



SUMMARY

ARETE URBAN REAL ESTATE VALUE VENTURE

Discussed below is the Business Plan of Venture that would focus on high value creation projects in Gateway cities and other dynamic urban areas of the U.S., and the opportunities for investors in that Venture.

1. Background

In the past decade there has been a dramatic shift in the focus of economic growth, and the corresponding opportunities for real estate investment, between urban and other areas in the U.S. This shift has been primarily in re-allocating resources and opportunities from suburban areas to urban centers, and correspondingly from new sun belt locations to regenerating historic urban centers in the Northeast, Southeast and Midwest.

During the 70's and 80's, and even until recent decades, historic urban centers such as New York, Philadelphia and Chicago were viewed as being in decline, subject to physical deterioration, high crime and poverty levels, and high costs resulting in erosion of the tax and business base and the flight of the middle and upper middle class. At the same time the focus of economic activity was shifting to suburban areas, throughout the U.S., and generally from the Northeast and Mid-West to the south and west.

Those trends have now reversed. Older urban centers, particularly in the northeast, are now growing. Cities like New York, Philadelphia, Boston are growing in population, tax base and business location. More important, this growth is being generated by quality of life, education, culture and most important, interconnectivity among the value generators in society. In particular, the presence of major universities, cutting edge health care and research facilities, all connected by mass transit, has converted urban centers into nodes of creativity and new business generation. As has been reported in the Economist, and numerous governmental reports, urban centers are now the primary creators of new wealth, new activity, and most important the new industries that will drive the 21st century.

The result of this economic shift has been a vast increase in the value of real estate in urban centers. Starting with the reconstruction of CBDs into vibrant mixed use communities as well as a geometric increase in high quality, high cost residential facilities, there has been a quantum generation of wealth for real estate developers and

investors. Demand for these types of developments continues to grow, as does the potential opportunities for developers and investors.

At the same time this very success in redeveloping urban areas has made it far more difficult for investors to find as profitable opportunities as have been available, particularly since the end of the 2007 recession. The cost and difficulty of obtaining well located property has increased dramatically. In the areas of greatest success, for example, cap rates for quality income producing properties have fallen to as low as 3 or 4, and there is inordinate competition for CBD sites. Many national Ventures, in fact, are finding it difficult to find suitable investments and are simply holding capital rather than investing in high demand but low return projects.

2. Arete Approach

To deal with this unusual combination of high demand, high potential, but high barriers to entry, investors will have to focus more on active value generation, rather than simply buying at low prices and profiting from market appreciation. What this means is that capital needs to be allocated to new development and to the repositioning of existing facilities rather than simply purchasing income producing assets in anticipation of increases in rent and appreciation. It also means that the focus should be beyond the CBDs of Gateway cities, and on both the CBDs of formerly impacted but now improving regional cities, as well as emerging centers other than CBDs within both Gateway and regional cities. It also means a much greater focus on value creation, and primarily on the enhancement of low cost land through a combination of repositioning, master planning, and public sector enhancements primarily through rezoning and infrastructure.

The Arete Business Plan therefore is to generate extraordinarily high returns for investors by focusing on assembling and enhancing land in targeted urban centers, for sale to or joint venture with private developers for new development, supplemented by carefully selected acquisition, reposition and upgrading of existing income producing properties, particularly those located in areas of Strategic Renewal.

