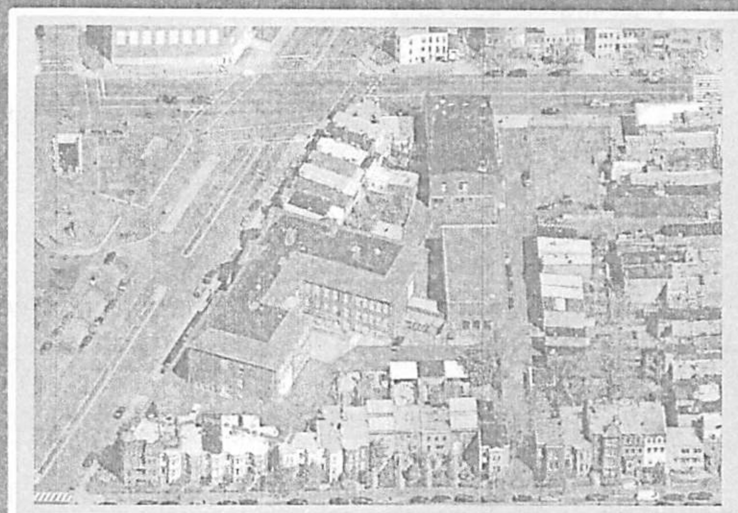
Valbridge
PROPERTY ADVISORS
Lipman Frizzell & Mitchell LLC

Appraisal Report

1923 Vermont Avenue, NW & 912 U Street, NW
Washington, D.C. 20001

Report Date: August 11, 2015



FOR
Government of the District of Columbia
Office of the Deputy Mayor for Planning & Economic Development
Mr. Marc Bleyer
Supervisory Project Manager
1350 Pennsylvania Avenue, NW, Suite 317
Washington, D.C. 20004

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Valbridge Job No.:
MD01-14-0393.3

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Mr. Marc Bleyer
Supervisory Project Manager
Government of the District of Columbia
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1350 Pennsylvania Avenue, NW, Suite 317
Washington, D.C. 20004

RE: Appraisal Report
1923 Vermont Avenue, NW & 912 U Street, NW
Washington, D.C. 20001

Dear Mr. Bleyer:

In accordance with your request, we have prepared a real property appraisal of the above-referenced properties. This appraisal report sets forth the data gathered, the techniques employed, and the reasoning leading to our value opinions. We previously appraised the property that is the subject of this report in an appraisal report dated November 5, 2015.

The subject properties are located at 1923 Vermont Avenue, NW and 912 U Street, NW in Washington, D.C. The property at 1923 Vermont Avenue, NW is further identified as Square 361, Lot 827 and the property at 912 U Street, NW is further identified as Square 361, Lot 833. Lot 827 is an irregular shaped parcel totaling 37,926 sq.ft. improved with a vacant, two-story plus lower level, former, public school building and a former auditorium/gymnasium occupied by the African-American Civil War Museum totaling 57,165 gross sq.ft. Lot 833 is an irregular shaped parcel totaling 5,872 sq.ft. of land paved for surface parking.

We developed our analyses, opinions, and conclusions and prepared this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation; the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute; and the requirements of our client.

The Government of the District of Columbia is the client in this assignment and is the sole intended user of the appraisal and report. The intended use is for financial decisions concerning the subject property. The value opinions reported herein are subject to the definitions, assumptions and limiting conditions, and certification contained in this report.

The acceptance of this appraisal assignment and the completion of the appraisal report submitted herewith are contingent on the following extraordinary assumption and hypothetical condition:

Extraordinary Assumption:

The land supporting the auditorium/gymnasium and adjacent parking lot can be subdivided from Lot 827 into seven townhouse lots.

Hypothetical Condition:

Lot 827 is zoned C-2-A as stipulated in the fair market rent valuation.

Based on the analysis contained in the following report, our value and rent conclusions involving the subject properties are summarized as follows:

VALUE CONCLUSIONS

	1923 Vermont Avenue, NW				912 U Street, NW	
	School Building Parcel		Townhome Parcel		Vacant Parcel	
A1.	*Market Value*	$11,510,000	*Market Value*	$1,900,000	*Market Value*	$4,320,000
A2.	*Market Rent*	$0	*Market Value*	$2,660,000	*N/A*	
A3.	*N/A*		*N/A*		*Market Value*	$240,000

Our estimate of the fair market rent for the school building parcel relies on the cost estimate to convert the improvements to the proposed office, performing arts, and museum space provided by the developer. Should this estimate prove inaccurate, we reserve the right to reconsider our conclusion.

This letter of transmittal is not considered valid if separated from this report, and must be accompanied by all sections of this report as outlined in the Table of Contents, in order for the value opinions set forth above to be valid.

Respectfully submitted,
Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC

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Table of Contents

Introduction

Summary of Findings

The subject properties consist of two, noncontiguous parcels of land totaling 43,798 sq.ft. located on the east side of Vermont Avenue, NW and the south side of U Street, NW in Northwest Washington, D.C. The property at 1923 Vermont Avenue, NW comprises 37,926 sq.ft. of land and is improved with a vacant, two-story plus lower level, former public school building and a former auditorium/gymnasium occupied by the African-American Civil War Museum totaling 57,165 gross sq.ft. The property at 912 U Street, NW comprises 5,872 sq.ft. of land paved for surface parking. Based on our investigations and analyses, it is our opinion that the fair market value for the school building parcel is $11,510,000, the townhome parcel is $1,900,000, and the vacant parcel is $4,320,000. The fair market rent (i.e. ground rent) for the school building parcel based on the proposed development is $0 and the fair market value of the townhome parcel based on seven lots is $2,660,000. The fair market value of the vacant parcel based on the proposed development is $240,000.

Statement of Assumptions & Limiting Conditions

This appraisal is subject to the following limiting conditions:

1. The legal description – if furnished to us – is assumed to be correct.

2. No responsibility is assumed for legal matters, questions of survey or title, soil or subsoil conditions, engineering, availability or capacity of utilities, or other similar technical matters. The appraisal does not constitute a survey of the property appraised. All existing liens and encumbrances have been disregarded and the property is appraised as though free and clear, under responsible ownership and competent management unless otherwise noted.

3. Unless otherwise noted, the appraisal will value the property as though free of contamination. Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC will conduct no hazardous materials or contamination inspection of any kind. It is recommended that the client hire an expert if the presence of hazardous materials or contamination poses any concern.

4. The stamps and/or consideration placed on deeds used to indicate sales are in correct relationship to the actual dollar amount of the transaction.

5. Unless otherwise noted, it is assumed there are no encroachments, zoning violations or restrictions existing in the subject property.

6. The appraiser is not required to give testimony or attendance in court by reason of this appraisal, unless previous arrangements have been made.

7. Unless expressly specified in the engagement letter, the fee for this appraisal does not include the attendance or giving of testimony by Appraiser at any court, regulatory, or other proceedings, or any conferences or other work in preparation for such proceeding. If any partner or employee of Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC is asked or required to appear and/or testify at any deposition, trial, or other proceeding about the preparation, conclusions or any other aspect of this assignment, client shall compensate Appraiser for the time spent by the partner or employee in appearing and/or testifying and in preparing to testify according to the Appraiser's then current hourly rate plus reimbursement of expenses.

8. The values for land and/or improvements, as contained in this report, are constituent parts of the total value reported and neither is (or are) to be used in making a summation appraisal of a combination of values created by another appraiser. Either is invalidated if so used.

9. The dates of value to which the opinions expressed in this report apply are set forth in this report. We assume no responsibility for economic or physical factors occurring at some point at a later date, which may affect the opinions stated herein. The forecasts, projections, or operating estimates contained herein are based on current market conditions and anticipated short-term supply and demand factors and are subject to change with future conditions.

10. The sketches, maps, plats and exhibits in this report are included to assist the reader in visualizing the property. The appraiser has made no survey of the property and assumed no responsibility in connection with such matters.

11. The information, estimates and opinions, which were obtained from sources outside of this office, are considered reliable. However, no liability for them can be assumed by the appraiser.

12. Possession of this report, or a copy thereof, does not carry with it the right of publication. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to property value, the identity of the appraisers, professional designations, reference to any professional appraisal organization or the firm with which the appraisers are connected), shall be disseminated to the public through advertising, public relations, news, sales, or other media without prior written consent and approval.

13. No claim is intended to be expressed for matters of expertise that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers. We claim no expertise in areas such as, but not limited to, legal, survey, structural, environmental, pest control, mechanical, etc.

14. This appraisal was prepared for the sole and exclusive use of the client for the function outlined herein. Any party who is not the client or intended user identified in the appraisal or engagement letter is not entitled to rely upon the contents of the appraisal

without express written consent of Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC and Client. The Client shall not include partners, affiliates, or relatives of the party addressed herein. The appraiser assumes no obligation, liability or accountability to any third party.

15. Distribution of this report is at the sole discretion of the client, but no third-parties not listed as an intended user on the face of the appraisal or the engagement letter may rely upon the contents of the appraisal. In no event shall client give a third-party a partial copy of the appraisal report. We will make no distribution of the report without the specific direction of the client.

16. This appraisal shall be used only for the function outlined herein, unless expressly authorized by Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC.

17. This appraisal shall be considered in its entirety. No part thereof shall be used separately or out of context.

18. Unless otherwise noted in the body of this report, this appraisal assumes that the subject property does not fall within the areas where mandatory flood insurance is effective. Unless otherwise noted, we have not completed nor have we contracted to have completed an investigation to identify and/or quantify the presence of non-tidal wetland conditions on the subject property. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.

19. If the appraisal is for mortgage loan purposes 1) we assume satisfactory completion of improvements if construction is not complete, 2) no consideration has been given for rent loss during rent-up unless noted in the body of this report, and 3) occupancy at levels consistent with our "Income & Expense Projection" are anticipated.

20. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover them.

21. Our inspection included an observation of the land and improvements thereon only. It was not possible to observe conditions beneath the soil or hidden structural components within the improvements. We inspected the buildings involved, and reported damage (if any) by termites, dry rot, wet rot, or other infestations as a matter of information, and no guarantee of the amount or degree of damage (if any) is implied. Condition of heating, cooling, ventilation, electrical and plumbing equipment is considered to be commensurate with the condition of the balance of the improvements unless otherwise stated.

22. This appraisal does not guarantee compliance with building code and life safety code requirements of the local jurisdiction. It is assumed that all required licenses, consents, certificates of occupancy or other legislative or administrative authority from any local,

state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value conclusion contained in this report is based unless specifically stated to the contrary.

23. When possible, we have relied upon building measurements provided by the client, owner, or associated agents of these parties. In the absence of a detailed rent roll, reliable public records, or "as-built" plans provided to us, we have relied upon our own measurements of the subject improvements. We follow typical appraisal industry methods; however, we recognize that some factors may limit our ability to obtain accurate measurements including, but not limited to, property access on the day of inspection, lower levels, fenced/gated areas, grade elevations, greenery/shrubbery, uneven surfaces, multiple story structures, obtuse or acute wall angles, immobile obstructions, etc. Professional building area measurements of the quality, level of detail, or accuracy of professional measurement services are beyond the scope of this appraisal assignment.

24. We have attempted to reconcile sources of data discovered or provided during the appraisal process, including assessment department data. Ultimately, the measurements that are deemed by us to be the most accurate and/or reliable are used within this report. While the measurements and any accompanying sketches are considered to be reasonably accurate and reliable, we cannot guarantee their accuracy. Should the client desire a greater level of measuring detail, they are urged to retain the measurement services of a qualified professional (space planner, architect or building engineer). We reserve the right to use an alternative source of building size and amend the analysis, narrative and concluded values (at additional cost) should this alternative measurement source reflect or reveal substantial differences with the measurements used within the report.

25. In the absence of being provided with a detailed land survey, we have used assessment department data to ascertain the physical dimensions and acreage of the property. Should a survey prove this information to be inaccurate, we reserve the right to amend this appraisal (at additional cost) if substantial differences are discovered.

26. If only preliminary plans and specifications were available for use in the preparation of this appraisal, then this appraisal is subject to a review of the final plans and specifications when available (at additional cost) and we reserve the right to amend this appraisal if substantial differences are discovered.

27. Unless otherwise stated in this report, the value conclusion is predicated on the assumption that the property is free of contamination, environmental impairment or hazardous materials. Unless otherwise stated, the existence of hazardous material was not observed by the appraiser and the appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property.

No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required for discovery. The client is urged to retain an expert in this field, if desired.

28. The Americans with Disabilities Act ("ADA") became effective January 26, 1992. We have not made a specific compliance survey of the property to determine if it is in conformity with the various requirements of the ADA. It is possible that a compliance survey of the property, together with an analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this could have a negative effect on the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in developing an opinion of value.

29. This appraisal applies to the land and building improvements only. The value of trade fixtures, furnishings, and other equipment, or subsurface rights (minerals, gas, and oil) were not considered in this appraisal unless specifically stated to the contrary.

30. No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated, unless specifically stated to the contrary.

31. Any income and expense estimates contained in the appraisal report are used only for the purpose of estimating value and do not constitute prediction of future operating results. Furthermore, it is inevitable that some assumptions will not materialize and that unanticipated events may occur that will likely affect actual performance.

32. Any estimate of insurable value, if included within the scope of work and presented herein, is based upon figures developed consistent with industry practices. However, actual local and regional construction costs may vary significantly from our estimate and individual insurance policies and underwriters have varied specifications, exclusions, and non-insurable items. As such, we strongly recommend that the Client obtain estimates from professionals experienced in establishing insurance coverage. This analysis should not be relied upon to determine insurance coverage and we make no warranties regarding the accuracy of this estimate.

