
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2012

Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1-32375

Comstock Holding Companies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-1164345
(I.R.S. Employer
Identification No.)

**1886 Metro Center Drive
Suite 410
Reston, Virginia 20190
(703) 883-1700**

(Address zip code, and telephone number, including area code, of principal executive offices)

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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of November 14, 2012, 18,533,045 shares of the Class A common stock, par value \$.01 per share, and 2,733,500 shares of Class B common stock, par value \$.01, of the Registrant were outstanding.

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share data)

	September 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 4,442	\$ 5,639
Restricted cash	3,200	3,082
Trade receivables	1,298	2,228
Real estate held for development and sale	17,643	21,212
Operating real estate, net	—	12,095
Property, plant and equipment, net	185	105
Other assets	2,324	2,018
TOTAL ASSETS	\$ 29,092	\$ 46,379
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	\$ 3,656	\$ 3,987
Notes payable – secured by real estate held for development and sale, net of discount	9,761	10,541
Notes payable – secured by operating real estate, net	—	9,957
Notes payable – due to affiliates, unsecured	5,022	5,008
Notes payable – unsecured	3,650	4,309
Income taxes payable	5	33
TOTAL LIABILITIES	22,094	33,835
Commitments and contingencies (Note 10)	—	—
SHAREHOLDERS' EQUITY		
Class A common stock, \$0.01 par value, 77,266,500 shares authorized, 18,533,045 and 17,944,503 issued and outstanding, respectively	185	179
Class B common stock, \$0.01 par value, 2,733,500 shares authorized, issued and outstanding	27	27
Additional paid-in capital	169,542	168,620
Treasury stock, at cost (391,400 shares Class A common stock)	(2,439)	(2,439)
Accumulated deficit	(160,344)	(156,684)
TOTAL COMSTOCK HOLDING COMPANIES, INC. EQUITY	6,971	9,703
Non-controlling interest	27	2,841
TOTAL EQUITY	6,998	12,544
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 29,092	\$ 46,379

The accompanying notes are an integral part of these consolidated financial statements.

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Revenue – homebuilding	\$ 2,527	\$ 2,864	\$ 9,479	\$ 9,003
Revenue – other	956	2,444	2,183	6,794
Total revenue	3,483	5,308	11,662	15,797
Expenses				
Cost of sales – homebuilding	2,093	2,551	8,149	8,010
Cost of sales – other	1,144	2,487	2,951	6,327
Impairments and write-offs	2,358	—	2,358	—
Selling, general and administrative	2,183	1,633	6,165	4,951
Interest, real estate taxes and indirect costs related to inactive projects	190	893	1,982	1,677
Operating loss	(4,485)	(2,256)	(9,943)	(5,168)
Gain on legal settlement, net	—	9,434	—	9,434
Other (expense) income, net	(45)	(201)	(8)	362
(Loss) income before income tax benefit	(4,530)	6,977	(9,951)	4,628
Income tax benefit (expense)	364	(82)	2,478	(82)
Net (loss) income from continuing operations	(4,166)	6,895	(7,473)	4,546
Discontinued operations:				
Loss from discontinued operations	(6)	(234)	(112)	(336)
Gain on sale of the real estate from discontinued operations	—	—	6,466	—
Income tax expense from discontinued operations	(364)	—	(2,478)	—
Net (loss) income from discontinued operations	(370)	(234)	3,876	(336)
Net (loss) income	(4,536)	6,661	(3,597)	4,210
Less: Net loss from continuing operations attributable to non-controlling interest	(40)	—	(40)	—
Less: Net income from discontinued operations attributable to non-controlling interest	—	120	103	370
Net (loss) income attributable to Comstock Holding Companies, Inc.	\$ (4,496)	\$ 6,541	\$ (3,660)	\$ 3,840
Basic (loss) income per share:				
Continuing operations	\$ (.20)	\$.35	\$ (.36)	\$.23
Discontinued operations	(.02)	(.02)	.18	(.03)
Net (loss) income per share	\$ (.22)	\$ 0.33	\$ (.18)	\$.20
Diluted (loss) income per share:				
Continuing operations	\$ (.20)	\$.34	\$ (.36)	\$.23
Discontinued operations	(.02)	(.01)	.18	(.04)
Net (loss) income per share	\$ (.22)	\$.33	\$ (.18)	\$.19
Basic weighted average shares outstanding	20,653	19,774	20,433	19,614
Diluted weighted average shares outstanding	20,653	20,125	20,433	20,008
Net (loss) income attributable to Comstock Holding Companies, Inc.:				
(Loss) income from continuing operations	\$ (4,126)	\$ 6,895	\$ (7,433)	\$ 4,546
(Loss) income from discontinued operations	(370)	(354)	3,773	(706)
Net (loss) income	\$ (4,496)	\$ 6,541	\$ (3,660)	\$ 3,840

The accompanying notes are an integral part of these consolidated financial statements.

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDERS' EQUITY

(Amounts in thousands, except per share data)

	Class A		Class B		Additional paid-in capital	Treasury stock	Retained earnings (deficit)	Non- controlling interest	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2010	17,120	\$ 171	2,733	\$ 27	\$166,700	\$(2,439)	\$(157,791)	\$ —	\$ 6,668
Stock compensation and issuances	596	6	—	—	661	—	—	—	667
Warrants	—	—	—	—	945	—	—	—	945
Non-controlling interest	—	—	—	—	—	—	—	2,350	2,350
Net income	—	—	—	—	—	—	3,840	370	4,210
Balance at September 30, 2011	<u>17,716</u>	<u>\$ 177</u>	<u>2,733</u>	<u>\$ 27</u>	<u>\$168,306</u>	<u>\$(2,439)</u>	<u>\$(153,951)</u>	<u>\$ 2,720</u>	<u>\$14,840</u>
Balance at December 31, 2011	17,945	\$ 179	2,733	\$ 27	\$168,620	\$(2,439)	\$(156,684)	\$ 2,841	\$12,544
Stock compensation and issuances	588	6	—	—	922	—	—	—	928
Non-controlling interest	—	—	—	—	—	—	—	(2,877)	(2,877)
Net (loss) income	—	—	—	—	—	—	(3,660)	63	(3,597)
Balance at September 30, 2012	<u>18,533</u>	<u>\$ 185</u>	<u>2,733</u>	<u>\$ 27</u>	<u>\$169,542</u>	<u>\$(2,439)</u>	<u>\$(160,344)</u>	<u>\$ 27</u>	<u>\$ 6,998</u>

The accompanying notes are an integral part of these consolidated financial statements.

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COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands, except per share data)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net (loss) income	\$ (3,597)	\$ 4,210
Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities		
Amortization of loan discount and deferred financing fees	1,234	580
Depreciation expense	107	76
Provision for bad debt	—	3
Loss (gain) on extinguishment of notes payable	73	(219)
Gain on trade payable settlements	—	(152)
Gain on sale of operating real estate, net	(6,466)	—
Impairments and write-offs	2,358	—
Loss on disposal of property, plant and equipment	1	—
Amortization of stock compensation	928	667
Changes in operating assets and liabilities:		
Restricted cash	(118)	(41)
Trade receivables	930	—
Real estate held for development and sale	1,154	7,425
Other assets	(340)	(1,402)
Accrued interest	(596)	365
Accounts payable and accrued liabilities	(777)	(127)
Income taxes payable	(28)	81
Net cash (used in) provided by operating activities	<u>(5,137)</u>	<u>11,466</u>
Cash flows from investing activities:		
Investment in Cascades Apartments – operating real estate, net	—	(9,281)
Purchase of property, plant and equipment	(106)	(53)
Proceeds from sale of Cascades Apartments – operating real estate, net	18,882	—
Net cash provided by (used in) investing activities	<u>18,776</u>	<u>(9,334)</u>
Cash flows from financing activities:		
Proceeds from notes payable	13,662	33,520
Payments on notes payable	(25,283)	(31,792)
Loan financing costs	(338)	(1,142)
Proceeds from SunBridge warrant issuance	—	945
Distribution to non-controlling interest holders	(2,944)	—
Contribution from non-controlling interest holders	67	2,350
Net cash (used in) provided by financing activities	<u>(14,836)</u>	<u>3,881</u>
Net (decrease) increase in cash and cash equivalents	(1,197)	6,013
Cash and cash equivalents, beginning of period	5,639	475
Cash and cash equivalents, end of period	<u>\$ 4,442</u>	<u>\$ 6,488</u>
Supplemental disclosure for non-cash activity:		
Interest paid, net of interest capitalized	\$ 1,308	\$ 1,003
Reduction in proceeds from sale of Cascades Apartments and increase in other assets related to amounts placed in escrow upon settlement of Cascades Apartments sale	\$ 418	\$ —
Reduction in notes payable in connection with troubled debt restructuring	\$ —	\$ (73)
Increase in class A common stock par value in connection with issuance of stock compensation	\$ —	\$ 6
Increase in additional paid in capital in connection with issuance of stock compensation	\$ —	\$ 661
Increase in additional paid in capital in connection with SunBridge warrant	\$ —	\$ 995
Reduction in accounts payable and restricted cash due to Cascades Private Placement closing	\$ —	\$ 2,100

The accompanying notes are an integral part of these consolidated financial statements.

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unless otherwise noted, all dollar amounts are presented in thousands, except per share data)

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying unaudited financial statements of Comstock Holding Companies, Inc. and subsidiaries (“Comstock” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X. Such financial statements do not include all of the information and disclosures required by GAAP for complete financial statements. In our opinion, all adjustments necessary for a fair statement have been included in the accompanying financial statements. For further information and a discussion of our significant accounting policies other than as discussed below, refer to our audited consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Comstock Holding Companies, Inc. is a multi-faceted real estate development and services company focused on the Washington, D.C. metropolitan area. The Company has substantial experience with building a diverse range of products including single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums, apartments and mixed-use (residential and commercial) developments. Since our founding in 1985, and as of September 30, 2012, we have built and delivered more than 5,500 homes generating total revenue in excess of \$1.4 billion. References in this Form 10-Q to “Comstock,” “Company,” “we,” “our” and “us” refer to Comstock Holding Companies, Inc. together in each case with our subsidiaries and any predecessor entities unless the context suggests otherwise.

Comstock Companies, Inc. was incorporated on May 24, 2004 as a Delaware corporation. On June 30, 2004, the Company changed its name to Comstock Homebuilding Companies, Inc. On December 17, 2004, the Company completed an initial public offering (“IPO”) of its Class A common stock. On June 22, 2012, the Company changed its name to Comstock Holding Companies, Inc. which better reflects the Company’s multi-faceted strategy and capabilities.

The Company’s Class A common stock is traded on the NASDAQ Capital Market (“NASDAQ”) under the symbol “CHCI” and has no public trading history prior to December 17, 2004. The Company continues to be in compliance with all NASDAQ continued listing requirements.

Certain amounts have been reclassified in prior periods to conform to the current year presentation. The reclassifications are due to the treatment of the sale of the Company’s apartment project as discontinued operations on the consolidated statement of operations for all periods presented. Refer to Notes 12 and 13 for further information.

2. REAL ESTATE HELD FOR DEVELOPMENT AND SALE

Real estate held for development and sale includes land, land development costs, interest and other construction costs. Real estate held for development and use is stated at cost, or when circumstances or events indicate that the real estate is impaired, at estimated fair value. Real estate held for sale is carried at the lower of cost or fair value less estimated costs to sell. Land, land development and indirect land development costs are accumulated by specific project and allocated to various units within that project using specific identification and allocation based upon the relative sales value, unit or area methods. Direct construction costs are assigned to units based on specific identification. Construction costs primarily include direct construction costs and capitalized field overhead. Other costs are comprised of fees, capitalized interest and real estate taxes. Selling costs are expensed as incurred.

If the project is considered held for sale, it is valued at the lower of cost or fair value less estimated selling costs. Currently the Company's Eclipse and Penderbrook projects meet these criteria. Because the project sales are expected to extend over a period of time, the Company calculates fair value utilizing a discounted cash flow model as discussed below. For assets held for development and use, estimated fair value is based on comparable sales of real estate in the normal course of business under existing and anticipated market conditions. Currently, all other projects are considered held for development and use. The evaluation takes into consideration the current status of the property, various restrictions, carrying costs, costs of disposition and any other circumstances which may affect fair value including management's plans for the property. A write-down to estimated fair value is recorded when the net carrying value of the property exceeds its estimated undiscounted future cash flows. These evaluations are made on a property-by-property basis whenever events or changes in circumstances indicate that the net book value may not be recoverable.

The Company has classified its Eclipse and Penderbrook projects as held for sale as discussed above and accordingly, written the projects down to fair value less costs to sell as determined by discounted cash flow models. Discounted cash flow models are dependent upon several subjective factors, including estimated average sales prices, estimated sales pace, and the selection of an appropriate discount rate. The estimates of sales prices, sales pace, and discount rates used by the Company are based on the best information available at the time the estimates are made.

In the quarter ended September 30, 2012, management evaluated its strategic alternatives with respect to its real estate projects classified as held for sale with the objective of creating additional near term liquidity. As a result, a decision was made to market the Potomac Yard project in a bulk sale transaction, rather than by selling directly to prospective home buyers, significantly accelerating absorption. The impairment charge of \$2,358 for the three and nine month periods ended September 30, 2012, respectively, reflects the write down to estimated fair value less costs to sell under the revised disposition strategy, however, there can be no assurance that the Company will be successful in the sale of the Potomac Yard project in a bulk sale and in the absence thereof, the Company will continue selling to prospective home buyers. The Company has recorded an impairment charge of \$2,358 during the three and nine month periods ended September 30, 2012, to properly record its for sale projects at fair market value less costs to sell, consistent with the provisions of ASC 360. There were no impairment charges recorded during the three and nine month periods ended September 30, 2011.

Real estate held for development and sale consists of the following:

	September 30, 2012	December 31, 2011
Land and land development costs	\$ 7,148	\$ 4,693
Cost of construction (including capitalized interest and real estate taxes)	10,495	16,519
	<u>\$ 17,643</u>	<u>\$ 21,212</u>

3. OPERATING REAL ESTATE, NET

In February 2011, the Company began construction on a 103 unit apartment rental project located in the Cascades master planned community in Loudoun County, Virginia (the "Cascades Apartments"). Accordingly, upon the initiation of construction, the value of the existing land upon which the project was constructed (approximately \$2.5 million) was reclassified from real estate held for development and sale to operating real estate, net. The total construction costs capitalized in addition to the land and land development costs were approximately \$9.8 million. The apartment project consisted of two buildings, the first of which was placed into service in July 2011 and the second of which was placed in service in September 2011. As further discussed in Note 13, the Cascades Apartments were sold on March 7, 2012 and accordingly, the results of operations are included in 'Net loss on discontinued operations' in 2012 and 2011.

Depreciation was calculated on buildings and improvements at the Cascades Apartments using the straight-line method over estimated useful lives, which ranged from seven to thirty years. Furniture, fixtures and equipment were depreciated using the straight-line method over estimated useful lives, which range from three years (primarily computer-related equipment) to seven years. Depreciation of \$82 was recorded for the nine months ended September 30, 2012 and depreciation of \$61 was recorded for the three and nine month periods ended September 30, 2011. No depreciation charges were recorded for the three months ended September 30, 2012.

4. GENERAL CONTRACTING

The Company undertakes short-term general contracting projects within its real estate services segment. These contracts are typically no more than 12 months in length. Revenue and earnings on these general contracting contracts are recognized under the percentage of completion method using the ratio of costs incurred to estimated total costs. There are estimates used in determining profits and total costs inherent in the percentage of completion method and actual results could differ from the estimates used by the Company. The revenues and costs associated with these projects are included in 'Revenue – other' and 'Cost of sales – other,' respectively, in the accompanying consolidated statement of operations for the nine months ended September 30, 2012 and 2011. Total revenue and gross profit recognized in the three months ended September 30, 2012 was \$883 and \$178 respectively. Total revenue and gross profit recognized in the three months ended September 30, 2011 was \$2,148 and \$122, respectively. During the nine months ended September 30, 2012 total revenue and gross profit recognized was \$1,835 and \$304, respectively. During the nine months ended September 30, 2011 total revenue and gross profit recognized was \$5,722 and \$486, respectively. Included in trade receivables and accounts payable were approximately \$1,240 and \$1,228, respectively, related to ongoing general contracting projects at September 30, 2012. Trade receivables and accounts payable were approximately \$1,646 and \$1,397 respectively, related to ongoing general contracting projects at December 31, 2011.

5. WARRANTY RESERVES

Warranty reserves for units settled are established to cover potential costs for materials and labor with regard to warranty-type claims expected to arise during the typical one-year warranty period provided by the Company or within the two-year statutorily mandated structural warranty period for condominiums. Since the Company typically subcontracts its homebuilding work, subcontractors are required to provide the Company with an indemnity and a certificate of insurance prior to receiving payments for their work. Claims relating to workmanship and materials are generally the primary responsibility of the subcontractors and product manufacturers. The warranty reserve is established at the time of closing, and is calculated based upon historical warranty cost experience and updated based upon actual and potential claims. This reserve is an estimate and actual warranty costs could vary from these estimates. Variables used in the calculation of the reserve, as well as the adequacy of the reserve based on the number of homes still under warranty, are reviewed on a periodic basis. Warranty claims are directly charged to the reserve as they arise. The following table is a summary of warranty reserve activity which is included in accounts payable and accrued liabilities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Balance at beginning of period	\$ 988	\$ 1,048	\$1,009	\$ 1,110
Additions	18	67	45	91
Releases and/or charges incurred	(26)	(39)	(74)	(125)
Balance at end of period	<u>\$ 980</u>	<u>\$ 1,076</u>	<u>\$ 980</u>	<u>\$ 1,076</u>

6. CAPITALIZED INTEREST AND REAL ESTATE TAXES

Interest and real estate taxes incurred relating to the development of lots and parcels are capitalized to real estate held for development and sale during the active development period, which generally commences when development activities begin and ends when the properties are substantially complete or the property becomes inactive. A project becomes inactive when development and construction activities have been suspended indefinitely. Interest is capitalized based on the interest rate applicable to specific borrowings or the weighted average of the rates applicable to other borrowings during the period. Interest and real estate taxes capitalized to real estate held for development and sale are expensed as a component of cost of sales as related units are sold. The following table is a summary of interest incurred and capitalized and interest expensed for units settled:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total interest incurred and capitalized	<u>\$ 124</u>	<u>\$ 94</u>	<u>\$ 176</u>	<u>\$ 215</u>
Interest expensed as a component of cost of sales	<u>\$ 474</u>	<u>\$ 483</u>	<u>\$1,719</u>	<u>\$1,509</u>

When a project becomes inactive, its interest, real estate taxes and indirect production overhead costs are no longer capitalized but rather expensed in the period in which they are incurred. Following is a breakdown of the interest, real estate taxes and indirect costs related to inactive projects reported in real estate held for development and sale:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total interest incurred and expensed for inactive projects	<u>\$ 107</u>	<u>\$ 906</u>	<u>\$1,850</u>	<u>\$ 1,434</u>
Total real estate taxes incurred and expensed for inactive projects	38	106	133	293
Total production overhead incurred and expensed for inactive projects	45	56	153	160
	190	1,068	2,136	1,887
Amounts reclassified to discontinued operations	<u>—</u>	<u>(175)</u>	<u>(154)</u>	<u>(210)</u>
	<u>\$ 190</u>	<u>\$ 893</u>	<u>\$1,982</u>	<u>\$ 1,677</u>

7. (LOSS) INCOME PER SHARE

The weighted average shares and share equivalents used to calculate basic and diluted (loss) income per share for the three- and nine-month periods ended September 30, 2012 and 2011, are presented on the consolidated statement of operations. Stock options and warrants for the three- and nine-month periods ended September 30, 2012 and 2011, are included in the diluted earnings per share calculation using the treasury stock method and average market prices during the period, unless the stock option and warrants would be anti-dilutive. As a result of net losses from continuing operations for the nine months ended September 30, 2012, approximately 104 restricted stock awards, 209 stock options and 539 warrants were excluded from the computation of diluted earnings per share because their inclusion would have been anti-dilutive. For the nine months ended September 30, 2011, approximately 130 and 221 of stock options and warrants, respectively, were included in the computation of diluted earnings per share. The computation of basic and diluted shares outstanding is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Computation of weighted-average basic shares outstanding:				
Weighted-average basic shares outstanding	<u>20,653</u>	<u>19,774</u>	<u>20,433</u>	<u>19,614</u>
Computation of weighted-average diluted shares outstanding:				
Weighted-average basic shares outstanding	20,653	19,774	20,433	19,614
Dilutive effect of stock options	—	130	—	152
Dilutive effect of warrants	—	221	—	242
Weighted-average diluted shares outstanding	<u>20,653</u>	<u>20,125</u>	<u>20,433</u>	<u>20,008</u>

Comprehensive income

For the three and nine months ended September 30, 2012 and 2011, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying consolidated financial statements.

8. SEGMENT DISCLOSURES

We operate our business through segments: Homebuilding, Apartment Buildings and Real Estate Services. We are currently exclusively focused on the Washington, D.C. market.

For our Homebuilding operations, we develop properties with the intent that they be sold either as fee-simple properties or condominiums to individual unit buyers, or as investment properties sold to private or institutional investors. Our for-sale products are designed to attract first-time, early move-up, and secondary move-up buyers. We focus on products that we are able to offer for sale in the middle price points within the markets where we operate, avoiding the very low-end and high-end products.

For our Apartment Buildings segment we focus on projects ranging from approximately 75 to 200 units in locations that are supply constrained with demonstrated demand for stabilized assets. We seek opportunities in the multi-family rental market where our experience and core capabilities can be leveraged. We will either position the assets for sale when completed or operate the asset within our own portfolio. Operating the asset for our own account affords us the flexibility of converting the units to condominiums in the future.

Our Real Estate Services segment pursues projects in all aspects of real estate management including strategic planning, land development, entitlement, property management, sales and marketing, workout and turnaround strategies, financing and general construction. We are able to provide a wide range of construction management and general contracting services to other property owners.

The following disclosure includes the Company's reportable segments of Homebuilding, Apartment Buildings and Real Estate Services. Each of these segments operates within the Company's single Washington, D.C. reportable geographic segment. The information for 2011 has been reclassified to conform to current year business segment presentation and to reclassify the operating results of the Cascades Apartments as discontinued operations as discussed in Note 12.

	(in thousands)			
	Homebuilding	Apartment Buildings	Real Estate Services	Total
Three Months Ended September 30, 2012				
Net revenue	\$ 2,600	\$ —	\$ 883	\$ 3,483
Gross profit	(2,290)	—	178	(2,112)
Operating (loss) profit from continuing operations	(4,644)	—	114	(4,530)
Operating (loss) profit from discontinued operations	—	(6)	—	(6)
Net (loss) income	(4,644)	(6)	114	(4,536)
Total assets	26,759	421	1,912	29,092
Depreciation and amortization	337	—	—	337
Interest expense	107	—	—	107
Capital expenditures	106	—	—	106
Three Months Ended September 30, 2011				
Net revenue	\$ 3,160	\$ —	\$ 2,148	\$ 5,308
Gross profit	212	—	122	334
Operating (loss) profit from continuing operations	6,880	—	97	6,977
Operating (loss) profit from discontinued operations	—	(234)	—	(234)
Net (loss) income	6,798	(234)	97	6,661
Total assets	35,146	12,491	1,359	48,996
Depreciation and amortization	585	61	—	646
Interest expense	773	133	—	906
Capital expenditures	53	3,227	—	3,280

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Nine Months Ended September 30, 2012

Net revenue	\$ 9,827	\$ —	\$ 1,835	\$ 11,662
Gross profit	(2,100)	—	304	(1,796)
Operating (loss) profit from continuing operations	(10,177)	—	226	(9,951)
Operating (loss) profit from discontinued operations	—	6,354	—	6,354
Net (loss) income	(10,177)	6,354	226	(3,597)
Total assets	26,759	421	1,912	29,092
Depreciation and amortization	953	—	—	953
Interest expense	1,685	—	—	1,685
Capital expenditures	106	—	—	106

Nine Months Ended September 30, 2011

Net revenue	\$ 10,075	\$ —	\$ 5,722	\$ 15,797
Gross profit	974	—	486	1,460
Operating (loss) profit from continuing operations	4,291	—	337	4,628
Operating (loss) profit from discontinued operations	—	(336)	—	(336)
Net (loss) income	4,209	(336)	337	4,210
Total assets	35,146	12,491	1,359	48,996
Depreciation and amortization	595	61	—	656
Interest expense	1,301	133	—	1,434
Capital expenditures	53	9,281	—	9,334

The Company allocates selling, general and administrative expenses to the individual segments based upon specifically allocable costs and, in the absence of direct allocations, based upon its estimate of time allocable to the segment or based upon overall pro rata revenue generation.

The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Segment operating (loss) income from continuing operations	\$ (4,530)	\$ 6,977	\$ (9,951)	\$ 4,628
Income tax benefit (expense)	364	(82)	2,478	(82)
Income (loss) from continuing operations	<u>\$ (4,166)</u>	<u>\$ 6,895</u>	<u>\$ (7,473)</u>	<u>\$ 4,546</u>
Segment operating income (loss) from discontinued operations	\$ (6)	\$ (234)	\$ 6,354	\$ (336)
Income tax expense	(364)	—	(2,478)	—
Income (loss) from discontinued operations	<u>\$ (370)</u>	<u>\$ (234)</u>	<u>\$ 3,876</u>	<u>\$ (336)</u>

9. INCOME TAX

The effective tax rate for the three and nine month periods ended September 30, 2012 and 2011 was 0%, respectively. This results in zero tax expenses for the three and nine month periods ended September 30, 2012 and 2011, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company recorded valuation allowances for certain tax attributes and other deferred tax assets. At this time, sufficient uncertainty exists regarding the future realization of these deferred tax assets through future taxable income. If, in the future, the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be reversed. With a full valuation allowance, any change in the deferred tax asset or liability is fully offset by a corresponding change in the valuation allowance.

The Company currently has approximately \$106 million in federal and state NOLs, which based on current statutory tax rates, has a potential fair value of approximately \$42 million in tax savings. If unused, these NOLs will begin expiring in 2028. Under Internal Revenue Code Section 382 (“Section 382”) rules, if a change of ownership is triggered, the Company’s NOL assets and possibly certain other deferred tax assets may be impaired. We estimate that as of September 30, 2012, the cumulative shift in ownership of the Company’s stock would not cause an impairment of our NOL asset. However, if an ownership change were to occur, the Section 382 limitation would not be expected to materially impact the Company’s financial position or results of operations as of September 30, 2012, because of the Company’s full valuation allowance on its net deferred tax assets.

The Company’s ability to use its NOLs (and in certain circumstances, future built-in losses and depreciation deductions) can be negatively affected if there is an “ownership change” as defined under Section 382. In general, an ownership change occurs whenever there is a shift in ownership by more than 50 percentage points by one or more 5% shareholders over a specified time period (generally three years). Given Section 382’s broad definition, an ownership change could be the unintended consequence of otherwise normal market trading in the Company’s stock that is outside of the Company’s control. In an effort to preserve the availability of these NOLs, Comstock adopted a Section 382 stockholder rights plan (the “Rights Plan”). The Rights Plan was adopted to reduce the likelihood of such an unintended “ownership change” and thus assist in preserving the value of these tax benefits. Similar plans have been adopted by a number of companies holding similar significant tax assets over the past several years. This plan was submitted to a vote of the Company’s shareholders on June 17, 2011 and the plan was approved at that meeting.

The Company has not recorded any accruals for tax uncertainties as of September 30, 2012 and 2011, respectively. We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2009 through 2011 tax years generally remain subject to examination by federal and most state tax authorities.

10. COMMITMENTS AND CONTINGENCIES

Litigation

Currently, we are not subject to any material legal proceedings. From time to time, however, we are named as a defendant in legal actions arising from our normal business activities. Although we cannot accurately predict the amount of our liability, if any, that could arise with respect to legal actions pending against us, we do not expect that any such liability will have a material adverse effect on our financial position, operating results and cash flows. We believe that we have obtained adequate insurance coverage, rights to indemnification, or where appropriate, have established reserves in connection with these legal proceedings.

Letters of credit and performance bonds

The Company has commitments as a result of contracts entered into with certain third parties, primarily local governmental authorities, to meet certain performance criteria as outlined in such contracts. The Company is required to issue letters of credit and performance bonds to these third parties as a way of ensuring that such commitments entered into are met by the Company. The letters of credit and performance bonds issued in favor of the Company and/or its subsidiaries mature on a revolving basis, and if called into default, would be deemed material if assessed against the Company and/or its subsidiaries for the full amounts claimed. In some circumstances we have negotiated with our lenders in connection with foreclosure agreements for the lender to assume certain liabilities with respect to the letters of credit and performance bonds. We cannot accurately predict the amount of any liability that could be imposed upon the Company with respect to maturing or defaulted letters of credit or performance bonds and it is anticipated that any such liability would likely have a material adverse effect on our financial position, operating results or cash flows. At September 30, 2012 and 2011, the Company had issued \$0 and \$528 in letters of credit, respectively, and \$1,710 and \$2,133 in performance and payment bonds, respectively, to these third parties. No amounts have been drawn against these letters of credit or performance bonds.

11. RELATED PARTY TRANSACTIONS

On December 31, 2009, the Company entered into a three-year lease for approximately 7,620 square feet of office space for its corporate headquarters at 1886 Metro Center Drive, Reston, Virginia from Comstock Asset Management, L.C., an affiliate wholly-owned by our Chief Executive Officer. On September 19, 2012, the Company amended the lease for an additional 2,436 square feet of office space, or a total 10,056 square feet, for its corporate headquarters, with an effective date of July 1, 2012. Concurrent with the amendment, the Company agreed to extend the lease for five-years from the effective date and future minimum annual lease payments are as follows:

2013	\$ 301
2014	310
2015	320
2016	329
2017	167
Total	<u>\$1,427</u>

For the three months ended September 30, 2012 and 2011, total payments made under this lease agreement were \$74 and \$54, respectively. For the nine months ended September 30, 2012 and 2011, total payments made under this lease agreement were \$183 and \$159, respectively. As of September 30, 2012, the Company recorded a straight-line rent payable of \$5, which is included in 'Accounts payable and accrued liabilities'.

During the second quarter of 2009, the Company began deferring a portion of the base salary payments to our Chief Executive Officer and our Chief Operating Officer. These deferrals ended on May 1, 2011 and the deferred balance of \$842 was paid during the third quarter of 2011.

On February 11, 2011, Comstock Contracting, L.C., a subsidiary of the Company, entered into an Owner-Contractor Agreement with CRS Construction Services, L.C., an entity wholly-owned by the Chief Executive Officer of the Company, to perform paving and certain site improvement work to property in Reston, Virginia which is owned by Fairfax County, Virginia. The contract sum was for approximately \$1.0 million and the work was completed in April 2011.

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Comstock Contracting, L.C., a subsidiary of the Company, entered into a Subcontract Agreement with Davis Construction, LLC to perform site work and land development for a project known as Loudoun Station in Loudoun County, Virginia. Comstock Partners, L.C., an entity wholly-owned by the Chief Executive Officer of the Company, is the owner of the Loudoun Station project. The total contract value is estimated to be approximately \$5 million and the project was completed in October 2012. The revenue associated with this project is included in 'Revenue – other' in the consolidated statement of operations. For the three months ended September 30, 2012 and 2011, the Company recognized \$0.7 million and \$1.5 million of revenue, respectively. For the nine months ended September 30, 2012 and 2011, the Company recognized \$1.1 million and \$3.3 million of revenue, respectively. As of September 30, 2012 and December 31, 2011, the Company was owed \$1.0 million and \$1.0 million under this contract, respectively, which is included in 'Trade receivables' in the consolidated financial statements.

On January 31, 2011, Comstock Cascades II, L.C., a subsidiary of the Company ("Cascades II") entered into a private placement for the sale of membership interests in Cascades II whereby Cascades II raised working capital in the amount of \$2.35 million (the "Private Placement") related to the planned construction of the Cascades Apartments. Proceeds of the Private Placement were utilized (i) to provide sufficient capital needed to secure project financing for the Cascades Apartments, (ii) to retire a portion of the existing indebtedness, and (iii) to reimburse the Company for prior expenditures incurred on behalf of the project. Participants in the Private Placement included unrelated third party investors along with several members of the Company's Board of Directors, as well as the Chief Operating Officer, Chief Financial Officer and General Counsel of the Company. In March 2012, upon completion of the sale of the Cascades Apartments, the Company repaid the participants in the Private Placement \$3.0 million, including the preferred returns, in full.

Pursuant to a Credit Enhancement Agreement by and between Comstock and the Chief Operating Officer and Chief Executive Officer of the Company (each, a "Guarantor"), the Guarantors agreed to provide credit enhancement and the personal guarantee of loans with Cardinal Bank and Eagle Bank in exchange for payment by the Company of a credit enhancement fee. As a result of this credit enhancement the Guarantors on an aggregate basis were entitled to a credit enhancement fee calculated at a rate of four percent (4%) per annum based on an agreed upon formula more fully discussed in Note 14. During the three months ended September 30, 2011, the Company made guarantee payments under this agreement of approximately \$107. No payments were made for the three month period ended September 30, 2012. During the nine months ended September 30, 2012 and 2011, the Company made guarantee payments under this agreement of approximately \$130 and \$213. The financing with SunBridge Capital Management, LLC, as discussed fully in Note 14, eliminated the need for personal guarantees on the applicable projects and accordingly this agreement was terminated on July 12, 2011 with respect to the fees paid on the Eagle Bank loan. On March 7, 2012, the Cardinal Bank loan was repaid and, accordingly, the agreement was terminated with respect to the fees paid on the Cardinal Bank loan and the accrued fees were paid in full.

12. DISCONTINUED OPERATIONS

As described in Note 13 below, on March 7, 2012, the Company's subsidiary sold the Cascades Apartments. As the Cascades Apartments represented a component of the Company's business, the consolidated financial statements have been reclassified for all periods presented to appropriately reflect the discontinued operations of the Cascades Apartments and the continuing operations of the Company. Revenues, costs and expenses directly associated with the Cascades Apartments have been reclassified as discontinued operations in the consolidated statements of operations. Corporate expenses, such as general corporate overhead, have not been allocated to discontinued operations. The guidance in ASC 740-20-45-7 requires that the income recorded in discontinued operations be considered when determining the amount of benefit allocable to continuing operations in circumstances when continuing operations result in a net loss position for the period presented. Accordingly, the Company has allocated a tax benefit of \$364 to continuing operations and a tax expense of \$364 to discontinued operations for the three month period ended September 30, 2012. The Company has allocated a tax benefit of \$2,478 to continuing operations and a tax expense of \$2,478 to discontinued operations for the nine months ended September 30, 2012.

Summarized financial information for the Cascades Apartments, is set forth below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue	\$ —	\$ 86	\$ 171	\$ 86
Cost of sales	5	98	128	158
Selling, general and administrative	—	48	10	48
Interest, real estate taxes and indirect costs related to inactive projects	—	174	154	210
Other (income) expenses, net	1	—	(7)	6
Loss from discontinued operations before gain on sale of real estate and income tax expense	(6)	(234)	(112)	(336)
Net gain on sale of real estate	—	—	6,466	—
Net (loss) income from discontinued operations before income tax expense	(6)	(234)	6,354	(336)
Income tax expense	(364)	—	(2,478)	—
Net (loss) income from discontinued operations	<u>\$(370)</u>	<u>\$(234)</u>	<u>\$ 3,876</u>	<u>\$(336)</u>

Discontinued operations have not been segregated in the consolidated statement of cash flows. Therefore, amounts for certain captions will not agree with the respective data in the consolidated statement of operations.

13. VARIABLE INTEREST ENTITY

GAAP requires a variable interest entity ("VIE") to be consolidated by the company which is the primary beneficiary. The primary beneficiary of a VIE is the entity that has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. Entities determined to be VIEs, for which we are not the primary beneficiary, are accounted for under the equity method. Comstock's variable interests in VIEs may be in the form of (1) equity ownership, (2) contracts to purchase assets and/or (3) loans provided and/or guaranteed to a

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VIE. We examine specific criteria and use judgment when determining if Comstock is the primary beneficiary of a VIE. Factors considered in determining whether we are the primary beneficiary include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and operating decisions and contracts to purchase assets from VIEs.

Consolidated Real Estate Held for Development and Sale

Included within the Company's real estate held for development and sale at September 30, 2012 are three historically consolidated entities that are VIEs and for which the Company is the primary beneficiary; Penderbrook, Potomac Yard and Yorkshire. These entities have been established to own and operate real estate property and were deemed VIEs primarily based on the fact that the equity investment at risk is not sufficient to permit the entities to finance their activities without additional financial support. The Company determined that it was the primary beneficiary of these VIEs as a result of its majority voting and complete operational control of the entities.

On August 23, 2012, the Company formed New Hampshire Ave. Ventures, LLC, a joint venture of its subsidiary Comstock Ventures XVI, L.C. and 6000 New Hampshire Avenue, LLC, for the purpose of acquiring, developing and constructing a 110 unit project (the "NHA Project") in Washington, D.C. The Company evaluated the joint venture and determined that it was a VIE concluding that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it was the primary beneficiary of the VIE as a result of its shared voting interests, complete operational control of the activities that most significantly impact the VIE's economic performance and its obligation to absorb losses, or receive benefits, from the VIE that could be significant to the VIE.

On September 27, 2012, the Company formed Comstock Eastgate, L.C., a joint venture of Comstock Holding Companies, Inc. and BridgeCom Development I, LLC, for the purpose of acquiring, developing and constructing 66 condominium units (the "Eastgate Project") in Loudoun County. The Company evaluated the joint venture and determined that it was a VIE concluding that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company determined that it was the primary beneficiary of the VIE as a result of its shared voting interests, complete operational control of the activities that most significantly impact the VIE's economic performance and its obligation to absorb losses, or receive benefits, from the VIE that could be significant to the VIE.

At September 30, 2012 and December 31, 2011, total assets of these VIEs were approximately \$18.1 million and \$21.1 million, respectively, and total liabilities were approximately \$10.9 million and \$10.5 million, respectively. The classification of these assets is primarily within real estate held for development and sale and the classification of liabilities are primarily within notes payable – secured by real estate held for development and sale in the Company's consolidated balance sheets.

Consolidated Operating Real Estate, Net

On January 31, 2011, Comstock Cascades II, L.C., a subsidiary of the Company ("Cascades II") entered into a private placement for the sale of membership interests in Cascades II whereby Cascades II raised working capital in the amount of \$2.35 million (the "Private Placement") related to the planned construction of a 103 unit apartment project located in the Cascades master planned community in Loudoun County, Virginia (the "Cascades Apartments"). Proceeds of the Private Placement were utilized (i) to provide sufficient capital needed to secure project financing for the Cascades Apartments, (ii) to retire a portion of the existing indebtedness, and (iii) to reimburse the Company for prior expenditures incurred on behalf of the project. Participants in the Private Placement included unrelated third party investors along with several members of the Company's Board of Directors, as well as the Chief Operating Officer, Chief Financial Officer and General Counsel of the Company.

On February 11, 2011, Comstock closed its loan agreement with Cardinal Bank (see Note 14) which provided the necessary construction financing for the development of the Cascades Apartments and concurrent with that closing, the Company utilized the proceeds of the Private Placement offering as described above. The Company fully guaranteed the loan and accordingly, Comstock concluded that Cascades II was a VIE. As part of the Cascades II operating agreement, the Company had majority voting and complete operational control of the subsidiary. The Company concluded that it was the primary beneficiary of the VIE and therefore the financial condition, results of operations and cash flows of Cascades II were consolidated in the accompanying financial statements.

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The investors in the Private Placement (the "Priority Members") were entitled to a cumulative, compounded, preferred return, subject to the performance of Cascades II, of 20% per annum, compounded annually on their capital account balances. Comstock had the right to repurchase the interest of the Priority Members provided that i) all of the Priority Members interests were acquired, ii) the purchase was made in cash and iii) the purchase price shall equal the Priority Members capital account plus an amount necessary to cause the preferred return to equal a cumulative cash on cash return equal to 20% per annum. The equity contribution related to the Private Placement is reflected as a Non-Controlling Interest as a component of consolidated shareholders' equity. The Company's investment was subordinate to the Priority Members investment and gains from the operating activity and distributions of cash flow (if any) of Cascades II would allocate to the Priority Members (in advance of Comstock) up to their capital account plus the required preferred return of 20% as outlined above. For the three month period ended September 30, 2011, the priority returns were approximately \$120. There were no priority returns for the three month period ended September 30, 2012. For the nine months ended September 30, 2012 and 2011, the priority returns were approximately \$103 and \$370, respectively. The priority returns are reflected in the accompanying consolidated statement of operations as net income from discontinued operations attributable to non-controlling interests to properly account for the preferred return due the Priority Members upon liquidation of their interest in Cascades II.

On March 7, 2012, the Company completed the sale of the Cascades Apartments (the "Project") to an affiliate of CAPREIT Acquisition Corporation ("Purchaser"), a Maryland corporation, pursuant to a Contract of Sale Agreement, as amended, dated October 31, 2011. The Project was sold for \$19.35 million. In connection with the closing of the transaction, Cascades II placed in escrow \$300 (the "Warranty Escrow") to secure performance of certain post-closing warranty work and \$650 (the "Claims Escrow") to secure Cascades II's indemnification and other obligations set forth in the Agreement. The Warranty Escrow will be released to Cascades upon completion of the post-closing warranty work and the Claims Escrow will be released to Cascades in three equal installments at six, eight and twelve months from the date of settlement provided that no claims have been made against Cascades by the Purchaser. On September 6, 2012, the Purchaser released the \$300 Warranty escrow, net of \$2 in settlement costs, and one-third of the Claims Escrow, \$217, net of \$35 of post-closing warranty claims. As detailed in Note 12, the historical operations of Cascades Apartments are included within discontinued operations.

Concurrent with the execution of the sale transaction, Cascades II settled the secured financing of \$10.1 million with Cardinal Bank, including all principal and interest due at the time of settlement, and retired the non-controlling equity investment, including all preferred returns due. The Company realized a loss on the extinguishment of the secured financing with Cardinal Bank of \$0.3 million, including the prepayment penalty fees of \$0.2 million. At settlement, the Company received net proceeds of approximately \$4.7 million from the transaction after repayment of the existing loan from Cardinal Bank secured by the Project and the retirement of the non-controlling equity investment related to the Project.

Concurrent with the settlement of the secured financing, retirement of non-controlling equity investment holders and the release of the Company's corporate guaranty, the Company determined a reconsideration event under ASC 810 had occurred and concluded the entity no longer met the definition of a VIE as defined by the standard. The Company further noted that the Company has retained the controlling financial interest in Cascades II and has continued to consolidate the subsidiary.

Land purchase options

The Company typically acquires land for development at market prices under fixed price purchase agreements. The purchase agreements require deposits that may be forfeited if the Company fails to perform under the agreements. The deposits required under the purchase agreements are in the form of cash or letters of credit in varying amounts. The Company may, at its option, choose for any reason and at any time not to perform under these purchase agreements by delivering notice of its intent not to acquire the land under contract. The Company's sole legal obligation and economic loss for failure to perform under these purchase agreements is typically limited to the amount of the deposit pursuant to the liquidated damages provision contained within the purchase agreement. As a result, none of the creditors of any of the entities with which the Company enters into forward fixed price purchase agreements have recourse to the general credit of the Company.

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The Company does not share in an allocation of either the profit earned or loss incurred by any of these entities with which the Company has fixed price purchase agreements. The Company has concluded that whenever it options land or lots from an entity and pays a significant non-refundable deposit as described above, a variable interest entity is created under the provisions of ASC 810-10, *Consolidation*. This is because the Company has been deemed to have provided subordinated financial support, which creates a variable interest which limits the equity holder's returns and may absorb some or all of an entity's expected theoretical losses if they occur. The Company, therefore, examines the entities with which it has fixed price purchase agreements for possible consolidation by the Company under the provision of ASC 810-10. The Company does not have any contractual or ownership interests in the entities with which it contracts to buy the land. The Company concluded that it does not have the power to direct the activities that most significantly impact the economic performance of the VIEs, including the power to site plan and engineer the developments, finance the parcels under option contract, and develop the raw parcels under option contract into finished lots. The third party retains these rights under the fixed purchase price agreements until title is transferred to the Company upon settlement of the transaction, or a portion of the transactions as defined. Therefore, the Company has not consolidated these VIEs in the consolidated balance sheet.

14. CREDIT FACILITIES

The Company generally finances its development and construction activities on a single or multiple project basis so it is not uncommon for each project or collection of projects the Company develops and builds to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders. As described in more detail below, our outstanding debt by lender was as follows:

<u>Bank</u>	<u>Balance as of September 30, 2012</u>	<u>Balance as of December 31, 2011</u>	<u>Recourse</u>
Eagle Bank	\$ 6,398	\$ —	Secured
SunBridge	—	10,178	Secured
Cardinal Bank	—	9,957	Secured
Bank of America	3,225	3,751	Unsecured
Rosalie K. Stahl Trust	3,000	—	Secured
Cornerstone	400	400	Unsecured
Branch Banking & Trust	263	263	Secured
Wachovia	—	133	Unsecured
Seller – Emerald Farm	100	100	Secured
Fifth Third	25	25	Unsecured
	<u>13,411</u>	<u>24,807</u>	
Due to affiliates – Stonehenge Funding	<u>5,022</u>	<u>5,008</u>	Unsecured
Total	<u>\$ 18,433</u>	<u>\$ 29,815</u>	

The material loan agreements are discussed below.

Eagle Bank

On May 29, 2012, the Company, through its Comstock Potomac Yard, L.C. and Comstock Penderbrook, L.C. subsidiaries, entered into a loan agreement with Eagle Bank pursuant to which the Company secured a \$9.96 million loan with a twenty-seven months term (the "Eagle Bank Loan") to refinance the Company's Eclipse condominium project and Penderbrook Square condominium project. Proceeds from the Eagle Bank Loan were primarily utilized (i) to pay off existing indebtedness of approximately \$7.97 million, (ii) set up an interest reserve escrow pursuant to the term of agreement in the amount \$0.5 million, (iii) pay approximately \$0.1 million in settlement charges and closing costs, and (iv) for general corporate purpose. The interest reserve escrow is held in the name of the bank and if the borrower defaults under the loan agreement, the bank has sole discretion to apply the funds or portion of the funds to pay off the indebtedness. Commencing thirty days after closing, the Company is required to make monthly payments of interest only on outstanding principal balance, principal curtailment payments upon settlements at the two subsidiaries and a minimum principal curtailment payment of \$4.98 million no later than 12 months following the closing of the Eagle Bank Loan. There is no prepayment penalty associated with the Eagle Bank Loan. The balance outstanding at September 30, 2012 was \$5.7 million.

On August 23, 2012, the Company, through New Hampshire Ave. Ventures, LLC, a consolidated joint venture of its subsidiary Comstock Ventures XVI, L.C. and 6000 New Hampshire Avenue, LLC, entered into a three-year loan agreement and related documents with Eagle Bank securing a \$6.0 million revolving development loan and a \$4.0 million revolving construction loan (collectively, the "Eagle NHA Revolver") to finance the Company's one hundred and ten unit The Hampshires project located in Washington, D.C. Proceeds from the Eagle NHA Revolver will primarily be utilized to (i) pay for expenses associated with the Eagle NHA Revolver;

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(ii) reimburse the Company for development costs previously expended and (iii) to pay for the future development and construction related expenses. Under the terms of the Loan Agreement, the Eagle NHA Revolver provides for an initial floating interest rate of LIBOR plus 3% with an interest rate floor of 5.75%. The New Hampshire Ave. Ventures, LLC is required to make monthly interest payments on the Eagle NHA Revolver to the extent not offset by a \$400 interest reserve initially set aside for the benefit of the Borrower and is required to make a minimum principal curtailment under the development portion of the Eagle NHA Revolver of \$3.22 million by December 31, 2013 and additional curtailments on a quarterly basis thereafter. There is no prepayment penalty associated with the Eagle NHA Revolver, which is secured by a first deed of trust and is fully guaranteed by the Company. The balance outstanding at September 30, 2012 was \$0.7 million.

SunBridge

On July 12, 2011, the Company, through its Comstock Potomac Yard, L.C. subsidiary, entered into a loan agreement with BCL Eclipse, LLC, an affiliate of SunBridge Capital Management, LLC (“SunBridge”), pursuant to which the Company secured a \$13.8 million loan with a three year term (the “SunBridge Eclipse Loan”) to refinance the Company’s Eclipse condominium project. Proceeds from the SunBridge Eclipse Loan were primarily utilized to (i) pay off existing indebtedness of approximately \$9.0 million, (ii) pay approximately \$0.8 million for expenses associated with the SunBridge Eclipse Loan (which were classified in Other assets in the accompanying balance sheet), and (iii) for general corporate purposes. The SunBridge Eclipse Loan provided for a 1% origination fee and an interest rate of 12.5%. There was no prepayment penalty associated with the SunBridge Eclipse Loan, which was secured by a first deed of trust on the Eclipse property. The loan was subject to minimum sales and release requirements.

On July 12, 2011, SunBridge also issued a binding commitment letter to the Company, through its Comstock Penderbrook, L.C. subsidiary, for a cash out refinance of the Company’s Penderbrook Square condominium projected in an amount of up to \$7.0 million with a three-year term (the “SunBridge Penderbrook Loan”). This commitment was drawn upon on October 5, 2011 and the loan was funded for approximately \$5.4 million. Proceeds from this loan were primarily utilized to (i) pay off existing indebtedness of approximately \$3.9 million, (ii) pay for expenses associated with the loan of approximately \$0.7 million, and (iii) for general corporate purposes.