Specifically, the Arete plan involves the following components:

- Focus on the (i) emerging non-CBD areas of Gateway cities, such as the Outer Boroughs of New York, and the Wynnewood Arts district in Miami; and (ii) both the CBDs and stronger non-CBD areas of regional cities that have already started the process of conversion from industrial centers to marketplaces of value added technology and service industries;
- Within those urban centers and targeted areas, focus on (i) large scale projects of a "transformational" nature; and (ii) specific infill projects that are part of an already transforming area and/or which are synergistic with the large scale "transformational" projects;
- Target the areas, and projects, that have specific demand generators, particularly where those demand generators have very high potential but are still at an early stage. These generators include those traditionally recognized

as stimulating development, such as ■ major university (such as Penn and Columbia's expansion that has and is attracting ■ broad range of private development) and/or inter-modal transit complex, but can also include emerging concentrations of ■ value added industry that can create demand for specialized space in ■ formerly declining area (such as incubator complexes for start-up high tech companies in Brooklyn);

- Create profitability primarily by relatively low levels of investment that would leverage very high levels of return. This means that ■ primary (if not the primary) component is land development. This involves the following process:
 - (i) Identify large parcels of land that is grossly underutilized, but is in the path of emerging market forces. This is usually land that is zoned for manufacturing but is largely underutilized or vacant because there is limited demand there for primary manufacturing, but is close to mass transit, ■ university or teaching hospital, and has strong potential to attract higher uses (residential) and/or specialty uses;
 - (ii) Obtain medium term land control, usually by option or long term contract, or, in the case of public sector ownership of the land, by sole source selection as Master Developer;
 - (iii) Prepare ■ Master Plan for the area, pursuant to which Arete would act as the Master Developer;
 - (iv) Perform all work to enhance that land, primarily by rezoning to obtain higher densities and market driven uses, but also by upgrading the physical and transit infrastructure, usually by obtaining public sector funding and/or Public Private partnership (P3) funding;
 - (v) In many cases pre-arrange Economic Development Incentives for the various development projects in the Master Development area (such as real estate tax abatement, project grants, low interest subordinated financing, or other benefits that would make property more attractive to developers;
 - (vi) sell sites to developers, or in selected instances contribute sites in return for equity in the projects; and
 - (vii) in some cases, develop ■ specific site as ■ catalyst for that Master Development project or obtain, reposition and retain ■ nearby existing facility whose values would be greatly enhanced by the Master Development.

The potential for profit is enormous is this approach, both because of the scale of the projects and the ratio of costs/revenues.

For example:

- Assume ■ site of 200,000 sq. ft. of land area, zoned for industrial use and ■ density of 2 FAR. That means this site has development potential of 400,000

sq. ft., (in New York), █ land value of \$30 sq. ft. and therefore █ total land value of \$12 Million;

- Assume an option is obtained, for █ price of \$15 Million (to give the owners some upside), but on █ 3 year contract with █ 5% (\$750,000) deposit;
- Assume the land is rezoned to █ 10 FAR for mixed use, including residential. This would provide 2 Million sq. ft. with (in Outer Boroughs of New York) █ land value of \$100 sq. ft. Assume further that infrastructure grants are obtained for parking, road improvements and other value enhancing amenities, and that such infrastructure would increase the value to \$125 sq. ft. Assume further that Economic development Incentives, such as real estate tax abatement, and subordinated financing (both of which enhance IRRs and reduce developer's equity requirements were obtained and that such incentives increase the land value to \$150 sq. ft.
- The total land value then would be \$200 Million, \$250 Million, or \$300 Million.
- Assume that the front end costs funded by the investors were in the range of \$2.5 Million (including the \$750,000 contract down payment), the total costs for producing the project (including acquisition, which would occur only when the property was sold to developers), would be \$16,700,000.
- This would result in █ profit, to Arete and the investors, or \$183.3 Million, \$233.3 Million or \$283.3 Million on █ total investment of \$2.5 Million.
- This profit would begin to be realized at the completion of the assemblage and entitlement process, which usually would take no longer than 2 years from the time site control is obtained. The profits would likely be completely realized within █ period of 3-5 years from the commencement of land sales;
- In addition, or as an alternative to the sale of the land, Arete and the investors would "reinvest" all or █ portion of these profits into the development projects, usually by contributing the properties to █ joint venture in return for █ significant portion of equity. In that case the aggregate amounts of profit are increased substantially.