33. The data gathered in the course of this assignment (except data furnished by the Client) shall remain the property of the Appraiser. The appraiser will not violate the confidential nature of the appraiser-client relationship by improperly disclosing any confidential information furnished to the appraiser. Notwithstanding the foregoing, the Appraiser is authorized by the client to disclose all or any portion of the appraisal and related appraisal data to appropriate representatives of the Appraisal Institute if such disclosure is required to enable the appraiser to comply with the Bylaws and Regulations of such Institute now or hereafter in effect.

34. You and Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC both agree that any dispute over matters in excess of $5,000 will be submitted for resolution by arbitration. This includes fee disputes and any claim of malpractice. The arbitrator shall be mutually selected. If Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC and the client cannot agree on the arbitrator, the presiding head of the Local County Mediation & Arbitration panel shall select the arbitrator. Such arbitration shall be binding and final. In agreeing to arbitration, we both acknowledge that, by agreeing to binding arbitration, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury. In the event that the client, or any other party, makes a claim against Lipman Frizzell & Mitchell LLC or any of its employees in connections with or in any way relating to this assignment, the maximum damages recoverable by Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC for this assignment, and under no circumstances shall any claim for consequential damages be made.

35. Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC shall have no obligation, liability, or accountability to any third party. Any party who is not the "client" or intended user identified on the face of the appraisal or in the engagement letter is not entitled to rely upon the contents of the appraisal without the express written consent of Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC. "Client" shall not include partners, affiliates, or relatives of the party named in the engagement letter. Client shall hold Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC and its employees harmless in the event of any lawsuit brought by any third party, lender, partner, or part-owner in any form of ownership or any other party as a result of this assignment. The client also agrees that in case of lawsuit arising from or in any way involving these appraisal services, client will hold Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC harmless from and against any liability, loss, cost, or expense incurred or suffered by Valbridge Property Advisors | Lipman Frizzell & Mitchell LLC in such action, regardless of its outcome.

36. The value opinion(s) provided herein is subject to any and all predications set forth in this report.

37. The Valbridge Property Advisors office responsible for the preparation of this report is independently owned and operated by Lipman Frizzell & Mitchell LLC. Neither Valbridge Property Advisors, Inc., nor any of its affiliates has been engaged to provide this report. Valbridge Property Advisors, Inc. does not provide valuation services, and has taken no part in the preparation of this report.

38. If any claim is filed against any of Valbridge Property Advisors, Inc., a Florida Corporation, its affiliates, officers or employees, or the firm providing this report, in connection with, or in any way arising out of, or relating to, this report, or the engagement of the firm providing this report, then (1) under no circumstances shall such claimant be entitled to consequential, special or other damages, except only for direct compensatory damages, and (2) the maximum amount of such compensatory damages recoverable by such

claimant shall be the amount actually received by the firm engaged to provide this report.

39. This report and any associated work files may be subject to evaluation by Valbridge Property Advisors, Inc., or its affiliates, for quality control purposes.

40. Acceptance and/or use of this appraisal report constitutes acceptance of the foregoing general assumptions and limiting conditions.

Scope of Appraisal

The scope of work includes all steps taken in the development of the appraisal. This includes 1) the extent to which the subject property is identified, 2) the extent to which the subject property is inspected, 3) the type and extent of data researched, 4) the type and extent of analysis applied, and the type of appraisal report prepared. These items are discussed as follows:

Extent to Which the Property Is Identified

- Legal Characteristics
  The subject was legally identified via tax assessment records.

- Economic Characteristics
  Economic characteristics of the subject property were identified via a comparison to properties with similar locational and physical characteristics.

- Physical Characteristics
  The subject was physically identified via an exterior inspection.

Extent to Which the Property Is Inspected

We conducted an exterior inspection of the subject properties on June 24, 2015.

Type and Extent of the Data Researched

We researched and analyzed: 1) market area data, 2) property-specific, market-analysis data, 3) zoning and land-use data, and 4) current data on comparable listings and sales in the competitive market area.

Type and Extent of Analysis Applied

One of the subject properties is improved, but primarily vacant and the other is unimproved. We observed surrounding land use trends, the condition of the improvements, demand for the subject properties, and relative legal limitations in concluding a highest and best use. We then valued the subject properties based on the highest and best use conclusion, relying on the Sales Comparison Approach.

Type of Appraisal and Report Option

This is an Appraisal Report as defined by Uniform Standards of Professional Appraisal Practice under Standards Rule 2-2a.

Purpose of Appraisal

The client has requested four separate values for the subject property which are as follows:

A1. The fair market values of Lot 827 (School Building Parcel and Townhouse Parcel) and Lot 833 (Vacant Parcel) assuming development under "As Is"/"By Right" conditions and current real estate market conditions.

A2. The fair market rent (i.e. ground rent) for the school building portion of Lot 827 assuming a 99-year ground lease and rezoning to C-2-A to permit conversion of the building to 25,628 sq.ft. of office space, 12,676 sq.ft. of performing arts space, and 14,051 sq.ft. of museum space.
The fair market value of the rear portion of Lot 827 assuming future development with seven townhome lots.

A3. The fair market value of Lot 833 assuming "As Is"/"By Right" conditions, current real estate market conditions, and development with 22 market-rate condominium units, 13 affordable condominium units, and 3,000 sq.ft. of retail.

Summary of Appraisal Problem

The properties being appraised consist of two noncontiguous parcels of land totaling 43,798 sq.ft. located in Northwest Washington, D.C. The parcels are to be valued at market and by their proposed developments. In order to estimate the fair market value for the parcels at market, the highest and best use of the parcels have to be determined. Once the highest and best use of the subject property is determined, market transactions involving properties with the same highest and best use are analyzed to develop opinions of market value. In order to estimate the fair market value and fair market rent for the proposed developments, market transactions involving similar properties and other data are analyzed.

Approaches to Value

There are three traditional approaches to estimating real property value: the cost, sales comparison, and income capitalization approaches.

Cost Approach

The cost approach is based upon the principle of substitution, which states that a prudent purchaser would not pay more for a property than the amount required to purchase a similar site and construct similar improvements without undue delay, producing a property of equal desirability and utility. This approach is particularly applicable when the improvements being appraised are relatively new or when the improvements are so specialized that there is little or no sales data from comparable properties.

Sales Comparison Approach

The sales comparison approach involves the direct comparison of sales and listings of similar properties, adjusting for differences between the subject property and the comparable properties. This method can be useful for valuing general purpose properties or vacant land. For improved properties, it is particularly applicable when there is an active sales market for the property type being appraised – either by owner-users or investors.

<u>Income Capitalization Approach</u>

The income capitalization approach is based on the principle of anticipation, or the assumption that value is created by the expectation of benefits to be derived in the future, such as expected future income flows. Its premise is that a prudent investor will pay no more for the property than he or she would for another investment of similar risk and cash flow characteristics. The income capitalization approach is widely used and relied upon in appraising income-producing properties, especially those for which there is an active investment sales market.

Subject Valuation

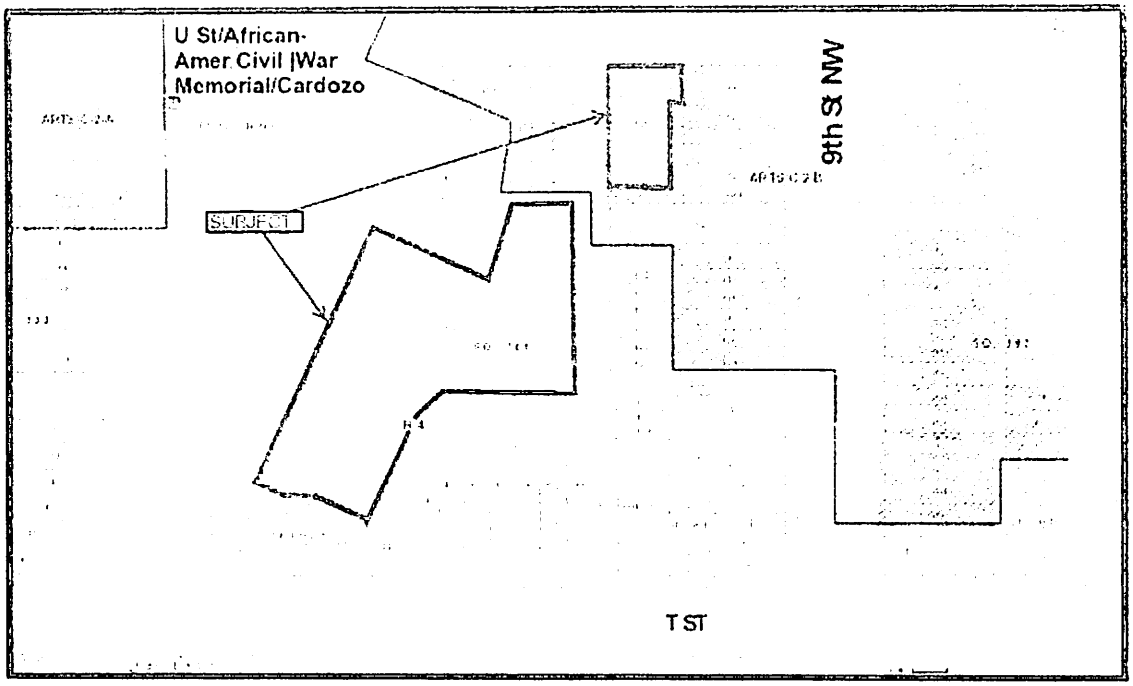
The assignment requires the estimation of fair market value for Lot 827 and Lot 833; the fair market rent (i.e. ground rent) for a 99-year ground lease of the school building portion of Lot 827 assuming future development with office, performing arts space, and a museum; the fair market value for the remainder of Lot 827 assuming future development with seven townhomes; and the fair market value for Lot 833 assuming future development with 35 condominium units and 3,000 sq.ft. of retail.

As is, Lot 827 consists of a vacant, former school building with an adjoining former auditorium/gymnasium, and paved surface parking. The school building is proposed for conversion to office, performing arts, and museum space and the former auditorium/gymnasium is proposed for demolition and combination with the parking lot for future development with seven townhome lots. Because of the advanced age of the existing improvements, the Cost Approach is not considered a reliable method of valuation and was not used. The Sales Comparison Approach is used to value the proposed townhome site and the Income Approach is used to estimate fair market rent (i.e. ground rent) for the school building based on the proposed conversion.

As is, Lot 833 consists of a paved, surface parking lot. A Residual Land Value Analysis is used to estimate the fair market value for Lot 833 based on the proposed development. This technique incorporates elements of the Cost Approach and the Income Approach.

Zoning & Other Land Use Regulations

ZONING MAP



Zoning Designation

Zoning Code:	Lot 827 - R-4; Lot 833 - ARTS/C-2-B
Zoning Designation:	Residence District and Community Business Center District with an Uptown Arts-Mixed Use Overlay District
Purpose:	The R-4 District is designed to include those areas now developed primarily with row dwellings and whose primary purpose is the stabilization of remaining one-family dwellings. The C-2-B District is designated to serve commercial and residential functions similar to the C-2-A District, but with high-density residential and mixed uses. The Uptown Arts-Mixed Use (ARTS) Overlay District was established to encourage retail, entertainment, and residential uses that require pedestrian activity; an increased presence and integration of the arts and related cultural and arts-related support uses; a design character and identity of the area by establishing physical design standards and adaptive reuse of older buildings in combination with new buildings; and increased public safety.

Permitted Uses

The R-4 District permits single-family residential uses (including detached, semi-detached, row dwellings, and flats), churches, hospitals, and public schools. Conversion of existing buildings to apartments are permitted for lots with a minimum lot area of 900 sq.ft. per dwelling unit. The C-2-B District permits office, retail, housing, hotel, and mixed uses.

Development Regulations

In the R-4 District, there is a maximum height of 3 stories and 40 ft. except for churches which may be 60 ft. and public recreation and community centers which may be 45 ft. For one-family detached dwellings, the minimum lot width is 40 ft., the minimum lot area is 4,000 sq.ft., and the maximum lot occupancy is 40%. For semi-detached one-family dwellings, the minimum lot width is 30 ft., the minimum lot area is 3,000 sq.ft. and the maximum lot occupancy is 40%. For row dwellings and flats, the minimum lot width is 18 ft., the minimum lot area is 1,800 sq.ft., and the maximum lot occupancy is 60%. For public recreation and community centers, the minimum lot width is 40 ft., the minimum lot area is 4,000 sq.ft., and the maximum lot occupancy is 20%. For all other structures, the minimum lot width is 40 ft., the minimum lot area is 4,000 sq.ft., and the maximum lot occupancy is 40%. There is a maximum FAR of 1.8 for public recreation and community centers and none for other uses. All uses require a 20-foot rear yard setback.

In the C-2-B District, the maximum lot occupancy is 80% for detached and semi-detached dwellings and 100% for all other uses. The maximum FAR is 3.5 for residential use and 1.5 FAR for other permitted uses. The maximum height is 65 ft. A rear yard setback of 15 ft. is required for all uses and side yard setbacks of eight ft. are required for detached and semi-detached dwellings. The ARTS Overlay provides for flexibility in use, height, bulk, bonus density, and combined lot development. However, where there are conflicts between the ARTS Overlay and the underlying zoning, the more restrictive provision of the zoning regulations govern.

Under the Inclusionary Zoning provision, the permitted density of the ARTS/C-2-B district can be increased by 20% to 4.2 if the greater of 8% of a development's gross floor area devoted to residential use or 50% of the bonus density utilized is dedicated to affordable housing. After all of the bonus density under Inclusionary Zoning is used, the FAR can be further increased to 4.5 by devoting space to a preferred use such as a legitimate theater, a department store, drugstore, dry cleaner, laundry, grocery store, hardware store and a list of other neighborhood serving retail. A maximum building height of 75 ft. and a maximum lot coverage of 80% are permitted.

