

## One Lincoln Street (B)

Timing, luck, and a little bit of guts. That's how John Hynes summarized the recipe for success for the One Lincoln Street development. But Linda Douglass, Senior Acquisition Officer for Atlantic-Pacific Property Corp., wasn't buying John's latest attempt at humility. Linda had bought more than a billion dollars of property over the past five years and knew all too well the amount of negotiating, positioning, persuasion and determination needed to develop a spec building in Boston.

As coffee was being served and their lunch was coming to an end, it was clear that Linda wanted to know more about the construction and financial status of One Lincoln Street, and to pick up on John's seemingly off-hand comment regarding how Gale & Wentworth might best proceed to monetize the substantial investment value it had created during the development and lease-up phases. Linda had known John for over 15 years dating back to when she was an analyst for a private real estate fund that acquired multi-family apartments. Now at Atlantic-Pacific, this was the first time she had the sense there might be a real transaction for her and John to explore.

### **Background**

In mid-1999, John Hynes identified – and then secured – a million square foot office development opportunity adjacent to South Station in Boston. The project, known as One Lincoln Street, had been kicking around for years but could never find a way to get off the ground. That is, not until the office market came storming back and John Hynes and his partners at Morgan Stanley stepped into the breach and committed enough capital to complete the required site assemblage and perfect the entitlements necessary to proceed to construction. Beyond that, all that was needed was another \$300 million and a tenant or two.

As it turned out, the capital was delivered first courtesy of Midwest State Teachers Retirement System (“STRS”). They, too, believed in the long-term vibrancy of the Boston office market and committed over \$150 million of equity to commence construction and secure required construction financing. And to everyone's surprise, John (with a little help from the overheated Boston office market) actually convinced STRS to flex their investment policies a wee bit and proceed to construction on a speculative basis.

That's when the unexpected occurred.

So much of John's time and energy had been spent negotiating the terms and conditions of the site acquisition, construction loan documentation, and joint-venture structure that he hadn't even begun to seriously engage the marketing effort for the project. Day-in and day-out his focus was on finalizing the papering of the deal so he could break ground and prove to the marketplace that he had a real project. He never expected to have a letter of intent signed for any space in the building before the heavy site work began. And he certainly never expected to receive a call from Commonwealth Avenue Custody Corporation asking if he could quickly respond to an RFP for 700,000 square feet of space before the construction drawings were even submitted to the city for review.

But what was really unexpected was the actual signing of a lease with Commonwealth Avenue before the first yard of concrete was poured. And not for 700,000 square feet; but for each and every of the 1,025,000 rentable square feet in the building. Along with the parking garage. For 20 years. With rent bumps.

Now that was unexpected.<sup>1</sup>

### **Venture Dynamics**

You'd think a 20-year lease with AA- rated credit would simplify things. Not necessarily. As John motioned to the waiter for the check, he mentioned to Linda that he had to catch a shuttle to New York for a late afternoon meeting with Morgan Stanley. Despite the project being on schedule, slightly under budget (due to a drop in short-term interest rates), and ready for certificates of occupancy on the first 20 floors, there was a certain restlessness brewing within the venture. MSGW III, the fund that supplied the remaining 10% of the initial equity not otherwise committed by STRS, was strategically reviewing its asset allocations and debating the wisdom of monetizing or selling its equity position in the project. After all, MSGW III was an opportunity fund that advertised a 5-year expected life, and had had a substantial amount of capital committed to One Lincoln Street without any return for over 3 years.

While thrilled with the overall outcome of the Commonwealth Avenue lease, the space and capital markets had changed rather dramatically since the initial equity funding. In the space markets, Class-A vacancy rates (including sublease space) increased from under 4% in 1999 to approximately 5%, 10% and 15% in 2000, 2001, and 2002, respectively. Current (mid 2003) vacancy rates approached 16% (see **Exhibit 1**). Asking rents for Class-A space had decreased about 25% from about \$65 per rentable square foot in 2000 to \$50 or less in mid 2003, and most market watchers expected continued decreases throughout the remainder of the year. Current effective rents (incorporating free rent concessions, above-standard tenant improvements, etc.) were now at least 10% lower than asking rents.

In the capital markets, interest rates on both long and short term debt instruments had also decreased significantly. Yields on 10-year Treasury securities had decreased from about 6.50% in early 2000 to about 3.75% in mid 2003. Yields on 15 and 20-year Treasury

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<sup>1</sup> The unusually prolonged closing festivities, however, were not.

securities were currently about 4.00% and 4.25%, respectively. The combination of these trends – weakening space market fundamentals and historically low interest rates – made the Morgan Stanley crowd fairly serious about the idea of harvesting profits.

And then there was STRS. As part of its ongoing asset management discipline, STRS was similarly reviewing its asset allocations, particularly within regions like greater Boston that had recently exhibited a high degree of both demand and rental rate volatility. Due to its relatively unique leasing profile, STRS was quite comfortable with its investment in One Lincoln Street; so much so that members of the asset management staff routinely joked about transferring their joint-venture interest in One Lincoln Street to the fixed income group in exchange for a few more days of paid vacation.

