

LETTER OF INTENT
for
Ground Lease and/or Purchase and Sale Agreement
With the County
for the
Wilson Boulevard Project Site

This Letter of Intent (“LOI”), dated January 15, 2013, between The County Board of Arlington County, Virginia (“Board” or “County”) and Penzance Properties, LLC, a District of Columbia limited liability company (“Penzance”), may serve as the precursor to a purchase and sale agreement, a ground lease agreement or similar agreement (in all cases, the “Agreement”) for certain property in Arlington County, Virginia owned by the County Board as more fully set forth below.

BACKGROUND AND PURPOSE

1555 Wilson Property Owner LLC, a Delaware limited liability company (“1555 Owner”), owns certain properties on the north side of Wilson Boulevard, collectively identified as 1555 Wilson Boulevard (“1555 Wilson Site”). Affiliates of Penzance are (i) the managing member of 1555 Owner and (ii) the property manager of the 1555 Wilson Site.

The County owns properties on the north side of Wilson Boulevard, east of North Quinn Street, south of 18th Street North, and adjacent to and west of the 1555 Wilson Site. The County owned properties are currently occupied by the Rosslyn Highlands Park (“Highlands Park”) and Fire Station Number 10 (“Fire Station Site”), with Highlands Park and the Fire Station Site (sometimes herein referred to collectively as, the “County Site”). Arlington Public Schools (“APS”) owns properties to the west of and adjacent to the Fire Station Site and Highland Park and those properties are currently occupied by the Woodmont-Wilson Elementary School (“Wilson School Site”).

The properties making up each of the County Site and the Wilson School Site are individually listed below under the subheading titled “Proposal One” and are depicted on Exhibit A attached to this LOI. In the aggregate, the County Site, together with the Wilson School Site, would contain approximately three and one-half acres in size.

Penzance is desirous of seeing the redevelopment of the 1555 Wilson Site, and sees mutual benefit to the County and Penzance in a coordinated redevelopment of the 1555 Wilson Site, the County Site and the Wilson School Site. The County is willing to explore the redevelopment of the County Site in part to provide enhanced public facilities on portions of the County Site.

There are properties nearby to the County Site and the Wilson School Site that are also of interest to both County and Penzance for potential inclusion in a redevelopment proposal as hereafter set forth. Queens Court Development Corporation, a corporation controlled by Arlington Partnership for Affordable Housing (“APAH”), owns the property located at 1801 North Quinn Street known as the Queens Court Apartments (“Queens Court Site”). The parties acknowledge that the County does not at this time represent the interests of either APS or APAH.

The County Site, or the County Site together with one or more of the Wilson School Site and the Queens Court Site, as applicable, are sometimes referred to in this LOI as the "Property" depending upon the context under each of the Proposals (as defined below).

Penzance proposes to enter into a long-term ground lease with the County Board, or if mutually agreed upon with the County Board, a purchase and sale agreement, for the County Site. The County is attempting to either acquire the Wilson School Site from APS, or enter into a long term ground lease with APS for the Wilson School site. If such acquisition or ground lease is approved by APS and the County, then Penzance proposes to also enter into one of these arrangements with the County with regard to the Wilson School Site.

The County is also attempting to acquire the Queens Court Site from APAH (or incorporate the Site into the Property). If an acquisition is approved by APAH and the County, then Penzance proposes to also enter into a long term ground lease with the County with regard to the Queens Court Site.

Penzance's overall intent is to consolidate, subdivide and redevelop the County Site, and if possible one or both of the Wilson School Site and the Queens Court Site, in connection with redevelopment of the 1555 Wilson Site, to create a mixed use project of commercial, residential, civic and retail uses, with publicly accessible open spaces, generally consistent with a conceptual plan to be developed by Penzance and approved by the County (the "Conceptual Plan"). It is currently anticipated that the total density for the mixed use project will be in the range of 1.2 to 1.5 million square feet; provided, however, it is understood that the ultimate density and use mix for the project shall be consistent with the special planning study to be performed by County staff and as finally determined through the public process for the approval of the phased development site plan ("PDSP") and special exception permits.

