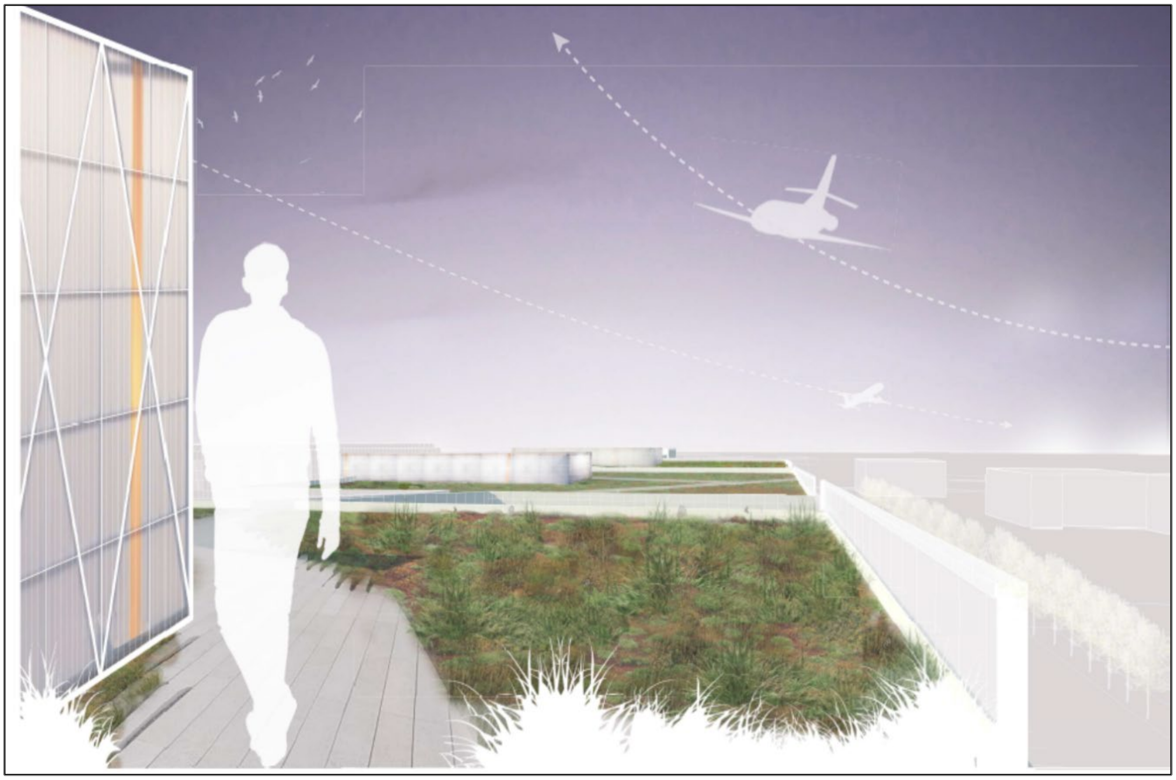
The Concourse Commercial Center

East Frederick's Net Zero Business/Industrial Park



Financing Request
Presented by:

IMPACT DEVELOPMENT

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Supported by:

PALS

UNIVERSITY OF MARYLAND 1856

CONDITIONS OF OFFERING

This confidential loan submission and other loan offering materials provided (the "Loan Offering Materials") are intended solely for the limited use by a potential lender ("Potential Lender") in considering whether to provide financing for the Concourse Commercial Center (the "Property") located in Frederick, Maryland on behalf of the Concourse, LP (the "Borrower"). For purposes of this Agreement, Shilvosky Buffaloe. ("SB") is an "agent" of the Borrower.

The Loan Offering Materials, which arc provided subject to these conditions of offering (the "Conditions of Offering"), contain brief, selected information pertaining to the business and affairs of the Property. It does not, however, purport to be all-inclusive or to contain all of the information, that a Potential Lender may desire or require. Any party in possession of the Loan Offering Materials is bound by the Conditions of Offering.

The Loan Offering Materials contain certain documents, such as, but not limited to rent rolls and lease abstracts, which are described in summary form. The summaries do not purport to be complete or necessarily accurate descriptions of the full documents involved. The Potential Lender must rely solely on its own review of the full documents. All financial and development projections are provided for general reference purposes only in that they are based on assumptions relating to the general economy, competition and other factors beyond the control of the Owner (as hereinafter defined below) and SB. Any graphics or drawings included in the Loan Offering Materials are included to assist the reader in visualizing the Property. SB has made no survey of the Property and assumes no responsibility in connection with such matters. SB has had neither a legal review of title nor development rights of the Property, nor an engineering review with regard to the environmental, physical and mechanical integrity of the Property and no representations with respect to either are made hereby. Neither the Owner nor any of its officers, employees or agents (hereinafter collectively referred to as "Owner") makes any representation or warranty, express or implied, as to the accuracy or completeness of this information, and no liability of any kind whatsoever is assumed by the Owner with respect thereto.

The Loan Offering Materials relating to a possible financing of the Property (the "Financing Opportunity"), which may be furnished to the Potential Lender by the Owner or SB shall continue to be the property of the Owner and SB. The Loan Offering Materials will be used by the Potential Lender and the Related Parties (as hereinafter defined below) solely for the purpose of evaluating the Financing Opportunity and not for any other purpose unrelated to the Financing Opportunity and may not be copied or duplicated without the Owner's or SB's prior written consent and must be returned to SB immediately upon request or when the Potential Lender decides not to pursue, or terminates discussion or negotiations with respect to the Financing Opportunity of the Property.

The Potential Lender acknowledges that the Financing Opportunity and the Loan Offering Materials are considered confidential and proprietary information of the Owner and SB, and will not disclose the Financing Opportunity, make any Loan Offering Materials available, or disclose any of the contents thereof, to any person without the Owner's or SB's prior written consent; provided however, that the Financing Opportunity and the Loan Offering Materials may be disclosed to the Potential Lender's partners, employees, legal counsel, advisors, institutional lenders and other capital source(s) ("Related Parties") as required for an evaluation of the Financing Opportunity and/or the Property, provided such Related Parties are (a) informed by the Potential Lender of the confidential nature of the Financing Opportunity and the Loan Offering Materials and these Conditions of Offering and (b) directed by the Potential Lender to keep the Financing Opportunity, the Loan Offering Materials, and related information strictly confidential in accordance with these Conditions of Offering. The Potential Lender shall be responsible for any violation of this provision by any of the Related Parties.

THIS PRESENTATION IS A REQUIREMENT FOR THE UNIVERSITY OF MARYLAND SCHOOL OF ARCHITECTURE, PLANNING, AND PRESERVATION (MAPP) CAPSTONE PROJECT TO GRADUATE FROM THE MASTERS OF REAL ESTATE DEVELOPMENT (MRED) PROGRAM.

SPECIAL ACKNOWLEDGEMENTS AND THANKS

John and Karen Colvin

Margaret McFarland, Program Director
Germano Gomez, Assistant Program Director

Abraham Rosenthal, Capstone Advisor and Project Mentor
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Jana Vandergoot, Design Team Advisor
Sarah Abdullah, Brittini Adams and Thuy Do, the Best MAPP Design Team

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Executive Summary

The Concourse Commercial Center (3C) is a proposed mixed-used development of a thirty-acre site in The City of Frederick, Maryland. The development parcel is located in the East Frederick Rising area, near the city-owned airport along Monocacy Boulevard. Consistent with area zoning and building uses in the East Frederick area, the proposed project consists of flexible office and light-industrial space targeted to the life sciences, health, and technology industry sectors on the premise that there are specific end users who desire modern facilities near the airport and interstate system.

Key Challenges/Risks

- The site's topography and varying slopes create challenges for site preparation.
- The current vacancy rates and absorption for both industrial and flex-office space in the Frederick market.
- The market demand for commercial rental space in the industrial use category has been soft in Frederick and no new product has been developed for a few years now.
- Inflation risk since the recession has been protracted; prices may begin to creep up for materials and construction services.
- Interest rates may be increasing over the next few years so locking in a favorable rate is important.
- Obtaining the City's support for the proposed uses and for increased traffic along Monocacy Boulevard, Hughes Ford Road, and Bucheimer Road.
- Obtaining the requisite approvals from the FAA.
- Potential force majeure in the form of flooding from the Monocacy River since the site is just outside of the flood plain.
- Lease-up risk for the various phases of development relative to the supply and demand in Frederick to reach stability.
- Liquidity when it's time to sell and exit the project to repay debt and pay out equity investors.

Key Opportunities

- The Frederick Municipal Airport gives the site a unique selling proposition to both investors and prospective tenants.
- Synergies with the two development projects in the East Frederick Rising area at the Nicodemus and Renn Farms help create a critical mass of activity.
- The City of Frederick is a solid investment market with a diverse economy and strong future growth prospects in population and jobs.
- In Frederick, the life sciences and technology sectors have significant job creation potential that will support real estate development opportunities.
- Most of the City's existing business and industrial parks are aging and don't offer a new product to prospective tenants.
- Steady annual growth of residents in Frederick.
- The City's elected officials and economic development professionals are committed to increase jobs that pay family-sustaining wages.
- South of the City, along the I-270 corridor in Rockville and Bethesda, is a strong job market that many Frederick residents commute to in less than ideal traffic conditions daily.

- Employers may be willing to consider regional sites, specifically in Frederick, that offer a reverse commute against I-270 traffic.

Approaches

- Market and promote the Concourse Commercial Center as an extension of the local, general purpose airport to generate buzz and interest in the project.
- Create smaller, build-to-suit parcels for lease that allows low impact development (LID) to reduce cut and fill in leveling and grading the site.
- Phase development over time and build only when tenants present themselves.
- Use the City's Small Area Planning process to get local stakeholder involvement and buy-in for the site's redevelopment.

Market Context and Market Opportunities

- Vacancy rates for light industrial and flexible office space have been flat for the past few years.
- Job growth in the life sciences and technology sectors continues to grow across the State of Maryland.
- There are over a dozen business parks in the City offering varying types of commercial space: flexible office, industrial, distribution, etc.
- The market's glut of available space makes it a challenge to effectively market old space to new tenants.
- Very little new industrial space has been put in service since 2005. (Basu)
- There have been no deliveries of flex space in the City since first quarter 2008, indicating that since the recession began in December 2007, flex space supply has exceeded demand. (Basu)
- Between 2015 and 2030, there will be an estimated net job growth approaching 1,100 among users of industrial space in Frederick County. The City is expected to get 267 of these jobs. (Basu)
- Estimated demand for industrial space in the City between 2015 and 2030 is about 200,000 square feet, of which about 80,000 is associated with East Frederick Rising. (Basu)
- Sage estimates that the City is likely to capture approximately 144 of the 590 flex space-associated jobs anticipated in Frederick County between 2015 and 2030. (Basu)
- Sage estimates demand for flex space in the City between 2015 and 2030 will approach 65,000 square feet, of which nearly 27,000 square feet are associated with East Frederick Rising. (Basu)

Financial Information

- The Project Budget Summary for Phase I of the development project, which includes site preparation work, infrastructure and vertical construction of the proposed flex/RD and light industrial space, is projected to be $148/square foot.