Some others within the asset management group, however, were thinking a bit more seriously. Included within the venture documentation were heavily negotiated provisions relating to mechanisms by which both STRS and MSGW could either acquire each other's interest in the venture or divest their existing interests. Indeed, one senior asset manager was openly debating the long-term alignment of interest between STRS and MSGW, essentially asking why (now that the building is completed) is MSGW such a good long-term partner?

The leasing profile of One Lincoln Street made it exactly the type of asset STRS sought to acquire: one that generated safe, long-term cash flows with predictable built-in growth and little or no future capital expenditures. And STRS was having more than a bit of trouble finding similar type assets, particularly ones that were fairly priced. It was because STRS believed that the negotiated acquisition mechanisms within the venture would deliver fair prices to either party, that some serious discussions had begun regarding triggering the operation of the venture's Buy/Sell provisions to acquire MSGW's interest.

And, yes, Morgan Stanley (and now Gale & Wentworth) had gotten wind of it.

### **The Buy/Sell Provisions**

They worked like this:

- ✚ Any time after shell completion, either STRS or MSGW could submit an offer to purchase the other party's entire equity interest in the development by delivering to the other party a Buy/Sell Offering Notice that included a "Specified Valuation Amount" which the offering party would be willing to pay *in cash* for one hundred percent (100%) fee ownership of the development;
- ✚ The non-offering party would then have 45 days to notify the offering party whether or not it elected to
  - sell (as "Seller") its entire equity interest in the development to the offering party for a price equal to the amount the non-offering party would have received had the development been sold for the Specified Valuation Amount, or

- acquire (as “Purchaser”) the entire equity interest in the development of the offering party for a price equal to the amount the offering party would have received had the development been sold for the Specified Valuation Amount;
- ✚ If the non-offering party failed to notify the offering party of its election prior to the 45-day Buy/Sell election period, then the offering party could acquire as Purchaser the entire equity interest of the non-offering party;
- ✚ At the time of either party’s election to purchase, the Purchaser would be required to make a non-refundable deposit to the Seller equal to five percent (5%) of the amount the Seller would otherwise receive;
- ✚ If the Purchaser failed to perform, in breach of its purchase obligation, then the Purchaser would (i) forfeit its five percent (5%) deposit, (ii) be responsible for all closing costs actually incurred (including, without limitation, escrow costs and transfer taxes), and (iii) lose all future rights to trigger the Buy/Sell provisions thereafter; and
- ✚ As a result of the breach of the Purchaser’s obligations, the Seller would have the option, within 30 days of default by the Purchaser, of substituting itself as Purchaser and thereupon have the right to Purchase the other party’s entire equity interest in the development for eighty-five percent (85%) of the amount that the other party would have otherwise received had the development been sold for the Specified Valuation Amount.

### **Trouble in Paradise?**

On the shuttle to Manhattan, John couldn’t help but think of how much he wanted to preserve an ownership interest in the asset he had worked so hard to create. From his perspective, he was in the development business for the long haul – not the quick flip. He understood only too well that a development deal like One Lincoln Street happens once in a career – and only if your timing’s damn good and you’re damn lucky and you’ve got a lot of guts. The guys at Morgan Stanley didn’t understand that; or even if they did, they couldn’t care less about his personal business philosophy. He knew the conversation would be about “harvesting” and “rebalancing” and “posting numbers”. And he knew *he* wasn’t going to be happy with a decision to sell out to STRS.

Unfortunately, the meeting went pretty much as he predicted. Morgan Stanley reiterated their understanding that STRS was preparing a Buy/Sell Offering Notice that contained the required Specified Valuation Amount, and that such Specified Valuation Amount was being established through an independent MAI appraisal process (see **Exhibit 2** for recent building sales information). In addition, Morgan Stanley presented all of their high-brow reasons for why they needed to cash out and how they would try to position STRS to get the highest possible valuation for One Lincoln Street. But despite all the pinstriped bravado, one thing was clear from the meeting: if MSGW didn’t like the Specified Valuation Amount offered to them by STRS, they weren’t in a very good

position to come up with over a half billion dollars in 45 days to exercise their option to buy out STRS' interest. They didn't have a plan for that; they didn't even have a plan for a plan. At least not until John Hynes put a call into Linda Douglass from the shuttle back to Boston to set up a meeting at his office for early the following morning.

## **Plan B**

Linda arrived at John's office at 8:00 am. She was more than a little curious as to why he wanted to meet so quickly. Before she even had the time to put milk in her coffee, John had already launched into a discourse on the status of the One Lincoln Street development and the impending ownership issues within the venture. Then John pointedly asked Linda if Atlantic-Pacific had the financial capacity to make a credible purchase offer for the property and if she was willing to conditionally explore such an acquisition.

She responded "Yes. Yes. And what exactly do you mean by conditionally?"

