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**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT  
SUPPLEMENT REPORT**

**DECEMBER 31, 2008**



**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT**

**For the Fiscal Year Ended December 31, 2008**

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## **BRESLER & REINER, INC.**

### **ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT**

#### **1. BUSINESS**

##### **Our Company**

The “Company” means Bresler & Reiner, Inc., a Delaware corporation, and one or more of its subsidiaries and affiliates, and, as the context may require, Bresler & Reiner, Inc. only.

Bresler & Reiner, Inc. is a Delaware corporation that for over 40 years has been primarily engaged in the ownership of commercial, residential and hospitality properties and in the development of commercial and residential buildings and land.

We engage in real estate activities in the Philadelphia, Pennsylvania; Houston, Texas; Washington, D.C.; Wilmington, Delaware; Baltimore, Maryland; Maryland and Delaware Eastern Shore; and Orlando and Tampa, Florida, metropolitan areas. We are not involved in any operations outside of the United States of America.

##### **Financial Information about Business Segments**

We operate in six reportable business segments: Commercial Rental Property; Residential Rental Property; Hospitality Property; Developed and Undeveloped Land sales; Commercial and Residential Condominiums; and Commercial Building and Residential Apartment Development. For additional information about these segments see Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this report.

##### **Description of the Business**

The following is a brief description of each of our reportable business segments:

###### Commercial Rental Property

This segment includes the rental income derived by commercial properties from the leasing of office and industrial space and other related revenue sources. Commercial leases generally provide for a fixed monthly rental over terms that range from three to 10 years. At December 31, 2008 we owned, or had an ownership interest in, 47 commercial office and flex warehouse buildings containing approximately 3,788,000 square feet of space. The properties are located in the Philadelphia, Pennsylvania; Houston, Texas; Washington, D.C. and Wilmington, Delaware metropolitan areas.

###### Residential Rental Property

This segment includes the rental income derived by residential properties from the leasing of apartment units and other related revenue sources. Apartment leases generally provide for a fixed monthly rental over a one-year term. At December 31, 2008, we owned, or had an ownership interest in, five residential properties containing a total of 1,550 apartment units. The properties are located in the Orlando and Tampa, Florida and Philadelphia, Pennsylvania metropolitan areas.

###### Hospitality Property

This segment includes revenue and income generated from services provided at our hospitality property containing 151 rooms located in Camp Springs, Maryland that bears the Quality Inn brand.

###### Developed and Undeveloped Land

This segment primarily includes the costs associated with land held for investments, revenues and costs associated with the development and sale of land parcels and lots as part of residential subdivisions located on the Maryland and Delaware Eastern Shore

###### Commercial and Residential Condominiums

This segment primarily includes the revenues and costs associated with the development and sale of commercial and residential condominiums. This activity is conducted in the Washington, DC and Philadelphia, Pennsylvania metropolitan markets and the Maryland Eastern Shore.

**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)**

Development of Rental Properties

This segment primarily includes the development and construction of commercial and residential buildings that will be leased to tenants upon completion. Costs associated with this segment are capitalized until completion, at which time the assets are placed in service and transferred to either the residential or commercial rental property segment. This activity is conducted in the Washington, DC metropolitan market.

Following is a summary of financial information and results of each reportable segment along with corporate debt and general and administrative expenses:

<b>Year Ended December 31, 2008 (in thousands)</b>	<b>Development- Developed and Undeveloped Land</b>	<b>Development- Residential and Commercial Condominiums</b>	<b>Development- Rental Properties</b>	<b>Commercial Rental</b>	<b>Residential Rental</b>	<b>Hospitality</b>	<b>Corporate</b>	<b>Total</b>
<b>Statement of Operations:</b>								
Total operating revenues.....	\$ 1,060	\$ 6,835	\$ —	\$ 65,344	\$ 17,150	\$ 2,487	\$ 363	\$ 93,239
Cost of development sales .....	(1,359)	(6,368)	(43)	—	—	—	—	(7,770)
Operating expenses ...	—	—	—	(32,249)	(8,664)	(1,948)	—	(42,861)
Depreciation and amortization expense .....	—	—	—	(22,967)	(4,694)	(358)	—	(28,019)
General, administrative and other expenses .....	—	—	—	—	—	—	(5,111)	(5,111)
Loss on impairment of assets .....	—	(114)	—	—	—	—	—	(114)
Interest income .....	—	—	—	—	—	—	961	961
Interest expense .....	(628)	(685)	—	(25,585)	(8,304)	(295)	(6,274)	(41,771)
Debt extinguishment costs .....	—	—	—	—	—	—	—	—
Gain on sale of investments in joint ventures .....	—	—	—	140	—	—	—	140
Income (loss) from investments in joint ventures .....	—	779	(173)	198	(1,758)	—	188	(766)
Minority interest .....	(93)	1,445	—	271	1,941	—	—	3,564
<b>Net (loss) income before income taxes and discontinued operations .....</b>	<b>\$ (1,020)</b>	<b>\$ 1,892</b>	<b>\$ (216)</b>	<b>\$ (14,848)</b>	<b>\$ (4,329)</b>	<b>\$ (114)</b>	<b>\$ (9,873)</b>	<b>\$ (28,508)</b>

