

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
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### FILER

#### SMITH CHARLES E RESIDENTIAL REALTY LP

CIK: **906785** | IRS No.: **541681657** | State of Incorporation: **MD** | Fiscal Year End: **1231**  
Type: **10-K** | Act: **34** | File No.: **000-25968** | Film No.: **99573396**  
SIC: **6513** Operators of apartment buildings

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

X Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act  
-- of 1934 for the fiscal year ended December 31, 1998, or

\_\_\_ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934 for the period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1934 Act File Number: 0-25968

CHARLES E. SMITH RESIDENTIAL REALTY L.P.  
(Exact name of registrant as specified in its charter)

Delaware 54-1681657  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

2345 Crystal Drive 22202  
Crystal City, Arlington, VA (Zip Code)  
(Address of principal executive offices)

Registrant's telephone number, including area code: (703) 920-8500

Securities registered pursuant to Section 12(b) of the Act:

Class A Units of Limited Partnership Interest  
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes X No \_\_\_  
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Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K is not contained herein, and will not be contained, to the  
best of Registrant's knowledge, in definitive proxy or information statements  
incorporated by reference in Part III of this Form 10-K or any amendment to this  
Form 10-K. \_\_\_

Documents Incorporated by Reference

Portions of the proxy statement of Charles E. Smith Residential Realty,  
Inc. for its annual shareholders' meeting to be held in 1999 are incorporated  
by reference into Part III.

FORWARD-LOOKING STATEMENTS

When used throughout this report, the words "believes", "anticipates", and  
"expects" and similar expressions are intended to identify forward-looking  
statements. Such statements indicate that assumptions have been used that are  
subject to a number of risks and uncertainties which could cause actual  
financial results or management plans and objectives to differ materially from  
those projected or expressed herein, including: the effect of national and  
regional economic conditions, particularly with regard to the levels of  
multifamily property occupancy and rental growth in the Washington, D.C.,  
Chicago and Boston metropolitan areas; the registrant's ability to identify and  
secure additional properties and sites that meet its criteria for acquisition or  
development; the acceptance of the registrant's financing plans by the capital  
markets, and the effect of prevailing market interest rates and the pricing of  
the Company's stock; and other risks described from time-to-time in the  
Registrant's filings with the Securities and Exchange Commission. Given these  
uncertainties, readers are cautioned not to place undue reliance on such  
statements. The Registrant undertakes no obligation to publicly release the  
result of any revisions to these forward-looking statements that may be made to  
reflect any future events or circumstances.

PART I

Item 1. Business.

Charles E. Smith Residential Realty L.P., a Delaware limited partnership  
(the "Operating Partnership"), was formed in 1993 and commenced operations on  
June 30, 1994. It is managed by its general partner, Charles E. Smith

Residential Realty, Inc., a Maryland corporation (the "Company"), which is a self-administered and self-managed equity real estate investment trust("REIT"). The Company was organized in 1993 and also commenced operations on June 30, 1994 upon completion of its initial public offering (the "Initial Public Offering").

The Operating Partnership and the Company are engaged primarily in the acquisition, development, management and operation of multifamily properties. The Operating Partnership, together with the Company and their respective subsidiaries as described below, is a fully integrated real estate organization with in-house acquisition, development, financing, marketing, leasing and property management expertise. The Operating Partnership's primary strategy for growth is to acquire, develop, own and manage high quality multifamily properties for income generation and long-term value appreciation.

The Company is the sole general partner and holds approximately 62% of the common and preferred units of limited partnership interest ("Units") in the Operating Partnership as of March 1, 1999. The other limited partners of the Operating Partnership (the "Minority Interest") primarily consist of the former limited and general partners of properties and the former owners of the property service businesses acquired by the Operating Partnership (see "History of the Company" below). The Operating Partnership and its subsidiaries own all of the properties, property interests, and business assets and conduct all operations on behalf of the Company and

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the Operating Partnership. The Operating Partnership owns 100% of the nonvoting common stock, which represents 99% of the total economic interest, of three operating companies (collectively, the "Property Service Businesses") which provide property services to the properties owned by the Operating Partnership and to other multifamily, retail, and office properties. The three Property Service Businesses are: Smith Realty Company, which directly provides management, leasing, financing, development and insurance services and indirectly provides furnished corporate apartments through a wholly-owned subsidiary; Consolidated Engineering Services, Inc., which provides engineering and technical services; and Smith Management Construction, Inc., which provides construction and interior renovation services. As the sole general partner of the Operating Partnership, the Company has the exclusive power to manage and conduct the business of the Operating Partnership, subject to the consent of the holders of Units in connection with the sale of all or substantially all of the assets of the Operating Partnership. Some references made herein to the Company include the Operating Partnership and the Property Service Businesses, as the context requires.

As of March 1, 1999, the Operating Partnership, directly or through its subsidiaries, owned 50 operating multifamily apartment properties containing a total of 19,852 units (the "Multifamily Properties"), two retail centers containing approximately 436,000 square feet of retail space (the "Retail Properties"), and had four properties under construction containing approximately 2,100 units ("Development Properties"). All properties, excluding five in Chicago, Illinois and two in Boston, Massachusetts, are located in the Washington, D.C. metropolitan area (collectively, the "Properties").

The executive offices of the Operating Partnership are located at 2345 Crystal Drive, Crystal City, Arlington, Virginia 22202, and its telephone number is (703) 920-8500.

#### History of the Company

The Operating Partnership was formed to succeed to the property assets of 38 partnerships (the "Property Partnerships") and certain asset management and property service businesses of the Charles E. Smith Companies (the "Smith Companies"). On June 30, 1994, the Company consummated an initial public offering (the "Initial Public Offering") of 8,632,800 shares of its common stock, \$.01 par value per share (the "Common Stock"), and a private placement of 416,667 shares of its Common Stock. The Company contributed the net proceeds of such offerings to the Operating Partnership in return for 9,049,467 Units of general and limited partnership interest therein. On that same date, (i) the Operating Partnership acquired, in exchange for 12,131,292 Units, 30 Properties (reflects the combination of three buildings into one for operational and statistical purposes), partial interests in two additional properties, all of the non-voting common stock of the Property Service Businesses (representing 99% of the economic interest), and notes of the Property Service Businesses in the aggregate amount of \$44.5 million; (ii) the Operating Partnership, through its partnership subsidiaries, issued \$352.4 million of fixed-rate indebtedness secured by certain of the Properties in private placements to institutional investors and assumed certain other indebtedness (the "Mortgage Loans"); (iii) the Operating Partnership applied the proceeds of the Mortgage Loans and the Company's contribution of offering proceeds to repay approximately \$454 million of mortgage indebtedness,

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\$26.2 million in related party indebtedness and \$11.1 million in notes payable to a bank, to pay \$13.8 million in prepayment penalties related to the early extinguishment of debt, to pay \$14.7 million in transfer taxes and other costs associated with the formation of the Company and the Operating Partnership, and to pay \$18.5 million of mortgage recording taxes, origination fees and other expenses associated with the Mortgage Loans, and to supply \$15.4 million of working capital; and (iv) the Operating Partnership established a \$100 million line of credit to fund development activities and property acquisitions and for general corporate purposes (collectively, the "Formation Transactions").

Since the Formation Transactions and through March 1, 1999, the Operating Partnership developed one and acquired 24 operating Multifamily Properties totaling 9,351 apartment units and sold three properties totaling 1,334 units. In addition, the Operating Partnership had approximately 2,100 units under construction in four Development Properties as of March 1, 1999 (see "Recent Developments" below).

#### Business Strategy

The Operating Partnership seeks growth in funds from operations (a common measure of equity real estate investment trust performance, defined as net income [loss] computed in accordance with generally accepted accounting principles, excluding gains or losses from debt restructuring and other non-recurring items, plus depreciation and amortization of assets unique to the real estate industry) while preserving and enhancing property values by pursuing the following strategies: (i) maximizing cash flow from operations of the Properties by seeking to maintain high occupancy levels, obtain rent increases, manage tenant turnover efficiently, make strategic capital investments, expand the availability of furnished rental apartments, initiate new tenant fees and control operating expenses; (ii) acquiring additional multifamily properties for Common Stock, Units, or cash in situations where, in the judgment of management, the Operating Partnership's business strengths have the potential to increase property performance and value; (iii) developing new multifamily properties consistent with the predecessor Smith Companies' historical policies of constructing and maintaining high quality properties for long-term income and value enhancement; and (iv) actively promoting the comprehensive property services of the Property Service Businesses to unaffiliated property owners. In addition to its activities in the Washington, D.C. metropolitan area, the Operating Partnership also seeks to acquire additional properties or portfolios in Chicago, Boston, southeast Florida and other markets with characteristics similar to the Operating Partnership's current portfolio that offer opportunities for profitable investment and long-term growth.

#### Financing Strategy

To the extent that the Company's board of directors determines to seek additional capital for acquisitions or otherwise, the Company or the Operating Partnership may raise such capital through additional equity offerings, debt financing or retention of cash flow (subject to provisions of the Internal Revenue Code of 1986, as amended, requiring the distribution by a REIT of a certain percentage of taxable income and taking into account taxes that would be imposed on undistributed taxable income), or a combination of these methods.

#### Equity

During 1998 and through March 1, 1999, the Company and the Operating Partnership completed several equity transactions.

In January 1998, the Company sold 500 shares of Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Shares"), \$0.01 par value, to Cobalt Capital, L.L.C. The Company contributed the net proceeds to the Operating Partnership in exchange for 500 units of Series C Cumulative Redeemable Preferred Units ("Series C Preferred Units").

The Operating Partnership amended the Articles of Incorporation to designate and establish the rights and privileges of the Series C Preferred Unitholders which include certain voting, distribution and liquidation preferences over the common unitholders. The Series C Preferred Units have a liquidation preference of \$100,000 per unit and an initial annual distribution of \$7,910 per unit (7.91% of purchase price). If the securities receive an investment grade rating, the distribution will decrease to \$7,660 per unit. Distributions are cumulative and are payable quarterly. The Operating Partnership may redeem Series C Preferred Units after February 1, 2028, at the liquidation price plus accrued distributions.

In April 1998, the Company sold the remaining 978,581 shares of Series A Cumulative Convertible Redeemable Preferred Stock ("Series A Preferred Shares") to Security Capital Preferred Growth Inc. under the May 1997 agreement. The Company contributed the net proceeds to the Operating Partnership in exchange for 978,581 units of Series A Cumulative Convertible Redeemable Preferred Units ("Series A Preferred Units").

In July 1998, the Company completed the sale of 1,400,000 shares of common stock (par value of \$0.01 per share) under its existing shelf registration statement. The net proceeds were contributed to the Operating Partnership in exchange for 1,400,000 units of common units.

During 1998, 502,038 shares of Series B Cumulative Convertible Redeemable Preferred Stock ("Series B Preferred Shares") were converted to common shares on a one-for-one basis. The Operating Partnership converted 502,038 units of Series B Cumulative Convertible Redeemable Preferred Units ("Series B Preferred Units") to common units on a one-for-one basis.

The Company currently has on file with the Securities and Exchange Commission an effective registration statement which allows the sale of up to \$450,000,000 in debt or equity securities, of which approximately \$312,000,000 remains available. As long as the Operating Partnership is in existence, the net proceeds of all equity capital raised by the Company will be contributed to the Operating Partnership in exchange for limited partnership interests in the Operating Partnership. The Company and the Operating Partnership also may issue securities senior to the Common Stock or Units, including additional preferred stock or debt securities (either of which may be convertible into Common Stock or Units or may be accompanied by warrants to purchase Common Stock or Units).

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#### Debt

The Operating Partnership's policy, which is set by the Board of Directors of the Company, is to incur debt (including debt incurred under its lines of credit) only if upon such incurrence its ratio of debt to total market capitalization would be 60% or less. The Operating Partnership may reevaluate or modify this financing policy from time to time in light of economic conditions, relative costs of debt and equity capital, market values of properties, growth and acquisition opportunities and other factors. At December 31, 1998, the Operating Partnership's debt to total market capitalization ratio was 40.3%.

#### Property Management

The Operating Partnership and its Property Service Businesses are experienced in the management and leasing of multifamily and retail properties. The Operating Partnership believes that the management and leasing of its own portfolio has resulted in consistent income growth and reduced operating expenses. The Property Service Businesses have provided the Operating Partnership both with a source of cash flow and with economies of scale in conjunction with the management and leasing of its own Properties. These Property Service Businesses also allow the Operating Partnership and its subsidiaries to establish additional relationships with tenants that benefit the Properties.

#### Property Service Businesses

**Multifamily Property Management Services.** The residential property management business of Smith Realty Company ("SRC"), an operating subsidiary of the Operating Partnership, is a long-established, integrated business with extensive experience in leasing and managing multifamily properties. This subsidiary has been managing and leasing multifamily housing in the Washington, D.C. metropolitan area since 1946 and, as of March 1, 1999, manages 63 apartment properties of which 50 are owned by the Operating Partnership. It also assists in the development and acquisition of additional multifamily properties and carries out a periodic inspection program that addresses all aspects of the property and property management.

During 1998, Multifamily and Retail Property Management Services expanded the corporate apartment program as a result of the acquisition by Smith Realty Company of Noel Enterprises, Inc. (d.b.a. "Presidential Villas"), a provider of furnished corporate apartments in Chicago, Illinois. A portion of the total purchase price of \$8.5 million is contingent upon achievement by Presidential Villas of certain earnings targets over the next two years. The Operating Partnership lent to Smith Realty Company the initial payment of \$6.75 million in exchange for a five year note.

**Retail Property Management Services.** The retail management and leasing business, also conducted through Smith Realty Company, approaches the management and leasing of its retail portfolio with an integrated program of regular direct communication with retail tenants,

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proactive assistance with marketing, merchandising and monitoring store operations, and maintenance. A retail marketing staff works to promote the shopping centers as a whole and to work with individual tenants to ensure the effectiveness of store design, marketing, merchandising and sales efforts. The retail management and leasing group, in addition to providing complete property

management and leasing services for the Operating Partnership's two Retail Properties totaling approximately 436,000 square feet, also provides such services for a fee to three retail properties owned by affiliated parties totaling approximately 293,000 square feet. Smith Realty Company also provides retail leasing and brokerage services for additional, unaffiliated third parties on a fee-for-service basis.

**Financing Services.** Historically, the Operating Partnership solicited, procured and arranged financing for a fee on behalf of commercial office properties, the majority of which are affiliated with Robert H. Smith and Robert P. Kogod, the Co-Chief Executives and Co-Chairmen of the Board of the Company and the owners of approximately 13% of the Shares and Units of the Company. During the fourth quarter of 1997, Financing Services personnel transferred to Charles E. Smith Commercial Realty L.P. ("CESCR"), a commercial office partnership affiliated with Messrs. Smith and Kogod. In 1998 most of the remaining commercial office properties were rolled up into CESCR. In connection with the formation of CESCR, the Operating Partnership entered into a 14-month agreement to continue to provide financing services for certain of the properties of CESCR through December 31, 1998. Management does not expect any significant future income from Financing Services.

**Engineering and Technical Services.** The engineering and technical services business is conducted through Consolidated Engineering Services, Inc., an operating subsidiary of the Operating Partnership, which manages, operates, maintains and repairs the "physical plant" of office, multifamily, and retail properties. Through its staff of on-site and off-site engineers, supervisors, technical specialists and maintenance personnel, this subsidiary provides various services, including on-site building systems operations and maintenance, engineering and technical consulting, automated environmental monitoring and controls, preventive maintenance, management of building environmental systems and repair and replacement of mechanical/electrical systems. This business serves the Properties and also provides facilities management services for both affiliated and unaffiliated third parties, including condominium, bank, university and government buildings. During 1998, services were provided with respect to approximately 46 million square feet of facilities.

**Interior Construction and Renovation Services.** The construction services business, conducted through Smith Management Construction, Inc., an operating subsidiary of the Operating Partnership, is a construction management and general contracting company that provides interior construction and renovation services to the Properties and various other affiliated and unaffiliated third party clients. This business focuses primarily on capital improvement projects and office and retail tenant space construction and alteration, and provides the expertise necessary to take a project from the initial planning and preconstruction stage through the completion of construction. In 1998, oversight was provided to approximately \$80 million of construction activity.

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**Corporate Services.** The corporate services businesses, conducted through Smith Realty Company, enable a central office to provide supporting services in the areas of insurance, legal advice, accounting, information systems, human resources, office administration and marketing to the Operating Partnership and its subsidiaries, as well as to other affiliated third parties, including CESCR. Services are provided at cost (including overhead) in accordance with cost and executive sharing agreements. In management's opinion, the allocation methods provide reasonable estimates of the costs that would have been incurred by the Operating Partnership had the services been provided by the Operating Partnership.

The accounting department is responsible for all accounting, auditing and controls, procedures and management information systems as they relate to the Operating Partnership and the Properties, and for certain other partnerships and corporate entities (including affiliates of Messrs. Smith and Kogod). The legal department provides real estate and corporate advice to management, performs legal services and in some cases coordinates representation by outside counsel. The marketing department develops and implements a variety of marketing programs for the Operating Partnership and its subsidiaries. The human resources department administers all personnel functions. The insurance subsidiary provides property and casualty insurance placement services for both corporate and individual property requirements.

#### Employees

As of March 1, 1999, the Operating Partnership and its subsidiaries had approximately 1,820 full-time and part-time employees, the latter primarily employed in on-site clerical positions. This total includes 680 employees who provide on-site property services and, in the Property Service Businesses, 690 persons in its engineering and technical services subsidiary, 120 persons in its interior construction and renovation subsidiary, and 330 persons in its residential and retail leasing and management, finance, and corporate services subsidiary.

#### Recent Developments

Acquisition Properties. During 1998, the Company, through the Operating Partnership, acquired five operating multifamily properties containing 1,942 apartment units, as further described below.

Tunlaw Park. In January 1998, this 120-unit mid-rise property in northwest Washington, D.C. was acquired for \$0.8 million in cash and 123,818 Operating Partnership units valued at \$4.4 million. The property was developed and managed by the Smith Companies and the Operating Partnership previously owned a 20% minority interest.

Tunlaw Gardens. In January 1998, this 167-unit, garden property in northwest Washington, D.C. was acquired for \$6.9 million consisting of \$2.5 million cash and 130,371 Operating Partnership units valued at \$4.4 million. The property was previously managed by the Operating Partnership.

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Parc Vista. In April 1998, this 299-unit, 16-story high-rise built in 1990 was acquired for approximately \$39 million of cash funded by \$4.3 million in proceeds from the sale of Oxford Manor with the balance drawn on the line of credit. During the fourth quarter of 1998, the property had an average economic occupancy of 98.4% and average monthly rental revenue per apartment unit of approximately \$1,430.

McClurg Court. In May 1998, the Operating Partnership acquired a 1,075-unit multifamily property in Chicago, Illinois. The cost of approximately \$70 million cash was funded from the line of credit and proceeds from the sale of Series A Preferred Shares totaling \$26.5 million. Approximately 13% of the underlying land is included in the purchase, with the balance subject to ground leases expiring in 2067. The total capitalized cost of approximately \$74 million reflects \$4 million of planned initial capital improvements. During the fourth quarter of 1998, the property had an average economic occupancy of 93.4% and average monthly rental revenue per apartment unit of approximately \$1,287.

Cronin's Landing. In July 1998, the Operating Partnership acquired a newly-constructed 281-unit mid-rise multifamily property in Boston, Massachusetts. The total capitalized cost of approximately \$63.5 million was comprised of \$27.0 million cash, \$31.5 million in assumed debt, a fair value adjustment to debt of \$2.0 million, and 92,793 Operating Partnership units valued at \$3.0 million. During the fourth quarter of 1998, the property had an average economic occupancy of 89.5% and average monthly rental revenue per apartment unit of approximately \$1,733.

In January 1999, the Company, through the Operating Partnership acquired three additional properties as further described below.

Buchanan House. This 442-unit property in Crystal City, Virginia was acquired for a total capitalized cost of \$65.5 million which includes assumed debt of \$7.4 million, initial capital improvement costs of \$5.0 million and \$0.4 million in acquisition related costs. Cash of \$52.7 million was provided by \$17.7 million in proceeds from the sale of Marbury with the balance drawn on the line of credit. In February 1999, the Operating Partnership repaid the assumed debt of \$7.4 million through a draw on the line of credit. The Operating Partnership paid a prepayment penalty of \$0.9 million which was recognized as an extraordinary loss.

Parkwest. This 139-unit property in Chicago, Illinois was acquired for a total capitalized cost of approximately \$14.1 million, consisting of 201,950 Operating Partnership Units valued at \$6.3 million, assumed debt of \$6.0 million, a fair value adjustment to debt of \$0.4 million, initial capital improvement costs of \$0.8 million, and \$0.6 million in other related costs.

Terrace. This 427-unit property in Chicago, Illinois was acquired for a total capitalized cost of approximately \$26.1 million, consisting of 320,304 Operating Partnership Units valued at \$10.0 million, assumed debt of \$13.7 million, a fair value adjustment to debt of \$0.7 million, initial capital improvement costs of \$0.4 million, and \$1.3 million in other related costs.

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In March 1999, the Operating Partnership acquired the land beneath the Crystal Square property and the 5.1% net profits interest in the Crystal Plaza property. The purchase price of \$10 million consisted of 32,258 Operating Partnership Units valued at \$1 million and \$9 million cash drawn upon the line of credit.

Disposition Properties. During 1998, the Operating Partnership sold two properties (Oxford Manor and Marbury Plaza) in southeast Washington, D.C. for a total of \$22.0 million. The Operating Partnership recognized gains on the sales totaling \$18.2 million.

In February 1999, the Operating Partnership sold The Manor, a 435-unit

property located in suburban Maryland for \$23.0 million. The Operating Partnership recognized a gain on the sale of \$1.9 million.

Development Properties. During 1998, the Operating Partnership had four properties totaling 2,146 apartment units under construction.

Springfield Station. The Operating Partnership is nearing completion on the construction of its 631-unit mid-rise and garden apartment property in Springfield, Virginia. The project is located adjacent to a new Metrorail and commuter rail station and a regional shopping mall and offers convenient access to major transportation routes. Initial delivery was in May 1998, with final delivery projected in the second quarter of 1999.

Courthouse Place. The Operating Partnership is nearing completion on the construction of its 564-unit high-rise apartment property in Arlington, Virginia. The initial delivery of 103 units was in December 1998. Final delivery is expected in December 1999.

One Superior Place. During 1997, the Operating Partnership began construction on a 52-story, 809-unit high-rise apartment and commercial center in downtown Chicago. Initial occupancy is expected in the third quarter of 1999 with final delivery in mid-2000.

Park Connecticut. During 1998, the Operating Partnership began construction on a 142-unit high-rise apartment property in downtown Washington, D.C. The project is expected to deliver initial units in the fourth quarter of 1999 with stabilization in the second quarter of 2000.

As of March 1, 1999, the Operating Partnership owned \$14.5 million of land for future development.

Prepurchase Agreements. During 1998, the Operating Partnership entered into four contracts to purchase to-be-constructed multifamily properties totaling approximately 1,200 apartment units ("Prepurchase Agreements"). The maximum aggregate purchase price totals \$151 million with projected closing dates between July 2000 and May 2001. Further details of each project are reflected below.

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Reston Landing. This 400-unit property is expected to be completed in the fourth quarter of 1999. The Operating Partnership expects to acquire the property in the third quarter of 2000 at a cost of \$44 million, including earn-out payments.

New River Village. This 240-unit property is expected to be completed in the second quarter of 2000. The Operating Partnership expects to acquire the property in the fourth quarter of 2000 at a cost of \$32 million, including earn-out payments.

Wilson Boulevard. This 220-unit property is expected to be completed in the second quarter of 2000. The Operating Partnership expects to acquire the property in the fourth quarter of 2000 at a cost of \$28 million, including earn-out payments.

Pollard Gardens. This 383-unit property is expected to be completed in the fourth quarter of 2000. The Operating Partnership expects to acquire the property in the second quarter of 2001 at a cost of \$47 million, including earn-out payments.

These acquisitions are contingent upon satisfactory completion of construction and attainment of final certificates of occupancy by the owners. At December 31, 1998, the Operating Partnership had posted three letters-of-credit totaling \$7.7 million in accordance with three of the contracts to be drawn upon only if the Operating Partnership defaults on its contractual obligations to purchase the completed assets.

#### Financial Information

For information relating to the Operating Partnership's operating segments, please refer to Footnote 14 in the Financial Statements.

#### Executive Officers of the Company

The following is a biographical summary of the experience of the executive officers of the Company:

Robert H. Smith. Mr. Smith is Co-Chief Executive Officer and Co-Chairman of the Board of the Company and Co-Chairman of the Board of each of the Property Service



Businesses. Since 1962, Mr. Smith has been the President, Chief Executive Officer and a director of Charles E. Smith Construction, Inc. and its predecessor companies, where he oversees and directs all phases of development and construction of the Smith Companies' office, retail and residential real estate projects. He is also Co-Chairman of the Board and a director of Charles E. Smith Commercial Realty, Inc. which together with its subsidiaries and affiliates is engaged in the ownership, operation, and management of commercial office buildings. Mr. Smith joined the Smith Companies in 1950. Mr. Smith is 70 years old and the brother-in-law of Robert P. Kogod.

Robert P. Kogod. Mr. Kogod is Co-Chief Executive Officer and Co-Chairman of the Board of the Company and Co-Chairman of the Board of each of the Property Service Businesses. From 1964 to 1997, Mr. Kogod was the President, Chief Executive Officer and a director of Charles E. Smith Management, Inc., where he oversaw and directed all phases of the leasing and management of the Smith Companies' commercial real estate portfolio. He is now the Co-Chairman of the Board and a director of Charles E. Smith Commercial Realty, Inc., a successor to Charles E. Smith Management, Inc., and the owner, operator, and manager of commercial office buildings. He is also Secretary/Treasurer and a director of Charles E. Smith Construction, Inc., an affiliated company that specializes in the development and construction of office, retail and residential projects. Mr. Kogod joined the Smith Companies in 1959. Mr. Kogod is 67 years old and the brother-in-law of Robert H. Smith.

Ernest A. Gerardi, Jr. Mr. Gerardi is President, Chief Operating Officer and a Director of the Company, and is President, Chief Executive Officer, and a director of each of the Property Service Businesses. From 1985 until 1994, Mr. Gerardi was a member of the Executive Committee of Charles E. Smith Management, Inc., where he had overall responsibility for all day-to-day business operations and long-range planning. From 1985 through 1993, he served as Executive Vice President and Senior Executive Vice President of Charles E. Smith Management, Inc. Prior to joining the Smith Companies in 1985, Mr. Gerardi was with Arthur Andersen and Co., where he served as senior partner in charge of the firm's accounting and financial practice for over 250 professionals in Washington, D.C. During his 27 years with Arthur Andersen, he specialized in management consultation and strategic planning. He is also a member of the American Institute of Certified Public Accountants and the D.C. Institute of Certified Public Accountants. Mr. Gerardi is 63 years old.

Wesley D. Minami. Mr. Minami is Senior Vice President and Chief Financial Officer of the Company and Smith Realty Company, one of the Property Service Businesses, and is responsible for the Company's debt portfolio, corporate financial planning, local acquisitions, and its treasury, accounting, controls and information systems departments. Prior to joining the Company in 1997, Mr. Minami was the Chief Financial Officer for Ascent Entertainment Company where he was responsible for an \$86 million initial public offering spin-off of Ascent, which had been a wholly-owned subsidiary of Comsat Corporation. Formerly, he had served as the Treasurer of Comsat Corporation. From 1985 to 1993, Mr. Minami held several positions, including Senior Vice President, Chief Financial Officer at Oxford Realty Services Corporation which developed and managed a portfolio of over 45,000 apartment units. Mr. Minami is 42 years old.

Robert D. Zimet. Mr. Zimet is Senior Vice President, General Counsel and Secretary of the Company and Smith Realty Company, one of the Property Service Businesses. He was the General Counsel and a Senior Vice President of Charles E. Smith Management, Inc., since joining the Smith Companies in 1983, and became a Group Senior Vice President in 1991. He continues in these capacities for Charles E. Smith Commercial Realty, Inc., a successor to Charles E. Smith Management, Inc., and the owner, operator, and manager of commercial office buildings. Mr. Zimet is responsible for the legal affairs of the Company and the Smith Companies, as well as supervision of the Human Resources and Office Services departments of Smith Realty Company. Mr. Zimet is 60 years old.

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John T. Gray. Mr. Gray is the Senior Vice President-Residential Management of the Company and Smith Realty Company, one of the Property Service Businesses. Prior to joining the Smith Companies in November 1998, he was President for two years of Walter V. Clark Associates, a human resources consulting firm. Prior to that, Mr. Gray was with Summit Properties, Inc. for ten years. As President of the Management Company, he was an active participant in Summit's initial public offering and had total responsibility for the residential portfolio of over 20,000 apartment units. Mr. Gray is responsible for the overall management, leasing and operation of Smith's multifamily portfolio. Mr. Gray is 43 years old.

Matthew B. McCormick. Mr. McCormick is the Senior Vice President-Residential Marketing of the Company and Smith Realty Company, one of the Property Service Businesses. Prior to January 1998, Mr. McCormick was the Senior Vice President and Department Head of the Retail Group, where he was responsible for retail property management and leasing, as well as outside retail brokerage services. Prior to joining the Smith Companies in 1988, Mr. McCormick was a retail specialist with the Washington, D.C. office of Coldwell Banker. Mr.

McCormick is 38 years old.

Alfred G. Neely. Mr. Neely is Senior Vice President-Development of the Company, responsible for the zoning, planning and development of all multifamily buildings. Since joining Charles E. Smith Construction, Inc., in 1989 as a Senior Vice President and now as a Group Senior Vice President, Mr. Neely has been responsible for zoning, planning and development. Prior to joining the Smith Companies, Mr. Neely was Executive Vice President and Managing General Partner of the New Height Group, a real estate and development company in Denver, Colorado. During his nine years with this company, Mr. Neely has been responsible for development and management of mixed-use properties. Mr. Neely is 53 years old.

## Item 2. Properties

### General

The 56 Properties as of March 1, 1999 consist of 50 Multifamily Properties, four Development Properties and two Retail Properties, as described in more detail below. Twenty-eight of the Multifamily Properties (reflecting the combination of three buildings into one for operational and statistical purposes) and both Retail Properties were acquired in connection with the Formation Transactions. In addition, the Operating Partnership held a minority limited partnership interest in one other multifamily property in the Washington metropolitan area, acquired in the Formation Transactions and increased in a subsequent transaction.

All of the Operating Partnership's properties are located in developed areas that include other residential and retail properties. The number of competitive residential properties in a particular area could have a material effect on the Operating Partnership's ability to lease apartment units and on the rents charged. In addition, other forms of single and multifamily residential properties provide housing alternatives to tenants and potential tenants of the

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Operating Partnership's residential properties. The Operating Partnerships's retail properties face similar competition with other retail properties with respect to tenant leases. The Operating Partnership believes that the properties are well located in their markets and are well constructed and designed. In the opinion of management, the Operating Partnership's properties are adequately covered by insurance.

### Multifamily Properties

The 48 operating Multifamily Properties owned as of December 31, 1998 contain a total of 19,279 garden, mid-rise, and high-rise apartment units, ranging in size from 115 to 1,075 apartment units. Two of the properties are located in Chicago, Illinois, two are located in Boston, Massachusetts with the balance in the Washington D.C. metropolitan area. All of the Multifamily Properties are 100% owned by the Operating Partnership and its subsidiaries. In 1998, the average monthly rental revenue per core unit was \$970 and the average economic occupancy was 96.6% for the Core Residential Portfolio (Multifamily Properties owned as of December 31, 1996.) As of December 31, 1998, the average age of the operating Multifamily Properties, weighted by 1998 revenues, was 25 years.

Each of the Multifamily Properties is established in its local market and provides residents with numerous amenities and services, which may include 24-hour desk service, swimming pools, tennis courts, exercise rooms and/or saunas, day care centers, party or meeting rooms, tenant newsletters, and laundry facilities. Nearly all units are wired for cable television, and many units also offer additional features, such as washer/dryer, microwave, fireplace, and patio/balcony. The Operating Partnership maintains an ongoing program of regular maintenance and capital improvements and renovations, including roof replacement and exterior maintenance, kitchen and bath renovations, balcony repairs, and replacements of various building systems.

The following table sets forth certain additional information relating to the Multifamily Properties as of December 31, 1998 (in the following table, occupancy is based upon economic occupancy, which measures occupancy beginning on the rent commencement date; monthly revenue per unit is total property revenue divided by the number of apartment units; and certain data may be omitted for properties not operated by the Operating Partnership for the entire year):

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<TABLE>

<CAPTION>

Property Type/Property Name -----	Property Type -----	Number of Apartment Units -----	Average Sq. Ft. Per Unit -----	Monthly Revenue Per Unit -----	Average Economic Occupancy -----
<S>	<C>	<C>	<C>	<C>	<C>
Core Residential Portfolio					
NW Washington, D.C.					
1841 Columbia Road	High-rise	115	634	\$ 955	99.0%
2501 Porter Street	High-rise	202	760	1,472	97.5%
Albemarle	High-rise	235	1,097	1,226	98.9%
Calvert-Woodley	High-rise	136	1,001	1,169	99.0%
Cleveland House	High-rise	216	894	1,138	99.2%
Connecticut Heights	High-rise	519	536	889	95.6%
Corcoran House	High-rise	138	464	832	99.2%
Statesman	High-rise	281	593	798	97.7%
Van Ness South	High-rise	625	956	1,109	98.7%
		-----	-----	-----	-----
		2,467	778	1,051	98.0%
Other NE & SE Washington, D.C.					
Car Barn	Garden	196	1,311	888	96.6%
Fort Chaplin	Garden	549	983	673	98.2%
		-----	-----	-----	-----
		745	1,069	729	97.6%
Other Northern Virginia - Inside Beltway					
Crystal City					
		-----	-----	-----	-----
The Bennington	High-rise	348	804	1,059	96.0%
Crystal House I	High-rise	426	917	1,010	97.2%
Crystal House II	High-rise	402	938	987	96.6%
Crystal Square	High-rise	378	1,121	1,179	99.0%
Crystal Place	High-rise	180	894	1,310	97.7%
Gateway Place	High-rise	162	826	1,792	94.7%
Water Park Towers	High-rise	360	881	1,436	92.9%
		-----	-----	-----	-----
		2,256	923	1,190	96.2%
Rosslyn/Ballston					
		-----	-----	-----	-----
Courthouse Plaza	High-rise	396	772	1,299	96.9%
Other					
		-----	-----	-----	-----
Arlington Overlook	Mid-rise	711	877	780	95.6%
Bedford Village	Garden	752	1,070	914	95.0%
Berkeley	Mid-rise	138	891	744	97.4%
Boulevard of Old Town	Garden	159	603	934	98.3%
Columbia Crossing	Garden	247	976	1,122	95.8%
Columbian Stratford	Mid-rise	227	942	767	97.8%
Concord Village	Garden	531	1,025	820	95.4%
Newport Village	Garden	937	1,115	911	97.1%
Orleans Village	Garden	851	1,061	828	94.6%
Patriot Village	Garden	1,065	1,162	915	96.6%
Skyline Towers	High-rise	940	1,221	988	95.5%
Windsor Towers	Mid-rise	280	1,025	812	98.0%
		-----	-----	-----	-----
		6,838	1,063	887	96.0%
Other Northern Virginia - Outside Beltway					
Charter Oak	Garden	262	1,097	956	96.8%
Oaks of Tysons	Garden	218	968	1,047	97.2%
Potomac View	Garden	192	965	791	97.8%
Westerly at Worldgate	Garden	320	921	1,120	95.5%
		-----	-----	-----	-----
		992	986	997	96.6%
Suburban Maryland					
The Manor	Garden	435	999	774	96.9%
Suburban Tower	High-rise	172	677	830	98.1%
		-----	-----	-----	-----
		607	908	790	97.2%
		-----	-----	-----	-----
Subtotal/Average		14,301	972	\$ 970	96.6%
		-----	-----	-----	-----

</TABLE>

<TABLE>

<CAPTION>

Number of	Average	Monthly	Average
-----------	---------	---------	---------

Property Type/Property Name	Property Type	Apartment Units	Sq. Ft. Per Unit	Revenue Per Unit	Economic Occupancy
<S>	<C>	<C>	<C>	<C>	<C>
Acquisition Portfolio					
The Kenmore (NW Washington, D.C.)	High-rise	376	725	756	97.8%
Crystal Plaza (Crystal City)	High-rise	540	1,129	1,254	98.4%
Crystal Towers (Crystal City)	High-rise	912	1,107	1,139	97.5%
Lincoln Towers (Rosslyn/Ballston)	High-rise	714	879	1,276	93.5%
2000 Commonwealth (Boston)	High-rise	188	878	1,649	96.2%
One East Delaware (Chicago)	High-rise	306	704	1,886	98.0%
Tunlaw Gardens (NW Washington, D.C.)	Garden	167	850	767	97.0%
Tunlaw Park (NW Washington, D.C.)	Mid-rise	120	856	1,105	97.8%
Parc Vista (Crystal City)	High-rise	299	770	n/a	n/a
McClurg Court (Chicago)	High-rise	1,075	688	n/a	n/a
Cronin's Landing (Boston)	Mid-rise	281	1,129	n/a	n/a
Sub-Total/Average		4,978	890	n/a	n/a

Development Portfolio

Springfield Station (Other Northern Virginia)	Mid-rise / Garden		631		
Courthouse Place (Rosslyn/Ballston)	High-rise	564			
One Superior Place (Chicago)	High-rise	809			
Park Connecticut (NW Washington, D.C.)	High-rise	142			
Sub-Total		2,146			

All Residential Properties 21,425

</TABLE>

The following table sets forth the total number of apartment units in the Core Residential Portfolio, the economic occupancy, and the average monthly rental revenue per unit as of the end of 1998 and in each of the previous five years:

<TABLE>  
<CAPTION>

Multifamily Properties

Year	Number of Units	Percent Occupied*	Average Monthly Revenue Per Unit
<S>	<C>	<C>	<C>
1998	14,301	96.6%	\$970
1997	14,198	96.4%	\$901
1996	12,462	97.0%	\$883
1995	11,834	97.2%	\$862
1994	11,834	97.8%	\$845
1993	11,834	97.8%	\$818

</TABLE>

\* Based on economic occupancy

Retail Properties

The Operating Partnership's two Retail Properties, Skyline Mall and Worldgate Centre, are enclosed malls containing a total of approximately 436,000 square feet of retail space. Until December 1997, both Retail Properties leased health club facilities to entities controlled by Messrs. Smith and Kogod pursuant to leases expiring on December 31, 2015. In December 1997, the health clubs were sold by Messrs. Smith and Kogod. In conjunction with that sale, the Operating Partnership agreed to restructure the two leases, including reduced base rent on the Worldgate lease, and extended terms on both leases for ten years, through 2025, in exchange for a \$2.3 million cash payment.

Worldgate Centre. Worldgate Centre is a community retail center located in Herndon, Virginia, at the intersection of two major Northern Virginia traffic arteries, the Dulles Airport Access Highway and Centreville Road. Developed by the Smith Companies in 1991, it is a part of a mixed-use development which

includes the 320-unit Multifamily Property which the Operating Partnership constructed in 1995. The town of Herndon is located in Fairfax County, one of the highest median income counties in the country. The Property contains the 108,670 square foot Worldgate Athletic Club, a Loew's Cinema, and a mix of approximately 40 other food service, fashion and specialty retailers and various business and general service tenants. Worldgate Centre has 230,926 square feet of leasable area and had an average occupancy rate of 99.5% during 1998. Approximately 16% of the leases, based on net rentable area, are scheduled to expire prior to the year 2003.

Skyline Mall. Skyline Mall is a two-level, enclosed community retail center located on Route 7 in Northern Virginia, at the intersection of Fairfax County, Arlington County, and the City of Alexandria, Virginia. Originally developed by the Smith Companies in 1977, it is part of a mixed-use community which also includes over two million square feet of office space and over 3,300 high-rise condominium and apartment units (including Skyline Towers, a 940-unit Multifamily Property owned by the Operating Partnership), all within walking distance. The Property has 204,914 square feet of leasable area and had an average occupancy rate of 97.2% in 1998. It contains the 79,920

square foot Skyline Racquet and Health Club, an AMC Cinema, and approximately 40 other stores, including restaurants, fashion and specialty retailers, and various business and general services. Approximately 12% of the leases, based on net rentable area, are scheduled to expire prior to the year 2003.

The following table sets forth certain additional information relating to the Retail Properties as of December 31, 1998:

Retail Properties

<TABLE>  
<CAPTION>

Property Name	Location	Year Completed	Gross Leasable Area (SF)	Number of Stores	Average % Leased 1998	Average Base Rent Per SF Leased	Average Gross Rent Per SF Leased
Skyline Mall	Fairfax Co., VA	1977	204,914	40	97.2 %	\$12.13	\$16.42
Worldgate Centre	Herndon, VA	1991	230,926	40	99.5%	\$20.19	\$26.92
			435,840		98.4%	\$16.40	\$21.98

</TABLE>

Property Markets

The Operating Partnership believes that economic trends and market conditions in the locations where the Operating Partnership currently operates - Chicago, Boston, Northern Virginia, and Washington, D.C. -- and locations where the Operating Partnership will operate -- southeast Florida -- indicate an excellent potential for continued high occupancy and rental rate growth in 1999 and beyond. These markets have all experienced strong employment growth in 1998, as shown in the table below, and are projected to be among the top U.S. markets in total employment growth over the period 1993 to 2005, with a projected average annual increase in each market of 45,000 jobs or more, according to projections prepared by the U.S. Dept. of Commerce, Bureau of Economic Analysis and released in mid-1996.

<TABLE>  
<CAPTION>

Employment Growth - 1998

Market	1998 Jobs Increase	% Increase
Washington D.C. MSA	53,500	2.2%
- Northern Virginia	41,300	4.1%
Chicago - MSA	61,200	1.5%
Boston - MSA	50,100	2.6%
Southeast Florida	60,000	3.0%
- Ft. Lauderdale/Broward	20,600	3.3%
USA Average	---	2.6%

</TABLE>

In the Washington D.C. metropolitan area, employment and population growth in recent years, and expected in future years, has been strongest in the Northern Virginia segment of the metropolitan area, which is the sector where the majority (68%) of the Operating Partnership's Properties are located. The growth in Northern Virginia is substantially attributable to continuing strong growth in the technology sector, particularly the Internet technology and telecommunications segments. The Operating Partnership believes that this trend will continue due to the concentration of technology firms in Northern Virginia and the growth outlook for the Internet technology and telecommunications industries. The outlook for the District of Columbia economy has improved significantly due to the return to positive employment growth late in 1998 after several years of federal government cutbacks and the election of a new mayor.

Demand for multifamily rental apartments continues to be strong in all of the Operating Partnership's markets as evidenced by high occupancy and rent growth rates. Surveys of comparable investment grade apartment properties are conducted in each these markets annually by The REIS Reports, Inc. The results of these surveys are shown in the following tables:

Apartment Occupancy and Rental Rate Growth for Smith Residential Markets

<TABLE>

<CAPTION>

Metro area market	Occupancy		% Rental Rate Growth	
	<C> 1997	<C> 1998	<C> 1997	<C> 1998
Boston	97.6%	98.0%	5.7%	6.7%
Chicago	97.2%	97.3%	4.7%	3.0%
- Downtown	97.0%	97.2%	5.5%	7.0%
Washington D.C. area				
- Northern Virginia	96.2%	96.6%	3.5%	3.5%
- Washington D.C.	96.9%	97.0%	3.4%	4.7%
Southeast Florida				
- Fort Lauderdale	96.1%	96.1%	4.0%	3.6%

</TABLE>

Source: The REIS Reports, Inc., February, 1999, and Appraisal Research Corp., March 1999

The supply of new rental apartment properties in the more urbanized portions of the Operating Partnership's markets has been extremely limited in recent years, particularly in the more desirable submarkets where the Operating Partnership concentrates its focus. In the Washington metro area the supply of new multifamily properties has been increasing moderately over the past several years and is likely to continue to do so based on multifamily permits data compiled by the U.S. Census Bureau. These data show that the number of multifamily permits issued in the area were, 7,786 in 1996, 6,907 in 1997, and 8,935 in 1998, which includes both for-sale condominium and rental apartment properties. These levels remain well below the peak of over 13,000 in 1987. Most of the new supply of rental apartments is occurring in the outer suburban areas and does not compete directly with the Operating Partnership's properties, which are predominantly in the vicinity of and within Interstate 495, the Capital Beltway. Downtown Chicago has actually experienced a

net decrease in higher end rental apartments in recent years due to condo conversions, and the Company's 809-unit Superior Place property is currently the only new apartment property under construction in the downtown area.

Overall, the Operating Partnership believes that the anticipated increases in employment and population projected for the Boston, Chicago, Northern Virginia, Washington D.C. and southeast Florida markets, together with limited increases in supply of new rental units in locations competitive with the Operating Partnership's properties, will result in the Operating Partnership's multifamily rental submarkets remaining in a strong occupancy position for at least the next 18-24 months. As a result, the Operating Partnership believes that these conditions will provide an opportunity to improve apartment rent levels, and will also allow additional development and acquisition opportunities.

Mortgage Financing

As of December 31, 1998, 30 of the 54 Properties were subject to Mortgage Loans aggregating approximately \$592,386,000. The Mortgage Loans are collateralized by first lien mortgages or deeds of trust on Properties organized into three pools ("Mortgage Pool Three," "FNMA" and "Prudential" as shown in the chart below) and ten individual loans (the "Individual Mortgages"). The Mortgage Loans bear interest at a weighted average interest rate of 7.1% at December 31, 1998. The Properties collateralizing each Mortgage Loan, the outstanding principal balances as of December 31, 1998, the applicable interest rates, and the maturity dates for each Mortgage Loan are set forth in the chart below.

<TABLE>  
<CAPTION>

Mortgage Pool/ Collateral	12/31/98 Outstanding Location	Interest Principal	Maturity Rate	Date
<S>	(000's) <C>	<C>	<C>	<C>
FNMA	\$ 140,000	6.75%	October 30, 2013	(2)
-----				
Bedford Village	Fairfax County, Virginia			
Car Barn	Washington, D.C.			
Concord Village	Arlington, Virginia			
Crystal Place	Arlington, Virginia			
Crystal Square	Arlington, Virginia			
Arlington Overlook (1)	Arlington, Virginia			
Fort Chaplin	Washington, D.C.			
Newport III (1)	Alexandria, Virginia			
Orleans Village	Fairfax County, Virginia			
Mortgage Pool Three	117,000	7.99%	June 30, 2009	(3)
-----				
Berkeley	Arlington, Virginia			
Calvert Woodley	Washington, D.C.			
Cleveland House	Washington, D.C.			
Columbia Crossing	Arlington, Virginia			
Courthouse Plaza	Arlington, Virginia			
Gateway Place	Arlington, Virginia			
Newport I/II (1)	Alexandria, Virginia			
Skyline Mall	Fairfax County, Virginia			
2501 Porter Street	Washington, D.C.			
Prudential	53,000	6.88%	June 5, 2008	(2)
-----				
Waterpark	Arlington, Virginia			
Parc Vista	Arlington, Virginia			
Individual Mortgages				
-----				
1841 Columbia Road	Washington, D.C.	3,173	9.00%	August 1, 1999 (6)
Crystal Towers	Arlington, Virginia	44,198	7.16%	January 1, 2006 (6)
2000 Commonwealth	Boston, Massachusetts	17,100	6.30%	December 3, 2006 (2)
Connecticut Heights	Washington, D.C.	20,000	7.10%	March 18, 2008 (2)
Cronin's Landing	Boston, Massachusetts	33,208	6.90%	March 1, 2009 (7)
Patriot Village	Fairfax County, Virginia	31,095	8.24%	August 1, 2009 (4)
Crystal Plaza	Arlington, Virginia	33,615	6.86%	November 1, 2009 (6)
Crystal House I/II	Arlington, Virginia	38,250	6.29%	December 30, 2010 (5)
Skyline Towers	Fairfax County, Virginia	49,300	6.45%	December 10, 2010 (5)
The Bennington	Arlington, Virginia	12,447	7.50%	October 1, 2020 (7)
		-----	-----	
	\$592,386	7.10%		
	=====	=====		

</TABLE>

- (1) Operated as a single property, but divided for collateralization purposes.
- (2) Interest only.
- (3) Twenty-five year amortization begins June 30, 1999.
- (4) Thirty year amortization begins in August 2004.
- (5) Thirty year amortization begins in December 2008.
- (6) Thirty year amortization.
- (7) Twenty-five year amortization.

