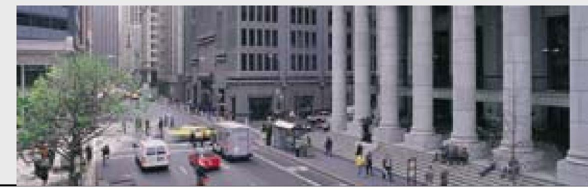


Jones Lang LaSalle

Experience: A World of Difference.

Restructuring Leases

Bruce Rutherford

Jones Lang LaSalle

Table of Contents

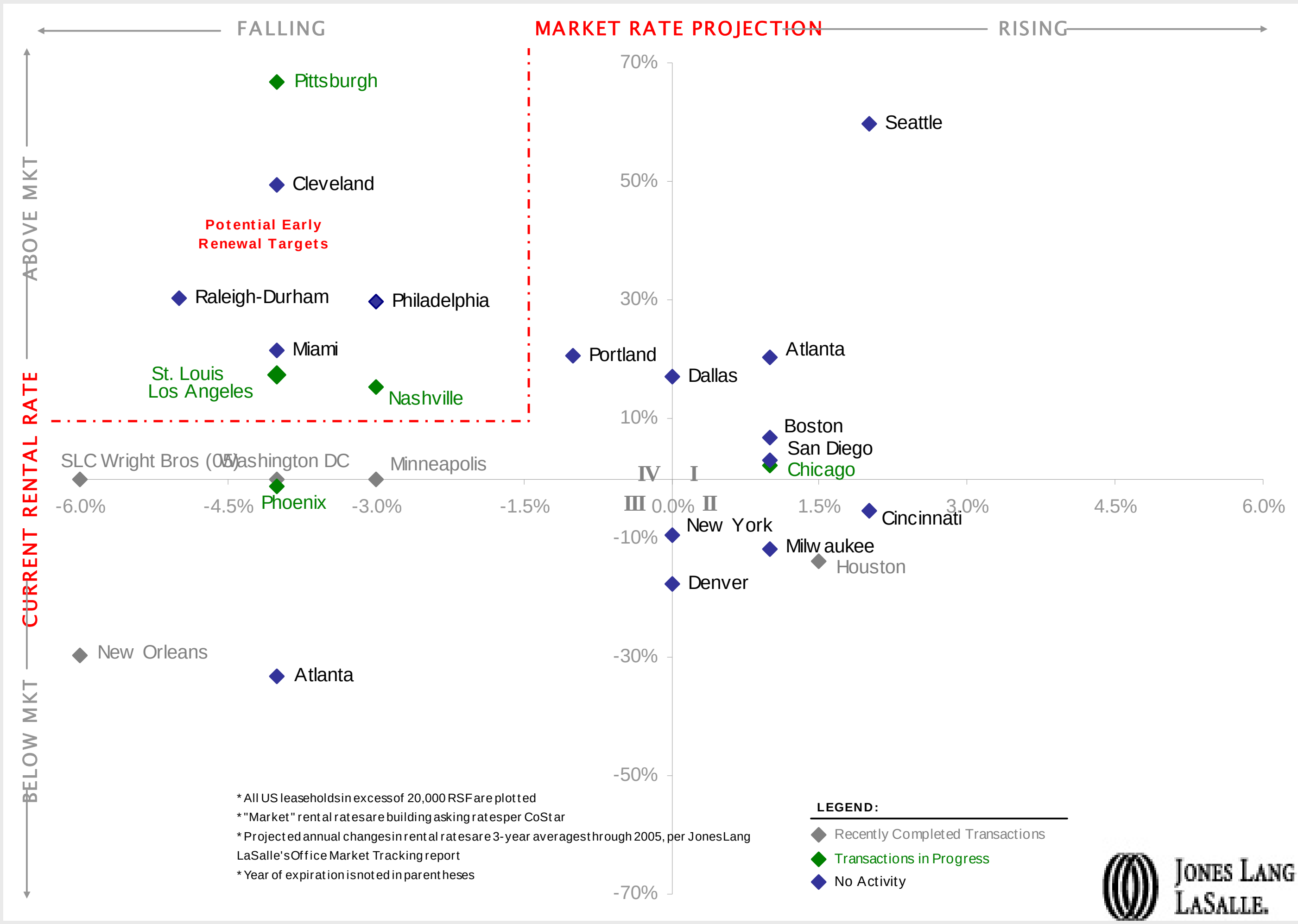
I. Assessing The Opportunity

- Rents Above or Below Market?
- Market Peak or Trough?
  - Tenant strongest in troughs
  - Landlord strongest at peaks
- How Much Term Remains?
  - Tenant should start as early as possible
  - Landlord wants to wait
  - > three years not impossible

Assessing The Opportunity

- Space Requirement Shrinking or Growing?
  - Does Landlord need space for another tenant?
  - Can more space be made available?
  - Know the stacking plan
- Unamortized Investment in the Space?
- Leverage your relationship across multiple markets?
- Does the Landlords financing require a renewal?
- Analyze the Portfolio and Individual Locations
  - See Figure 1 – Portfolio Opportunity Matrix
  - See Appendix A – Individual Assessment

Figure 1 - Portfolio Opportunity Matrix (“POM”)



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II. Prepare to Negotiate

- Create Alternatives
  - Relocation / BTS / Closing
  - Releasing to alternative tenants
  - How much time is needed
  - Make them credible
- Make Time an Ally
  - Tenants start early
  - Work back from alternative date on the calendar
  - Landlords delay if rents are stable or rising
- Do Not Reinvest in the Site Before or During Negotiations
- Know Your Lease
  - Terms to improve; $$ Value?
  - Review renewal and holdover clauses

Prepare to Negotiate

- Understand Your Space
  - Can the space be more efficient
  - Can Landlord use the space