<b>Assets as of December 31, 2008 (in thousands):</b>	<b>Development- Developed and Undeveloped Land</b>	<b>Development- Residential and Commercial Condominiums</b>	<b>Development- Rental Properties</b>	<b>Commercial Rental</b>	<b>Residential Rental</b>	<b>Hospitality</b>	<b>Corporate</b>	<b>Total</b>
Real estate at cost .....	\$ 101,872	\$ 7,430	\$ 5,505	\$ 482,029	\$ 151,191	\$ 7,375	\$ —	\$ 755,402
Accumulated depreciation...	—	—	—	(60,944)	(16,785)	(5,747)	—	(83,476)
Investments in joint ventures .....	—	12,442	59,488	162	13,933	—	2,199	88,224
Cash, cash equivalents and restricted cash .....	—	—	—	—	—	—	56,336	56,336
Investments .....	—	—	—	—	—	—	1,053	1,053
Other .....	782	465	—	31,476	1,891	262	9,219	44,095
	<b>\$ 102,654</b>	<b>\$ 20,337</b>	<b>\$ 64,993</b>	<b>\$ 452,723</b>	<b>\$ 150,230</b>	<b>\$ 1,890</b>	<b>\$ 68,807</b>	<b>\$ 861,634</b>

**BRESLER & REINER, INC.**

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<b>Year Ended December 31, 2007 (in thousands)</b>	<b>Development- Developed and Undeveloped Land</b>	<b>Development- Residential and Commercial Condominiums</b>	<b>Development- Rental Properties</b>	<b>Commercial Rental</b>	<b>Residential Rental</b>	<b>Hospitality</b>	<b>Corporate</b>	<b>Total</b>
<b>Statement of Operations:</b>								
Total operating revenues.....	\$ 6,384	\$ 11,404	\$ 5	\$ 66,982	\$ 16,293	\$ 2,699	\$ 213	\$ 103,980
Cost of development sales .....	(65)	(10,283)	(81)	—	—	—	—	(10,429)
Operating expenses.....	—	—	—	(32,444)	(9,253)	(2,277)	—	(43,974)
Depreciation and amortization expense .....	—	—	—	(25,906)	(4,738)	(325)	—	(30,969)
General, administrative and other expenses ..	—	—	—	—	—	—	(11,307)	(11,307)
Loss on impairment of assets.....	(4,848)	(3,292)	—	—	—	—	—	(8,140)
Interest income .....	—	—	—	—	—	—	3,220	3,220
Interest expense .....	(529)	(845)	(8)	(24,360)	(7,901)	(300)	(6,070)	(40,013)
Debt extinguishment costs .....	—	—	—	(5,077)	(719)	—	—	(5,796)
Gain on sale of investments in joint ventures....	—	—	18,721	2,820	1,392	—	—	22,933
Income (loss) from investments in joint ventures .....	—	16,038	(79)	246	(394)	—	186	15,997
Minority interest.....	174	(9,433)	(8,612)	857	640	—	(262)	(16,636)
<b>Net (loss) income before income taxes and discontinued operations .....</b>	<b>\$ 1,116</b>	<b>\$ 3,589</b>	<b>\$ 9,946</b>	<b>\$ (16,882)</b>	<b>\$ (4,680)</b>	<b>\$ (203)</b>	<b>\$ (14,020)</b>	<b>\$ (21,134)</b>

<b>Assets as of December 31, 2007 (in thousands):</b>	<b>Development- Developed and Undeveloped Land</b>	<b>Development- Residential and Commercial Condominiums</b>	<b>Development- Rental Properties</b>	<b>Commercial Rental</b>	<b>Residential Rental</b>	<b>Hospitality</b>	<b>Corporate</b>	<b>Total</b>
Real estate at cost .....	\$ 96,002	\$ 12,218	\$ 5,314	\$ 469,414	\$ 150,754	\$ 7,642	\$ —	\$ 741,344
Accumulated depreciation....	—	—	—	(44,959)	(12,100)	(5,726)	—	(62,785)
Investments in joint ventures .....	—	28,277	52,599	483	15,690	—	2,198	99,247
Cash, cash equivalents and restricted cash.....	—	—	—	—	—	—	66,020	66,020
Investments.....	—	—	—	—	—	—	22,158	22,158
Other.....	459	515	5	36,449	1,992	412	11,538	51,370
	<b>\$ 96,461</b>	<b>\$ 41,010</b>	<b>\$ 57,918</b>	<b>\$ 461,387</b>	<b>\$ 156,336</b>	<b>\$ 2,328</b>	<b>\$101,914</b>	<b>\$ 917,354</b>

**Other Information**

Employees

On December 31, 2008, we had 16 full-time employees, all of whom were located at our corporate offices in Rockville, Maryland, working in such areas as finance, accounting and asset management. We believe that our relations with our

**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)**

employees are good. The on-site personnel engaged in the day-to-day operations and the development activities of properties are employees or sub-contactors of the management companies or developers contracted to operate or develop such properties.

Market Concentrations

The commercial properties we owned at December 31, 2008 are concentrated in both the Mid-Atlantic region of the country, and the Houston, Texas metropolitan market. Our residential apartment properties are primarily concentrated in the Central Florida area. Our development projects are located in the Washington, D.C., Maryland and Delaware Eastern Shore, and Philadelphia, Pennsylvania metropolitan areas. No single tenant represents more than 10% of our total revenues.

Seasonality

Our commercial properties are unaffected by seasonality. There are limited seasonal impacts on results at residential properties with slightly lower occupancy during the months of December and January. Sales of residential condominiums are affected by seasonality with fewer sales in the winter months.

Access to Company Information

We make available, free of charge, by responding to requests addressed to our investor relations department, our Annual Financial Statement Report, Quarterly Financial Statement Reports and all exhibits and amendments to these reports.

