

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor



Alvin C. Collins
Secretary

MARYLAND DEPARTMENT OF GENERAL SERVICES
OFFICE OF THE SECRETARY

September 2, 2008

State Center, LLC
c/o Ms. Caroline G. Moore
Chief Operating Officer, Development
Struever Brothers, Eccles & Rouse, Inc.
Joy Building @ Tide Point
1040 Hull Street
Baltimore MD 21230

SEP 5 2008 AM 11:11

Re: Letter of Intent -- State Center Transit Oriented Development Project

Dear State Center, LLC and Ms. Moore:

Pursuant to the State Center Interim Development Agreement ("IDA") approved on December 12, 2007 by the Maryland Board of Public Works ("BPW"), the State of Maryland ("State"), by and through the State Center Executive Committee ("Committee"), hereby issues this Letter of Intent. Capitalized terms used in this Letter of Intent but not defined herein shall have the meanings defined in the IDA.

This Letter of Intent outlines the potential participation of the State in the redevelopment of the State Center property ("Project") with State Center, LLC. This Letter of Intent is a preliminary outline of terms of a potential future agreement between the parties, it is not intended to nor shall it have any binding effect on the parties, and it shall not create any enforceable rights in, nor establish any commitments on behalf of, the parties.

This Letter of Intent merely contemplates the future negotiation of outstanding material terms and the completion of further material documentation, and is not intended to be a binding contract or agreement of any sort, preliminary, final or otherwise. The parties do not intend to be legally bound unless and until a Master Development Agreement ("MDA") is entered into between the parties and approved by the BPW.

Background

On September 21, 2005, the State issued a Request for Qualifications seeking a Master Developer Team for a Transit-Oriented Development at State Center. On March 21, 2006, the Governor's office announced that a development team led by State Center, LLC had been selected for the exclusive initial right to negotiate definitive agreements with the State to develop the Property.



On June 22, 2007, the BPW approved a Memorandum of Understanding (“**MOU**”) between the State and State Center, LLC. The MOU outlined the negotiation process between the parties and the activities to be undertaken by each during an interim period.

On December 12, 2007, the BPW approved the IDA between the State and State Center, LLC. The IDA confirmed the continued negotiations of the parties for the development of the Project, outlined interim duties and responsibilities of the parties under the IDA, specified the steps each party was expected to undertake and complete during the term of the IDA, and identified other actions to be taken prior to the end of the term of the IDA. The IDA contemplated, among other things, that State Center, LLC would submit to the State a Preliminary Development Plan (PDP) (attached hereto as Attachment 1) to provide a preliminary concept plan for the Project.

The State acknowledged receipt of the PDP on March 3, 2008. The PDP contained: (i) a proposed conceptual site plan and massing study; (ii) a proposed first development phase including the first building location, replacement parking required by any displacement of existing parking, pedestrian circulation within each phase, and a related milestone schedule; (iii) a proposed build-out program summarizing development phases for the Project, the potential location and amount of retail, office, residential, parking, and improved transit connections; (iv) an analysis of the anticipated costs of development, associated costs of occupancy such as maintenance and utilities, and infrastructure and other off-site costs; (v) an assessment of the Project’s economic impact by phase; (vi) a title summary for the Property; (vii) potential alternatives for the financial structure of the Project; (viii) a summary of environmental reports which have been conducted for the Property; (ix) reference to the minutes of all community meetings conducted by Developer on the Developer’s website; (x) a partially complete market study which had been conducted for the Project; and (xi) parking studies which have been conducted for the Project.

Pursuant to Section 4.6.2 of the IDA, the Committee was to determine whether the information provided in the PDP and otherwise supplied by State Center, LLC and available to the State (“PDP Information”) was sufficient for the State to issue a Letter of Intent.

PDP Sufficiency

Pursuant to Section 4.6.2(a) of the IDA, the Committee has found the PDP Information sufficient for the State to issue this Letter of Intent and confirms that the State approves the PDP as the overall conceptual plan for the redevelopment of State Center including its preliminary identification of mixed use components and location of State offices in the project.

Economic and Programmatic Parameters

Should the State choose to enter an MDA with State Center, LLC for the Project, the State contemplates and/or would require, among other terms and conditions, the following economic and programmatic parameters, outlined here by reference to the IDA:¹.

Section 4.6.2(b) The State contemplates that it will transfer the Project property to the State Center, LLC in fee simple or through a long-term ground lease. The methods for returning the State's contribution of property and/or value will remain a point for further negotiation with State Center, LLC and be to the satisfaction of the State.