- Key Pro Forma Assumptions
  - Debt-to-Equity Ratio – 70/30
  - Construction Financing i/o rate LIBOR 25 + 425 basis points for three years
  - Loan-to-Value (LTV) Ratio of 70
  - Debt Coverage Ratio of 1.25x
  - Permanent Financing i/o rate PRIME + 200 basis points for ten-year term with 25-year amortization schedule
  - Sponsor is looking to unwind the deal and dispose of the asset in year seven, exiting the project with the sale of both undeveloped build-to-suit parcels and the stabilized properties constructed

- Sources of Construction Funds

Debt	$28,945,589
Equity	$12,405,252
Total Uses of Funds	$41,350,841

- Projected Stabilized Financial Returns

Net Operating Income	$3,994,077
Stabilized Cash-on-Cash	9.7%
Unleveraged Internal Rate of Return (IRR)	8.8%
Leveraged Internal Rate of Return (IRR)	27.1%

LOCATION AND DEMOGRAPHICS

COMMUNITY PROFILE

The City of Frederick, albeit small with a population of 65,239, has a lot to offer to residents, businesses, tourists, and investors. It is a highly attractive community with opportunities for growth and expansion. According to 2010 US Census data, Frederick is Maryland's second-largest incorporated city, behind only Baltimore. However, it is the eighth largest community in terms of population size and Frederick is the State's largest county by geographical size.

Frederick, city and county, are part of the Washington-Arlington-Alexandria Metropolitan Statistical Area, which is part of a greater Washington-Baltimore-Arlington, DC-MD-VA-WV-PA Combined Statistical Area. It is a white-collar community, with 86% of the workforce employed in white-collar jobs, well above the national average. Frederick has more residents who work in computers and math than 95% of places in the US. A high proportion of residents are young, single, and upwardly-mobile professionals. Frederick provides an array of opportunities for businesses and residents alike. Forbes.com has named it the second smartest region in the country.

The City of Frederick is home to more than 62,000 residents, nearly a third of Frederick County's 2011 population of 232,104. Frederick's diversity is growing, with non-Caucasian races and ethnicities representing 28% of the population. Frederick's local workforce of 120,000 is further enhanced by commuters from neighboring Maryland counties as well as Loudon County, Virginia, Southern Pennsylvania, and West Virginia. The City's workforce is well-educated, with 34% holding a bachelor's degree or higher. This highly desirable workforce offers tremendous opportunities for businesses to find the right mix of skills for a variety of needs. he city's demographic data (Table 1), shows why the people of Frederick make it a great American business destination, considered "Among the second smartest cities in America."

Population Summary	
2000 Population	54,647
2010 Population	65,239
2014 Population	67,403
2019 Projected	70,252
2014 Total Households	26,179
2014 Total Families	15,743
(ESRI)	

Income	
2014 Average HH Income	$81,314
2014 Annual HH by Income	
$100,000 +	29.70%
$75,000 - $100,000	13.50%
$50,000 - $75,000	20.30%
$35,000 - $50,000	13.70%
(ESRI)	

Educational Attainment (25 + Population)		
High School Graduate	9,242	20.5%
Some College	9,648	21.4%
Associate Degree	3,652	8.1%
Bachelor Degree	9,828	21.8%
(ESRI)		

Community Profile
Table.1

LOCAL ECONOMY

The strength of Frederick's economy is due in large part to the diversity of industries. Frederick's proximity to Washington, D.C., has always been an important factor in the development of its local economy and has supported its growth, particularly in recent years. From bioscience and advanced technology, to high-tech manufacturing and professional services, the City's businesses are the backbone of Frederick County. Frederick has a balanced and thriving local and regional economy. It is emerging as a leading national location for the life sciences, health, and biotech industries, as well as for information technology and advanced manufacturing. Frederick's location at the northern end of the I-270 Technology Corridor puts in near more than 500 other life sciences companies.

Frederick County draws from a large and technologically advanced labor force, with approximately 2.9 million workers in Maryland. Maryland claims the top spot in the country for the percentage of technical and professional workers in the workplace (25.7%) and for the total number of doctoral scientists and engineers as a percentage of total employment (0.98%). Maryland is also first among the states in the percentage of its population 25 and over with a graduate or professional degree (15.7%). The City is the home of Riverside Research Park, a biomedical research park being developed on the City's east side. Tenants include relocated offices of the National Cancer Institute (Fort Detrick) as well as Charles River Labs. As a result of continued and enhanced federal government investment, the Frederick area will likely maintain a continued growth pattern over the next decade.

The Frederick Historic District in the City's downtown houses more than 200 retailers, restaurants and antique shops along Market, Patrick and East Streets. Restaurants feature a diverse array of cuisines, including Italian-American, Thai, Vietnamese, and Cuban, as well as a number of regionally recognized dining establishments and several independently owned restaurants. In addition to retail and dining, downtown Frederick is home to 600 businesses and organizations totaling nearly 5,000 employees. A growing technology sector can be found in downtown's historic renovated spaces, as well as in new office buildings located along Carroll Creek Park. As the seat of county government, the City of Frederick and the surrounding area is home to 75% of Frederick County's employment opportunities. Over 40% of the County's businesses are in the City and represent nearly 3,400 employers.

City of Frederick Top 10 Employers	
Fort Detrick Campus	6,400
Frederick County Public Schools	5,650
Frederick Memorial Healthcare	2,232
Frederick County Government	1,937
Leidos BioMedical Research	1,836
Wells Fargo Home Mortgage	1,742
Frederick Community College	992
City of Frederick Government	842
State Farm Insurance	832
United Health Care	635
(2015 City of Frederick, Economic Development)	

Industry	
Services	21.8%
Health Care & Social Assistance	16.9%
Education	14.6%
Finance, Insurance, Real Estate	10.7%
Retail Trade	10.7%
Public Administration	9.8%
Construction	7.3%
Manufacturing	2.9%
(2014 Sage Market Analysis)	

Local Economy
Table.2

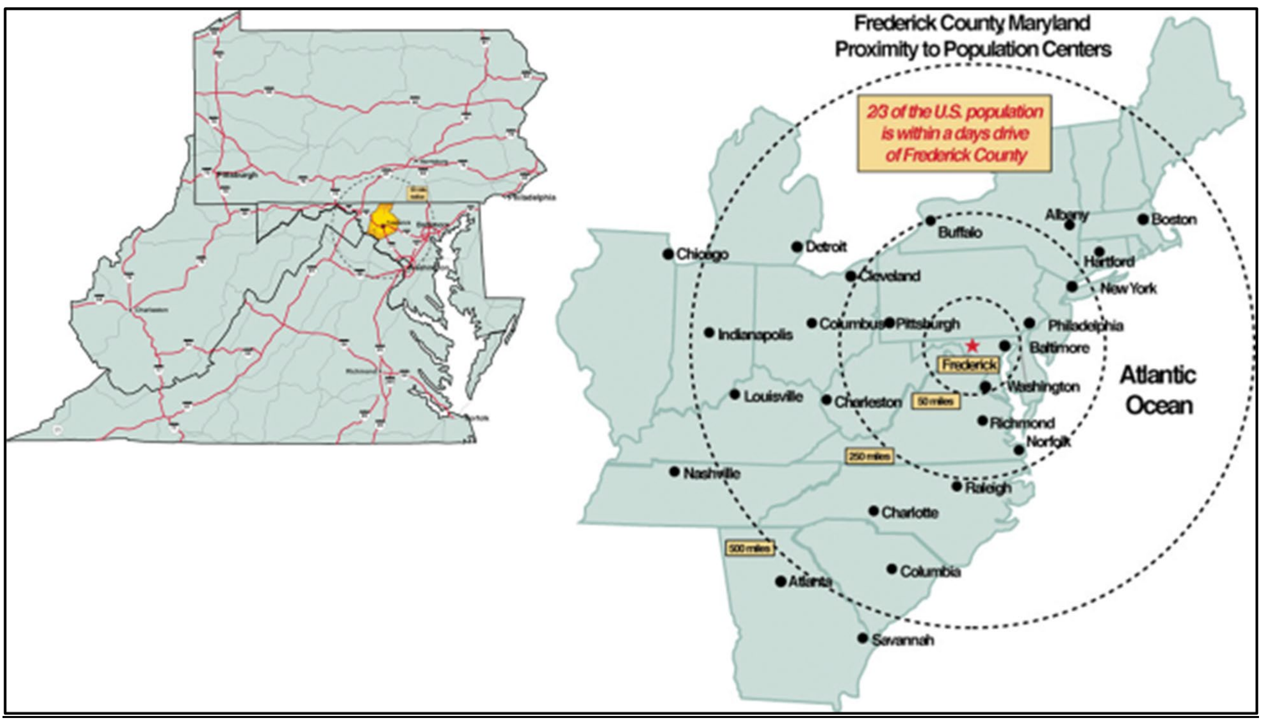
LOCATION

NATIONAL MAP

Frederick is located in the mid-Atlantic region of the United States bounded to the north by Pennsylvania, to the west by West Virginia, to the east by Delaware and the Atlantic Ocean, and on its south, across the Potomac River, by West Virginia and Virginia. To the south is Washington, D.C., which sits on land originally part of Montgomery and Prince George's counties, Frederick's southern neighbors. Maryland is one of the smallest states in area but is one of the most densely populated states. With highest median household income, it is also one of the nation's wealthiest states.

