Case 13

The Warner Theatre Project

This case was prepared by Mr. A.E. Washburn under the direction of J. Miller Blew.
Rendering by Shalom Baranes Associates.

Byrne Murphy felt that 1988 was going to be a big year for both himself and his company. It was now late December 1987, and since April, Byrne had been working as Project Manager for The Kaempfer Company on the Warner Theatre project, a proposed office development in Washington, D.C.'s East End. The project was a complicated one involving the restoration of the 65-year-old Warner Theatre and, as originally conceived, the addition of about 200,000 square feet of office space. With the acquisition of several small parcels on "E" Street and the hope of getting city approval to move an alley, the project had grown and now involved at least 350,000 square feet.

Several prominent developers had tried their hands at this difficult parcel and lost (see Exhibit 1). But at this moment, success was near. The company's founder, J.W. Kaempfer, Jr., was touching down at Washington's Dulles International Airport, having concluded a $25 million equity investment in the project with a prestigious European investment fund. It had not been easy; the partner was conservative and had never before invested this much this early in a development across the Atlantic. Now, however, the deal was closed.

Byrne had been with this project from the start and had watched it grow. Recently, the possibility had arisen to acquire one final parcel and thus control an entire half-city block. This would make the development well over 500,000 square feet, The Kaempfer Company's biggest project ever and a "trophy" project like a number of others along Pennsylvania Avenue, all designed by prominent architects and built by major developers. But to make this larger development happen, Byrne would need a new set of approvals from the city, Federal and historic preservation review boards, and the cooperation of several interest groups involved. Moreover, he would need a new and much larger commitment from the equity partner. When Mr. Kaempfer returned, Byrne wanted to be able to suggest the right strategy for the new year.

ORGANIZATION

From its founding in 1977 as a small residential builder, The Kaempfer Company : Investment Builders had grown to become one of the largest commercial developers in Washington. Their first office project, Park Place, opened its doors in 1983 with no space yet leased. Mr. Kaempfer managed to replace his committed participating lender, who wanted out, with a new loan for the same dollars, but with no equity participation. He then brought in $2.75 million in an equity syndication facilitated by a tax law change. The building eventually leased well, and Mr. Kaempfer's firm went on to build a number of other office buildings and a hotel (see Exhibit 2).

His organization grew as well and now included 43 head office staff and 31 management employees (see Exhibit 3). John Nichols, the construction supervisor in 1977, was now the Senior Vice President for Construction. John Graybar, Mr. Kaempfer's second in command in 1982, left. Mr. Kaempfer explained in a 1986 interview, "He was a key player and an extremely close friend. He now has his own company, which I encouraged him to do. He oversees a fund of money for three families from Europe. . . . We talk on and off about doing deals together with the hope that we may do some, although my risk profile is a lot more than his."

When asked what he meant by "risk profile," Mr. Kaempfer explained: "You know, I see a piece of property, and I want to buy it, I want to control it, I want to get involved in the excitement of designing it, building it, holding it, managing it. And that's wonderful: I want, I want, I want. But to do that, you have to take some pretty spectacular risks along the way. . . .I am prepared to have an occasional disaster, although nobody wants it, or looks for it. I am prepared to have that in return for some real hot killers."

Following Mr. Graybar's departure, a great deal of responsibility was shifted to Mary Motherwell, Vice President and Director of Development. She had an MBA from Michigan and later worked for Continental Illinois National Bank, where she became a second vice president in the real estate department and originated more than $600 million of development loans. From Continental Illinois, she joined Intercorp, Inc., a Chicago-based residential developer where she was Chief Financial Officer and Director of Project Managers. There she oversaw the development of $100 million of condominiums and Planned Unit Developments. She came to Kaempfer in 1983 and became the Project Manager for 1250 24th Street and the St. Matthew's project. Since then she has had a hand in every development project that has come through the office.

Two years ago, Mr. Kaempfer hired Byrne Murphy, an MBA graduate from the Darden School of Management. He was 27 at the time, but had an adventurous past, having sailed around the world. While at Darden, he had cross-registered for several courses in the Urban Planning Department. He was hired as an assistant project manager and so spent his time on several projects. At one point he was assigned to market and lease 1525 Wilson Boulevard, a 300,000 square foot office building nearing completion. He helped land the lead tenant. As a new assistant project manager, Byrne worked closely with Mary Motherwell.

Along with Mary and John Nichols, Mr. Kaempfer had a core group of employees he considered "family" -- all equity participants in the company's deals. They were all vice presidents, including Mark Portnoy, Vice President of Finance. After a long search, Mr. Kaempfer hired him in 1984 as a personal assistant, but his role expanded. "Mark was almost Chief Financial Officer. He's a CPA and a Harvard MBA, a Brown graduate, and he's very smart. . . . Saturday is a normal work day for him."

Mr. Kaempfer ran the company on a break-even basis; that is, any cash profits were reinvested in expanding the company's portfolio of real estate. Typically, The Kaempfer Company retained 50% ownership in its deals, giving the other 50% to equity partners. Mr. Kaempfer would then distribute ownership shares to individuals within the company.

The Kaempfer Company had plans to expand into new markets. In 1986, the company had joint venture projects in Los Angeles, but now looked closer to home. New York, Boston and Baltimore were targets, and the formation of an industrial division was a possibility. The company's venture into hotel development and, later, operations was less successful than they would have liked. The Company now tried to avoid products with which it had no experience.

THE WARNER THEATRE PROJECT

Because of its location, the Warner Theatre was for years the object of affection for several major developers. Yet it had remained undeveloped. One night in late January 1987, Mr. Kaempfer was returning from a business meeting when his taxi driver took an unexpected route from the airport, going up Pennsylvania Avenue and passing by the property (see Exhibit 4). Mr. Kaempfer realized immediately how great the location was and understood the potential for its development.

A regular acquisitions meeting was scheduled the next day with a local brokerage firm, and Mr. Kaempfer asked about the Warner's availability. By coincidence, the week before the broker had been in contact with the owners of the Theatre Building. Mr. Kaempfer expressed an interest and asked the brokers to research it further. He realized that the site improved dramatically if it were combined with the three smaller parcels adjacent to it. Moreover, there were two more small parcels across from the existing alley which would make the site even more worthwhile if they were included. These six parcels totalled 32,560 square feet of land in all.

Mary studied the site and ran some numbers for discussion. With the Warner Theatre property and the three smaller adjacent parcels, she calculated, they would be able to build 220,000 square feet of commercial space. The project was proposed to the senior management, and Mary remembered the consensus, "We were willing to do it, but it was still very tight." With the decision to go ahead on this first assemblage, Mr. Kaempfer began to place the parcels under contract, putting down substantial deposits on the Warner Theatre and on Lot 803 (see Exhibit 5).

Mr. Kaempfer set up the development team, picking Byrne Murphy as the Project Manager, working with Mary. She described their roles: "I'm the Vice President and Director of Development who works with the project managers on the different projects. I am helpful from the process standpoint, the approvals standpoint and the schematic standpoint. At this point, Byrne is the one who has every detail in his head and runs the project day to day. . . . He lives and breathes the Warner Theatre."

ACQUISITION

By May, the complicated land assembly for the project was well-documented in the Washington press (see Exhibit 1). Mr. Kaempfer had already decided to jump the alley, acquire the two next parcels on the other side of it, and work with the city to relocate the alley adjacent to the last large parcel on the block, Lot 843 (see Exhibit 5). Alley closings in Washington, if they happen at all, typically take 12 to 18 months. But by acquiring the two extra parcels and using the 10 FAR allowed because of the project's 13th Street frontage, and including the land formerly taken up by the alley, the development had the potential of increasing from the 220,000 square feet allowed by the first assemblage to 350,000 square feet. There was one remaining large site on the south side of the block, Lot 843 (16,072 square feet), but it had a 1960s office building on it with an FAR of 8. The entire other half of the city block was occupied by Gerald Hines' new Columbia Square development, designed by I.M. Pei & Partners. Neither of these properties was for sale.

DESIGN

The design of the project was very sensitive because of the need for multiple approvals. These included four from city agencies, one from the City Council, one from the Historic Preservation Review Board, and one from the Federal Commission of Fine Arts. In addition, there were several civic, preservationist, and arts groups who had the ability to oppose and prevent the project during the approvals hearings or by bringing suit, as one preservationist group had done in the recent past. The choice of Shalom Baranes Associates as architect was based on their previous involvement with the project, their good relationship with the preservation groups and their very successful record of restoration and adaptive re-use in Washington.

Meanwhile, the size of the project kept expanding, and the architect had to keep pace with his drawings. By mid-June, with the two parcels across the alley included in the assemblage, the project settled down to about 350,000 square feet, the size that would be proposed to the Design Review Boards. There were many constituents whose needs would influence the outcome of the review hearings. These included the theater users, the theater preservationists and the city agencies, as well as potential commercial tenants. Because the theater was a landmark, The Kaempfer Company was trying to strike a delicate balance between these sometimes competing interests. Mary recalled, "Really what everybody would have liked to have seen was for the theater to be preserved exactly as it was, and a new project to be next door." However, the office building clearly needed a corner entrance, and this meant altering the theater slightly by raising the stage. In order to arrive at a satisfactory solution, Mr. Kaempfer, Mary and Byrne had to work closely with all these groups.