Section 4.6.2(c)(1) The State's commitment to the State Center Project is demonstrated by its desire to retain the State's employment presence in State Center. The State projects that it will require an estimated minimum of 1.0 million square feet of office space in the Project over the life of the Project. The State desires the development to occur in phases over a projected term of 10 years and projects its estimated needs for delivery of space as: Phase I – 2013 – 375,000 gross square feet; Phase II – 2014 – 376,500 gross square feet; Phase III – 2017 – 240,000 gross square feet; and Phase IV – 2019 -- 510,000 gross square feet.

Section 4.6(c)(2) In the event the State's disposal is a fee simple disposal, the State would require "fair market value" in disposing of its property at State Center and would dispose of the property in its current "as is" condition. State law requires estimates of "fair market value" to be derived from two independent appraisals commissioned by the State and would employ as many approaches to determining value as practical including: the sales comparison approach; the cost approach; and the income approach. The State would contract with MAI-certified appraisers and otherwise follow all established State procedures for disposal of State owned property.

"Fair market value" is defined in the Annotated Code of Maryland, Real Property Article, Section 12-105 as:

"The fair market value of property (...) is the price as of the valuation date for the highest and best use of the property which a vendor, willing but not obligated to sell, would accept for the property, and which a purchaser, willing but not obligated to buy, would pay (...)"

Section 4.6(c)(3) The State would seek to master lease its portion of each phase of the Project build-out that is described above in Section 4.6.2(c)(1). The State would consider a long-term operating lease for the space described above. The terms of the lease would be negotiated to the satisfaction of the parties before the commencement of each Phase. The State would seek a full-service rental rate that: (a) minimizes the annual

¹ The following economic and programmatic parameters and any potential MDA shall remain subject to review and approval by the Maryland BPW and budget appropriations of the Maryland General Assembly.

general fund budget impact to the State, (b) is acceptable within the parameters of the State's budget and appropriations process, and (c) is commercially acceptable to the developer, its investors and other capital sources.

Section 4.6(c)(4) The State's requirements for parking would be determined as part of a more comprehensive strategy dealing with transportation issues. Currently, the State has developed parking at State Center on the basis of one (1) space per three (3) employees and is using 1,300 spaces. As part of the redevelopment, the State desires to reduce this ratio of spaces per employee due to greater efficiencies in public transit, increased use of car/van pooling, and more "live near your work employees." Under any development scenario known at this time, the State projects that it would not require more than 2,500 parking spaces.

Section 4.6(c)(5) Increasing ridership on public transportation is a prime policy goal of the Project. The State provides free transportation to State employees on "core and local" bus, Metro and Light Rail. The redevelopment of the Preston Street Metro entrance would make it more inviting for transit patrons to connect between the Light Rail and Metro. The Maryland Transit Administration anticipates Station enhancements to the State Center Light Rail station that provide increased visibility of the station from Preston Street. The State projects that the increased density, the introduction of mixed building use, and the establishment of a retail corridor between the Light Rail and Metro stations at the Project property will result in increased ridership. Finally the State proposes that all tenants at State Center actively participate in a Transportation Management Association. One of its charter objectives would be to promote the increased use of transit.

Section 4.6(c)(6) In 2008, the Maryland General Assembly enacted the High Performance Buildings Act, to be codified in State Finance and Procurement §3-602.1 (2008). The new law requires all new State facilities to achieve at least a LEED-Silver rating. Given the scale of development, transportation resources and opportunities for use of shared services, the State believes this Project would offer models of sustainability that would be recognized as "best practices" in all public-private partnerships.

Section 4.6(c)(7) The State has many leases in multi-tenant buildings with non-State occupants. However, the issue is one that would require an agency by agency evaluation. For example, the State has several data processing centers that have extraordinary security requirements. Any special requirements for entrances, security, unusual hours of operation, etc. would be identified prior to the development of each Phase.

Section 4.6(c)(8) The process for the State and State Center, LLC to develop and execute an MDA and commission the first phase of the Project would commence in June 2008 and finish in June of 2010. It would include, but not be limited to, the following milestones:

- A. Development of Business Terms – Partnership structure, public and private responsibilities, fees, guaranties, etc.

- B.** Review of Business Terms – The Committee, the Governor, the BPW, the Budget Committees of the Maryland General Assembly (the “Budget Committees”), the City of Baltimore, and perhaps other stakeholders
- C.** Draft Master Development Agreement – Binding Agreement concerning the economics and management of the Project
- D.** Memorandum of Understanding with the City of Baltimore – Identifies roles and responsibilities for public financing, infrastructure development, jobs programs, etc.
- E.** Approval of the MDA – the Budget Committees, BPW, City of Baltimore
- F.** Design of First Development Phase – Solicit proposals from architecture firms and select and release the chosen firm
- G.** Schematic Design and Pricing – Develop design alternatives and pricing, public and private review and comment
- H.** Preliminary Letter of Intent – State and City terms and commitments drafted, BPW and City of Baltimore review
- I.** Finance Package Developed and Released – Sources and uses agreed, finance package marketed
- J.** Design Development and Pricing – 50% drawings and prices approved by State, City and development team
- K.** State Letter of Intent and Close Financing
- L.** Building Permits – 90% construction drawings and pricing complete, submit to City, solicit bids and Guaranteed Maximum Price
- M.** Lease Negotiations – Operating Lease developed and submitted to the BPW
- N.** Final Construction Documents and Selection of General Contractor, etc
- O.** Construction