The loan secured by Mortgage Pool Three is interest only through June 30, 1999, at which time amortization begins using a 25-year amortization schedule with a balloon payment at maturity. In addition, this loan may not be prepaid until May 1, 1999, at which time it would be subject to a yield maintenance premium. The loan is cross-collateralized with the \$83 million line of credit

the same lender, as described below. Certain predecessor partners executed guarantees for \$42 million of the mortgage loans secured by Mortgage Pool Three.

The Operating Partnership announced a standby credit facility in 1998 of up to \$300 million with Fannie Mae which provides for non-recourse, long-term debt for up to fifteen years. The initial draw on this facility was \$140 million at 6.75% for fifteen years. The bulk of the proceeds were used to retire Mortgage Pool Two of \$125.2 million and the associated prepayment penalty of \$9.5 million. Terms and rates of subsequent draws on this facility will be determined at the time of use. Closing of the facility is expected during the second quarter of 1999.

During 1998, the Operating Partnership obtained a \$53 million, ten year secured loan from Prudential at a fixed coupon rate of 6.88%. The loan is secured by two Multifamily Properties. In conjunction with this loan, the Operating Partnership terminated a \$20 million (notional value) treasury lock contract at a gain of \$0.4 million which will be amortized over the term of the new loan.

The Individual Mortgages relate to debt secured by individual Multifamily Properties. The loans require monthly payments of interest and, in certain cases, principal. The loan secured by Patriot Village was refinanced in September 1996 and was obtained jointly with a ground lessor, with a portion of the principal allocated to each of them. The ground lessor has been allocated \$9.9 million of the refinanced loan (of the total of \$41.0 million outstanding as of December 31, 1998), for which the Operating Partnership is contingently liable. The loan requires the payment of interest only through August 2004, at which time amortization begins using a 30-year amortization schedule with a balloon payment due in August 2009. The Operating Partnership remits full debt service to the lender and reduces its ground rent payment by the corresponding amount of debt service relating to the principal assigned to the ground lessor.

#### Lines of Credit

The Operating Partnership terminated its \$100 million line of credit in 1998 and entered into two new unsecured lines of credit -- a \$100 million line and a \$185 million line -- with PNC Bank, NationsBank, and U.S. Bank, as agents, which mature in March 2001. Draws upon the new lines are subject to certain unencumbered asset requirements and bear interest at a selected London Interbank Offer Rate (LIBOR) plus 75 to 120 basis points based on the leverage ratio of the Operating Partnership. As of December 31, 1998, the weighted average interest rate on outstanding draws was 6.22%. If the Operating Partnership receives an investment grade rating on its unsecured debt, the interest rate will decrease to 60 to 90 basis points over LIBOR based on the rating. The Operating Partnership pays a fee of 0.20% on the full amount available under the lines of credit. The line of credit agreements contain certain restrictive covenants, including maintenance of minimum equity value, debt to equity ratios and debt service coverage requirements. The maximum amounts outstanding during 1998 and 1997 were \$251.5 million and \$97.0 million, respectively.

The Operating Partnership also has an \$83 million acquisition credit facility which allows for debt maturities up through July 2004. The line of credit provides for an interest rate that is fixed at the time of each borrowing at 150 basis points over 10-year Treasury Bills and is cross-collateralized

with Mortgage Pool Three. Debt outstanding of \$30 million at December 31, 1998 bears interest at a weighted-average fixed rate of 7.27% and is collateralized by two Properties. The agreement contains certain restrictive covenants including a limit on debt to asset value and maintenance of debt service coverage ratios. In February 1999, the unused portion, or \$53 million, of the line expired.

#### Construction Loans

In October 1997, the Operating Partnership obtained a variable rate, unsecured construction loan of \$46.3 million to finance the construction of an acquired development property. The loan is recourse to the Operating Partnership, bears interest at LIBOR plus 130 basis point (6.85% at December 31, 1998), and matures in October 2000 with three six-month extension options based on certain conditions. The loan balance at December 31, 1998 was \$31.6 million.

During 1998, the Operating Partnership obtained a \$90 million variable rate, secured construction loan in connection with the development of One Superior Place in Chicago, Illinois, with interest currently at LIBOR plus 135 basis points (6.93% at December 31, 1998), payable monthly, due July 1, 2001. At the Operating Partnership's option, maturity may be extended for two one-year periods based on certain conditions. The loan is collateralized by the property



and is recourse to the Operating Partnership. The loan balance at December 31, 1998 was \$31.6 million.

Item 3. Legal Proceedings.

The Operating Partnership and/or the Property Service Businesses are presently subject to legal actions or claims for damages that arise in the ordinary course of business. In the opinion of management and counsel to the Operating Partnership, the ultimate outcome of such litigation will not have a material adverse effect on the Operating Partnership's financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Part II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters.

There is no established public trading market for the Units of the Operating Partnership. The Company's shares of Common Stock have been listed on the New York Stock Exchange ("NYSE") since June 24, 1994, trading under the symbol "SRW." Prior to that date, the Company's shares of Common Stock were not publicly traded.

In December 1998, the Company adopted a Shareholder Rights Plan (the "Rights Plan") in which certain stock purchase rights were granted as a distribution to holders of common stock. The Rights Plan is designed to deter coercive or unfair takeover tactics. In implementing the Rights Plan, the Board of Directors declared a distribution of one Right for each share of the Company's outstanding common stock. Each Right initially entitles the holder thereof to purchase one one-thousandth of a share of preferred stock for \$108. One one-thousandth of a share of preferred stock is intended to be approximately the economic equivalent of one share of common stock. The Rights expire on December 13, 2008. At the time of adoption of the Rights Plan, the Rights are neither exercisable nor traded separately from the common stock. The Rights are exercisable only if a person or group in the future becomes the beneficial owner of 15% or more of the common stock or announces a tender or exchange offer which would result in its ownership of 15% or more of the common stock. In connection with these Rights, the partnership agreement of the Operating Partnership was amended to provide for certain purchase rights by Unitholders in the event the Rights become exercisable and are, in fact, exercised. These purchase rights would allow Unitholders to purchase additional Units at a price which would prevent their dilution by the issuance of additional Units to the Company upon the issuance of additional Common Stock under the Right Plan.

Unregistered Unit Issuances

<TABLE>  
<CAPTION>

Issue Date	# of Units Issued	Consideration	Implied Unit Value	Redeemable
1/99	201,950	Interest in Parkwest Apartments	\$ 6,300,843 (\$31.20/Unit)	After one year
1/99	320,304	Interest in Terrace Apartments	\$ 9,993,499 (\$31.20/Unit)	After one year

</TABLE>

In December 1998, 259,305 units of Series B Cumulative Convertible Redeemable Preferred Units were converted to common units on a one-for-one basis.

The following table sets forth the distributions made by the Operating Partnership with respect to each such period:

<TABLE>  
<CAPTION>

Period	Distribution Per Unit
January 1, 1997, to March 31, 1997	\$0.505

April 1, 1997, to June 30, 1997	\$0.505
July 1, 1997, to September 30, 1997	\$0.520
October 1, 1997, to December 31, 1997	\$0.520
January 1, 1998, to March 31, 1998	\$0.520
April 1, 1998, to June 30, 1998	\$0.520
July 1, 1998, to September 30, 1998	\$0.535
October 1, 1998, to December 31, 1998	\$0.535

On March 1, 1999, the Operating Partnership had approximately 750 unitholders of record.

Item 6. Selected Financial Data.

The following table sets forth selected financial and operating information on a historical basis for the Operating Partnership and the Predecessor (as hereinafter defined in the Notes to Consolidated Financial Statements). The following information should be read in conjunction with all of the financial statements and notes thereto included elsewhere in this Form 10-K. The historical operating data for the years ended December 31, 1998, 1997, 1996, 1995 and 1994 have been derived from the financial statements of the Operating Partnership and the Predecessor audited by Arthur Andersen LLP, independent accountants.

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Charles E. Smith Residential Realty L.P. and CES Group  
Selected Financial Data

	Charles E. Smith Residential Realty L.P.				CES Group	
	Year Ended December 31,				June 30, 1994 to December 31, 1994	January 1, 1994 to June 29, 1994
(Dollars in Thousands, Except Per Unit Data)	1998	1997	1996	1995		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<b>OPERATING DATA</b>						
Rental properties						
Revenues	\$ 250,211	\$ 200,104	\$ 163,959	\$143,464	\$ 66,683	\$ 63,496
Expenses	130,593	104,493	89,156	78,514	36,571	36,039
Equity in income of Property Service Businesses	8,433	7,597	7,846	6,868	3,785	2,798
Corporate general & administrative expenses	8,947	6,563	5,255	4,768	2,089	1,550
Interest income	1,257	1,063	1,029	1,424	825	970
Interest expense	47,334	45,411	43,606	37,421	17,392	24,798
Income/(loss) before gain on sale, loss on unused treasury lock, and extraordinary item	73,027	52,297	34,817	31,053	15,241	(10,700)
Net income/(loss) of the Operating Partnership	69,870	52,210	34,817	31,053	15,241	(25,895)
Earnings per common unit - basic	\$1.96	\$1.89	\$1.59	\$1.44	\$0.72	
Earnings per common unit - diluted	\$1.95	\$1.88	\$1.59	\$1.44	\$0.72	
<b>OTHER DATA</b>						
Funds from Operations (1):						
Net income	\$ 69,870	\$ 52,210	\$ 34,817	\$31,053	\$ 15,241	
Less						
Perpetual preferred distributions	(3,647)	-	-	-	-	-
Gain on sale of property	(18,150)	-	-	-	-	-
Plus						
Depreciation and amortization of rental property	28,958	20,666	17,931	16,258	7,738	
Amortization of goodwill	250	-	-	-	-	-
Loss on unused treasury lock	4,923	-	-	-	-	-
Extraordinary item - loss on extinguishment of debt	16,384	87	-	-	-	-
Funds from Operations	\$ 98,588	\$ 72,963	\$ 52,748	\$47,311	\$ 22,979	
Net cash flows provided by (used in):						
Operating activities	\$ 118,566	\$ 75,223	\$ 50,958	\$54,283	\$ 19,877	
Investing activities	(289,995)	(196,924)	(72,742)	(68,495)	(26,666)	
Financing activities	171,429	117,803	16,204	5,340	25,139	
Cash dividends per unit	\$2.095	\$2.035	\$1.975	\$1.915	\$0.480	

Average residential occupancy rate (2)	96.6%	96.4%	97.0%	97.2%	97.8%
Number of apartment units - core portfolio (3)	14,301	14,198	12,462	11,834	11,834
Number of apartment units - total portfolio	19,279	18,236	15,200	14,198	12,462

BALANCE SHEET DATA

Rental properties, net (4)	\$1,093,963	\$ 804,323	\$ 470,093	\$414,490	\$ 315,213
Total assets	1,185,399	865,506	522,211	469,322	391,189
Total mortgage loans and notes payable (5)	790,579	610,971	546,544	483,177	404,971
Other Limited Partners' Interest, at redemption value (6)	426,258	502,719	351,873	288,663	310,247
Partners' Equity					
General Partner's General and Limited Partnership Interest (6)	(56,676)	(264,369)	(389,252)	(320,286)	(347,767)

</TABLE>

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FOOTNOTES TO SELECTED FINANCIAL DATA

1. Funds from Operations (FFO) is defined by the National Association of Real Estate Investment Trusts (NAREIT) as net income (loss) (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring and other non-recurring items, plus depreciation/amortization of assets unique to the real estate industry. Depreciation/amortization of assets not unique to the industry, such as amortization of deferred financing costs and non-real estate assets, is not added back. FFO does not represent cash flow from operating activities in accordance with generally accepted accounting principles (which, unlike Funds from Operations, generally reflects all cash effects of transactions and other events in the determination of net income) and should not be considered an alternative to net income as an indication of the Operating Partnership's performance or to cash flow as a measure of liquidity or ability to make distributions. The Operating Partnership considers FFO a meaningful, additional measure of operating performance because it primarily excludes the assumption that the value of real estate assets diminishes predictably over time, and because industry analysts have accepted it as a performance measure. Comparison of the Operating Partnership presentation of FFO, using the NAREIT definition, to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs.
2. Average occupancy is defined as gross potential rent for the core portfolio less vacancy allowance divided by gross potential rent for the period, expressed as a percentage.
3. Core portfolio represents properties owned or stabilized by the Operating Partnership as of December 31 two years prior to the current reporting date.
4. At the formation of the Operating Partnership, all rental properties were recorded at predecessor partners' historical cost basis which is significantly less than current value and, therefore, results in dilution of shareholders' book value. Shareholders' equity for each year presented is net of \$(244,208) contribution by Predecessors of assets at historical cost, net of liabilities.
5. Represents mortgage loans, lines of credit and construction loans.
6. Limited partnership units of the Other Limited Partners may be redeemed at the unitholder's discretion. Consequently, the Other Limited Partners' Interest, measured at redemption value, is not included in partner's equity. Partner's equity has been adjusted to reflect the redemption value of Other Limited Partners' Interest. (See footnote 15 to the financial statements.)

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- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

BACKGROUND

The following discussion compares historical results of operations for the years ended December 31, 1998 and 1997 as well as the years ended December 31, 1997 and 1996. The discussion should be read in conjunction with the "Selected Financial Data," and the financial statements and notes thereto included elsewhere in this annual report.

THE OPERATING PARTNERSHIP

The Operating Partnership is engaged primarily in the acquisition,

development, management and operation of multifamily properties. Together with its subsidiaries, the Operating Partnership is a fully integrated real estate organization with in-house acquisition, development, financing, marketing, leasing and property management expertise.

On June 30, 1994, Charles E. Smith Residential Realty, Inc. (the "Company") made a \$201.4 million capital contribution to the Operating Partnership for a 1% general partnership interest and a 41.7% limited partnership interest in the Operating Partnership. The Company is the sole general partner of the Operating Partnership.

As of December 31, 1998, the Operating Partnership and its subsidiaries, owned 48 operating multifamily properties, four multifamily properties under construction and two retail shopping centers (collectively, the "Properties"). Three of the properties are located in Chicago, Illinois and two are located in Boston, Massachusetts; all other properties are located in the Washington, D.C. metropolitan area. The Operating Partnership also had conditional agreements to purchase four additional to-be-constructed multifamily properties.

The operating multifamily properties consist of the following:

<TABLE>  
<CAPTION>

Type	Number of	
	Properties	Units
Core Portfolio		
High-Rise/Mid-Rise	23	7,587
Garden	14	6,714
	--	-----
	37	14,301
	--	-----

</TABLE>

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<TABLE>  
<CAPTION>

Type	Properties	Units
Acquisition Portfolio		
High-Rise/Mid-Rise	10	4,811
Garden	1	167
	--	-----
	11	4,978
	--	-----
	48	19,279
	==	=====

</TABLE>

The Operating Partnership's two free standing retail properties are enclosed malls containing a total of approximately 436,000 square feet of retail space.

Additionally, the Operating Partnership owned substantially all the equity in the following entities (collectively, the "Property Service Businesses") which provide a range of services to the owned Properties, essentially at cost (including overhead), and for a fee to other properties including commercial office partnerships which have Messrs. Smith and Rogod as the general partners ("Affiliates"):

- . Multifamily and Retail Property Management Services provides property management and leasing services to multifamily and retail properties. In addition, this entity leases furnished corporate apartments through a subsidiary.
- . Interior Construction and Renovation Services provides construction and project management services for capital improvement and tenant renovation projects of office, retail and residential properties.
- . Engineering and Technical Services provides on-site building systems operations and maintenance; engineering and technical consulting; automated environmental monitoring and controls; repair and replacement of mechanical/electrical systems; and facilities management services.
- . Financing Services provides negotiation, administration and execution of debt refinancing.

Revenue, expenses and income from the multifamily and retail properties were as follows (in thousands):

	Year Ended December 31,		
	1998	1997 / (2) /	1996 / (2) /
<S>	<C>	<C>	<C>
Multifamily Properties - Core/(1)/			
Revenues	\$ 166,465	\$ 158,785	\$ 147,522
Expenses	(67,070)	(66,264)	(63,386)
Income before depreciation	\$ 99,395	\$ 92,521	\$ 84,136
Multifamily Properties - Acquisitions/Dispositions			
Revenues	\$ 72,499	\$ 31,277	\$ 6,639
Expenses	(30,061)	(13,896)	(4,308)
Income before depreciation	\$ 42,438	\$ 17,381	\$ 2,331
Multifamily Properties - Development			
Revenues	\$ 1,258	\$ ---	\$ ---
Expenses	(1,300)	(97)	---
Income before depreciation	\$ (42)	\$ (97)	\$ ---
Retail Properties			
Revenues	\$ 9,989	\$ 10,042	\$ 9,798
Expenses	(3,204)	(3,570)	(3,531)
Income before depreciation	\$ 6,785	\$ 6,472	\$ 6,267
Total Rental Properties			
Revenues	\$ 250,211	\$ 200,104	\$ 163,959
Expenses	(101,635)	(83,827)	(71,225)
Depreciation	(28,958)	(20,666)	(17,931)
Income from Rental Properties	\$ 119,618	\$ 95,611	\$ 74,803

</TABLE>  
 /(1)/ "Core" represents properties owned as of December 31, 1996.  
 /(2)/ Certain prior year balances have been reclassified to conform with current year presentation.

Occupancy Rates

Average occupancy of the Operating Partnership's core multifamily properties in the Washington, D.C. metropolitan area, where over 90% of the Operating Partnership's portfolio is located, is consistent with the area's market-wide average occupancy, based on annual surveys of approximately 80% of comparable investment grade apartment properties conducted by The REIS Reports, Inc. as follows:

	Occupancy Percent	
	Company	Washington DC Area
<S>	<C>	<C>
1998	96.6%	97.0%
1997	96.4%	96.4%
1996	97.0%	96.5%

</TABLE>

It is important to note that market data from The REIS Reports, Inc. is determined on a physical occupancy basis, whereas the Operating Partnership's occupancy data is calculated on an economic basis. Physical occupancy data commonly yields a slightly higher percentage than economic occupancy because apartment units are considered physically rented when a rental applicant's deposit is received, a point in time generally prior to the actual rent commencement date used in computing economic occupancy.

Rental Revenue

Average revenue per apartment unit for the Operating Partnership's core multifamily properties increased approximately 4.8% in 1998 as compared with 1997, and 3.5% in 1997 (based on properties owned as of December 31, 1995) as compared with 1996.

A schedule of portfolio statistics follows:

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CHARLES E. SMITH RESIDENTIAL REALTY L.P.

Residential Portfolio Statistics for the Year Ended December 31, 1998

<TABLE>

<CAPTION>

Property Type/Property Name	Property Type	Number of Apartment Units	Average Sq. Ft. Per Unit	Monthly Revenue Per Unit	Average Economic Occupancy
Core Residential Portfolio					
NW Washington, D.C.					
1841 Columbia Road	High-rise	115	634	\$ 955	99.0%
2501 Porter Street	High-rise	202	760	1,472	97.5%
Albemarle	High-rise	235	1,097	1,226	98.9%
Calvert-Woodley	High-rise	136	1,001	1,169	99.0%
Cleveland House	High-rise	216	894	1,138	99.2%
Connecticut Heights	High-rise	519	536	889	95.6%
Corcoran House	High-rise	138	464	832	99.2%
Statesman	High-rise	281	593	798	97.7%
Van Ness South	High-rise	625	956	1,109	98.7%
		2,467	778	1,051	98.0%
Other NE & SE Washington, D.C.					
Car Barn	Garden	196	1,311	888	96.6%
Fort Chaplin	Garden	549	983	673	98.2%
		745	1,069	729	97.6%
Other Northern Virginia - Inside Beltway					
Crystal City					
The Bennington	High-rise	348	804	1,059	96.0%
Crystal House I	High-rise	426	917	1,010	97.2%
Crystal House II	High-rise	402	938	987	96.6%
Crystal Square	High-rise	378	1,121	1,179	99.0%
Crystal Place	High-rise	180	894	1,310	97.7%
Gateway Place	High-rise	162	826	1,792	94.7%
Water Park Towers	High-rise	360	881	1,436	92.9%
		2,256	923	1,190	96.2%
Rosslyn/Ballston					
Courthouse Plaza	High-rise	396	772	1,299	96.9%
Other					
Arlington Overlook	Mid-rise	711	877	780	95.6%
Bedford Village	Garden	752	1,070	914	95.0%
Berkeley	Mid-rise	138	891	744	97.4%
Boulevard of Old Town	Garden	159	603	934	98.3%
Columbia Crossing	Garden	247	976	1,122	95.8%
Columbian Stratford	Mid-rise	227	942	767	97.8%
Concord Village	Garden	531	1,025	820	95.4%
Newport Village	Garden	937	1,115	911	97.1%
Orleans Village	Garden	851	1,061	828	94.6%
Patriot Village	Garden	1,065	1,162	915	96.6%
Skyline Towers	High-rise	940	1,221	988	95.5%
Windsor Towers	Mid-rise	280	1,025	812	98.0%
		6,838	1,063	887	96.0%
Other Northern Virginia - Outside Beltway					
Charter Oak	Garden	262	1,097	956	96.8%
Oaks of Tysons	Garden	218	968	1,047	97.2%
Potomac View	Garden	192	965	791	97.8%
Westerly at Worldgate	Garden	320	921	1,120	95.5%
		992	986	997	96.6%
Suburban Maryland					
The Manor	Garden	435	999	774	96.9%
Suburban Tower	High-rise	172	677	830	98.1%

	607	908	790	97.2%
Subtotal/Average	14,301	972	\$ 970	96.6%

</TABLE>

31

<TABLE>  
<CAPTION>

Property Type/Property Name	Property Type	Number of Apartment Units	Average Sq. Ft. Per Unit	Monthly Revenue Per Unit	Average Economic Occupancy
<S>	<C>	<C>	<C>	<C>	<C>
Acquisition Portfolio					
The Kenmore (NW Washington, D.C.)	High-rise	376	725	756	97.8%
Crystal Plaza (Crystal City)	High-rise	540	1,129	1,254	98.4%
Crystal Towers (Crystal City)	High-rise	912	1,107	1,139	97.5%
Lincoln Towers (Rosslyn/Ballston)	High-rise	714	879	1,276	93.5%
2000 Commonwealth (Boston)	High-rise	188	878	1,649	96.2%
One East Delaware (Chicago)	High-rise	306	704	1,886	98.0%
Tunlaw Gardens (NW Washington, D.C.)	Garden	167	850	767	97.0%
Tunlaw Park (NW Washington, D.C.)	Mid-rise	120	856	1,105	97.8%
Parc Vista (Crystal City)	High-rise	299	770	n/a	n/a
McClurg Court (Chicago)	High-rise	1,075	688	n/a	n/a
Cronin's Landing (Boston)	Mid-rise	281	1,129	n/a	n/a
Sub-Total/Average		4,978	890	n/a	n/a

Development Portfolio

Springfield Station (Other Northern Virginia)	Mid-rise / Garden		631	
Courthouse Place (Rosslyn/Ballston)	High-rise	564		
One Superior Place (Chicago)	High-rise	809		
Park Connecticut (NW Washington, D.C.)	High-rise	142		
Sub-Total		2,146		

All Residential Properties

21,425  
=====

</TABLE>

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PROPERTY SERVICE BUSINESSES

Revenues, expenses and income from the Property Service Businesses were as follows (in thousands):

<TABLE>  
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Multifamily and Retail Property Management Services/(1)/			
Revenues	\$ 28,412	\$ 10,546	\$ 11,465
Expenses	(26,441)	(9,756)	(9,169)
Income before depreciation	\$ 1,971	\$ 790	\$ 2,296
Interior Construction and Renovation Services			
Net fee revenues	\$ 8,267	\$ 6,614	\$ 5,650
Expenses	(6,441)	(5,547)	(4,670)
Income before depreciation	\$ 1,826	\$ 1,067	\$ 980
Engineering and Technical Services (including reimbursed costs)			
Revenues	\$ 67,988	\$ 50,597	\$ 42,179
Expenses	(63,811)	(46,759)	(38,516)

Income before depreciation	\$ 4,177	\$ 3,838	\$ 3,663
	=====	=====	=====
Financing Services			
Revenues	\$ 2,623	\$ 3,798	\$ 2,640
Expenses	(778)	(670)	(687)
	-----	-----	-----
Income before depreciation	\$ 1,845	\$ 3,128	\$ 1,953
	=====	=====	=====
Total Property Service Businesses			
Revenues	\$107,290	\$ 71,555	\$ 61,934
Expenses	(97,471)	(62,732)	(53,042)
	-----	-----	-----
Income before depreciation	9,819	8,823	8,892
Depreciation	(1,386)	(1,226)	(1,046)
	-----	-----	-----
Income from Property Service Businesses	\$ 8,433	\$ 7,597	\$ 7,846
	=====	=====	=====

</TABLE>

/(1)/Includes May 1998 purchase of Presidential Villas.

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Multifamily and Retail Property Management Services provide management services to the Operating Partnership at cost plus 5% in accordance with the management agreement. In addition to 50 owned Properties (operating Multifamily and Retail), management services were also provided to 13 third-party owned multifamily properties of approximately 3,800 apartment units and to three third-party owned retail properties of approximately 293,000 square feet. Of the 16 third-party management agreements, eleven are with Affiliates and five are with unaffiliated property owners. The management agreements with Affiliates are for initial terms of three years or more while the management agreements with unaffiliated owners generally have one-year terms.

During 1998, Multifamily and Retail Property Management Services expanded the corporate apartment program as a result of the acquisition by Smith Realty Company of Noel Enterprises, Inc. (d.b.a. "Presidential Villas"), a provider of furnished corporate apartments in Chicago, Illinois. A portion of the total purchase price of \$8.5 million is contingent upon achievement by Presidential Villas of certain earnings targets over the next two years. The Operating Partnership lent to Smith Realty Company the initial payment of \$6.75 million in exchange for a five year note.

Interior Construction and Renovation Services provided oversight to approximately \$80 million of gross construction activity in 1998 compared to approximately \$66 million in 1997 and \$58 million in 1996. Services are provided to the Operating Partnership at cost and to Affiliates and third parties at cost plus a fee.

Engineering and Technical Services provides on-site building systems operations, maintenance and inspection to the Operating Partnership and Affiliates at cost and to third parties at cost plus a fee. Services were provided to approximately 46 million square feet of facilities in 1998, 30 million square feet in 1997, and 28 million square feet in 1996.

Financing Services performed \$335 million of refinancings in 1998 compared to \$489 million in 1997 and \$242 million in 1996.

#### RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1998

##### Comparison to Year Ended December 31, 1997

Summary. Net income of the Operating Partnership increased 33.8%, or \$17.7 million, from \$52.2 million for the year ended December 31, 1997 to \$69.9 million for the year ended December 31, 1998. Funds from Operations ("FFO") of the Operating Partnership increased \$25.6 million, or 35.1% during the same period. The increase in both net income and FFO is due to increases in income from the rental properties, primarily the multifamily acquisition and development properties. These increases were partially offset by higher interest and other expenses related to acquisitions and development. The decrease in net income per share is attributable to the loss on an unused treasury lock and extraordinary losses associated with extinguishment of debt.

Rental Properties. Revenue from rental properties increased \$50.1 million, or 25.0%, from \$200.1 million for 1997 to \$250.2 million for 1998. Expenses (including depreciation) from all rental operations increased \$26.1 million, or 25.0%, from \$104.5 million in 1997 to \$130.6 million in 1998.



Core Portfolio. Revenue from the core portfolio increased \$7.7 million, or 4.8% over the prior year due to rent increases in all submarkets, slightly improved occupancy and additional cable and telephone revenues. Average monthly revenue per core apartment unit increased from \$925 in 1997 to \$970 per month during 1998. Revenue growth by submarket over 1997 ranged from 3.7% in the Maryland properties to 6.5% in northwest Washington, D.C. Average economic occupancy for the portfolio increased to 96.6% in 1998 from 96.5% in 1997. The Operating Partnership also continues to expand and aggressively market its furnished apartment program. As a result, revenues from this program increased \$0.4 million, or 19.4%, over the prior year period. Operating expenses on the core portfolio increased 1.2% over the prior year. This was primarily due to higher personnel costs (including outsourcing) and real estate tax expenses partially offset by utility savings and lower repair and maintenance costs both related to a mild winter.

Operating margins of the Operating Partnership's core portfolio of approximately 60% and 58% for the years ended December 31, 1998 and 1997, respectively, are generally lower in comparison to industry averages due primarily to the Operating Partnership's method of recovering utility costs. Apartment rents, for the most part, include utility services such as electricity and gas since the Operating Partnership bears utility costs. The majority of the Operating Partnership's competitors, however, require their tenants to pay utilities directly. Management estimates that the Operating Partnership's operating margins would be approximately 63% on a comparable basis.

Acquisition/Disposition Portfolio. The eleven acquisition properties and two disposition properties, contributed \$41.2 million, or 82.3%, of the total rental revenue increase and \$16.2 million, or 90.8%, of the increase in operating expenses resulting in a contribution to net operating income of \$25.0 million. The balance of the portfolio reflects operations of the two properties sold during 1998 - Oxford Manor and Marbury Plaza.

Development Portfolio. Springfield Station delivered initial units in May 1998 and has a total of 280 units delivered as of December 31, 1998. Estimated completion and stabilization is expected in late 1999. Courthouse Place delivered 103 initial units in December 1998. Estimated completion and stabilization is expected by early 2000.

Retail Portfolio. Retail revenues decreased by \$0.1 million, or 0.5%, during 1998 compared to the prior year due primarily to the restructuring of the Worldgate health club lease in 1997 partially offset by other rent increases. Average occupancy at the two retail properties increased from 97.4% in 1997 to 98.4% in 1998.

Property Service Businesses. Income from the Property Service Businesses increased \$0.8 million, or 11.0%, during 1998 compared to 1997.

Income before depreciation for Multifamily and Retail Property Management Services increased \$1.2 million, or 149.5%, primarily due to the acquisition in the second quarter of Presidential Villas.

Income before depreciation for Interior Construction and Renovation Services increased \$0.8 million, or 71.1%, due to an increase of \$1.7 million in net fee revenue offset by an increase of \$0.9 million in related expenses. This was due primarily to an increase in the volume of projects completed on behalf of Affiliated commercial office property partnerships, partially offset by a loss incurred during the first quarter of 1998 associated with cost overruns and unrecovered owner

change orders on a large outside contract. The Operating Partnership is currently pursuing an arbitration claim which may result in a partial recovery of the loss.

Revenue from Engineering and Technical Services increased 34.4%, or \$17.4 million, in 1998 with a corresponding increase of \$17.1 million in expenses compared to 1997 due primarily to significant additional facilities management contracts obtained in 1997 and 1998. Income before depreciation for Engineering and Technical Services increased 8.8% to \$4.2 million for 1998 compared to \$3.8 million in 1997. The lower margin in 1998 reflects a decrease in higher margin HVAC repair and replacement projects.

Income before depreciation for Financing Services decreased \$1.3 million, or 41.0%, due primarily to an unusually high level of fees in 1997 in connection with the roll-up of Affiliated commercial properties into a single partnership - Charles E. Smith Commercial Realty L.P. ("CESCR"). At the formation of CESCR, the Company entered into a 14-month agreement to continue providing financing services through December 31, 1998 for certain properties owned by CESCR. The 1998 fees were earned in connection with debt refinancings arranged for

properties owned or managed by CESC. Fees on properties owned by CESC were earned in accordance with the Operating Partnership's agreement while fees on properties managed by CESC were separately negotiated. Management does not expect any significant future income from Financing Services.

Other. Corporate general and administrative expenses increased by \$2.4 million, or 36.3%, due primarily to additional personnel added in mid-1997 to expand the Operating Partnership's acquisition and development program and write-offs of capitalized costs on terminated acquisition and development projects. Interest expense increased by \$1.9 million, or 4.2%, primarily due to financing of acquisition and development activities.

#### RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1997

##### Comparison to Year Ended December 31, 1996

Summary. Net income of the Operating Partnership increased 50.0%, or \$17.4 million, from \$34.8 million for the year ended December 31, 1996 to \$52.2 million for the year ended December 31, 1997. Funds from Operations of the Operating Partnership increased \$20.2 million, or 38.3%, during the same period. The increase in both net income and FFO is due to increases in income from the rental properties, primarily the multifamily acquisition and development properties. These increases were partially offset by higher interest and expenses related to acquisitions and development.

Rental Properties. Revenue from rental properties increased \$36.1 million, or 22.0%, from \$164.0 million for 1996 to \$200.1 million for 1997. Expenses from rental properties (including depreciation) increased \$15.3 million, or 17.2%, from \$89.2 million in 1996 to \$104.5 million in 1997.

1997 Core Portfolio. Revenue from the 1997 core portfolio (based on properties owned as of December 31, 1995) increased \$5.2 million, or 3.5%, from \$148.2 million in 1996 to \$153.4 in 1997. Based on the 1998 core, revenue was \$158.8 million for the year ended December 31, 1997. The difference of \$5.4 million represents the transfer of three properties into core on January 1, 1998

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and two properties out of core that were sold in 1998. Expenses increased \$0.3 million, or 0.4%, over the prior year primarily due to expected increases in payroll and related costs, partially offset by savings from management restructuring and the outsourcing of janitorial services.

Average monthly revenue per apartment unit of the 1997 core portfolio increased 3.5% from \$870 in 1996 to \$901 per month during 1997. Average economic occupancy decreased slightly to 96.4% in 1997 from 96.9% in 1996. The decrease in occupancy was not unexpected given the aggressive efforts initiated by management to increase rents as well as the implementation during the third quarter of 1996 of several revenue-enhancing initiatives, including a premium for month-to-month leases and the charging of a non-refundable move-in fee in lieu of security deposits.

1997 Acquisition Portfolio. The 1997 acquisition portfolio, consisting of 4,038 apartment units contributed \$30.4 million, or 84.2% of the rental revenue increase. This growth was primarily due to the fact that six of the nine properties, or 3,036 units, were acquired during 1997. The acquisition properties added \$12.3 million in property operating expenses compared to the prior year.

Retail Portfolio. Retail revenues increased by \$0.2 million, or 2.5%, during the year ended December 31, 1997 compared to the prior year due primarily to rent increases and improved vacancy at Skyline Mall. Average occupancy at Skyline Mall increased from 95.1% in 1996 to 97.2% in 1997.

In December 1997, Messrs. Smith and Kogod sold their health club facilities which lease retail space from the Operating Partnership. In conjunction with that sale, the Operating Partnership agreed to restructure the leases by reducing base rent on the Worldgate lease and extending the terms on both leases by ten years, through 2025, in exchange for a \$2.3 million cash payment which is being amortized over the lives of the revised leases. The Operating Partnership used the funds to retire 65,000 Operating Partnership units.

Property Service Businesses. Income from the Property Service Businesses decreased \$0.2 million, or 3.2%, during 1997 compared to 1996.

Income before depreciation for Multifamily and Retail Property Management Services decreased \$1.5 million, or 65.6%, primarily due to a non-recurring fee of \$0.6 million earned in 1996 in connection with the termination of a management agreement with a hotel owned by a related party. In addition, revenue decreased by an additional \$0.9 million due to the February 1997 acquisition of two properties previously managed by the Operating Partnership.

Income before depreciation for Interior Construction and Renovation Services increased \$0.1 million, or 8.9%, due to an increase of \$1.0 million in net fee

revenue offset by an increase of \$0.9 million in related expenses.

Revenue from Engineering and Technical Services increased 20.0%, or \$8.4 million, in 1997 with a corresponding increase of \$8.2 million in expenses compared to 1996 due primarily to additional HVAC systems operations and preventative maintenance contracts obtained throughout 1997. Due to start-up costs on the new contracts, operating margins during 1997 were lower than 1996. Consequently, income before depreciation for Engineering and Technical Services increased a moderate 4.8% to \$3.8 million for 1997 compared to \$3.7 million in 1996.

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Income before depreciation for Financing Services increased \$1.2 million, or 60.2%, due primarily to fees earned on an unusually high level of refinancings performed during the fourth quarter of 1997. Such refinancings were related to the roll-up of Affiliated commercial properties into a single partnership. In conjunction with the roll-up, Financing Services personnel transferred to the new entity, Charles E. Smith Commercial Realty L.P.

Other. Corporate general and administrative expenses increased by \$1.3 million, or 24.9%, due primarily to additional personnel added during the year to expand the Operating Partnership's acquisition and development program. Interest expense increased by \$1.8 million, or 4.1%, primarily due to assumed debt on acquisitions of multifamily properties. Distributions in excess of earnings allocated to Minority Interest decreased \$4.8 million. Such charges are no longer necessary as a result of the February 1997 stock offering and the related elimination of the Minority Interest deficit.

## LIQUIDITY AND CAPITAL RESOURCES

### Summary

Net cash flow provided by operating activities was \$118.6 million for 1998 compared to \$75.2 million for 1997. The increase of \$43.4 million was primarily due to higher cash flow contributed by the acquisition portfolio as well as core revenue growth.

Net cash flow used by the Operating Partnership for investing activities increased \$93.1 million in 1998, from \$196.9 million in 1997 to \$290.0 million in 1998 due primarily to the substantial increase in development volume during the year as well as increased capital expenditures.

Net cash flow provided by financing activities was \$171.4 million in 1998 compared to \$117.8 million in 1997. During 1998, the Operating Partnership raised approximately \$120 million through sales of common and preferred equity. In addition, the Operating Partnership completed a number of debt financing transactions which resulted in net cash inflows of \$122.4 million which is net of prepayment penalties and other related costs. In 1998, the Operating Partnership also paid distributions of \$73.5 million, or \$2.095 per unit representing three quarters of distributions at \$0.52 per unit and one quarter at \$0.535, a 3.0% increase.

### Equity Activity

During 1997, the Company entered into an agreement with a private investor to sell 2.6 million shares of Series A Cumulative Convertible Redeemable Preferred Stock ("Series A Preferred Shares") for \$71.5 million. In 1997, the Company issued 1.6 million shares of Series A Preferred Shares at \$27.08 per share resulting in proceeds of \$44.5 million, net of underwriting discounts and other expenses totaling \$0.5 million. The net proceeds were contributed to the Operating Partnership in exchange for 1.6 million Series A Preferred Units. The Operating Partnership used the proceeds to repay on the line of credit. In April 1998, the Company issued the remaining 1.0 million shares of Series A Preferred Shares at \$27.08 per share resulting in proceeds of \$26.1 million, net of expenses of \$0.4 million. The net proceeds were contributed to the Operating Partnership in

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exchange for 1.0 million Series A Preferred Units. These units were also used to repay the line of credit.

In January 1998, the Company sold 500 shares of Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Shares") for \$48.6 million, net of offering costs of \$1.4 million. The net proceeds were contributed to the Operating Partnership in exchange for 500 units of Series C Preferred Units. The Series C Preferred Shares have a liquidation preference of \$100,000 per unit and an initial annual distribution rate of \$7,910 per unit. If the securities receive an investment grade rating, the distribution rate will decrease by \$250 per unit. The Operating Partnership used the proceeds to repay outstanding amounts under its lines of credit.

In July 1998, the Company completed the sale of 1.4 million shares of common stock (par value of \$0.01 per share) under its existing shelf registration statement at a net purchase price of \$32.625 per share. The net proceeds of approximately \$45.4 million have been used to retire outstanding debt and for working capital needs.

During 1998, 0.5 million Series B Cumulative Convertible Redeemable Preferred Stock ("Series B Preferred Shares") were converted to common shares on a one-for-one basis. The Operating Partnership converted 0.5 million Series B Preferred Units to common units on a one-for-one basis.

During 1998, the Operating Partnership issued approximately 0.3 million Operating Partnership units valued at \$11.8 million in connection with property acquisitions.

#### Funds from Operations

FFO is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as net income (loss) (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring, and other non-recurring items, plus depreciation/amortization of assets unique to the real estate industry. Depreciation/amortization of assets not unique to the industry, such as amortization of deferred financing costs and non-real estate assets, is not added back. FFO does not represent cash flow from operating activities in accordance with generally accepted accounting principles (which, unlike FFO, generally reflects all cash effects of transactions and other events in the determination of net income) and should not be considered an alternative to net income as an indication of the Operating Partnership's performance or to cash flow as a measure of liquidity or ability to make distributions. The Operating Partnership considers FFO a meaningful, additional measure of operating performance because it primarily excludes the assumption that the value of real estate assets diminishes predictably over time, and because industry analysts have accepted it as a performance measure. Comparison of the Operating Partnership's presentation of FFO, using the NAREIT definition, to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs.

The Operating Partnership's FFO for the years ended December 31, 1998, 1997 and 1996 was as follows (in thousands):

<TABLE>  
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Net Income	\$ 69,870	\$52,210	\$34,817
Perpetual preferred distributions	(3,647)	--	--

</TABLE>

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<TABLE>  
<CAPTION>

	<C>	<C>	<C>
Gain on sale of property	(18,150)	--	--
Depreciation of real property	28,958	20,666	17,931
Amortization of goodwill	250	--	--
Loss on unused treasury lock	4,923	--	--
Extraordinary item - loss on debt extinguishment	16,384	87	--
Funds from Operations	98,588	72,963	52,748

</TABLE>

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#### Acquisitions/Dispositions

The Operating Partnership acquired the following operating properties during 1998 and 1997:

<TABLE>  
<CAPTION>

Total Cost (Dollars in Thousands)  
-----

	1998 ----	1997 ----
<S>	<C>	<C>
120-unit mid-rise apartment	\$ 6,700	\$ -
167-unit garden apartment	7,100	-
299-unit high-rise apartment	39,100	-
1,075-unit high-rise apartment / (1) /	74,100	-
281-unit mid-rise apartment	63,500	-
376-unit high-rise apartment	-	16,300
540-unit high-rise apartment	-	43,000
912-unit high-rise apartment	-	69,800
714-unit high-rise apartment	-	88,900
306-unit high-rise apartment	-	43,100
188-unit high-rise apartment	-	27,500
	-----	-----
	\$190,500	\$288,600
	=====	=====

</TABLE>

/(1)/ Purchase included approximately 13% of underlying land. Balance of land is subject to ground leases expiring in 2067.

During 1998, the Operating Partnership sold two properties (Oxford Manor and Marbury Plaza) in southeast Washington, D.C. for a total of \$22.0 million. The sales were completed as tax-deferred I.R.C. Section 1031 exchanges. In the financial statements, the Operating Partnership recognized gains on the sales totaling \$18.2 million.

In January 1999, the Operating Partnership completed the acquisition of three multifamily properties totaling 1,008 apartment units. The total capitalized cost of \$105.7 million was comprised of approximately \$55.0 million cash, initial capital improvement costs of \$6.2 million, 0.5 million Operating Partnership units valued at approximately \$16.3 million, assumed debt of \$27.1 million and fair market value adjustments of \$1.1 million.

In February, 1999, the Operating Partnership sold The Manor, a 435-unit multifamily property located in suburban Maryland for \$23.0 million. The Operating Partnership recognized a gain on the sale of \$1.9 million.

In March 1999, the Operating Partnership acquired the land beneath the Crystal Square property and the 5.1% net profits interest in the Crystal Plaza property. The purchase price of \$10.0 million consisted of 32,258 Operating Partnership Units valued at \$1.0 million and \$9.0 million cash drawn upon the line of credit.

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#### Development

The Operating Partnership's development pipeline as of December 31, 1998 consists of the following projects:

<TABLE>

<CAPTION>

	Number of Units -----	Units Delivered -----	Initial Delivery -----	Estimated Completion -----	Estimated Stabilization -----	Estimated Cost ----- (in millions) <C>
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Springfield Station (Northern Virginia)	631	280	May, 1998	Q2 1999	Q4 1999	\$ 60
Courthouse Place (Rosslyn/Ballston)	564	103	December, 1998	Q4 1999	Q1 2000	68
One Superior Place (Chicago)	809	n/a	Q3 1999	Q2 2000	Q4 2000	115
Park Connecticut (Washington, DC)	142	n/a	Q4 1999	Q1 2000	Q2 2000	26
	-----	---				-----
	2,146	383				\$269
	=====	===				=====

</TABLE>

#### Commitments

As of December 31, 1998, the Operating Partnership had executed four contracts to purchase to-be-constructed multifamily properties as follows:

<TABLE>

<CAPTION>

	Number of Units -----	Units Delivered -----	Estimated Completion -----	Purchase Date ----	Estimated Purchase Price ----- (in millions) <C>
<S>	<C>	<C>	<C>	<C>	<C>

New River Village (Ft. Lauderdale)	240	n/a	Q2 2000	Q4 2000	\$ 32
Wilson Boulevard (Rosslyn/Ballston)	220	n/a	Q2 2000	Q4 2000	28
Pollard Gardens (Rosslyn/Ballston)	383	n/a	Q4 2000	Q2 2001	47
Reston Landing (Northern Virginia)	400	n/a	Q4 1999	Q3 2000	44
	-----				----
	1,243				\$151
	=====				=====

</TABLE>

These contracts are contingent upon satisfactory completion of construction and attainment of final certificates of occupancy by the owners. At December 31, 1998, the Operating Partnership had posted three letters-of-credit totaling \$7.7 million in accordance with three of the contracts to be drawn upon only in the event the Operating Partnership defaults on its contractual obligations to purchase the completed assets.

Numerous other acquisition and development projects are being pursued by the Operating Partnership. The Operating Partnership anticipates meeting the related funding requirements through draws on its lines of credit, long-term borrowings and public or private issuances of equity, including Operating Partnership unit exchanges.

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#### Debt

As of December 31, 1998, the Operating Partnership had the following mortgage indebtedness and other borrowings carrying a weighted average interest rate of 6.97% and collateralized by 33 of the 54 Properties:

<TABLE>

<CAPTION>

	Dollars in Thousands	Percent of Total
<S>	<C>	<C>
Fixed rate debt:		
Mortgages	\$592,386	74.9%
\$83M Acquisition Line of Credit	30,000	3.8%
Variable rate debt:		
\$185M Line of Credit	53,000	6.7%
\$100M Line of Credit	52,000	6.6%
Construction loans	63,193	8.0%
	-----	-----
	\$790,579	100.0%
	=====	=====

</TABLE>

As of December 31, 1998, the Operating Partnership's Debt to Total Market Capitalization Ratio was 40.3% (based on 31.5 million common units, 3.4 million preferred units and 13.3 million partnership units outstanding at the Company's stock price of \$32.125 and \$50 million of perpetual preferred units) versus 35.0% at December 31, 1997. The Operating Partnership's Interest Coverage Ratios for the years ended December 31, 1998 and 1997 were 3.24:1 and 2.78:1, respectively.

