

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1997

OR

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 1-13274

Cali Realty Corporation

(Exact name of registrant as specified in its charter)

Maryland 22-3305147
.....
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

11 Commerce Drive, Cranford, New Jersey 07016-3501

(Address of principal executive office)
(Zip Code)

(908) 272-8000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last
report)

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 twelve (12) months (or such shorter period that the
Registrant was required to file such report) YES NO and (2) has
been subject to such filing requirements for the past ninety (90) days YES
NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest practicable date.

There were 49,664,622 shares of \$.01 par value common stock outstanding at
October 31, 1997.

CALI REALTY CORPORATION

Form 10-Q

INDEX

Part I Financial Information

Item 1. Financial Statements:

Consolidated Balance Sheets as of September 30, 1997
and December 31, 1996.....

Consolidated Statements of Operations for the three and
nine month periods ended September 30, 1997 and 1996..

Consolidated Statement of Stockholders' Equity for the
nine months ended September 30, 1997.....

Consolidated Statements of Cash Flows for the nine
months ended September 30, 1997 and 1996.....

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....

Part II Other Information and Signatures

Item 6. Exhibits.....
Signatures.....

CALI REALTY CORPORATION

Part I - Financial Information

Item I: Financial Statements

The accompanying unaudited consolidated balance sheets, statements of operations, of stockholders' equity, and of cash flows and related notes, have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. The financial statements reflect all adjustments consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair presentation for the interim periods.

The aforementioned financial statements should be read in conjunction with the notes to the aforementioned financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

The results of operations for the three and nine month periods ended September 30, 1997 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

CALI REALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (dollars in thousands, except per share amounts)

	September 30, 1997	December 31, 1996
ASSETS		
Rental property		
Land	\$ 141,604	\$ 98,127
Buildings and improvements	1,258,895	718,466
Tenant improvements	41,490	35,626
Furniture, fixtures and equipment	2,101	1,133
	1,444,090	853,352
Less - accumulated depreciation and amortization	(92,549)	(68,610)
	1,351,541	784,742
Cash and cash equivalents (includes \$201,269 in Overnight Investments at December 31, 1996)	3,409	204,807
Unbilled rents receivable	25,617	19,705
Deferred charges and other assets, net of		

accumulated amortization	18,571	11,840
Restricted cash	5,154	3,160
Accounts receivable, net of allowance for doubtful accounts of \$505 and \$189	5,637	2,074
Mortgage note receivable	7,250	--

Total assets	\$1,417,179	\$1,026,328

LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgages and loans payable	\$ 593,058	\$ 268,010
Dividends and distributions payable	20,377	17,554
Accounts payable and accrued expenses	15,578	5,068
Rents received in advance and security deposits	17,088	6,025
Accrued interest payable	2,081	1,328

Total liabilities	648,182	297,985

Minority interest of unitholders in Operating Partnership	70,479	26,964

Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized, none issued		
Common stock, \$.01 par value, 190,000,000 shares authorized, 36,662,322 and 36,318,937 shares outstanding	366	363
Additional paid-in capital	723,617	714,052
Distributions in excess of net earnings	(15,560)	(13,036)
Unamortized stock compensation	(9,905)	--

Total stockholders' equity	698,518	701,379

Total liabilities and stockholders' equity	\$1,417,179	\$1,026,328

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

4

CALI REALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except per share amounts)

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
	----	----	----	----
REVENUES				

<S>	<C>	<C>	<C>	<C>
Base rents	\$ 52,148	\$ 18,438	\$ 145,328	\$ 51,713
Escalations and recoveries from tenants	8,185	3,414	22,464	9,646
Parking and other	1,648	538	5,245	1,453
Interest income	628	128	2,268	282

Total revenues	62,609	22,518	175,305	63,094

EXPENSES				

Real estate taxes	6,584	2,188	18,513	6,342
Utilities	5,061	2,222	13,001	5,965
Operating services	7,283	2,625	21,056	7,952
General and administrative	3,675	1,371	10,601	3,427
Depreciation and amortization	9,339	3,469	25,631	9,850
Interest expense	10,694	2,999	28,398	9,093

Total expenses	42,636	14,874	117,200	42,629

Income before gain on sale of rental property, minority interest and extraordinary items	19,973	7,644	58,105	20,465
Gain on sale of rental property	--	--	--	5,658