The State also desires to use its best efforts to employ its programmatic, property, infrastructure and other assets to help accomplish the Project’s goals for transit oriented, green development. This desire includes the State’s hope to encourage other governmental entities to invest in infrastructure improvements and other incentives that support the vision of the project.

This Letter of Intent outlines the shape of the State’s long-term commitment to the redevelopment of State Center and the positive impact that it would have on the working life of State employees, the City of Baltimore and the surrounding neighborhoods. It provides for potential next steps along the path of a development agreement and ultimate project development, however, as stated above, it shall have no binding effect on the parties, nor create any enforceable rights, and no commitment is intended to be made as a result of this preliminary outline of the terms of a future agreement. Any expenditure undertaken by either party hereto are at their own risk and will only be reimbursed to the extent provided explicitly in the MOU, IDA, or Right of Entry. This Letter of Intent contemplates the future negotiation of outstanding material terms and the completion of further material documentation, and, except as described above, no binding contract or agreement of any sort, preliminary, final or otherwise is intended to be created by this Letter of Intent.

The Committee looks forward to the opportunity of working with State Center, LLC and stands ready to respond to your questions and issues.

Thank you for your continuing interest in this Project.

On behalf of the State Center Executive
Committee,



Alvin C. Collins
Secretary
Maryland Department of General Services

cc.

David Edgerly, Secretary, Maryland Department of Business and Economic
Development

Richard Hall, Secretary, Maryland Department of Planning

John D Porcari, Secretary, Maryland Department of Transportation

Raymond Skinner, Secretary, Maryland Department of Housing and Community
Development

Michael Gaines, Assistant Secretary for Real Estate, Maryland Department of General
Services

Christopher Patusky, Director, Office of Real Estate, Maryland Department of
Transportation

Attachments: 2

State Center Budget and PDP Acknowledgement Letter (to be inserted)

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor



Alvin C. Collins
Secretary

MARYLAND DEPARTMENT OF GENERAL SERVICES

FACILITIES OPERATIONS & MAINTENANCE • FACILITIES PLANNING, DESIGN & CONSTRUCTION
PROCUREMENT & LOGISTICS • REAL ESTATE

April 30, 2008

Ms. Caroline G. Moore
Struever Brothers, Eccles & Rouse
Joy Building @ Tide Point
1040 Hull Street, Suite 200
Baltimore, Maryland 21230

Re: Acknowledgment of Receipt of Preliminary Development Plan (PDP) and Notification of PDP Sufficiency

Dear Ms. Moore,

I am writing on behalf of the State of Maryland (the "State") to you as the representative of the State Center, LLC (the "Developer") to confirm and acknowledge the following pursuant to the State Center Interim Development Agreement (the "IDA"), dated December 12, 2007.

1. Preliminary Development Plan: Pursuant to Section 4.6.1 of the IDA, the State hereby acknowledges receipt of a proposed Preliminary Development Plan ("PDP") from the Developer on March 3, 2008 in satisfaction of Section 4.5 of the IDA. Based on input from the State, the Developer submitted a revised PDP to the State on March 19, 2008. On April 2, 2008, the Parties agreed to extend the State's thirty day PDP review period provided under IDA Section 4.6.2 until April 30, 2008.
2. Sufficiency of the Preliminary Development Plan: Pursuant to Section 4.6.2 of the IDA, the State confirms that the PDP referenced above, as amended on March 19 and further supplemented with additional information, is sufficient for the State to issue a Letter of Intent (LOI). While the State is confirming a determination of sufficiency of the PDP, it also expresses that there are outstanding questions related to certain aspects of the PDP which require responses. However, the Parties acknowledged and agreed at their meeting of April 29, 2008, that there will be ongoing matters to be resolved arising out of the development process, and that they will work together in the spirit of the public/private partnership to find a resolution for current and future questions leading to the successful implementation of the project.

Please feel free to contact me with any questions.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael A. Gaines".

Michael A. Gaines
Assistant Secretary for Real Estate

Cc: Mr. Christopher Patusky, Maryland Department of Transportation
Ms. Sharon R. Grinnel, Doracon Development
Mr. Karl Schlachter, McCormack Baron Salazar