500 Mile Radius Population Centers	
Washington D.C.	48 Miles
Baltimore, Maryland	49 Miles
Richmond, Virginia	145 Miles
Philadelphia, Pennsylvania	153 Miles
Pittsburg, Pennsylvania	198 Miles
New York, New York	240 Miles
Charlotte, North Carolina	436 Miles
Boston, Massachusettes	464 Miles

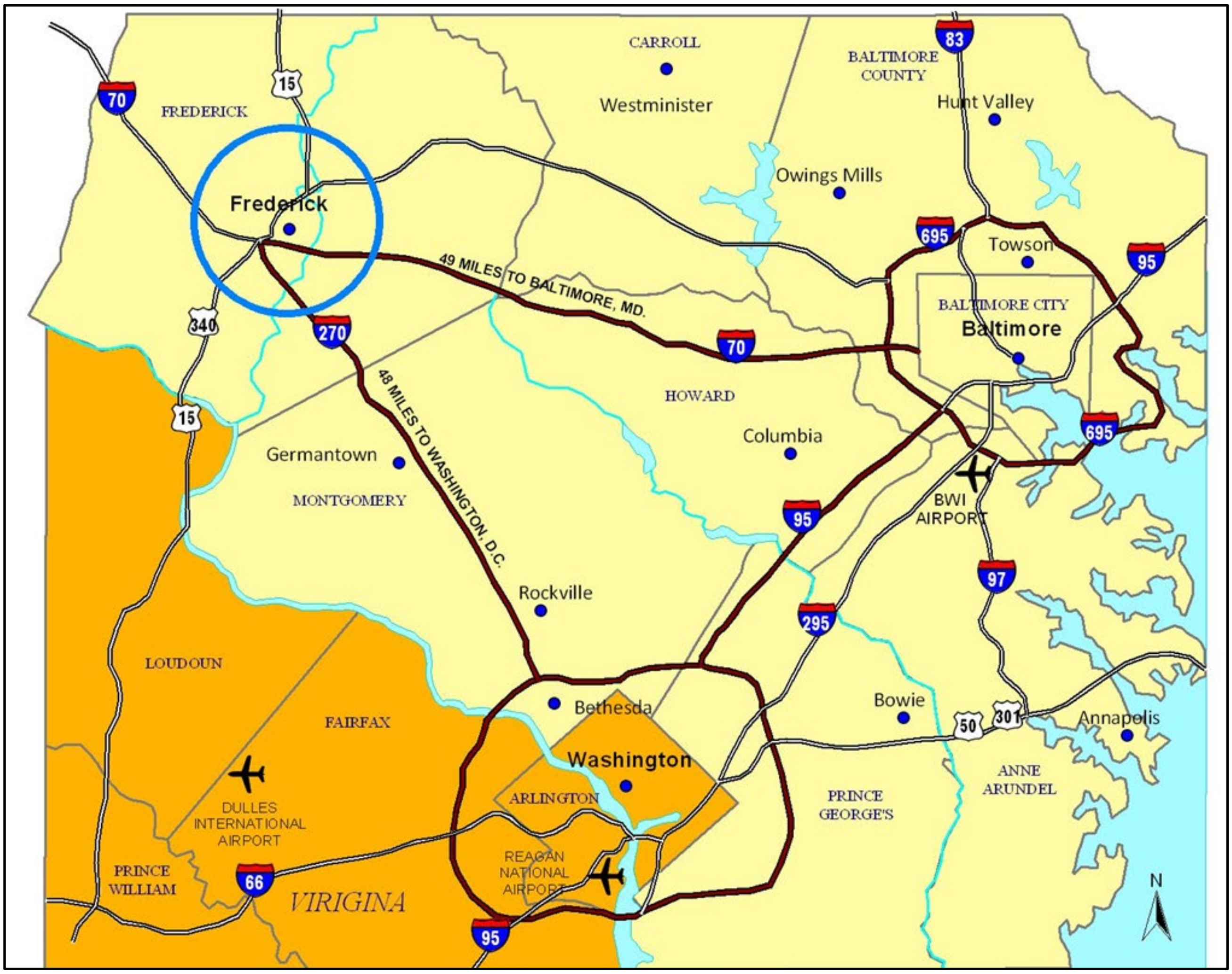
Major Cities Radii
Table.3



Map 1: Frederick National Map

REGIONAL MAP

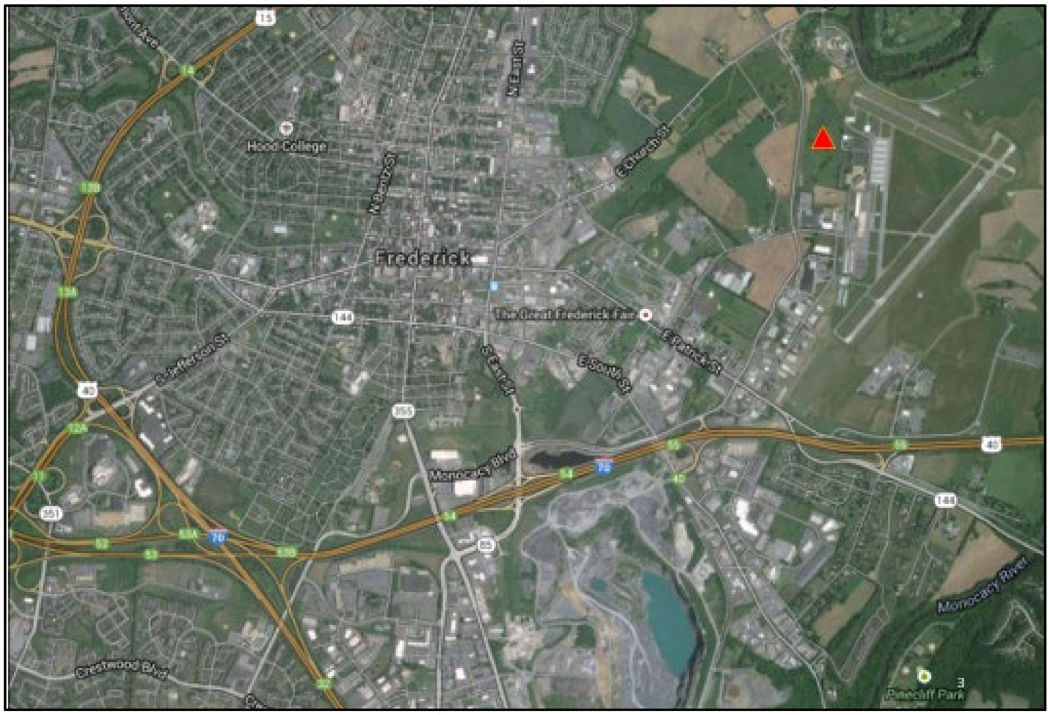
The City of Frederick is located in Frederick County in the northern part of the State of Maryland and is sometimes considered part of Western Maryland. The City is located at the junction of Interstate 70, Interstate 270, U.S. Route 340, U.S. Route 40, U.S. Route 40 Alternate and U.S. Route 15. Frederick lies 46 miles west of Baltimore, 49 miles northwest of Washington, D.C., and 71 miles southwest of Harrisburg, Pennsylvania.



Map 2: Frederick Regional Map

AREA MAP

The City of Frederick covers approximately 23 square miles after several annexations of additional land that expanded municipal boundaries. The City's area is predominantly land, with small areas of the Monocacy River, which runs to the east of the City, and Carroll Creek. Patrick Street, which runs east-west and Market Street, which runs north-south divide the City into the four quadrants. East Street, which also runs north-south is a demarcation between the historical municipal boundary and the rural and industrial side of the City.



Map 3: City of Frederick Local Map

NEIGHBORHOOD MAP

The portion of the study area that is between the airport and the downtown has been identified in the 2010 Comprehensive Plan for further and more detailed study as the East Frederick Small Area Plan. This area is generally bounded by the Monocacy River to the east, downtown to the west, Interstate 70 to the south, and existing residential neighborhoods to the north. The City's east side also includes the historic Frederick Fairgrounds, the Frederick Municipal Airport, and the MARC commuter rail station. The site is accessible by air, rail, and major roads.

Map 4: Frederick Site Map

PROJECT DESCRIPTION

PURPOSE

The purpose of this Financing Request is to solicit debt financing for the acquisition of land owned by the City Frederick to develop the parcel as a viable commercial enterprise by funding the construction of several modular buildings. The express intent is to leverage the equity investment from the joint venture Concourse, LP between Kinsley Equities and IMPACT Development, whereby 'construction to permanent financing' debt and partnership equity can be used to develop the asset as a core investment for IMPACT's portfolio. All effort has been made with this financing request to demonstrate the inherent value of this development project and illustrate the remaining cash flow to cover all debt service.

PROJECT SUMMARY

The City of Frederick is presently seeking active proposals from the real estate community to purchase and develop a 32.17 acre site in the East Frederick *Rising* area. Significant investment dollars have already been expended to complete the Monocacy Boulevard improvements between the U.S. Route 15 diamond interchange in the north and the four-lane extension of the actual street itself to Interstate 70 in the south. This arterial roadway completes a beltway east of the City and has helped connect this former industrial and agricultural outside the original City limits to downtown Frederick, providing for multiple access points for a quick and easy commute to and from the site.

Public investment in the Frederick Municipal Airport (FDK) aims to increase its ridership, safety, and utility. Frederick Municipal Airport is the second busiest airport in Maryland and provides easy and direct access through chartered flights to various parts of the country. It is positioned to become the preferred general purpose executive airport in the region. The project will ultimately result in added capacity with corporate hangar space and extend the runway. Most notable are,

These infrastructure investments have spawned significant development interest in the municipality with residential and retail mixed-use projects both underway and in initial planning stages at the Nicodemus and Renn Farms. Monocacy Boulevard now serves as a strategic economic corridor with potential for significant investment dollars to support the other development initiatives in the community, from Caroll Creek to Riverside Research Park. These two projects and FDK serve as the backdrop of the site along Monocacy Boulevard and have created a unique opportunity for investment at this site.

The proposed Concourse Commercial Center (3C) is a mixed-used development of a nearly "net zero" business and industrial park of flexible office and light-industrial space targeted to the life sciences, health, and technology sectors on the premise that there are specific end users who desire modern facilities near the airport and interstate system.

PROJECT DESCRIPTION

This offering presents a rare opportunity to invest in a large-scale, build-to-suit airport business/industrial center with approximately 572,000 square feet of net rentable space. The Project entails the ground-up development of 169,000 gross square feet of build-to-suit flex/R&D space for multi-tenancy and 390,000 gross square feet of build-to-suit light industrial space for multi-tenant occupancy to capitalize on the Frederick Municipal Airport and superior access to major transportation routes. Additionally 9,000 square feet of restaurant/retail space will be parceled off to create an onsite amenity for commercial center employees. Impact Development will deliver as Phase I of this build-to-suit facility:

- 84,500 gross square feet of rentable flex/R&D Office space
- 190,000 gross square feet of rentable light industrial space
- 9,000 square feet of restaurant/retail space
- 4,000 square feet of space for sustainability center

The master site plan also supports municipal officials' desire to integrate sidewalks and park space throughout development. Further, preliminary building models were generated to evaluate the application of energy use reduction techniques for the industrial buildings such as geothermal heat pumps, natural ventilation, thermal storage and living walls. Further energy generation was also evaluated such as bloom energy, wind turbines and solar powered photovoltaics to offset onsite energy usage and attain net zero energy. As a result of the project's infrastructure and site work, there will be improvements to create semi-permeable roads and sidewalks to help manage stormwater runoff. The project will also include bio-swales with stormwater collection, a geothermal system (closed loop with bore holes, potable water, and solar panels) for electric power distribution, and green roof elements as part of a comprehensive gray water management system.

