

## WALTON WESTPHALIA DEVELOPMENT CORPORATION – Q2 2015 FISCAL RESULTS

### CEO MESSAGE TO SHAREHOLDERS

Included in this report are the financial results for the second quarter of 2015 for Walton Westphalia Development Corporation (the “**Corporation**”). Launched in March 2012, the Corporation was formed to provide investors with the opportunity to participate in the acquisition and development of the 310-acre Westphalia property (the “**Property**”).

The Property is in Prince George’s County, Maryland, U.S.A., seven miles southeast of the District of Columbia. The Westphalia Property is ideally situated for community development. The Property is along the north side of Maryland State Route 4 and directly across from Joint Base Andrews, approximately 1.5 miles east of the Capital Beltway. The Capital Beltway encompasses Washington, D.C. and its inner suburbs in Maryland and Virginia. The southern edge of the Property runs parallel to Pennsylvania Avenue with more than 1.5 miles of frontage. Pennsylvania Avenue is a major commuter route, which runs 13.5 miles from the Property to Capitol Hill, the site of the White House and the Capitol Building.

### SECOND QUARTER HIGHLIGHTS

During the second quarter of 2015, the following key activities were undertaken:

- Ryan Homes and Haverford Homes commenced their lot takedowns with the Corporation’s U.S. subsidiary, satisfying the conditions according to the respective builder purchase and sale agreements;
- Ryan Homes and Haverford Homes commenced construction of their model showhomes in April, and the homes are now framed with roofs;
- the Corporation’s U.S. subsidiary completed initial paving of the street in front of the model showhomes;
- site grading, utilities installation and culvert construction in Phase 1 continued during the quarter and;
- the Board of Directors visited the site in May to meet with members of the Westphalia management team and discuss the project.



*Model homes under construction by Haverford Homes*



*Model homes under construction by Ryan Homes*

As previously disclosed, the Board of Directors approved an action plan proposed by management to address a range of strategies to potentially improve the IRR projections in order to maximize returns. Under the action plan, management is undertaking the following initiatives and strategies:

1. Pursue the option of vertical development participations with development partners.
  - Management is having discussions with potential partners on the retail, multi-family, hotel and future phases of the residential portion of the development.
2. Accelerate the development of Phase 1A.
  - Management is pursuing mezzanine financing for soft costs, as well as having discussions with potential joint venture partners on this phase.
3. Pursue alternative less expensive financing strategies.
4. Pursue the re-planning of Phases 2 and 3, including for example a town centre re-design to realize on current market opportunities such as a senior living component and/or flex industrial with Phases 2 and 3.
  - Management is presently having a land planner provide concept plans.

## APPOINTMENT OF NEW DIRECTOR

As announced on August 10, 2015, Donald Cormack has been appointed to the Board of Directors of Walton Westphalia Development Corporation.

Mr. Cormack was a Partner at PricewaterhouseCoopers and retired from PwC after serving more than 37 years. He was the Calgary and Alberta Audit and Advisory Practice Leader at PwC and a member of the National Assurance executive of PwC. He brings to the Board extensive financial accounting and reporting experience with both private and public companies covering regulatory compliance, risk management, acquisitions, corporate restructuring, internal controls and governance in Canada and the U.S.

Mr. Cormack's appointment fills the vacancy created when Cliff Fryers resigned from the Board in July. The Board of Directors now consists of Jon Hagan, Mr. Cormack and myself. Messrs. Hagan, Cormack and I have been appointed as the Audit Committee of the Board of Directors. Mr. Cormack was appointed Chairman of the Audit Committee and I have been appointed as Chairman of the Board of Directors.

I am very pleased that Mr. Cormack has joined the Board of Directors and I look forward to working with him.

At this time I would like to express my appreciation to Mr. Fryers for his commitment and contributions to the Board of Directors.

## SHAREHOLDER APPROVAL OF VERTICAL DEVELOPMENT

I am pleased to report that at a special meeting (the "**Meeting**") of the holders (the "**Shareholders**") of Class "B" Non-Voting Common Shares (the "**Shares**") of the Corporation held on July 31, 2015, the Shareholders resolved that the Corporation may undertake, from time to time in the sole discretion of the Board of Directors of the Corporation, in one or more transactions and without further approval from the Shareholders, vertical development on all or any portion or portions of the Property.

