FINANCIAL APPROACH

TAB 4

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STRUCTURE AND SOURCES OF FINANCING

The diverse partnership structures of the Partners (Private REIT and partner-driven Private Development Company) and our proven track record as development sponsor make us highly adept at creating unique financing structures and partnerships that truly align the interests of the development team, the investors, and the City of Falls Church.

Our team's experience with designing, structuring, and securing innovative financing solutions (particularly for community-based real estate initiatives), in combination with our ability to creatively structure and finance our deals, affords us the ability to be highly flexible when negotiating long-term public-private partnerships. EDENS private REIT structure is backed by blue-chip equity investors JP Morgan Asset Management, New York State Teachers' Retirement System, and Blackstone, with over $1B in contractually committed capital. Fivesquares' equity relationships are extensive and our principals have completed multiple projects with Lubert-Adler (one of the largest real estate funds in the country), Artemis (a local multibillion dollar real estate fund), and Resmark (who represents California State Teachers Retirement System and California State Public Employees Retirement System, two of the largest pension funds in the United States). Each of these large and disciplined investment firms has backed development projects for us, including complicated mixed-use development projects. Therefore, we have combined access to deep, diverse and highly respected and secure capital sources for all product types we are proposing. Our team can provide financial statements under a confidentiality and nondisclosure agreement upon selection for Request for Detailed Proposals.

Our discussions with these financial partners have demonstrated there is ample capital and interest in providing us with the pre-development and long-term debt and equity capital for this project, including construction financing. As you are aware, Equity and Development returns are a function of multiple factors including the public markets, macro and micro perceived risks, political environment, supply and demand, and barriers to entry. Our collective experience shows that Equity investors in real estate are currently targeting high teens and low 20's IRR's to sponsors and mid-teens IRR's for Limited Partners in funds with some diversification.

Our current development return assumptions by use category are 8.5%-9% for retail and office uses, 6.5%-7% for Residential, and 8.5% to 9.0% for Hotel. Based on our pipeline of development projects currently under way, we anticipate that construction and permanent debt terms will be in the order of loan amounts of 55%-65% of TDC, with spreads 300-400bps above LIBOR and debt service coverage ratios of 1.2-1.25 with 25-30 year amortizations.

IMPACT OF PROJECT PHASING

Given the city's desire for a dense development of 1,000,000 square feet or more of development, the project will likely need to be phased. In most large-scale, mixed-use projects, such as Mosaic in Fairfax County developed by Edens, the residential buildings will be constructed and stabilized one at a time unless market demand is such that more than 300-400 units will be desired in one year (an unlikely condition in Northern Virginia in the next five years). We feel that a significant retail portion must be incorporated into the first phase with at least one placemaking anchor use such as a quality grocer or cinema, as well as food and beverage uses.

INNOVATIVE FORMS OF REVENUE TO THE CITY

The RFP asks respondents to identify potential revenue-generating opportunities for the City beyond the initial or ongoing land payments and future tax revenue. We can offer participating rent and capital event participation above agreed return thresholds as potential revenue generating structures.

Our team has a proven track record of completing transactions with these innovative benefits to the land owner.

When the Mayor of Washington DC wanted to maximize long-term value for the City, Ron Kaplan at Fivesquares was hired with responsibility for creating and implementing the financial structure for the CityCenter project in Washington,

DC, a massive and complex 10-acre site with numerous risks such as timing and market demand. The development agreement was structured to create a clear, objective formula for profit sharing based on capitalization rates according to product type (retail, residential, office). This created financial alignment and allowed for the best master plan to be developed and implemented – maximizing returns for the City – and it allowed for flexibility to respond to market conditions as returns were not contingent on a single fixed development program.

PROJECT RISKS

Our team closely analyzed the RFP, the real estate market for all proposed product types, as well as the entitlements, schedule, and potential financing sources for the project. Following is a list of project risks and proposed mitigations based on this analysis.