Income before minority interest and extraordinary items	19,973	7,644	58,105	26,123
Minority interest	2,015	1,045	5,663	3,866
Income before extraordinary items	17,958	6,599	52,442	22,257
Extraordinary items-loss on early retirement of debt (net of minority interest's share of \$402 in 1997 and \$86 in 1996)	3,583	--	3,583	475
Net income	\$ 14,375	\$ 6,599	\$ 48,859	\$ 21,782
Net income per common share:				
Income before extraordinary items	\$ 0.49	\$ 0.39	\$ 1.44	\$ 1.41
Extraordinary items-loss on early retirement of debt	(0.10)	--	(0.10)	(.03)
Net income	\$ 0.39	\$ 0.39	\$ 1.34	\$ 1.38
Dividends declared per common share	\$ 0.50	\$ 0.45	\$ 1.40	\$ 1.30
Weighted average common shares outstanding	36,457	17,045	36,469	15,803

</TABLE>

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

5

CALI REALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (in thousands)

Total	Common Stock		Additional Paid-in Capital	Retained Earnings (Distributions in Excess of Net Earnings)	Unamortized Stock Compensation	
	Shares	Par Value				
BALANCE AT JANUARY 1, 1997	36,319	\$ 363	\$ 714,052	\$ (13,036)	--	\$
701,379						
Net income	--	--	--	48,859	--	
48,859						
Dividends (51,383)	--	--	--	(51,383)	--	
Issuance of Stock Award Rights and Stock Purchase Rights	351	4	11,514	--	\$ (11,518)	
--						
Amortization of Stock Compensation	--	--	--	--	1,613	
1,613						
Repurchase of Common Stock (4,680)	(152)	(2)	(4,678)	--	--	
Conversion of Units to shares of Common Stock	1	--	17	--	--	
17						
Proceeds from exercise of stock options	143	1	2,712	--	--	
2,713						
BALANCE AT SEPTEMBER 30, 1997	36,662	\$ 366	\$ 723,617	\$ (15,560)	\$ (9,905)	\$
698,518						

</TABLE>

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

6

CALI REALTY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

<TABLE>
<CAPTION>

	Nine Months Ended September 30,	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 48,859	\$ 21,782
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	25,631	9,850
Minority interest	5,663	3,866
Amortization of Stock Compensation	1,613	--
Gain on sale of rental property	--	(5,658)
Extraordinary items-loss on early retirement of debt, net	3,583	475
Changes in operating assets and liabilities:		
Increase in unbilled rents receivable	(5,912)	(233)
Increase in deferred charges and other assets, net	(10,491)	(2,762)
Increase in accounts receivable, net	(3,563)	(31)
Increase in accounts payable and accrued expenses	10,510	247
Increase in rents received in advance and security deposits	6,306	705
Increase (decrease) in accrued interest payable	753	(280)
Net cash provided by operating activities	\$ 82,952	\$ 27,961
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to rental property	\$ (357,043)	\$ (60,836)
Issuance of mortgage note receivable	(11,600)	--
Proceeds from sale of rental property	--	10,324
Decrease in restricted cash	2,763	579
Net cash used in investing activities	\$ (365,880)	\$ (49,933)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from mortgages and loans payable	\$ 410,080	\$ 125,900
Repayments of mortgages and loans payable	(270,693)	(148,508)
Debt prepayment premiums and other costs	(1,812)	(312)
Proceeds from Common Stock offering	--	76,830
Proceeds from exercise of stock options	2,713	260
Repurchase of Common Stock	(4,680)	--
Payment of dividends and distributions	(54,078)	(22,814)
Net cash provided by financing activities	\$ 81,530	\$ 31,356
Net (decrease) increase in cash and cash equivalents	\$ (201,398)	\$ 9,384
Cash and cash equivalents, beginning of period	204,807	967
Cash and cash equivalents, end of period	\$ 3,409	\$ 10,351

</TABLE>

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

7

CALI REALTY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)

1. ORGANIZATION, ACQUISITIONS/TRANSACTIONS AND BASIS OF PRESENTATION

Organization

Cali Realty Corporation and subsidiaries (the "Company"), a Maryland corporation, is a fully-integrated, self-administered, self-managed real estate investment trust ("REIT") providing leasing, management, acquisition, development, construction and tenant-related services for its properties. As of September 30, 1997, the Company owned and operated 132 properties (the "Properties") aggregating 12.2 million square feet, consisting of 120 office and office/flex buildings totaling approximately 11.8 million square feet, six industrial/warehouse buildings totaling approximately 400,000 square feet, two multi-family residential complexes consisting of 453 units, two stand-alone retail properties and two land leases. The Properties are located in New Jersey, New York, Pennsylvania and Connecticut.