The Shares voted at the Meeting voted 93.5% in favour of vertical development. A total of 33.8% of the outstanding Shares were voted at the Meeting. Management will now proceed with reviewing and providing recommendations for the Board of Directors to approve in regards to vertical development. Such vertical development would be in conjunction with other strategies, including those previously disclosed.

## MARKET ENVIRONMENT

The latest Washington, D.C. metro area employment report points to an improving regional economy in 2015. The private sector will increasingly become the driver of Washington's economic activity and is creating jobs as the area has undergone a series of budget cutbacks in the U.S. federal government.

In May 2015, the area reported a net gain of 57,000 jobs compared to the previous 12 months.<sup>1</sup> Most indicators for the Washington area are positive. The regional unemployment rate as of May 2015 was 4.7%, well below the U.S. average of 5.6%.<sup>1</sup> The population of the Washington metro area is the U.S.'s seventh largest area in population among the country's

metro areas.<sup>1</sup> With 3.1 million payroll jobs, the Washington metro area is the fifth largest job market in the U.S.<sup>1</sup> Job growth in the Washington area is strong to date and is well above the 20-year annual average of 41,700.<sup>1</sup> The average household income in the Washington metro area grew by 49% from 2000 to 2015, compared to 32% in the U.S., and currently exceeds the U.S. national average income by 61%.<sup>1</sup>

The housing market in the Washington metropolitan area has slowed. During the second quarter of 2015, the average sale price of a house had declined and the average days a house was on the market had increased from the previous year.<sup>2</sup> During the second quarter of 2015 housing prices were down 0.4% from the second quarter of 2014, and housing sales were up 10.9% compared to the second quarter of 2014.<sup>2</sup> Housing prices in Prince George's County, where Walton's Westphalia Town Center is located, increased 4.2% during the second quarter of 2015 compared to the same period in 2014.<sup>2</sup>

It is anticipated that a combination of the following will bring modest gains to the Washington-area for-sale housing market during 2015:

- mortgage interest rates that remain relatively low by historical standards, notwithstanding a potential modest increase during the latter half of the year;
- an easing of lending standards that could open up homeownership, especially to first-time home buyers;
- job growth, driven by the private sector, that is anticipated to gain traction during 2015;
- income growth and household formation that could propel new home buyers into the marketplace; and
- anticipation of an interest rate hike by the Federal Reserve Bank before the end of the year is anticipated to increase sales activity as potential buyers take advantage of more favourable interest rates and housing prices.<sup>2</sup>

As with the rest of the Washington metro economy, the retail real estate market is showing consistent, if modest, improvement. The decline in vacancy rates at neighbourhood/community shopping centres continues, while rents have been increasing steadily since 2010 and leases have lengthened. Tenants seeking space are interested in newer, Class A space, and the increased attraction of the metro area as a destination for living, working, and shopping represents an opportunity for retailers.<sup>1</sup>

In Prince George's County the office market continued to soften during the second quarter, as major corporations, mostly government contractors, vacated large blocks of space.<sup>3</sup> It is anticipated that Prince George's office market will continue to see climbing vacancy rates due to the general lack of leasing demand in the region in the short-term.<sup>3</sup>

While we remain optimistic that there will be continued demand for new housing and commercial development in the Washington, D.C. metro market, management will continue to monitor the political and economic circumstances which could influence the Corporation's overall investment objectives.

<sup>1</sup> Delta Associates, *Washington, DC Metro Retail Outlook, Q2 2015*

<sup>2</sup> Delta Associates, *Washington, DC Washington Area Housing Outlook, Q2 2015*

<sup>3</sup> JLL *Office Insights – Prince George's County, Q2 2015*

Management will continue to work with municipal governments and other stakeholders in the planning and development of the project to realize the most effective use of the Property to attain the Corporation's investment goals.

Thank you for investing in the Corporation.

Best regards,

A handwritten signature in black ink, appearing to read 'William K. Doherty', written in a cursive style.

William K. Doherty  
President and Chief Executive Officer  
Walton Westphalia Development Corporation