  - Costs of alterations

- Understand Tax Implications
  - Consult tax specialist early
  - Public tenants vs. private (write-offs)
  - REITS vs. Institutions vs. Entrepreneurs

Prepare to Negotiate

- Get Organized
  - SPOC
  - Control communications / message / media
  - Keep the Power Person in reserve
- Leverage Across Multiple Markets
- Understanding Landlord’s Financing
- Understand Comparable Transactions

Figure 2 – Net Effective Rent

	New Lease Building A	Restructured Lease* Building A
Term	10 years	8 years (3 + 5)
Rent/SF FSG	$20.00	$16.00
Operating Expenses/SF	$9.00	$9.00
Net Rent/SF	$11.00	$7.00
Free Rent	6 mos. Net Rent	None
Other Concessions	None	$40,000 each year 1 – 3
T.I. Allowance/SF	$30.00	None
Construction Downtime	2 mos. Gross Rent	None
Legal Fee	$10,000.00	$2,000.00
RSF	20,000	10,000
LL Discount Rate	9%	9%

* Restructured from 3 years to 8 years

Figure 2 – Net Effective Rent

	New Lease Building A	Restructured Lease* Building A
NPV Net Rent/sf	$70.59	$38.74
Less:		
NPV Free Rent	$5.36	None
NPV Other Concessions	None	10.13
Commissions	$6.58	$4.64
T.I. Allowance	$30.00	None
Downtime	$3.33	None
Legal Fee/SF	$.50	$.20
NPV Effective Rent	$24.82	$23.77
Net Effective Rent/Year @ 9%	$3.87	$4.29

III. Early Renewal – AKA Extend and Blend

- Landlord Motivations
  - Avoid lost/reduced rent
  - Lengthen lease terms
  - Avoid risk
  - Avoid capital expenditure
  - Lease more space
  - Facilitate Refinancing
- Tenant Motivations
  - Reduce rent
  - Avoid/reduce capital expenditure
  - Correct building/lease deficiencies
  - Avoid relocation disruption and expense
  - Increase flexibility