If the Property consisted only of the County Site, the County envisions the development of the Property including construction of a new fire station and introduction of publicly accessible green space (including open, recreational areas). If the Property were to include with the County Site, one or both of the Wilson School Site and the Queens Court Site, then any redevelopment might also include development of affordable housing, and the portion of the Property to be developed for affordable housing would be retained by the County or APAH (as applicable) and not acquired or leased by Penzance.

Penzance acknowledges that the successful negotiations with the County with regard to the purchase, or if not purchase then leasing, of the County Site, together with gaining control of such other portions of the Property based upon the relevant Proposal below, will be contingent upon obtaining County Board approval of a development plan for the County Site and such applicable additional property.

In light of the desire of Penzance and the County for Penzance to file the applications for a PDSP, general land use change, re-zoning and application for final site plan described below by November 2013, the County would need to reach final agreement with APS and APAH by August 31, 2013, recognizing that term sheets or letters of intent with APS and APAH would need to be completed by May 1, 2013.

PROPERTY

Penzance would like to enter into discussions with the County for the purchase or ground leasing of the County Site, depending upon which one of the Proposals as set forth below is agreed upon with the County. It is understood that the County is attempting to enter into a separate agreement with APS that would result in County purchasing the Wilson School Site. It is also understood that County will attempt to enter into a separate agreement with APAH so that, to the extent practicable, there can be one representative for the County, APS and APAH, in negotiations with Penzance, in the event that an adopted Proposal includes Property owned by one or both of APS and APAH.

The County will endeavor to reach final agreements with APS and/or APAH by May 31, 2013, and will notify Penzance upon reaching any such agreements. If the County determines that it cannot reach agreement with APS and/or APAH, the County will so notify Penzance. The date on which the County has notified Penzance regarding the reaching of an agreement (or not) with both APS and APAH will be referred to as the "Commencement Date". Once it is determined whether the Property will include the Wilson School Site and/or the Queens Court Site, Proposal One, Two, Three or Four below will apply.

A. **Proposal One.** Under Proposal One, the Property would consist of the County Site, the Wilson School Site and the Queens Court Site, each Property being further described below. (The County and Penzance acknowledge that this Proposal One is the preferred scenario.)

The County owns the County Site as described below:

Legal Description	Address	Lot size	Property Class	RPC
Rosslyn Fire Station 10	1559 Wilson Blvd	23,642 sf	215-Gen Comm — other	16033012
Lot 4 BLK G Colonial Heights	18 th Street North	4,700 sf	200-Gen Com VacLand-no siteplan	16033014
PT Lot 2 Lot 3 BLK G Colonial Heights	18 th Street North	8,870 sf	200-Gen Corn VacLand-no site plan	16033016
PT LTS 1 2 BLK G Colonial Heights & PT VAG N Pierce ST	18 th Street North	5,170 sf	300-MultiFam-VacLand-no siteplan	16033017
VAC PT N Pierce St ADJ LOT 1 BLK G Colonial Heights	18 th Street North	580.20 sf	300-MultiFam-VacLand-no siteplan	16033021
VAC PT N Pierce St ADJ LOTS 2,3,4,5 BLK G Colonial Heights	North Pierce Street	4,297.73 sf	200-Gen Com VacLand-no site plan	16033022
LT 5 BK G Colonial Heights	Wilson Blvd	7,347 sf	215 — Gen Corn — other	16033013

The APS owns the Wilson School Site as described below:

Legal Description	Address	Lot size	Property Class	RPC
Wilson School	1601 Wilson Blvd	113,256 sf	215 — Gen Comm — other	16032001
VAG PT N. Pierce St ADJ Wilson School	N. Pierce St.	4,494.23 sf	200-GenCom VacLand-no siteplan	16032023

APAH owns the Queens Court Site as described below:

Legal Description	Address	Lot size	Property Class	RPC
Lts 75 to 84 INC RESUB PT COLONIAL HTS	1801 N. Quinn St.	44,727 sf	311-Apartment — Garden	16034017

B. Proposal Two. If Penzance is unable to enter into an agreement with the applicable parties for the purchase or ground leasing of all of the Properties described in Proposal One because of the unwillingness of the APS to approve the inclusion of the Wilson School Site in any redevelopment, Penzance would consider a second proposal. Under Proposal Two, the Property would consist of the County Site and the Queens Court Site, provided that the County is able to successfully gain control over the Queens Court Site from APAH.

