Tenant Rating Report

Report on Time Warner Telecom

Rating: 4.5 – Fair

We have given Time Warner Telecom a Tenant Credit Rating of 4.5 – Fair (see page 12), which indicates we have some areas of concern about the risks inherent in having the Company expand as a tenant at Oak Park Plaza.

Scope of Analysis

Our analysis of Time Warner Telecom ("TWT" or the "Company") includes information coming from a variety of sources: (i) a review of the Company's 10-K for fiscal 2003 and additional financial documents from earlier years; (ii) on-line search and retrieval of information on TWT and the telecommunications industry; (iii) a review of articles from trade and business publications; (iv) a review of analyst and market reports; (v) a review of corporate documents for a number of leading CLECs; and (vi) phone interviews with a number of industry executives and TWT's chief financial officer.

Corporate Profile

TWT is a facilities-based provider of metropolitan and regional fiber optic broadband networks and services to business customers. The Company provides broadband data, Internet access, and local and long distance voice services in 44 metropolitan markets in the United States. TWT's customers are principally telecommunications-intensive businesses (medium- and large-sized) including financial services, health care, media and technology companies; long distance carriers (AT&T, WorldCom, Sprint and Quest); Internet service providers ("ISPs"); incumbent local exchange carriers (ILECs – Verizon, BellSouth, Qwest Communications, SBC Communications, etc.); Competitive Local Exchange Carriers (CLECS – companies that provide phone networks as alternatives to the ILECs);[1] wireless communications companies and governmental entities.

As of the end of 2003, the Company had over 4,000 buildings that were fully on its network and close to 12,000 buildings utilizing a portion of TWT's network. The Time Warner network covers over 18,000 route miles

[1] TWT is a CLEC.

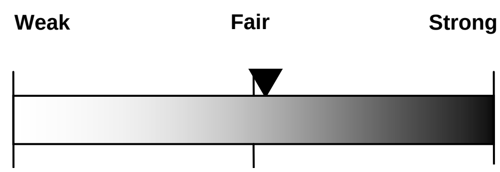
Tenant Credit Rating

This analysis utilizes The Alliance Group's Tenant Credit Rating system. The Rating represents our opinion of the current and future creditworthiness of a company with respect to a specific lease obligation and is derived from an analysis of a company's key financial and business fundamentals. Our Tenant Rating is a judgment about the risk of tenant default over the life of a lease and is designed to simplify the process of making leasing/tenant decisions and determining the need for credit enhancements (where appropriate).

To arrive at a Tenant Rating for TWT, we first scrutinized eight financial and business factors – markets, financial trends, revenue, profitability, ability to service debt, operating effectiveness, liquidity/cash flow, and capitalization – in order to develop an opinion about TWT as a *business*. Ultimately, our Tenant Credit Rating was derived from our judgment about how these factors would affect the Company's prospects and qualifications as a *tenant*.

Market Factors Rating

The Market Factors rating is an assessment of the size, maturity and dynamics of the telecommunications market, the competitive environment, and the strength of the Company's positioning within its markets.



The United States is divided into about 194 Local Access and Transport Areas (LATAs). The LATAs are, to a large extent, a carry over from the way AT&T defined long distance versus local calls. The court's mandate in the AT&T consent decree in 1984 created a framework that defined local and long distance calls and, by extension, companies that provide local and long distance service. Local transport comprises calls that originate and terminate within LATAs, while a long distance call connects customers across LATA boundaries (interLATA). Local service companies have local networks that initiate and terminate long distance calls to and from the long distance carriers' networks and the end-users on either end of the line. Since the formation of the seven Regional Bell Holding Companies (RHCs) in 1994, access to the local telephone customer has been controlled by the RHCs.