1. *Balance of Upfront Payment on Ongoing Cash Flows.* Section 2.1(B) of the RFP states that a large upfront payment is desired prior to construction of the new high school. Since the RFP asks respondents to identify tradeoffs necessary to achieve the city's stated goals, we want to point out an obvious one; the greater the risk of loss of capital, the higher the cost of that capital. In this case, the risk of a significant upfront land payment, if required by the city will likely result in lower net proceeds over time for you. With the deposit at risk with no security instrument to recover it and no certainty regarding timing of completion of the new George Mason High School, the overall net present value of all future cash flows for the city will likely be lower. While we are amenable to providing the upfront payment, we need to point out that if the city has means of obtaining lower cost capital, it is likely in the city's interest to defer as much of the upfront land payment as it can to enable greater (and likely faster) participation via future land payments, ground rent, and taxes. We have structured several transactions that optimize this balance of upfront and ongoing payments with organizations such as American Speech Hearing and Language Association, Whitman-Walker Health, and WMATA.
2. *Market Cycles.* Given the potential timeline of the development of both the High School and the Economic Development sites, as well as the necessary entitlements, market flexibility will be important to maximizing value on the site. This presents a risk to developers whose development program is overly dependent on limited sources of capital (residential-only or office-only investors) or use types (office, market rate residential, etc.). Our access to multiple capital sources and experience in delivering a diversity of product types makes us a particularly nimble development partner. We can respond to change and can align the city's financial interests and ours to maximize value for the city.
3. *Entitlement.* The need to entitle the site to achieve the city's desired density represents both a risk and opportunity. Andrew Altman, as the former Director for the Office of Planning for the District of Columbia, and the former CEO of the London Olympic Legacy Corporation stands uniquely qualified to work with the city agencies to obtain the best mix of uses to help propel growth beyond just this site. With international regarded master plan and entitlement capabilities, Andrew will personally work to assure the value of this site is maximized for the city.
4. *Environmental.* It has been our experience that development sites inside the beltway which have undergone two or more redevelopments over the years have a risk of environmental contamination. Further, the site has previously had underground storage tanks as well as nearby automotive and rail uses, so the potential exists for unidentified site contamination. The least expensive way for the city to address the costs of remediation of hazardous materials would be to allow it to be fully known or to be financially contained. We have extensive experience working through the unique issues presented by environmental contamination. Addressing this clearly in the Request for Detailed Proposals is important to assure the city is not penalized by speculative assumptions.
5. *Ground Lease.* The RFP asks whether there is any impact to financing terms arising from conveyance

via a ground lease as opposed to fee simple interest. We believe that the city can realize full value on its land value and tax potential by adeptly structuring a long-term ground lease for the project. We have successfully created joint development agreements utilizing ground leases as the means of conveyance to enable landowners to share in future profits. The Team has structured and negotiated partnerships in the form of ground leases with local, national, and institutional land owners. We envision a similar public-private partnership with the City of Falls Church. More specifically, the size of this deal and the nature of the city's short and long-term goals will ultimately shape how we structure and finance the development, so when the development is complete, the City of Falls Church, can be an Owner and participate on multiple levels of the project.

PUBLIC FUNDS AND SUBSIDIES

The RFP asks respondents to specifically identify use of public fund and subsidies necessary to complete the project. Except for any unusual infrastructure requirements imposed by the local jurisdictions (such as imposed highway or utility improvements), the project can be funded by private debt and equity with no public funds or subsidies. However, we note that in order to achieve maximum density on the site, and thus maximum return to the city in land payments and taxes, it may be necessary to maximize below grade parking and to build new infrastructure in the area such as major utility service or roadway improvements. We propose to work collaboratively with the city to consider creative financing and tax mechanisms for such costs (especially underground parking) if it would result in greater ongoing revenue to the city. For instance, as mentioned in the project descriptions above, EDENS helped Fairfax County create a Community Development Authority in Merrifield, which was the first TIF in Fairfax County, in order to realize greater tax income to Fairfax County. Our plan, while not dependent on such means of financing, is capable of incorporating these measures if the city determines they are in the city's best interest. We also note the recent increase in the instance of Commercial Property Assessed Clean Energy (CPACE) financing, a financing structure in which building owners borrow money for energy efficiency or renewable energy projects and make repayments via an assessment on their property tax bill. A number of CPAC transactions in the region have been funded by private investors and enable stronger returns for the project, which could result in better returns to the City of Falls Church.

CONCLUSION

In conclusion, as we gain a better understanding of the City of Fall Church's short and long term financial needs, including those related to the construction of the new high school and other public infrastructure, our structure will evolve to best meet the City's needs and the project's goals