FINANCING

Early on in the project, Mr. Kaempfer had made the decision to go after an equity partner first, before going after debt financing. A financing package had been prepared in March, and the company engaged an international, full-service real estate company to try to identify a partner. Byrne spent a good part of his time explaining the project and giving tours to prospective partners.

In July, the search netted a European investment group who agreed to fund the 350,000 square foot project. The year before, the same group had been interested in funding the 1525 Wilson Boulevard project and had begun negotiations with Kaempfer. However, their due diligence inquiry into the company, the local real estate market and the local economy took so long that Kaempfer found and closed with another partner.

For the Warner project, a complicated investment structure was proposed, and Mark Portnoy remembered that the terms "drove the lawyers crazy." A participating loan of $25 million was proposed with the investment group entitled to earn 8% on their money from day one. However, until the project was well into the black, they were guaranteed only a 6% current return, paid quarterly. The rest accrued until cash flow after first mortgage financing was sufficient to let them "catch up" to the 8% rate on their equity funds. They also shared in any refinancing and sales proceeds and in any operating income above pro forma levels.

Closing was set for September 1. Up to then, The Kaempfer Company had been operating on Mr. Kaempfer's personal funds and had scheduled several closings on the assemblage parcels for September. In late August, though, the deal with the equity partner still hadn't closed, and Byrne remembered the scene: "We were going to close on the loan and take down the Warner parcel, and we had already entered into binding purchase agreements on the other parcels. Mr. Kaempfer walked into a big conference room full of lawyers and myself and a few others, and one of our attorneys said, 'We can't get there from here. It's more complex than anyone thought. We're all discovering the issues, ourselves as well as our partner's counsel.'" Eventually it was decided that instead of rushing through all the complex issues of an international participating loan and trying to force a closing, the partners would agree to negotiate the final joint venture terms during the fall. The European partner would provide an interim loan to the project until December, when the final closing would take place.

APPROVALS

The approvals process was crucial to the project, and Mr. Kaempfer, Mary and Byrne had organized earlier that summer to work with the various preservationist, arts, and public sector groups involved. Mary had previous experience with the process: "It was my role to steer that. Mr. Kaempfer would attend the meetings where his presence was important. I worked primarily with the zoning attorneys, and Byrne was the coordinator, working with all the groups." Byrne recalled his initiation: "In July, I said, 'Mary, I don't know enough about this; let's go to breakfast.' And at one breakfast over at the Grand Hotel, she listed all these different groups, and the next week I got together with the zoning attorneys. . . By the end of August, I was up to speed. By the end of September, I was up to my eyeballs."

By October, Byrne and Mary felt that they had addressed the needs of the different groups. The preservationists, theater operators, citizens groups and arts groups were behind them. The city had agreed to investigate the possibility of a Pennsylvania Avenue address and the potential for public financial support to help restore the theater. On October 22, the project was scheduled to come before the Historic Preservation Review Board (H.P.R.B.), and on the 23rd, before the Commission of Fine Arts.

With the approvals meetings approaching, the development team worked feverishly right up to the company's scheduled management retreat on October 17. Byrne remembered the last minute consultations: "In an evening meeting at Mr. Kaempfer's house, we had speakerphones on, we had architects, lawyers, architectural historians, everyone around the table, and we were deciding what to do." The scheme that was developed involved raising the stage only a few feet, less than originally thought feasible. The team was convinced that all the interest groups would be satisfied.

"We got down to the retreat, and a couple of things happened: first, October 19 came around, and the stock market crashed. When they finally got through by phone to Washington, they found out that one of the parties had backed off in its support. We were on the phone with our lawyers and consultants saying, 'Check with this person! Check with that person!' In the end, Mary flew back early to ensure that everything was in line." The Historic Preservation Review Board did, in fact, approve the proposal on schedule (see Exhibit 6), and the next day, the Commission of Fine Arts approved the exterior.

RECENT DEVELOPMENTS

With the approvals in hand, Byrne turned his attention to refining the design and marketing concept. Byrne estimated that the project could have 294 parking spaces, 16,000 square feet of retail, and about 304,000 square feet of rentable office space. The theater would not produce a significant profit. He thought the pro forma rent level would be in the low $40's and expenses would be $9.50 per square foot. The parking spaces would net $1,600 each per year. The total project cost presented to the partner was $113 million for 350,000 gross square feet.

The current design by Shalom Baranes gave 33,000 square foot floor plates on the floors above the theater. Byrne was having worries about the efficiency of the design, particularly since the projected rents were among the highest in the city. To succeed, the project needed to highlight its hoped-for Pennsylvania Avenue address with emphasis on its corner office entrance. Byrne also believed that competing with other high-quality Washington office buildings called for spectacular atria and lobby spaces.

December was a crucial month. Byrne faced closings on three of the pieces of the assemblage with a total commitment of several million dollars, and the interim loan from the partner was due on December 15: "We were still having problems documenting the equity investment and the partnership. They were foreign and institutional, and this project was still in the early phases. There was no final design, there was no pre-leasing, there were still more approvals to get. The project was moving across the map, and they were, understandably, skittish."

THE LAST PARCEL

In early December, Mr. Kaempfer began to wonder if he might be able to acquire the last parcel on the block. The owner of the land was one of the largest developers in the Washington area and had an iron-clad reputation for not selling his property. Notwithstanding this, Mr. Kaempfer expressed an interest in the parcel. Instead of what he expected -- a flat "no," Mr. Kaempfer was told to make an offer.

Byrne described the equity partner's reaction to this: "We turned to our investment partner and said, 'We may be able to expand the site. We could now have a world-class building in the best location in the strongest market in the United States.' And they said, 'We're not sure we want to expand the site. We think we should do one thing at a time.'"

Negotiations continued therefore on the basis of the existing land assembly. However, even in December there were difficulties in resolving the complex issues. By December 15, the deal still hadn't closed. This presented a substantial risk because there was nothing legally binding that committed the investment partner to funding after that date. Only a few days ago, Mr. Kaempfer had returned to Europe to attempt to complete the deal.

Byrne was relieved to hear that it had finally closed, and Mr. Kaempfer would be back shortly. He knew, however, that the agreement still left the responsibility for the possible acquisition of the last parcel with The Kaempfer Company: "We had one short paragraph in the original agreement that said we both recognized the possibility of Lot 843's acquisition, but that Kaempfer would handle that. We would take the risk in putting up the deposit. We thought that it would be maybe $1 million with a 90-day closing."

Acquiring the last parcel would have a major impact on the project. Byrne estimated it would mean a program of approximately 350 parking spaces, at least 42,000 square feet of retail and 420,000 square feet of rentable office space. The theater dimensions would remain the same. He thought the pro forma rent level would remain in the low $40's and expenses at $9.50 per square foot. He estimated that the new total project cost for 550,000 gross square feet would be about $185 million. From a marketing standpoint, he would have a 46,000 square foot floor plate, uncommon in Washington and, in his opinion, a competitive advantage in attracting the rapidly growing law and accounting firms that were the most likely tenants for the building.

THE OWNER'S TERMS

Before leaving for Europe, Mr. Kaempfer had submitted his offer to purchase the last parcel for $20 million with a $1 million deposit. The building contained 116,000 rentable square feet and was leased almost in its entirety to the Government, whose lease would expire on May 31, 1988.

Earlier in the day, Byrne received the owner's response: he asked for a $10 million deposit on a $20 million purchase price with 90 days for The Kaempfer Company to close! Byrne believed the owner was concerned not to be left with an empty building, should the deal fall through. If the owner renewed the Government's lease, he was likely to receive a rent in the low $20's. Therefore, he wanted to structure the purchase agreement with Kaempfer so that he would be protected in a situation where he did not renew the Government's lease.

Regardless of the terms, Byrne was unsure if they should go ahead with the acquisition: "First of all, it's a 1960s building replete with asbestos. Asbestos can be a big deal with bankers nowadays, and it is *very* expensive to clean it up. Also, when the Government is a tenant, they can holdover past the termination date of their lease. On any normal tenant you file a suit, you get them out of there because they are a tenant at sufferance, and they have no tenancy rights. But the Government, unlike a private sector tenant, just says, 'We're not ready to leave. We're going to invoke eminent domain, and we're staying here.' And there's no getting them out until they want to get out because who are you going to call? You're going to call the Government to get the Government out? That's a risk."

Byrne saw the light come on in Mr. Kaempfer's office. He turned off his overheated computer and headed over to talk strategy.

EXHIBITS

1. *Washington Business Journal* article.
2. The Kaempfer Company portfolio (excerpts).
3. The Kaempfer Company organizational chart.
4. Aerial view and city map.
5. Plat map.
6. Approved plans and elevation.

QUESTIONS FOR DISCUSSION

1. Should The Kaempfer Company acquire the last parcel?
2. What sort of counter-offer would the owner of the last parcel find acceptable?
3. Will the investment partner go for an expanded deal? What if they don't?
4. What other steps should The Kaempfer Company take?