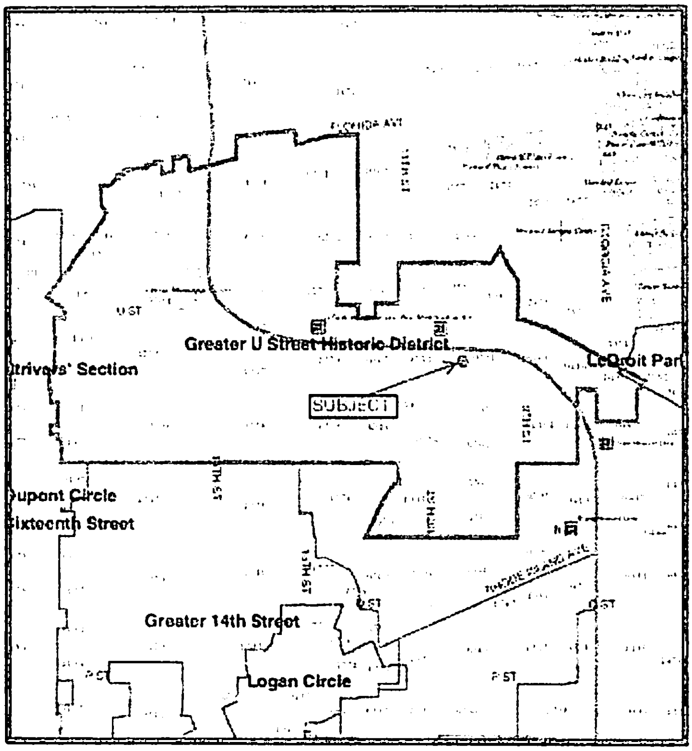
Off-street parking

Off street parking regulations vary based on use. Off-street parking regulations for schools in the R-4 District require two parking spaces for each three teachers and other employees. Single-family uses require one parking space for each dwelling unit. Off-street parking regulations for an office use in the C-2-B District requires one parking space for each 600 sq.ft. of gross floor area in excess of 2,000 sq.ft. Retail or service establishments are required to provide one parking space for each additional 750 sq.ft. in excess of 3,000 gross floor sq.ft. Multi-family use requires one parking space for each three dwelling units and hotels require one space for each two rooms for sleeping plus one for each 150 sq.ft. of floor area in the largest function room.

Greater U Street Historic District

The subject property is located in the Greater U Street Historic District which was listed in the National Register of Historic Places in 1998. The district extends east from 16th Street, NW to 7th Street, NW and south from Florida Avenue, NW to S Street, NW and includes over 1,500 buildings largely developed between 1862 and 1900.

GREATER U STREET DISTRICT HISTORIC MAP



According to the client, the main school building is designated as a contributing building to the historic district and must be preserved. It is our understanding that the adjoining auditorium/gymnasium does not have to be preserved.

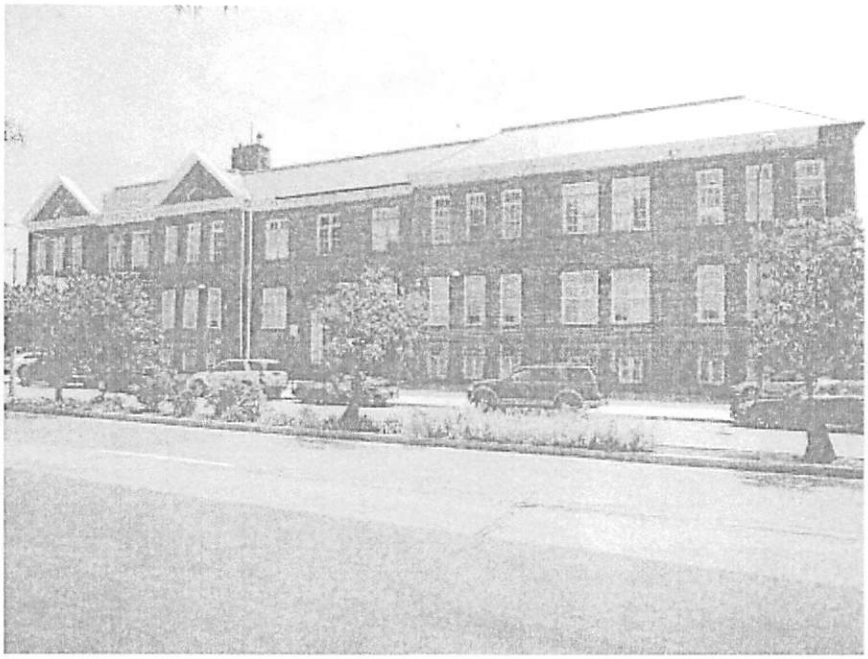
Rezoning

The fair market rent estimate for Lot 827 assumes that the parcel will be rezoned to C-2-A. This zoning district permits similar uses to the C-2-B District, but development regulations include a maximum floor area ratio (FAR) of 2.5 for apartment and other residential uses and 1.5 for all other permitted uses. The maximum building height is 50 ft., and the maximum lot occupancy is 60% for residential uses and 100% for all other uses. Setbacks include a rear yard of 15 ft., whole front and side yards are not required.

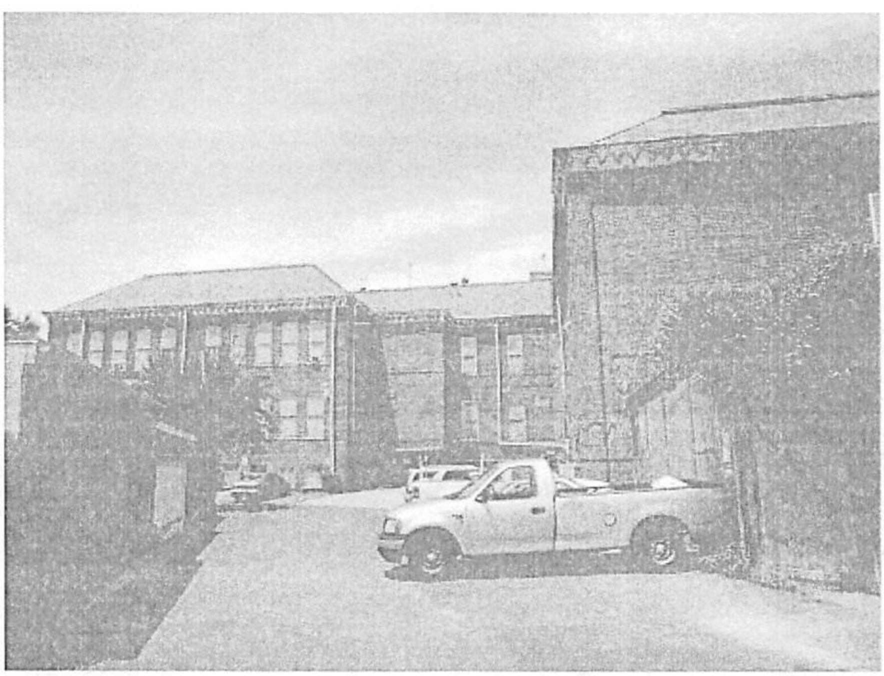
Under the Inclusionary Zoning provision, the permitted density of the C-2-A district can be increased by 20% to 3.0 if the greater of 8% (for concrete construction, 10% for stick-built) of a development's gross floor area devoted to residential use or 50% of the bonus density utilized is dedicated to affordable housing. The maximum building height remains 50 ft., but the maximum lot coverage increases to 75% for residential uses.

Subject Photographs

VIEW OF FORMER SCHOOL BUILDING

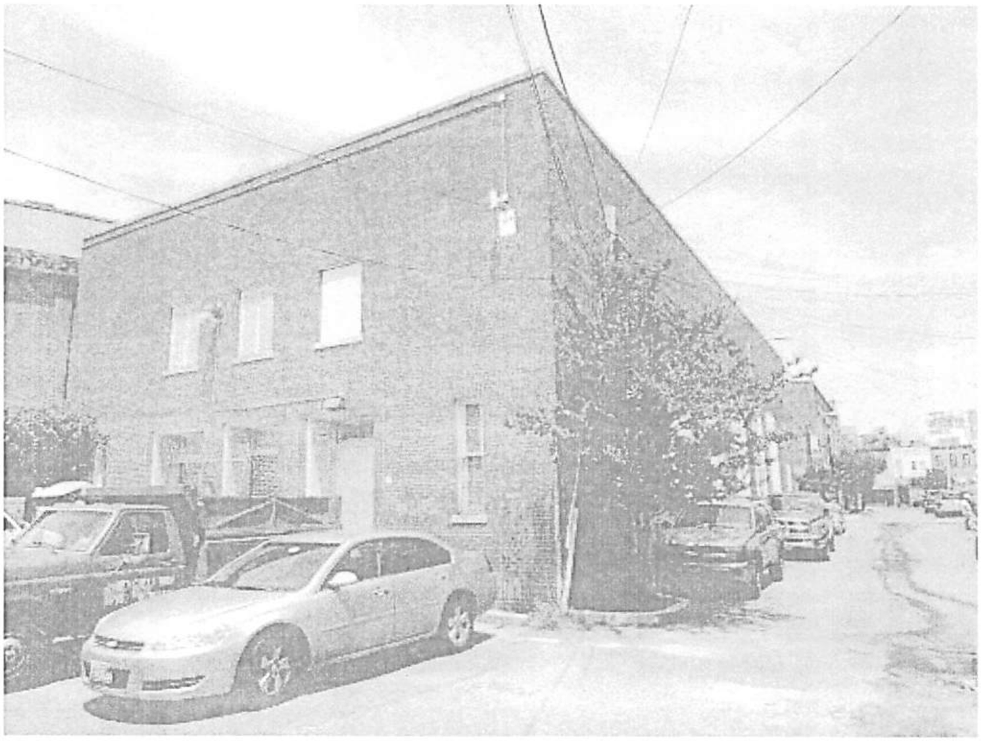


REAR VIEW OF FORMER SCHOOL BUILDING

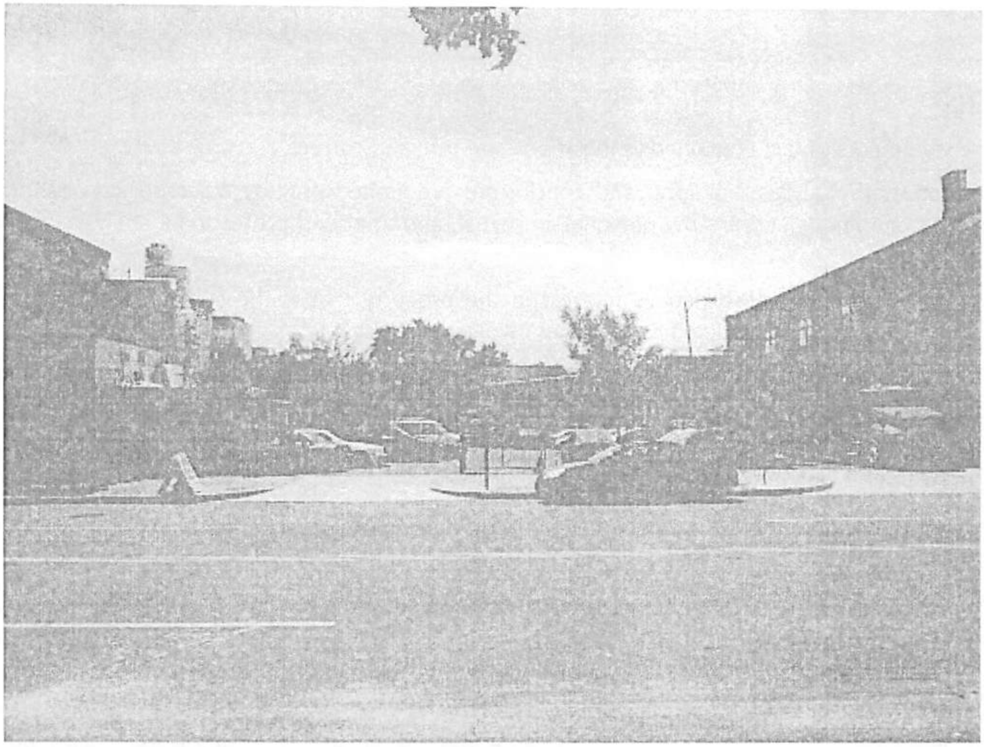


VIEW OF FORMER AUDITORIUM/GYMNASIUM

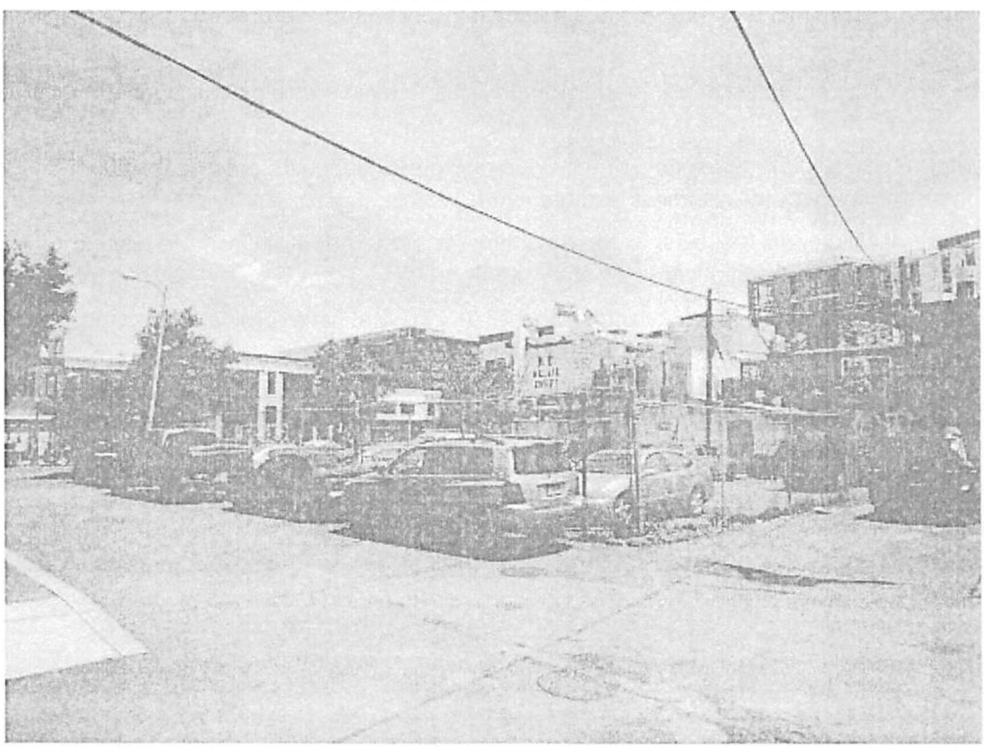
VIEW OF FORMER AUDITORIUM/GYMNASIUM



VIEW OF 912 U STREET FROM ACROSS U STREET



VIEW OF 912 U STREET FROM ALLEY



Certification

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I appraised the property that is the subject of this report in an appraisal report dated November 5, 2014.
5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
9. Ryland L. Mitchell III, CRE, MAI made a personal inspection of the property that is the subject of this report.
10. No one provided significant real property appraisal assistance to the person signing this certification.
11. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, I, Ryland L. Mitchell III, CRE, MAI have completed the continuing education program for Designated Members of the Appraisal Institute.