The demand for and provision of alternatives to the RHC networks began to appear in the late 1980s. Competitive Access Providers (CAPs) were the first companies to establish alternative networks by the construction of a fiber ring in a major city or concentrated source of business traffic. The ring network provided access to the major office buildings in a given metropolitan area that enabled CAPs to route (non-switched) private line traffic directly from the customer to the long distance company and bypassed the RHC completely at a price lower than the RHCs. Long distance companies actively encouraged the development of this industry and facilitated the relationship between end users and a CAP. Selling by the CAP was typically done directly to the long distance carriers. Beginning in 1994, a few states permitted CAPs to become Competitive Local Exchange Carriers (CLECs), providing local phone service, primarily to business customers.

With the passage of the Telecommunications Act of 1996, the RHCs were required to open their local networks further and “unbundle” network elements for resale to new competitive entrants, increasing the potential market significantly. Today's CLECs were essentially formed in February 1996, when the Telecommunications Act was passed in order to promote uniform local telephone competition across a variety of services. The CLEC explosion that followed surpassed many industry executives and analysts expectations.

At its most basic configuration, the national public communications network can be segmented into multiple levels, starting with the backbone or the long distance part of the network, which ultimately breaks into regional and metro networks consisting of fiber optic lines that serve a city or other more localized geographic regions. The individual metro networks connect up with multiple local networks or loops that connect individual business users with the central office of the phone company or communication service provider. This connection point between the service providers and the individual customers is called the "last mile", the "edge" or access network. The problem is that access loops were originally created primarily to transport circuit switched voice traffic at high speeds. Increasingly, however, these same loops are being used for carrying data traffic across the network and for connectivity to the Internet.

There are numerous "last mile" or access network technologies available to enterprises to speed up the flow of data traffic, including DSL, satellite, fixed wireless (LMDS), and fiber optic cable. Each of these technologies has applications in access networks and many service providers use several or all of these technologies in their network for different applications and deployment environments. TWT utilizes fiber optic cable to provide its business customers with a broadband connection linking the so-called "last-mile" and the high-capacity fiber optic loops that the Company has installed in cities throughout the country.

With the crash in the stock market and the severe slump in the telecommunications industry that started in 2000/2001, many of the emerging CLECs have failed over the last few years. According to the Association for Local Telecommunications Services ("ALTS"), more than fifty CLECs have filed for bankruptcy and several others have simply disappeared over the last two years. Of the approximately 300 "facilities based" CLECs in operation three years ago, only about 70 remain today. The market capitalization of publicly traded CLECs fell more than 60 percent in 2000 from its 1999 high, and then lost an additional 80 percent in 2001.[2]

There are a number of reasons for the CLEC meltdown, with Wall Street playing a major role. History now tells us that investment bankers showered too much money on the CLECs and/or had too much influence over their business plans. Investment bankers made "obscene profits" by pushing CLECs to adopt overly ambitious business plans (thereby increasing the amount of funding needed and raising the banks' fees), endorsing overly optimistic projections, and focusing excessively on revenue growth over profitability. Industry statistics show that CLECs went through a manic phase of over-investment and overbuilding, driven by the easy availability of capital. The executives running these companies made unwise choices about the operation of their firms and the allocation of their investments.

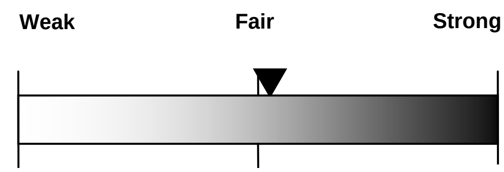
There were other issues involved in the ultimate collapse of the CLEC market, including the fact that regulators did not adequately insulate CLEC entrants from the market power of the incumbent phone giants. But in the end, the simple fact is that the CLECs failed to make money. ALTS reports that four CLECs reached "a net positive profit margin" by the year 2000, but by 2002, only three of 30 public CLECs were cash flow

[2] *The CLEC Experiment: Anatomy of a Meltdown.*

positive. Over the last three years the telecommunications industry has been hobbled by shrinking demand, a glut of network capacity and increased competition as the Baby Bells push more aggressively into the corporate-services market. All of these factors have greatly dimmed the growth opportunities for CLECs over the short and intermediate term.