**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)**

**2. PROPERTIES**

**Commercial Rental Properties**

We owned or held an ownership interest in the following commercial office properties at December 31, 2008:

<u>Properties (1)</u>	<u>Location</u>	<u>Date of Acquisition/ Opening</u>	<u>Number of Buildings</u>	<u>Square Feet</u>	<u>Occupancy at 12/31/08</u>	<u>B&amp;R Ownership</u>
				(in 000's)		
<b>Philadelphia, Pennsylvania</b>						
<b><u>metropolitan area:</u></b>						
Fort Washington Executive Center	Ft. Washington, PA	2004	3	393	69.5%	97.6%(2)
Mearns Park	Warminster, PA	2006	1	300	100.0%	97.0%(3)
Valley Square	Plymouth Meeting, PA	2006	5	294	77.3%	96.3%(3)
Blue Bell Plaza	Plymouth Meeting, PA	2006	2	155	67.2%	100.0%(3)
West Germantown Pike	Plymouth Meeting, PA	2004	2	115	100.0%	98.1%(2)
1150 Northbrook	Trevose, PA	2007	1	107	36.8%(4)	100.0%(3)
One Northbrook	Trevose, PA	2004	1	95	77.7%	100.0%(3)
510 Township Road	Plymouth Meeting, PA	2006	1	87	84.0%	95.0%(3)
Cross Keys	Doylestown, PA	2005	1	82	80.3%	100.0%(3)
102 Pickering Way	Exton, PA	2005	1	80	80.7%	100.0%(3)
900 Northbrook	Trevose, PA	2003	1	66	52.4%	90.6%(2)
<b>Houston, Texas</b>						
<b><u>metropolitan area:</u></b>						
Intercontinental	Houston, TX	2007	1	197	95.3%	71.2%
Commerce Park North	Houston, TX	2006	2	164	78.0%	100.0%
10333 Harwin Drive	Houston, TX	2006	1	148	42.7%	100.0%
9950 Westpark	Houston, TX	2006	1	111	64.6%	100.0%
14800 St. Mary's Lane	Houston, TX	2007	1	85	96.4%	100.0%
17043-49 El Camino	Houston, TX	2006	4	82	93.0%	100.0%
1120 NASA Road	Houston, TX	2006	1	80	77.9%	100.0%
8700 Commerce Drive	Houston, TX	2006	1	77	64.5%	100.0%
1717 Portway Plaza	Houston, TX	2006	1	67	65.5%	100.0%
1110 NASA Road	Houston, TX	2006	1	60	68.0%	100.0%
950 Threadneedle	Houston, TX	2006	1	59	88.4%	100.0%
1100 NASA Road	Houston, TX	2006	1	57	95.3%	100.0%
14825 St. Mary's Lane	Houston, TX	2007	1	45	72.6%	100.0%
<b>Washington, DC</b>						
<b><u>metropolitan area:</u></b>						
Versar Center	Springfield, VA	2002	2	217	81.4%	100.0%
Sudley North (Buildings A, B & C)	Manassas, VA	1987	3	116	67.4%	100.0%
Wynwood	Chantilly, VA	2005	2	88	100.0%	100.0%
Sudley North (Building D)	Manassas, VA	1987	1	69	100.0%	50.0%
Fort Hill	Centreville, VA	2000	1	66	99.0%	80.0%
Bank Building	Manassas, VA	1991	1	3	100.0%	100.0%
<b>Wilmington, Delaware</b>						
<b><u>metropolitan area:</u></b>						
919 Market Street	Wilmington, DE	2005	1	223	84.4%	100.0%(3)
<b>Total properties</b>			<u>47</u>	<u>3,788</u>		

**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)**

**NOTES:**

- 
- (1) All the properties represent properties whose assets, liabilities and results of operations are consolidated into our consolidated financial statements.
- (2) Represents our share of the Class A voting membership interest in the entity. An unrelated third party owns a Class B membership interest in the joint venture that entitles this party to 15% of cash available from operations after the Class A members have received a cumulative annual 12% return on their investment in the property and 15% of cash available from a refinancing or sale of the property after the Class A members have received a full return of their investment along with a cumulative annual 12% return on their investment.
- (3) We have entered into an asset supervision agreement with an unaffiliated third-party that entitles this party to 20% of cash available from operations after we have received a cumulative annual 12% return on our investment in the property, and 20% of cash available from a refinancing or sale of the property after we have received a full return of our investment along with a cumulative annual 12% return on our investment.
- (4) The property is in its initial lease-up phase.

**Residential Apartment Properties**

We owned or held an ownership interest in the following residential apartment properties at December 31, 2008:

<u>Consolidated Properties (1)</u>	<u>Location</u>	<u>Date of Acquisition/ Opening</u>	<u>Apt. Units</u>	<u>Occupancy at 12/31/08</u>	<u>B&amp;R Ownership</u>
The Fountains	Orlando, FL	2003	400	90.3%	100.0%
Westbury at Lake Brandon	Brandon, FL	2007	366	89.6%	100.0%
Victoria Place	Orlando, FL	2003	364	88.5%	85.0%
Huntington at Sundance	Lakeland, FL	2006	292	87.3%	100.0%
Total consolidated properties			<u>1,422</u>	<u>89.0%</u>	
<u>Unconsolidated Properties (1)</u>					
Venice Lofts	Philadelphia, PA	2007	<u>128</u>	77.3%	22.3%
Total consolidated and unconsolidated properties			<u>1,550</u>		

**NOTES:**

- 
- (1) Consolidated properties represent properties whose assets, liabilities and results of operations are consolidated into our consolidated financial statements. Unconsolidated property represents a property that is accounted for under the equity method of accounting, in accordance with GAAP.

**Hospitality Property**

We own a 151 room hospitality property located in Camp Springs, Maryland. For the year ended December 31, 2008 occupancy, average room rate and revenue per available room (REVPAR) was 54.8%, \$79.55 and \$43.60, respectively.