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Kaempfer gets Warner Theater

Last parcel is sold in Penn. Ave. corridor

By Heidi C. Daniel

The Kaempfer Co. has agreed to buy the Warner Theater on the corner of 13th and E streets and three other adjacent lots totaling some 130,000 square feet for $22 million.

Company president J.W. Kaempfer Jr. said he plans to restore the 65-year-old theater and build a 12-story building with 207,000 square feet of office and 10,726 square feet of retail space.

None too soon. The Warner has suffered the degradation of time. The once-plush theater has grown shabby. The springs are popping out of the seats and the red velvet curtains are fraying. Instead of the jugglers, acrobats, animal acts, concerts and films of the past, it's been hosting a string of hopeful buyers. At least three groups tried to purchase the building and lost an estimated total of $750,000 in deposits, sources familiar with the project say.

"Nobody could get it together in a creative fashion," said Robert Cohen, president of Barnes, Morris & Pardoe Inc., who assembled the four parcels for The Kaempfer Co.

"The other people really didn't want to go to the trouble," said J. Fernando Barrueta of Barrueta & Associates. "Joey had the vision to go after (the other lots) and was willing to take the risk."

But to Kaempfer, 40, it was obvious. "How could anyone pass it up? It's one of the last great sites downtown."

"It was a heroic effort on (Kaempfer's) part," said Shalom Baranes, the architect who is designing the new building and overseeing the renovation of the theater. "It's a very complex, very difficult project. What we learned from other people's problems is that the Warner can't support itself."

Alone, the site is too small and expensive to be economically feasible, Cohen said. Kaempfer needed the additional 6,792 square feet to make the numbers work, he said.

With the added ground, he can build an office to carry the extra expense of operating the theater. The six-story theater building does

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The last picture show: Warner's grand interior.

Kaempfer buys Warner Theater

continued from page 1

not use all the FAR (floor to area ratio) allowed in that district. The unused balance can be transferred to the new building, which will permit 12 floors.

The land will cost about $80 an FAR foot. Sites in the prime area of the East End are commanding prices well in excess of $100 per FAR foot, while sites on Pennsylvania Avenue, if available, would sell for more than $125 per FAR foot, according to Jones Lang Wootton, real estate counselors.

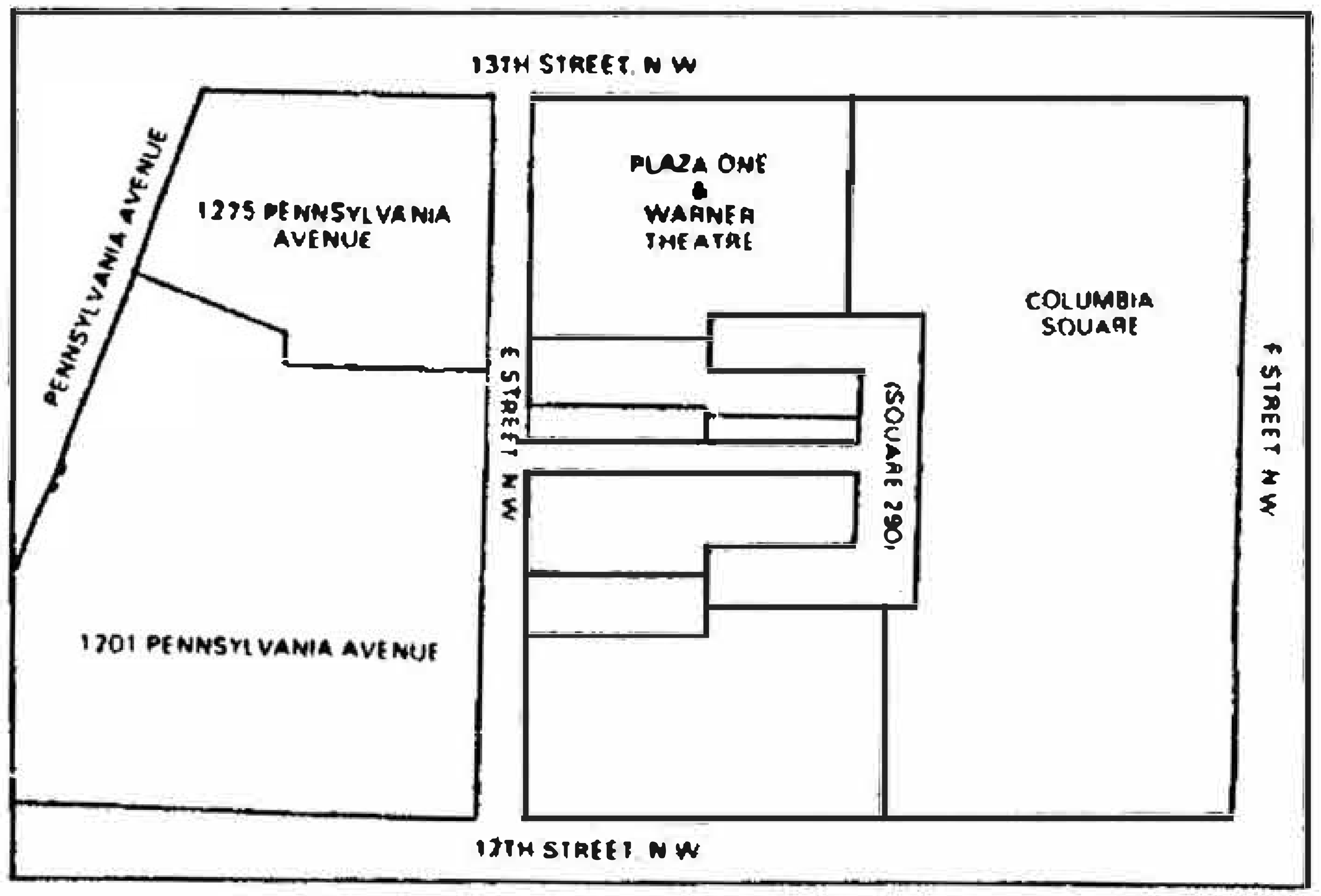
Technically, none of the four sites Kaempfer bought lie on Pennsylvania Avenue, but because the new building is catty corner from Western Plaza brokers say Kaempfer will be able to charge Pennsylvania Avenue-style rents.

Currently, the Willard's office building is asking $38 a square foot, the highest in the city. With the 4 percent annual increase in rents, by the time the Warner building is ready for occupancy in three years, the going rate will easily have climbed into the low $40s. Kaempfer is confident he'll be able to lease the building for unprecedented rates of $43 to $45 a square foot, despite predictions of continued overbuilding.

Cohen said those figures are not out of line. If the site had been developed at the same time as Oliver Carr was renovating the Willard, Cadillac Fairview was building 1001 Pennsylvania or Gerald Hines was building Columbia Square directly behind the Warner, "it wouldn't have been so desirable." But now leasing of those projects is winding down, turning the Warner into "the prime site on Pennsylvania," he says.

In initial discussions, "the city has been very receptive to helping us because of our commitment to maintaining the theater as a viable operation," Kaempfer said.

It took Cohen five months to put the deal together, starting with the three small pieces: a Chinese restaurant, a shoe store, and an 800-square-foot strip belonging to Gerald Hines. "Each was negotiated independently, but the timing was coordinated. We wouldn't buy one without knowing the second and third were coming too," he says.



The owners of Storm's Shoes at 1219 E St. and Ding How restaurant at 1221 E St. weren't tough to convince because "they'd been preconditioned to selling," Cohen said, by the previous groups that had approached them. The shoe store was just as happy to relocate to a newer retail area, and the Chinese restaurant liked the price offered, Cohen said.

Gerald Hines was a harder sell. The small plot, critical to Kaempfer's assemblage, was a remnant from Hines' Columbia Square project on F Street. The developer wanted a guarantee that the views from the back of the building would not be ruined by the new structure. Kaempfer had to agree not to substitute poorer quality brick on the rear of the building and to "coordinate the loading dock and dumpsters with the existing alley configuration," said Bill Alsup, vice president of Gerald Hines Interests. "We wanted to make sure it's a quality development which (Kaempfer) generally does anyway."

After Cohen secured the three lots, he approached J.A. Weinberg, one of the four businessmen who bought the Warner Theater in 1971. Weinberg, who could not be reached for comment, is in his 90s. "The partners were of an age that they weren't interested in redeveloping the property themselves," Cohen said.

When he started negotiating, an unidentified group from New York was bidding on the building simultaneously. "The reason (Weinberg) was interested in The Kaempfer Co. was because it already owned the parcels next door." He closed the deal two and a half months later.

In 1980 Gerald Hines tried to buy the theater when it was assembling the site for Columbia Square. The company planned to tear down the building. Hines signed a contract. Then the Warner theater, both inside and out, was nominated for historic landmark status. The Houston-based company didn't want to get embroiled in a squabble with the preservationists on its first project in town, sources say. Some estimate the company lost a $250,000 deposit when it backed away from the deal; others say a clause in the contract stipulated the money would be refunded if the theater became an historic landmark.