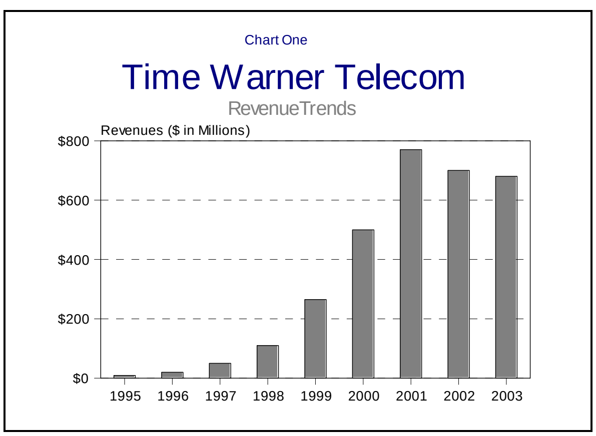
Financial Trends Rating

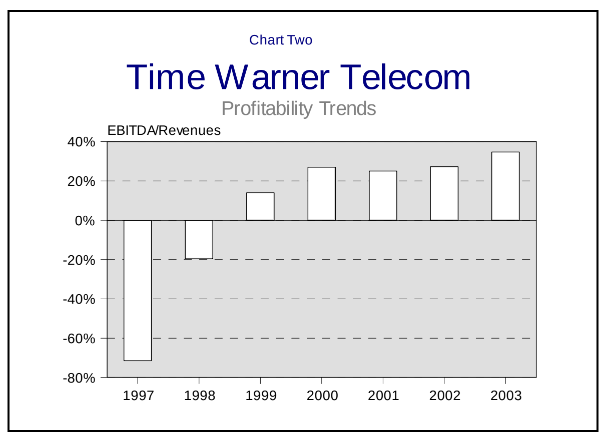
The Financial Trends rating evaluates the direction that TWT's key financial measures are headed and uses that historical perspective to gain insights about the future. A primary goal of this rating is to avoid missing important financial changes (positive and negative) that could impact the Company's future results.



We have summarized the key financial statistics from the documents we reviewed in the graphs below. and the spreadsheet found on page five of this report. The following discussion pertains to those figures.

- TWT's **revenues** expanded rapidly during the telecom boom in the late 1990s and early 2000s (Figure One), as the Company rapidly built its network from 116,000 fiber miles in 1995 to 758,000 in 2001. However, the telecom market collapse that occurred in the 2000/2001 period resulted in a weak business climate for CLECs like TWT. A flood of telecom bankruptcies, carrier disconnects and wholesale pricing pressure ultimately combined to reverse the upward trend in the Company's revenues, a decline which has persisted over the last two years.





- While revenues have trended downward in the last two years, the Company's overall **profitability** (as measured by EBITDA) improved during the same period (Figure Two), due largely to Management's aggressive restructuring and cost cutting efforts. In a period of shrinking revenues, the Company trimmed overhead rapidly enough so that the two key operating expense ratios declined as a percentage of revenues.