All of the proposed green infrastructure systems and conventional utility extensions on the property create a unique marketable opportunity. This modern facility will showcase these elements in a 4,000-square foot, on-site Sustainability Center. This accessory structure will serve a dual purpose, as a showcase and as the development's facility management 'central nervous system' to help monitor the performance of each building. It will demonstrate to future tenants, developers, and environmentalists that sustainable practices in the new generation of buildings—when applied correctly—can maximize energy performance in industrial built environments.

Commercial and industrial buildings are among the largest consumers of electricity and biggest producers of waste, far greater than in commercial or residential facilities. Accordingly, energy efficiency in industrial buildings is of prime importance. Therefore, designing industrial buildings, particularly manufacturing facilities, warehouses, and factories for perishable goods, requires in-depth knowledge of the application and a custom energy-efficient design that incorporates and fulfills all requirements.

The site's proximity to the Frederick Municipal Airport presents a unique value proposition to transform the property into a premier mixed-use development of flexible office, light industrial, and retail space. Municipal officials have already made improvements to the airport, and developing this neighboring parcel as a true public-private partnership will help ensure the viability of this asset well into the future.

PROJECT INFORMATION	
Address:	Monocacy Boulevard and AviationWay
Total Land Size:	32.17 acres
Utilities:	Public Water and Sewer, Natural Gas
Zoning:	Professional Business (PB)
Total Surface Parking:	368 Secured Spaces
Type of Development:	Airport Business/Industrial Park
Total Flex/RD Space:	169,000 SF
Total Light Industrial Space:	390,000 SF
Total Retail Space:	9,000 SF
Total Exhibit Space:	4,000 SF
TOTAL SQ. FOOTAGE	**572,000 SF**

Table 4: Project Information

BUSINESS PLAN

IMPACT will proceed with obtaining site control of the property under a Purchase Sale Agreement ("PSA") with the City of Frederick at a cost of $750,000 ($5.36/GSF). With the area secured, we will begin working site intensively with the City, County, and State Departments of Economic Development as part of a dual-pronged "Marketing and Attraction" and "Business, Retention, and Expansion" strategy to prospective tenants on the merits of the Frederic submarket. The goal of this intensive direct sales campaign to prospective life sciences, biotechnology, information technology, advanced manufacturing and services tenants will be to prelease space. It will be driven by IMPACT's leasing team working with site selectors from across the nation, looking for attractive business sites to satisfy the needs of office, research and development, and manufacturing companies.

IMPACT, seeking investments outside of the I-83 corridor, discovered this opportunity in Frederick, Maryland. To tackle a project of this magnitude, the firm realized that it would require development expertise and sought to establish a joint venture partnership with local firm Kinsley Equities. This project is similar in size and type to other properties Kinsley it has undertaken in the past. The competitive price point to acquire the property and projected appreciation of value to be gained from its subsequent disposition presents a tremendous opportunity.

Nationally, the DC/MD/VA area is a biotechnology hub with more than 800 life sciences companies, 70 federal labs, and at least two world-class academic research institutions. Jones Long LaSalle recently published its *Life Sciences Cluster Report* ranking this region 8th in the nation. There is a strong push to improve the area's ranking and within the next ten years to become "…a Top 3 Biotech Hub" amongst national giants in the life sciences sector such as Massachusetts and California.

Locally, Frederick is the northern anchor of the I-270 Technology Corridor with approximately 80 biotech companies in and around the City. The community itself plays an integral part in the life sciences business ecosystem and is poised to emerge as a leading national location for the bioscience industry, growing this industry through regional partnerships. This anticipated growth will continue to create space demands for companies that distribute, manufacture, research, and provide support services to this business sector, as well as other target industries including technology, manufacturing, services, and tourism for economic development.

This development strategy is consistent with the City's East Frederick Rising plan for the area to become a "Regional Hub for Economic Growth:"

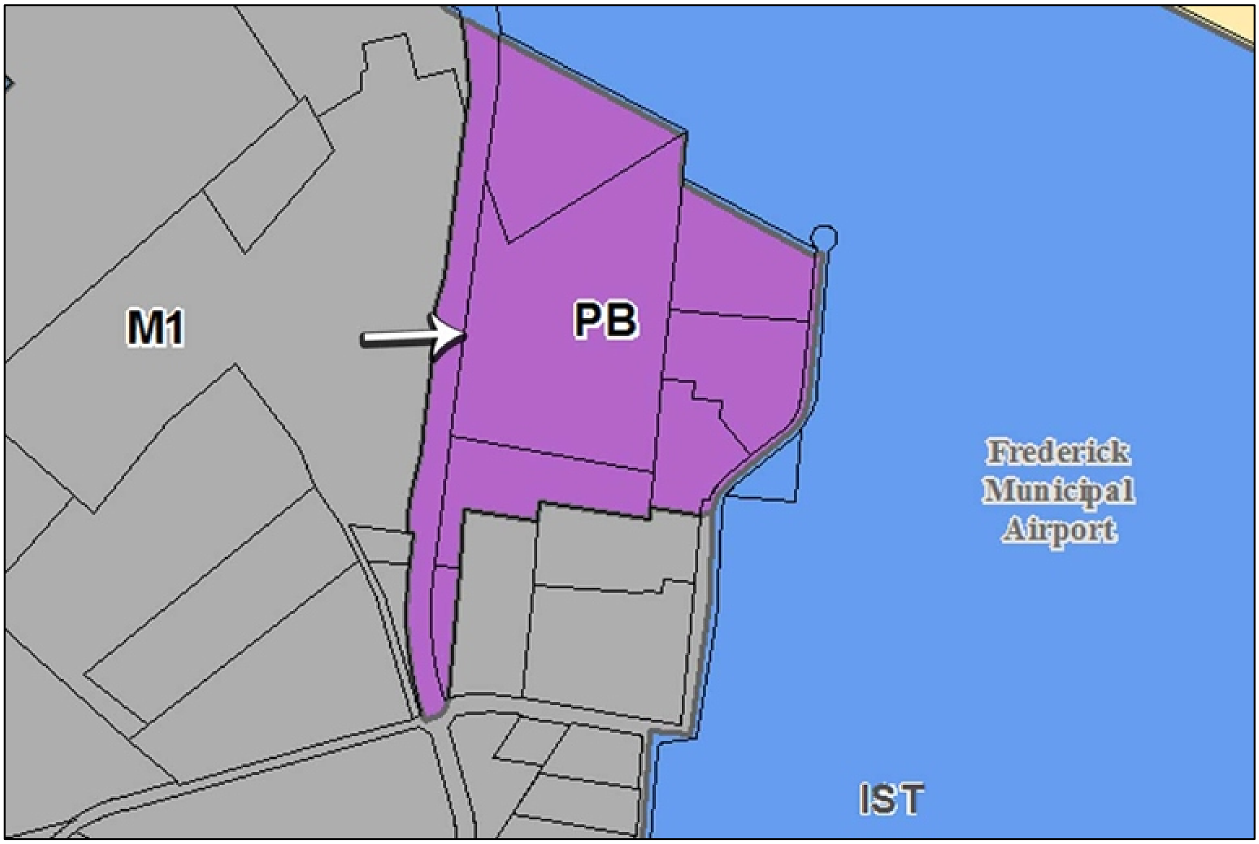
It is the primary tenet of this plan to support job creation in the East Frederick area and to support the light industrial base for the City. However, once those properties are ready for redevelopment and growth, they should be fully supported and incentivized to become urban, mixed-use elements within the overall fabric of the community.

The plan is to make this parcel an extension of the airport, providing more users of FDK and by developing the parcel for complimentary business uses. With so few development sites such as this one, now is time to start branding and marketing the site as the "the Concourse Commercial Center" of East Frederick to position the development in the market place as a logistical bio-tech in the state of Maryland. The site's initial land development will grant the opportunity to fully maximize build-out over time. Some of the first development phase buildings are intended as build-to-suit with long-term lease agreements. Long term land leasing is a viable option for a public private partnership between the Developer and the City to incentivize development at the site and shape the future utility of the airport going forward.

With Frederick area's improving economic conditions and continued business development in the life science and technology sectors, marketing the Concourse Commercial Center is a major priority. Developing this site as described will support the City's plan to increase airport usage and help boost passenger numbers at FDK. We expect that the Concourse Commercial Center will attract new tenants because of its location, physical appeal, and connection to the airport. Our mission is to increase the overall economic health of Frederick County by attracting new businesses in our targeted industries and helping existing businesses be more successful.