About six months ago Sigal/Zuckerman attempted to pull off the same deal as Kaempfer. The company claims it contracted to buy the theater, the Chinese restaurant, the shoe store and Hines' piece. But, "it didn't pencil out for us from a feasibility point of view. It was a question of losing a tremendous amount of money," said Neal Bien, vice president of Sigal/Zuckerman. As it was, the company had to forfeit $500,000 worth of deposits, sources said Bien wouldn't comment.

Kaempfer may have succeeded where others failed, but the test is just beginning. Both the Beaux Arts facade and the ornate lobby are historic landmarks, the only interior in Washington to have such a designation. They must be preserved, according to Mike Quinn, executive director of the D.C. Preservation League.

Baranes estimated it will cost millions of dollars to bring the theater up to the latest revisions of the code. Any proposal to alter the interior, from new wiring to major refurbishing, has to be approved by the D.C. Historic Preservation Review Board. Quinn was relieved to hear of Kaempfer's commitment to preserving the interior because often such landmarks are the center of protracted battles between preservationists and developers. "We can feel good about one for a change," he said.

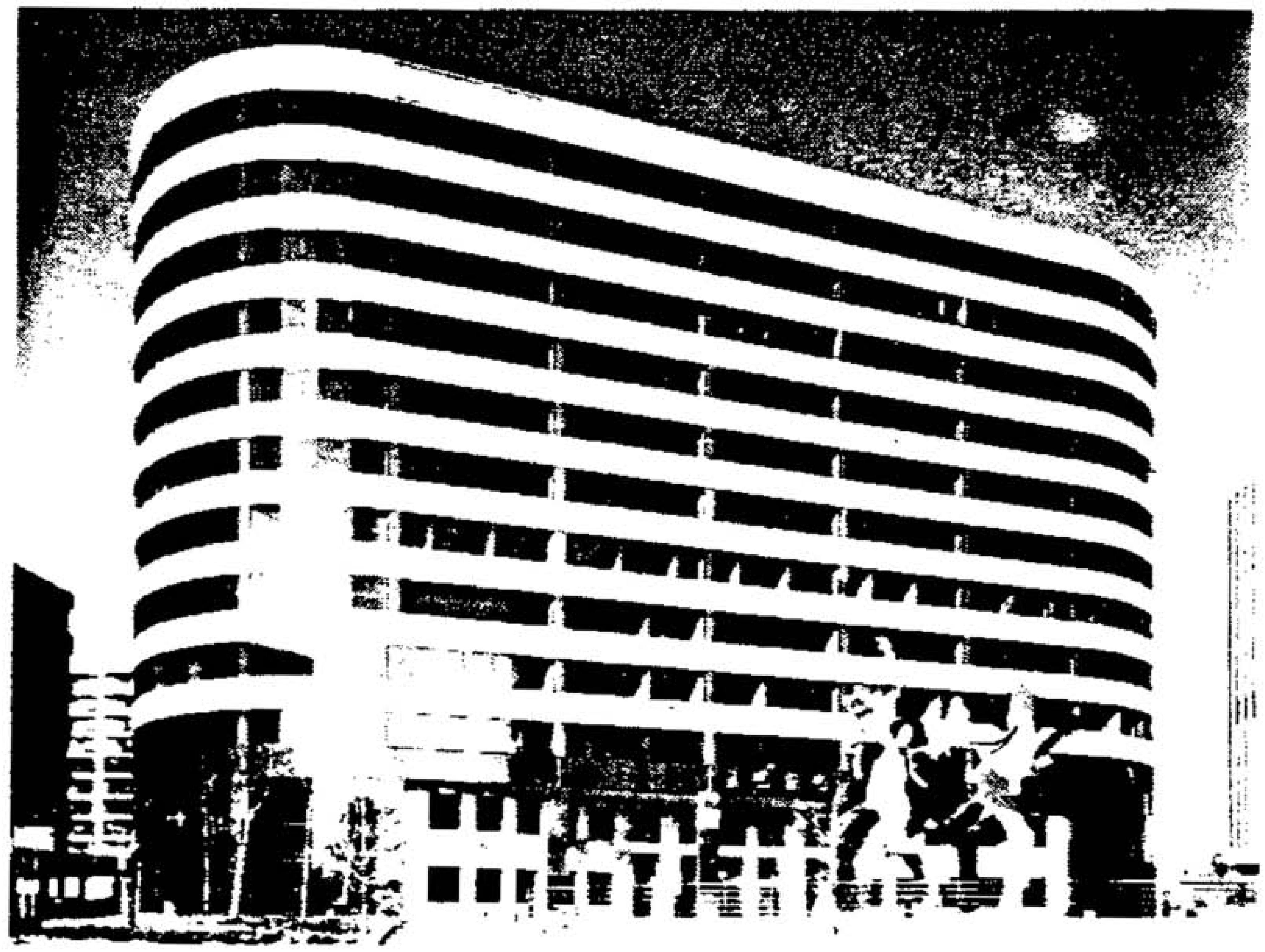
Kaempfer has hired a special theater consultant to help restore the vaulted gold-leaf ceiling, the grand marble staircase and large Palladian windows. Baranes plans to move the elevator from the corner of the building, where it blocks views down Pennsylvania Avenue, into the center. The theater entrance at 13th and E streets will be enlarged to accommodate tenants as well as theater goers. A series of penthouses that detract from the "bold, muscular look" of the exterior will be refaced and an outside stairway that led from the sidewalk to the lower level will be restored to add the retail space.

The new building will contain additional parking for the theater crowd as well as complement the Warner's architecture. Baranes, who has such renovations as The Bond Building, the Southern Building and the Army/Navy Club to his credit, says this is one of the two most difficult and complex projects he's ever undertaken.

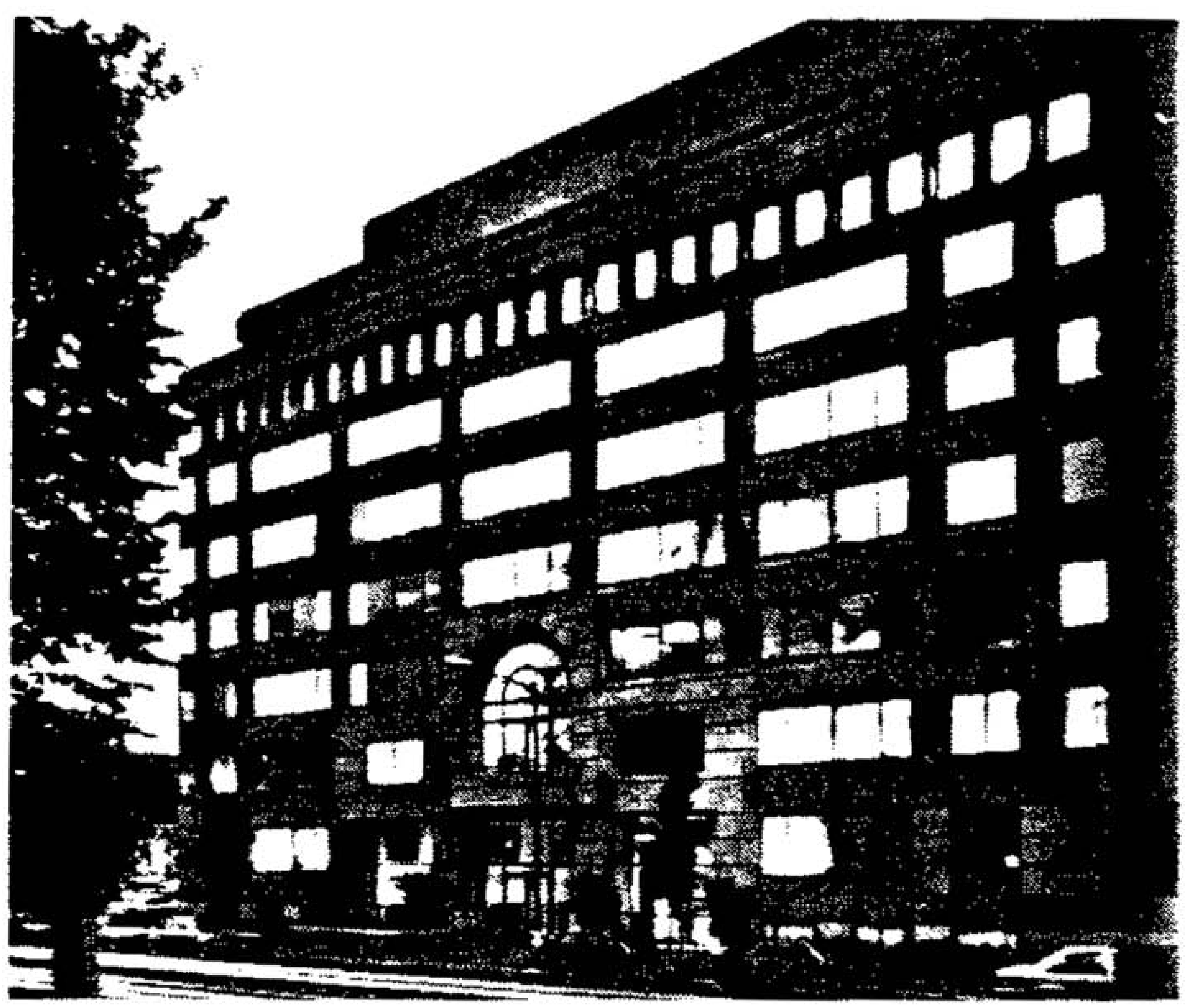
The Warner Theater has special significance for the rebirth of Pennsylvania Avenue. "It's been a part of the cultural heritage of Washington from the day it opened. There were a dozen theaters in downtown then, now it's one of only three," Quinn says. "Theater is part of what makes a viable downtown and an attractive place to stay after work. The Warner and the National are our theater district." ■

Exhibit 2

1525 Wilson Boulevard combines a unique building design by Keyes Condon Florence with an open plaza to create an exciting urban space that is destined to become a landmark location. The 300,000 square foot building will be ready for occupancy in July 1987.