Table 1

Time Warner Telecom, Inc.
Financial Trends

(In thousands) *Fiscal years ended 12/31*	*2000*	*2001*	*2002*	*2003*
For the period				
Revenues				
Dedicated transport services	$245,138	$391,464	$373,928	$361,038
Switched services	107,290	152,022	146,304	152,789
Data and Internet services	32,089	63,439	90,293	104,576
Intercarrier compensation	102,817	130,782	85,049	47,325
Total revenues	487,334	737,707	695,574	669,591
Year-to-year growth rate	81%	51%	(6%)	(4%)
Operating income (EBIT)	36,322	(13,622)	(44,593)	8,440
Pre-tax income	5,910	(112,960)	(149,263)	(85,350)
EBITDA	131,617	184,310	189,217	232,344
Margins				
Gross margin	61.1%	57.1%	59.8%	60.5%
Operating (EBIT) margin	7.4%	(1.8%)	(6.4%)	1.3%
Pre-tax margin	1.2%	(16.7%)	(21.5%)	(12.7%)
EBITDA margin	27.0%	25.0%	27.2%	34.7%
Expense ratios (% of revs.)				
Operating expenses	38.0%	42.8%	40.1%	39.5%
SG&A expense	35.0%	32.2%	32.6%	25.9%
Interest expense	8.5%	15.6%	15.4%	15.4%
Cash Flow				
EBITDA	131,617	184,310	189,217	232,344
Capital expenditures	(320,703)	(425,452)	(104,831)	(129,697)
Free cash flow	(189,086)	(241,142)	84,386	102,647
Interest expense	(41,230)	(115,080)	(107,270)	(103,642)
Interest coverage	Deficit	Deficit	Deficit	Deficit
Net free cash flow	(230,316)	(356,222)	(22,884)	(995)
From operating activities	165,784	197,925	61,566	N/A
From investing activities	(178,592)	(1,087,806)	(83,965)	N/A
From financing activities	172,961	1,004,742	163,529	N/A
Net change in cash & eqv.	160,153	114,861	140,860	N/A
At period end [3]				
Assets				
Cash & equivalents [4]	254,235	384,054	506,460	$478,593
Accounts receivable	83,027	78,431	59,989	42,969
Total current assets	374,185	501,360	599,466	554,487
Prop., plant & equip. (net)	912,172	1,811,096	1,455,891	1,363,247
Intangible assets	101,397	26,773	26,773	N/A
Total assets	1,387,754	2,398,954	2,149,256	2,005,883
Liabilities/Equity				
Accounts payable	72,041	84,223	39,194	40,096
Total current liabilities	284,717	386,873	357,991	333,214
Long-term debt	585,107	1,063,368	1,206,030	1,168,383
Net worth	471,767	948,713	585,235	497,799
Key financial ratios				
Current ratio	1.3	1.3	1.7	1.7
LT debt/Capital	55%	53%	67%	70%
Receivable collection days	51	40	37	28

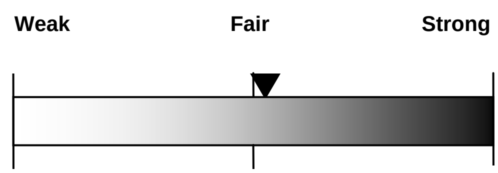
[3] These are balance sheet highlights. Certain line items have been excluded.
[4] Includes short-term marketable securities.

- While the Company's operating **cash flow** (EBITDA) over the last four years has been trending upward, cash flow from operating activities dipped in 2002 because of a sizeable paydown of accounts payable and other working capital changes. While year-end details of cash flow from operating activities in 2003 are not yet available, based on the figure for nine months, the year-end figure should be substantially up on a year-to-year basis. Management has cut back significantly on capital expenditures and spending on acquisitions, which has greatly reduced the ouflow from investing activities.

- The trends in certain of TWT's key **balance sheet** accounts have been somewhat flat in the last couple of years, with cash and long-term debt remaining relatively stable. The Company's assets have declined and net worth has fallen 48%.

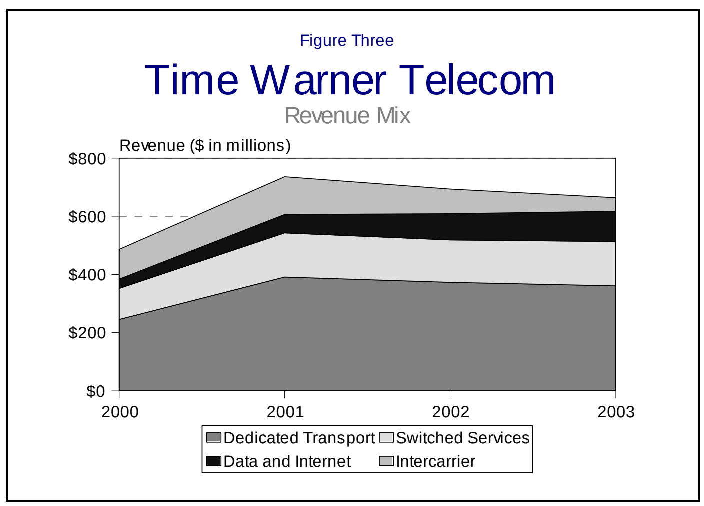
Revenue Factors Rating

The rating of Revenue Factors is a judgment on a bundle of issues, including the positives/negatives related to the Company's overall size in the telecommunications market, growth rates versus a group of similar companies, customer concentration, geographic mix, and diversity of product offerings.