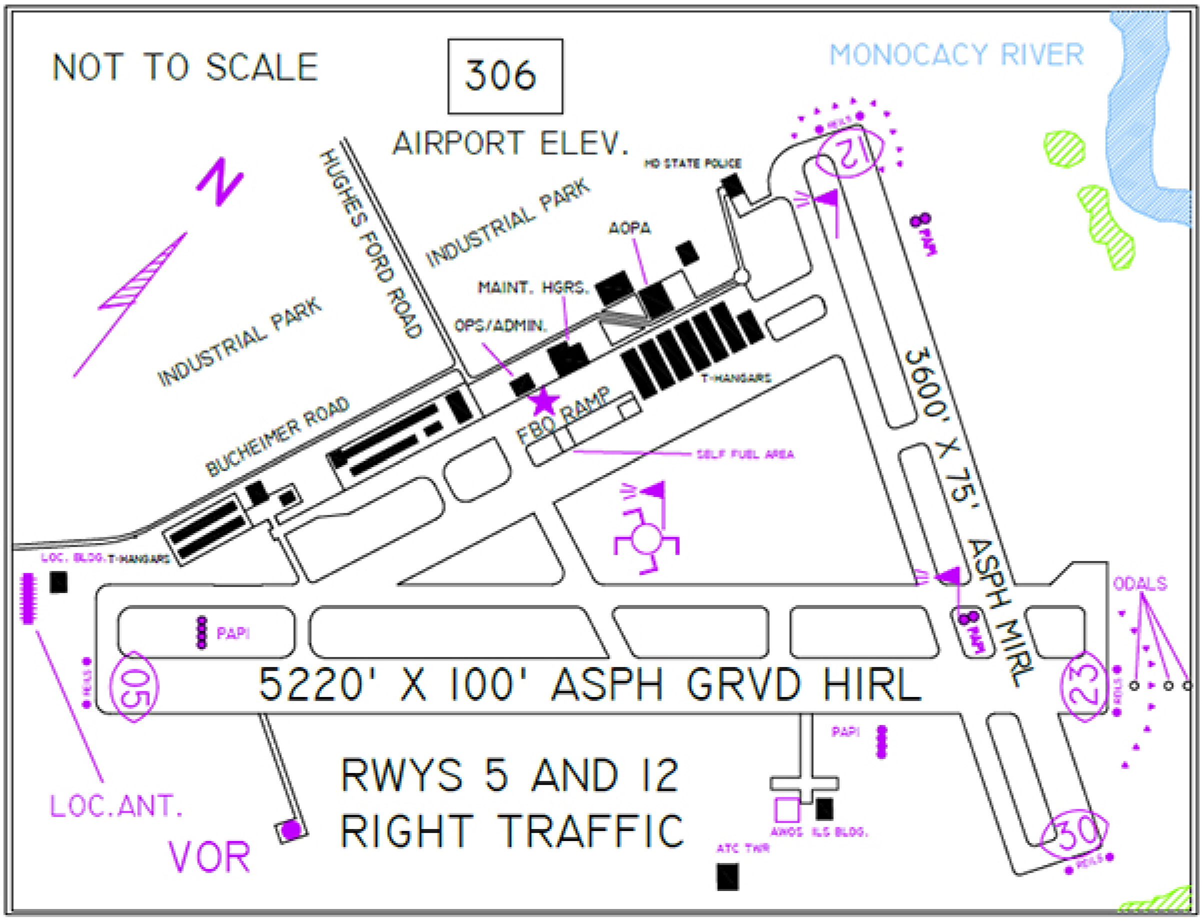
ENTITLEMENTS

The site is zoned Professional Business (PB) by the City of Frederick Land Management Code. This zone provides land for office, medical office, and R&D with retail and service uses as secondary uses. Secondary uses should serve the businesses and employees in the office area and may include sales or services, such as meals, banks, personal services, day care, and business support services. The commercial needs of employment centers should be met in ways that do not substantially increase peak hour traffic. Therefore, the development of the Concourse is a permissible use by by-right and the review process is anticipated to be relatively straightforward. The Project is consistent with the City of Frederick's 2010 Comprehensive Plan, covered in the "East Frederick Rising" section.



Map 5: Frederick Zoning Map

The Plan notes that "The subject property is located within an Airport Overlay District in which a variety of aviation activities occur on a daily basis, 24 hours per day. Such activities may include but are not limited to aircraft overflight noise, vibration, chemicals, odors, and other associated airport activities." AO (Airport) This proposed zone is designated for lands around the airport to control land uses to address safety issues and to notify contract purchasers of noise and other impacts on lands near the airport. This district implements the Airport Master Plan. See §418. The purpose of the Airport Overlay District is to regulate and restrict the height of structures, objects, or natural growth, regulate the locations of noise sensitive uses, and otherwise regulate the use of property in the vicinity of Frederick Municipal Airport (FDK) by creating the appropriate zones and establishing the boundaries thereof; providing for changes in the restrictions and boundaries of such zones; defining certain terms used herein; providing for enforcement; and establishing penalties.



Map 6: Frederick Airport Map

East Frederick is a dynamic area with a wide variety of land uses including retail, office, residential, manufacturing, and other industrial uses. Preserving and supporting the current mix of land uses is a central policy of an area plan. The City's East Frederick Rising study investigated several potential uses for the area and laid the groundwork for a Small Area Plan that is, in turn, the basis for the proposed project.

Prior to initiation of any plan the group suggested a vision for the future of East Frederick to help direct growth and describe the appropriate character for the area. This study was the 'bridge' to the neighborhood-level Small Area Plan and intentionally offers no detailed suggestions but rather broad recommendations that are the foundation and catalyst for future East Frederick projects. The plan addresses land use, environmental protection, transportation improvements, open space and other capital improvements, opportunities for commercial revitalization, and mixed-use development.

For each planning area an advisory council of residents, property owners and business owners provide neighborhood recommendations to the City Planner and local officials, resulting in a plan that is adopted by the Mayor and Board of Aldermen. The Project will need approval from the Neighborhood Advisory Council – Area 12. This process provide local stakeholder involvement in the development of the City's plan recommendations. The Comprehensive Plan broad goals are directly addressed in the Small Area Plan. The City's Comprehensive Plan and Land Use Map are also guide the development process. The Planning Commission has final authority in approving site plans, subdivision plats, modifications to the subdivision regulations, and determination of Adequate Public Facilities.

ENVIRONMENTAL ASSESSMENT

Historically, the site has been used exclusively for farming. No spill cases were ever established by the Maryland Department of Environmental Control. Further, IMPACT's environmental counsel notes that there are no environmental risks associated with the Property and no remedial work will be necessary prior to site work. Additionally, the site is well outside of the flood plain of the Monocacy River, which means that there is no adverse direct effect to any of the nearby wetlands.

Even though the environmental impacts of developing the site are negligible, efforts are underway to ensure effective management of all associated stormwater runoff created by the development. These water plums will be diverted to a riparian buffer to filter adverse materials that may make their way into the water table and river bed.

Map 7: Historic Site Map

Map 8: Flood Plain Map

DESIGN AND USE GROUPS

The International Code Council (ICC) classifies the project's anticipated use types (per the building code) as:

- BUSINESS – GROUP B - 304.1
- FACTORY/INDUSTRIAL – GROUP F - 306.1
    - F-2 Low Hazard Occupancy
    - F-1 Moderate Hazard Occupancy
- STORAGE – GROUP S - 311.1
    - S-2 Low Hazard Occupancy
    - S-1 moderate Hazard Occupancy

These three uses complement the tenancy sought for the development and will be used during the design process to finalize all building code compliance issues that may arise during delivery of the project.

Further, the construction types of IIA or IIB will be used as the basis for determining the costs of all structures. Building constructed of these materials are typically non-combustible materials that may or may not have some additional levels of fire resistance. As conceived, the design development team has suggested either rigid steel frame with Kalwall® and aluminum building panels or tilt-up concrete panels with steel roof trusses. Both of these construction methods offer the best value on price per square foot, reducing the overall cost basis for the project.

DEVELOPMENT TEAM

Investment Partner, Kinsley Equities owns a vertically integrated, full service construction company, Kinsley Construction that provides construction management, design/build and general contracting services, making it more than capable of delivering a project of this magnitude. Kinsley's separate business units—Kinsley Industrial, Kinsley Manufacturing, Kinsley Sitework, Kinsley Custom, Kinsley Heavy/Highway & Bridge, and Kinsley Materials—work together to provide cost effective, efficient, and coordinated projects. Further, their support divisions offer cost and schedule control over the project delivery cycle. The business units' combined revenues reach the hundreds of millions of dollars annually; the Concourse Commercial Center is a typical project for their team.

The "Design-Negotiate-Build" contract between the JV and Kinsley's subsidiary companies will ensure a good product, timely delivery, and a fair price.

Fundamental to construction contracting success is a specific scope of work at an agreed-upon price and schedule. With this negotiated arrangement, Kinsley has been brought into the project early in the design process to work with the design team, LSC Design, Inc., to effectively integrate design services with construction pre-planning. This collaboration will reduce the project's cost basis and corresponding design service fees. It also allows some fluidity in the overall process since some decisions can be made during construction because the project contract will not be completely written in stone.

The proposed "Cost Plus Fee" contract will be based on an estimated total cost and include a "Not-to-Exceed" provision will be established between the partners. This agreed upon price will be for a lump sum Guaranteed Maximum Price (GMP) contract with a stipulation that any cost savings realized will be shared between the Developers and the Contractor. The project's success will rely on a high level of trust between the partners since the total cost of the project is not firmly established at the start of construction. To help mitigate this issue, an independent, third party Construction Manager (CMa) will be retained as Owner's Rep to realize savings whenever possible and deliver the project on schedule.

DEVELOPMENT TEAM		
Profession	Firm	Headquartered
Developer	IMPACT Development, LLC	Harrisburg, PA
Architect	LSC Design, Inc.	York, PA
Civil Engineer	LSC Design, Inc.	York, PA
Structural Engineer	Carney Engineering Group	York, PA
Contractor	Kinsley Construction	Baltimore, MD
Environmental Consultant	ARM Group, Inc.	Hershey, PA
Zoning Consultant	Townscape Design, LLC	Frederick, MD
LEED Consultant	3R Sustainability, Inc.	Pittsburg, PA
Transaction Counsel	Countess Gilbert Andrews Law	York, PA
Construction Manager	Rock Commercial Real Estate	York, PA

Table 5: Development Team

SCHEDULING

The project, from design to final certificate of occupancy, will take 24 months, including nine months for final pre-development activities associated with the planning and entitlement process. Once the closing milestone is achieved, that actual construction should take approximately twelve to fifteen months to compete. Barring any unforeseen circumstances and based on the selected building types, the site's development should not present any unique set of complications.

Activity	Month	Duration
Predevelopment		
Design & Master Plan Development	Month 1	3 Months
SD/LD & Construction Plans	Month 3	3 Months
Review, Approval & Permits	Month 6	3 Months
Negotiate Lease Terms	Month 6	3 Months
Closing	Month 9	-
Site Work & Infrastructure		
Infrastructure & Grading	Month 9	3 Months
Paving	Month 23	1 Months
Flex/RD Building		
Construction	Month 12	12 Months
Rent Commences	Month 24	-
Light Industrial Building		
Construction	Month 12	12 Months
Rent Commences	Month 24	-
Total Time Frame		**24 Months**

Table 6: Development Schedule

FINANCIAL ANALYSIS AND PROJECT FINANCING

HARD COSTS

The project's preliminary pricing was determined using the conceptual drawings created by the design development team and using national building valuation data from 2012 R.S. Means Construction Guide.

The vertical construction costs for the flex/R&D and light industrial facilities can be achieved for $101/sf and $96/sf respectively, based on a location factor for the Frederick market and a Non-Union Shop Conversion Factor to reduce the dollar/square foot basis. We anticipate that the best value for these hard costs can be achieved with the chosen project delivery method. Kinsley's full service of offerings can deliver highly competitive trade pricing and reduce the lead-time for selected materials.

