





MERITAGE PROPERTIES

Meritage Properties was founded in 2003 as a value-oriented owner and operator of mid-sized properties, primarily focused on the Boston to Washington, D.C. corridor. We are guided by “old fashioned” principles: creating value through careful underwriting, hands-on property repositioning, best in class asset management, and an unwavering commitment to excellence.

Meritage Properties’ mission:

- Generate outstanding risk-adjusted returns to our clients and partners
- Provide unparalleled service to our tenants
- Set the standard by which comparable properties are judged

Since inception, Meritage has acquired interests in nearly 3 million square feet of office space and over 500 residential units.



We believe every interaction with a property owner, lender, partner, client, tenant or vendor offers us a unique opportunity to foster a deeper, multi-faceted, lasting relationship.





INVESTMENT PHILOSOPHY

As an “intrinsic value investor,” we measure each property under consideration against a series of underwriting metrics. These metrics include asset-specific fundamentals and local demographic trends, as well as a series of macro and micro economic factors. A potential acquisition must satisfy the majority of these metrics to be considered a viable candidate. Target property profiles include under-performing assets requiring operational and management improvements and/or capital expenditures, properties with below market in-place rents, and properties that can benefit from overall market repositioning. Prior to pursuing any asset, we develop a specific value enhancement plan which identifies both the cause of a property’s failure to perform to its potential and those physical, operational or marketing modifications required to best reposition the property.

Our financial, operational and local market due diligence is robust and extensive. It combines the internal resources of Meritage with the resources of our local and regional market relationships. We comprehensively analyze property expenses and revenues, fully understand the real estate community and tenant perceptions of the property, and evaluate local market dynamics and demographic trends to form our view of the relative attractiveness and future potential of each asset.

We focus on the Northeast and Mid-Atlantic regions: a reflection of the importance we place on the benefits inherent in extensive local knowledge and third party relationships to support acquisition due diligence, as well as the direct, hands-on approach we take to asset management of our portfolio.

From the outset, Meritage has employed a fundamentally grounded investment strategy – acquire a geographically targeted real estate portfolio at intrinsically attractive prices, leverage each acquisition prudently, preserve and enhance value through active asset management, and dispose of each asset when market conditions are appropriate. We seek to couple depth of experience with real time information to make practical and intelligent decisions, maximizing profit potential for our clients and partners while simultaneously protecting principal investment





VALUE CREATION

Developing and executing a clear and thoughtful business plan while adapting to changing market conditions is essential to the success of any project. Whether at the height of a strong market or in the face of a troubled economy, we have always believed in the paramount importance of three fundamental principles: *Protect Principal Investment* through a singular focus on the bottom line, *Enhance Property Values* through a commitment to “best in class” tenant service, and *Increase Return on Equity* through unparalleled attention to detail.



We believe that real estate profits derive from real estate expertise combined with simple hard work. And as real estate is at its core a people centric business, we have fostered an extensive network of strategic relationships across our target markets, expanding our knowledge base and resource pool

Protect Principal Investment – In good times and in bad, we have always dedicated our resources to those matters we can control. For Meritage, that means maintaining extremely close relationships with the leasing and investment sales communities, our existing tenants, and our service providers. It also means aggressively managing expenses without sacrificing service or quality. As owners and operators, our approach is singularly focused on the bottom line.

Enhance Property Values - At Meritage, we believe that superior performance requires a disciplined approach to decision making which values both short term objectives and long term value creation. This is especially true in today's more competitive and dynamic real estate environment. Thus, every property level decision begins with an analysis of its impact on property cash flows, tenant relations and market perceptions of the building.

Increase Return on Equity – Focused and aggressive asset management is the cornerstone of all activities at Meritage. We do not simply review decisions, *we drive them*. Whether in the area of monthly line item analysis of the operating results of each property, the utilization of portfolio wide initiatives such as environmental awareness and energy purchasing, the direct negotiation of all leases, or regular bench-marking and peer-review activities among our service providers, we are constantly identifying and implementing operational improvements at our buildings with an eye toward driving tenant satisfaction and ultimate profitability.