The Arete approach has some risks. First there is the risk that the public sector enhancements will not be obtained. That risk is mitigated by careful vetting of the potential project with the public sector authorities before the land deposit is turned over to make sure that there will be support for the enhancements. While this does not provide an absolute guarantee, given Arete's experience and expertise in these matters it substantially mitigates the risk.

█ second risk is that even if the enhancements are obtained there is no market for the sale of the property by the time the closing has to occur. While Arete would carefully evaluate the markets, there is no guarantee that markets will stay firm for the 2 years to obtain the enhancements. This risk can be mitigated, however, by arranging for capital to actually close on the land if needed, and hold until the market improves. Given the

extraordinary values of enhancement in relation to the costs of acquisition, this "hedge" should be highly achievable.

3. Arete Business Plan

The Arete Plan for the first phase of the Venture is to raise capital and commitments to be able to undertake and complete:

- (i) 4 of these "transformational" land development projects over █ period of 3-4 years;
- (ii) 1-2 of the individual "infill" projects over the same period.

This plan would provide █ balance of medium range large scale projects with █ few "immediate" small scale projects that could provide revenues and development returns while work is being done on the large scale projects. There is also █ productive synergy, as development of "infill" projects in an area where █ "transformational" project is underway, helps in obtaining public approvals for and sales of the "transformational" project.

Arete therefore proposes █ capital raise of \$15 Million, which would be generally allocated \$10 Million to front end work on 4 "transformational" projects, and \$5 Million to cover control, pre-development costs, and part of permanent equity costs of the 2 "infill" projects.

The "transformational" project costs will be drawn down as follows:

- (i) \$2 Million to be drawn down immediately and used for:
 - (a) initial costs of identifying and vetting projects (it is likely that preliminary work will have to be done on █ number of potential projects before selecting the for which contract options will be obtained and public approvals sought – This category, including any management fees to Arete, will not exceed \$750,000;
 - (b) initial costs of contract deposits and initial project work on the first project to proceed - \$1,250,000
- (ii) As project work proceeds on the first project, additional funds will be drawn down on the commitments to cover costs on that project beyond the initial \$1,250,000;
- (iii) For each additional project approved (see below), an additional \$2,500,000 will be drawn down from the commitments to cover costs on those projects.

The "infill" project costs will be drawn down as follows:

- (i) \$500,000 immediately to cover initial costs of evaluation of potential projects.
- (ii) As █ project is approved, draw down will be on █ schedule approved at the time an infill project.

Arete is currently working on ■ transformational project in Philadelphia, which will involve 4 million sq. ft. of development rights on ■ site adjacent to (i) an Amtrak and regional line train station; and (ii) the Temple University Medical Complex. This project will be presented to the Arete Urban Board (see below) as the first "early action" project for consideration.

4. Arete Venture Structure

This Venture will be structured as ■ New York Limited Liability Company, to be known as "Urban Ventures".

Arete Strategic Development Corp. ("Arete") will set up ■ subsidiary to act as General Partner of the LLC. This subsidiary will be known as Arete Urban Investors LLC, ("Arete Urban").

The investors will be Limited Partners in Urban Ventures.

The Arete Urban Principals which will include Michael Bailkin and (former) Mayor Douglas Palmer of Arete, and Carlos Otero (see attached bios) will be responsible for managing the Venture, and carrying on all of the work. It will make all decisions, and hire staff and consultants as needed. itself, except for project approval and "Major Decisions." Project approval is required for each "transformational" or "infill" project, but this approval will be made by ■ committee of 3, on majority vote, which committee will include Arete and 2 Investors (selected by all the Investors);

Major Decisions will require the approval of Arete Urban principals and all of the Limited Partners, and will include:

- Sale of all the assets of Urban Ventures;
- Admission of other Limited Partners;
- Undertaking of any loan that would be recourse to Urban Ventures or to any of the Investors;
- Substantial change in the Business Plan.