Designed by Skidmore, Owings & Merrill, 2300 M Street is a 9-story, 120,000 square foot office building in the heart of Washington's West End. The building has been fully occupied since early 1984.



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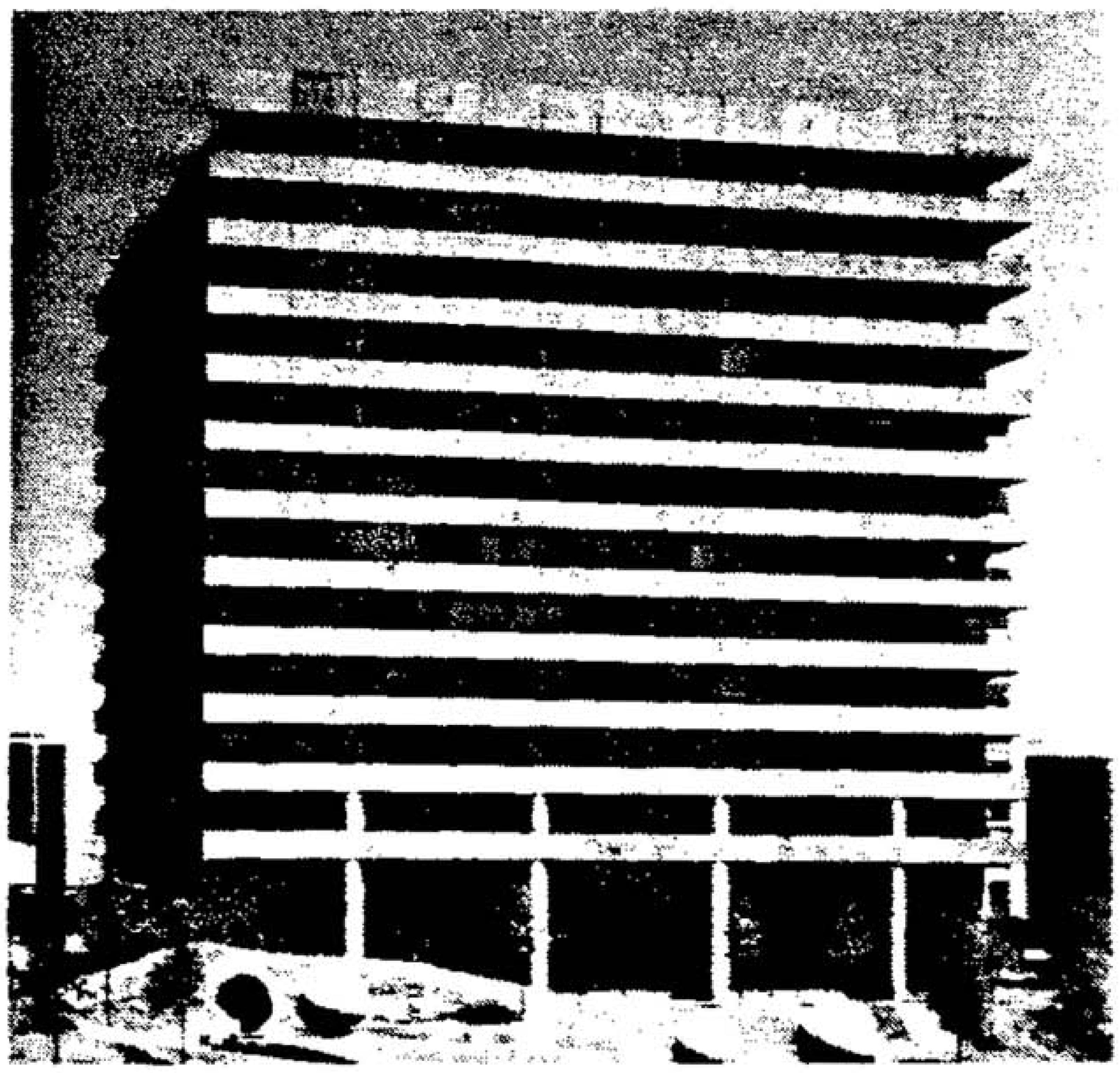
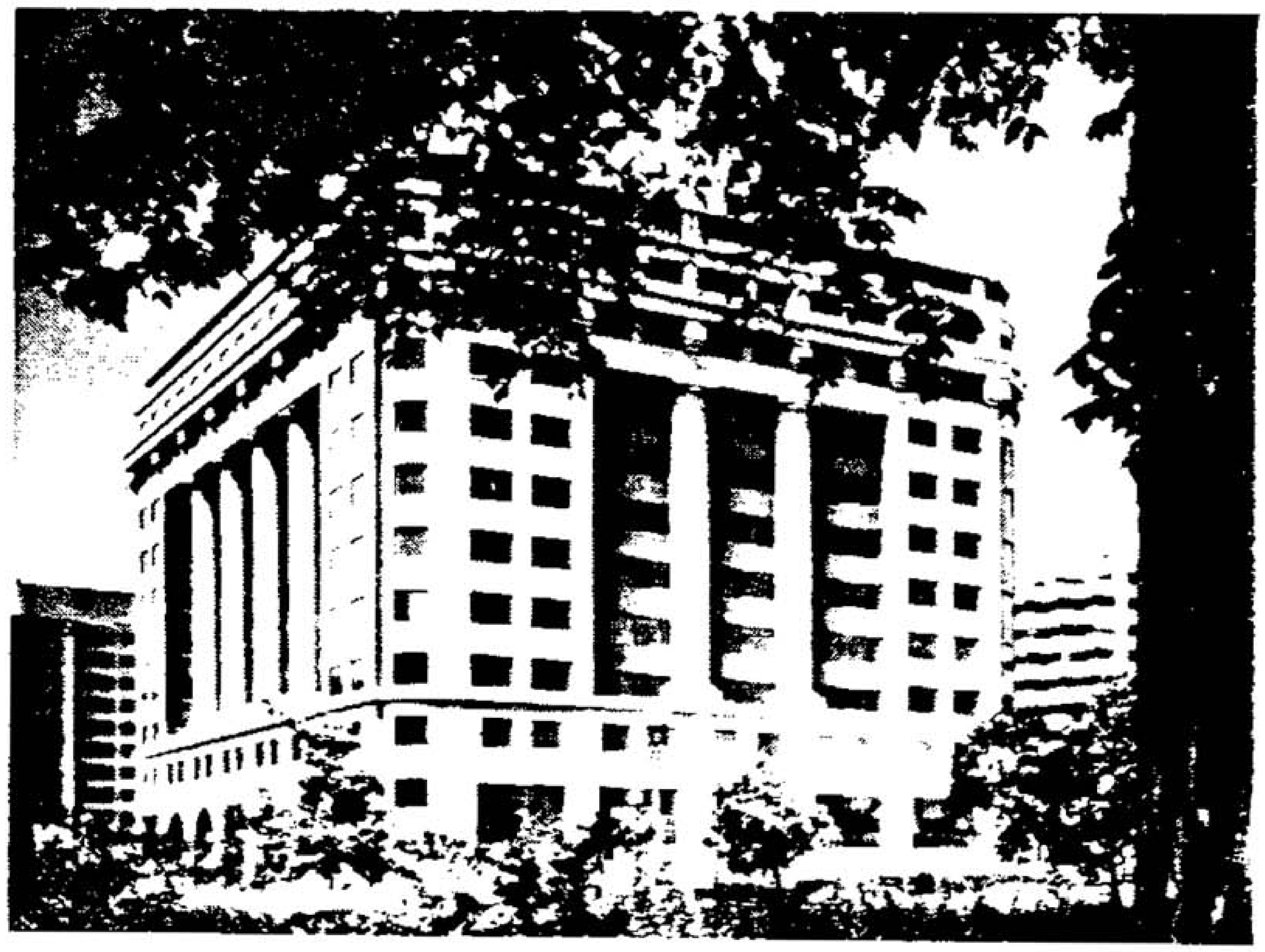


Park Place is a 190,000 square foot office building in Arlington County, Virginia, directly across the Potomac River from Washington, D.C. The 12-story building, completed in 1983, offers expansive views of the Nation's Capital.

Designed by Don M. Hisaka and Associates, 1250 24th Street integrates an historically significant facade into a contemporary design featuring an eight story skylit atrium. With a total leasable area of 227,000 square feet, the building was completed in May, 1987.