TWT's revenues are diversified over 16,000 buildings in 44 metropolitan markets nationwide. There are four categories of telecommunications services that are offered.

Dedicated Transport Services between end user customers and long distance carriers, between two different long distance carriers, between various locations of an end user customer's operations, and other transport situations. This category comprised 54% of total revenues in the last fiscal year.



Switched Services provide business customers with local calling capabilities and connections to TWT's long distance carriers. 23% of total 2003 revenues.

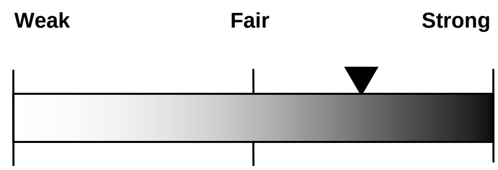
Data and Internet Services enable the Company's customers to connect their internal computer networks and access external computer networks and the Internet at very high speeds. 15% of total revenues.

Intercarrier Services provide traffic origination and termination services to other telecommunications carriers. 8% of total revenues.

It is the relatively weak opportunity for revenue growth over the next 2-3 years that is the critical issue in examining TWT's revenue factors. Expectations in the industry have gotten so low that for 2004, "A win is any growth whatsoever," says Lehman Brothers telecom analyst Steve Levy. As we have discussed earlier, the Company is well established within its 44 metropolitan markets, both in terms of penetration and in terms of having a fiber optic network already built and in place. Because the development of that network was financed via a large amount of borrowing, that infrastructure becomes a liability for TWT if revenues cannot be expanded in order to enable the Company to grow out of its leverage.

Profitability Factors Rating

The Profitability Factors rating is an evaluation developed from an analysis of TWT's current earnings and includes a comparison with a group of peers, which establishes a frame of reference for judging the Company's operating performance. The rating comes from scrutiny of what factors are contributing to/detracting from current profitability and is a judgment as to whether current profit levels restrict or enhance the Company's ability to grow and compete effectively in its markets.



The Company's currently level of profits (as measured by EBITDA) is at the top end for a CLEC. TWT has historically generated above-average profits for an emerging telecom company, largely because Management did not get caught up in the "growth at any costs" philosophy that dominated the CLEC sector at the peak of the telecom "bubble". Table 2 at the top of the next page shows the profitability gap between TWT and two of the leading CLECs (both of whom are emerging from bankruptcy) over the last three years. TWT's profitability remained high because Management built infrastructure at a pace that enabled EBITDA margins to remain decidedly positive, while others were building their companies much more aggressively and with no compunction to show a profit, under the assumption that future growth would bail them out. They also borrowed at a much more aggressive pace, with interest expense running at 40%-80% of revenues. When industry growth came to a screeching halt, these companies had nowhere else to turn but bankruptcy. How bad did it get? Of the approximately 300 "facilities based" CLECs in operation in 2000, only about 70 remained as of early 2002, with many of those in bankruptcy.

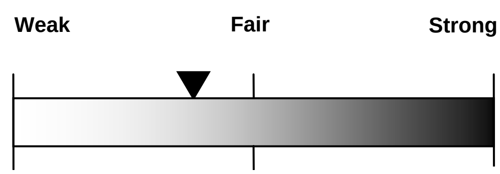
Pre-tax profits remain decidedly negative because of the substantial interest expense coming from the Company's more than $1 billion in long-term debt.