Outstanding debt matures as follows (in thousands):

<TABLE>

<S>	<C>
1999	\$ 3,173
2000	31,574
2001	136,621
2002	--
2003	--
Thereafter	619,211
	-----
	\$790,579
	=====

</TABLE>

At December 31, 1998, the Operating Partnership had \$306.1 million of unused borrowing capacity available. Amounts outstanding under lines of credit averaged \$202.9 million and \$80.1 million for the years ended December 31, 1998 and 1997, respectively.

The Operating Partnership anticipates meeting principal repayment

requirements through long-term borrowings, public or private issuances of debt securities or public or private equity offerings.

During 1998, the Operating Partnership completed several debt financing transactions as follows:

- . The Operating Partnership terminated its existing \$100 million line of credit and entered into two new unsecured lines of credit - a \$100 million line and a \$185 million line - with PNC Bank, NationsBank, and U.S. Bank which mature in March 2001. The Operating Partnership repaid the balance outstanding under the \$100

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million line and recognized an extraordinary loss of \$0.3 million related to the extinguishment of such debt.

- . The Operating Partnership repaid \$110.1 million outstanding on Mortgage Pool One by drawing on the new line of credit. The Operating Partnership recognized an extraordinary loss of \$4.1 million related to the repayment. The Operating Partnership refinanced part of the draw through a \$53 million, ten year secured loan with Prudential at a fixed coupon rate of 6.88%. The loan is secured by two of the multifamily properties. In conjunction with this loan, the Operating Partnership terminated a \$20 million (notional value) treasury lock contract at a gain of \$0.4 million which will be amortized over the term of the new loan.
- . The Operating Partnership repaid mortgage loans totaling \$9.2 million and recognized an extraordinary loss of \$0.3 million due to extinguishment of debt.
- . In connection with the development of One Superior Place in Chicago, Illinois, the Operating Partnership obtained a \$90 million interest-only construction loan in July 1998 with interest currently at LIBOR plus 135 basis points, payable monthly, due July 1, 2001. The loan is collateralized by the property.
- . The Operating Partnership assumed a \$31.5 million mortgage loan in connection with the Cronin's Landing acquisition in July 1998. The loan has an effective fixed interest rate of 6.9% with principal amortized using a 25-year amortization schedule and a final payment due March 2009. A fair value adjustment of \$2.0 million was recorded upon assumption of this loan.
- . In September 1998, the Operating Partnership terminated a \$50 million (notional value) treasury lock contract at a loss of \$4.9 million. The treasury lock was put in place in the first quarter of 1998 to hedge interest rate risk associated with an anticipated 10-year, unsecured financing which ultimately did not occur. Therefore, this amount has been charged to current year earnings.
- . The Operating Partnership announced a standby credit facility of up to \$300 million with Fannie Mae which provides for non-recourse, long-term debt for up to fifteen years. The initial draw on this facility was \$140 million at 6.75% for fifteen years. The bulk of the proceeds were used to retire Mortgage Pool Two of \$125.2 million and the associated prepayment penalty of \$9.7 million. Terms and rates of subsequent draws on this facility will be determined at the time of use. Closing of the facility is expected during the second quarter of 1999.
- . The Operating Partnership obtained an interest-only \$17.1 million mortgage on 2000 Commonwealth at a fixed interest rate of 6.3% due December 3, 2006.
- . The Operating Partnership obtained a \$38.3 million mortgage on Crystal House I & II at a fixed interest rate of 6.29%. The loan is interest only through December

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2008, at which time principal amortization begins using a 30-year amortization schedule with a balloon payment due December 30, 2010.

- . The Operating Partnership obtained a \$49.3 million mortgage on Skyline Towers at a fixed interest rate of 6.45%. The loan is interest only through December 2008, at which time principal amortization begins using a 30-year amortization schedule with a balloon payment due December 10, 2010.
- . In February 1999, the unused portion, or \$53 million, of the Operating Partnership's \$83 million line of credit with Northwestern Mutual

expired.

In February 1999, the Operating Partnership repaid \$7.4 million of mortgage debt. The Operating Partnership paid a prepayment penalty of \$0.9 million which was recognized as an extraordinary loss.

Other

Capital Improvements. In 1998, total capital improvements were \$16.9 million, of which \$12.4 million, or \$871 per apartment unit, was for the core portfolio. Approximately 55% of the capital expenditures on the core portfolio are considered by management to generate net operating income ("NOI") by increasing revenue or decreasing expenses ("NOI generating"). The remaining capital expenditures on the core portfolio indirectly influence the Operating Partnership's ability to generate NOI ("non-NOI generating"). A summary of core capital expenditures during 1998 follows:

<TABLE>  
<CAPTION>

Expenditure Type	Total \$ Spent	Average \$ Per Core Unit
(in thousands)		
<S>	<C>	<C>
Installations	\$ 2,643	\$185
Water saving devices	1,016	71
Renovations	1,075	75
Redevelopment	1,435	100
Other	681	48
	-----	----
NOI-Generating Improvements	6,850	479
Non-NOI Generating Improvements	5,605	392
	-----	----
Total Capital Expenditures		
- Core Portfolio	\$12,455	\$871
	=====	=====

</TABLE>

Income Taxes. The Company is taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. As such, the Company generally is not subject to Federal corporate income taxes on net income it distributes currently to shareholders provided that the Company distributes at least 95% of its taxable income each year. REITs are subject to certain organizational requirements and asset and income tests in order to

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maintain their REIT status. The Property Service Businesses are taxable corporations, and thus, pay Federal and state income taxes on their net income. Such taxes amounted to \$ 0.6 million, \$0.4 million and \$0.4 million for 1998, 1997 and 1996.

Effect of Inflation. Substantially all of the leases at the Multifamily Properties are for a term of one year or less, which enables the Operating Partnership to seek increased rents upon renewal or reletting of apartments. Retail tenant leases provide for pass-through of common area maintenance, real estate taxes and other operating costs to tenants, which reduces the impact of inflation.

Year 2000. In 1997, the Operating Partnership began a comprehensive review of its year 2000 compliance issues utilizing an overlapping, three-phased approach. Phase I involves assessments of building infrastructure and internal computer systems including both hardware and software to identify possible compliance failures. Phase II involves vendor compliance and actual testing of hardware and software applications including significant electronic interfaces. Phase III involves identifying remaining company-wide risks and development of contingency plans. The Operating Partnership expects to complete Phases I and II of its year 2000 review in mid-1999. Phase III is expected to run from March 1999 through December 1999. Based on the review plan as well as the expected success of remediation efforts currently underway, management believes the Operating Partnership has no material risks related to the ability of its hardware and software to recognize the year 2000 and beyond as valid dates.

The Operating Partnership's primary financial and operational software programs are purchased from outside vendors who have already resolved year 2000 issues. The Operating Partnership has received letters from these vendors indicating that their software is year 2000 compliant. The Operating Partnership is in the process of replacing one computer system, however, which is not currently year 2000 compliant at an estimated cost of approximately \$1.6 million. The new system was implemented in January 1999 and is expected to be fully operational in early 1999. The related cost will be depreciated over its



estimated useful life.

As part of Phase II, the Operating Partnership has initiated steps to identify and contact key vendors whose inability to provide service in the year 2000 could have a material adverse effect on the Operating Partnership's business operations. With the exception of utility services, the Operating Partnership believes that there are no other critical suppliers whose inability to provide service would materially affect business operations. This is due primarily to the physical nature of the Operating Partnership's product as well as the availability of multiple suppliers of property services. The Operating Partnership does not have a contingency plan to address the possibility that utility services may not be available. However, management believes that this is a very unlikely scenario. Readers are cautioned that these conclusions involve numerous subjective assumptions and there can be no assurances that management has adequately identified or addressed all possible contingencies.

Excluding the replacement system, the Operating Partnership's year 2000 compliance efforts have been primarily conducted with internal staff. Accordingly, the costs have been immaterial and are expensed as incurred.

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Item 7a. Quantitative and Qualitative Disclosures of Market Risk.

None.

Item 8. Financial Statements and Supplementary Data.

See Index to Consolidated and Combined Financial Statements on Page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

### Part III

Item 10. Directors and Executive Officers of the Registrant.

The information required by this item with respect to directors is hereby incorporated by reference to the material appearing under the caption "Election of Directors" in the Company's definitive proxy statement for the annual meeting of shareholders to be held in 1999 (the "Proxy Statement"). Information required by this item with respect to executive officers is provided in Item 1 of this report. See "Executive Officers of the Company."

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership of such securities with the Securities and Exchange Commission and the NYSE. To the best of the Company's knowledge, all required reports were timely filed during and with respect to the fiscal year ended December 31, 1998, except for the following reports which were filed late: Ernest A. Gerardi, Jr. (one report, one transaction); John T. Gray (Form 3); John W. Guinee (amendment to Form 3); Steven E. Gulley (Form 3 and an amendment to Form 3); Charles R. Hagen (one report, four transactions); Matthew B. McCormick (one report, one transaction); Alfred G. Neely (two reports, three transactions); Roger L. Weeks (one report, one transaction); Robert D. Zimet (one transaction, one report).

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Item 11. Executive Compensation.

The information required by this item is hereby incorporated by reference to the material appearing under the caption "Executive Compensation" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is hereby incorporated by reference to the material appearing under the caption "Voting Securities and Principal Holders Thereof" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

The information required by this item is hereby incorporated by reference

to the material appearing under the caption "Certain Relationships and Related Transactions" in the Proxy Statement.

Part IV

Item 14. Exhibits, Financial Schedules, and Reports on Form 8-K.

14(a)(1) Financial Statements

Reference is made to the Index to Financial Statements and Schedule on Page F-1 of this Form 10-K.

14(a)(2) Financial Statement Schedules

Reference is made to the Index to Financial Statements and Schedule on Page F-1 of this Form 10-K.

All other schedules have been omitted because the required information of such other schedules is not present in amounts sufficient to require submission of the schedule or because the required information is included in the consolidated financial statements.

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14(a)(3) Exhibits

- 2.1 Third Party Management and Leasing, Hotel Asset Management and Corporate Services Business Transfer Agreement by and between Charles E. Smith Residential Realty, Inc. and Smith Property Management, Inc. (Incorporated by reference to Exhibit No. 2.1 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 2.2 REIT Properties Management and Leasing Business Transfer Agreement by and between Charles E. Smith Management, Inc. and Charles E. Smith Residential Realty L.P. (Incorporated by reference to Exhibit No. 2.2 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 2.3 Assignment by Robert H. Smith, Clarice R. Smith, Robert P. Kogod and Arlene R. Kogod to Charles E. Smith Management, Inc. of 99% of all Partnership Interests of Residential Associates Limited Partnership (Incorporated by reference to Exhibit No. 2.3 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 2.4 Assignment and Assumption Agreement by Residential Associates Limited Partnership and Charles E. Smith Residential Realty L.P. (Incorporated by reference to Exhibit No. 2.4 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 2.5 Debt Assumption Agreement and Accord and Satisfaction of Debt by Charles E. Smith Management, Inc. and Charles E. Smith Residential Realty L.P. (Incorporated by reference to Exhibit No. 2.5 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 2.6 Debt Contribution Agreement between Charles E. Smith Management, Inc. and Charles E. Smith Residential Realty L.P. (the "Operating Partnership") (Incorporated by reference to Exhibit No. 2.6 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 3.1 Amended and Restated Articles of Incorporation of Charles E. Smith Residential Realty, Inc. (the "Company") (Incorporated by reference to Exhibit No. 3.1 of the Company's Registration Statement on Form S-11, No. 33-75288)

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- 3.2 Articles of Amendment to Articles of Amendment and Restatement of Articles of Incorporation of Charles E. Smith Residential Realty, Inc.
- 3.3 Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.2 in the Company's Registration Statement on Form S-3 (File No. 33-93986)
- 3.4 Articles Supplementary to Amended and Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit No. 3.1 of Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1997)
- 3.5 Articles Supplementary of the Company for Classifying and Designating Series B Cumulative Convertible Redeemable Preferred Stock (Incorporated by reference to Exhibit No. 4.1 of the Operating Partnership's Report on Form 8-K dated October 3, 1997 and filed November 10, 1997)

- 3.6 Certificate of Correction relating to Articles Supplementary for Series B Cumulative Convertible Redeemable Preferred Stock (Incorporated by reference to Exhibit No. 4.2 of the Operating Partnership's Report on Form 8-K dated October 3, 1997 and filed November 10, 1997)
- 3.7 Articles Supplementary for Series C Cumulative Redeemable Preferred Stock (Incorporated by reference to Exhibit No. 3.5 in the Company's Registration Statement on Form S-3, File No. 333-17053)
- 3.8 Articles Supplementary of the Company for Classifying and Designating a Series of Preferred Stock as Series D Junior Participating Preferred Stock and Fixing Distribution and Other Preferences and Rights of Such Series
- 4.1 First Amended and Restated Agreement of Limited Partnership of the Operating Partnership, as amended (Incorporated by reference to Exhibit No. 4.1 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)

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- 4.2 Certificate of Limited Partnership of the Operating Partnership (Incorporated by reference to Exhibit No. 4.2 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 4.3 Ninth Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (Incorporated by reference to Exhibit No. 4.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1997)
- 4.4 Tenth Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (Incorporated by reference to Exhibit No. 4.4 of the Operating Partnership's Form 10-K for the year ended December 31, 1997)
- 4.5 Fifteenth Amendment to First Amended and Restated Agreement of Limited Partnership of the Operating Partnership (Incorporated by reference to Exhibit 99.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1998)
- 4.6 Seventeenth Amendment to First Amended and Restated Agreement of Limited Partnership of the Operating Partnership
- 10.1 Noncompetition Agreement by and among the Company, the Operating Partnership and Robert P. Kogod and Robert H. Smith (Incorporated by reference to Exhibit No. 10.1 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.2 Registration Rights and Lock-up Agreement (Incorporated by reference to Exhibit No. 10.2 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.3 Pledge Agreement (Incorporated by reference to Exhibit No. 10.3 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.4 First Amended and Restated 1994 Employee Stock and Unit Option Plan (Incorporated by reference to Exhibit No. 10.4 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.5 First Amended and Restated 1994 Employee Restricted Stock and Restricted Unit Plan (Incorporated by reference to Exhibit No. 10.5 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)

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- 10.6 Non-Employee Directors Stock Option Plan (Incorporated by reference to Exhibit No. 10.6 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.7 Subscription Agreement (Incorporated by reference to Exhibit No. 10.7 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.8 Voting Stock Partnership Agreement for Smith Property Management Partnership (Incorporated by reference to Exhibit No. 10.8 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.9 Voting Stock Partnership Agreement for Smith Management Construction Partnership (Incorporated by reference to Exhibit No. 10.9 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.10 Voting Stock Partnership Agreement for Consolidated Engineering Services

Partnership (Incorporated by reference to Exhibit No. 10.10 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)

- 10.11 Amended and Restated Articles of Incorporation of Smith Realty Company (Incorporated by reference to Exhibit No. 10.11 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.12 By-Laws of Smith Property Management, Inc. (Incorporated by reference to Exhibit No. 10.12 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.13 Articles of Incorporation of Smith Management Construction, Inc. (Incorporated by reference to Exhibit No. 10.13 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.14 By-Laws of Smith Management Construction, Inc. (Incorporated by reference to Exhibit No. 10.14 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.15 Articles of Incorporation of Consolidated Engineering Services, Inc. (Incorporated by reference to Exhibit No. 10.15 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.16 By-Laws of Consolidated Engineering Services, Inc. (Incorporated by reference to Exhibit No. 10.16 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.17 Certificate of Incorporation of Smith One, Inc. (Incorporated by reference to Exhibit No. 10.17 of the Company's Registration Statement on Form S-11, No. 33-75288)

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- 10.18 By-Laws of Smith One, Inc. (Incorporated by reference to Exhibit No. 10.18 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.19 Agreement of Limited Partnership of Smith Property Holdings One L.P. (Incorporated by reference to Exhibit No. 10.19 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.20 Agreement of Limited Partnership of Smith Property Holdings One (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.20 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.21 Certificate of Incorporation of Smith Two, Inc. (Incorporated by reference to Exhibit No. 10.21 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.22 By-Laws of Smith Two, Inc. (Incorporated by reference to Exhibit No. 10.22 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.23 Agreement of Limited Partnership of Smith Property Holdings Two L.P. (Incorporated by reference to Exhibit No. 10.23 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.24 Agreement of Limited Partnership of Smith Property Holdings Two (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.24 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.25 Certificate of Incorporation of Smith Three, Inc. (Incorporated by reference to Exhibit No. 10.25 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.26 By-Laws of Smith Three, Inc. (Incorporated by reference to Exhibit No. 10.26 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.27 Agreement of limited Partnership of Smith Property Holdings Three L.P. (Incorporated by reference to Exhibit No. 10.27 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.28 Agreement of Limited Partnership of Smith Property Holdings Three (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.28 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)

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- 10.29 Certificate of Incorporation of Smith Four, Inc. (Incorporated by reference to Exhibit No. 10.29 of the Company's Registration Statement on Form S-11, No. 33-75288)

- 10.30 By-Laws of Smith Four, Inc. (Incorporated by reference to Exhibit No. 10.30 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.31 Agreement of Limited Partnership of Smith Property Holding Four L.P. (Incorporated by reference to Exhibit No. 10.31 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.32 Amended and Restated Certificate of Incorporation of Smith Five, Inc. (Incorporated by reference to Exhibit No. 10.32 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.33 By-Laws of Smith Five, Inc. (Incorporated by reference to Exhibit No. 10.33 of the Company's Registration Statement on Form S-11, No. 33-75288)
- 10.34 Agreement of Limited Partnership of Smith Property Holdings Five (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.34 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.35 License Agreement between Charles E. Smith Management, Inc. and the Company (Incorporated by reference to Exhibit No. 10.35 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.36 License Agreement between Charles E. Smith Management, Inc. and the Operating Partnership (Incorporated by reference to Exhibit No. 10.36 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.37 Agreement of Limited Partnership of Smith Property Holdings Five L.P. (Incorporated by reference to Exhibit No. 10.0 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1994)
- 10.38 Certificate of Limited Partnership of Smith Property Holdings Five L.P. (Incorporated by reference to Exhibit No. 10.38 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)
- 10.39 Deed of Trust and Security Agreement between Smith Property Holdings Three L.P. ("Smith Three") and The Northwestern Mutual Life Insurance Company ("Northwestern") (Incorporated by reference to Exhibit No. 10.2 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)

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- 10.40 Guarantee of Recourse Obligations by Smith Three and the Operating Partnership (Incorporated by reference to Exhibit No. 10.3 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)
- 10.41 Absolute Assignment of Leases and Rents between Smith Three and Northwestern (Incorporated by reference to Exhibit No. 10.4 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)
- 10.42 Promissory Note of Smith Three to Northwestern (Incorporated by reference to Exhibit No. 10.5 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)
- 10.43 Purchase Money Deed of Trust and Security Agreement between Smith Property Holdings Three (D.C.) L.P. ("Smith Three D.C.") and Northwestern (Incorporated by reference to Exhibit No. 10.6 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)
- 10.44 Guarantee of Recourse Obligations by Smith Three D.C. and the Operating Partnership (Incorporated by reference to Exhibit No. 10.7 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)
- 10.45 Absolute Assignment of Leases and Rents between Smith Three D.C. and Northwestern (Incorporated by reference to Exhibit No. 10.8 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)
- 10.46 Purchase Money Promissory Note of Smith Three D.C. to Northwestern (Incorporated by reference to Exhibit No. 10.9 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)
- 10.47 Supplemental Loan Agreement by and among Smith Property Holdings Two L.P. ("Smith Two"), Smith Property Holdings Two (D.C.) L.P. ("Smith Two D.C.") and Green Park Financial Limited Partnership ("Green Park")

10.48 Supplemental Loan Agreement by and among Smith Property Holdings One L.P. ("Smith One D.C."), Smith Property Holdings One (D.C.) L.P. ("Smith One D.C.") and GMAC (Incorporated by reference to Exhibit No. 10.13 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)

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10.49 Multifamily Note of Smith One to GMAC (Incorporated by reference to Exhibit No. 10.14 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)

10.50 Multifamily Note of Smith One D.C. to GMAC (Incorporated by reference to Exhibit No. 10.15 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)

10.51 Absolute Assignment of Leases and Rents by Smith One D.C. to GMAC (Incorporated by reference to Exhibit No. 10.16 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)

10.52 Property Management Agreement by and between Smith One and the Operating Partnership (Incorporated by reference to Exhibit No. 10.17 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)

10.53 Multifamily Deed of Trust, Assignment of Rents and Security Agreement between Smith One D.C. and GMAC (Incorporated by reference to Exhibit No. 10.18 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)

10.54 Commercial Leasing and Property Management Agreement between Smith Three and the Operating Partnership (Incorporated by reference to Exhibit No. 10.19 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)

10.55 Agreement of Limited Partnership of Smith Employment Services L.P. (Incorporated by reference to Exhibit No. 10.58 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)

10.56 Certificate of Limited Partnership of Smith Employment Services L.P. (Incorporated by reference to Exhibit No. 10.59 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)

10.57 Second Restated and Amended Agreement of Limited Partnership of First Herndon Associated Limited Partnership (Incorporated by reference to Exhibit No. 10.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1995)

10.58 Second Amendment to the Certificate of Limited Partnership of First Herndon Associates Limited Partnership (Incorporated by reference to Exhibit No. 10.2 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1995)

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10.59 Certificate of Incorporation of Smith Six, Inc. (Incorporated by reference to Exhibit No. 10.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1995)

10.60 By-Laws of Smith Six, Inc. (Incorporated by reference to Exhibit No. 10.2 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1995)

10.61 Agreement of Limited Partnership of Smith Property Holdings Six L.P. (Incorporated by reference to Exhibit No. 10.3 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1995)

10.62 Agreement of Limited Partnership of Smith Property Holdings Six (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.4 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1995)

10.63 Certificate of Incorporation of Smith Seven, Inc. (Incorporated by reference to Exhibit No. 10.66 of the Operating Partnership's Form 10-K for the year ended December 31, 1995)

10.64 By-Laws of Smith Seven, Inc. (Incorporated by reference to Exhibit No. 10.67 of the Operating Partnership's Form 10-K for the year ended December 31, 1995)

10.65 Agreement of Limited Partnership of Smith Property Holdings Seven L.P. (Incorporated by reference to Exhibit No. 10.68 of the Operating Partnership's Form 10-K for the year ended December 31, 1995)

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10.66 Commitment for Mortgage Loan to the Operating Partnership from Northwestern Mutual Life Insurance Company (Incorporated by reference to Exhibit No. 10.69 of the Operating Partnership's Form 10-K for the year ended December 31, 1995)

10.67 Third Amended and Restated Credit Agreement by and between the Operating Partnership and PNC Bank, National Association, et. al. (Incorporated by reference to Exhibit No. 10.71 of the Operating Partnership's Form 10-K for the year ended December 31, 1997)

10.68 First Amendment to Third Amended and Restated Credit Agreement between the Operating Partnership and PNC Bank, National Association, et. al. (Incorporated by reference to Exhibit 99.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1998)

10.69 Second Amendment to Third Amended and Restated Credit Agreement between the Operating Partnership and PNC Bank, National Association, et. al. (Incorporated by reference to Exhibit 99.2 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1998)

10.70 First Amendment to First Amended and Restated Agreement of 1994 Employee Stock and Unit Option Plan of Charles E. Smith Residential Realty, Inc. (Incorporated by reference to Exhibit 4.9 in the Operating Partnership's Registration Statement on Form S-8, File No. 333-67421)

10.71 Second Amendment to First Amended and Restated Agreement of 1994 Employee Stock and Unit Option Plan of Charles E. Smith Residential Realty, Inc.

10.72 Rights Agreement between Charles E. Smith Residential Realty, Inc. and First Union National Bank, as Rights Agent

21 Subsidiaries of the Registrant

23.1 Consent of Arthur Andersen LLP

27 Financial Data Schedule

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14(b) Reports on Form 8-K

A report on Form 8-K was filed on May 13, 1998 providing information on a Property acquired by the Operating Partnership during the second quarter of 1998, including certain unaudited proforma balance sheets and statements of operations of the Operating Partnership reflecting the acquisition and statements of revenue and certain expenses for the McClurg Court Property for the year ended December 31, 1997, and applicable subsequent periods.

A report on Form 8-K was filed on July 15, 1998 providing information on a Property (Cronin's Landing) acquired by the Operating Partnership during the third quarter of 1998.

A report on Form 8-K was filed on December 8, 1998 providing information on the Rights Plan.

14(c) Exhibits

The list of Exhibits filed with this report is set forth in response to Item 14(a)(3). The required exhibit index has been filed with the exhibits.

14(d) Financial Statements

See Index to Financial Statements and Schedules on Page F-1 of this Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 26th day of March, 1999.

CHARLES E. SMITH RESIDENTIAL REALTY, L.P.

By Charles E. Smith Residential Realty,  
Inc., it's General Partner

By /s/Ernest A. Gerardi, Jr.  
-----  
Ernest A. Gerardi, Jr.  
President and Chief Operating Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on this 26th day of March, 1999.

Signature -----	Title -----
/s/Robert H. Smith ----- Robert H. Smith	Co-Chairman of the Board, Co-Chief Executive Officer, and Director
/s/Robert P. Kogod ----- Robert P. Kogod	Co-Chairman of the Board, Co-Chief Executive Officer, and Director
/s/Ernest A. Gerardi, Jr. ----- Ernest A. Gerardi, Jr.	President, Chief Operating Officer, and Director
/s/Wesley D. Minami ----- Wesley D. Minami	Senior Vice President and Chief Financial Officer
/s/ Steven E. Gulley ----- Steven E. Gulley	Vice President, Controller, and Chief Accounting Officer
/s/Fred J. Brinkman ----- Fred J. Brinkman	Director
/s/Charles B. Gill ----- Charles B. Gill	Director
/s/Mandell J. Ourisman ----- Mandell J. Ourisman	Director
/s/Mallory Walker ----- Mallory Walker	Director

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CHARLES E. SMITH RESIDENTIAL REALTY L.P.

Index to Financial Statements and Schedules  
-----

CHARLES E. SMITH RESIDENTIAL REALTY L.P.  
FINANCIAL STATEMENTS FILED AS PART OF THIS REPORT

Pages



Report of Independent Public Accountants	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Partner's Equity and Other Limited Partners' Interest	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7 to F-33

SCHEDULES FILED AS PART OF THIS REPORT

Schedule III - Real Estate and Accumulated Depreciation	S-1 to S-2
---	------------

All other Schedules have been omitted because the required information of such other Schedules is not present in amounts sufficient to require submission of the schedule or because the required information is included in the consolidated financial statements.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Charles E. Smith Residential Realty, L.P.:

We have audited the accompanying consolidated balance sheets of Charles E. Smith Residential Realty L.P. (a Delaware limited partnership) and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of operations, partners' equity and other limited partners' interest, and cash flows for each of the years in the three years ended December 31, 1998. These consolidated financial statements and the schedule referred to below are the responsibility of the management of Charles E. Smith Residential Realty, L.P. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Charles E. Smith Residential Realty L.P. and subsidiaries as of December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the years in the three years ended December 31, 1998, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Washington, D.C.  
February 9, 1999

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CHARLES E. SMITH RESIDENTIAL REALTY L.P.  
CONSOLIDATED STATEMENTS OF PARTNER'S EQUITY AND OTHER LIMITED PARTNERS' INTEREST  
(Dollars in Thousands, Except Per Unit Data)

<TABLE>  
<CAPTION>

	General Partner's General and Limited Interest				Other Limited Partners' Interest
	Series A Preferred Units	Series B Preferred Units	Series C Preferred Units	Common Units	Common Units
<S>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995	\$ -	\$ -	\$ -	\$ (320,286)	\$ 288,663
Units exchanged for acquisition	-	-	-	-	2,403
Adjustment for unit grants	-	-	-	-	333
Net income	-	-	-	15,755	19,062
Distributions	-	-	-	(19,469)	(23,840)
Adjustment to reflect Other Limited Partners' interest at redemption value	-	-	-	(65,252)	65,252
Balance, December 31, 1996	-	-	-	(389,252)	351,873
Units exchanged for acquisition	-	-	-	-	75,019
Adjustment for unit grants	-	-	-	-	579
Net income	-	-	-	26,593	25,617
Contribution by Charles E. Smith Residential Realty, Inc.	45,000	34,675	-	124,180	-
Offering costs	-	-	-	(562)	-
Repurchase and cancellation of Operating Partnership units	-	-	-	-	(2,206)
Distributions	-	-	-	(27,151)	(26,369)
Other	-	-	-	244	110
Adjustment to reflect Other Limited Partners' interest at redemption value	-	-	-	(78,096)	78,096
Balance, December 31, 1997	45,000	34,675	-	(344,044)	502,719
Units exchanged for acquisition	-	-	-	-	11,820
Adjustment for unit grants	-	-	-	-	521
Net income	-	-	-	41,129	28,741
Contribution by Charles E. Smith Residential Realty, Inc.	26,500	-	50,000	45,454	-
Conversion of Preferred units to Common Units	-	(14,308)	-	14,308	-
Offering costs	-	-	-	(1,874)	-
Repurchase and cancellation of Operating Partnership units	-	-	-	-	(594)
Distributions	-	-	-	(44,498)	(28,962)
Other	-	-	-	121	2,874
Adjustment to reflect Other Limited Partners' interest at redemption value	-	-	-	90,861	(90,861)
Balance, December 31, 1998	\$ 71,500	\$ 20,367	\$ 50,000	\$ (198,543)	\$ 426,258
Units issued and outstanding at December 31, 1998	2,640,325	714,628	500	18,212,600	13,268,740
Units issued and outstanding at December 31, 1997	1,661,743	1,216,666	-	14,942,429	14,161,102

</TABLE>

The accompanying notes are an integral part of these statements.

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CHARLES E. SMITH RESIDENTIAL REALTY L.P.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in Thousands)

<TABLE>

<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 69,870	\$ 52,210	\$ 34,817
Adjustments to reconcile net income to net cash provided by operating activities:			
Extraordinary Item-Loss on extinguishment of debt	16,384	-	-
Loss on unused treasury lock	4,923	-	-
Gain on sale of property	(18,150)	-	-

Depreciation and amortization	31,118	23,543	21,039
(Increase) decrease in escrow funds	1,490	(1,519)	(716)
(Increase) decrease in other assets	3,833	(3,218)	(1,014)
(Decrease) increase in accounts payable and accrued expenses	9,098	4,207	(3,168)
Net cash provided by operating activities	118,566	75,223	50,958
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions and development of rental property	(255,695)	(173,205)	(60,173)
Additions to rental property	(16,852)	(12,811)	(7,425)
Decrease in related party payables	-	-	(1,441)
(Increase) decrease in investment in and advances to Property Service Businesses and other	(14,492)	(5,111)	(2,408)
Acquisition deposits and other	(2,956)	(5,797)	(1,295)
Net cash used by investing activities	(289,995)	(196,924)	(72,742)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Additions to deferred charges	(6,149)	(1,033)	(402)
Capital contributions by Charles E. Smith Residential Realty, Inc.:			
Common units	45,454	124,180	-
Preferred units	74,626	79,113	-
Mortgages:			
Proceeds	317,650	34,000	31,095
Repayments	(259,155)	(43,847)	(31,520)
Lines of credit:			
Proceeds	296,000	92,350	75,500
Repayments	(266,000)	(99,400)	(16,000)
Construction loans:			
Proceeds	66,157	5,536	1,032
Repayments	(8,500)	(17,686)	-
Prepayment penalties	(12,672)	-	-
Loss on unused treasury lock	(4,923)	-	-
Repurchase of units	(594)	(2,206)	-
Distributions	(73,460)	(53,520)	(43,309)
Other, net	2,995	316	(192)
Net cash provided by financing activities	171,429	117,803	16,204
NET DECREASE IN CASH AND CASH EQUIVALENTS	-	(3,898)	(5,580)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-	3,898	9,478
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ -	-	\$ 3,898

</TABLE>

The accompanying notes are an integral part of these statements.

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CHARLES E. SMITH RESIDENTIAL REALTY L.P.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Dollars in Thousands, Except Per Unit Data)

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Rental Properties:			
Revenues	\$ 250,211	\$ 200,104	\$ 163,959
Expenses			
Operating costs	(84,381)	(71,425)	(60,796)
Real estate taxes	(17,254)	(12,402)	(10,429)
Depreciation and amortization	(28,958)	(20,666)	(17,931)
Total expenses	(130,593)	(104,493)	(89,156)
Equity in income of Property Service Businesses	8,433	7,597	7,846
Corporate general and administrative expenses	(8,947)	(6,563)	(5,255)
Interest income	1,257	1,063	1,029
Interest expense	(47,334)	(45,411)	(43,606)
Income before gain on sale, loss on unused treasury lock, and extraordinary item	73,027	52,297	34,817

Gain on sale of property	18,150	-	-
Loss on unused treasury lock	(4,923)	-	-
	-----	-----	-----
Income before extraordinary item	86,254	52,297	34,817
Extraordinary item - loss on extinguishment of debt	(16,384)	(87)	-
	-----	-----	-----
Net income	69,870	52,210	34,817
Less: Income attributable to preferred units	(10,722)	(1,881)	-
	-----	-----	-----
Net income attributable to common units	\$ 59,148	\$ 50,329	\$ 34,817
	=====	=====	=====
Earnings per common unit - basic			
Income before extraordinary item	\$ 2.50	\$ 1.89	\$ 1.59
Extraordinary item	0.54	-	-
	-----	-----	-----
Net income	\$ 1.96	\$ 1.89	\$ 1.59
	=====	=====	=====
Earnings per common unit - diluted			
Income before extraordinary item	\$ 2.49	\$ 1.88	\$ 1.59
Extraordinary item	0.54	-	-
	-----	-----	-----
Net income	\$ 1.95	\$ 1.88	\$ 1.59
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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CHARLES E. SMITH RESIDENTIAL REALTY L.P.  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31,  
(Dollars in Thousands)

<TABLE>  
<CAPTION>

	1998	1997
	-----	-----
<S>	<C>	<C>
ASSETS		
Rental property, net	\$ 926,749	\$ 751,230
Rental property under construction	167,214	53,093
Escrow funds	23,819	7,606
Investment in and advances to Property Service Businesses	28,633	14,141
Deferred charges, net	18,081	16,047
Security deposits	2,408	2,453
Other assets	18,495	20,936
	-----	-----
	\$ 1,185,399	\$ 865,506
	-----	-----
LIABILITIES AND EQUITY		
Liabilities		
Mortgage loans	\$ 592,386	\$ 500,435
Lines of credit	135,000	105,000
Construction loans	63,193	5,536
Accounts payable and accrued expenses	22,830	13,732
Security deposits	2,408	2,453
	-----	-----
Total liabilities	815,817	627,156
	-----	-----
Commitments and contingencies		
Other Limited Partners' Interest		
13,268,740 and 14,161,102 common units issued and outstanding at December 31, 1998 and 1997, respectively, at redemption value	426,258	502,719
	-----	-----
Partner's Equity		
General Partner's General and Limited Partnership Interest		
Preferred units - Series A Cumulative Convertible		

Redeemable Preferred Units, 2,640,325 and 1,661,743 units issued and outstanding at December 31, 1998 and 1997, respectively	71,500	45,000
Prererrred units - Series B Cumulative Convertible Redeemable Preferred Units, 714,628 and 1,216,666 units issued and outstanding at December 31, 1998 and 1997, respectively	20,367	34,675
Preferred units - Series C Cumulative Redeemable Preferred Units, 500 units issued and outstanding	50,000	-
Common units - 18,212,600 and 14,942,429 units issued and outstanding at December 31, 1998 and 1997, respectively	(198,543)	(344,044)
	-----	-----
Total partner's equity	(56,676)	(264,369)
	-----	-----
	\$ 1,185,399	\$ 865,506
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

F-3

CHARLES E. SMITH RESIDENTIAL REALTY, L.P.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND FORMATION OF COMPANY

Charles E. Smith Residential Realty L.P. (The "Operating Partnership") was organized in Delaware in 1993. The Operating Partnership had no operations prior to the completion of the business combination (discussed below) which occurred on June 30, 1994. Charles E. Smith Residential Realty, Inc. (the "Company"), formed in June 1993, is a self-administered and self-managed equity real estate investment trust ("REIT"). On June 30, 1994, the Company raised equity through an initial public offering and a private placement (the "Offerings"), and issued debt in a series of concurrent private financing transactions. The proceeds from the Offerings were used to acquire the 1.0% sole general partnership and a 41.7% limited partnership interest in the Operating Partnership.

Simultaneous with the Offerings, the entities that owned the properties and the related service businesses included in the CES Group contributed the properties (the "Predecessor Properties") and the management, development, leasing, interior construction, engineering, and financing services business segments of the Predecessor to the Operating Partnership (or corporations in which the Operating Partnership owns substantially all of the equity) and received in exchange, directly or indirectly, units of limited partnership in the Operating Partnership. (The contributing entities and their owners, which include Robert H. Smith and Robert P. Kogod and their families, and other former owners of indirect interests in contributed properties, are referred to collectively as the "Other Limited Partners"). The contributed assets and liabilities were recorded at historical net book value which transferred a net carry-over deficit of \$244.2 million to the Operating Partnership.

The Operating Partnership and its subsidiaries are engaged in the ownership, operation, management, leasing, acquisition, and development of real estate properties, primarily residential multifamily properties. As of December 31, 1998, the Operating Partnership owned 48 operating multifamily properties containing 19,279 apartment units (the "Properties"), had approximately 2,100 units under construction at four owned sites and had agreements to purchase approximately 1,200 units at four additional sites. In addition, the Operating Partnership owned two free-standing community retail shopping centers aggregating 436,000 square feet. The properties are located in the following metropolitan areas:

<TABLE>  
<CAPTION>

	Washington, D.C. Area	Chicago	Boston	Ft. Lauderdale	Total
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Multi-Family					
-----					
Operating	44	2	2	-	48
Under Construction	6	1	-	1	8

</TABLE>

F-7

<TABLE>	<S>	<C>	<C>	<C>	<C>	<C>
Retail Centers		2	-	-	-	2
-----		--	--	--	--	--
		52	3	2	1	58
		==	==	==	==	==

</TABLE>

Additionally, the Operating Partnership owned substantially all of the equity in entities which provide multifamily and retail property management and leasing, furnished corporate apartments, interior construction and renovation, building engineering and technical services, and financial advisory services (collectively, the "Property Service Businesses").

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying consolidated financial statements include all of the accounts of the Operating Partnership and its subsidiaries and affiliates. The Operating Partnership uses the equity method of accounting for its 99% non-voting interest in the Property Service Businesses.

All significant intercompany balances and transactions have been eliminated.

### Rental Property

The Operating Partnership recorded the contributed Predecessor Properties at the Predecessor's historical cost. Rental property subsequently acquired or developed is recorded at the Operating Partnership's actual cost, including interest and real estate taxes incurred during development. Ordinary repairs and maintenance, such as minor replacements and painting, are expensed as incurred. Major improvements, such as new HVAC equipment and kitchen/bath renovations, are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Depreciation on buildings and improvements is computed using the straight-line method over estimated useful asset lives as follows:

<TABLE>	<S>	<C>
Base building		40 years
Land improvements		20 years
Building improvements		7 to 20 years
Tenant improvements		Shorter of remaining lease term or useful life
Furniture, fixtures and equipment		5 to 10 years

</TABLE>

### Deferred Charges

Deferred charges consist primarily of permanent loan fees, which are amortized to interest expense over the terms of the notes using the effective interest rate method, and retail lease acquisition costs, which are amortized over the terms of the related leases.

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### Revenue Recognition

Rental income attributable to residential leases is recognized when due from tenants. The Operating Partnership requires residential tenants to initially execute a one-year lease. At the expiration of the lease term, if not renewed, the lease converts to a month-to-month basis.

Minimum rental income attributable to retail leases is recognized on a straight-line basis over the term of the lease regardless of when payments are due. Minimum rental income recognized in excess of payments due was \$5.4 million and \$5.0 million at December 31, 1998 and 1997, respectively, and is included in other assets. The lease agreements contain provisions that provide for additional rentals based on the tenants' sales volume and reimbursement from the tenants for their share of real estate taxes and certain common area maintenance costs. Additional rentals are recognized on the accrual basis.

The future minimum lease payments to be received by the Operating Partnership under noncancelable retail leases as of December 31, 1998, are as follows (in thousands):

<TABLE>  
<CAPTION>

Year Ending  
December 31,

----- <S>	<C>
1999	\$ 7,162
2000	6,980
2001	6,822
2002	7,102
2003	6,808
Thereafter	87,684
	-----
	\$122,558
	=====

</TABLE>

#### Income Taxes

These financial statements contain no provision for Federal income taxes since the entity is a partnership and, therefore, all Federal income tax liabilities and/or tax benefits are passed through to the individual partners in accordance with the partnership agreement and the Internal Revenue Code.

The Operating Partnership's income tax basis in its assets and liabilities was \$966 million and \$879 million, respectively, at December 31, 1998 and \$702 million and \$635 million, respectively, at December 31, 1997.

#### Cash and Cash Equivalents

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Cash and cash equivalents include all cash and cash equivalent investments with original maturities of three months or less.

#### Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions related to the net realizable value of rental property, the collectibility of accounts and notes receivable, and the outcome of asserted and unasserted claims that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

#### Impairment of Long-Lived Assets

Management assesses for impairment any property whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the sum of the estimated undiscounted future cash flows before interest charges is less than its carrying value. The loss is measured as the difference between the carrying value and the fair value of the property.

#### Stock-based compensation

The Company accounts for stock-based compensation programs under Accounting Principles Board Opinion No. 25 whereby compensation expense is equal to the excess, if any, of the quoted market price of the stock at the grant date over the exercise price.

#### New Accounting Pronouncements

During 1998, the Company implemented Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income", which had no impact, and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", which is reflected in Note 14.

During 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which is effective for years beginning after June 15, 1999. The standard is not expected to have a significant impact on the Operating Partnership's financial statements since the Operating Partnership has no derivative instruments.

#### Reclassifications

Certain reclassifications of the prior years' information have been made to conform to the current year's presentation.

#### 3. RENTAL PROPERTY

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Rental Property

Rental property consists of the following as of December 31 (in thousands):

<TABLE>

<CAPTION>

	1998 ----	1997 ----
<S>	<C>	<C>
Land	\$ 157,337	\$ 129,213
Buildings and improvements	997,868	832,203
Property under construction	167,441	53,093
	-----	-----
	1,322,646	1,014,509
Less: Accumulated depreciation	(228,683)	(210,186)
	-----	-----
	\$1,093,963	\$ 804,323
	=====	=====

</TABLE>

Depreciation expense of the Operating Partnership was \$28.6 million, \$20.3 million and \$17.7 million for the years ended December 31, 1998, 1997 and 1996, respectively. Repairs and maintenance expense of the Operating Partnership was \$13.6 million, \$13.2 million and \$11.8 million for the years ended December 31, 1998, 1997 and 1996, respectively.

Acquisitions

During 1998, the Operating Partnership acquired five properties for \$190.5 million, adding 1,942 apartment units. The Operating Partnership issued a total of approximately 0.3 million Operating Partnership units valued at \$11.8 million and assumed a \$31.5 million mortgage loan which was adjusted to its fair value of \$33.5 million. The balance was funded from available cash and draws on the line of credit. The conversion of these Operating Partnership units into Company common stock is restricted for up to two years. One of the properties acquired included 13% of the underlying land with the balance subject to ground leases expiring in 2067.

During 1997, the Operating Partnership acquired six properties for \$288.6 million, adding 3,036 apartment units. The Operating Partnership issued a total of approximately 2.1 million Operating Partnership units valued at \$61.1 million and assumed \$93.5 million in mortgage loans. The balance was funded from available cash and draws on the line of credit. The conversion of these Operating Partnership units into Company common stock is restricted for up to one year.

During 1996, the Operating Partnership acquired four properties for \$64.1 million, adding 1,049 apartment units. The Operating Partnership issued a total of approximately 0.1 million Operating Partnership units valued at approximately \$2.4 million and assumed a \$3.3 million mortgage loan. The balance was funded from available cash and draws on the line of credit.

Dispositions

During 1998, the Operating Partnership sold two properties in southeast Washington, D.C. for a total of \$22.0 million. The sales were completed as tax-deferred I.R.C. Section 1031 exchanges. Under generally accepted accounting principles, the Operating Partnership recognized gains on the sales totaling \$18.2 million.

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Development

At December 31, 1998, the Operating Partnership had approximately 2,100 apartment units under construction at four sites. Total estimated cost (including land) is approximately \$269 million.

4. INVESTMENT IN AND ADVANCES TO PROPERTY SERVICE BUSINESSES

The Operating Partnership uses the equity method of accounting for its 99% non-voting interest in the Property Service Businesses, which include Smith Realty Company ("SRC"), Consolidated Engineering Services, Inc. ("CES") and Smith Management Construction, Inc. ("SMC"). These companies provide services which include property management, leasing, engineering and technical, financing and property construction and renovation. Under the equity method, the Operating Partnership's investment is adjusted for its proportionate share of earnings or losses of the Property Service Businesses and by dividends received. The Operating Partnership recognized its 99% interest in the earnings of each of the Property Service Businesses which aggregated \$8.4 million, \$7.6 million and \$7.8



million for the years ended December 31, 1998, 1997 and 1996, respectively. The Operating Partnership received distributions aggregating \$10.5 million, \$8.9 million and \$8.9 million for the years ended December 31, 1998, 1997 and 1996, respectively.

The Property Service Businesses provide services to the Operating Partnership under one-year agreements which are automatically renewable. Such services are generally provided at cost (including a proportionate share of total overhead) except property management and leasing services which are provided at cost plus five percent. The Property Service Businesses also provide services to certain partnerships which own multifamily and commercial office properties and have Messrs. Smith and Kogod as the general partners ("Affiliates"). Such services are generally provided at cost (including overhead) plus a fee, except for certain engineering and technical services which are provided at cost and overhead.

In November 1997, certain commercial office Affiliates combined into a single partnership, Charles E. Smith Commercial Realty L.P. ("CESCR"). In conjunction with the combination, CES and SMC each entered into eight-year agreements with CESCR to continue providing services under the same terms and conditions in place prior to the business combination. In addition, certain Financing Services personnel of SRC transferred to CESCR. SRC entered into an agreement which expired December 31, 1998 to provide Financing Services for certain properties owned by CESCR. Services were provided by SRC in 1998 utilizing CESCR personnel on a negotiated cost basis. SRC separately negotiated revenue and cost sharing agreements for Financing Services provided to properties managed but not owned by CESCR.

In addition to the above, SRC provided administrative services such as accounting, systems and human resources services to the Operating Partnership and Affiliates at cost and overhead in accordance with cost and executive sharing agreements. In management's opinion, the allocation

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methods provide reasonable estimates of the costs that would have been incurred had the services been provided by the Operating Partnership.

Total fees and administrative services charged by the Property Service Businesses to the Operating Partnership and Affiliates follows (in thousands):

<TABLE>

<CAPTION>

	Year Ended December 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Fees Charged by Property Services Businesses to:			
-----			
Operating Partnership	\$12,789	\$ 8,762	\$ 7,969
Affiliates	32,512	29,841	31,321
Costs of Administrative Services Charged by SRC to:			
-----			
Operating Partnership	11,845	9,629	7,459
Affiliates	4,806	5,632	5,630

The Operating Partnership had net working capital advances to the Property Service Businesses of \$25.9 million and \$10.6 million at December 31, 1998 and 1997, respectively, which are reflected in the investment balance.