John explained "conditionally": he was willing to give Linda an *exclusive* opportunity to submit an *informal* purchase offer to acquire a majority ownership interest in One Lincoln Street. Because he was presenting this acquisition opportunity exclusively to Atlantic-Pacific, he made it very clear to Linda that any informal purchase offer she submitted should be considered as "take-it-or-leave-it." A *formal* purchase offer, if subsequently requested by MSGW and submitted by Atlantic-Pacific, would be in the same amount as the informal purchase offer and would, necessarily, be a "backstop" offer: that is,

- ✚ it would be submitted to MSGW on the same basis that STRS would be required to submit its Specified Valuation Amount for the development (i.e., 100% fee ownership);
- ✚ if such offer were greater than or equal to the Specified Valuation Amount submitted by STRS, MSGW would exercise its option to acquire STRS' interest at a price equal to what STRS would otherwise receive if the development were sold for the Specified Valuation Amount;
- ✚ the extent, if any, to which Atlantic-Pacific's formal purchase offer exceeded the Specified Valuation Amount would be paid to MSGW in cash at closing; and
- ✚ MSGW, or its assignee, could continue to own its current equity interest in the venture (or could elect to be partially cashed-out on a proportionate basis) and would continue to manage the development.

John was confident he could get Morgan Stanley to participate, at some level, within that framework. This was his opportunity to *both* harvest profits and stay in the deal. Simple enough, right?

Simple, but not that simple. Linda quickly pointed out to John that, as a vertically-integrated public real estate operating company, Atlantic-Pacific would never make a

substantial acquisition without controlling the management of the asset and being fairly compensated to do so. If John wanted a formal “backstop” purchase offer from Atlantic-Pacific, he could forget about retaining management or any portion of the management fee (of which an estimated 75% was net profit after allocated staff cost).

After a somewhat long and uncomfortable silence, John agreed to Linda’s rather firm position, but felt obligated to impose a few conditions of his own: namely, that (i) Atlantic-Pacific’s informal purchase offer was due within 10 calendar days, irrespective of when, or if, STRS ever delivered a Buy/Sell Offering Notice, (ii) as part of its formal purchase offer, Atlantic-Pacific would be required to indemnify MSGW against any and all financial loss or damage relating to Atlantic-Pacific’s failure to perform under such purchase offer, if such offer were formally accepted by MSGW, and (iii) based on Commonwealth Avenue’s credit, the absence of future landlord-funded capital expenditures, and the built-in rent steps throughout the initial 20-year lease term, he thought her offer price should start with a “7”. Linda wasn’t exactly sure how to evaluate John’s last condition, but she thought she understood the first two.

Linda left John’s office with an abstract of the 400+-page office lease with Commonwealth Avenue Custody Corporation and a promise to immediately receive mountains of due diligence materials on the legal and physical status of the building. As she walked back to her office, she thought about two things: one, the need to quickly marshal the resources of her acquisition team to commence the necessary due diligence; and two, the need to quickly review the lease abstract and attached projection of Property Before-Tax Cash Flow (see **Exhibit 3**). She’d done this many times before so she knew where to start and what to focus on.

### **The Lease and Lessee**

The lease executed with Commonwealth Avenue Custody Corp. was a 20-year full service gross lease with tax and operating expense stops that ensured the lessor that virtually all increases in property taxes and operating expenses throughout the 20-year term of the lease would be fully reimbursed by Commonwealth Avenue as additional required rent. Under the terms of the lease, MSGW had provided a fixed tenant improvement allowance to Commonwealth Avenue (which had already been fully dispersed for construction of interior improvements), paid all required brokerage commissions, and agreed to limit its annual property management fees to about 0.9% of Effective Gross Income. The scheduled commencement date for the lease was only a few months away.

With over \$6 trillion of assets under custody and more than three-quarters of a trillion dollars of assets under management, Commonwealth Avenue Custody Corporation was one of the leading servicers of financial assets in the world. Based in Boston, Commonwealth Avenue occupied well over a million square feet in the greater Boston area and was the sole tenant of One Lincoln Street. Commonwealth Avenue was publicly-traded and had an issuer credit rating of AA- by Standard & Poor’s, enabling it to borrow money in the long-term public bond markets at approximately 85 basis points over comparable-term U.S. Treasury securities.

## **Atlantic-Pacific Property Corporation**

Linda started with Atlantic-Pacific shortly after it went public in the mid '90's. As an acquisitions officer working for a publicly-traded REIT, Linda's responsibility was to understand not only the micro-level dynamics of specific property markets, but to apply proven capital budgeting techniques and required financial accounting conventions to arrive at investment decisions that added value to Atlantic-Pacific's growing franchise. An important part of Linda's responsibility was to thoroughly understand the financial performance of Atlantic-Pacific and to integrate that understanding into value-enhancing capital investment decisions. Selected summary (historical) financial data for Atlantic-Pacific is presented in **Exhibit 4**.

In her frequent discussions with Atlantic-Pacific's CFO, Linda had become aware of the CFO's perspective and concerns relating to large deployments of investment capital. For any investment over \$100 million, she'd been informed that the company would be required to issue both additional equity and unsecured debt. Atlantic-Pacific's stock price had just recently regained the \$44 share price it enjoyed about three years earlier. Over the past two years, Atlantic-Pacific had been very cautious about issuing new equity; however, after recently acquiring assets on its unsecured credit line, it found itself with a debt-to-total market capitalization ratio of approximately 50% – a threshold it didn't really want to exceed. Any significant acquisition of property would most likely be financed with 50% equity (through a secondary public offering with an underwriters' spread of 5%) and 50% unsecured debt which Atlantic-Pacific could issue at about 175 basis points over comparable-term treasuries, excluding financing fees and closing costs of about 25 basis points (see **Exhibit 5**).

