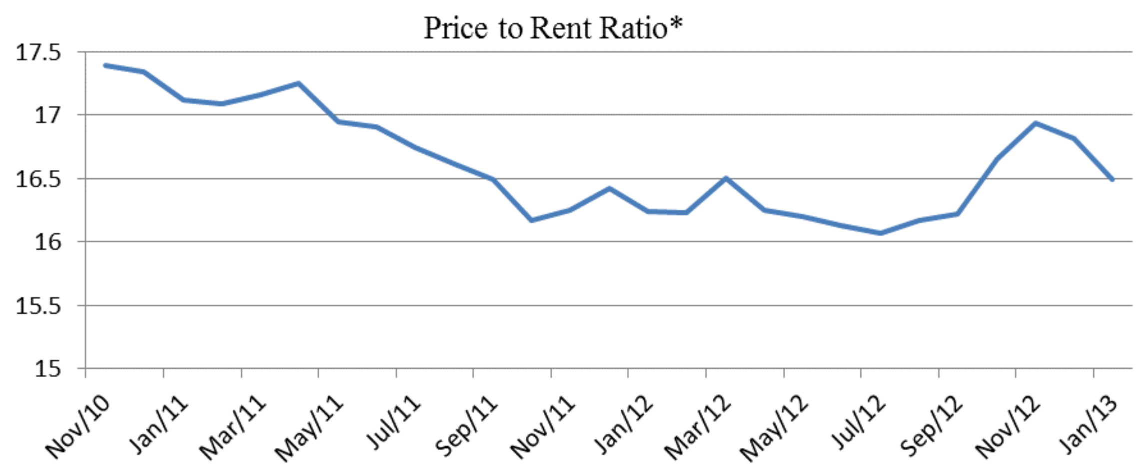


Data Source: Zillow Real Estate Research

Owning vs. Renting

The price to rent ratio is an index which provides a comparison between owning and renting properties. Figure 8 shows that the Price to Rent Ratio in Arlington ranged from 16.05 to 17.39 over the past three years. This means that it is typically better to rent, rather than purchase residential properties in Arlington.

Figure 10.



Data Source: Zillow Real Estate Research

Market Comparables

The following tables show the information of market comparables which can be the competitive properties of our property. This report considered the data of these comparables including sales price, rent, occupancy, and amenities, and figured out market expectation. Figure 11 and Figure 12 show condo comparables and apartment comparables respectively.

Figure 11.

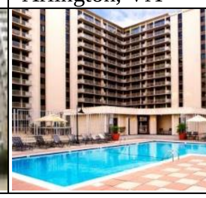
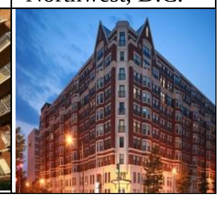
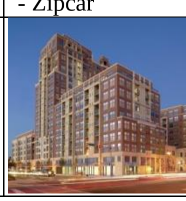
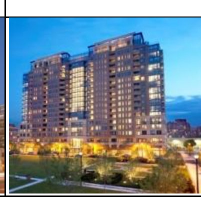
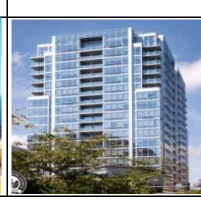
Property	Mass Court	The Irene	The Buchanan	Chase Bethesda	Jefferson Thomas Cir.
Year Built	2004	1966	’71/’00	’89/’06	2006
Units	371	500	442	122	292
Price	160M	209.3M	175 M	57 M	153.8M
Price/unit	$431,267	$418,650	$395,928	$464,213	$526,941
Date of Sales	Contr.	Apr 12	Mar 12	Dec 11	Dec 11
Cap Rate	4.3%	4.0-4.25%	4.6% (including commercial space)	3.75%	4.25%
Submarket	Northwest, D.C.	Bethesda, MD	Arlington, VA	Bethesda, MD	Northwest, D.C.
					

Figure 12.

Property	Gramercy at Met Park	Millennium at Met Park	220 20th Street	Post Pentagon Row	Camden Potomac Yard
Year Built	2007	2010	2009	2004	2006
Units	399	300	265	326	374
Avg. SF	993	935	1,018	870	837
Avg. Rent	$2,453	$2,514	$2,747	$2,479	$2,046
Avg. Rent PSF	$2.47	$2.69	$2.70	$2.85	$2.44
Est. Occupancy	94%	96%	98%	98%	96%
Submarket	Arlington, VA	Arlington, VA	Arlington, VA	Arlington, VA	Arlington, VA
Community Amenities	- Sports club, massage room and sauna - Outdoor pool, club room, executive room, - Café with complimentary coffee - Billiards room, theater - 24-hour staffed front desk - Wi-Fi service - Zipcar	- Outdoor pool - Salon with massage room, manicure and pedicure room and spa shower - Sports club - Outdoor patio - Lounge and clubroom - Library/business center - 24-hour front desk - Guest suites	- Rooftop pool and terrace - Fitness center - Crescent room & gallery lounge with billiards, TVs and coffee bar - 24-hr concierge services - Underground Metro access - Controlled access parking/ bicycle storage	- 24-hour fitness center - Indoor swimming pool - Rooftop terrace - Courtyards with water fountains - Garage parking - Seasonal ice skating rink - Clubroom and business center	- Rooftop pool, - On-site concierge - 24-hour state of the art fitness center - Movie theater and game room
					

1. 300 Massachusetts Ave NW, Washington, DC 20001
2. 4701 Willard Avenue, Chevy Chase, MD 20815
3. 320 23rd St S, Arlington, VA 22202
4. 7500 Woodmont Ave, Bethesda, MD 20814
5. 1301 M St NW, Washington, DC 20005

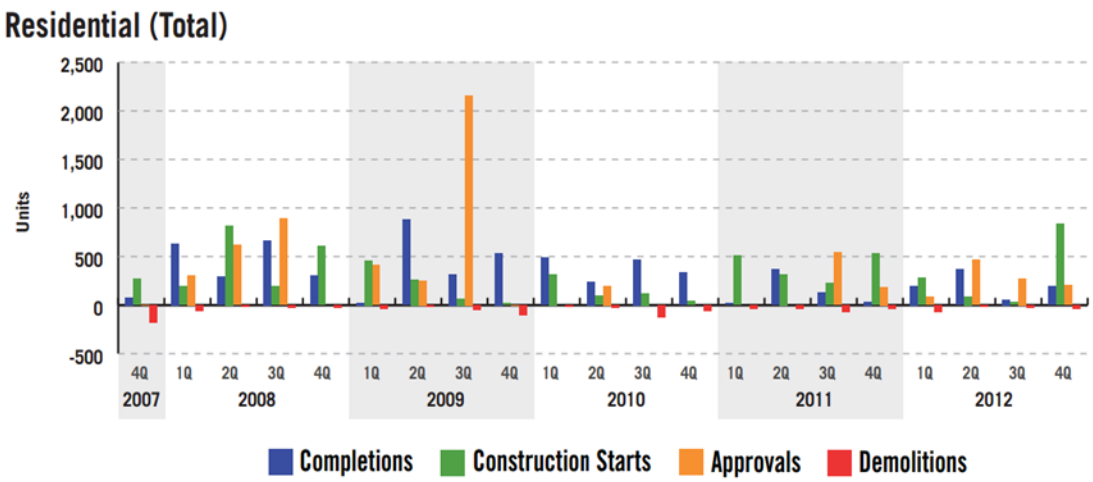
The report chose several units that are within our property district and transacted recently. Those condos were built in recent years. These transactions provide the market comparables in determining the market price of The Acadia condos.