SCOPE OF WORK	Flex/RD Space				Light Industrial Space			
	Quantity	Price	Cost	Percent	Quantity	Price	Cost	Percent
Sitework	245,450 sf	$3.00 psf	$736,350	7.8%	254,745 sf	$3.00 psf	$764,235	3.7%
Substructure	84,500 sf	$6.38 psf	$539,110	5.7%	195,000 sf	$6.38 psf	$1,244,100	6.0%
Superstructure	84,500 sf	$20.46 psf	$1,728,870	18.3%	195,000 sf	$20.46 psf	$3,989,700	19.1%
Exterior Enclosure	84,500 sf	$13.94 psf	$1,177,930	12.5%	195,000 sf	$13.94 psf	$2,718,300	13.0%
Roofing	84,500 sf	$1.89 psf	$159,705	1.7%	195,000 sf	$1.89 psf	$368,550	1.8%
Interiors	84,500 sf	$9.16 psf	$774,020	8.2%	195,000 sf	$9.16 psf	$1,786,200	8.6%
Conveying	84,500 sf	$4.90 psf	$414,050	4.4%	195,000 sf	$4.90 psf	$955,500	4.6%
Plumbing	84,500 sf	$10.22 psf	$863,590	9.1%	195,000 sf	$10.22 psf	$1,992,900	9.5%
HVAC	84,500 sf	$16.92 psf	$1,429,740	15.1%	195,000 sf	$16.92 psf	$3,299,400	15.8%
Fire Protection	84,500 sf	$4.24 psf	$358,280	3.8%	195,000 sf	$4.24 psf	$826,800	4.0%
Electrical	84,500 sf	$11.90 psf	$1,005,550	10.6%	195,000 sf	$11.90 psf	$2,320,500	11.1%
Equipment & Furnishings	84,500 sf	$.20 psf	$16,900	0.2%	195,000 sf	$.20 psf	$39,000	0.2%
Special Construction	84,500 sf	$3.00 psf	$253,500	2.7%	195,000 sf	$3.00 psf	$585,000	2.8%
TOTAL TRADE COSTS		$112 psf	$9,457,595	100.0%		$107 psf	$20,890,185	100.0%
RS Means Location Factor (2012)	21701	0.91	$8,606,411		21701	0.91	$19,010,068	
Open Shop Conversion (Non-Union)		0.83	$7,143,322			0.83	$15,778,357	
General Conditions		7.0%	$500,033			7.0%	$1,104,485	
Contingency		5.0%	$382,168			5.0%	$844,142	
Insurance		2.75%	$220,702			2.75%	$487,492	
Fee		3.0%	$247,387			3.0%	$546,434	
Total Hard Costs		$101 psf	$8,493,610			$96 psf	$18,760,910	

Table 7: Development Schedule

SOURCES AND USES OF FUNDS

The Borrower would like to acquire the property in the first quarter of 2016 and is seeking a construction to permanent loan facility of $28,945,589 to purchase the land and construct Phase I of the project. The Borrower anticipates investing $12,405,252 into the development, including soft costs, fees, and financing costs. The entire loan amount will be secured by a 30% JV Equity interest guaranteed by Kinsley and IMPACT.

SOURCES	BUDGET	$/PGSF	Percent
Debt	$28,945,589	$104 psf	70%
Equity	$12,405,252	$44 psf	30%
TOTAL SOURCES	**$41,350,842**	**$148 psf**	

USES	BUDGET	$/PGSF	Percent
Site Acquisition	$750,000	$2.68 psf	1.8%
Acquisition Fee	$100,000	$.36 psf	0.2%
Closing Costs	$37,050	$.13 psf	0.1%
Financing Costs	$1,208,271	$4.32 psf	2.9%
Professional Fees	$340,000	$1.22 psf	0.8%
Consultant Fees	$220,000	$.79 psf	0.5%
Architectural & Engineering	$1,065,000	$3.81 psf	2.6%
Soft Cost Contingency - 5%	$187,945	$.67 psf	0.5%
Hard Costs	$28,454,520	$101.81 psf	68.8%
Hard Cost Contingency - 5%	$1,422,726	$5.09 psf	3.4%
Reserves TI/TA/Commissions	$3,546,888	$12.69 psf	8.6%
Development Fees - 3.5%	$1,307,985	$4.68 psf	3.2%
Permits & Impact Fees & Inspections	$594,545	$2.13 psf	1.4%
Marketing	$82,000	$.29 psf	0.2%
Insurance	$190,000	$.68 psf	0.5%
Real Estate Taxes	$22,043	$.08 psf	0.1%
Construction Interest - Carry Cost	$1,721,869	$6.16 psf	4.2%
Shortfall from Operations	$100,000	$.36 psf	0.2%
TOTAL USES	**$41,350,842**	**$148 psf**	

Table 8: Development Schedule

DEBT SUMMARY

The lender will provide a senior secured Acquisition-Development-Construction (ADC) loan to Permanent Loan ("Facility") as follows:

1. $28,991,997;
2. An amount not greater than 70% of the Loan-to-Cost of the Project; and
3. An amount not greater than 70% of the Loan-to-Value of the Project that supports a minimum of "As Stabilized" DSC of 1.25x collateral

The Facility will be secured under the following standard conditions imposed by most conventional lenders:

1. First mortgage lien on the land and all improvements to be built thereon;
2. Assignment of all rents and leases, purchase contracts, permits, licenses, documents and other rights or contracts relating to the Project, including all construction and architectural contracts and plans as well as management agreement and marketing materials;
3. Security Agreement and UCC-1 Financing Statements for all non-realty items

FINANCING ASSUMPTIONS	
Construction Financing:	
Total Capitalization	$41,350,842
Loan to Cost Percent	70%
Loan Proceeds	$28,945,589
Interest Rate (i/o)	$\boxed{\text{LIBOR + 425}}$
Orgination Fee	100 bps
Term (Years)	3 years
Extension Fee	25 bps
Exit Fee	50 bps
Current LIBOR	25 bps
Permanent Financing:	
Stabilized Net Operating Income	$3,994,077
Entrance Capitalization Rate	7.00%
Loan to Value	70%
Stabilized FMV	$57,058,238
Interest Rate (i/o)	$\boxed{\text{PRIME + 200}}$
Orgination Fee	100 bps
Current Prime	325 bps
Term (Years)	10 years
Amortization (Years)	25 years

Table 9: Financing Assumptions

During the Construction Loan Term, the principal balance of the loan will bear interest based on one-month LIBOR plus 425 basis points (4.50%), adjusted on each monthly installment payment date (the "Interest Rate"). Remaining draws will be funded to the Borrower in accordance with monthly draw procedures. The Borrower will be allowed to request loan disbursements once-a-month. Direct hard costs will be funded on a percentage-of-completion basis. Indirect soft costs will be funded as incurred. Developer overhead will be disbursed monthly over the course of construction and these distributions will be held into an account to be established with the Bank.

The Bank will require a satisfactory review of the plans, specifications, and construction budget (cost breakdown of hard and soft costs) performed by an independent inspecting engineer approved by the Bank. During the construction phase, the Bank will require the independent inspecting engineer to monitor the Project as construction progresses and approve any and all requests for construction funding. The cost of independent inspecting engineer will be borne by the Borrower.

The Borrower will supply the Bank with a detailed project budget that includes 100% of all costs that have been or will be incurred in project construction. Hard and soft costs shall be in an amount acceptable to the Bank and the independent inspecting engineer. The land component of the budget will not be an amount greater than the Bank's approved MAI "As-is" Appraisal Value. The Project budget will also include an interest reserve. Debt Service will be funded from that interest reserve during construction. To the extent that the interest reserve budget and/or project operating income may be insufficient to meet debt service requirements during the loan term, the Borrower will be expected to pay all debt service related to the loan on a monthly basis as billed by the Bank.

Construction loan proceeds are to be disbursed in accordance with a draw schedule of a construction loan basis. If applicable, the initial loan disbursement will be funded after the contribution of the Equity Requirement, to reimburse a portion of all budgeted hard and soft costs advanced by the Borrower through the date of funding.

BORROWER INFORMATION

IMPACT Development, LLC is a Harrisburg, Pennsylvania based real estate investment firm specializing in the acquisition, repositioning, and servicing of investment properties and portfolios. Established in 2014, it has amassed a growing portfolio of residential and commercial properties in the I-83 corridor. IMPACT specializes in all four main property types and seeks opportunities that enables them to bring their expertise to bear on profitable ventures. Through their development, management, construction, and sales abilities they have been able to improve asset performance. This development project presents a new opportunity for their firm to expand into the Maryland market.

Kinsley Equities is a privately-held, single-family office headquartered in York, Pennsylvania. They co-invest with clients and other joint venture partners in properties throughout the mid-Atlantic region. Kinsley focuses on core investments requiring development, redevelopment, rehabilitation, repositioning, or financial restructuring of mid-size properties, typically requiring an equity commitment of $2-10 million, with total costs generally between $10-50 million. Kinsley invests almost exclusively through strategic alliances with local and regional real estate developers, operators, and managers—joint venture partners who are experts in their markets—permitting Kinsley and its constituent companies to provide services to a broad spectrum of property sectors in a variety of geographic areas.

DEBT FINANCING DETERMINATION

Based on an analysis of the project's financial projections the best form of debt financing for purchase and capital improvements to increase the project's value requires procurement of financing from either a commercial mortgage-backed security (CMBS) or a life insurance company serving as the primary lending institution. Conventional bank financing is less than desirable because it would require both recourse lending and a guarantee on behalf of the equity partnership, which neither joint venture party want to take on.

LOAN REQUEST	
Borrowing Entity	Concourse, LP
Loan Type	First Position Loan
Loan Request	$41,841,668
Stabilized NOI	Year Two
Stabilized Cap Rate	7.00%
In-Place NOI	$3,994,077
Requested Loan Term	10 Years with 25 Year Amortization
Guarantors	Principals, Kinsley Equities & Impact Development

Table 10: Loan Request

DEBT FINANCING CONCLUSIONS

Based on an analysis of the financial projections for the project the best form of debt financing for the purchase of the property and the desired capital improvements to increase the value of the asset require the procurement of financing from either a commercial mortgage backed security (CMBS) or life insurance company serving as the lending institution. Conventional bank financing is less than desirable since it would require both recourse lending and a guarantee on behalf of the equity partnership that neither party of the 3000 Falls Road, LP desire to take on. Further, due the type of tenancy that will reside at the Mill No. 1 project the likelihood that the agency financing since there is not a large percentage of affordable units within the residential portion of the project.