Linda was also painfully aware of the fact that the company's primary investment markets had softened rather significantly. As a result, the company's "same portfolio" year-over-year cash-basis NOI growth rate had decreased from about 6% three years ago, to about 3% two years ago, to virtually no growth last year. Expectations for 2003 were for negative NOI growth (contraction) of about 1%.

According to the CFO, Atlantic-Pacific's FFO per share, which had grown significantly over the past five years, was also now likely to plateau due to deteriorating property market fundamentals and the relatively small amount of existing secured mortgage debt available to be refinanced by the company at significantly lower rates. A few stock analysts were even reducing their estimates of Atlantic-Pacific's FFO per share to slightly below the \$4.00 level achieved in 2002. Based on increased market-based tenant improvement allowances and other structural characteristics of the company's assets and liabilities, Atlantic-Pacific's operating cash flow, as measured by its Funds Available for Distribution (FAD), was currently estimated at about 80% of its Funds From Operations (FFO), or about \$3.20 per share. The analysts that estimated REIT Net Asset Values (NAV) were currently in the range of \$39 to \$42 for Atlantic-Pacific's shares.

## Screening

Based on everything that was happening at both the property and corporate levels, Linda knew the CFO was every bit as anxious to evaluate her preliminary bid as John Hynes was. Yet before taking the time to complete a comprehensive purchase offer analysis, she quickly put the cash-basis financial projection for the property (attached to the lease abstract given to her) through her first feasibility screen. The purpose of this screen was to determine if, at John Hynes' purported \$700 million minimum offer price, a hypothetical acquisition of a 100% fee ownership interest would generate a *pro forma* incremental cash surplus or deficiency to Atlantic-Pacific's shareholders based on the assumed 50/50 debt/equity capitalization and current dividend payout levels (see Exhibit 6).

Her next financial feasibility screen was the financial reporting analog, or *pro forma* accretion/dilution to Funds From Operation (FFO)<sup>2</sup> per share. For this acquisition, she would specifically assume that the only additional company-level general and administrative (G&A) expense would be (i) the building personnel costs included in the administrative cost line item of the property operating expense budget (Exhibit 3) and (ii) direct overhead costs equal to about 25% of the annual property management fee (implying the remaining 75% of the fee would be a new profit center to the company).

To prepare this accounting-based analysis, she knew she would need to adjust the Base Rental Revenue payable by Commonwealth Avenue to reflect the financial reporting conventions under generally accepted accounting principles (GAAP). These financial reporting conventions require that:

- ✚ all contractual Base Rental Revenue (and any applicable free rent periods) be reported on a straight-line basis over the term of the lease, as opposed to the manner in which the specific annual contractual Base Rental payments would actually be received by Atlantic-Pacific, and
- ✚ the present value<sup>3</sup> of the "above-market" portion of the annual contractual Base Rents be amortized on a straight-line basis as a deduction in arriving at Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). In this regard, Linda believed – and felt Atlantic-Pacific's independent auditors may also believe – that, over the twenty-year term of the lease, the annual contractual Base Rents per square foot (reflecting the periodic rent bumps) were no less than about \$15

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<sup>2</sup> For purposes of this financial feasibility screen, Linda knew she could quickly estimate the property's contribution to the company's existing annual FFO, as:

- (i) the property's annual Earnings Before Interest, Taxes, Depreciation and Amortization (under GAAP),
- (ii) plus the "profit center" portion of the annual property management fee,
- (iii) less any incremental annual interest expense incurred in connection with acquiring the property,
- (iv) less any amortization of applicable financing fees and costs.

<sup>3</sup> Computed using an appropriate risk-adjusted discount rate reflecting the risk associated with collecting the contractual annual Base Rents.



per square foot per year above current market lease pricing for leases of comparable term.

### **Bid Preparation – The Final Frontier**

Putting financial assumptions through preliminary feasibility screens is one thing; valuing a major real estate asset with conviction is quite another. Linda had a lot of information – and a lot of issues – to synthesize.

For example, she knew that an offer price of \$700 million or more would imply a very low acquisition cap rate, even lower than the cap rates observed during the height of the market when the lease with Commonwealth Avenue was signed (cap rates on recent multi-tenant office building sales in Boston were in the 7.0% range). Linda also realized that while Commonwealth Avenue's lease had contractual rent steps, it also had contractually limited rent growth. Then again, market rents in their core markets had been deteriorating and this asset might now represent an excellent long-term performance hedge for their portfolio. She then thought for a moment about some of the challenges associated with articulating those possibly conflicting arguments as part of her pricing recommendation, both to senior management and, ultimately, the REIT analyst community if Atlantic-Pacific ended up owning the building.

Linda knew she had to try to explicitly incorporate the somewhat unique characteristics of a 20-year lease and Commonwealth Avenue's investment grade credit rating into the valuation of the asset on a stand-alone basis as well as an addition to Atlantic-Pacific's existing portfolio cash flows. Linda understood that, from a default and loss perspective, the lease with Commonwealth Avenue was not quite the equivalent of a bond; however, she also knew that the uncertainty associated with collecting the annual rent from Commonwealth Avenue would be much less than that associated with collecting the annual rent from many of the tenants in other buildings owned by Atlantic-Pacific.