Condominium	**Price**	**Bed**	**Sq.Ft.**	**Price /Sq.Ft.**	**Built**
Arlington-22202					
3650 S Glebe Rd., #665, Arlington, VA	544,900	2	1200	454	2007
3600 S Glebe Rd., #418W, Arlington, VA	539,900	2	1242	434	2006
3600 S Glebe Rd., #408W, Arlington, VA	325,000	1	669	485	2006
3600 S Glebe Rd., #606W, Arlington, VA	239,900	0	411	583	2006
Arlington-All					
1881 N Nash St., #610, Arlington, VA	1,299,555	2	1800	721	2009
4195 S Four Mile Run Dr., #203, Arlington, VA	383,900	2	1180	325	2006
1201 N Garfield St., #711, Arlington, VA	589,000	2	980	601	2006
3650 S Glebe Rd., # 665, Arlington, VA	544,900	2	1200	454	2007
2001 15th St., N, #1505, Arlington, VA	975,000	2	1396	698	2006
4167 S Four Mile Run Dr., #403, Arlington, VA	381,900	2	1135	336	2006
888 N Quincy St., #2107, Arlington, VA	792,500	2	1248	635	2007
2220 Fairfax Dr., #206, Arlington, VA	559,000	2	1178	474	2007
1800 Wilson Blvd., #438, Arlington, VA	495,000	1	870	568	2007

Inventory Analysis

The chart denotes the residential units inventory changes in Arlington County. Notably, 2009 is a year when number of projects approved and that of projects completed arrived at a peak. From 2010 to 2012, construction activities were low as developers gradually digested the land inventory.

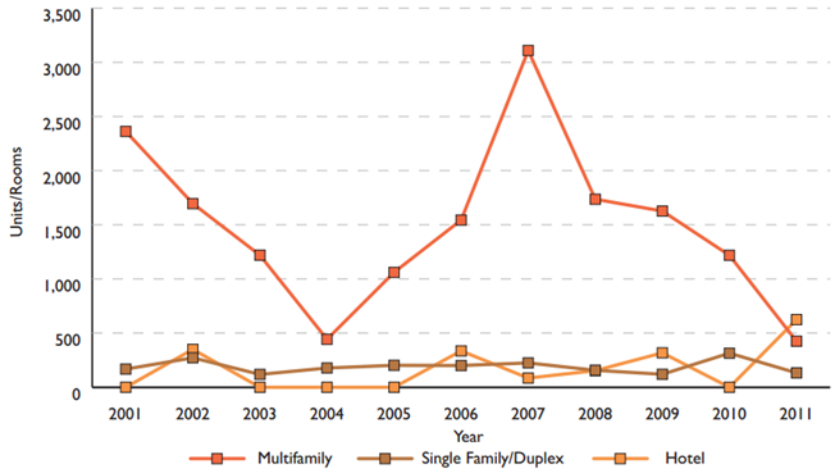
Figure 13.



Data Source: Arlington County Development Tracking Report, Fourth Quarter 2012

In Figure 14, the most volatile demonstrates the number of completed multi-family units in each year in Arlington County. The curve reaches its lowest point in 2005 due to a vacuum period when the majority of projects approved during 2001 and 2003 were coming online, and the projects approved during 2008 and 2010 have not completed construction. An approximately 6-year cycle for a project from approval to completion is shown in Figure 14. Considering the burst of approval of multi-family projects in 2009, it is reasonable to assume a new peak of completion during 2014 and 2016. What's more, a completion low point will emerge near 2017.

Figure 14.



Data Source: Arlington County Planning Information Report #71: Development Highlight 2011

In fourth quarter 2012, 3,113 multifamily units were approved but not yet constructed in Pentagon City, including The Acadia at Metropolitan Park. Providing 6 years for design and development, these units will come to market around 2016. In 2010, compared with the existing 5,100 housing family units in Pentagon City (2010), the escalated amount of housing units has a large possibility to negatively influence the housing price and rent.

In 2015 when The Acadia at Metropolitan Park is completed, there will be a higher-than-usual amount of multi-family units coming onto the Pentagon City market, affecting the equilibrium of supply and demand.

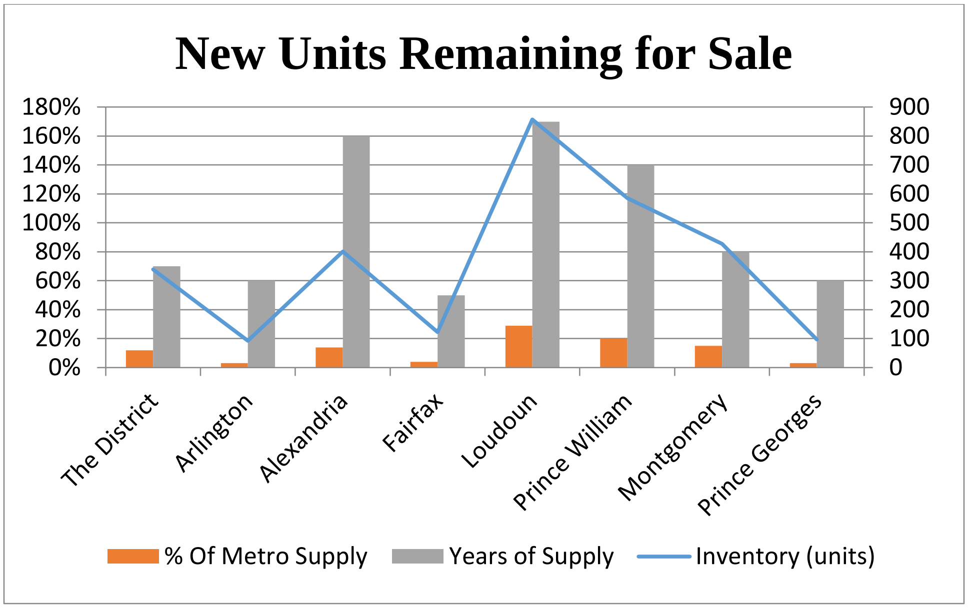
Figure 15.

Pentagon City Approved yet Constructed Project
Fourth Quarter 2012

Project Name	Address	Residential Units
Pentagon City PDSP (parcel 3)	501 15TH ST S	**1172**
Pentagon City PDSP (parcel 1D)	1197 S FERN ST	**930**
The Acadia (Three Metropolitan Park)	1201 S FERN ST	**411**
Pentagon Center PDSP & Final Site Plan - Phase Two and Three	1201 S HAYES	**600**
Total		**3113**