**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)**

**Commercial, Residential and Land Development**

We owned or had an ownership interest in the following development projects during the year ended December 31, 2008:

<u>Project Name</u>	<u>Location</u>	<u>Date of Acquisition</u>	<u>Development Type</u>	<u>Size (1)</u>	<u>Number sold (2)</u>	<u>B&amp;R Ownership %</u>
<b><u>Consolidated Properties (3)</u></b>						
Laguna Vista	Ocean City, MD	2003	Residential Condominiums	41 units	28 units	100.0%
400 S Philadelphia Ave.	Ocean City, MD	2004	Residential Condominiums	20 units	20 units	51.0%
Sudley South (Buildings I & III)	Manassas, VA	1991	Commercial Office Condominiums	108,000 sq. ft.	86,098 sq. ft.	100.0%
Crisfield (6)	Crisfield, MD	2005	Residential Lots	232 lots	16 lots	51.0%
Red Mill Pond	Lewes, DE	2005	Residential Lots	520 lots	11 lots	51.0%
Seaside (6)	Ocean City, MD	2004	Residential Lots	137 lots	58 lots	51.0%
<b><u>Unconsolidated Properties (3)</u></b>						
Waterfront	Washington, DC	1964	Commercial Office, Residential and Retail	2,166,000 sq ft (4)	—	50.0%
Guilford Properties	Baltimore, MD	2006	(5)	(5)	—	51.0%
Holiday Development	Baltimore, MD	2006	(5)	(5)	—	51.0%
Symphony House	Philadelphia, PA	2005	Residential Condominiums	163 units	129	22.3%

**NOTES:**

- (1) Represents the actual or planned size of the project.
- (2) Represents number of sales that had closed as of December 31, 2008.
- (3) Consolidated properties represent properties whose assets, liabilities and results of operations are consolidated into our consolidated financial statements. Unconsolidated property represents a property that is accounted for under the equity method of accounting, in accordance with GAAP.
- (4) Represents the anticipated size of the Waterfront Complex (see Note 3 to the consolidated financial statements for a description of the Waterfront Complex).
- (5) The type of development and size of the project has yet to be determined.
- (6) Project is currently being held for investment

**3. LEGAL PROCEEDINGS**

We are subject to various legal proceedings and claims that arise in the ordinary course of our business. Management believes that the final outcome of such matters will not have a material adverse effect on our financial position, results of operations or liquidity.

**4. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this document.

**Application of Critical Accounting Policies.** Our accounting policies comply with accounting principles generally accepted in the United States. The application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties. We have made best estimates and judgments of certain amounts included in the financial statements.

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### ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)

However, actual results could differ from these estimates and a change in the facts and circumstances of the underlying transactions could significantly change the application of an accounting policy and the resulting financial statement impact. We have listed below those policies that we believe are critical and require the use of significant judgment in their application.

**Rental Property and Equipment.** Rental property and equipment is stated at cost. We use judgment in order to allocate the purchase price of all acquired assets and assumed liabilities and assign useful lives to those assets that have finite lives. Tenant allowances incurred at the origination of a lease are deferred and amortized on a straight-line basis over the term of the related lease. Depreciation expense is computed using the straight-line method applied over the deemed useful life of depreciable assets, generally 39 years for buildings and three to ten years for furniture, fixtures and equipment. Replacements and renovations that extend the useful life of an asset are capitalized and depreciated over their estimated useful lives. Repairs, maintenance and minor improvements are expensed as incurred. The allocation of the purchase price to assets or assignment of useful lives will affect the amount of depreciation expense recorded.

Upon acquisitions of real estate, we assess the fair value of the acquired assets (including land, buildings and improvements, and identified intangibles such as above- and below-market leases and acquired in-place leases and tenant relationships) and assumed liabilities in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, *Business Combinations* (“SFAS 141”) and SFAS No. 142, *Goodwill and Other Intangible Assets* (“SFAS 142”) and allocate purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market conditions that may affect the property.

In accordance with SFAS No. 141, we record on our balance sheet the fair value of debt assumed in connection with our acquisitions. In order to calculate the fair value of assumed debt, we discount the cash flows relating to the debt by an interest rate that is an estimate of the market rate of interest for a loan of that type, taking into account such factors as the cash flow generated by the property, any guarantees of indebtedness, and the amount of debt relative to the property’s fair value. The estimate of fair value of the assumed debt will affect our interest expense and the carrying amount of the assumed debt on our balance sheet.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we evaluate the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. For long lived assets to be held and used, including property under development that following completion is to be held and used, recoverability is measured based on net, undiscounted expected cash flows. Assets are considered to be impaired if the undiscounted expected cash flows are less than the carrying amount of the assets. Impairment charges are recorded based upon the difference between the carrying value of the asset and its fair value. For long-lived assets to be disposed of by sale including development projects that are substantially completed and that are to be sold, we record impairment charges based on the difference between the carrying value of the asset and its fair value.

The use of different assumptions, result in different values at acquisition, initial allocations of purchase price and future impairment charges. The impact of our estimates in connection with acquisitions and future impairment analysis could be material to our consolidated financial statements.

**Cost of Real Estate Sales.** Homebuilding and land development costs are charged to the cost of the homes and land parcels sold under either the specific identification method, where practicable, or relative sales value basis method. The relative sales value basis method requires us to estimate the total project revenue. An inaccurate projection of total revenue or total project costs would affect the cost of sales recorded related to the sale of homes and developed land.