As a condition of the loan agreement, the Company also entered into a cross-collateralization agreement whereby the Penderbrook project and the Eclipse project each secured payment and performance of the covenants and agreements of the October 5, 2011 SunBridge Penderbrook Loan and the loan funded on July 12, 2011 with respect to the Eclipse project as described above. The SunBridge Penderbrook Loan provided for a 1% origination fee and an interest rate of 12.5%. There was no prepayment penalty associated with the SunBridge Penderbrook Loan, which was secured by a first deed of trust on the property. The loan was subject to minimum sales and release requirements.

On October 5, 2011, the Company and a subsidiary of the Company, Comstock Emerald Farm, L.C., as guarantors, also entered into a guaranty agreement for the benefit of SunBridge. Pursuant to the guaranty agreement, (i) the guarantors jointly and severally guaranteed the payment of principal and interest and any other amounts due under the SunBridge Penderbrook Loan Agreement, (ii) the Company pledged its equity interest in Comstock Penderbrook, L.C., and (iii) each guarantor granted SunBridge a security interest in all of its unencumbered assets, all as additional security for the SunBridge Penderbrook Loan.

On May 29, 2012, the Company repaid the SunBridge loans in full. All cash paid to satisfy the extinguishment of the SunBridge Loans is classified as a financing activity in the consolidated statement of cash flows.

Cardinal Bank

On February 11, 2011, the Company, through Cascades II entered into a loan agreement with Cardinal Bank pursuant to which the Company obtained an \$11.0 million multi-family construction loan and mortgage with a five-year term (the “Cardinal Bank Loan”). Proceeds from the Cardinal Bank Loan (i) funded the construction of the Company’s Cascades apartment project and (ii) retired existing indebtedness of the Company owed to M&T Bank having a maturity date of February 14, 2011 and which was secured by a first deed of trust on the real property upon which the Cascades project was constructed. The Cardinal Bank Loan, secured by a new first deed of trust on the property, had an initial interest rate of Prime plus two percent (2%), with an interest rate floor of 6.5%. The Cardinal Bank Loan was amortized in accordance with a 5.5%, 25-year schedule, with amortization to begin 18 months after the loan closing and had a 2% prepayment penalty if paid within the first or second year and a 1% prepayment penalty if retired in the third or fourth year. The Company had fully guaranteed the Cardinal Bank Loan. The Chief Executive Officer of the Company and the Chief Operating Officer of the Company also provided a limited guaranty in connection with the Cardinal Bank Loan of up to \$6.8 million, subject to further reduction upon the satisfaction of certain enumerated conditions set forth in the loan agreement (see Note 11). On March 7, 2012, the Company sold the Cascades Apartments and the Cardinal Bank Loan was repaid in full. A prepayment penalty of \$0.2 million was incurred in connection with the early repayment and are included in Discontinued operations – gain on sale of real estate in the consolidated statement of operations. All cash paid to satisfy the extinguishment of the Cardinal Bank Loan is classified as a financing activity in the statement of cash flows.

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On September 27, 2012, the Company, through Comstock Eastgate, L.C. (“Eastgate”), a consolidated joint venture of Comstock Holding Companies, Inc. and BridgeCom Development I, LLC, entered into a loan agreement with Cardinal Bank to which the Company secured a \$2.5 million revolving construction loan (the “Cardinal Bank Revolver”) to finance the Company’s sixty-six unit The Eastgate project located in Loudoun County, VA. The loan maturity is twelve months with an automatic extension of twelve months subject to the Company meeting sales conditions, which include that the Company (i) must have entered into binding contracts for the sale of eighteen units and (ii) settled twelve units, each by the one year anniversary of the loan. The proceeds of Cardinal Bank Revolver will be primarily utilized to pay expenses associated with the loan and future construction expenses of the project. The Cardinal Bank Revolver provides for a variable interest rate of Prime plus 0.5% with an interest rate floor of 4.75%. Commencing thirty days after loan close, the Company is required to make monthly payments of interest only and upon the closing of the sale of a unit, make principal curtailment payments of 100% of unit costs borrowed. There is no prepayment penalty associated with the Cardinal Bank Revolver. There have been no draws on the Cardinal Bank Revolver as of September 30, 2012.

Bank of America

At September 30, 2012, the Company had \$3.2 million outstanding to Bank of America under a 10-year unsecured note. On February 25, 2010 the Company entered into a Seventh Loan Modification Agreement with Bank of America regarding the modification of the terms of this loan. In connection therewith the Company agreed to pay an extension fee of \$100 and Bank of America agreed to delay until January 2011 the commencement of repayments of all previously unpaid interest accruing since the date of the Company’s previously reported modification of the line of credit in November 2008. On February 1, 2011, the Company entered into the Eighth Loan Modification Agreement with Bank of America. The modification required payments of past interest and modification fees of approximately \$175 on February 1, 2011, which were paid in accordance with the agreement. The maturity date remains December 28, 2018. Comstock is required to make monthly interest payments beginning on February 28, 2011 through loan maturity. Commencing January 28, 2012 and continuing on each and every month through November 28, 2018, Comstock is also required to make monthly principal payments of approximately \$37.

Rosalie K. Stahl Trust

On August 23, 2012, the Company, through New Hampshire Ave. Ventures, LLC, a consolidated joint venture of its subsidiary Comstock Ventures XVI, L.C. and 6000 New Hampshire Avenue, LLC also entered into a \$3.0 million mezzanine loan (the “NHA Mezzanine Loan”) in connection with the The Hampshires project with the Rosalie K. Stahl Trust. Proceeds from the NHA Mezzanine Loan, which has a three-year maturity date, were utilized to acquire the land for development of the project. The NHA Mezzanine Loan provides for an interest rate of 13.5% per annum, interest to be paid current on a monthly basis, with the full principal balance being due at maturity. The NHA Mezzanine Loan is secured by a second deed of trust which is fully subordinate to the Eagle NHA Revolver and is non-recourse to the Company. There is no prepayment penalty associated with the NHA Mezzanine Loan.

Stonehenge

On December 23, 2009, Stonehenge Funding, LC (“Stonehenge”), an entity wholly-owned by the Chief Executive Officer of the Company, completed the purchase of a senior unsecured note (the “JP Morgan Debt”) from JP Morgan Ventures (“JPMV”) in the then outstanding amount of approximately \$9.0 million, plus accrued and unpaid interest. The purchase of the JP Morgan Debt resulted in the transfer to Stonehenge of a warrant previously issued to JPMV for the purchase of 1.5 million shares of the Company’s Class A Common Stock with a strike price of \$0.07 per share (the “JP Morgan Warrant”). The Company’s Chief Operating Officer subsequently purchased a participation interest in the JP Morgan Debt and the JP Morgan Warrant from Stonehenge. On February 12, 2010 the Company entered into a modification agreement to modify the terms of the Company’s senior unsecured note with Stonehenge (the “Modification Agreement”). Under the terms of the Modification Agreement, Stonehenge agreed to forgive \$4.5 million of the principal balance due from the Company under the JP Morgan Debt, reducing the principal balance by 50% to \$4.5 million. Stonehenge also agreed to forgive an additional amount due from the Company of approximately \$875, representing all past due interest, late fees and penalties accruing through December 31, 2009 under the JP Morgan Debt. Stonehenge further agreed to reduce the interest rate, effective January 1, 2010, by 50% to 300 basis points above the one year LIBOR on a floating basis. In addition, to ensure the Company’s ability to comply with certain restrictions placed upon the Company by KeyBank and Guggenheim in connection with previously announced loan modifications enhancing cash flow to the Company, Stonehenge agreed to allow all future interest payments due from the Company under the JP Morgan Debt to accrue until at least 90 days after KeyBank and Guggenheim have been fully repaid. In connection therewith, Stonehenge may, on a quarterly basis, elect to accept stock of the Company (or warrants for the purchase thereof) with a cumulative value equal to the value of the scheduled interest payment in lieu of accruing a future quarterly interest payment. For the year ended December 31, 2011, no elections were made and no warrants were issued under the agreement. For the year ended December 31, 2010, warrants were issued with a fair value of \$46, to settle interest payments. The KeyBank debt was fully repaid on February 2, 2011. The Guggenheim debt was fully repaid upon funding of the SunBridge Penderbrook Loan on October 5, 2011.

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Further, the Modification Agreement provided for the elimination or forbearance upon the enforcement of all financial covenants contained in the JP Morgan Debt and all previously reported covenant violations by the Company. The maturity date of the Stonehenge debt remained unchanged at March 14, 2013. Stonehenge, as a condition of the new financing arrangement with SunBridge, agreed to subordinate its loan and delay principal and interest payments until the SunBridge loans on both Eclipse and Penderbrook are fully repaid. Concurrent with the repayment of the Sunbridge loans on May 29, 2012, the subordination agreement expired.

On July 24, 2012, the Company and Stonehenge entered into an agreement extending the maturity of the debt to July 20, 2013.

Wachovia

On August 17, 2009, the Company entered into a foreclosure agreement (“Agreement”) with Wachovia Bank with respect to approximately \$17.8 million of secured debt, accrued interest and fees. Under the terms of the Agreement, the Company agreed to cooperate with Wachovia with respect to its foreclosure on certain of the Company’s real estate assets. In return, Wachovia agreed to release the Company from their obligations and guarantees relating to the \$17.8 million of indebtedness contemporaneous with the execution by the Company of a non-interest bearing, unsecured deficiency note payable to Wachovia in the amount of approximately \$1.8 million. The deficiency note was reduced by the principal payments related to certain homes sold by the Company. As of December 31, 2011, the deficiency note balance was \$132. On September 27, 2012, the Company repaid the outstanding balance of the deficiency note in full.

Cornerstone

On September 21, 2009 the Company entered into a settlement agreement and mutual release with Cornerstone Bank (“Cornerstone”) with respect to approximately \$5.1 million debt secured by its Gates of Luberon project in Atlanta, Georgia. Under the terms of the agreement, Cornerstone released the Company, and its subsidiary Mathis Partners, LLC, from their respective obligations and guarantees relating to \$5.1 million of debt owed by the Company to Cornerstone in exchange for a non-interest bearing unsecured subordinate note in the amount of \$0.4 million with a three year term. As of September 30, 2012 and December 31, 2011, the outstanding balance of the deficiency note was \$400. The Company was in compliance with all terms of the agreement as of September 30, 2012. As disclosed in Note 17, on October 15, 2012, the Company repaid the outstanding balance of the deficiency note in full.

The Company’s borrowings mature as follows:

2012	\$ 425
2013	6,540
2014	4,275
2015	3,968
2016 and thereafter	3,225
Total	<u>\$18,433</u>

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

There are three measurement input levels for determining fair value: Level 1, Level 2, and Level 3. Fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. An asset’s or liability’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of their fair values based on their short maturities. The carrying amount of floating rate debt approximates fair value based upon observable market rates (Level 2 inputs).

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The fair value of fixed rate debt is based on observable market rates (Level 2 inputs). The following table summarizes the fair value of fixed rate debt and the corresponding carrying value of fixed rate debt as of:

	September 30, 2012	December 31, 2011
Carrying amount	\$ 18,433	\$ 30,378
Fair value	\$ 15,670	\$ 26,927

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company may also value its real estate held for development and sale at fair value on a nonrecurring basis. Such fair value measurements use significant unobservable inputs and are classified as Level 3. See Note 2 for a further discussion of the valuation techniques and the inputs used.

16. RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

The Company accounts for its share-based awards pursuant to ASC 718, *Stock Compensation*. ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements over the vesting period based on their fair values at the date of grant. The fair value of stock options granted is calculated under the Black-Scholes option-pricing model.

For the three months ended September 30, 2012 and 2011, the Company recognized the vesting of previously issued restricted stock awards with a fair value of \$295 and \$323 respectively. During the nine months ended September 30, 2012 and 2011, the Company issued 706 and 1,471 restricted stock awards with a fair value of \$1,157 and \$1,725, respectively. Restricted stock awards issued during the nine months ended September 30, 2012 and 2011 vest over four years.

For the three months ended September 30, 2012, the Company recognized \$34 for previously issued stock options. For the three months ended September 30, 2011, the Company issued 100 stock options with a fair value of \$108. For the nine months ended September 30, 2012 and 2011, the Company issued 140 and 100 stock options with a fair value of \$176 and \$108 respectively. Stock options issued during the nine months ended September 30, 2012 and 2011 vest over four years.

For the three months ended September 30, 2012 and 2011, total stock-based compensation cost was \$329 and \$311, respectively. For the nine months ended September 30, 2012 and 2011, total stock-based compensation cost was \$928 and \$660, respectively, and was charged to selling, general and administration expenses.

As of September 30, 2012 and 2011, the weighted-average remaining contractual term of unexercised stock options was 7.5 years and 7.8 years, respectively. As of September 30, 2012 and 2011, there was \$1,436 and \$1,199 respectively, unrecognized compensation cost related to stock issuances granted.

17. SUBSEQUENT EVENTS

On October 1, 2012, the Company, through Comstock Eastgate, L.C., a consolidated joint venture of Comstock Holding Companies, Inc. and BridgeCom Development I, LLC, received equity contributions from BridgeCom Development I, LLC of \$945. The proceeds from the contributions are to be utilized to acquire, develop and construct the Company's 66-unit The Eastgate project located in Loudoun County, VA.

On October 15, 2012, the Company repaid in full the \$400 outstanding balance of the deficiency note with Cornerstone Bank. The Company was in compliance with all terms of the agreement with Cornerstone Bank as of September 30, 2012.

On November 9, 2012, The Company repaid in full the \$25 outstanding balance of the deficiency note with Fifth Third Bank. The Company was in compliance with all terms of the agreement with Fifth Third Bank as of September 30, 2012.

COMSTOCK HOLDING COMPANIES, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Please see "Cautionary Notes Regarding Forward-looking Statements" for more information. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including, but not limited to, those discussed below and elsewhere in this report, particularly under the headings "Cautionary Notes Regarding Forward-looking Statements."

Overview

We are a multi-faceted real estate development and services company. We have substantial experience with building a diverse range of products including apartments, single-family homes, townhouses, mid-rise condominiums, high-rise multi-family condominiums and mixed-use (residential and commercial) developments. We operate our business through three segments: Homebuilding, Apartment Buildings and Real Estate Services as further discussed in Note 8 of our consolidated financial statements. We are currently focused exclusively on the Washington, D.C. market, which is the eighth largest metropolitan statistical area in the United States.

Homebuilding

Our expertise in developing traditional and non-traditional housing products enables us to focus on a wide range of opportunities within our core market. For our homebuilding operations, we develop properties with the intent that they be sold either as fee-simple properties or condominiums to individual unit buyers or as investment properties sold to private or institutional investors. Our for-sale products are designed to attract first-time, early move-up, and secondary move-up buyers. We focus on products that we are able to offer for sale in the middle price points within the markets where we operate, avoiding the very low-end and high-end products. We believe our middle market strategy positions our products such that they are affordable to a significant segment of potential home buyers in our market.

Apartment Buildings

Comstock's focus on the apartment sector is on developing projects ranging from approximately 75 to 200 units in locations that are supply constrained with demonstrated demand for stabilized assets. We seek opportunities in the multi-family rental market where our experience and core capabilities can be leveraged. We will either position the asset for sale when completed or operate the asset within our own portfolio. Operating the asset for our own account affords us the flexibility of converting the units to condominiums in the future. When developing rental communities, we design our products to be affordable for tenants that fit one of two groups: (i) young first-time renters, or (ii) renters by choice.

Real Estate Services

Our management team has significant experience in all aspects of real estate management including strategic planning, land development, entitlement, property management, sales and marketing, workout and turnaround strategies, financing and general construction. We are able to provide a wide range of construction management, general contracting and other real estate related services to other property owners. This business line not only allows us to generate fee income from our highly qualified personnel but also serves as a potential catalyst for joint venture and acquisition opportunities.

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We believe that our significant experience over the past 25 years, combined with our ability to navigate through two major housing downturns (early 1990s and late 2000s) have provided us the experience necessary to capitalize on attractive opportunities in our core market of Washington, D.C. and to rebuild shareholder value. We believe that our focus on the Washington, D.C. market, which has historically been characterized by economic conditions less volatile than many other major homebuilding markets, will provide an opportunity to generate attractive returns on investment and for growth.

Recent Developments

New Hampshire Ave. Ventures LLC

On August 23, 2012, the Company formed New Hampshire Ave. Ventures, LLC, a consolidated joint venture of its subsidiary Comstock Ventures XVI, L.C. and 6000 New Hampshire Avenue, LLC, to acquire, develop and construct 110 residential units, consisting of 37 single-family homes and 73 townhomes, in Washington, D.C. (the "NHA Project"). The Company, through New Hampshire Ave. Ventures, LLC, entered into a \$3.0 million mezzanine loan (the "NHA Mezzanine Loan") in connection with the NHA Project with the Rosalie K. Stahl Trust, utilized to acquire the fully entitled land. Concurrent with the formation of the joint venture, the Company entered into a three-year loan agreement with Eagle Bank pursuant to which the Company secured a \$6.0 million revolving development loan and a \$4.0 million revolving construction loan (collectively, the "Eagle NHA Revolver") to finance the development and construction of the NHA Project. Refer to Note 14 within the Notes to the Consolidated Financial Statements for further discussion of the terms of these financing arrangements.

Comstock Eastgate, L.C.

On September 27, 2012, the Company formed Comstock Eastgate, L.C., a consolidated joint venture of Comstock Holding Companies, Inc. and BridgeCom Development I, LLC, to acquire, develop and construct 66 residential condominium units in Loudoun County, VA (the "Eastgate Project"). Concurrent with the formation of the joint venture, the Company entered into a loan agreement with Cardinal Bank to which the Company secured a \$2.5 million revolving construction loan to finance the construction of the units. Refer to Note 14 within the Notes to the Consolidated Financial Statements for further discussion of the terms of the financing arrangement.

Results of Operations

Three and nine months ended September 30, 2012 compared to three and nine months ended September 30, 2011

Orders, cancellations and backlog

Gross new order revenue for the three months ended September 30, 2012 increased \$3.0 million to \$7.0 million on 16 units as compared to \$4.0 million on 13 units for the three months ended September 30, 2011. Gross new order revenue for the nine months ended September 30, 2012 increased \$3.6 million to \$14.8 million on 50 units as compared to \$11.2 million on 38 units for the nine months ended September 30, 2011. Net new order revenue for the three months ended September 30, 2012 increased \$2.1 million to \$6.1 million on 13 units as compared to \$4.0 million on 13 units for the three months ended September 30, 2011. Net new order revenue for the nine months ended September 30, 2012 increased \$3.1 million to \$14.0 million on 47 units as compared to \$10.8 million on 36 units for the nine months ended September 30, 2011. Average gross new order revenue per unit for three months ended September 30, 2012 increased \$134 to \$438, as compared to \$304 for the three months

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ended September 30, 2011. Average gross new order revenue per unit for nine months ended September 30, 2012 increased \$3 to \$297, as compared to \$294 for the nine months ended September 30, 2011. The increase is related directly to the unit mix of units settled. For the nine months ended September 30, 2012, gross new orders totaled 37 units at Penderbrook, 10 units at Eclipse and 3 units at New Hampshire Ave., as compared to 25 units at Penderbrook and 13 units at Eclipse for the nine months ended September 30, 2011.

We have two Washington, D.C. condominium projects where we have units available for sale or for rent: Penderbrook Square in Fairfax, VA and the Eclipse at Potomac Yard in Arlington, VA. Therefore, we were only able to generate orders and backlog at the two condominium projects in the first nine months of 2012. Because our unit sales for these projects are generated from completed inventory we do not need to construct units after a sales contract is executed with a unit purchaser. As a result we are able to quickly execute on a sales contract and deliver the unit to the purchaser. Typically, unit deliveries are made within thirty days of contract execution. As a result, we do not tend to generate significant order backlog for these projects.

During the three months ended September 30, 2012, the Company has commenced development of the New Hampshire Ave. project in Washington, D.C. and the Eastgate project in Loudoun County, VA. The Company has completed development and construction of two single-family model homes at the New Hampshire Ave. project and has begun generating orders and backlog. The Company anticipates settlements at the New Hampshire Ave. project to commence in the first quarter of 2013. The Company anticipates completion of the first six units, including two models, at the Eastgate project in the fourth quarter of 2012.

At September 30, 2012, the Company had 9 units in backlog across the four projects to generate \$5.1 million in revenues.

Revenue – homebuilding

The number of homes delivered for the three months ended September 30, 2012 increased to 12 as compared to 10 homes for the three months ended September 30, 2011. The number of homes delivered for the nine months ended September 30, 2012 increased to 41 as compared to 30 homes for the nine months ended September 30, 2011. Average revenue per home delivered decreased by approximately \$75 to \$211 for the three months ended September 30, 2012 as compared to \$286 for the three months ended September 30, 2011. Average revenue per home delivered decreased by approximately \$69 to \$231 for the nine months ended September 30, 2012 as compared to \$300 for the nine months ended September 30, 2011. The increase in settlements and decrease in average sales price is largely a function of the available product mix at condominium projects. As of September 30, 2012, there are 22 units remaining in our Eclipse project and 3 units remaining in our Penderbrook project. This compares to 33 units and 47 units, respectively, for Eclipse and Penderbrook for the period ended September 30, 2011.

Revenue from homebuilding decreased by \$0.4 million to \$2.5 million for the three months ended September 30, 2012 as compared to \$2.9 million for the three months ended September 30, 2011. Revenue from homebuilding increased by \$0.5 million to \$9.5 million for the nine months ended September 30, 2012 as compared to \$9.0 million for the nine months ended September 30, 2011. The increase was as a result of the increase in the number of homes settled, offset by the unit mix of units sold. For the three months ended September 30, 2012, 11 units were settled at Penderbrook and 1 unit at Eclipse, as compared to 6 units at Penderbrook and 4 units at Eclipse for the three months ended September 30, 2011. For the nine months ended September 30, 2012, 36 units were settled at Penderbrook and 5 units at Eclipse, as compared to 19 units at Penderbrook and 11 units at Eclipse for the nine months ended September 30, 2011.

Revenue – other

Revenue-other decreased approximately \$1.4 million to \$1.0 million during the three months ended September 30, 2012, as compared to \$2.4 million for the three months ended September 30, 2011. Revenue-other decreased approximately \$4.6 million to \$2.2 million during the nine months ended September 30, 2012, as compared to \$6.8 million for the nine months ended September 30, 2011. These decreases are directly attributable to the completion of several general contracting projects in the latter quarters of 2011 and through 2012, as well as from the reduction in rental operations at the Penderbrook and Eclipse developments due to absorption of the units. The Company has two ongoing general contracting projects and continues to pursue opportunities within the Real Estate Services segment.

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Cost of sales – homebuilding

Cost of sales – homebuilding for the three months ended September 30, 2012 decreased by \$0.5 million, to \$2.1 million as compared to \$2.6 million for the three months ended September 30, 2011. Cost of sales – homebuilding for the nine months ended September 30, 2012 increased by \$0.1 million, to \$8.1 million as compared to \$8.0 million for the nine months ended September 30, 2011. The unit mix of homes settled during the three months and nine months ended September 30, 2012 accounted for the decrease and increase, respectively, in the aggregate cost of sales figures. For the three months ended September 30, 2012, gross margins increased to 17% on units settled as compared to 11% for the three months ended September 30, 2011. For the nine months ended September 30, 2012, gross margins increased to 14% on units settled as compared to 11% for the nine months ended September 30, 2011. The increase in margins is attributable to an increase in traffic and absorption at the two condominium projects resulting in a slight increase in pricing across those units.

Cost of sales – other

Cost of sales – other decreased approximately \$1.4 million to \$1.1 million during the three months ended September 30, 2012 as compared to \$2.5 million in the three months ended September 30, 2011. Cost of sales – other decreased approximately \$3.3 million to \$3.0 million during the nine months ended September 30, 2012 as compared to \$6.3 million in the nine months ended September 30, 2011. Included in cost of sales for the three months ended September 30, 2012, costs and gross profits totaled \$439 and \$398, respectively, related to rental operations at Penderbrook and Eclipse. Included in cost of sales – other for the nine months ended September 30, 2012, costs and gross profits (losses) totaled \$1,376 and \$1,062, respectively, related to rental operations at Penderbrook and Eclipse. As a result of the continued absorption of the condominium units at Penderbrook and Eclipse, the number of units has been reduced to 3 and 22, respectively, as of September 30, 2012. For the same period in 2011, rental units remaining for Penderbrook and Eclipse were 49 and 33, respectively. Consequently, rental revenues have declined and the impact of fixed costs on gross profit has been more significant. The Company expects this trend to continue as the final units within the two remaining condominium projects are absorbed. Additionally, an increase in repairs and maintenance costs of \$359, net of decreases related to home owners' association fees and other costs has contributed to the increase in costs and gross profit decline.

Included in cost of sales – other for the three months ended September 30, 2012, were costs and gross profits (losses) that totaled \$705 and \$178, respectively, related to our aforementioned general contracting projects. Included in cost of sales – other for the nine months ended September 30, 2012, were costs and gross profits (losses) that totaled \$1,531 and \$304, respectively, related to our aforementioned general contracting projects. These decreases in three and nine months ended September 30, 2012 are directly related to the decrease in the number of ongoing general contracting projects. Consequently, the decline in revenues generated within the Real Estate Services segment and the impact relative to the fixed costs on gross profit has been more significant. The Company has two ongoing projects and continues to pursue opportunities to expand the Real Estate Services segment.

Impairments and write-offs

Impairments and write-offs for the three and nine months ended September 30, 2012 were \$2,358, as compared to zero for the three and nine months ended September 30, 2011. Refer to Note 2 to the Consolidated Financial Statements for the basis for the impairments realized.

Selling, general and administrative

Selling, general and administrative expenses for the three months ended September 30, 2012 increased \$0.5 million to \$2.2 million, as compared to \$1.6 million for the three months ended September 30, 2011. Selling, general and administrative expenses for the nine months ended September 30, 2012 increased \$1.2 million to \$6.2 million, as compared to \$5.0 million for the nine months ended September 30, 2011. The increase in expenses over the three month period is attributable to increases in legal expenses of \$142, consulting expenses of \$66, feasibility expenses of \$59, marketing of \$76 and stock compensation of \$41. The increase in expenses over the nine month period is attributable to increases in compensation, benefits and payroll taxes of \$431, consulting expenses of \$302 and stock compensation of \$157. The increase in expenses for the three and nine month periods ended September 30, 2012, as compared to the three and nine month periods ended September 30, 2011, is primarily attributable to labor and costs related to the Company's pursuit of new business opportunities.

Interest, real estate taxes and indirect costs related to inactive projects

Interest and real estate taxes incurred relating to the development of lots and parcels are capitalized to real estate held for development and sale during the active development period, which generally commences when development and construction activities begin and ends when the properties are substantially complete or the property becomes inactive which means that development and construction activities have been suspended indefinitely. Interest is capitalized based on the interest rate applicable to specific borrowings or the weighted average of the rates applicable to other borrowings during the period. Interest and real estate taxes capitalized to real estate held for development and sale are expensed as a component of cost of sales as related units are sold.

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When a project becomes inactive, its interest, real estate taxes and indirect overhead costs are no longer capitalized but rather expensed in the period in which they are incurred. During the nine months ended September 30, 2012 and 2011, several of our projects were determined to be inactive for accounting purposes. Refer to Note 6 to the Consolidated Financial Statements for the breakdown of the interest, real estate taxes and indirect costs related to inactive projects reported on the consolidated statement of operations related to the inactivation of certain real estate projects held for development and sale.

Discontinued operations

As described in Note 12 to the Consolidated Financial Statements, on March 7, 2012, the Company's subsidiary sold the Cascades Apartments for \$19.35 million. Because the sale of the Cascades Apartments represents a component of the Company, generally accepted accounting principles require the results of operations associated with the Cascades Apartments to be included in Discontinued Operations. Accordingly, the net gain from the sale of the project of \$6.5 million is reflected within Discontinued Operations in the accompanying financial statements. Although the sale of the Cascades project is presented in the accompanying financial statements under Discontinued Operations, developing apartments for the purpose of selling is a component of the Company's ongoing strategy and operating activities. The Company continues to pursue such projects within its Apartment Buildings segment and anticipates that sales of similar operating projects will be reflected in this manner.

Income taxes

Income taxes are accounted for under the asset and liability method in accordance with ASC 740, "Accounting for Income Taxes," ("ASC 740"). Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The effective tax rate for the nine months ended September 30, 2012 and 2011 was 0%, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company recorded valuation allowances for certain tax attributes and other deferred tax assets. At this time, sufficient uncertainty exists regarding the future realization of these deferred tax assets through future taxable income or carry back opportunities. If, in the future, the Company believes that it is more likely than not that these deferred tax benefits will be realized, the valuation allowances will be reversed. With a full valuation allowance, any change in the deferred tax asset or liability is fully offset by a corresponding change in the valuation allowance. This results in a zero deferred tax benefit or expense for the three and nine months ended September 30, 2012 and 2011.

We file U.S. and state income tax returns in jurisdictions with varying statutes of limitations. The 2009 through 2011 tax years generally remain subject to examination by federal and most state tax authorities.

Liquidity and Capital Resources

We require capital to operate, to post deposits on new deals, to purchase and develop land, to construct homes, to fund related carrying costs and overhead and to fund various advertising and marketing programs to generate sales. These expenditures include payroll, community engineering, entitlement, architecture, advertising, utilities and interest as well as the construction costs of our homes. Our sources of capital include, and will continue to include, funds derived from various secured and unsecured borrowings to finance construction and development on acquired land, cash flow from operations, which includes the sale and delivery of constructed homes, rental apartment projects, finished and raw building lots and the sale of equity and debt securities.

The Company is involved in ongoing discussions with lenders and potential equity investors in an effort to provide additional growth capital to fund various new business opportunities. We are anticipating that through a combination of current available cash on hand, the additional cash from settlement proceeds, and the cash generated from settlements at our new communities currently under development that the Company will have sufficient financial resources to sustain our operations through the next 12 months, though no assurances can be made that we will be successful in our ongoing capital raising efforts.

Credit Facilities

We have outstanding borrowings with various financial institutions and other lenders that have been used to finance the acquisition, development and construction of real estate property. The Company has generally financed its development and construction activities on a single or multiple project basis so it is not uncommon for each project or collection of projects the Company develops and builds to have a separate credit facility. Accordingly, the Company typically has had numerous credit facilities and lenders. Refer to Note 14 in the Consolidated Financial Statements for details of our credit facilities and maturities and/or curtailment obligations of all of our borrowings.

Cash Flow

Net cash used in operating activities was \$5.2 million for the nine months ended September 30, 2012. This represents a decline from the net cash provided by operating activities of \$11.5 million for the nine months ended 2011. However, the 2012 cash flows do not reflect the net cash flows from the sale of the Cascades Apartments of approximately \$4.7 million. Although the construction, development and sale of this and potentially future projects are an ongoing component of the Company's operations, the sale of the project is required to be presented as Discontinued Operations. Accordingly, the net cash flows are presented within the investing and financing section of the accompanying consolidated statement of cash flows. Additionally, for 2012, other significant outflows relate to a \$0.6 million reduction in accrued interest payable for debt service payments made to lenders and a \$0.8 million reduction in payables related to payments made to vendors and compensation paid to employees, reflective of the improved cash position of the Company.

Net cash provided by investing activities was \$18.8 million for the nine months ended September 30, 2012, primarily attributable to the sale of the Cascades Apartments. Net cash used in investing activities was \$9.3 million for the nine months ended September 30, 2011, primarily attributable to the development activities of the Cascades Apartments.

Net cash used in financing activities was \$14.8 million for the nine months ended September 30, 2012, primarily attributable to the extinguishment of debt and retirement of the non-controlling interests, including preferred returns, in full related to the Cascades Apartments and curtailments paid to lenders upon settlement of units at the Penderbrook and Eclipse properties. Net cash provided by financing activities was \$3.9 million for the nine months ended September 30, 2011, primarily attributable to the refinancing of the notes payable related to the Eclipse project and the Private Placement for the Cascades Apartments.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates during the three and nine months ended September 30, 2012 compared with those disclosed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Cautionary Notes Regarding Forward-looking Statements

This report includes forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by the use of words such as "anticipate," "believe," "estimate," "may," "intend," "expect," "will," "should," "seeks" or other similar expressions. Forward-looking statements are based largely on our expectations and involve inherent risks and uncertainties, many of which are beyond our control. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply directly to us. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include, without limitation: general economic and market conditions, including interest rate levels; our ability to service our substantial debt; inherent risks in investment in real estate; our ability to compete in the markets in which we operate; regulatory actions; fluctuations in operating results; our anticipated growth strategies; shortages and increased costs of labor or building materials; the availability and cost of land in desirable areas; natural disasters; our ability to raise debt and equity capital and grow our operations on a profitable basis; and our continuing relationships with affiliates. Additional information concerning these and other important risk and uncertainties can be found under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Our actual results could differ materially from these projected or suggested by the forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of September 30, 2012. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2012.

Limitations on the Effectiveness of Controls

We do not expect that our disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Changes in Internal Control

No change has occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) during our last fiscal quarter ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes to the legal proceedings discussed under “Item 3. Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 1A. RISK FACTORS

We previously disclosed risk factors under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no material changes to these risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 10.68* Loan Agreement, dated as of October 5, 2011, by and among Comstock Penderbrook, L.C. and BCL Penderbrook, LLC
- 10.69* Contract of Sale Agreement, dated as of October 31, 2011, by and among Comstock Cascades II, L.C and CAPREIT Acquisition Corporation.
- 10.70* Loan Agreement, dated as of May 29, 2012, by and between Eagle Bank and Comstock Potomac Yard, L.C and Comstock Penderbrook, L.C.
- 10.71* Loan Agreement, dated as of August 23, 2012, by and between Eagle Bank and New Hampshire Ave. Venture, LLC.
- 10.72* Loan Agreement, dated as of September 27, 2012, by and between Cardinal Bank and Comstock Eastgate, L.C.
- 10.73 Loan Agreement, dated as of August 23, 2012, by and between Rosalie K. Stahl Trust and New Hampshire Ave. Venture, LLC.
- 31.1* Certification of Chairman and Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Act of 1934, as amended.
- 32.1** Certification of Chairman and Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheet, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Shareholder’s Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements, tagged as blocks of text. ***

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* Filed herewith.

** Furnished herewith.

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMSTOCK HOLDING COMPANIES, INC.

Date: November 14, 2012

By: _____ / S / CHRISTOPHER CLEMENTE
Christopher Clemente
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2012

By: _____ / S / JOSEPH M. S QUERI
Joseph M. Squeri
Chief Financial Officer
(Principal Financial Officer)

LOAN AGREEMENT

THIS LOAN AGREEMENT (as amended, modified or supplemented from time to time, this "Agreement"), dated as of the day of October, 2011, is made by and between **BCL PENDERBROOK, LLC**, a Delaware limited liability company ("Lender"), and **COMSTOCK PENDERBROOK, L.C.**, a Virginia limited liability company ("Borrower").

RECITALS

A. Borrower desires to obtain a loan to refinance all of the condominium units owned by Borrower (the "Units") and appurtenant undivided percentage interests in the common elements (the "Common Elements") in the condominium known as Penderbrook Square (the "Condominium") located at 3905 Penderview Drive, Fairfax, Virginia and more particularly described in Exhibit A attached hereto (the "Property").

B. Lender is willing to make a loan to Borrower in the principal amount of Five Million Four Hundred Twelve Thousand Three Hundred Thirty Dollars (\$5,412,330) (the "Loan") on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

For and in consideration of the mutual covenants set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, Lender and Borrower agree as follows:

SECTION ONE

THE LOAN

1.1 Advance. Upon the satisfaction of the conditions precedent set forth in Section 3, Lender shall advance the Loan to Borrower by wire transfer in immediately available funds to an account or accounts designated by Borrower.

1.2 Note. The Loan will be evidenced by a Deed of Trust Note made by Borrower payable to the order of Lender (as the same may be further amended, renewed, restated, supplemented or substituted from time to time, the "Note").

1.3 Use of Proceeds. The proceeds of the Loan will be used (a) to pay off the outstanding principal amount and any accrued and unpaid interest, fees, and other charges under the Amended and Restated Promissory Note dated February 1, 2007 in the original principal amount of \$17,339,125.42 made by Borrower and payable to the order of Guggenheim Corporate Funding, LLC (as successor-in-interest to Corus Bank, N.A.) and (b) for general corporate purposes. For the avoidance of doubt, general corporate purposes do not include (i) prepayment of debt or making of any other debt payments other than regular debt payments scheduled as of the closing of the Loan, except as otherwise expressly permitted in the Loan Documents (as defined in Section 3.1(a)); (ii) payment of employee compensation or rent accrued for more than 30 days as of the closing of the Loan, provided however, such payments shall not be prohibited if (x) they are repaid from the proceeds of the sale or refinance of the project owned by Comstock Cascades II, L.C. ("Cascades") and (y) the aggregate outstanding indebtedness of Borrower and its affiliates to Lender and its affiliates divided by the sum of (1) the appraised value of the Units as set forth in the Note that are encumbered by the Deed of Trust and (2) the agreed upon appraised value of other real property owned by Borrower or any of its affiliates that are encumbered by a mortgage, deed of trust, or deed to secure debt securing any indebtedness to Lender or any of its affiliates (the "Aggregate LTV") is equal to or less than fifty percent (50%);

(iii) payment of any operating and capital expenses outside the ordinary course of business without the prior written approval of Lender, which approval shall be granted or withheld in Lender's sole and absolute discretion and (iv) payment of dividends or similar forms of distributions before the Loan is repaid in full without the prior written approval of Lender, which approval shall be granted or withheld in Lender's sole and absolute discretion.

1.4 Guaranty. Comstock Homebuilding Companies, Inc., a Delaware corporation ("Comstock"), Comstock Emerald Farm, L.C., a Virginia limited liability company, and Comstock Potomac Yard, L.C., a Virginia limited liability company (collectively, "Guarantors"), shall jointly and severally guaranty the payment and performance of Borrower's obligations, covenants and agreements under the Loan Documents (hereinafter defined), which guaranty shall be secured by a first priority perfected security interest in all of Guarantors' unencumbered assets as more particularly set forth in a guaranty, pledge and security agreement made by Guarantors in favor of Lender (the "Guaranty").

1.5 Term. The Note shall mature upon the date that is thirty-six (36) months after the date of closing on the Loan (the "Maturity Date").

1.6 Fees. Borrower shall pay Lender a fee of one percent (1%) of the principal amount of the Loan, which fee shall be payable in full upon closing of the Loan.

1.7 Security. The Loan shall be secured by, among other things, the following:

- (i) the Guaranty;
- (ii) a first lien Deed of Trust, Security Agreement and Fixture Filing made by Borrower for the benefit of Lender (as amended, restated, supplemented or substituted, the "Deed of Trust") on the Property;
- (iii) an Assignment of Leases and Rents made by Borrower for the benefit of Lender (as amended, restated, supplemented or substituted, the "Leases Assignment") on the Property;
- (iv) an Assignment of Sales Contracts and Deposits made by Borrower for the benefit of Lender (as amended, restated, supplemented or substituted, the "Contracts Assignment");
- (v) an Environmental Indemnity Agreement made by Borrower and Guarantors for the benefit of Lender (as amended, restated, supplemented or substituted, the "Environmental Indemnity");
- (vi) UCC-1 Financing Statements (as amended, restated, supplemented or substituted, the "Financing Statements").

1.8 Stonehenge Subordination Agreement. It is understood and acknowledged that the Loan is part of the Senior Indebtedness (as defined in the Subordination Agreement dated July 12, 2011 by Stonehenge Funding, L.C. and Comstock for the benefit of BCL Eclipse, LLC) to which indebtedness of any type from Comstock to Stonehenge Funding, L.C. is made wholly subordinate.

SECTION TWO

PAYMENTS, ETC.

2.1 Payments; Prepayments. Payments of principal, including mandatory prepayments, and interest with respect to the Loan shall be due and payable as set forth in the Note. All payments due under the Loan

Documents shall be made in immediately available funds to Lender at such place as designated by Lender from time to time. Payments shall be applied, at Lender's sole discretion: (i) first, to payment of accrued and unpaid interest, if any; (ii) second, to payment of any principal then due, if any; (iii) third, to late charges, if any; (iv) fourth, to reasonable attorneys' fees and costs of collection and (v) fifth, to reduce the outstanding principal balance of the Note until such principal shall have been fully repaid. All payments hereunder shall be made without offset, demand, counterclaim, deduction, abatement, defense, or recoupment, each of which Borrower hereby waives. The terms and conditions of optional prepayments are as set forth in the Note.

2.2 Late Charges. If any payment due under the Note is not made within ten (10) days following its due date, Borrower shall pay to Lender upon demand a late charge equal to five percent (5%) of the amount of such payment.

2.3 Default Rate. After an Event of Default (hereinafter defined), the interest which accrues on the Note shall be increased to the Default Rate (as defined in the Note).

2.4 Computations. Interest and fees on the Loan shall be computed on the basis of a year of three hundred sixty (360) days and actual days elapsed.

2.5 Indebtedness. As used in this Agreement, the term "Indebtedness" means all present and future indebtedness of Borrower to Lender arising out of or in connection with the Note or any of the other Loan Documents.

SECTION THREE

CONDITIONS

3.1 Conditions Precedent to Closing. In addition to any other conditions stated in this Agreement, the following conditions must be satisfied prior to Lender closing on the Loan:

- (a) **Loan Documents.** Receipt by Lender of appropriately completed and duly executed originals of this Agreement, the Note, the Guaranty, the Deed of Trust, the Leases Assignment, the Contracts Assignment, the Environmental Indemnity and the Financing Statements, all as Lender may require (collectively with any other documents executed and delivered evidencing the Indebtedness, the "Loan Documents");
- (b) **Organizational Documents.** Borrower shall provide to Lender: (i) a currently certified copy of its articles of organization and all amendments thereto; (ii) evidence satisfactory to Lender and its counsel that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its businesses or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party and (iv) certified copies of its operating agreement and all amendments thereto. Each Guarantor shall provide to Lender: (i) a currently certified copy of its articles or certificate of incorporation or organization, as applicable, and all amendments thereto; (ii) evidence satisfactory to Lender and its counsel that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its businesses or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party and a certificate of incumbency and (iv) certified copies of its bylaws or operating agreement, as applicable, and all amendments thereto (all of the foregoing, collectively, the "Organizational Documents").

- (c) **Opinion.** Receipt by Lender of the opinion of the counsel for Borrower and Guarantors, in form and content satisfactory to Lender, in its sole, but reasonable, discretion.
- (d) **Insurance.** Receipt by Lender of certificate(s) of insurance to evidence a fully paid policy or policies of comprehensive public liability insurance naming Lender as an additional insured thereunder in an amount not less than Two Million Dollars (\$2,000,000) in the aggregate, with not less than One Million Dollars (\$1,000,000) per occurrence; in any event, the amount of all insurance shall be sufficient to prevent any co-insurance contribution on any loss, with each policy providing for a thirty (30) day prior written notice of cancellation, amendment or alteration; together with the insurance required pursuant to Section 2.3 of the Deed of Trust.
- (e) **Financing Statements.** The financing statements necessary to perfect Lender's security interest in the personal property subject to the Deed of Trust and the personal property subject to the Guaranty, and in any other collateral requiring filing of a financing statement for perfection of a lien thereon, shall be duly filed, and Borrower and Guarantors each hereby consent to and authorize such filing, in all appropriate offices and jurisdictions. All other financing statements covering any of such personal property shall be terminated or Lender shall be reasonably satisfied that such terminations are forthcoming, and filing and recording receipts evidencing such filings and terminations shall be delivered to Lender, all in form and substance satisfactory to Lender.
- (f) **Property Documents.** Lender shall have received and approved, in its sole discretion, the following:
- (1) **Appraisal.** An appraisal of the Property prepared by an appraiser acceptable to Lender, in form and content acceptable to Lender, conforming to all regulatory and internal appraisal guidelines applicable to or established by Lender, in its sole, absolute, nonreviewable discretion, reflecting an "as is" value and a "discounted cash flow value" satisfactory to Lender (the "Appraisal"), such Appraisal having been received and previously approved by Lender. For the avoidance of doubt; Borrower acknowledges that the gross appraised value to be used to calculate any mandatory prepayment under Section 4(a) of the Note is as set forth in Schedule 4(a) to the Note and not as set forth in the Appraisal;
 - (2) **Title Insurance.** A commitment for title insurance (the "Title Commitment") insuring the first priority lien of the Deed of Trust, containing no exceptions unacceptable to Lender, issued in the name of Lender by a title company acceptable to Lender and in an amount equal to the principal amount of the Note. Such Title Commitment and the title policy issued pursuant thereto (the "Title Policy") shall reflect that all requirements for the issuance of the Title Policy have been satisfied, and shall contain such other endorsements or coverages as Lender may require;
 - (3) **Condominium Documents.** Copies of all condominium documents and all amendments thereto with respect to the Property, including without limitation the plats and plans, declaration, bylaws, rules and regulations, current condominium operating budget and any notices of special assessment (collectively, the "Condominium Documents");
 - (4) **Environmental Audit.** A Phase I environmental audit of the Property prepared by an environmental consulting firm acceptable to Lender, in its sole discretion, confirming that the Property is in compliance with all applicable environmental laws;

- (5) Flood Hazard. Evidence that no part of the building(s) in which the Units are located is located in a special flood hazard area;
 - (6) Zoning. Receipt by Lender of a zoning endorsement to the Title Policy acceptable to Lender or such other written evidence as is acceptable to Lender that the Property is zoned consistent with the uses contemplated;
 - (7) Leases; Sales Agreements. Copies of all existing leases and sales agreements with respect to the Property, if any, together with (i) such information regarding pre-qualification and deposit as may be in Borrower's possession or control and (ii) a proposed form of lease and form of sales agreement for future leases and sales;
 - (8) Management Agreements. Copies of all management agreements with respect to the Property;
 - (9) Certificates of Occupancy. Copies of all certificates of occupancy with respect to the Property;
 - (10) Service Contracts. Copies of all service contracts related to the Property;
 - (11) Licenses and Permits. Copies of all licenses and permits related to the Property;
 - (12) Rent Roll. Certified rent roll for the Property as of the date of the closing of the Loan and
 - (13) Tax Bills. Copies of all real estate tax bills with respect to the Property during the two-year period prior to closing of the Loan.
- (g) **No Default**. No event shall have occurred and be continuing that constitutes an Event of Default (as defined below).
- (h) **Representations**. All representations and warranties contained in this Agreement shall be true and correct in every material respect as of the date of closing.
- (i) **Fees and Expenses**. Borrower shall pay in full all fees and charges incurred by Lender in the procuring and making of the Loan, including without limitation, the reasonable fees and disbursements of Lender's attorneys, charges for the Appraisal, fees and expenses relating to examination of title, title insurance premiums, surveys, and document recording, documentary, transfer or other similar taxes and revenue stamps and Lender's loan fees.
- (j) **Satisfactory Documents and Other Matters**. All documents delivered pursuant to this Agreement must be in form and substance satisfactory to Lender and its counsel, and all legal matters incident to this Agreement must be satisfactory to Lender's counsel.

SECTION FOUR

REPRESENTATIONS AND WARRANTIES

In order to induce Lender to extend credit to Borrower, Borrower and each Guarantor make the following representations and warranties as to itself as applicable:

4.1 Organization. Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia and is duly qualified as a foreign limited liability company and in good standing under the laws of each other jurisdiction in which such qualification is required. Each Guarantor is a corporation or a limited liability company, as applicable, duly organized, validly existing and in good standing under the laws of the State of Delaware or the Commonwealth of Virginia, as applicable, and is duly qualified as a foreign corporation or limited liability company, as applicable, and in good standing under the laws of each other jurisdiction in which such qualification is required.

4.2 Execution and Delivery. Borrower and each Guarantor has the power, and has taken all the necessary actions, to execute and deliver and perform its respective obligations under the Loan Documents, and the Loan Documents, when executed and delivered, will be binding obligations of Borrower enforceable in accordance with their respective terms.

4.3 Power and Authority. Borrower and each Guarantor has the power and authority to own its properties and to carry on its business as now being conducted.

4.4 Financial Statements. All financial statements and information delivered to Lender by Borrower or any Guarantor are correct and complete in all material respects, and present fairly the financial conditions, and reflect all known liabilities, contingent and otherwise, of Borrower and Guarantors as of the dates of such statements and information, and since such dates no material adverse change in the assets, liabilities, financial condition, business or operations of Borrower or any Guarantor has occurred.

4.5 Taxes. All tax returns and reports of Borrower and Guarantors required by law to be filed have been duly filed, and all taxes, assessments, other governmental charges or levies (other than those presently payable without penalty or interest and those that are being contested in good faith in appropriate proceedings) upon Borrower or any Guarantor and upon any of its properties, assets, income or franchises that are due and payable have been paid.

4.6 Litigation. There is no action, suit or proceeding pending or, to the knowledge of Borrower or any Guarantor, threatened against or affecting Borrower or any Guarantor that, either in any case or in the aggregate, may result in any material adverse change in the business, properties or assets or in the condition, financial or otherwise, of Borrower or any Guarantor, or that may result in any material liability on the part of Borrower or any Guarantor that would materially and adversely affect the ability of Borrower or any Guarantor to perform its and/or their obligations under the Loan Documents, or that questions the validity of any of the Loan Documents or any action taken or to be taken in connection with the Loan Documents.

4.7 No Breach. The execution and delivery of the Loan Documents, and compliance with the provisions of the Loan Documents, will not conflict with or violate any provisions of law or conflict with, result in a breach of, or constitute a default under the Organizational Documents, any judgment, order or decree binding on Borrower or any Guarantor, or any other agreements to which Borrower or any Guarantor is a party.