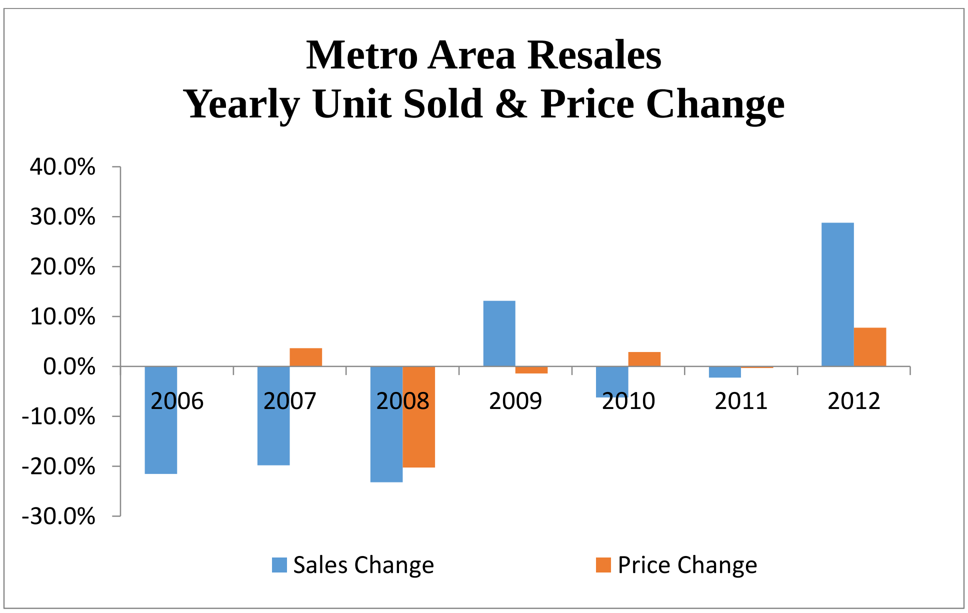
Data Source: Arlington County Development Tracking Report, Fourth Quarter 2012

Figure 16.



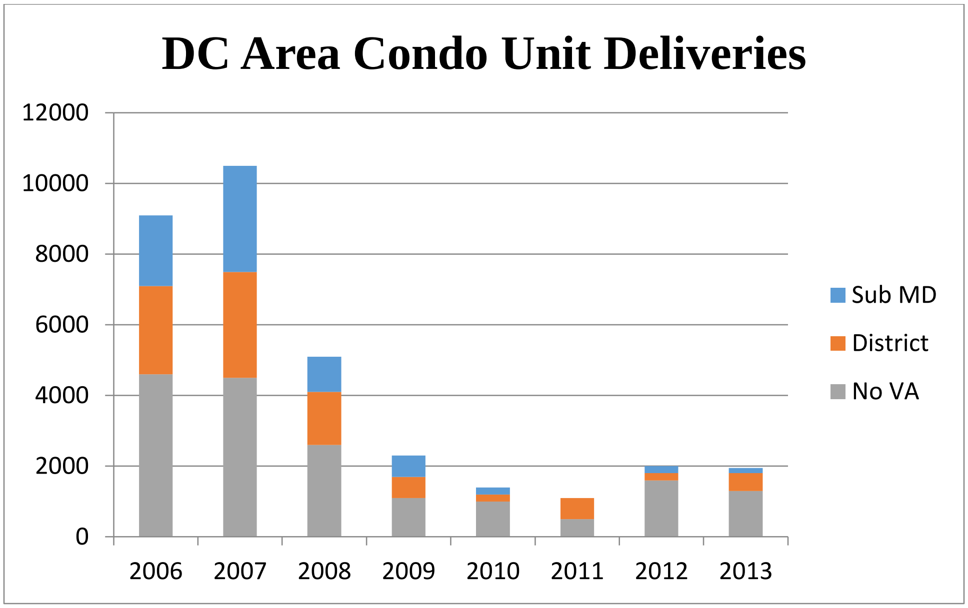
Source: McWilliams and Ballard, 2012 Year-End Washington Metro Area Condominium Market Overview

Figure 17.



Source: McWilliams and Ballard, 2012 Year-End Washington Metro Area Condominium Market Overview

Figure 18.



Source: McWilliams and Ballard, 2012 Year-End Washington Metro Area Condominium Market Overview

Figure 19.

	This District	Arlington
2012 Sales	510	144
2011 Sales	673	147
Percent Change Year-Over-Year	-24%	-2%
% of Metro Sales	18%	5%
% Single-Floor Condominiums	92%	92%

Source: McWilliams and Ballard, 2012 Year-End Washington Metro Area Condominium Market Overview

Development Team

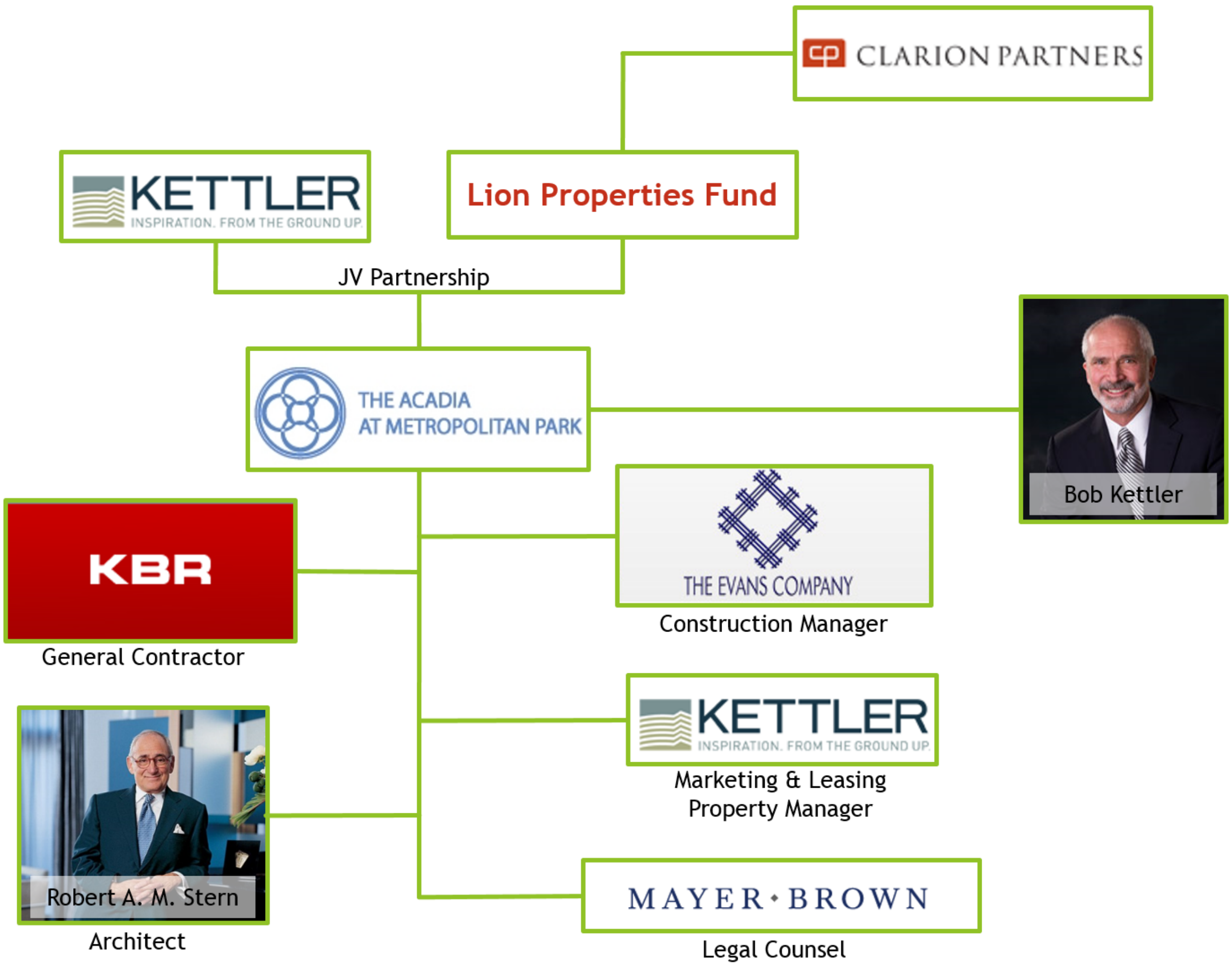
Transaction Introduction

The Lion Properties Fund is seeking to invest up to $154,066,669 in a joint venture with KETTLER to develop The Acadia at Metropolitan Park. In September 2007 Lion Properties Fund acquired the land and committed to fund predevelopment costs for The Acadia in a 90%/10% joint venture with KETTLER. Land acquisition and predevelopment costs total $38,412,877. The remaining equity requirement for the total project is $115,653,792. In addition, upon completion of construction, Lion Properties Fund will purchase KETTLER's 10% interest in the existing land venture at book value plus $350,000. Net of the partner loans KETTLER's proceeds will be approximately $2,520,000.

