

Case Study – NCRC

NCRC's \$200 Million Strategic Partnership

Morgan Stanley



Transaction Summary

- ◆ The National Capital Revitalization Corporation (NCRC) is a publicly chartered corporation charged with spurring the revitalization of underserved and emerging neighborhoods in the District of Columbia.
- ◆ In mid 2005, NCRC determined that it needed an outside equity source to help it gain more control over key development initiatives, bring them to completion more rapidly, and keep a larger portion of the economic returns.
- ◆ Meridian Hill Advisors, LLC (Meridian) presented NCRC with a number of alternatives, focusing on both different partners and structures.
- ◆ With the assistance of Meridian, NCRC ultimately determined that the optimum strategy would be to establish a strategic partnership in conjunction with a single large financial partner.
- ◆ As a result of Meridian's unique combination of investment banking experience and familiarity with redevelopment issues, NCRC chose to engage the firm to assist in the pursuit of a strategic partnership.



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Transaction Summary (continued)

- ◆ Meridian provided various services associated with the assignment:
 - Contacted over 40 institutions capable of investing in the fund;
 - Assisted in determining “short list” of finalists; and
 - Negotiated and structured the transaction.

- ◆ For several months, Meridian assisted NCRC with transaction structuring and valuation analysis, and on June 9, 2006 the companies announced a definitive agreement:
 - \$200 million strategic partnership funded by an initial equity commitment of \$150 million from Morgan Stanley Real Estate's MSREF U.S. and \$50 million of real estate from NCRC.
 - Including value of contributed property and debt capital, the total amount of projects could be more than \$800 million.
 - This first of its kind exclusive public-private equity relationship will deliver places to live, work and shop for the District's residents.
 - NCRC will contribute land from its existing inventory as well as newly acquired properties while Morgan Stanley Real Estate will provide investment capital and leverage its expertise with large scale real estate financing.
 - NCRC will take equity stakes in all the projects and will receive development and asset management fees from each project. NCRC will receive a promote, or extra share of profits, if these projects achieve a return above a specified minimum.
 - The term of the partnership will be for at least three years.



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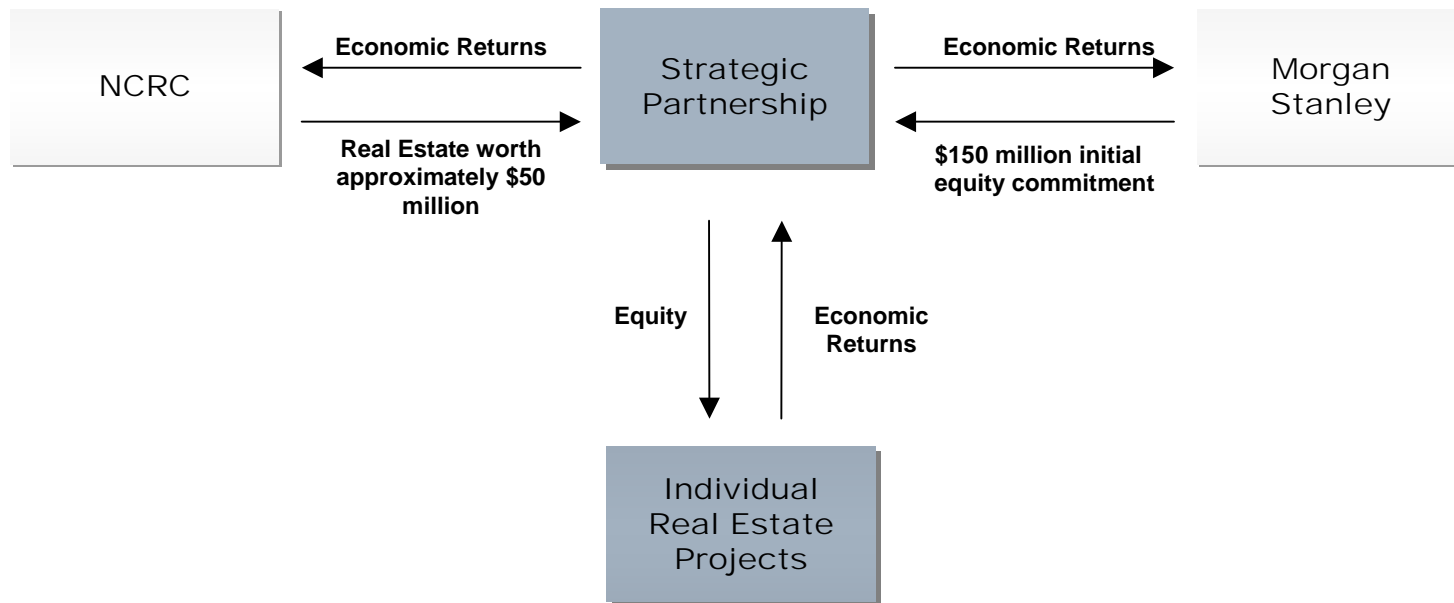
Transaction Summary (continued)

- ◆ There are a number of characteristics of this unique partnership that will bring tremendous benefits to the District of Columbia:
 - District residents will begin to see increased affordable housing, retail options and employment opportunities in their neighborhoods.
 - Local, Small Disadvantaged Business Enterprises (LSDBEs) that traditionally have had limited access to capital will be able to competitively pursue NCRC development opportunities.
 - The strategic partnership will enable NCRC to bring projects to market much faster than when using public funds.
 - Projects that were not funded due to capital constraints will now be realized.
 - NCRC will have greater control over individual developments, ensuring that each one will be structured to best meet the organization's mission.
 - The partnership will provide additional leverage to NCRC in its negotiations with private development partners.
 - Importantly, the strategic partnership structure provides NCRC with a meaningful and reliable source of income that can be used to fund other initiatives and reduce dependence on governmental sources.



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Local Reaction

“I'm a strong believer in using public-private partnerships to make our city better. This arrangement does just that and it's my hope that the agreement NCRC has with Morgan Stanley Real Estate will pay dividends for District residents for years to come.”

Anthony A. Williams
Mayor – Washington, DC

“With this commitment of capital, NCRC can finally operate as the economic development engine it was intended to be,”

Anthony C. Freeman.
NCRC President and CEO

“Good deal ... Call us cockeyed optimists, but the new agreement between the National Capital Revitalization Corp. and Morgan Stanley Real Estate has us positively giddy. Finally, the city's most hamstrung quasi-public agency has the means to do what it was founded to do -- turn underutilized city property into thriving additions to the tax rolls.”

Editorial
Washington Business Journal, June 9th 2006

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