MERITAGE APPROACH



We seek out intrinsically attractive, but underperforming properties; identifying those unique opportunities to create value where others see only challenges

At Meritage, we emphasize the importance of DECISIVENESS. We pride ourselves on our ability to respond quickly to events without sacrificing proper diligence and analysis; identifying risks and exploring alternatives becomes an essential component of timely decision-making. We differentiate ourselves by our acute attention to detail and our ability to stay ahead of the curve.

When it comes to real estate, we are “activists”, bringing unrelenting, unyielding day to day focus to our portfolio.





MERITAGE PROCESS



Establish the optimal business plan

- **Create** a multi-year capital, marketing and operations plan
- **Ensure** that operations, marketing, and property management have the tools necessary to maximize profitability
- **Identify** strategies reflecting asset strengths, weaknesses, opportunities and threats
- **Maintain** consistency with all loan documents, lease and operating agreements, and client/partner expectations

Execute the business plan and strategy

- **Lead** the market
- **Oversee** all operational activities
- **Communicate** with lenders, partners, clients, investors, tenants, and service providers
- **Negotiate** all leases
- **Conceptualize**, value engineer and approve all tenant improvement and capital projects
- **Monitor** cash flow and manage distributions based upon an analysis of long term capital needs and investor expectations
- **Utilize** the Asseteye™ platform to streamline reporting, identify operational variances and trends, and provide best in class checks and balances on a property, regional and portfolio level

Evolve in response to changing market dynamics

- **Review** operating performance and variance reports monthly
- **Visit** properties and markets regularly
- **Prepare** annual reviews and budgets, including performance benchmarks
- **Update** the business plan as required
- **Adapt** strategic objectives
- **Evaluate** market conditions to identify the proper timing of a potential sale, refinancing, recapitalization or alternative
- **Supervise** and coordinate the capital markets process



MERITAGE TEAM

Meritage Properties is horizontally organized, utilizing a team approach to oversee all activities within specific geographic regions. As such, each transaction is handled from conceptualization through disposition by the same individuals, allowing for a continuity of philosophy, clarity of direction, and thoughtful commitment to “plan.” Our approach allows for the development of deep local market knowledge and the fostering of particularly close relationships. It also empowers and encourages each team member to tackle decisions, with direct input and guidance from senior management as and when appropriate.



Our culture is defined by who we are, a talented group of individuals singularly committed to excellence in performance and reputation. Intensely driven, pro-active and innovative, we bring a straightforward philosophy and approach to each transaction. And a unique pride in the way we do business





CASE STUDIES



18 Tremont Street - Boston, MA

Acquisition date: April 2005

Size: 198,000 SF

Total capitalization: \$40.8 million

Invested equity: \$13 million

Disposition proceeds: \$49.5 million

Equity Partner: Avenue Capital

Meritage acquired this downtown Boston building for approximately \$40.8 million (including capital reserves and closing costs) in April of 2005. At acquisition, the Boston market was still working through the excess inventory overhang from the technology recession. With other major markets already well into an economic recovery, Meritage was early in identifying Boston as a market just beginning to enter a phase of renewed growth. Our strategy was to capitalize on improving market conditions in Boston and reposition the property at the high end of the B+ market. Within the first twelve months of ownership, we initiated a renovation of the main lobby and retail storefronts, began construction of health club quality locker and bike storage rooms, and improved occupancy from 88% to nearly 95%. After just two and a half years of ownership, we were able to successfully sell the property for approximately \$49.5 million realizing a profit of over \$9 million.





CASE STUDIES

1411 K Street - Washington DC

Acquisition date: June 2003

Size: 65,000 SF

Total capitalization: \$11.5 million

Invested equity: \$4 million

Disposition proceeds: \$16.0 million



FAÇADE PRIOR TO RENOVATION



FAÇADE POST RENOVATION

Meritage acquired its first asset, 1411 K Street, in June of 2003 for \$11.5 million (all-in capitalization). The building was an ideal acquisition in that it was an attractively located downtown building, yet was severely under-managed and poorly maintained. While the building was 100% leased to small tenants at the time of purchase, several tenants were not financially sound, and in-place rents were well below market. Our business plan included a meaningful capital allocation to renovate the façade, replace existing exterior windows, install new building lobby finishes, and significantly upgrade portions of the building's dated HVAC system for improved tenant comfort. These capital improvements, in conjunction with our intensive, hands-on management style, permitted us to swiftly reposition the asset and enhance the overall image of 1411 K Street within the local brokerage community. Having completed the operational and physical repositioning, Meritage was able to complete the second half of our business plan: enhancing the revenue stream by renewing financially viable existing tenants, as well as replacing weaker in-place tenants with new higher quality tenants, all at market rental rates. Upon completion of all aspects of this plan in just over twenty-three months, we successfully sold 1411 K Street in May, 2005 for \$16 million, realizing a profit of \$4.5 million.