**Investments in Joint Ventures.** For all investments not wholly-owned, we determine if the entity is a variable interest entity (“VIE”). Such a determination includes, among other requirements that we evaluate whether the equity investment at risk is sufficient to allow the entity to finance its activities without additional subordinated support from others. If the equity at risk is not sufficient then the entity is considered a VIE and is subject to consolidation based on the guidelines of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (“FIN 46R”). If the equity at risk is sufficient, and various other conditions are met, then the entity is not considered to be a VIE.

If an investee of ours is a VIE under FIN 46R, we determine whether we are the primary beneficiary through being subject to a majority of the potential variability in gains or losses of the VIE. If we are the primary beneficiary, then we consolidate our investment in the joint venture. If we are not the primary beneficiary, then we do not consolidate our investment.

## BRESLER & REINER, INC.

### ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)

Our evaluation of the sufficiency of equity at risk and our determination of the primary beneficiary is based on subjective assessments that involve our estimating a number of possible future outcomes of cash flows for the entity as well as the probability of each outcome occurring. This process includes our estimating future operating income and losses, taking into account industry trends, the impact of macro economic forces, as well as the effects of demand, competition and other factors. The evaluation of the sufficiency of equity of an entity and the determination of the primary beneficiary will affect the presentation of that entity in our consolidated balance sheet and results of operations.

**Deferred Charges and Other Assets.** Fees incurred in connection with obtaining financing are deferred and amortized as a part of interest expense over the term of the related debt instrument on a straight-line basis, which approximates the effective interest method. Lease commissions incurred to originate a lease are deferred and amortized on a straight-line basis over the term of the related lease.

Included in Other Assets is the value of acquired in-place leases for purchased properties. In accordance with SFAS No. 141 and SFAS No. 142 we allocate a portion of the real estate acquisition purchase price to acquired in-place leases based on the relative fair values of the assets and liabilities acquired. In order to determine the amount of the purchase price to be allocated to the acquired leases, we develop assumptions regarding the relative value of the in-place leases when compared to the current market. Some of the judgments required as part of this exercise include (1) determining the market rental rates of the acquired leases (2) estimating the market value of concessions (including rent concessions and tenant improvement allowances) and leasing commissions to be paid on new leases (3) estimating an appropriate lease-up period and (4) applying an estimated risk-adjusted discount rate to the existing tenant's leases. The amount allocated to in-place leases and the associated amortization of those leases could vary significantly depending on the assumptions used.

**Other Liabilities.** The application of FASB Interpretation No. 45 ("FIN 45"), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires us to recognize, upon the issuance of a guarantee, a liability for the fair value of the obligation we assume. The calculation of the fair value of this obligation involves significant judgment. The liability recorded for such obligation on our balance sheet could vary significantly depending on the assumptions used.

#### Balance Sheet Overview

The following table reflects certain condensed balance sheet items as of the dates presented (in thousands):

	December 31,		Increase (decrease)
	2008	2007	
<i>Assets:</i>			
Rental property and equipment, at cost	\$640,595	\$627,810	\$12,785
Property and land development	114,807	113,534	1,273
Cash, cash equivalents, and investments	22,469	49,124	(26,655)
Investments in joint ventures	88,224	99,247	(11,023)
Total assets	861,634	917,354	(55,720)
<i>Liabilities and Shareholders' Equity:</i>			
Mortgage and construction loans and other debt (including notes due to related parties)	\$707,417	\$725,234	\$(17,817)
Total liabilities	743,067	771,908	(28,841)
Minority interest	12,772	16,651	(3,879)
Shareholders' equity	105,795	128,795	(23,000)

Material changes in assets include:

- Rental property and equipment, at cost, increased primarily as a result of costs incurred for building and tenant improvements.
- Property and land development increased slightly due to development activity at our Red Mill Pond, Seaside and Crisfield projects offset by sales at our 400 S. Philadelphia, Laguna Vista, Sudley South and Red Mill Pond, projects.

**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)**

- Cash, cash equivalents and investments decreased in total primarily due to repayments of loans on our land development projects and loans to related parties as well as capital contributions to fund our development projects, primarily the Waterfront project.
- Investments in joint ventures decreased primarily due to distributions received from our Symphony House project. The decrease was partially offset by capital contributions made to unconsolidated entities involved in development projects.

Material changes in liabilities and shareholders' equity include:

- Mortgage and constructions loans and other debt (including notes due to related parties) decreased primarily due to repayments of loans on our land development projects and loans to related parties.
- Minority interest decreased primarily due to distributions to our minority partners of distributions received from our Symphony House project, in addition to our minority partner's share of net losses at our unconsolidated joint ventures.

**Financial Overview**

	<u>December 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2008</u>	<u>2007</u>	<u>2007 to 2008</u>	
			<u>Increase/(decrease)</u>	
Operating revenues:				
Development sales .....	\$ 7,895	\$ 11,409	\$ (3,514)	(30.8)%
Rentals—commercial.....	65,344	66,982	(1,638)	(2.4)
Rentals—residential.....	17,150	16,293	857	5.3
Hospitality .....	2,487	2,699	(212)	(7.9)
Other revenues .....	363	6,597	(6,234)	(94.5)
Total operating revenues.....	93,239	103,980	(10,741)	(10.3)
Cost of development sales .....	7,770	10,429	(2,659)	(25.5)
Operating expenses—commercial .....	32,249	32,444	(195)	(0.6)
Depreciation and amortization expense—commercial .....	22,967	25,906	(2,939)	(11.3)
Operating expenses—residential .....	8,664	9,253	(589)	(6.4)
Depreciation and amortization expense—residential.....	4,694	4,738	(44)	(0.9)
Operating expenses—hospitality .....	1,948	2,277	(329)	(14.4)
General and administrative expense .....	5,111	11,307	(6,196)	(54.8)
Loss on impairment of assets.....	114	8,140	(8,026)	(98.6)
Interest income.....	961	3,220	(2,259)	(70.2)
Interest expense (including related parties) .....	41,771	40,013	1,758	4.4
Debt extinguishment costs .....	—	5,796	(5,796)	(100.0)
Gain on sale of investments in joint ventures .....	140	22,933	(22,793)	(99.4)
(Loss) income from investments in joint ventures.....	(766)	15,997	(16,763)	(104.8)
Minority interest .....	3,564	(16,636)	20,200	121.4
Income from discontinued operations, net of income taxes and minority interest .....	—	3,877	(3,877)	(100.0)
Net loss .....	21,447	9,288	12,159	130.9

