

SAUL CENTERS, INC.

7501 Wisconsin Avenue, Suite 1500, Bethesda, Maryland 20814-6522
(301) 986-6200

August 20, 2007

Mr. Douglas C. Delano
Vice President of Operations
Mid Atlantic Region
Newland Communities
8201 Greensboro Dr., Suite 817
McLean, VA 22102

Re: Clarksburg Town Center
Montgomery County, MD

Dear Doug:

It has been a pleasure working with you on the opportunity to acquire the above property. We have studied the materials presented with the offering memorandum in great detail with professionals in our industry--especially grocers and home builders who specialize in high-density in-fill sites. While the Clarksburg location was well received, the unanimous opinion among these development practitioners was that the current site plan is not economically feasible. The problem is the Torti-Gallas/Duany plan which is not market-driven through no fault of Newland Communities (NC). We understand you were helpless to intervene in Clarksburg's fantasy-based planning process.

While painful and time consuming, the current Town Center plan must be changed if the land is to ever have value. Saul Centers, Inc. (SCI) is prepared to take on this responsibility and opportunity. As the new owners of the land, we will work with the community associations and government authorities to create a plan which will serve the community needs today and far into the future as well as enhance NC's Clarksburg legacy.

We offer three alternatives for your consideration in the sale of the property shown on attached Exhibit A:

Option 1: SCI will pay \$3.5 million dollars for the parcel in an "as is" condition, except NC will deliver utilities to the property line of the parcel. SCI will settle on the parcel with a meets and bounds legal description on or before December 31, 2007.

Option 2: SCI will pay \$50.00/FAR of commercial retail use on the parcel in an "as is" condition, except NC will deliver utilities to the property line of the parcel. SCI will pay \$2 million dollars at settlement with a metes and bounds description on or before December 31, 2007. The balance will be due upon site plan approval and improvement plan permits. In the event the approval plan requires a parking structure or some other unforeseen extraordinary cost, then the balance due NC will be reduced by such amount and any remaining monies will be paid to NC. Both examples of Option 2 are attached to illustrate the above. In the event the approval period exceeds two (2) years, then balance due on the FAR payment shall be reduced by 10% per year until the development commences construction.

Option 3: NC will contribute the land to a development agreement and SCI will coordinate the approval process for the future development. Upon the completion of construction and stabilization of the cash flow, NC will receive 50% of the value of the profit (property value less development costs). Such value will be determined by an appraisal method. An example of Option 3 is attached to illustrate the above.

Doug, the above outlines some of our thoughts to acquire the Clarksburg Town Center. We look forward to the opportunity of discussing the above in further detail and working with you in creating a Town Center which the community will treasure for many years to come. I will contact you in the near future to schedule our meeting. Should you have any questions prior to my call, please contact me at 301-986-6134.

Best regards,

John Collich
Senior Vice President

cc: B. Francis Saul III
Robert Wulff
Gary Modjeska

| <u>Option 2 -No Parking Structures or Extraordinary Cost</u> | | | |
|--|--------------|-----------------|---------------------------------------|
| <u>Development Cost</u> | | | |
| <u>Land Value</u> | | | |
| Newland Communities Initial Land Payment | | | \$ 2,000,000 |
| <u>Hard Cost</u> | | | |
| Commercial Retail - Surface Parking | 120,000 S.F. | \$ 150,000 S.F. | \$ 18,000,000 |
| <u>Soft Cost</u> | | | |
| | 120,000 S.F. | \$ 50,000 S.F. | \$ 6,000,000 |
| | | | Development Cost \$ 26,000,000 |
| | | | ===== |
| <u>Newland Communities Payments</u> | | | |
| Initial Land Acquisition | | | \$ 2,000,000 |
| Balance Of \$50.00 FAR | | | \$ 4,000,000 |
| Total payments to Newland Communities | | | \$ 6,000,000 |
| | | | ===== |