Structure

Lion Properties Fund entered into a 90%/10% joint venture with KETTLER to acquire the land for The Acadia in September 2007; the acquisition was concurrent with Lion Properties Fund's purchase of The Gramercy and forward commitment to purchase The Millennium.

- Robert C. Kettler will provide a personal guarantee for cost overruns and completion.
- KETTLER will be paid a development fee of 3% of hard and soft costs. The development fee excludes land value financing costs and any expenses arising from cost overruns.
- KETTLER will be eligible to earn an incentive fee of 5% of the difference between the actual development cost and the market value of the Property, 36 months after substantial completion. The Property's market value will be determined at month 36 by applying a market cap rate to the trailing 12-months' net operating income, adjusted for real estate taxes. In the event of a dispute over the cap rate, the parties will utilize the three broker method. The potential incentive fee is capped at $4,000,000.



Financing

- Lion Properties Fund anticipates funding construction with 100% equity.
- For purposes of KETTLER's incentive fee, the actual development costs will include assumed "carry costs" equal to a 65% LTC loan with a fixed interest rate. The rate will be set at the time LION PROPERTIES FUND issues the Notice to proceed, but will be now lower than the 4.25% used in the underwriting.

Partner Summaries

Investor: Clarion Partners

Clarion Partners is a property investment firm owned by ING Group with a 30-year track record. It has invested in different types of high quality properties including office, retail, industrial, multifamily, and hotel. Clarion Partners currently manages $27.9 billion in total assets and has 270 employees who specialize in equity and debt structures in the United States, Brazil and the United Kingdom. Its investment options are in both fund and separate account formats.

Investor: Lion Properties Fund

Clarion Lion Properties Fund, LLC, established in 2005 in New York, NY, is a private company categorized as a Real Estate Investment Trust. The Acadia is set to part of Clarion Partner's Lion Properties Fund. Lion Properties Fund targets 'core' assets throughout the United States with sustainable cash flows. The fund currently has over $4 billion in net asset value, and has strong acquisition and asset management teams which consist of 24 regionally located acquisition specialists and 44 asset managers positioned regionally.

Developer: KETTLER

Founded in 1977, KETTLER has grown from a small construction business into a multi-million dollar development firm. Known for building planned communities and commercial spaces that are recognized for quality design, mix of uses and extensive amenities, KETTLER has shifted its focus to innovative mixed-use designs that maximize limited land in urban areas. The company has developed more than 15,400 apartments and condominiums within 65 communities.

Construction Manager: The Evans Company

Clarion Partners has engaged The Evans Company to perform a review of the pre-development planning as well as construction monitoring during the development process. Clarion Partners is familiar with The Evans Company, as they provided oversight for the construction of Building 6 and Building 7 of Clarion's development of Metro Park in Alexandria, Virginia.

Legal Counsel: Mayer Brown

Mayer Brown, formed in 1863, is noted for commitment to client service and ability to assist clients with their most complex and demanding legal and business challenges worldwide. Mayer Brown's Real Estate practice is varied and international in its capabilities. With more than 190 real estate lawyers in its offices throughout the Americas, Europe and Asia, the practice delivers comprehensive interdisciplinary real estate assistance through a seamless, team-oriented approach, which also draws upon Mayer Brown's depth in all related areas of the law. Mayer

Brown is experienced in every stage of the real estate cycle, including acquisition, disposition, construction, leasing, financing, zoning, and environmental matters. Its clients cover all the real estates related businesses.

General Contractor: KBR

KBR, Inc. (formerly Kellogg Brown & Root) is an American engineering, construction, and private military contracting company, formerly a subsidiary of Halliburton, and headquartered in Houston. The company also has large offices in Arlington, Virginia. KBR is the largest non-union construction company in the United States. The company's corporate offices are in the KBR Tower in Downtown Houston. On May 7, 2008, the company announced that it would acquire Birmingham, Alabama-based engineering and construction firm BE&K for $550 million. BE&K plans to remain headquartered in Birmingham.

Architect: Robert A. M. Stern

Robert Arthur Morton Stern, is an American architect and the Dean of the Yale University School of Architecture. Stern's work is generally classified as postmodern, though a more useful classification would be a particular emphasis on context and the continuity of traditions. He may have been the first architect to use the term "postmodernism," but more recently he has used the phrase "modern traditionalist" to describe his work.

Previous Working Relationships

Robert A. M. Stern, The Acadia’s architect, has a strong connection to the property and the whole Metropolitan Park project. Robert A. M. Stern completed the master plan for Metropolitan Park after the project’s approval, and has been an essential guide in all design aspects of the site.

Clarion Partners has longed utilized Mayer Brown LLP for legal counsel in its development projects and other property transactions. Most recently, Mayer Brown provided legal counsel of the 636 Avenue of the Americas in New York City, and Mayer Brown was hired to register Clarion Partner’s trademark.

Clarion Partners has experience working with many of the companies that will be part of The Acadia’s development. KETTLER was the developer of the Millennium and Gramercy, the first and second phase of Metropolitan Park. The Millennium and Gramercy are similar to The Acadia in that they are all luxury, high-rise apartment buildings built in the same general area. KETTLER's experience working at Metropolitan Park, and building to the quality required by The Acadia will prove beneficial in The Acadia's development. The general contractor will also have the previous experience working on a property comparable to The Acadia. BE&K Building Group, which was recently acquired by KBR, was the general contractor for the Millennium and Gramercy. In addition, KETTLER and KBR have successfully partnered on the West Village of Shirlington, a sold-out condominium community in Arlington, Virginia.

Clarion Partners has experienced great success working with The Evans Company on Metro Park, a 37 acre office park in Alexandria, Virginia. The Evans Company's property management expertise in different property types will lead to continued success with The Acadia.

