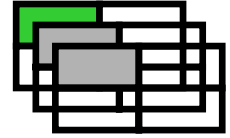


THE SUSTAINABILITY REPORT



Volume II Issue I

Winter 2006

San Jose, CA

Adobe Corporation is applying for Platinum certification under the LEED-Existing Building criteria for their headquarters renovation project.

The company invested \$1.2 million in upgraded HVAC systems and other energy-saving features and anticipates an immediate savings of \$1.0 million in 2006 not including an additional \$327,000 in utility rebates.

California/New Jersey

Walgreens stores partnered with Denver-based ImaginIt to install solar power on 96 stores and two major distribution centers throughout California and New Jersey.

These solar roof tiles will generate 13.8 million kilowatt hours enabling each facility to save 20% to 50% of their daily energy grid requirements which substantially reduces their peak-load energy bills.

Pittsburgh, PA

Carnegie Mellon University's Center for the Intelligent Workplace celebrated its eighth year of continued study on health and productivity measures inherent to high-performance design.

Technology underway includes an automated building façade controlling for solar heat and glare, fully portable work stations, and techniques for capturing natural heating and cooling. The Center's goal is to create environments that meet people's air, thermal, visual, acoustic, and ergonomic needs.

New Orleans, LA

A set of sustainable guidelines, *The New Orleans Principles*, were developed by participants of a charrette on Gulf Coast Reconstruction on Nov 9-11, 2005, at the Greenbuild conference in Atlanta, Georgia.

These principles represent a consensus position of the 160 participants representing a wide range of expertise in urban planning, water management, engineering, and architecture across the US.

Brisbane, Australia

Queensland Government representatives and key industry leaders joined together to launch the Green Star Office Interiors tool.

The tool is based on national and international guidelines including the US Green Building Council's LEED-CI standard and also incorporates the Sydney Olympic Park Authorities environmental guidelines.

HOLISTIC OCCUPANCY COSTS

The largest single expense category on the Profit/Loss statement of any knowledge-based company is its people. Every day these assets walk out the door. The managerial challenge is to keep them coming back and, when they do, provide an environment conducive to maximizing their efforts. Your people are your power as it's one of the few investments that can actually drive the top line.

Given the "Free Agent Nation" mindset adopted by many knowledge workers, leading companies scramble to do whatever they can to attract and retain highly talented workers.

Software developers, legal and consulting firms, marketing and public relations companies, architects and engineers are the types of firms most attuned to this issue; but clearly this affects functions at companies across all industries. Smaller firms are particularly vulnerable as a few key employee defections can cause serious business disruption.

More often than not, the absolute dollar amount of 1) rent, and 2) expense pass-throughs is the measure used by companies to determine their occupancy cost. This measure misses a number of other pertinent factors that are critical to company health and profitability.

The Bigger Picture

The silo approach used by some firms factors rent paid, utilities, real estate taxes and other occupancy-centric expenses as their only occupancy costs—this widely misses the mark.

With the increase in financial metrics software provided by companies such as ProLytiX, firms are constantly benchmarked against their peers on far more than normal operating financials such as Revenue, Gross Margin, EBITA, ROE and P/E ratio. For a true judge of a company's underlying economic engine, investors look to other key metrics that judge effectiveness and productivity by using headcount ratios which include the following:

- Revenue / Employee
- Gross Profit / Employee
- SG&A Expense / Employee
- EBITDA / Employee
- Market Capitalization / Employee

Leading managers are keenly aware of their competitive position against their industry peers and seek ways to increase both their competitive position and the underlying economic health of their company.

Continued on Page 2

EXHIBIT 1 — Average Occupancy Costs

Also See Pie Chart—Page 2	Per SF	% Cost	Efficiency Gain	Adjusted Cost / SF
Personnel Costs	\$ 300.00	88.4%	2.0%	\$ 294.00
Rent (NNN)	\$ 24.00	7.1%	0.0%	\$ 24.00
Energy / Utilities	\$ 2.50	0.7%	40.0%	\$ 1.50
Property / HVAC Maintenance	\$ 2.50	0.7%	25.0%	\$ 1.88
Real Estate Taxes	\$ 4.00	1.2%	0.0%	\$ 4.00
Churn Costs	\$ 3.50	1.0%	60.0%	\$ 1.40
Real Estate G&A	\$ 3.50	1.0%	10.0%	\$ 3.15
TOTAL	\$340.00			\$ 329.93

NOTE: Personnel Costs assume \$60,000/year in salary and benefits and 200 SF average / person

OCCUPANCY COSTS

Rent

Operating Costs

- Operations and Maintenance
- General and Administrative
- Real estate taxes
- Insurance

Utility Costs—Electric/Water/Gas

- Current/future savings

Staff Turnover

- Interruption in responsibilities
- Lost clients
- Lost ideas / knowledge
- Lost intellectual property
- Downtime until new hire
- Recruiting costs
- Training