4.8 No Defaults. Except for Existing Debt identified on Schedule 4.14 that is subject to a forbearance agreement that remains in good standing, and to the best of Borrower's and Guarantors' knowledge, neither Borrower nor any Guarantor is in default with respect to any debt, direct or indirect, or with respect to the Condominium Documents.

4.9 Compliance. Borrower and each Guarantor is in compliance in all material respects with all applicable laws and regulations, including, without limitation, the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

4.10 Approvals. No authorizations, approvals or consents of, and no filings and registrations with, any governmental or regulatory authority or agency are necessary for the execution, delivery or performance of the Loan Documents by Borrower or any Guarantor.

4.11 Title to Assets. Borrower and each Guarantor has good and marketable title to all of its assets, subject only to the liens and security interests permitted by this Agreement.

4.12 Use of Proceeds. The proceeds of the Loan shall be used only for the purposes set forth in Section 1.3 of this Agreement. The proceeds of the Loan shall not be used to purchase or carry any margin stock, as such term is defined in Regulations U and X of the Board of Governors of the Federal Reserve System.

4.13 Perfection and Priority. When the Loan is advanced, Lender shall have a valid, enforceable and perfected security interest in the Security Property (as defined in the Deed of Trust) and the Collateral (as defined in the Guaranty), subject only to liens permitted by Lender.

4.14 Outstanding Debt; Accrued Obligations. As of the closing, (i) Borrower will have no outstanding debt other than the Loan, and (ii) no Guarantor will have any outstanding debt other than the debt set forth on Schedule 4.14 attached hereto (the “Existing Debt”). As of the closing, Borrower and Guarantors have no accrued rent or employee compensation.

4.15 Capitalization.

- (a) The authorized capital stock of Comstock consists of 77,266,500 shares of Class A common stock and 2,733,500 shares of Class B common stock and 50,000 shares of preferred stock. As of the date of this Agreement, 17,220,462 shares of Class A Common Stock were issued and outstanding, and the following are unexercised shares: 1,370,515 shares of restricted stock, 762,500 shares in options, and 489,479 shares in warrants.
- (b) Comstock owns 100% of the membership interests in the other Guarantors.

4.16 Solvency. Both immediately before and immediately after the closing of the Loan (a) the fair value of the assets of Borrower and each Guarantor will exceed its debts and liabilities, subordinated, contingent or otherwise and (b) Borrower and each Guarantor will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become due.

4.17 Intellectual Property. None of the execution, delivery or performance of this Agreement and the other Loan Documents will alter, impair or otherwise affect or require the consent, approval or other authorization of any other person in respect of any right of Borrower or any Guarantor in any intellectual property.

4.18 Disclosure. The representations and warranties made in this Agreement and all other documents furnished to Lender by Borrower or any Guarantor in connection with this Agreement or any transaction contemplated hereby, and in all materials furnished by Borrower or any Guarantor to Lender in connection with the Loan, (i) do not and will not contain, at the time furnished, any untrue statement of a material fact and (ii) do not and will not omit, at the time furnished, any material fact necessary in order to make them not misleading.

SECTION FIVE

COVENANTS OF BORROWER AND GUARANTORS

In consideration of credit extended or to be extended by Lender, Borrower and each Guarantor covenants and agrees as follows:

5.1 Financial Information. Borrower and each Guarantor shall deliver to Lender: (i) each year within ninety (90) days after the close of its fiscal year, financial statements prepared in accordance with generally accepted accounting principles consistently applied, certified as true and correct by an officer of each such entity; (ii) each year within thirty (30) days after filing with the Internal Revenue Service, a copy of each such entity's federal income tax return and all schedules thereto; and (iii) promptly following Lender's request, such financial and other information with respect to such entity and the Property as Lender reasonably may require from time to time. All financial statements shall be in such reasonable detail and shall be accompanied by such certificates of Borrower or such Guarantor, as applicable, as may be reasonably required by Lender.

5.2 Taxes. Borrower and each Guarantor shall timely file all tax returns and reports required by law to be filed, and timely pay all taxes, assessments, other governmental charges or levies upon itself and upon any of its properties, assets, income or franchises.

5.3 Compliance with Laws. Borrower and each Guarantor shall comply with all applicable laws and regulations, including, without limitation, ERISA.

5.4 Maintain Existence, Properties, Insurance and Business; Organizational Documents. Borrower and each Guarantor shall maintain its existence in good standing, maintain and keep its properties in good condition (ordinary wear and tear, fire or other casualty excepted), and maintain adequate insurance for all of its properties with financially sound and reputable insurers. Borrower and each Guarantor shall remain in the same line of business as it is in on the date of this Agreement and shall not enter into any new lines of business without the prior written consent of Lender. The Organizational Documents of Borrower and of each Guarantor shall not be amended, changed or modified in any respect without prior written consent of Lender; provided, however, that on the condition that Lender is given thirty (30) days' advance written notice, Lender hereby consents to Comstock's change in corporate domicile from Delaware to Virginia and all amendments to its organizational documents as are reasonably required to effect such change in domicile subsequent to the closing of the Loan; provided further that UCC-1 financing statements shall be filed in the changed domicile at the cost and expense of the Comstock.

5.5 Notices. As soon as it has actual knowledge, Borrower and each Guarantor shall notify Lender of the institution or threat of any material litigation or condemnation or administrative proceeding of any nature involving Borrower or any Guarantor.

5.6 Books and Records. Borrower and each Guarantor shall maintain complete and accurate books of account and records. The principal books of account and records for Borrower and each Guarantor shall be kept and maintained at 11465 Sunset Hills Road, 4th Floor, Reston, VA 20190. Neither Borrower nor any Guarantor shall remove such books of account and records without giving Lender at least thirty (30) days' prior written notice. Borrower and each Guarantor, upon reasonable notice from Lender, shall permit Lender, or any officer, employee or agent designated by Lender, to examine its books of account and records, and each agree that Lender or such officer, employee or agent may audit and verify such books of account and records. Borrower and each Guarantor shall reimburse Lender for any reasonable expenses incurred by Lender in connection with any audits of its books of account and records. All books of account maintained by Borrower and each Guarantor shall be maintained and prepared in accordance with generally accepted accounting principles consistently applied.

5.7 Liens. Neither Borrower nor any Guarantor shall create, incur, assume or permit to exist any mortgage, deed of trust, assignment, pledge, lien, security interest, charge or encumbrance, including, without limitation, the right of a vendor under a conditional sale contract or the lessor under a capitalized lease (collectively, the “Liens”) of any kind or nature in or upon any of its assets, except:

- (a) Liens created or deposits made that are incidental to the conduct of its business, that are not incurred in connection with any borrowing or the obtaining of any credit and that do not and will not interfere with the use by Borrower or any Guarantor, as applicable, of any of its assets in the normal course of its business or materially impair the value of such assets for the purpose of such business;
- (b) Liens created in connection with project-level financing by Comstock or its affiliate of projects other than the Condominium; and
- (c) Liens securing the Indebtedness;

provided, however, that, no Guarantor shall be required to comply with this Section 5.7 while the Aggregate LTV is equal to or less than fifty percent (50%).

5.8 Debt.

- (a) Without the prior written consent of Lender, neither Borrower nor any Guarantor shall incur or permit to exist any debt for borrowed funds, the deferred purchase price of goods or services, or capitalized lease obligations, except for (i) trade debt incurred in the ordinary course of business, (ii) debt incurred in connection with project level financing by Comstock or its affiliate of projects other than the Condominium, (iii) the Existing Debt, and (iv) the Indebtedness.
- (b) Other than principal and interest payments due and owing under the Revolving Line of Credit Note dated February 22, 2006 in the original principal amount of Fifteen Million Dollars (\$15,000,000) made by Comstock payable to the order of Bank of America, N.A., any unsecured loan hereafter extended to Borrower or any Guarantor by a third party and any secured or unsecured loan extended to Borrower or any Guarantor by a director or officer of Borrower or any Guarantor, or any entity under the control of a director or officer of Borrower or any Guarantor, shall be subject to a subordination agreement in substantially the same form as attached as Exhibit B.
- (c) Except for the Indebtedness, no indebtedness of Borrower or any Guarantor may be prepaid in whole or in part other than the Loan during the Term; provided that Comstock may prepay the following with Lender’s prior written consent:
 - (i) Subordinated Deficiency Note dated September 21, 2009 in the original principal amount of \$400,000 made by Comstock payable to the order of Cornerstone Bank;
 - (ii) Amended and Restated Subordinated Deficiency Note dated November 5, 2009 in the original principal amount of \$205,488.23 made by Comstock payable to the order of Wachovia Bank, National Association; and
 - (iii) Subordinated Deficiency Note dated November 10, 2009 in the original principal amount of \$25,000 made by Comstock payable to the order of Fifth Third Bank.
- (d) No Guarantor shall be required to comply with this Section 5.8 while the Aggregate LTV is equal to or less than fifty percent (50%).

5.9 Contingent Liabilities. Without the prior written consent of Lender, neither Borrower nor any Guarantor shall guarantee, endorse, become contingently liable upon or assume the obligation of any person, or permit any such contingent liability to exist, except by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; provided, however, that no Guarantor shall be required to comply with this Section 5.9 while the Aggregate LTV is equal to or less than fifty percent (50%).

5.10 Sale of Assets. Without the prior written consent of Lender, neither Borrower nor any Guarantor shall sell, lease, assign or otherwise dispose of any of its assets except for (a) sales in the ordinary course of business including sales of Units, (b) the disposition of assets that are no longer needed or useful in its business and (c) obsolete or non-performing assets which are replaced with assets of similar or better quality and utility. No sale, lease, assignment or other disposition of any of Borrower's or Guarantor's assets shall be for less than fair market value or not at arm's length.

5.11 Liquidations, Terminations, Mergers and Acquisitions. Without the prior written consent of Lender, which Lender may grant or withhold in its sole discretion, neither Borrower nor any Guarantor shall dissolve, liquidate, terminate, merge or consolidate with (including by operation of law) any other person.

5.12 Loans and Advances; Investments. Without the prior written consent of Lender, Borrower shall not make any loan or advance to any of its affiliates, directors, members, managers, officers or employees, or any other person, except for the creation of accounts receivable in the ordinary course of business on terms that are no less favorable than would apply in an arm's-length transaction nor shall any Guarantor make any (i) investments in any subsidiary or affiliate other than in the ordinary course of, and consistent with, its business as currently conducted or (ii) loans or advances to any of its directors, officers or employees.

5.13 Subsidiaries and Joint Ventures. Without the prior written consent of Lender, neither Borrower nor any Guarantor shall form any subsidiary, become a general or limited partner in any partnership or become a party to a joint venture; provided that Comstock shall be permitted to form any subsidiary, become a general or limited partner in any partnership, or become a party to a joint venture with respect to any corporate opportunity (i) that is not subject to the Right of First Refusal and First Offer Agreement dated July 12, 2011 by and between Comstock and BridgeCom Development I, LLC (the "ROFR Agreement") pursuant to the terms and conditions of the ROFR Agreement or (ii) with respect to which it previously complied with Section 2 of the ROFR Agreement. If Lender grants its consent to the formation or acquisition of a subsidiary, Borrower or such Guarantor, as applicable, shall cause such subsidiary to perform and observe all of the covenants contained in this Agreement.

5.14 Affiliates. Without the prior written consent of Lender, neither Borrower nor any Guarantor shall engage in business with any of its affiliates, stockholders, officers or directors except in the ordinary course of business and on terms that are no less favorable to Borrower or such Guarantor, as applicable, than would apply in an arm's-length transaction.

5.15 Organization; Control and Management. Until such time as the Loan is fully repaid, there shall be no Transfer (hereinafter defined) of any interest in Borrower, nor any change in the Control (hereinafter defined) or management of Borrower or any Guarantor, nor any Transfer of the Property except for sales of Units in accordance with the Loan Documents, without Lender's prior written consent. "Transfer" means any assignment, pledge, conveyance, sale, transfer, mortgage, encumbrance, grant of a security interest or other disposition, either directly or indirectly, by operation of law or otherwise. "Control" means the ownership, directly or indirectly, in the aggregate of fifty percent (50%) or more of the beneficial ownership interests of an entity and the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ability to exercise voting power, by contract or otherwise. "Controlled by" and "controlling" shall have the respective correlative meaning thereto.

5.16 Minimum Liquidity Covenants. Guarantors shall, collectively, maintain the minimum liquidity requirements set forth in Section 3.21 of the Guaranty.

5.17 Minimum Sales Requirement.

- (a) Borrower shall enter into and close under sales contracts on at least eleven (11) Units (the "Minimum Sales") for each six-month period (the "Measuring Period") during the Term

(the first such period shall commence on the date of the closing of the Loan). Each sales contract shall be subject to the prior approval of Lender, provided that Lender shall not unreasonably withhold its approval of any sales contract with a purchase price of at least 90% of the appraised gross value per square foot. If more than eleven (11) Units are sold within any such Measuring Period, the excess sales shall carry forward to satisfy all or a portion of the foregoing sales requirement for any ensuing Measuring Period and continuing on a cumulative basis until the Maturity Date.

- (b) Borrower may not close under any sales contract that would result in the Condominium becoming ineligible for Federal Housing Administration financing.

5.18 Intentionally omitted.

5.19 Performance of Other Contracts. Borrower and each Guarantor shall duly and punctually perform all of its material contracts and other obligations to all parties with which it has contracts and other obligations.

5.20 Participation Rights.

- (a) Lender (or its affiliate) shall have a right of first refusal to participate as a joint venture partner with Comstock in each future material corporate opportunity (each, a "Corporate Opportunity") as more particularly set forth in the ROFR Agreement.
- (b) Within 45 days following Lender's written request, which request may be delivered from and after October 1, 2011 so long as Cascades owns the Cascades project, Comstock shall exercise its rights under the Cascades operating agreement to repurchase all of the Class B Units and shall admit Lender (or its affiliate) as a member of Cascades on substantially similar terms as current Class B members as set forth in the governing documents for Cascades; provided however, Comstock shall not have the absolute right to repurchase Lender's (or its affiliate's) equity interest in Cascades unless in connection with (i) a cash-out refinancing of the Cascades project (with Fannie Mae, Freddie Mac or similar institutional financing) or (ii) the sale of the Cascades project.
- (c) If New Hampshire Ave Ventures, L.C. and/or W Street Ventures, L.C. (together, the "Ventures") is seeking additional material financing, Lender (or its affiliate) shall have the right, but not the obligation, as part of a Corporate Opportunity, to provide such financing on terms and conditions to be agreed upon by the parties; provided that such terms shall include a minimum preferred return of twenty percent (20%) or such greater amount as may be mutually agreed to by the parties.

5.21 Observation Rights. Lender shall be entitled to designate representatives to receive copies of all materials distributed to, and attend any meeting of, Comstock's Investment Committee (including any subcommittee thereof) as an observer upon not less than three (3) business days' prior notice.

5.22 Non-Competes. Comstock shall maintain in full force and effect and enforce its rights under the (i) Confidentiality and Non-Competition Agreement dated December 17, 2004 by and between Comstock and Gregory V. Benson; (ii) Confidentiality and Non-Competition Agreement dated December 17, 2004 by and between Comstock and Christopher Clemente; and (iii) Confidentiality and Non-Competition Agreement dated August 17, 2010 by and between Comstock and Joseph Squeri.

5.23 Collateral Monitoring. At Lender's sole discretion, a third-party professional selected by Lender and reasonably acceptable to Borrower may be retained once per calendar year, at Borrower's sole cost and expense, to establish and monitor the conditions of the collateral assets throughout the Term.

5.24 Notice to Lender. Borrower and each Guarantor shall promptly advise Lender in writing of any condition, event, or act that comes to its attention that (i) would prejudice Lender's rights under the Loan Documents; (ii) would, with notice or lapse of time or both, become an Event of Default; (iii) constitutes an Event of Default or (iv) constitutes a material adverse change to its assets, business, properties or business prospects.

5.25 Perform Obligations. Borrower and each Guarantor shall fully perform and discharge its obligations under the Loan Documents when and as they become due.

5.26 Waiver of Subrogation. Notwithstanding anything to the contrary contained in this Agreement, Borrower hereby unconditionally and irrevocably waives, releases, and abrogates any and all rights it may now or hereafter have under any agreement, at law or in equity (including any law subrogating the rights of Borrower to those of Lender), to assess any claim against or seek contribution, indemnification, or any other form of reimbursement from any other party liable for payment of any or all of the obligations for any payment made by Borrower under or in connection with the Loan Documents. This Section 5.26 shall survive the termination of this Agreement.

5.27 Further Assurances. At any time and from time to time, upon the written request of Lender, and at the sole expense of Borrower or Guarantor, as applicable, Borrower and each Guarantor shall promptly and duly execute and deliver such further instruments and documents and take such further actions as Lender may reasonably request for purposes of obtaining, creating, perfecting, validating, or preserving Lender's rights under the Loan Documents.

SECTION SIX

DEFAULT AND REMEDIES

6.1 Events of Default. Each of the following shall constitute an "Event of Default" under this Agreement:

- (a) **Failure to Pay.** If: (i) Borrower shall fail to pay any payment required under the Note (the "Payments") when due thereunder or (ii) Borrower shall fail to pay any amount (other than the Payments) as and when due under any of the Loan Documents;
- (b) **Failure to Give Notices.** If Borrower or any Guarantor fails to give Lender any notice required by Section 5.5 or Section 5.24 of this Agreement within ten (10) business days after it has actual knowledge of the event giving rise to the obligation to give such notice;
- (c) **Failure to Permit Inspections.** If Borrower or any Guarantor refuses to permit Lender to inspect its books and records in accordance with the provision of Section 5.6, or fails to permit Lender to inspect the Property upon reasonable advance notice;
- (d) **Failure to Observe Covenants.** If Borrower or any Guarantor fails to perform or observe any term, covenant, warranty or agreement contained in this Agreement or in the other Loan Documents, excluding however the covenant contained in the first sentence of Section 5.17(a), and such failure shall continue for a period of thirty (30) days after written notice of such failure has been given to Borrower or Guarantor, as applicable, by Lender; provided, however, if such default is not in the payment of any sum due to Lender hereunder, or was not the subject of an Event of Default for which notice was previously provided, and provided Borrower or Guarantor, as applicable, is diligently pursuing the cure of such default, then Borrower or Guarantor, as applicable, shall have an additional sixty (60) days within which to cure such default prior to Lender exercising any right or remedy available hereunder, at law or in equity;

- (e) **Defaults under Loan Documents.** If an Event of Default shall occur under the Note or any other Loan Document and shall not be cured within any applicable grace period, and if an Event of Default shall occur under any Loan Document (as defined in the Loan Agreement dated as of July 12, 2011 by and between BCL Eclipse, LLC and Comstock Potomac Yard, L.C.);
- (f) **Breach of Representation.** Discovery that any representation or warranty made or deemed made by Borrower or any Guarantor in this Agreement or in any other Loan Document, or any statement or representation made in any certificate, report or opinion delivered pursuant to this Agreement or other Loan Document or in connection with any borrowing under this Agreement by Borrower or any Guarantor or any officer, agent, employee or director of Borrower or any Guarantor, was materially untrue when made or deemed made;
- (g) **Voluntary Bankruptcy.** If Borrower or any Guarantor makes an assignment for the benefit of creditors, files a petition in bankruptcy, petitions or applies to any tribunal for any receiver or any trustee of Borrower or any Guarantor or any substantial part of the property of Borrower or any Guarantor, or commences any proceeding relating to Borrower or any Guarantor under any reorganization, arrangement, composition, readjustment, liquidation or dissolution law or statute of any jurisdiction, whether in effect now or after this Agreement is executed;
- (h) **Involuntary Bankruptcy.** If, within sixty (60) days after the filing of a bankruptcy petition or the commencement of any proceeding against Borrower or any Guarantor seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, the proceeding shall not have been dismissed, or, if within sixty (60) days after the appointment, without the consent or acquiescence of Borrower or Guarantor, of any trustee, receiver or liquidator of any Borrower or all of any substantial part of the properties of Borrower or any Guarantor, the appointment shall not have been vacated;
- (i) **Cross-Default.** If, as a result of default, any present or future obligations of Borrower or any Guarantor to Lender or any other creditor are declared to be due and payable prior to the expressed maturity of such obligations;
- (j) **Material Adverse Change.** A material adverse change occurs in the financial or business condition of Borrower or any Guarantor;
- (k) **Judgment.** If a judgment, attachment, garnishment or other process is entered against Borrower and is not vacated or bonded within sixty (60) days after entry (or such shorter period of time as necessary in order to avoid attachment or foreclosure), or if a judgment, attachment, garnishment or other process is entered against any Guarantor that would materially affect such Guarantor's ability to perform its obligations under the Loan Documents, and such judgment, attachment, garnishment or other process is not vacated or bonded within sixty (60) days after entry (or such shorter period of time as necessary in order to avoid attachment or foreclosure);
- (l) **Dissolution.** The dissolution, liquidation or termination of existence of Borrower or any Guarantor; or
- (m) **Change in Management/Control.** A change in the management of or controlling interest in Borrower or any Guarantor without the prior written consent of Lender.

6.2 Remedies. Upon the occurrence of an Event of Default (a) Lender, at its option, by written notice to Borrower, may declare all Indebtedness to Lender to be immediately due and payable, whether such Indebtedness was incurred prior to, contemporaneous with or subsequent to the date of this Agreement and whether represented in writing or otherwise, without presentment, demand, protest or further notice of any kind, and (b) Lender may exercise all rights and remedies available to it under the Loan Documents and applicable law. Borrower agrees to pay all costs and expenses incurred by Lender in enforcing any obligation under this Agreement or the other Loan Documents, including, without limitation, attorneys' fees. No failure or delay by Lender in exercising any power or right will operate as a waiver of such power or right, nor will any single or partial exercise of any power or right preclude any other future exercise of such power or right, or the exercise of any other power or right.

SECTION SEVEN

INDEMNIFICATION

Borrower and Guarantors jointly and severally indemnify and hold harmless Lender, its affiliates, and each of their officers, directors, employees, agents, advisors and representatives (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and disbursements of counsel) that may be incurred by or asserted or awarded against any Indemnified Party (including, without limitation, in connection with any investigation, litigation or proceeding or the preparation of a defense in connection therewith), arising out of or in connection with or by reason of the Loan contemplated hereby (including, without limitation, arising out of or in connection with the litigation styled *Board of Directors of the Unit Owners Association of Penderbrook Square, A Condominium and The Unit Owners Association of Penderbrook Square, A Condominium v. Comstock Penderbrook, L.C.* filed in Fairfax County Circuit Court, Virginia (Case No. C2010-16708) and the litigation styled *Network Multi-Family Security Corporation v. Comstock Penderbrook, L.C.* filed in Fairfax county Circuit Court, Virginia (Case No. 2011-01784)), except to the extent arising from an Indemnified Party's gross negligence or willful misconduct. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 7 applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by Borrower or any Guarantor, any of their directors, security holders or creditors, an Indemnified Party or any other person, or an Indemnified Party is otherwise a party thereto. No Indemnified Party will have any liability (whether direct or indirect, in contract, tort or otherwise) to Borrower or any Guarantor, any of their affiliates, security holders or creditors for or in connection with the transactions contemplated hereby, except for direct damages (as opposed to special, indirect, consequential or punitive damages including, without limitation, any loss of profits, business or anticipated savings) determined in a final non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

SECTION EIGHT

MISCELLANEOUS

8.1 Defined Terms. Each accounting term used in this Agreement, not otherwise defined, shall have the meaning given to it under GAAP applied on a consistent basis. The term "person" shall mean any individual, partnership, corporation, trust, joint venture, unincorporated association, governmental subdivision or agency or any other entity of any nature. The term "subsidiary" means, with respect to any person, a corporation or other person of which shares of stock or other ownership interest having ordinary voting power to elect a majority of the board of directors or other managers of such corporation or person are at the time owned, or the management of which is otherwise controlled, directly or indirectly, through one or more intermediaries, by such person. The term "affiliate" means, with respect to any specified person, any other person that, directly or indirectly, controls or is controlled by, or is under common control with, such specified person. All meanings assigned to defined terms in this Agreement shall be applicable to the singular and plural forms of the terms defined.

8.2 Notices. All notices, requests, demands and other communication with respect hereto shall be in writing and shall be delivered by hand, prepaid by Federal Express (or a comparable overnight delivery service) or sent by the United States first-class mail, certified, postage prepaid, return receipt requested, to the parties at their respective addresses set forth as follows:

If to Lender, to:

BCL Penderbrook, LLC
c/o SunBridge Manager, LLC
5425 Wisconsin Avenue, Suite 701
Chevy Chase, Maryland 20815
Attention: Timothy B. Peterson

with a copy to:

Arent Fox LLP
1050 Connecticut Avenue NW
Washington, DC 20036
Attention: Jay L. Halpern, Esq.

If to Borrower, to:

Comstock Penderbrook, L.C.
c/o Comstock Homebuilding Companies, Inc.
11465 Sunset Hills Road, 4th Floor
Reston, VA 20190
Attention: Christopher Clemente, CEO

with a copy to:

Comstock Homebuilding Companies, Inc.
11465 Sunset Hills Road, 4th Floor
Reston, VA 20190
Attention: Jubal Thompson, General Counsel

Any notice, request, demand or other communication delivered or sent in the manner aforesaid shall be deemed given or made (as the case may be) upon the earliest of (a) the date it is actually received, (b) on the business day after the day on which it is delivered by hand, (c) on the business day after the day on which it is properly delivered by Federal Express (or a comparable overnight delivery service) or (d) on the third (3rd) business day after the day on which it is deposited in the United States mail, certified and return receipt requested. Any party may change such party's address by notifying the other party of the new address in any manner permitted by this Section 8.2.

8.3 Successors and Assigns. This Agreement will be binding upon and inure to the benefit of Lender and Borrower and their respective successors, assigns, personal representatives, executors and administrators, provided that Borrower may not assign or transfer its rights under this Agreement.

8.4 Entire Agreement. Except for the other Loan Documents expressly referred to in this Agreement, this Agreement represents the entire agreement between Lender and Borrower on the subject matter hereof, supersedes all prior commitments, and may be modified only by an agreement in writing.

8.5 Survival. All agreements, covenants, representations and warranties made in this Agreement and all other provisions of this Agreement will survive the delivery of this Agreement and the other Loan Documents and the making of the advances under this Agreement and will remain in full force and effect until the obligations of Borrower under this Agreement and the other Loan Documents are fully discharged.

8.6 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the Commonwealth of Virginia, without reference to conflict of laws principles.

8.7 Headings. Section headings are for convenience of reference only and shall not affect the interpretation of this Agreement.

8.8 Participations. Lender shall have the right to sell all or any part of its rights under the Loan Documents, and Borrower authorizes Lender to disclose to any prospective participant in the Loan any and all financial and other information in Lender's possession concerning Borrower or the collateral.

8.9 Third Party Beneficiary. The parties do not intend the benefits of this Agreement or any other Loan Document to inure to any third party.

8.10 Waiver of Jury Trial. TO THE FULLEST EXTENT PERMITTED BY LAW, LENDER AND BORROWER KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY BASED ON, ARISING OUT OF OR UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT.

8.11 Waiver. The rights of Lender under this Agreement and the other Loan Documents shall be in addition to all other rights provided by law. No waiver of any provision of this Agreement or any other Loan Document shall be effective unless in writing, and no waiver shall extend beyond the particular purpose involved. No waiver in any one case shall require Lender to give any subsequent waivers.

8.12 Severability. If any provision of this Agreement or any other Loan Document is held to be void, invalid, illegal or unenforceable in any respect, such provision shall be fully severable and this Agreement or the applicable Loan Document shall be construed as if the void, invalid, illegal or unenforceable provision were not included in this Agreement or in such Loan Document.

8.13 No Setoffs. With respect to a monetary default claimed by Lender under the Loan Documents, no setoff, claim, counterclaim, reduction or diminution of any obligation or defense of any kind or nature that Borrower has or may have against Lender (other than the defenses of payment and Lender's gross negligence or willful misconduct) shall be available against Lender in any action, suit or proceeding brought by Lender to enforce this Agreement or any other Loan Document. The foregoing shall not be construed as a waiver by Borrower of any such rights or claims against Lender, but any recovery upon any such rights or claims shall be had from Lender separately, it being the intent of this Agreement and the other Loan Documents that Borrower shall be obligated to pay, absolutely and unconditionally, all amounts due under this Agreement and the other Loan Documents.

8.14 Counterparts. This Agreement may be executed for the convenience of the parties in several counterparts, which are in all respects similar and each of which is to be deemed to complete in and of itself, and any one of which may be introduced in evidence or used for any other purpose without the production of the other counterparts thereof.

8.15 Consent to Jurisdiction. Borrower and each Guarantor irrevocably submit to jurisdiction of any state or federal court sitting in the Commonwealth of Virginia over any suit, action, or proceeding arising out of or relating to this Loan Agreement, the Note or any other Loan Documents. Borrower and each Guarantor irrevocably waive, to the fullest extent permitted by law, any objection that they may now or hereafter have to the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action, or proceeding brought in any such court has been brought in an inconvenient forum. Final judgment in any such court shall be conclusive and binding and may be enforced in any court in which the undersigned is subject to jurisdiction by a suit upon such judgment provided that service of process is effected as provided herein or as otherwise permitted by applicable laws.

IN WITNESS WHEREOF, Borrower and Lender have caused this Agreement to be executed in their respective names by duly authorized representatives as of the day and year first above written. Guarantors join herein to consent and agree to the terms, conditions, provisions and covenants of those sections of this Agreement that address a covenant or obligation of Guarantors.

BORROWER:

COMSTOCK PENDERBROOK, L.C.,
a Virginia limited liability company

By: Comstock Homebuilding Companies, Inc.,
a Delaware corporation,
its Manager

By: _____
Christopher Clemente.
Chief Executive Officer

LENDER:

BCL PENDERBROOK, LLC,
a Delaware limited liability company

By: BridgeCom Loans, LLC,
a Delaware limited liability company,
its Manager

By: SunBridge Manager, LLC,
a Delaware limited liability company,
its Managing Member

By: _____
Charles A. Ledsinger, Jr.
President

[signatures continue on following page]

ACKNOWLEDGED AND AGREED:

GUARANTORS:

COMSTOCK HOMEBUILDING COMPANIES, INC.,
a Delaware corporation

By: _____
Christopher Clemente.
Chief Executive Officer

COMSTOCK EMERALD FARM, L.C.,
a Virginia limited liability company

By: Comstock Homebuilding Companies, Inc.,
a Delaware corporation,
its Manager

By: _____
Christopher Clemente.
Chief Executive Officer

COMSTOCK POTOMAC YARD, L.C.,
a Virginia limited liability company

By: Comstock Homebuilding Companies, Inc.,
a Delaware corporation,
its Manager

By: _____
Christopher Clemente.
Chief Executive Officer

EXHIBIT A

LEGAL DESCRIPTION OF PROPERTY

See attached.

Exhibit A

SCHEDULE 4.14

EXISTING DEBT

Lender	Balance as of 08/31/11	Recourse
Bank of America	\$ 3,751,621	Unsecured
* Cardinal Bank	\$ 9,740,151	Secured
Cornerstone (Haven Trust)	\$ 400,000	Unsecured
Branch Banking & Trust	\$ 263,362	Secured
Wachovia	\$ 132,488	Unsecured
Seller – Emerald Farm	\$ 100,000	Unsecured
Fifth Third	\$ 25,000	Secured
* BCL Eclipse	\$ 8,321,051	Secured
** Due to affiliates – Stonehenge	\$ 5,008,477	Unsecured
Total	<u>\$27,742,150</u>	

* Guaranty obligation of Comstock

** Subject to a forbearance agreement

Schedule 4.14

CONTRACT OF SALE**(The Commons on Potomac Square Apartments, Loudoun County, Virginia)**

THIS CONTRACT OF SALE (this “Contract”) is made as of the “Effective Date” (as defined in Section 16) by and among: (i) **CAPREIT Acquisition Corporation**, a Maryland corporation (“Purchaser”), and (ii) **Comstock Cascades II, L.C.**, a Virginia limited liability company (“Seller”).

WITNESSETH:

R-1. Seller is the owner of a certain residential apartment project known as “The Commons on Potomac Square Apartments” (the “Project”) located in Loudoun County, Virginia and having a street address of 21240 McFadden Square, Potomac Falls, Virginia, which is: (a) situated on a certain parcel of real property more particularly described in Exhibit A attached hereto and incorporated herein by this reference (the “Land”); and (b) comprised of One Hundred and Three (103) apartment units and all buildings and other improvements located on the Land.

R-2. Seller desires to sell and Purchaser desires to purchase the Property on the terms and conditions set forth below in this Contract.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Purchaser hereby agree as follows:

1. Definition of Property. The “Property” is hereby defined as consisting of all of the following: (a) all improvements, buildings, structures, utilities and amenities owned by Seller and existing and/or constructed on the Land; (b) all assignable contracts described on Exhibit E attached hereto, to the extent that Seller does not terminate the same in conformity with the terms hereof; (c) all fixtures, furniture, furnishings, appliances, equipment, decorative items, inventory, supplies, tools and other personal property owned by Seller, located at the Property, and used in connection with operation of the Property, other than those items which are owned by occupancy tenants of the Project or their invitees or the management company retained by Seller to manage the Project, if any; (d) all of Seller’s rights in or to condemnation awards and insurance proceeds (to the extent not applied to restoration) relating to the Project, subject to the terms set forth herein; (e) all warranties, guaranties, claims and rights, if any, in favor of Seller relating to the construction, maintenance, operation or repair of the Project or any component thereof; (f) all of Seller’s right, title and interest, if any, in and to any drawings, plans, specifications, surveys, manuals and contracts relating to construction, maintenance and operation of the Project that are in Seller’s possession and control on the Effective Date; (g) all assignable operating licenses and/or permits relating to the Project or any portion thereof; (h) all of Seller’s interest in and under all leases and occupancy agreements with tenants or prospective tenants of the Project including unapplied security deposits held by Seller in connection therewith; (i) all business and operating records pertaining to operation of the Project; (j) all rights to use the name “The Commons on Potomac Square Apartments” in connection with the operation of the Project; and (k) all other rights, privileges and appurtenances owned by Seller and in any way related to the Land and the Project.

2. Agreement to Sell and to Purchase. Seller agrees to sell and convey, and Purchaser agrees to purchase and acquire the Property subject to and upon the terms and conditions hereinafter provided.

3. Purchase Price and Deposit. The "Purchase Price" for the Property shall be an amount equal to Nineteen Million Seven Hundred and Fifty Thousand and No/100 Dollars (\$19,750,000.00). The Purchase Price shall be paid as follows:

a. Upon execution of this Contract (the "Initial Deposit Date"), Purchaser will deposit in escrow with Fidelity National Title Insurance Company (alternately referred to hereinafter as the "Escrow Agent" or the "Title Company"), the sum of Two Hundred Fifty Thousand and No/100 Dollars (\$250,000.00) in the form of cash or other current funds (the "Initial Deposit"). The term Deposit, as used in this Contract, shall include any interest that may accrue thereon. The Initial Deposit shall be refundable to Purchaser until the expiration of the Due Diligence Period as set forth in Section 4 herein. The Deposit shall be held by Escrow Agent in a federally-insured, interest bearing escrow account with all interest thereon to be accumulated and reinvested. All interest earned on any the Deposit shall be paid to the party entitled to receive the Deposit pursuant to the terms of this Contract. Escrow Agent's obligations and liabilities with respect to the Deposit shall be governed by the terms and conditions set forth below in this Section 3.

b. Within three (3) business days after the expiration of the "Due Diligence Period" (as defined in Section 4), Purchaser shall increase the Deposit then held by Escrow Agent pursuant to this Contract by an amount equal to Two Hundred and Fifty Thousand and No/100 Dollars (\$250,000.00) (the "Additional Deposit"), for a total Deposit of Five Hundred Thousand No/100 Dollars (\$500,000.00) by delivering to Escrow Agent the Additional Deposit in the form of cash or other current funds. The Additional Deposit shall be included within the meaning of the term "Deposit" as used herein and shall be governed by the terms of this Contract applicable to the Deposit. The Deposit shall be nonrefundable to Purchaser after the expiration of the Due Diligence Period, except as may be set forth herein.

c. At Closing, Purchaser shall pay the Purchase Price to Seller in the form of cash or other current funds, subject to the closing adjustments provided for in this Contract. The Deposit and all interest thereon, if any, shall be credited against and applied as a portion of the Purchase Price due and payable at Closing by Purchaser.

d. Escrow Agent shall not be liable to either of Purchaser or Seller in connection with the performance of any duty imposed upon Escrow Agent hereunder for any action taken by Escrow Agent in good faith in conformity with the provisions of this Contract in holding or dealing with the Deposit, except for Escrow Agent's negligence or willful misconduct. Escrow Agent may act upon any instrument or other writing believed by Escrow Agent in good faith to be genuine and to be executed and presented by the proper person. Escrow Agent shall have no duties or responsibilities other than as expressly set forth herein. Escrow Agent shall not be bound by a modification of this Section 3, if Escrow Agent's duties hereunder are affected, unless such modification is in writing and signed by Purchaser, Seller and Escrow Agent.

e. In the event that: (i) Escrow Agent shall be uncertain as to Escrow Agent's rights or duties hereunder, (ii) Escrow Agent shall receive instructions from Purchaser or Seller which, in Escrow Agent's reasonable opinion, are in conflict with any of the provisions hereof, or (iii) Escrow Agent shall receive conflicting demands from Purchaser and Seller with respect to the Deposit or directing Escrow Agent to take any action with respect to the Deposit, Escrow Agent may take affirmative steps in order to terminate Escrow Agent's duties hereunder by depositing the Deposit with the clerk of court for the jurisdiction in which the Land is located in an action for interpleader, naming the conflicting claimants as parties in such action. Escrow Agent's reasonable costs and expenses in connection with filing such an interpleader action, not to exceed a total of \$1,000, shall be divided equally between Purchaser and Seller.

4. Due Diligence Period; Purchaser's Title Commitment; Purchaser's Survey.

a. Purchaser shall have the right prior to the expiration of the Due Diligence Period (as defined below) to examine title to the Property, receive copies of any and all documents relating to title to the Property, examine Seller's files, books and records relating to the Property, specifically including Seller's leasing files, and, subject to the rights of tenants at the Property, to enter upon, test, study, survey, inspect, and conduct engineering, architectural, environmental, soil, economic and other tests on the Property as Purchaser deems necessary or desirable in order to evaluate the Property. Purchaser shall not conduct any invasive or environmental testing at the Property without advance notice to Seller. Purchaser shall use reasonable efforts in connection with its due diligence activities to minimize disruptions to the ongoing operation of the Property and to the tenants at the Property. Purchaser shall repair any damage to the Property caused by any of its activities on site. Purchaser shall maintain, and shall cause each of its contractors to maintain, commercial general liability insurance in the minimum amount of One Million Dollars (\$1,000,000) per occurrence and Two Million Dollars (\$2,000,000) in the aggregate. In the event that Purchaser is not fully satisfied with the condition of the Property, the prospects for Purchaser's operation of the Property or for any other reason, Purchaser shall have the right in its sole and absolute discretion, to terminate this Contract by written notice to Seller given no later than thirty (30) days after the Effective Date (such time period being referred to in this Contract as the "Due Diligence Period"), whereupon the Escrow Agent shall return to Purchaser the Initial Deposit together with all interest earned thereon, if any. Thereafter, the parties hereto shall have no further liabilities or obligations under this Contract. Purchaser shall indemnify and hold harmless Seller from and against any loss, cost, claim, expense or liability (including reasonable attorneys' fees) suffered or incurred by Seller as a result of Purchaser's entry onto the Property. The provisions of this Section shall survive closing or any termination of this Contract.

b. After the Effective Date, (i) Purchaser shall order a commitment for owner's title insurance for the Property from the Title Company (the "Purchaser's Title Commitment"); and (ii) Seller shall order an updated ALTA survey of the Property (the "Purchaser's Survey"). After Purchaser obtains the Purchaser's Title Commitment and the Purchaser's Survey, Purchaser shall advise Seller by written notice, provided no later than five days prior to the expiration of the Due Diligence Period (the "Purchaser's Title Objection Notice") of any objections ("Title Objections") that Purchaser may have to (1) the title exceptions reflected in the Purchaser's Title Commitment; and (2) any matters reflected on the Purchaser's Survey. Any title exceptions reflected in the Purchaser's Title Commitment or matters reflected on the Purchaser's Survey as to which Purchaser does not object in the Purchaser's Title Objection Notice shall be referred to herein as the "Permitted Exceptions." Within five (5) days after Seller's receipt of the Purchaser's Title Objection Notice, Seller shall advise Purchaser by written notice (the "Seller's Title Notice") as to whether Seller intends to correct the Title Objections reflected in the Purchaser's Title Objection Notice. If Seller does not respond in writing to Purchaser's Title Objection Notice, Seller shall be deemed to have informed Purchaser that it does not intend to correct the Title Objections. Except as otherwise specifically set forth in this Contract, Seller shall have no obligation to correct any objectionable matters reflected in the Purchaser's Title Objection Notice. Any Title Objections that Seller agrees to correct shall be attempted to be corrected by Seller prior to Closing, and the correction of such objectionable matters by Seller shall be a condition precedent to Purchaser's obligations to proceed to Closing hereunder. If Seller notifies or is deemed to have notified Purchaser that Seller shall not remove any or all of the Title Objections, then Purchaser shall have the right to either: (a) by written notice to Seller, given on or prior to the date on which the Due Diligence Period expires, to terminate this Contract, in which event the Deposit shall be returned to Purchaser and the parties shall be relieved from all further liability or obligation under this Contract (except with respect to those provisions hereof that are expressly intended to survive the termination of this Contract as set forth herein); or (b) waive, in writing, all such Title Objections, and in such event, such waived Title Objections shall be deemed "Permitted Exceptions". NOTWITHSTANDING ANYTHING TO THE CONTRARY SET FORTH IN THIS CONTRACT, SELLER SHALL BE OBLIGATED TO REMOVE OR SATISFY (AT THE RISK OF DEFAULT HEREUNDER) ANY EXCEPTIONS OR ENCUMBRANCES TO TITLE WHICH ARE CREATED OR CONSENTED TO BY SELLER AFTER THE EFFECTIVE DATE WITHOUT PURCHASER'S CONSENT, AND LIENS OF AN ASCERTAINABLE AMOUNT NO MATTER WHEN CREATED AND REGARDLESS OF AMOUNT.

5. Seller's Deliveries. If not delivered earlier, within five (5) business days after the Effective Date of this Contract, Seller shall deliver to Purchaser, copies of each of the items (collectively, the "Property Documents") described on Exhibit B attached hereto and incorporated herein by this reference, to the extent the same are within Seller's possession and control on the Effective Date.

6. Representations and Warranties.

a. Seller makes the representations and warranties set forth below in this Section 6(a) in favor of Purchaser, each of which are true and correct as of the Effective Date (except as otherwise specifically provided) and shall be true and correct on the Date of Closing.

(1) Seller has full right, power and authority to enter into this Contract. The parties executing this Contract on behalf of Seller have full power and authority to bind Seller to the obligations of Seller set forth herein.

(2) Seller is a duly formed, validly existing limited liability company and is in good standing under the laws of the Commonwealth of Virginia. Seller has obtained all consents and approvals necessary to make this Contract binding upon Seller and to permit consummation of the transactions contemplated herein in accordance with the terms of this Contract. This Contract does not violate the terms of any other contract or instrument to which Seller is a party or by which it is bound.

(3) Except as disclosed on Exhibit E attached hereto and incorporated herein by this reference, no management, service, leasing, employment or supply commitments or contracts of any kind or description are in existence with respect to the Property which may not be terminated without penalty by Seller and its successors and assigns upon giving of thirty (30) days' notice, without penalty or premium. Seller shall terminate all contracts or agreements in existence with respect to the Property, without cost or charge to Purchaser, which Purchaser has not expressly agreed to assume by written notice to Seller given not later than thirty (30) days prior to Closing. Seller expressly agrees that on or before Closing, Seller shall, at Seller's sole cost and expense, terminate the existing property management agreement for the Property.

(4) The rent roll attached hereto as Exhibit D is true, accurate and complete in all material respects as of the date of said rent roll, and each tenancy described therein arises under a valid lease in substantially the form attached hereto as Exhibit C. Seller has not received notice of any default by Seller, as landlord, under any of said leases that has not been cured. Seller has made no commitment to provide any material benefits, services, facilities, or amenities, or to perform repairs or renovation not specified in the form of lease attached hereto as Exhibit C. No tenant at the Property has paid any rent in advance except for the then-current month, except that if any tenant has paid any rent in advance for other than the then-current month or has any unused rent credits, Purchaser shall be credited for the same at Closing pursuant to Section 11(d)(iii) hereof. Except as provided in Exhibit D, no tenant of the Property has received or is entitled to any rebate, concession, "free rent", abated rent, or other benefit. If any such rebates, concessions, "free rent" abated rent or other benefits remain unused at Closing, Purchaser shall be credited for the same at Closing pursuant to Section 11(d)(iii) hereof. All work which Seller has agreed to perform under the terms of the leases or otherwise will be performed and fully paid for by Seller prior to Closing hereunder. Seller shall not execute leases with any tenant with respect to any vacant space at the Property except in accordance with the provisions of Section 8 hereof. Seller shall update the rent roll on a monthly basis and shall promptly provide a copy of such update to Purchaser for each month after the Effective Date until Closing.

(5) Except for normal and recurring utility and maintenance charges, all bills and claims for labor performed and services and materials furnished to or for the benefit of the Property, have been

or will be paid in full, and there are no mechanic's liens or materialman's liens which affect the Property as of the Date of Closing. If any mechanic's or materialman's lien is filed on or which affect the Property, for work, labor or services performed or materials supplied prior to Closing, (i) if such lien is filed prior to Closing, Seller shall cause the same to be released prior to Closing, except that Seller shall have the right to bond off or post an escrow for payment of such lien at Closing and to contest such lien; and (ii) if such lien is filed after Closing, Seller shall immediately cause the release of such lien; provided that Seller shall be permitted to bond off or post an escrow for payment of such lien and to contest such lien.

(6) To Seller's knowledge, all items of personal property, if any, which are included in the Property and listed on Exhibit G, are owned by Seller and shall be owned by Seller on the Date of Closing, free and clear of all liens, debts, charges, and encumbrances of every nature, kind, and description.

(7) To Seller's knowledge, there are no outstanding notices from any constituted public authority or from any insurance company of the existence of any condition or situation which requires work to be done to cure a noted violation with respect to the Property which remains undone or will remain undone at the Date of Closing.

(8) Seller has not received notice of the existence, institution or the proposed institution of condemnation proceedings relating to any portion of the Property or of any other taking against all or any part of the Property.

(9) Except as set forth on Exhibit H hereto, there is no pending, or (to Seller's knowledge) threatened, litigation, governmental proceeding, notice of action required to be taken, judgment, cause of action, special assessment, charge against or related to the Property, or any portion thereof, or against Seller, and Seller has not received any notice of a material violation of any rule, order, or regulation issued by any governmental agency with respect to the Property, except as may have been previously corrected.

(10) To Seller's knowledge, Seller holds all business licenses, permits, and other approvals which are required for the current use of the Property, and all business licenses, permits and other approvals are validly issued and not subject to contest or appeal.

(11) No persons are employed by Seller with respect to the Property.

(12) Seller is not a "foreign person" within the meaning of the Internal Revenue Code of 1986, as amended to date (the "Code"), and the transaction contemplated hereby does not constitute a disposition of a U.S. real property interest by a foreign person. At Closing, Seller shall deliver to Purchaser an affidavit (the "Section 1445 Affidavit") certifying, under penalties of perjury, Seller's U.S. taxpayer identification number and that Seller is not a foreign person.

(13) Seller is not a debtor in any state or federal insolvency, bankruptcy, or receivership proceeding, and no "Bankruptcy/Dissolution Event" (as defined below) has occurred with respect to the Seller, or any partner or member of Seller. "Bankruptcy/Dissolution Event" means the occurrence of any of the following: (i) the commencement of a case under Title 11 of the U.S. Code, as now constituted or hereafter amended, or under any other applicable federal or state bankruptcy law or other similar law; (ii) the appointment of a trustee or receiver of any property interest; (iii) an assignment for the benefit of creditors; (iv) an attachment, execution or other judicial seizure of a substantial property interest; (v) the taking of, failure to take, or submission to any action indicating an inability to meet its financial obligations as they accrue; or (vi) a dissolution or liquidation, death or incapacity. There is no pending case, proceeding or other action seeking reorganization, arrangement, adjustment, liquidation,

dissolution or recomposition of Seller or any of its debts under any state or federal law relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking appointment of a receiver, trustee, custodian or other similar official for all or any substantial part of its property.

(14) Seller has not received written notice from any governmental authority or agency (and neither is otherwise aware) of any material violation at the Property of laws relating to Hazardous Materials (as hereinafter defined). To Seller's knowledge, the Land has not previously been used as a landfill or as a dump for garbage or refuse, nor as a site for the storage and/or disposal of hazardous waste, solid waste, hazardous substance or other substances known or suspected to pose a threat to health or the environment (collectively, "Hazards"). For purposes of this Contract, the term Hazardous Materials shall mean (a) any toxic substance or hazardous waste, hazardous substance or related hazardous material; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls in excess of presently existing federal, state or local safety guidelines, whichever are more stringent; and (c) any substance, material or chemical which is defined as or included in the definition of "hazardous substances", "toxic substances", "hazardous materials", "hazardous wastes" or words of similar import under any federal, state or local statute, law, code, or ordinance or under the regulations adopted or guidelines promulgated pursuant thereto, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. §9061 et seq.; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. §1801, et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §6901, et seq.; and the Federal Water Pollution Control Act, as amended, 33 U.S.C. §1251, et seq. Purchaser has been provided with all information and documents relating to Hazardous Materials on or affecting the Property as are known to Seller.