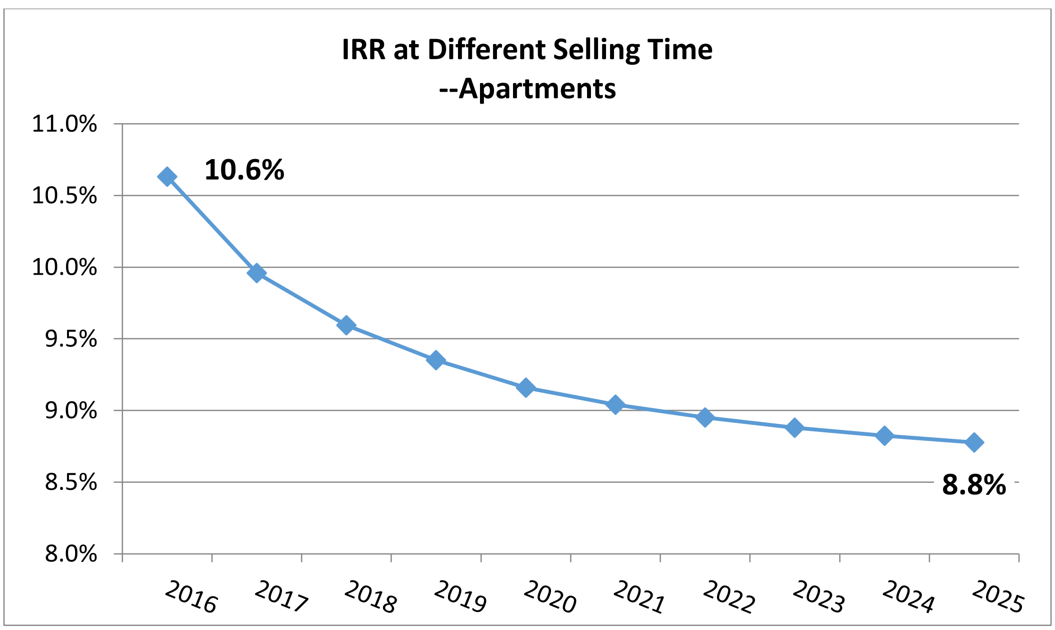
Risk & Return

Option 1: Apartments

The pro forma of future 10 year potential income of the project is put forward based on the industrial accepted estimation and sales comparable. Since The Acadia is 100% financed by equity and any loan will be paid off at the end of the construction period, there is no debt service value in the calculation. Also, the vacancy rate of the project is estimated to be 2.5% and minimum incentives will be used to attract tenants. The net operation income grows steadily without much impact from downtime or tenant improvement.

The internal rate of return has a downward tendency as the sale reversion postpones. The highest IRR will be 10.6% if the project is sold in 2016, while the lowest IRR is 8.8% when the property is sold in 2025.

This tendency reflects the fact that 47.1% of present value is contributed by operating cash flow and the rest is composed by the sales proceeds. The reason is that the estimated capitalization rate is lower than the market average is because of the high-end positioning and scarcity on the market.

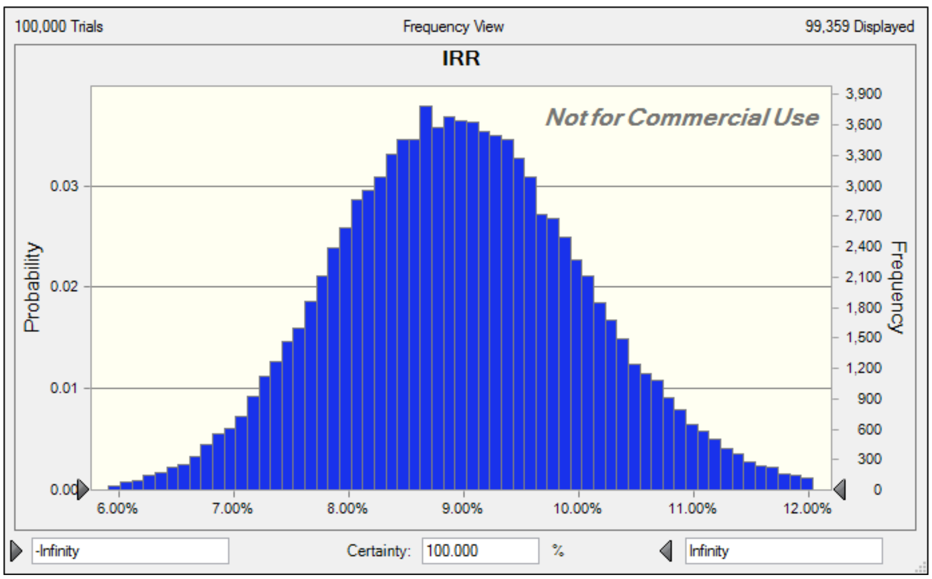


The present value as The Acadia as an apartment building is $170,819,023, which is 13.1% higher than development cost. This margin is quite safe due to the stable and robust apartment market in Pentagon City and the management experiences from Metropolitan Park Phase One and Phase Two.

Internal rate of return for the apartment is 8.57%, which is the mean of the range from 4% to 14%. The fluctuation of IRR mainly derived from the changes of development cost, rent growth, expense growth, and capitalization rate.

Sensitivity Analysis

The IRR for The Acadia as an apartment building will range from 4.6% to 16.1% and the expected return is 8.97%.



To quantify the impact of different variables on the internal rate of return and present value, three scenarios were assumed: optimistic, most-likely, and pessimistic. The variables include vacancy rate, rent growth, expenses growth rate and capitalization rate. Notably, because the project does not have a permanent loan, the interest rate and debt coverage ratio will not affect the project's profitability.

Scenario Analysis			
	Optimistic	**Most-likely**	**Pessimistic**
Vacancy Rate	2.5%	4.0%	6.0%
Rent Growth	4.5%	3.5%	2.0%
Expenses Growth Rate	2.0%	3.0%	4.0%
Cap Rate	4.0%	4.5%	6.0%
IRR	11.4%	8.9%	4.6%
Property Value	220,224,730	176,825,895	120,756,233

Renting the units in The Acadia can generate a stable cash flow. However, due to the low capitalization rate, the sales reversion takes more than half of the property value and encourages the owner to transfer the property for cash. Also apartments are exposed to various holding risks, which may drive the internal rate of return down, as low as 4.6%.

Option 2: Condominiums

Conversion Costs

The Acadia will be part of the Metropolitan Park development, and as such, the site and master development plans have already been reviewed and approved by Arlington County, VA. All of the apartments in Metropolitan Park are built to "condo-grade" and will not incur any renovation or up-grade costs. The cost charged by Arlington County to convert each unit is $1,093 + $22, plus a 10% administration fee. An estimate of the time necessary to convert/create the 411 condominium units is 2-6 months, and dependent on the filing time required by Arlington County, VA. The creation of condominium units will most likely result in additional legal fees paid by the developer/owner.

($1,093.00 + $22.00) * 1.10% = $1,117.20 per unit fee

$1,117.20 * 411 units = $459,169.20 Conversion Fee

With estimated legal fees, the total fee to convert/create 411 condominium units in The Acadia is approximately $500,000.

The estimated total fee to convert/create 411 condominium units represents 0.32% of total development cost of The Acadia. Although the conversion costs represent a significant dollar value, the fee is negligible when compared to total development costs. As a result, the fee is not accounted for in the pro forma. The condominium conversion fee and time component are considered when weighing the pros and cons of building condominium versus apartment units.