Table 2
Peer Group Comparison
($ Millions)

	XO Comm.	McLeod	Time Warner
Revenues	$1,259	$992	$669
Revenue Growth			
2003	(12%)	(13%)	(4%)
2002	Flat	(22%)	(6%)
2001	74%	35%	51%
EBITDA Margin			
2003[5]	2.2%	6.2%	34.7%
2002	(2.3%)	2.9%	27.2%
2001	(22.1%)	(3%)	25.0%
Receivable collections	48 days	34 days	28 days
Cash	$ 314	$ 57	$ 478
Intangible assets	76	474	26
Total assets	1,371	1,697	2,005
Long-term debt	500	685	1,168
Net worth	475	568	497

Ability to Service Debt Rating

This rating is an assessment of the Company's ability to support and service the debt on its books. The rating reflects our opinion on how much the current level of borrowing restricts TWT's ability to compete effectively and gauges the overall repayment risk.



TWT's free cash flow, which is one measure of a company's ability to service principal and interest payments, went above the $100 million level in fiscal 2003 and approached, for the first time, positive coverage of the Company's interest expense. Table 1 shows that the sizeable improvement in free cash flow over the last two years was, in part, due to large declines in capital expenditures, which are due to increase to $150 million to $175 million in 2004. Table 3 shows the scheduled principal payments on TWT's long-term debt over the next four years, which will not place significant pressure on the Company's cash flow. Currently, the Company's leverage and interest coverage ratios for its senior secured debt are well within covenants.

Table 3

Scheduled Principal Payments
($ in millions)

2004	$35
2005	46
2006	57
2007	68

[5] XO Communications is for nine months.

TWT's overall corporate debt rating is "B" by Standard & Poors, which is significantly below investment grade. That is not surprising due to the dominant view of the telecommunication sector's inherent riskiness at this point in time and considering the number of CLECs that have declared bankruptcy since 2000.

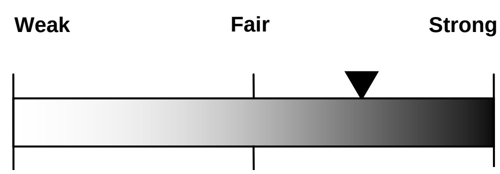
Standard & Poor's
Rating System[6]

Investment Grade
AAA
AA
A
BBB

Below Investment Grade
BB
B
CCC
CC
C
D(default has occurred)

Operating Effectiveness Rating

Operating Effectiveness rates TWT on its ability to keep overhead down by controlling expenses, trimming inventories, and speeding up collections of accounts receivable. The score measures how quickly the company is selling its services and turning those sales into cash.



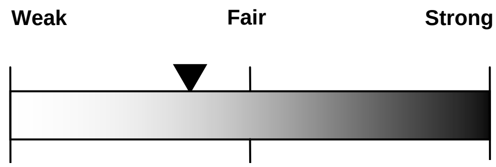
Based on Management's aggressive attempts to cut fat out of the Company's overhead, SG&A expense dropped to 26% of revenues in 2003, which is down from 32% in the two prior years. In addition, operating expenses have fallen more than three percentage points since 2001.

Management has been focusing on collections in order to maximize cash flow and has reduced the number of days that it takes to collect the average receivable from 51 days in 2000 to 28 days in the most recent fiscal year (see Table 1). Table 2 shows that compares very favorably with the Company's peers.

[6] The ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Liquidity/Cash Flow Rating

The Liquidity/Cash Flow rating measures the existing availability and the ongoing flow of liquid assets for working capital purposes and for covering the Company's current obligations. This score assesses TWT's ability to fund its ongoing short-term capital needs and measures the resources available to Management to expand operations through both acquisitions and internal growth.



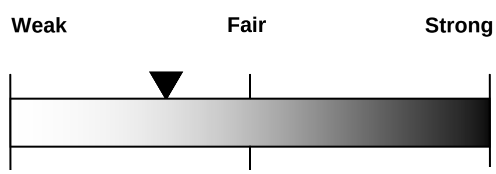
There are various ways to measure a company's liquidity, with cash reserves being a key element. In TWT's case, cash reserves were $478 million at the end of 2003, but long-term debt is more than twice that amount, which negates much of that liquidity.

