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From: Michael Gargano
Sent: Fri 11/1/2013 12:00:34 AM
Subject: Culver Studios

Toured the property today. It obviously depends on the final price, which may get bid up, but in the \$80M range I think it is an attractive acquisition. As we originally discussed, it is an impressively large piece of cash flowing property in a great location.

Since the tour, my contact at Fox has been trying to reach me and left a VM saying that Fox very much wants to take considerable amounts of space. I won't have specifics until I speak with her.

Jeffrey - just let us know if you still want to do this, so if you don't, we will speak to other capital sources. And no worries if you decide against it doing it. As we have discussed, it is a very hands on business.

Here are my latest observations based on the tour and some other due diligence conversations I have had with contacts in the industry.

1. Downside. The studio has been poorly operated. Neither Fox nor Sony which are nearby and need space will consider going to Culver under current management. Based on the studio's operating history, the current \$4.7M NOI is low and we believe it can be increased substantially but not to the peak \$12M levels. We expect \$8M is readily achievable and it is possible to get there with Fox alone.

2. Macro Issues. Other states have been competing against California for film shoots and that has hurt the local studio business. However, some of the competing tax credit programs are coming under attack in those states for being an ineffective use of taxpayer dollars. So it remains to be seen if "runaway production" continues to be a big problem. In any event, the work moving to other states is the actually filming. Much of the other production work - creative, post production, remains housed at studio offices in LA. Finally, it seems like technology is not adversely impacting the studio business and actually requires larger stages and since there is more content being produced, more stages and creative office space are required.

3. The Neighborhood. Until I toured, I didn't appreciate the proximity of newly constructed mass transit - the exposition light rail. The station and rail line is still under construction but it will go from downtown LA to Santa Monica. This will make the neighborhood even more desirable than it already is. Also, the

local market has been achieving very high office rents - approaching \$60 psf, which is nearly unprecedented.

Here are my concerns following the tour:

1. Trucks. Truck parking is more constrained than I had expected and is the one concern that came out of the tour. Trucks are critical in the studio business. The studio will lose one of its neighboring parking lots which is slated to be a retail development site. The City seems willing to work with the studio to provide dedicated street parking and the rest could be juggled on the lot but it needs to be reviewed further during due diligence.

2. Price. We will try to get pricing guidance from Lehman directly. The broker is pushing for the \$85M range. The other bidders are known to be very aggressive and it is possible that just as we have Fox, they may have a tenant in their pocket as well. If the price goes higher than we expect, it is no longer attractive unless Fox actually commits before closing.

3. Studio Operator/Structure. The studio operator I have been working with is well known in the industry and knowledgeable. So he will want to share in the upside in some way and that remains to be worked out. Just in case, I have spoken to another experienced (but more junior) operator who would be willing to join us.

4. Development Potential. Most development opportunities will require demolishing existing non-historic structures on the studio lot, which means losing revenue from those structures. We probably want to work with the City to have an entitlement package that allows for substantial demolition and new construction phased over time and then we will be in a position to decide if any particular phase of development makes sense at that time. But it needs to be reviewed further.

That's the quick update.

Michael