In return for their investment, the investors will receive:

- (i) ■ preferred return of their investment, with 10% cumulative interest; and
- (ii) 50% of the profits. Profits will be all revenues less all costs (including operations) and after investors have received their full preferred returns

Arete Urban will receive:

- (i) Management fees of up to \$300,000 from the initial \$750,000 draw down;
- (ii) Management fees of \$22,500 per month for each project that is approved for the time from start of work until the commencement of sales or completion of development, but capped at \$350,000 per project; and
- (iii) 50% of the profits.

The Investors will have the right to terminate Urban Ventures, and receive back any unspent Ventures under the initial draw down of \$2 Million, if Arete has not obtained approval of █ "transformational" or "infill" project within 1 year of such initial draw down.

5. Supplementary Venture

Urban Ventures is being set up essentially as █ land development business. However, since land control is becoming one of the more critical assets in development and project investment, control of entitled land is an important asset in any development equity fund.

Accordingly, it is Arete's intent to subsequently set up █ Development Venture that would provide equity funding for various development projects, most, if not all, of which would be projects on land entitled by Urban Ventures. This Development Venture would thus be both █ buyer of Arete Urban property as well as █ means of realizing greater values for the investors.

It is anticipated that the Development Venture would be initially funded at \$200 Million, and that the Ventures would be used primarily as equity for development projects. This could be equity in joint venture with developers, or equity for projects that would be fully owned, and developed by the Development Venture. Given Arete's expertise in arranging EB5 and other subordinated loans, and in obtaining Economic Development Incentives, it is anticipated that equity will never exceed 20% of the capital stack in any project. Therefore, this Development Venture would be capable of taking on projects with aggregate costs of \$1 Billion.

The investors in Urban Ventures will have the first right to invest in the Development Venture before Arete takes this to third party investors.

PROFILE – MICHAEL CARETNAY BAILKIN



Michael Caretnay Bailkin ("Bailkin") is a lawyer, consultant and real estate developer. He has served in high level public sector positions for the State of New York and the City of New York, where he managed the City's Economic Development efforts and created the City's first Economic Development/ Incentive programs. In the private sector he is both a service provider for and a principal in a range of public private partnership projects.

Legal/Consulting

Bailkin's primary areas of professional practice are Economic Development Incentives ("Incentives") and Zoning Land Use. In his 30 years of practice in this field Bailkin and his team have been responsible for over \$4 billion of Incentives and a similar level of tax-exempt financing. His Incentives Practice is national, with significant completed assignments in Florida, Texas, Colorado, New Mexico and other regions, as well as in his primary market, the New York Metropolitan Region. Major Incentive projects in New York include Metrotech, a 7 million sq. ft. redevelopment in Downtown Brooklyn for back office space; and a broad range of projects for (i) companies including financial services companies (such as Chase, Citicorp, Merrill, Lynch, Lazard Freres, Lehman, HSBC, NASD, NASDAQ, AMEX); (ii) media and entertainment companies (such as ABC, NBC, Conde Naste, Hearst, Reuters, Bloomberg, Warner Music, Madison Square Garden, Leucadia); (iii) a broad range of other companies (such as Phillips, Met Life, New York Life, Pfizer, Marriott Hotels, Schragger Hotels, Whole Foods); (iv) health care and educational institutions (such as Brooklyn Polytechnic, New York College of Podiatry, New York Presbyterian, Montefiore) and (v) local and national developers (such as Forest City Enterprises, Vornado, Related, Trump Organization, Extell).

Bailkin has also been responsible for some of the largest and most complex land use rezoning projects in New York City, such as Metrotech (16 acres); the Queens Plaza Renewal area (rezoning of 36 blocks to enable New York City's 4th Central Business District); and the Pfizer Redevelopment Area (involving 20 block redevelopment of the area around the Pfizer plant in Brooklyn for mixed use). The current vehicle for Bailkin's Incentives and land use practices is Akerman LLP, a national law firm where Bailkin is a senior member of the firm's National Economic Development Practice, and also is the Managing Principal for Akerman Urban Strategies ("AUS"), the consulting arm of Akerman LLP, specializing in "transformational" urban projects. A unique feature of AUS is the participation of an Advisory Board of nationally recognized experts in this field. Prior to merging into Akerman LLP in 2007, Bailkin was Co-Founder and Managing Partner of Stadtmauer Bailkin LLP, a law firm specializing in Economic Development Incentives.