The Company's $380 million revolver remained undrawn at the end of 2003, which adds a good amount to overall liquidity.

Using operating cash flow (EBITDA) as a liquidity measure, the $232 million reported in 2003 (34.7% of revenues) is a sizeable source of liquidity. However, once capital expenditures and interest expense are factored in, all of the $232 million is taken up.

Capitalization Rating

The Capitalization rating provides a measure of how well TWT's capital base supports overall operations. The score was developed from a scrutiny of overall liquidity, asset quality, the availability of and the ongoing need for capital, the level of debt versus total capitalization, and the current state of receivables, and



The Company's overall capitalization is dominated by the high level of long-term debt on its books. Three years ago that level of borrowings was not considered an overwhelming burden because of the inflated expectations about the industry's prospects for growth. Now that growth has turned into revenue declines and prospects for future growth are fairly pessimistic, the billion dollars of debt suddenly becomes a millstone around TWT's neck.

Table 4
Peer Group Debt
($ Millions)

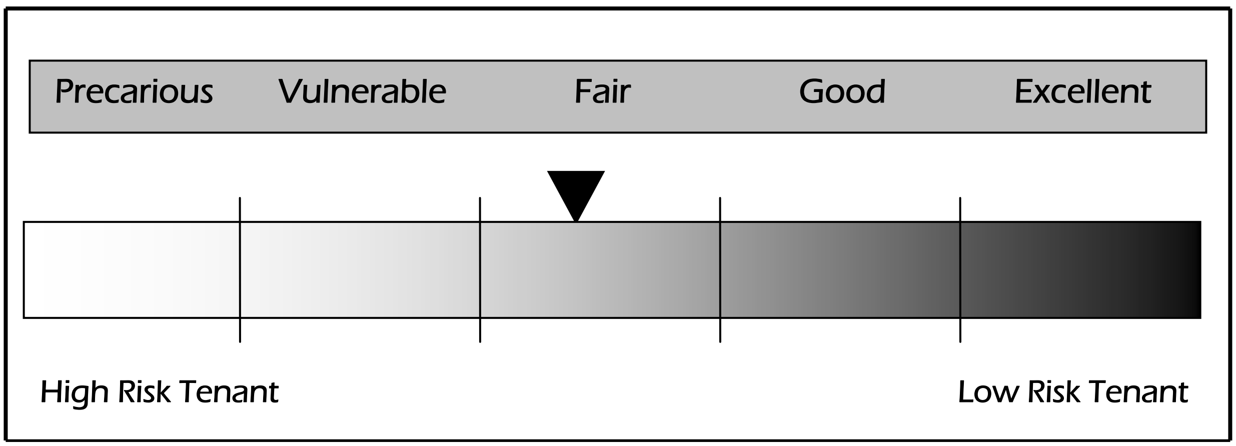
	XO Comm.	McLeod
Long-term debt		
Pre bankruptcy	$5,165	$2,709
Post bankruptcy	500	568

The debt begins to look like an even greater burden when one considers the fact that a number of CLECs have emerged or are about to emerge from bankruptcy with their long-term debt greatly reduced (Table 4). That will make the weight of TWT's borrowings even greater since it has to compete with companies that have an advantage in pricing their overall services. They also will be channeling a lot less of their working capital toward debt service.

Tenant Credit Rating: 4.5 – Fair

We have given TWT a Tenant Credit Rating of 4.5 – Fair, which indicates we have some areas of concern about the risks inherent in having the Company expand as a tenant at Oak Park Plaza. That rating means we feel credit enhancements should be considered as a way of mitigating that risk.

While the ratings on the eight business factors present our judgment about TWT as a *business*, the Tenant Credit Rating is our judgment about the Company's prospects and qualifications as a *tenant*. The Rating is not simply the average of the individual business ratings, but also takes into consideration tenant-related factors such as the $7 million being put at risk in tenant improvements and commissions. It measures the current ability of the Company to pay $10 million of yearly rent at Oak Park Plaza and includes our conclusions about the risk of tenant default over the life of the lease.