(15) To the best of Seller's knowledge, the Property Documents are true and correct in all material respects, and all other documents prepared by Seller (or its agents) and provided to Purchaser with respect to the Property, contain statements that are materially true, correct and complete as of the dates thereof, and none contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made and information provided, in light of the circumstances in which they were made, not misleading.

(16) Seller (i) is not currently identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC and/or on any other similar such list, and (ii) is not a person or entity with whom a citizen of the United States is prohibited to engage in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or Executive Order of the President of the United States.

(17) Intentionally Deleted.

(18) In connection with, and in respect of, the construction of the Project (the "Construction"), Seller represents and warrants to Purchaser as follows:

(i) to Seller's knowledge, the Construction was performed and has been completed, fully and in all respects, substantially in accordance with the plans and specifications (collectively, the "Plans and Specifications") prepared by SK&I Architectural Design Group ("SKI") and modified by Sutton Yantis Architects for the Project and approved by Seller;

(ii) Comstock Homes of Washington, L.C. served as the general contractor ("Contractor") and to the best of their knowledge, performed the Construction in accordance with the Plans and Specifications as demonstrated by the Seller's receipt of all applicable permits from Loudoun County, Virginia and the following verifications from third party engineers/vendors:

- Letter from Cates Engineering dated July 15, 2011 for Building 1

- Letter from Cates Engineering dated April 11, 2011 for Building 4
- Letter from Consulting Engineers, Corp. dated August 3, 2011 for Building 1
- Letter from Consulting Engineers, Corp. dated April 27, 2011 for Building 4
- Slab on grade Inspection Letters dated March 21, 2011, June 7, 2011 from Consulting Engineers, Corp. for Buildings 1 and 4
- New Construction Subterranean Termite Soil Treatment Records from Potomac Waterproofing, Inc. for Buildings 1 and 4
- Occupancy Permits issued by Loudoun County, Virginia for Buildings 1 and 4, and all units therein
- Residential Footing Inspection Reports dated January 20, 2011 and April 7, 2011 issued by Loudoun County, Virginia for Buildings 1 and 4

(iii) Seller has not received written notice of any non-compliance (of the Project or the Construction) with any applicable federal, state or local laws, rules, regulations or codes.

(iv) all monies due and owing to the Contractor, all subcontractors employed by or on behalf of the Contractor in connection with the Construction, and the Architect in regard to the Project, have been or will be paid in full by Closing and no monies of any kind are owed by Seller to any third party in connection with the Construction as of the date of Closing except for items relating to Exhibits J and K of this Contract.

(v) Seller obtained and has maintained in full force and effect, as applicable, all required and necessary governmental approvals (including, without limitation, all building permits and use and occupancy permits or their equivalents), with respect to the Construction or otherwise, in order that each of the 103 apartment units existing within the Project may be lawfully occupied by tenants or users thereof for residential purposes.

As used herein, "Seller's knowledge" shall mean the actual knowledge of all of the following persons: (i) Gregory Benson, Chief Operating Officer of the Manager of Seller, (ii) Christopher Clemente, Chief Executive Officer of the Manager of Seller, (iii) Dan Goldstein, Vice President of Finance and Land Acquisitions for the Manager of Seller, (iv) Joseph Squeri, Chief Financial Officer of the Manager of Seller, and (v) Dan Martin, Vice President of Sales, Comstock Homes of Washington, L.C.

b. Purchaser shall be entitled to rely upon the warranties and representations set forth herein and each of the same shall survive Closing and shall not be merged into the deed of conveyance at Closing for a period of twelve (12) months (the "Survival Period"), during which Survival Period Purchaser may bring a claim for damages against Seller for damages suffered as a result of any material breach or material inaccuracy of any of the representations and warranties set forth in Section 6(a) above. From and after full execution hereof until Closing, Seller shall notify Purchaser of any events or circumstances arising after the Effective Date hereof, of which Seller has actual knowledge, and which, if not disclosed to Purchaser, would render any of the foregoing representations and warranties untrue in any material way. As to any events or circumstances arising after the expiration of the Due Diligence Period, within ten (10) days after receipt of Seller's notice (but no later than the Closing Date), Purchaser shall notify Seller in writing whether Purchaser either: (i) accepts the modified representation or warranty and will proceed to Closing; or (ii) elects not to accept the modified representation or warranty and will not proceed to Closing, whereupon the Deposit shall be immediately refunded to Purchaser and the provisions of Section 9 below shall apply.

c. Purchaser makes the following representations and warranties to Seller, each of which shall be true and correct on the date of execution hereof (except as otherwise specifically provided) and on the Date of Closing:

(1) Purchaser is a duly formed, validly existing corporation, and is in good standing under the laws of the State of Maryland.

(2) Purchaser has full right, power and authority to enter into this Contract, and this Contract has been duly authorized by all appropriate action of Purchaser. The parties executing this Contract on behalf of Purchaser have full power and authority to bind Purchaser to the obligations of Purchaser set forth herein, and upon execution and delivery of this Contract, all closing documents executed by Purchaser will constitute valid and binding instruments of Purchaser enforceable against Purchaser in accordance with their terms.

(3) The entry into and performance of Purchaser's obligations under this Contract will not violate or result in a breach of any contract or agreement by which Purchaser is bound.

(4) There is no litigation or injunctive action or proceeding pending or, to the best of Purchaser's knowledge, threatened against Purchaser which would prevent the performance of Purchaser's obligations under this Contract at Closing.

(5) All actions and consents necessary have been taken or obtained to authorize Purchaser to enter into this Contract and to perform the transaction contemplated herein.

7. Physical Condition of the Property.

a. Seller shall continue to operate and maintain the Property in accordance with its past practices. On the Date of Closing, the Property and all components thereof, including its structural components and equipment, and all building, mechanical, electrical and plumbing systems, shall be in the condition they are in as of the Effective Date, subject only to reasonable wear and tear. Purchaser, its agents, employees and independent contractors, will have the right to inspect the Property at any time prior to Closing to satisfy itself that the Property is being run and operated in accordance with the management practices observed by Seller prior to the date hereof. Immediately prior to Closing, representatives of Purchaser and Seller shall prepare a new inventory of personal property at the Property which shall contain only those changes from the inventory previously delivered as Exhibit G which have been approved by Purchaser; provided that, Seller shall have no obligation to restock any inventory to the extent that Seller has used the same in the ordinary course of business.

b. Subject to the express terms and provisions of this Contract and the closing documents to be entered into by the parties pursuant to the terms of this Contract, the Property shall be sold and conveyed in its "as is, where is" condition, with all faults, on the Closing Date, without any representations or warranties whatsoever, express or implied, except as otherwise specifically set forth in this Contract. FURTHER SUBJECT TO THE EXPRESS TERMS AND PROVISIONS OF THIS CONTRACT, BUYER ACKNOWLEDGES AND AGREES THAT THE PROPERTY IS TO BE TRANSFERRED BY SELLER TO BUYER "AS IS," "WITH ALL FAULTS," AND SUBSTANTIALLY IN ITS CURRENT CONDITION. BUYER FURTHER ACKNOWLEDGES AND AGREES THAT, EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS CONTRACT, NEITHER SELLER NOR ANY AGENT, EMPLOYEE OR OTHER REPRESENTATIVE OF SELLER (OR PURPORTED AGENT, EMPLOYEE OR OTHER REPRESENTATIVE OF SELLER) HAS MADE (i) ANY GUARANTEE, REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED AS TO THE VALUE, USES, HABITABILITY, CONDITION, DESIGN, OPERATION, FINANCIAL CONDITION OR PROSPECTS, OR FITNESS FOR PURPOSE OR USE OF THE PROPERTY (OR ANY PART THEREOF) OR THE PROPERTY

INFORMATION, OR (ii) ANY OTHER GUARANTEE, REPRESENTATION OR WARRANTY WHATSOEVER, EXPRESS OR IMPLIED, WITH RESPECT TO ANY PORTION OF THE PROPERTY (OR ANY PART THEREOF) OR THE PROPERTY INFORMATION. FURTHER, EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS CONTRACT, SELLER SHALL HAVE NO LIABILITY FOR ANY LATENT, HIDDEN, OR PATENT DEFECT AS TO THE PROPERTY OR THE FAILURE OF THE PROPERTY, OR ANY PART THEREOF, TO COMPLY WITH ANY APPLICABLE LAWS AND REGULATIONS. EXCEPT AS OTHERWISE EXPRESSLY SET FORTH IN THIS CONTRACT, BUYER ACKNOWLEDGES AND AGREES: (1) THAT THE "PROPERTY INFORMATION" PROVIDED UNDER THIS CONTRACT (AND ANY OTHER INFORMATION BUYER MAY HAVE OBTAINED REGARDING IN ANY WAY ANY OF THE PROPERTY, INCLUDING, WITHOUT LIMITATION, ITS OPERATIONS OR ITS FINANCIAL HISTORY OR PROSPECTS FROM SELLER OR ITS AGENTS, EMPLOYEES OR OTHER REPRESENTATIVES) IS DELIVERED TO BUYER AS A COURTESY, WITHOUT REPRESENTATION OR WARRANTY AS TO ITS ACCURACY OR COMPLETENESS, AND NOT AS AN INDUCEMENT TO ACQUIRE THE PROPERTY; (2) THAT NOTHING CONTAINED IN SUCH DELIVERIES SHALL CONSTITUTE OR BE DEEMED TO BE A GUARANTEE, REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IN ANY REGARD AS TO ANY OF THE PROPERTY (EXCEPT AS EXPRESSLY PROVIDED HEREIN); AND (3) THAT BUYER IS RELYING UPON THE PROVISIONS OF THIS CONTRACT AND ITS OWN INDEPENDENT ASSESSMENT OF THE PROPERTY AND ITS PROSPECTS IN DETERMINING WHETHER TO ACQUIRE THE PROPERTY.

8. Seller's Covenants and Obligations; Operations Pending Closing. From and after the Effective Date, Seller shall conduct its business as it pertains to the Property only in the ordinary course and shall maintain the Property in as good a condition as exists on the Effective Date, reasonable wear and tear excepted. Seller further covenants and agrees as follows:

a. Seller shall not enter into any new lease or commitment to lease, or any extension or amendment of an existing lease, with respect to any portion of the Property for a term of more than eighteen (18) months or at rents lower than the current average rental rates for new leases as of the Effective Date. No leases entered into by Seller pursuant to this Section 8 shall contain any rebate, concession, "free rent", abated rent, or other benefit, unless Purchaser is given a credit at Closing in the full amount of the unused portion of any such rent concession at Closing pursuant to Section 11(d)(iii) below. All leases referenced in Exhibit D and any new lease or amendment entered into from and after the date hereof conforming to the terms of this Section 8(a) or with Purchaser's prior written consent shall be deemed included within the term "leases" as used herein and the tenants under any such new leases and/or amendments shall be deemed included within the term "tenants" as used herein. Seller shall comply with the terms and conditions of all leases in effect at the Property.

b. Seller will not further encumber the Property, grant any easements or rights of way with respect to the Property or in any way affect the title to the Property, and shall not engage in any activity or effect any transaction with respect to the Property, including but not limited to the disposal of any items of personal property or fixtures which are attached to the realty and are part of the Property, which is outside the normal and ordinary course of business of the Property without the Purchaser's prior written consent.

c. Seller shall promptly furnish to Purchaser copies of any and all notices which it receives from federal, state or local governmental authorities having jurisdiction over the Property, any Board of Fire Underwriters and from any other body having jurisdiction with respect to the use and occupancy or physical condition of the Property.

d. Seller shall maintain in force a policy or policies of fire and extended coverage, hazard insurance and a liability insurance policy with respect to the Property in an amount not less than is presently in force.

e. Seller shall comply with the terms and conditions of all contracts and agreements pertaining to the operation, management, leasing, and maintenance of the Property. Without the prior written consent of Purchaser in each case, the Seller shall not (i) enter into any new contracts concerning the operation, management, leasing or maintenance of the Property or services thereto which are not cancelable without premium or penalty on thirty (30) days' notice or (ii) make or contract for any maintenance item or capital repair exceeding a cost of \$5,000.00, unless the same is completed and paid for in full before or at Closing.

f. At least five (5) days prior to Closing, Seller shall have completed, at Seller's sole cost and expense and to the reasonable satisfaction of Purchaser, all of the tasks and items set forth and described on Exhibit J attached hereto.

g. Within six (6) calendar months after the date of Closing, Seller shall have completed, at Seller's sole cost and expense and to the reasonable satisfaction of Purchaser, all of the tasks and items set forth and described on Exhibit K attached hereto (collectively, the "Post-Closing Punch List Items").

9. Conditions Precedent to Closing.

a. The obligation of Purchaser to close hereunder shall be expressly conditioned upon, and subject to, the satisfaction (or written waiver by Purchaser) of each of the following conditions:

(1) Each of the representations or warranties contained in Section 6(a) of this Contract shall be true in all material respects as if made as of the Date of Closing.

(2) No part of the Property shall have been acquired, or shall be about to be acquired (as evidenced by written notice thereof), by authority of any governmental agency or other authority in the exercise of its power of eminent domain or by private purchase in lieu thereof (a "Taking"). If such a Taking has occurred or if Seller shall have received written notice of any such contemplated Taking, Purchaser may, at its sole option (i) terminate this Contract and receive a full refund of the Deposit and any interest earned thereon; or (ii) continue this Contract, pay the full purchase price without reduction, accept an assignment of Seller's rights in any condemnation award (whether received prior to or after Closing) and proceed to Closing; provided that, (A) Seller shall not consent to any Taking or agree to any condemnation award without the prior written consent of Purchaser (which consent shall not be unreasonably withheld or delayed); (B) prior to Closing, Seller shall provide Purchaser with an opportunity to participate with Seller in any negotiations relating to a Taking affecting any portion of the Property or any condemnation award to be made in connection therewith; and (C) Seller shall reasonably cooperate with Purchaser after Closing in prosecuting any claim for a condemnation award arising prior to Closing.

(3) All written notices of violations of governmental orders or requirements noted or issued by any public authority having jurisdiction, and any action in any court against or affecting the Property, shall have been complied with by Seller and the Property shall be free and clear thereof. In the event that any notices of violations are issued with respect to the Property prior to Closing, all corrective work required thereby shall be performed by or paid by Seller. The nature, extent, methods and materials for any corrective work and the parties performing such work shall be subject to Purchaser's prior approval.

(4) The Property shall possess all clearances, permits, occupancy certificates, licenses and registrations necessary for its intended purpose, and the same shall be in full force and effect, in good standing and not subject to any known or threatened challenge.

(5) There shall be no unrepaired damage by fire or other casualty to any portion of the Property, the estimated cost of repair of which is One Hundred Thousand Dollars (\$100,000.00) or

more. If any portion of the Property is damaged by fire or casualty and is not repaired and restored to its original condition prior to Closing and the estimated cost of repair thereof is less than One Hundred Thousand Dollars (\$100,000.00), in such event (1) Purchaser shall be required to close hereunder, and at Closing Purchaser shall receive a credit against the Purchase Price in an amount equal to the aggregate estimated cost of repair of any damage to the Property remaining unrepaired at Closing, any unpaid costs of repairs performed prior to Closing (2) Purchaser shall thereafter be responsible for the repair of the damage to the Property caused by such fire or casualty; and (3) Seller shall be entitled to prosecute all insurance claims in connection with such casualty under insurance policies obtained by Seller for the Property and to retain all insurance proceeds resulting therefrom. If the aggregate estimated cost of repairing such damage is One Hundred Thousand Dollars (\$100,000.00) or more, then Purchaser may, at its sole option, (i) terminate this Contract whereupon the Deposit and any interest thereon shall be returned to Purchaser and the parties shall be relieved of all further liability or obligation hereunder, or (ii) elect to proceed to Closing, in which event the provision of clauses (1), (2) and (3) above shall govern.

(6) Title to the entire Property shall be in the condition specified in Section 10 hereof.

(7) (i) All tenant leases entered into by Seller or its authorized representative for the rental units located on the Property shall be substantially in the form attached hereto as Exhibit C, and Seller must not be in default under any of the aforesaid leases; and (ii) all tenants occupying rental units in the Property shall have entered into (or otherwise be subject to the terms of) a written lease agreement with Seller or its authorized agent for the lease of such rental unit. Seller shall provide to Purchaser an updated rent roll of the Property as of a date no more than five (5) days prior to the Date of Closing in the form attached hereto as Exhibit D, showing as of the date of such rent roll all valid claims or offsets of any tenant against Seller of which Seller has knowledge, and all rebates, concessions, deductions or abatements of rent to which any tenant is entitled and any rents which have been prepaid more than thirty (30) days in advance, and Purchaser shall receive credits therefor against the Purchase Price. There shall be no claims, offsets, rebates, concessions, deductions, abatements or prepaid rents except as shown on such updated rent roll.

b. If any one or more of the conditions set forth in Section 9(a) above are not satisfied as of the date specified for Closing hereunder, then Purchaser shall have the option, in its sole discretion, exercised by written notice to Seller, to either (i) waive such condition and make full Closing under this Contract in accordance with the terms and conditions hereof, without any reduction or adjustment in the Purchase Price, except as specifically provided herein; or (ii) terminate this Contract and obtain a refund of the Deposit and all interest earned thereon, whereupon Seller and Purchaser shall be thereupon released from all further liability or obligation under this Contract. Purchaser's election under clauses (i) or (ii) of this Section 9(b) shall be Purchaser's sole rights in the event any of the above conditions to Closing are not satisfied (or waived by Purchaser).

10. Title.

a. Seller's current Owner's Title Policy is attached hereto as Exhibit E. The following conditions concerning title to the Property shall exist at the time of Closing hereunder, and the obligation of Purchaser to close hereunder shall be expressly conditioned upon and subject to the satisfaction (or written waiver by Purchaser) of each such condition:

(1) Title to the entire Property shall be (and is required to be) good of record and in fact, marketable, and free and clear of all liens, encumbrances, leases, tenancies, and occupancies, except for (i) rights of way and/or easements to private parties, public authorities and/or utility companies for ingress-egress purposes or fire lanes or for utilities or utilities installations; provided that, none of the same, interfere with or adversely affect Purchaser's ownership, operation, use or resale of the entire Property; (ii) then-current real estate taxes and assessments and sewer and water charges not yet due and payable; (iii) those occupancy leases listed on

the rent roll attached hereto as Exhibit D, and any leases of tenants entered into after the rent roll was prepared and shown on the updated rent roll to be delivered at Closing pursuant to Section 9(a)(7), which comply with the requirements set forth in Section 8(a) hereof; and (iv) those matters that are deemed to be Permitted Exceptions pursuant to Section 4.

(2) Title to the entire Property shall be insurable, in an amount not less than the Purchase Price of the Property, by the Title Company pursuant to the Purchaser's Title Commitment, at standard rates and without the payment of any special premium.

b. In the event that title to the entire Property at Closing is not as required pursuant to the terms and provisions of Section 10(a) above, then Purchaser shall have the option, in its sole discretion, exercised by written notice to the Seller, to either (i) waive such defects and proceed to Closing in accordance with the terms of this Contract, or (ii) terminate this Contract, whereupon the Deposit shall be refunded to Purchaser and all parties hereto shall be thereupon relieved from any further liability or obligation hereunder.

11. Closing; Settlement Costs; Adjustments; Possession.

a. Time is of the essence of this Contract. Seller and Purchaser are required and agree to make full closing, including disbursement of all funds, in accordance with the terms hereof ("Closing"), on that date which is thirty (30) days after expiration of the Due Diligence Period (the "Closing Date" or the "Date of Closing"), and in no event later than December 29, 2011 (the "Outside Closing Date") without Seller's prior written consent. Closing under this Contract shall be conducted by, and coordinated through, the Title Company. The Property shall be conveyed by special warranty deed, which shall run to the Purchaser. In the event that Closing has not occurred by the Outside Closing Date due to reasons other than a Seller default hereunder or a failure of a condition contained in Section 9 herein, Seller may, at its option, terminate this Contract whereupon the Deposit shall be refunded to Purchaser and all parties hereto shall be thereupon relieved from any further liability or obligation hereunder, or, in the case of Purchaser's default (as described in Section 18(b) hereinbelow), enforce its rights as provided herein.

b. Intentionally Deleted.

c. Seller and Purchaser shall split (50/50) the following closing costs and expenses (in the aggregate, the "Shared Closing Costs"): (i) any and all recording and transfer costs, fees, and taxes (specifically including all State and local Grantor and Grantee Taxes), (ii) all costs and expenses of obtaining a Purchaser's Title Commitment, (iii) all costs and expenses in connection with the issuance at Closing of Purchaser's title insurance policy, in the amount of the Purchase Price, and any endorsements thereto as may be required by Purchaser or its lender, (iv) all costs and expenses of obtaining Purchaser's Survey, and (v) all costs incurred by the parties in obtaining a current termite inspection and pest control report. Notwithstanding the foregoing, Seller's maximum liability for its 50% portion of the Shared Closing Costs shall not exceed the amount of \$62,500. Purchaser shall pay all other costs associated with underwriting the Property, including but not limited to accounting, marketing and engineering costs incurred in connection with economic and engineering inspections or due diligence of the Property. The risk of loss or damage to the Property by fire or other casualty is assumed by Seller until the deed of conveyance for the Property is recorded among the applicable land records. Each party shall pay its own attorney's fees.

d. (i) All rents, operating receipts (including, without limitation, electric utility charges paid by tenants of the Property to Seller) and expenses, utilities expenses, taxes, water and sewer rents, or similar charges or fees, inventories of supplies and fuel oil (if applicable) are to be adjusted as of the Closing Date. Taxes, general and special, are to be adjusted according to the certificate of taxes issued by the taxing authority, except that assessments for improvements completed prior to the Effective Date of this Contract shall be Seller's sole responsibility and shall be paid by Seller in full on or before the Closing Date.

(ii) All contracts and agreements relative to the operation, servicing and/or maintenance of the Property to be assigned to Purchaser shall be adjusted between the parties as of the Closing Date, and the costs of terminating any contracts which are not assumed by Purchaser and any employees of the Property who are not retained by Purchaser shall be borne by Seller.

(iii) Any and all rents which are past due at Closing shall not be adjusted; Purchaser shall have no obligation to collect such past-due rents but shall reimburse Seller for such past-due rents when, as and if collected, net of costs of collection (including a three percent (3%) management fee), it being understood that Purchaser shall not be deemed to have collected such arrearage attributable to the period prior to Closing until such tenant is current in the payment of rentals accruing on or after Closing. Purchaser shall receive a credit against the Purchase Price for any rebates, concessions, abated rent, or free rent to which any tenant is entitled after Closing, any rents prepaid more than thirty (30) days in advance and not adjusted pursuant to Section 11(d)(i) above, and any tenant improvement work which Seller has not completed or paid for but which is required by leases in effect at the Property at Closing.

(iv) At Closing, all operating adjustments between Purchaser and Seller provided for pursuant to the terms of this Contract shall be made on the basis of estimates using the most current information available as of the Closing Date. In the event that the amount of any prorated item is not known at Closing, the parties agree that such items shall be prorated at Closing as described above upon the basis of the best information available, and shall be readjusted when the actual amount(s) of such items are known, with appropriate charges and credits to be made. In the event that any adjustment pursuant to this subparagraph, subsequent to the Closing Date, shall be necessitated, then either party hereto who is entitled to additional monies shall invoice the other party for such additional amounts as may be owing, and such amount shall be paid within thirty (30) days from receipt of the invoice. The provisions of this paragraph shall survive the Closing Date.

e. At Closing, Seller shall deliver to Purchaser, or make appropriate adjustments for, all tenant security deposits and the like (including other tenant deposits), together with statutory or contractual interest owed to tenants, together with a detailed statement of the security deposits, the amount received, the date of receipt, previous applications of any portion of the security deposit and all such accrued interest held for the account of each tenant, to the extent said information is available. Purchaser shall issue a receipt for the same and shall indemnify, defend and save Seller harmless from and against any claims relating to Purchaser's application or holding of such deposits and interest, which Seller has delivered or for which an adjustment has been made at Closing, from and after Closing, but Purchaser shall not indemnify Seller for any amount in excess of the sums so delivered or the amount of such adjustment. Seller shall indemnify, defend and save Purchaser harmless from and against any claims relating to Seller's application or holding of such deposits and interest prior to Closing or for any claims for deposits that are not delivered to Purchaser or for which an adjustment is made in Purchaser's favor at Closing.

f. Seller agrees to give possession and occupancy of the entire Property to Purchaser at the time of Closing, free and clear of all leases, tenancies, and occupancies except as herein permitted.

12. Closing Deliveries.

a. On the Closing Date, Seller shall:

(1) Execute, acknowledge and deliver to Purchaser a good and sufficient special warranty deed conveying fee simple estate in the Property subject only to the Permitted Exceptions.

(2) Execute, acknowledge and deliver to Purchaser an Assignment of Leases and Security Deposits, assigning to Purchaser all occupancy leases free and clear of all liens and encumbrances; provided, however, that Purchaser shall assume all of the obligations of the owner of Property under such occupancy leases which accrue after the Date of Closing, and shall indemnify and hold Seller harmless against and from all liability, loss, cost, or expense in connection with such obligations accruing after the Date of Closing, and Seller shall indemnify and hold Purchaser harmless against and from all liability, loss, cost, or expense in connection with such occupancy leases arising prior to the Date of Closing.

(3) Assign in writing, transfer and deliver to Purchaser, all contracts not terminated pursuant hereto, all unexpired warranties, guaranties, licenses, permits, certificates of occupancy and the like, advertising and promotional material for the Property, any marketing or internet domain names (including the name "The Commons on Potomac Square Apartments"), and any business and other licenses and permits in the possession of Seller or its agents related to the Property, to the extent assignable and transferable (without cost to Seller, or at Purchaser's cost, if Purchaser elects (without obligation) to assume such cost), and deliver the original of each of the foregoing to Purchaser if it is within the possession of Seller or any of its agents or affiliates or, if not, deliver to Purchaser a true copy of each of the same, if available; provided, however, that (a) Purchaser shall assume all of the obligations of the owner of Property under each of the foregoing which accrue after the Date of Closing, and shall indemnify and hold Seller harmless against and from all liability, loss, cost, or expense in connection with such obligations accruing after the Date of Closing; and (b) Seller shall indemnify and hold Purchaser harmless against and from all liability, loss, cost, or expense in connection with such obligations arising prior to the Date of Closing.

(4) Execute, acknowledge and deliver to Purchaser a Bill of Sale, in accordance with any applicable provisions of the Uniform Commercial Code, with special warranty of title, conveying all personal property purchased hereunder, with all such assigned property to be free and clear of all liens and encumbrances.

(5) Deliver to Purchaser all books and records and tenant files pertaining to operation of the Property not theretofore delivered, it being acknowledged that Seller shall keep copies of such books and records to the extent it deems necessary for tax and accounting purposes.

(6) Deliver a letter from Purchaser and Seller addressed to each of the tenants in a form to be mutually agreed upon advising each of them that a new property manager has taken over the operations of the Property, and instructing the tenants with respect to rent payments subsequent to Closing.

(7) Deliver certified copies of the organizational documents and appropriate resolutions of Seller and governmental certifications for confirming that the Seller is organized, existing and in good standing, that all actions and consents necessary have been taken and obtained to authorize Seller to perform the transactions contemplated herein, including the consummation of the sale of the Property in accordance with the terms hereof.

(8) Deliver to Purchaser the Section 1445 Affidavit. Seller hereby agrees to indemnify and hold Purchaser harmless from and against all costs, losses, expenses, claims, liability, actions and causes of action arising out of or in any way related to the falsity of the Section 1445 Affidavit. Such indemnification shall survive Closing hereunder.

(9) Execute and deliver to the Escrow Agent a mechanic's lien affidavit and the other items reasonably required by Purchaser's title insurance company.

(10) Execute, acknowledge and deliver, as appropriate, or cause to be delivered all additional affidavits and other documents which may be reasonably necessary or appropriate to carry out the provisions hereof and permit Purchaser to obtain the title insurance coverage specified herein.

(11) Intentionally Deleted.

(12) Deliver a certificate issued to Seller and Purchaser by the Contractor, certifying that the Project was constructed, and the Construction was completed, in accordance with (i) the Plans and Specifications and, (ii) to the best of Contractor's knowledge, all applicable federal, state and local laws, ordinances, rules, regulations and codes.

(13) Execute, acknowledge and deliver to Purchaser one or more assignment instruments, for purposes of assigning to Purchaser all rights, warranties, guaranties and remedies accruing to Seller under and pursuant to all written contracts and agreements with the Contractor.

b. On the Closing Date, Purchaser shall:

(1) Deliver the portion of the Purchase Price specified herein in cash or immediately available Federal funds, together with any net adjustments due Seller as herein provided;

(2) Execute, acknowledge and deliver the Assignment of Leases specified in Section 12(a)(2) above, the Assignment of contracts and other agreements and instruments specified in Section 12(a)(3) above, and the letter specified in Section 12(a)(7) above; and

(3) Execute, acknowledge and deliver, as appropriate, all additional documents which may be necessary or appropriate to carry out the provisions hereof.

(4) Deliver a temporary license agreement to Seller, Contractor or any of their affiliates, permitting them to enter upon the Property to perform any outstanding work on the Property as may required by the appropriate governmental authorities for Seller to obtain the release of subdivision bonds (the "Subdivision Bonds") previously posted by the Seller with applicable local and state governmental authorities related to the Property. Such license agreement shall be substantially in the form as attached hereto as Exhibit I, and shall not expire until all work required by the governmental authorities has been completed and the bonds released back to Seller (such date not to be later than June 30, 2012 without the further written consent of Purchaser).

c. The special warranty deed, the Bill of Sale, and the various assignment instruments referenced above in Section 12(a), shall be drafted by Purchaser (consistent with the terms hereof) and must be acceptable to Purchaser in all respects.

13. Brokerage. Seller and Purchaser acknowledge that C. Haze McCrary of Broad Street Realty, LLC (the "Broker") has acted as the Broker in connection with the transaction contemplated by this Contract. Seller agrees to pay the Broker as the total commission for services rendered, the commission specified in a separate listing agreement between Seller and the Broker. Purchaser acknowledges that Jim Gulley of Jim Gulley Ltd. ("Finder") shall be paid a finder's fee by Purchaser in connection with the transaction contemplated by this Contract. In the event that Closing shall fail to occur under this Contract for any reason whatsoever, neither Purchaser nor Seller shall have any liability or obligation to the Broker or Finder for any commission or other payment in connection with this Contract. Except as specified in this Section 13, Seller and Purchaser represent and warrant to each other that no other agent, broker, or finder has acted for Seller or Purchaser, as applicable, in

connection with this Contract. Seller and Purchaser shall indemnify, defend and save the other party hereto harmless from and against any claims for brokerage, commission or finders fees resulting from a breach of the foregoing representations and warranties of Seller and Purchaser.

14. Notices. All notices hereunder shall be in writing and shall be personally delivered, telecopied (with a confirmatory copy by one of the other means set forth herein), sent by commercial overnight courier, or mailed, registered or certified U.S. mail, return receipt requested, first class postage prepaid, to the parties hereto at their respective addresses set forth below their signatures, or at such other address of which either party shall notify the other party in accordance with the provisions hereof, such change of address to be effective ten (10) days after notice thereof is given in accordance with the provisions of this Section 14. Notwithstanding the foregoing, any party to this Contract may also deliver any notices hereunder by electronic mail (e-mail), with delivery of any such notice(s) deemed to have been given immediately (same day as sent), with a hard copy to follow by overnight courier.

15. Miscellaneous Provisions. Each of the Recitals set forth in this Contract is incorporated herein to the same extent as if it had been stated herein in full. Each of the exhibits attached to this Contract is incorporated herein by reference. This Contract contains the entire agreement between the parties hereto and is intended to be an integration of all prior or contemporaneous agreements, conditions or undertakings between the parties hereto; there are no promises, agreements, conditions, undertakings, warranties or representations, oral or written, express or implied between and among the parties hereto other than as herein set forth. No change or modification of this Contract shall be valid unless the same is in writing and signed by Seller and Purchaser. No purported or alleged waiver of any of the provisions of this Contract shall be valid or effective unless in writing, signed by the party against whom it is sought to be enforced. Purchaser may freely assign this Contract to a newly formed entity that is controlled by, or affiliated with, either of Purchaser or TPF VII LLC, a Delaware limited liability company, provided that Purchaser's assignee shall expressly assume all of Purchaser's liabilities, obligations, and duties hereunder. This Contract and all of the provisions hereof shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, devisees, legatees, legal representatives, successors and permitted assigns. Purchaser may designate prior to Closing the party or parties to be named as grantee in the deed of conveyance required hereunder. This Contract shall be governed by and construed in accordance with the laws of the jurisdiction in which the Property is located, without regard to principles of conflicts of laws. This Contract may be executed in counterparts, and all counterparts so executed shall constitute one contract of sale binding upon all of the parties hereto, notwithstanding that all of the parties are not signatory to the original or the same counterpart.

16. Effective Date. The "Effective Date" of this Contract is the last date on which Seller and Purchaser have executed this Contract.

17. Exclusivity. This Contract shall constitute an exclusive arrangement between the parties hereto and, from and after the Effective Date of this Contract, Seller, its agents, affiliates and/or employees, shall not negotiate for or otherwise deal in the sale or transfer of the Property (or any interest therein) with anyone other than Purchaser, unless and until the Contract has been terminated.

18. Default and Remedies.

a. In the event of Seller's breach or default hereunder (prior to Closing), including, but not limited to, Seller's failure to perform, observe, deliver, or complete (as the case may be), all covenants, obligations and agreements to be performed, observed, delivered or completed by Seller prior to or on the Closing Date, then Purchaser shall have the right as its sole and exclusive remedy to exercise any one of the following remedies:

(1) Purchaser may terminate this Contract by written notice to Seller and the Escrow Agent, whereupon the Deposit shall be immediately refunded to Purchaser by the Escrow Agent, and this Contract shall wholly cease and terminate, no party to this Contract shall have any further claim, agreement, or obligation to any other party to this Contract, and any lien of Purchaser against the Property shall automatically cease, terminate and be released; or

(2) Purchaser may enforce specific performance of this Contract. Notwithstanding the foregoing, in the event specific performance is not available because of any affirmative act or acts of Seller or any act or acts of any person or entity affiliated with Seller so as to render specific performance not available, then Purchaser shall have the right to terminate this Contract, whereupon it shall become entitled to: (a) receive the immediate return of the Deposit, and (b) sue and seek all other damages and remedies available at law or equity.

b. In the event that Purchaser fails to pay the balance of the Purchase Price and execute the documents required by this Contract at Closing (and Seller is not in default of its obligations hereunder and all conditions to Closing benefiting Purchaser have been satisfied or waived), then Seller shall, as its sole and exclusive remedy, have the right, in lieu of any other remedies available to it at law or in equity, to terminate this Contract by giving Purchaser and the Escrow Agent written notice thereof and the Escrow Agent shall deliver the Deposit to Seller, which shall retain the same as liquidated damages (the parties hereby acknowledging that the amount of damages resulting from a breach of this Contract by Purchaser would be difficult or impossible to accurately ascertain) and upon Seller's receipt thereof, this Contract shall wholly cease and terminate, no party to this Contract shall have any further claim, agreement, or obligation to any other party to this Contract, and any lien of Purchaser against the Property shall automatically cease, terminate and be released.

19. Indemnification.

a. Notwithstanding anything to the contrary set forth in this Contract, Seller shall indemnify and hold harmless the Purchaser and its successors and assigns and any partner, shareholder, director, officer, employee, agent or affiliate thereof, from and against any and all claims, obligations, losses, damages, costs and expenses (including, without limitation, the reasonable fees and expenses of attorneys) to the extent resulting from any act(s) or omission(s) of Seller, or any event, matter or condition, on or relating to the Property, which occurred or arose on or prior to the Date of Closing (regardless of when any such act, omission, event, matter or condition is first discovered). Purchaser shall notify Seller within ten (10) days in the event any claim is made against it for which Seller shall have agreed to indemnify Purchaser as set forth in this Contract. This indemnity (and the provisions of this paragraph) shall survive the Closing until the expiration of the Survival Period.

b. Purchaser shall indemnify and hold harmless the Seller and its successors and assigns and any partner, shareholder, director, officer, employee, agent or affiliate thereof, from and against any and all claims, obligations, losses, damages, costs and expenses (including, without limitation, the reasonable fees and expenses of attorneys) to the extent resulting from any act(s) or omission(s) of Purchaser, or any event, matter or condition, on or relating to the Property, which occurred or arose subsequent to the Date of Closing. Seller shall

notify Purchaser within ten (10) days in the event any claim is made against it for which Purchaser shall have agreed to indemnify Seller as set forth in this Contract. This indemnity (and the provisions of this paragraph) shall survive the Closing until the expiration of the Survival Period.

20. Intentionally Deleted.

21. Post-Closing Cooperation. Seller shall perform the work post-Closing as referenced in Section 8(g) and Exhibit K herein within six (6) months from the Closing date. Purchaser shall reasonably cooperate with Seller so as to allow Seller to complete the work, and allow reasonable access to the Property for Seller to perform the work.

22. \$250,000 Escrow for Post-Closing Punch List Items. At Closing, Purchaser and Seller agree to instruct the Title Company to withhold (and hold in escrow) the amount of \$250,000 (the "Punch-List Escrow") from the Purchase Price for the purpose of securing Seller's obligation to complete the Post-Closing Punch List Items in accordance with the terms of this Contract. Monies in the Punch-List Escrow shall not be released to Seller unless and until the specific items on the Post-Closing Punch List have been completed in accordance with the terms of this Contract.

23. \$750,000 Warranty Fund.

a. At Closing, Purchaser and Seller agree to instruct the Title Company to withhold the amount of \$750,000 from the Purchase Price for the purpose of establishing an escrow fund (the "Warranty Fund") from which Purchaser may seek to satisfy (in whole or in part) any claims ("Warranty Fund Claim(s)") relating to (i) the indemnity obligations of Seller as described in this Contract, or (ii) damages suffered or incurred by Purchaser as a result of any breach or inaccuracy of any of the representations and warranties set forth in Section 6(a) above. A Warranty Fund Claim shall consist of a written notice from Purchaser to Seller and the Title Company of a claim on the Warranty Fund, including (X) a specific claim against all or part of the Warranty Fund, (Y) the approximate dollar amount claimed, and (Z) factual details as to the basis of the claim. If, at any time after the Date of Closing, it is determined (through legal proceedings, beyond any applicable appeals period), or agreed to by Purchaser and Seller, that a Warranty Fund Claim is valid and correct, then the Title Company shall release to Purchaser, from the Warranty Fund, the amount(s) set forth in any such decree or order (or the entire balance of monies in the Warranty Fund, as the case may be) or as otherwise agreed to by Purchaser and Seller.

b. As long as there shall be no Warranty Fund Claim(s) pending and unresolved, monies in the Warranty Fund shall automatically be released to Seller by the Title Company as follows: (i) on that date which is six (6) months after the Closing Date, 33% of the balance of monies in the Warranty Fund, if any, shall be released to Seller; (ii) on that date which is eight (8) months after the Closing Date, 33% of the balance of monies in the Warranty Fund, if any, shall be released to Seller; and (iii) on that date which is twelve (12) months after the Closing Date, the balance of monies, if any, in the Warranty Fund shall be released to Seller.

24. Jurisdiction; Attorneys' Fees. This Contract shall be construed under the laws of the Commonwealth of Virginia, and venue shall be proper in the Circuit Court for Loudoun County, Virginia or the U.S. District Court for the Eastern District of Virginia, Alexandria Division. The parties waive their right to a trial by jury for any litigation arising under this Contract. The substantially prevailing party shall be entitled to recover its reasonable attorneys' fees and costs of litigation arising under this Contract from the non-prevailing party.

IN WITNESS WHEREOF, and intending to be legally bound, the undersigned parties have duly executed this Contract under seal as their free act and deed for the uses and purposes herein contained on the dates indicated below their respective signatures.

WITNESS/ATTEST:

PURCHASER:

CAPREIT Acquisition Corporation,
a Maryland Corporation

By: _____ (SEAL)
Name:
Title:

Date of Purchaser's Execution:

PURCHASER'S NOTICE ADDRESS:

11200 Rockville Pike
Suite 100
Rockville, MD 20852
Attn: Ernest L. Heymann
Fax Number: (301) 468-8391
E-Mail Address: eheymanncapreit.com

with a copy to:

The Praedium Group LLC
825 Third Avenue, 36th Floor
New York, New York 10022
Attention: Christopher Hughes
Fax Number: (212)
E-Mail Address: chughespraediumgroup.com

[Signatures Continue on Following Page]

WITNESS/ATTEST:

SELLER:

COMSTOCK CASCADES II, L.C.

By: Comstock Homebuilding Companies, Inc.,
its Manager

By: _____
Christopher Clemente
Chief Executive Officer

Date of Seller's Execution:

SELLER'S NOTICE ADDRESS:

11465 Sunset Hills Road
4th Floor
Reston, Virginia 20190
Attn: Christopher Clemente
Fax Number: (703) 760-1520
Phone (703) 883-1700
E-Mail Address: cclemente@comstockhomebuilding.com

with a copy to:

11465 Sunset Hills Road
4th Floor
Reston, Virginia 20190
Attn: Jubal Thompson
Fax Number: (703) 760-1520
Phone (703) 883-1700
E-Mail Address: jthompson@comstockhomebuilding.com

List of Exhibits

- Exhibit A - Legal Description of the Property
- Exhibit B - Property Documents to be Delivered by Seller
- Exhibit C - Form Lease
- Exhibit D - Certified Rent Roll
- Exhibit E - List of Management, Servicing, Leasing, Employment, Supply Commitments and Other Operating Contracts
- Exhibit F - Seller's Owner's Title Policy
- Exhibit G - Inventory of Personal Property
- Exhibit H - Description of Litigation and Governmental Notices
- Exhibit I - Form of Temporary License Agreement
- Exhibit J - Tasks and Items to be Completed Prior to Closing
- Exhibit K - Tasks and Items to be Completed Post-Closing

EXHIBIT A

Legal Description of the Property

EXHIBIT B

Property Documents to be Delivered by Seller

- (a) the most recent survey and a complete set of specifications;
- (b) a copy of the existing owner's title insurance policy;
- (c) an inventory of all tangible and intangible personal property and fixtures;
- (d) a current rent roll and a delinquency list;
- (e) an accounts payable report;
- (f) a copy of the standard lease agreement in use;
- (g) copies of all utility bills for the last three (3) months;
- (h) copies of all property tax assessments and tax bills since 1/1/10;
- (i) copies of all service contracts and any other similar such agreements;
- (j) a copy of the current employee payroll;
- (k) copies of all records with respect to security deposit trust account(s);
- (l) audited, or if not available, unaudited monthly and annual income and operating statements since initial lease-up;
- (m) any feasibility studies, market studies, soils reports, engineering, environmental or architectural studies and similar data relating to the Property in Owner's possession; and
- (n) All other relevant operation information, ownership documents or other information which may be reasonably requested by Purchaser.

EXHIBIT C

Form Lease

EXHIBIT D

Rent Roll

EXHIBIT E

**List of Management, Servicing, Leasing, Employment,
Supply Commitments and Other Operating Contracts**

EXHIBIT F

Seller's Owner's Title Policy.

EXHIBIT G

Inventory of Personal Property.

EXHIBIT H

Description of Litigation and Governmental Notices

EXHIBIT I

Form of Temporary License Agreement

EXHIBIT J

Tasks and Items to be Completed Prior to Closing*

- (a) Construction of fencing around all dumpsters/compactors per the approved site plan.
- (b) All buildings, sidewalks and hallways to be pressure washed.
- (c) Parking lot striping to be completed and no less than four spaces (currently contemplating prospective residents in front of leasing office. spaces 313-317) shall be designated/reserved for
- (d) Cable/telephone storage rooms — all panels to be labeled and connections secured.
- (f) Ceramic tile floors to be re-grouted, as necessary (punchlist to be provided by Purchaser).
- (g) Move existing leasing signage to new locations adjacent to new leasing office.

* Any items not completed prior to Closing shall become a part of Exhibit K.

EXHIBIT K

Tasks and Items to be Completed Post-Closing

- (a) Existing "community room" to be converted to apartment unit (1-BR + Den) and made ready for immediate tenant occupancy (certificate of occupancy to be obtained by Seller).*
- (b) Appropriate equipment to be installed in each unit for purposes of individual unit submetering of utilities (water and sewer).*
- (c) Landscaping, grass seeding and sod to be installed/completed in accordance with plans and specifications and Loudoun County Code.*
- (d) Construction of (HOA approved) 12 x 10 temporary maintenance shed on the Property.*
- (e) Ceramic tile floors to be re-grouted, as necessary (punchlist to be provided by Purchaser on or before Closing).*
- (f) Leasing office to be re-located (existing space to be made ready for tenant occupancy, with certificate of occupancy to be obtained by Seller).*
- (g) Construction and placement of a monument sign at the main entrance to the Project.**

* Collectively, these items total \$150,000, and Seller shall be entitled to release of \$150,000 from the Punch-List Escrow upon completion of the items (a)-(f).

** This item may not be able to be completed within the period of time prescribed in Paragraph 21 of the Contract. The amount held in the Punch-List Escrow for this item is \$100,000.

LOAN AGREEMENT

THIS LOAN AGREEMENT (as amended, modified or supplemented from time to time, the "Agreement"), dated as of the day of , 2012, by and between (i) **EAGLEBANK** (the "Lender"), and (ii) **COMSTOCK POTOMAC YARD, L.C.**, a Virginia limited liability company ("Potomac Yard"), and **COMSTOCK PENDERBROOK, L.C.**, a Virginia limited liability company ("Penderbrook"), jointly and severally (Potomac Yard and Penderbrook, jointly and severally, and collectively, the "Borrower"), recites and provides:

RECITALS:

R-1. Subject to the terms of this Agreement, the Lender agrees to make a loan (the "Loan") to the Borrower, as more particularly described in Section 1.1 below, for the refinance of certain condominium units (the "Units") and related undivided percentage interests in the common elements (the "Common Elements") in those two condominium projects known as (i) The Eclipse on Center Park (the "Eclipse") located at 3600 and 3650 South Glebe Road, Arlington, Virginia and more particularly described in Exhibit A attached hereto (the Units and the Common Elements in The Eclipse, the "Potomac Yard Property"), and (ii) Penderbrook Square, A Condominium ("Penderbrook Square") located at 3905 Penderview Drive, Fairfax, Virginia and more particularly described in Exhibit B attached hereto (the Units and the Common Elements in Penderbrook Square, the "Penderbrook Property"). The Potomac Yard Property and the Penderbrook Property are herein sometimes together called the "Property".

R-2. The proceeds of the Loan will be used (i) to pay off a certain existing loan (the "SunBridge Loan") from SunBridge Capital to the Borrower in the amount of up to but not in excess of \$8,260,000.00 for principal, interest and other charges due thereon, (ii) an interest reserve to be established pursuant to the terms of this Agreement in the amount of \$500,000.00, (iii) such Loan closing costs as the Lender may approve in an aggregate amount not to exceed \$100,000.00, and (iv) any balance for working capital of the Borrower or its principals. Any amounts required to pay off the SunBridge Loan in excess of \$8,260,000.00, any amounts necessary to fund in full the interest reserve hereinafter set forth, and any Loan closing costs in excess of \$100,000.00 shall be paid by the Borrower from the Borrower's own funds at the Loan closing.

AGREEMENT

ACCORDINGLY, for and in consideration of the mutual covenants set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Lender and the Borrower agree as follows:

SECTION ONE

THE LOAN

1.1 Amount. The maximum principal amount of the Loan which may be outstanding at any one time shall not exceed the lesser of: (i) Nine Million Nine Hundred Sixty Thousand and No/100 Dollars (\$9,960,000.00) or (ii) fifty-five percent (55%) of the "retail" value of the Property pursuant to the Appraisal (hereinafter defined) and any appraisal(s) which may be engaged by the Lender from time to time subsequent to the closing on the Loan, which appraisal(s) must be satisfactory to the Lender in its sole and absolute discretion (a "Future Appraisal"), or (iii) sixty-five percent (65%) of the "discounted cash flow value" of the Property pursuant to the Appraisal or any Future Appraisal determined in accordance with a formula satisfactory to the Lender in its sole and absolute

discretion. The maximum principal amount of the Loan is further limited by the value of each component of the Property as follows: (a) for the Potomac Yard Property, the lesser of (i) Eight Million Two Hundred Fifty Thousand and No/100 Dollars (\$8,250,000.00), or (ii) fifty-five percent (55%) of the “retail” value of the Potomac Yard Property pursuant to the Appraisal or any Future Appraisal, or (iii) sixty-five percent (65%) of the “discounted cash flow value” of the Potomac Yard Property pursuant to the Appraisal or any Future Appraisal, and (b) for the Penderbrook Property, the lesser of (i) One Million Seven Hundred Ten Thousand and No/100 Dollars (\$1,710,000.00), or (ii) fifty-five percent (55%) of the “retail” value of the Penderbrook Property pursuant to the Appraisal or any Future Appraisal, or (iii) sixty-five percent (65%) of the “discounted cash flow value” of the Penderbrook Property pursuant to the Appraisal or any Future Appraisal, and for each component of the Property determined in accordance with a formula satisfactory to the Lender in its sole and absolute discretion. The Loan will be evidenced by a Deed of Trust Note made by Potomac Yard and Penderbrook, jointly and severally, payable to the order of the Lender (as the same may be further amended, renewed, restated, supplemented or substituted from time to time, the “Note”).

1.2 Guarantor. Comstock Homebuilding Companies, Inc. (the “Guarantor”) shall guaranty the payment and performance of the Borrower’s obligations, covenants and agreements under the Loan, as evidenced by the Loan Documents (hereinafter defined), which guaranty shall be evidenced by an instrument of unlimited and unconditional guaranty of payment and performance from the Guarantor for the benefit of the Lender, in form and substance satisfactory to the Lender (the “Guaranty”).