Combined summarized balance sheet information for the Property Service Businesses follows (in thousands):

<TABLE>

	As of December 31,	
	1998	1997
<S>	<C>	<C>
Assets/(1)/		
Accounts receivable	\$42,356	\$27,827
Property, net	6,910	5,475
Other, net	7,123	3,091
	-----	-----
	\$56,389	\$36,393
	=====	=====
Liabilities/(1)/		
Accounts payable	\$19,468	\$17,422
Deferred revenue	5,050	5,120

Due to related parties	29,800	11,529
Other	3,403	1,552
Equity	(1,332)	770
	-----	-----
	\$56,389	\$36,393
	=====	=====

</TABLE>

(1) Balance sheets exclude \$44.5 million of notes due to the Operating Partnership which, under the equity method, are eliminated for purposes of carry-over basis accounting.

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Combined summarized income statement information for the Property Service Businesses follows (in thousands):

<TABLE>

<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues	\$108,199	\$ 72,277	\$ 62,559
Operating expenses	(98,072)	(62,976)	(53,245)
Depreciation/amortization	(1,401)	(1,238)	(1,056)
Other expense, net	(274)	(447)	(391)
	-----	-----	-----
Net income/(1)/	\$ 8,452	\$ 7,616	\$ 7,867
	=====	=====	=====

</TABLE>

(1) Represents 100% of the Property Service Businesses' net income, of which the Operating Partnership's share was \$8.4 million, \$7.6 million and \$7.8 million, respectively, for the years ended December 31, 1998, 1997 and 1996.

#### 5. DEFERRED CHARGES

Deferred charges consist of the following as of December 31 (in thousands):

<TABLE>

<CAPTION>

	1998	1997
	-----	-----
<S>	<C>	<C>
Permanent loan fees	\$16,619	\$20,513
Retail lease acquisition costs	4,395	4,170
Acquisition/development costs and other	2,258	1,742
	-----	-----
Less: Accumulated amortization	(5,191)	(10,378)
	-----	-----
	\$18,081	\$16,047
	=====	=====

</TABLE>

Amortization of permanent loan fees (which is charged to interest expense) was \$1.6 million, \$2.3 million and \$2.7 million for the years ended December 31, 1998, 1997 and 1996, respectively. Other amortization expense was \$0.3 million, \$0.4 million and \$0.2 million for the years ended December 31, 1998, 1997 and 1996, respectively.

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#### 6. MORTGAGE LOANS AND NOTES PAYABLE

The Operating Partnership, through its subsidiary financing partnerships, has mortgage loans and notes payable as follows as of December 31:

<TABLE>

<CAPTION>

	Balance as of December 31,			
	1998	1997	Interest Rate	Maturity
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Mortgage Pools			(in thousands)	

Pool One	--	\$110,140	--	--
Pool Two	--	125,214	--	--
Pool Three	\$117,000	117,000	7.99%	June 30, 2009
FNMA	140,000	--	6.75%	October 30, 2013
Prudential	53,000	--	6.88%	June 5, 2008
Individual Mortgages				
1841 Columbia Road	3,173	3,211	9.00%	August 1, 1999
Kenmore	--	1,165	--	--
Crystal Towers	44,198	44,610	7.16%	January 1, 2006
2000 Commonwealth	17,100	13,310	6.30%	December 3, 2006
Connecticut Heights	20,000	8,053	7.10%	March 18, 2008
Cronin's Landing	33,208	--	6.90%	March 1, 2009
Patriot Village	31,095	31,095	8.24%	August 1, 2009
Crystal Plaza	33,615	33,971	6.86%	November 1, 2009
Crystal House I & II	38,250	--	6.29%	December 30, 2010
Skyline Towers	49,300	--	6.45%	December 10, 2010
Bennington	12,447	12,666	7.50%	October 1, 2020
Secured Construction Loans				
One Superior Place	31,620	--	6.93%	July 1, 2001
Secured Lines of Credit				
\$83 million				
Northwestern Mutual	30,000	30,000	7.27%	July 1, 2004
Unsecured Lines of Credit				
\$185 million				
PNC revolver	53,000	--	6.31%	March 1, 2001
\$100 million				
PNC revolver	52,000	75,000	6.12%	March 1, 2001
Unsecured Construction Loans				
Courthouse Place	31,573	5,536	6.85%	October 9, 2000
	-----	-----		
	\$790,579	\$610,971		
	=====	=====		

</TABLE>

These loans require monthly interest and, where applicable, principal payments and are collateralized by first lien mortgages or deeds of trust on 33 of the 54 Properties, bear interest at a weighted-average interest rate of 6.97% as of December 31, 1998 and have a weighted-average maturity of 9.3 years.

#### Mortgage Pools

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The \$110.1 million principal balance of Mortgage Pool One was partially repaid on February 28, 1998, in conjunction with the sale of Oxford Manor, and fully repaid on March 31, 1998. An extraordinary loss of \$4.1 million was recognized which consisted of a \$2.9 million yield maintenance premium and a \$1.2 million non-cash write-off of unamortized loan fees.

The \$125.2 million principal balance of Mortgage Pool Two was repaid on October 31, 1998. An extraordinary loss of \$11.7 million was recognized consisting of a \$9.7 million prepayment penalty and a \$2.0 million non-cash write-off of unamortized loan fees.

The loan for Mortgage Pool Three is interest only, at a fixed rate of 7.99% paid monthly, through June 30, 1999, at which time principal amortization begins using a 25-year amortization schedule with a balloon payment due June 30, 2009. The loan requires a capital and repair escrow. Certain Predecessor partners guaranteed \$42 million of the mortgage loan secured by Mortgage Pool Three.

During 1998, the Operating Partnership obtained a \$53 million, ten year secured loan from Prudential at a fixed coupon rate of 6.88%. The loan is secured by two of the multifamily properties with an aggregate book value of \$71.7 million. In conjunction with this loan, the Operating Partnership terminated a \$20 million (notional value) treasury lock contract at a gain of \$0.4 million which will be amortized over the term of the new loan.

The Operating Partnership announced a standby credit facility in 1998 of up to \$300 million with Fannie Mae which provides for non-recourse, long-term debt for up to fifteen years. The initial draw on this facility was \$140 million at 6.75% for fifteen years. The bulk of the proceeds were used to retire Mortgage Pool Two of \$125.2 million and the associated prepayment penalty

of \$9.7 million. Terms and rates of subsequent draws on this facility will be determined at the time of use. Closing of the facility is expected during the second quarter of 1999.

#### Individual Mortgages

Individual mortgages have fixed interest rates ranging from 6.3% to 9.0%.

During 1998, in connection with the Cronin's Landing acquisition, the Operating Partnership assumed a \$31.5 million mortgage loan which was adjusted to its fair value of \$33.5 million. The loan has an effective fixed interest rate of 6.9% with principal amortized using a 25-year amortization schedule and a final payment due March 2009.

During 1998, the Operating Partnership also obtained a \$38.3 million mortgage on the Crystal House properties at a fixed interest rate of 6.29% and a \$49.3 million mortgage on the Skyline Towers property at a fixed interest rate of 6.45%. The Crystal House loan is interest only through December 2008, at which time principal amortization begins using a 30-year amortization schedule with a balloon payment due December 30, 2010. The Skyline loan is interest only through December 2008, at which time principal amortization begins using a 30-year amortization schedule

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with a balloon payment due December 30, 2010. The Skyline loan is interest only through December 2008, at which time principal amortization begins using a 30-year amortization schedule with a balloon payment due December 10, 2010. The Operating Partnership also refinanced mortgages on 2000 Commonwealth and Connecticut Heights in 1998.

In September, 1998, the Operating Partnership terminated a \$50 million (notional value) treasury lock contract at a loss of \$4.9 million. The treasury lock was put in place in the first quarter of 1998 to hedge interest rate risk associated with an anticipated 10-year, unsecured financing which ultimately did not occur. Therefore, this amount has been charged to current year earnings.

In September 1996, the outstanding loan balance of \$40.6 million for Mortgage Pool Four was refinanced for a new loan amount of \$41 million. The ground lessor (see Note 8) has been allocated \$9.9 million of the refinanced loan for which the Operating Partnership is contingently liable. The remaining \$31.1 million of debt is allocated to the Operating Partnership. The loan bears interest at a fixed rate of 8.24%, paid monthly through August, 2004, at which time principal amortization begins, using a 30-year amortization schedule with a final payment due August 1, 2009.

#### Lines of Credit

The Operating Partnership terminated its \$100 million line of credit in 1998 and entered into two new unsecured lines of credit -- a \$100 million line and a \$185 million line -- with PNC Bank, NationsBank, and U.S. Bank, as agents, which mature in March 2001. Draws upon the new lines are subject to certain unencumbered asset requirements and bear interest at a selected London Interbank Offer Rate (LIBOR) plus 75 to 120 basis points based on the leverage ratio of the Operating Partnership. As of December 31, 1998, the weighted average interest rate on outstanding draws was 6.22%. If the Operating Partnership receives an investment grade rating on its unsecured debt, the interest rate will decrease to 60 to 90 basis points over LIBOR based on the rating. The Operating Partnership pays a fee of 0.20% on the full amount available under the line of credit. The line of credit agreements contain certain restrictive covenants, including maintenance of minimum equity value, debt to equity ratios and debt service coverage requirements. The maximum amounts outstanding during 1998 and 1997 were \$251.5 million and \$97.0 million, respectively.

The Operating Partnership also has an \$83 million acquisition credit facility which allows for debt maturities up through July 2004. The line of credit provides for an interest rate that is fixed at the time of each borrowing at 150 basis points over 10-year Treasury Bills and is cross-collateralized with Mortgage Pool Three. Borrowings outstanding of \$30 million at December 31, 1998 bear interest at a weighted-average fixed rate of 7.27% and are collateralized by two Properties with an aggregate book value of \$30.5 million. The agreement contains certain restrictive covenants including a limit on debt to asset value and maintenance of debt service coverage ratios.

#### Construction Loans

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In October 1997, the Operating Partnership obtained a variable rate,

unsecured construction loan of \$46.3 million to finance the construction of an acquired development property. The loan is recourse to the Operating Partnership, bears interest at LIBOR plus 130 basis point (6.85% at December 31, 1998), and matures in October 2000 with three six-month extension options based on certain conditions. The loan balance at December 31, 1998 was \$31.6 million.

During 1998, the Operating Partnership obtained a \$90 million interest-only construction loan in connection with the development of One Superior Place in Chicago, Illinois, with interest currently at LIBOR plus 135 basis points (6.93% at December 31, 1998), payable monthly, due July 1, 2001. At the Operating Partnership's option, maturity may be extended for two one-year periods based on certain conditions. The loan is collateralized by the property, which has a net book value of \$54.8 million, and is recourse to the Operating Partnership. The loan balance at December 31, 1998 was \$31.6 million.

The scheduled principal payments for all mortgage loans and notes payable are as follows (in thousands):

<TABLE>  
<CAPTION>

Year Ending December 31, -----	
<S>	<C>
1999	\$ 5,960
2000	35,000
2001	140,317
2002	3,984
2003	4,294
Thereafter	601,024
	-----
	\$790,579
	=====

</TABLE>

#### 7. PARTNERS' EQUITY

During the first quarter of 1997, the Company completed an equity offering and issued 3.1 million shares of common stock at \$28.375 per share totaling \$82.9 million, net of underwriting discount and other expenses totaling \$5.2 million. The net proceeds of the offering was contributed to the Operating Partnership in exchange for 3.1 million common units and were used to repay \$72.1 million of notes payable and \$9 million of mortgage debt and to fund property acquisitions.

In May 1997, the Company entered into an agreement with Security Capital Preferred Growth Inc. ("Security Capital") to sell 2.6 million shares of Series A Cumulative Convertible Redeemable Preferred Stock ("Series A Preferred Shares"), \$0.01 par value (liquidation preference of \$27.08 per share), at \$27.08 per share for a total of \$71.5 million. During 1997, the Company sold 1.6 million Series A Preferred Shares for proceeds of \$44.5 million, net of \$0.5 million in offering costs. In April 1998, the Company sold the remaining 1.0 million shares of Series A Preferred Shares for \$26.1 million, which is net of offering costs of \$0.4 million. The net proceeds of the Sale was contributed to the Operating Partnership in exchange for 2.6 million Series A Preferred Units.

Series A Preferred Unitholders have certain voting, distribution and liquidation preferences over the common unitholders. Distributions are cumulative from the date of original issue and are payable quarterly at the greater of the rate declared on the common units or the annual rate of \$2.02 per unit. The Series A Preferred Units are not redeemable prior to May 15, 2003. On or after May

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15, 2003, the Operating Partnership, at its option, may redeem the Series A Preferred Units for cash at a redemption price of \$27.08 per unit, plus accrued and unpaid distributions. Under certain circumstances, the Operating Partnership may elect to make such redemption with common units at the then market price of the Company's common stock. On or after January 31, 1999, Security Capital may convert the Series A Preferred Shares into shares of common stock on a one-for-one basis subject to certain limitations. Prior to January 31, 1999, the Series A Preferred Shares will not be convertible unless the Company undergoes a change in control, as defined by the agreement, or fails to qualify as a REIT for tax purposes.

In October 1997, the Company sold 1.45 million shares of common stock and 1.22 million shares of Series B Cumulative Convertible Redeemable Preferred Stock ("Series B Preferred Shares"), \$0.01 par value, to the Prudential Insurance Company of America ("Prudential") for approximately \$76 million in connection with a property acquisition. The net proceeds were contributed to the Operating Partnership in exchange for 1.45 million common units and 1.22 million Series B Preferred Units. During 1998, 0.5 million shares of Series B Preferred

Shares were converted to common shares on a one-for-one basis. The Operating Partnership converted 0.5 million units of Series B Preferred Units to common shares on a one-for-one basis.

Series B Preferred Unitholders have certain voting, distribution and liquidation preferences over the common unitholders. The Series B Preferred Units have a liquidation preference of \$28.50 per unit. Distributions are cumulative and are payable quarterly at the greater of the rate declared on the common units or the annual rate of \$2.02 per unit. Prudential may convert the Series B Preferred Shares into shares of common stock on a one-for-one basis, subject to certain adjustments and limitations related to its ownership of common stock of the Company. The Operating Partnership may redeem Series B Preferred Units at any time for common units, plus accrued and unpaid distributions.

In January 1998, the Company sold 500 shares of Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Shares"), \$0.01 par value, for \$48.6 million, net of offering costs of \$1.4 million. The net proceeds were contributed to the Operating Partnership in exchange for 500 units of Series C Preferred Units. The Operating Partnership amended the Articles of Incorporation to designate and establish the rights and privileges of the Series C Preferred Unitholders which include certain voting, distribution and liquidation preferences over the common unitholders. The Series C Preferred Units have a liquidation preference of \$100,000 per unit and an initial annual distribution rate of \$7,910 per unit. If the securities receive an investment grade rating, the distribution rate will decrease by \$250 per unit. Distributions are cumulative and are payable quarterly. The Operating Partnership may redeem Series C Preferred Units after February 1, 2028, at the liquidation price plus accrued distributions.

In July 1998, the Company completed the sale of 1.4 million shares of common stock (par value of \$0.01 per share) under its existing shelf registration statement at a net purchase price of \$32.625 per share. The net proceeds were contributed to the Operating Partnership in exchange for 1.4 million common units and proceeds of approximately \$45.4 million have been used to retire outstanding debt and for working capital needs.

In December 1998, the Company adopted a Shareholder Rights Plan (the "Rights Plan") in which certain stock purchase rights were granted as a distribution to holders of common stock. The Rights allow the holder to purchase preferred stock only if a person or group becomes the owner of

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15% or more of the common stock or announces an offer to acquire 15% or more of the common stock. The Rights expire on December 13, 2008.

During 1998, the Operating Partnership issued approximately 0.3 million Operating Partnership units valued at \$11.8 million in connection with property acquisitions.

As of December 31, 1998, approximately 17.3 million shares of the Company's authorized common stock had been reserved for redemption of Operating Partnership units and 1.0 million shares were reserved under the Company's Dividend and Distribution Investment and Share Purchase Plan, respectively.

## 8. COMMITMENTS AND CONTINGENCIES

### Purchase Commitments

As of December 31, 1998, the Operating Partnership had executed four contracts to purchase to-be-constructed multifamily properties totaling approximately 1,200 apartment units. The maximum aggregate purchase price totals \$151 million with projected closing dates between July 2000 and May 2001.

These contracts are contingent upon satisfactory completion of construction and attainment of final certificates of occupancy by the owners. At December 31, 1998, the Operating Partnership had posted three letters-of-credit totaling \$ 7.7 million in accordance with three of the contracts to be drawn upon only if the Operating Partnership defaults on its contractual obligations to purchase the completed assets.

### Land Leases

Eight of the Properties have ground leases expiring at various dates between December 2032 and April 2067. (See Note 17 for related subsequent event.) Generally, each ground lease provides for a nominal annual rental and an additional rental calculated from the results of Property operations after capital expenditures.

The base rental expense to the Operating Partnership under the ground leases was \$1.7 million for 1998 and \$0.5 million for each of the years ended

additional rental expense to the Operating Partnership under the ground leases was \$4.1 million, \$3.2 million and \$2.6 million for the years ended December 31, 1998, 1997 and 1996, respectively. At the expiration of the ground leases, the land and all of the improvements thereon will revert to the land owner. In most cases, the leases are subordinated to the mortgage debt on the related rental property.

The future nominal base annual rentals as of December 31, 1998 for the ground leases are as follows (in thousands):

<TABLE>  
<CAPTION>

Year Ending December 31, -----	<C>
<S>	
1999	\$ 1,630
2000	1,630
2001	1,630
2002	1,630
2003	1,630
Thereafter	93,718
	-----
	\$101,868
	=====

</TABLE>  
Net Profits Interest

An unaffiliated third party has a 5.1% interest in the net profits of one of the Properties acquired in 1997. Net profit is calculated based on the results of Property operations less capital expenditures. (See Note 16 for related subsequent event).

#### Litigation

The Operating Partnership and/or the Property Service Businesses are presently subject to legal actions or claims for damages that arise in the ordinary course of business. In the opinion of management and counsel to the Operating Partnership, the ultimate outcome of such litigation will not have a material adverse effect on the Operating Partnership's financial position, results of operations or cash flows.

#### 401 (k) Retirement Plan

Substantially all of the personnel employed at the Properties are eligible and participate in the Charles E. Smith 401 (k) Retirement Plan, a defined contribution, tax-qualified savings plan (the "Plan"). These personnel are employed by Smith Employment Services, L.P. ("Employment Services"), a limited partnership owned by the Operating Partnership, which is the primary employer in the Plan. Previously, such employees were participants in the Charles E. Smith Building Employees Retirement Plan which was merged into the Plan effective July 1, 1998. Employment Services generally contributes 4% of employee-qualified earnings. The total contributions were \$0.2 million in 1998, \$ 0.4 million in 1997, and \$ 0.3 million in 1996. Employees of the Property Service Businesses are also covered by the Plan.

#### 9. RELATED-PARTY TRANSACTIONS

The Operating Partnership conducts business with entities in which Messrs. Smith and Kogod exercise control. In each case, the Company's Board of Directors reviews the transaction and obtains, as required, independent assurance as to the arms-length nature of the terms. The following is a description of these transactions.

. For the years ended December 31, 1998, 1997 and 1996, the Operating Partnership paid approximately \$2.3 million, \$0.7 million and \$0.7 million, respectively, in payroll reimbursements to an entity controlled by Messrs. Smith and Kogod for efforts on development properties and potential development sites. The increase in 1998 reflects the higher level of activity associated with expanding the Operating Partnership's development pipeline during the year.

.In January, 1998, the Operating Partnership purchased a multifamily property (Tunlaw Park) for \$6.7 million from a partnership in which Messrs. Smith and

Kogod had ownership interests.

.In connection with the development of Springfield Station, a contract was executed with an entity controlled by Messrs. Smith and Kogod to manage the construction of the apartments at a fee of 4% of hard construction costs. Construction management fees were \$0.7 million and \$0.4 million for the years ended December 31, 1998 and 1997, respectively.

.In November 1998, the Operating Partnership purchased land for future development for \$5.4 million from a partnership in which Messrs. Smith and Kogod had ownership interests.

.Prior to December 1997, the two retail properties leased health club facilities to entities controlled by Messrs. Smith and Kogod. Rental income earned under these leases approximated \$5.0 million for each of the years ended December 31, 1997 and 1996. In December 1997, the health clubs were sold. In conjunction with that sale, the Operating Partnership agreed to restructure the leases by reducing base rent on the Worldgate lease and extending the terms of both leases for ten years, through 2025, in exchange for a \$2.3 million cash payment which is amortized over the lives of the revised leases.

#### 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 requires disclosure about fair value for all financial instruments. Based on the borrowing rates currently available to the Operating Partnership for mortgages with similar terms and remaining maturities, the fair value of mortgages payable was approximately \$619 million and \$527 million at December 31, 1998 and 1997, respectively. The fair values of lines of credit and construction loans approximate the carrying values.

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#### 11. EARNINGS PER UNIT

For the years ended December 31, 1998, 1997 and 1996, basic earnings per common unit is computed based on 30.2 million, 26.7 million and 21.9 million weighted average units outstanding during the year, respectively, and diluted earnings per common unit is computed based on 30.3 million, 26.8 million, and 21.9 million weighted average units outstanding during the year adjusted for the assumed conversion of dilutive securities, respectively. In 1998, the per-share impact of the extraordinary item was \$0.54 per common unit (basic and diluted).

A reconciliation of income (before extraordinary item) and units used to calculate basic and diluted earnings per common unit for 1998 and 1997 follows (dilutive securities had no effect on earnings in 1996):

<TABLE>

<CAPTION>

	Income	Weighted Avg. Units	Per-Unit Amount
	----- (In Thousands)	----- (In Thousands)	-----
Year Ended December 31, 1998			
-----			
<S>	<C>	<C>	<C>
Income before extraordinary item	\$ 86,254		
Income Attributable to Preferred Units	(10,722)		
	-----		
Earnings per unit - Basic			
Income attributable to common			
unitholders before extraordinary item	\$ 75,532	30,184	\$ 2.50
Effect of Dilutive Securities			
Options	-	165	(.01)
	-----	-----	-----
Earnings per unit - Diluted	\$ 75,532	30,349	\$ 2.49
	=====	=====	=====
Year Ended December 31, 1997			
-----			
Income before extraordinary item	\$ 52,297		
Income attributable to Preferred Units	(1,881)		
	-----		
Earnings per Unit - Basic			
Income attributable to common			
unitholders before extraordinary item	\$ 50,416	26,670	\$ 1.89
Effect of Dilutive Securities			
Options		161	(.01)
	-----	-----	-----



Earnings per share - Diluted

\$ 50,416

26,831

\$ 1.88

=====

=====

=====

&lt;/TABLE&gt;

Options to purchase 771,750 shares of the Company's common stock were not included in the computation of diluted earnings per unit because the options' exercise price was higher than the average price of the Company's common shares. All convertible preferred units were also excluded from the calculation of diluted earnings per unit since the preferred distributions paid per unit exceeded basic earnings per unit.

## 12. INCENTIVE PLANS

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The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized for its stock-based compensation plans other than for restricted stock and performance-based awards. Had compensation cost for the Company's other stock option plans been determined based on the fair value at the grant date consistent with the methodology prescribed under SFAS 123, the Operating Partnership's net income would have been reduced by approximately \$499,000 for the year ended December 31, 1998 (\$0.02 per basic and diluted common unit), \$65,000 (less than \$0.01 per basic and diluted common unit) for the year ended December 31, 1997 and \$8,000 for the year ended December 31, 1996. The fair value of options granted during 1998, 1997 and 1996 is estimated at approximately \$305,000, \$2,111,000 and \$23,000, respectively, based on the date of grant using the Black-Scholes option-pricing model. The following assumptions were used:

<TABLE>  
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Dividend yield	6.2%	6.8%	8.3%
Volatility	13%	14%	9%
Risk-free interest rate	5.1%	5.7%	6.3%
Expected life	4 years	3 years	7 years

&lt;/TABLE&gt;

## Option Plans

The Company with the Operating Partnership maintains an employee stock and unit option plan designed for executive officers and other key employees of the Company, the Operating Partnership and the Property Service Businesses. The Company also maintains a Director's stock option plan which provides for automatic grants of vested options, exercisable for 5,000 shares of common stock, to newly appointed non-employee directors. The plans authorize the issuance of up to 3,150,000 shares of common stock and/or units pursuant to options granted. Options outstanding under both plans are as follows:

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<TABLE>  
<CAPTION>

	Number	Weighted Average Exercise Price	Options Exercisable/(1)/
	-----	-----	-----
<S>	<C>	<C>	<C>
Shares/units under option, December 31, 1995	895,000	\$ 24	199,000
Options granted	40,000	24	
Options canceled	(100,000)	24	
	-----		
Shares/units under option, December 31, 1996	835,000	24	351,000
Options granted	918,000	34	
Options canceled	(12,000)	24	
Options exercised	(25,000)	24	
	-----		
Shares/units under option, December 31, 1997	1,716,000	29	677,000

Options granted	189,000	31
Options canceled	(164,000)	32
Options exercised	(125,000)	24

Shares/units under option, December 31, 1998      1,616,000      \$30/(2)/      707,000  
=====

</TABLE>

/(1)/Weighted average exercise price is \$27  
/(2)/ Range of exercise prices is \$24-\$35

The exercise price of options granted under the plans may not be less than the fair market value of the common stock on the date of grant. Payment for shares and/or units granted under the plans may be made either in cash, or, if permitted by the option agreement, by exchanging shares of common stock of the Company having a fair market value equal to the option exercise price. The weighted average remaining contractual life of options outstanding as of December 31, 1998 was 7.7 years.

Options granted under the employee plan have a maximum term of ten years and vest generally in three to five equal annual installments beginning on the first anniversary of the date of grant. Generally, options terminate three months after the optionee's termination of employment with the Company. The Executive Compensation Committee of the Board of Directors may provide, however, that an option may be exercised over a longer period following termination of employment, but in no event beyond the expiration date of the option.

Restricted Stock and Unit Plan

The Company, with the Operating Partnership, maintains a restricted stock and unit plan for executive officers and other key employees of the Company, the Operating Partnership and the Property Service Businesses. Messrs. Smith and Kogod are not eligible to participate under the plan. A maximum of 300,000 shares of common stock and/or units may be issued under the plan. Restricted shares and/or units that have not vested at the time of an employee's termination of employment with the Company will be forfeited, except where such termination occurs by reason of death or disability. Any restricted shares and/or units forfeited pursuant to the vesting provisions of the plan will again be available for award under the plan. During 1998, 21,823 grants were awarded and 28,801 units vested. During 1997, 24,000 grants were awarded and 20,700 units vested. During 1996, 7,500 grants were canceled and 23,750 units vested. During 1995, 23,750 units vested. During 1994, 95,000 grants were awarded. For the years ended December 31, 1998, 1997

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and 1996, compensation expense relating to the plan was \$0.5 million, \$0.6 million and \$0.5 million, respectively, based on the market value of the Company's stock at the date of grant.

13. SUPPLEMENTAL CASH FLOW DATA

Information on non-cash investing and financing activities and cash interest paid is as follows (in thousands):

<TABLE>  
<CAPTION>

<S>	Year Ended December 31,		
	<C>	<C>	<C>
	1998	1997	1996
Cash paid during the period			
for interest	\$52,242	\$44,420	\$41,078
Capitalized interest	6,520	1,306	60
Purchase of properties			
for Operating Partnership units	11,820	75,019	2,403
Assumption of debt on acquisitions	33,456	93,474	3,260
Sale proceeds held in 1031 escrow	22,011	-	-
Purchase of property with 1031 escrow proceeds	4,308	-	-

</TABLE>

14. OTHER LIMITED PARTNERS' INTEREST

Limited partnership units of the Other Limited Partners may be redeemed at the unitholders' discretion. At the option of the Company, such redemption may

be made for cash, at the then fair value of the Company's stock, or for shares of common stock of the Company on a one-for-one basis. As of December 31, 1998, approximately 17.3 million shares of the Company's authorized common stock had been reserved for possible issuance upon redemption of limited partnership units.

In accordance with generally accepted accounting principles, the Other Limited Partners' redemption rights are not included in partner's equity. Consequently, the accompanying consolidated balance sheets and statements of partner's equity reflect the Other Limited Partners' Interest in the Operating Partnership, measured at redemption value. Such interest is deducted from partner's equity.

#### 15. SEGMENT REPORTING

The Operating Partnership adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", during 1998. SFAS No. 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to unitholders. It also established standards for related disclosures about products and services, and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by senior management in deciding how to allocate resources and in assessing performance.

##### Property Segments

The Operating Partnership's primary business is the ownership and operation of multifamily residential real estate. As such, the residential rental properties constitute the three primary operating segments -- Core, Acquisition and Development portfolios -- depending upon the maturity of each property. Core consists of all multifamily properties which have been owned more than one full calendar year. Therefore, the 1998 Core represents properties owned as of December 31, 1996. Acquisition consists of purchased properties which have not yet reflected one full calendar year of operations. Development consists of properties which the Operating Partnership has constructed or

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is in the process of constructing which have not yet had a full calendar year of stabilized operating results. On the first of January each year, Acquisition and Development properties that meet the one year requirements are transferred to the Core portfolio.

The Operating Partnership's fourth property segment is the Retail portfolio which consists of the two free-standing retail properties.

The Operating Partnership evaluates performance for the Property Segments based on Net Operating Income ("NOI") which is the difference between Rental Revenue and Operating Expenses (which primarily excludes interest expense, general and administrative costs and depreciation.)

##### Property Service Business Segments

The Operating Partnership also evaluates the separate financial information of its equity investment in the Property Service Businesses. Therefore, the Operating Partnership has three additional segments based on service type -- Multifamily and Retail Management, Engineering and Technical Services and Interior Construction and Renovation. The Operating Partnership evaluates performance for the Property Service Business segments based on Funds from Operations ("FFO"). Funds from Operations is defined under the revised definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT") as net income (loss) (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring and sale of property, plus depreciation/amortization of assets unique to the real estate industry. Depreciation/amortization of assets not unique to the industry, such as amortization of deferred financing costs and non-real estate assets, is not added back.

The accounting policies for all seven segments are the same as those described in the summary of significant accounting policies.

Information concerning operations by segment for each of the three years ended December 31, was as follows (in thousands):

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<TABLE>  
<CAPTION>

Property Segments

	1998	1997	1996
	-----	-----	-----
Net Operating Income			
<S>	<C>	<C>	<C>
Core Portfolio	\$ 99,395	\$ 92,521	\$ 84,136
Acquisition Portfolio	42,438	17,381	2,331
Development Portfolio	(42)	(97)	--
Retail Portfolio	6,785	6,472	6,267
	-----	-----	-----
Sub-total	148,576	116,277	92,734
Adjustments	--	--	--
	-----	-----	-----
Consolidated total	148,576	116,277	92,734
Depreciation and amortization	(28,958)	(20,666)	(17,931)
Equity in income of Property Service Businesses	8,433	7,597	7,846
Corporate general and administrative expenses	(8,947)	(6,563)	(5,255)
Net interest expense	(46,077)	(44,348)	(42,577)
	-----	-----	-----
Income before gain on sale, loss on unused treasury lock, and extraordinary item	\$ 73,027	\$ 52,297	\$ 34,817
	=====	=====	=====
Revenues			
<S>			
Core Portfolio	\$ 166,465	\$ 158,785	\$ 147,522
Acquisition Portfolio	72,499	31,277	6,639
Development Portfolio	1,258	--	--
Retail Portfolio	9,989	10,042	9,798
	-----	-----	-----
Sub-total	250,211	200,104	163,959
Adjustments	--	--	--
	-----	-----	-----
Consolidated total	\$ 250,211	\$ 200,104	\$ 163,959
	=====	=====	=====
Real Estate Assets, gross			
<S>			
Core Portfolio	\$ 610,066	\$ 597,611	\$ 586,807
Acquisition Portfolio	485,108	303,904	13,548
Development Portfolio	167,441	53,093	--
Retail Portfolio	60,031	59,901	59,645
	-----	-----	-----
Sub-total	1,322,646	1,014,509	660,000
Accumulated Depreciation	(228,683)	(210,186)	(189,907)
	-----	-----	-----
Consolidated total, net	\$1,093,963	\$ 804,323	\$ 470,093
	=====	=====	=====

</TABLE>

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Property Service Business Segments

<TABLE>  
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Funds from Operations			
<S>			
Multifamily and Retail Management	\$ 1,464	\$ 22	\$ 1,590
Interior Construction and Renovation	1,763	1,027	948
Engineering and Technical Services	3,611	3,420	3,355
Other	1,845	3,128	1,953
	-----	-----	-----
Total	\$ 8,683	\$ 7,597	\$ 7,846

Revenues

	=====	=====	=====
Multifamily and Retail Management	\$ 28,412	\$10,546	\$11,465
Interior Construction and Renovation	8,267	6,614	5,650
Engineering and Technical Services	67,988	50,597	42,179
Other	2,623	3,798	2,640
	-----	-----	-----
Total	\$107,290	\$71,555	\$61,934
	=====	=====	=====

Depreciation

Multifamily and Retail Management	\$ 757	\$ 768	\$ 706
Interior Construction and Renovation	63	40	32
Engineering and Technical Services	566	418	308
	-----	-----	-----
Total	\$ 1,386	\$ 1,226	\$ 1,046
	=====	=====	=====

</TABLE>

16. EXTRAORDINARY ITEM

The Operating Partnership recognized an extraordinary loss of \$16.4 million in connection with debt extinguishments in 1998. Losses of \$4.1 million and \$11.7 million were recognized in connection with the repayment of Mortgage Pool One and Mortgage Pool Two, respectively. The losses consisted of \$2.9 million and \$9.7 million in yield maintenance premiums and \$1.2 million and \$2.0 million in non-cash write-offs of unamortized loan fees. In addition, a loss of \$0.6 million was recognized on the write-off of unamortized loan fees associated with the termination of the \$100 million line of credit and the refinancing of \$9.2 million of mortgage loans.

17. SUBSEQUENT EVENTS (Unaudited)

In January 1999, the Operating Partnership acquired a 442-unit multifamily property in Crystal City, Virginia ("Buchanan House") for a capitalized cost of \$65.5 million which includes assumed debt of \$7.4 million, initial capital improvement costs of \$5.0 million, \$0.4 million in acquisition related costs and \$17.7 million in proceeds from the sale of Marbury. The balance was funded by the Operating Partnership's bank line of credit. In February 1999, the Operating Partnership repaid the assumed debt through a draw on its line of credit. The Operating Partnership paid a prepayment penalty of \$0.9 million which was recognized as an extraordinary loss.

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In January 1999, the Operating Partnership acquired a 139-unit multifamily property in Chicago, Illinois ("Parkwest") for a capitalized cost of approximately \$14.1 million, consisting of 201,950 Operating Partnership Units valued at \$6.3 million, assumed debt of \$6.0 million, a fair value adjustment to debt of \$0.4 million, initial capital improvement costs of \$0.8 million, and \$0.6 million in other related costs.

In January 1999, the Operating Partnership acquired a 427-unit multifamily property in Chicago, Illinois ("Terrace") for a capitalized cost of approximately \$26.1 million, consisting of 320,304 Operating Partnership Units valued at \$10.0 million, assumed debt of \$13.7 million, a fair value adjustment to debt of \$0.7 million, initial capital improvement costs of \$0.4 million, and \$1.3 million in other related costs.

In February 1999, the Operating Partnership sold The Manor, a 435-unit multifamily property located in suburban Maryland for \$23.0 million. The Operating Partnership recognized a gain on the sale of \$1.9 million.

In February 1999, the unused portion, or \$53 million, of the Operating Partnership's \$83 million line of credit with Northwestern Mutual expired.

In March 1999, the Operating Partnership acquired the land beneath the Crystal Square property and the 5.1% net profits interest in the Crystal Plaza property. The purchase price of \$10 million consisted of 32,258 Operating Partnership Units valued at \$1 million and \$9 million cash drawn upon the line of credit. This transaction was reviewed and approved by the Operating Partnership's Board of Directors as it was completed concurrently with the purchase by CESCR of commercial land and partnership interests.

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## 17. QUARTERLY FINANCIAL INFORMATION (Unaudited)

Quarterly financial information for 1998 and 1997 is as follows (in thousands except per share data):

&lt;TABLE&gt;

&lt;CAPTION&gt;

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	1998	1998	1998	1998
<S>	<C>	<C>	<C>	<C>
Revenues	\$ 55,831	\$ 62,063	\$ 66,449	\$ 67,125
Operating expenses (including depreciation)	(28,685)	(32,212)	(35,752)	(33,944)
Equity in income of Property Service Businesses	664	2,227	2,693	2,849
Interest expense	(10,888)	(11,601)	(12,582)	(12,263)
Corporate general and administrative expenses	(2,025)	(2,203)	(2,177)	(2,542)
Income before gain on sale, loss on unused treasury lock, and extraordinary item	14,897	18,274	18,631	21,225
Gain on sale of property	3,120	--	--	15,030
Loss on unused treasury lock	--	--	(4,923)	--
Income before extraordinary item	18,017	18,274	13,708	36,255
Extraordinary item - loss on extinguishment of debt	(4,702)	--	--	(11,682)
Net Income	13,315	18,274	13,708	24,573
Income attributable to preferred units	(1,490)	(3,580)	(2,868)	(2,784)
Net income attributable to common units	\$ 11,825	\$ 14,694	\$ 10,840	\$ 21,789
Earnings per common unit-basic	\$0.39	\$ 0.46	\$0.32	\$0.68
Earnings per common unit-diluted	\$0.39	\$ 0.45	\$0.32	\$0.68

&lt;/TABLE&gt;

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&lt;TABLE&gt;

&lt;CAPTION&gt;

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	1997	1997	1997	1997
<S>	<C>	<C>	<C>	<C>
Revenues	\$ 45,007	\$ 49,784	\$ 51,065	\$ 55,311
Operating expenses (including depreciation)	(24,202)	(25,708)	(26,688)	(27,895)
Equity in income of Property Service Businesses	809	896	1,931	3,961
Interest expense	(11,427)	(11,256)	(10,981)	(11,747)
Corporate general and administrative expenses	(1,391)	(1,648)	(1,544)	(1,980)
Income before extraordinary item	8,796	12,068	13,783	17,650
Extraordinary item - Loss on extinguishment of debt	-	-	-	(87)
Net income	8,796	12,068	13,783	17,563
Income attributable to preferred units	-	-	(384)	(1,497)
Net income attributable to common units	\$ 8,796	\$ 12,068	\$ 13,399	\$ 16,066
Earnings per common unit-basic	\$ 0.40	\$ 0.50	\$ 0.36	\$ 0.70

&lt;/TABLE&gt;

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CHARLES E. SMITH RESIDENTIAL REALTY L.P.  
SCHEDULE III  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 1998  
(DOLLAR AMOUNTS IN THOUSANDS)

&lt;TABLE&gt;

&lt;CAPTION&gt;

Properties	Initial Cost		Costs Capitalized Subsequent To Acquisition	Capitalized Costs Before Accumulated Depreciation at December 31, 1998		Total
	Land	Building and Improvements		Land	Building and Improvements	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Operating Properties:						
Albemarle	\$418	-	\$5,311	\$418	\$5,311	\$5,729
Bedford Village	1,062	-	14,214	1,062	14,214	15,276
Bennington	6,922	22,641	458	6,922	23,099	30,021
Berkeley	108	-	2,074	108	2,074	2,182
Boulevard of Old Town	2,653	6,391	256	2,653	6,647	9,300
Calvert-Woodley	172	-	2,613	172	2,613	2,785
Car Barn	3,576	-	13,998	3,576	13,998	17,574
Charter Oaks	4,387	10,058	838	4,387	10,896	15,283
Cleveland House	325	-	4,578	325	4,578	4,903
Columbia Crossing	4,701	-	18,607	4,701	18,607	23,308
Columbian-Stratford	242	-	4,672	242	4,672	4,914
2000 Commonwealth	3,827	23,703	113	3,827	23,816	27,643
Concord Village	-	-	9,230	-	9,230	9,230
Connecticut Heights	6,956	18,700	1,167	6,956	19,867	26,823
Corcoran House	230	-	2,199	230	2,199	2,429
Courthouse Plaza	-	-	44,349	-	44,349	44,349
Cronin's Landing	\$9,114	\$54,427	44	9,114	54,471	63,585
Crystal House I	-	-	11,579	-	11,579	11,579
Crystal House II	-	-	10,007	-	10,007	10,007
Crystal Place	1,245	-	18,794	1,245	18,794	20,039
Crystal Plaza	7,710	35,355	738	7,710	36,093	43,803
Crystal Square	-	-	15,229	-	15,229	15,229
Crystal Towers	12,607	57,189	1,808	12,607	58,997	71,604
1841 Columbia Road	3,611	2,000	376	3,611	2,376	5,987
Arl Overlook Central	262	-	14,757	262	14,757	15,019
Arl Overlook North	245	-	299	245	299	544
Arl Overlook South	303	-	773	303	773	1,076
Fort Chaplin	97	-	8,163	97	8,163	8,260
Gateway Place	1,660	-	17,755	1,660	17,755	19,415
Kenmore	4,456	11,837	363	4,456	12,200	16,656
Lincoln Towers	12,471	76,480	700	12,471	77,180	89,651
Manor	5,809	15,576	1,144	5,809	16,720	22,529
McClurg Court	10,637	63,487	810	10,637	64,297	74,934
Newport Village	281	-	16,850	281	16,850	17,131
Oakwood	3,819	12,567	592	3,819	13,159	16,978
One East Delaware	6,851	36,576	212	6,851	36,788	43,639
Orleans Village	700	-	14,654	700	14,654	15,354
Parc Vista	5,830	33,222	149	5,830	33,371	39,201
Patriot Village	-	-	29,667	-	29,667	29,667
Potomac View	2,520	6,449	714	2,520	7,163	9,683
Skyline Mall	482	-	14,617	482	14,617	15,099
Skyline Towers	360	-	27,342	360	27,342	27,702
Statesman	600	-	4,599	600	4,599	5,199
Suburban Tower	1,815	5,027	244	1,815	5,271	7,086
Tunlaw Gardens	1,530	5,609	192	1,530	5,801	7,331
Tunlaw Park	1,251	5,414	144	1,251	5,558	6,809
2501 Porter Street	1,126	-	18,400	1,126	18,400	19,526
Van Ness	12,699	29,997	498	12,699	30,495	43,194
Water Park Towers	2,500	-	42,064	2,500	42,064	44,564
Westerly	4,700	19,313	240	4,700	19,553	24,253
Windsor Towers	362	-	5,827	362	5,827	6,189
Worldgate Centre	4,105	-	40,829	4,105	40,829	44,934
Development Properties:						
Courthouse Place	7,130	45,920	-	7,130	45,920	53,050
One Superior Place	8,471	46,293	-	8,471	46,293	54,764
Park Connecticut	3,160	3,561	-	3,160	3,561	6,721
Springfield Station	9,100	38,382	-	9,100	38,382	47,482
Undeveloped Land	5,424	-	-	5,424	0	5,424
	\$190,622	\$686,174	\$445,850	\$190,622	\$1,132,024	\$1,322,646

<CAPTION>

Properties	Accumulated Depreciation	Net Property	Date of Construction	Date Acquired	Depreciable Lives
<S>	<C>	<C>	<C>	<C>	<C>
Operating Properties:					
Albemarle	(\$3,677)	\$2,052	1966	-	5 - 40 years
Bedford Village	(9,117)	6,159	1967	-	5 - 40 years
Bennington	(1,882)	28,139	-	1995	5 - 40 years
Berkeley	(1,644)	538	1961	-	5 - 40 years
Boulevard of Old Town	(566)	8,734	-	1995	5 - 40 years
Calvert-Woodley	(1,974)	811	1962	-	5 - 40 years
Car Barn	(5,528)	12,046	1982/1986	-	5 - 40 years
Charter Oaks	(818)	14,465	1970	1996	5 - 40 years
Cleveland House	(3,240)	1,663	1962	-	5 - 40 years
Columbia Crossing	(4,905)	18,403	1990/1991	-	5 - 40 years
Columbian-Stratford	(3,508)	1,406	1959	-	5 - 40 years
2000 Commonwealth	(720)	26,923	-	1997	5 - 40 years
Concord Village	(6,117)	3,113	1967	-	5 - 40 years
Connecticut Heights	(1,769)	25,054	-	1995	5 - 40 years
Corcoran House	(1,695)	734	1961	-	5 - 40 years
Courthouse Plaza	(12,415)	31,934	1988/1990	-	5 - 40 years
Cronin's Landing	(611)	62,974	1997	1998	5 - 40 years
Crystal House I	(6,694)	4,885	1969	-	5 - 40 years
Crystal House II	(6,687)	3,320	1964	-	5 - 40 years
Crystal Place	(6,945)	13,094	1986	-	5 - 40 years
Crystal Plaza	(1,692)	42,111	-	1997	5 - 40 years
Crystal Square	(8,714)	6,515	1975	-	5 - 40 years
Crystal Towers	(2,748)	68,856	-	1997	5 - 40 years
1841 Columbia Road	(126)	5,861	1923	1996	5 - 40 years
Arl Overlook Central	(10,617)	4,402	1960	-	5 - 40 years
Arl Overlook North	(532)	12	1960	-	5 - 40 years
Arl Overlook South	(621)	455	1960	-	5 - 40 years
Fort Chaplin	(6,397)	1,863	1963	-	5 - 40 years
Gateway Place	(5,627)	13,788	1987	-	5 - 40 years
Kenmore	(542)	16,114	-	1997	5 - 40 years
Lincoln Towers	(2,321)	87,330	-	1997	5 - 40 years
Manor	(1,848)	20,681	-	1994	5 - 40 years
McClurg Court	(1,136)	73,798	1972	1998	5 - 40 years
Newport Village	(10,019)	7,112	1971	-	5 - 40 years
Oakwood	(1,010)	15,968	-	1995	5 - 40 years
One East Delaware	(1,103)	42,536	-	1997	5 - 40 years
Orleans Village	(9,953)	5,401	1965/1966	-	5 - 40 years
Parc Vista	(592)	38,609	1990	1998	5 - 40 years
Patriot Village	(16,060)	13,607	1973/1975/1977	-	5 - 40 years
Potomac View	(828)	8,855	-	1994	5 - 40 years
Skyline Mall	(8,275)	6,824	1977	-	5 - 40 years
Skyline Towers	(16,705)	10,997	1972	-	5 - 40 years
Statesman	(3,659)	1,540	1961	-	5 - 40 years
Suburban Tower	(517)	6,569	-	1995	5 - 40 years
Tunlaw Gardens	(112)	7,219	1941	1998	5 - 40 years
Tunlaw Park	(111)	6,698	1953	1998	5 - 40 years
2501 Porter Street	(5,475)	14,051	1987/1988	-	5 - 40 years
Van Ness	(1,842)	41,352	1970	1996	5 - 40 years
Water Park Towers	(11,448)	33,116	1989	-	5 - 40 years
Westerly	(1,615)	22,638	1995	-	5 - 40 years
Windsor Towers	(4,350)	1,839	1965	-	5 - 40 years
Worldgate Centre	(11,349)	33,585	1990	-	5 - 40 years
Development Properties:					
Courthouse Place	(\$12)	53,038	Under construction	-	N/A
One Superior Place	-	54,764	Under construction	-	N/A
Park Connecticut	-	6,721	Under construction	-	N/A
Springfield Station	(\$215)	47,267	Under construction	-	N/A
Undeveloped Land	-	5,424	Future development	-	N/A
	-----	-----			
	(\$228,683)	\$1,093,963			
	=====	=====			

</TABLE>

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The aggregate cost for Federal income tax purposes of the Operating Partnership's investment in real estate was approximately \$1,054 million and \$896 million at December 31, 1998 and 1997, respectively. The changes in total real estate and accumulated depreciation for the three years ended December 31 are as follows (in thousands):