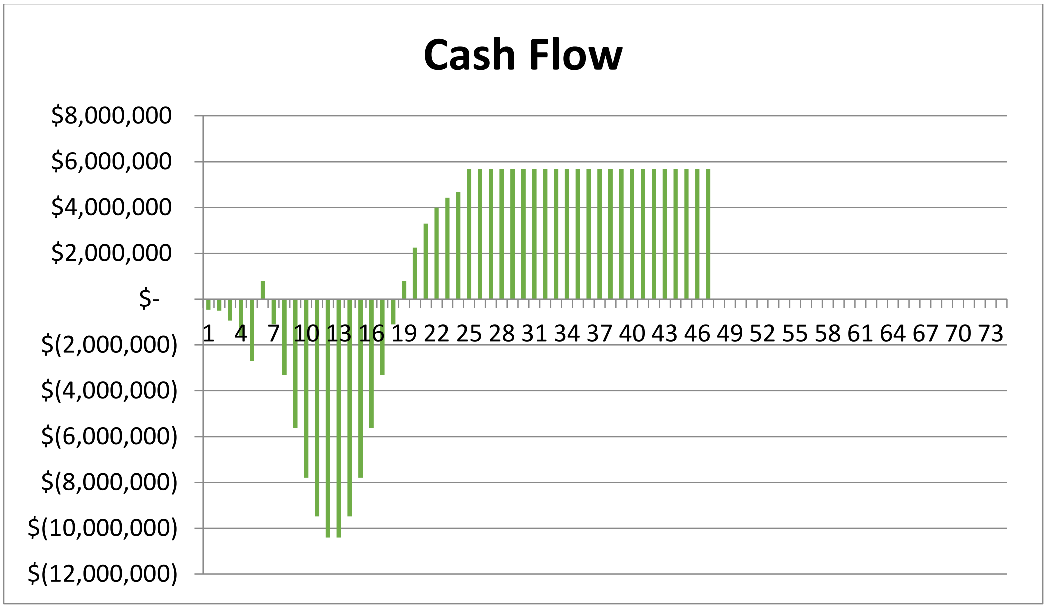
Selling Price

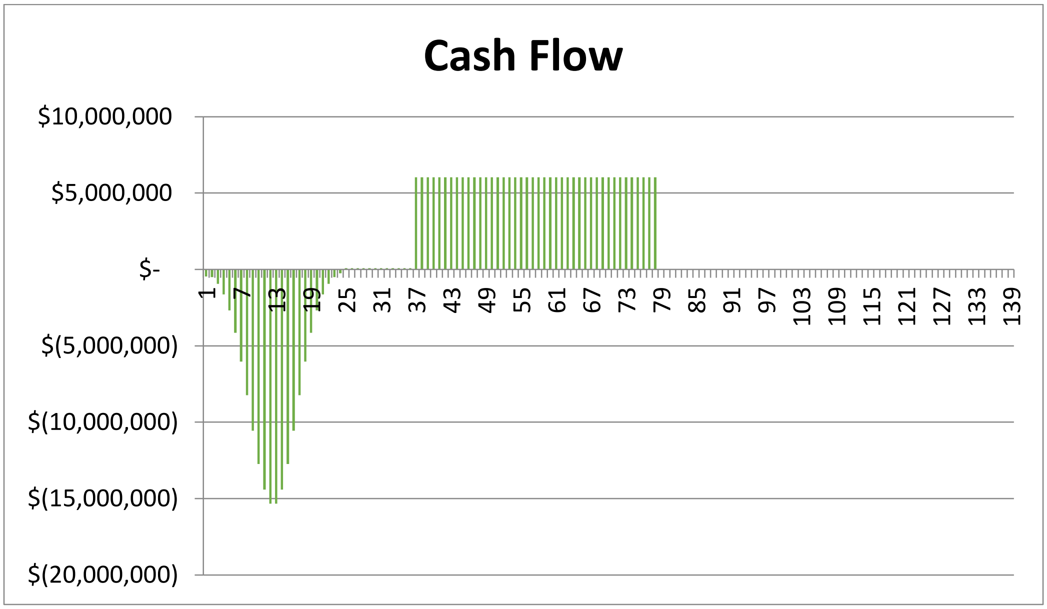
Employing the market data, the analysis estimates the selling price of the condos. The chart below shows information about our property and the price assumptions for each type of unit. The estimated average selling price is around $603,631 which is 15% higher than the regional level of condo price.

Unit Type	Units	Unit Area	Unit Price	Selling Price
Studio	46	553	$662 /SF	$420,999
One Bedroom	170	742	$562 /SF.	$479,555
One Bedroom w/ Den	67	873	$562 /SF	$564,220
Two Bedroom	83	1,112	$618 /SF	$790,554
Large Two Bedroom	22	1,376	$618 /SF	$978,240
Two Bedroom with Den	15	1,212	$618 /SF	$861,647
One Bedroom Penthouse	1	825	$562 /SF	$533,198
Two Bedroom Penthouse	1	1,380	$618 /SF	$981,083
Two Bedroom w/ Den PH	6	1,834	$618 /SF	$1,303,846

Condo Cash Flow

When calculating the return of the condo sale, the analysis assumes two situations. In the first scenario, all of the condos are presold during construction. The second scenario uses the assumption that all of the condos are sold 12 months after construction is completed. The IRR for the two cases are very different: in the first case it is 42%; while in the second, it is only 14%.

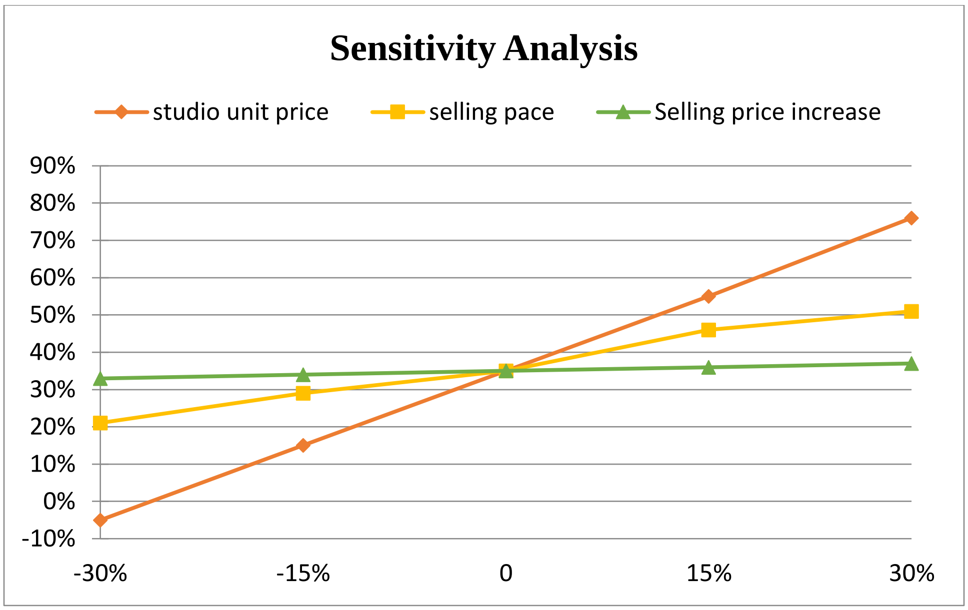




Sensitivity Analysis

The analysis also conducted a sensitivity analysis on selling prices, selling paces, and selling price increase rate, based on the presale model. The result shows that the IRR is more sensitive to selling price, and the price increase rate after presale is not a significant factor.