Senior management at Atlantic-Pacific believed that the legal structure of a lease generally imposed more obligations on a landlord than a bondholder in terms of being entitled to demand payment. That said, they had often argued that a leaseholder was more likely to get paid than a bondholder during the early stages of a tenant's financial distress (in order for the tenant to keep the doors open and remain in business), but once a bankruptcy petition was filed by the tenant, the leaseholder (as an unsecured creditor) was likely to receive at least a third less in terms of percentage recovery than were bondholders (as secured creditors). This was primarily due to the tenant's right to reject the lease as part of a confirmed reorganization plan under the federal bankruptcy code. Based on this reasoning, Linda figured that an additional 25 to 50 basis point premium over the yield on Commonwealth Avenue's long term bonds was warranted when trying to determine the value of the Commonwealth Avenue lease.

There just seemed to be a lot of basic questions that were a little harder to answer on this deal than others she had worked on. For example:

- ✚ How might Commonwealth Avenue's Right-of-First Offer-on-Sale affect her valuation of the property? That right provides that:

- If the Landlord wishes to sell the property, it must first notify Commonwealth Avenue. Commonwealth Avenue then has 60 days to review the property and make an offer to purchase it.
  - The Landlord is free to accept or reject Commonwealth Avenue's offer.
  - However, should the Landlord reject Commonwealth Avenue's offer, it is free to sell the property to a third-party purchaser only if the sales price offered by such third-party purchaser is at least 2% greater than the price offered by Commonwealth Avenue.
- ✚ What could the building be sold for in 20 years when the lease expired? The Commonwealth Avenue lease contains two 10-year renewal options (applicable to its entire premises); the first of which is at 95% of Fair Market Rent, the second at 100%. What's the probability that Commonwealth Avenue would exercise its first renewal option?
  - ✚ If such renewal option(s) weren't exercised, what would an owner have to reasonably expect to incur in terms of vacancy and tenant improvement and commission costs in connection with re-leasing the entire building?
  - ✚ Where would market rents and related operating and capital expenses be in 20 years? To Linda, twenty years seemed like a pretty long time; yet to her CFO, twenty *weeks* seemed like an eternity.
  - ✚ Based on Commonwealth Avenue's twenty-year lease term, what effect, if any, could arranging debt financing for a term in excess of ten years have on her determination of value for the building.
  - ✚ And the likely financial reporting impact on FFO per share – which is nothing more than an accounting fiction – how important is that really?

Lot's of important questions to ponder when you're the Senior Acquisition Officer. And in short order, she knew she'd have to be able to respond to all of them in front of the investment committee. Quite simply, she had to prepare a bid on the largest potential acquisition of her career, and defend it on both a cash and financial reporting basis.

All things considered, this was one of those days when Linda wondered aloud why she didn't just stick with apartments.

# Exhibit 1

## Boston Office Market:

### Historical Class-A Vacancy and Asking Rents

<u>Year</u>	<u>Class-A Vacancy Rate</u>	<u>Class-A Asking Rent PSF</u>
1975	15.3%	\$14.00
1976	14.5%	12.00
1977	12.8%	12.00
1978	9.5%	14.00
1979	6.3%	16.00
1980	3.5%	20.00
1981	4.8%	22.00
1982	3.5%	25.00
1983	3.8%	30.00
1984	11.5%	35.00
1985	9.5%	38.00
1986	10.0%	42.00
1987	10.0%	44.00
1988	14.0%	50.00
1989	16.0%	55.00
1990	17.3%	40.00
1991	19.0%	30.00
1992	17.0%	25.00
1993	15.1%	26.00
1994	13.0%	27.00
1995	10.5%	30.00
1996	7.5%	34.00
1997	6.0%	40.00
1998	4.2%	50.00
1999	3.8%	60.00
2000	4.8%	65.00
2001	10.5%	60.00
2002	15.0%	50.00
2003 (mid.)	<u>15.9%</u>	45.00
Mean	10.5%	

## Exhibit 2

### Boston Office Market:

### Recent Sales Activity

<u>Building</u>	<u>Purchase Price</u>	<u>Rentable Square Footage</u>	<u>Price PSF</u>	<u>Reported Cap Rate</u>	<u>Sale Date</u>
99 Summer Street	\$68,300,000	272,000	\$251.10		2003
John Hancock Tower Complex	910,000,000	2,885,000	315.42		2003
745 Atlantic Avenue	54,650,000	176,000	310.51		2003
50 Milk Street	109,230,000	274,000	398.65		2002
101 Arch Street	89,000,000	407,000	218.67		2002
501 Boylston Street	122,627,000	550,000	222.96		2002
116 Huntington Avenue	68,000,000	268,672	253.10		2002
One Boston Place	267,000,000	770,000	346.75	7.5%	2002
One Federal Street	375,400,000	1,105,064	339.71	7.2%	2001
53 & 75 State Street	687,755,000	2,100,000	327.50		2001
One Liberty Square	48,365,000	157,467	307.14		2001
99 High Street	213,312,500	730,000	292.21	7.1%	2001
855 Boylston Street	47,200,000	144,825	325.91		2000
One Beacon Street	140,000,000	1,000,000	140.00	8.0%	2000
85 Devonshire / 262 Washington	195,000,000	910,000	214.29	8.9%	2000
260 Franklin Street	76,000,000	349,000	217.77	7.0%	2000
One Boston Place	188,350,000	770,000	244.61	7.75%	2000