Early Renewal – AKA Extend and Blend

- Prepare to Negotiate
  - Understand your own situation and motivation
  - Understand the other side's situation and motivation
  - Develop your alternatives
- Run the Numbers
  - Solve for net effective rent
  - Risk is reflected in the Net Effective Rent Calculation
  - Know the other side's discount rate
  - Solve for a "Win / Win"
  - Negotiation of "Dueling Assumptions"
- Negotiate Only When You Are Ready
  - Net effective rent is Tenant's goal
  - Extend and blend above market is Landlord's goal

IV. Rent Buy-downs

- Tenant Motivations
  - Reduce operating expenses
  - Use cash and low cost of capital
  - Avoid risks
- Landlord Motivations
  - Needs cash
  - Can not/does not want to sell/refinance
- Longer Term Above Market Leases
- Tax Implications
  - Buy-down is amortized over lease term by publicly traded tenant; expensed for tax purposes
  - Buy-down converts capital gain to ordinary income for taxable landlords
  - Non-REIT landlords need significant tax shelter or other offsetting deal points

Rent Buy-downs

- Transaction Evaluation
  - Landlord wants equivalent/+ NPV after tax
  - Tenant wants positive NPV and + P&L impact
- Above Market Rent is Discounted to PV
  - Above market rent subject to risk premium
  - Tenant WACC too high for Landlord
  - Opportunity cost too low for Tenant
  - Typically negotiate to: Premium = tenant bond rate + liquidity premium
  - See Appendix B
- Key to Win / Win
  - Agreement on the discount rate
  - Public tenant gets P&L impact
  - Landlord gets equivalent after-tax NPV

Appendix B – Buy Down of Rent

Landlord Proposal for Lease Restructuring: Buy Down of Rent

Rentable Square Footage	216,385
Transaction Date	7/1/2004

Buydown Payment	$81,200,000
Discount Rate	9.0028%
Tenant's ROI (after transaction costs)	9.6361%
Tenant's Payback Period (years)	7.58

Rent Abatement

Year	TOTAL	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Rent per Existing Lease	$213,355,461	$7,583,139	$15,712,577	$16,284,889	$16,883,216	$17,507,557	$18,131,897	$18,704,210	$19,276,522	$19,874,849	$20,499,190	$21,123,530	$21,773,885
Total Rent per Proposed Lease	$83,024,000	$3,251,775	$6,503,550	$6,763,692	$6,763,692	$7,034,240	$7,034,240	$7,315,609	$7,315,609	$7,608,234	$7,608,234	$7,912,563	$7,912,563
Rent Savings per Proposed Lease	$130,331,461	$4,331,364	$9,209,027	$9,521,197	$10,119,524	$10,473,317	$11,097,658	$11,388,601	$11,960,913	$12,266,615	$12,890,956	$13,210,967	$13,861,322
Management Fee Savings	$3,909,944	$129,941	$276,271	$285,636	$303,586	$314,200	$332,930	$341,658	$358,827	$367,998	$386,729	$396,329	$415,840
Rent Savings (after management fee abatement)	$134,241,405	$4,461,305	$9,485,298	$9,806,833	$10,423,110	$10,787,516	$11,430,587	$11,730,259	$12,319,740	$12,634,614	$13,277,685	$13,607,296	$14,277,162

Cash Flow Impact

Year	TOTAL	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Rent Savings per Proposed Lease	$130,331,461	$4,331,364	$9,209,027	$9,521,197	$10,119,524	$10,473,317	$11,097,658	$11,388,601	$11,960,913	$12,266,615	$12,890,956	$13,210,967	$13,861,322
Management Fee Savings (3% of Rent Savings)	$3,909,944	$129,941	$276,271	$285,636	$303,586	$314,200	$332,930	$341,658	$358,827	$367,998	$386,729	$396,329	$415,840
Buydown Payments	($81,200,000)	($54,133,333)	($27,066,667)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Cash Flow Impact	$53,041,405	($49,672,028)	($17,581,369)	$9,806,833	$10,423,110	$10,787,516	$11,430,587	$11,730,259	$12,319,740	$12,634,614	$13,277,685	$13,607,296	$14,277,162