The Company was incorporated on May 24, 1994 and commenced operations on August 31, 1994. On August 31, 1994, the Company completed an initial public offering ("IPO") and effected a business combination with the Cali Group (not a legal entity). The Company raised its initial capital through the IPO issuing 10,500,000 shares of common stock, and used the proceeds to acquire a majority interest in Cali Realty, L.P. (the "Operating Partnership") and related entities, which are the successors to the operations of the Cali Group.

Acquisitions/Transactions

From 1994 through 1996, following the Company's IPO, the Company acquired 44 office and office/flex properties totaling 4.9 million square feet for approximately \$610,000. The acquired properties are all located in New Jersey, New York and Pennsylvania.

On January 28, 1997, the Company acquired 1345 Campus Parkway ("1345 Campus"), a 76,300 square foot office/flex property, located in Wall Township, Monmouth County, New Jersey, for approximately \$6,800 in cash, made available from the Company's cash reserves. The property is located in the same office park in which the Company previously acquired two office properties and four office/flex properties in November 1995.

On January 31, 1997, the Company acquired 65 properties ("RM Properties") of Robert Martin Company, LLC and affiliates ("RM") for a total cost of approximately \$450,000. The cost of the transaction (the "RM Transaction") was financed through the assumption of \$185,283 of mortgage indebtedness ("TIAA Mortgage"), approximately \$220,000 in cash, substantially all of which was obtained from the Company's cash reserves, and the issuance of 1,401,225 Units in the Operating Partnership.

The RM Properties consist primarily of 54 office and office/flex properties aggregating approximately 3.7 million square feet and six industrial/warehouse properties aggregating approximately 400,000 square feet. The RM Properties are located primarily in established business parks in Westchester County, New York and Fairfield County, Connecticut. The Company has agreed not to sell certain of the RM Properties for a period of seven years without the consent of the RM principals, except for sales made under certain circumstances and/or conditions.

In connection with the RM Transaction, the Company was granted a three-year option to acquire a 115,000 square foot office property and an 84,000 square foot office/flex property (the "Option Properties") for an aggregate minimum price of \$19,000 and has granted RM the right to put such properties to the Company between a range of an aggregate purchase price of \$11,600 to \$21,300, under certain conditions. The purchase prices, under the agreement, are subject to adjustment based on different formulas and are payable in cash or Units.

8

In connection with the RM Transaction, the Company provided an \$11,600 mortgage loan ("Mortgage Note Receivable") secured by the Option Properties (see Note 5).

As part of the RM Transaction, Brad W. Berger, formerly President and Chief Executive Officer of RM, and Timothy M. Jones, formerly Chief Operating Officer of RM, joined the Company as Executive Vice Presidents under three-year employment agreements. The agreements provided, among other things, that both Berger and Jones be issued warrants to purchase 170,000 shares of the Company's common stock at a price of \$33 per share, which vest equally over a three-year period and expire on January 31, 2007.

On May 8, 1997, the Company acquired four buildings in the Westlakes Office Park ("Westlakes"), a suburban office complex located in Berwyn, Chester County, Pennsylvania, totaling approximately 444,000 square feet. The properties were acquired for approximately \$74,700, which was made available primarily from drawing on one of the Company's credit facilities.

On July 21, 1997, the Company acquired two vacant office buildings in the

Moorestown Corporate Center, a suburban office complex located in Moorestown, Burlington County, New Jersey. The properties, each consisting of 74,000 square feet, were acquired for approximately \$10,200, which was made available from drawing on one of the Company's credit facilities.

On August 1, 1997, the Company acquired 1000 Bridgeport Avenue ("Shelton Place"), a 133,000 square-foot office building located in Shelton, Fairfield County, Connecticut. The property was acquired for approximately \$15,787, which was made available from drawing on one of the Company's credit facilities.

On August 15, 1997, the Company acquired one of the Option Properties, 200 Corporate Boulevard South ("200 Corporate"), an 84,000 square-foot office/flex building located in Yonkers, Westchester County, New York. The property was acquired for approximately \$8,078 through the exercise of a purchase option obtained in connection with the RM Transaction. The acquisition cost, net of the mortgage prepayment described below, was financed from the Company's cash reserves.