Ryland L. Mitchell III, CRE, MAI
Senior Managing Director
Certified General Real Estate Appraiser
District of Columbia License No.: GA10020
rmitchell@valbridge.com

Certification

I certify that, to the best of my knowledge and belief:

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8. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
9. F. Ford Dennis, Jr. made a personal inspection of the property that is the subject of this report.
10. No one provided significant real property appraisal assistance to the person signing this certification.
11. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, I, F. Ford Dennis, Jr., have completed the Standards and Ethics Education Requirement for Practicing Affiliates of the Appraisal Institute.

F. Ford Dennis, Jr.
Senior Appraiser
fdennis@valbridge.com

Summary of Salient Facts & Conclusions

Address: 1923 Vermont Avenue, NW and 912 U Street, NW
Washington, D.C. 20002

Parcel Number: Square 361, Lots 827 & 833

Property Rights Appraised: Fee simple[1]

Zoning: R-4, Residence District & ARTS/C-2-B, Community Business Center, Uptown Arts-Mixed Use Overlay

Site Size: 1.01 acres (43,798 square feet)

Existing Improvements: The subject properties are improved with a two-story plus lower level, vacant, former school building and a former auditorium/gymnasium occupied by the African-American Civil War Museum totaling 57,165 sq.ft. developed in 1887 and expanded in 1937 and a paved surface parking lot.

Extraordinary Assumptions: The land supporting the former auditorium/ gymnasium building and adjacent parking lot can be subdivided from Lot 827 into seven townhouse lots.

Hypothetical Conditions: Lot 827 is zoned C-2-A as stipulated in the fair market rent valuation.

Highest and Best Use	**1923 Vermont Avenue, NW**	**912 U Street, NW**
As If Vacant	Townhouses	Multi-family
As Improved	Multi-family conversion & townhouses	

Date of Inspection: June 24, 2015

Date of Report Preparation: August 11, 2015

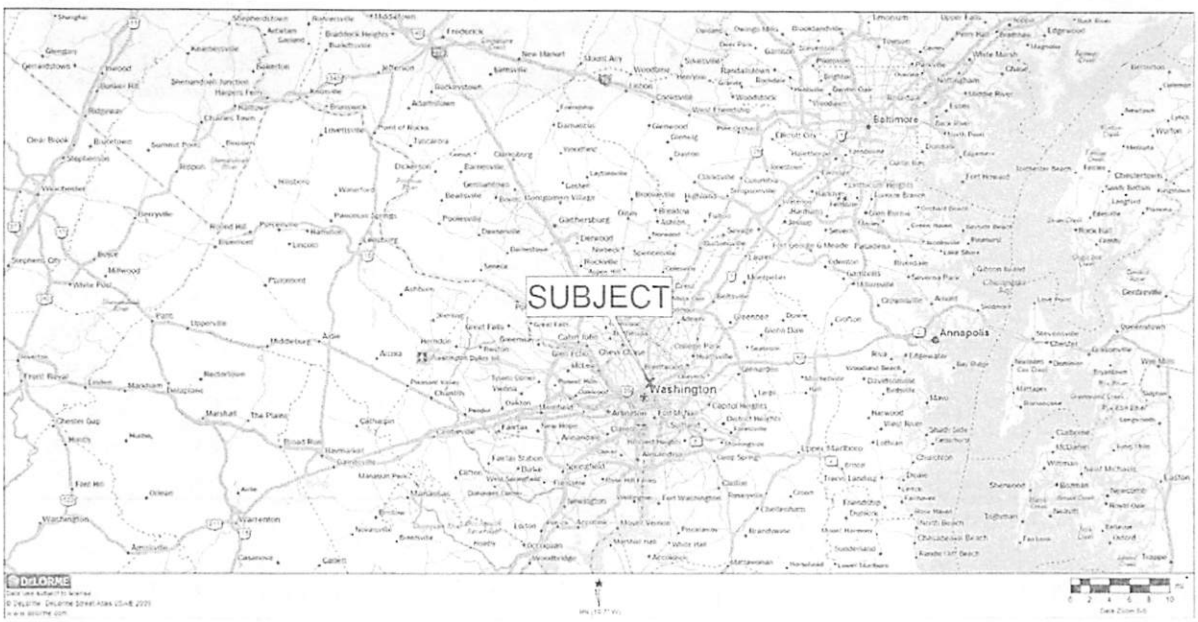
VALUE INDICATIONS & CONCLUDED VALUES

	1923 Vermont Avenue, NW				912 U Street, NW	
	School Building Parcel		Townhome Parcel		Vacant Parcel	
A1.	*Market Value*	$11,510,000	*Market Value*	$1,900,000	*Market Value*	$4,320,000
A2.	*Market Rent*	$0	*Market Value*	$2,660,000	*N/A*	
A3.	*N/A*		*N/A*		*Market Value*	$240,000

[1] Lot 833 and the auditorium/gymnasium building on Lot 827 are both encumbered by leases that can be terminated at the sole discretion of the District of Columbia according to information provided by the client.

Washington, D.C. Metropolitan Area

The Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area (MSA) includes: Calvert, Charles, Frederick, Montgomery and Prince George's Counties in Maryland; Arlington, Clarke, Culpeper, Fairfax, Fauquier, Loudoun, Prince William, Rappahannock, Spotsylvania, Stafford and Warren Counties, and the Cities of Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas and Manassas Park, located in Northern Virginia; Jefferson County, in West Virginia; and the District of Columbia.



Population, Income & Employment

The Washington MSA's population grew by an average annual rate of 1.5% between 1990 (4,122,259) and 2000 (4,796,183), according to the U.S. Census Bureau. The population for the MSA had an average annual change of 1.6% and a total change of 17.0% from 2004 to 2014. In 2014, the MSA had an estimated population of 6,033,737, an increase of 1.1% over 2013, at 5,967,176. The Washington MSA's population is projected to increase to 6,300,311 in 2020 and 6,945,940 in 2030, according to reports from the Metropolitan Washington Council of Governments Cooperative Forecasts 8.3. A summary of population history and forecast for the Washington Metropolitan MSA is shown in the following chart.

HISTORICAL AND PROJECTED POPULATION

			Average Annual Growth Rates				
	2004	2014	2004-2014	2020	2014-2020	2030	2020-2030
WASHINGTON, D.C. MSA	**5,158,524**	**6,033,737**	**1.6%**	**6,300,311**	**0.7%**	**6,945,940**	**1.0%**
Washington, D.C.	567,754	658,893	1.5%	715,494	1.4%	808,718	1.2%

Sources: U.S. Census Bureau, Population Division: 2004 & 2014: Release Date: March 2015; 2020 & 2030: Metropolitan Washington Council of Governments Cooperative Forecasts 8.3.

In 2014, the Washington, D.C. MSA had an estimated average annual labor force of 3,262,248, with an average unemployment rate of 5.0%, compared to an average rate of 7.8% for the District of Columbia, 5.8% for Maryland, 5.2% for Virginia, 6.5% for West Virginia and the U.S. average unemployment rate of 6.2%. A summary of labor force data for the MSA and unemployment rates for the States of Maryland and West Virginia, the Commonwealth of Virginia, the District of Columbia and the U.S., from 2004 to 2014, is shown in the following chart.

AVERAGE ANNUAL LABOR FORCE AND UNEMPLOYMENT RATES SUMMARY

	Washington, D.C. MSA						
Year	Labor Force	Rate	D.C. Rate	Maryland Rate	Virginia Rate	West VA Rate	U.S. Rate
2004	2,835,730	3.7%	7.8%	4.3%	3.8%	5.3%	5.5%
2005	2,904,461	3.5%	6.4%	4.1%	3.6%	5.1%	5.1%
2006	2,960,670	3.1%	5.8%	3.9%	3.1%	4.9%	4.6%
2007	2,993,900	3.0%	5.5%	3.5%	3.0%	4.6%	4.6%
2008	3,058,424	3.7%	6.5%	4.2%	3.9%	4.3%	5.8%
2009	3,076,703	6.0%	9.3%	7.0%	6.7%	7.7%	9.3%
2010	3,150,740	6.3%	9.4%	7.7%	7.1%	8.7%	9.6%
2011	3,198,176	6.1%	10.2%	7.2%	6.6%	8.1%	8.9%
2012	3,237,000	5.8%	9.0%	7.0%	6.0%	7.5%	8.1%
2013	3,258,140	5.5%	8.5%	6.6%	5.7%	6.7%	7.4%
2014	3,262,248	5.0%	7.8%	5.8%	5.2%	6.5%	6.2%

Sources: U.S. Department of Labor, Bureau of Labor Statistics

In March 2015, the Washington, D.C. MSA had an estimated labor force of 3,267,566 with an unemployment rate of 4.7%, compared to a rate of 7.3% for the District of Columbia, 5.4% for Maryland, 4.9% for Virginia, 7.7% for West Virginia and the U.S. unemployment rate of 5.5%.

The early 1990s produced a depressed economic environment for the Metropolitan area with cutbacks in employment by the Federal Government, the area's largest employer. This was followed by corporate mergers and layoffs in the mid-1990s. By the late 1990s the economy had improved and private sector hiring was strong, with low unemployment and resurgence in demand for commercial development. During 2002, the economy in the Metropolitan area was stagnant with low mortgage interest rates responsible for a strong housing market. By 2005, a strong seller's market developed for both residential and commercial real estate that began to slow down by year end, as interest rates rose. Sales activity in the housing market declined in 2006 through 2009, while commercial activity remained relatively stable.

According to reports from the U.S. Census Bureau, the estimated median household income for the Washington, D.C. MSA increased from $66,273 in 2003 to $84,526 in 2013, an average annual increase of 2.5% and a total change of 27.5%. The MSA's 2013 median income was 3.1% higher than the 2012 median income of $81,950. Median income for the MSA was 27.4% higher than the District of Columbia's median household income of $66,326, 16.6% higher than Maryland's income of $72,482, 34.7% higher than Virginia's income of $62,745 and 105.2%

higher than West Virginia's median household income of $41,195. Median household income for the Washington, D.C. MSA from 2003 to 2013 is shown in the following chart.

MEDIAN HOUSEHOLD INCOME

Year	Income	Annual % Change	Total % Change
2003	$66,273	-	-
2004	$68,330	3.1%	3.1%
2005	$71,013	3.9%	7.2%
2006	$76,929	8.3%	16.1%
2007	$80,086	4.1%	20.8%
2008	$81,696	2.0%	23.3%
2009	$82,470	0.9%	24.4%
2010	$81,647	-1.0%	23.2%
2011	$83,583	2.4%	26.1%
2012	$81,950	-2.0%	23.7%
2013	$84,526	3.1%	27.5%
Average Annual % Change		2.5%	

Source: U.S. Census Bureau

Housing

The residential market in the Washington Metropolitan area was extremely active during the first half of this decade, although home sales began to slow in 2006 and pricing began to decline since that time. The extreme expansion experienced between 2000 and 2005 ended and the market is in the process of finding equilibrium.

According to reports from the Metropolitan Regional Information Systems, Inc. (MRIS), in 2014, the MSA had an average home sale price of $390,352, an increase of 4.4% over 2013, at $373,756. During the same period, the number of units sold in the MSA went from 75,782 in 2013 to 71,748 in 2014, a decrease of 5.3%. Average home sale prices in the MSA for Maryland counties, Virginia counties and cities, Jefferson County, West Virginia and the District of Columbia, from 2010 to 2014 are shown in the following chart.