Absenteeism

- Employee spread of colds/flu

Thermal Comfort

- Too hot / too cold complaints
- Noise and pitch of HVAC units

Churn Costs

- Interior reconfiguration
- Wiring – phone/electrical/Cat5
- Staff time in moving

Indoor Air Quality

- Insurance and medical costs
- Sick Building Syndrome symptoms
- Litigation costs
- Workman's compensation
- Remediation / business interruption

Organizational Costs/Gains

- Product time to market
- Organizational image
- Litigation costs/savings
- General productivity
- Goodwill

Continued from Page 1

Facilities and operational assets don't create new products, make sales, or find new customers; only your people can grow your business in such ways. From a cost standpoint, the impact of human capital is immense. Payroll and benefits typically account for 35 to 40 percent of operating expenses. In sheer volume, improvements in efficiency can have a dramatic impact on the bottom line.

Clearly a company's human capital holds the key to success or failure. Strategic investment in these areas has the highest potential financial impact for knowledge-based companies. Occupying an environment purposefully designed with these goals in mind should be an absolute mandate on the path to capturing and maintaining industry leadership.

Review the **Occupancy Cost** list (see left column) and put a numeric value on these metrics. For instance, recruiting costs typically run 15% of a person's salary and it takes at least six months for a new hire to get up to speed. In addition, management time and resources are devoted to training and integrating the person into the organization.

Factor in the costs associated with the departed person which can include lost client relationships, dropped responsibilities, lost business development initiatives and ideas, and the cost of turnover becomes more than significant.

An interesting exercise is to examine the seasonality around absenteeism and consider where people got their last cold/flu as many times the same illness passes multiple times among a work group. The number of fresh air exchanges per hour, HEPA filtration, and other ways of achieving indoor air quality have a strong correlation with the spread of contagious disease among office colleagues. The variance of these metrics across even Class A office space is shocking.

Thermal comfort is an issue not to be taken lightly. An eight hour workday is comprised of 480 minutes. A person who spends six minutes per day going for a walk to warm up or otherwise dealing with the fact they are too cold, or breaking/refocusing concentration from the noise of the HVAC system overhead kicking in wastes 1.25% of a day.

The too hot / too cold complaint is the largest occupant issue as reported by BOMA; eliminating or reducing this distraction can have an immediate productivity boost.

There is the tendency to fall into the "esprit de corps" trap classifying the poor performers (aka 'slackers') as the ones on the turnover or absenteeism rolls. This idea falls by the wayside once an organization loses key salespeople, R&D staff, or even executive assistants.

The clear challenge is to create an environment that supports communication, idea generation, health and well being, and demonstrates that the organization values its most prized assets.

Green Building Advantages

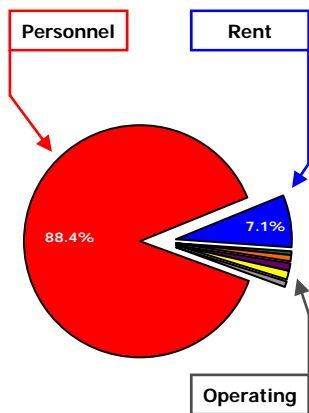
Productivity is a complex concept comprised of many factors. Human resource policies, management leadership and motivation ability, the specific industry's macro- and micro-economic factors, and company culture all play key roles. Bad managers and bad policies can cripple morale and create a revolving door making any facility investments futile. A building by itself doesn't create productivity—but the physical environment sets the stage for an organization to maximize its people's skills. A good environment trumps a poor environment every time.

A green building developed with sustainable design techniques and features makes for a most compelling scenario. The US Green Building Council's LEED rating system covers many aspects of indoor environmental quality with 32 of the possible 69 LEED points having to do with indoor environment quality (15 points) and energy efficiency (17 points).

The tool provides developers, designers, and contractors a guide to create high-quality, high-performance environments for a building's tenants. The LEED system is also being used by smart tenants who understand the benefits of green design and are looking for a competitive edge when in the market leasing space. Knowing how a building measures up to the LEED criteria is the first step to understanding how the space you occupy can be used as a tool to harness the power of your most valuable investment.

The bottom line in sustainable design is that it puts more horsepower into fundamental good building architecture and engineering. Maximize natural resources like sun and wind, let in daylight, use non-toxic materials then strive to keep the air clean, minimize energy consumption, and don't waste water.

How does your building measure up?



OCCUPANCY COST
PIE CHART

CONSIDER THIS.....

A: A lot. Far more than you may think.

Q: How will energy price increases impact occupancy costs in 2006 and beyond?

If you think filling an SUV at upwards of \$75 is tough on the budget, wait until you get your lease pass-through bills over the next 6-12 months.

A barrel of light sweet crude oil is currently pricing at \$66.00 compared to \$44.50 a year ago, an increase of 48%. In a presentation we made to the EPA in Sept 2005, we noted that crude oil contracts for Oct 2005 delivery traded in the range of \$24.00 to \$70.85 which is a 2.95x volatility. Wholesale refined gasoline (NY regular oxygenated) was \$2.43 a gallon compared to \$1.22 a year ago, a 99% increase. Natural gas priced at \$10.95/million btu compared to \$4.67 a year ago, an increase of 134%. And your home heating bill? Just as tough with a likely 55% year-over-year hike.