C. Proposal Three. If Penzance is unable to enter into an agreement for the purchase or ground leasing of all of the Property described in Proposal One because of the inability to reach agreement with APAH regarding the inclusion of the Queens Court Site in the Property, Penzance would consider a third proposal. Under Proposal Three, the Property would be the County Site and the Wilson School Site.

D. Proposal Four. If Penzance is unable to enter into an agreement for the purchase or ground leasing of all of the parcels described in Proposal One because of the unwillingness of the APS and APAH to approve the inclusion of each of their parcels in the Property, Penzance would consider a fourth proposal consisting solely of the County Site.

BUSINESS TERMS OF A GROUND LEASE AND/OR PURCHASE AND SALE AGREEMENT FOR ANY PROPOSAL

While Penzance would prefer to purchase in fee simple the County Site and other Property of the applicable Proposal, Penzance would accept a long-term ground lease for components of the Property, including the County Site, recognizing however that a ground lease arrangement, especially on the County Site, limits residential development to being rental accommodations only, because the ability to develop a residential condominium on ground leased land imposes material restrictions on product marketability.

A. Ground Lease. Penzance is prepared to accept a ground lease as to the County Site and those other parcels of the relevant Proposal that cannot be acquired in fee simple by Penzance. Under any ground lease with the County, Penzance would agree to lease back portions of the Property for County use (including, for example, a fire station and/or affordable housing) for a rent of One Dollars (\$1) per year. The term of a ground lease shall be seventy-

five (75) years, with Penzance having one (1) renewal option of twenty-five (25) years. Any ground lease with the County must be signed no later than 45 days after the date a PDSP or a special exception site plan is approved by the County Board for development of the relevant Property, as well as upon the acquisition by purchase and sale or ground lease of any other parcels of the Property of the selected Proposal. Any ground lease negotiated would capture necessary business terms, such as, but not limited to, the agreed upon amount of rent (with payments commencing on ground lease execution), and any development and operating obligations. Rent would be calculated based upon the fair market value of the parcel leased (as such value is computed in the paragraph below entitled "Valuation") multiplied by an annual rate of return of four percent (4%), and such rent would increase one percent (1%) each year of the term, and be escalated by twenty percent (20%) on each twelve (12) year anniversary of lease commencement. Upon commencement of the ground lease and during the development and construction period, rent would be phased in on a basis to be agreed-upon, with the full market rent to be paid starting no later than upon the substantial completion of each building.

B. Purchase and Sale Agreement. Penzance prefers to acquire a fee simple interest in as many of the various parcels of the Property of the relevant Proposal. In such case, Penzance would agree to lease back portions of the Property for County use for a rent of One Dollars (\$1) per year. As noted above, the sale of any fee simple interest is subject to the approval of the County in its discretion. Each purchase and sale agreement must be coordinated with any ground leasing of other parcels on the relevant Proposal that cannot be acquired. Any purchase and sale agreement with the County must be signed no later than forty-five (45) days after the date of PDSP or special exception site plan approval by the County Board for development of the described Property of the relevant Property, with payments commencing on the execution of such purchase and sale agreement.

C. Contingencies to a Proposal. The ability of Penzance to enter into a purchase and sale agreement and/or a ground lease is contingent on many factors, including (without limitation): (a) concurrent agreement among all of the owners of the Property included in Proposal One, or, if acceptable to Penzance, all of the applicable owners of Property included in Proposal Two, Proposal Three or Proposal Four, to enter into a ground lease with Penzance for the same term and/or a purchase and sale agreement for their respective properties; (b) adherence to the draft development schedule below, but to be agreed upon more fully in the Agreement; (c) timely execution of an Agreement; and (d) approval of the PDSP or the special exception site plan by the County Board of a development on the Property of the agreed upon Proposal. Penzance acknowledges that this list of contingencies is not meant to serve as a complete list. If the Agreement is executed prior to satisfaction of the foregoing contingencies, then contingencies (a) and (d) above shall be conditions subsequent to the Agreement.