P&L Impact

Year	TOTAL	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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Amortized Buydown Payments*	($81,200,000)	($3,530,435)	($7,060,870)	($7,060,870)	($7,060,870)	($7,060,870)	($7,060,870)	($7,060,870)	($7,060,870)	($7,060,870)	($7,060,870)	($7,060,870)	($7,060,870)
Opportunity Costs @ 3%	($33,404,230)	($1,225,638)	($2,507,055)	($2,583,309)	($2,661,883)	($2,742,847)	($2,826,273)	($2,912,237)	($3,000,815)	($3,092,088)	($3,186,137)	($3,283,046)	($3,382,903)
Total Net Savings (P&L Impact)	$19,637,175	($294,767)	($82,627)	$162,654	$700,357	$983,800	$1,543,445	$1,757,152	$2,258,056	$2,481,656	$3,030,678	$3,263,381	$3,833,389

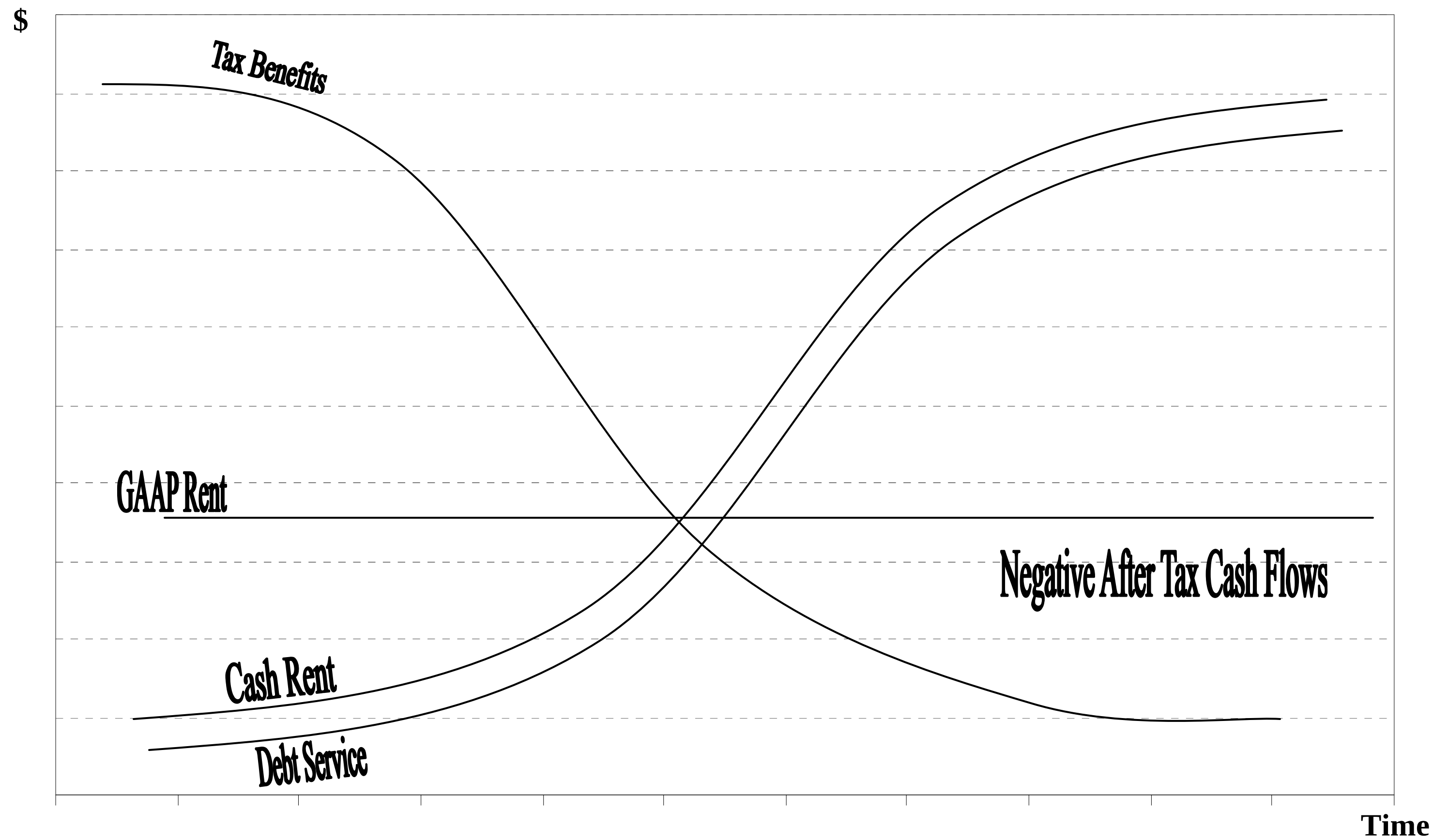
Notes:

** Assumes straight-line amortization of the buydown payment over remaining lease term.*

V. Leverage Lease Restructuring

- Leverage Lease Dynamics
  - Tax oriented sale lease back
  - Up to 90% debt financing
  - Long term
  - Stepped rents flattened for GAAP
  - Popular before 1986 tax act
- What to Look for Now
  - < 10 years remaining - 4 to 7 common
  - Capital contributions needed to pay taxes
  - Rents > market
  - FMV diminishing
  - Owners motivated to negotiate when:
    - FMV < Capital Investment
    - < 5 years remaining
    - Interest rates rising

Typical Leveraged Lease



Leverage Lease Restructuring

- Landlord Motivations
  - Avoid capital calls
  - Recover capital
  - Better position property for sale to next investor
- Tenant Motivations
  - Lower cash rent payments
  - Continue Occupancy
  - Reduce expense by lengthening amortization
  - EPS impact less important

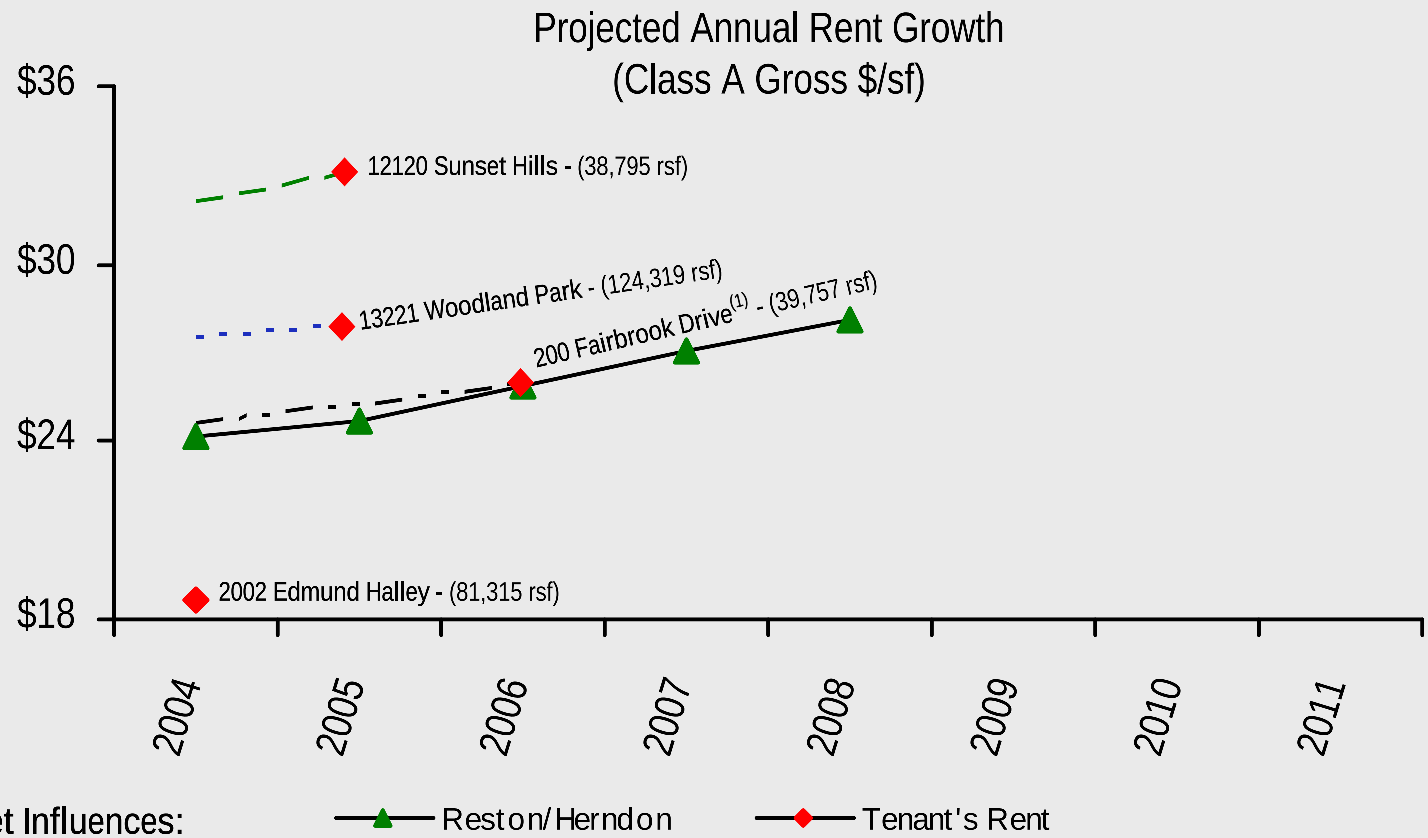
Leverage Lease Restructuring

- Negotiations Very Complex
  - Require very specialized accounting/tax treatment
  - Balance occupancy, cash flow, tax, GAAP accounting and residual value issues
  - Value = Discounted premium rent + Intrinsic Market Value
  - If the credit tenant wants longer occupancy value is higher
  - New investor replaces owner
  - Tenant get lower rents

VI. Lease to Own

- Typical Case
  - Single User
  - Above market rents/cash payments
  - Tenant option to purchase
  - Owner wishes to sell
- Tenant Motivations
  - Keep it off balance sheet
  - Lower rents
  - Direct ownership undesirable
- Negotiations
  - Tenant used to find a synthetic lease investor
  - Synthetic lease is off balance sheet (See Appendix C)
  - Lower rent
  - Credit tenant guarantees 85% of residual value
  - Capital Markets make synthetic lease unnecessary

Appendix A - Northern Virginia Rental Rate Analysis: Reston / Herndon "Rents Flat through 2005"



Market Influences:

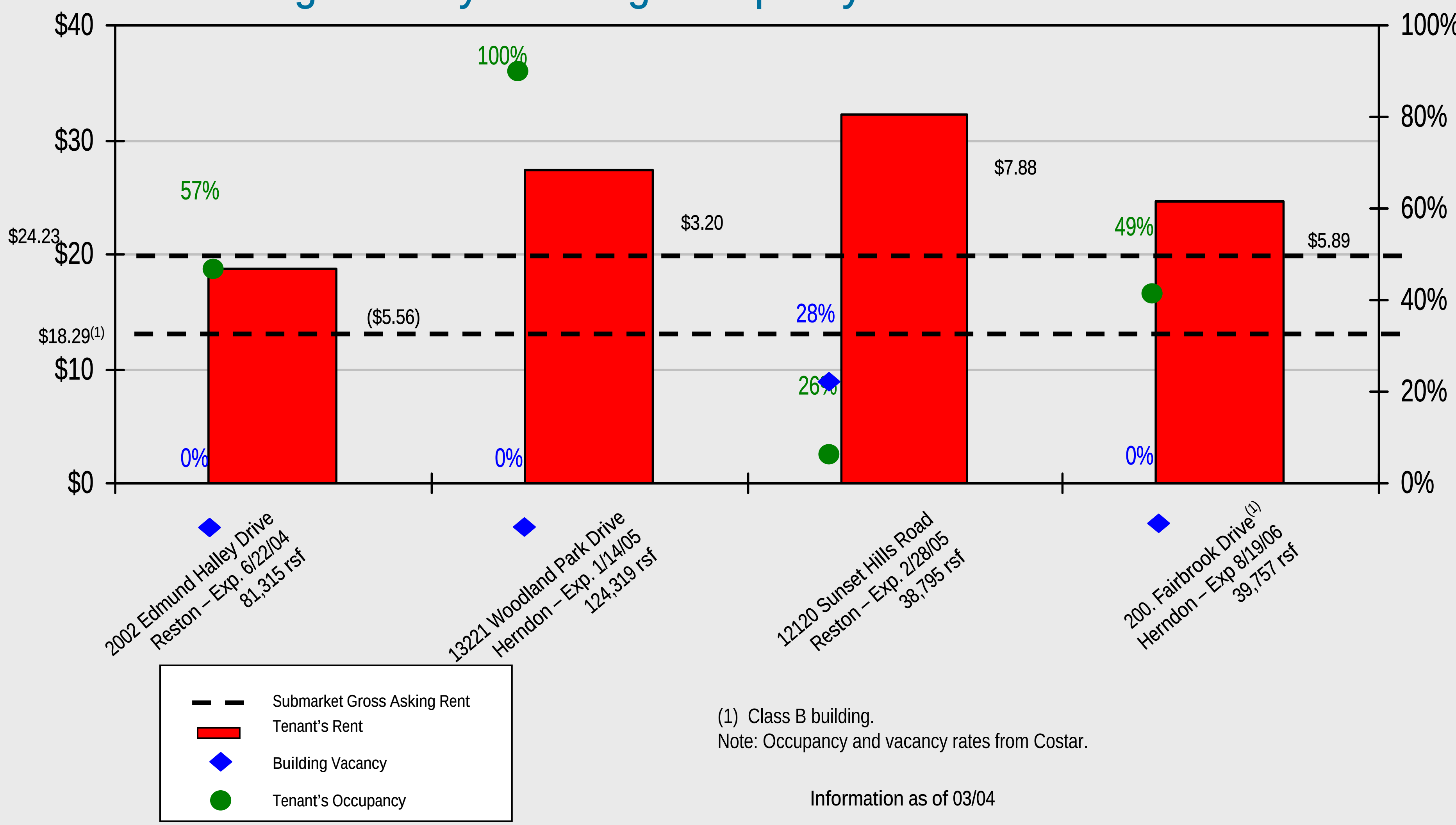
- Continued demand from large government and government contractor tenants will enable Northern Virginia to achieve stabilized vacancy of 10–11 percent sometime in late 2004 or early 2005.
- Economics available to smaller tenants will continue to be more aggressive than those available to larger tenants due to a lack of large blocks of quality space—a unique dynamic that will not continue.

(1) Class B building.