Exhibit 2
continued

Designed by Clark Tribble Harris & Li, 1201 New York Avenue is a 315,000 square foot office building situated in Washington's rapidly developing East End business district. Scheduled for completion in late 1987, the building offers 12 stories plus a penthouse floor of prime office space.



The Grand Hotel is a European-style, five-star luxury hotel on the corner of 24th & M Streets in Washington, D.C. Designed by Skidmore, Owings & Merrill, the 263-room Grand is recognized by many as on of the most elegant luxury hotels in the country.

Exhibit 2
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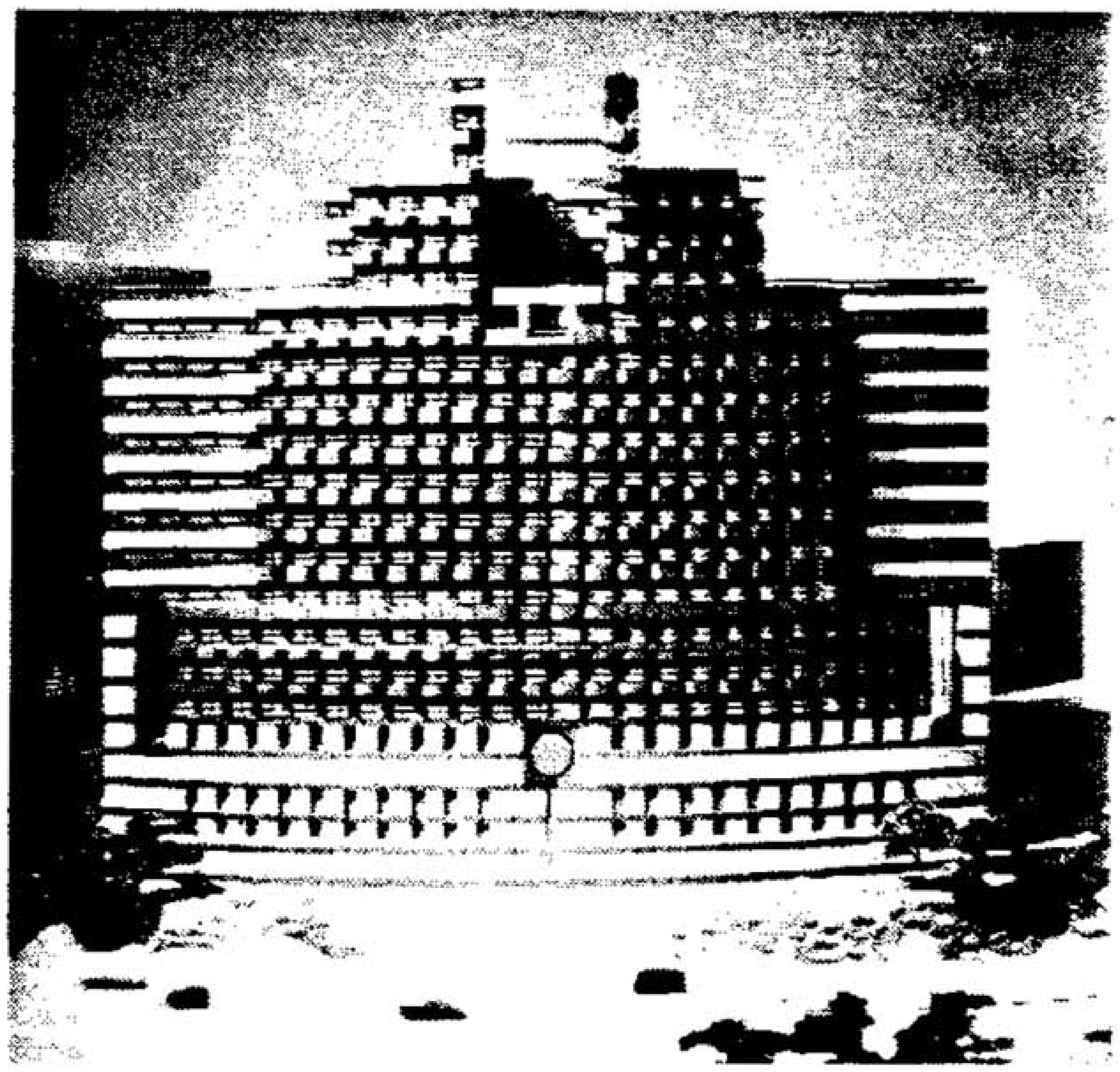
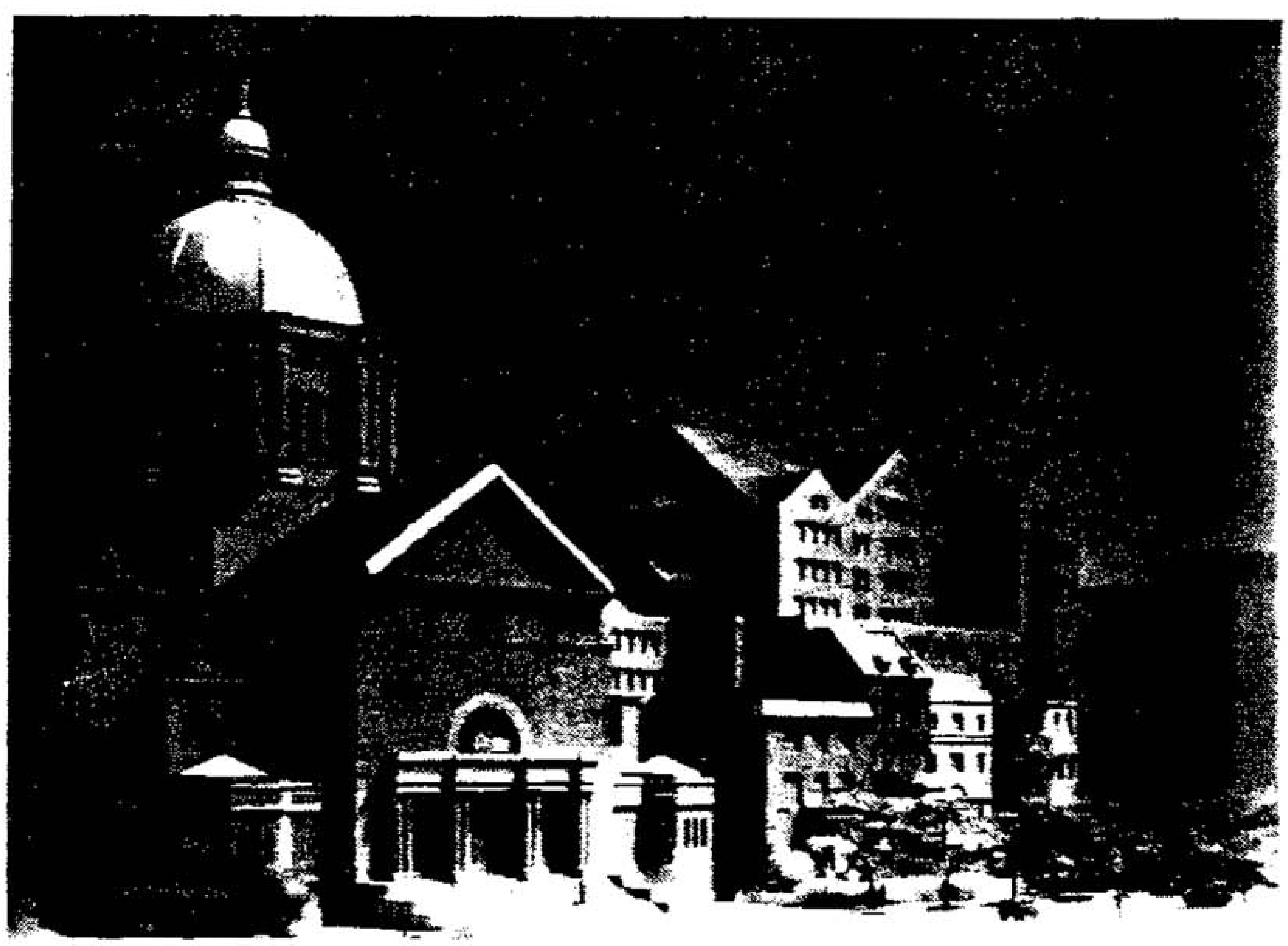


Designed by I.M. Pei & Partners, 1001 19th Street North will add a dramatic presence to the Rosslyn skyline directly across the Potomac River from Washington, D.C. The 19-story, 252,000 square foot building will feature spectacular views for all offices. The building is being developed jointly with Park Tower Realty Corp. of New York, and will be available for occupancy in late 1988.



At 1717 Rhode Island Avenue, N.W., Skidmore, Owings & Merrill has designed a 10-story, 165,000 square foot building that combines new construction with the historic restoration of several townhouses adjacent to St. Matthew's Cathedral. The building will be available for occupancy in late 1988.

