

[REDACTED]

November 5, 1990

[REDACTED]

[REDACTED]

Washington, DC 20037

**Re: Sale of Fee Interest
Washington, D.C.**

Gentlemen:

In connection with the proposed sale of the fee interest in a parcel of land which has been leased for 99 years to lessee who has constructed office and retail improvements thereon, you have asked us to provide an estimate of value for the retail component of the fee interest. The improvements have no current value to the fee owner of the land except the right to receive ground rent, of which a portion is derived from the retail component of the improvements. Therefore, our estimate of value is based on the portion of the ground rent being paid to the fee owner of the land derived from the retail component of the improvements. We have concluded that the value of the retail component of the fee interest is \$6.3 million.

We made this determination in the following manner:

1. Calculate the percentage of total net income produced by the retail component of the leasehold. The projected 1991 net income generated by the improvements is estimated to be \$23.3 million, of which \$2.2 million or 9.48 percent (9.48%) is attributable to the retail component.
 2. Based on the above percentage, calculate what portion of the fee owner's ground rent - i.e., the rent being paid to the owner of the land - is attributable to the retail component of the improvements. "Retail Ground Rent".
 3. Calculate a residual value by capitalizing "Retail Ground Rent" at 7 percent (7%), which, in our view, is a fair market rate.
 4. Calculate a net present value of a 10 year "Retail Ground Rent" income stream plus residual based on a 10 percent (10%) discount rate.
- [REDACTED]

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November 5, 1990
Page Two

The analysis estimates that \$6.3 million of the fee value is derived from the retail component of the leasehold interest held by the owner of the improvements. We believe that this is a reasonable value of the retail component of the fee interest.

Sincerely,

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[REDACTED]
[REDACTED]
[REDACTED]