In conjunction with the acquisition of 200 Corporate, the sellers of the property, certain RM principals, prepaid \$4,350 of the \$11,600 Mortgage Note Receivable between the Company and such RM principals (See Note 5).

On September 3, 1997, the Company acquired Three Independence Way ("Three Independence"), a 111,300 square foot suburban office property located in South Brunswick, Middlesex County, New Jersey, for approximately \$13,400. The funds were made available from drawing on one of the Company's credit facilities.

As of October 31, 1997, the Company's portfolio consists of 132 properties aggregating approximately 12.2 million square feet, consisting primarily of office, office/flex and industrial/warehouse buildings, located in New Jersey, New York, Pennsylvania and Connecticut.

On September 18, 1997, the Company entered into a Contribution and Exchange Agreement (the "Agreement") with certain contributing partnerships and other entities affiliated with The Mack Company and Patriot American Office Group (collectively, "The Mack Group"). The Agreement, as amended, provides for, among other things, the Company to acquire 54 office properties, aggregating approximately 9.2 million square feet, (the "Mack Properties") for a total cost of approximately \$1,200,000. According to terms of the Agreement, the cost of the transaction (the "Mack Transaction") will be financed through: (i) the assumption of an aggregate of \$299,737 in mortgage financing (the "Mack Assumed Debt"); (ii) approximately \$469,000 in cash, (using excess proceeds from its October 1997 common stock offering, see Note 11, as well as drawing on the Company's revolving credit facilities); (iii) the issuance of 3,972,318 common units ("Common Units") in the Operating Partnership; (iv) the issuance of 250,256 preferred units ("Preferred Units") in the Operating Partnership convertible into Common Units; and (v) the issuance of two million warrants ("Warrants") to purchase Common Units. A portion of the Common Units may be contingent, non-participating, Common Units, (the "Contingent Units"), which will convert, in whole or in part, into ordinary Common Units upon the satisfaction within two years from the consummation of the transactions contemplated by the Agreement of certain conditions relating to the Mack Properties. Until such conversion, such Contingent Units shall not be entitled to any economic, voting or other rights associated with the participating Common Units.

9

Following completion of the Mack Transaction, the Company's portfolio will consist of 186 properties, primarily office and office/flex buildings, aggregating approximately 21.5 million square feet, located in ten states.

Pursuant to the Agreement, the Cali Realty Corporation name will be changed, subject to shareholder approval, to Mack-Cali Realty Corporation, and the name of the Operating Partnership will be changed from Cali Realty, L.P. to Mack-Cali Realty, L.P. If shareholder approval is not obtained, the Company will operate under its new name pursuant to a fictitious name certificate, and continue to obtain shareholder approval in the future.

With the completion of the Transaction, the composition of the Company's 13-member Board of Directors will also change. The Mack Group will be permitted to name three designees to the Board, who will be: William Mack, currently Senior Managing Partner of the Mack Company, Mitchell Hersh, currently Partner and Chief Operating Officer of the Mack Company, and Earle Mack, all of whom will be considered "inside" members of the Board because of their relationship with the Company's management. The other inside members of the Board will be John J. Cali, who will remain as Chairman of the Board, Thomas A. Rizk, and Robert Weinberg. The remaining seven independent directors will include three current independent Board members: Brendan Byrne, Irvin Reid and Alan Philibosian; with four new independent members to be selected by Mack and reasonably approved by the Company. It is anticipated that these four new independent members will be Paul A. Nussbaum, Vincent Tese, Jeffrey B. Lane and Martin D. Gruss.

In accordance with the Agreement, Thomas A. Rizk will remain Chief Executive

Officer and will resign as President of the Company, with Mitchell Hersh being appointed President and Chief Operating Officer. The Company's other existing officers will retain their current positions and responsibilities, except that Brant Cali will resign as Chief Operating Officer and John R. Cali will resign as Chief Administrative Officer. Brant Cali and John R. Cali will remain as officers of the Company as Executive Vice Presidents.

Additionally, the Agreement calls for the Company to enter into non-competition agreements with each of William, Earle, David and Frederic Mack, which will restrict the business dealings of such individuals relative to their involvement in commercial real estate activities to those specified in the Agreement. The agreements are to have a term of the later of (a) three years from the completion of the Mack Transaction, or (b) the occurrence of specified circumstances including, but not limited to, the removal of William, Earle, David or Frederic Mack, respectively, from the Company's Board of Directors and a decrease in certain ownership levels.