Source: Jones Lang LaSalle Research, TortoWheaton, CoStar

Information as of 03/04

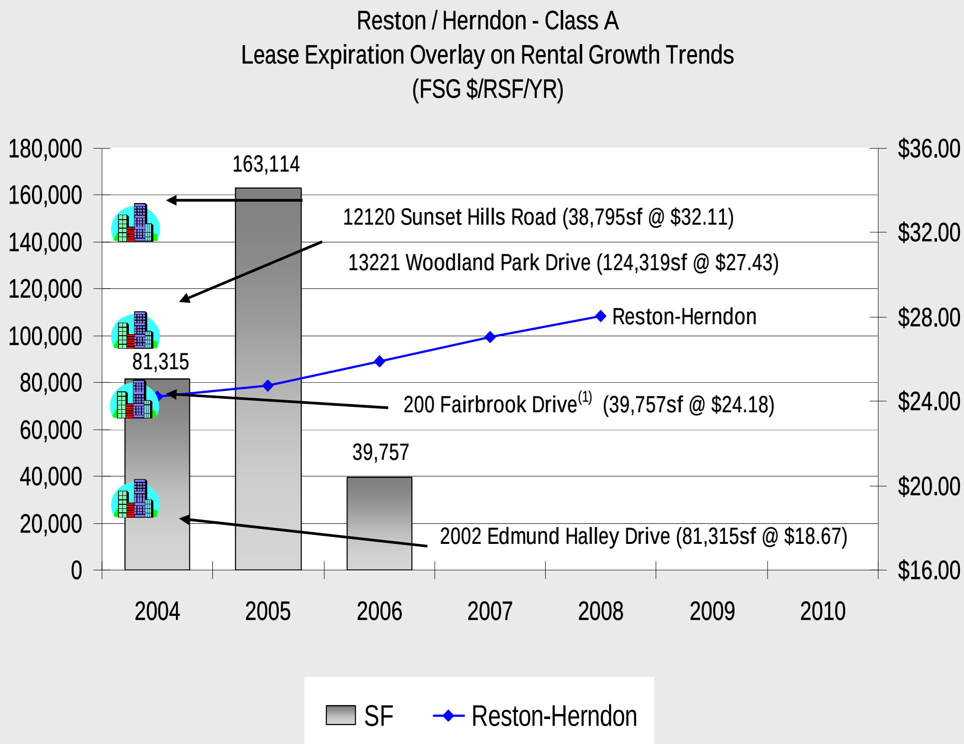
Appendix A - Northern Virginia (Reston/Herndon) Market Assessment
Building Vacancy/ Building Occupancy and Market Rent



(1) Class B building.
Note: Occupancy and vacancy rates from Costar.

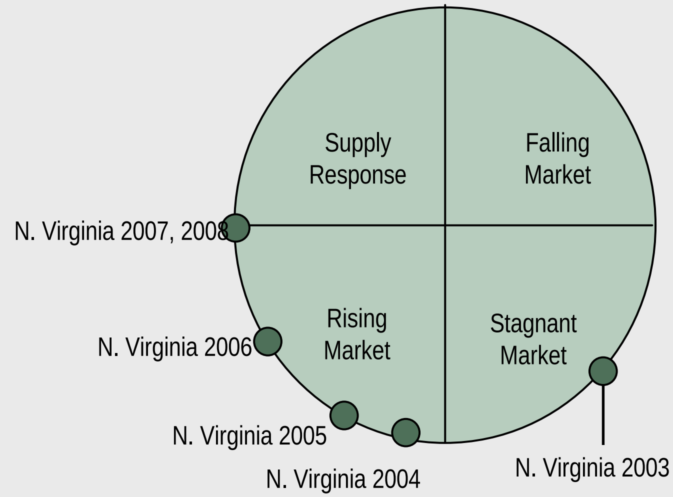
Information as of 03/04

Appendix A - Market Intelligence: Northern Virginia (Reston / Herndon)



(1) Class B Building.
Source: Jones Lang LaSalle Research, (MTS Model & REGI Index)

Information as of 03/04



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Appendix B – Buy Down of Rent

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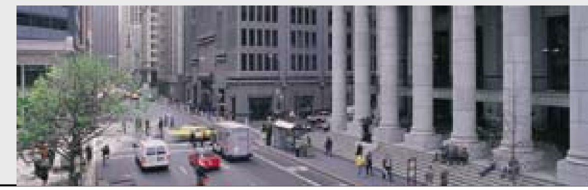
Notes:

** Assumes straight-line amortization of the buydown payment over remaining lease term.*

Appendix C – Capital Lease Criteria

- It is a Capital Lease if any of the following tests are met:
  - Ownership transfers at the end of lease
  - Lease contains bargain purchase option
  - Lease term > or = 75% of life of property
  - PV of minimum lease payment > or = 90% of FMV



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