AVERAGE ANNUAL HOME SALE PRICES

	2010	2011	% Change	2012	% Change	2013	% Change	2014	% Change
Maryland Counties									
Calvert County	$307,824	$308,571	0.2%	$312,751	1.4%	$321,930	2.9%	$320,469	-0.5%
Charles County	$257,480	$231,553	-10.1%	$240,484	3.9%	$252,151	4.9%	$256,555	1.7%
Frederick County	$262,703	$252,611	-3.8%	$267,126	5.7%	$296,398	11.0%	$294,326	-0.7%
Montgomery County	$441,618	$451,963	2.3%	$465,510	3.0%	$500,338	7.5%	$503,956	0.7%
Prince George's County	$201,251	$181,950	-9.6%	$191,076	5.0%	$213,162	11.6%	$236,340	10.9%
District of Columbia									
	$505,736	$516,625	2.2%	$552,306	6.9%	$589,036	6.7%	$620,026	5.3%
Virginia Counties									
Arlington County	$541,481	$557,993	3.0%	$575,125	3.1%	$604,929	5.2%	$622,619	2.9%
Clarke County	$288,184	$277,142	-3.8%	$321,098	15.9%	$332,972	3.7%	$340,672	2.3%
Fairfax County	$457,559	$471,761	3.1%	$493,890	4.7%	$531,567	7.6%	$538,280	1.3%
Fauquier County	$325,405	$330,574	1.6%	$357,332	8.1%	$366,697	2.6%	$400,651	9.3%
Loudoun County	$403,645	$418,886	3.8%	$433,856	3.6%	$463,313	6.8%	$479,514	3.5%
Prince William County	$276,767	$284,450	2.8%	$307,051	7.9%	$337,971	10.1%	$351,915	4.1%
Spotsylvania County	$217,448	$212,892	-2.1%	$220,546	3.6%	$249,629	13.2%	$258,771	3.7%
Stafford County	$258,615	$249,669	-3.5%	$270,777	8.5%	$296,296	9.4%	$302,278	2.0%
Warren County	$160,006	$152,608	-4.6%	$171,961	12.7%	$189,980	10.5%	$200,109	5.3%
Virginia Cities									
Alexandria City	$453,998	$469,664	3.5%	$488,014	3.9%	$517,859	6.1%	$538,082	3.9%
Fairfax City	$425,937	$425,954	0.004%	$459,847	8.0%	$485,306	5.5%	$508,878	4.9%
Falls Church City	$562,565	$590,176	4.9%	$583,192	-1.2%	$676,912	16.1%	$728,403	7.6%
Fredericksburg City	$243,086	$239,314	-1.6%	$266,525	11.4%	$282,958	6.2%	$314,467	11.1%
Manassas City	$183,840	$199,889	8.7%	$227,119	13.6%	$257,265	13.3%	$275,373	7.0%
Manassas Park City	$198,777	$195,151	-1.8%	$225,304	15.5%	$245,035	8.8%	$260,192	6.2%
West Virginia County									
Jefferson County	$184,906	$179,417	-3.0%	$186,851	4.1%	$210,924	12.9%	$235,857	11.8%
MSA AVERAGE PRICE	**$325,401**	**$327,219**	**0.6%**	**$346,261**	**5.8%**	**$373,756**	**7.9%**	**$390,352**	**4.4%**

Source: Metropolitan Regional Information Systems, Inc.-MLS Resale Data. Figures above include average prices of single-family detached/attached homes and condominium units sold.

According to reports from the Metropolitan Regional Information Systems, Inc. (MRIS), in March 2015, the MSA had an average home sale price of $389,321, an increase of 2.4% over March 2014, at $380,334. During the same period, the number of units sold in the MSA went from 4,946 in March 2014 to 5,753 in March 2015, an increase of 16.3%.

Residential construction activity decreased between 2005 and 2009. The Washington, D.C. MSA issued new residential building permits for 24,851 dwelling units in 2014, an increase of 3.4% over 2013, at 24,033 units, according to reports from the State of the Cities Data Systems (SOCDS). Of those permits issued in 2014, 12,225 were for single-family units, a decrease of 7.9% from 2013, at 13,274 single-family units. During the same period, the MSA issued multi-family permits for 12,626 units, an increase of 17.3% over 2013, at 10,759 multi-family units. The number of units for permits issued from 2004 to 2014 in the Washington, D.C. MSA is shown in the following chart.

RESIDENTIAL BUILDING PERMITS

	Number of Units			2004 - 2014	
Year	Single-Family	Multi-Family	Total	Annual % Change	Total % Change
2004	26,940	11,084	38,024	-	-
2005	25,918	10,858	36,776	-3.3%	-3.3%
2006	18,471	9,487	27,958	-24.0%	-26.5%
2007	14,551	7,908	22,459	-19.7%	-40.9%
2008	9,321	4,411	13,732	-38.9%	-63.9%
2009	8,954	3,375	12,329	-10.2%	-67.6%
2010	9,488	3,577	13,065	6.0%	-65.6%
2011	9,644	10,013	19,657	50.5%	-48.3%
2012	10,980	11,424	22,404	14.0%	-41.1%
2013	13,274	10,759	24,033	7.3%	-36.8%
2014	12,225	12,626	24,851	3.4%	-34.6%

Source: HUD USER Policy Development and Research Information Service, State of the Cities Data Systems (SOCDS).

Commercial/Industrial Markets

In first quarter 2015, reports from *Jones Lang LaSalle* indicated that the District of Columbia registered positive net absorption for the seventh time in nine quarters. Because of increased tenant demand among technology companies and government affairs groups, since the start of 2011, the District has recorded 2.7 million square feet of occupancy growth, compared to negative net absorption of 7.6 million square feet in Northern Virginia and Suburban Maryland. Additionally, a record-high 77.9% of all sales volume was concentrated in the District of Columbia in first quarter 2015. Additionally, 92.3% of all leasing activity in the first quarter was concentrated in buildings that were within a half mile of an existing or planned Metro station. A key requirement for large leasing decisions is Metro accessibility, according to *Jones Lang LaSalle*.

In first quarter 2015, the MSA had 481.5 million square feet of office RBA, with a vacancy rate of 14.8%, according to reports from CoStar. Industrial/Flex RBA in the MSA totaled 236.5 million square feet, with a vacancy rate of 9.8%. The MSA had retail space totaling 260.1 million square feet, with a vacancy rate of 4.6%. The Washington, D.C. MSA had a total combined RBA of 978.1 million square feet, with an overall vacancy rate of 10.9%. The MSA's RBA for office, industrial/flex, retail, and combined space and vacancy rates for fourth quarters 2009 through 2014 and first quarter 2015, are shown in the following chart.

COMMERCIAL RBA AND VACANCY RATES

Year/Qtr.	Total RBA	Vacancy Rates
Office		
2015 1Q	481,551,688	14.8%
2014 4Q	481,140,161	14.4%
2013 4Q	477,063,296	13.8%
2012 4Q	473,266,950	13.3%
2011 4Q	470,102,745	13.1%
2010 4Q	467,349,535	13.0%
2009 4Q	462,482,007	13.3%
Industrial/Flex		
2015 1Q	236,458,879	9.8%
2014 4Q	236,270,930	9.7%
2013 4Q	234,534,992	10.6%
2012 4Q	232,607,468	10.9%
2011 4Q	231,406,647	11.8%
2010 4Q	230,066,555	12.4%
2009 4Q	229,082,131	12.8%
Retail		
2015 1Q	260,074,407	4.6%
2014 4Q	259,929,309	4.6%
2013 4Q	258,041,317	4.8%
2012 4Q	255,773,824	5.0%
2011 4Q	254,042,794	5.0%
2010 4Q	252,329,331	5.1%
2009 4Q	250,177,371	5.6%
Combined		
2015 1Q	978,084,974	10.9%
2014 4Q	977,340,400	10.7%
2013 4Q	969,639,605	10.6%
2012 4Q	961,648,242	10.5%
2011 4Q	955,552,186	10.7%
2010 4Q	949,745,421	10.7%
2009 4Q	941,741,509	11.1%

Source: CoStar

Transportation/Accessibility

The Washington Metropolitan Area's highway network is extensive and provides access to points in all directions. In suburban Maryland, major arteries include I-70, I-270, I-495, I-95; U.S. Routes. 50/301, 1, 29, 40; Md. Routes 355, 97, 650, 108, 450, 214, 4, 5; and many heavily traveled county roads. This highway system serves to connect the Washington Metropolitan Area with the Maryland cities of Baltimore, Annapolis, and Frederick. In northern Virginia, major arteries include I-66, I-495, I-95; U. S. Routes 1, 29, 50; Virginia Routes 123, 7, 236, 28; and many heavily traveled county roads. This highway system in northern Virginia links the Washington Metropolitan Area with the cities of Winchester, Charlottesville, Fredericksburg and Richmond.

An 18.8-mile Inter County Connector (I-200) toll road has been completed from I-270/I-370 to I-95 (Contracts A-C), which greatly eases east/west travel linking Prince George's and Montgomery Counties, according to reports from the Maryland Department of Transportation. The limited access highway begins from the west at I-270/I-370 in Montgomery County, MD and ends at US 1 in Prince George's County, MD.

The ICC is a limited access toll facility that has been constructed in the following sequence:

A. .I-270/I-370 to MD 97 - 7.2 miles of six-lane highway (opened February 2011).

B. MD 97 to US 29 – 6.9 miles of six-lane highway (opened November 2011).

C. US 29 to I-95 - 3.8 miles of six-lane ICC highway, 1.3 miles of US 29 road improvements and 1.9 miles of I-95 auxiliary lane and C-D roadway improvements (opened November 2011).

D/E. Contract D/E Modified is the fourth design build contract of the ICC and consists of collector-distributor lanes along I-95 from the ICC to just north of MD I-98 and the extension of the ICC to US 1. The D/E Modified, consists of a reduced length of collector-distributor road along I-95 and includes the extension of the ICC from the eastern terminus of Contract C to a partial interchange at Virginia Manor Road and a new signalized intersection at U.S. 1, near the Muirkirk MARC commuter rail station. Contract D/E of the ICC opened to traffic as of November 2014.

The area is also served by excellent rail service and three major airports: Baltimore/Washington International Thurgood Marshall Airport (BWI); Ronald Reagan Washington National Airport; and Washington Dulles International Airport.

The Metro area also has access to the Helen Delich Bentley Port of Baltimore which comprises one of the largest foreign tonnage ports in the U.S. Located at Dundalk, Curtis Bay, Locust Point and Canton Yards; the Port is a significant economic engine for the region. Currently, the Port moves more than 40 million tons of bulk and container cargo, according to reports from the Port of Baltimore. Because of its strategic Mid-Atlantic location, inland setting and 50-foot channel, the Port is one of America's top container terminals. It is a leading U.S. automobile and break-bulk port with six public terminals and a state-of-the-art Intermodal Container Transfer

Facility and is ranked as one of the nation's top, and the East Coast's number one, "Ro/Ro" (roll-on/roll-off) ports.

The metropolitan area is served by METRO, a rapid rail subway system which is operated by the Washington Metropolitan Area Transit Authority (WMATA) and which also operates extensive bus services. Metro rail serves to connect suburban areas of Maryland and Virginia with the District of Columbia. Regional commuters also have access to the Virginia Rail Express, MARC (Maryland Rail Commuter), and Amtrak trains.

The Great Recession

In late 2007, financial markets began to deteriorate from a period of rapid growth in real estate prices and economic activity during the 2000s. What followed was a deep and unprecedented global economic recession, which has come to be known as The Great Recession. Real estate markets in particular were profoundly affected by this recession in comparison to past recessions.

One of the most destructive legacies of The Great Recession has been the nationwide erosion in home prices following dramatic increases in the mid-2000s which were fueled by easy credit and speculation. In the Washington, D.C. MSA, the average home sale price increased from $194,362 in 2000 to $438,554 in 2006, or 125.6%. By 2014, it averaged $390,352, a decrease of 11.0% from the high. Residential building permits decreased from a peak of 38,024 in 2004 to 24,851 in 2014, a decrease of 34.6%.

In addition, the effects of The Great Recession can be found in unemployment, which, in the Washington, D.C. MSA, averaged 3.4% annually between 2004 and 2008, with a high of 3.7% in 2004 and 2008, and a low of 3.0% in 2007. In 2009, unemployment jumped to 6.0% and to 6.3% in 2010. The unemployment rate in the MSA decreased to 6.1% in 2011, 5.8% in 2012, 5.5% in 2013, and 5.0% in 2014.

Median household income in the MSA increased by 8.3% in 2006 then slowed to an increase of 3.1% in 2013. Vacancy rates have also increased for office RBA, but decreased for industrial/flex and retail commercial properties since 2009.

The duration and far reaching impact of The Great Recession has been unprecedented as have been measures in monetary and fiscal policy undertaken by the U.S. Government to combat the ongoing problems. The Federal Reserve has lowered the Federal Funds Target Rate to a range of 0 to 0.25%, the lowest rate since December of 2008 and over $5 trillion has been added to the nation's debt since January of 2008. Standard & Poor's Ratings Services revised its outlook on the U.S. long-term credit rating from AAA to AA+ to reflect future concerns regarding the ability of the U.S. Government to fulfill its obligations as a result of its increased debt loads, without major policy changes.