Bank	Life Insurance	CMBS	Agency	Balance Sheet
No	Yes	Yes	Yes	Yes
Rates, recourse, and guarantees may not make financing this project with conventional debt plausible. It is unlikely that JV partner ABR would agree to this source of funds.	This is a good match between funding sources and uses. If the borrower's hold period were longer (e.g. ten years) this funding source would work well for this project.	This is a good match between funding sources and uses. If the borrower's hold period were longer (e.g. ten years) this funding source would work well for this project.	Even though the property has some affordable tenancy the ratios are not large enough for an agency lender to consider funding the project.	The cost of capital for a B/S lender is not suited for this project's value added potential. The JV is seeking to maximize returns and not pay more than necessary for funds.

Table 11: Permanent Financing

MARKET AND SUBMARKET ANALYSIS

REGIONAL ECONOMY

Frederick County's available sites include upscale R&D, office, and industrial campuses with in-place amenities. Over 30 industrial and office parks have available sites ranging from one to 200 acres with easy access to a vast transportation network. The available office, flex, and industrial space totals over three million square feet. Frederick County Business Development and Retention Division of the County's Office of Economic Development uses the comprehensive CoStar Property database, to assist businesses in the site selection process. Many of these locations offer outstanding opportunities for information technology, bioscience, or manufacturing operations. The following are selected business parks in the Frederick area, which are zoned for a variety of uses including office, manufacturing, and R&D, and offer both turnkey and build-to-suit options.

- In Center Park, MedImmune and BP Solar are well-established, with both companies undergoing multi-million dollar expansions.
- Ballenger Center is a developing park with both existing and build-to-suit Class A office space that is already home to companies such as Lockheed Martin, General Dynamics, and the Frederick News-Post.
- Wells Fargo is the newest tenant at Riverside Corporate Park, a neighbor to the biotech cluster of SeraCare Bioservices, VaLogic LLC, SriSai Biopharmaceuticals, and Charles River Labs.
- The Riverside Research Park is part of this growing biotech cluster, adjacent to the existing development in the Riverside area and offers 100 acres of developable land for a future R&D campus.
- Frederick Research Park is zoned for a medical and professional offices as well as light industrial, and is home to companies such as PNC Bank, DVC, LLC-A CSC Company, and EDCO Manufacturing.
- For manufacturing and industrial needs, Industrial Center East and Frederick Airport Park offer both existing leasable space as well as land for build-to-suits.
- Frederick's first business incubator – the Frederick Innovative Technology Center, Inc (FITCI) – is jointly supported by the City of Frederick, Frederick County, TEDCO, and many other partners and sponsors. Focused on the bioscience, information technology and green industry sectors, FITCI offers 15,000 square feet of office and wet lab space.

REIS SUBMARKET ECONOMY

According to the latest U.S. Bureau of Labor Statistics (BLS) data REIS's Suburban Maryland market (the combined Rockville-Frederick-Silver Spring/Calvert-Charles-Prince George's County metropolitan divisions) finished 2014 with substantial private employment gains, even as the labor force continues to shrink, .

The latest Current Employment Survey (CES) data from the BLS show that total non-farm employment for Suburban Maryland increased by 10,300 (1.1%) in the 12 months ending in December 2014. Total private employment increased by 6,200 jobs (0.8%). BLS data indicate that the labor force (those employed by companies, the self-employed, and those on record as seeking employment) has shrunk by 3,440 (0.6%) in the 12 months ending in December. This takes some of the luster off the 80-basis-point drop in the unemployment rate, which can be partially marked up to a shrinking labor force, not just more people working. However, the drop in the labor force is considerably lower than that recorded in the prior REIS Observer, so this market is showing some strength.

Exactly how strong was the subject of a January 15, 2015 Washington Post article that asked "Could suburban Maryland usurp Virginia as the region's economic powerhouse?" Some local economic experts conclude that Suburban Maryland could surpass Northern Virginia as the region's economic driver as result of Maryland's emphasis on "health, biotechnology and education," as opposed to Northern Virginia's emphasis on defense-related industries. "In addition, the federal agencies that are based in Maryland—the Food and Drug Administration, National Institutes of Health, and National Institute of Standards and Technology, among others—tend to be less dependent on defense spending and more likely to benefit from government investments in technology and cybersecurity," the Post reported.

According to CES data, overall government employment has increased in the area by 4,100 jobs (1.9%). Government employment is the single largest sector, with 219,300 employed, and gains in that sector can somewhat offset job losses in other areas. For example, the high-wage professional and business services sector, with 168,700 employed, saw a gain of just 600 jobs (0.4%).

This sector's jobs are important enough to fight for, and a March 11, 2015 story on Gazette.net laid out the terms of the struggle. "Marriott International, the hotel giant with about 2,000 employees at its 1-million square-foot Bethesda headquarters, has announced plans to move. It no longer makes sense for the company's offices to be in a sprawling suburban corporate park, CEO Arne M. Sorenson said. To attract young, high-quality talent, it needs to be near a Metro station—and the closest one is the Grosvenor station on the Red Line, about 3 miles away," this source reported. "But Marriott—No. 219 on the Fortune 500 list, with a $753 million profit on $13.8 billion in revenues last year—says it wants to stay in the region. That puts Maryland and Montgomery County in the familiar position of vying with Northern Virginia and Washington, D.C., to come up with an offer that Marriott can't refuse." Gazette.net notes that this is an "unseemly game, but it's the only game in town."

Away from the corporate front, other industries have managed to post gains. Construction and related trades employment increased by 1,700 jobs (2.7%) while leisure and hospitality added a considerable 2,900 jobs (3.3%). Construction is not a large sector but increases here generally mean increased building activity, a good sign for the real estate market. The larger leisure and hospitality, sector, with 91,500 employed, is not high paying sector but indicates increasing activity in the tourism industry. The largely publicly funded education and health services industry, with 126,500 employed, saw a solid gain of 3,300 jobs (2.7%).

Infrastructure designed to support the local economy includes the redevelopment of a nearly 2-mile stretch of Rockville Pike, as reported by Gazette.net on March 24, 2015. "The plan provides an outline for transforming a 382-acre section of the city along the section of MD 355 known as Rockville Pike, stretching from Richard Montgomery Drive in the north to the city's municipal boundaries near Bou Avenue to the south. It would increase density in some areas and look to make the area more hospitable to bicyclists and pedestrians," according to this source. Also in the development mix, "The JBG Cos. is seeking buyers for a major development site in North Bethesda that, when fully built out, is approved to bring more than 400 residential units and 200,000 square feet of commercial space to the site by Rockville Pike and Nicholson Lane," reported the Washington Business Journal March 9, 2015.

Suburban Maryland has a lot of development waiting in the wings, as the pace for 2015 gradually picks up. The jobs situation here could be better, the recovery has not been consistent through the course of 2014. However, the latest numbers are positive enough for the metro region to look forward to 2015.

OFFICE MARKET

Suburban Maryland's general purpose, multi-tenant office market is still stuck with high vacancy rates, with no immediate improvement in site. The January vacancy rate of 16.5% is unchanged from the fourth quarter rate and up 140 basis points over year-end 2013. During the fourth quarter, the Class A vacancy rate decreased 40 basis points to 15.2%, while the Class B/C rate rose 70 to 17.7%. This market's overall annual average from 2010 to 2014 was 15.5%, so landlords are accustomed to, if not particularly fond of, high vacancy rates.

The vacancy rate is forecast to finish 2015 at 15.9%. Colliers reports that "With virtually non-existent absorption mixed with the delivery of the largely vacant 4500 East West Highway, the vacancy rate in Suburban Maryland increased by 10 basis points during 2014. They have steadily risen throughout 2014 and finished at the height of 16.6% in the fourth quarter." Net absorption has been weak, at negative 205,000 square feet in the fourth quarter and negative 408,000 for 2014. Colliers reports 2014 net absorption at minus 476,600 square feet.

Despite high office vacancy, rents increased in each quarter of 2014. REIS reports average asking and effective rents of $28.67/sf and $23.52/sf, both up 0.5% for the quarter, and up 1.5% over the year. Class A rents are reported at $32.96/sf, up 0.5% for the quarter and up 1.8% for the year. Class B/C rents are reported at $24.67/sf, up 0.7% for the quarter and up 0.7% for the year. REIS expects overall average asking and effective rents to post gains of 2.1% and 2.4% in 2015, with stronger gains to follow.

Furthermore, Savills Studley reported that "While quarterly leasing volume of 903,107 square feet was a substantial increase from the record low witnessed during the previous quarter," availability "remained 18.0% below the five-year average. Weak demand from the private and public sector led to an overall availability rate of 18.7%, unchanged from the same time one year ago."

According to Cushman & Wakefield's fourth quarter Suburban Maryland report,"Additional federal consolidations contributed to increasing vacancy rates and year-end negative absorption. Suburban Maryland's overall vacancy rate increased year-over-year by 2.7 pp to end at 21.0%. Pike Corridor and I-270 Rockville saw the largest year-over-year upticks with Pike Corridor increasing 7.7 pp and I-270/Rockville increasing 4.4 pp. Throughout the year these two submarkets have continuously felt the aftermath of consolidations. In Q4 alone, the Food and Drug Administration (FDA) vacated over 180,000 square feet (sf) at 9200 Corporate Boulevard and 11400 Rockville Pike. Additionally, the National Institute of Allergy and Infectious Diseases left over 50,000 sf at 10401 Fernwood Road for its new headquarters at 5601 Fishers Lane. As a result, positive gains in absorption experienced last year were reversed in 2014. All four quarters experienced negative absorption leading to a year-end total of negative 978,127 sf." Cushman & Wakefield reports a direct asking rent of $26.15/sf.

RETAIL MARKET

The Suburban Maryland community neighborhood shopping center market continued with stable occupancy in the fourth quarter of 2014. The quarter's 8.3% vacancy rate was unchanged from the prior quarter and down 50 basis points over 12 months. January data show essentially no change.

The rate for community centers is 9.0%, the rate for neighborhood centers is 7.7%. The neighborhood rate is unchanged from the prior quarter, while the community rate is up 10 basis pionts.

The Bethesda/Silver Spring submarket has the lowest anchor vacancy rate, at 0.0%, and the lowest non-anchor rate, at 7.7%. REIS's fourth quarter data indicate that Gaithersburg/Rockville/ Germantown has the highest anchor and non-anchor rents at $19.95/sf and $32.67/sf, respectively. Vacancies are reported at 5.1% and 8.4%.