D. Access and Documentation. Promptly following execution of this Letter of Intent, Penzance and County will enter into an access agreement that enables Penzance to perform customary predevelopment tests, studies and inspections on the County Site, subject to normal and customary terms and conditions. Penzance will provide County with copies of all test and inspection reports obtained by Penzance applicable to the County Site. On or before the date that is two (2) months after the Commencement Date, and while the other predevelopment activities contemplated by this Letter of Intent are on-going, Penzance and County shall endeavor to negotiate in good faith the form of the Agreement (which shall include the final form

of the ground lease). The Agreement shall, subject to approval by the County Board, be executed by the parties promptly following agreement as to the form thereof, and the Agreement shall include contingencies (a) and (d) described in Paragraph C above.

E. Valuation.

a. Within thirty (30) days after the full execution and delivery of this Letter of Intent by and between County and Penzance, or such longer period as the parties may mutually agree in writing (“Negotiation Period”), the County and Penzance will mutually endeavor to agree upon the fair market values (“FAR Values”), on a per FAR square foot basis, of each potential land use (office, residential, retail, hotel) on the Property and the 1555 Wilson Site as a combined, mixed use project, assuming PDSP approval of the project generally consistent with the Conceptual Plan.

b. If the County and Penzance are unable to agree upon the FAR Values during the Negotiation Period, then such FAR Values shall be determined by a “Three Appraiser Method,” as follows:

i. Prior to the expiration of the Negotiation Period, County and Penzance (each, a “party”) shall give written notice to the other setting forth the name and address of an Appraiser selected by such party who has agreed to act in such capacity, to determine the FAR Values; and

ii. Prior to the expiration of the Negotiation Period, each Appraiser shall independently make his/her determination of the FAR Values. If the two (2) Appraisers’ determinations of the FAR Value for any specified use are within five percent (5%) of each other, then the average of the two determinations shall be deemed to be the FAR Value for such use. If (1) the two Appraisers’ determinations are not the same for any use, but the higher of such two determinations is more than one hundred five percent (105%) of the lower of them, and (2) the parties cannot agree on the FAR Value for such use within ten (10) business days after the later of such two determinations is issued (the “Second Negotiation Period”), then the two Appraisers shall jointly appoint a third Appraiser within five (5) days after the expiration of the Second Negotiation Period. The third Appraiser shall independently make his/her determination of the FAR Value(s) for such use(s) within thirty (30) days after his/her appointment. In such event, the highest and the lowest determinations of value among the three Appraisers shall be disregarded and the remaining determination shall be deemed to be the FAR Value(s) for such use(s). Each party shall pay for the cost of its Appraiser and one-half (½) of the cost of the third Appraiser.

iii. The parties agree to provide the Appraisers with the instructions attached hereto and made a part hereof as Exhibit B.

c. Upon final approval of the PDSP for the Property and the 1555 Wilson Site, the value of the Property (“Final Value”) will be determined as follows. 286,686 FAR sf (being the 64,424 sf land area of the 1555 Wilson Site multiplied by 4.45 FAR - subject to final approval of the PDSP and adjusted thereafter to reflect the approved FAR of the 1555 Wilson Site) will be deducted from the total FAR sf approved for the combined Property and 1555

Wilson Site (proportionately from the various uses approved). The remaining balance of the FAR sf approved for the combined Property and 1555 Wilson Site will be multiplied by the FAR Values previously determined by the negotiation or the Three Appraiser Method described above. However, if the approved PDSP, or the 4.1 Site Plan for any portion of the project, imposes material conditions that are in addition to the conditions assumed in the valuation process, then a portion of the reasonable cost of satisfying such additional conditions shall be deducted from the Final Value (and any disagreement between the parties regarding such additional conditions and the cost to satisfy same shall be resolved by the third Appraiser). Such portion of the reasonable cost of satisfying such additional conditions shall equal a fraction, the numerator of which is the total FAR approved by the PDSP less the approved FAR sf of the 1555 Wilson Site, and the denominator of which is the total FAR sf approved by the PDSP.