### Exhibit 3

## ONE LINCOLN STREET

### PROJECTED NET OPERATING INCOME AND CASH FLOW FROM OPERATIONS

(\$ in Thousands)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Base Rental Revenue	\$47,215	\$57,397	\$57,397	\$57,397	\$57,397	\$63,541	\$63,541	\$63,541	\$63,541	\$63,541	\$68,675	\$68,675	\$68,675	\$68,675	\$68,675	\$73,800	\$73,800	\$73,800	\$73,800	\$73,800
Allowance for Free Rent	(4,400)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Absorption and Turnover Vacancy	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Scheduled Base Rental Revenue	42,815	57,397	57,397	57,397	57,397	63,541	63,541	63,541	63,541	63,541	68,675	68,675	68,675	68,675	68,675	73,800	73,800	73,800	73,800	73,800
Operating Expense Reimbursement	0	72	408	680	978	1,285	1,581	1,886	2,201	2,540	2,846	3,178	3,520	3,872	4,235	4,609	4,994	5,390	5,798	6,218
Real Estate Tax Reimbursement	0	61	345	576	826	1,084	1,336	1,596	1,864	2,149	2,441	2,740	3,048	3,365	3,691	4,028	4,374	4,731	5,098	5,477
Net Parking Revenue	3,850	4,844	5,271	5,602	5,932	6,088	6,243	6,401	6,559	6,719	6,921	7,129	7,343	7,563	7,790	8,024	8,265	8,513	8,768	9,031
Antenna Income	<u>120</u>	<u>270</u>	<u>350</u>	<u>361</u>	<u>371</u>	<u>382</u>	<u>394</u>	<u>406</u>	<u>418</u>	<u>430</u>	<u>443</u>	<u>456</u>	<u>470</u>	<u>484</u>	<u>499</u>	<u>514</u>	<u>529</u>	<u>545</u>	<u>561</u>	<u>578</u>
Effective Gross Income	46,785	62,644	63,771	64,616	65,504	72,380	73,095	73,830	74,583	75,379	81,326	82,178	83,056	83,959	84,890	90,975	91,962	92,979	94,025	95,104
Operating Expenses	(8,218)	(8,468)	(8,717)	(8,976)	(9,273)	(9,525)	(9,809)	(10,103)	(10,405)	(10,742)	(11,064)	(11,396)	(11,738)	(12,090)	(12,453)	(12,827)	(13,212)	(13,608)	(14,016)	(14,436)
Non-Reimbursable Administrative	(350)	(361)	(371)	(382)	(394)	(406)	(418)	(430)	(443)	(457)	(471)	(485)	(500)	(515)	(530)	(546)	(562)	(579)	(596)	(614)
Parking Expenses	(771)	(793)	(815)	(837)	(861)	(885)	(909)	(935)	(961)	(988)	(1,016)	(1,044)	(1,073)	(1,103)	(1,134)	(1,166)	(1,199)	(1,233)	(1,268)	(1,304)
Real Estate Taxes	(5,316)	(7,826)	(8,061)	(8,303)	(8,552)	(8,808)	(9,073)	(9,345)	(9,625)	(9,914)	(10,211)	(10,517)	(10,833)	(11,158)	(11,493)	(11,838)	(12,193)	(12,559)	(12,936)	(13,324)
Management Fees	<u>(423)</u>	<u>(567)</u>	<u>(577)</u>	<u>(585)</u>	<u>(593)</u>	<u>(655)</u>	<u>(662)</u>	<u>(668)</u>	<u>(675)</u>	<u>(682)</u>	<u>(736)</u>	<u>(744)</u>	<u>(752)</u>	<u>(760)</u>	<u>(768)</u>	<u>(823)</u>	<u>(832)</u>	<u>(841)</u>	<u>(851)</u>	<u>(861)</u>
<b>NET OPERATING INCOME</b>	<b>31,707</b>	<b>44,629</b>	<b>45,230</b>	<b>45,533</b>	<b>45,831</b>	<b>52,101</b>	<b>52,224</b>	<b>52,349</b>	<b>52,474</b>	<b>52,596</b>	<b>57,828</b>	<b>57,993</b>	<b>58,161</b>	<b>58,334</b>	<b>58,512</b>	<b>63,775</b>	<b>63,964</b>	<b>64,159</b>	<b>64,358</b>	<b>64,566</b>
Tenant Improvements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Leasing Commissions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Reserve	<u>(105)</u>	<u>(108)</u>	<u>(111)</u>	<u>(115)</u>	<u>(118)</u>	<u>(122)</u>	<u>(125)</u>	<u>(129)</u>	<u>(133)</u>	<u>(137)</u>	<u>(141)</u>	<u>(145)</u>	<u>(149)</u>	<u>(153)</u>	<u>(158)</u>	<u>(163)</u>	<u>(168)</u>	<u>(173)</u>	<u>(178)</u>	<u>(183)</u>
<b>PROPERTY BEFORE-TAX CASH FLOW</b>	<b>31,602</b>	<b>44,521</b>	<b>45,119</b>	<b>45,418</b>	<b>45,713</b>	<b>51,979</b>	<b>52,099</b>	<b>52,220</b>	<b>52,341</b>	<b>52,459</b>	<b>57,687</b>	<b>57,848</b>	<b>58,012</b>	<b>58,181</b>	<b>58,354</b>	<b>63,612</b>	<b>63,796</b>	<b>63,986</b>	<b>64,180</b>	<b>64,383</b>