CASE STUDIES



The Atrium at Rock Spring Park Bethesda, MD

Acquisition date: November 2006

Size: 235,000 SF

Total capitalization: \$61.5 million

Invested equity: \$17.5 million

Equity Partner: Goldentree InSite Partners

The Atrium at Rock Spring Park, located at the center of one of Maryland's most prestigious office parks, was purchased by Meritage in late 2006. Upon acquisition, the building was 65% leased, with 60% of the first floor situated below grade and consequently without windows. Our strategy was to develop an innovative repositioning plan for the first floor, which included the following:

- **Conversion** of a portion of the loading dock to 100 feet of new window line
- **Renovation** of 1st floor common areas and opening of stairwell atrium
- **Upgrades** to building HVAC and energy management systems
- **Launch** broad marketing campaign around the re-branded building 'The Atrium' at Rock Spring Park

During the first few months of ownership, the capital improvement plan was completed within budgetary expectations. The property had near immediate success, with occupancy improving from 65% at acquisition to 98% within one year of the completion of improvements (at net effective rents in excess of pro forma).





CASE STUDIES



American Metro Center Princeton, NJ

Acquisition date: May 2006

Size: 485,000 SF

(Projected) capitalization: \$95 million

Invested equity: \$34 million

Equity Partner: Avenue Capital & Lincoln Equities

Meritage acquired this historic building, the former American Standard fixture manufacturing facility, after a substantial, though incomplete, restoration by the prior owner. In order to successfully execute this acquisition, we needed to understand and evaluate complex historic tax credit regulations, environmental remediation concerns, and the impact of assuming a partially completed project with significant unfinished base building, site, and tenant improvement work, all while dealing with over 250,000 square feet of vacancy. We closed on the transaction in May of 2006 and quickly began to see the significant value potential inherent in having properly analyzed the series of complexities that most competitors saw only as road blocks. From the commencement of due diligence in early 2006 through March 2009, leases totaling over 190,000 square feet have been executed. Net operating income during our first three full years of ownership has increased over 100% from approximately \$2.6 million to just over \$6.0 million.





REPRESENTATIVE RELATIONSHIPS

Institutional Partners

Avenue Capital Group
Goldentree InSite Partners
Oppenheimer & Co.
RCG Longview

Banking

American International Group
Capital One Bank
Goldman Sachs & Co.
HSH Nordbank
JP Morgan Chase
M&T Bank
PNC Bank
Prima Capital Advisors
Wells Fargo Bank

Investment Sales & Leasing Agents

CB Richard Ellis
Cushman & Wakefield
GVA Advantis
Grubb & Ellis
Holliday Fenoglio Fowler
Jones Lang LaSalle Americas
Lincoln Property Company

Property Management & Operations

Asset Eye
CB Richard Ellis
EBI Consulting
EDGE Management
George S. Hall Group
HUB International
Lincoln Property Company
Marvin F. Poer & Company
Paradigm Properties
Taylor Consulting and Contracting

Architectural & Planning

Blackney Hayes Architects
Fusion Design Consultants
Meyer Design
Nooralian Nelson & Associates
Posen Architects
Silverman Trykowski Associates
Turett Collaborative Architects

Legal & Accounting

Allen & Overy
Cornerstone Accounting Group
Edwards Angell Palmer & Dodge
Fried, Frank, Harris, Shriver & Jacobson
Imowitz Koenig & Co.
King & Nordlinger
Kramer Levin Naftalis & Frankel
Schulte Roth & Zabel
Sinkin & Crivella
Windels Marx Lane & Mittendorf



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