d. If in connection with the development of the initial improvements on any portion of the Property or the 1555 Wilson Site, Penzance obtains a modification of the PDSP that changes the FAR sf of any particular approved land use (e.g., office, residential, retail, hotel), then the Final Value shall be recalculated based upon the original FAR Values and the FAR sf approved by the PDSP as so modified. If such modification results in an increase in any particular approved land use by more than fifteen percent (15%) of the FAR sf of such particular land use approved in the PDSP as in effect prior to such modification, then at the option of either the County or Penzance, the per FAR sf value of the particular land use so increased shall be redetermined by the negotiation/Three Appraiser Method described above as of the date of such modification of the PDSP. If such negotiation/Three Appraiser Method results in a different per FAR sf value of such particular land use from the original per FAR sf value agreed upon by the parties, then one-third of such difference shall be added to or deducted from (as applicable) the original per FAR sf value, and the resulting per FAR sf value sum shall be applied to the increase in FAR sf for that particular land use. The provisions of this paragraph shall not apply after completion of construction of the initial improvements on the Property and the 1555 Wilson Site.

ELEMENTS TO CONSIDER AS PART OF THE APPLICABLE PROPOSAL

Penzance's concept will require that it obtain a PDSP and/or special exception site plan approval from the County Board to create a mixed-use site, consistent with Rosslyn's urban village vision with heights and densities appropriate for the location, which depending on the extent of the Property available to Penzance would include office, civic, residential, hotel, retail, entertainment and recreation uses. Penzance's concept also will require the performance of a special planning study (with special involvement and input from the Rosslyn community), obtaining a general land use plan amendment ("GLUP") for the County Site and the Wilson School Site, and completing a re-zoning of the County Site, the Wilson School Site and the 1555 Wilson Site. Penzance envisions that such a mixed-use plan would be the best use for the Property, given demographic trends and the area's economic base and physical development. Recognizing the community's vision for Rosslyn, Penzance agrees to build a mixed-use building(s) with world-class urban architecture and streetscape design, and incorporating "green" technologies and new concepts in sustainability. Regardless of the County's ownership of the land, Penzance agrees that: (i) the PDSP will be subject to the County's conditions applicable to any project at the time the PDSP is considered, and (ii) the site plan will be subject to the County's site plan conditions applicable to any project at the time the site plan is considered by the County Board to the extent such site plan conditions are not revised due to site plan-specific

conditions and circumstances.

Penzance hereby acknowledges that Penzance and the County will need to reach agreement on the scope of redevelopment of the Property, seeking as applicable to include at a minimum development of a new fire station and publicly accessible open space to address the County's expressed desires, and to potentially include other public and community oriented elements such as affordable housing, if the APAH property is included in the Property. Penzance and the County acknowledge that the extent to which additional public and community oriented elements can be incorporated into any development on the Property in tandem with Penzance's intended commercial development of the Property will depend in part upon Penzance timely gaining control of one or both of the Wilson School Site and the Queens Court Site, as well as confirmation that a mixed development of these uses is feasible, both physically and economically.

Penzance also acknowledges that the re-development of the 1555 Wilson Site is a major premise of this Letter of Intent. Accordingly, Penzance agrees that in operating and managing the existing improvements on the 1555 Wilson Site, it will endeavor in good faith to take into account the schedule for redevelopment of the 1555 Wilson Site contemplated by this Letter of Intent, subject in all events to Penzance's determination of the market conditions that will make possible commencement of such re-development. Without limiting the generality of the foregoing, Penzance will endeavor in good faith to take into account the re-development schedule in entering into leases and extending the terms of existing leases. However, nothing in this paragraph or the Agreement will create a legally binding obligation on Penzance with respect to the operation and management of the existing improvements on the 1555 Wilson Site.