Exhibit 3

THE KAEMPFER COMPANY

PERSONNEL

J.W. Kaempfer, Jr. Staff		
4 People		Assistant to the President
		Assistant to the President (Part-time)
		Executive Secretary to the President
		Intern
Finance		
2 People		Vice President of Finance
		Departmental Secretary
Accounting		
8 People		Controller
		Management Division Controller
		Assistant Controller/Development
		Accounting Assistant/Development
		Accounts Payable
		Accounting Assistant/Management Division
		Staff Accountant
		Departmental Secretary
Construction		
4 People		Senior Vice President
		Vice President
		Assistant Construction Manager
		Departmental Secretary
Legal		
3 People		General Counsel
		Associate General Counsel
		Departmental Secretary
Kaempfer Management Services, Inc.		
8 People		Vice President, Management Division and Marketing
		Director of Property Management
		Property Manager
		Property Manager
		Leasing Administrator
		Departmental Secretary
		Departmental Secretary
		Marketing Coordinator
Project Development		
10 People	MBA	Vice President/Director of Development
	MBA	Vice President/Project Manager
	MBA	Project Manager
	MBA	Project Manager

Exhibit 3
continued

The Kaempfer Company Personnel
Page Two

Project Development (continued)		
	MBA	Assistant Project Manager
	MBA	Assistant Project Manager
		Marketing Center Assistant
		Departmental Secretary
		Departmental Secretary
		Departmental Secretary
Office Management		
4 People		Office Manager
		Receptionist
		Receptionist
		Company Maid

TOTAL: 43

KAEMPFER MANAGEMENT SERVICES, INC.

2300 M Street
Winston
John
William
Renee

Warner Theater
Rob
Herman

1250 24th Street
Steve
George
Michael
John
Khosrow

1525 Wilson Boulevard
Ralph
Mike
Jose
Josh

Investment Building
Arnie
John
Robin
Patrick
David
Stuart
Linwood
Ben
Sharnita

Park Place
Jerry
Carlos
Manuel

Plaza East
Tariq
Mark
Gary

1201 New York Avenue
Edward

Exhibit 4

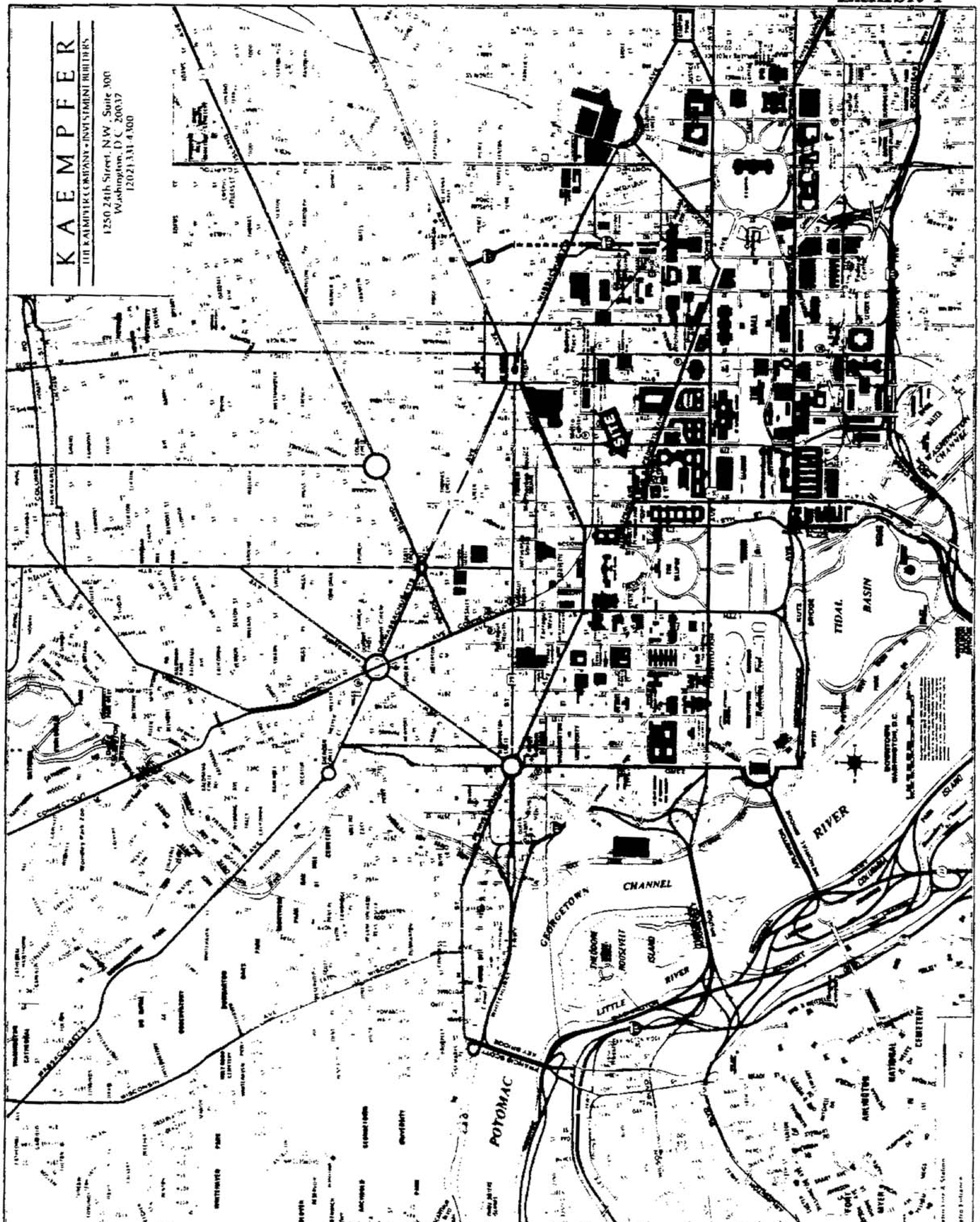

KAEMPFER
THE KAEMPFER COMPANY • INVESTMENT BUILDERS
1250 24th Street, N.W., Suite 300
Washington, D.C. 20037
(202) 331-4300
SITE
TIDAL
BASIN
RIVER
POTOMAC
GEORGETOWN
CHANNEL
THEODORE
ROOSEVELT
ISLAND
LITTLE
RIVER