Development

Bailkin also is a principal in various real estate development projects. His company, Arete Strategic Development LLC, focuses on large scale urban development projects. Arete's approach is to identify underutilized property, add significant value through Master Planning, assembling property, obtaining zoning upgrades, infrastructure improvements and Economic Development Incentives, and then developing or supervising development of the component projects. These projects typically have a major catalytic impact on the community. Examples include Metrotech, a 16 acre, 7 million sq. ft. multi-phase back office project in downtown Brooklyn, where Bailkin conceptualized the project, performed the entitlement and Incentives work, and attracted Forest City Ratner to act as lead developer; and Theatre Row, a two block adaptive reuse of dilapidated tenement buildings on West 42nd Street to a center of off-Broadway and off-off Broadway theaters. In both cases these projects stimulated a major redevelopment of the surrounding areas.

Arete is currently working on large scale projects in (i) Sunnyside Yards, Long Island City, where he had partnered with TishmanSpeyer to master plan, entitle and develop a mixed-use project, including a health care/educational campus, of up to 16 million sq. ft.; and (ii) North Philadelphia/Amtrak station, where Arete is partnering with Amtrak and Jones Lang LaSalle to redevelop a large area around the Amtrak Station/Temple University Medical as a transit-oriented development for residential, retail, and medically related uses.

Financing

Bailkin also has co-founded and is a Managing Principal in CapSpan. This entity was formed to maximize the use of EB5 funding on a broad range of development projects. The EB5 program enables foreign investors to obtain Green Cards by investing in job-generating projects in areas of high unemployment. It provides capital at below market rates to projects that otherwise would not have been able to obtain funding. These investments are channeled through certain entities designated by the United States Citizenship and Immigration Services ("USCIS") as Regional Centers ("RCs"). The RCs are each licensed to operate in specific areas and for specific businesses. Their primary source of capital has been investors in Korea and China. Bailkin conceptualized the approach of accessing capital globally and for a broad range of projects throughout the US. He is also pioneering the use of EB-5 capital for Public Private Partnership infrastructure and is currently working with the Commonwealth of Puerto Rico to set up and operate an RC primarily for this purpose. CapSpan therefore, does not operate as an RC itself, but accesses and does the underwriting on projects in all qualifying areas of the US, raises the capital from various networks in a number of countries, and then works with the appropriate RC for that project area and type to obtain USCIS approvals and to implement the financing of the project. CapSpan currently has in the range of \$500 Million of EB-5 capital in multiple projects in process.

Background

Bailkin graduated summa cum laude with [REDACTED] with honors in Philosophy from Temple University and received his [REDACTED] and [REDACTED] in Urban Studies from the University of Chicago. He was admitted to the New York State Bar in 1971.

Bailkin was an associate with Cleary, Gottlieb, Steen and Hamilton. He then served in the public sector, initially as Deputy General Counsel for the Roosevelt Island Development Corp., where he handled the Ground Lease and initial infrastructure and housing projects, and then for the City of New York, where he held [REDACTED] number of senior budgeting and economic development posts.

Bailkin has been Chairman of the Corporate Outreach Program at the Wharton School's Real Estate Center and [REDACTED] member of the Legislative Committee of the Real Estate Board of New York. He was [REDACTED] member of the National Policy Committee of the Urban Land Institute and then [REDACTED] member of its Inner City Committee. Bailkin is currently the CapSpan member on the Business Council of the U.S. Conference of Mayors. He has written and lectured extensively on real estate and economic development and was [REDACTED] contributing editor to the Journal of Real Estate Finance. For many years, and currently, he has been recognized as one of *The Best Lawyers in America*, and as [REDACTED] "Super Lawyer" from New York. Bailkin also served in the U.S. Army in Panama, and as [REDACTED] Peace Corps Volunteer in India, where he started the first Urban Community Development Program in Asia.