1.3 Term. The Note shall mature upon the earlier of: (i) twenty-seven (27) months after the date of closing on the Loan or (ii) the occurrence of a Transfer (as defined in Section 5.15 hereof) (the “Maturity”). It is acknowledged and agreed that notwithstanding any provisions herein, the Borrower has not applied for, nor has the Lender made any commitment with respect to, any extension of such Maturity. Upon any application for an extension, any approval of an extension on any terms would be contingent upon the usual and customary underwriting procedures of EagleBank, including without limitation, the approval of the loan committee of EagleBank.

1.4 Interest Rate. Commencing on the closing of the Loan, the unpaid principal balance of the Note outstanding from time to time shall bear interest and be payable at the floating rate per annum equal to three percent (3%) above the thirty (30) day LIBOR Rate (hereinafter defined), rounded upwards, if necessary, to the nearest one-eighth of one percent (0.125%). The LIBOR Rate means, for each calendar month, the annualized weighted average of the 30-day London Interbank Offered Rates (at approximately 11:00 a.m. London time) for U.S. Dollar transactions on the day that is two (2) business days prior to the first day of that calendar month, as reported by Bloomberg Business News; if Bloomberg Business News is not available, the Lender shall select a similar source for the LIBOR index and shall notify the Borrower of such selection. Notwithstanding the above, in no event shall the Note bear interest at a rate below the floor interest rate of five and one-half percent (5.5%) per annum at any time (the “Interest Rate Floor”).

1.5 Fees. Borrower shall pay Lender a fee of one half of one percent (1%) of the maximum principal amount of the Loan, payable to the Lender upon closing of the Loan. The Borrower shall pay \$35,000.00 to the Lender for its third-party costs incurred in connection with the Loan (including, without limitation, fees of appraisers, consultants and legal counsel), any unused balance of which may be applied to the foregoing Loan fee.

1.6 Collateral. The Loan shall be secured by, among other things, the following:

- (i) A first lien deed of trust, security agreement and fixture filing (as the same may be further amended, restated, supplemented or substituted the “Deed of Trust”) on the Potomac Yard Property and the Penderbrook Property;

- (ii) An Assignment of Leases and Rents on the Potomac Yard Property (as the same may be further amended, restated, supplemented or substituted the “Potomac Yard Leases Assignment”);
- (iii) An Assignment of Leases and Rents on the Penderbrook Property (as the same may be further amended, restated, supplemented or substituted the “Penderbrook Leases Assignment”, which with the Potomac Yard Leases Assignment may be referred to herein together as the Leases Assignment”);
- (iv) a Collateral Assignment of Interest Reserve Account made by the Borrower for the benefit of the Lender (as the same may be amended, restated, supplemented or substituted, the “Account Assignment”);
- (v) an Assignment of Sales Contracts and Security Deposits made by the Borrower for the benefit of the Lender (as the same may be amended, restated, supplemented or substituted, the “Contracts Assignment”);
- (vi) an Environmental Indemnity Agreement made by Borrower and Guarantor for the benefit of Lender (as the same may be amended, restated, supplemented or substituted, the “Environmental Indemnity”);
- (vii) such UCC-1 Financing Statements as the Lender may determine necessary or advisable.

1.7 Loan-to-Value Ratio. At closing, the Property shall have a required “Loan to Value Ratio” of not greater than the lesser of the following values (“Required Value”): (i) fifty-five percent (55%) of the “retail” value of the Property pursuant to the Appraisal, or (ii) sixty-five percent (65%) of the “discounted cash flow value” of the Property pursuant to the Appraisal determined in accordance with a formula satisfactory to the Lender in its sole and absolute discretion (the ratio of the outstanding principal amount of the Loan plus any unfunded principal to the Required Value determined as aforesaid, being the Maximum Loan to Value Ratio and herein called the “MLTV”). If at closing the loan-to-value ratio of the Loan exceeds the MLTV, then the amount of the Loan to be advanced shall be reduced to an amount that meets the MLTV. If at any time following closing the loan-to-value ratio of the Loan to the Required Value shall exceed the MLTV, based on any Future Appraisal (to be engaged by Lender from time to time at the sole expense of Borrower), which appraisal(s) shall be satisfactory to Lender in all respects, in Lender’s sole, absolute and unreviewable discretion, the Borrower shall make a principal curtailment under the Loan, in such amount as required in order to meet the MLTV ratio, within thirty (30) days after written notice to the Borrower. The Lender agrees that it will not engage Future Appraisals more often than on an annual basis, unless required for regulatory reasons or following the occurrence of any Event of Default (as hereinafter defined in Section 6.1).

1.8 Interest Reserve; Interest Reserve Account.

- (a) From the proceeds of the Loan, the amount of Five Hundred Thousand and No/100 Dollars (\$500,000.00) shall not be disbursed but shall be reserved by the Lender for the payment of interest on the Loan (the “Interest Reserve”) until such reserve is exhausted. Notwithstanding the foregoing or any provision of any of the Loan Documents to the contrary, the Lender shall not be obligated to make any disbursements from the Interest Reserve if any Event of Default shall have occurred, and further, notwithstanding the foregoing or any provision of any of the Loan Documents to the contrary, nothing contained herein shall be deemed to release or in any way to relieve the Borrower from its obligation under the Note to pay interest as provided in the Note. Each disbursement from the Interest Reserve shall constitute a disbursement of principal of the Loan and shall be added to the then outstanding principal balance of the Loan.
- (b) As a condition of the Loan, the Borrower shall establish and maintain with the Lender a deposit account (the “Interest Reserve Account”). If the amount in the Interest Reserve Account together

with any undisbursed amounts of the Interest Reserve is less than Two Hundred Fifty Thousand and No/100 Dollars (\$250,000.00) (the "Threshold Reserve Amount") at any time, then as a condition of the release of any Unit from the lien of the Deed of Trust, the Borrower shall, in addition to payment of the Unit Release Payment (as defined in the Deed of Trust), deposit into the Interest Reserve Account an amount equal to ten percent (10%) of the Net Settlement Proceeds (as defined in the Deed of Trust) (the "Interest Reserve Deposit"). If there are insufficient Net Settlement Proceeds to meet the required Interest Reserve Deposit after payment of the Unit Release Payment, the Borrower shall pay any deficiency from its own funds for deposit in the Interest Reserve Account (any amounts paid from the Interest Reserve Account do not constitute a part of the Interest Reserve and shall not be added to the principal balance of the Loan). At or prior to closing on the Loan, the Borrower shall execute and deliver to the Lender the Account Assignment, pledging the Interest Reserve Account as collateral for the Loan. So long as no Event of Default has occurred and is continuing under the Loan, prior to advancing funds from the Interest Reserve, funds from the Interest Reserve Account will be used for the payment of interest on the Loan in accordance with the terms of the Loan Documents until such account is exhausted. However, notwithstanding any provision hereof to the contrary, the Lender shall not be obligated to permit any withdrawals for interest payments from the Interest Reserve Account if any Event of Default shall have occurred and is continuing, and nothing contained herein shall be deemed to release or in any way relieve the Borrower of its obligation under the Note to pay interest as therein provided. Furthermore, all or any part of the amount from time to time on deposit in the Interest Reserve Account may be appropriated and applied to the amounts outstanding under the Loan, at any time, in the Lender's sole discretion, upon any Event of Default.

- (c) If the Borrower makes a payment of interest at least two (2) business days prior to a Payment Date (as defined in the Note), no disbursement from the Interest Reserve will be made; otherwise, on the Payment Date, the Lender will cause interest to be paid first from the Interest Reserve Account until exhausted and next from the Interest Reserve.
- (d) The Borrower may, at its option, deposit additional funds in the Interest Reserve Account so as to meet the Threshold Reserve Amount and avoid the requirement for making an Interest Reserve Deposit as a condition to release of a Unit.

1.9 Deposit Relationship/Minimum Deposit Requirement. As a condition of the Loan, the Borrower shall maintain its primary operating account with the Lender throughout the term of the Loan. In addition, the Borrower, the Guarantor and affiliates or related individuals (the "Borrower Group") shall collectively maintain a minimum monthly average minimum aggregate "core" deposit balance with the Lender in an amount equal to the greater of (i) Seven Hundred Fifty Thousand and No/100 Dollars (\$750,000.00) or (ii) ten percent (10%) of the average outstanding principal balance of the Loan (the "Compensating Balance Requirement"), to be tested semi-annually, with the first such test to be calculated for the period July 1 – December 31, 2012. Such balance will be calculated as including demand deposit and money market accounts of the Borrower Group but shall not include certificates of deposit owned by the Borrower Group. Upon any failure to comply with the foregoing Compensating Balance Requirement, the failure to do so shall not constitute a Default or an Event of Default, however interest shall accrue on all amounts outstanding under the Loan at one-quarter of one percent (0.25%) plus the rate of interest then payable under Note, and the Interest Rate Floor shall be increased to five and three-quarters percent (5.75%), from the date of the measurement until such time as the Compensating Balance Requirement is met at the next semi-annual measurement. Balances maintained with the Lender and used to satisfy compensating balance requirements for other loans from the Lender to any person or entity in the Borrower Group may not be used to meet this requirement. The measurement of the foregoing deposit requirement shall, however, include the amount on deposit in the Interest Reserve Account.

1.10 Minimum Sales Requirement; Freddie/Fannie Eligibility.

(a) As a condition of the Loan, the Borrower shall enter into and close under sales contracts on at least six (6) Units in each "Sales Period". The first Sales Period shall be from April 18 through September 30, 2012, and subsequent Sales Periods shall be each six (6) month period following September 30, 2012. Such sales contracts shall be acceptable to the Lender in all respects, provided that the Lender shall not unreasonably withhold its approval of any sales contract for a Unit for the minimum price per unit that is set forth on Exhibit C attached hereto. If more than six (6) Units are sold within any Sales Period, the excess shall carry forward to satisfy all or a portion of the foregoing sales requirement for any ensuing Sales Period and continuing on a cumulative basis until Maturity of the Loan. Failure of the Borrower to comply with the foregoing sales requirement shall, at the Lender's option, constitute an Event of Default under the Loan Documents.

(b) In order for the financing of sales of the Units to be eligible for Freddie Mac and Fannie Mae financing, no more than fifty percent (50%) of the Units may be sold to purchasers for investment purposes and who do not intend to occupy the Unit(s) being sold.

1.11 Minimum Liquidity. The Guarantor shall maintain, in its own name (and not on a consolidated basis with any other person or entity), minimum liquid assets not less than Three Million Five Hundred Thousand and No/100 Dollars (\$3,500,000.00). The foregoing minimum liquidity requirement must be met as of the closing of the loan and thereafter will be tested quarterly. If at the time of any such quarterly test the minimum liquidity requirement then in effect is more than thirty-five percent (35%) of the then outstanding principal balance of the Loan, the minimum liquidity requirement will be reduced to an amount equal to thirty-five percent (35%) of the then outstanding balance of the Loan. Liquid assets are unrestricted cash in accounts held directly by the Guarantor in addition to readily marketable securities held directly by the Guarantor in brokerage accounts in its name. The Guarantor shall provide the Lender with copies of bank statements and brokerage statements and such other information as the Lender may reasonably request, in order to enable the Lender to verify compliance or non-compliance with the foregoing requirement.

SECTION TWO

PAYMENTS, COMPUTATIONS, FEES, CHARGES AND PROTECTIVE ADVANCES

2.1 Payments. All payments due with respect to this Agreement or the Loan shall be made in immediately available funds to Lender at such place as designated by Lender from time to time. Lender is authorized, but shall be under no obligation, to charge any deposit account maintained by Borrower with Lender or any affiliate of Lender for any payments due to Lender with respect to this Agreement or the Loan. Payments shall be applied, at Lender's sole discretion: (i) first, to payment of accrued and unpaid interest, if any; (ii) second, to payment of any principal then due, if any; (iii) third to late charges, if any; (iv) fourth, to reasonable attorney's fees and costs of collection; and (v) fifth, to reduce the outstanding principal balance of the Note until such principal shall have been fully repaid. All payments hereunder shall be made without offset, demand, counterclaim, deduction, abatement, defense, or recoupment, each of which Borrower hereby waives.

2.2 Late Charges. If any payment due under the Note is not made within ten (10) days of its due date, Borrower shall pay to Lender upon demand (which may be in the form of the usual monthly billing or invoice) a late charge equal to five percent (5%) of the amount of such payment.

2.3 Default Rate. After an Event of Default (hereinafter defined), the interest which accrues on the Note shall be increased to the Default Rate (as defined in the Note).

2.4 Computations. Interest and fees on the Loan shall be computed on the basis of a year of three hundred sixty (360) days and actual days elapsed.

2.5 Prepayment. The Borrower may prepay the Note in whole or in part without premium or penalty at any time upon ten (10) days' prior written notice to Lender. Partial prepayments shall be applied to installments of principal in their inverse order of maturity. Amounts prepaid hereunder may not be reborrowed.

2.6 Indebtedness. As used in this Agreement, the term "Indebtedness" means all present and future indebtedness of Borrower to Lender arising out of or in connection with the Note or any of the other Loan Documents.

SECTION THREE

CONDITIONS

3.1 Conditions Precedent to Closing. In addition to any other conditions stated in this Agreement, the following conditions must be satisfied prior to Lender closing on the Loan.

(a) Loan Documents. Receipt by Lender of appropriately completed and duly executed originals of this Agreement, the Note, the Guaranty, the Deed of Trust, the Leases Assignment, the Account Assignment, the Contracts Assignment, the Environmental Indemnity, and UCC-1 Financing Statements, all as Lender may require (collectively, together with and any other documents executed and delivered in connection with the Indebtedness, the "Loan Documents");

(b) Organizational Documents. Each entity comprising the Borrower shall supply, to the extent it has not previously done so in any prior transaction with the Lender: (i) a currently certified copy of its Articles of Organization and all amendments thereto; (ii) evidence satisfactory to the Lender and its counsel that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its businesses or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party and (iv) certified copies of its Operating Agreement and all amendments thereto. The Articles of Organization and the Operating Agreement of each entity comprising the Borrower shall not be amended, changed or modified in any respect without prior written consent of the Lender. In addition, the Guarantor shall supply: (i) a currently certified copy of its Articles of Incorporation and all amendments thereto; (ii) evidence satisfactory to Lender and its counsel that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its businesses or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party and a certificate of incumbency and (iv) certified copies of its By-Laws and all amendments thereto. The Articles of Incorporation and the Bylaws of the Guarantor shall not be amended, changed or modified in any respect without prior written consent of the Lender; provided, however, that on the condition that the Lender is given thirty (30) days advance written notice, the Lender hereby consents to the Guarantor's change in corporate domicile from Delaware to Virginia and all amendments to its organizational documents as are reasonably required to effect such change in domicile subsequent to the closing of the Loan; provided further that UCC-1 financing statements shall be filed in the changed domicile at the cost and expense of the Borrower.

(c) Opinion. Receipt by the Lender of the opinion(s) of the counsel for Borrower and the Guarantor, in form and content satisfactory to the Lender, in its sole, but reasonable, discretion.

(d) Insurance. Receipt by the Lender of certificate(s) of insurance to evidence, as to each entity comprising the Borrower, a fully paid policy or policies of comprehensive public liability insurance naming Lender as an additional insured thereunder in an amount not less than Two Million Dollars and No Cents (\$2,000,000.00) in the aggregate, with not less than One Million Dollars and No Cents (\$1,000,000.00) per occurrence; in any event, the amount of all insurance shall be sufficient to prevent any co-insurance contribution on any loss, with each policy providing for a thirty (30) day prior written notice of cancellation, amendment or alteration; together with the insurance required pursuant to Section 2.3 of the Deed of Trust

(e) Operating Account. The Borrower shall have established the primary operating account with the Lender.

(f) Interest Reserve Account. The Borrower shall have established the Interest Reserve Account with the Lender.

(g) Financing Statements. The financing statements necessary to perfect the Lender's security interest in the personal property subject to the Deed of Trust, and in any other collateral requiring filing of a financing statement for perfection of a lien thereon, shall be duly filed in all appropriate offices and jurisdictions, all other financing statements covering any of such personal property shall be terminated or the Lender shall be reasonably satisfied that such terminations are forthcoming, and filing and recording receipts evidencing such filings and terminations shall be delivered to Lender, all in form and substance satisfactory to the Lender.

(h) Property Documents. The Lender shall have received and approved, in its sole discretion, the following:

(1) Appraisals. An appraisal of the Property, prepared by an appraiser acceptable to Lender, in form and content acceptable to the Lender, conforming to all regulatory and internal appraisal guidelines applicable to or established by the Lender, in its sole, absolute, nonreviewable discretion, reflecting a "retail" value and a "discounted cash flow value" satisfactory to the Lender (the "Appraisal");

(2) Title Insurance. A commitment for title insurance (the "Title Commitment") insuring the first priority lien of the Deed of Trust, containing no exceptions unacceptable to Lender, issued in the name of the Lender by a title company acceptable to the Lender and in an amount equal to the principal amount of the Note. Such Title Commitment and the title policy issued pursuant thereto (the "Title Policy") shall reflect that all requirements for the issuance of the Title Policy have been satisfied, and shall contain such other endorsements or coverages as the Lender may require;

(3) Condominium Documents. Copies of all condominium documents with respect to the Penderbrook Property, including without limitation the plats and plans, declaration and by-laws, condominium operating budget, and a completed mortgage lender condominium questionnaire, for the Lender's review and approval;

(4) Environmental Audit. A Phase I environmental audit of the Property prepared by an environmental consulting firm acceptable to Lender, in its sole discretion, confirming that the Property is in compliance with all applicable environmental laws;

(5) Flood Hazard. Evidence that no part of the building(s) in which the Units are located is located in a special flood hazard area;

(6) Zoning. Receipt by Lender of a zoning endorsement to the Title Policy acceptable to the Lender or such other written evidence as is acceptable to the Lender that the Property is zoned consistent with the uses contemplated;

(7) Leases; Sales Agreements. Copies of all existing leases and sales agreements with respect to the Property, if any, together with such information regarding pre-qualification and deposit as may be in Borrower's possession or control; and

(8) Management Agreements. Copies of any management agreement(s) with respect to the Property.

(i) No Default. No event shall have occurred and be continuing that constitutes an Event of Default (as defined below).

(j) Representations. All representations and warranties contained in this Agreement shall be true and correct in every material respect as of the date of closing.

(k) Satisfactory Documents. All documents delivered pursuant to this Agreement must be in form and substance satisfactory to Lender and its counsel, and all legal matters incident to this Agreement must be satisfactory to Lender's counsel.

SECTION FOUR

REPRESENTATIONS AND WARRANTIES

In order to induce Lender to extend credit to Borrower, Borrower and each Guarantor makes the following representations and warranties as to itself or himself as applicable:

4.1 Organization. Each entity comprising the Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia and is duly qualified as a foreign limited liability company and in good standing under the laws of each other jurisdiction in which such qualification is required. The Guarantor represents and warrants that it is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is duly qualified as a foreign corporation and in good standing under the laws of each other jurisdiction in which such qualification is required.

4.2 Execution and Delivery. Each entity comprising the Borrower has the power, and has taken all the necessary actions, to execute and deliver and perform its obligations under the Loan Documents, and the Loan Documents, when executed and delivered, will be binding obligations of each such entity comprising the Borrower enforceable in accordance with their respective terms.

4.3 Power. Each entity comprising the Borrower has the power and authority to own its properties and to carry on its business as now being conducted.

4.4 Financial Statements. All financial statements and information delivered to the Lender are correct and complete in all material respects, and present fairly the financial conditions, and reflect all known liabilities,

contingent and otherwise, of the Borrower and the Guarantor as of the dates of such statements and information, and since such dates no material adverse change in the assets, liabilities, financial condition, business or operations of the Borrower or the Guarantor has occurred.

4.5 Taxes. All tax returns and reports of the Borrower and the Guarantor required by law to be filed have been duly filed, and all taxes, assessments, other governmental charges or levies (other than those presently payable without penalty or interest and those that are being contested in good faith in appropriate proceedings) upon the Borrower and the Guarantor and upon any of their respective properties, assets, income or franchises, that are due and payable have been paid.

4.6 Litigation. There is no action, suit or proceeding pending or, to the knowledge of the Borrower or the Guarantor, threatened against or affecting the Borrower or the Guarantor that, either in any case or in the aggregate, may result in any material adverse change in the business, properties or assets or in the condition, financial or otherwise, of the Borrower or the Guarantor, or that may result in any material liability on the part of the Borrower or the Guarantor that would materially and adversely affect the ability of the Borrower or the Guarantor to perform its and/or their obligations under the Loan Documents, or that questions the validity of any of the Loan Documents or any action taken or to be taken in connection with the Loan Documents.

4.7 No Breach. The execution and delivery of the Loan Documents, and compliance with the provisions of the Loan Documents, will not conflict with or violate any provisions of law or conflict with, result in a breach of, or constitute a default under the organizational documents, any judgment, order or decree binding on the Borrower, or any other agreements to which the Borrower is a party.

4.8 No Defaults. To the best of the Borrower's knowledge, the Borrower is not in default with respect to any debt, direct or indirect.

4.9 Compliance. The Borrower is in compliance in all material respects with all applicable laws and regulations, including, without limitation, the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

4.10 Approvals. No authorizations, approvals or consents of, and no filings and registrations with, any governmental or regulatory authority or agency are necessary for the execution, delivery or performance of the Loan Documents by the Borrower.

4.11 Title to Assets. The Borrower has good and marketable title to all of its assets, subject only to the liens and security interests permitted by this Agreement.

4.12 Use of Proceeds. The proceeds of the Loan shall be used only for the purposes described in this Agreement. The proceeds of the Loan shall not be used to purchase or carry any margin stock, as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System.

SECTION FIVE

COVENANTS OF BORROWER AND GUARANTOR

In consideration of credit extended or to be extended by the Lender, the Borrower covenants and agrees as follows:

5.1 Financial Information. The Borrower and the Guarantor shall each deliver to the Lender: (i) with respect to the Borrower, each year within ninety (90) days after the close of its fiscal year, financial statements prepared in accordance with standard accounting principles consistently applied, certified as true and correct by an officer of each such entity; (ii) with respect to the Guarantor, each year within ninety (90) days after the close of its fiscal year, audited financial statements; (iii) each year within thirty (30) days after filing, a copy of each such entity's federal income tax return or a copy of its notification to extend the time within which to file its federal income tax return and all schedules thereto, provided that in the event of such extension such entity shall provide the Lender with a copy of the federal income tax return and all schedules thereto within thirty (30) days of the filing of same with the Internal Revenue Service and (iv) promptly upon the Lender's request, such financial and other information with respect to such entity and the Property as the Lender reasonably may require from time to time. All financial statements shall be in such reasonable detail and shall be accompanied by such certificates of the Borrower or the Guarantor, as applicable, as may be reasonably required by the Lender.

5.2 Taxes. All tax returns and reports of the Borrower required by law to be filed have been duly filed, and all taxes, assessments, other governmental charges or levies (other than those presently payable without penalty or interest and those that are being contested in good faith in appropriate proceedings) upon the Borrower and upon any of their respective properties, assets, income or franchises, that are due and payable have been paid.

5.3 Compliance with Laws. The Borrower shall comply with all applicable laws and regulations, including, without limitation, ERISA.

5.4 Maintain Existence. The Borrower shall maintain its existence in good standing, maintain and keep its properties in good condition (ordinary wear and tear, fire or other casualty excepted), maintain adequate insurance for all of its properties with financially sound and reputable insurers. The Borrower shall remain in the same line of business as it is in on the date of this Agreement and shall not enter into any new lines of business without the prior written consent of the Lender.

5.5 Notices. As soon as it has actual knowledge, the Borrower shall notify the Lender of the institution or threat of any material litigation or condemnation or administrative proceeding of any nature involving the Borrower.

5.6 Books and Records. The Borrower shall maintain complete and accurate books of account and records. The principal books of account and records shall be kept and maintained at 1886 Metro Center Drive, 4th Floor, Reston, VA 20190. The Borrower shall not remove such books of account and records without giving the Lender at least thirty (30) days' prior written notice. The Borrower, upon reasonable notice from the Lender, shall permit the Lender, or any officer, employee or agent designated by the Lender, to examine the books of account and records maintained by the Borrower, and agree that the Lender or such officer, employee or agent may audit and verify the books and records. The Borrower shall reimburse the Lender for any reasonable expenses incurred by the Lender in connection with any audits. All accounting records and financial reports furnished to Lender by borrower and the Guarantor pursuant to this Agreement shall be maintained and prepared in accordance with GAAP.

5.7 Liens. The Borrower shall not create, incur, assume or permit to exist any mortgage, deed of trust, assignment, pledge, lien, security interest, charge or encumbrance, including, without limitation, the right of a vendor under a conditional sale contract or the lessor under a capitalized lease (collectively, the "Liens") of any kind or nature in or upon any of the assets of the Borrower, except:

(a) Liens created or deposits made that are incidental to the conduct of the business of the Borrower, that are not incurred in connection with any borrowing or the obtaining of any credit and that do not and will not interfere with the use by the Borrower of any of its assets in the normal course of its business or materially impair the value of such assets for the purpose of such business; and

(b) Liens securing the Indebtedness.

5.8 Debt. Without the prior written consent of the Lender, the Borrower shall not incur or permit to exist any debt for borrowed funds, the deferred purchase price of goods or services or capitalized lease obligations, except for (a) trade debt incurred in the ordinary course of business, and (b) the Indebtedness.

5.9 Contingent Liabilities. Without the prior written consent of the Lender, the Borrower shall not guarantee, endorse, become contingently liable upon or assume the obligation of any person, or permit any such contingent liability to exist, except by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

5.10 Sale of Assets. Without the prior written consent of the Lender, the Borrower shall not sell, lease, assign or otherwise dispose of any of its assets except for (a) sales in the ordinary course of business including sales of Units, (b) the disposition of assets that are no longer needed or useful in its business and (c) assets which have been removed and replaced.

5.11 Mergers and Acquisitions. Without the prior written consent of the Lender, the Borrower shall not merge or consolidate with, or acquire all or substantially all of the assets, stock, partnership interests or other ownership interests of, any other person.

5.12 Loan and Advances. Without the prior written consent of the Lender, the Borrower shall not make any loan or advance to any affiliate, director, member, manager, officer or employee of the Borrower, or any other person, except for the creation of accounts receivable in the ordinary course of business on terms that are no less favorable than would apply in an arm's-length transaction.

5.13 Subsidiaries and Joint Ventures. Without the prior written consent of the Lender, the Borrower shall not form any subsidiary, become a general or limited partner in any partnership or become a party to a joint venture. If the Lender grants its consent to the formation or acquisition of a subsidiary Borrower, such entity shall cause each such subsidiary to perform and observe all of the covenants contained in this Agreement.

5.14 Affiliates. Without the prior written consent of the Lender, the Borrower shall not engage in business with any of its affiliates except in the ordinary course of business and on terms that are no less favorable to the Borrower than would apply in an arm's-length transaction.

5.15 Organization; Control and Management. Until such time as the Loan is fully repaid, there shall be no Transfer (hereinafter defined) of any interest in the Borrower, nor any change in the Control (hereinafter defined) or management of either Borrower or the Guarantor, nor any Transfer of the Property except for sales of Units in accordance with the Loan Documents, without the Lender's prior written consent. "Transfer" means any assignment, pledge, conveyance, sale, transfer, mortgage, encumbrance, grant of a security interest or other disposition, either directly or indirectly, by operation of law or otherwise. "Control" means the ownership, directly or indirectly, in the aggregate of fifty percent (50%) or more of the beneficial ownership interests of an entity and the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ability to exercise voting power, by contract or otherwise. "Controlled by" and "controlling" shall have the respective correlative meaning thereto.

SECTION SIX

DEFAULT AND REMEDIES

6.1 Events of Default. Each of the following shall constitute an “Event of Default” under this Agreement:

(a) Failure to Pay. If: (i) the Borrower shall fail to pay any monthly payment required under the Note (“Monthly Payments”) when due thereunder or (ii) the Borrower shall fail to pay any amount (other than the Monthly Payments) as and when due under any of the Loan Documents;

(b) Failure to Give Notices. If Borrower fails to give Lender any notice required by Section 5.5 of this Agreement within thirty (30) days after it has actual knowledge of the event giving rise to the obligation to give such notice;

(c) Failure to Permit Inspections. If Borrower refuses to permit Lender to inspect its books and records in accordance with the provision of Section 5.6, or failure to permit Lender to inspect the Property upon reasonable advance notice;

(d) Failure to Observe Covenants. If Borrower fails to perform or observe any term, covenant, warranty or agreement contained in this Agreement or in the other Loan Documents and such failure shall continue for a period of thirty (30) days after written notice of such failure has been given to Borrower by Lender; provided, however, if such default is not in the payment of any sum due to Lender hereunder, or was not the subject of an Event of Default for which notice was previously provided, and provided Borrower is diligently pursuing the cure of such default, then Borrower shall have an additional sixty (60) days within which to cure such default prior to Lender exercising any right or remedy available hereunder, at law or in equity;

(e) Defaults under Loan Documents. If an Event of Default shall occur under the Note or any other Loan Document and shall not be cured within any applicable grace period;

(f) Breach of Representation. Discovery that any representation or warranty made or deemed made by the Borrower in this Agreement or in any other Loan Document, or any statement or representation made in any certificate, report or opinion delivered pursuant to this Agreement or other Loan Document or in connection with any borrowing under this Agreement by the Borrower or the Guarantor or any member, manager, officer, agent, employee or director of the Borrower or the Guarantor, was materially untrue when made or deemed made;

(g) Voluntary Bankruptcy. If the Borrower or the Guarantor makes an assignment for the benefit of creditors, files a petition in bankruptcy, petitions or applies to any tribunal for any receiver or any trustee of the Borrower or the Guarantor or any substantial part of the property of the Borrower or the Guarantor, or commences any proceeding relating to the Borrower or the Guarantor under any reorganization, arrangement, composition, readjustment, liquidation or dissolution law or statute of any jurisdiction, whether in effect now or after this Agreement is executed;

(h) Involuntary Bankruptcy. If, within sixty (60) days after the filing of a bankruptcy petition or the commencement of any proceeding against the Borrower or the Guarantor seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, the proceeding shall not have been dismissed, or, if within sixty (60) days, after the appointment, without the consent or acquiescence of the Borrower or the Guarantor, of any trustee, receiver or liquidator of any Borrower or all of any substantial part of the properties of the Borrower or the Guarantor, the appointment shall not have been vacated;

(i) Cross Default. If, as a result of default, any present or future obligations of the Borrower or the Guarantor to Lender or any other creditor are declared to be due and payable prior to the expressed maturity of such obligations;

(j) Material Adverse Change. A material adverse change occurs in the financial or business condition of the Borrower or the Guarantor;

(k) Judgment. If a judgment, attachment, garnishment or other process is entered against the Borrower and is not vacated or bonded within sixty (60) days after entry (or such shorter period of time as necessary in order to avoid attachment or foreclosure), or if a judgment, attachment, garnishment or other process is entered against the Guarantor that would materially affect the Guarantor's ability to perform its obligations under the Loan Documents, and such judgment, attachment, garnishment or other process is not vacated or bonded within sixty (60) days after entry (or such shorter period of time as necessary in order to avoid attachment or foreclosure);

(l) Dissolution. The dissolution, liquidation or termination of existence of the Borrower or the Guarantor unless a substitute guarantor, satisfactory to the Lender in its sole and absolute discretion, assumes all liability under the Guaranty and Environmental Indemnity and executes any documents which the Lender may reasonably require to implement such substitution, within sixty (60) days after such death or incapacity; or

(m) Change in Management/Control. A change in the management of or controlling interest in the Borrower or the Guarantor without prior written consent of the Lender.

6.2 Remedies. Upon the occurrence of an Event of Default (a) the Lender, at its option, by written notice to the Borrower, may declare all Indebtedness to the Lender to be immediately due and payable, whether such Indebtedness was incurred prior to, contemporaneous with or subsequent to the date of this Agreement and whether represented in writing or otherwise, without presentment, demand, protest or further notice of any kind, and (b) the Lender may exercise all rights and remedies available to it under the Loan Documents and applicable law. The Borrower agrees to pay all costs and expenses incurred by the Lender in enforcing any obligation under this Agreement or the other Loan Documents, including, without limitation, attorneys' fees. No failure or delay by the Lender in exercising any power or right will operate as a waiver of such power or right, nor will any single or partial exercise of any power or right preclude any other future exercise of such power or right, or the exercise of any other power or right.

6.3 Borrower to Pay Fees and Charges. The Borrower shall pay all fees and charges incurred in the procuring, making and enforcement of the Loan, including without limitation, the reasonable fees and disbursements of Lender's attorneys, charge for appraisals, the fee of Lender's inspector, fees and expenses relating to examination of title, title insurance premiums, surveys, and mortgage recording, documentary, transfer or other similar taxes and revenue stamps, loan extension fees, if any, and the Lender's loan fees.

SECTION SEVEN

MISCELLANEOUS

7.1 Defined Terms. Each accounting term used in this Agreement, not otherwise defined, shall have the meaning given to it under GAAP applied on a consistent basis. The term “person” shall mean any individual partnership, corporation, trust, joint venture, unincorporated association, governmental subdivision or agency or any other entity of any nature. The term “subsidiary” means, with respect to any person, a corporation or other person of which shares of stock or other ownership interest having ordinary voting power to elect a majority of the board of directors or other managers of such corporation or person are at the time owned, or the management of which it otherwise controlled, directly or indirectly, through one or more intermediaries, by such person. The term “affiliate” means, with respect to any specified person, any other person that, directly or indirectly, controls or is controlled by, or is under common control with, such specified person. All meanings assigned to defined terms in this Agreement shall be applicable to the singular and plural forms of the terms defined.

7.2 Notices. All notices, requests, demands and other communication with respect hereto shall be in writing and shall be delivered by hand, prepaid by Federal Express (or a comparable overnight delivery service), sent by the United States first-class mail, certified, postage prepaid, return receipt requested, to the parties at their respective addresses set forth as follows:

If to the Lender, to:

EAGLEBANK
7815 Woodmont Avenue, 3rd Floor
Bethesda, MD 20814
Attn: Douglas Vigen, Senior Vice President

with a copy to:

Friedlander Mislner, PLLC
1101 17th Street, NW, Suite 700
Washington, DC 20036-4704
Attn: David Astrove, Esq.

If to the Borrower, to:

Comstock Potomac Yard, L.C.
Comstock Penderbrook, L.C.
c/o Comstock Homebuilding Companies, Inc.
1886 Metro Center Drive, 4th Floor
Reston, VA 20190
Attn: Christopher Clemente

with a copy to:

Comstock Potomac Yard, L.C.
c/o Comstock Homebuilding Companies, Inc.
1886 Metro Center Drive, 4th Floor
Reston, VA 20190
Attn: Jubal Thompson, Esq.

Any notice, request, demand or other communication delivered or sent in the manner aforesaid shall be deemed given or made (as the case may be) upon the earliest of (a) the date it is actually received, (b) on the business day after the day on which it is delivered by hand, (c) on the business day after the day on which it is properly delivered by Federal Express (or a comparable overnight delivery service), or (d) on the third (3rd) business day after the day on which it is deposited in the United States mail. Any party may change such party's address by notifying the other parties of the new address in any manner permitted by this Section.

7.3 Successors and Assigns. This Agreement will be binding upon and inure to the benefit of Lender and Borrower and their respective successors, assigns, personal representatives, executors and administrators, provided that the Borrower may not assign or transfer its rights under this Agreement.

7.4 Entire Agreement. Except for the other Loan Documents expressly referred to in this Agreement, this Agreement represents the entire agreement between the Lender and the Borrower, supersedes all prior commitments and may be modified only by an agreement in writing.

7.5 Survival. All agreements, covenants, representations and warranties made in this Agreement and all other provisions of this Agreement will survive the delivery of this Agreement and the other Loan Documents and the making of the advances under this Agreement and will remain in full force and effect until the obligations of the Borrower under this Agreement and the other Loan Documents are fully discharged.

7.6 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Maryland, without reference to conflict of laws principles.

7.7 Intentionally deleted.

7.8 Headings. Section headings are for convenience of reference only and shall not affect the interpretation of this Agreement.

7.9 Participations. The Lender shall have the right to sell all or any part of its rights under the Loan Documents, and the Borrower authorizes Lender to disclose to any prospective participant in the Loan any and all financial and other information in the Lender's possession concerning the Borrower or the Collateral.

7.10 Third Party Beneficiary. The parties do not intend the benefits of this Agreement or any other Loan Document to inure to any third party.

7.11 Waiver of Jury Trial. TO THE FULLEST EXTENT PERMITTED BY LAW, the LENDER AND THE BORROWER KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY BASED ON, ARISING OUT OF OR UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT.

7.12 Waiver. The rights of the Lender under this Agreement and the other Loan Documents shall be in addition to all other rights provided by law. No waiver of any provision of this Agreement, or any other Loan Document, shall be effective unless in writing, and no waiver shall extend beyond the particular purpose involved. No waiver in any one case shall require Lender to give any subsequent waivers.

7.13 Severability. If any provision of this Agreement or any other Loan Document is held to be void, invalid, illegal or unenforceable in any respect, such provision shall be fully severable and this Agreement or the applicable Loan Document shall be construed as if the void, invalid, illegal or unenforceable provision were not included in this Agreement or in such Loan Document.

7.14 No Setoffs. With respect to a monetary default claimed by the Lender under the Loan Documents, no setoff, claim, counterclaim, reduction or diminution of any obligation or defense of any kind or nature that the Borrower has or may have against the Lender (other than the defenses of payment, the Lender's gross negligence or wilful misconduct) shall be available against Lender in any action, suit or proceeding brought by the Lender to enforce this Agreement or any other Loan Document. The foregoing shall not be construed as a waiver by the Borrower of any such rights or claims against the Lender, but any recovery upon any such rights or claims shall be had from Lender separately, it being the intent of this Agreement and the other Loan Documents that the Borrower shall be obligated to pay, absolutely and unconditionally, all amounts due under this Agreement and the other Loan Documents.

7.15 Counterparts. This Agreement may be executed for the convenience of the parties in several counterparts, which are in all respects similar and each of which is to be deemed to complete in and of itself, and any one of which may be introduced in evidence or used for any other purpose without the production of the other counterparts thereof.

7.16 Consent to Jurisdiction. The Borrower irrevocably submits to jurisdiction of any state or federal court sitting in the Commonwealth of Virginia or the State of Maryland over any suit, action, or proceeding arising out of or relating to this Loan Agreement, the Note or any other Loan Documents. The undersigned irrevocably waives, to the fullest extent permitted by law, any objection that the undersigned may now or hereafter have to the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action, or proceeding brought in any such court has been brought in an inconvenient forum. Final judgment in any such court shall be conclusive and binding and may be enforced in any court in which the undersigned is subject to jurisdiction by a suit upon such judgment provided that service of process is effected as provided herein or as otherwise permitted by applicable laws.

7.17 Service of Process. The Borrower hereby consents to process being served in any suit, action or proceeding instituted in the State of Maryland in connection with the Loan by (i) the mailing of a copy thereof by certified mail, postage prepaid, return receipt requested, to the Borrower at the address set forth in the notice section of this Agreement and (ii) serving a copy thereof upon the Borrower's registered agent for service of process. The undersigned irrevocably agrees that such service shall be deemed to be service of process upon the undersigned in any such suit, action or proceeding. Nothing in this agreement shall affect the right of the Lender to serve process in any manner otherwise permitted by law and nothing in this agreement will limit the right of the Lender otherwise to bring proceedings against the undersigned in the courts of any jurisdiction or jurisdictions.

[SIGNATURES ON FOLLOWING PAGES]

IN WITNESS WHEREOF, the Borrower and the Lender have caused this Agreement to be executed in their respective names by duly authorized representatives as of the day and year first above written. The Guarantor joins herein to consent and agree to the terms, conditions, provisions and covenants of those sections of this Agreement that address a covenant or obligation of the Guarantor.

WITNESS:

BORROWER:

COMSTOCK POTOMAC YARD, L.C.,
A Virginia limited liability company

By: Comstock Homebuilding Companies, Inc.,
a Delaware corporation,
Its Manager

Print Name:
Print Title:

By: _____
Print Name: Joseph M. Squeri
Print Title: Chief Financial Officer

[SEAL]

COMMONWEALTH OF VIRGINIA)
) ss:
COUNTY OF)

I, _____, a Notary Public in and for the aforesaid said jurisdiction, do hereby certify that Joseph M. Squeri, personally appeared before me in said jurisdiction and acknowledged that he is the Chief Financial Officer of Comstock Homebuilding Companies, Inc., which is the Manager of Comstock Potomac Yard, L.C., a Virginia limited liability company, party to the foregoing instrument, and that the same is his act and deed and the act and deed of said Comstock Potomac Yard, L.C.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this _____ day of May, 2012.

(SEAL)

Notary Public

My Commission expires:

Notary Registration No.

WITNESS:

BORROWER:

COMSTOCK PENDERBROOK, L.C.,

A Virginia limited liability company

By: Comstock Homebuilding Companies, Inc.,
a Delaware corporation,
Its Manager

Print Name:
Print Title:

By: _____
Print Name: Joseph M. Squeri
Print Title: Chief Financial Officer

[SEAL]

COMMONWEALTH OF VIRGINIA)
) ss:
COUNTY OF)

I, _____, a Notary Public in and for the aforesaid said jurisdiction, do hereby certify that Joseph M. Squeri, personally appeared before me in said jurisdiction and acknowledged that he is the Chief Financial Officer of Comstock Homebuilding Companies, Inc., which is the Manager of Comstock Penderbrook, L.C., a Virginia limited liability company, party to the foregoing instrument, and that the same is his act and deed and the act and deed of said Comstock Penderbrook, L.C.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this _____ day of May, 2012.

(SEAL)

Notary Public

My Commission expires:

Notary Registration No.

WITNESS:

GUARANTOR:

COMSTOCK HOMEBUILDING COMPANIES, INC., a Delaware corporation

Print Name:
Print Title:

By: _____
Print Name: Joseph M. Squeri
Print Title: Chief Financial Officer

[SEAL]

COMMONWEALTH OF VIRGINIA)
) ss:
COUNTY OF)

I, _____, a Notary Public in and for the aforesaid said jurisdiction, do hereby certify that Joseph M. Squeri, personally appeared before me in said jurisdiction and acknowledged that he is the Chief Financial Officer of Comstock Homebuilding Companies, Inc., a Delaware corporation, party to the foregoing instrument, and that the same is his act and deed and the act and deed of said Comstock Homebuilding Companies, Inc.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this _____ day of May, 2012.

(SEAL)

Notary Public
My Commission expires:

Notary Registration No.

EXHIBIT A

LEGAL DESCRIPTION OF POTOMAC YARD PROPERTY

EXHIBIT B

LEGAL DESCRIPTION OF PENDERBROOK PROPERTY

EXHIBIT C

MINIMUM PRICES PER UNIT (SEE SECTION 1.10(a))

LOAN AGREEMENT

THIS LOAN AGREEMENT (as amended, modified or supplemented from time to time, "Agreement"), dated as of the day of August, 2012, by and between (i) EAGLEBANK (the "Lender"), and (ii) NEW HAMPSHIRE AVE. VENTURES, LLC, a Virginia limited liability company (the "Borrower"), recites and provides:

RECITALS:

R-1. The Borrower has acquired a certain development site consisting of approximately 9.71 acres located at 6000 New Hampshire Avenue, N.E., Washington, D.C., as more particularly described on Exhibit A attached hereto (the "Property"), on which the Borrower intends to develop a total of at least 110 housing units (and possibly 111 if the internal lots of the Property can be reconfigured to accommodate an additional lot in Phase II) in two phases, the first phase of which ("Phase I") will consist of 18 single family housing lots (singularly, a "Single Family Lot" and if referring to more than one, the "Single Family Lots") and 38 townhouse lots (singularly a Townhouse Lot" and if referring to more than one, the "Townhouse Lots"), and the second phase of which ("Phase II") will consist of 19 Single Family Lots and 35 Townhouse Lots which may include, in Phase II, three (3) Townhouse Lots with improvements intended to qualify as affordable dwelling units ("ADU"). The delineation of Phase I and Phase II are as shown on the marked Site Plan attached hereto as Exhibit A-1.

R-2. Subject to the terms of this Agreement, the Lender agrees to make a revolving development loan (the "Development Loan") to the Borrower, as more particularly described in Section 1.1 below, for the purpose of financing (i) the Development (as hereinafter defined) of Phase I and (ii) subject to the Borrower meeting certain Phase I sales conditions as more particularly set forth below, the Development of Phase II.

R-3. Subject to the terms of this Agreement, the Lender also agrees to make a revolving construction loan (the "Construction Loan") to the Borrower, as more particularly described in Section Two below, for the purpose of financing the construction, at any one time, of up to six (6) Single Family Lots ("Single Family Units") and up to twelve (12) Townhouse Lots ("Townhouse Units") (Single Family Units and Townhouse Units, collectively, "Units" or if referred to individually, a "Unit").

R-4. The Lender and the Borrower agree that the Development Loan and the Construction Loan (together, the "Loans") will be made and advanced upon and subject to the terms, covenants and conditions set forth in this Agreement.

AGREEMENT

ACCORDINGLY, for and in consideration of the foregoing Recitals which are a material part of this Agreement and not mere prefatory language, and of the mutual covenants and conditions set forth in this Agreement, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Lender and the Borrower agree as follows:

SECTION ONE
THE DEVELOPMENT LOAN

1.1 **Amount.** The maximum principal amount that may be advanced under the Development Loan shall not exceed the lesser of (i) Ten Million Four Hundred Thousand and No/100 Dollars (\$10,400,000.00), or (ii) seventy-five percent (75%) of total Development costs of Phase I and Phase II, or (iii) fifty-two percent (52%) of the discounted ("When Developed") value of the Property pursuant to the Appraisal (hereinafter defined) and any

appraisals which may be engaged by the Lender from time to time subsequent to the date hereof. The maximum principal amount that may be outstanding at any one time under the Development Loan shall not exceed (i) for Phase I, Six Million and No/100 Dollars (\$6,000,000.00) and for Phase II, Four Million Four Hundred Thousand and No/100 Dollars (\$4,400,000.00). The Development Loan will be evidenced by a Revolving Development Loan Promissory Note made by the Borrower payable to the order of the Lender (as the same may be amended, renewed, restated, supplemented or substituted from time to time, the "Development Loan Note") which shall be governed by Maryland law.

1.2 Purpose. The Borrower will use the Development Loan proceeds for Development of Phase I and Phase II in accordance with a budget therefor which shall have been approved by the Lender in advance and in accordance with plans and specifications to be submitted to and approved by the Lender, and with advances to be made as the work progresses, all as set forth in this Agreement. For purposes of this Agreement, the term "Development" shall mean, generally, (a) lot clearing and rough grading; (b) provision of storm drainage structures and facilities, sediment control devices, base paving of streets, curbs and gutters; (c) providing sewer and water distribution systems and erecting temporary street signs; (d) provision of underground electric and gas utility lines, cable pedestals and vaults adjacent to Lot lines; (e) other subdivision improvements as required by governmental authorities in order for use and occupancy permits to issue; and (f) final site plan and subdivision approvals for each Phase. Certain other costs normally considered part of development costs shall be deferred and paid for by the Borrower out of its own funds, including by way of example and not limitation, final paving of streets, site amenities, landscaping and erosion control (the "Deferred Development Costs").

1.3 Conditions to Advances for Phase II. In addition to the other terms and conditions for making advances of loan proceeds under this Agreement, until thirty-seven (37) Units in Phase I have been completed and sold to third-party purchasers, and the release fees set forth in Section 3.8 have been paid to the Lender for each of those thirty-seven Units, and as a result thereof the outstanding principal balance of the Development Loan has been reduced to zero (the foregoing, the "Phase II Advance Conditions"), the Lender shall only be obligated to advance proceeds of the Development Loan for Development of Phase I. After the Borrower has met all of the Phase II Advance Conditions, then the Borrower thereafter may use the Development Loan proceeds for Development of Phase II. The maximum amount that may be advanced for Development of Phase I is Six Million and No/100 Dollars (\$6,000,000.00), and the maximum amount that may be advanced and/or re-advanced for Development of Phase II is Four Million Four Hundred Thousand and No/100 Dollars (\$4,400,000.00).

1.4 Development Loan Interest Reserve. From the proceeds of the Development Loan, Eight Hundred Thousand and No/100 Dollars (\$800,000.00) shall not be disbursed but shall be reserved by the Lender for the payment of interest on the Development Loan (the "Interest Reserve") until such reserve is exhausted. Of the foregoing amount, Four Hundred Thousand and No/100 Dollars (\$400,000.00) is allocated to Phase I and the balance is allocated to Phase II. Notwithstanding the foregoing or any provision of the Loan Documents to the contrary, the Lender shall not be obligated to make any disbursements from the Interest Reserve if any Event of Default shall have occurred (including without limitation any failure to meet the Sales and Curtailment Schedule set forth below which failure is not cured by payment of the amount necessary to satisfy the curtailment component thereof), and further, notwithstanding the foregoing or any provision of any of the Loan Documents to the contrary, nothing contained herein shall be deemed to release or in any way to relieve the Borrower from its obligation under the Development Loan Note to pay interest as provided in the Development Loan Note. Each disbursement from the Interest Reserve shall constitute a disbursement of principal of the Development Loan and shall be added to the then outstanding principal balance of the Development Loan.