Conclusions

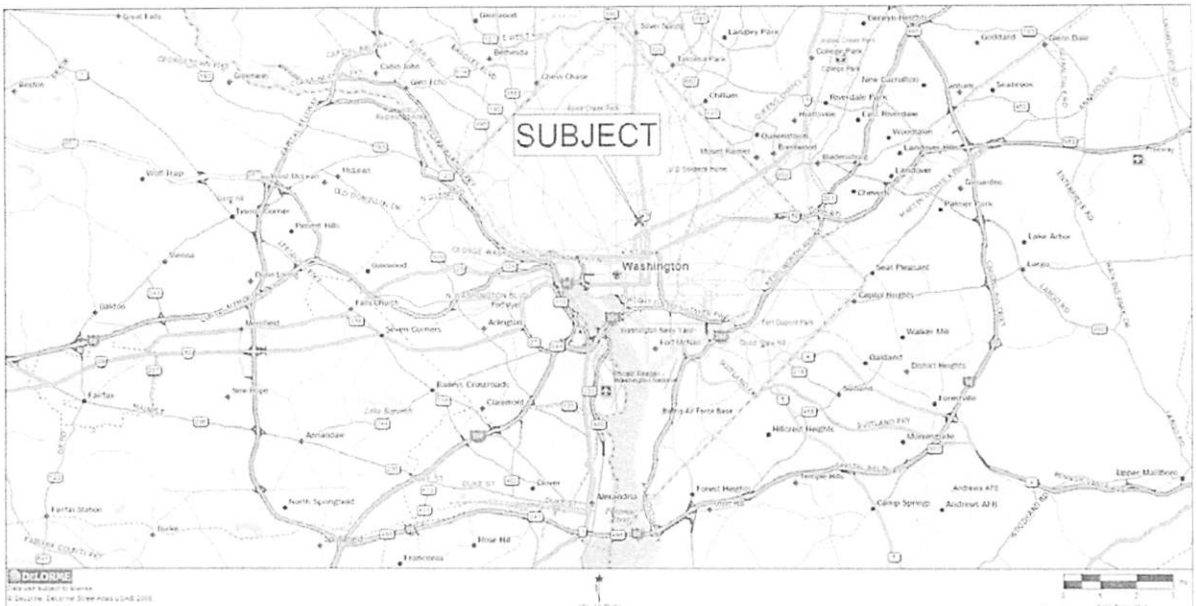
During the last three years, the Washington, D.C. MSA has shown signs of stabilization. The MSA experienced increases in the average home sale price from 2010 through 2014, after decreases in 2008 and 2009. The average unemployment rate decreased in 2011 through 2014, after increasing unemployment in 2009 and 2010. These recent signs of stabilization indicate a modest recovery however, the future outlook remains uncertain.

Going forward, the Washington, D.C. MSA's economic base will continue to be a positive influence as it recovers. Economic growth may not again reach the pace set in the mid-2000s, however, the MSA's favorable demographic trends and location will assist in stabilizing and, ultimately, growing its economy.

Washington, D.C.

Location

The District of Columbia is at the center of the Washington metropolitan area. It is surrounded by suburban areas of Maryland and Virginia. Washington, D.C. is the capital of the United States and the seat of our nation's government.



Population

The U.S. Census Bureau estimated the District of Columbia's 2000 population at 572,086, which showed an average annual decrease of 1.2% from 1980, at 638,432. In 2014, the District had an estimated population of 658,893, an increase of 1.5% over 2013, at 649,111. The District experienced an average annual increase in population of 1.5% and a total increase of 16.0% from 2004 to 2014. According to the Round 8.3 Cooperative Forecast, published by the Metropolitan Washington Council of Governments (MWCOG), the District's population is projected to increase to 715,494 in 2020 and 808,718 in 2030. A summary of population history and forecast is shown in the following chart.

HISTORICAL AND PROJECTED POPULATION

	2004	2014	Average Annual Growth Rates 2004-2014	2020	2014-2020	2030	2020-2030
WASHINGTON, D.C. MSA	5,158,524	6,033,737	1.6%	6,300,311	0.7%	6,945,940	1.0%
Washington, D.C.	**567,754**	**658,893**	**1.5%**	**715,494**	**1.4%**	**808,718**	**1.2%**

Sources: U.S. Census Bureau, Population Division: 2004 & 2014: Release Date: March 2015; 2020 & 2030: Metropolitan Washington Council of Governments Cooperative Forecasts 8.3.

Employment

Extensive employment by the Federal Government exists in the Washington area with much of this activity within the District of Columbia. A summary of the District's labor market, broken down by industry, is shown in the following chart.

SUMMARY OF EMPLOYMENT

	Annual 2013	Annual 2014	2013-2014 % Change	March 2015	2014-2015 % Change
Civilian Labor Force*	373.5	377.4	1.0%	381.6	1.1%
Employment*	341.8	348.0	1.8%	353.9	1.7%
Unemployment*	31.7	29.4	-7.3%	27.7	-5.8%
Unemployment Rate*	8.5%	7.8%	-8.2%	7.3%	-6.8%
Federal & Local Government	240.3	237.1	-1.3%	236.7	-0.2%
Natural Resources, Mining & Construction	13.9	13.9	0.0%	14.2	2.2%
Manufacturing*	1.0	0.8	-20.0%	1.0	25.0%
Trade, Transportation & Utilities	29.1	30.9	6.2%	31.6	2.3%
Information	17.1	17.1	0.0%	16.9	-1.2%
Financial Activities	28.6	28.8	0.7%	30.9	7.3%
Professional & Business Services	155.7	158.4	1.7%	162.2	2.4%
Educational & Health Services	123.5	127.6	3.3%	127.2	-0.3%
Leisure & Hospitality	67.6	69.3	2.5%	68.7	-0.9%
Other Services	69.0	68.6	-0.6%	71.0	3.5%
Total Wage and Salary Employment	745.8	752.5	0.9%	760.4	1.0%

** Not Seasonally Adjusted* *Figures in Thousands*

Source: D.C. Dept. of Employment Services (DOES), Office of Labor Market Research and Information in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

In March 2015, the estimated civilian labor force for residents of the District of Columbia was 381,558, with an unemployment rate of 7.3% (not seasonally adjusted), compared to a rate of 4.7% for the Washington, D.C. MSA, 5.4% for the State of Maryland, 4.9% for the Commonwealth of Virginia and the U.S. unemployment rate of 5.5% (seasonally adjusted). Within the District of Columbia, total employment of both residents and commuters was an estimated average of 760,400 workers in March 2015. Of the total workers in the District, government employment accounts for 31% of the work force with the remaining 69% in the private sector. The Top 20 private sector employers in the District of Columbia are listed in the following chart.

TOP TWENTY PRIVATE SECTOR EMPLOYERS

ORGANIZATIONS*	
1. Howard University	11. The Washington Post
2. Georgetown University	12. Corporate Advisory Board
3. George Washington University	13. Catholic University of America
4. Washington Hospital Center	14. Sibley Memorial Hospital
5. Children's National Medical Center	15. Marriott Hotel Services
6. Fannie Mae	16. George Washington University Hospital
7. Georgetown University Hospital	17. American National Red Cross
8. American University	18. Admiral Security
9. Providence Hospital	19. Hyatt Regency
10. Howard University Hospital	20. Safeway, Inc.

Source: Based on data from the Quarterly Covered Employment and Wage (QCEW) Program, a Bureau of Labor Statistics federal/state cooperative statistical program.
**Ranked by size of workforce.*

Income

According to reports from the U.S. Census Bureau, the median household income for the District of Columbia increased from $43,215 in 2003, to $66,326 in 2013, an average annual increase of 4.4% and a total increase of 53.5%. The District's median household income was 21.5% lower than the Washington, D.C. MSA's median income of $84,526. Median income for Washington, D.C. from 2003 to 2013 is shown in the following chart.

MEDIAN HOUSEHOLD INCOME

Year	Income	Annual % Change	Total % Change
2003	$43,215	-	-
2004	$46,211	6.9%	6.9%
2005	$48,078	4.0%	11.3%
2006	$51,746	7.6%	19.7%
2007	$54,812	5.9%	26.8%
2008	$58,553	6.8%	35.5%
2009	$58,906	0.6%	36.3%
2010	$60,729	3.1%	40.5%
2011	$62,087	2.2%	43.7%
2012	$65,231	5.1%	50.9%
2013	$66,326	1.7%	53.5%
Average Annual % Change		4.4%	

Source: U.S. Census Bureau

Assessable Tax Base

The assessable tax base is affected by physical growth, economic conditions and market pricing. The District's fiscal year is from October 1st to September 30th. In fiscal years 1999 through 2001, the District used a triennial assessment system. Properties in the District were divided into three assessment groups, called triennial groups (or tri-groups). Each tri-group represented approximately a third of the total value of taxable real property in the District. Annual decreases in assessed value were immediately realized under the triennial assessment system, while annual increases in assessed value were phased in over a three-year period. This reduced the instability of year-to-year growth rates by significantly limiting annual growth assessment increases.

In FY 2014 (as of the District of Columbia's FY 2014 CAFR), the District of Columbia had a tax base of $160.300 billion, an increase of 5.6% over 2013, at $151.745 billion. The District of Columbia has experienced an average annual increase of 9.2% and a cumulative change of 141.2% from 2004 to 2014, as set forth in the following chart.

ASSESSABLE TAX BASE

Fiscal Year*	Tax Base (In $Billions)	Annual % Change	Cumulative Change
2004	$66.454	-	-
2005	$86.888	30.7%	30.7%
2006	$98.491	13.4%	48.2%
2007	$124.875	26.8%	87.9%
2008	$142.958	14.5%	115.1%
2009	$153.040	7.1%	130.3%
2010	$150.117	-1.9%	125.9%
2011	$139.288	-7.2%	109.6%
2012	$146.502	5.2%	120.5%
2013	$151.745	3.6%	128.3%
2014	$160.300	5.6%	141.2%
Average Annual % Change		9.2%	

Source: Office of Tax and Revenue - District of Columbia.
** For Tax Years ending September 30th.*

Retail Sales

According to financial reports from the District of Columbia's Office of Tax and Revenue, the District had taxable retail sales of $13.717 billion in 2014, an increase of 4.8% over 2013, at $13.083 billion. The District has experienced an average annual increase in sales of 5.1% and a cumulative change of 64.4% from 2004 to 2014, as shown in the following chart.

RETAIL SALES

Fiscal Year*	Retail Sales (In $Billions)	Annual % Change	Cumulative Change
2004	$8.343	-	-
2005	$10.487	25.7%	25.7%
2006	$10.051	-4.2%	20.5%
2007	$9.971	-0.8%	19.5%
2008	$11.048	10.8%	32.4%
2009	$10.198	-7.7%	22.2%
2010	$11.191	9.7%	34.1%
2011	$11.697	4.5%	40.2%
2012	$12.610	7.8%	51.1%
2013	$13.083	3.8%	56.8%
2014	$13.717	4.8%	64.4%
Average Annual % Change		5.1%	

Source: DC Office of Research & Analysis; District of Columbia FY 2014 CAFR.
** For Tax Years ending September 30th.*

Housing

According to reports from Metropolitan Regional Information Systems, Inc. (MRIS), the average home sale price in the District in 2014 was $620,026, an increase of 5.3% over 2013, at $589,036. The number of units sold in the District went from 7,954 in 2013 to 7,949 in 2014, a decrease of 0.1%. Historical changes in average sale price and number of units sold from 2004 to 2014 are shown in the following chart.

AVERAGE HOME SALE PRICES AND UNITS SOLD

Year	Units Sold	% Change	Avg. Price	% Change
2004	9,005	--	$448,778	--
2005	9,100	1.1%	$534,646	19.1%
2006	7,721	-15.2%	$528,719	-1.1%
2007	7,415	-4.0%	$538,418	1.8%
2008	5,569	-24.9%	$538,697	0.1%
2009	6,438	15.6%	$484,990	-10.0%
2010	6,598	2.5%	$505,736	4.3%
2011	6,472	-1.9%	$516,625	2.2%
2012	6,945	7.3%	$552,306	6.9%
2013	7,954	14.5%	$589,036	6.7%
2014	7,949	-0.1%	$620,026	5.3%

Source: Metropolitan Regional Information Systems, Inc. (MRIS)

In March 2015, the District of Columbia has an average home sale price of $585,440, an increase of 4.6% over March 2014, at $559,431. During the same period, the number of units sold went from 564 in March 2014 to 583 in March 2015, an increase of 3.4%.

According to reports from the U.S. Census Bureau, in 2014, the District of Columbia issued new residential building permits for 4,189 dwelling units (including multi-family), an increase of 28.7% over 2013, at 3,255 units. Of those permits issued in 2014, 288 were for single-family units, a decrease of 13.5% from 2013, at 333 single-family units. During the same period, multi-family permits were issued in the District for 3,901 units, an increase of 33.5% over 2013, at 2,922 units.

The dollar value of all new residential building permits issued in the District in 2014 was $374.4 million, an increase of 33.8% over 2013, at $279.9 million. The number of units and construction costs for building permits issued in the District of Columbia from 2004 to 2014 are shown in the following chart.

RESIDENTIAL BUILDING PERMITS

	Number of Units				Construction Costs ($millions)			
Year	Single-Family	Multi-Family	Total	Annual % Change	Single-Family	Multi-Family	Total	Annual % Change
2004	226	1,710	1,936	--	$22.2	$203.1	$225.2	--
2005	125	2,735	2,860	47.7%	$18.3	$209.9	$228.1	1.3%
2006	126	1,979	2,105	-26.4%	$20.4	$279.2	$299.5	31.3%
2007	576	1,334	1,910	-9.3%	$79.4	$137.5	$216.8	-27.6%
2008	248	288	536	-71.9%	$40.9	$26.2	$67.1	-69.0%
2009	151	975	1,126	110.1%	$27.7	$103.8	$131.5	95.9%
2010	177	562	739	-34.4%	$30.7	$74.7	$105.5	-19.8%
2011	227	4,385	4,612	524.1%	$44.7	$564.6	$609.4	477.8%
2012	271	3,552	3,823	-17.1%	$48.8	$422.7	$471.5	-22.6%
2013	333	2,922	3,255	-14.9%	$66.9	$213.0	$279.9	-40.6%
2014	288	3,901	4,189	28.7%	$60.9	$313.5	$374.4	33.8%

Source: U.S.Census Bureau

Commercial/Industrial Markets

In first quarter 2014, reports from Jones Lang LaSalle indicated that there are competing influences which have impacted the Metro D.C. economy. The growth of high-tech and other creative sectors contrasts with decreasing payrolls within the federal government. A federal budget was passed, yet agencies have had to wrestle with the implementation of spending cuts and modernization of their workplaces, according to Jones Lang LaSalle.