**Development Sales.** Development sales revenue in 2008 decreased by \$3,514,000. During 2008 we recorded sales for six residential condominium units at 400 S. Philadelphia, two residential condominium units at Laguna Vista, 11 residential lots at Red Mill Pond and approximately 15,000 square feet of commercial condominium space at Sudley South (Building III). Sales in 2007 related to 14 residential condominium units at 400 S. Philadelphia, one residential condominium unit at Laguna Vista and approximately 25,000 square feet of commercial condominium space at Sudley South (Building I & III).

The cost of development sales decreased by \$2,659,000 due to the reduced sales activity described above.

**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)**

**Commercial Rental Properties.** Commercial rental property revenues decreased by \$1,638,000 as a result of lower overall occupancy, partially offset by additional revenues from properties acquired in 2007. Revenues from properties we owned for the full twelve months in both 2008 and 2007 decreased by \$4,247,000 due to overall lower occupancy.

Operating expenses consist of direct operating costs of the properties including property taxes and insurance, and exclude interest expense and depreciation expense. Operating expenses were comparable for the twelve months ended December 31, 2008 and 2007 with additional expenses from newly acquired properties offset by lower overall operating costs. Operating expenses for properties we owned for the full twelve months in both 2008 and 2007 decreased by \$1,513,000 primarily due to lower bad debt expense and repair and maintenance costs.

Depreciation and amortization expense decreased by \$2,939,000 due to the full amortization of certain intangible in-place lease assets. The decrease was offset by increases related to tenant and building improvements that were placed in service in 2008 and from increased depreciation expense on properties acquired in 2007.

**Residential Rental Properties.** Residential rental property revenues increased by \$857,000 primarily due to increased occupancy particularly from our Westbury apartment complex that was acquired during the first quarter of 2007 during its initial lease-up. Revenues from the properties that we owned for the full twelve months in both 2008 and 2007 were comparable.

Operating expenses consist of direct operating costs of the properties including property taxes and insurance, and exclude interest expense and depreciation expense. Operating expenses decreased by \$589,000 primarily due to lower turnover, bad debt and insurance expenses, partially offset by higher expenses at Westbury. Operating expenses for properties we owned for the full twelve months in both 2008 and 2007 decreased by \$662,000 primarily due to the reduction in expenses described above.

Depreciation and amortization expense was comparable to the prior year.

**Hospitality Properties.** Revenues from our hospitality property decreased by \$212,000 primarily due to lower occupancy and lower average room rates in 2008.

Operating expenses, which consist of direct operating costs of the properties including property taxes and insurance and exclude interest expense and depreciation expense decreased by \$329,000 primarily due to lower occupancy and lower management and franchise fees.

**Other Revenues.** Other revenues decreased by \$6,234,000 compared to the same period in 2007. Revenues for 2007 include \$6,177,000 of forfeited deposits by the homebuilders of the Seaside and Crisfield development projects upon the termination of their agreements.

**General and administrative expenses.** The \$6,196,000 decrease in general and administrative expense is primarily related to lower salaries, wages and benefit expenses resulting from a reduction in staffing levels; a decrease in the expense associated with our Stock Appreciation Rights Plan; lower audit fees and lower consulting fees.

**Loss on Impairment of Assets.** Loss on impairment of assets decreased by \$8,026,000. In 2008 we recorded impairment charges of \$114,000 related to our 400 S. Philadelphia Avenue project. In 2007, we recorded impairment charges for the Seaside, Crisfield, 400 S. Philadelphia and Laguna Vista development projects, totaling \$2,222,000, \$2,626,000, \$2,086,000 and \$1,206,000, respectively to reduce the carrying value of these projects to their estimated fair values less costs to sell.

**Interest Income.** The \$2,259,000 decrease in interest income was primarily due to lower average balances outstanding on our investments and lower interest rates along with lower notes receivable balances.

**Interest Expense.** The increase in interest expense (including interest expense on loans from our related parties) of \$1,758,000 is primarily due to interest on new loans obtained in 2007 as a result of property acquisitions, increased interest on loans that were refinanced in 2007, and interest expense on our notes to related parties that were issued in 2007. For the twelve months ended December 31, 2008 and 2007, we capitalized interest of approximately \$2,580,000 and \$2,341,000, respectively, related to our investment in development projects.

## BRESLER & REINER, INC.

### ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)

**Debt Extinguishment Costs.** In 2007, we incurred \$5,796,000 of costs related to the defeasance of debt secured by the Victoria Place, Ft. Hill, the Versar Center and the Sudley ABCD & Bank properties, which were all refinanced.

**Gain on Sale of Investments in Joint Ventures.** In 2008 we recorded a \$140,000 gain related to the sale of our remaining five percent interest in Devon Square, a 140,000 square foot commercial office complex. In 2007, we recorded a \$18,721,000 gain related to the Waterfront equalization payment, a \$2,820,000 gain on sale of our interest in the Madison Building and a \$1,392,000 gain on sale of our interest in Arbor Crest.