<TABLE>  
<CAPTION>

Total Real Estate Assets		
1998	1997	1996
----	----	----



<S>	<C>	<C>	<C>
BALANCE, beginning of year	\$1,014,509	\$ 660,000	\$587,114
Acquisitions	190,933	288,605	65,836
Development	114,347	53,093	--
Improvements	16,852	12,811	7,425
Retirements and write-offs	(13,995)	--	(375)
	-----	-----	-----
BALANCE, end of year	\$1,322,646	\$1,014,509	\$660,000
	=====	=====	=====

	Accumulated Depreciation		
	1998	1997	1996
	----	----	----
BALANCE, beginning of year	\$ 210,186	\$ 189,907	\$172,624
Depreciation expense	28,616	20,279	17,658
Retirements and write-offs	(10,119)	-	(375)
	-----	-----	-----
BALANCE, end of year	\$ 228,683	\$ 210,186	\$189,907
	=====	=====	=====

</TABLE>

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EXHIBIT INDEX

<TABLE>	<CAPTION>	Item	Document	Page
		-----	-----	-----
<S>	<C>			<C>
2.1	Third Party Management and Leasing, Hotel Asset Management and Corporate Services Business Transfer Agreement by and between Charles E. Smith Residential Realty, Inc. and Smith Property Management, Inc. (Incorporated by reference to Exhibit No. 2.1 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)			-
2.2	REIT Properties Management and Leasing Business Transfer Agreement by and between Charles E. Smith Management, Inc. and Charles E. Smith Residential Realty L.P. (Incorporated by reference to Exhibit No. 2.2 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)			-
2.3	Assignment by Robert H. Smith, Clarice R. Smith, Robert P. Kogod and Arlene R. Kogod to Charles E. Smith Management, Inc. of 99% of all Partnership Interests of Residential Associates Limited Partnership (Incorporated by reference to Exhibit No. 2.3 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)			-
2.4	Assignment and Assumption Agreement by Residential Associates Limited Partnership and Charles E. Smith Residential Realty L.P. (Incorporated by reference to Exhibit No. 2.4 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)			-
2.5	Debt Assumption Agreement and Accord and Satisfaction of Debt by Charles E. Smith Management, Inc. and Charles E. Smith Residential Realty L.P. (Incorporated by reference to Exhibit No. 2.5 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)			-
2.6	Debt Contribution Agreement between Charles E. Smith Management, Inc. and Charles E. Smith Residential Realty L.P. (the "Operating Partnership") (Incorporated by reference to Exhibit No. 2.6 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)			-
3.1	Amended and Restated Articles of Incorporation of Charles E. Smith Residential Realty, Inc. (the "Company") (Incorporated by reference to Exhibit No. 3.1 of the Company's Registration Statement on Form S-11, No. 33-75288)			-

</TABLE>

<TABLE>	Item	Document	Page
---------	------	----------	------

<S>	<C>	<C>
3.2	Articles of Amendment to Articles of Amendment and Restatement of Articles of Incorporation of Charles E. Smith Residential Realty, Inc.	E-1
3.3	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.2 in the Company's Registration Statement on Form S-3 (File No. 33-93986))	-
3.4	Articles Supplementary to Amended and Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit No. 3.1 of Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1997)	-
3.5	Articles Supplementary of the Company for Classifying and Designating Series B Cumulative Convertible Redeemable Preferred Stock (Incorporated by reference to Exhibit No. 4.1 of the Operating Partnership's Report on Form 8-K dated October 3, 1997 and filed November 10, 1997)	-
3.6	Certificate of Correction relating to Articles Supplementary for Series B Cumulative Convertible Redeemable Preferred Stock (Incorporated by reference to Exhibit No. 4.2 of the Operating Partnership's Report on Form 8-K dated October 3, 1997 and filed November 10, 1997)	-
3.7	Articles Supplementary for Series C Cumulative Redeemable Preferred Stock (Incorporated by reference to Exhibit No. 3.5 in the Company's Registration Statement on Form S-3, File No. 333-17053)	-
3.8	Articles Supplementary of the Company for Classifying and Designating a Series of Preferred Stock as Series D Junior Participating Preferred Stock and Fixing Distribution and Other Preferences and Rights of Such Series	E-2
4.1	First Amended and Restated Agreement of Limited Partnership of the Operating Partnership, as amended (Incorporated by reference to Exhibit No. 4.1 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-

</TABLE>

<TABLE>

Item	Document	Page
<S>	<C>	<C>
4.2	Certificate of Limited Partnership of the Operating Partnership (Incorporated by reference to Exhibit No. 4.2 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
4.3	Ninth Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (Incorporated by reference to Exhibit No. 4.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1997)	-
4.4	Tenth Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (Incorporated by reference to Exhibit No. 4.4 of the Operating Partnership's Form 10-K for the year ended December 31, 1997)	-
4.5	Fifteenth Amendment to First Amended and Restated Agreement of Limited Partnership of the Operating Partnership (Incorporated by reference to Exhibit 99.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1998)	E-3
4.6	Seventeenth Amendment to First Amended and Restated Agreement of Limited Partnership of the Operating Partnership	-
10.1	Noncompetition Agreement by and among the Company, the Operating Partnership and Robert P. Kogod and Robert H. Smith (Incorporated by reference to Exhibit No. 10.1 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.2	Registration Rights and Lock-up Agreement (Incorporated by reference to Exhibit No. 10.2 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.3	Pledge Agreement (Incorporated by reference to Exhibit No. 10.3 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-

10.4	First Amended and Restated 1994 Employee Stock and Unit Option Plan (Incorporated by reference to Exhibit No. 10.4 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.5	First Amended and Restated 1994 Employee Restricted Stock and Restricted Unit Plan (Incorporated by reference to Exhibit No. 10.5 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-

</TABLE>

<TABLE>  
<CAPTION>

Item ----	Document -----	Page ----
<S>	<C>	<C>
10.6	Non-Employee Directors Stock Option Plan (Incorporated by reference to Exhibit No. 10.6 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.7	Subscription Agreement (Incorporated by reference to Exhibit No. 10.7 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.8	Voting Stock Partnership Agreement for Smith Property Management Partnership (Incorporated by reference to Exhibit No. 10.8 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.9	Voting Stock Partnership Agreement for Smith Management Construction Partnership (Incorporated by reference to Exhibit No. 10.9 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.10	Voting Stock Partnership Agreement for Consolidated Engineering Services Partnership (Incorporated by reference to Exhibit No. 10.10 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.11	Amended and Restated Articles of Incorporation of Smith Realty Company (Incorporated by reference to Exhibit No. 10.11 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.12	By-Laws of Smith Property Management, Inc. (Incorporated by reference to Exhibit No. 10.12 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.13	Articles of Incorporation of Smith Management Construction, Inc. (Incorporated by reference to Exhibit No. 10.13 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.14	By-Laws of Smith Management Construction, Inc. (Incorporated by reference to Exhibit No. 10.14 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.15	Articles of Incorporation of Consolidated Engineering Services, Inc. (Incorporated by reference to Exhibit No. 10.15 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.16	By-Laws of Consolidated Engineering Services, Inc. (Incorporated by reference to Exhibit No. 10.16 of the Company's Registration Statement on Form S-11, No. 33-75288)	-

</TABLE>

<TABLE>

Item ----	Document -----	Page ----
<S>	<C>	<C>
10.17	Certificate of Incorporation of Smith One, Inc. (Incorporated by reference to Exhibit No. 10.17 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.18	By-Laws of Smith One, Inc. (Incorporated by reference to Exhibit No. 10.18 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.19	Agreement of Limited Partnership of Smith Property Holdings One L.P. (Incorporated by reference to Exhibit No. 10.19 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-

10.20	Agreement of Limited Partnership of Smith Property Holdings One (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.20 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.21	Certificate of Incorporation of Smith Two, Inc. (Incorporated by reference to Exhibit No. 10.21 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.22	By-Laws of Smith Two, Inc. (Incorporated by reference to Exhibit No. 10.22 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.23	Agreement of Limited Partnership of Smith Property Holdings Two L.P. (Incorporated by reference to Exhibit No. 10.23 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.24	Agreement of Limited Partnership of Smith Property Holdings Two (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.24 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.25	Certificate of Incorporation of Smith Three, Inc. (Incorporated by reference to Exhibit No. 10.25 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.26	By-Laws of Smith Three, Inc. (Incorporated by reference to Exhibit No. 10.26 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.27	Agreement of limited Partnership of Smith Property Holdings Three L.P. (Incorporated by reference to Exhibit No. 10.27 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-

</TABLE>

<TABLE>

Item ----	Document -----	Page ----
<S>	<C>	<C>
10.28	Agreement of Limited Partnership of Smith Property Holdings Three (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.28 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.29	Certificate of Incorporation of Smith Four, Inc. (Incorporated by reference to Exhibit No. 10.29 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.30	By-Laws of Smith Four, Inc. (Incorporated by reference to Exhibit No. 10.30 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.31	Agreement of Limited Partnership of Smith Property Holding Four L.P. (Incorporated by reference to Exhibit No. 10.31 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.32	Amended and Restated Certificate of Incorporation of Smith Five, Inc. (Incorporated by reference to Exhibit No. 10.32 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.33	By-Laws of Smith Five, Inc. (Incorporated by reference to Exhibit No. 10.33 of the Company's Registration Statement on Form S-11, No. 33-75288)	-
10.34	Agreement of Limited Partnership of Smith Property Holdings Five (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.34 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.35	License Agreement between Charles E. Smith Management, Inc. and the Company (Incorporated by reference to Exhibit No. 10.35 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.36	License Agreement between Charles E. Smith Management, Inc. and the Operating Partnership (Incorporated by reference to Exhibit No. 10.36 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-

10.37 Agreement of Limited Partnership of Smith Property Holdings Five L.P. (Incorporated by reference to Exhibit No. 10.0 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1994) -

</TABLE>

<TABLE>

Item	Document	Page
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<S>	<C>	<C>
10.38	Certificate of Limited Partnership of Smith Property Holdings Five L.P. (Incorporated by reference to Exhibit No. 10.38 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.39	Deed of Trust and Security Agreement between Smith Property Holdings Three L.P. ("Smith Three") and The Northwestern Mutual Life Insurance Company ("Northwestern") (Incorporated by reference to Exhibit No. 10.2 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.40	Guarantee of Recourse Obligations by Smith Three and the Operating Partnership (Incorporated by reference to Exhibit No. 10.3 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.41	Absolute Assignment of Leases and Rents between Smith Three and Northwestern (Incorporated by reference to Exhibit No. 10.4 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.42	Promissory Note of Smith Three to Northwestern (Incorporated by reference to Exhibit No. 10.5 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.43	Purchase Money Deed of Trust and Security Agreement between Smith Property Holdings Three (D.C.) L.P. ("Smith Three D.C.") and Northwestern (Incorporated by reference to Exhibit No. 10.6 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.44	Guarantee of Recourse Obligations by Smith Three D.C. and the Operating Partnership (Incorporated by reference to Exhibit No. 10.7 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.45	Absolute Assignment of Leases and Rents between Smith Three D.C. and Northwestern (Incorporated by reference to Exhibit No. 10.8 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.46	Purchase Money Promissory Note of Smith Three D.C. to Northwestern (Incorporated by reference to Exhibit No. 10.9 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-

</TABLE>

<TABLE>

Item	Document	Page
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<S>	<C>	<C>
10.47	Supplemental Loan Agreement by and among Smith Property Holdings Two L.P. ("Smith Two"), Smith Property Holdings Two (D.C.) L.P. ("Smith Two D.C.") and Green Park Financial Limited Partnership ("Green Park")	E-4
10.48	Supplemental Loan Agreement by and among Smith Property Holdings One L.P. ("Smith One D.C."), Smith Property Holdings One (D.C.) L.P. ("Smith One D.C.") and GMAC (Incorporated by reference to Exhibit No. 10.13 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.49	Multifamily Note of Smith One to GMAC (Incorporated by reference to Exhibit No. 10.14 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30,	-

1994)

10.50	Multifamily Note of Smith One D.C. to GMAC (Incorporated by reference to Exhibit No. 10.15 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.51	Absolute Assignment of Leases and Rents by Smith One D.C. to GMAC (Incorporated by reference to Exhibit No. 10.16 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.52	Property Management Agreement by and between Smith One and the Operating Partnership (Incorporated by reference to Exhibit No. 10.17 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.53	Multifamily Deed of Trust, Assignment of Rents and Security Agreement between Smith One D.C. and GMAC (Incorporated by reference to Exhibit No. 10.18 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.54	Commercial Leasing and Property Management Agreement between Smith Three and the Operating Partnership (Incorporated by reference to Exhibit No. 10.19 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1994)	-
10.55	Agreement of Limited Partnership of Smith Employment Services L.P. (Incorporated by reference to Exhibit No. 10.58 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-

</TABLE>

<TABLE>

Item ----	Document -----	Page ----
<S>	<C>	<C>
10.56	Certificate of Limited Partnership of Smith Employment Services L.P. (Incorporated by reference to Exhibit No. 10.59 of the Operating Partnership's Form 10-K for the year ended December 31, 1994)	-
10.57	Second Restated and Amended Agreement of Limited Partnership of First Herndon Associated Limited Partnership (Incorporated by reference to Exhibit No. 10.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1995)	-
10.58	Second Amendment to the Certificate of Limited Partnership of First Herndon Associates Limited Partnership (Incorporated by reference to Exhibit No. 10.2 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1995)	-
10.59	Certificate of Incorporation of Smith Six, Inc. (Incorporated by reference to Exhibit No. 10.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1995)	-
10.60	By-Laws of Smith Six, Inc. (Incorporated by reference to Exhibit No. 10.2 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1995)	-
10.61	Agreement of Limited Partnership of Smith Property Holdings Six L.P. (Incorporated by reference to Exhibit No. 10.3 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1995)	-
10.62	Agreement of Limited Partnership of Smith Property Holdings Six (D.C.) L.P. (Incorporated by reference to Exhibit No. 10.4 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1995)	-
10.63	Certificate of Incorporation of Smith Seven, Inc. (Incorporated by reference to Exhibit No. 10.66 of the Operating Partnership's Form 10-K for the year ended December 31, 1995)	-
10.64	By-Laws of Smith Seven, Inc. (Incorporated by reference to Exhibit No. 10.67 of the Operating Partnership's Form 10-K for the year ended December 31, 1995)	-

10.65 Agreement of Limited Partnership of Smith Property Holdings  
 Seven L.P. (Incorporated by reference to Exhibit No. 10.68 of the  
 Company's Form 10-K for the year ended December 31, 1995) -

</TABLE>

<TABLE>

Item	Document	Page
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<S>	<C>	<C>
10.66	Commitment for Mortgage Loan to the Operating Partnership from Northwestern Mutual Life Insurance Company (Incorporated by reference to Exhibit No. 10.69 of the Operating Partnership's Form 10-K for the year ended December 31, 1995)	-
10.67	Third Amended and Restated Credit Agreement by and between the Operating Partnership and PNC Bank, National Association, et. al. (Incorporated by reference to Exhibit No. 10.71 of the Operating Partnership's Form 10-K for the year ended December 31, 1997)	-
10.68	First Amendment to Third Amended and Restated Credit Agreement between the Operating Partnership and PNC Bank, National Association, et. al. (Incorporated by reference to Exhibit 99.1 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1998)	-
10.69	Second Amendment to Third Amended and Restated Credit Agreement between the Operating Partnership and PNC Bank, National Association, et. al. (Incorporated by reference to Exhibit 99.2 of the Operating Partnership's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1998)	-
10.70	First Amendment to First Amended and Restated Agreement of 1994 Employee Stock and Unit Option Plan of Charles E. Smith Residential Realty, Inc. (Incorporated by reference to Exhibit 4.9 in the Operating Partnership's Registration Statement on Form S-8, File No. 333-67421)	-
10.71	Second Amendment to First Amended and Restated Agreement of 1994 Employee Stock and Unit Option Plan of Charles E. Smith Residential Realty, Inc.	E-5
10.72	Rights Agreement between Charles E. Smith Residential Realty, Inc. and First Union National Bank, as Rights Agent	E-6
21	Subsidiaries of the Registrant	E-7
23.1	Consent of Arthur Andersen LLP	E-8
27	Financial Data Schedule	-

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ARTICLES OF AMENDMENT  
TO  
ARTICLES OF AMENDMENT AND RESTATEMENT  
OF  
ARTICLES OF INCORPORATION  
OF  
CHARLES E. SMITH RESIDENTIAL REALTY, INC.

Charles E. Smith Residential Realty, Inc., a Maryland corporation (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland pursuant to Section 2-607(2) of the Annotated Code of Maryland (the "Code") and Section 9(a)(6) of the Corporation's Articles of Amendment and Restatement of Articles of Incorporation (the "Articles") that:

FIRST: Article VI, Section 6(a) of the Articles provides that the total number of shares of capital stock of all classes which the Corporation has the authority to issue is 145,000,000 shares each with a par value of \$.01, classified as (i) 95,000,000 shares of Common Stock, (ii) 45,000 shares of Excess Common Stock, and (iii) 5,000,000 unclassified shares.

SECOND: To date, the Corporation has issued and sold approximately 17.5 million shares of Common Stock and an aggregate of 3,857,491 shares of Preferred Stock in three separate series designated and classified as follows: (i) 2,640,325 Series A Cumulative Convertible Redeemable Preferred Shares, par value \$.01 per share; (ii) 1,216,666 Series B Cumulative Convertible Redeemable Preferred Shares, par value \$0.1 per share; and (iii) 500 Series C Cumulative Convertible Preferred Shares, par value \$.01 per share.

THIRD: Pursuant to Article VI, Section 6(a) of the Articles, the Board of Directors of the Corporation is empowered to classify and reclassify any unissued shares of capital stock.

FOURTH: On January 27, 1998, the Board of Directors deemed it to be in the best interests of the Corporation and its shareholders to increase the flexibility of the Corporation to support future offerings of preferred stock by increasing the current number of shares of preferred stock of the Corporation.

FIFTH: Pursuant to authority granted by Article VI, Section 6(a) and as previously supplemented, a majority of the entire Board of Directors on January 27, 1998 adopted a resolution reclassifying 15,000,000 authorized but unissued shares of Common Stock of the Corporation as Preferred Stock, with the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms and conditions of redemption, and other characteristics to be determined only at the time of issuance and sale of such Preferred Stock by the adoption of appropriate Articles Supplementary by the Board of Directors pursuant to Section 2-208 of



the Code, such Articles Supplementary to be in such form as the officers of the Corporation may deem necessary or advisable.

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SIXTH: The first two sentences of Section 6(a) of the Articles are hereby amended and restated in their entirety as follows:

"The total number of shares of capital stock of all three classes which the Corporation has authority to issue is 145,000,000 shares (par value \$.01 per share), of which (i) 80,000,000 shares are classified as common stock having a par value of \$.01 per share (the "Common Stock"), amounting to an aggregate par value of \$800,000, (ii) 45,000,000 shares are classified as excess stock having a par value of \$.01 per share (the "Excess Stock"), amounting to an aggregate par value of \$450,000 and (iii) 18,857,491 shares are classified as preferred stock having a par value of \$.01 per share (the "Preferred Stock", amounting to an aggregate par value of \$188,575. The remaining 1,142,509 shares are not classified."

SEVENTH: No stock entitled to be voted on relating to the reclassification of Common Stock pursuant to these Articles of Amendment was outstanding or subscribed for at the time of approval of such reclassification by the Board of Directors of the Corporation.

[Page Break Intentionally Inserted]

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to the Articles of Amendment and Restatement of Articles of Incorporation of the Corporation to be duly executed by its President and attested by its Secretary this 23th day of December, 1998.

CHARLES E. SMITH  
RESIDENTIAL REALTY, INC.

By: /s/ Ernest A. Gerardi, Jr.

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Name: Ernest A. Gerardi, Jr.

Title: President

I, Robert D. Zimet, Secretary, hereby acknowledge on behalf of Charles E. Smith Residential Realty, Inc. that the foregoing Articles of Amendment to the Articles of Amendment and Restatement of Articles of Incorporation of the Corporation are the corporate act of said corporation under the penalties of perjury.

Attest:

/s/ Robert D. Zimet

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Robert D. Zimet

Secretary

Series D Junior Participating Preferred Stock

ARTICLES SUPPLEMENTARY

CHARLES E. SMITH RESIDENTIAL REALTY, INC.

=====

Articles Supplementary of Charles E. Smith  
Residential Realty, Inc.  
Classifying and Designating a Series of  
Preferred Stock as  
Series D Junior Participating  
Preferred Stock and  
Fixing Distribution and Other Preferences  
and Rights of Such Series

=====

Dated as of December 3, 1998

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CHARLES E. SMITH RESIDENTIAL REALTY, INC.

=====

Articles Supplementary of Charles E. Smith  
Residential Realty, Inc.  
Classifying and Designating a Series of  
Preferred Stock as  
Series D Junior Participating  
Preferred Stock and  
Fixing Distribution and Other Preferences  
and Rights of Such Series

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Charles E. Smith Residential Realty, Inc., a Maryland corporation (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland pursuant to Section 2-208 of the Annotated Code of Maryland that:

FIRST: Pursuant to authority granted by the Amended and Restated Articles of Incorporation of the Corporation, the Board of Directors on December 2, 1998 adopted a resolution designating and classifying 72,980 unissued and unclassified shares of capital stock as Series D Junior Participating Preferred Stock.

SECOND: The following is a description of the Series D Junior Participating Preferred Stock, including the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption thereof:

Section 1. Number of Shares and Designation. This class of preferred

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stock shall be designated as Series D Junior Participating Preferred Stock and the number of shares which shall constitute such series shall not be more than 72,980 shares, par value \$0.01 per share, which number may be increased or decreased from time to time by resolution of the Board of Directors and by the filing of articles supplementary in accordance with the Maryland General Corporation Law; provided, that no decrease shall reduce the number of shares of Series D Junior Participating Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series D Junior Participating Preferred Stock.

Section 2. Definitions. For purposes of the Series D Junior Participating

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Preferred Stock, the following terms shall have the meanings indicated:

"Adjustment Number" shall have the meaning set forth in

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Section 6(A).

"Average Market Value" shall have the meaning set forth in

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Section 8.

"Board of Directors" shall mean the Board of Directors of the

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Corporation or any committee authorized by such Board of Directors to perform any of its responsibilities with respect to the Series D Preferred Shares.

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"Business Day" shall mean any day other than a Saturday,

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Sunday or a day on which state or federally chartered banking institutions in New York City, New York are not required to be open.

"Common Stock" shall mean the shares of common stock, par

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value \$0.01 per share, of the Corporation.

"Common Adjustment" shall have the meaning set forth in  
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Section 6(A).

"Parity Shares" shall have the meaning set forth in Section  
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5(A).

"Quarterly Dividend Payment Date" shall mean the 15th day  
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(or if such day is not a Business Day, the next Business Day thereafter) of  
February, May, August and November of each year; commencing February 15, 1999.

"Rights Declaration Date" shall mean December 2, 1998.  
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"Senior Preferred Stock" shall mean preferred stock of the  
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Corporation ranking prior and superior to the shares of Series D Preferred Stock  
with respect to dividends and distributions of the Corporation.

"Series D Junior Liquidation Preference" means an amount per  
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Series D Preferred Share equal to \$108,000.

"Series D Preferred Shares" shall mean the shares of Series D  
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Junior Participating Preferred Stock.

Section 3. Dividends and Distributions.  
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(A) Subject to the prior and superior rights of the holders of any  
Senior Preferred Stock (or any similar stock) of the Corporation, the holders of  
shares of Series D Preferred Stock shall be entitled to receive, when, as and if  
declared by the Board of Directors out of funds legally available for payment of  
dividends, quarterly dividends payable in cash on the Quarterly Dividend Payment  
Date, commencing on the first Quarterly Dividend Payment Date after first  
issuance of a share or fraction of a share of Series D Preferred Stock, in an  
amount per share (rounded to the nearest cent) equal to the greater of (a)  
\$10.00 or (b) subject to the provision for adjustment hereinafter set forth, one  
thousand (1,000) times the aggregate per share amount of all cash dividends, and  
one thousand (1,000) times the aggregate per share amount (payable in kind) of  
all non-cash dividends or other distributions (other than a dividend payable in  
shares of Common Stock of the Corporation, or a subdivision of the outstanding  
shares of Common Stock (by reclassification or otherwise)) declared on the  
Common Stock, since the immediately preceding Quarterly Dividend Payment Date,  
or, with respect to the first Quarterly Dividend Payment Date, since the first

issuance of any share or fraction of a share of Series D Preferred Stock. In the event the Corporation shall at any time after December 2, 1998 (the "Rights Declaration Date") (i) declare or pay any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series D Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such

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amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series D Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on any Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$10.00 per share on the Series D Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series D Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series D Preferred Stock, unless the date of issue of such shares is prior to the record date set for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series D Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series D Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series D Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

Section 4. Voting Rights. The holders of Series D Preferred Shares shall

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have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series D Preferred Stock shall entitle the holder thereof to one thousand (1,000) votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series D Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided by law, the holders of shares of Series D Preferred Stock and the holders of shares of Common Stock and any other stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

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(C) Except as set forth herein, holders of Series D Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 5. Certain Restrictions.  
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(A) Whenever dividends or distributions payable on the Series D Preferred Stock as provided in Section 3 are not paid, thereafter and until such dividends and distributions, whether or not declared, on shares of Series D Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, or make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Preferred Stock; or

(ii) declare or pay dividends on, or make any other distributions on, any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) (the "Parity Shares") with the Series D Preferred Stock, except dividends paid ratably on the Series D Preferred Stock and all such Parity Shares on which dividends are payable in proportion to the total amounts to which the holders of all such shares are then entitled; or

(iii) redeem or purchase or otherwise acquire for consideration shares of any Parity Shares, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such Parity Shares in exchange

for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series D Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series D Preferred Stock, or any Parity Shares, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 5, purchase or otherwise acquire such shares at such time and in such manner.

Section 6. Liquidation, Dissolution or Winding Up.  
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(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Preferred Stock unless, prior thereto, the holders of shares of Series D Preferred Stock shall have received (i) \$108,000 per share, plus (ii) any unpaid dividends and distributions accrued and unpaid thereon, whether or not

declared, to the date of such payment (the "Series D Junior Liquidation Preference"). Following the payment of the full amount of the Series D Junior Liquidation Preference, no additional distributions shall be made to the holders of Series D Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series D Junior Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii) immediately above as so adjusted being referred to as the "Adjustment Number"). Following the payment of the full amount of the Series D Junior Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series D Preferred Stock and Common Stock, respectively, holders of Series D Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to one (1) with respect to such Series D Preferred Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets



available to permit payment in full of the Series D Junior Liquidation Preference and the liquidation preferences of all other series of preferred stock, if any, which rank on a parity with the Series D Preferred Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, Etc. In case the Corporation shall

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enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series D Preferred Stock shall at the same time be similarly exchanged or changed into such stock or securities, cash and/or any other property in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to one thousand (1,000) times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series D Preferred Stock (as previously adjusted, if any prior adjustment has occurred) shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. Redemption at the Option of the Board of Directors. The

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outstanding shares of Series

D Preferred Stock may be redeemed as a whole, but not in part, at any time, or

from time to time, at the option of the Board of Directors, at a cash price per share equal to 105 percent of (i) the product of the Adjustment Number times the Average Market Value (as such term is hereinafter defined) of the Common Stock, plus (ii) all dividends which on the redemption date are payable on the shares to be redeemed and have not been paid, earned or declared and a sum sufficient for the payment thereof set apart, without interest. The "Average Market Value" is the average of the closing sale prices of the Common Stock during the 30 day period immediately preceding the date before the redemption date on the Composite Tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the average of the closing sale prices with respect to a share of Common Stock during such 30 day period, as quoted on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value of the Common Stock as determined by the Board in good faith.

Section 9. Shares To Be Retired. Any shares of Series D Preferred Stock

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purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of preferred stock of the Corporation and may be reissued as part of a new series of preferred stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein, or reclassified as Common Stock or other stock of the Corporation as provided in the Corporation's Articles of Incorporation.

Section 10. Ranking. Notwithstanding anything contained herein to the

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contrary, the Series D Preferred Stock shall rank junior to all other series of the Corporation's preferred stock as to voting rights, the payment of dividends and the distribution of assets in liquidation, unless the terms of any such series shall provide otherwise.

Section 11. Amendment. The Articles of Incorporation of the Corporation

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shall not be further amended, nor shall an Articles Supplementary be filed or amended, in any manner which would materially alter or change the powers, preferences or special rights of the Series D Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least a majority of the outstanding shares of Series D Preferred Stock, voting separately as a class.

Section 11. Fractional Shares. Series D Preferred Stock may be issued

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in fractions of a share which shall entitle the holders, in proportion to such holders' fractional shares, to exercise voting rights, receive dividends, participate in distributions and have the benefit of all other rights of holders

of Series D Preferred Stock.

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IN WITNESS WHEREOF, the Corporation has caused these Articles Supplementary to be duly executed by its President and attested by its Secretary this 3rd day of December, 1998.

CHARLES E. SMITH RESIDENTIAL REALTY, INC.

By: /s/ Ernest A. Gerardi, Jr.  
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By: Ernest A. Gerardi, Jr.

Its: President

I, Robert D. Zimet, Secretary, hereby acknowledge on behalf of Charles E. Smith Residential Realty, Inc. that the foregoing Articles Supplementary are the corporate act of said corporation under the penalties of perjury.

Attest:

/s/ Robert D. Zimet  
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SEVENTEENTH AMENDMENT TO  
FIRST AMENDED AND RESTATED  
AGREEMENT OF LIMITED PARTNERSHIP  
OF  
CHARLES E. SMITH RESIDENTIAL REALTY L.P.

THIS SEVENTEENTH AMENDMENT TO FIRST AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF CHARLES E. SMITH RESIDENTIAL REALTY L.P. (this "Seventeenth Amendment"), dated as of December 2, 1998, is entered into by Charles E. Smith Residential Realty, Inc., a Maryland corporation, as general partner (the "General Partner") of Charles E. Smith Residential Realty L.P. (the "Partnership"), for itself and on behalf of the limited partners of the Partnership.

WHEREAS, the General Partner has entered into a Rights Agreement dated as of December 4, 1998 between the General Partner and First Union National Bank, as rights agent (the "Rights Agreement"), pursuant to which the General Partner has agreed to issue to the holder of its shares of common stock Rights to purchase shares of a newly created series of capital stock, designated Series D Junior Participating Preferred Stock (the "Series D Preferred Stock") upon and subject to the terms and conditions set forth in the Rights Agreement;

WHEREAS, pursuant to Section 4.2B of the Partnership Agreement, the Partnership will issue to the General Partner rights to purchase a new class of Units, to be entitled "Series D Junior Participating Preferred Units" from time to time concurrently with the issuance by the General Partner from time to time of a like number Series D Preferred Stock purchase rights pursuant to the Rights Agreement; and

WHEREAS, pursuant to the authority granted to the General Partner pursuant to Section 14.1B of the Partnership Agreement, the General Partner desires to amend the Partnership Agreement (i) to establish a new class of Units, to be entitled Series D Junior Participating Preferred Units (the "Series D Preferred Units"), and to set forth the designations, rights, powers, preferences and duties of such Series D Preferred Units, which are substantially the same as those of the Series D Preferred Stock, pursuant to Section 4.2A of the Partnership Agreement; (ii) to protect the economic interests of limited partners in the Partnership to the extent provided herein upon exercise by holders of certain rights to purchase Series D Preferred Stock granted under the Rights Agreement and Articles Supplementary relating to such preferred stock; and (iii) to make certain other changes to the Partnership Agreement.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the General Partner hereby amends the Partnership Agreement, as follows:

1. Article 1 of the Partnership Agreement shall be amended to include the definition entitled "Exercise Percentage" and to amend and restate the definition of "REIT Shares Amount" in its entirety as follows:

"Exercise Percentage" has the meaning set forth in Section 4.4.  
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"REIT Shares Amount" means a number of REIT Shares equal to the product  
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of the

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number of Common Units offered for redemption by a Redeeming Partner, multiplied by the Conversion Factor; provided that in the event the General Partner issues to all holders of REIT Shares rights, options, warrants or convertible or exchangeable securities entitling the shareholders to subscribe for or purchase REIT Shares, or any other securities or property (collectively, the "rights") and if the Partnership does not issue to all of the holders of Common Units at such time (other than the General Partner) corresponding rights to subscribe for or purchase Common Units or other securities or property corresponding to the securities or property covered by the rights granted by the General Partner, then the REIT Shares Amount shall also include such rights that a holder of that number of REIT Shares would be entitled to receive had it owned such REIT Shares at the time such rights were issued, provided further that, if the rights issued by the General Partner are issued pursuant to a stockholder rights plan (or other arrangement having the same objective and substantially the same effect), then the REIT Shares Amount shall include only such rights to the extent that such rights have not been exercised by the holders thereof (and have not otherwise terminated or been eliminated).

2. Section 4.2 of the Partnership Agreement is hereby amended to add after Section 4.2.F the following section:

G. Series D Preferred Units. Under the authority granted to it by  
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Section 4.2.A. hereof, the General Partner hereby establishes an additional class of Partnership Units entitled "Series D Junior Participating Preferred Units" (the "Series D Preferred Units"). Series D Preferred Units shall have the designations, preferences, rights, powers and duties as set forth in Exhibit I  
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hereto.

3. Section 4.4 of the Partnership Agreement is hereby amended and restated in its entirety as follows:

If the General Partner acquires any Class A Units using the proceeds from any exercise of any rights (as defined in the definition of REIT Shares Amount) issued under a stockholder rights plan (or other arrangement having the same objective and substantially the same effect), then (a) the holders of

Common Units at such time (other than the General Partner) as a group shall have the right to acquire, at the same price per Class A Unit paid by the General Partner, a total number of additional Class A Units equal to the product of (i) the total number of Common Units held by such holders, multiplied by (ii) a fraction, the numerator of which is the number of Class A Units issued to the General Partner as a result of the exercise of such rights and the denominator of which is the total number of Class A Units held by the General Partner immediately prior to such issuance (which fraction is referred to as the "Exercise Percentage"), and (b) each holder of a Class A Unit or Class B Unit at such time shall have the right to acquire, at the same price per Class A Unit paid by the General Partner, a number of Class A Units equal to the product of (iii) the aggregate number of Common Units that such holder holds at such time, multiplied by (iv) the Exercise Percentage. (Thus, for example, if the General Partner were to acquire 2,000,000 Class A Units at \$5 per Unit from the proceeds of the exercise of outstanding rights issued under a stockholder rights plan at a time when the General Partner already owned 8,000,000 Class A Units out of a total of 12,000,000 outstanding Common Units (which would represent a 25% increase in the number of Class A Units held by the General Partner), then the other holders of Common Units as a group would have the right to purchase a total of 1,000,000 Class A Units at \$5 per Class A Unit, and each holder of a Class A Unit or Class B Unit

would be entitled to purchase his proportionate share of such Class A Units, or .25 Class A Units for each Class A Unit or Class B Unit then held by such holder.) In the event Partnership Units or Partnership Interests other than Class A Units (including, without limitation, Series D Preferred Units) are issued to the General Partner using proceeds of any exercise of rights issued under a stockholder rights plan (or other arrangement), the holders of Common Units shall be granted the right to acquire such other Partnership Units or Partnership Interests at the same price as paid by the General Partner and in such amounts as would be comparable to their rights had Class A Units been issued instead. The General Partner shall provide prompt written notice to the holders of Common Units of its acquisition of Class A Units (or other Partnership Units or Partnership Interests) using such proceeds and shall establish in good faith such procedures as it deems appropriate (including, without limitation, procedures to eliminate the issuance of fractional Partnership Units if the General Partner deems appropriate) to effectuate the rights of the holders of Common Units under the preceding provisions of this Section 4.4. Except to the extent expressly granted by the Partnership pursuant to this Section 4.4 or another agreement, no person shall have any preemptive, preferential or other similar right with respect to (i) additional Capital Contributions or loans to the Partnership; or (ii) issuance or sale of any Partnership Units or other Partnership Interests.

#### 4. Exhibits to Partnership Agreement.

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A. The General Partner shall maintain the information set forth in Exhibit A to the Partnership Agreement, as such information shall change from -----

time to time, in such form as the General Partner deems appropriate for the conduct of the Partnership's affairs, and Exhibit A shall be deemed amended from

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time to time to reflect the information so maintained by the General Partner, whether or not a formal amendment to the Partnership Agreement has been executed amending such Exhibit A. In addition to the designation of Series D Preferred

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Units pursuant to this Seventeenth Amendment, such information shall reflect (and Exhibit A shall be deemed amended from time to time to reflect) the

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issuance of any additional Partnership Units to the General Partner or any other Person, the transfer of Partnership Units and the redemption of any Partnership Units, all as contemplated herein.

B. The Partnership Agreement is hereby amended by attaching thereto as Exhibit I the Exhibit I attached hereto.

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5. Certain Capitalized Terms. All capitalized terms used in this

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Seventeenth Amendment and not otherwise defined shall have the meanings assigned in the Partnership Agreement or in the Articles Supplementary of the General Partner. Except as modified herein, all terms and conditions of the Partnership Agreement shall remain in full force and effect, which terms and conditions the General Partner hereby ratifies and affirms.

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IN WITNESS WHEREOF, the undersigned has executed this Seventeenth Amendment as of the date first set forth above.

CHARLES E. SMITH RESIDENTIAL REALTY, INC.,  
as General Partner of  
Charles E. Smith Residential Realty L.P.  
and on behalf of existing Limited Partners

By: /s/ Ernest A. Gerardi, Jr.

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Name: Ernest A. Gerardi, Jr.

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Title: President

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EXHIBIT I

DESIGNATION OF THE PREFERENCES AND OTHER RIGHTS, VOTING POWERS, RESTRICTIONS, LIMITATIONS AS TO SERIES D PREFERRED



UNITS

The Series D Preferred Units shall have the following designations, preferences, rights, powers and duties:

(1) Certain Defined Terms. The following capitalized terms used in this

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Exhibit I shall have the respective meanings set forth below:  
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"Quarterly Distribution Payment Date" means shall mean the 15th day (or if such day is not a Business Day, the next Business Day thereafter) of February, May, August and November of each year, commencing February 15, 1999.

"Parity Units" has the meaning ascribed thereto in Section 3(A).

(2) Distributions.  
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(A) The General Partner, in its capacity as the holder of the then outstanding Series D Preferred Units, shall be entitled to receive out of funds legally available therefor, when, as and if declared by the General Partner, quarterly distributions payable in cash on the Quarterly Distribution Payment Date at the rate per Series D Preferred Unit equal to the greater of (a) \$10.00 or (b) subject to the provision for adjustment hereinafter set forth, one thousand (1,000) times the aggregate per share amount of all cash distributions, and one thousand (1,000) times the aggregate per share amount (payable in kind) of all non-cash or other distributions (other than a distribution payable in Class A Units or Class B Units of the General Partner, or a subdivision of the outstanding Class A Units or Class B Units (by reclassification or otherwise)) declared on such Class A or Class B Units, since the immediately preceding Quarterly Distribution Payment Date, or, with respect to the first Quarterly Distribution Payment Date, since the first issuance of any Series D Preferred Units or a fraction thereof. In the event the General Partner shall at any time after December 2, 1998 (the "Rights Declaration Date") (i) declare or pay any distribution on Class A Units or Class B Units payable in Class A Units or Class B Units, (ii) subdivide the outstanding Class A Units or Class B Units, or (iii) combine the outstanding Class A Units or Class B Units into a smaller number of units, then in each such case the amount to which holders of Series D Preferred Units were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of Common Units outstanding immediately after such event and the denominator of which is the number of shares of Common Units that were outstanding immediately prior to such event.

(B) The General Partner shall declare a distribution on the Series D Preferred Units as provided in paragraph (A) above immediately after it declares a distribution on any Common Units (other than a distribution payable in Common Units); provided that, in the event no distribution shall have been declared on the Common Units during the period between any Quarterly Distribution Payment Date and the next subsequent Quarterly Distribution Payment Date, a distribution



of \$10.00 per unit on the Series D Preferred Units shall nevertheless be payable on such subsequent Quarterly Distribution Payment Date.

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(C) Distributions shall begin to accrue and be cumulative on outstanding Series D Preferred Units from the Quarterly Distribution Payment Date next preceding the date of issue of such Series D Preferred Units, unless the date of issue of such units is prior to the record date set for the first Quarterly Distribution Payment Date, in which case distributions on such units shall begin to accrue from the date of issue of such units, or unless the date of issue is a Quarterly Distribution Payment Date or is a date after the record date for the determination of holders of Series D Preferred Units entitled to receive a quarterly distribution and before such Quarterly Distribution Payment Date, in either of which events such distributions shall begin to accrue and be cumulative from such Quarterly Distribution Payment Date. Accrued but unpaid distributions shall not bear interest. Distributions paid on the Series D Preferred Units in an amount less than the total amount of such distributions at the time accrued and payable on such units shall be allocated pro rata on a unit-by-unit basis among all such units at the time outstanding. The Board of Directors of the General Partner may fix a record date for the determination of holders of Series D Preferred Units entitled to receive payment of a distribution declared thereon, which record date shall be no more than 60 days prior to the date fixed for the payment thereof.

(3) Certain Restrictions.  
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(A) Whenever distributions payable on the Series D Preferred Units as provided in Section (2) are not paid, thereafter and until such distributions, whether or not declared, on Series D Preferred Units outstanding shall have been paid in full, the Partnership shall not:

(i) declare or pay distributions on, or redeem or purchase or otherwise acquire for consideration any units ranking junior (either as to distributions or upon liquidation, dissolution or winding up) to the Series D Preferred Units; or

(ii) declare or pay distributions on any units ranking on a parity (either as to distributions or upon liquidation, dissolution or winding up) (the "Parity Units") with the Series D Preferred Units, except distributions paid ratably on the Series D Preferred Units and all such Parity Units on which distributions are payable in proportion to the total amounts to which the holders of all such units are then entitled; or

(iii) redeem or purchase or otherwise acquire for consideration any Parity Units, provided that the Partnership may at any time redeem, purchase or otherwise acquire any such Parity Units in exchange for any units ranking junior (either as to distributions or upon dissolution, liquidation or winding up) to the Series D Preferred Units; or

(iv) redeem or purchase or otherwise acquire for consideration any Series D Preferred Units, or any Parity Units, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors of the General Partner) to all holders of such units upon such terms as the Board of Directors of the General Partner, after consideration of the respective annual distribution rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

I-2

(B) The General Partner shall not permit any subsidiary of the Partnership to purchase or otherwise acquire for consideration any units of the Partnership unless the

Partnership could, under paragraph (A) of this Section 3, purchase or otherwise acquire such units at such time and in such manner.

(4) Liquidation, Dissolution or Winding Up.  
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(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Partnership, no distribution shall be made to the holders of units ranking junior (either as to distributions or upon liquidation, dissolution or winding up) to the Series D Preferred Units unless, prior thereto, the holders of Series D Preferred Units shall have received (i) \$108,000 per Unit, plus (ii) any unpaid distributions accrued and unpaid thereon, whether or not declared, to the date of such payment (the "Series D Junior Liquidation Preference"). Following the payment of the full amount of the Series D Junior Liquidation Preference, no additional distributions shall be made to the holders of Series D Preferred Units unless, prior thereto, the holders of Common Units shall have received an amount per unit (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series D Junior Liquidation Preference by (ii) 1,000 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as unit splits, unit distributions and recapitalizations with respect to the Common Units) (such number in clause (ii) immediately above as so adjusted being referred to as the "Adjustment Number"). Following the payment of the full amount of the Series D Junior Liquidation Preference and the Common Adjustment in respect of all outstanding Series D Preferred Units and Common Units, respectively, holders of Series D Preferred Units and holders of Common Units shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to one (1) with respect to such Series D Preferred Units and Common Units, on a per unit basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series D Junior Liquidation Preference and the liquidation preferences of all other series of preferred units, if any, which rank on a parity with the Series D Preferred Units, then

such remaining assets shall be distributed ratably to the holders of such Parity Units in proportion to their respective liquidation preferences. In the event, however, that there are sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Units.

(C) In the event the Partnership shall at any time after the Rights Declaration Date (i) declare any distribution on Class A Units or Class B Units payable in Class A Units or Class B Units, (ii) subdivide the outstanding Class A Units or Class B Units, or (iii) combine the outstanding Class A Units or Class B Units into a smaller number of units, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction, the numerator of which is the number of Common Units outstanding immediately after such event and the denominator of which is the number of Common Units that were outstanding immediately prior to such event.

5. Consolidation, Merger, Etc. In case the Partnership shall enter  
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into any consolidation, merger, combination or other transaction in which Class A Units or Class B Units are exchanged for or changed into other units or securities, cash and/or any other property, then in any such case the Series D

I-3

Preferred Units shall at the same time be similarly exchanged or changed into such units or securities, cash and/or any other property in an amount per unit (subject to the provision for adjustment hereinafter set forth) equal to one thousand (1,000) times the aggregate amount of units, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each Class A Unit or Class B Unit is changed or exchanged. In the event the Partnership shall at any time after the Rights Declaration Date (i) declare any distribution on Class A Units or Class B Units payable in Class A Units or Class B Units, (ii) subdivide the outstanding Class A Units or Class B Units, or (iii) combine the outstanding Class A Units or Class B Units into a smaller number of units, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of Series D Preferred Units (as previously adjusted, if any prior adjustment has occurred) shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of Class A Units or Class B Units outstanding immediately after such event and the denominator of which is the number of Class A Units or Class B Units that were outstanding immediately prior to such event.

6. Redemption Right. The outstanding Series D Preferred Units may be  
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redeemed as a whole, but not in part, at any time, or from time to time, at the option of the Board of Directors of the General Partner, at a cash price per share equal to 105 percent of (i) the product of the Adjustment Number times the Average Market Value (as such term is hereinafter defined) of the Class A Units or Class B Units, plus (ii) all distributions which on the redemption date are

payable on the Class A Units or Class A Units to be redeemed and have not been paid, earned or declared and a sum sufficient for the payment thereof set apart, without interest. The "Average Market Value" of a Class A or Class B Unit shall equal the average of the closing sale prices of the Common Stock of the General Partner during the 30 day period immediately preceding the date before the redemption date on the Composite Tape for New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the average of the closing sale prices with respect to a share of Common Stock during such 30 day period, as quoted on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value of the Common Stock as determined by the Board in good faith.

7. Ranking. Notwithstanding anything contained herein to the contrary,  
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the Series D Preferred Units shall rank junior to all other series of the preferred units as to voting rights, the payment of distributions and the distribution of assets in liquidation, unless the terms of any such series shall provide otherwise.

8. Voting Rights. The holders of Series D Preferred Units shall have  
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the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each Series D Preferred Unit shall entitle the holder thereof to one thousand (1,000) votes on all matters submitted to a vote of the Partners. In the event the General Partner shall at any time after the Rights Declaration Date (i) declare any distribution on Class A Units or Class B Units payable in Class A Units or Class B Units, (ii) subdivide the outstanding Class A Units or Class B Units, or (iii) combine the outstanding Class A Units or Class B Units into a smaller number of units, then in each such case the number of votes per share to which holders of Series D Preferred Units were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of Common Units outstanding immediately after such event and the denominator of which is the number of Common Units that were outstanding immediately prior to such event.

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(B) Except as otherwise provided by law, the holders of Series D Preferred Units and the holders of Common Units and any Partnership Units having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Partners.

(C) Except as set forth herein, holders of Series D Preferred Units shall have no special voting rights and their consent shall not be required

(except to the extent they are entitled to vote with holders of Common Units as set forth herein) for taking any Partnership action.