For further information, please contact Bailkin at 212-822-2201 or [REDACTED].

Douglas H. Palmer

■ 1973 graduate of Hampton University with ■ Bachelor of Science in Business Administration, Douglas Palmer has served the public for nearly 30 years, first, legislatively as ■ Mercer County Freeholder in the 1980s; as the first African American Mayor elected in 1990 to lead the capital city of Trenton, New Jersey; and in the past decade as ■ developer and implementer of urban policy and community development initiatives, presiding over the U.S. Conference of Mayors, the New Jersey Urban Mayors, and other national and statewide organizations dedicated to data-driven problem solving and best practices. His leadership positions include:

Mayor of Trenton, New Jersey, 1990-2010

President (now Past President), U.S. Conference of Mayors, Dec. 2006-June 2008

Member, United States Homeland Security Advisory Council

Member, National Voting Rights Commission

President, National Conference of Democratic Mayors, 2003-2006

President, New Jersey Conference of Mayors, 2005

President (Now President Emeritus), New Jersey Urban Mayors for 10 years

President, National Brownfield Association (NJ Chapter)

Mercer County Freeholder

On June 30, 2010, Douglas Palmer completed his fifth term as Mayor of the City of Trenton. During his tenure, he has reduced crime and unemployment, dramatically increased homeownership for working families; maintained ■ high tax collection rate and balanced budgets; replaced an ineffectual police structure by establishing ■ civilian police director; and brought the state capital the Marriott Hotel (the city's first), an anchor of downtown revitalization. He also has led efforts to obtain funding for the \$75 million expansion of the Trenton Train Station, ■ major engine for downtown economic development that is now attracting private investment nearby; and won National Livability Awards for the first Justice Department Weed 'n Seed program and for ■ model enrichment program serving at-risk youth. Emphasizing multi-jurisdictional collaboration and public-private partnerships, Mayor Palmer also led efforts across ■ wide range of quality-of-life issues to:

Over the years, Mayor Palmer has received various awards and honors some of which are:

- **National Conference of Mayors President Award, 2012**
- **Distinguished Public Service Award, 2010**, the highest honor conferred by the United States Conference of Mayors
- **Honorary Doctorates of Letters**, Hampton University, Hampton, VA and Rider University, Lawrence, NJ
- **Hampton University's outstanding "Twenty Year Alumnus" award**, given to an alumnus who has excelled in his profession and brought honor to himself and the University by making ■ positive impact in the community
- **"Spirit of St. Francis" award** from St. Francis Hospital in Trenton for outstanding leadership and dedication in the field of health care
- **"Equal Justice Medal" from Legal Services of New Jersey** for leadership and aggressive policies in the areas of affordable housing, welfare, and other issues affecting the disadvantaged

- **State of Israel Peace Medal Award** for efforts to increase and improve relationships between the African-American and Jewish populations
- **"Tending the Garden State" Community Development Leadership Award** from Worldworks Foundation of New Jersey for outstanding achievements in developing successful strategies for permanent solutions to ending hunger.

Since leaving office in 2010, he started Douglas H. Palmer and Associates, LLC, where he holds the position of President and CEO. This company specializes in inter-governmental and corporate consulting. ■ list of several of his clients include, Akerman Urban Strategies, The American Beverage Association, The International Franchise Association, The National Football League, Premier Magnesium, Veolia North American, Power Survey LLC, Philips Healthcare, ■ division of Philips Electronics North America Corporation, Catamaran Rx Corporation and CapSpan.

He is married to Christiana Foglio-Palmer and they have one daughter, Laila.