Currently, tenant demand remains limited, but the pullback on new construction should have a beneficial effect on the Metro D.C. office market over the next two years. The District of Columbia's downtown properties are outperforming Suburban Maryland and Northern Virginia, which are experiencing occupancy losses.

In first quarter 2015, CoStar reported the District's existing office RBA totaled 150.7 million square feet, with a vacancy rate of 10.7%. Industrial/flex space in the District totaled 12.1 million square feet, with a vacancy rate of 5.9% and retail space totaled 24.3 million square feet, with a vacancy rate of 4.0%. The District of Columbia had a total combined RBA of 187.1 million square feet, with an overall vacancy rate of 9.5%. The District of Columbia's RBA for office, industrial/flex, retail, and combined space and vacancy rates for fourth quarters 2009 through 2014 and first quarter 2015, are shown in the following chart.

COMMERCIAL RBA AND VACANCY RATES

Year/Qtr.	Total RBA	Vacancy Rates
Office		
2015 1Q	150,699,883	10.7%
2014 4Q	150,586,665	10.3%
2013 4Q	149,143,869	9.6%
2012 4Q	148,145,119	9.5%
2011 4Q	147,615,567	10.5%
2010 4Q	146,480,548	11.0%
2009 4Q	143,869,403	11.6%
Industrial/Flex		
2015 1Q	12,054,749	5.9%
2014 4Q	12,054,749	6.1%
2013 4Q	12,054,749	7.5%
2012 4Q	12,054,749	6.3%
2011 4Q	12,054,749	9.5%
2010 4Q	11,933,141	8.4%
2009 4Q	11,933,141	8.6%
Retail		
2015 1Q	24,332,041	4.0%
2014 4Q	24,329,112	4.9%
2013 4Q	23,981,815	4.8%
2012 4Q	23,630,686	5.3%
2011 4Q	23,347,144	5.2%
2010 4Q	23,324,861	5.7%
2009 4Q	23,206,246	5.9%
Combined		
2015 1Q	187,086,673	9.5%
2014 4Q	186,970,526	9.4%
2013 4Q	185,180,433	8.8%
2012 4Q	183,830,554	8.7%
2011 4Q	183,017,460	9.8%
2010 4Q	181,738,550	10.1%
2009 4Q	179,008,790	10.6%

Source: CoStar

Transportation

The District of Columbia Metropolitan Region has three major Northern Virginia interstates (I-95, I-66 and I-395) and two Suburban Maryland highways (I-270 and Route 50), as well as the Maryland portion of I-95, I-70, I-295, and the Capital Beltway, I-495.

Residents and commuters have access to the Greater Washington's METRO rail system which is the second-most utilized subway system in the nation. The District is also served by the MARC commuter trains, the VRE (Virginia Railway Express), and Amtrak.

Three major airports serve the Washington, D.C. area. They include, Baltimore/Washington International Thurgood Marshall Airport, Washington Dulles International Airport, and Ronald Reagan Washington National Airport.

The Great Recession

One of the most destructive legacies of The Great Recession has been the nationwide erosion in home prices following dramatic increases in the mid-2000s which were fueled by easy credit and speculation. In the District of Columbia, the average home sale price increased from $250,516 in 2000 to $538,697 in 2008, or 115.0%. In 2014, it averaged $620,026, an increase of 15.1% over the previous high. Residential building permit values decreased from a peak of $609.4 million in 2011 to $374.4 million in 2014, a decrease of 38.6%.

The District of Columbia, unlike many other DC metro areas, generated growing retail sales throughout the decade (with some decreases occurring in 2006, 2007 and 2009), growing from $8.343 billion in 2003 to $13.717 billion in 2014, a cumulative increase of 64.4%.

In addition, the effects of The Great Recession can be found in unemployment, which, in the District, averaged 6.5% annually between 2003 and 2008, with a high of 7.8% in 2004 and a low of 5.5% in 2007. In 2009, unemployment jumped to 9.3% then increased to 9.4% in 2010 and 10.2% in 2011. The unemployment rate in the District decreased to 9.0% in 2012, 8.5% in 2013 and 7.8% in 2014.

Median household income in the District increased by 7.6% in 2006 then slowed to an increase of 1.7% in 2013. The District of Columbia's assessable tax base increased from $153.0 billion in 2009 (the previous high) to a new high of $160.3 billion in 2014, after decreases in 2010 and 2011. Vacancy rates have also increased for nearly all (except retail) commercial property types since 2008.

Conclusions

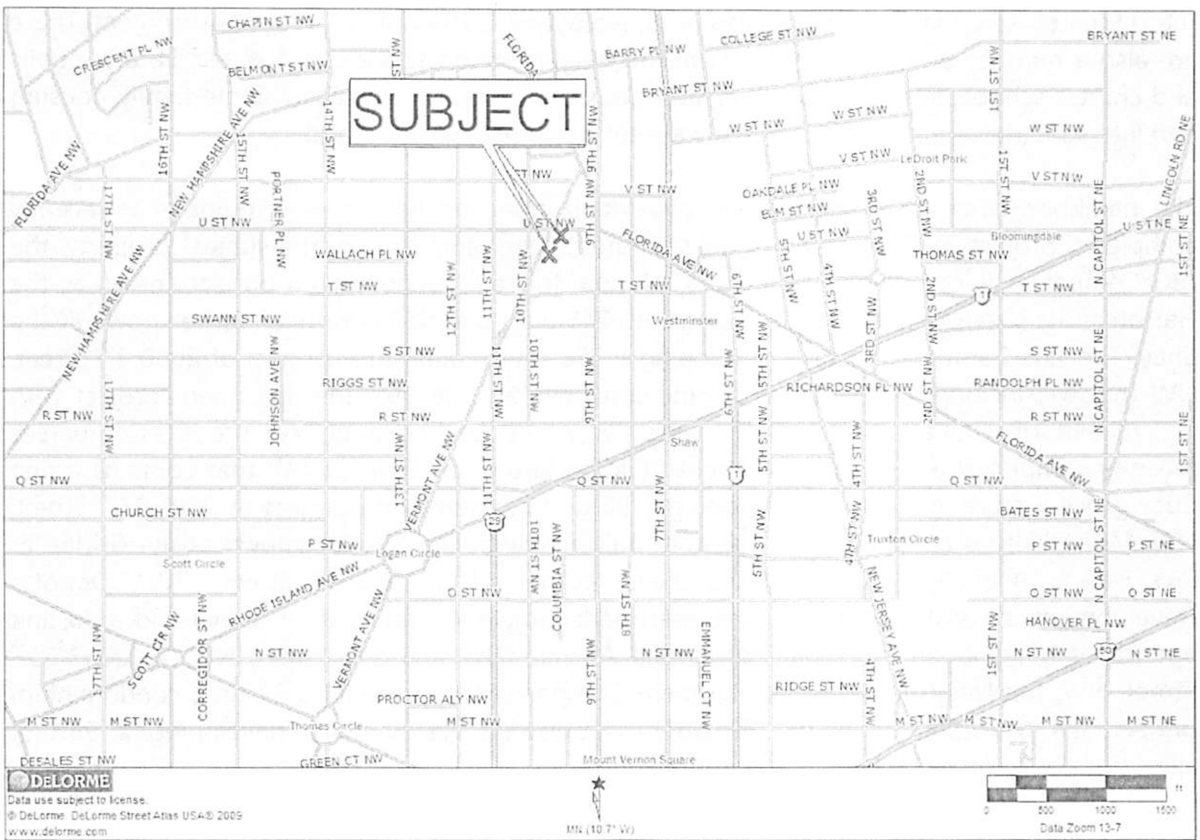
In the Washington area, and the District of Columbia in particular, there is extensive employment by the Federal Government. The District continues to be the location of choice for many professional associations, trade associations, and major law/accounting firms in order to enjoy proximity to major Federal Government agencies, as well as elected/appointed officials. Washington, D.C. is unique in that a substantial portion of its prime real estate is owned by the Federal Government, thus limiting its tax base.

During the last three years, the District of Columbia has shown some signs of stabilization. The District experienced increases in its average home sale price every year from 2010 through 2014, after a decrease of nearly 10.0% in 2009. Retail sales increased in 2010 through 2014, after decreases in 2006, 2007 and 2009. Building permits increased substantially in 2011, after a decrease in 2010, decreased again in 2012 and 2013 and then increased in 2014. The average unemployment rate increased from 2009 through 2011, but decreased in 2012 through 2014. These recent signs of stabilization indicate a modest recovery however, the future outlook remains uncertain.

Going forward, the District of Columbia's location at the center of the Washington MSA and its economic base will continue to be a positive influence as it recovers. Economic growth may not again reach the pace set in the mid-2000s, however, the District's favorable demographic trends and location will assist in stabilizing and, ultimately, growing its economy.

Shaw & U Street Corridor, Washington, D.C.

The subject property is located in Northwest Washington, D.C. on the northwestern fringe of the Shaw neighborhood and the eastern edge of the U Street Corridor. The Shaw neighborhood is bounded by Florida Avenue, NW to the north, New Jersey Avenue, NW to the east, M Street, NW to the south and 11th Street, NW to the west. The U Street Corridor is sometimes included in the Shaw neighborhood although it can arguably be considered to be its own distinct, competing neighborhood. Surrounding neighborhoods include LeDroit Park, Columbia Heights, Logan Circle, and Mount Vernon Square.



The subject property lies in Zip Code 20001, an area that generally extends south from Irving Street, NW to the National Mall and east from 11th Street, NW to North Capitol Street. Demographic information published by ESRI and the U.S. Census indicates a 2015 population in this zip code of 42,390 persons which is an increase of 12.0% over the 2010 population of 37,849 persons. A further increase of 11.3% to 47,164 persons is projected by 2020. Households increased 16.6% to 19,061 in 2015 from 16,346 in 2010 and are projected to further increase 13.6% to 21,647 by 2020. Average household size in 2015 was reported at 1.98 persons which is below the national average. Median household income for residents in this zip code in 2015 was estimated at $61,031 which is less than the median household income of $67,761 for the District of Columbia, but higher than the national median of $53,217.

The Shaw neighborhood and U Street Corridor are characterized by a mix of uses including multi-family buildings, rowhouses, and storefront retail. Multi-family properties are generally mid- to high-rise buildings and include a number of subsidized projects. Rowhouses are typically three-story 19th century Victorian dwellings that have been renovated while retail generally consists of two- to four-story row buildings with first floor storefronts and office or vacant space on the upper floors. Along the U Street Corridor, many of the upper floors contain additional retail. The retail along U Street contains a high concentration of restaurants and bars. Office space is generally contained in older buildings under 40,000 sq.ft. with the notable exceptions being the 533,329 sq.ft. Reeves Center at 2000 14th Street, NW occupied by the District of Columbia Government and the 44,000 sq.ft. office building developed in 2003 atop the U Street Metro Station which is also occupied by the District of Columbia Government. There are also a number of institutional uses in the neighborhood to include a public library, public and charter schools, homeless shelters, and houses of worship. Detached single-family housing and industrial development are generally absent from the neighborhood.

The neighborhoods are riding a wave of revitalization and have seen a number of recently completed projects with more under development. One block east of the subject property, the JBG Companies is completing a six-story, 91-unit, for-sale condominium project known as the Hatton and a six-story apartment building with 245 units and first floor retail to be known as the Shay. The JBG Companies is also developing a 373-unit multi-family project at 2030 8th Street, NW that will include 63 for-sale condominium units and an 165-unit apartment project with 15,270 sq.ft. of retail at 1306 -1322 U Street, NW. At 14th and U Street, NW, the JBG Companies recently completed a 268-unit apartment building known as Louis at 14th that contains a first floor grocery store. Bozzuto is developing a 96-unit condominium project at 2201 15th Street, NW. MRP Realty is constructing a 418-unit multi-family building to be known as the Griffith at 965 Florida Avenue, NW. In the southeast corner of 9th and N Streets, NW, Douglas Development is constructing a 70-unit apartment project known as the Colonel and a 30-unit apartment building on the corner of Florida Avenue, NW and 14th Street, NW. At 2002 11th Street, NW, the Neighborhood Development Company plans to build a 27-unit, condominium project. On the 1900 block of 14th Street, Madison Investments is developing a 56-unit apartment building to be known as Elysium Fourteen.

A four-story, 16-unit multi-family project known as Bailey Park Apartments was completed in 2013 on the north side of Rhode Island Avenue, NW. The property was developed by the United House of Prayer for All People who also built the five-story, 32-unit senior housing along 7th Street, NW as well as a handful of residential projects in the neighborhood. Also recently completed is Progression Place, an eight-story, 319,000 sq.ft. mixed-use development located one block north of the subject property at 1805 7th Street, NW. Located above the Shaw-Howard University Metro Station, the project is the new headquarters for the United Negro College Fund and features 47,000 sq.ft. of office space, 205 apartment units, and 19,000 sq.ft. of first floor retail with two levels of underground parking. Another recent project in the area is the renovation of the Howard Theatre located at 620 T Street, NW. A historic landmark, the theater opened in 1910 and played host to several famous African-American musicians before closing in 1970 and again in 1980. After undergoing a $29 million renovation, the 700-seat Howard

Theatre reopened in April 2012. At 641 S Street, NW, Douglas Development has renovated the Wonder Bread building, a 1900's era industrial bakery, into an 81,633 sq.ft. office/retail project.