Studio Unit Price ($/SF)				
463	563	662	761	861
-5%	15%	35%	55%	76%
Selling Pace (Units/Months)				
6	8	10	12	14
21%	29%	35%	46%	51%
Selling Price Increase				
5%	10%	15%	20%	25%
33%	34%	35%	36%	37%

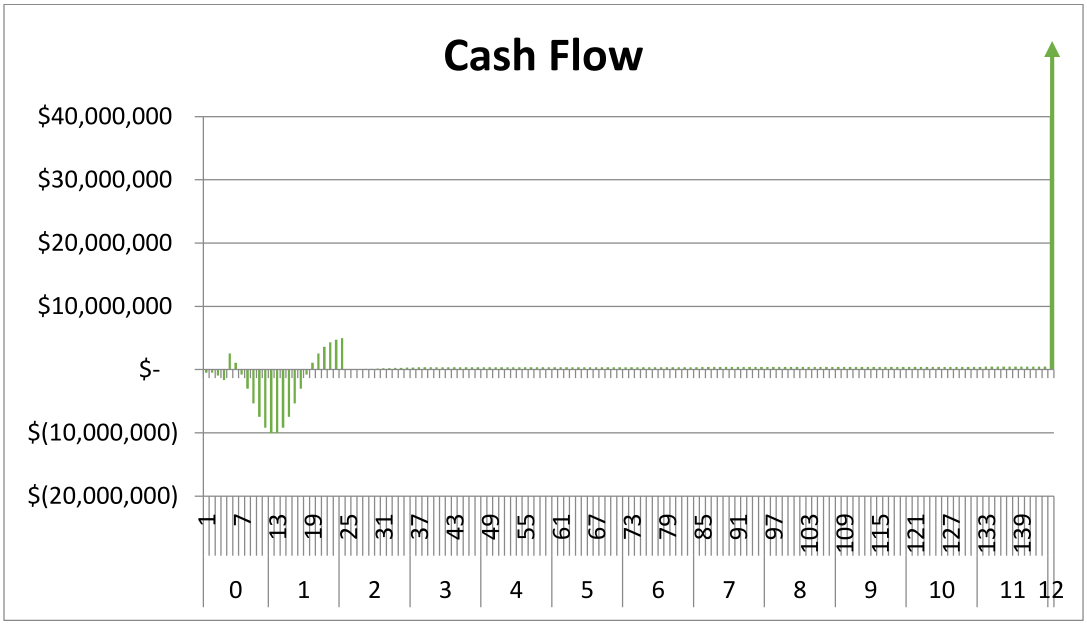


Option 3: Apartments & Condominiums

The report has analyzed the risk and return of apartments and condos. There is also an eclectic way of dealing with this project: selling half of the building as condo and keep the other half for rent. This could minimize the risk of selling condos and keep a relative stable cash flow.

This model assumes that 200 units will be presold during construction period. The selling pace is assumed to be 10 units per month, for 20 months. Then, after the construction completed, the rest of the building will be turned into apartments. With a turn over period of 12 month, the 211 units are predicted to be rent out in the first year. After a holding period of ten years, the apartment will be sold.

The net cash flow is as follows. In this case, the project can achieve a pretty good IRR of 14%.



Rent vs. Buy Analysis

Besides doing financial analysis from investor's perspective, we've also done a rent versus buy analysis based on buyer's aspect. Such observations may provide us with more arguments to make a decision between renting and selling.

We try to develop a financial analysis by comparing total costs of renting and buying. To clarify, the analysis will exclude those costs which would exist in both situations. Total costs of renting include rent and renter's insurance premium. Total costs of buying include mortgage payments, property taxes, condo fee, homeowner's insurance, maintenance and closing cost. However, homeowners could also have tax benefits and property appreciation. Tax benefits include interest payment and property tax deduction. At last, our analysis will also consider opportunity cost, which means that in situation we save money we could invest it in S&P 500 index.

Assumptions

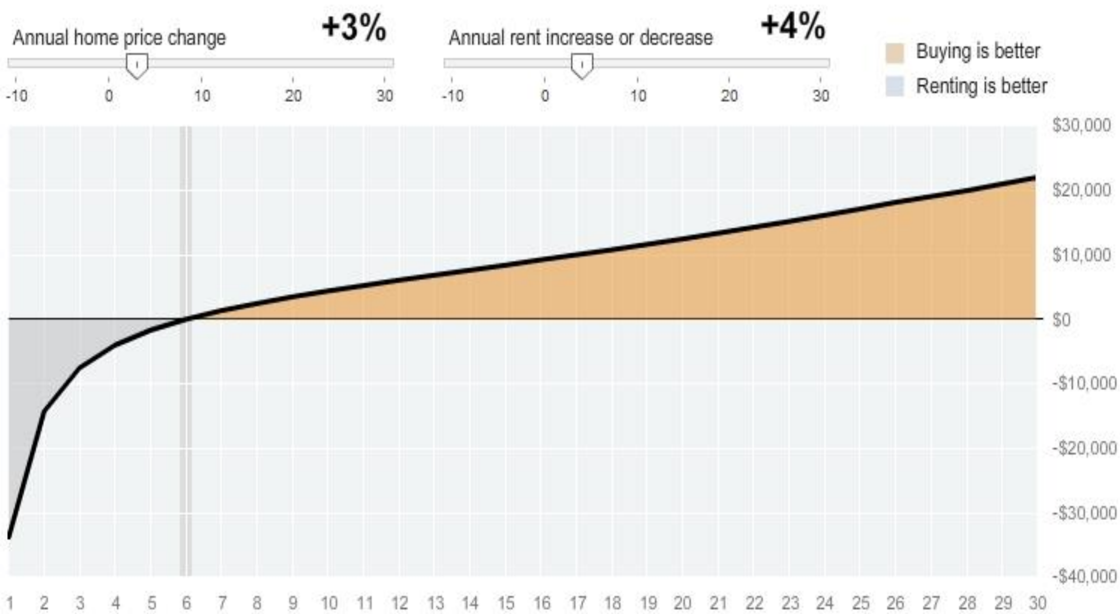
Arcadia/ Arlington, VA			
Assumptions			
Median Home Price	$479,555	Annual Home Value Change	3%
Down Payment	20%	Annual Rent Increase	4%
Mortgage Rate	3.5%	Capital Gains Exclusion	$500,000
Annual Property Tax	0.84%	S&P 500 Return after Expense	3%
Monthly Condo Fee	$371	Marginal Tax Rate	28%
Closing Cost	4%	Inflation Rate	2%
Term of Mortgage (Years)	30	Median Monthly Rent	$2,313
Annual Maintenance Cost	1.5%	Rent Deposit	$2,313
Homeowner's Insurance Rate	2.0%	Renter's Monthly Insurance	$15/SF

- Median Home Price: $479,555 is based on our financial projections and most recent transaction price of similar properties in Arlington Sub-market. Readers could see our Comps introduction in Market Analysis. As we say “median”, we mean a projected selling price for a median size unit of Arcadia.
- Mortgage Rate: Based on Zillow Research, average mortgage rate in DC Metro area is 3.5%. As mortgage rate is more related to debtor’s credibility, we think it is appropriate to use market average rate to calculate payment.
- Annual Property Tax: 0.84% means annual property tax is 0.84% of home price. We get this number from Lion Properties Fund. In addition, annual property tax will change as home value goes up yearly.
- Monthly Condo Fee: Typically, condo fee in DC Metropolitan area is $0.50/SF per month. Median unit size of Arcadia is 742 square feet so monthly condo fee would be $371.