## Exhibit 4

### Atlantic-Pacific Property Corporation:

### Selected Financial Data

	As of:	As of:	As of:	As of:	As of:
	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	2002	2001	2000	1999	1998
<b><u>Assets:</u></b>					
Real Estate	\$5,780,474	\$4,971,937	\$4,075,186	\$3,741,505	\$3,278,129
Accumulated Depreciation	(548,622)	(479,903)	(391,146)	933,441	854,454
Other Assets	<u>386,283</u>	<u>343,639</u>	<u>466,940</u>	<u>506,550</u>	<u>735,003</u>
<b>Total Assets</b>	<b>\$5,618,135</b>	<b>\$4,835,673</b>	<b>\$4,150,980</b>	<b>\$5,181,497</b>	<b>\$4,867,585</b>
<b><u>Liabilities:</u></b>					
Secured and Unsecured Notes	\$3,431,480	\$2,876,628	\$2,276,594	\$2,214,389	\$2,059,149
Other Payables and Liabilities	<u>183,875</u>	<u>159,837</u>	<u>124,091</u>	<u>853,904</u>	<u>765,482</u>
<b>Total Liabilities</b>	<b>\$3,615,355</b>	<b>\$3,036,465</b>	<b>\$2,400,685</b>	<b>\$3,068,294</b>	<b>\$2,824,631</b>
<b><u>Owners' Equity (GAAP)</u></b>	<b>\$2,002,781</b>	<b>\$1,799,209</b>	<b>\$1,750,295</b>	<b>\$2,113,203</b>	<b>\$2,042,954</b>
<b>Share Price</b>	<b>\$37.00</b>	<b>\$38.25</b>	<b>\$44.50</b>	<b>\$31.25</b>	<b>\$30.50</b>

	For the Year Ending:	For the Year Ending:	For the Year Ending:	For the Year Ending:	For the Year Ending:
	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
	2002	2001	2000	1999	1998
<b><u>Revenue:</u></b>					
Tenant-related	\$778,496	\$646,781	\$545,563	\$479,777	\$312,316
Parking-related	33,885	34,666	33,928	30,501	12,735
Service-related	7,165	8,111	7,891	9,805	8,274
Interest and Other	<u>3,669</u>	<u>8,122</u>	<u>5,705</u>	<u>4,293</u>	<u>9,239</u>
<b>Total Revenue</b>	<b>823,215</b>	<b>697,680</b>	<b>593,087</b>	<b>524,376</b>	<b>342,565</b>
Less: Operating Expenses	(277,718)	(220,201)	(186,447)	(166,179)	(100,327)
Less: General & Administrative	<u>(31,528)</u>	<u>(25,541)</u>	<u>(23,773)</u>	<u>(19,637)</u>	<u>(15,003)</u>
<b>EBITDA</b>	<b>513,969</b>	<b>451,938</b>	<b>382,867</b>	<b>338,561</b>	<b>227,235</b>
Less: Interest Expense	(181,123)	(148,926)	(144,709)	(136,940)	(83,240)
Less: Depreciation & Amortization	<u>(124,118)</u>	<u>(99,454)</u>	<u>(88,149)</u>	<u>(80,039)</u>	<u>(50,279)</u>
<b>Net Income</b>	<b>\$208,728</b>	<b>\$203,558</b>	<b>\$150,009</b>	<b>\$121,581</b>	<b>\$93,717</b>
Net Income Per Share	\$2.57	\$2.51	\$2.08	\$1.76	\$1.63
Plus: Real Property Depreciation Expense	<u>116,671</u>	<u>89,509</u>	<u>82,860</u>	<u>73,636</u>	<u>47,262</u>
<b>Funds From Operations (FFO)</b>	<b>\$325,399</b>	<b>\$293,067</b>	<b>\$232,869</b>	<b>\$195,218</b>	<b>\$140,979</b>
Funds From Operations (FFO) Per Share	\$4.00	\$3.61	\$3.23	\$2.83	\$2.45
Dividends Per Share	\$2.40	2.25	2.05	1.75	1.65
Shares Outstanding	81,310	81,083	72,145	68,995	57,471

## Exhibit 5

### One Lincoln Street Acquisition:

### Pro Forma Capitalization

#### Acquisition:

Purchase Price		\$ 700,000
Plus: Transaction Costs @ 0.10%		<u>700</u>
Capital Requirement to Close		\$700,700