9. General. The rights of the General Partner, in its capacity as the

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holder of the Series D Preferred Units, are in addition to and not in limitation on any other rights or authority of the General Partner, in any other capacity, under the Partnership Agreement. In addition, nothing contained in this Exhibit

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I shall be deemed to limit or otherwise restrict any rights or authority of the

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General Partner under the Partnership Agreement, other than in its capacity as the holder of the Series D Preferred Units.

\* \* \* \*

SUPPLEMENTAL LOAN AGREEMENT

THIS SUPPLEMENTAL LOAN AGREEMENT (this "Agreement") is made and entered into as of the 29th day of October, 1998 by and among SMITH PROPERTY HOLDINGS TWO L.P. ("SPH TWO"), and SMITH PROPERTY HOLDINGS TWO (D.C.) L.P. ("SPH TWO (DC)"), (SPH TWO and SPH TWO (DC), each a Delaware limited partnership and sometimes hereinafter referred to collectively as "Borrowers"), and GREEN PARK FINANCIAL LIMITED PARTNERSHIP, a District of Columbia limited partnership, its successors, transferees and assigns ("Lender").

BACKGROUND

A. This Agreement is being executed in connection with the making by Lender of two separate mortgage loans to Borrowers in the amounts set forth on Exhibit A attached hereto and made a part hereof (each, a "Mortgage Loan" and ----- collectively, the "Mortgage Loans").

B. The Mortgage Loans are evidenced by two separate Multifamily Notes (collectively, the "Notes") and are secured by, among other things, thirteen (13) separate (i) Multifamily Deeds of Trust, Assignments of Rents and Security Agreements (collectively, the "Mortgages") encumbering the properties (and the improvements now or hereafter existing thereon) listed on Exhibit B attached ----- hereto and made a part hereof. For purposes of this Agreement, the term "Mortgaged Properties" means the thirteen (13) separate properties and improvements listed on Exhibit B which from time to time are encumbered by the ----- Mortgages (and each additional Multifamily Residential Property which from time to time are encumbered by Mortgages in accordance with this Agreement). The Mortgaged Properties as of the date hereof (the "Initial Mortgaged Properties") also are identified by their common names on Exhibit B.

C. The SPH TWO Loan (defined in Exhibit A) is secured by a Payment ----- Guaranty, dated the same date as this Agreement, by SPH TWO (DC) for the benefit of Lender. The SPH TWO (DC) Loan (defined in Exhibit A) is secured by a Payment ----- Guaranty, dated the same date as this Agreement, by SPH TWO for the benefit of Lender. The Payment Guaranties are hereinafter referred to as the "Payment Guaranties."

D. The Mortgaged Properties identified on Exhibit C as leasehold ----- mortgaged properties are hereinafter referred to collectively as the "Leasehold

Mortgaged Properties." The Notes, the Mortgages, the Payment Guaranties and all other documents evidencing and securing the Mortgage Loans are hereinafter referred to collectively as the "Loan Documents".

E. Lender requires as a condition to making the Mortgage Loans that Borrowers enter into this Agreement for the purpose of setting forth certain additional agreements with respect to the Mortgage Loans, the Notes, the Mortgages, the other Loan Documents and the Mortgaged Properties.

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F. Lender intends to sell, transfer, and deliver the Notes and assign the Mortgages to Fannie Mae. In consideration of such assignment, Fannie Mae will issue to Lender Guaranteed Mortgage Pass-Through Certificates backed by mortgage loan pools comprised solely of the Mortgage Loans. The Mortgage Loans will be placed in a mortgage-backed security pool.

NOW, THEREFORE, in consideration of the above and the mutual promises contained in this Agreement, the receipt and sufficiency of which are acknowledged, Borrowers and Lender agree as follows:

1. Defined Terms. For purposes of this Agreement, the following terms not  
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otherwise defined herein shall have the respective meanings set forth below:

"Affiliate" or "affiliated" means, when used with reference to a  
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specified Person, (i) any Person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, the specified Person, (ii) any Person that is an officer of, partner in or trustee of, or serves in a similar capacity with respect to, the specified Person or of which the specified Person is an officer, partner or trustee, or with respect to which the specified Person serves in a similar capacity, (iii) any Person that, directly or indirectly, is the beneficial owner of 10% or more of any class of equity securities of, or otherwise has a substantial beneficial interest in, the specified Person or of which the specified Person is, directly or indirectly, the owner of 10% or more of any class of equity securities or in which the specified Person has a substantial beneficial interest, and (iv) for the specified Person, any of the individual's spouse, issue, parents, siblings and a trust for the benefit of the individual's spouse or issue, or both.

"Aggregate Debt Service Coverage Ratio for the Trailing 12 Month  
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Period" means, for any specified date, the ratio (expressed as a percentage) of  
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(a) the aggregate of the Net Operating Income for the Trailing 12 Month Period for the Mortgaged Properties

to  
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(b) the Facility Debt Service on the specified date.

"Aggregate Debt Service Coverage Ratio for the Trailing Three Month  
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Period" means, for any specified date, the ratio (expressed as a percentage)  
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of--

(a) the product obtained by multiplying--

(i) the aggregate of the Net Operating Income for the  
Trailing Three Month Period for the Mortgaged Properties, by

(ii) four

to  
--

(b) the Facility Debt Service on the specified date.

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"Aggregate Loan to Value Ratio for the Trailing 12 Month Period"  
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means, for any specified date, the ratio (expressed as a percentage)  
of --

(a) the outstanding principal balance of the Mortgage Loans (and  
any other loans made in accordance with the provisions of  
Section 16) on the specified date,

to  
--

(b) the aggregate of the Values most recently obtained prior to  
the specified date for the Mortgaged Properties.

"Appraisal" means an appraisal of a Multifamily Residential  
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Property conforming to the requirements of Chapter 5 of Part III of  
the DUS Guide, and accepted by the Lender.

"Appraised Value" means the value set forth in an Appraisal.  
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"Cap Rate" means, for each Mortgaged Property, a capitalization  
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rate selected by Lender in accordance with Section 19 for use in  
determining the Values.

"Coverage and LTV Tests" mean, for any specified date, each of  
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the following financial tests:

(a) The Aggregate Debt Service Coverage Ratio for the Trailing 12  
Month Period is not less than 135%.

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(b) The Aggregate Loan to Value Ratio for the Trailing 12 Month Period  
does not exceed 65%.

"DUS Guide" means the Fannie Mae Multifamily Delegated  
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Underwriting and Servicing (DUS) Guide, as such Guide may be amended  
from time to time, including exhibits to the DUS Guide and amendments  
in the form of Lender Memos, Guide Updates and Guide Announcements  
(and, if such Guide is no longer used by Fannie Mae, the term "DUS  
Guide" as used in this Agreement means the Fannie Mae Multifamily  
Negotiated Transactions Guide, as such Guide may be amended from time  
to time, including amendments in the form of Lender Memos, Guide  
Updates and Guide Announcements). All references to specific articles  
and sections of, and exhibits to, the DUS Guide shall be deemed  
references to such articles, sections and exhibits as they may be  
amended, modified, updated, superseded, supplemented or replaced from  
time to time.

"Facility Debt Service" means, as of any specified date, the  
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amount of interest and principal amortization, during the 12 month  
period immediately succeeding the specified date, with respect to the  
Mortgage Loans on the specified date, except that, for these purposes,  
each Note shall be deemed to require level monthly payments of  
principal and interest (at the applicable coupon rate) in an amount  
necessary to fully amortize the original principal amount of the Note  
over a 30-year period, with such amortization to commence on the day  
of the first payment of the Note.

"Gross Revenues" means, for any specified period, with respect to  
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any Multifamily Residential Property, all income in respect of the  
Multifamily Residential Property, as determined by Lender in  
accordance with the method described in paragraph 3 of Section 302.02  
of Part V of the DUS Guide, except that for these purposes the  
financial statements to be used need not be audited and paragraph (b)

of such paragraph 3 shall be taken into account in Lender's discretion.

"Initial Underwriting Date" means the date Lender completes its  
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initial underwriting of the Initial Mortgaged Properties and notifies Borrower of Lender's initial determination of the Aggregate Debt Service Coverage Ratio for the Trailing 12 Month Period and Aggregate Loan to Value Ratio for the Trailing 12 Month Period.

"Multifamily Residential Property" means a residential property,  
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located in the United States, containing five or more dwelling units in which not more than twenty percent (20%) of the net rentable area is or will be rented to non-residential tenants, and conforming to the requirements of Sections 201 and 203 of Part III of the DUS Guide.

"Net Operating Income" means, for any specified period, with  
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respect to any Multifamily Residential Property, the aggregate net income during such period equal to Gross Revenues during such period less the aggregate Operating Expenses during such

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period. If a Multifamily Residential Property is not owned by a Borrower for the entire specified period, the Net Operating Income for the Multifamily Residential Property for the time within the specified period during which the Multifamily Residential Property was owned by the Borrower shall be the Multifamily Residential Property's pro forma net operating income determined by Lender in accordance with the underwriting procedures set forth in Part III of the DUS Guide.

"Operating Expenses" means, for any period, with respect to any  
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Multifamily Residential Property, all expenses in respect of the Multifamily Residential Property, as determined by Lender in accordance with the method described in paragraph 3 of Section 302.02 of Part V of the DUS Guide, including replacement reserves, if any, under the Replacement Reserve Agreements for the Multifamily Residential Properties.

"Person" means an individual, an estate, a trust, a corporation,  
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a partnership, a limited liability company or any other organization or entity (whether governmental or private).

"Release Fee" means, for each Mortgaged Property released from  
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the lien of its Mortgage, a fee of \$8,000 payable to Lender.

"Trailing 12 Month Period" means, for any specified date, the 12  
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month period ending with the last day of the most recent calendar  
quarter for which financial statements have been delivered by  
Borrowers to Lender pursuant to Section 10.

"Trailing Three Month Period" means, for any specified date, the  
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three month period ending with the last day of the most recent  
calendar quarter for which financial statements have been delivered by  
Borrowers to Lender pursuant to Section 10.

"Value" means, for any specified date, with respect to a  
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Multifamily Residential Property, (a) if an Appraisal of the  
Multifamily Residential Property was more recently obtained than a Cap  
Rate for the Multifamily Residential Property, the Appraised Value of  
such Multifamily Residential Property, or (b) if a Cap Rate for the  
Multifamily Residential Property was more recently obtained than an  
Appraisal of the Multifamily Residential Property, the value derived  
by dividing --

- (i) the Net Operating Income of such Multifamily Residential  
Property for the Trailing 12 Month Period, by
- (ii) the most recent Cap Rate determined pursuant to Section 19.

Notwithstanding the foregoing, any Value of a Multifamily Residential  
Property calculated for a date occurring before the first anniversary  
of the date on which the Multifamily Residential Property becomes  
secured by the Mortgage Loans shall equal the

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Appraised Value of such Multifamily Residential Property, unless  
Lender determines that changed market or property conditions warrant  
that the value be determined as set forth in the preceding sentence.

## 2. Substitution and Release of Mortgaged Properties. -----

(a) Prior to the Initial Underwriting Date, Borrowers shall not be  
permitted to release any Mortgaged Property from the lien of its Mortgage.

(b) During the 90 day period commencing on the Initial Underwriting  
Date, a Mortgaged Property (the "Release Property") may be released from the  
lien of a Mortgage, without another Multifamily Residential Property being  
substituted therefor, if each of the following conditions are met :

- (1) After giving effect to the release, the Coverage and LTV Tests are satisfied.
- (2) Borrowers shall cause the Release Property to be immediately conveyed to a Person other than a Borrower.
- (3) All documentation relating to the foregoing is acceptable to Lender in all respects, including legal opinions, release documentation and any amendments to this Agreement or the other Loan Documents;
- (4) Borrowers shall pay to Lender a Release Fee for each Release Property;
- (5) Borrowers shall pay, with respect to each Release Property, to each of Lender and Servicer, all out-of-pocket costs and expenses (including reasonable legal fees and expenses) incurred by Lender or Servicer in connection with the foregoing. Such amounts shall be paid by Borrowers on or prior to the closing date of such release, or if such release fails to close, within 30 days of Borrower's receipt of invoices therefor (and if requested by Borrowers, reasonable supporting back-up invoices evidencing such items), and shall be payable regardless whether the property is or is not (for any reason) ultimately released from the lien of a Mortgage; and
- (6) No Event of Default, or any event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default, shall have occurred and be continuing.

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(c) Upon 30 days' advance written notice from Borrower to Lender, a Mortgaged Property may be released from the lien of a Mortgage, and a New Property substituted therefor, if each of the following conditions are met:

- (1) Borrowers have substituted for the Mortgaged Property to be released a new Multifamily Residential Property (the "New Property") by granting to Lender a first lien Mortgage encumbering the New Property;
- (2) The New Property has a Value equal to or greater than the Value of the Mortgaged Property to be released on the date of the release;
- (3) The New Property meets all of Fannie Mae's then applicable underwriting criteria under the DUS Guide for new loans secured by Multifamily Residential Properties (as determined by Lender) and has a debt service coverage ratio and loan to

value ratio, computed in accordance with the applicable underwriting criteria under the DUS Guide, equal to at least 135% and 65% respectively (and, for such purposes, Lender shall calculate such ratios using a debt, and debt service, based on the amount of debt then currently allocated to the Mortgaged Property in accordance with Section 19);

- (4) after giving effect to the substitution, the Coverage and LTV Tests are satisfied;
- (5) All documentation relating to the foregoing is acceptable to Lender in its discretion in all respects, including legal opinions, title insurance, Mortgages, Collateral Agreements, assignments and any amendments to the other Loan Documents;
- (6) Borrowers shall pay to Lender a fee equal to the product obtained by multiplying (i) 65 basis points, by (ii) 65%, by (iii) the Value of the New Property (except that, for these purposes only, the Value of the New Property shall not exceed an amount which, when added to the Values of the other Mortgaged Properties (excluding the Mortgaged Property to be released) causes the Aggregate Loan to Value Ratio to equal 65%);
- (7) With respect to the proposed New Property, Borrowers shall pay Fannie Mae and Lender a due diligence fee plus all costs and expenses (including legal fees and expenses) reasonably incurred by Fannie Mae or Lender in connection with the foregoing. Such amounts shall be paid by Borrowers promptly upon receipt of invoices therefor, and shall be payable regardless whether the property substitution does or does not (for any reason) ultimately occur;

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- (8) No prior release of a Mortgaged Property has occurred within the calendar quarter in which the release of the Release Property is scheduled to occur; and
- (9) No Event of Default, or any event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default, shall have occurred and be continuing.

(d) Special Provisions Relating to Newport Village III and Crystal

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Square. Until such time as Lender shall have received from each of the  
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ground lessors for the two Leasehold Mortgaged Properties known as Newport Village III and Crystal Square estoppel certificates substantially in the form approved by Lender, the Net Operating Income and Value of these

Leasehold Mortgage Properties for which a satisfactory estoppel certificate has not been obtained shall not be included in the pool of Mortgaged Properties for purposes of calculation of the respective financial tests comprising the Coverage and LTV Tests. The amount of any debt (and any debt service on such debt) allocated to these Leasehold Mortgaged Properties for any purpose shall not be excluded for purposes of calculating the Coverage and LTV Tests.

(e) Special Provisions Relating to Fort Chaplin Park. In the event

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that, on or before December 31, 1999, Borrower conveys the Mortgaged Property identified as Fort Chaplin Park on Exhibit B (the "Fort Chaplin

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Park Property") to a Person that is not an Affiliate of Borrower, then, provided that all other conditions precedent to the release of this Mortgaged Property set forth in this Section 2 are complied with, Lender shall release this Mortgaged Property from the lien of the Loan Documents. Notwithstanding the foregoing, Borrower shall not be required, as a condition to the release of the Fort Chaplin Park Property on or before December 31, 1999, to pay a Release Fee or pay any underwriting or due diligence fee (or any appraisal, inspection or other costs customarily incurred in underwriting) to Lender in connection with the inclusion of the Fort Chaplin Park Property as collateral for the Mortgage Loans or the release of the Fort Chaplin Park Property from the lien of its Mortgage, but Borrower shall be liable for any other out-of-pocket costs incurred by Lender in connection with the inclusion or release. If, on or before December 31, 1999, the Fort Chaplin Park Property is not conveyed to a Person that is not an Affiliate of Borrower, (i) the provision of this paragraph shall no longer apply, (ii) Lender shall proceed to perform an underwriting on the Fort Chaplin Park Property at Borrower's expense (subject to the limitations set forth in Section 12) and (iii) the other provisions of this Agreement shall govern the release of the Fort Chaplin Park Property from the lien of its Mortgage.

3. District of Columbia Rental Housing Sale and Conversion Act of 1980.  
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SPH TWO (DC) hereby agrees that, in the event a final, nonappealable judgment entered by a court of competent jurisdiction determines that the residential tenants of any Mortgaged Property owned by SPH TWO (DC), or a tenant organization formed by such residential tenants, have the right to purchase such Mortgaged Property, it will, upon the conveyance of legal title to such tenants or their tenant organization effect a substitution permitted under Section 2 so that the Coverage and LTV Tests are satisfied.

4. Ground Leases. (a) Each Borrower which owns a Leasehold Mortgaged

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Property shall pay all rent and other sums due under the Ground Lease with respect to its Leasehold Mortgaged Property directly to the lessor under such

ground lease (the "Ground Lessor"), and, within 20 days after the commencement of each calendar quarter, shall deliver to Lender a written notification that Borrower has made all payments which are required under the Ground Lease for the immediately preceding calendar quarter, together with evidence of such payment and an accounting of any percentage or other rent payments which are made other than on a fixed annual, quarterly or monthly basis, all in form satisfactory to Lender.

(b) Each Borrower hereby agrees to deliver to Lender promptly upon receipt of notice of a bankruptcy or similar proceeding affecting any Ground Lessor of a Leasehold Mortgaged Property written notice of such bankruptcy or similar proceeding. Furthermore, each Borrower which has an interest in a Leasehold Mortgaged Property hereby assigns, transfers and sets over unto Lender all rights it may have in connection with such bankruptcy or similar proceeding. In furtherance of and not in limitation of the foregoing, each Borrower hereby authorizes Lender to demand, sue for, collect and receive all amounts due such Borrower, and hereby appoints Lender its attorney-in-fact, to vote in connection with any resolution, arrangement, plan of reorganization or compromise, or settlement, and to take any other action which would otherwise have been taken by such Borrower in connection with such a proceeding.

5. Shelf Condominiums. Except for Car Barn I, Car Barn II and Car Barn -----  
III (the "Car Barn Condominia"), none of the Mortgaged Properties shall be submitted to a condominium during the term of the Mortgage Loans. SPH TWO (DC) covenants and agrees that it will not sell, transfer, enter into a contract for sale, or enter into a lease with an option for the lessee to purchase, any of the condominium units in the Car Barn Condominia.

6. Covenants of the Borrowers. Notwithstanding anything to the contrary -----  
set forth in the Mortgages, Lender acknowledges and approves of Borrowers' ownership, management and operation of the Mortgaged Properties identified as being owned by it on Exhibit B. Each Borrower covenants and agrees that, until -----

the principal of, interest on and all other amounts payable in connection with, the Mortgage Loans have been paid in full, it will (a) not incur any indebtedness of any kind or nature whatsoever secured by a lien on any of the Mortgaged Properties (with the exception of the mortgages described on Exhibit -----

D, or (b) not incur any unsecured indebtedness for borrowed money outstanding at -----  
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any time in excess of \$100,000. The limitations in clauses (a) and (b) above shall not prohibit either Borrower from becoming a party, as lessee, to equipment leases requiring payment of an annual rent less than or equal to \$25,000 per lease provided that such Borrower is not a party to more than three such leases at any one time in connection with each Mortgaged Property owned by it.

7. Reserve Account. Except as otherwise provided by Section 16, each -----



Borrower shall at all times perform its obligations under that certain Reserve Agreement (the "Reserve Agreement") of even date herewith executed by Borrowers and Lender.

8. Restrictions on Partnership Distributions. Each Borrower covenants  
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and agrees that it will not make any distributions of any nature or kind whatsoever to its general partners or limited partners if, at the time of such distribution, a Borrower is in default (determined without taking into account any notice of, or grace period for curing, the default) in performing any of its obligations under the Loan Documents.

9. Replacement Reserve and Security Agreements. At the Closing of the  
-----

Mortgage Loans the Borrowers shall execute and deliver to the Lender Replacement Reserve and Security Agreements (the "Replacement Reserve Agreements"), one for the Virginia Mortgaged Properties and one for the District of Columbia Mortgaged Properties, but no amounts need be funded under the Replacement Reserve Agreements by Borrowers so long as (a) no Event of Default is existing which remains uncured under the Loan Documents and (b) the Mortgaged Properties are being maintained in accordance with standards acceptable to Lender and Fannie Mae.

10. Additional Reporting Requirements. In addition to the financial  
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reporting requirements set forth in the Mortgages, Borrowers shall deliver to Lender quarterly (or monthly if required by Lender) financial statements for each of the Mortgaged Properties, in form and substance satisfactory to Lender, on an individual basis by no later than 21 days after the end of each fiscal quarter, or month, as the case may be. In addition Borrowers shall deliver to Lender copies of all annual reports on Form 10K, all quarterly reports on Form 10Q and all current reports on Form 8K filed by the REIT with the Securities and Exchange Commission (the "SEC") promptly following the filing thereof with the SEC.

11. Events of Default. An "Event of Default" shall occur if:  
-----

(a) SPH TWO defaults in the payment of any of the interest on the SPH TWO Note when the same becomes due and payable and the default continues for a period of more than five days;

(b) SPH TWO (DC) defaults in the payment of any of the interest on the SPH TWO (DC) Note when the same becomes due and payable and the default continues for a period of more than five days;

(c) SPH TWO fails to perform, comply with or observe any of the terms, covenants or conditions of this Agreement or any of the other Loan Documents



(other than a default described in subparagraph (a)) required to be performed, complied with or observed by it;

(d) SPH TWO (DC) fails to perform, comply with or observe any of the terms, covenants or conditions of this Agreement or any of the other Loan Documents (other than a default described in subparagraph (b)) required to be performed, complied with or observed by it;

(e) Any representation or warranty made by SPH TWO and SPH TWO (DC), or both, in this Agreement, the Loan Closing Certifications or any of the other Loan Documents is false or misleading in any material respect as of the date made;

10

(f) There is a Transfer of all or any part of the Mortgaged Properties or any interest in the Mortgaged Properties or a Transfer of a Controlling Interest (as those terms are defined in the Mortgages) which violates Section 21 of the Mortgages;

(g) SPH TWO (DC) defaults in the payment of any of the principal of, interest on, or other amounts payable under any of the four Deed of Trust Notes in the aggregate principal amount of \$10,007,006, dated June 30, 1994 and subordinated as of the date hereof to the liens of the applicable Mortgages, issued by SPH TWO (DC) and payable to the order of SPH TWO;

(h) SPH TWO defaults in the payment, when due, of rent payable under, or defaults in performing, complying with or observing any of the terms, covenants or conditions of, any Ground Lease required to be paid, performed, complied with or observed by it as lessee under such Ground Lease and the default continues after the expiration of the period, if any, provided in the Ground Lease for curing the default;

(i) SPH TWO or SPH TWO (DC) fails to perform, comply with or observe any of the terms, covenants or conditions of the Reserve Agreement required to be performed, complied with or observed by it; or

(j) If any circumstances arise with respect to the condominium regimes for the Car Barn Condominia, or any of them, including without limitation, changes in the law, that materially impair the value of the Car Barn Condominia, or any of them, or Lender's security interest therein.

A default under subparagraphs (c) or (d) shall not be an Event of Default until the Lender notifies the Borrowers in writing of the default and the Borrowers do not cure the default within 10 days after receipt of such notice (or, if the default can be cured, but not within 10 days, within such additional period, not to exceed 20 days in the aggregate, as may be required by the Borrowers to cure the default, provided that the Borrowers commence to cure the default within the first 10-day period and thereafter prosecute the curing of the default with diligence, continuity and in good faith). The preceding

sentence shall not apply to (i) a default by the Borrowers in performing or complying with the provisions of Section 7 of the Mortgages, or (ii) a default by the Borrowers in performing or complying with any negative covenant or agreement in the Loan Documents which prohibits the Borrowers from taking specified action.

12. Underwriting.

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(a) The parties acknowledge that Lender has not completed its underwriting with respect to the Mortgaged Properties. Lender shall continue to perform its underwriting of the Mortgaged Properties (other than the Fort Chaplin Property) after the date of this Agreement and Borrowers shall cooperate with Lender in performing such underwriting. Provided Borrowers cooperate with Lender, Lender shall complete its underwriting on or before December 20, 1998. Borrowers shall pay for all fees and expenses charged or incurred by Lender or Fannie Mae in connection with such underwriting. Notwithstanding the foregoing, Borrowers' liability for all third party underwriting charges (other than Fannie Mae's legal costs) shall not exceed \$25,000 (including environmental, engineering, appraisal and

other due diligence costs, and Lender's legal costs). If Lender determines, in its discretion, that any Mortgaged Properties do not meet all of Fannie Mae's then applicable underwriting criteria under the DUS Guide for new loans secured by Multifamily Residential Properties, then such Mortgaged Properties, at either Borrower's or Lender's request, shall be released from the lien of its Mortgage, without payment of a Release Fee, and shall not be taken into account in determining the Aggregate Debt Service Coverage Ratio and Aggregate Loan to Value Ratio.

(b) Borrowers shall comply with all repair, replacement, operations and maintenance or similar requirements required by Lender after the completion of its underwriting, to the extent they are obligated to do so under the Completion/Repair, Replacement Reserve and other Loan Documents executed in connection with this Agreement. The foregoing shall not modify, expand or reduce any of the obligations set forth in the Loan Documents. Without limiting the foregoing, if required by Lender after completion of its underwriting of the Mortgaged Properties identified as Crystal Place and Crystal Square on Exhibit B, then, commencing on the first anniversary of the date of

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the Notes and on each anniversary date thereafter during the term of the Mortgage Loans, SPH TWO will cause the parking garage structures in the following Mortgaged Properties to be tested, at SPH TWO's sole cost and expense, in accordance with the standards attached hereto as Exhibit E:

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Crystal Place  
Crystal Square

The results of these tests, together with SPH TWO's written assessment of the corrective action, if any, that should be taken, shall be delivered to Lender within 30 days after SPH TWO receives the test results.

13. Waivers; Consents. Borrowers hereby waive the benefit of any laws or  
-----

decisions requiring the marshaling of assets and consent to Lender's exercise of its remedies under the Loan Documents by foreclosure of any of the Mortgaged Properties in any order as Lender may determine, or all at one time.

14. Lender's Approval. Unless otherwise expressly provided in the Loan  
-----

Documents, wherever the Loan Documents provide that the consent or approval of Lender is required, Lender may give or withhold such consent or approval in its sole and absolute discretion.

15. Operations and Maintenance Agreements. Borrowers agree at any time or  
-----

from time to time during the term of the Mortgage Loans, within 30 days after demand by Lender, to enter into an agreement with Lender (or to enter into a written program of operations and maintenance satisfactory to Lender and governed by the Mortgages), under which Borrowers will agree to comply with any reasonable program of operations and maintenance relating to the Mortgaged Properties requested by Lender.

16. Revolving Facility.  
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(a) As contemplated in that certain letter executed by Lender and Charles E. Smith Residential Realty, L.P. dated October 22, 1998, a copy of which is attached hereto as Exhibit F, Borrowers, Lender and Fannie Mae have entered into  
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and, at their discretion, may continue discussions pursuant to which Borrowers and Lender would execute a Master Credit Facility Agreement (a "Master

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Agreement") providing for a Base Facility and a Revolving Facility under the Fannie Mae Base/Revolver Credit Facility Product Line in an aggregate amount (the "Commitment") not to exceed \$200,000,000 (except as may be increased pursuant to Section 16(b)(9)). In the event that Borrowers and Lender execute a Master Agreement, it is contemplated that the Notes shall thereupon constitute Base Facility Notes under the Base Facility and that the Mortgages shall be part of the Collateral Pool securing the Notes. It is further contemplated that any Advances made under the Base Facility or the Revolving Facility shall be deemed secured under the Mortgages, and shall be considered Future Advances currently contemplated by the Mortgages. Accordingly, upon the execution of such a Master Agreement, the Mortgages shall secure the Notes, any other Base Facility Notes,

the Revolving Facility Note and all other Obligations under the Master Agreement or the other loan documents executed by a party to the Master Agreement from time to time in connection with the Master Agreement or the transactions contemplated by the Master Agreement. Nothing in this paragraph shall impose any obligation whatsoever on Borrowers, Fannie Mae or the Lender to enter into the Master Agreement or any other transaction or to enter into discussions or negotiations with respect to the Master Agreement or any other transaction. Capitalized terms used in this paragraph shall have the meanings set forth in the form Master Agreement prescribed by Fannie Mae from time to time under the Fannie Mae Base/Revolver Credit Facility Product Line.

(b) In addition to the provisions of paragraph (a), if and when the Master Agreement is executed, then the following terms shall apply:

(1) Any Advances (other than the Mortgage Loans described in this Agreement) shall be secured by additional separate Multifamily Deeds of Trust, Assignment of Rents and Security Agreements encumbering each Mortgaged Property (collectively, the "Additional Mortgages"). Each Additional Mortgage encumbering a Mortgaged Property shall be equal in priority to the lien of each Mortgage encumbering the Mortgaged Property and shall contain such terms and conditions as may be agreed upon by Lender and Borrowers. Lender and Borrowers agree to enter into such amendments as may be necessary to the Mortgages or other Loan Documents in order to accomplish the equality of lien priority as between the Mortgages and the Additional Mortgages.

(2) If and when the Master Agreement is executed, Lender and Borrowers shall terminate the Reserve Agreement and enter into a cash management agreement (the "Cash Management Agreement"). The Cash Management Agreement shall include the current Fannie Mae requirements regarding the establishment and maintenance of cash management accounts pledged to Lender into which all Gross Revenues from all Mortgaged Properties will be deposited, together with the following terms and conditions: Borrowers shall not be required to deposit Gross Revenues into the cash management accounts pledged to Lender unless the Aggregate Debt Service Coverage Ratio for the Trailing 12 Month Period is less than 120%, assuming, for purposes of this paragraph (2) only, that Facility Debt Service for term loans shall be actual debt service and debt service for loans made under the Revolving Facility shall be calculated at the rate at which each loan made under the Revolving Facility is capped pursuant to the Cap Agreement executed by Borrowers in connection with each loan made under the Revolving Facility.

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(3) At Borrower's request, a Mortgaged Property shall be released from the lien of its Mortgage and all collateral derived from such Mortgaged Property shall be released to Borrowers, without another Multifamily Residential Property being substituted therefor, if each of the following conditions are met:

(a) After giving effect to the release, the Modified Coverage and LTV Tests are satisfied.

- (b) Borrowers shall cause the Release Property to be immediately conveyed by Borrowers to a Person other than a Borrower;
- (c) All documentation relating to the foregoing is acceptable to Lender in all respects, including legal opinions, release documentation and any amendments to this Agreement or the other Loan Documents;
- (d) Borrowers shall pay to Lender the Release Fee for each Release Property;
- (e) Borrowers shall pay, with respect to each Release Property, to each of Lender and Servicer, all out-of-pocket costs and expenses (including reasonable legal fees and expenses) incurred by Lender or Servicer in connection with the foregoing. Such amounts shall be paid by Borrowers on or prior to the closing date of such release, or if such release fails to close, within 30 days of Borrower's receipt of invoices therefor (and if requested by Borrowers, reasonable supporting back-up invoices evidencing such items), and shall be payable regardless whether the property is or is not (for any reason) ultimately released from the lien of a Mortgage; and
- (f) No Event of Default, or any event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default, shall have occurred and be continuing.

For these purposes the following terms shall have the respective meanings set forth below:

"Modified Coverage and LTV Tests" mean, for any specified date, each  
 -----  
 of the following financial tests:

- (a) The Aggregate Debt Service Coverage Ratio for the Trailing 12 Month Period is not less than (i) 10 basis points in excess of the Initial Aggregate Debt Service Coverage Ratio (if the specified date occurs prior to the tenth anniversary of the date of this Agreement) or (ii) 15 basis points in excess of the Initial Debt Service Coverage Ratio (if the specified date occurs on or after the tenth anniversary of the date of this Agreement).

- (b) The Aggregate Loan to Value Ratio for the Trailing 12 Month Period does not exceed (i) 5 basis points lower than the Initial Aggregate Loan to Value Ratio (if the specified date occurs prior to the tenth anniversary of the date of this Agreement) or (ii) 10 basis points lower than the Initial

Aggregate Loan to Value Ratio (if the specified date occurs on or after the tenth anniversary of the date of this Agreement).

For example, if the Initial Aggregate Debt Service Coverage Ratio were 140% and the Initial Loan To Value Ratio were 60%, (i) the Modified Coverage and LTV Tests for a date that occurs prior to the tenth anniversary of the date of this Agreement would be satisfied if the Aggregate Debt Service Coverage Ratio for the Trailing 12 Month Period is not less than 150% and the Aggregate Loan to Value Ratio for the Trailing 12 Month Period does not exceed 55% and (ii) the Modified Coverage and LTV Tests for a date that occurs on or after the tenth anniversary of the date of this Agreement would be satisfied if the Aggregate Debt Service Coverage Ratio for the Trailing 12 Month Period is not less than 155% and the Aggregate Loan to Value Ratio for the Trailing 12 Month Period does not exceed 50%.

"Initial Aggregate Debt Service Coverage Ratio" means the

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Aggregate Debt Service Coverage Ratio for the Trailing 12 Month Period for the Initial Mortgaged Properties, as determined by Lender as of the Initial Underwriting Date, but determined after giving effect to any releases, if any, of any Mortgaged Properties pursuant to Section 2(b) hereof. For these purposes, Facility Debt Service for term loans shall be actual debt service and debt service for the Revolving Facility shall be calculated on the full amount of the Revolving Facility Commitment (whether or not the full amount of advances under the Revolving Facility have been, or may be, drawn) at the rate at which each loan made under the Revolving Facility is capped pursuant to the Cap Agreement executed by Borrowers in connection with the establishment of the Revolving Facility.

"Initial Aggregate Loan to Value Ratio" means the Aggregate Loan

-----  
to Value Ratio for the Trailing 12 Month Period, as determined by Lender as of the Initial Underwriting Date, but determined after giving effect to any releases, if any, of any Mortgaged Properties pursuant to Section 2(b) hereof. For these purposes, the outstanding principal balance of term loans shall be the actual outstanding amount of the term loans and the outstanding principal balance of revolving loans shall be calculated on the full amount of the Revolving Facility Commitment (whether or not the full amount of advances under the Revolving Facility have been, or may be, drawn)

(4) Borrowers shall be required to maintain an interest rate cap in the amount of the maximum commitment under the Revolving Facility, at a strike rate

which will yield an Aggregate Debt Service Coverage Ratio for the Trailing 12 Month Period of 110%;

(5) Commencing in the seventh month of the term of the Revolving Facility, Borrowers shall be required to pay a monthly standby fee equal to the product obtained by multiplying (i) 1/12 by (ii) 25 basis points, by (iii) the Unused Capacity for the month. The term "Unused Capacity" means, for any month, the

-----  
sum of the daily average during such month of the undrawn amount of the Revolving Facility Commitment available under the Master Agreement for the making of Revolving Advances, without regard to any unclosed Requests or to the fact that a Request must satisfy conditions precedent.

(6) On and after the date of the Master Agreement, "Facility Debt Service" -----  
shall mean, as of any specified date, the sum of --

(a) the amount of interest and principal amortization, during the 12 month period immediately succeeding the specified date, with respect to the Advances outstanding on the specified date, except that, for these purposes:

(i) each Revolving Advance shall be deemed to require level monthly payments of principal and interest (at the Coupon Rate for the Revolving Advance in an amount necessary to fully amortize the original principal amount of the Revolving Advance over a 30-year period, with such amortization deemed to commence on the first day of the 12 month period; and

(ii) each Base Facility Advance shall be deemed to require level monthly payments of principal and interest (at the Coupon Rate for the Base Facility Advance) in an amount necessary to fully amortize the original principal amount of the Base Facility Advance over a 30-year period, with such amortization to commence on the day of the first payment of the Notes; and

(b) the amount of the standby fees payable to the Lender during such 12 month period (assuming, for these purposes, that the Advances Outstanding throughout the 12 month period are always equal to the amount of Advances Outstanding on the specified date).

(7) On and after the date of the Master Agreement, the definition of "Coverage and LTV Tests" shall be modified to mean, for any specified date, each -----  
of the following financial tests:

(a) The Aggregate Debt Service Coverage Ratio for the Trailing 12 Month Period is not less than 135%.



(b) The Aggregate Debt Service Coverage Ratio for the Trailing Three Month Period is not less than 125%.

(c) The Aggregate Loan to Value Ratio for the Trailing 12 Month Period does not exceed 65%.

(8) Borrowers shall, subject to certain conditions to be set forth in the Master Agreement, have the right, but not the obligation, to convert all or a portion of the Revolving Facility Commitment to Base Facility Commitment. Borrowers shall not be permitted to convert a portion of the Revolving Facility Commitment to Base Facility Commitment unless it obtains a simultaneous term loan in the amount of the Revolving Facility Commitment being converted.

(9) Borrowers shall, subject to certain conditions to be set forth in the Master Agreement, have the right, but not the obligation, to expand the Commitment by \$100,000,000.

(10) The occurrence of any event which constitutes an "Event of Default", as defined in the Master Agreement, shall also constitute an Event of Default under this Agreement, the Notes, the Mortgages and every other Loan Document.

17. General Conditions. The obligation of Lender to either release a  
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Mortgaged Property or substitute an additional Mortgaged Property shall be subject to the following conditions precedent in addition to any other conditions precedent set forth in this Agreement:

(a) Payment of Expenses. The payment by Borrowers of Lender's fees  
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and expenses payable in accordance with the Agreement for which Lender has presented an invoice on or before the applicable Closing Date.

(b) No Material Adverse Change. There has been no material adverse  
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change in the financial condition, business or prospects of Borrowers or in the physical condition, operating performance or value of any of the Mortgaged Properties since the date of this Agreement.

(c) No Default. There shall exist no Event of Default on the Closing  
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Date and, after giving effect to the intended transaction, no Event of Default shall have occurred.

(d) No Insolvency. Receipt by Lender on the Closing Date of evidence  
-----  
of satisfactory to Lender that Borrowers are not insolvent (within the meaning of any applicable federal or state laws relating to bankruptcy or fraudulent



transfers) or will be rendered insolvent by the transactions contemplated by the Loan Documents, or, after giving effect to the intended transactions, will be left with an unreasonably small capital with which to engage in their business or undertakings, or will have intended to incur, or believe that it has incurred, debts beyond their ability to pay such debts as they mature or will have intended to hinder, delay or defraud any existing or future creditor.

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(e) No Untrue Statement. The Loan Documents shall not contain any  
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untrue or misleading statement of a material fact and shall not fail to state a material fact necessary in order to make the information contained therein not misleading.

(f) Representations and Warranties. All representations and  
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warranties made by Borrowers in the Loan Documents shall be true and correct in all material respects on the Closing Date with the same force and effect as if such representations and warranties had been made on and as of the Closing Date.

(g) No Condemnation or Casualty. There shall not be pending or  
-----

threatened any condemnation or other taking, whether direct or indirect, against any Mortgaged Property and there shall not have occurred any unrestored casualty to any improvements located on any Mortgaged Property.

(h) Delivery of Closing Documents. The receipt by Lender of the  
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following, each dated as of the Closing Date, in form and substance satisfactory to Lender in all respects:

(i) A Compliance Certificate;

(ii) An Organizational Certificate; and

(iii) Such other documents, instruments, approvals (and, if requested by the Lender, certified duplicates of executed copies thereof) and opinions as Lender may request.

(i) Opinion. A favorable opinion of local counsel to Borrowers as to  
-----  
the enforceability of the Mortgage, and any other Loan Documents, executed in connection with the intended transaction.

(j) Title Insurance. A commitment for the title insurance policy  
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applicable to only Mortgaged Property being substituted and the pro forma title insurance policy based on the commitment of title insurance.

(k) Insurance. The insurance policy (or a certified copy of the insurance policy) applicable to the Mortgaged Property.

(l) Survey. The survey applicable to the Mortgaged Property.

(m) DUS Guide Compliance. Evidence satisfactory to Lender of compliance of the Mortgaged Property with property laws as required by Sections 205 and 206 of Part III of the DUS Guide.

(n) Appraisal. An Appraisal of the Mortgaged Property.

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(o) Replacement Reserve Agreement. A Replacement Reserve Agreement, providing for the establishment of a replacement reserve account, to be pledged to Lender, in which the owner shall (unless waived by Lender) periodically deposit amounts for replacements for improvements at the Mortgaged Property and as additional security for the Borrowers' obligations under the Loan Documents.

(p) Completion/Repair and Security Agreement. A Completion/Repair and Security Agreement, on the standard form required by the DUS Guide.

(q) Assignment of Management Agreement. An Assignment of Management Agreement, on the standard form required by the DUS Guide.

(r) Operations and Maintenance Agreement. An Operations and Maintenance Agreement, if Lender determines one to be necessary or desirable.

(s) Cash Management Agreement. With respect to requested substitution of a Mortgaged Property, an amendment to the Cash Management Agreement, adding the new owner as a party, if necessary, and adding a property account for the Mortgaged Property.

18. Expenses. In addition to the other fees incurred by Lender and Fannie Mae to be paid by Borrowers pursuant to this Agreement, Borrowers shall also pay all third-party costs incurred by Lender and Fannie Mae in connection with this Agreement and the transactions described herein, including fees and expenses of environmental consultants, engineering firms, appraisal companies, Lender's counsel, Fannie Mae's counsel, and all other due diligence and other fees

incurred by Lender and Fannie Mae.

19. Capitalization Rate. For purposes of calculating the value of any

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Mortgaged Property, from time to time, including the value of any Mortgage Property for which a request for a substitution or release has been transmitted to Lender, the value of such Mortgaged Property shall be determined by capitalizing the Net Operating Income for the Trailing 12 Month Period at the capitalization rate utilized by Fannie Mae in the annual facility assessment most recent to the date of the proposed substitution or release. Once such values have been determined, if for any purpose, including that in Section 2(c)(3) of this Agreement, an amount of debt is allocated to each Mortgaged Property, such amount shall be allocated pro rata to each Mortgaged Property, in accordance with the respective values of such Mortgaged Properties determined by Lender, and the debt service shall equal a pro rata portion of the Facility Debt Service allocable to such debt.

20. Maximum Collateral Value. The term "Maximum Collateral Value" of each

-----  
of the Mortgaged Properties, as such term may be used in the Loan Documents, shall be the Maximum Collateral Value ascribed to such Mortgaged Property on Exhibit B.  
-----

19

IN WITNESS WHEREOF, Borrowers and Lender have executed this Agreement or caused the same to be executed by its representatives hereunto duly authorized.

BORROWERS:

SMITH PROPERTY HOLDINGS TWO L.P., a Delaware limited partnership, by and through its managing general partner

SMITH TWO, INC., a Delaware corporation

By: /s/ Gregory Samay

-----  
Gregory Samay  
Treasurer

SMITH PROPERTY HOLDINGS TWO (D.C.) L.P., a Delaware limited partnership, by and through its managing general partner

SMITH PROPERTY HOLDINGS TWO L.P., a Delaware limited partnership, by and through its managing general partner

SMITH TWO, INC., a Delaware corporation

By: /s/ Gregory Samay

-----  
Gregory Samay  
Treasurer

[Signatures continued on following page]

[Signatures continued from preceding page]

LENDER:

GREEN PARK FINANCIAL LIMITED PARTNERSHIP,  
A District of Columbia limited partnership

By: Walker & Dunlop Multifamily, GP, LLC, a Delaware  
limited liability company

By: /s/ Mary Ellen Slavinskas

-----  
Mary Ellen Slavinskas  
Vice President

[Signatures continued on following page]

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[Signatures continued from preceding page]

UNDERTAKING OF CHARLES E. SMITH RESIDENTIAL REALTY, L.P.

-----  
The undersigned, Charles E. Smith Residential Realty, L.P. (the "Operating Partnership"), a general partner of each of the Borrowers, hereby makes the following covenants for the benefit of Lender, acknowledges that Lender would not make the Mortgage Loans without the Operating Partnership's execution of these covenants, and acknowledges that it will benefit by the Lender's making of the Mortgage Loans to Borrowers:

In the event that, as of the Initial Underwriting Date, the Coverage and LTV Tests are not satisfied, the Operating Partnership shall execute a guaranty of the Mortgage Loans, in form and substance acceptable to Lender. The guaranty shall provide that the maximum amount which Lender may recover under the guaranty shall be limited to the sum of--

(i) all costs, including attorneys' fees, to collect or enforce the guaranty, and

(ii) the lesser of--

(x) \$20,000,000, or

(y) the excess, if any, of--

(1) \$140,000,000, over

(2) the maximum principal amount of debt (as determined by Lender), bearing interest at 6.75% per annum (the interest rate set forth in the Notes) at which the Coverage and LTV Tests would be satisfied.

The guaranty shall be released at such time as the Coverage and LTV Tests are satisfied.