- Annual Maintenance Cost: The cost is calculated based on 1.5% of home price and assumed to increase by 2% inflation rate.
- Homeowner's Insurance Rate: is a percentage on home price.
- Annual Home Value Change: 3% reflects average condo's value change in DC Metro area. In fact, condo value in Arlington has increased by 4.3% annually in the past 10 years. Current inventory of condo in DC could only satisfy market demand for 7.5 months based on current selling pace. 3% increase is somehow conservative in our assumption.
- Annual Rent Increase: In the past 5 years, average rent in Arlington apartment market has increased by 4% annually.
- Capital Gain Exclusion: We assume our one-bedroom buyer would be young couple. According to the law, they are allowed to exclude up to $500,000 when paying capital gain tax.
- S&P 500 Return after Expense: Annual S&P 500 (2000-2012) return is 5%. There is a 2% expense which includes transaction fee and tax.
- Marginal tax rate: Because interest payments and property tax are personal income tax deductible when homeowners sell their properties, we need to have a right marginal tax rate. As our condo's median selling price is projected to be $479,555, we assume target buyers would be people with income ranging from $85,650 to $178,650 (for single). We think such buyers would afford to down payment on Arcadia's condo. As a result, the marginal tax rate is 28%.
- Median Monthly Rent: $2,313 comes from Lion Properties Fund's report.
- Renter's Insurance Rate: Based on market research, we conclude that Arcadia's typical renter will pay $15/SF per month. Our assumption is consistent with Lion Properties Fund's projection.

Conclusion

Buying is better than renting after 6 years.



Source: The New York Times (Website), "Is It Better to Buy or Rent" (Web page)

Buying	Spent in year 6	Cumulative spent from years 1 to 6	**Renting**	Spent in year 6	Cumulative spent from years 1 to 6
PURCHASE COSTS			**INITIAL RENTING COSTS**		
Down payment		95,911	Rent deposit		2,313
Closing costs		19,182	Broker's fee		0
YEARLY COSTS			**YEARLY COSTS**		
Mortgage payment*	17,340	102,829	Rent	33,769	184,105
Principal	*8,768*	*48,295*	Renter's insurance	203	1,105
*Interest**	*8,571*	*54,534*			
Condo/common fees*	4,915	28,084			
Property taxes*	3,463	19,323			
Utilities	0	0			
Renovations	0	0			
Maintenance	8,180	46,738			
Homeowner's insurance	11,452	63,900			
LOST OPPORTUNITY COSTS			**LOST OPPORTUNITY COSTS**		
Down payment/initial costs	3,329	18,771	Rent deposit/initial costs	67	377
Yearly costs	5,778	16,862	Yearly costs	4,050	11,649
SELLING COSTS			**LEAVING YOUR RENTAL**		
Closing costs		22,905	Return of rent deposit		–2,313
Remaining principal		335,349			
Tax (if any) on profit		0			
Proceeds from home sale		–572,614			
YEAR 6 TOTALS	**$54,458**	**$197,240**		**$38,089**	**$197,235**

Source: The New York Times (Website), "Is It Better to Buy or Rent" (Web page)

Above is detailed process to calculate total cost of homeownership and renting. Based on our analysis, it is obvious that buying benefits target customers more than renting if they tend to occupy for more than 6 years. The cost of renting versus owning is only one metric used when individuals assess housing options. Tightened lending requirements, the flexibility of renting, and younger individuals pushing back marriage and childrearing all affect decision making and benefit the choice of renting.

In the market analysis part, we observe that current condo inventory in DC Metro his hit record low since 2006. Our final investment decision is based on all these analysis including pro forma.

Risk Analysis

Market Risks & Federal Spending Cuts

Despite the Project's location and generally favorable market conditions, a change in the local economy and/or capital markets could adversely impact the execution of the development strategy thus impacting returns.

Federal spending cuts will be the primary weight on Washington's economy, resulting in below-average growth over the next few years. In 2011, federal payrolls contracted 2.5% in Washington, compared with a 1.3% decline at the national level. The downsizing is a result of attrition, as several federal agencies are offering early retirement in hopes of avoiding layoffs once budget cuts come to fruition. Beginning in the year of 2013, a $1.2 trillion cut has been automatically enacted with the Pentagon facing up to an additional $600 billion in spending cuts over the next 10 years. This is on top of the $480 billion agreed upon in August 2011 and defense contractors will likely be negatively impacted by the cuts. The defense budget cuts would hit Northern Virginia especially hard, as it hoses numeral large defense contractors who are already bracing for spending cuts by reprioritizing budgets, eliminating overhead costs, and laying off employees.

Federal budget cuts are expected to stunt government-sponsored construction in the near term, but agency relocations could spark private development projects. Roughly 45 million square feet of office space is leased to federal tenants in the metro, approximately 11% of the Washington office market. The GSA, which handles federal government leasing, is focusing on more efficiently allocating existing office space and acquiring new space near regional metro stations for agencies that need at least 500,000 square feet of office space. An agreement with WMATA will likely facilitate mixed development by giving the GSA purchasing rights to metro-owned office space, boosting demand for retail development. The GSA is targeting sites in Fairfax County and Prince George's County for a new FBI headquarters (currently located in the East End submarket). The GSA's large-scale office leasing choices so far are encouraging for the suburbs, which have more room for development than the district.

Conversion Risk

As is mentioned before, there is a legal procedure to go through during which time and money will be on risk. Generally, the money is very little compared with construction cost and the time need is several months depending on the property scale. This risk is relatively low in VA.

Leasing Risk

Inability to achieve pro forma rents and/or slower than anticipated leasing velocity would have a negative impact on project returns.

Environmental Concerns

It is known that the Site has been used as an industrial site and as such, has been contaminated at various times by various hazardous materials but primarily petroleum. Any contamination that has been known to be an immediate environmental concern has been remediated. Development of the site will require significant excavation of soils which will facilitate further removal of potential contaminants.

Seismic Risks

According to the US Geological Survey Earthquake Hazards Program, the subject property is located in an area of low seismic probability. It is noted, however, that we are not qualified to determine if fault lines do or do not affect the property. Further, we recommended that the client obtain an engineering study related to the geological stability of the subject property and surrounding areas if additional information is required.

Recommendation

Proposition

Findings: Option 1

The first option considered was to continue with the development of The Acadia as planned and construct the apartment building. The 411 units of The Acadia would be rented as apartments.

Pros	Cons
• Higher present value • Shorter payback period; typically the condo can be sold out within five year, while the apartment need a longer term holding period and normally the investment would not be paid back before sales. • No conversion needed • Experienced via of Phase I and Phase II of Metropolitan Park	• More apartment units will be delivered in years 2016-2018

Findings: Option 2

The second option considered was to convert the 411 units of The Acadia into condominiums, and sell them off.

Pros	Cons
• Higher present value • Shorter payback period; typically the condo can be sold out within five year, while the apartment need a longer term holding period and normally the investment would not be paid back before sales • Suitable for Lion Properties Fund criteria—long term and low risk	• Conversion cost and time The cost is relatively low but the time can be quite long, especially the conversion not happen after several • Stable and robust apartment market

Findings: Option 3

The third option considered was to convert approximately 200 units on the top floors of The Acadia into condominium units, and rent remaining 211 units on the lower levels as apartments.

Pros	Cons
• Higher present value • Shorter payback period; typically the condo can be sold out within five year, while the apartment need a longer term holding period and normally the investment would not be paid back before sales	• More apartment units will be delivered in years 2016-2018

Recommendation

Concluding all the data and facts, we made an apartment versus condo analysis. 50/50 split

Continue construction as planned.

- A mix between condominium and apartment units is the best option and seeks to reduce the risk with going with any single strategy.
- The mix provides less risk for a larger return.
- Continue construction as planned.
- Create teams to begin marketing the property, preleasing the apartment units, and preselling the condominium units.