Farther south is the one million sq.ft. mixed-use project known as CityMarket at O Street. The project is to ultimately contain 400 apartment units, 90 affordable senior housing units, 145 condominium units, 86,239 sq.ft. of retail including a Giant supermarket, a 182-room hotel, and 563 parking spaces on two city blocks. The apartments, senior housing, supermarket, hotel, and parking have been completed. Also recently completed is the Jefferson at MarketPlace, an eight-story apartment project that contains 287 units with 13,400 sq.ft. of retail and 230 underground parking spaces located on the west side of 7th Street, NW between P and Q Streets, NW..

Although not a part of the neighborhood, Howard University and the Washington Convention Center bookend the Shaw neighborhood to the north and south, respectively. Howard University is a private, coeducational, nonsectarian institution and is a historically Black university. Established in 1867, it has a current enrollment of 10,330± and has schools of Arts and Sciences, Business, Communications, Dentistry, Divinity, Education, Engineering, Law, Medicine, Pharmacy, and Social Work, many of which offer both undergraduate and graduate programs. Howard University Hospital, a 264-bed facility, is also located on the campus. The Walter E. Washington Convention Center sits on six city blocks and is the second largest building in the District of Columbia. Opened in 2003, the convention center contains 2.3 million sq.ft. and can host up to 42,000 attendees.

The neighborhoods have good access to major arteries (Georgia, Rhode Island, and Florida Avenues) which provide convenient transportation within the District and connect to the surrounding metropolitan area. The closest metro station to the subject property is the U Street/African American Civil War Memorial/Cardoza Station with service on both the Green and Yellow Lines. The Green Line runs from Greenbelt, Maryland through downtown D.C. and back into Maryland with final stops in Suitland and Branch Avenue. The Yellow Line runs from Fort Totten station and parallels the Green Line through downtown D.C. until after L'Enfant Plaza where it crosses into Virginia and has stops at the Pentagon, Reagan National Airport and ends at Huntington in Alexandria.

In summary, the subject is located on the boundary of the Shaw neighborhood and the U Street Corridor in Northwest Washington, D.C. The neighborhoods support a rapidly growing population with average income and is characterized by intense apartment development activity. The neighborhoods have good access and are served by all necessary utilities. It is expected that the neighborhoods will continue to experience substantial growth over the near future.

Subject Property

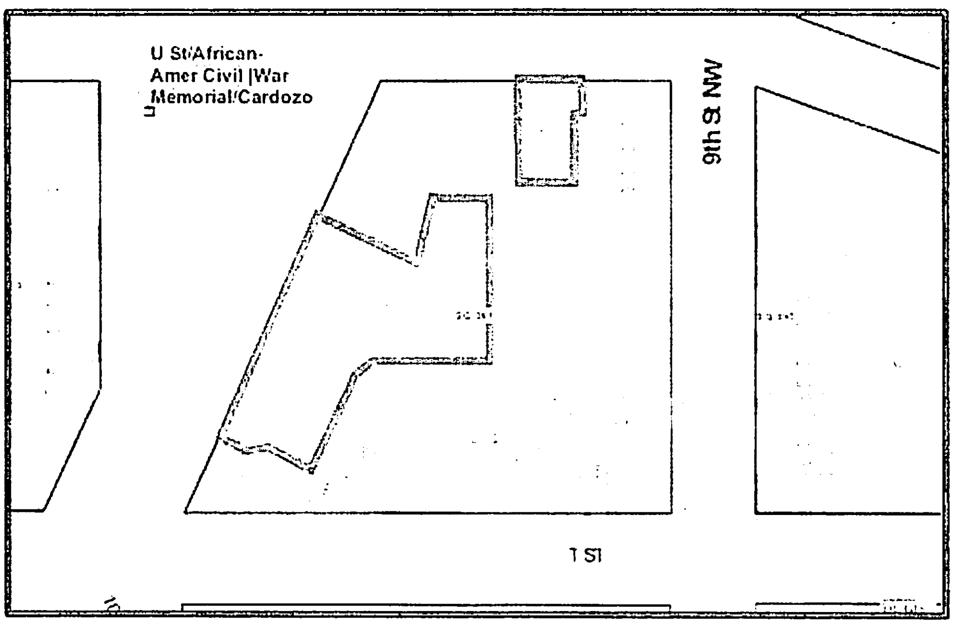
Legal Description

The subject property consists of two, noncontiguous parcels of land located on the east side of Vermont Avenue and the south side of U Street in Northwest Washington, D.C. The parcels are identified as Lots 827 and 833 of Square 361 in the tax assessment records of the District of Columbia. Lot 827 has a street address of 1923 Vermont Avenue, NW and Lot 833 has a street address of 912 U Street, NW. The parcels are under the ownership of the District of Columbia.

Property Data

The following description is based on our property inspection and assessor records. The description of the property's interior is based on our previous appraisal of the subject.

TAX MAP



General Data

Location:	Washington, D.C.
Street Address:	1923 Vermont Avenue, NW and 912 U Street, NW
Parcel Numbers:	Square 361, Lots 827 & 833

Adjacent Land Uses

North:	Rowhouses, office building, and storefronts
South:	Rowhouses
East:	Rowhouses and storefronts
West:	Metro station, memorial, and office building

Physical Characteristics

Site Area:	Lot 827 – 37,926 sq.ft. Lot 833 – 5,872 sq.ft. Total – 43,798 sq.ft.
Shape:	Irregular
Topography:	Level
Parcel Type:	Lot 827 is an interior lot and Lot 833 is a corner lot

Access

Street Name:	Vermont Avenue, NW and U Street, NW
Street Type:	Commercial
Curb Cuts:	Three
Alley Access:	Yes

Site Improvements

Off-Site Improvements:	Concrete curbs, gutters, sidewalks, and streetlights
Utilities:	Electric, gas, water, sewer, and telephone
On-Site Improvements:	School building

Other Site Conditions

Flood Zone Data:	Located in Zone X, an area determined to be outside the 0.2% annual chance floodplain on FIRM# 1100010017C dated September 27, 2010.
Soils:	No information provided; assumed to be adequate
Environmental Issues:	No information provided; assumed to not exist
Easements & Encroachments:	No information provided; assumed to not exist or have no impact on property's value

Site Ratings

Location:	Average
Size, Shape, and Topography:	Average
Access:	Average
Exposure:	Average
Site Improvements:	Average
Overall Site Rating:	Average

Improvements:

Lot 827 is improved with a two-story plus lower level, vacant, former school building containing an estimated 57,165 gross sq.ft. constructed in 1887 and expanded in 1937. The building is comprised of the 52,356 gross sq.ft. school building and an adjoining 4,809 gross sq.ft. auditorium/gymnasium. The main school building's construction consists of a concrete foundation with a brick exterior, and a tar and shingle roof. Exterior doors are metal on metal frames and windows are pane glass in wood frames. The building contains three stairwells permitting access to all three levels. The building also contains a single elevator which was inoperable at the time of our September 23, 2014 inspection. Interior finishes consist of terrazzo, carpet, tile, and hardwood floors; painted brick, painted plaster, drywall, and wood paneled walls; and acoustical tile ceilings with fluorescent and tract lighting. Interior doors are hollow core wood and metal on metal frames. There is a set of men's and women's restrooms on the lower level, two sets of men's and women's restrooms on the first floor, and a set of men's and women's restrooms on the second floor. There are also half bathrooms on each level, some with showers. A central boiler and perimeter radiators provide heating while a ground-mounted air conditioning unit provides cooling. The condition of the HVAC system is unknown. The building is sprinklered and has smoke detectors throughout. The main school building was converted into office space by the District of Columbia Government for use by the Police Department and Fire and Emergency Medical Services Department in 1983 and was vacated in 2013. Overall, the building was in fair condition with some areas requiring renovation and others immediately usable.

The auditorium/gymnasium building is connected to the main school building by a hallway, and also has exterior entrances. The building's construction consists of a concrete foundation with a brick exterior, and a flat roof. Exterior doors are glass in aluminum frames and wood on metal frames and windows are glass in wood frames. The building was converted into the African-American Civil War Museum in 2010 and contains primarily open space with a stage on one end and administrative offices and a set of men's and women's restrooms on the other end. Interior finishes consist of carpet and rubber tile floors, drywall walls, and suspended tile ceilings with recessed incandescent and suspended tract lights. The building is sprinklered and has a small basement. Overall, the building was in very good condition. Adjacent to the north of the building is a small, paved, fenced-in parking lot with striped parking for nine vehicles.

Lot 833 is macadam paved and enclosed within a chain link fence with a sliding gate along U Street providing access to the site. The paving on the site is in poor condition. The parcel is presently used for parking and can accommodate approximately 20 vehicles.

Analysis of Highest and Best Use As If Vacant

The Highest and Best Use As If Vacant analysis of a property is the reasonably probable and legal use of unimproved land that is: physically possible, appropriately supported, financially feasible, and that results in the highest value.

Legally Permissible:

A threshold of highest and best use is what is legally permissible. This analysis considers private restrictions, existing zoning, likely zoning, building codes, historic district controls, urban renewal ordinances, and other encumbrances because they may preclude many potential uses.

LEGALLY PERMISSIBLE

Characteristic	Conclusion
Classification:	Lot 827 - R-4; Lot 833 - ARTS/C-2-B
Permitted Uses:	Lot 827 - single-family dwellings, institutional; Lot 833 - residential, office, retail, hotel
Regulations:	Lot 827 - 4,000 sq.ft. min. lot; Lot 833 - residential: 3.5 FAR, other: 1.5 FAR
Probability of Change	Likely (possibility of PUD)

Physically Possible:

Multiple factors affect the uses with which the land may be developed. These factors are considered in the following table, followed by a conclusion of the legally permissible uses that are also physically possible.

PHYSICALLY POSSIBLE

Characteristic	Conclusion	
	Lot 827	Lot 833
Size	37,926 sq.ft.	5,872 sq.ft.
Shape	Irregular	Irregular
Utilities	Electric, gas, water, sewer, telephone	Electric, gas, water, sewer, telephone
Visibility	Average	Good
Flood Plain	Outside flood plain	Outside flood plain
Soil Conditions	Assumed adequate	Assumed adequate
Environmental	Assumed non-existent	Assumed non-existent
Physically Possible Uses	**Single-family residential, institutional**	**Residential, office, retail, hotel**

Financially Feasible:

After determining the uses that are physically possible and legally permissible, an appraiser considers the uses that are likely to produce an adequate return on investment. All uses that yield a positive return are financially feasible. Feasibility is tested through a cost/benefit analysis or through direct market observation.

FINANCIALLY FEASIBLE

	Lot 827		Lot 833				
	SFR	Institutional	MF	SFR	Office	Retail	Hotel
Demand	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Supply	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced	Balanced
Feasibility	Strong	Marginal	Strong	Weak	Weak	Strong	Marginal
Support	Observation	Observation	Observation	Observation	CoStar	Costar	Observation

With regards to a single-family residential (SFR) use, townhouses and detached dwellings are financially feasible on Lot 827. Institutional development such as a library, museum, house of worship, or school is predicated on interest from a non-profit organization, religious congregation, or governmental agency.

While the risk of an oversupply of apartments is increasing due to the high number of new multi-family units recently delivered and in the pipeline in the neighborhood and surrounding area, Lot 833's advantageous location a block from a Metro station makes multi-family development on the site financially feasible. Lot 833 does have sufficient size to support an adequate number of townhouse units to make such development financially feasible, but not enough land area for detached single-family development. Little demand exists for new office space in the subject's neighborhood as evidenced by the fact that almost all such development in the area is under 40,000 sq.ft. and there have been only two office properties delivered in the last 20 years. Consequently, new, large-scale, office development is not considered to be financially feasible. The retail vacancy rate in the subject's neighborhood is around 5% according to CoStar and rental rates appear supportive of new construction. As such, retail is considered financially feasible. The neighborhood is not a prime hotel location as evidenced by the limited amount of such development in the area. However, because of U Street's abundance of restaurants and nightlife, a boutique hotel might be appropriately supported.

Maximally Productive:
Among the financially feasible uses, the use that results in the highest value (the maximally productive use) is the highest and best use. Of the legally permissible, physically possible, and financially feasible uses for Lot 827, the use that would provide the maximum return to the land is townhouse development because of the greater number of units that could be built compared to detached dwellings. Of the legally permissible, physically possible, and financially feasible uses for Lot 833, the maximally productive use would be multi-family development. While retail development is feasible, a strictly retail use would not maximize the density potential of Lot 833 as retail is usually limited to one or two stories. However, retail as a first floor use in a mixed-use building is a possibility.

Conclusion of Highest and Best Use As If Vacant
The conclusion of the highest and best use, as analyzed in the previous section, is as follows:

CONCLUSION

Characteristic	Conclusion	
	Lot 827	**Lot 833**
Use:	Townhouses	Multi-family
Timing:	Current	Current
Participants (User):	Homeowners	Renters or homeowners
Participants (Buyer):	Developer	Developer

Analysis of Highest and Best Use as Improved

In determining the highest and best use of the property as improved, the focus is on three possibilities for the property: 1) continuation of the existing use, 2) modification of the existing use, or 3) demolition and redevelopment of the land.

Continuation of Existing Use
Retaining the improvements as existing meets the tests for physical possibility, legal permissibility and financial feasibility. The improvements are in fair condition and require renovation to support the most recent use of the improvements as office space. Such a use would have to be tied to an institutional user (government agency, embassy, etc.) as general office use is not permitted under current zoning. Renovation of the improvements would also be required to support the school use for which the building was constructed. The current zoning of the property permits use as a school. A number of old school buildings in the District of Columbia have been renovated for use as charter schools indicating that such a use is financially feasible.