REIS reports a power center vacancy rate of 4.1%, down 30 basis points year-over-year. REIS also reports the completion of 24,000 square feet in the second phase of the Market Square at Fredrick as well as 70,000 and 263,713 square feet at the first and second phases of the Towne Center at Laurel in 2014. For 2014, 357,713 square feet of community center space completed construction, compared with community-neighborhood center net absorption at 482,000 square feet.

REIS reports 100,000 square feet of mixed-use retail under construction at The Galavan, forecast to complete in 2016. The Osborne Shopping Center redevelopment remains under construction. The 1-million-squarefoot Ritchie Station Marketplace power center and The Shops At Waldorf Center power center's 80,000-square-foot second phase are both under construction.

Rents posted modest annual gains. REIS reports average asking and effective rents for community-neighborhood center space at $25.90/sf and $22.94/sf, both unchanged for the quarter and up 1.4% and 1.6% year-over-year. REIS reports power center rents at $36.94/sf, up 1.9% over 12 months and expects asking and effective rents to increase by 2.2% and 2.6% in 2015, with larger gains to follow.

INDUSTRIAL MARKET

Suburban Maryland's 36.3-million-squarefoot warehouse/distribution market had a solid fourth quarter. Net absorption posted positive 168,000 square feet over the quarter to bring the annual total to 164,000 square feet. January followed with another 45,000 square feet. Fourth quarter vacancy, at 10.5%, was down 40 basis points over the quarter and the year.

The average asking and effective rents increased 0.4% and 0.6% in the fourth quarter to $7.62/sf and $7.01/sf, respectively. These rates are up 0.9% and 1.2% year-over-year. January rents showed no change. No warehouse/distribution buildings completed construction in 2014. A 50,000-square-foot warehouse/distribution facility remains under construction in the Beltsville/Laurel submarket with an April 2015 completion date. Three other warehouse buildings are under construction in the Reserve Business Center in Gaithersburg. The vacancy rate is forecast to fall to 10.0% at year-end 2015. Rent gains of 1.7% asking and 2.1% effective are forecast for this year.

FLEX/R&D MARKET

The 20.1-million-square-foot flex/R&D market's vacancy rate increased to 11.1% at year-end 2014, up 10 basis points from the prior quarter and up 20 points over 12 months. The rate was unchanged in January.

The year marked the completion of three flex/R&D buildings, totaling 171,177 square feet. A 220,800-square-foot flex/R&D building is under construction in Phase I of Collington Park, with a June completion date.

Net absorption had a good quarter, posting 141,000 square feet to bring the annual total to 118,000 square feet. January followed with negative 12,000. Fourth quarter 2014 asking and effective rents, at $11.38/sf and $10.35/sf, were up 0.4% and 0.5% for the quarter and 1.4% and 1.7% for the year. Gains of 1.9% asking and 2.4% effective are forecast for 2015.

According to REIS, the warehouse/distribution submarket with the highest asking rent was Bethesda/Rockville at $10.77/sf. For flex/R&D space, the Bethesda/Rockville submarket also had the highest at $15.08/sf. The flex/R&D submarket with the lowest vacancy was Gaithersburg/ Germantown, at 5.0%, which also had the lowest warehouse/distribution rate at 2.9%.

A comprehensive assessment of the Suburban Maryland flex/R&D market shows that the dominant concentrations of competitive flex/R&D space are located in the Gaithersburg/Germantown submarket, representing 5.2 million square feet and 25.8% of the metropolitan inventory, followed by the Route 50 Corridor, with a 22.8% share, and Frederick (13.6%). Since the beginning of Q1 2011, the fastest growing area has been the Capitol Heights/Ft. Washington/Kettering submarket, adding 231,000 square feet over that period, or 53.1% of total metropolitan flex/R&D completions. Asking and effective rents increased by 0.4% during the fourth quarter of 2014 to an average of $11.38/sf.

<u>REGIONAL SUPPLY TRENDS</u>

The market has experienced six consecutive quarterly gains in asking rent, for a cumulative total of 2.2%. Since the beginning of Q1 2011, the market as a whole has recorded an annual average increase of 1.0%. Effective rents, which exclude the value of concessions offered to prospective tenants, rose by 0.5% during the fourth quarter to an average of $10.35/sf. Positive movement in asking rent was recorded in all six of the market's submarkets.

Competitive Inventory, Employment, Absorption Total employment in Suburban Maryland grew by 1,100 jobs during the fourth quarter, amounting to a growth rate of 0.1%, while industrial employment contracted by 224 jobs. Since the beginning of Q1 2011, the average growth rate for industrial-using employment in Suburban Maryland has been -1.3% per year, representing the average annual loss of 888 jobs. The market experienced absorption of 141,000 square feet during the fourth quarter. Over the last four quarters, market absorption totaled 118,000 square feet, 0.8% lower than the average annual absorption rate of 119,000 square feet recorded since the beginning of Q1 2011. From a historical perspective, the fourth quarter vacancy rate is 0.6 percentage points lower than the 11.7% average recorded since the beginning of Q1 2011.

Outlook Construction activity is projected to continue in the next two years, during which a total of 353,000 square feet is expected to be introduced to the market. Industrial employment growth in the metropolitan region over the same period is projected to average 0.7% annually, enough to facilitate an absorption rate averaging 253,000 square feet per year. This absorption rate is projected to more than offset the effect of newly added inventory, placing downward pressure on the market vacancy rate, which will decline to 10.1% by the end of 2016.

Thereafter, REIS anticipates that asking rent growth will accelerate to an annualized average of 2.3% during 2015 and 2016 to reach a level of $11.92/sf. Effective rents will rise by a more rapid annualized average rate of 2.7%, as market conditions begin to allow landlords to limit the value of their concession packages.

The Frederick economy is beginning to recover. However, because of the impact of the economic downturn on vacancy rates, recovery will not immediately trigger a wave of new construction. Rather, recovery will continue to be associated with stabilizing vacancy rates and rents. The recession has created a glut of commercial space in the Frederick market. Frederick County's industrial vacancy rate is relatively high. According to CBRE, by the end of 2013, overall vacancy in the industrial/warehouse market stood at 16 percent, well above the corresponding rates in Montgomery and Prince George's counties. There were no square feet under construction in any of these three markets.

However, the Frederick area's improving economic conditions, along with continued business development in the life science and technology sectors there is sufficient demand to warrant the phased development of the Concourse Commercial Center in East Frederick.

VERY LITTLE NEW SPACE HAS BEEN DELIVERED SINCE THE PREVIOUS REPORT WAS SUBMITTED. MOREOVER, THERE HAVE BEEN A NUMBER OF QUARTERS ASSOCIATED WITH SIGNIFICANT NEGATIVE NET ABSORPTION, WHICH IS CONSISTENT WITH THE HIGH OBSERVED VACANCY RATE IN THE LOCAL INDUSTRIAL MARKET.

INDUSTRIAL VACANCY IS ELEVATED IN THE CITY OF FREDERICK BASED ON COSTAR DATA AND AVERAGE ASKING RENTS HAVE BEEN STAGNANT FOR THE PAST 5 YEARS.

EXHIBITS 2.22 AND 2.23 INDICATE AN INDUSTRIAL MARKET IN THE CITY OF FREDERICK THAT IS HOLDING ITS OWN IN TERMS OF LEASING ACTIVITY, BUT ONLY MANIFESTING SPORADIC INDICATIONS OF PROGRESS. WHAT IS MOST INTERESTING IS THAT MUCH OF THE LEASING IN RECENT QUARTERS HAS BEEN IN OLDER INDUSTRIAL SPACE. THIS IS NOT SURPRISING GIVEN THE HIGHLY LIMITED AVAILABILITY OF CLASS A SPACE, BUT ALSO MAY BE A REFLECTION OF ENTREPRENEURIAL ACTIVITIES AMONG CRAFT BREWERS, ARTISANS OR OTHER START-UP OR EMERGING BUSINESSES.

EAST FREDERICK RISING IS HOME TO ROUGHLY TWO-THIRDS OF THE CITY'S INDUSTRIAL SPACE INVENTORY WHETHER MEASURED IN TERMS OF RENTABLE BUILDING AREA OR TOTAL AVAILABLE SQUARE FEET.

AS WITH OTHER COMMERCIAL REAL ESTATE SEGMENTS, RECENT YEARS HAVE BEEN ASSOCIATED WITH SOFT NET ABSORPTION AND SUBDUED DELIVERIES. IN FACT, THERE HAVE BEEN NO DELIVERIES OF FLEX SPACE IN THE CITY OF FREDERICK SINCE THE INITIAL QUARTER OF 2008, AN INDICATION THAT AT LEAST FOR MUCH OF THE PERIOD SINCE THE RECESSION BEGAN (DECEMBER 2007), FLEX SPACE SUPPLY HAS EXCEEDED DEMAND.

RISK ASSESSMENT

The business environment is characterized by business cycles and market changes as the quick entry into the marketplace of competition in areas where business success may be developing projects in the area. Therefore this venture must be tuned to these pressures for change and must continually be developing strategies to cope with them. Anticipating the needs resulting from being responsive to market changes means factoring these variables into the overall budget to carry the mitigation plans out in a fashion that enables the owner/asset manager to control the situation rather than be controlled by it as best as possible. The project shown here appears to be economically feasible as described. The factors that could pose serious impediments or constraints are essentially the untested variables at this point. Of concern should be the following issues:

Systemic Risks

- Market – there are other mixed use development projects in the pipeline for the greater Baltimore region that will compete in some fashion with the Mill No. 1 property. While the
- Political – the Baltimore Regional Transportation Board (BRTB) may not support a light rail station at the property since the other two stops are approximately one mile north and one mile south of the Mill No. 1 site.
- Interest Rates – Quantitative Easing has reduced interest rates to historical lows but one can only presume that it will remain that way much longer. The Federal Reserve will have to increase interest rates at some point to offset the possibility of deflation no matter how remote it may be.

Non-Systemic Risks

- Vacancy – while the lease up rate has been favorable one cannot help but wonder what additional supply of residential apartments and commercial space will have on the performance of Mill No. 1 over the long run.
- Liquidity – although Frontier is purchasing a core asset they may encounter some difficulties disposing of the property if there is a soft market which in turn would mean that they would have to sell it at a discount or conversely hold the property longer than desired under their business plan.

These variables can only be tested in application. However, many of these inherent risks can be mitigated by effective asset and property management by Frontier. For example the collective risks of interest rates, vacancy, and liquidity can be monitored and action steps taken to avert the impacts of each in succession either by hedging the rates, offering leasing concessions or varying rental rates for credit worthy tenants, and altering plans to hold the property until market conditions are ideal should they fall outside of the set term for carrying the property.