1.5 Fees. The Borrower shall pay to the Lender a fee for the Development Loan in the amount of One Hundred Four Thousand and No/100 Dollars (\$104,000.00), payable upon closing of the Loans. The Lender acknowledges receipt from the Borrower of Twenty-Five Thousand and No/100 Dollars (\$25,000.00), for application to the Lender's third-party costs incurred in connection with the Loans (including without limitation fees of appraisers, consultants and legal counsel), any unused balance of which may be applied to the foregoing Development Loan fee.

SECTION TWO
THE CONSTRUCTION LOAN

2.1 Amount. The maximum principal amount that may be advanced under the Construction Loan shall not exceed Four Million and No/100 Dollars (\$4,000,000.00). The Construction Loan will be evidenced by a Revolving Construction Loan Promissory Note made by the Borrower payable to the order of the Lender (as the same may be amended, renewed, restated, supplemented or substituted from time to time, the "Construction Loan Note") which shall be governed by Maryland law.

2.2 Purpose. The Borrower will use the Construction Loan proceeds for the purpose of building (the "Construction") Single Family Units and Townhouse Units in accordance with a budget therefor which shall have been approved by the Lender in advance and in accordance with plans and specifications to be submitted to and approved by the Lender, and with advances to be made as the work progresses, all as set forth in this Agreement. The overall Construction budget shall include and be consistent with the total costs per type of Unit that are to be set forth on Exhibit B (the "Unit Costs Budget"), which shall be agreed by the parties and attached hereto prior to and as a condition of the first advance of Construction Loan proceeds.

2.3 LTV Limitation. In addition to the limitation set forth in Section 2.1 above, the maximum amount that may be disbursed under the Construction Loan per Unit shall be limited to seventy-five percent (75%) of the loan-to-value ratio of each Unit based upon appraised value of each Unit type and the Lot thereon pursuant to an appraisal of the "as complete" value of each Unit type satisfactory to the Lender in all respects. For purposes of this Section 2.3, the loan-to-value ratio of each Unit shall be calculated, expressed as a fraction, the numerator of which shall be \$107,145.00 (being the amount allocated per Lot from the Development Loan) plus the budgeted cost for that type of Unit set forth in the Unit Costs Budget, and the denominator of which shall be the appraised value thereof. The numerator of the aforesaid fraction shall be divided by the denominator thereof in order to result in the loan-to-value being expressed as a percentage.

2.4 Construction Limitation. At no time shall the Borrower be permitted to have under Construction more than (A) up to six (6) Single Family Units, of which at least three (3) must be subject to sales contracts acceptable to the Lender, one (1) may be speculative and two (2) may be model homes, and (B) up to twelve (12) Townhouse Units, of which at least five (5) must be subject to sales contracts acceptable to the Lender, five (5) may be speculative and two (2) may be model homes. Upon completion and sale of any one or more of the foregoing types of Units from time to time, and payment of the Release Payment set forth in Section 3.8 below, funds repaid pursuant to Section 3.8 below may be readvanced under the Construction Loan subject to the foregoing limitation on the number and type of Units that may be under Construction at any one time, which shall again apply.

2.5 No Interest Reserve. The Borrower shall be obligated to pay interest as provided in the Construction Loan Note.

2.6 Fees. The Borrower shall pay to the Lender a fee for the Construction Loan in the amount of \$1,350.00 for each Single Family Unit and \$1,025.00 for each Townhouse Unit. The fee will be payable with the first advance of Construction Loan proceeds for each Unit.

SECTION THREE
PARTICULAR TERMS OF BOTH LOANS

3.1 Guarantor. Comstock Homebuilding Companies, Inc. (the "Guarantor") shall guarantee the payment and performance of the Borrower's obligations, covenants and agreements under the Loans, as evidenced by the Loan Documents, including completion of each Phase, and shall also guarantee the Carve Out Obligations (defined on Exhibit C attached hereto), which guaranty shall be evidenced by an instrument of unlimited and unconditional guaranty of payment, performance and completion from the Guarantor for the benefit of the Lender, in form and substance satisfactory to the Lender (the "Guaranty").

3.2 Term. Each of the Development Loan Note and the Construction Loan Note (collectively, the “Notes”) shall mature upon the earlier of (i) thirty-six (36) months after the date of closing on the Loan or (ii) the occurrence of a Transfer (as defined in Section 7.15 hereof) (the “Maturity”). It is acknowledged and agreed that notwithstanding any provisions herein, the Borrower has not applied for, nor has the Lender made any commitment with respect to, any extension of such Maturity. Upon any application for an extension, any approval of an extension on any terms would be contingent upon the usual and customary underwriting procedures of EagleBank, including without limitation, the approval of the loan committee of EagleBank.

3.3 Interest Rate. Commencing on the closing of the Loans, the unpaid balance of each of the Notes outstanding from time to time shall bear interest and be payable at the floating rate per annum equal to three percent (3%) above the thirty (30) day LIBOR Rate (hereinafter defined), rounded upwards, if necessary, to the nearest one-eighth of one percent (0.125%). The LIBOR rate means, for each calendar month, the annualized weighted average of the 30-day London Interbank Offered Rates (at approximately 11:00 a.m. London time) for U.S. Dollar transactions on the day that is two (2) business days prior to the first day of that calendar month, as reported by Bloomberg Business News; if Bloomberg Business News is not available, the Lender shall select a similar source for the LIBOR index and shall notify the Borrower of such selection. Notwithstanding the above, in no event shall either of the Notes bear interest at a rate below the floor interest rate of five and three-quarters percent (5.75%) per annum at any time (the “Interest Rate Floor”).

3.4 Collateral. The Loans shall be secured by, among other things, the following:

- (i) A first lien deed of trust, security agreement and fixture filing (as the same may be amended, restated, supplemented or substituted, the “Deed of Trust”) on the Property;
- (ii) An assignment of Leases and Rents on the Property (as the same may be amended, restated, supplemented or substituted, the “Leases Assignment”);
- (iii) An assignment of sales contracts and deposits with respect to the Property (the “Contracts Assignment”);
- (iv) Assignments of all Development and Construction documents including, without limitation, plans and specifications, permits, architect’s contracts, engineering contracts, Development contracts, and Construction contracts (the “Documents Assignment”);
- (v) Consents to Assignment executed by each of the general contractor, architect and project engineer for each of the Development and the Construction (the “Consents”);
- (vi) An Environmental Indemnity Agreement made by the Borrower and the Guarantor for the benefit of the Lender (as the same may be amended, restated, supplemented or substituted, the “Environmental Indemnity”);
- (vii) Such UCC-1 Financing Statements as the Lender may determine to be necessary or desirable.

3.5 Equity Requirement. As a condition of the Loans, as of the closing of the Loans the Borrower shall have made an equity investment in the Property in an amount not less than Seven Million Eight Hundred Eighty-Nine Thousand One Hundred Twenty and No/100 Dollars (\$7,889,120.00), and shall have provided reasonable evidence of such investment to the Lender. The components of such equity investment are:

Property Acquisition Price:	\$4,900,000.00
PUD Approval Costs	1,490,000.00
Deferred Development Fee	500,000.00
Deferred Development Costs	999,120.00

3.6 Deposit Relationship. As a condition of the Loans, the Borrower shall establish its primary operating account with the Lender and shall maintain such account with the Lender throughout the term of the Loan. In addition, the Borrower and/or Guarantor and/or any related entities shall maintain a minimum monthly average

aggregate deposit balance with the Lender of ten percent (10%) of the aggregate outstanding principal balance of the Loans, tested semi-annually, with the first test period being October 31, 2012 to March 31, 2013. Such deposits shall be held in demand deposits or money market accounts. If at any time under any of the Loan Documents the Lender is collecting deposits for the payment of insurance premiums and/or real estate taxes, the amount(s) on deposit, to the extent unapplied as of the date of any such semi-annual test, shall be counted toward the foregoing deposit balance requirements. The foregoing deposit balance requirement is in addition to any deposit balance requirement under the terms of the loan documents for any other loan or loans by the Lender to the Borrower, the Guarantor or any affiliate(s) of the Borrower or the Guarantor. The failure to comply with the foregoing deposit balance requirements shall not constitute a default under the Loans; however, interest shall accrue on all amounts outstanding under the Loans at one-quarter of one percent (0.25%) plus the rate of interest then payable under the Notes (and the Interest Rate Floor shall also increase by one-quarter of one percent (0.25%)) from the date of such failure until such time as the deposit balance requirement is satisfied at the next semi-annual test.

3.7. Lot Sales Requirement. (a) As a condition of the Loans, the Borrower shall diligently pursue Development of the Lots and Construction and sale of the Units thereon. In addition, the Borrower (i) shall enter into and close under sales contracts to third parties on the following number of Lots with completed Units thereon, (ii) resulting in the cumulative curtailments of the Development Loan set forth below, (iii) by each Milestone Date set forth below (the “Sales and Curtailment Requirement”):

<u>Number of Lots (Cumulative)</u>	<u>Cumulative Curtailments of Development Loan</u>	<u>Lots Remaining as Collateral</u>	<u>Milestone Date</u>
Phase I: 20	\$ 3,220,000.00	Phase I : 36	December 31, 2013
Phase I: 38	\$ 6,118,000.00	Phase I : 18	March 31, 2014
Phases I and II: 46	\$ 7,098,000.00	Phase II: 64	June 30, 2014
Phases I and II: 59	\$ 8,690,500.00	Phase II: 51	December 31, 2014
Phases I and II: 73	\$ 10,405,500	Phase II: 37	June 30, 2015

(b) Such sales contracts shall be acceptable to the Lender in all respects, provided that the Lender shall not unreasonably withhold its approval of any sales contract for a Lot with a completed Unit that will result in a payment against principal under the Development Loan from sales proceeds of at least One Hundred Sixty-One Thousand and No/100 Dollars (\$161,000.00) per Unit for Phase I and at least One Hundred Twenty-Two Thousand Five Hundred and No/100 Dollars (\$122,500.00) per Unit for Phase II.

(c) Failure of the Borrower to comply with the Sales and Curtailment Requirement shall, at the Lender’s option, constitute an Event of Default under the Loan Documents; provided, however, that the Lender agrees that it will not elect to call an Event of Default if the Borrower pays to the Lender, by the applicable Milestone Date, the amount necessary for the required Cumulative Curtailment of the Development Loan, as set forth in the foregoing chart on the same line as for that Milestone Date, to be satisfied as of that Milestone Date (the “Substitute Curtailment Payment”). Payment of the Substitute Curtailment Payment shall not, however, entitle the Borrower to the release of any Lots from the lien of the Deed of Trust. No Lots or Units shall be released except pursuant to settlement on a bona fide sale to a third party pursuant to Section 3.8 below.

(d) The Borrower shall provide to the Lender marketing and sales reports on a monthly basis setting forth the status of marketing, sales contracts and closings or settlements in such detail as the Lender may reasonably require.

3.8 Release Provisions. The Deed of Trust shall contain the following provision for release of Lots and/or Units from the lien thereof:

“Provided that the Grantor requests the release of one of the Lots with a completed Unit thereon from the lien of this Deed of Trust prior to the repayment in full of the Loans, and provided that the sales contract with

respect to such Lot and/or Unit is in the form approved by the Beneficiary and at a minimum price set forth in the Loan Agreement, or if not set forth then otherwise satisfactory to the Beneficiary in its discretion, then the Beneficiary agrees to release the lien of this Deed of Trust with respect to any one of the Lots and/or Units, upon Grantor's written request, upon the following terms and conditions:

- (a) With respect to any Lot and completed Unit thereon in Phase I, payment of a Release Payment for each Lot and Unit to be released equal to the greater of:
- (i) \$190,000.00 per Single Family Unit or \$150,000.00 per Townhouse Unit plus one hundred percent (100%) of the total hard and soft costs advanced from the Construction Loan for Construction of the Unit, or
 - (ii) one hundred percent (100%) of the Net Settlement Proceeds (hereinafter defined), or
 - (iii) ninety percent (90%) of the sales price under the sales contract being settled.
- The Release Payment will be applied by the Lender first to the costs advanced from the Construction Loan for Construction of the Unit and the remainder will be applied to the outstanding principal balance of the Development Loan. "Net Settlement Proceeds" means the gross sales price of the Lot less customary and usual settlement charges and real estate commissions approved by the Beneficiary, without payment of any sums to the Grantor or any affiliated person or entity of the Grantor;
- (b) With respect to any Lot and completed Unit thereon in Phase II, payment of a Release Payment for each Lot and Unit to be released equal to the greater of:
- (i) \$122,500 per Unit plus one hundred percent (100%) of the total hard and soft costs advanced from the Construction Loan for Construction of the Unit, or
 - (ii) one hundred percent (100%) of the Net Settlement Proceeds, or
 - (iii) ninety percent (90%) of the sales price under the sales contract being settled.
- The Release Payment will be applied by the Lender first to the costs advanced from the Construction Loan for Construction of the Unit and the remainder will be applied to the outstanding principal balance under the Development Loan;
- (c) No Event of Default shall then exist and be continuing;
- (d) The Grantor pays all fees, costs, charges and expenses (including without limitation reasonable attorneys' fees) relating to the preparation, execution and recordation of any document required in connection with any such partial release; and
- (e) The Grantor pays a fee in the amount of One Hundred and No/100 Dollars (\$100.00) for processing the request for release ("Processing Fee"); provided, however, that the Processing Fee will be waived in the event the purchaser under the sales contract acquires the Lot and/or Unit using EagleBank as its mortgage lender for the purchase money of the Lot and/or Unit.

Notwithstanding the foregoing, no release price shall be payable for the release of streets or roadways, or storm water maintenance or other public facilities, that are to be dedicated to the District of Columbia for public maintenance, provided the same are in accordance with a site plan that shall have been approved by the Beneficiary."

3.9 Intercreditor Agreement. It is understood that, contemporaneously herewith, the Borrower has borrowed Three Million and No/100 Dollars (\$3,000,000.00) (the "Subordinate Loan") from Rosalie K. Stahl Trust ("Subordinated Lender"). As a condition of closing the Loan, Subordinated Lender shall enter into a Subordination and Standstill Agreement with the Lender, in form and substance satisfactory to the Lender in all respects, pursuant to which Subordinated Lender shall subordinate all of its rights in and to the Subordinate Loan to the Lender's rights, remedies and security under the Loan Documents.

3.10 Environmental Matters. It is understood that the Property contains fill material at varying depths, the source of which is unknown, as the same is described in that certain Phase II Environmental Evaluation (the "Phase II Report") dated July 16, 2012 prepared by Geo-Technology Associates, Inc. (the "Phase II Engineer"). The Borrower shall comply with all recommendations contained in the Phase II Report and any supplemental recommendations of the Phase II Engineer or of any environmental engineer retained by the Lender with respect to testing, placement and/or removal of fill material from the Property. The Lender shall have the right to retain environmental engineers and/or consultants from time to time for purposes of testing and recommendations with respect to the fill material and its placement and/or removal and disposal off-site, and the Borrower shall comply with any additional recommendations or requirements with respect thereto ("Additional Recommendations"). The Borrower shall keep appropriate records of the means and location of disposal of the fill material. It will be a condition of disbursements of the Development Loan that the Phase II Engineer and any other environmental engineer and/or consultant certify to the Lender that the Borrower has complied with the recommendations contained in the Phase II Report and any such other Additional Recommendations.

3.11 Home Owners Association. In the event the Borrower intends to establish a home owners association for either or both of Phase I and/or Phase II, the organizational and governing documents, and all rules and regulations related thereto, shall be subject to the Lender's prior written approval.

SECTION FOUR PAYMENTS, COMPUTATIONS, FEES, CHARGES AND PROTECTIVE ADVANCES

4.1 Payments. All payments due with respect to this Agreement or the Loans shall be made in immediately available funds to the Lender at such place as designated by the Lender from time to time. The Lender is authorized, but shall be under no obligation, to charge any deposit account maintained by the Borrower with the Lender or any affiliate of the Lender for any payments due to the Lender with respect to this Agreement or the Loans. Payments shall be applied, at Lender's sole discretion: (i) first, to payment of accrued and unpaid interest, if any; (ii) second, to payment of any principal then due, if any; (iii) third, to late charges, if any; (iv) fourth, to reasonable attorneys' fees and costs of collection; and (v) fifth, to reduce the outstanding principal balance of the Note until such principal shall have been fully repaid. All payments hereunder shall be made without offset, demand counterclaim, deduction, abatement, defense, or recoupment, each of which the Borrower hereby waives.

4.2 Late Charges. If any payment due under either of the Notes is not made within ten (10) days of its due date, the Borrower shall pay to the Lender upon demand (which may be in the form of the usual monthly billing or invoice) a late charge equal to five percent (5%) of the amount of such payment.

4.3 Default Rate. After an Event of Default (hereinafter defined), the interest which accrues on the Notes shall be increased to the Default Rate (as defined in the Notes).

4.4 Computations. Interest and fees on the Loans shall be computed on the basis of a year of three hundred sixty (360) days and actual days elapsed.

4.5 Prepayment. The Borrower may prepay either or both of the Notes in whole or in part without premium or penalty at any time upon ten (10) days prior written notice to the Lender. Partial prepayments shall be applied to installments of principal in their inverse order of maturity, if applicable. Amounts prepaid under the Notes may be re-borrowed in accordance with the terms and conditions of this Agreement.

4.6 Indebtedness. As used in this Agreement, the term "Indebtedness" means all present and future indebtedness of the Borrower to the Lender arising out of or in connection with the Notes or any of the other Loan Documents.

SECTION FIVE
CONDITIONS

5.1 Conditions Precedent to Closing. In addition to any other conditions stated in this Agreement, the following conditions must be satisfied prior to Lender closing on the Loan.

(a) Loan Documents. Receipt by Lender of appropriately completed and duly executed originals of this Agreement, the Notes, the Guaranty, the Deed of Trust, the Leases Assignment, the Account Assignment, the Contracts Assignment, the Documents Assignment, the Consents, the Environmental Indemnity and UCC-1 Financing Statements, all as Lender may require (collectively, together with any other documents executed and delivered in connection with the Indebtedness, the "Loan Documents").

(b) Organizational Documents. The Borrower and each entity comprising the Borrower shall supply to the Lender: (i) a currently certified copy of its Articles of Organization and all amendments thereto; (ii) evidence satisfactory to the Lender and its counsel that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its businesses or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party; and (iv) certified copies of its Operating Agreement and all amendments thereto. The Articles of Organization and the Operating Agreement of Borrower and each entity comprising the Borrower shall not be amended, changed or modified in any respect without prior written consent of the Lender. In addition, the Guarantor shall supply, to the extent it has not previously done so in any prior transaction with the Lender: (i) a currently certified copy of its Articles of Incorporation and all amendments thereto; (ii) evidence satisfactory to Lender and its counsel that it is in good standing in the jurisdiction where organized and qualified to do business in every jurisdiction in which the nature of its businesses or its properties makes such qualification necessary; (iii) resolutions authorizing the due execution and delivery of the Loan Documents to which it is a party and a certificate of incumbency; and (iv) certified copies of its By-Laws and all amendments thereto. The Articles of Incorporation and the Bylaws of the Guarantor shall not be amended, changed or modified in any respect without the prior written consent of the Lender; provided, however, that on the condition that the Lender is given thirty (30) days advance written notice, the Lender hereby consents to the Guarantor's change in corporate domicile from Delaware to Virginia and all amendments to its organizational documents as are reasonably required to effect such change in domicile subsequent to the closing of the Loan; provided further that UCC-1 financing statements shall be filed in the changed domicile at the cost and expense of the Borrower.

(c) Opinion. Receipt by the Lender of the opinion(s) of the counsel for Borrower and the Guarantor, in form and content satisfactory to the Lender, in its sole, but reasonable, discretion.

(d) Insurance. Receipt by the Lender of certificate(s) of insurance to evidence a fully paid policy or policies of comprehensive public liability insurance naming Lender as an additional insured thereunder in an amount not less than Two Million and No/100 Dollars (\$2,000,000.00) in the aggregate with not less than One Million and No/100 Dollars (\$1,000,000.00) per occurrence; in any event, the amount of all insurance shall be sufficient to prevent any co-insurance contribution on any loss, with each policy providing for a thirty (30) day prior written notice of cancellation, amendment or alteration.

(e) Operating Account. The Borrower shall have established its primary operating account with the Lender.

(f) Financing Statements. The financing statements necessary to perfect the Lender's security interest in the personal property subject to the Deed of Trust, and in any other collateral requiring the filing of a financing statement for perfection of a lien thereon, shall be duly filed in all appropriate offices and

jurisdictions, all other financing statements covering any of such personal property shall be terminated or the Lender shall be reasonably satisfied that such terminations are forthcoming, and filing and recording receipts evidencing such filings and terminations shall be delivered to Lender, all in form and substance satisfactory to the Lender.

(g) Property Documents. The Lender shall have received and approved in its sole discretion, the following:

(1) Appraisals. An appraisal of the Property, prepared by an appraiser acceptable to the Lender, in form and content acceptable to the Lender, conforming to all regulatory and internal appraisal guidelines applicable to or established by the Lender, in its sole, absolute, nonreviewable discretion, reflecting a “when developed” discounted value satisfactory to the Lender (the “Appraisal”);

(2) Title Insurance. A commitment for title insurance (the “Title Commitment”) insuring the first priority lien of the Deed of Trust in the aggregate amount of the Notes, containing no exceptions unacceptable to the Lender, issued in the name of the Lender by a title company acceptable to the Lender and in an amount equal to the aggregate principal amount of the Notes. The Title Commitment and the title policy issued pursuant thereto (the “Title Policy”) shall reflect that all requirements for issuance of the Title Policy have been satisfied, and shall contain such other endorsements or coverages as the Lender may require.

(3) Survey. A current survey and legal description of the Property satisfactory to the Lender from a registered land surveyor of the District of Columbia, which survey shall show all easements, rights of way and other matters of record, shall locate all existing improvements on the Property, shall contain metes and bounds descriptions of each applicable constituent portion of the Property acceptable to the Lender and its counsel, shall generally show a state of facts acceptable to the Lender, and shall contain a surveyor’s certificate satisfactory to the Lender.

(4) Subdivision Plat. Recordation of a subdivision plat which plat shall have been approved by the Lender and its construction consultant. The Lender acknowledges that it has received and approved the Subdivision Plat that has been recorded to create 29 subdivided Single Family Lots in both Phases that have frontage on a public street, which Subdivision Plat has been recorded on June 25, 2012 in Book 206 at page 117 among the records of the Office of the Surveyor for the District of Columbia (the “Subdivision Plat”). The Lender’s approval of the Subdivision Plat is only for purposes of the Development Loan, subject to all of the other terms and conditions for advances under the Development Loan for each of the Phases, and does not constitute an approval for purposes of advances under the Construction Loan, the requirements for which are set forth in Section 5.4 below.

(5) Environmental Audit. See Section 3.10 hereinabove.

(6) Flood Hazard. Evidence that no part of the Property is located in a special flood hazard area.

(7) Public Utilities. Evidence to the effect that sanitary sewer, water, electric, gas, telephone and other public utilities are available and adequate to serve the Property.

(8) Licenses and Permits. Copies of all licenses and permits in connection with the Property, including without limitation licenses, permits, proffers and other conditions to final subdivision and site plan approval for Phase I and thereafter copies of all such items by the applicable required date for Phase II.

(9) Consultant's Review. Satisfactory review and analysis by the Lender's construction consultant of the Development and Construction plans, documents and budgets.

(10) PUD Order. Receipt and satisfactory review and analysis by the Lender and its counsel of the Planned Unit Development Order constituting approval of development of the Property and evidence that the Order remains in full force and effect.

(11) Zoning. Receipt by the Lender of a zoning endorsement to the Title Policy acceptable to the Lender or such other written evidence as is acceptable to the Lender that the Property is zoned consistent with the uses contemplated beyond any possibility of appeal and can be developed as proposed as a matter of right, and to the effect, further, that there are no pending proceedings, either administrative, legislative or judicial, which would in any manner adversely affect the status of the zoning with respect to the Property or any part thereof.

(12) Genderson Agreement. Receipt and satisfactory review and analysis by the Lender of the agreement between the Borrower and/or the Guarantor and/or 6000 New Hampshire Avenue, LLC and Richard Genderson, with respect to any impact that agreement has on development of the Property.

(13) Marketing Report. Receipt and satisfactory review and analysis by the Lender of a marketing report prepared by Noell Consulting.

(h) No Default. No event shall have occurred and be continuing that constitutes an Event of Default (as defined below).

(i) Representations. All representations and warranties contained in this Agreement shall be true and correct in every material respect as of the date of closing of the Loans.

(j) Satisfactory Documents. All documents delivered pursuant to this Agreement must be in form and substance satisfactory to the Lender and its counsel and all legal matters incident to this Agreement must be satisfactory to Lender's counsel.

(k) Identification. As required by federal regulation, closing the Loans is contingent upon satisfactory verification of identity of the signatories and verification that none of the Borrower or the Guarantor or any signers is restricted from conducting business in the United States.

5.2 Conditions Precedent to Advances of Development Loan. Except for the initial advance at the closing of the Loans of up to Four Hundred Thousand and No/100 Dollars (\$400,000.00) for closing costs in accordance with the Development Budget (hereinafter defined) as approved by the Lender, in addition to any other conditions stated in this Agreement, the following conditions related to the Development must be satisfied prior to any disbursements under the Development Loan and all of the following matters shall have been approved by the Lender.

(a) Permits. Copies of any and all building and similar permits required in connection with the Development, together with such evidence as the Lender may require to the effect that all fees for such permits have been paid. Satisfactory evidence shall be submitted to the Lender that all governmental approvals necessary

for the Development have been obtained. The Lender shall also receive satisfactory evidence that all applicable safety, ecological and environmental laws and any other codes or regulations affecting the Development and/or proposed use of the Property have been complied with.

(b) Plans and Specifications. Two (2) sets of complete copies of the final Plans and Specifications of the Development, which Plans and Specifications shall be satisfactory to the Lender in all respects. The Lender's review of the Plans and Specifications is solely for the benefit of the Lender, and the Lender's approval thereof shall not be deemed in any respect to be a representation or warranty, expressed or implied, that the Development will be sound, have a value of any particular magnitude or otherwise satisfy a particular standard. Prior to any advances for hard costs, the Borrower shall furnish the Lender with copies of the District-approved stamped Plans, together with such evidence as the Lender may require to the effect that such Plans and Specifications have been approved by all governmental and quasi-governmental authorities having or claiming jurisdiction, and together with a final Development Budget which must be satisfactory to the Lender in its discretion.

(c) Trade Payment Breakdown. A breakdown of total development costs, which shall include a draw schedule (the "Development Budget") containing reasonable details of amounts anticipated to be payable for each category of work to be performed and materials to be supplied in connection with the Development, and a projected schedule for the progress of the Development in each Phase, all in such form and containing such details as the Lender shall require. Any change orders shall be subject to the Lender's prior approval. No hard costs shall be advanced under the Development Loan until such time as the Development Budget has been approved by the Lender in its sole discretion. The Borrower may, from time to time, request reallocation of amounts in the Development Budget based upon such reasonable supporting documentation justifying such reallocation as may be approved by the Lender; any such reallocation shall be subject to the Lender's approval in its sole discretion.

(d) Development Schedule. A projected Schedule ("Development Schedule") for the progress of the Development of each Phase and a projection of cash flow for the project, each in such form and containing such details as the Lender shall require. The Borrower shall be required to diligently pursue and proceed with the Development in accordance with the Development Schedule to completion. Development of Phase I must be complete within one (1) year of closing on the Development Loan. Development of Phase II may commence at such time as (i) the subdivision plat for Phase II, which shall have been approved by the Lender and its Development consultant, has been duly recorded, and (ii) the Borrower has completed Construction of and sold and closed on thirty-seven (37) Units in Phase I and the Release Payment for such thirty-seven (37) Units has been paid to the Lender (the "Phase II Development Start Date"); provided, however, that the Phase II Development Start Date shall not occur later than December 31, 2013. Development of Phase II must be complete within one (1) year of the Phase II Development Start Date. The Development Schedule shall support completion of each Phase of Development in accordance with the foregoing. Failure of the Borrower to meet the requirements of the Development Schedule for completion of Development of Phase I and Phase II, respectively, shall constitute an Event of Default under this Agreement.

(e) Subdivision Plats. Prior to advances of the Development Loan for Development of either Phase I or Phase II, a subdivision plat, which shall have been approved by the Lender, for such Phase shall have been duly recorded.

(f) General Contractor. All contracts for Development of each Phase shall be subject to the Lender's approval. Each Development contract shall be assigned to the Lender effective on a default under any of the Loan Documents. Each Development contractor shall consent to such assignment and agree, in the event of any

such default, to continue performance of the contract for the Lender, if the Lender so requests. The Guarantor is hereby approved as the general contractor for Development. Prior to any advances for Development costs, the Borrower shall furnish the Lender with a copy of the contractor's license for that portion of the Development. The Borrower shall also furnish the Lender with copies of licenses for all major subcontractors.

(g) Architect's and Engineer's Certificate. The architect and the engineer for the Development shall be subject to the Lender's approval. In addition, the contracts with the architect and the engineer shall be subject to the Lender's approval. A certificate from the architect and/or project engineer will be required to the effect that the Development, if completed in accordance with the Plans and Specifications, will comply with all federal, state, District and local laws, statutes, ordinances, codes, regulations, rules or other laws applicable to the Development of the applicable Phase ("Applicable Laws"). Prior to any advances for Development costs, the Borrower shall furnish the Lender with a copy of the engineer's license and the architect's license.

(h) Lender's Development Consultant. The Plans and Specifications, Development Budget, Development Schedule and any and all other Development documents requested by the Lender and/or its Development consultant (the "Lender's Inspector"), shall be subject to approval by the Lender and the Lender's Inspector. All draw requests shall be submitted to the Lender and the Lender's Inspector for review and approval. The Borrower shall be responsible for payment of all of the Lender's Inspector's fees.

5.3 Provisions Governing Disbursements of Development Loan. Disbursements of the Development Loan shall be governed by the following provisions:

(a) The Development shall be performed by the Borrower in strict accordance with all applicable (whether present or future) laws, ordinances, codes, rules, regulations, requirements and orders of any governmental or regulatory authority having or claiming jurisdiction. The Development shall be in strict accordance with all applicable use or other restrictions and the provisions of any prior declarations, covenants, conditions, restrictions and zoning ordinances and regulations.

(b) The Borrower shall have submitted to the Lender and the Lender's Inspector such information as may be requested by the Lender or the Lender's Inspector to verify the Development costs which are to be incurred in connection with the Development. The Lender shall not be obligated to authorize disbursement of Development Loan proceeds with respect to the Development for an amount in excess of the Development costs to be incurred in connection therewith as verified by the Lender or the Lender's Inspector pursuant to the provisions of the preceding sentence. The funding of each draw request is subject to an inspection and approval by the Lender's Inspector.

(c) The Development Loan proceeds will be advanced in installments as the Development progresses in accordance with the terms of this Agreement to finance the Development in accordance with the Plans and Specifications, but no more often than once monthly, provided that the Lender is satisfied that the amounts available under the Development Loan will be sufficient to complete the work and pay or provide for all reasonably anticipated Development costs through the required Development completion date under the Development Schedule. In the event the Lender determines that the amounts available under the Development Loan, together with any additional cash provided by the Borrower to the Lender, if any, is insufficient to complete the Development in such manner as the Lender may require, the Borrower shall provide such funds necessary to complete the Development. Except for advances for materials and supplies to be delivered to the Property, as to which no retainage will be required, advances of the Development Loan shall be subject to withholding of retainage in the amount of ten percent (10%) of direct Development costs approved by the Lender or the Lender's Inspector, and at the Lender's discretion of labor and materials brought into the Development and eligible for payment on a trade payable basis.

(d) Advances of the Development Loan shall be conditioned upon the Lender's receipt of (i) written certification by parties approved by the Lender that the work which is the basis of the requested advance was completed in accordance with the approved Plans and Specifications and within the cost estimates approved by the Lender (or such adjustments of cost estimates of line items as shall be required and approved by the Lender, provided that sufficient funds to complete the Development will be available under such adjusted estimates), to the satisfaction of the Lender, and (ii) evidence that at that time all necessary certificates required to be obtained from any board, agency or department (government or otherwise) have been obtained, and (iii) written certification by the Phase II Engineer and any other environmental engineer or consultant retained by the Lender that the work which is the basis of the requested advance has been performed in compliance with the recommendations in the Phase II Report and any Additional Recommendations. All documents required to be submitted to the Lender as a condition of each disbursement shall be on standard AIA forms and shall be furnished to the Lender at the Lender's address set forth in this Agreement. The Lender shall have at least ten (10) business days after receipt of the foregoing documentation prior to funding an approved advance.

(e) The Lender shall have received a notice of title continuation or an endorsement to the title insurance policy with respect to the Property theretofore delivered to the Lender, showing that since the last preceding advance, there has been no change in the status of title and no other exception not theretofore approved by the Lender, which endorsement shall have the effect of advancing the effective date of the policy to the date of the advance then being made and increasing the coverage of the policy by an amount equal to the advance then being made, if the policy does not by its terms provide automatically for such an increase.

(f) Before making the first advance of Development Loan Proceeds, the Borrower shall have provided to the Lender satisfactory documentary evidence that (i) the general contractor has obtained a Basic Business License from the District of Columbia and such license is in effect, and (ii) the landfill facility at Lorton, Virginia or another appropriate facility has agreed to accept for disposal all of the fill material identified in the Phase II Report as recommended to be disposed of off-site.

(g) Before making the first advance of Development Loan Proceeds for Development of Phase II, the Borrower shall have acquired fee simple title to the following (the "Exchange Parcels": (i) the triangular parcel between lots 38 and 42 that would complete lot 42 as a rectangle, and (ii) the triangular parcel between lots 23 and 45 that would complete lot 45 as a rectangle, as the Exchange Parcels are shown on that certain ALTA/ACSM Land Title Survey of the Property prepared by Dewberry (the "Dewberry Survey"). The Borrower shall provide the Lender with thirty (30) days advance notice of its closing on the acquisition of the Exchange Parcels. In connection with such closing, the Borrower shall execute and deliver such instruments of modification to this Agreement and the Loan Documents as the Lender may require in order to spread the Lender's liens and security interests to include the Exchange Parcels, a revised survey shall be delivered to the Lender, and the Lender's loan policy of title insurance shall be endorsed to include the Exchange Parcels. All provisions of the loan documents, including without limitation the Environmental Indemnity and all insurance requirements, shall apply to the Exchange Parcels immediately upon their acquisition by the Borrower.

(h) Before making any advance of Development Loan proceeds, the Lender may require the Borrower to obtain from any contractor or materialmen it may engage in connection with the Development, acknowledgements of payment and releases of liens and rights to claim liens, if applicable, down to the date of the last preceding advance and concurrently with the final advance. All such acknowledgements and releases shall be in form and substance satisfactory to the Lender.

(i) The Lender shall not be obligated to make the final advance of Development Loan proceeds hereunder with respect to each Phase, which shall include the retainage described above, unless (i) the Lender's Inspector has certified to the Lender on standard AIA forms that the work is complete; (ii) the Lender has received evidence satisfactory to it that all work requiring inspection by governmental or regulatory authorities having or claiming jurisdiction has been duly inspected and approved by such authorities and by any rating or inspection organization, bureau, association, or office having or claiming jurisdiction; (iii) that completion of the Development for the applicable Phase has occurred free and clear of all mechanics' or materialmen's liens and any bills or claims for labor, materials and services in connection with the completion of the Development; and (iv) certificates from the Borrower's architect, engineer and/or contractor, and, if required, from the Lender's Inspector, certifying that the Development for the Phase has been completed in accordance with, and as completed comply with, the Plans and Specifications and all laws and governmental requirements. All fees and costs of the Lender's Inspector shall be paid by the Borrower.

(j) The Lender shall not be obligated to make any advances of Development Loan proceeds hereunder unless, in the reasonable judgment of the Lender, all work completed at the time of the application for advance has been performed in a good and workmanlike manner, and all materials and fixtures usually furnished and installed at that stage of the development have been furnished and installed, and no default which has not been cured has occurred under this Agreement or any of the documents evidencing, securing or guaranteeing the Development Loan.

5.4 Conditions Precedent to Advances of Construction Loan. In addition to any other conditions stated in this Agreement, the following conditions related to Construction of Units must be satisfied prior to any disbursements under the Construction Loan and all of the following matters shall have been approved by the Lender.

(a) Permits. Copies of any and all building and similar permits required in connection with the Construction for each Single Family Lot or Townhouse Lot upon which a Unit is to be constructed, together with such evidence as the Lender may require to the effect that all fees for such permits have been paid. Satisfactory evidence shall be submitted to the Lender that all governmental approvals necessary for the Construction have been obtained. The Lender shall also receive satisfactory evidence that all applicable safety, ecological and environmental laws and any other codes or regulations affecting the Construction and/or proposed use of the Property have been complied with.

(b) Division of Lots. With respect to any interior lots that do not have frontage on a public street and accordingly are not eligible for subdivision into record lots pursuant to applicable subdivision laws and regulations of the District of Columbia, division of those lots into separate tax lots in accordance with the requirements of the D.C. Office of Tax and Revenue ("OTR") pursuant to an Application for Division of Lots based upon metes and bounds descriptions. Prior to any advance under the Construction Loan for any Unit that is not a record lot under the Subdivision Plat, the Borrower shall have satisfied all applicable legal requirements to create such lot as an individual lot that may lawfully be separately conveyed.

(c) Plans and Specifications. Two (2) sets of complete copies of the final Plans and Specifications for the Construction, which Plans and Specifications shall be satisfactory to the Lender in all respects. The Lender's review of the Plans and Specifications is solely for the benefit of the Lender, and the Lender's approval thereof shall not be deemed in any respect to be a representation or warranty, expressed or implied, that the Construction will be sound, have a value of any particular magnitude or otherwise satisfy a particular standard. Prior to any advances for hard costs, the Borrower shall furnish the Lender with copies of the District-approved stamped Plans, together with such evidence as the Lender may require to the effect that such Plans and Specifications have been approved by all governmental and quasi-governmental authorities having or claiming jurisdiction, and together with a final Construction Budget which must be satisfactory to the Lender in its discretion.

(d) Trade Payment Breakdown. A breakdown of total development costs, which shall include a draw schedule (the "Construction Budget") containing reasonable details of amounts anticipated to be payable for each category of work to be performed and materials to be supplied in connection with the Construction, and a projected schedule for the progress of the Construction in each Phase, all in such form and containing such details as the Lender shall require. The parties shall have agreed on the Unit Costs Budget and have attached the approved Unit Costs Budget to this Agreement as Exhibit B. Any change orders shall be subject to the Lender's prior approval. No hard costs shall be advanced under the Construction Loan until such time as the Construction Budget has been approved by the Lender in its sole discretion. The Borrower may, from time to time, request reallocation of amounts in the Construction Budget based upon such reasonable supporting documentation justifying such reallocation as may be approved by the Lender; any such reallocation shall be subject to the Lender's approval in its sole discretion.

(e) Construction Schedule. A projected Schedule ("Construction Schedule") for the progress of Construction of Units in each Phase and a projection of cash flow for each Phase, each in such form and containing such details as the Lender shall require. The Borrower shall be required to diligently pursue and proceed with Construction of Units in accordance with the Construction Schedule to completion. No more than twelve (12) Townhouse Units and six (6) Single Family Units may be under Construction at any one time. Any Unit as to which Construction has commenced within the Loan term must be completed prior to Maturity, and commence of construction of any Units within four (4) months prior to Maturity shall be prohibited. The Construction Schedule shall be consistent with the foregoing. Failure of the Borrower to meet the requirements of the Construction Schedule shall constitute an Event of Default under this Agreement.

(f) General Contractor. All contracts for Construction of Units shall be subject to the Lender's approval. The Construction contract shall be assigned to the Lender effective on a default under any of the Loan Documents. The general contractor shall consent to such assignment and agree, in the event of any such default, to continue performance of the contract for the Lender, if the Lender so requests. Comstock Homes of Washington, L.C., an affiliate of the Guarantor, is hereby approved as the general contractor for Construction of Units. Prior to any advances for Construction costs for any Unit, the Borrower shall furnish the Lender with a copy of the contractor's license for that portion of the Construction. The Borrower shall also furnish the Lender with copies of licenses for all major subcontractors.

(g) Architect's and Engineer's Certificate. The architect and the engineer for the Construction shall be subject to the Lender's approval. In addition, the contracts with the architect and the engineer shall be subject to the Lender's approval. A certificate from the architect and/or project engineer will be required to the effect that the Construction of the Units being built, if completed in accordance with the Plans and Specifications, will comply with all federal, state, District and local laws, statutes, ordinances, codes, regulations, rules or other laws applicable to the Construction of the applicable Unit ("Applicable Laws"). Prior to any advances for Construction costs, the Borrower shall furnish the Lender with a copy of the engineer's license and the architect's license.

(h) Lender's Construction Consultant. The Plans and Specifications, Construction Budget, Construction Schedule and any and all other Construction documents requested by the Lender and/or its Construction consultant (the "Lender's Inspector"), shall be subject to approval by the Lender and the Lender's Inspector. All draw requests shall be submitted to the Lender and the Lender's Inspector for review and approval. The Borrower shall be responsible for payment of all of the Lender's Inspector's fees.

5.5 Provisions Governing Disbursements of Construction Loan. Disbursements of the Construction Loan shall be governed by the following provisions:

(a) The Construction of all Units shall be performed by the Borrower in strict accordance with all applicable (whether present or future) laws, ordinances, codes, rules, regulations, requirements and orders of any governmental or regulatory authority having or claiming jurisdiction. Construction of Units shall be completed in a manner so as not to encroach upon any easement or right-of-way, or upon the land of others. Construction of each Unit shall be wholly within all applicable building restriction lines and set-backs, however established, and shall be in strict accordance with all applicable use or other restrictions and the provisions of any prior declarations, covenants, conditions, restrictions and zoning ordinances and regulations.

(b) The Borrower shall have submitted to the Lender and the Lender's Inspector such information as may be requested by the Lender or the Lender's Inspector to verify the Construction costs which are to be incurred in connection with Construction. The Lender shall not be obligated to authorize disbursement of Construction Loan proceeds with respect to Construction of any Unit for an amount in excess of the Construction costs to be incurred in connection therewith as verified by the Lender or the Lender's Inspector pursuant to the provisions of the preceding sentence. The funding of each draw request is subject to an inspection and approval by the Lender's Inspector.

(c) The Construction Loan proceeds will be advanced in installments as the Construction progresses in accordance with the terms of this Agreement to finance the Construction of Units in accordance with the Plans and Specifications, but no more often than once monthly, provided that the Lender is satisfied that the amounts available under the Construction Loan will be sufficient to complete the work and pay or provide for all reasonably anticipated Construction costs through the required Construction completion date under the Construction Schedule. In the event the Lender determines that the amounts available under the Construction Loan, together with any additional cash provided by the Borrower to the Lender, if any, is insufficient to complete the Construction in such manner as the Lender may require, the Borrower shall provide such funds necessary to complete Construction. Advances shall be subject to withholding of retainage in the amount of ten percent (10%) of direct Construction costs approved by the Lender or the Lender's Inspector, and at the Lender's discretion of labor and materials brought into the Construction site and eligible for payment on a trade payable basis.

(d) Each advance shall be conditioned upon the Lender's receipt of (i) written certification by parties approved by the Lender that the work which is the basis of the requested advance was completed in accordance with the approved Plans and Specifications and within the cost estimates approved by the Lender (or such adjustments of cost estimates of line items as shall be required and approved by the Lender, provided that sufficient funds to complete the Construction will be available under such adjusted estimates), to the satisfaction of the Lender, and (ii) that at that time all necessary certificates required to be obtained from any board, agency or department (government or otherwise) have been obtained. All documents required to be submitted to the Lender as a condition of each disbursement shall be on standard AIA forms and shall be furnished to the Lender at the Lender's address set forth in this Agreement. The Lender shall have at least ten (10) business days after receipt of the foregoing documentation prior to funding an approved advance.

(e) With respect to Townhouse Lots, at such time as the footings for the foundation of each "Stick" (hereinafter defined) have been installed, the Lender shall have received a "wall check" or "foundation" survey of that stick that meets the Lender's survey requirements and that shows that (i) all new construction is

within the boundary lines of the applicable Townhouse Lot and is in compliance with all applicable setback, location and area requirements of all applicable governmental approvals, and (ii) there is no change in condition which could adversely affect the applicable Unit. For purposes of this Agreement, a "Stick" means a building containing contiguous Townhouse Units constructed on a single, shared foundation.

(f) With respect to Single Family Lots, at such time as the footings for the foundation of the Unit have been installed, the Lender shall have received a "wall check" or "foundation" survey of that Unit that meets the Lender's survey requirements and that shows that (i) all new construction is within the boundary lines of the applicable Single Family Lot and is in compliance with all applicable setback, location and area requirements of all applicable governmental approvals, and (ii) there is no change in condition which could adversely affect the applicable Unit.

(g) The Lender shall have received a notice of title continuation or an endorsement to the title insurance policy with respect to the Property theretofore delivered to the Lender, showing that since the last preceding advance, there has been no change in the status of title and no other exception not theretofore approved by the Lender, which endorsement shall have the effect of advancing the effective date of the policy to the date of the advance then being made and increasing the coverage of the policy by an amount equal to the advance then being made, if the policy does not by its terms provide automatically for such an increase.

(h) Before making any advance of Construction Loan proceeds, the Lender may require the Borrower to obtain from any contractor or materialmen it may engage in connection with the Construction of any Unit, acknowledgements of payment and releases of liens and rights to claim liens, if applicable, down to the date of the last preceding advance and concurrently with the final advance. All such acknowledgements and releases shall be in form and substance satisfactory to the Lender.

(i) No advances will be made for building materials or furnishings that have not yet been incorporated into the Unit(s) ("Stored Materials") unless (a) the Borrower has good title to the Stored Materials and has furnished satisfactory evidence of such title to the Lender, (b) the Stored Materials are components in a form ready for incorporation into the applicable Unit(s) and will be so incorporated within a period of forty-five (45) days from the date of the advance for the Stored Materials, (c) the Stored Materials are in the Borrower's possession and are satisfactorily stored on the Property or at such other location as the Lender may approve, in each case with adequate safeguards to prevent commingling with materials for other projects, (d) the Stored Materials are protected and insured against loss, theft and damage in a manner and amount satisfactory to the Lender and the Lender has received Certificates of Insurance reflecting Borrower as an additional insured and owner of the Stored Materials, (e) the Stored Materials have been paid for in full or will be paid for in full from the funds to be advanced, (f) the lender has or will have upon the payment for the Stored Materials from the advanced funds a perfected, first priority security interest in the Stored Materials, (g) all lien rights and claims of the supplier have been released or will be released upon payment with the advanced funds, and (h) following the advance for the Stored Materials, the aggregate amount of advances for Stored Materials that have not yet been incorporated into the Construction will not exceed Ten Thousand Dollars (\$10,000.00) per Unit that is then under Construction.

(j) The Lender shall not be obligated to make the final advance of Construction Loan proceeds hereunder with respect to any Unit, which shall include the retainage described above, unless (i) the Lender's Inspector has certified to the Lender on standard AIA forms that the work is complete (except for punch list items which the Lender may approve and for which Lender may retain 150% of the cost of correction) in accordance with the Plans and Specifications; (ii) the Lender has received evidence satisfactory to it that all work requiring inspection by governmental or regulatory authorities having or claiming jurisdiction has been duly

inspected and approved by such authorities and by any rating or inspection organization, bureau, association, or office having or claiming jurisdiction; (iii) that completion of Construction of the Unit has occurred free and clear of all mechanics' or materialmen's liens and any bills or claims for labor, materials and services; (iv) certificates from the Borrower's architect, engineer and/or contractor, and, if required, from the Lender's Inspector, certifying that Construction of the Unit has been completed in accordance with, and as completed comply with, the Plans and Specifications and all laws and governmental requirements; and (v) a certificate of occupancy or residential use permit shall have been validly issued by the District of Columbia to allow lawful residential occupancy of the completed Unit. All fees and costs of the Lender's Inspector shall be paid by the Borrower.

(k) The Lender shall not be obligated to make any advances of Construction Loan proceeds hereunder unless, in the reasonable judgment of the Lender, all work completed at the time of the application for advance has been performed in a good and workmanlike manner, and all materials and fixtures usually furnished and installed at that stage of the development have been furnished and installed, and no default which has not been cured has occurred under this Agreement or any of the documents evidencing, securing or guaranteeing the Construction Loan.

(l) During default after expiration of any applicable cure period hereunder, the Lender, at its option, may make any and all advances, or any part thereof, directly to the general contractor or subcontractors against requisitions for payment under the general contractor's contract or the respective contracts or subcontracts, as the case may be; the execution of this Agreement by the Borrower shall and does constitute an irrevocable direction and authorization to so advance funds, and such funds shall be added to the principal balance of the Construction Loan, shall bear interest as set forth in the Construction Loan Note and shall be secured by the Deed of Trust. All payments made pursuant to the foregoing shall be made within the scope of the respective contracts.

SECTION SIX REPRESENTATIONS AND WARRANTIES

In order to induce the Lender to extend credit to the Borrower, the Borrower and the Guarantor each make the following representations and warranties as to itself:

6.1 Organization. The Borrower and each entity comprising the Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia and is duly qualified as a foreign limited liability company and in good standing under the laws of each other jurisdiction in which such qualification is required. The Guarantor represents and warrants that it is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and is duly qualified as a foreign corporation and in good standing under the laws of each other jurisdiction in which such qualification is required.

6.2 Execution and Delivery. The Borrower and each entity comprising the Borrower has the power, and has taken all of the necessary actions, to execute and deliver and perform its obligations under the Loan Documents, and the Loan Documents, when executed and delivered, will be binding obligations of each such entity enforceable in accordance with their respective terms.