Tenant Credit Rating Guide

Rating	Level of Tenant Risk	Need for Credit Enhancements
Precarious	There is a strong possibility of tenant default, with the level of risk at an unacceptable level.	Avoid as tenant
Vulnerable	While the threat of tenant default is not currently probable, default is a possibility under certain circumstances in the future.	Protection needed
Fair	There are certain aspects of the tenant's financial condition and/or market position that are worrisome.	Enhancements should be considered
Good	The level of tenant risk is at an acceptable level.	Unnecessary
Excellent	There is little or no risk with this tenant.	Unnecessary

There is currently a substantial amount of uncertainty about the future for CLECs within the telecommunications industry. While expectations were limitless prior to 2000, the ensuing depression in the telecom sector, and the aggressive competition by the Baby Bells, has called into question the size of the opportunity for highly leveraged companies like TWT.

It is important to understand that the economics of the CLEC business, at least for TWT, are quite positive. The fact is that the Company generated more than $100 million of free cash flow in 2003, which is quite robust for a company with $670 million of revenues. Where the problem lies is with the $1.2 billion of debt on the Company's books and the $103 million of interest expense accruing from those loans, which soaks up all of that hard-earned cash flow. We use "Net free cash flow" (Table 1) as a rough measure of a company's ability to afford additional cash rent expense, and *that figure was negative in 2003.*

The key assumption that led to TWT taking on that high level of debt was that expanding revenues would enable the Company to grow out of that highly leveraged position. The theory was that, as revenues continued to grow, cash flow would expand accordingly and eventually free cash flow would reach the point where excess cash (after interest) would enable accelerating paydown of principal. With opportunities for revenue growth in the telecom market having weakened significantly, current expectations in the industry have gotten so low that for 2004, "A win is any growth whatsoever," says Lehman Brothers telecom-gear analyst Steve Levy.

TWT's business is growing, with growth in end-customer share gains and continuing expansion of its network presence. The sales force expanded to 300 in the fourth quarter, up 30% from a year earlier, and the Company added 290, 395, 426, and 458 customers during the first through the fourth quarter of 2003. However, even with that expansion, customer disconnects and pricing pressure continues to strain revenue. There are numerous companies who are either in bankruptcy or coming out of bankruptcy, who have a lot of space capacity and are expected to continue to weaken the pricing environment. In addition to those competitive pressures, the baby bells are also becoming much more aggressive in TWT's markets.

Ultimately, the key question becomes how TWT can grow out of its leverage, and, until that uncertainty is cleared up, one has to view the Company's future with a wait-and-see attitude. Our recommendation is to mitigate the risk of investing $6-$8 million in the TWT lease by requiring a letter of credit to be put in place for that amount, with the proviso that the LC requirement can be incrementally dissolved by the achievement of a number of financial benchmarks (see below). The achievement of any one of these benchmarks is an indication that the Company's financial fortunes are improving and that the tenant risk is decreasing. We have concentrated on revenue growth and interest coverage since those are the two key factors governing TWT's future.

- Year-to-year revenue growth of 5% (before acquisitions) or better for four consecutive quarters.
- Year-to-year revenue growth of 8% (before acquisitions) or better for four consecutive quarters.
- Interest coverage ratio (EBITDA - capital expenditures/Interest expense) of 1.2 times or better for four consecutive quarters.
- Interest coverage ratio of 1.5 times or better for four consecutive quarters.
- Net debt (long-term debt less cash & equivalents and short-term marketable securities) equal to $500 million or less for four consecutive quarters.

Michael F. Calhoun
March 13, 2004

Michael F. Calhoun has 25 years of experience in financial analysis, business management and corporate evaluation. He is President of The Alliance Group, a consulting firm specializing in corporate due-diligence studies, acquisition searches, business valuations and investment analysis services. Mr. Calhoun is a former investment analyst for both the Dreyfus Corporation and Oppenheimer Management.