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CHARLES E. SMITH RESIDENTIAL REALTY, L.P., a Delaware limited partnership, by and through its managing general partner

Charles E. Smith Residential Realty, Inc., a Maryland corporation, its general partner

By: /s/ Ernest A. Gerardi

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Ernest A. Gerardi

President

23

Exhibit A

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Borrower	Amount	Designation
-----	-----	-----
SPH TWO	\$125,334,060	SPH TWO Loan

## Exhibit B

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&lt;TABLE&gt;

&lt;CAPTION&gt;

Property Common Name and Property Address -----	Maximum Collateral Value -----
<S>	<C>
Bedford Village 8301 Anderson Drive Fairfax, Virginia 22031	\$46,540,293
Car Barn I One 14th Street, N.E. Washington, D.C. 20002	\$ 3,186,543
Car Barn II One 14th Street, N.E. Washington, D.C. 20002	\$ 2,616,320
Car Barn III One 14th Street, N.E. Washington, D.C. 20002	\$ 1,677,128
Concord Village 4155 S. Four Mile Run Arlington, Virginia 22204	\$20,497,962
Crystal Place 1801 Crystal Drive Arlington, Virginia 22202	\$19,295,353
Crystal Square 1515 Jefferson Davis Highway Arlington, Virginia 22202	\$23,253,375
Executive Central 1201 S. Scott Street Arlington, Virginia 22204	\$10,515,591
Executive South 1301 S. Scott Street Arlington, Virginia 22204	\$13,081,596

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&lt;CAPTION&gt;

&lt;S&gt; &lt;C&gt;

Fort Chaplin Park 4212 E. Capitol Street Washington, D.C. 20019	\$14,518,920
---	--------------

Newport Village III 4757 W. Braddock Road Alexandria, Virginia 22311	\$ 8,888,778
--	--------------

Orleans Village North 6340 Wingate Street Fairfax County, Virginia 22312	\$21,987,144
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Orleans Village South 6340 Wingate Street Fairfax County, Virginia 22312	\$23,940,997
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&lt;/TABLE&gt;

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&lt;CAPTION&gt;

## Exhibit C

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ORLEANS NORTH:

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<S>	<C>
Landlord:	Orleans Associates Limited Partnership
Document:	Indenture of Lease
Date:	August 1, 1965
Document:	Lease (Short Form)
Date:	August 1, 1965
Recorded:	December 27, 1979 in Book 5387, Page 669

&lt;CAPTION&gt;

CRYSTAL SQUARE:

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<S>

<C>

Landlord:	South Washington Land Corporation
Document:	Indenture of Lease
Date:	December 1, 1972
Document:	Lease (Short Form)
Date:	December 1, 1972
Recorded:	Book 1805, Page 287
Document:	Amendment to Indenture of Lease
Date:	August 6, 1974
Document:	Agreement
Date:	December 23, 1966
Recorded:	Book 1639, Page 324
Document:	Agreement
Date:	December 23, 1966
Recorded:	Book 1640, Page 318
Document:	Second Supplemental Agreement
Date:	February 1, 1967

</TABLE>

<TABLE>

<CAPTION>

<S>

<C>

Document:	Amended Agreement
Date:	December 2, 1985
Recorded:	Book 2200, Page 268
Document:	Second Amended Agreement
Date:	August 28, 1990
Document:	Amendment to Indenture of Lease
Date:	May 5, 1994
Recorded:	Deed Book 2680, Page 136

<CAPTION>

NEWPORT III:

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<S>

<C>

Landlord:	Washington Forrest Foundation
Document:	Lease



Date: August 31, 1970  
Document: Lease (Short Form)  
Date: October 1, 1970  
Recorded: November 19, 1970 in Book 716,  
Page 683

<CAPTION>

CONCORD:

-----

<S>

<C>

Landlord:	Benjamin M. Smith, Jr. and Howard W. Smith, Jr., Trustees
Document:	Indenture of Lease
Date:	January 1, 1966
Document:	Lease (Short Form)
Date:	January 1, 1966
Recorded:	February 25, 1966 in Book 1614, Page 594
Document:	Agreement
Date:	December 23, 1966
Recorded:	Book 1639, Page 324

</TABLE>

<TABLE>

<CAPTION>

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Document:	Agreement
Date:	December 23, 1966
Recorded:	Book 1640, Page 318
Document:	Second Supplemental Agreement
Date:	February 1, 1967
Document:	Amended Agreement
Date:	December 2, 1985
Recorded:	Book 2200, Page 268
Document:	Second Amended Agreement
Date:	August 28, 1990
Document:	Third Amendment to Indenture of Lease
Date:	June 30, 1994
Recorded:	Book 2685, Page 645

</TABLE>

Exhibit D

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Amount of Second  
Mortgage Loan

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Borrower

-----

Smith Property Holdings Two (D.C.) L.P.

Breakdown By Property

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Fort Chaplin

4212 E. Capitol Street

Washington, D.C. 20019

\$6,591,328

Car Barn I

One 14th Street, N.E.

Washington, D.C. 20002

\$ 947,500

Car Barn II

One 14th Street, N.E.

Washington, D.C. 20002

\$ 663,101

Car Barn III

One 14th Street, N.E.

Washington, D.C. 20002

\$1,805,077

Exhibit E

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[Garage Testing Standards]

Exhibit F

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[Term Sheet]

SECOND AMENDMENT TO  
FIRST AMENDED AND RESTATED AGREEMENT OF  
1994 EMPLOYEE STOCK AND UNIT OPTION PLAN OF  
CHARLES E. SMITH RESIDENTIAL REALTY, INC.

THIS SECOND AMENDMENT TO THE FIRST AMENDED AND RESTATED AGREEMENT OF 1994 EMPLOYEE STOCK AND UNIT OPTION PLAN, dated as of March 1, 1999, is entered into by Charles E. Smith Residential Realty, Inc., a Maryland corporation, (the "Corporation") for itself and as general partner of Charles E. Smith Residential Realty L.P. (together the "Company"), and Smith Realty Company, Consolidated Engineering Services, Inc., and Smith Management Construction, Inc. (collectively the "Operating Subsidiaries").

WHEREAS, the 1994 Employee Stock and Unit Option Plan (the "Plan") was approved by the Board of Directors of Charles E. Smith Residential Realty, Inc., for itself and as a general partner of the Charles E. Smith Residential Realty L.P., by unanimous written consents dated May 25, 1994, June 13, 1994, June 22, 1994, and June 23, 1994, and at a meeting held on July 26, 1994, by the shareholders of Charles E. Smith Residential Realty, Inc., by unanimous written consents dated June 17, 1994, June 22, 1994, and June 23, 1994, and by the partners of Charles E. Smith Residential Realty L.P. by unanimous written consents dated June 17, 1994, and June 23, 1994, and the Plan, together with the 1994 Employee Restricted Stock and Restricted Unit Plan and Directors Stock Option Plan, was incorporated in a filing on Form S-8 with the Securities and Exchange Commission, which became effective on August 8, 1994; and

WHEREAS, the Board of Directors of the Company duly adopted and approved the First Amended and Restated 1994 Employee Stock and Unit Option Plan on November 8, 1994, which was incorporated in a filing on Form 10-K for the year ended December 31, 1994 and filed with the SEC on March 31, 1995, and the First Amendment thereto dated as of May 7, 1998, which was incorporated in a filing on Form S-8 and filed with the SEC on November 17, 1998; and

WHEREAS, the Board of Directors believes that it is in the best interests of the Company to allow options to be granted to the Co-Chief Executive Officers of the Corporation, and did, by unanimous written consents dated March 1, 1999, approve a resolution to permit such grants.

NOW, THEREFORE, IT IS RESOLVED, that in consideration of the premises set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby amend the Plans as follows:

1. Section 5.1 of the Plan is hereby amended and restated in its entirety as follows:

"Designated Recipients. Incentive Awards may be granted under the Plan to

(i) any full-time employee of the Company or any Affiliate (including any such individual who is an officer or director of the Company or an Affiliate) as the Committee shall determine and designate from time to time or (ii) any other individual whose participation in the Plan is determined by the Committee to be in the best interests of the Company and is so designated by the Committee."

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2. All capitalized terms used in this Second Amendment and not otherwise defined shall have the meanings assigned to them in the Plan. Except as modified herein, all terms and conditions of the Plan shall remain in full force and effect, which terms and conditions the parties hereto ratify and affirm.

IN WITNESS WHEREOF, the undersigned have executed this SECOND AMENDMENT TO FIRST AMENDED AND RESTATED AGREEMENT OF 1994 EMPLOYEE STOCK AND UNIT OPTION PLAN as of the date first above written.

CHARLES E. SMITH RESIDENTIAL REALTY, INC.,  
for itself and as general partner of Charles E.  
Smith Residential Realty L.P.

BY: /s/ Ernest A. Gerardi, Jr.

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Ernest A. Gerardi, Jr., President

This Second Amendment to the Plan was duly adopted and approved by the Board of Directors of the Company by unanimous written consents dated March 1, 1999.

/s/ Robert D. Zimet

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Robert D. Zimet, Secretary

CHARLES E. SMITH RESIDENTIAL REALTY, INC.

and

FIRST UNION NATIONAL BANK

as Rights Agent

RIGHTS AGREEMENT

dated as of December 2, 1998

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RIGHTS AGREEMENT

Rights Agreement, dated as of December 2, 1998 (this "Agreement"), between CHARLES E. SMITH RESIDENTIAL REALTY, INC., a Maryland corporation (the "Company"), and FIRST UNION NATIONAL BANK (the "Rights Agent").

WHEREAS, on December 2, 1998 (the "Rights Dividend Declaration Date"), the Board of Directors of the Company authorized and declared a dividend of one preferred share purchase right (a "Right") for each share of Common Stock (as defined herein) of the Company outstanding at the Close of Business (as defined herein) on the Record Date (as defined herein), and has authorized the issuance of one Right with respect to each share of Common Stock of the Company issued between the Record Date (whether originally issued or delivered from the Company's treasury) and the Distribution Date (as defined herein), each Right initially representing the right to purchase one one-thousandth of a share of Series D Junior Participating Preferred Stock of the Company having the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms or conditions of redemption set forth in the form of Articles Supplementary of Board of Directors Classifying and Designating a Series of Preferred Stock as Series D Junior Participating Preferred Stock and Fixing Distribution and Other Preferences and Rights of such Series attached hereto as Exhibit A, upon the terms and subject

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to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Certain Definitions.

For purposes of this Agreement, the following terms have the meanings indicated:

(a) "Acquiring Person" shall mean any Person (as defined herein) who or which, together with all Affiliates and Associates (as such terms are defined herein) of such Person, shall be the Beneficial Owner (as defined herein) of 15% or more of the shares of Common Stock then outstanding, but shall not include:

(i) the Company;

(ii) any Subsidiary of the Company; or

(iii) any employee benefit plan of the Company or any Subsidiary of the Company, or any Person holding shares of Common Stock for or pursuant to the terms of any such plan to the extent, and only to the extent, of such shares so held.

Notwithstanding the foregoing, no Person shall become an "Acquiring Person" as the result of an acquisition of shares of Common Stock by the Company which, by reducing the number of shares of

Common Stock outstanding, increases the proportionate number of shares of Common Stock beneficially owned by such Person to 15% or more of the shares of Common Stock of the Company then outstanding; provided, however, that if a Person shall

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become the Beneficial Owner of 15% or more of the Common Stock of the Company then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional shares of Common Stock of the Company, then such Person shall be deemed to be an "Acquiring Person" if such Person is then the Beneficial Owner of 15% or more of the Common Stock then outstanding. Notwithstanding the foregoing, if the Board of Directors of the Company determines in good faith that a Person who would otherwise be an "Acquiring Person", as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently, and such Person divests as promptly as practicable a sufficient number of shares of Common Stock so that such Person would no longer be an "Acquiring Person", then such Person shall not be deemed an "Acquiring Person" for any purposes of this Agreement unless and until such Person shall again become an "Acquiring Person".

(b) "Adjustment Shares" shall have the meaning set forth in Section 11(a) (ii) hereof.

(c) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act (as defined herein).

(d) "Agreement" shall mean this Rights Agreement as originally executed or as it may from time to time be supplemented or amended pursuant to the applicable provisions hereof.

(e) A Person shall be deemed the "Beneficial Owner" of and shall be deemed to "beneficially own" any securities:

(i) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing), or upon the exercise of conversion rights, exchange rights, other rights (other than these Rights), warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own", (A) securities tendered pursuant to a tender or exchange offer made by or on behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange; or (B) securities issuable upon exercise of Rights at any time prior to the occurrence of a Triggering Event, or (C) securities issuable upon exercise of Rights from and after the occurrence of a Triggering Event which Rights were acquired by such Person or any of such Person's Affiliates or Associates prior to the Distribution Date or pursuant to Section 3(a) or Section 22 hereof (the "Original Rights") or pursuant to Section 11(i) hereof in connection with an adjustment made with respect to any Original Rights;

(ii) which such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of, or to beneficially own, any security under this subparagraph (ii) as a result of an agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding: (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not also then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or

(iii) which are beneficially owned, directly or indirectly, by any

other Person (or any Affiliate or Associate thereof) with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding (whether or not in writing), for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to subparagraph (ii) of this paragraph (e)) or disposing of any voting securities of the Company;

provided, however, that nothing in this paragraph (e) shall cause a Person

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engaged in business as an underwriter of securities to be the "Beneficial Owner" of, or to "beneficially own," any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition. Notwithstanding anything contained in this paragraph (e), a Person shall not be deemed the "Beneficial Owner" of, or to "beneficially own" any Exempt Shares.

(f) "Board" shall mean the Board of Directors of the Company.

(g) "Business Day" shall mean any day other than a Saturday, Sunday, or a day on which banking or trust institutions in the State of New York are authorized or obligated by law or executive order to close.

(h) "Close of Business" on any given date shall mean 5:00 P.M., New York City time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., New York City time, on the next succeeding Business Day.

(i) "Common Stock" when used with reference to the Company shall mean the shares of common stock, par value \$.01 per share, of the Company. "Common Stock" when used with reference to any Person other than the Company shall mean the class of capital stock with the greatest aggregate voting power, or the class of equity securities or other equity interests having power to control or direct the management, of such Person.

(j) "Company" shall mean Charles E. Smith Residential Realty, Inc., a Maryland corporation.

(k) "Distribution Date" shall mean the earlier of (i) the Close of Business on the tenth day after the Stock Acquisition Date (or, if the tenth day after the Stock Acquisition Date occurs before the Record Date, the Close of Business on the Record Date), or (ii) the Close of Business on the tenth Business Day (or, if such tenth Business Day occurs before the Record Date, the Close of Business on the Record Date), or such specified or unspecified later date on or after the Record Date as may be determined by action of the Board prior to such time as any Person becomes an Acquiring Person, after the date that a tender or exchange offer by any Person (other than the Company, any Subsidiary of the Company or any employee benefit plan of the Company or of any Subsidiary of the Company or any Person holding shares of Common Stock for or pursuant to the terms of any such plan) is first published or sent or given within the meaning of Rule 14d-2(a) of the General Rules and Regulations under the Exchange Act, if upon consummation thereof, such Person would be the beneficial owner of 15% or more of the outstanding shares of Common Stock.

(m) "Equivalent Preferred Stock" shall have the meaning set forth in Section 11(b) hereof.

(n) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, as in effect on the date of this Agreement.

(o) "Exchange Date" shall have the meaning set forth in Section 7(a) hereof.

(p) "Exempt Shares" shall mean, as to Security Capital Preferred Growth Incorporated and any of its Affiliates and Associates controlled, directly or indirectly, by Security Capital Group Incorporated (collectively, "Security Capital") and any other Person that Beneficially Owns shares of Series A Cumulative Convertible Redeemable Preferred Stock ("Series A Preferred Shares") or shares of Common Stock on the Rights Dividend Declaration Date solely by reason of Security Capital's Beneficial Ownership of Series A

Preferred Shares on the Rights Dividend Declaration Date, (i) in the event (a) Security Capital or such other Person shall have acquired shares of Common Stock upon the conversion of Series A Preferred Shares strictly in accordance with and consistent with the provisions and limitations set forth in the Series A Preferred Stock Purchase Agreement dated as of May 15, 1997 between Security Capital Preferred Growth Incorporated and the Company (including, without limitation, the Waiver of Ownership Limitations set forth in Exhibit D attached thereto) and the Series A Preferred Articles Supplementary (as defined therein), (b) such shares of Common Stock so acquired have been continuously since such acquisition beneficially owned by Security Capital or such other Person and (c) such shares of Common Stock so acquired and so beneficially owned represent 15% or more of the shares of Common Stock at any time outstanding, then the portion of such shares of Common Stock that represents in excess of 15% of the outstanding shares of Common Stock, and (ii) shares of Common Stock acquired by Security Capital or such other Person as a result of a stock dividend, stock distribution or other recapitalization, in respect to Exempt Shares only,

whereby any Common Stock received by such Person is substantially proportional to the amount of Common Stock owned by such Person prior to such transaction and where such Common Stock is beneficially owned (without giving effect to the last sentence of Section 1(e)) by such Person continuously thereafter. For purposes of the determination of Exempt Shares, any shares of Common Stock sold, transferred or otherwise disposed of shall be deemed to have been from Exempt Shares, if any. Any disputes arising pursuant to this definition shall be definitively and conclusively resolved by the Board, in its sole discretion.

(q) "Expiration Date" shall have the meaning set forth in Section 7(a) hereof.

(r) "Final Expiration Date" shall have the meaning set forth in Section 7(a) hereof.

(s) "Person" shall mean any individual, firm, corporation, partnership or other entity, and shall include any successor (by merger or otherwise) of such entity.

(t) "Principal Party" shall have the meaning set forth in Section 13(b) hereof.

(u) "Purchase Price" shall have the meaning set forth in Section 4(a) and 11(a)(ii) hereof.

(v) "Record Date" shall mean the close of business on December 14, 1998.

(w) "Redemption Period" shall have the meaning set forth in Section 23(a) hereof.

(x) "Redemption Price" shall have the meaning set forth in Section 23(a) hereof.

(y) "Rights Agent" shall mean First Union National Bank.

(z) "Rights Certificate" shall have the meaning set forth in Section 3(d) hereof.

(aa) "Rights Dividend Declaration Date" shall mean the close of business on December 2, 1998.

(bb) "Section 11(a)(ii) Event" shall mean any event described in Section 11(a)(ii) hereof.

(cc) "Section 11(a)(ii) Trigger Date" shall have the meaning set forth in Section 11(a)(iii) hereof.

(dd) "Section 13 Event" shall mean any event described in clauses (x), (y) or (z) of Section 13(a) hereof.

(ee) "Securities Act" shall mean the Securities Act of 1933, as amended and as in effect on the date of this Agreement.



(ff) "Series D Preferred Stock" shall mean shares of Series D Junior Participating Preferred Stock of the Company.

(gg) "Stock Acquisition Date" shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 13(d) of the Exchange Act) by the Company or an Acquiring Person that an Acquiring Person has become such.

(hh) "Spread" shall have the meaning set forth in Section 11(a)(iii) hereof.

(ii) "Stock Equivalents" shall have the meaning set forth in Section 11(a)(iii) hereof.

(jj) "Subsidiary" of any Person shall mean any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interests is owned, directly or indirectly, by such Person, or is otherwise controlled by such Person.

(kk) "Substitution Period" shall have the meaning set forth in Section 11(a)(iii) hereof.

(ll) "Summary Rights" shall have the meaning set forth in Section 3(a) hereof.

(mm) "Trading Day" shall have the meaning set forth in Section 11(d)(i) hereof.

(nn) "Triggering Event" shall mean any Section 11(a)(ii) Event or any Section 13 Event.

#### Section 2. Appointment of Rights Agent.

The Company hereby appoints the Rights Agent to act as agent for the Company and the holders of the Rights (who, in accordance with Section 3 hereof, shall prior to the Distribution Date also be the holders of the Common Stock) in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such Co-Rights Agents as it may deem necessary or desirable.

#### Section 3. Issue of Rights Certificates.

(a) As promptly as practicable following the Record Date, the Company will send or deliver a copy of a Summary of Rights to Purchase Series D Preferred Stock, in substantially the form attached hereto as Exhibit B (the "Summary of Rights"), to each record holder of Common Stock as of the Close of Business on the Record Date at the address of such holder shown on the

records of the Company. With respect to certificates for shares of Common Stock outstanding as of the Record Date, until the Distribution Date, the Rights will be evidenced by such certificates for the Common Stock and the registered holders of the Common Stock shall also be the registered holders of the associated Rights. Until the Distribution Date (or the earlier Expiration Date or Final Expiration Date), the transfer of any certificate representing shares of Common Stock in respect of which Rights have been issued shall also constitute the transfer of the Rights associated with the shares of Common Stock represented thereby.

(b) Rights shall be issued in respect of all shares of Common Stock issued (whether originally issued or from the Company's treasury) after the Record Date but prior to the earlier of the Distribution Date or the Expiration Date or the Final Expiration Date. Rights shall also be issued to the extent provided in Section 22 in respect of all shares of Common Stock which are issued (whether originally issued or from the Company's treasury) after the Distribution Date and prior to the Expiration Date. Certificates representing such shares of Common Stock shall also be deemed to be certificates for Rights, and shall bear the following legend (in addition to any other legends that may be required):

This Certificate also evidences and entitles the holder hereof to

certain Rights as set forth in a Rights Agreement between Charles E. Smith Residential Realty, Inc., a Maryland corporation (the "Corporation") and First Union National Bank (the "Rights Agent"), dated as of December \_\_, 1998 (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal executive offices of the Corporation. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this Certificate. The Corporation will mail to the holder of this Certificate a copy of the Rights Agreement as in effect on the date of mailing without charge after receipt of a written request therefor.

Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void. The Rights shall not be exercisable, and shall be null and void so long as held, by a holder in any jurisdiction where the requisite qualification of the issuance to such holder, or the exercise by such holder, of the Rights in such jurisdiction shall not have been obtained or be obtainable.

With respect to such certificates containing the foregoing legend, until the earlier of (i) the Distribution Date or (ii) the Expiration Date, the Rights associated with the Common Stock represented by such certificates shall be evidenced by such certificates alone and registered holders of Common Stock shall also be the registered holders of the associated Rights, and the transfer of any such certificate shall also constitute the transfer of the Rights associated with the Common Stock represented thereby.

(c) Until the Distribution Date (i) the Rights will be evidenced (subject to the provisions of paragraph (a) of this Section 3) by the certificates for Common Stock registered in the names of the holders thereof (which certificates for Common Stock shall also be deemed to be Rights Certificates) and not by separate Rights Certificates, and (ii) the Rights will be transferable only in connection with the transfer of the underlying shares of Common Stock (including a transfer to the Company).

(d) As soon as practicable after the Distribution Date, the Rights Agent upon notification thereof will send by first-class, insured, postage prepaid mail, to each record holder of Common Stock as of the Close of Business on the Distribution Date, at the address of such holder shown on the records of the Company, a rights certificate, in substantially the form of Exhibit C hereto

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(the "Rights Certificate"), evidencing one Right for each share of Common Stock so held, subject to adjustment as provided herein. In the event that an adjustment in the number of Rights per share of Common Stock has been made pursuant to Section 11 hereof, at the time of distribution of the Rights Certificates, the Company shall make necessary and appropriate rounding adjustments (in accordance with Section 14(a) hereof) so that Rights Certificates representing only whole numbers of Rights are distributed and cash is paid in lieu of any fractional Rights. As of and after the Distribution Date, the Rights will be evidenced solely by such Right Certificates.

(e) Notwithstanding anything to the contrary set forth herein, if a timely and proper exercise of a conversion right with respect to any Series A Preferred Shares is delivered to the Company on or prior to the Distribution Date, the shares of Common Stock issuable upon exercise of such conversion right shall be deemed to have been issued prior to the Distribution Date, and any holder of a share of Common Stock issued upon such exercise of such right shall be entitled to receive the same number of Rights per share of Common Stock as if such holder were a record holder of Common Stock as of the Close of Business on the Distribution Date as provided in Section 3(d), even if issuance of shares of Common Stock upon such exercise of such right occurs after the Distribution Date.

#### Section 4. Form of Rights Certificates.

(a) The Rights Certificates (and the forms of election to purchase and of

assignment to be printed on the reverse thereof) shall be substantially the same as Exhibit C hereto and may have such marks of identification or designation and

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such legends, summaries or endorsements printed thereon as the Company may deem appropriate, and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any applicable law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Rights may from time to time be listed, or to conform to usage. Subject to the provisions of Section 11 and Section 22 hereof, the Rights Certificates, whenever issued, shall be dated as of the Record Date, and on their face shall entitle the holders thereof to purchase such number of one one-thousandths of a share of Series D Preferred Stock as shall be set forth therein at the price set forth therein (such exercise price per one one-thousandth of a share, the "Purchase Price"), but the amount and type of securities purchasable upon exercise of each Right and the

Purchase Price thereof shall be subject to adjustment as provided herein.

(b) Any Rights Certificate issued pursuant to Section 3(d) or Section 22 hereof that represents Rights beneficially owned by: (i) an Acquiring Person or any Associate or Affiliate of an Acquiring Person; (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such; or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which a majority of the Board has determined is part of an agreement, arrangement or understanding which has as a primary purpose or effect avoidance of Section 7(e) hereof and any Rights Certificate issued pursuant to Section 6 or Section 11 hereof upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain (to the extent feasible) the following legend:

The Rights represented by this Rights Certificate are or were beneficially owned by a Person who was or became an Acquiring Person or an Affiliate or Associate of an Acquiring Person (as such terms are defined in the Rights Agreement). Accordingly, this Rights Certificate and the Rights represented hereby may become null and void in the circumstances specified in Section 7(e) of such Rights Agreement.

#### Section 5. Countersignature and Registration.

(a) The Rights Certificates shall be executed on behalf of the Company by its President, a Vice-President or the Chairman of the Board and countersigned by the Secretary, an Assistant Secretary, the Treasurer or an Assistant Treasurer, in each case either manually or by facsimile signature, and have affixed thereto the Company's seal or a facsimile thereof. The Rights Certificates shall be countersigned, either manually or by facsimile signature, by the Rights Agent and shall not be valid for any purpose unless so countersigned (but it shall not be necessary for the same signatory to countersign all of the Rights Certificates hereunder). In case any officer of the Company who shall have signed any of the Rights Certificates shall cease to be such officer of the Company before countersignature by the Rights Agent and issuance and delivery by the Company, such Rights Certificates, nevertheless, may be countersigned by the Rights Agent, and issued and delivered by the Company with the same force and effect as though the person who signed such Rights Certificates had not ceased to be such officer of the Company; and any Rights Certificate may be signed on behalf of the Company by any person who, at the actual date of the execution of such Rights Certificate, shall be a proper officer of the Company to sign such Rights Certificate, although at the date of the execution of this Agreement any such person was not such an officer.

(b) Following the Distribution Date, the Rights Agent will keep or cause to be kept, at

its principal office or at offices designated as the appropriate place for

surrender of Rights Certificates upon exercise or transfer, books for registration and transfer of the Rights Certificates issued hereunder. Such books shall show the names and addresses of the respective holders of the Rights Certificates, the number of Rights evidenced on its face by each of the Rights Certificates and the date of each of the Rights Certificates.

Section 6. Transfer, Split Up, Combination and Exchange of Rights Certificates; Mutilated, Destroyed, Lost or Stolen Rights Certificates.

(a) Subject to the provisions of Section 4(b), Section 7(e) and Section 14 hereof, at any time after the Close of Business on the Distribution Date, and at or prior to the Close of Business on the earlier of the Expiration Date or Final Expiration Date, any Rights Certificate or Certificates may be transferred, split up, combined or exchanged for another Rights Certificate or Certificates, entitling the registered holder to purchase a like number of one one-thousandths of a share of Series D Preferred Stock (or following a Triggering Event, Common Stock, other securities, cash, or other assets, as the case may be) as the Rights Certificate or Certificates surrendered then entitled such holder (or former holder in the case of a transfer) to purchase. Any registered holder desiring to transfer, split up, combine or exchange any Rights Certificate shall make such request in writing delivered to the Rights Agent, and shall surrender the Rights Certificate or Certificates to be transferred, split up, combined or exchanged at the office of the Rights Agent designated for such purpose. Neither the Rights Agent nor the Company shall be obligated to take any action whatsoever with respect to the transfer of any such surrendered Rights Certificate until the registered holder shall have properly completed and signed the certificate contained in the form of assignment on the reverse side of such Rights Certificate and shall have provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request. Thereupon the Rights Agent shall, subject to Section 4(b), Section 7(e) and Section 14 hereof, countersign and deliver to the Person entitled thereto a Rights Certificate or Certificates, as the case may be, as so requested. The Company may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer, split up, combination or exchange of Rights Certificates.

(b) Upon receipt by the Company and the Rights Agent of evidence reasonably satisfactory to them of the loss, theft, destruction or mutilation of a Rights Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to them, and, at the Company's request, reimbursement to the Company and the Rights Agent of all reasonable expenses incidental thereto, and upon surrender to the Rights Agent and cancellation of the Rights Certificate if mutilated, the Company will execute and deliver a new Rights Certificate of like tenor to the Rights Agent for countersignature and delivery to the registered owner in lieu of the Rights Certificate so lost, stolen, destroyed, or mutilated.

Section 7. Exercise of Rights; Purchase Price; Expiration Date of Rights.

(a) Subject to Section 7(e) hereof, the registered holder of any Rights Certificate may

exercise the Rights evidenced thereby (except as otherwise provided herein including, without limitation, the restrictions on exercisability set forth in Section 9(c), Section 11(a)(iii) and Section 23(a) hereof) in whole or in part at any time after the Distribution Date upon surrender of the Rights Certificate, with the form of election to purchase and the certificate on the reverse side thereof duly and properly executed, to the Rights Agent at the office of the Rights Agent designated for such purpose, together with payment of the Purchase Price for each one one-thousandth of a share of Series D Preferred Stock (or other securities, cash or other assets, as the case may be) as to which the Rights are exercised, at or prior to the earlier of (i) the close of business on December 13, 2008 (the "Final Expiration Date"), (ii) the time at which the Rights are redeemed as provided in Section 23 hereof, (iii) the time at which such Rights are exchanged (the "Exchange Date") as provided in Section 24 hereof, or (iv) the time at which the Rights expire pursuant to Section 13(d) hereof (the earliest of (i), (ii), (iii) and (iv) being herein referred to as the "Expiration Date").

(b) Each Right shall entitle the registered holder thereof to purchase one one-thousandth of a share of Series D Preferred Stock, and the Purchase Price for each one one-thousandth of a share of Series D Preferred Stock pursuant to the exercise of a Right shall initially be \$108.00, and shall be subject to adjustment from time to time as provided in Sections 11 and 13 hereof and shall be payable in lawful money of the United States of America in accordance with paragraph (c) below.

(c) Upon receipt of a Rights Certificate representing exercisable Rights, with the form of election to purchase and the certificate duly and properly executed, accompanied by payment, with respect to each Right so exercised, of the Purchase Price per one one-thousandth of a share of Series D Preferred Stock (or Common Stock, other securities, cash or other assets, as the case may be) to be purchased and an amount equal to any applicable transfer tax or governmental charge in cash, or by certified check, cashier's check or bank draft payable to the order of the Company, the Rights Agent shall, subject to Section 18(k) hereof, thereupon promptly (i) (A) requisition from any transfer agent of the shares of Series D Preferred Stock (or make available, if the Rights Agent is the transfer agent) certificates for the total number of one one-thousandths of a share of Series D Preferred Stock to be purchased and the Company hereby irrevocably authorizes its transfer agent to comply with all such requests, or (B) if the Company shall have elected to deposit the total number of shares of Series D Preferred Stock issuable upon exercise of the Rights hereunder with a depository agent, requisition from the depository agent depository receipts representing such number of one one-thousandths of a share of Series D Preferred Stock as are to be purchased (in which case certificates for the shares of Series D Preferred Stock represented by such receipts shall be deposited by the transfer agent with the depository agent) and the Company will direct the depository to comply with such request, (ii) requisition from the Company the amount of cash, if any, to be paid in lieu of issuance of fractional shares in accordance with Section 14, (iii) promptly after receipt of such certificates or depository receipts, cause the same to be delivered to or upon the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder and (iv) after receipt thereof, promptly deliver such cash, if any, to or upon the order of the registered holder of such Rights Certificate. In the event that the Company is obligated to issue other securities (including Common Stock) of the Company, pay cash and/or distribute other

property pursuant to Section 11(a) hereof, the Company will make all arrangements necessary so that such securities, cash and/or other property are available for distribution by the Rights Agent, if and when appropriate.

(d) In case the registered holder of any Rights Certificate shall exercise less than all the Rights evidenced thereby, a new Rights Certificate evidencing Rights equivalent to the Rights remaining unexercised shall be issued by the Rights Agent and delivered to, or upon the order of, the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder, subject to the provisions of Section 14 hereof.

(e) Notwithstanding anything in this Agreement to the contrary, from and after the first occurrence of a Section 11(a) (ii) Event, any Rights beneficially owned by (i) an Acquiring Person or an Associate or Affiliate of an Acquiring Person, (ii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee after the Acquiring Person becomes such, or (iii) a transferee of an Acquiring Person (or of any such Associate or Affiliate) who becomes a transferee prior to or concurrently with the Acquiring Person becoming such and receives such Rights pursuant to either (A) a transfer (whether or not for consideration) from the Acquiring Person to holders of equity interests in such Acquiring Person or to any Person with whom such Acquiring Person has any continuing agreement, arrangement or understanding regarding the transferred Rights or (B) a transfer which a majority of the Board has determined is part of an agreement, arrangement or understanding which has as a primary purpose or effect the avoidance of this Section 7(e), shall become null and void without any further action, and no holder of such Rights shall have any rights whatsoever with respect to such Rights, whether under any provision of this Agreement or otherwise. The Company shall use all reasonable efforts to ensure that the provisions of this Section 7(e) and Section 4(b) hereof are complied with, but shall have no liability to any holder of Rights Certificates or other Person as a result of its failure to make any

determinations with respect to an Acquiring Person or its Affiliates, Associates or transferees hereunder.

(f) Notwithstanding anything in this Agreement to the contrary, neither the Rights Agent nor the Company shall be obligated to undertake any action with respect to a registered holder upon the occurrence of any purported exercise as set forth in this Section 7 unless such registered holder shall have (i) properly completed and signed the certificate contained in the form of election to purchase set forth on the reverse side of the Rights Certificate surrendered for such exercise, and (ii) provided such additional evidence of the identity of the Beneficial Owner (or former Beneficial Owner) or Affiliates or Associates thereof as the Company shall reasonably request.

#### Section 8. Cancellation and Destruction of Rights Certificates.

All Rights Certificates surrendered for the purpose of exercise, transfer, split up, combination or exchange shall, if surrendered to the Company or to any of its agents, be delivered to the Rights Agent for cancellation or in canceled form, or, if surrendered to the Rights Agent, shall be canceled by it, and no Rights Certificates shall be issued in lieu thereof except as expressly

permitted by any provisions of this Agreement. The Company shall deliver to the Rights Agent for cancellation and retirement, and the Rights Agent shall so cancel and retire, any other Rights Certificate purchased or acquired by the Company otherwise than upon the exercise thereof. The Rights Agent shall deliver all canceled Rights Certificates to the Company, or shall, at the written request of the Company, destroy such canceled Rights Certificates, and in such case shall deliver a certificate of destruction thereof to the Company.

#### Section 9. Reservation and Availability of Capital Stock.

(a) The Company covenants and agrees that it will cause to be reserved and kept available out of its authorized and unissued shares of Series D Preferred Stock (and following the occurrence of a Triggering Event, out of its authorized and unissued shares of Common Stock and/or other securities or out of its authorized and issued shares held in its treasury), the number of shares of Series D Preferred Stock (and, following the occurrence of a Triggering Event, shares of Common Stock and/or other securities) that, as provided in this Agreement, including Section 11(a)(iii) hereof, will be sufficient to permit the exercise in full of all outstanding Rights.

(b) In the event the shares of Series D Preferred Stock (and, following the occurrence of a Triggering Event, Common Stock and/or other securities) issuable upon the exercise of Rights become listed on any national securities exchange, the Company shall use its best efforts to cause, from and after such time as the Rights become exercisable, all such shares reserved for such issuance to be listed on such exchange upon official notice of issuance upon such exercise.

(c) The Company shall use its best efforts to (i) file, as soon as practicable following the earliest date after the first occurrence of a Section 11(a)(ii) Event on which the consideration to be delivered by the Company upon exercise of the Rights has been determined in accordance with this Agreement, or as soon as is required by law following the Distribution Date, as the case may be, a registration statement under the Securities Act with respect to the securities purchasable upon exercise of the Rights on an appropriate form, (ii) cause such registration statement to become effective as soon as practicable after such filing, and (iii) cause such registration statement to remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the earlier of (A) the date as of which the Rights are no longer exercisable for such securities, and (B) the Expiration Date. The Company also shall take such action as may be appropriate under, or to ensure compliance with, the securities or "blue sky" laws of the various states in connection with the exercisability of the Rights. The Company may temporarily suspend, for a period of time not to exceed ninety (90) days after the date set forth in clause (i) of the first sentence of this Section 9(c), the exercisability of the Rights in order to prepare and file such registration statement and permit it to become effective. In addition, if the Company shall determine that a registration statement is required following the Distribution Date, the Company may temporarily suspend the exercisability of the Rights until such time as a registration statement has been declared effective. Upon any suspension of exercisability of Rights referred to in this Section 9(c), the



Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. Notwithstanding any provision of this

Agreement to the contrary, the Rights shall not be exercisable and shall be null and void so long as held by a holder in any jurisdiction where the requisite qualification to the issuance to such holder, or the exercise by such holder, of the Rights in such jurisdiction shall not have been obtained or be obtainable, or the exercise thereof shall not be permitted under applicable law or a registration statement shall not have been declared effective.

(d) Subject to Section 11(a)(iii) hereof, the Company covenants and agrees that it will take all such action as may be necessary to ensure that all one one-thousandths of a share of Series D Preferred Stock (and, following the occurrence of a Triggering Event, Common Stock and/or other securities) delivered upon exercise of Rights shall, at the time of delivery of the certificates for such shares (subject to payment of the Purchase Price), be duly and validly authorized and issued and fully paid and non-assessable.

(e) The Company further covenants and agrees that it will pay when due and payable any and all federal and state transfer taxes and charges which may be payable in respect of the issuance or delivery of the Rights Certificates or of any certificates for a number of one one-thousandths of a share of Series D Preferred Stock (or Common Stock and/or other securities, as the case may be) upon the exercise of Rights. The Company shall not, however, be required to pay any transfer tax or charge which may be payable in respect of any transfer or delivery of Rights Certificates to a Person other than, or the issuance or delivery of certificates for a number of one one-thousandths of a share of Series D Preferred Stock (or Common Stock and/or other securities, as the case may be) in a name other than that of, the registered holder of the Rights Certificate evidencing Rights surrendered for exercise or to issue or deliver any certificates for a number of one one-thousandths of a share of Series D Preferred Stock (or Common Stock and/or other securities, as the case may be) in a name other than that of the registered holder upon the exercise of any Rights until any such tax or charge shall have been paid (any such tax or charge being payable by the holder of such Rights Certificate at the time of surrender) or until it has been established to the Company's satisfaction that no such tax or charge is due.

Section 10. Series D Preferred Stock Record Date.

Each Person in whose name any certificate for a number of one one-thousandths of a share of Series D Preferred Stock (or Common Stock and/or other securities, as the case may be) is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of such fractional shares of Series D Preferred Stock (or Common Stock and/or other securities, as the case may be) represented thereby on, and such certificate shall be dated, the date upon which the Rights Certificate evidencing such Rights was duly surrendered and payment of the Purchase Price (and any applicable transfer taxes and charges) was made; provided, however, that if the date of such surrender and

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payment is a date upon which the Series D Preferred Stock (or Common Stock and/or other securities as the case may be)

transfer books of the Company are closed, such Person shall be deemed to have become the record holder of such shares (fractional or otherwise) on, and such certificate shall be dated, the next succeeding Business Day on which the Series D Preferred Stock (or Common Stock and/or other securities as the case may be) transfer books of the Company are open. Prior to the exercise of the Rights evidenced thereby, the holder of a Rights Certificate shall not be entitled to any rights of a stockholder of the Company with respect to shares for which the Rights shall be exercisable, including, without limitation, the right to vote, to receive dividends or other distributions or to exercise any preemptive rights, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided herein.

Section 11. Adjustment of Purchase Price, Number and Kind of Shares or Number of Rights.

The Purchase Price, the number and kind of shares covered by each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 11.

(a) (i) In the event the Company shall at any time after the date of this Agreement (A) declare a dividend on the Series D Preferred Stock payable in shares of Series D Preferred Stock, (B) subdivide the outstanding Series D Preferred Stock, (C) combine the outstanding Series D Preferred Stock into a smaller number of shares or (D) issue any shares of its capital stock in a reclassification of the Series D Preferred Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing or surviving corporation), except as otherwise provided in this Section 11(a) and Section 7(e) hereof, the Purchase Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification, and the number and kind of shares of Series D Preferred Stock or the number and kind of shares of capital stock issuable on such date, as the case may be, shall be proportionately adjusted so that the holder of any Right exercised after such time shall be entitled to receive, upon payment of the aggregate adjusted Purchase Price then in effect necessary to exercise a Right in full, the aggregate number and kind of shares of Series D Preferred Stock or the number and kind of shares of capital stock, as the case may be, which, if such Right had been exercised immediately prior to such date and at a time when the Series D Preferred Stock (or other capital stock, as the case may be) transfer books of the Company were open, he would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination, or reclassification. If an event occurs which would require an adjustment under both this Section 11(a)(i) and Section 11(a)(ii) hereof, the adjustment provided for in this Section 11(a)(i) shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 11(a)(ii) hereof.

(ii) Subject to Sections 23 and 24 of this Agreement, in the event that any Person, alone or together with its Affiliates and Associates, shall, at any time after the Rights Dividend Declaration Date, become an Acquiring Person, unless the event causing such Person to become an Acquiring Person is (x) a Section 13 Event or (y) an acquisition of shares of Common Stock pursuant to a cash tender offer made pursuant to Section 14(d) of the Exchange Act for all outstanding shares of Common Stock (other than shares of Common Stock beneficially owned by the Person making the offer or by its Affiliates or Associates) at a price and on terms determined by at least two-thirds of the Board, after receiving advice from one or more investment banking firms, to be (a) fair to stockholders (taking into account all factors which such members of the

Board deem relevant including, without limitation, prices which could reasonably be achieved if the Company or its assets were sold on an orderly basis designed to realize maximum value) and (b) otherwise in the best interests of the Company and its stockholders, then promptly after the date of occurrence of a Section 11(a)(ii) Event, proper provision shall be made so that each holder of a Right (except as provided below and in Section 7(e) hereof) shall thereafter have the right to receive, upon exercise thereof and payment of an amount equal to the then current Purchase Price in accordance with the terms of this Agreement, in lieu of a number of one one-thousandths of a share of Series D Preferred Stock, such number of shares of Common Stock of the Company as shall equal the result obtained by (x) multiplying the then current Purchase Price by the then number of one one-thousandths of a share of Series D Preferred Stock for which a Right was or would have been exercisable immediately prior to the first occurrence of a Section 11(a)(ii) Event, whether or not such Right was then exercisable, and (y) dividing that product (which, following such first occurrence, shall thereafter be referred to as the "Purchase Price" for each Right and for all purposes of this Agreement except to the extent set forth in Section 13 thereof) by 50% of the current market price per share of Common Stock (determined pursuant to Section 11(d) hereof) on the date of such first occurrence (such number of shares, the "Adjustment Shares").

(iii) The Company may at its option substitute for a share of Common Stock issuable upon the exercise of Rights in accordance with the foregoing subparagraph (ii) such number or fractions of shares of Series D Preferred Stock having an aggregate market value equal to the current per share market price of a share of Common Stock. In the event that the number of shares of Common Stock which is authorized by the Company's Articles of Incorporation,



as amended from time to time, but not outstanding, or reserved for issuance for purposes other than upon exercise of the Rights, is not sufficient to permit the exercise in full of the Rights in accordance with the foregoing subparagraph (ii), the Board shall, to the extent permitted by applicable law and to the extent permitted by any material agreements or material instruments then in effect to which the Company is a party, (A) determine the excess of (1) the value of the Adjustment Shares issuable upon the exercise of a Right (the "Current Value") over (2) the Purchase Price (such excess, the "Spread"), and (B) with respect to each Right (subject to Section 7(e) hereof), make adequate provision to substitute for some or all of the Adjustment Shares, upon exercise of a Right and payment of the applicable Purchase Price, (1) cash, (2) a reduction in the Purchase Price, (3) Common Stock or other equity securities of the Company (including, without limitation, shares, or units of shares, of Series D Preferred Stock which the Board has deemed to have the same value as shares of Common Stock) (such shares of equity securities being herein called "Stock Equivalents"), (4) debt securities of the Company, (5) other assets, or (6) any combination of the foregoing, having an aggregate value equal to the Current Value, where such aggregate value has been determined by the Board based upon the advice of an investment banking firm selected by the Board; provided,

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however, if the Company shall not have made adequate provision to deliver value  
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pursuant to clause (B) above within thirty (30) days following the later of (x) the first occurrence of a Section 11(a)(ii) Event and (y) the date on which the Company's right of redemption pursuant to Section 23(a) expires (the later of (x) and (y) being referred to herein as the "Section 11(a)(ii) Trigger Date"), then the Company shall be obligated to deliver, upon the surrender for exercise of a Right and without requiring payment of the Purchase Price, shares of Common Stock (to the extent available) and then, if necessary, cash,

which shares and/or cash have an aggregate value equal to the Spread.

If, upon the occurrence of a Section 11(a)(ii) Event, the Board shall determine in good faith that it is likely that sufficient additional shares of Common Stock could be authorized for issuance upon exercise in full of the Rights, then if the Board so elects, the thirty (30) day period set forth above may be extended to the extent necessary, but not more than ninety (90) days after the Section 11(a)(ii) Trigger Date, in order that the Company may seek stockholder approval for the authorization of such additional shares (such period, as it may be extended, the "Substitution Period"). To the extent that action is to be taken pursuant to the preceding provisions of this Section 11(a)(iii), the Company (x) shall provide, subject to Section 7(e) hereof, that such action shall apply uniformly to all outstanding Rights, and (y) may suspend the exercisability of the Rights until the expiration of the Substitution Period in order to seek any authorization of additional shares and/or to decide the appropriate form of distribution to be made pursuant to the first sentence of this Section 11(a)(iii) and to determine the value thereof. In the event of any such suspension, the Company shall issue a public announcement stating that the exercisability of the Rights has been temporarily suspended, as well as a public announcement at such time as the suspension is no longer in effect. For purposes of this Section 11(a)(iii), the value of the Common Stock shall be the current market price (as determined pursuant to Section 11(d) hereof) per share of the Common Stock on the Section 11(a)(ii) Trigger Date and the value of any Stock Equivalent shall be deemed to have the same value as the Common Stock on such date. The Board may, but shall not be required to, establish procedures to allocate the right to receive shares of Common Stock upon the exercise of the Rights among holders of Rights pursuant to this Section 11(a)(iii).

(b) In case the Company shall fix a record date for the issuance of rights, options or warrants to all holders of Series D Preferred Stock entitling them (for a period expiring within forty-five (45) calendar days after such record date) to subscribe for or purchase Series D Preferred Stock (or shares having the same preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms or conditions or redemption as the shares of Series D Preferred Stock ("Equivalent Preferred Stock") or securities convertible into Series D Preferred Stock at a price per share of Series D Preferred Stock or per share of Equivalent Preferred Stock (or having a conversion price per share of Series D Preferred Stock, if a security convertible into Series D Preferred Stock) less than the current per share market price of the Series D Preferred Stock (as defined in Section 11(d)) on such record date, the Purchase Price to be in effect after such record date

shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Series D Preferred Stock outstanding on such record date, plus the number of shares of Series D Preferred Stock which the aggregate offering price of the total number of shares of Series D Preferred Stock and/or Equivalent Preferred Stock so to be offered (and/or the aggregate initial conversion price of the convertible securities so to be offered) would purchase at such current market price, and the denominator of which shall be the number of shares of Series D Preferred Stock outstanding on such record date, plus the number of additional shares of Series D Preferred Stock and/or Equivalent Preferred Stock to be offered for subscription or purchase (or into which the convertible securities so to be offered are initially convertible). In case such subscription price may be paid in a consideration part or all of which

shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes. Shares of Series D Preferred Stock owned by or held for the account of the Company shall not be deemed outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such rights or warrants are not so issued, the Purchase Price shall be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(c) In case the Company shall fix a record date for a distribution to all holders of Series D Preferred Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing or surviving corporation) of evidences of indebtedness, cash (other than a regular quarterly cash dividend out of the earnings or retained earnings of the Company), assets (other than a dividend payable in Series D Preferred Stock, but including any dividend payable in stock other than Series D Preferred Stock), or subscription rights or warrants (excluding those referred to in Section 11(b)), the Purchase Price to be in effect after such record date shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the current per share market price of the Series D Preferred Stock (as defined in Section 11(d)) on such record date, less the fair market value (as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes) of the portion of the cash, assets or evidences of indebtedness so to be distributed or of such subscription rights or warrants applicable to a share of Series D Preferred Stock and the denominator of which shall be such current per share market price of the Series D Preferred Stock. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Purchase Price shall again be adjusted to be the Purchase Price which would then be in effect if such record date had not been fixed.