#### Debt Capitalization:

Unsecured Debt @ 50.00%		\$350,000
Term-to-Maturity (Years)		10
Comparable-Term Treasury Yield		3.75%
Financing Spread Over Comparable-Term Treasuries		1.75%
Interest Rate on Unsecured Debt (Interest-Only)		5.50%
Other Financing Costs @ 0.25%		\$875
Financing Fees Cost Amortization Term		10

#### Equity Capitalization

Current Stock Price	\$44.00
Current Annualized Dividend	\$2.40
Current Dividend Yield	5.45%
Underwriters' Spread & Associated Costs	5.00%
Required Equity Raise	\$370,079
Required New Share Offering	8,411
Current Quarterly FFO Per Share	\$1.02
Expected Annual FFO Per Share (Management Estimate)	\$4.00
Shares Outstanding Before the New Share Offering	81,310
Shares Outstanding After the New Share Offering	89,721

## Exhibit 6

### One Lincoln Street Acquisition:

### Incremental Cash Flow Per Share Analysis

<u>Year</u>	<u>Property NOI</u>	<u>Leasing Comms.</u>	<u>T.I.s</u>	<u>Capital Reserve</u>	<u>Property Before-Tax Cash Flow</u>	<u>Net Mgt. Fee Profit @ 75.0%</u>	<u>Interest Expense (1)</u>	<u>Principal Amort'n</u>	<u>Incremental Cash Flow To Equity Holders</u>	<u>Incremental Cash Flow Per New Share Issued</u>	<u>Annual Dividend Payable Per Existing Share</u>	<u>Cash Surplus (Deficiency) Per New Share Issued (2)</u>	<u>REIT Incremental Cash Surplus (Deficiency)</u>	<u>Incremental Cash Surplus (Deficiency) Per Share Outstanding (3)</u>
1	\$31,707	\$0	\$0	(\$105)	\$31,602	\$318	(\$19,250)	\$0	\$12,670	\$1.51	\$2.40	(\$0.89)	(\$7,516)	(\$0.08)
2	44,629	0	0	(108)	44,521	425	(19,250)	0	25,696	3.06	2.40	0.66	5,510	0.06
3	45,230	0	0	(111)	45,119	433	(19,250)	0	26,302	3.13	2.40	0.73	6,116	0.07
4	45,533	0	0	(115)	45,418	439	(19,250)	0	26,607	3.16	2.40	0.76	6,421	0.07
5	45,831	0	0	(118)	45,713	445	(19,250)	0	26,908	3.20	2.40	0.80	6,722	0.07
6	52,101	0	0	(122)	51,979	491	(19,250)	0	33,220	3.95	2.40	1.55	13,034	0.15
7	52,224	0	0	(125)	52,099	496	(19,250)	0	33,345	3.96	2.40	1.56	13,159	0.15
8	52,349	0	0	(129)	52,220	501	(19,250)	0	33,471	3.98	2.40	1.58	13,285	0.15
9	52,474	0	0	(133)	52,341	506	(19,250)	0	33,597	3.99	2.40	1.59	13,411	0.15
10	52,596	0	0	(137)	52,459	512	(19,250)	0	33,721	4.01	2.40	1.61	13,535	0.15
11	57,828	0	0	(141)	57,687	552	(19,250)	0	38,989	4.64	2.40	2.24	18,803	0.21
12	57,993	0	0	(145)	57,848	558	(19,250)	0	39,156	4.66	2.40	2.26	18,970	0.21
13	58,161	0	0	(149)	58,012	564	(19,250)	0	39,326	4.68	2.40	2.28	19,140	0.21
14	58,334	0	0	(153)	58,181	570	(19,250)	0	39,501	4.70	2.40	2.30	19,314	0.22
15	58,512	0	0	(158)	58,354	576	(19,250)	0	39,680	4.72	2.40	2.32	19,494	0.22
16	63,775	0	0	(163)	63,612	617	(19,250)	0	44,979	5.35	2.40	2.95	24,793	0.28
17	63,964	0	0	(168)	63,796	624	(19,250)	0	45,170	5.37	2.40	2.97	24,984	0.28
18	64,159	0	0	(173)	63,986	631	(19,250)	0	45,367	5.39	2.40	2.99	25,181	0.28
19	64,358	0	0	(178)	64,180	638	(19,250)	0	45,568	5.42	2.40	3.02	25,382	0.28
20	<u>64,566</u>	<u>0</u>	<u>0</u>	<u>(183)</u>	<u>64,383</u>	<u>646</u>	<u>(19,250)</u>	<u>0</u>	<u>45,779</u>	5.44	2.40	3.04	<u>25,593</u>	<u>0.29</u>
	\$1,086,324	\$0	\$0	(\$2,814)	\$1,083,510	\$10,542	(\$385,000)	\$0	\$709,052				\$305,329	\$3.40

Notes: (1) Assumes Unsecured Acquisition Indebtedness is Refinanced at EOY 10 Under Same Terms and Conditions..  
(2) Relative to Current Dividend Payable Per Existing Share Before the New Share Offering.  
(3) Reflects Required New Share Offering; Assumes Existing REIT Dividend Remains Constant.