6.3 Power. Each of the Borrower and each entity comprising the Borrower has the power and authority to own its properties and to carry on its business as now being conducted.

6.4 Financial Statements. All financial statements and information delivered to the Lender are correct and complete in all material respects and present fairly the financial conditions, and reflect all known liabilities, contingent and otherwise, of the Borrower and the Guarantor as of the dates of such statements and information, and since such dates no material adverse change in the assets, liabilities, financial condition, business or operations of the Borrower or the Guarantor has occurred.

6.5 Taxes. All tax returns and reports of the Borrower and the Guarantor required by law to be filed have been duly filed, and all taxes, assessments, other governmental charges or levies (other than those presently payable without penalty or interest and those that are being contested in good faith in appropriate proceedings) upon the Borrower and/or the Guarantor and upon any of their respective properties, assets, income or franchises, that are due and payable have been paid.

6.6 Litigation. There is no action, suit or proceeding pending or, to the knowledge of the Borrower or the Guarantor, threatened against or affecting the Borrower or the Guarantor that, either in any case or in the aggregate, may result in any material adverse change in the business, properties or assets or in the condition, financial or otherwise, of the Borrower or the Guarantor, or that may result in any material liability on the part of the Borrower or the Guarantor that would materially and adversely affect the ability of the Borrower or the Guarantor to perform its and/or their obligations under the Loan Documents, or that questions the validity of any of the Loan Documents or any action taken or to be taken in connection with the Loan Documents.

6.7 No Breach. The execution and delivery of the Loan Documents, and compliance with the provisions of the Loan Documents, will not conflict with or violate any provisions of law or conflict with, result in a breach of, or constitute a default under, the organizational documents of the Borrower, or any judgment, order or decree binding on the Borrower, or any other agreements to which the Borrower is a party.

6.8 No Defaults. To the best of the Borrower's knowledge, the Borrower is not in default with respect to any debt, direct or indirect, upon or as to which the Borrower has any liability or obligation.

6.9 Compliance. The Borrower is in compliance in all material respects with all applicable laws and regulations, including, without limitation, the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

6.10 Approvals. No authorizations, approvals or consents of, and no filings and registrations with, any governmental or regulatory authority or agency, are necessary for the execution, delivery or performance of the Loan Documents by the Borrower.

6.11 Title to Assets. The Borrower has good and marketable title to all of its assets, subject only to the liens and security interests permitted by this Agreement.

6.12 Use of Proceeds. The proceeds of the Loans shall be used only for the purposes described in this Agreement. The proceeds of the Loans shall not be used to purchase or carry any margin stock, as such term is defined in Regulation U of the Board of Governors of the Federal Reserve System.

SECTION SEVEN COVENANTS OF BORROWER AND GUARANTOR

In consideration of credit extended or to be extended by the Lender, the Borrower covenants and agrees as follows:

7.1 Financial Information. The Borrower and the Guarantor shall each deliver to the Lender: (i) with respect to the Borrower, each year within ninety (90) days after the close of its fiscal year, financial statements prepared in accordance with standard accounting principles consistently applied, certified as true and correct by an officer of each such entity; (ii) with respect to the Guarantor, each year within ninety (90) days after the close of its fiscal year, audited financial statements; (iii) each year within thirty (30) days after filing, a copy of each such entity's federal income tax return and all schedules thereto, provided that in the event of such extension such entity shall provide the Lender with a copy of the federal income tax return and all schedules thereto within thirty (30) days of the filing of same with the Internal Revenue Services, and (iv) promptly upon the Lender's request, such

financial and other information as the Lender reasonably may require from time to time. All financial statements shall be in such reasonable detail and shall be accompanied by such certificates of the Borrower or the Guarantor, as applicable, as may reasonably be required by the Lender.

7.2 Taxes. All tax returns and reports of the Borrower required by law to be filed have been duly filed, and all taxes, assessments, other governmental charges or levies (other than those presently payable without penalty or interest and those that are being contested in good faith in appropriate proceedings) upon the Borrower and upon the Borrower's properties, assets, income or franchises, that are due and payable, have been paid.

7.3 Compliance with Laws. The Borrower shall comply with all applicable laws and regulations including, without limitation, ERISA.

7.4 Maintain Existence. The Borrower and each entity comprising the Borrower, and the Guarantor, shall maintain its existence in good standing, maintain and keep its properties in good condition (ordinary wear and tear excepted), maintain adequate insurance for all of its properties with financially sound and reputable insurers. The Borrower shall remain in the same line of business as it is on the date of this Agreement and shall not enter into any new lines of business without the prior written consent of the Lender.

7.5 Notices. As soon as it has actual knowledge, the Borrower shall notify the Lender of the institution or threat of any material litigation or condemnation or administrative proceeding of any nature involving the Borrower.

7.6 Books and Records. The Borrower shall maintain complete and accurate books of account and records. The principal books of account and records shall be kept and maintained at 1886 Metro Center Drive, 4th Floor, Reston, VA 10190. The Borrower shall not remove such books of account and records without giving the Lender at least thirty (30) days prior written notice. The Borrower, upon reasonable notice from the Lender, shall permit the Lender, or any officer, employee or agent designated by the Lender, to examine the books of account and records maintained by the Borrower, and agree that the Lender or such officer, employee or agent may audit and verify the books and records. The Borrower shall reimburse the Lender for any reasonable expenses incurred by the Lender in connection with any such audits. All accounting records and financial reports furnished to the Lender by the Borrower and the Guarantor pursuant to this Agreement shall be maintained and prepared in accordance with GAAP.

7.7 Liens. The Borrower shall not create, incur, assume or permit to exist any mortgage, deed of trust, assignment, pledge, lien, security interest, charge or encumbrance, including, without limitation, the right of a vendor or under a conditional sale contract or the lessor under a capitalized lease (collectively, ("Liens")) of any kind or nature in or upon any of the asset of the Borrower except:

- (a) Liens created or deposits made that are incidental to the conduct of the business of the Borrower, that are not incurred in connection with any borrowing or the obtaining of any credit and that do not and will not interfere with the use by the Borrower of any of its assets in the normal course of its business or materially impair the value of such assets for the purpose of such business; and
- (b) Liens securing the Indebtedness.

7.8 Debt. Except as provided above in Section 3.9, without the prior written consent of the Lender, the Borrower shall not incur or permit to exist any debt for borrowed funds, the deferred purchase price of goods or services or capitalized lease obligations, except for (a) trade debt incurred in the ordinary course of business, and (b) the Indebtedness.

7.9 Contingent Liabilities. Without the prior written consent of the Lender, neither the Borrower nor the Guarantor shall guarantee, endorse, become contingently liable upon or assume the obligation of any person, or permit any such contingent liability to exist, except by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

7.10 Sale of Assets. Without the prior written consent of the Lender, the Borrower shall not sell, lease, assign or otherwise dispose of any of its assets except for (a) sales in the ordinary course of business including sales of Lots and Units as approved by the Lender from time to time, (b) the disposition of assets that are no longer needed or useful in its business, and (c) assets which have been removed and replaced.

7.11 Mergers and Acquisitions. Without the prior written consent of the Lender, the Borrower shall not merge or consolidate with, or acquire all or substantially all of the assets, stock, partnership interests or other ownership interests of, any other person.

7.12 Loans and Advances. Without the prior written consent of the Lender, the Borrower shall not make any loan or advance to any affiliate, director, member, manager, officer or employee of the Borrower, or any other person, except for the creation of accounts receivable in the ordinary course of business on terms that are no less favorable than would apply in an arms-length transaction.

7.13 Subsidiaries and Joint Ventures. Without the prior written consent of the Lender, the Borrower shall not form any subsidiary, become a general or limited partner in any partnership or become a party to a joint venture. If the Lender grants its consent to the formation or acquisition of a subsidiary Borrower, such entity shall cause each subsidiary to perform and observe all of the covenants contained in this Agreement and the other Loan Documents.

7.14 Affiliates. Without the prior written consent of the Lender, the Borrower shall not engage in business with any of its affiliates except in the ordinary course of business and on terms that are no less favorable to the Borrower than would apply in an arm's length transaction.

7.15 Organization; Control and Management; Transfers. Until such time as the Loans are fully repaid, there shall be no Transfer (hereinafter defined) of any interest in the Borrower, nor any change in the Control (hereinafter defined) or management of either the Borrower or the Guarantor, nor any Transfer of the Property except for sales of Lots and Units in accordance with the terms of the Loan Documents, without the Lender's prior written consent. "Transfer" means any assignment, pledge, conveyance, sale, transfer, mortgage, encumbrance, grant of a security interest or other disposition, either directly or indirectly, in the aggregate of fifty percent (50%) or more of the beneficial ownership interests of an entity and the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ability to exercise voting power, by contract or otherwise. "Controlled by" and "controlling" shall have the respective correlative meanings thereto.

SECTION EIGHT DEFAULT AND REMEDIES

8.1 Default. Each of the following shall constitute an "Event of Default" under this Agreement:

(a) Failure to Pay. If: (i) the Borrower shall fail to pay any monthly payment required under either of the Notes ("Monthly Payments") when due thereunder or (ii) the Borrower shall fail to pay any amount (other than the Monthly Payments) as an when due under any of the Loan Documents;

(b) Failure to Give Notices. If the Borrower fails to give the Lender any notice required by Section 7.5 of this Agreement within thirty (30) days after it has actual knowledge of the event giving rise to the obligation to give such notice.

(c) Failure to Permit Inspections. If the Borrower refuses to permit the Lender to inspect its books and records in accordance with the provisions of Section 7.6 or failure to permit the Lender to inspect the Property upon reasonable advance notice.

(d) Failure to Observe Covenants. If the Borrower fails to perform or observe any term, covenant, warranty or agreement contained in this Agreement or in the other Loan Documents and such failure shall continue for a period of thirty (30) days after written notice of such failure has been given to the Borrower by the Lender; provided, however, if such default is not in the payment of any sum due to the Lender hereunder, or was not the subject of an Event of Default for which notice was previously provided, and provided the Borrower is diligently pursuing the cure of such default, then the Borrower shall have an additional sixty (60) days within which to cure such default prior to the Lender exercising any right or remedy available hereunder, or at law or in equity.

(e) Defaults Under Loan Documents. If an Event of Default shall occur under either of the Notes or any other Loan Document and shall not be cured within any applicable grace period.

(f) Breach of Representation. Discovery by the Lender that any representation or warranty made or deemed made by the Borrower in this Agreement or in any other Loan Document or in any statement or representation made in any certificate, report or opinion delivered pursuant to this Agreement or other Loan Document or in connection with any borrowing under this Agreement by the Borrower or the Guarantor or any member, manager, officer, agent, employee or director of the Borrower or the Guarantor, was materially untrue when made or deemed to be made.

(g) Voluntary Bankruptcy. If the Borrower or the Guarantor makes an assignment for the benefit of creditors, files a petition in bankruptcy, petitions or applies to any tribunal for any receiver or any trustee of the Borrower or the Guarantor or any substantial part of the property of the Borrower or the Guarantor, or commences any proceeding relating to the Borrower or the Guarantor under any reorganization, arrangement, composition, readjustment, liquidation or dissolution law or statute of any jurisdiction, whether in effect now or after this Agreement is executed.

(h) Involuntary Bankruptcy. If, within sixty (60) days after the filing of a bankruptcy petition or the commencement of any proceeding against the Borrower or the Guarantor seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, the proceeding shall not have been dismissed, or, if within sixty (60) days, after the appointment, without the consent or acquiescence of the Borrower or the Guarantor, of any trustee, receiver or liquidator of any Borrower or all or any substantial part of the properties of the Borrower or the Guarantor, the appointment shall not have been vacated.

(i) Cross Default. If, as a result of default, any present or future obligations of the Borrower or the Guarantor or any affiliate of the Borrower or the Guarantor to the Lender or any other creditor, whether due to acceleration provisions or otherwise therein, are declared to be due and payable prior to the expressed maturity of such obligations.

(j) Material Adverse Change. A material adverse change occurs in the financial or business condition of the Borrower or the Guarantor.

(k) Judgment. If a judgment, attachment, garnishment or other process is entered against the Borrower and is not vacated or bonded within sixty (60) days after entry (or such shorter period of time as necessary in order to avoid attachment or foreclosure), or if a judgment, attachment, garnishment or other process is entered

against the Guarantor that would materially affect the Guarantor's ability to perform its obligations under the Loan Documents, and such judgment, attachment, garnishment or other process is not vacated or bonded with in sixty (60) day after entry (or such shorter period of time as necessary in order to avoid attachment or foreclosure).

(l) Dissolution. The dissolution, liquidation or termination of existence of the Borrower or the Guarantor unless a substitute guarantor, satisfactory to the Lender in its sole and absolute discretion, assumes all liability under the Guaranty and Environmental Indemnity and executes any documents which the Lender may reasonably require to implement such substitution, within sixty (60) days after event of dissolution, liquidation or termination of existence.

(m) Change in Management/Control. A change in the management of or controlling interest in the Borrower or the Guarantor without the prior written consent of the Lender.

8.2 Remedies. Upon the occurrence of an Event of Default (a) the Lender, at its option, by written notice to the Borrower, may declare all Indebtedness to the Lender to be immediately due and payable, whether such Indebtedness was incurred prior to, contemporaneous with or subsequent to the date of this Agreement and whether represented in writing or otherwise, without presentment, demand, protest or further notice of any kind, and (b) the Lender may exercise all rights and remedies available to it under the Loan Documents and applicable law. The Borrower agrees to pay all costs and expenses incurred by the Lender in enforcing any obligation under this Agreement or the other Loan Documents, including, without limitation, attorneys' fees. No failure or delay by the Lender in exercising any power or right will operate as a waiver of such power or right, nor will any single or partial exercise of any power or right preclude any other future exercise of such power or right, or the exercise of any other power or right.

8.3 Borrower to Pay Fees and Charges. The Borrower shall pay all fees and charges incurred in the procuring, making and enforcement of the Loans, including without limitation the reasonable fees and disbursements of Lender's attorneys, charges for appraisals, the fee of Lender's inspector and construction consultant, fees and expenses relating to examination of title, title insurance premiums, surveys, and mortgage recording, documentary, transfer or other similar taxes and revenue stamps, loan extension fees, if any, and the Lender's fees for the Loans.

SECTION NINE GENERAL PROVISIONS

9.1 Defined Terms. Each accounting term used in this Agreement, not otherwise defined, shall have the meaning given to it under GAAP applied on a consistent basis. The term "person" shall mean any individual partnership, corporation, trust, joint venture, unincorporated association, governmental subdivision or agency or any entity of any nature. The term "subsidiary" means, with respect to any person, a corporation or other person of which shares of stock or other ownership interest having ordinary voting power to elect a majority of the board of directors or other managers of such corporation or person are at the time owned, or the management of which it otherwise controlled, directly or indirectly, through one or more intermediaries, by such person. The term "affiliate" means, with respect to any specified person, any other person that, directly or indirectly, controls or is controlled by, or is under common control with, such specified person. All meanings assigned to defined terms in this Agreement shall be applicable to the singular and plural forms of the terms defined.

9.2 Notices. All notices, requests, demands and other communication with respect hereto shall be in writing and shall be delivered by hand, prepaid by Federal Express (or a comparable overnight delivery service), or sent by the United States first-class mail, certified, postage prepaid, return receipt requested, to the parties at their respective addresses set forth as follows:

If to the Lender, to:

EAGLEBANK
7815 Woodmont Avenue
Bethesda, MD 20814
Attn: Douglas Vigen, Senior Vice President

With a copy to:

Friedlander Misler, PLLC
5335 Wisconsin Avenue, N.W., Suite 600
Washington, D.C. 20015
Attn: David Astrove, Esq.

If to the Borrower, to:

New Hampshire Ave. Ventures, LLC
c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th Floor
Reston, VA 20190
Attn: Christopher Clemente

With a copy to:

New Hampshire Ave. Ventures, LLC
c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th Floor
Reston, VA 20190
Attn: Jubal Thompson, Esq.

Any notice, request, demand or other communication delivered or sent in the manner aforesaid shall be deemed given or made (as the case may be) upon the earliest of (a) the date it is actually received, (b) on the business day after the day on which it is delivered by hand, (c) on the business day after the day on which it is properly delivered by Federal Express (or a comparable overnight delivery service), or (d) on the third (3rd) business day after the day on which it is deposited in the United States mail. Any party may change such party's address by notifying the other parties of the new address in any manner permitted by this Section.

9.3 Successors and Assigns. This Agreement will be binding upon and inure to the benefit of the Lender and the Borrower and their respective successors, assigns, personal representatives, executors and administrators, provided that the Borrower may not assign or transfer its rights under this Agreement.

9.4 Entire Agreement. Except for the other Loan Documents expressly referred to in this Agreement, this Agreement represents the entire agreement between the Lender and the Borrower, supersedes all prior commitments and may be modified only by an agreement in writing.

9.5 Survival. All agreements, covenants, representations and warranties made in this Agreement and all other provisions of this Agreement will survive the delivery of this Agreement and the other Loan Documents and the making of the advances under this Agreement and will remain in full force and effect until the obligations of the Borrower under this Agreement and the other Loan Documents are indefeasibly satisfied.

9.6 Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Maryland, without reference to conflict of laws principles.

9.7 Headings. Section headings are for convenience of reference only and shall not affect the interpretation of this Agreement.

9.8 Participations. The Lender shall have the right to sell all or any part of its rights under the Loan Documents, and the Borrower authorizes the Lender to disclose to any prospective participant in the Loan any and all financial and other information in the Lender's possession concerning the Borrower or the collateral for the Loans.

9.9 No Third Party Beneficiary. The parties do not intend the benefits of this Agreement or any other Loan Document to inure to any third party.

9.10 Waiver of Jury Trial. TO THE FULLEST EXTENT PERMITTED BY LAW, THE LENDER AND THE BORROWER KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY BASED ON, ARISING OUT OF OR UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS.

9.11 Waiver. The rights of the Lender under this Agreement and the other Loan Documents shall be in addition to all other rights provided by law. No waiver of any provision of this Agreement, or any other Loan Document, shall be effective unless in writing, and no waiver shall extend beyond the particular purpose involved. No waiver in any one case shall require the Lender to give any subsequent waivers.

9.12 Severability. If any provision of this Agreement or any other Loan Document is held to be void, invalid, illegal or unenforceable in any respect, such provision shall be fully severable and this Agreement or the applicable Loan Document shall be construed as if the void, invalid, illegal or unenforceable provision were not included in this Agreement or in such Loan Document.

9.13 No Setoffs. With respect to a monetary default claimed by the Lender under the Loan Documents, no setoff, claim, counterclaim, reduction or diminution of any obligation or defense of any kind or nature that the Borrower has or may have against the Lender (other than the defenses of payment, the Lender's gross negligence or willful misconduct) shall be available against the Lender in any action, suit or proceeding brought by the Lender to enforce this Agreement or any other Loan Document. The foregoing shall not be construed as a waiver by the Borrower of any such rights or claims against the Lender, but any recovery upon any such rights or claims shall be had from the Lender separately, it being the intent of this Agreement and the other Loan Documents that the Borrower shall be obligated to pay, absolutely and unconditionally, all amounts due under this Agreement and the other Loan Documents.

9.14 No Merger. The Borrower and the Lender expressly agree that the Borrower's agreement and obligation to pay the Lender's reasonable attorneys' fees and costs, and all other litigation expenses, shall not be merged into any judgment obtained by the Lender, but shall survive the same and shall not be extinguished by any monetary judgment. It is the express intent of the parties hereto that all post-judgment collection fees and expenses (including reasonable attorneys' fees and costs) shall survive entry of a final judgment and shall be collectible by the Lender against the Borrower from time to time following entry of any final judgment obtained by the Lender against the Borrower.

9.15. Counterparts. This Agreement may be executed for the convenience of the parties in several counterparts, which are in all respects similar and each of which is to be deemed to be complete in and of itself, and any one of which may be introduced in evidence or used for any other purpose with the production of the other counterparts thereof.

9.16 Consent to Jurisdiction. The Borrower irrevocably submits to jurisdiction of any state or federal court sitting in the Commonwealth of Virginia or the State of Maryland over any suit, action or proceeding arising out of or relating to this Agreement, the Notes or any other Loan Documents. The undersigned irrevocably waives, to the fullest extent permitted by law, any objection that the undersigned may now or hereafter have to the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. Final judgment in any such court shall be conclusive and binding and may be enforced in any court in which the undersigned is subject to jurisdiction by a suit upon such judgment provided that service of process is effected as provided herein or as otherwise permitted by applicable law.

9.17 Service of Process. The Borrower hereby consents to process being served in any suit, action or proceeding instituted in the Commonwealth of Virginia or the State of Maryland in connection with the Loans by (i) the mailing of a copy thereof by certified mail, postage prepaid, return receipt requested, to the Borrower at the address set forth in the Notices section of this Agreement and (ii) serving a copy thereof upon the Borrower's registered agent for service of process. The undersigned irrevocably agrees that such service shall be deemed to be service of process upon the undersigned in any such suit, action or proceeding. Nothing in this Agreement shall affect the right of the Lender otherwise to bring proceedings against the undersigned in the courts of any jurisdiction or jurisdictions.

9.18 Exhibits. All exhibits referred to herein as attached hereto are incorporated in full by reference as though fully set forth in this Agreement. The Exhibits are:

- Exhibit A: Legal Description of the Property
- Exhibit A-1: Phasing
- Exhibit B: Unit Costs Budget
- Exhibit C: Carve Out Obligations
- Exhibit D: Reserved

[SIGNATURES ON FOLLOWING PAGES]

IN WITNESS WHEREOF, the Borrower and the Lender have caused this Agreement to be executed in their respective names by duly authorized representatives as of the day and year first above written. The Guarantor joins herein to consent and agree to the terms, conditions, provisions and covenants of those sections of this Agreement that address a covenant or obligation of the Guarantor.

WITNESS:

BORROWER:

NEW HAMPSHIRE AVE. VENTURES, LLC, a Virginia limited liability company

By: COMSTOCK VENTURES XVI, L.C., a Virginia limited liability company

By: Comstock Holding Companies, Inc., a Delaware corporation, Its Manager

Print Name: _____

By: _____
Christopher D. Clemente
Chief Executive Officer

[SEAL]

COMMONWEALTH OF VIRGINIA

COUNTY OF _____, ss:

I, _____, a Notary Public in and for the aforesaid jurisdiction, do hereby certify that Christopher D. Clemente personally appeared before me in said jurisdiction and acknowledged that he is the Chief Executive Officer of Comstock Holding Companies, Inc., which is the Manager of Comstock Ventures XVI, L.C., a Virginia limited liability company, which is the Manager of New Hampshire Ave. Ventures, LLC, a Virginia limited liability company, party to the foregoing instrument, and that the same is his act and deed and the act and deed of said New Hampshire Ave. Ventures, LLC.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this _____ day of _____, 2012.

Notary Public

[SEAL]

My Commission expires: _____.

Notary Registration No. _____.

Witness:

GUARANTOR:

COMSTOCK HOLDING COMPANIES, INC., a Delaware corporation

Print Name: _____

By: _____
Christopher D. Clemente
Chief Executive Officer

COUNTY OF _____, ss:

I, _____, a Notary Public in and for the aforesaid jurisdiction, do hereby certify that Christopher D. Clemente personally appeared before me in said jurisdiction and acknowledged that he is the Chief Executive Officer of Comstock Holding Companies, Inc., a Delaware corporation, party to the foregoing instrument, and that the same is his act and deed and the act and deed of said Comstock Holding Companies, Inc..

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this _____ day of _____, 2012.

Notary Public

[SEAL]

My Commission expires: _____ .

Notary Registration No. _____ .

Witness:

LENDER:

EAGLEBANK

Print Name:

By: _____
Douglas Vigen
Senior Vice President

[SEAL]

COMMONWEALTH OF VIRGINIA

COUNTY OF _____, ss:

I, _____, a Notary Public in and for the aforesaid jurisdiction, do hereby certify that Douglas Vigen personally appeared before me in said jurisdiction and acknowledged that he a Senior Vice President of EAGLEBANK; that he has been duly authorized to execute and deliver the foregoing instrument for the purposes therein contained and that the same is his act and deed; that the seal affixed to said instrument is such corporate seal and that it was so affixed by order of the Board of Directors of said Bank; and that he signed his name thereon by like order.

IN WITNESS WHEREOF, I have set my hand and Notarial Seal, this _____ day of _____, 2012.

Notary Public

[SEAL]

My Commission expires: _____ .

Notary Registration No. _____ .

EXHIBIT A

Legal Description of the Property

Tract 1:

Lots 42-67 in Square 3719 as shown on Plat of Subdivision recorded among the records of the District of Columbia Office of the Surveyor in Subdivision Book 206 at Page 117.

Lot OF-40 in Square 3719 as shown on Plat of Subdivision recorded among the records of the District of Columbia Office of the Surveyor in Subdivision Book 206 at page 117, also known as Lots 860 thru 870, Lots 872 thru 889 and Lot 891 in Square 3719, (previously known as Lot 40, Square 3719) as shown on Assessment and Taxation Plat 3855-T, among the records of the District of Columbia Office of the Surveyor.

Together with those certain easements which benefit the above property as set forth the Easement and Maintenance Agreement recorded as Instrument No. 2012028660.

Together with those easements which benefit the above property as set forth in the Temporary Grading & Construction Easement Agreement recorded as Instrument No. 2012028661.

Note: Said property being known for assessment and taxation purposes as Square 3719, Lots 859-891

Tract 2:

Parts of Lots One (1) and Two (2) on a plat of survey of a subdivision of a tract of land know as part of the original tract of "CHILLUM CASTLE MANOR", made by B.F. Martin from plat of survey by George MacCloud, the same being part of the farm of the late Henry Martin, described in proceedings in District Court Case No. 2944 in the District Court of the United States for the District of Columbia as follows:

Beginning with the Southwesterly line of Chillum Place at its intersection with Peabody Street along said Chillum Place, North 36 degrees 52' 40" West 74.70 feet, thence leaving said Chillum Place and running South 34 degrees 34' West 72 feet more or less, to the intersection of Peabody Street; thence along the Westerly side of Peabody Street in a Southern direction 86 feet more or less to its intersection with Chillum Place being the point of beginning of said Parcel (formerly know as Part of Parcel 126/11)

Note: Said property being now known for assessment and taxation purposes as parcel 126/24.

Tract 3:

Lots 128, 129 and 130, Square 3714, as show on Plat of Subdivision recorded among the records of the District of Columbia Office of the Surveyor in Subdivision Book 206 at Page 126.

Note: Said property being known for assessment and taxation purposes as Square 3714, Lots 125, 126 and 127

Site Plan marked to show Phases

[attached]

EXHIBIT B

UNIT COSTS BUDGET

[to be attached prior to first advance of Construction Loan]

CARVE OUT OBLIGATIONS

The Guarantor shall also guaranty the full and timely payment of any and all actual loss, damage, cost, expense, liability, claim or other obligation incurred by the Lender (including reasonable attorneys' fees and out-of-pocket costs actually incurred) arising out of or in connection with any one or more of the following (the "Carve Out Obligations"):

(i) Fraud, material misrepresentation or willful misconduct by Borrower or Guarantor or any of their respective members, managers, officers, principals, or any other person properly authorized to make statements or representations, or act, on behalf of Borrower or Guarantor in connection with the Loans or the Property;

(ii) physical waste committed on the Property; damage to the Property as a result of the intentional misconduct, recklessness or gross negligence of Borrower or Guarantor, or any agent or employee of any such persons; or the removal of any portion of the Property by or at the direction of Borrower or Guarantor or any direct or indirect member or manager thereof, in violation of the terms of the Loan Documents (as defined in the Loan Agreement) following a default under either of the Loans which is not cured within any applicable grace or cure period (an "Event of Default");

(iii) subject to any right to contest or bond off such matters, as provided in the Deed of Trust or Loan Agreement, failure to pay any valid taxes, assessments, mechanics' liens, materialmen's liens or other liens which could create liens on any portion of the Property which would be superior to the lien or security title of the Deed of Trust or the other Loan Documents, to the full extent of the amount claimed by any such lien claimant;

(iv) the breach of any representation, warranty or covenant in, and any liability under any provision in, that certain Environmental Indemnity Agreement of even date herewith given by Borrower and Guarantor to Lender or the breach of any representation, warranty or covenant relating solely to, and any liability under any provision concerning, environmental laws, hazardous substances or asbestos in the Deed of Trust;

(v) the misapplication or conversion of (A) any insurance proceeds paid to Borrower by reason of any loss, damage or destruction to the Property, (B) any awards or other amounts received by Borrower in connection with the condemnation of all or a portion of the Property, or (C) any rents from the Property following an Event of Default or collected in advance; and

(vi) failure to maintain any insurance policies required under the Loan Documents, or timely to pay or provide the amount of any insurance deductible, to the extent of the applicable deductible, following a casualty or other insured event.

CONSTRUCTION LOAN AGREEMENT

(Revolving Line of Credit)

THIS CONSTRUCTION LOAN AGREEMENT made as of the 27th day of September, 2012 by and between **COMSTOCK EASTGATE, L.C.**, a limited liability company organized under the laws of the Commonwealth of Virginia (the "Borrower"), and **CARDINAL BANK**, a bank chartered under the laws of the Commonwealth of Virginia ("Lender").

WHEREAS, Borrower intends to construct sixty-six (66) residential condominium units (individually, a "Unit" and collectively, the "Units") in a portion of the residential condominium project known as The Villas at Eastgate Condominium located in Loudoun County, Virginia.

WHEREAS, the Project will consist of up to eleven (11) distinct parcels of land (individually, a "Parcel" and collectively, the "Land") on each of which the Borrower intends to construct a single building (individually, a "Building" and collectively, the "Buildings") containing six (6) Units (each Parcel together with the Building and Units to be constructed thereon are individually a "Phase" and collectively the "Project").

WHEREAS, the Borrower currently owns the Parcel known as Phase 3 more particularly described on "**EXHIBIT A**" attached hereto and by this reference made a part hereof ("Parcel 3"); and

WHEREAS, Lender has agreed to provide the Borrower with a revolving construction line of credit in the maximum principal amount of **TWO MILLION FIVE HUNDRED THOUSAND and no/100 DOLLARS (\$2,500,000.00)** that can be outstanding at any one time, which amount is to be used in accordance with the terms hereof and is to be used by Borrower for the materials to be furnished and labor and services to be performed in connection with the construction of the Units on the Land; and

WHEREAS, simultaneously with the execution and delivery hereof, Borrower has executed that certain Credit Line Deed of Trust Note dated of even date herewith in the principal amount of \$2,500,000.00 and that certain Credit Line Deed of Trust, Assignment and Security Agreement of even date herewith to secure the same.

WITNESSETH:

For and in consideration of these presents, and in further consideration of the mutual covenants and agreements herein set forth and of the sum of Ten Dollars (\$10.00) lawful money of the United States of America by each of the parties to the other paid, receipt of which is hereby acknowledged, the parties hereto do hereby covenant and agree as follows:

ARTICLE I
DEFINITIONS

1.0 Definitions. Borrower and Lender agree that, unless the context otherwise specifies or requires, the following terms shall have the meanings herein specified, such definitions to be applicable equally to the singular and the plural forms of such terms and to all genders:

Borrower - The party hereinabove designated as such, its successors and assigns.

Commitment - The commitment letter dated June 22, 2012 from Lender to Borrower in connection with the Line of Credit, as the same may be from time to time amended.

Completion Date - For each Unit, the date that is the earlier to occur of (i) the date that is twelve (12) months after the date of the first advance of Line of Credit funds for the Unit, and (ii) the sale date under the Contract.

Consulting Engineer or Progress Inspector - Such person or firm as Lender may from time to time appoint or designate for purposes related to the inspection of the progress of the construction of the Improvements, conformity of construction with the Plans and Specifications, and for such other purposes as to Lender may from time to time seem appropriate or as may be required by the terms of this Loan Agreement.

Contract - An executed contract of sale for the sale of a Unit, and such Contract complies with all of the following conditions:

- (i) the Contract shall be accompanied by a minimum cash deposit of \$5,000;
- (ii) the Contract shall not be subject to any contingencies, including the sale of the purchaser's property; and the Contract shall not be subject to cancellation by the purchaser without loss of the deposit, except for cause or as may be provided by applicable Virginia statute;
- (iii) the purchaser under the Contract shall be pre-qualified by a reputable mortgage lender, who shall issue a pre-qualification letter which indicates that the purchaser will be approved after appropriate verifications for the purchase money mortgage loan necessary to purchase such Unit.

Deed of Trust - That certain Credit Line Deed of Trust, Assignment and Security Agreement made by Borrower to secure Lender, dated of even date herewith, as the same may from time to time be amended, modified or supplemented.

Event(s) of Default - Any of the happenings, events, circumstances or occurrences described in Article VI of this Loan Agreement.

Funding Termination Date - The Line of Credit Maturity Date.

Guarantor - Comstock Holding Companies, Inc., a Delaware corporation.

Hazardous Materials - Any (i) hazardous wastes and/or toxic chemicals, materials, substances or wastes occurring in the air, water, soil or ground water on, under or about the Mortgaged Property as defined by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (Superfund or CERCLA), 42 U.S.C. §§ 9601 et seq., the Superfund Amendments and Reauthorization Act of 1986 (SARA), 42 U.S.C. § 9601(20)(D), the Resource Conservation and Recovery Act (the Solid Waste Disposal Act or RCRA), 42 U.S.C. §§ 6901 et seq., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977 (CWA), 33 U.S.C. §§ 1251 et seq., the Clean Air Act of 1966 (CAA), 42 U.S.C. §§ 7401 et seq., the Toxic Substances Control Act (TSCA), 15 U.S.C. §§ 2601, et seq., and the National Environmental Policy Act, 42 U.S.C. 4321 et seq., as these statutes may be amended

from time to time, and regulations promulgated thereunder; (ii) "oil, petroleum, petroleum products, and their by-products" as defined by the applicable statutes, as amended from time to time, and regulations promulgated thereunder; (iii) "hazardous substance" as defined by the applicable statutes, as amended from time to time, and regulations promulgated thereunder; (iv) substance, the presence of which is prohibited or controlled by any other applicable federal or state or local environmental laws, rules, regulations, statutes or ordinances now in force or hereafter enacted relating to waste disposal or environmental protection with respect to hazardous, toxic or other substances generated, produced, leaked, released, spilled or disposed of at or from the Mortgaged Property; and (v) other substance which by law requires special handling in its collection, storage, treatment or disposal including, but not limited to, asbestos, polychlorinated biphenyls (PCBs), urea formaldehyde foam insulation and lead-based paints, but not including small quantities of such materials present on the Mortgaged Property in retail containers or other materials used in the ordinary course of construction activities in compliance with all Environmental Requirements and Environmental Laws (as defined in the Security Documents).

Hydric Soils - Any soil category upon which construction of Improvements would be prohibited or restricted under applicable governmental requirements, including, without limitation, those imposed by the U. S. Army Corp of Engineers.

Improvements - Any and all buildings, structures, improvements, alterations or appurtenances now erected or at any time hereafter constructed or placed upon the Land or any portion thereof and any replacements thereof including without limitation, all equipment, apparatus, machinery and fixtures of any kind or character forming a part of said buildings, structures, improvements, alterations or appurtenances.

Indebtedness - All amounts due Lender pursuant to or on account of the Note, this Loan Agreement or any of the other Security Documents, including, without limitation, all principal (including, without limitation, any principal that is advanced after the date of this Loan Agreement and any principal that is repaid and readvanced), interest, late charges, loan fees and all other payments required to be made by Borrower pursuant to or on account of the Note, this Loan Agreement or any of the other Security Documents.

Land - The real property described in **EXHIBIT "A"** attached hereto and by this reference made a part hereof, as amended, modified, supplemented or increased from time to time.

Lender - The party hereinabove designated as such, its successors and assigns.

Line of Credit - The revolving line of credit from the Lender to the Borrower evidenced by the Note, to be advanced, re-advanced and repaid pursuant to this Loan Agreement and secured by the Security Documents.

Line of Credit Maturity Date - The date that is the earlier to occur of (i) the date that the last Unit for which Line of Credit funds remain outstanding is sold, (ii) the date that is twelve (12) months after the date of the first advance of Line of Credit funds for the last Unit to be funded under the Line of Credit, and (iii) the Maturity Date as that term is defined and used in the Note.

Loan - A non-revolving limited amount which the Lender has committed to fund under the Line of Credit for a specified Unit.

Loan Fee - The fully earned non-refundable fee that the Borrower shall pay Lender at the time that the Lender makes a Loan commitment for a specified Unit in an amount equal to one-half of one percent (.5%) of the total Loan commitment for that Unit.

Loan Maturity Date - The date on the earlier to occur of (i) the date that the Unit is sold, and (ii) the date that is twelve (12) months after the date of the first advance of Line of Credit funds for the Unit.

Mortgaged Property - The property described as such in the Deed of Trust, as amended, modified, supplemented or increased from time to time.

Note - The Credit Line Deed of Trust Note made by Borrower to the order of Lender dated of even date herewith in the principal amount hereinabove recited, as the same may from time to time be amended, modified or supplemented.

Obligations - Any and all of the covenants, warranties, representations, agreements, promises and other obligations (other than the Indebtedness) made or owing by Borrower or others to Lender pursuant to or as otherwise set forth in the Note or the Security Documents.

Plans and Specifications - Any and all plans and specifications prepared for Borrower in connection with the construction of the Improvements and approved in writing by Lender, as the same may from time to time be amended with the prior written approval of Lender.

Pre-sold Unit - A Unit subject to a Contract.

Project - The creation of the condominium regime for the Land and the construction of the Units thereon to create for-sale Units within the Mortgaged Property.

Security Documents - The Commitment, this Loan Agreement, the Environmental Indemnity Agreement executed in connection with the Line of Credit, the Deed of Trust and any other instrument or instruments described or characterized as such in the Deed of Trust, as the same may from time to time be amended, modified or supplemented.

Speculative Unit - A Unit not subject to a Contract including all model Units.

Unit - A condominium unit and the common elements appurtenant thereto within the Mortgaged Property.

ARTICLE II THE LINE OF CREDIT - ADVANCES AND REPAYMENTS

2.0 The Line of Credit. Lender agrees to advance Loan proceeds out of the Line of Credit to Borrower, subject to the terms and conditions herein set forth and in accordance with the "Pro Forma Per Unit Cost and Loan Budget" attached hereto as **EXHIBIT "B"** and incorporated herein by reference, as amended from time to time by Lender (the "Pro Forma Unit Budget"). Each Loan shall conform to the Pro Forma Unit Budget unless the Lender approves a separate Loan budget for a particular Unit establishing different maximum amounts of Hard Costs, Soft Costs and Interest Reserve that the Lender will advance under the Loan for the specified Unit (a "Unit Loan Budget"). Each Unit Loan Budget shall be attached hereto and made a part of **EXHIBIT "B"** and shall supersede the Pro Forma Unit Budget as to the specified Unit. Aggregate advances under the Line of Credit shall also conform to the Approved Final Project Cost Budget and Draw Schedule as approved by the Lender attached, to be attached, hereto as **EXHIBIT "C"** and incorporated herein by reference, as amended from time to time by Lender (the "Project Budget").

2.1 Applications for Advances. Borrower shall make applications for Loan advances from Lender on the forms that Lender approves in writing. Borrower shall make each such application at least five (5) business days before the advance shall be called for, in order to permit Lender to make such inspections as it shall from time to time consider appropriate. Lender shall perform the construction progress inspections of the Units within the Mortgaged Property (including inspections of the foundations). Borrower shall pay Lender the actual cost of the Lender's Consulting Engineer or Progress Inspector for each visit by Lender (or its Consulting Engineer or Progress Inspector) to inspect the construction progress of the Units. Each application for an advance of Loan proceeds shall be in such form and include such detail as Lender may require. Provided such inspections are satisfactory, Borrower shall be permitted two (2) advances or draws of the proceeds of the Line of Credit each calendar month.

2.2 Revolving Line of Credit. Prior to the Funding Termination Date, Borrower shall have the right to borrow, repay and re-borrow, from time to time, the principal amount evidenced by the Note provided and so long as (i) no Event of Default exists hereunder; (ii) Lender has not made demand for any payment under the Note which remains unpaid; (iii) the outstanding principal balance due hereunder together with Loan proceeds that the Lender is committed to advance for all Units then under construction shall not exceed \$2,500,000; (iv) all advances and re-advances are made in accordance with this Loan Agreement; and (v) Loan advances per Unit shall not exceed the following amounts:

(a) Construction Advances: Not to exceed the lesser of (i) sixty-nine percent (69%) of the appraised discounted value of the Unit, (ii) sixty percent (60%) of the gross retail value of the Unit, (iii) one hundred percent (100%) of the actual "Hard" and "Soft" Costs of construction for the Unit, and (iii) the aggregate approved Hard and Soft Costs per the applicable Unit Loan Budget.

(b) Interest Reserve: Each Unit Loan Budget includes an interest reserve out of which the Lender shall automatically pay the monthly interest cost of each Loan when and as such interest payments are due under the Note up to the maximum amount specified in the applicable Unit Loan Budget.

(c) Funding Termination: Lender's agreement to fund approved Line of Credit proceeds will terminate automatically on the Funding Termination Date as to the Line of Credit and on the Loan Maturity Date as to any Loan.

2.3 Conditions Precedent to Loan Advances for Phase 3. Lender shall not be obligated to make the first advance of Loan proceeds hereunder with respect to any Unit within Phase 3 unless the following conditions have been satisfied with respect to such Unit:

(a) The Note, the Deed of Trust (including any supplements or amendments thereto) and the other Security Documents shall have been properly executed and delivered to Lender, the Deed of Trust (and any such supplements or amendments) shall be executed, acknowledged and recorded in the appropriate land records, and payment shall have been made for all recording costs in connection with the Deed of Trust (and any such supplements or amendments) and any other recorded Security Documents and for any transfer or recordation taxes due under any federal, state or county law.

(b) Lender shall have received a paid policy of title insurance (ALTA Standard Form "B" Loan Policy - Current Edition) or a valid and enforceable commitment to issue the same, together with such reinsurance agreements and direct access agreements as may be required by Lender, from a company or companies satisfactory to Lender in the amount of the Line of Credit and which may be endorsed or assigned to the successors and assigns of Lender without additional cost, insuring the lien of the Deed of Trust to be a valid first lien on the Mortgaged Property with affirmative mechanic's lien coverage, free and clear of all defects, exceptions and encumbrances except such as Lender and its counsel shall have approved, and which otherwise complies with the applicable requirements of the Commitment.

(c) Lender shall have received advice, in form and substance and from a source satisfactory to Lender, to the effect that a search of the applicable public records discloses no conditional sales contracts, chattel mortgages, leases of personalty, financing statements or title retention agreements filed or recorded against the Mortgaged Property except such as Lender shall have approved.

(d) Lender shall have received all policies or certificates of insurance required by the terms of the Commitment and of the other Security Documents to be in effect from a company or companies and in form and amount satisfactory to Lender, together with written evidence, in form and substance satisfactory to Lender, that all fees and premiums due on account thereof have been paid in full.

(e) Lender shall have received a separate policy of flood insurance in the face amount of the Note or the maximum limit of coverage available with respect to the Mortgaged Property, whichever is the lesser, from a company or companies satisfactory to Lender and written in strict conformity with the Flood Disaster Protection Act of 1973, as amended, and all applicable regulations adopted pursuant thereto; provided, however, that in the alternative Borrower may supply Lender with written evidence, in form and substance satisfactory to Lender, to the effect that such flood insurance is not available with respect to the Mortgaged Property, or Borrower may provide to Lender the certificate of a professional engineer that the Mortgaged Property is not within a flood hazard area.

(f) Lender shall have received copies of the recorded subdivision plat of the Mortgaged Property and/or a current survey of the Land, certified to Lender by a registered land surveyor of the jurisdiction in which the Land is located, which plat of survey shall clearly designate at least (i) the location of the perimeter of the Land by courses and distances; (ii) the location of all easements, rights-of-way, alleys, streams, waters, paths and encroachments; (iii) the location of all building restriction lines and set-backs, however established; (iv) the location of any streets or roadways abutting the Land; and (v) the then “as-built” location of the Improvements and the relation of the Improvements by courses and distances to the perimeter of the Land, building restriction lines and set-backs, all in conformity with the most recent Minimum Standard Detail Requirements for Land Title Surveys adopted by the American Congress on Surveying and Mapping.

(g) Lender shall have received from Borrower written evidence, in form and substance satisfactory to Lender, from all governmental authorities having or claiming jurisdiction to the effect that all grading, building, construction and other permits and licenses necessary or required in connection with the construction of the Improvements have been validly issued; that all fees and bonds (whether posted by Borrower or its seller) required in connection therewith have been paid in full or posted, as the circumstances may require.

(h) Lender shall have received from Borrower written evidence, in form and substance satisfactory to Lender, to the effect that no construction work of any kind has commenced upon any unit within the Land which is financed with the proceeds of the Line of Credit and no materials (financed with the proceeds of the Line of Credit) have been placed or stored upon the Land prior to the recordation of the Deed of Trust among the land records where the Land is located unless the same shall be fully insured against by the title insurance company.

(i) Lender shall have received true and complete copies of all organizational documents of Borrower and the Guarantor, appropriate resolutions authorizing the acceptance of the Line of Credit by Borrower and Guarantor and the execution of the Note and all Security Documents, appropriate certificates of incumbency and an opinion letter from counsel for Borrower and the Guarantor, which is acceptable to Lender in all respects.

(j) Lender shall have received and approved an appraisal of the Project that complies with the applicable requirements of the Commitment.

(k) Lender shall have received from Borrower written evidence, in form and substance satisfactory to Lender, from all municipalities and utility companies having or claiming jurisdiction to the effect that all utility services in sufficient quantities necessary for the occupation of the Improvements to be constructed upon the Land, are available for connection and use at the boundaries of the Land, including, without limitation, telephone service, water supply, storm and sanitary sewer facilities, natural gas and electric facilities.

(l) Lender shall have received soil reports which shall (i) demonstrate that the soil conditions of the Mortgaged Property are suitable for the construction of the Improvements, and (ii) evidence to Lender’s reasonable satisfaction that there are no Hydric Soils on the Mortgaged Property.

(m) Lender shall have received a satisfactory Phase I environmental site assessment report for the Mortgaged Property.

(n) Lender shall have received a detailed Project Budget on forms acceptable to Lender which shall be attached hereto and incorporated herein as **EXHIBIT “C”**.

(o) Lender shall have received a list of the names of all contractors and materialmen (the “Contractors”) that will perform work or supply materials in connection with the construction of the Improvements on the Land, together with copies of all contracts or subcontracts for such construction satisfactory to Lender, if requested.

(p) Lender shall have received the final site plan for Phase 3 as approved by all necessary governmental authorities having jurisdiction over the Project.

(q) Borrower shall have established a deposit relationship with the Lender and shall maintain such deposit relationship through the Line of Credit Maturity Date through which all Line of Credit advances and Borrower's funds pertaining to the construction of the Units shall be maintained and flow.

(r) Borrower shall have paid Lender **\$6,000** of the aggregate Loan Fee that the Lender shall credit against the first \$6,000 of Loan Fees due and payable pursuant to Lender's commitment to make Loans for specified Units under the Line of Credit.

(s) Lender shall have received financial statements from the Borrower and the Guarantor that are certified current within thirty (30) days prior to the date of this Agreement and certified true financial statements for the two fiscal years prior to the fiscal year covered by the current financial statements in form and substance satisfactory to the Lender.

(t) Borrower shall have fully complied with any other applicable requirements of the Commitment.

(u) Lender shall have received a complete set of all Plans and Specifications for the Project.

2.4 Conditions Precedent to Advances for Units to be Constructed in Phases Subsequent to Phase 3. The obligation of Lender to make advances with respect to each Phase of the Project, subsequent to Phase 3, for which the Borrower is ready to request Loan advances (a "Future Phase") shall be conditioned upon the satisfaction of the conditions set forth in this Agreement, including the satisfaction of the conditions set forth in Section 2.3 as to each Future Phase, and of the following additional conditions:

(a) Borrower shall have executed and caused the recordation among the land records of Loudoun County, Virginia of an amendment to the Deed of Trust in the form attached hereto as **EXHIBIT "D"** (the "Amendment") to add the Parcel within the Future Phase for which the Borrower intends to request Loan advances such that it is included as part of the Mortgaged Property.

(b) Borrower shall have executed and delivered to Lender Lender's standard form of Assignment of Plans and Specifications, Contracts and Permits and Environmental Indemnity Agreement for the Future Phase.

(c) Borrower shall have caused a financing statement to be filed in the appropriate records sufficient to perfect the security interest in the personal property now or hereafter located on or in or used in connection with the Future.

(d) Lender shall have received an endorsement to the title insurance policy required by Section 2.3(b), which endorsement shall have the effect of adding the Parcel comprising the land portion of the Future Phase to the insured land referred to therein, and insuring that the lien of the Deed of Trust, as modified by the Amendment, is a valid first lien thereon.

2.5 Conditions Precedent to Advances of Hard Costs. Lender shall not be obligated to make any Loan advances of Line of Credit proceeds hereunder with respect to any Unit for Hard Costs, unless the conditions described in Section 2.3 remain satisfied, and the following conditions have been satisfied with respect to such Unit:

(a) All work completed at the time of the application for advance has been performed in a good and workmanlike manner; or all work completed at the time of the application for advance has been performed in a good and workmanlike manner and all materials and fixtures usually furnished and installed at that stage of construction have been furnished and installed.

(b) No Event of Default which has not been cured has occurred under the Note or any of the Security Documents and no act has occurred which, with the passage of time after due notice, would become an Event of Default.

(c) The Improvements for which the advance is being requested have not been materially damaged by fire or other casualty unless Borrower shall have received the proceeds of insurance sufficient in the judgment of Lender to effect a satisfactory restoration of such Improvements and to permit the completion thereof on or prior to the Completion Date.