| <u>Option 2 -with Parking Structures or Extraordinary Cost</u> | | | |
|---|----------------------------|-------------------------------------|---------------------------------------|
| <u>Development Cost</u> | | | |
| <u>Land Value</u> | | | |
| Newland Communities Initial Land Payment | | | \$ 2,000,000 |
| <u>Hard Cost</u> | | | |
| Commercial Retail - Additional Density 30,000 S.F. Parking Structure to achieve density (4/1000) | 150,000 S.F. 120 Spaces | \$ 150,000 S.F. \$ 20,000 /Space | \$ 22,500,000 2,400,000 |
| <u>Soft Cost</u> | | | |
| | 150,000 S.F. | \$ 50,000 S.F. | \$ 7,500,000 |
| | | | Development Cost \$ 34,400,000 |
| | | | ===== |
| <u>Newland Communities Payments</u> | | | |
| Initial Land Acquisition | | | \$ 2,000,000 |
| Balance Of \$50.00 FAR | | | \$ 5,500,000 |
| Less Parking Structure | | | (2,400,000) |
| Total payments to Newland Communities | | | \$ 5,100,000 |
| | | | ===== |

| <u>Option 3 Land Contribution to Development</u> | | | |
|--|---------------------------------------|---------------------|---------------------------------------|
| Development Cost | | | |
| <u>Land Value</u> | Newland Communities Land Contribution | 120,000 S.F. | \$ - /F.A.R. |
| <u>Hard Cost</u> | Retail | 120,000 S.F. | \$ 18,000,000 |
| <u>Soft Cost</u> | | 120,000 S.F. | \$ 6,000,000 |
| | | | Development Cost \$ 24,000,000 |
| Hypothetical Value (Actual value will be established at stabilization by an appraisal method) | | | |
| If Stabilized NOI is \$2,750,000, then value with 7% CAP \$ 39,285,714 | | | |
| Profit Sharing | | | |
| Appraised Value: | | \$ 39,285,714 | |
| Development Cost | | \$ 24,000,000 | |
| Profit | | \$ 15,285,714 | |
| Newland Communities Profit Share 50% | | \$ 7,642,857 | |

Shiley, Kimberly

From: David W. Brown [brown@knopf-brown.com]
Sent: Monday, August 11, 2008 5:21 PM
To: Shiley, Kimberly
Subject: Re: FW: scans

The Saul RFP hypothesizes three options for a Newland-Saul deal.

In Option 1, Saul simply offers Newland \$3.5 million for the retail core property at settlement, at which point Newland is out of the picture re development cost or potential profit, and regardless of what the Board orders done. Newland is assured of \$3.5 million for the land, come what may.

In the remaining Options, Saul proposes some (or all) sharing of cost and risk with Newland, for which it projects a higher profit to Newland.

In Option 3, there is no up-front payment at settlement to Newland at all, and Saul and Newland are just 50-50 partners in sharing of cost and potential profit, which is projected to be over \$15 million (\$7.6 million to Newland), when the property as developed is sold for a projected \$39 million on development costs of \$24 million. Note that the development cost in this projection includes no garages and assumes there will be 120,000 square feet of retail space.

In Option 2, Newland is a partial partner with Saul--sort of "in-between" the extremes of Options 1 and 3, where Newland gets an up-front payment from Saul of \$2 million at settlement. There are two sub-options.

In the no-parking-structure option, the calculation parallels Option 3: 120,000 sq ft of retail space and a development cost of \$24 million. Newland gets a total of \$50 per square foot of retail space, or $50 \times 120,000 = \$6$ million, at development approval. But because Newland got the up-front \$2 million, all that is owed is the balance, or \$4 million. Net profit to Newland is \$2 million plus \$4 million = \$6 million. Newland shares the risk that less retail space than asked for will be approved.

In the parking-structure option, Saul projects added density of 30,000 sq ft due to the presence of structured parking--parking for the added density itself, at 4 spaces per 1000 sq ft, or 120 spaces. Saul estimates the cost of these spaces at \$20 per space, or a total of \$2.4 million. Saul sticks Newland with all of this cost, but the bottom line from the no-parking option does not drop by the full \$2.4 million, because now the \$50 per square foot payment is based on the larger density achievable--150,000 sq. ft. instead of 120,000 sq. ft. Hence the payment to Newland is $50 \times 150,000 = \$7.5$ million, from which the \$2.4 million for the parking structure must be deducted to see the net profit of \$5.1 million: \$2 million up front and \$3.1 million later. Bottom line is that if the parking structure permits added retail density, Newland will not suffer 100% loss of the cost of the parking when all is said and done.

These numbers are just illustrations of how the deal terms would work; they are not necessarily the numbers that anyone had in mind at any particular time.

Dave

At 03:53 PM 8/11/2008, you wrote:

8/12/2008