**(Loss) Income from Investments in Joint Ventures.** In 2008 we recorded a \$766,000 loss from investments in joint ventures, primarily due to losses at the Venice Lofts apartment community, partially offset by income from the sale of 11 condominium units at Symphony House. In 2007 we recorded income from investments in joint ventures totaling \$15,997,000 primarily from the sale of 118 condominium units at Symphony House, partially offset by losses at Venice Lofts.

**Minority Interest.** Minority interest reflects our minority partner's share of profits and losses in joint ventures that we consolidate into our condensed consolidated financial statements. In 2008 we recorded minority interest totaling \$3,564,000 related to our partner's share of losses at our joint ventures, primarily due to losses at Venice Lofts, partially offset by income from sales at Symphony House. In 2007 we recorded minority interest totaling \$16,636,000 related to our partner's share of profits at our joint ventures, primarily as a result of the Waterfront equalization payment, in addition to income from sales at Symphony House. This was partially offset by our partner's share of losses at Venice Lofts and the defeasance costs related to the mortgage loans we refinanced in 2007.

**Income from Discontinued Operations, Net of Income Taxes and Minority Interest.** In 2007, we recorded \$3,877,000 in income from discontinued operations, net of income taxes and minority interest primarily relating to the gain on sale from the Inn at the Colonnade.

### Funds From Operations

We consider Funds From Operations ("FFO") to be a meaningful measure of our performance and we evaluate management based on FFO. We provide FFO as a supplemental measure for reviewing our operating performance, although FFO should be reviewed in conjunction with net income which remains the primary measure of performance. FFO is a recognized metric used extensively within the real estate industry by operators of rental properties. Accounting for real estate assets using historical cost accounting under GAAP is based on the presumption of the value of real estate assets diminishing predictably over time. Since real estate values instead have risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results that exclude historical cost depreciation to be useful in evaluating the operating performance of real estate companies. As a result, the National Association of Real Estate Investment Trusts ("NAREIT") created the concept of FFO as a standard supplemental measure of operating performance that adjusts GAAP net income to exclude historical cost depreciation.

While we are not a real estate investment trust ("REIT"), which is generally not subject to federal income tax, our real estate operations include large amounts of depreciable and amortizable real estate assets and we compete against REITs. We therefore believe FFO to be a relevant measurement of our performance.

FFO as defined by the NAREIT is net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect funds from operations on the same basis. Our FFO measure differs from NAREIT's definition in that we also exclude income tax expense related to property sales. The exclusion of income tax expense on property sales is consistent with the objective of presenting comparative period operating performance. FFO should not be considered an alternative to net income as an indicator of our operating performance, or as an alternative to cash flows from operating, investing or financing activities as a measure of liquidity. Additionally, the FFO measure presented by us may not be calculated in the same manner as FFO measures of other real estate companies and therefore may not necessarily be comparable. We believe that FFO provides relevant information about our operations and is useful, along with net income, for an understanding of our operating activities.

Our FFO was \$5,955,000 in 2008, compared to \$13,350,000 in 2007, a decrease of \$7,395,000. This decrease is primarily due to fewer sales at Symphony House in addition to our recording a \$4,420,000 valuation allowance related to

**BRESLER & REINER, INC.**

**ANNUAL FINANCIAL STATEMENT SUPPLEMENT REPORT (CONTINUED)**

deferred income tax assets (see Note 14 to the consolidated financial statements), partially offset by a full twelve months of funds from operations generated in 2008 from properties we acquired in 2007. In 2007 FFO was impacted by a gain of \$6,066,000, after taxes and minority interest related to a partial sale of our interest in Waterfront Associates LLC (see Note 3 to the consolidated financial statements), along with income from forfeited deposits totaling \$3,706,000 after taxes. These gains were partially offset in the same year by losses on impaired assets totaling \$4,884,000 after taxes and debt extinguishment costs, totaling \$3,478,000 after taxes.

The following table reflects the reconciliation of FFO to net income for the years presented (in thousands):

	<b>Years Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
Net (loss)	\$ (21,447)	\$ (9,288)
Add: Depreciation and amortization including share of unconsolidated real estate joint ventures	27,486	30,284
Add: Income tax expense from property sales, net of minority interest	56	5,098
Less: Gain on sale of properties, net of minority interest	(140)	(12,744)
Funds from operations	<u>\$ 5,955</u>	<u>\$ 13,350</u>

**PART II**

**BRESLER & REINER, INC.**  
**SCHEDULE OF REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**AS OF DECEMBER 31, 2008**  
**(Dollars in thousands)**