PROCESS

Effective with the execution of this Letter of Intent, the parties shall use commercially reasonable efforts to adhere to the following development schedule (the date represents the last day by which each event/objective shall have occurred), which schedule shall be subject to further refinement before its incorporation in any Agreement:

Activity	Expected Duration
Execute Access Agreement	Upon LOI execution
Appraisal Process to determine Property Values, if necessary	1 month from LOI execution
Special Planning Study	7 to 10 months after LOI execution
Negotiate term sheets with APS / APAH	4 months after LOI execution
Final Agreements with APS / APAH	7 months after LOI execution
Purchase and Sale Agreement and/or Ground Lease Agreement with the County, contingent on Site Plan approval by the County Board	9 months after LOI execution

Activity	Expected Duration
File applications for GLUP amendment, re-zoning and PDSP	10 months after LOI execution
Obtain GLUP amendment, re-zoning and PDSP approval by the County Board	10+ months after file GLUP Amendment
Complete Redevelopment of the Property other than 1555 Wilson Site (including offsite components, and all applicable subsequent phases)	5-6 years from land use approvals
Complete Redevelopment of 1555 Wilson Site	7-10 years from land use approvals

MISCELLANEOUS

A. **Confidentiality.** The parties agree to take reasonable steps to maintain the confidentiality of all negotiations and discussions regarding the possible acquisition of the various components of the Property, except (a) to the extent disclosure is reasonably necessary or (b) as required by applicable law.

B. **Cancellation.** Notwithstanding the foregoing, the terms and conditions of this Letter of Intent are subject to cancellation or withdrawal at any time by either party. Any contracted for obligation to acquire the County Site, by ground lease or purchase and sale, or any other obligation of the County as set forth herein, shall not become binding until an Agreement is fully executed by Penzance and the County Board.

C. **Non-Binding Proposal.** Except for the obligations of the parties in paragraph D (“Access and Documentation”) which are intended to be binding, this Letter of Intent is simply an understanding of basic terms, is not binding on either party and is subject to withdrawal at any time by either party. Further, this Letter of Intent is subject to both parties entering into a formal Agreement which is formally approved by the County Board.

IN WITNESS WHEREOF, Penzance and County have executed this Letter of Intent on the dates set forth below, effective as of the date first set forth above.

COUNTY:

The County Board of Arlington County, Virginia

By: Barbara M. Donnellan
Barbara Donnellan, County Manager

Date: January 15, 2013

PENZANCE:

Penzance Properties, LLC

By: Victor Tolkan
Victor Tolkan, Manager

Date: January 15, 2013

Exhibit A



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Exhibit B

Instructions for Appraisers:

The County Appraiser and Penzance Appraiser will be encouraged to confer and discuss regarding valuation approaches, market data and assumptions. Their appraisals shall be based upon the following:

- The valuation should be reported for each proposed use using an FAR square foot unit rate.
- The valuation is to be effective as of the date of the Letter of Intent.
- The valuation should assume that the FAR will be developed in the context of a mixed use project with a density ranging from 1.2 to 1.5 million square feet, with the following uses in the following approximate percentages:
 - 38% - Office
 - 3% - Ground floor retail
 - 40% - Market rate residential rental
 - 19% - Hotel
 - Fire Station [*not to be included in value]
 - Affordable Housing [*valuation to reflect discount from market rent housing]
- The valuation should assume that the foregoing uses will be organized on the site generally as shown on the attached site plan.
- Given the scale of project, the valuation should reflect a long term, phased build-out, with timing dependent upon the appraiser's judgment about market conditions for each proposed use. In addition, in the case of the redevelopment of 1555 Wilson, the valuation should assume a construction start no earlier than the latest date of expiration of the existing office leases, including renewals (6/30/19).
- The valuation should assume that a PDSP will be approved for the project, and that a 4.1 site plan will be approved for individual buildings in the project, all substantially consistent with the aggregate densities described above. The FAR unit valuation should assume that no development/construction would occur prior to approvals. It is estimated that the PDSP approval will require approximately 18 months, and that the 4.1 site plan for the first phase will require approximately 16 - 18 months after approval of the PDSP.
- The valuation should assume that public approvals for each of the various site plans will be subject to current "Standard Site Plan Conditions" for high rise mixed use projects of a size and scope consistent with the Conceptual Plan - i.e., those that are in place at the time of this appraisal.
- The valuation should assume that all code-compliant parking will be provided below grade.
- The valuation should reflect any costs to be incurred to achieve a development ready site - demolition, entitlement process, etc. However, the valuation should assume no "Unforeseen Site Conditions", such as Environmental, Rock, etc.
- The valuation should assume only a rental residential product; the proposed ground lease will prevent "for sale" or condo units.