(d) Lender has received evidence satisfactory to it that all work requiring inspection by governmental or regulatory authorities having or claiming jurisdiction has been duly inspected and approved by such authorities and by any rating or inspection organization, bureau, association or office having or claiming jurisdiction.

(e) Lender shall be satisfied, based upon the advice of the Consulting Engineer or Progress Inspector, that each Unit can be completed by a date no later than the Completion Date for that Unit with the balance of the Loan proceeds then held by Lender and available for advance for those purposes pursuant to the terms of this Loan Agreement and with other funds which Lender is reasonably satisfied are available to Borrower for those purposes.

(f) Lender shall have received a notice of title continuation or an endorsement to the title insurance policy heretofore delivered, indicating that since the last preceding advance, there has been no change in the status of title and no survey exceptions or other exceptions not theretofore approved by Lender, which endorsement shall have the effect of advancing the effective date of the policy to the date of the advance then being made and increasing the coverage of the policy to an amount equal to the total advances made as of the date of the advance then being made if the policy does not by its terms provide for such an increase.

(g) The representations and warranties made in Article III of this Loan Agreement shall be true and correct, in all material respects, on and as of the date of the advance with the same effect as if made on such date.

(h) Lender shall have received acknowledgments of payment and releases of liens and rights to claim liens for work performed or materials delivered through the date of the last preceding advance and concurrently with the final advance. All such acknowledgments and releases shall be in form and substance satisfactory to Lender and the title insurance company which has insured the title to the Mortgaged Property.

(i) All other terms and conditions of the Security Documents required to be met as of the date of the particular advance of Line of Credit proceeds shall have been met to the satisfaction of Lender.

2.6 Additional Conditions Precedent to Final Advance. Lender shall not be obligated to make the final advance of Line of Credit proceeds with respect to any Unit included within the Mortgaged Property unless the conditions described in Sections 2.3, 2.4 and Section 2.5 and the following additional conditions have been satisfied with respect to such Unit:

(a) Lender has been satisfied that all construction has been satisfactorily completed in a good and workmanlike manner;

(b) Lender has received evidence satisfactory to it that all work requiring inspection by governmental or regulatory authorities having or claiming jurisdiction has been duly inspected and approved by such authorities and by any rating or inspection organization, bureau, association or office having or claiming jurisdiction;

(c) To the extent that any such certificate is a condition to the lawful use and occupancy of the subject Improvements, Lender has received evidence satisfactory to it that the requisite certificate of use and occupancy for permanent occupancy of such Improvements has been validly issued; however, such a certificate shall be not required for any model houses;

(d) Lender shall have received fire and extended coverage insurance for the applicable Unit as set forth in Section 4.10 of this Loan Agreement;

(e) To the extent required by Lender, all insurance policies shall be endorsed to insure the Improvements, in accordance with Section 4.10 of this Loan Agreement; and

(f) All other terms and conditions of the Security Documents required to be met as of the date of the final advance of Loan proceeds for the applicable Unit shall have been met to the satisfaction of Lender.

2.7 Trust Funds. Borrower will receive the advances to be made hereunder and will hold the right to receive the same as a trust fund for the purpose of paying the cost of the construction of the Improvements, and Borrower agrees not to expend any part of the proceeds of the Line of Credit for any purpose except in connection with the uses and purposes provided for in this Loan Agreement without the prior written consent of Lender.

2.8 Advances to Others for Account of Borrower. At the option of Lender, Lender may apply amounts due hereunder to the satisfaction of the conditions of the Commitment, the Note or the Security Documents and any amounts so applied shall be part of the Line of Credit and shall be secured by the Deed of Trust. Advances requested by Borrower shall be made directly to Borrower unless and until Borrower is in default hereunder or under any other Security Document. If Borrower is in default hereunder or under any other Security Document, then at the option of Lender, and without limiting the generality of the foregoing, Lender may make advances directly to the title insurance company or any subcontractor or materialman, or to any of them jointly, and the execution hereof by Borrower shall, and hereby does, constitute an irrevocable authorization, if Borrower is in default hereunder or under any other Security Documents, to so advance the proceeds of the Line of Credit. No further direction or authorization from Borrower shall be necessary to warrant such direct advances and all such advances shall satisfy pro tanto the obligations of Lender hereunder and shall be secured by the Deed of Trust as fully as if made to Borrower, regardless of the disposition thereof by the party or parties to whom such advance is made.

2.9 Additional Funds. If the inspections performed on behalf of Lender project that the remaining cost to complete a Unit will exceed the total remaining amount of Loan proceeds to be provided by Lender for that Unit, Lender shall not advance any more Loan proceeds for that Unit until Borrower has deposited with Lender the difference between the total remaining cost to complete that Unit (including sufficient funds to pay interest for the remaining term of the Loan) and the total remaining amount of the Loan proceeds for that Unit. This provision will apply whenever the total remaining cost to complete a Unit exceeds the total remaining Loan proceeds for that Unit. Therefore, if the projected total remaining costs to complete a Unit continues to increase after the first time that it exceeds the total amount of the remaining Loan proceeds for that Unit, Borrower shall deposit the incremental increase before Lender advances any more Loan proceeds for that Unit. The determination of the total remaining cost to complete each Unit shall be made by Lender.

2.10 Assignments. Borrower agrees not to transfer, assign, pledge or hypothecate any right or interest in any payment or advance due pursuant to this Loan Agreement, or any of the other benefits of this Loan Agreement, without the prior written consent of Lender. Any assignment made or attempted by Borrower without the prior written consent of Lender shall be void. No consent by Lender to an assignment by Borrower shall release Borrower as the party primarily obligated and liable under the terms of this Loan Agreement unless Borrower shall be released specifically by Lender in writing. No consent by Lender to an assignment shall be deemed to be a waiver of the requirement of prior written consent by Lender with respect to each and every further assignment and as a condition precedent to the effectiveness of such assignment.

2.11 Liability of Lender. Lender shall in no event be responsible or liable to any person other than Borrower for the disbursement of or failure to disburse the proceeds of the Line of Credit or any part thereof, and no subcontractor, laborer or material supplier shall have any right or claim against Lender under this Loan Agreement or the administration thereof.

2.12 Construction Starts; Limitations on Speculative Units. The Borrower shall have not more than eighteen (18) Units under construction at any given time during the term of the Line of Credit ("Construction Starts"). The Borrower shall have not more than four (4) Speculative Units and two (2) model Units ("Model Units") under construction in the first Building for which construction has commenced in the Project (the "First Building"). Thereafter, and for the remaining term of the Line of Credit, the Borrower shall have not more than two

(2) Speculative Units and two (2) Model Units for the entire Project (including any Speculative Units and Model Units remaining in the First Building) at the time that the Borrower commences construction of each of the Buildings to be constructed within the Project after the First Building. Model Units shall not be deemed to be Speculative Units for the purpose of this Section. The Borrower shall provide Lender with all information that the Lender reasonably requests prior to a new Construction Start. Borrower shall not commence a Construction Start until Lender has reviewed and approved the applicable Construction Start information submitted to Lender.

2.13 Line of Credit and Loan Repayment. Borrower shall pay all principal and all accrued and unpaid interest and costs for each Loan under the Line of Credit on or before the Loan Maturity Date. Borrower shall pay all other outstanding principal, accrued and unpaid interest and costs which remain unpaid on the Line of Credit Maturity Date.

1. ARTICLE III

REPRESENTATIONS AND WARRANTIES

3.0 Representations and Warranties by Borrower. Borrower hereby represents and warrants to Lender, as of the date of the first advance of Line of Credit proceeds and at all times thereafter, that:

3.1 Plans and Specifications. No work associated with the construction of the Improvements will be commenced by Borrower unless and until the Plans and Specifications are satisfactory to Borrower and Lender and, to the extent required by applicable law and any effective restrictive covenants, have been approved by all governmental authorities having or claiming jurisdiction and by the beneficiaries of any such restrictive covenants, respectively.

3.2 Permits. No work associated with the construction of the Improvements will be commenced by Borrower unless and until all grading, building, construction and other permits necessary or required in connection with the commencement of the construction of the Improvements have been validly issued and all fees and bonds (whether posted by Borrower or its seller) required in connection therewith have been paid or posted, as the circumstances may require.

3.3 Utilities. All utility services necessary for the construction of the Improvements and the operation thereof for their intended purpose are available at the boundaries of the Land, or there are easements in place which will allow Borrower to extend utility services to the boundaries of the Land, including, without limitation, telephone service, water supply, storm and sanitary sewer facilities, and natural gas or electric facilities.

3.4 Access - Roads. All roads and other access necessary for the construction and full utilization of the Improvements for their intended purposes have either been completed or the necessary rights of way therefor have either been acquired by the appropriate governmental authorities or have been dedicated (or will be dedicated) to public use and accepted by such governmental authorities or have been or will be created by recorded easement and all necessary steps have been taken by Borrower or such governmental authorities to assure the complete construction and installation thereof by a time no later than the Completion Date.

3.5 Other Liens. Except as otherwise provided for in the Security Documents, Borrower has made no contract or arrangement of any kind the performance of which by the other party thereto would give rise to a lien on the Mortgaged Property.

3.6 Financial Statements. The financial statements heretofore delivered to Lender are true and correct in all respects, have been prepared in accordance with sound accounting practices consistently applied, and fairly present the respective financial conditions of the subjects thereof as of the respective dates thereof. No material adverse change has occurred in the financial conditions reflected therein since the respective dates thereof and no material additional liabilities have been incurred by Borrower since the date thereof other than the borrowing contemplated herein or as approved in writing by Lender.

3.7 Defaults. There is no default on the part of Borrower under the Note or the Security Documents and no event has occurred and is continuing which, with notice, the passage of time, or both, would constitute a default under the Note or the Security Documents.

3.8 Compliance in Zoning. The current or anticipated use of the Mortgaged Property complies with applicable zoning ordinances, regulations and restrictive covenants affecting the Land, all use requirements of any governmental authority having jurisdiction have been satisfied, and no violation of any law or regulation exists with respect thereto.

ARTICLE IV
AFFIRMATIVE COVENANTS

4.0 Affirmative Covenants. Borrower hereby affirmatively covenants and agrees as follows:

4.1 Construction. Borrower shall pursue construction of each Unit in good faith with diligence and continuity in accordance with the Plans and Specifications.

4.2. Approval and Permits. No work associated with the construction of the Improvements shall be commenced by Borrower unless and until the Plans and Specifications have been approved by Lender and, to the extent required by applicable law or any effective restrictive covenant, by all governmental authorities having or claiming jurisdiction and by the beneficiary of any such restrictive covenant, and unless and until all building, construction and other permits necessary or required in connection with the commencement of the construction of the Improvements have been validly issued and all fees and bonds (whether posted by Borrower or its seller) required in connection therewith have been paid or posted, as the circumstances may require.

4.3 Completion. Construction of a Unit shall be completed by Borrower on or before the Completion Date, free and clear of all liens and claims of liens for materials supplied and for services or labor performed in connection with the construction of the Unit.

4.4 Compliance with Laws - Encroachments. The Improvements shall be constructed by Borrower in strict accordance with all applicable (whether present or future) laws, ordinances, rules, regulations, requirements and orders of any governmental or regulatory authority having or claiming jurisdiction. The Improvements shall be constructed entirely on the Land and will not encroach upon any easement or right-of-way, or upon the land of others. Construction of the Improvements shall be wholly within all applicable building restriction lines and set-backs, however established, and shall be in strict accordance with all applicable use or other restrictions and the provisions of any prior agreements, declarations, covenants and all applicable zoning and subdivision ordinances and regulations.

4.5 Surveys. Upon Lender's request from time to time, as construction progresses and upon the completion of the construction of the Improvements, Borrower shall furnish Lender with a plat of survey, currently certified to Lender by a registered land surveyor of the jurisdiction in which the Land is located, which plat of survey shall clearly designate at least (i) the location of the perimeter of the Land by courses and distances; (ii) the location of all easements, rights-of-way, alleys, streams, waters, paths and encroachments; (iii) the location of all building restriction lines and set-backs, however established; (iv) the location of any streets or roadways abutting the Land; and (v) the "as-built" location of the Improvements and the relation of the Improvements by courses and distances to the perimeter of the Land, building restriction lines and set-backs.

If at any time Borrower is required to furnish a plat of survey to Lender pursuant to the terms of this Loan Agreement, Borrower shall also furnish an original print thereof to the title insurance company and such plat of survey shall not be sufficient for purposes of this Loan Agreement unless and until the title insurance company shall advise Lender, by endorsement to the title insurance policy or otherwise, that the plat of survey discloses no violations, encroachments or other variances from applicable set-backs or other restrictions except such as Lender and its counsel shall approve, such approval not to be unreasonably withheld. All such plats of survey shall conform to the most recent Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys jointly established and adopted by the American Land Title Association and the American Congress on Surveying and Mapping. The plats prepared in connection with the establishment and recordation of a phase of the condominium by Borrower's engineer shall be sufficient to meet the requirements of a plat of survey in this paragraph.

4.6 Inspections; Cooperation; Payment of Consulting Engineer. Borrower shall permit Lender and Lender's duly authorized representatives (including, without limitation, the Consulting Engineer or Progress Inspector) no more than twice per month to enter upon the Land and to inspect the Improvements and any and all materials to be used in connection with the construction of the Improvements and to examine all detailed plans and shop drawings and similar materials relating to the construction of the Improvements, during ordinary business hours. Borrower will at all times cooperate and use its reasonable good faith efforts to cause each and every of its subcontractors and materialmen to cooperate with Lender and Lender's duly authorized representatives (including, without limitation, the Consulting Engineer or Progress Inspector) in connection with or in aid of the performance of Lender's functions under this Loan Agreement. The fees of any Consulting Engineer or Progress Inspector engaged or employed by Lender in connection with or in aid of the performance of Lender's functions under this Loan Agreement shall be paid by Borrower.

4.7 Vouchers and Receipts. Borrower will furnish to Lender, promptly on demand, any contracts, bills of sale, statements, receipted vouchers or agreements pursuant to which Borrower has any claim of title to any materials, fixtures or other articles delivered or to be delivered to the Land or incorporated or to be incorporated into the Improvements. Borrower will furnish to Lender, promptly on demand, a verified written statement, in such form and detail as Lender may reasonably require, showing all amounts paid and unpaid for labor and materials and all items of labor and materials to be furnished for which payment has not been made and the amounts to be paid therefor.

4.8 Payments for Labor and Materials. Borrower will pay when due all bills for materials supplied and for services or labor performed in connection with the construction of the Improvements.

4.9 Correction of Construction Defects. In the event there are any defects in the work or any material departures or deviations from the Plans and Specifications not approved by Lender, as such defects, departures or deviations are certified to Lender by an outside engineer chosen by Lender, then promptly following any demand by Lender, Borrower will correct or cause the correction of such defects, departures or deviations.

4.10 Insurance. The original policy or policies of insurance, a certified true copy thereof or a certificate shall be deposited with Lender, together with a paid receipt for the premiums thereunder for at least the quarterly period following the date of this Loan Agreement. All policies of insurance shall be written with a company or companies licensed to do business in the jurisdiction where the Mortgaged Property is located and with a company or companies satisfactory to Lender. Each policy of insurance shall provide that such policy may not be surrendered, cancelled or substantially modified, including without limitation cancellation for non-payment of premiums, without at least thirty (30) days' prior written notice to all parties named as insured therein, including Lender.

At no cost to Lender, Borrower shall provide and maintain:

(a) BUILDER'S RISK INSURANCE - "Builder's Risk" insurance (reporting form) of the type customarily carried in the case of similar construction for the full replacement cost of work in place and material stored at or upon the Mortgaged Property, comprehensive broad form "all risk" casualty insurance and insurance for other risks of a similar or dissimilar nature, in such forms and amounts as Lender may require. Such insurance policy shall name Lender as mortgagee.

(b) FIRE/HAZARD INSURANCE WITH EXTENDED COVERAGE - Insurance against any act or occurrence of any kind or nature that results in damage, loss or destruction to the Mortgaged Property under a policy or policies covering such risks as are ordinarily insured against by similar businesses, but in any event including fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke, vandalism and malicious mischief, upon the completion of the construction of the Improvements or upon the occupancy thereof for the purposes intended, whichever shall first occur. Unless otherwise agreed in writing by Lender, such insurance shall be for the full insurable value of the Mortgaged Property. The term "full insurable value" means the actual replacement cost of the Mortgaged Property (excluding foundation and excavation costs and costs of underground flues, pipes, drains and other uninsurable items). The deductible amount under such policy or policies shall not exceed

\$5,000.00. No policy of insurance shall be written such that the proceeds thereof will produce less than the minimum coverage required by this section by reason of coinsurance provisions or otherwise. The “full insurable value” shall be determined from time to time at the request of Lender, by an appraiser or appraisal company or one of the insurers, who shall be selected and paid for by Borrower but subject to Lender’s approval. Such insurance policy shall name Lender as mortgagee.

(c) LIABILITY INSURANCE - Comprehensive general public liability and indemnity insurance in such forms and in such amounts as Lender may require, but in any event not less than \$1,000,000.00 covering claims for bodily injury or death and property damage arising out of a single occurrence and \$2,000,000.00 for the aggregate of all occurrences during any given annual policy period. Such insurance policy shall name Lender as mortgagee.

(d) WORKER’S COMPENSATION INSURANCE - Worker’s compensation insurance for all employees (if any) of Borrower in accordance with the applicable requirements of law. Such insurance policy shall name Lender as mortgagee.

4.11. Flood Insurance. If required by applicable law or regulation or if required by Lender, Borrower shall provide or cause to be provided to Lender a separate policy of flood insurance in the amount of the Note or the maximum limit of coverage available with respect to the Mortgaged Property, whichever is the lesser, from a company or companies satisfactory to Lender and written in strict conformity with the Flood Disaster Protection Act of 1973, as amended, and all applicable regulations adopted pursuant thereto, or alternatively if flood insurance is not available for the Mortgaged Property or the Mortgaged Property is not within a flood hazard area, Borrower shall supply Lender with written evidence, in form and substance satisfactory to Lender, to that effect. Any such policy shall provide that the policy may not be surrendered, cancelled or substantially modified (including, without limitation, cancellation for non-payment of premiums) without at least thirty (30) days’ prior written notice to any and all insureds named therein, including Lender.

4.12 Fees and Expenses - Indemnity. Borrower will pay to Lender or as Lender directs all reasonable fees, charges, costs and expenses required to satisfy the conditions of the Security Documents and the Commitment. Borrower will hold Lender harmless and indemnify Lender from all claims of brokers and “finders” arising by reason of the execution and delivery hereof or the consummation of the transaction contemplated hereby.

4.13 Prompt Applications. Borrower shall cause all applications for advances of Line of Credit proceeds to be made and delivered to Lender promptly in order to obtain advances of Line of Credit proceeds as they become available for disbursement pursuant to the terms of this Loan Agreement.

4.14 Hazardous Materials. Borrower will immediately remove all Hazardous Materials from the Land and Improvements or follow the recommendations of a qualified environmental consultant approved by Lender immediately after Borrower has been notified that Hazardous Materials have been used in the construction of the Improvements or are or have been stored or located upon the Land or the Improvements in violation of Environmental Requirements or Environmental Laws.

4.15 Reappraisal. Borrower agrees that Lender shall have the right, in a commercially reasonable manner, to require a reappraisal of the Mortgaged Property at any time, but not more than once annually, and all fees, expenses and other costs associated therewith shall be paid by Borrower, and if not so paid, such amounts shall constitute a portion of Borrower’s obligations evidenced by the Note and secured by the Deed of Trust.

4.16 Financial Reporting. On or before May 31 of each year, the Borrower and Guarantor will furnish to the Lender their federal income tax returns for the previous fiscal year. On or before May 31 of each year, the Borrower and Guarantor will furnish to the Lender internally prepared financial statements disclosing in detail the Borrower’s income, expenses, retained earnings, changes in cash position and distributions during the previous one year period and a detailed balance sheet as of the end of such period. The Borrower and the Guarantor will also furnish to the Lender such other financial and operating information as the Lender may from time to time request.

4.17 Financial Covenants.

(a) **Tangible Net Worth.** Guarantor shall maintain a Tangible Net Worth (hereinafter defined) of not less than \$1.00 based upon the fair market value of its assets and the liabilities reflected on its financial statements at any given time (the “Tangible Net Worth Covenant”) at all times during the term of the Line of Credit. “Tangible Net Worth” is the amount by which the aggregate fair market value of Guarantor’s assets exceeds its aggregate liabilities. For determining Tangible Net Worth, total assets will exclude all intangible assets, including without limitation goodwill, patents, trademark, trade names, copyrights, franchises and all accounts receivable that are owed Guarantor by any of its stockholders, officers or directors.

4.18 **Loan Fee.** Borrower shall pay Lender a Loan Fee at the time that Lender commits to make a Loan under the Line of Credit.

4.19 **Condominium Regime.** Borrower shall submit all existing or proposed documentation (the “Condominium Documents”) intended or necessary to convert the Project into a multi-unit condominium regime (the “Condominium Regime”) to the Lender for the Lender’s review and approval prior to the Borrower’s submission of the Condominium Documents to any governmental authority required to review and approve the Condominium Documents as a precondition to the creation of the Condominium Regime. Once the Lender has approved the Condominium Documents, which approval shall not be unreasonably conditioned, delayed or withheld, the Lender shall consent to and/or execute such Condominium Documents as are required of the Lender, in its capacity as the holder of a security interest in the Land, to facilitate the Borrower’s conversion of the Project into a Condominium Regime under the laws of the Commonwealth of Virginia.

2. ARTICLE V

NEGATIVE COVENANTS

5.0 **Negative Covenants.** Until the Indebtedness shall have been paid in full, Borrower covenants and agrees as follows:

5.1 **Other Liens; Transfers; “Due-on-Sale”, etc.** Borrower shall not, without the prior written consent of Lender, create or permit to be created or remain with respect to the Mortgaged Property or any part thereof or income therefrom, any mortgage, pledge, lien, encumbrance, charge, security interest, conditional sale or other title retention agreement, whether prior or subordinate to the lien of the Security Documents, other than in connection with the Security Documents or as otherwise provided for or permitted therein. Except for any grant, conveyance, sale, assignment or transfer in the ordinary course of Borrower’s business and which is specifically conditioned upon the release of record of the lien of the Deed of Trust and the other Security Documents as to that portion of the Mortgaged Property granted, conveyed, sold, assigned or transferred, Borrower shall not, without the prior written consent of Lender, make, create, permit or consent to any conveyance, sale, assignment or transfer of the Mortgaged Property or any part thereof, or Borrower’s legal or equitable interest in the Mortgaged Property, other than in connection with the Security Documents or as otherwise provided for or permitted therein. Borrower will not, without the prior written consent of Lender, make, create or consent to any grant, conveyance, sale, assignment or transfer of any partnership interest or other interest in Borrower.

5.2 **Impairment of Security.** Borrower shall take no action which will in any manner impair the value of the Mortgaged Property or the validity, priority or security of the Deed of Trust.

5.3 **Conditional Sales.** Borrower will not incorporate in the Improvements any property acquired under a conditional sales contract or lease, or as to which the vendor retains title or a security interest, without the prior written consent of Lender.

5.4 **Changes to Plans and Specifications.** Borrower will not permit any material changes in the Plans and Specifications, including, without limitation, any change by altering or adding to the work to be performed, orders for extra work, any change which will result in a material net construction cost increase or a material net cumulative

construction cost decrease, or any material change in the design concept for the Improvements, without the prior written consent of Lender, which consent shall not be unreasonably withheld, conditioned or delayed and under such reasonable conditions as Lender may then establish.

5.5 Bonds. Borrower will not do or permit anything to be done that would affect the coverage or indemnities provided for pursuant to the provisions of any performance bond, labor and material payment bond or any other bond required pursuant to the provisions of the Security Documents.

ARTICLE VI
EVENTS OF DEFAULT

6.0 Events of Default. The term "Event(s) of Default," as used in this Loan Agreement shall mean the occurrence or happening, from time to time, of any one or more of the following, beyond any applicable cure period:

6.1 Payment of Indebtedness. If Borrower shall fail to pay to Lender any and all amounts payable by Borrower to Lender under the terms of the Note or any of the Security Documents, including but not limited to any principal payment, interest payment, loan fee, extension fee or late charge, at the time such payment is due, and Borrower fails to make such payment within ten (10) days after Lender's written notice to Borrower that such payment is past due.

6.2 Performance of Obligations. If Borrower shall default in the due observance or performance of any of the Obligations, specifically including, but not limited to, those specified in Sections 6.3 through 6.10 of this Article, and such default continues for thirty (30) days after written notice of such default is sent by Lender to Borrower, provided however that if such failure is capable of being cured within a reasonable period of time but, in Lender's judgment, cannot be cured within said thirty (30) day period, then, notwithstanding the foregoing, an Event of Default shall not be deemed to have occurred at the expiration of said thirty (30) day period if the Borrower (i) commences the cure of such failure within said thirty (30) day period, (ii) thereafter diligently and expeditiously to Lender's satisfaction proceeds to cure such failure, and (iii) completes the cure of such failure within a reasonable period of time not exceeding ninety (90) days after the date that such written notice was sent.

6.3 Other Defaults. If any other default shall occur under the Note or any of the Security Documents or any document evidencing or securing a loan or line of credit to Borrower, Guarantor or any company in which the Borrower and/or Guarantor maintain a controlling interest.

6.4 Representation and Warranties. If any representation or warranty contained in this Loan Agreement or in any other document, certificate or opinion delivered to Lender in connection with the Line of Credit shall prove at any time to be incorrect or misleading in any material respect when made.

6.5 Progress of Construction. Except for delays unavoidably occasioned by strikes, lock-outs, war or civil disturbance, governmental actions (e.g., moratorium), natural disaster, acts of God, or extreme weather conditions, if construction of the Improvements is not carried on in good faith and with reasonable dispatch or if Borrower abandons the work or discontinues work for a period of more than thirty (30) consecutive days.

6.6 Failure to Complete. Except for delays unavoidably occasioned by strikes, lock-outs, war or civil disturbance, natural disaster, acts of God, or extreme weather conditions, if Borrower fails to complete the construction of a Unit on or before the Completion Date.

6.7 Conditions Precedent to Any Advance. Except for delays unavoidably occasioned by strikes, lock-outs, war or civil disturbance, natural disaster, acts of God, or extreme weather conditions, if Borrower is unable to satisfy any condition precedent to its right to receive an advance of Line of Credit proceeds for a period in excess of thirty (30) days.

6.8 Disclosure of Contractors. If Borrower shall fail to disclose to Lender, upon demand and within a reasonable time period, the names of all major contractors with whom Borrower has contracted or intends to contract for the construction of the Improvements or for the furnishing of labor or materials therefor.

6.9 Mechanic's Lien. The filing of any mechanic's or judgment lien against the Project, or the failure to pay any firm, person or corporation entitled to payment, which firm, person or corporation has a right to file a mechanic's lien against the Project regardless of the fact that such mechanic's lien or judgment lien or claim if filed is, or may be, subordinated to the lien of the Deed of Trust; provided, however, that the filing of a mechanic's or judgment lien affecting the Project shall not be deemed to be an Event of Default provided that (i) such lien is either bonded off by Borrower within sixty (60) days after the filing thereof, or (ii) Borrower posts security for or makes other arrangements for protection of Lender satisfactory to Lender, within sixty (60) days after the filing of such lien. Notwithstanding the foregoing, if any such lien is filed, Lender shall not be required to make any further advances hereunder until Borrower has either paid or bonded off the lien as described in (i) above, or has posted security or made other arrangements to the satisfaction of Lender as described in (ii) above.

6.10 Impairment of Security. The occurrence of any condition or situation which, in the sole determination of Lender, constitutes a material danger to or impairment of the security for the repayment of the Line of Credit, if such condition or situation is not remedied within thirty (30) days after written notice to Borrower thereof.

6.11 Environmental Clean-up. If Borrower fails to pay the cost, or to provide for the payment of the cost and performance of the "clean up" of the Project pursuant to an order issued under the Environmental Response Compensation and Liability Act in a manner satisfactory to Lender and such failure continues for a period of thirty (30) days after the date of written notice of such failure from Lender to Borrower.

6.12 Dissolution of Borrower or Guarantor. If either of the Borrower or Guarantor are dissolved.

6.13 Inspection of the Project. If the Borrower fails or refuses to permit a representative of Lender to enter the Project and inspect the same at reasonable times.

ARTICLE VII DEFAULT - REMEDIES

7.0 Remedies on Default. Lender shall have the right, upon the happening of any Event of Default, to terminate this Loan Agreement by notice in writing to Borrower and, in addition to any rights or remedies available to it under the Deed of Trust or other Security Documents, to enter into possession of the Mortgaged Property and perform any and all work and labor necessary to complete the construction of the Improvements (whether or not in accordance with the Plans and Specifications) and to employ watchmen to protect the Mortgaged Property and the Improvements.

All sums expended by Lender for such purposes shall be deemed to have been paid to Borrower and secured by the Deed of Trust. For this purpose, Borrower hereby constitutes and appoints Lender Borrower's true and lawful attorney-in-fact with full power of substitution to complete the work in the name of Borrower, in a commercially sound and reasonable manner, and hereby empowers said attorney or attorneys as follows:

(a) To use any funds of Borrower including any balance which may be held in escrow and any funds which may remain unadvanced hereunder for the purpose of completing the construction of the Improvements, whether or not in the manner called for in the Plans and Specifications;

(b) To make such additions, changes and corrections in the Plans and Specifications which shall be necessary or desirable in the judgment of Lender to complete the construction of the Improvements;

(c) To employ such contractors, subcontractors, agents, architects and inspectors as shall be required for said purpose;

(d) To pay, settle or compromise all existing bills and claims which are or may be liens against the Mortgaged Property, or may be necessary or desirable for the completion of the work or the clearance of title;

(e) To execute all applications and certificates which may be required in the name of Borrower; and

(f) To do any and every act with respect to the construction of the Improvements which Borrower may do in its own behalf.

It is understood and agreed that this power of attorney shall be deemed to be a power coupled with an interest which cannot be revoked. Said attorney-in-fact shall also have power to prosecute and defend all actions or proceedings in connection with the construction of the Improvements and to take such actions and require such performance as is deemed necessary.

Borrower hereby irrevocably constitutes and appoints Lender Borrower's true and lawful attorney-in-fact to execute, acknowledge and deliver such documents, instruments and certificates, and to take such other actions, in the name and on behalf of Borrower and at the sole cost and expense of Borrower, as Lender, in its sole and reasonable discretion, deems necessary, desirable or appropriate to effectuate the provisions of this paragraph upon ten (10) days prior written notice to Borrower.

7.1 No Conditions Precedent to Exercise of Remedies. Neither Borrower nor any guarantor of the payment of all or any part of the Indebtedness or the performance of any of the Obligations shall be relieved of any obligation by reason of the failure of Lender to comply with any request of Borrower or of any other person to take action to foreclose on the Deed of Trust or otherwise to enforce any provisions of the Note or the Security Documents, or by reason of the release, regardless of consideration, of all or any part of the Mortgaged Property, or by reason of any agreement of stipulation between any subsequent owner of the Mortgaged Property and Lender extending the time of payment or modifying the terms of the Note or the Security Documents without first having obtained the consent of Borrower or such guarantor; and in the latter event, Borrower and such guarantor shall continue to be liable to make payments according to the terms of any such extension or modification agreement, unless expressly released and discharged in writing by Lender.

7.2 Remedies Cumulative and Concurrent. No remedy herein conferred upon or reserved to Lender is intended to be exclusive of any other remedies provided for in the Note or in the Security Documents, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder, under the Note or the Security Documents, or now or hereafter existing at law or in equity or by statute. Every right, power and remedy given by the Note and the Security Documents to Lender shall be concurrent and may be pursued separately, successively or together against Borrower, the guarantor of the payment of all or any part of the Indebtedness or the performance of any of the Obligations, or the Mortgaged Property or any part thereof, or any one or more of them; and every right, power and remedy given by the Note or the Security Documents may be exercised from time to time as often as may be deemed expedient by Lender.

7.3 Strict Performance. No delay or omission of Lender to exercise any right, power or remedy accruing upon the happening of an Event of Default shall impair any such right, power or remedy or shall be construed to be a waiver of any such Event of Default or any acquiescence therein. No delay or omission on the part of Lender to exercise any option for acceleration of the maturity of the Indebtedness, or for foreclosure of the Deed of Trust following any Event of Default as aforesaid, or any other option granted to Lender hereunder in any one or more instances, or the acceptance by Lender of any partial payment on account of the Indebtedness shall constitute a waiver of any such Event of Default, and each such option shall remain continuously in full force and effect.

ARTICLE VIII MISCELLANEOUS

8.0 No Warranty by Lender. By accepting or approving anything required to be observed, performed or fulfilled by Borrower or to be given to Lender pursuant to this Loan Agreement, including, without limitation, any

certificate, balance sheet, statement of profit and loss or other financial statement, survey, receipt, appraisal or insurance policy, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and any such acceptance or approval thereof shall not be or constitute any warranty or representation with respect thereto by Lender.

8.1 Liability of Lender. Lender shall not be liable for any act or omission by it pursuant to the provisions of this Loan Agreement in the absence of fraud, gross negligence or willful misconduct. Lender shall incur no liability to Borrower or any other party in connection with the acts or omissions of Lender in reliance upon any certificate or other paper believed by Lender to be genuine or with respect to any other thing which Lender may do or refrain from doing, unless such act or omission amounts to fraud, gross negligence or willful misconduct. In connection with the performance of its duties pursuant to this Loan Agreement, Lender may consult with counsel of its own selection, and anything which Lender may do or refrain from doing, in good faith, in reliance upon the opinion of such counsel shall be full justification and protection to Lender.

8.2 No Partnership. Nothing contained in this Loan Agreement shall be construed in a manner to create any relationship between Borrower and Lender other than the relationship of borrower and lender, and Borrower and Lender shall not be considered partners or co-venturers for any purpose.

8.3 Severability. In the event any one or more of the provisions of this Loan Agreement shall for any reason be held to be invalid, illegal or unenforceable, in whole or in part or in any respect, or in the event any one or more of the provisions of the Note or the Security Documents operate or would prospectively operate to invalidate this Loan Agreement, then and in either of those events, at the option of Lender, such provision or provisions only shall be held for naught and shall not affect any other provision of the Note or the Security Documents or the validity of the remaining Obligations, and the remaining provisions of the Note and the Security Documents shall remain operative and in full force and effect and shall in no way be affected, prejudiced or disturbed thereby.

8.4 Successors and Assigns. Each and every of the covenants, terms, provisions and conditions of this Loan Agreement, the Note and the Security Documents shall apply to, bind and inure to the benefit of Borrower, its successors and those assigns of Borrower consented to in writing by Lender, and shall apply to, bind and inure to the benefit of Lender and the endorsees, transferees, successors and assigns of Lender, and all persons claiming under or through any of them.

8.5 Modification - Waiver. None of the terms or provisions of this Loan Agreement may be changed, waived, modified, discharged or terminated except by instrument in writing executed by the party or parties against which enforcement of the change, waiver, modification, discharge or termination is asserted. None of the terms or provisions of this Loan Agreement shall be deemed to have been abrogated or waived by reason of any failure or failures to enforce the same.

8.6 Third Parties - Benefit. All conditions of the obligations of Lender to make advances hereunder are imposed solely and exclusively for the benefit of Lender and its assigns, and no other persons shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that Lender will refuse to make advances in the absence of strict compliance with any or all thereof and no other person shall, under any circumstances, be deemed to be a beneficiary of such conditions, any or all of which may be freely waived in whole or in part by Lender at any time in the sole and absolute exercise of its discretion. The terms and provisions of this Loan Agreement are for the benefit of the parties hereto and, except as herein specifically provided, no other person shall have any right or cause of action on account thereof.

Lender shall in no event be responsible or liable to any person other than to Borrower for any advance of or failure to advance the proceeds of the Line of Credit or any part thereof, and no contractor, subcontractor, materialman or other person shall have any right or claim against Lender pursuant to this Loan Agreement or the administration thereof.

8.7 Conditions - Verification. Any condition of this Loan Agreement which requires the submission of evidence of the existence or non-existence of a specified fact or facts implies as a condition the existence or non-existence, as the case may be, of such fact or facts and Lender shall, at all times, be free independently to establish to its satisfaction and in its absolute discretion such existence or non-existence.

8.8 Captions and Headings. The captions and headings contained in this Loan Agreement are included herein for convenience of reference only and shall not be considered a part hereof and are not in any way intended to limit or enlarge the terms hereof.

8.9 Counterparts. This Loan Agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes; provided, however, that all such counterparts shall together constitute one and the same instrument.

8.10 Notices. All notices, demands, requests and other communications required pursuant to the provisions of this Loan Agreement shall be in writing and shall be deemed to have been properly given or served for all purposes when presented personally or sent by hand delivery, Federal Express or other similar overnight service or United States Registered or Certified Mail, postage prepaid, to the respective addresses as follows:

(a) If to Borrower, then to it at:

c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th floor
Reston, Virginia 20190
Attn: Christopher Clemente

With a copy to:

c/o Comstock Holding Companies, Inc.
1886 Metro Center Drive, 4th floor
Reston, Virginia 20190
Attn: Jubal Thompson

(b) If to Lender, then to it at:

8270 Greensboro Drive, Suite 500
McLean, Virginia 22102
Attention: Real Estate Department

Any of the parties may designate a change of address by notice in writing to the other parties. Whenever in this Loan Agreement the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person or persons entitled to receive such notice. Notwithstanding the foregoing, no notice of change of address shall be effective except upon actual receipt. This Section shall not be construed in any way to affect or impair any waiver of notice or demand provided in the Note or any of the Security Documents or to require giving of notice or demand to or upon any person in any situation or for any reason.

8.11 Signs; Publicity. At Lender's request and expense, Borrower shall place a sign or signs (in a form or forms which Borrower has reasonably approved) at a location or locations on the Mortgaged Property satisfactory to Lender and Borrower, which signs shall recite, among other things, that Lender is financing the construction of the Improvements. Borrower expressly authorizes Lender to prepare and to furnish to the news media for publication from time to time news releases with respect to the Project, specifically to include but not limited to releases detailing Lender's involvement with the financing of the Project.

8.12 Applicable Law. This Loan Agreement shall be governed by and construed, interpreted and enforced in accordance with and pursuant to the laws of the Commonwealth of Virginia. In the event that the "choice of law" rules of the Commonwealth of Virginia can be construed or interpreted to require the laws of another jurisdiction to govern, the "choice of law" rules of the Commonwealth of Virginia shall not apply.

8.13 Time of Essence. Time shall be of the essence of each and every provision of this Loan Agreement of which time is an element.

8.14 Commitment. To the extent the terms of the Commitment are not incorporated in this Loan Agreement, the terms and conditions of the Commitment shall survive the execution of this Loan Agreement and shall continue to be the obligation of Borrower until the Line of Credit is paid in full. Any discrepancy between the terms of the Commitment and the terms of the Security Documents shall be construed in favor of the Security Documents. Borrower agrees, from time to time, to execute and acknowledge such amendments or modifications as may reasonably be required to add, delete or modify provisions to this Loan Agreement in order to cause this Loan Agreement to conform to the terms of the Commitment.

IN WITNESS WHEREOF, Borrower and Lender have executed and delivered these presents or caused these presents to be executed and delivered as of the year and day first above written.

BORROWER:

COMSTOCK EASTGATE, L.C., a Virginia limited liability company

By: Comstock Holding Companies, Inc., a Delaware corporation, its manager

By: _____ (SEAL)
Christopher D. Clemente
Chief Executive Officer

LENDER:

CARDINAL BANK, a banking corporation organized under the laws of the Commonwealth of Virginia

By: _____ (SEAL)
Richard F. Schoen
Senior Vice President

EXHIBIT "A"

All those certain lots, pieces or parcels of land situate, lying and being in Loudoun County, Virginia, being more particularly described as follows:

PHASE 3, THE VILLAS AT EASTGATE CONDOMINIUM, as established by the Declaration of The Villas at Eastgate Condominium recorded July 20, 2012 as Instrument No. 20120720-0055207, with the plat recorded as Instrument No. 20120720-0055208 and 20120720-0055209 among the Land Records of the Clerk of the Circuit Court of Loudoun County, Virginia.

And being more particularly described as:

Beginning at the easterly corner of Phase 2, said corner lines on a southerly line of Phase A; thence departing Phase 2 and with the southerly line of Phase A the following five (5) courses and distances:

1. S 65°54'04" E, a distance of 75.96 feet to a point;
2. 43.04 feet along the arc of a curve to the left having a radius of 78.00 feet and with a chord bearing and distance of S 81°42'30" E, 42.50 feet to a point;
3. S 07°30'56" E, a distance of 41.35 feet to a point;
4. S 25°42'38" W, a distance of 75.44 feet to a point;
5. S 60°19'11" W, a distance of 40.25 feet to a point on a northerly line of Parcel A, Section 1, Phase 1, East Gate One;

Thence departing the Phase A, and with a northerly line of Parcel A, Section 1, Phase 1, East Gate One, N 65°52'25" W, a distance of 112.68 feet to a point, said point being the southerly corner of Phase 2;

Thence departing Parcel A, Section 1, Phase 1, East Gate One and with the easterly line of Phase 2, N 24°07'35" E, a distance of 131.47 feet to the point of beginning.

Containing 17,707 square feet or 0.40650 acres of land.

EXHIBIT "B"

Pro Forma Per Unit Cost and Loan Budget

Approved Final Project Cost Budget and Draw Schedule

EXHIBIT A

FORM OF

AMENDMENT TO DEED OF TRUST

THIS AMENDMENT TO DEED OF TRUST (“Deed of Trust Amendment”), made this day of , 201 , by and among **COMSTOCK EASTGATE, L.C.**, a Virginia limited liability company (“Grantor”), and , residing in Fairfax County, Virginia and , residing in Fairfax County, Virginia, either of whom may act (collectively, “Trustee”), and **CARDINAL BANK**, a banking corporation organized under the laws of the Commonwealth of Virginia, its successors and assigns (“Beneficiary”).

RECITALS

R-1. Grantor is indebted (the “Loan”) to Beneficiary pursuant to that certain Credit Line Deed of Trust Note in the maximum principal amount of \$2,500,000 dated as of September 27, 2012 (the “Note”); and

R-2. By that certain Credit Line Deed of Trust, Assignment and Security Agreement dated as of September 27, 2012 and recorded as Instrument # among the land records of Loudoun County, Virginia (the “Deed of Trust”), Grantor granted to the Trustee an interest in certain real property more particularly described therein to secure repayment of the Note; and

R-3. Grantor has requested and Beneficiary has agreed to fund a portion of the costs of making certain improvements to the parcels of land situated, lying and being in Loudoun County, Virginia, as more particularly described on Exhibit A attached hereto and incorporated herein by this reference (the “Additional Land”); and

R-4. The parties hereto desire to modify and amend the Deed of Trust for the purpose of extending the lien and operation of the Deed of Trust to include the Additional Land.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and in order to induce Beneficiary to fund a portion of the construction costs with respect to the Additional Land, Grantor and Beneficiary agree as follows:

1. All references in the Deed of Trust to the Mortgaged Property shall include the Additional Land (as hereinabove defined).

2. Grantor by these presents does grant, bargain, sell and convey, effective as of the date hereof, unto the Trustee, his survivor and other successor and successors in trust, to have and to hold in trust in accordance with the terms and conditions of the Deed of Trust, which is hereby incorporated herein by reference, as modified herein, all of Grantor’s right, title and interest in and to the Additional Land, together with (i) all buildings and improvements now or hereafter constructed thereon; (ii) all the estate and rights, if any, of Grantor in and to all land lying in public and private streets, roads and alleyways abutting the Additional Land; (iii) all easements, rights of way, privileges and appurtenances now or hereafter belonging to or in any way related to the Additional Land; (iv) all fixtures, machinery, equipment, building materials and other personal property of every nature whatsoever now or hereafter located in, or on, or used, or intended to be used, in connection with the operation of the above-described property, including, but without limitation, heating, air conditioning, cooking, refrigerating, plumbing, and electrical apparatus and equipment, boilers, engines, motors, dynamos, generating equipment, piping and plumbing fixtures, ventilating and vacuum cleaning systems, fire extinguishing apparatus, gas and electric fixtures, elevators, escalators, partitions, mantels, built-in mirrors, disposals, washers, dryers, window shades, blinds, screens, storm sashes, storm doors, awnings, carpeting, underpadding, drapes, plants and shrubbery, and furnishings of public spaces, halls and lobbies, all of which personal property, including replacements thereof and additions thereto, shall be deemed part of the realty hereby conveyed (and Grantor hereby declares such personal property to be part of said realty, whether attached thereto or not, and subject to the lien hereby created); and (v) all proceeds of the conversion, whether voluntary or involuntary, of any of the above-described property into cash or other liquid claims, including, without limitation, all awards, payments or proceeds, including interest thereon, and the right to receive the same, which may be made as a result of any casualty, any exercise of the right of eminent domain or deed in lieu thereof, the alteration of the grade of any street and any injury to or decrease in the value of the above-described property, together with all costs and expenses incurred by Beneficiary, in connection with the collection of such awards, payments and proceeds, including, without limitation, reasonable attorney’s fees, Grantor hereby confirms such grant of property as security for all of Grantor’s obligations thereunder, including payment and performance of the Note. It is the intent of the parties hereto that the lien of the Deed of Trust shall be and does constitute a first priority lien on the Property notwithstanding any claim or acts to the contrary.

3. Grantor hereby reconfirms the grant of property contained in the Deed of Trust as security for all of Grantor’s obligations thereunder, including payment and performance of the Note. It is the intent of the parties hereto that the lien of the Deed of Trust shall have constituted and does constitute a continuing and uninterrupted first priority lien notwithstanding any claim or acts to the contrary.

4. To the best of Grantor's knowledge, as of the date hereof, there are no defenses, offsets or counterclaims to the Note or the Deed of Trust as hereby modified. Except as expressly modified herein, the Deed of Trust remains in full force and effect without modification, and is hereby ratified and affirmed. This Deed of Trust Amendment is not intended to be, and shall not constitute a substitution or novation of the Note, Deed of Trust, or any other instruments evidencing or securing repayment of the Note. Grantor acknowledges and agrees that, to the best of Grantor's knowledge, Beneficiary has not defaulted under any obligations to Grantor.

IN WITNESS WHEREOF, Grantor, Trustee (at the direction of Beneficiary as evidenced by its signature hereto) and Beneficiary have caused this Deed of Trust Amendment to be executed under seal by their representatives thereunto duly authorized.

GRANTOR:

COMSTOCK EASTGATE, L.C., a Virginia limited liability company

By: Comstock Holding Companies, Inc., a Delaware corporation, its manager

By: _____ (SEAL)
Christopher D. Clemente
Chief Executive Officer

COMMONWEALTH OF VIRGINIA,
CITY/COUNTY OF _____, TO WIT:

I HEREBY CERTIFY that on this _____ day of _____, 201____, before me in the jurisdiction aforesaid personally appeared Christopher D. Clemente, the duly authorized Chief Executive Officer of Comstock Holding Companies, Inc., manager of Comstock Eastgate, L.C., a Virginia limited liability company, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledged that he executed the same for the purposes therein contained as the duly authorized Chief Executive Officer of Comstock Holding Companies, Inc.

WITNESS my hand and Notarial Seal.

Notary Public (SEAL)

My Commission Expires: _____

Registration #: _____

BENEFICIARY:

CARDINAL BANK, a banking corporation organized under the laws of the Commonwealth of Virginia

By: _____ (SEAL)

Name: _____

Title: _____

TRUSTEES:

_____ (SEAL)

Name: _____

Sole Acting Trustee

COMMONWEALTH OF VIRGINIA,
CITY/COUNTY OF _____, TO WIT:

I HEREBY CERTIFY, that on this _____ day of _____, 201____, before me, the undersigned Notary Public of said Commonwealth, personally appeared _____, who acknowledged himself to be the _____ of Cardinal Bank, a banking corporation organized under the laws of the Commonwealth of Virginia, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledged that he executed the same for the purposes therein contained as the duly authorized _____ of said corporation.

WITNESS my hand and Notarial Seal.

_____ (SEAL)

Notary Public

My Commission Expires: _____

Registration #: _____

COMMONWEALTH OF VIRGINIA,
CITY/COUNTY OF _____, TO WIT:

I HEREBY CERTIFY, that on this _____ day of _____, 201____, before me, the undersigned Notary Public of said Commonwealth, personally appeared _____, Trustee, known to me (or satisfactorily proven) to be the person whose name is subscribed to the within instrument, and acknowledged that he executed the same for the purposes therein contained.

WITNESS my hand and Notarial Seal.

Notary Public (SEAL)

My Commission Expires: _____

Registration #: _____

EXHIBIT A

Legal Description

All those certain lots, pieces or parcels of land situate, lying and being in Loudoun County, Virginia, being more particularly described as follows:

**CERTIFICATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher Clemente, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comstock Holding Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2012

/s/ Christopher Clemente

Christopher Clemente

Chairman and Chief Executive Officer

(Principal executive officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph M. Squeri, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Comstock Holding Companies, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2012

/s/ Joseph M. Squeri

Joseph M. Squeri
Chief Financial Officer
(Principal financial officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Comstock Holding Companies, Inc. (the "Company") for the quarter ended June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Christopher Clemente, Chairman and Chief Executive Officer of the Company and Joseph M. Squeri, Chief Financial Officer of the Company, certify, to our best knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2012

/s/ Christopher Clemente

Christopher Clemente
Chairman and Chief Executive Officer

Date: November 14, 2012

/s/ Joseph M. Squeri

Joseph M. Squeri
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.