Spot prices for coal, the main generator fuel for electric energy, have skyrocketed as well. Spot prices since January 2004 have increased between 46% and 67% for each of the five major coal grades with inventories at or near record lows. Pacific Gas and Electric implemented a 40% price increase for electricity starting October 2005.

If you are on a NNN lease or your full-service lease base year has kicked in, you are exposed to these price increases as either 1) you get hit with the bill directly, or 2) the landlord pass-through bills now seemingly have an extra zero in the number. As a tenant, this can be difficult to swallow as you had no control over the energy efficiency of the building when it was built and most don't think to ask about energy performance when signing the lease document, particularly when real estate energy expenses were holding stable in the years prior to when the lease was signed.

BOMA's 2005 Experience and Exchange Report shows the national median CBD office building's energy costs at \$1.74/SF, with a mid-range low of \$1.36/SF and a mid-range high of \$2.18/SF. Utilities typically make up 20% of a building's total expense, second behind real estate taxes. The dramatic increase in energy costs will have a major impact as a 60% or more year-over-year increase is not out of question. Here's what that looks like:

	2004	+60%	Difference
BOMA Mid-Range Low (25 th Percentile)	\$1.36	\$2.04	\$0.68/SF
BOMA Median	\$1.74	\$2.78	\$1.04/SF
BOMA Mid-Range High (75 th Percentile)	\$2.18	\$3.48	\$1.30/SF

Cities like New York, San Jose, Washington DC, San Francisco, Pittsburgh, Philadelphia, Miami, Nashville, Los Angeles and even Tulsa are all above the BOMA national average, some significantly. Price increases will be even greater in these markets and others.

Energy Star certified buildings are generally 30% to 50% more energy efficient than the average building. Applying an Energy Star mean 40% savings factor to the BOMA median gives an Energy Star building a 2004 utility operating expense of \$1.05/SF vs. \$1.74/SF. Given this lower basis, a 60% cost increase has less of an impact raising the cost to \$1.78, a \$1.00/SF advantage compared to the projected BOMA National Median of \$2.78. And woe to those above the BOMA Median.

A buck a square foot. That's real money.



Hearst Headquarters
New York City
LEED Registered



Genzyme Headquarters
Boston, MA
LEED Certified Gold



The Solaire Apartments
New York City
LEED Certified Gold

EVENT CALENDAR

**US Green Building Council
Greenbuild International
Conference and Expo**
Atlanta, GA
November 9-11, 2005

The largest green building conference bringing together design practitioners, developers, investors, and product manufacturers—expected attendance to exceed 9,000.

**Green Building
Finance Summit**
New York, NY
December 6, 2005

The Summit's objective is to launch the development of a Green Building Valuation Methodology for the real estate finance community which can inform better risk-adjusted financing and investment decisions including expected long-term rising energy costs.

**EcoBuild Federal
Washington, DC**
December 13-16, 2005

The Sustainable Buildings Industry Council's EcoBuild Federal is a Built Environment conference and exhibition with special focus on those who work with or within federal, state and local government projects.

**National Institute of
Medicine: Green Health-
care Institutions**
Washington, DC
January 10-11, 2006

Examines case studies and current research from the environment, social, health and economic sciences regarding green design within the health care industry.

**Northeast Sustainable
Energy Association**
Boston, MA
March 7-9, 2006

31st annual Building Energy Conference and Trade Show which includes workshops, lectures, networking opportunities, a free public forum, and a trade show for renewable energy and green building professionals.





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Evolution Partners is a boutique real estate private equity and investment banking firm specializing in financing and developing high-performance, environmentally responsible real estate projects.

Our clients are leading real estate developers and investors across North America who demonstrate commitment to creating and preserving long-term asset value by developing cutting-edge projects that meet or exceed the US Green Building Council's LEED™ and/or EPA EnergyStar™ standards of excellence.

We are specialists in developing structured finance solutions and securing the capital necessary to bring a project to life, sustaining it financially for the long term.

- Construction Financing
- Joint Venture Equity
- Permanent Debt
- Mezzanine Debt

Evolution Partners is passionate about the positive societal impacts represented by LEED™ certified and EnergyStar™ projects. These projects provide structural competitive advantages to their developers and owners at an asset level, while serving as superior workplaces and living environments for their occupants.

Demonstrating proper respect for the environment we all share is the utmost responsibility of any real estate developer—our clients inspire us through their vision which, in turn, inspires us to greater heights.

We maintain the highest standards of excellence and hold ourselves accountable to our clients, our partners, and the members of each community shaped by the projects which we are involved.

Our reputation is grounded in integrity, trust, leadership, and personal responsibility – these are our guiding principals and we make no compromise.

We look forward to working with you on your next great project.