(d) (i) For the purpose of any computation hereunder, the "current market price" of the Common Stock on any date shall be deemed to be the average of the daily closing prices per share of such Common Stock for the 30 consecutive Trading Days (as defined herein) immediately prior to but not including such date, and for purposes of computations made pursuant to Section 11(a)(iii) hereof, the "current market price" per share of Common Stock on any date shall be deemed to be the average of the daily closing prices per share of Common Stock for the ten (10) consecutive Trading Days immediately following but not including such date; provided, however, that in the event that the current

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market price of the Common Stock is determined during a period following the announcement by the issuer of such Common Stock of (i) a dividend or distribution on such Common Stock payable in shares of such Common Stock or securities convertible into such Common Stock (other than the Rights), or (ii) any subdivision, combination or reclassification of such Common Stock, and prior to the expiration of the requisite thirty (30) Trading Day or ten (10) Trading Day period, as set forth above, after the ex-dividend date for such dividend or distribution, or the record date for such subdivision, combination or reclassification, then, and in each such case, the "current market price" shall be appropriately adjusted to take into account ex-dividend trading. The closing price for each day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated

transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the shares of Common Stock are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading or, if the shares of Common Stock are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotations System or such other system then in use, or, if on any such date the shares of Common Stock are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the shares of Common Stock selected by the Board. If on any such date no market maker is making a market in the Common Stock, the fair value of such shares on such date as determined in good faith by the Board shall be used. The term "Trading Day" shall mean a day on which the principal national securities exchange on which the shares of Common Stock are listed or admitted to trading is open for the transaction of business, or, if the shares of Common Stock are not listed or admitted to trading on any national securities exchange, the term "Trading Day" shall mean a Monday, Tuesday, Wednesday, Thursday or Friday on which banking or trust institutions in the State of New York are not authorized or obligated by law or executive order to close. If the Common Stock is not publicly held or not listed or traded, "current market price" shall mean the fair value per share as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes.

(ii) For the purpose of any computation hereunder, the "current market price" per share of Series D Preferred Stock shall be determined in the same manner as set forth above for the Common Stock in clause (i) of this Section 11(d) (other than the last sentence thereof). If the current market price per share of Series D Preferred Stock cannot be determined in the manner provided above or if the Series D Preferred Stock is not publicly held or listed or traded in a manner described in clause (i) of this Section 11(d), the "current market price" per share of Series D Preferred Stock shall be conclusively deemed to be an amount equal to 1,000 (as such number may be appropriately adjusted for such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock occurring after the date of this Agreement) multiplied by the current market price per share of the Common Stock. If neither the Common Stock nor the Series D Preferred Stock is publicly held or so listed or traded, "current market price" per share of the Series D Preferred Stock shall mean the fair value per share as determined in good faith by the Board, whose determination shall be described in a statement filed with the Rights Agent and shall be conclusive for all purposes. For all purposes of this Agreement, the "current market price" of one one-thousandth of a share of Series D Preferred Stock shall be equal to the "current market price" of one share of Series D Preferred Stock divided by 1,000.

(e) Anything herein to the contrary notwithstanding, no adjustment in the Purchase Price shall be required unless such adjustment would require an increase or decrease of at least one percent (1%) in such price; provided,

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however, that any adjustments which by reason of this Section 11(e) are not  
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required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 11 shall be made to the nearest cent or

to the nearest ten-thousandth of a share of Common Stock or other share or one one-millionth of a share of Series D Preferred Stock, as the case may be. Notwithstanding the first sentence of this Section 11(e), an adjustment required by this Section 11 shall be made no later than the earlier of (i) three years from the date of the transaction which requires such adjustment or (ii) the Expiration Date.

(f) If as a result of an adjustment made pursuant to Section 11(a)(ii) or Section 13(a) hereof, the holder of any Right thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than Series D Preferred Stock, thereafter the number of such other shares so receivable upon

exercise of any Right and the Purchase Price thereof shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Series D Preferred Stock contained in Sections 11(a), (b), (c), (e), (g), (h), (i), (j), (k) and (m), and the provisions of Sections 7, 9, 10, 13 and 14 hereof with respect to the Series D Preferred Stock shall apply on like terms to any such other shares.

(g) All Rights originally issued by the Company subsequent to any adjustment made to the Purchase Price hereunder shall evidence the right to purchase, at the adjusted Purchase Price, the number of one one-thousandths of a share of Series D Preferred Stock purchasable from time to time hereunder upon exercise of the Rights, all subject to further adjustment as provided herein.

(h) Unless the Company shall have exercised its election as provided in Section 11(i), upon each adjustment of the Purchase Price as a result of the calculations made in Sections 11(b) and (c), each Right outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted Purchase Price, that number of one one-thousandths of a share of Series D Preferred Stock (calculated to the nearest one one-millionth) obtained by (i) multiplying (x) the number of one one-thousandths of a share covered by a Right immediately prior to this adjustment by (y) the Purchase Price in effect immediately prior to such adjustment of the Purchase Price and (ii) dividing the product so obtained by the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(i) The Company may elect on or after the date of any adjustment of the Purchase Price to adjust the number of Rights, in lieu of any adjustment in the number of one one-thousandths of a share of Series D Preferred Stock issuable upon the exercise of a Right. Each of the Rights outstanding after such adjustment of the number of Rights shall be exercisable for the number of one one-thousandths of a share of Series D Preferred Stock for which a Right was exercisable immediately prior to such adjustment. Each Right held of record prior to such adjustment of the number of Rights shall become that number of Rights (calculated to the nearest ten-thousandth) obtained by dividing the Purchase Price in effect immediately prior to adjustment of the Purchase Price by the Purchase Price in effect immediately after adjustment of the Purchase Price. The Company shall make a public announcement of its election to adjust the number of Rights, indicating the record date for the adjustment, and, if known at the time, the amount of the adjustment to be made. This record date may be the date on which the Purchase Price is adjusted or any day thereafter, but, if the Rights Certificates have been issued, shall be at least ten (10)

days later than the date of the public announcement. If Rights Certificates have been issued, upon each adjustment of the number of Rights pursuant to this Section 11(i), the Company shall, as promptly as practicable, cause to be distributed to holders of record of Rights Certificates on such record date Rights Certificates evidencing, subject to Section 14 hereof, the additional Rights to which such holders shall be entitled as a result of such adjustment, or, at the option of the Company, shall cause to be distributed to such holders of record in substitution and replacement for the Rights Certificates held by such holders prior to the date of adjustment, and upon surrender thereof, if required by the Company, new Rights Certificates evidencing all the Rights to which such holders shall be entitled after such adjustment. Rights Certificates so to be distributed shall be issued, executed and countersigned in the manner provided for herein (and may bear, at the option of the Company, the adjusted Purchase Price) and shall be registered in the names of the holders of record of Rights Certificates on the record date specified in the public announcement.

(j) Irrespective of any adjustment or change in the Purchase Price or the number of one one-thousandths of a share of Series D Preferred Stock issuable upon the exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the Purchase Price per one one-thousandth of a share and the number of one one-thousandths of a share which were expressed in the initial Rights Certificates issued hereunder.

(k) Before taking any action that would cause an adjustment reducing the Purchase Price below the then-par value, if any, of the number of one one-thousandths of a share of Series D Preferred Stock issuable upon exercise of the Rights, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and non-assessable such number of one one-thousandths of a

share of Series D Preferred Stock at such adjusted Purchase Price.

(l) In any case in which this Section 11 shall require that an adjustment in the Purchase Price be made effective as of a record date for a specified event, the Company may elect to defer until the occurrence of such event the issuance to the holder of any Right exercised after such record date the number of one one-thousandths of a share of Series D Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise over and above the number of one one-thousandths of a share of Series D Preferred Stock and other capital stock or securities of the Company, if any, issuable upon such exercise on the basis of the Purchase Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such holder a due bill or

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other appropriate instrument evidencing such holder's right to receive such additional shares (fractional or otherwise) or securities upon the occurrence of the event requiring such adjustment.

(m) Anything in this Section 11 to the contrary notwithstanding, the Company shall be entitled to make such reductions in the Purchase Price, in addition to those adjustments expressly required by this Section 11, as and to the extent that the Board in its sole discretion shall determine to be advisable in order that any (i) consolidation or subdivision of the Series D Preferred Stock, (ii) issuance wholly for cash of any shares of Series D Preferred Stock at less than the current market price, (iii) issuance wholly for cash of shares of Series D Preferred Stock

or securities which by their terms are convertible into or exchangeable for Series D Preferred Stock, (iv) stock dividends or (v) issuance of rights, options or warrants referred to hereinabove in this Section 11, hereafter made by the Company to holders of its Series D Preferred Stock shall not be taxable to such stockholders.

(n) The Company covenants and agrees that it shall not, at any time after the Distribution Date, (i) consolidate with any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), (ii) merge with or into any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), or (iii) sell or transfer (or permit any Subsidiary to sell or transfer), in one transaction, or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any other Person or Persons (other than the Company and/or any of its Subsidiaries in one or more transactions each of which complies with Section 11(o) hereof), if (x) at the time of or immediately after such consolidation, merger, sale or transfer there are any rights, warrants or other instruments or securities outstanding or agreements in effect which would substantially diminish or otherwise eliminate the benefits intended to be afforded by the Rights or (y) prior to, simultaneously with or immediately after such consolidation, merger, sale or transfer, the stockholders of the Person who constitutes, or would constitute, the "Principal Party" for purposes of Section 13(a) hereof shall have received a distribution of Rights previously owned by such Person or any of its Affiliates and Associates.

(o) The Company covenants and agrees that, after the Distribution Date, it will not, except as permitted by Section 23 or Section 27 hereof, take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

(p) Anything in this Agreement to the contrary notwithstanding, in the event that the Company shall at any time after the Rights Dividend Declaration Date and prior to the Distribution Date (i) declare a dividend on the outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, the number of Rights associated with each share of Common Stock then outstanding, or issued or delivered thereafter but prior to the Distribution Date, shall be proportionately adjusted so that the number of Rights thereafter associated with each share of Common Stock following any such event shall equal the result obtained by multiplying the number of Rights associated with each share of Common Stock immediately prior to such event by a fraction the numerator of which shall be the total number of shares of Common Stock outstanding

immediately prior to the occurrence of the event and the denominator of which shall be the total number of shares of Common Stock outstanding immediately following the occurrence of such event.

Section 12. Certificate of Adjusted Purchase Price or Number of Shares.

Whenever an adjustment is made as provided in Sections 11 or 13 hereof, the Company

shall (a) promptly prepare a certificate setting forth such adjustment, and a brief statement of the facts and computations accounting for such adjustment, (b) promptly file with the Rights Agent and with each transfer agent for the Series D Preferred Stock and the Common Stock a copy of such certificate and (c) mail or deliver a brief summary thereof to each holder of a Rights Certificate (or, if prior to the Distribution Date, to each holder of a certificate representing shares of Common Stock) in accordance with Section 25 hereof. The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment therein contained and shall not be deemed to have knowledge of any adjustment unless and until it shall have received such certificate.

Section 13. Consolidation, Merger or Sale or Transfer of Assets or Earning Power.

(a) Subject to Section 23 of this Agreement, in the event that, following the Stock Acquisition Date, directly or indirectly, (x) the Company shall consolidate with, or merge with and into, any other Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof), and the Company shall not be the continuing or surviving corporation of such consolidation or merger, (y) any Person (other than a Subsidiary of the Company in a transaction which complies with Section 11(o) hereof) shall consolidate with, or merge with or into, the Company, and the Company shall be the continuing or surviving corporation of such consolidation or merger and, in connection with such consolidation or merger, all or part of the outstanding shares of Common Stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, or (z) the Company shall sell or otherwise transfer (or one or more of its Subsidiaries shall sell or otherwise transfer), in one transaction or a series of related transactions, assets or earning power aggregating more than 50% of the assets or earning power of the Company and its Subsidiaries (taken as a whole) to any Person or Persons (other than the Company or any Subsidiary of the Company in one or more transactions each of which complies with Section 11(o) hereof), then, and in each such case (except as may be contemplated by Section 13(d) hereof), proper provision shall be made so that: (i) each holder of a Right, except as provided in Section 7(e) hereof, shall, upon the expiration of the Redemption Period (as defined in Section 23(a)), thereafter have the right to receive, upon the exercise thereof at the then current Purchase Price in accordance with the terms of this Agreement, such number of validly authorized and issued, fully paid, non-assessable and freely tradable shares of Common Stock of the Principal Party (as defined herein), not subject to any liens, encumbrances, rights of first refusal or other adverse claims, as shall be equal to the result obtained by (1) multiplying the then current Purchase Price by the number of one one-thousandths of a share of Series D Preferred Stock for which a Right was exercisable immediately prior to the first occurrence of a Section 13 Event (or, if a Section 11(a)(ii) Event has occurred prior to the first occurrence of a Section 13 Event, multiplying the number of one one-thousandths of a share of Series D Preferred Stock for which a Right was exercisable immediately prior to the first occurrence of a Section 11(a)(ii) Event by the Purchase Price in effect immediately prior to such first occurrence), and (2) dividing that product (which product, following the first occurrence of a Section 13 Event, shall be referred to as the "Purchase Price" for each Right and for all purposes of this Agreement) by 50% of the current market price per share of the shares of Common Stock of such Principal Party on the date of

consummation of such Section 13 Event (or the fair market value on such date of other securities or property of the Principal Party, as provided for herein); (ii) such Principal Party shall thereafter be liable for, and shall assume, by virtue of such Section 13 Event, all the obligations and duties of the Company pursuant to this Agreement; (iii) the term "Company" shall thereafter be deemed to refer to such Principal Party, it being specifically intended that the provisions of Section 11 hereof (other than Sections 11(a)(ii) and 11(a)(iii))



shall apply only to such Principal Party following the first occurrence of a Section 13 Event; (iv) such Principal Party shall take such steps (including, but not limited to, the reservation of a sufficient number of shares of its Common Stock) in connection with the consummation of any such transaction as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to its shares of Common Stock thereafter deliverable upon the exercise of the Rights; and (v) the provisions of Section 11(a)(ii) and Section 11(a)(iii) hereof shall be of no effect following the first occurrence of any Section 13 Event.

(b) "Principal Party" shall mean

(i) in the case of any transaction described in clause (x) or (y) of the first sentence of Section 13(a), the Person that is the issuer of any securities into which shares of Common Stock of the Company are converted in such merger or consolidation, and if no securities are so issued, the Person that is the other party to such merger or consolidation; and

(ii) in the case of any transaction described in clause (z) of the first sentence of Section 13(a), the Person that is the party receiving the greatest portion of the assets or earning power transferred pursuant to such transaction or transactions;

provided, however, that in any such case, (1) if the Common Stock of such Person

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is not at such time and has not been continuously over the preceding twelve (12) month period registered under Section 12 of the Exchange Act, and such Person is a direct or indirect Subsidiary of another Person the Common Stock of which is and has been so registered, "Principal Party" shall refer to such other Person; and (2) in case such Person is a Subsidiary, directly or indirectly, of more than one Person, the Common Stocks of two or more of which are and have been so registered, "Principal Party" shall refer to whichever of such Persons is the issuer of the Common Stock having the greatest aggregate market value.

(c) The Company shall not consummate any Section 13 Event unless the Principal Party shall have a sufficient number of authorized shares of its Common Stock which have not been issued or reserved for issuance to permit the exercise in full of the

Rights in accordance with this Section 13 and unless prior thereto the Company and such Principal Party shall have executed and delivered to the Rights Agent a supplemental agreement providing for the terms set forth in paragraphs (a) and (b) of this Section 13 and further providing that, as soon as practicable after the date of any such Section 13 Event, the Principal Party will:

(i) prepare and file a registration statement under the Securities Act, with respect to the Rights and the securities purchasable upon exercise of the Rights on an appropriate form, and will use its best efforts to cause such registration statement to (A) become effective as soon as practicable after such filing and (B) remain effective (with a prospectus at all times meeting the requirements of the Securities Act) until the Expiration Date;

(ii) deliver to holders of the Rights historical financial statements for the Principal Party and each of its Affiliates which comply in all respects with the requirements for registration on Form 10 under the Exchange Act;

(iii) use its best efforts to obtain any necessary regulatory approvals in respect of the securities purchasable upon exercise of outstanding Rights; and

(iv) use its best efforts, if such Common Stock of the Principal Party shall be listed or admitted to trading on the New York Stock Exchange or on another national securities exchange, to list or admit to trading (or continue the listing of) the Rights and the securities purchasable upon exercise of the Rights on the New York Stock Exchange or such securities exchange, or, if the securities of the Principal Party purchasable upon exercise of

the Rights shall not be listed or admitted to trading on the New York Stock Exchange or a national securities exchange, to cause the Rights and the securities purchasable upon exercise of the Rights to be reported by such other system then in use.

The provisions of this Section 13 shall similarly apply to successive mergers or consolidations or sales or other transfers. In the event that a Section 13 Event shall occur at any time after the occurrence of a Section 11(a)(ii) Event, the Rights which have not theretofore been exercised shall thereafter become exercisable in the manner described in Section 13(a) hereof.

(d) Notwithstanding anything in this Agreement to the contrary, Section 13 shall not be applicable to a transaction described in subparagraphs (x) and (y) of Section 13(a) if (i) such transaction is consummated with a Person or Persons (or a wholly owned subsidiary of any such Person or Persons) who acquired shares of Common Stock pursuant to a cash tender offer for all

outstanding shares of Common Stock which complies with the provisions of Section 11(a)(ii) hereof, (ii) the price per share of Common Stock offered in such transaction is not less than the price per share of Common Stock paid to all holders of Common Stock whose shares were purchased pursuant to such cash tender offer and (iii) the form of consideration being offered to the remaining holders of shares of Common Stock pursuant to such transaction is the same as the form of consideration paid pursuant to such cash tender offer. Upon consummation of any such transaction contemplated by this Section 13(d), all Rights hereunder shall expire.

#### Section 14. Fractional Rights and Fractional Shares.

(a) The Company shall not be required to issue fractions of Rights except prior to the Distribution Date as provided in Section 11(p) hereof, or to distribute Rights Certificates which evidence fractional Rights. In lieu of such fractional Rights, there shall be paid to the registered holders of the Rights Certificates with regard to which such fractional Rights would otherwise be issuable, an amount in cash equal to the same fraction of the current market value of the whole Right. For the purposes of this Section 14(a), the current market value of a whole Right shall be the closing price of the Rights for the Trading Day immediately prior to the date on which such fractional Rights would have been otherwise issuable. The closing price for any day shall be the last sale price, or, in case no such sale takes place on such day, the average of the high bid and low asked prices, in either case as reported by the New York Stock Exchange or, if the Rights are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Rights are listed or admitted to trading, or such other system then in use or, if on any such date the Rights are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Rights selected by the Board. If on any such date no such market maker is making a market in the Rights the fair value of the Rights on such date as determined in good faith by the Board shall be used. In the event the Rights are listed or admitted to trading on a national securities exchange, the closing price for any day shall be the last sale price, regular way, or, in case no such sale takes place on such day, the average of the high bid and low asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to the national securities exchange on which the Rights are listed or admitted to trading.

(b) The Company shall not be required to issue fractions of shares of Series D Preferred Stock (other than fractions which are integral multiples of one one-thousandth of a share of Series D Preferred Stock) upon exercise of the Rights or to distribute certificates which evidence fractional shares of Series D Preferred Stock (other than fractions which are integral multiples of one one-thousandth of a share of Series D Preferred Stock). In lieu of fractional shares of Series D Preferred Stock that are not integral multiples of one one-thousandth of a share of Series D Preferred Stock, the Company may pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one one-thousandth of a share of Series D Preferred Stock. For purposes of this Section 14(b), the current market value of one one-thousandth of a share of



Series D Preferred Stock shall be one one-thousandth of the closing price of a share of Series D Preferred Stock (as determined pursuant to Section 11(d)(ii) hereof) for the Trading Day immediately prior to the date of such exercise.

(c) Following the occurrence of one of the events specified in Section 11 giving rise to the right to receive Common Stock, Stock Equivalents or other securities upon the exercise of a Right, the Company shall not be required to issue fractions of shares of Common Stock, Stock Equivalents or other securities upon exercise of the Rights or to distribute certificates which evidence fractional shares of Common Stock, Stock Equivalents or other securities. In lieu of fractional shares of Common Stock, Stock Equivalents or other securities the Company may pay to the registered holders of Rights Certificates at the time such Rights are exercised as herein provided an amount in cash equal to the same fraction of the current market value of one (1) share of Common Stock, Stock Equivalents or other securities. For purposes of this Section 14(c), the current market value of one share of Common Stock shall be the closing price of one share of Common Stock (as determined pursuant to Section 11(d)(i) hereof) for the Trading Day immediately prior to the date of such exercise.

(d) The holder of a Right by the acceptance of the Rights expressly waives his right to receive any fractional Rights or any fractional shares upon exercise of a Right, except as permitted by this Section 14.

#### Section 15. Rights of Action.

All rights of action in respect of this Agreement, except the rights of action vested in the Rights Agent pursuant to Section 18 and Section 19 hereof, are vested in the respective registered holders of the Rights Certificates (and, prior to the Distribution Date, the registered holders of the Common Stock); and any registered holder of any Rights Certificate (or, prior to the Distribution Date, of the Common Stock), without the consent of the Rights Agent or of the holder of any other Rights Certificate (or, prior to the Distribution Date, of the Common Stock), may, in his own behalf and for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, his right to exercise the Rights evidenced by such Rights Certificate in the manner provided in such Rights Certificate and in this Agreement. Without limiting the foregoing or any remedies available to the holders of Rights, it is specifically acknowledged that the holders of Rights would not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of, the obligations hereunder of any Person subject to this Agreement.

#### Section 16. Agreement of Rights Holders.

Every holder of a Right by accepting the same consents and agrees with the Company and the Rights Agent and with every other holder of a Right that:

(a) prior to the Distribution Date, the Rights will be transferable only in connection

with the transfer of the Common Stock;

(b) after the Distribution Date, the Rights Certificates are transferable only on the registry books of the Rights Agent if surrendered at the office of the Rights Agent designated for such purposes, duly endorsed or accompanied by a proper instrument of transfer and with the appropriate form of assignment and the certificate contained therein duly completed and executed;

(c) subject to Section 6(a) and Section 7(f) hereof, the Company and the Rights Agent may deem and treat the Person in whose name the Rights Certificate (or, prior to the Distribution Date, the associated Common Stock certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on the Rights Certificates or the associated Common Stock certificate made by anyone other than the Company or the Rights Agent) for all purposes whatsoever, and neither the Company nor the Rights Agent, subject to the last sentence of Section 7(e) hereof, shall be affected by any notice to the contrary; and

(d) Notwithstanding anything in this Agreement to the contrary, neither the

Company nor the Rights Agent shall have any liability to any holder of a Right or other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree, judgment or ruling (whether interlocutory or final) issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or enacted by any government authority, prohibiting or otherwise restraining performance of such obligation; provided, however, the -----  
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Company must use its best efforts to have any such order, decree or ruling lifted or otherwise overturned as soon as possible.

Section 17. Rights Certificate Holder Not Deemed a Stockholder.

No holder, as such, of any Rights Certificate shall be entitled to vote, receive dividends or be deemed for any purpose the holder of the Series D Preferred Stock or any other securities of the Company which may at any time be issuable on the exercise of the Rights represented thereby, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or to give or withhold consent to any corporate action, or to receive notice of meetings or other actions affecting stockholders (except as provided in Section 25 hereof), or to receive dividends or subscription rights, or otherwise, until the Right or Rights evidenced by such Rights Certificate shall have been exercised in accordance with the provisions hereof.

Section 18. Duties of Rights Agent.

The Rights Agent undertakes only the duties and obligations expressly imposed by this Agreement upon the following terms and conditions, by all of which the Company and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

(a) The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the advice or opinion of such counsel shall be full and complete authorization and protection to the Rights Agent, and the Rights Agent shall incur no liability, for or in respect of any action taken or omitted by it in good faith and in accordance with such advice or opinion.

(b) Whenever in the performance of its duties under this Agreement the Rights Agent shall deem it necessary or desirable that any fact or matter (including, without limitation, the identity of any Acquiring Person and the determination of "current market price") be proved or established by the Company prior to taking or suffering or omitting to take any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by any person believed by the Rights Agent to be any one of the Chairman of the Board, President, Chief Executive Officer, a Vice President, the Treasurer or the Secretary of the Company and delivered to the Rights Agent; and such certificate shall be full authorization to the Rights Agent, and the Rights Agent shall incur no liability, for or in respect of any action taken, omitted or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(c) The Rights Agent shall be liable hereunder only for its own gross negligence, bad faith, or willful misconduct.

(d) The Rights Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Rights Certificates (except as to its countersignature thereof) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only.

(e) The Rights Agent is serving as an administrative agent and shall not be under any responsibility in respect of, the validity of any provision of this Agreement or the execution and delivery of this Agreement (except the due execution hereof by the Rights Agent) or in respect of the validity or execution of any Rights Certificate (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained

in this Agreement or in any Rights Certificate; nor shall it be responsible for any change in the exercisability of the Rights (including the Rights becoming null and void pursuant to Section 7(e) hereof) or any adjustment required under any of the provisions hereof or responsible for the manner, method, or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights evidenced by Rights Certificates after actual notice of any such adjustment); nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock or shares of Series D Preferred Stock to be issued pursuant to this Agreement or any Rights Certificate or as to whether any shares of Common Stock or shares of Series D Preferred Stock will, when so issued, be validly authorized and issued, fully paid and non-assessable.

(f) The Company agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts,

instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.

(g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any person believed by the Rights Agent to be any one of the Chairman of the Board, the President, Chief Executive Officer, a Vice President, the Secretary or the Treasurer of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken, omitted to be taken or suffered to be taken by it in good faith in accordance with instructions of any such officer or for any delay in acting while awaiting instructions. Any application by the Rights Agent for written instructions from the Company may, at the option of the Rights Agent, set forth in writing any action proposed to be taken, suffered or omitted by the Rights Agent under this Agreement and the date on or after which such action shall be taken or suffered or such omission shall be effective. The Rights Agent shall not be liable for any action taken or suffered by, or omission of, the Rights Agent in accordance with a proposal included in any such application on or after the date specified in such application (which date shall not be less than five Business Days after the date any officer of the Company actually receives such application, unless any such officer shall have consented in writing to an earlier date) unless, prior to taking any such action (or the effective date in the case of an omission), the Rights Agent shall have received written instruction in response to such application specifying the action to be taken, suffered or omitted.

(h) The Rights Agent and any stockholder, affiliate, director, officer or employee of the Rights Agent may buy, sell or deal in any of the Rights or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Company or for any other Person or legal entity.

(i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent shall not be answerable or accountable for any act, default, neglect, or misconduct of any such attorneys or agents or for any loss to the Company resulting from any such act, default, neglect, or misconduct; provided, however, the Rights Agent was not grossly negligent in the selection and continued employment thereof.

(j) No provision of this Agreement shall require the Rights Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights if there shall be reasonable grounds for believing that repayment of such funds or adequate indemnification against such risk or liability is not reasonably assured to it.

(k) If, with respect to any Rights Certificate surrendered to the Rights Agent for exercise or transfer, the certificate attached to the form of

assignment or form of election to purchase, as the case may be, has either not been properly completed or indicates an affirmative response to clause 1 and/or 2 thereof, the Rights Agent shall not take any further action with

respect to such requested exercise of transfer without first consulting with the Company.

(1) The Rights Agent undertakes only the express duties and obligations imposed on it by this Agreement and no implied duties or obligations shall be read into this Agreement against the Rights Agent.

Section 19. Compensation and Indemnification of the Rights Agent.

(a) The Company agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the administration and execution of this Agreement and the exercise and performance of its duties hereunder. The Company also agrees to indemnify the Rights Agent, its officers, employees, agents and directors for, and to hold each of them harmless against, any loss, liability, or expense, incurred without gross negligence, bad faith or willful misconduct on the part of the Rights Agent, for any action taken, suffered or omitted by the Rights Agent or such other indemnified party in connection with the acceptance and administration of this Agreement and the exercise of its duties hereunder, including but not limited to the costs and expenses of defending against any claim of liability in the premises. The indemnity provided for hereunder shall survive the expiration of the Rights and the termination of this Agreement.

(b) The Rights Agent shall be authorized and protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement or the exercise of its duties hereunder in reliance upon any Rights Certificate or certificate for Common Stock or for other securities of the Company, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper person or persons.

(c) Anything in this Agreement to the contrary notwithstanding, in no event shall the Rights Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Rights Agent has been advised of the likelihood of such loss or damage and regardless of the form of the action unless such loss or damage results from the gross negligence, bad faith or willful misconduct of the Rights Agent.

Section 20. Merger or Consolidation or Change of Name of Rights Agent.

(a) Any Person into which the Rights Agent or any successor Rights Agent may be merged or with which it may be consolidated, or any Person resulting from any merger or consolidation to which the Rights Agent or any successor Rights Agent shall be a party, or any Person succeeding to the shareholder services business of the Rights Agent or any successor Rights Agent, shall be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto; provided, however, that such Person would be eligible for appointment as a  
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successor Rights

Agent under the provisions of Section 21 hereof.

(b) In case at any time the name of the Rights Agent shall be changed and at any such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

Section 21. Change of Rights Agent.

(a) The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon thirty (30) days' notice in writing mailed to the Company and to each transfer agent of the Common Stock and the Series D Preferred Stock by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. The Company may remove the Rights Agent or any successor Rights Agent upon thirty (30) days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent of the Common Stock and Series D Preferred Stock by registered or certified mail, and to the holders of the Rights Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Rights Certificate (who shall, with such notice, submit his Rights Certificate for inspection by the Company), then the registered holder of any Rights Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be (i) a Person organized and doing business under the laws of the United States or of the State of Maryland or New York (or of any other state of the United States so long as such Person is authorized to do business in the State of Maryland or New York), in good standing, having an office in the State of Maryland or New York which is authorized under such laws to exercise corporate trust power and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least \$100 million or (ii) an Affiliate of such a Person described in clause (a). After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Common Stock and the Series D Preferred Stock, and mail a notice thereof in writing to the registered holders of the Rights Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights

Agent or the appointment of the successor Rights Agent, as the case may be.

(b) In case at the time such successor Rights Agent shall succeed to the agency created by this Agreement, any of the Rights Certificates shall have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

#### Section 22. Issuance of New Rights Certificates.

Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Company may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by the Board to reflect any adjustment or change in the Purchase Price per share and the number or kind of class of shares or other securities or property purchasable under the Rights Certificates made in accordance with the provisions of this Agreement. In addition, in connection with the issuance or sale of shares of Common Stock following the Distribution Date (other than upon exercise of a Right) and prior to the redemption or expiration of the Rights, the Company (a) shall, with respect to shares of Common Stock so issued or sold pursuant to the exercise of stock options or under any employee plan or arrangement, or upon the exercise, conversion or exchange of securities hereinafter issued by the Company, and (b) may, in any other case, if deemed necessary or appropriate by the Board, issue

Rights Certificates representing the appropriate number of Rights in connection with such issuance or sale; provided, however, that (i) no such Rights

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Certificate shall be issued if, and to the extent that, the Company shall be advised by counsel that such issuance would create a significant risk of material adverse tax consequences to the Company or the Person to whom such Rights Certificate would be issued, and (ii) no such Rights Certificate shall be issued if, and to the extent that, appropriate adjustment shall otherwise have been made in lieu of the issuance thereof.

Section 23. Redemption.

(a) The Board may, at its option, at any time during the period commencing on the Rights Dividend Declaration Date and ending on the earlier of (i) the Close of Business on the tenth day following the Stock Acquisition Date (or, if the Stock Acquisition Date shall have occurred prior to the Record Date, the Close of Business on the tenth day following the Record Date), as such period may be extended or shortened in the discretion of the Board (the "Redemption Period") or (ii) the Close of Business on the Final Expiration Date, cause the Company to redeem all but not less than all the then outstanding Rights at a redemption price of \$.005 per Right, as such amount may be appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such redemption price being hereinafter referred to as the "Redemption Price"); provided, however, that, if the Board

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authorizes redemption of the Rights or a change in the Redemption Period on or after the time a

Person becomes an Acquiring Person, then such authorization shall require the concurrence of two-thirds of the Board. If, following the occurrence of a Stock Acquisition Date and following the expiration of the Company's right of redemption hereunder (i) a Person who is an Acquiring Person shall have transferred or otherwise disposed of a number of shares of Common Stock in one transaction or series of transactions, not directly or indirectly involving the Company or any of its Subsidiaries, which did not result in the occurrence of a Triggering Event such that such Person is thereafter a Beneficial Owner of 10% or less of the outstanding shares of Common Stock, (ii) there are no other Persons, immediately following the occurrence of the event described in clause (i), who are Acquiring Persons, and (iii) the Board, by a vote of two-thirds of the Board, shall so approve, then the Company's right of redemption shall be reinstated and thereafter be subject to the provisions of this Section 23. Notwithstanding anything contained in this Agreement to the contrary, the Rights shall not be exercisable after the first occurrence of a Section 11(a)(ii) Event or a Section 13 Event until such time as the Company's right of redemption hereunder has expired. The Company may, at its option, pay the Redemption Price in cash, shares of Common Stock (based on the current market price of the Common Stock at the time of redemption) or any other form of consideration deemed appropriate by the Board.

(b) Immediately upon the action of the Board ordering the redemption of the Rights, evidence of which shall have been filed with the Rights Agent, and without any further action and without any notice, the right to exercise the Rights will terminate and the only right thereafter of the holders of Rights shall be to receive the Redemption Price. Promptly after the action of the Board ordering the redemption of the Rights, the Company shall give notice of such redemption to the Rights Agent and the holders of the then outstanding Rights by mailing such notice to all such holders at their last addresses as they appear upon the registry books of the Rights Agent or, prior to the Distribution Date, on the registry books of the Transfer Agent for the Common Stock. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made.

Section 24. Exchange.

(a) The Board may, at its option, at any time after any Person becomes an Acquiring Person, exchange all or part of the then outstanding and exercisable Rights (which shall not include Rights that have become null and void pursuant to the provisions of Section 11(a)(ii) or Section 7(e) hereof) for shares of Common Stock at an exchange ratio of one share of Common Stock per Right,



appropriately adjusted to reflect any stock split, stock dividend or similar transaction occurring after the date hereof (such exchange ratio being hereinafter referred to as the "Exchange Ratio").

(b) Immediately upon the action of the Board ordering the exchange of any Rights pursuant to subsection (a) of this Section 24 and without any further action and without any notice, the right to exercise such Rights shall terminate and the only right thereafter of a holder of such Rights shall be to receive that number of shares of Common Stock equal to the number of such Rights held by such holder multiplied by the Exchange Ratio. The Company shall promptly

give public notice of any such exchange; provided, however, that the failure to give, or any defect in, such notice shall not affect the validity of such exchange. The Company promptly shall mail a notice of any such exchange to all of the holders of such Rights at their last addresses as they appear upon the registry books of the Rights Agent. Any notice which is mailed in the manner herein provided shall be deemed given, whether or not the holder receives the notice. Each such notice of exchange will state the method by which the exchange of Common Stock for Rights will be effected and, in the event of any partial exchange, the number of Rights which will be exchanged. Any partial exchange shall be effected pro rata based on the number of Rights (other than Rights which have become void pursuant to the provisions of Section 11(a)(ii) or Section 7(e) hereof) held by each holder of Rights.

(c) In the event that there shall not be sufficient Common Stock issued but not outstanding or authorized but unissued to permit any exchange of Rights as contemplated in accordance with this Section 24, the Company shall take all such action as may be necessary to authorize additional shares of Common Stock for issuance upon exchange of the Rights.

(d) The Company shall not be required to issue fractions of shares of Common Stock or to distribute certificates which evidence fractional shares of Common Stock. In lieu of such fractional shares, the Company shall pay to the registered holders of the Right Certificates with regard to which such fractional shares would otherwise be issuable an amount in cash equal to the same fraction of the current market value of a whole share of Common Stock. For the purposes of this paragraph (d), the current market value of a whole share of Common Stock shall be the closing price of a share of Common Stock (as determined pursuant to the second sentence of Section 11(d) hereof) for the Trading Day immediately prior to the date of exchange pursuant to this Section 24.

#### Section 25. Notice of Certain Events.

(a) In case the Company shall propose, at any time after the Distribution Date (i) to pay any dividend payable in stock of any class to the holders of Series D Preferred Stock or to make any other distribution to the holders of Series D Preferred Stock (other than a regular quarterly cash dividend out of earnings or retained earnings) or (ii) to offer to the holders of Series D Preferred Stock rights or warrants to subscribe for or to purchase any additional shares of Series D Preferred Stock or shares of stock of any class or any other securities, rights or options, or (iii) to effect any reclassification of its Series D Preferred Stock (other than a reclassification involving only the subdivision of outstanding Series D Preferred Stock), or (iv) to effect any consolidation or merger into or with, or to effect any sale or other transfer (or to permit one or more of its subsidiaries to effect any sale or other transfer), in one or more transactions, of more than 50% of the assets or earning power of the Company and its subsidiaries (taken as a whole) to, any other Person, or (v) to effect the liquidation, dissolution or winding up of the Company, then, in each such case, the Company shall give to each holder of a Rights Certificate, to the extent feasible and in accordance with Section 26 hereof, a notice of such proposed action, which shall specify the record date for the purposes of such stock dividend, distribution of rights or warrants, or the date on which such reclassification, consolidation, merger, sale, transfer,

liquidation, dissolution, or winding up is to take place and the date of participation therein by the holders of the shares of Series D Preferred Stock, if any such date is to be fixed, and such notice shall be so given in the case of any action covered by clause (i) or (ii) above at least twenty (20) days prior to the record date for determining holders of the shares of Series D

Preferred Stock for purposes of such action and in the case of any such other action, at least twenty (20) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of the shares of Series D Preferred Stock whichever shall be the earlier.

(b) In case any Section 11(a)(ii) Event shall occur, then, in any such case, (i) the Company shall as soon as practicable thereafter give to each holder of a Rights Certificate, to the extent feasible and in accordance with Section 26 hereof, a notice of the occurrence of such event which shall specify the event and the consequences of the event to holders of Rights under Section 11(a)(ii) hereof, and (ii) all references in the preceding paragraph to Series D Preferred Stock shall be deemed thereafter to refer to Common Stock and/or, if appropriate other securities.

Section 26. Notices.

Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Rights Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

CHARLES E. SMITH RESIDENTIAL REALTY, INC.  
2345 Crystal Drive, 10th Floor  
Arlington, Virginia 22202

Attention: Robert D. Zimet

Subject to the provisions of Section 21 hereof, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Rights Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

FIRST UNION NATIONAL BANK  
1525 West W.T. Harris Blvd., 3C3, NC-1153  
Charlotte, North Carolina 28288-1153

Attention: Shareholder Services Group

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Rights Certificate shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to any such holder at the address of such holder as shown on the registry books of the Company.

Section 27. Supplements and Amendments.

Prior to the Distribution Date and subject to the penultimate sentence of this Section 27, the Company may, and the Rights Agent shall, if the Company so directs, supplement or amend any provision of this Agreement without the approval of any holders of certificates representing shares of Common Stock. From and after the Distribution Date and subject to the penultimate sentence of this Section 27, the Company may, and the Rights Agent shall at any time and from time to time, if the Company so directs, supplement or amend this Agreement without the approval of any holders of Rights Certificates in order (i) to cure any ambiguity, (ii) to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, (iii) to shorten or lengthen any time period hereunder or (iv) to change or supplement the provisions hereunder in any manner which the Company may deem necessary or desirable and which shall not adversely affect the interests of the holders of Rights Certificates (other than an Acquiring Person or an Affiliate or Associate of any such Person); provided, however, that this Agreement may not be

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supplemented or amended (A) to lengthen a time period relating to when the Rights may be redeemed at such time as the Rights are not then redeemable, (B) to lengthen any other time period unless such lengthening is for the purpose of protecting, enhancing or clarifying the rights of, and/or the benefits to, the holders of Rights (other than an Acquiring Person or an Affiliate or Associate of any such Person) or (C) to change any rights or duties of the Rights Agent under this Agreement without the prior approval of the Rights Agent (which



approval shall not be unreasonably withheld and shall be conclusively evidenced by the Rights Agent's execution of any such supplement or amendment). Upon the delivery of a certificate from an appropriate officer of the Company which states that the proposed supplement or amendment is in compliance with the terms of this Section 27, the Rights Agent shall execute such supplement or amendment. Notwithstanding anything contained in this Agreement to the contrary, no supplement or amendment shall be made which changes the Redemption Price, the Final Expiration Date, the number of one one-thousandths of a share of Series D Preferred Stock for which a Right is exercisable or the Purchase Price; provided, however, that at any time prior to the Distribution Date, the Company

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may amend this Agreement to increase the Purchase Price. Prior to the Distribution Date, the interests of the holders of Rights shall be deemed coincident with the interests of the holders of shares of Common Stock.

Section 28. Successors.

All the covenants and provisions of this Agreement by or for the benefit of the Company or the Rights Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

Section 29. Determinations and Actions by the Board, etc.

For all purposes of this Agreement, any calculation of the number of shares of Common Stock outstanding at any particular time, including for purposes of determining the particular

percentage of such outstanding shares of Common Stock of which any Person is the Beneficial Owner, shall be made in accordance with the last sentence of Rule 13d-3(d)(1)(i) of the General Rules and Regulations under the Exchange Act. The Board (with, where specifically provided for herein, the concurrence of two-thirds of the Directors) shall have the exclusive power and authority to administer this Agreement and to exercise all rights and powers specifically granted to the Board (with, where specifically provided for herein, the concurrence of two-thirds of the Directors) or to the Company, or as may be necessary or advisable in the administration of this Agreement, including, without limitation, the right and power to (i) interpret the provisions of this Agreement, and (ii) make all determinations deemed necessary or advisable for the administration of this Agreement (including without limitation a determination to redeem or not redeem the Rights or to amend the Agreement). All such actions, calculations, interpretations and determinations (including, for purposes of clause (y) below, all omissions with respect to the foregoing) which are done or made by the Board (with, where specifically provided for herein, the concurrence of two-thirds of the Directors) in good faith, shall (x) be final, conclusive and binding on the Company, the Rights Agent, the holders of the Rights and all other Persons, and (y) not subject any director to any liability to the holders of the Rights.

Section 30. Benefits of this Agreement.

Nothing in this Agreement shall be construed to give to any Person other than the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, the registered holders of the Common Stock) any legal or equitable right, remedy or claim under this Agreement; but this Agreement shall be for the sole and exclusive benefit of the Company, the Rights Agent and the registered holders of the Rights Certificates (and, prior to the Distribution Date, registered holders of Common Stock).

Section 31. Severability.

If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated; provided, however, that

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notwithstanding anything in this Agreement to the contrary, if any such term, provision, covenant or restriction is held by such court or authority to be invalid, void or unenforceable and the Board determines in its good faith judgment that severing the invalid language from this Agreement would materially and adversely affect the purpose or effect of this Agreement, the right of

redemption set forth in Section 23 hereof shall be reinstated and shall not expire until the Close of Business on the tenth day following the date of such determination by the Board.

Section 32. Governing Law.

This Agreement, each Right and each Rights Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of Maryland and for all purposes shall be

governed by and construed in accordance with laws of such State.

Section 33. Counterparts.

This Agreement may be executed in any number of counterparts. It shall not be necessary that the signature of or on behalf of each party appears on each counterpart, but it shall be sufficient that the signature of or on behalf of each party appears on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in any proof of this Agreement to produce or account for more than a number of counterparts containing the respective signatures of or on behalf of all of the parties.

Section 34. Descriptive Headings.

Descriptive headings of the several Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 35. Limitation of Ownership.

Notwithstanding anything to the contrary in this Agreement, a Person's ability to acquire shares of Series D Preferred Stock and/or Common Stock of the Company under this Agreement shall be limited to only such number of shares of Series D Preferred Stock and/or Common Stock, as the case may be, as would not cause any such Person or any other Person (taking into account the attribution rules of the Internal Revenue Code) to exceed the ownership limits set forth in the Articles of Incorporation of the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and attested, all as of the day and year first above written.

ATTEST: CHARLES E. SMITH RESIDENTIAL REALTY, INC.

By: \_\_\_\_\_ Name: \_\_\_\_\_ Title: \_\_\_\_\_

ATTEST: FIRST UNION NATIONAL BANK

By: \_\_\_\_\_ Name: \_\_\_\_\_ Title: \_\_\_\_\_

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EXHIBITS

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EXHIBIT B            Form of Summary of Rights

EXHIBIT C            Form of Rights Certificate

## EXHIBIT 21

## SUBSIDIARIES OF CHARLES E. SMITH RESIDENTIAL REALTY, INC.

&lt;TABLE&gt;

&lt;CAPTION&gt;

Name	State of Incorporation/Formation
<S>	<C>
Smith One, Inc.	Delaware
Smith Two, Inc.	Delaware
Smith Three, Inc.	Delaware
Smith Four, Inc.	Delaware
Smith Five, Inc.	Delaware
Smith Six, Inc.	Delaware
Smith Seven, Inc.	Delaware
Charles E. Smith Residential Realty L.P.	Delaware
Smith Employment Services L.P.	Delaware
Courthouse Hill L.L.C.	Delaware
Smith Property Holdings Springfield L.L.C.	Delaware
Smith Property Holdings 2000 Commonwealth L.L.C.	Delaware
Smith Property Holdings Cathedral Place L.L.C.	Delaware
Smith Property Holdings Crystal Plaza L.L.C.	Delaware
Smith Property Holdings Dearborn Place L.L.C.	Delaware
Smith Property Holdings One East Delaware L.L.C.	Delaware
Smith Property Holdings Lincoln Towers L.L.C.	Delaware
Smith Property Holdings One, L.P.	Delaware
Smith Property Holdings One (D.C.) L.P.	Delaware
Smith Property Holdings Crystal Towers L.P.	Delaware
Smith Property Holdings Two L.P.	Delaware
Smith Property Holdings Two (D.C.) L.P.	Delaware
Smith Property Holdings Three L.P.	Delaware
Smith Property Holdings Three (D.C.) L.P.	Delaware
Smith Property Holdings Four L.P.	Delaware
Smith Property Holdings Kenmore L.P.	Delaware
Smith Property Holdings Five L.P.	Delaware
Smith Property Holdings Five (D.C.) L.P.	Delaware
First Herndon Associates Limited Partnership	Virginia
Smith Property Holdings Six L.P.	Delaware
Smith Property Holdings Six (D.C.) L.P.	Delaware
Smith Property Holdings Van Ness L.P.	Delaware
Smith Property Holdings Columbia Road L.P.	Delaware
Smith Property Holdings Seven L.P.	Delaware
Metropolitan Acquisition Finance L.P.	Delaware
Smith Realty Company	Maryland
Consolidated Engineering Services, Inc.	Maryland
Smith Management Construction, Inc.	Maryland
Charles E. Smith Insurance Agency, Inc.	District of Columbia
Noel Enterprises, Inc.	Delaware
Smith Property Holdings Cronin's Landing Limited Partnership	Delaware
Smith Property Holdings 4411 Connecticut L.L.C.	Delaware
Smith Property Holdings Buchanan House L.L.C.	Delaware
Smith Property Holdings McClurg Court L.L.C.	Delaware
Smith Property Holdings Parc Vista L.L.C.	Delaware
Smith Property Holdings Stonebridge L.L.C.	Delaware
Smith Property Holdings Superior Place L.L.C.	Delaware
Smith Property Holdings Water Park Towers L.L.C.	Delaware
Smith Property Holdings Renaissance Manager L.L.C.	Delaware
SPH Renaissance L.L.C.	Delaware

&lt;/TABLE&gt;

Exhibit 23.1

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CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report included in this Form 10-K, into Charles E. Smith Residential Realty, L.P.'s previously filed Registration Statement File No. 33-82382.

[AA]

/s/ ARTHUR ANDERSEN LLP

Washington, D.C.  
March 26, 1999

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