Description	Cost										Life on which Depreciation on Latest Income Statement is Computed	
	Encumbrances	Initial Cost to Company			Capitalization Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date of Construction		Date Acquired
		Land	Buildings and Improvements	Improvements		Land	Buildings and Improvements	Total				
Versar Center (Two office buildings in Springfield, VA)	\$28,000	\$2,187	\$21,149	\$2,323	\$2,556	\$23,103	\$25,659	\$4,849	—	2002	3 - 39 years	
Bank Building (Office building in Manassas, VA)	1,683	90	786	—	118	758	876	472	1991	—	3 - 39 years	
Paradise/Sudley North (Four office buildings in Manassas, VA)	27,217	1,898	12,679	5,267	3,534	16,310	19,844	11,084	1987	—	3 - 39 years	
Fort Hill (Office building in Centreville, VA)	10,400	500	6,492	645	554	7,083	7,637	1,763	—	2000	3 - 39 years	
900 Northbrook (Office building in Trevoise, PA)	10,638	1,800	7,874	1,124	2,115	8,683	10,798	1,397	—	2003	3 - 39 years	
Victoria Place (Apartments in Orlando, FL)	46,000	3,825	35,863	993	3,911	36,770	40,681	6,160	—	2003	3 - 39 years	
The Fountains at Waterford Lakes (Apartments in Orlando, FL)	39,500	4,000	32,745	2,089	4,171	34,663	38,834	5,491	—	2003	3 - 39 years	
Quality Inn Express (Hotel in Camp Springs, MD)	3,429	377	2,793	4,205	534	6,841	7,375	5,747	—	1987	3 - 39 years	
Fort Washington (3 Office buildings in Fort Washington, PA)	46,537	9,489	37,507	7,220	7,584	46,632	54,216	6,318	—	2004	3 - 39 years	
West Germantown Pike (2 Office buildings in Plymouth Meeting, PA)	15,387	3,136	14,961	528	3,311	15,314	18,625	1,994	—	2004	3 - 39 years	
One Northbrook (Office building in Trevoise, PA)	14,553	2,590	13,586	1,553	2,601	15,128	17,729	2,127	—	2004	3 - 39 years	
102 Pickering Way (Office building in Exton, PA)	9,802	2,501	11,469	801	2,550	12,221	14,771	1,311	—	2005	3 - 39 years	
Cross Keys (Office building in Doylestown, PA)	14,500	2,836	11,817	317	2,890	12,080	14,970	1,157	—	2005	3 - 39 years	
Wynwood (2 Office buildings in Chantilly, VA)	11,800	1,105	11,318	1,373	1,105	12,691	13,796	1,306	—	2005	3 - 39 years	
919 Market Street (Office building in Wilmington, DE)	35,600	4,434	30,646	2,510	4,435	33,155	37,590	3,521	—	2005	3 - 39 years	
Blue Bell Plaza (2 Office buildings in Plymouth Meeting, PA)	29,800	4,546	26,858	2,649	4,587	29,466	34,053	3,829	—	2006	3 - 39 years	
10333 Harwin Drive (Office building in Houston, TX)	10,398	934	10,879	801	939	11,675	12,614	1,093	—	2006	3 - 39 years	
17043-49 El Camino (4 Office buildings in Houston, TX)	4,960	1,725	3,964	1,064	1,749	5,004	6,753	686	—	2006	3 - 39 years	
1100 NASA Road (Office building in Houston, TX)	2,787	674	3,480	1,285	674	4,765	5,439	493	—	2006	3 - 39 years	
1110 NASA Road (Office building in Houston, TX)	3,359	1,064	3,404	761	1,079	4,150	5,229	473	—	2006	3 - 39 years	
1120 NASA Road (Office building in Houston, TX)	5,134	1,625	4,078	1,409	1,627	5,485	7,112	590	—	2006	3 - 39 years	
Mearns Park (Office building in Warminster, PA)	16,500	4,952	14,019	1,039	5,174	14,836	20,010	2,399	—	2006	3 - 39 years	
1717 Portway Plaza (Office building in Houston, TX)	2,669	987	3,454	718	999	4,160	5,159	437	—	2006	3 - 39 years	
Valley Square (5 Office buildings in Plymouth Meeting, PA)	37,500	10,304	30,552	5,374	10,543	35,687	46,230	4,967	—	2006	3 - 39 years	
9950 Westpark (Office building in Houston, TX)	6,273	2,251	5,038	696	2,258	5,727	7,985	718	—	2006	3 - 39 years	
8700 Commerce Drive (Office building in Houston, TX)	3,754	1,388	2,793	145	1,388	2,938	4,326	407	—	2006	3 - 39 years	
510 Township Road (Office building in Plymouth Meeting, PA)	14,000	1,610	11,342	909	1,784	12,077	13,861	1,475	—	2006	3 - 39 years	
Commerce Park North (2 Office buildings in Houston, TX)	9,367	4,232	6,328	1,807	4,338	8,029	12,367	1,644	—	2006	3 - 39 years	
Huntington at Sundance (Apartments in Lakeland, FL)	14,337	3,316	22,621	1,574	3,982	23,529	27,511	2,337	—	2006	3 - 39 years	
950 Threadneedle (Office building in Houston, TX)	4,300	1,378	3,703	907	1,218	4,599	5,817	467	—	2006	3 - 39 years	
Westbury (Apartments in Brandon, FL)	36,000	9,935	32,723	1,506	10,038	34,126	44,164	2,797	—	2007	3 - 39 years	
14800 St. Mary's Lane (Office building in Houston, TX)	8,200	5,532	3,708	355	5,534	4,061	9,595	506	—	2007	3 - 39 years	
14825 St. Mary's Lane (Office building in Houston, TX)	4,200	2,803	1,900	474	2,810	2,367	5,177	420	—	2007	3 - 39 years	
Intercontinental (Office building in Houston, TX)	20,500	1,378	21,715	1,726	1,402	23,417	24,819	2,068	—	2007	3 - 39 years	
1150 Northbrook (Office building in Trevoise, PA)	11,546	4,954	11,346	1,493	4,988	12,805	17,793	753	2007	—	3 - 39 years	
Total properties	\$560,630	\$106,185	\$475,590	\$57,640	\$109,080	\$530,335	\$639,415	\$83,256				
Corporate	—	25	121	1,034	25	1,155	1,180	220			3 - 39 years	
Total Properties and Corporate	\$560,630	\$106,210	\$475,711	\$58,674	\$109,105	\$531,490	\$640,595	\$83,476				