Exhibit 4
continued

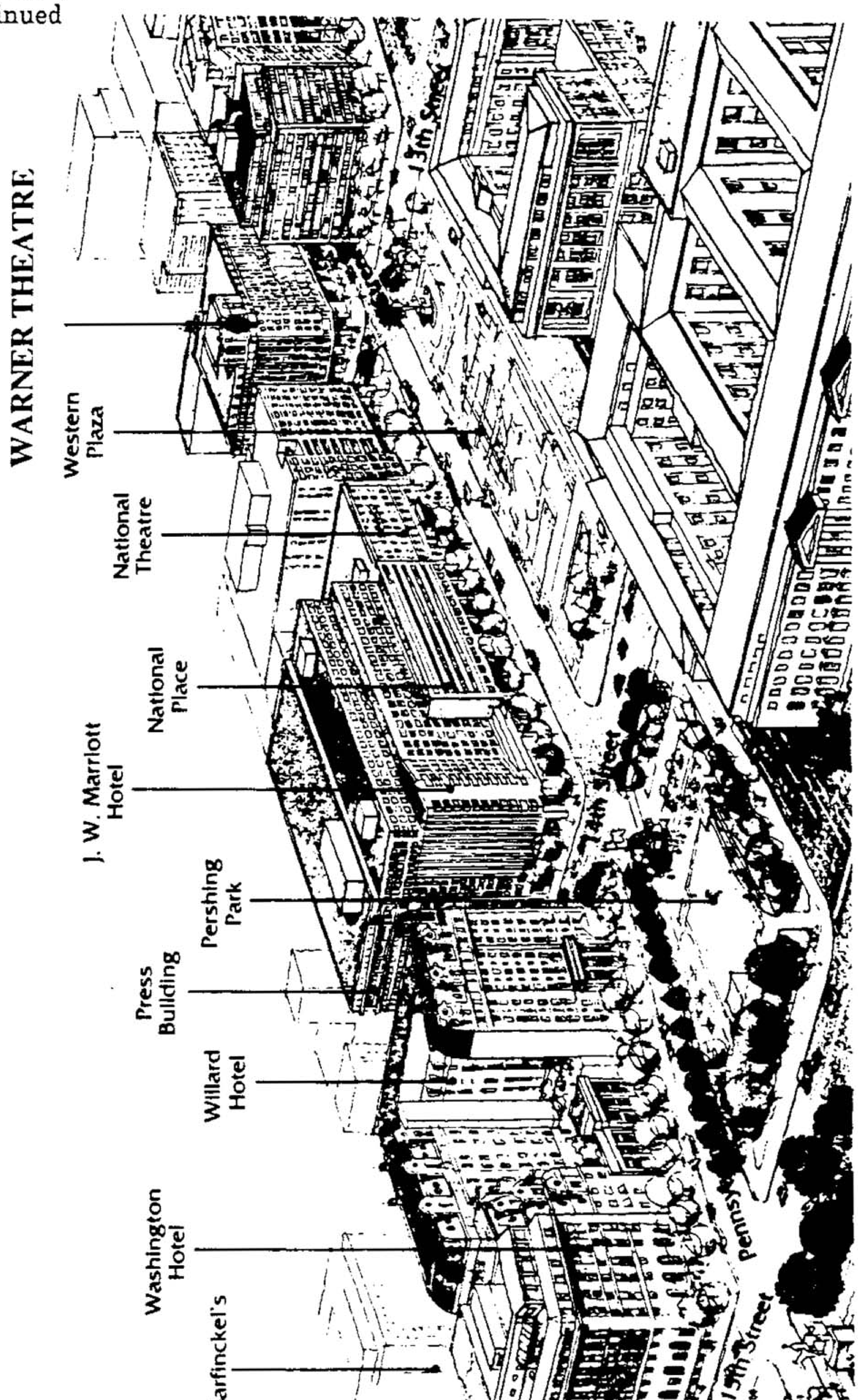


Exhibit 5

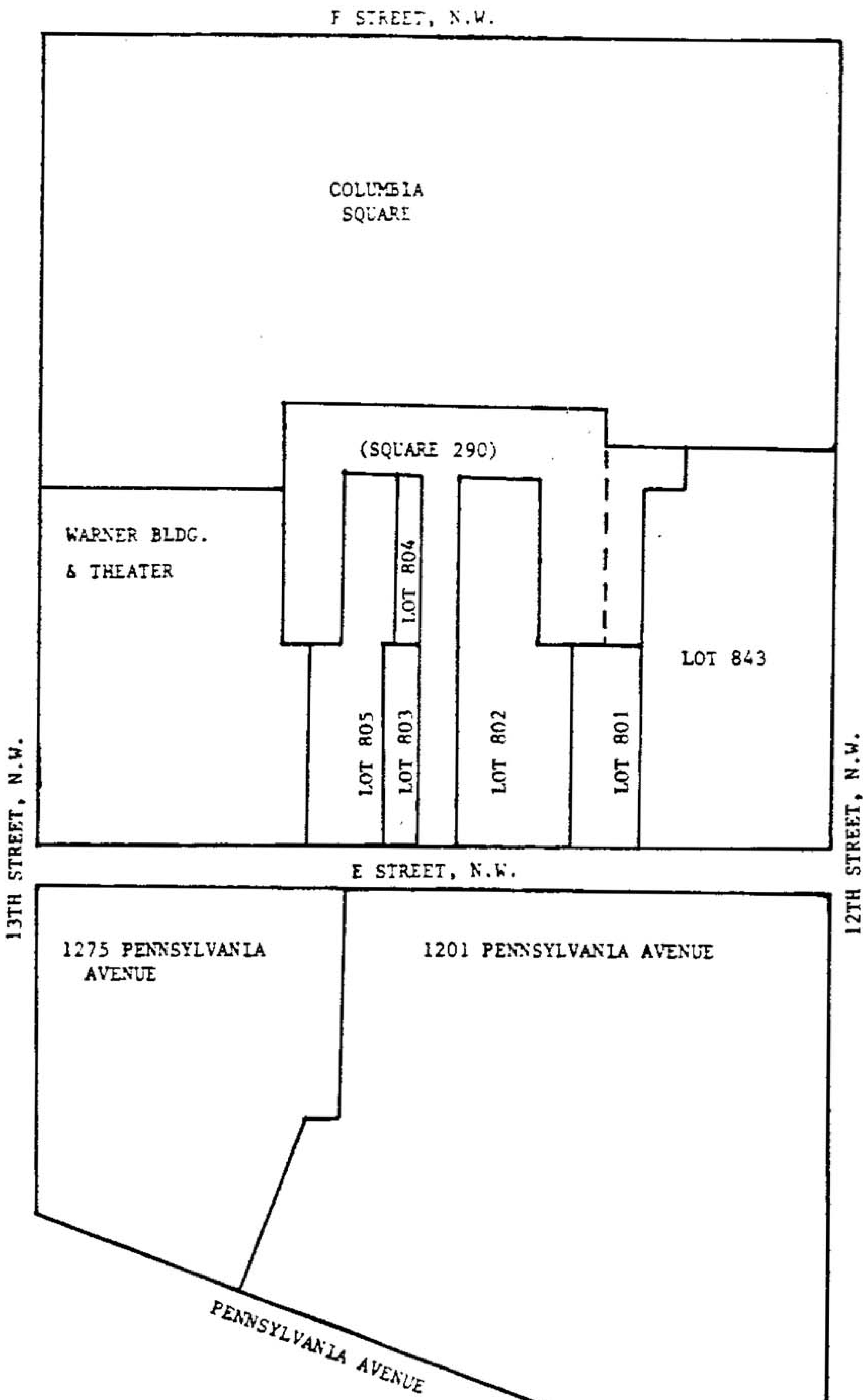
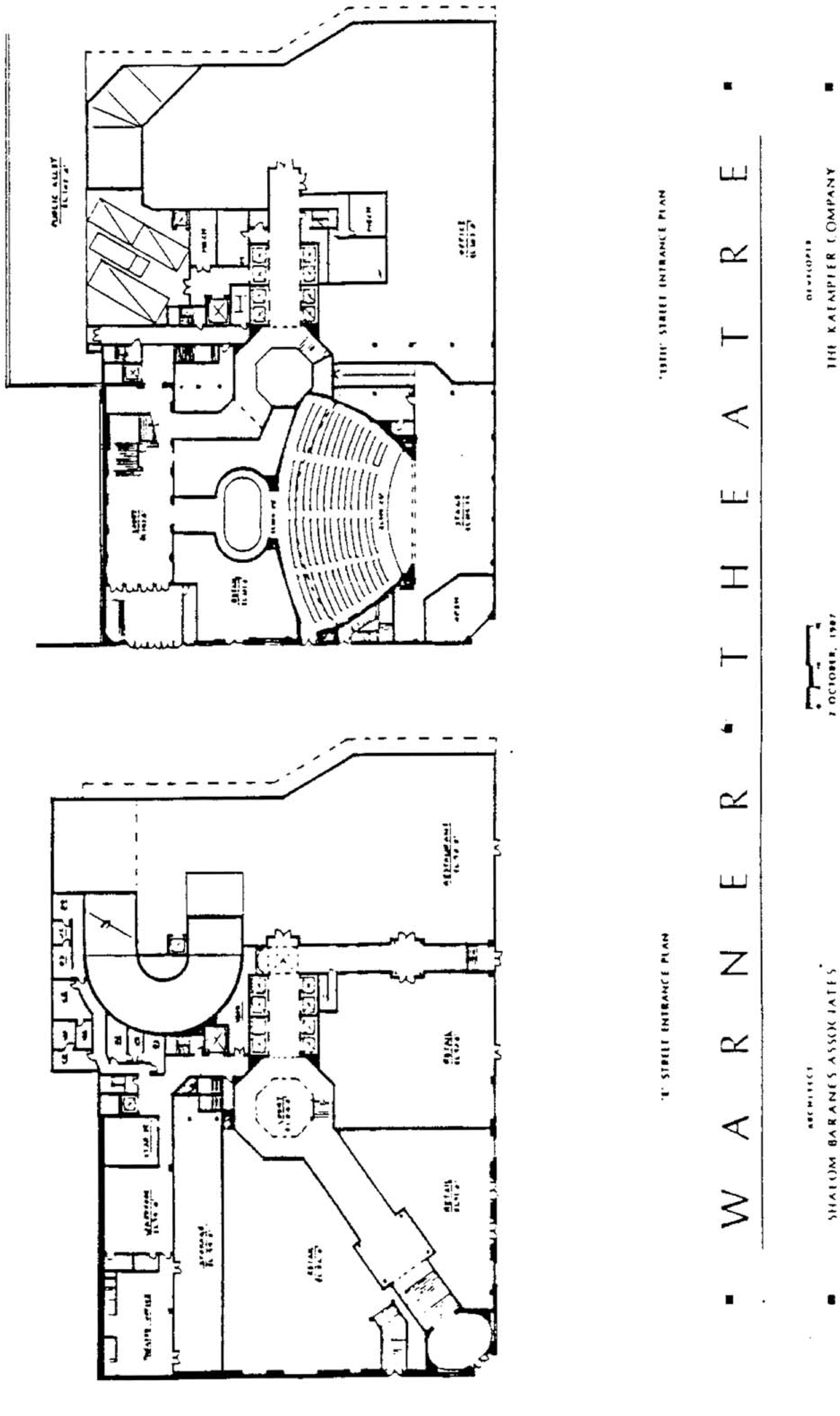

F STREET, N.W.
COLUMBIA SQUARE
(SQUARE 290)
WARNER BLDG. & THEATER
LOT 804
LOT 843
LOT 805
LOT 803
LOT 802
LOT 801
13TH STREET, N.W.
12TH STREET, N.W.
E STREET, N.W.
1275 PENNSYLVANIA AVENUE
1201 PENNSYLVANIA AVENUE
PENNSYLVANIA AVENUE

Exhibit 6



'13TH' STREET ENTRANCE PLAN
'E' STREET ENTRANCE PLAN
WARNER THEATRE
SHALOM BARANES ASSOCIATES

Exhibit 6
continued