On or before December 12, 1997, the Company may terminate the Agreement for any reason. During the period beginning October 28, 1997 through December 12, 1997, the Mack Group may terminate the Agreement under certain situations and conditions relative to material adverse changes in the activities and stock price of the Company during that period.

The completion of the Mack Transaction is subject to certain conditions, including approval by the Company's stockholders. There can be no assurance that the Mack Transaction will be consummated or that the Agreement will not be modified or amended. Subject to the foregoing, the Company expects the Mack Transaction to be completed in or about December 1997.

Basis of Presentation

The accompanying consolidated financial statements include all accounts of the Company and its majority-owned subsidiaries, which consist principally of the Operating Partnership. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

10

2. SIGNIFICANT ACCOUNTING POLICIES

Rental

Property Rental properties are stated at cost less accumulated depreciation. Costs include interest, property taxes, insurance and other project costs incurred during the period of construction. Ordinary repairs and maintenance are expensed as incurred; major replacements and betterments are capitalized and depreciated over their estimated useful lives. Fully-depreciated assets are removed from the accounts. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	5 to 40 years

Tenant improvements	The shorter of the term of the related lease or useful life

Furniture, fixtures and equipment	5 to 10 years

On a periodic basis, management assesses whether there are any indicators that the value of the real estate properties may be impaired. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. Management does not believe that the value of any of its real estate properties are impaired.

Cash and Cash

Equivalents All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. At December 31, 1996, cash and cash equivalents included investments in overnight reverse repurchase agreements ("Overnight Investments") totaling \$201,269. Investments in Overnight Investments are subject to the risks that the counter-party will default and the collateral will decline in market value. The Overnight Investments held by the Company at December 31, 1996 matured on January 2, 1997. The entire balance, including interest income earned, was realized by the

Company and ultimately used in the funding of the RM Transaction on January 31, 1997.

Deferred

Financing Costs Costs incurred in obtaining financing are capitalized and amortized on a straight-line basis, which approximates the effective interest method, over the term of the related indebtedness. Amortization of such costs are recorded in interest expense and were \$171 and \$278 for the three month periods ended September 30, 1997 and 1996, respectively, and \$723 and \$805 for the nine month periods ended September 30, 1997 and 1996, respectively.

Deferred

Leasing Costs Costs incurred in connection with leases are capitalized and amortized on a straight-line basis over the terms of the related leases. Unamortized deferred leasing costs are charged to amortization expense upon early termination of the lease.

Revenue

Recognition The Company recognizes base rental revenue on a straight-line basis over the terms of the respective leases. Unbilled rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with the lease agreements. Parking revenue includes income from parking spaces leased to tenants.

Rental income on residential property under operating leases having terms generally of one year or less is recognized when earned.

11

Income and
Other Taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code (the "Code"). As a REIT, the Company will not be subject to federal income tax to the extent it distributes at least 95 percent of its REIT taxable income to its shareholders. REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. The Company may be subject to certain state and local taxes.

Interest Rate

Swap Agreements The Company enters into interest rate swap agreements which are designated as a means of managing interest rate exposure on its variable rate debt. The differential paid or received under these agreements is recognized in interest expense.

Earnings

Per Share Net income per common share is computed in accordance with APB Opinion No.15, "Earnings per Share," and uses the weighted average common shares outstanding during the period. The weighted average shares outstanding during the three month periods ended September 30, 1997 and 1996 were 36,457,234 and 17,045,063, respectively, and for the nine month periods ended September 30, 1997 and 1996 were 36,468,974 and 15,802,573, respectively.

Dividends and
Distributions

Payable The dividends and distributions payable at September 30, 1997 represents dividends payable to shareholders of record on October 3, 1997 (36,664,322 shares) and distributions payable to minority interest unitholders (4,090,170 Units) on that same date. The third quarter dividends and distributions of \$0.50 per share and per Unit were approved by the Board of Directors on September 15, 1997 and were paid on October 17, 1997.

Extraordinary

Items Extraordinary items represent the effect resulting from the early settlement of certain debt obligations, net of write-off's of related deferred financing costs, prepayment penalties, yield maintenance payments and other related items.

Underwriting
Commissions
and Offering
Costs

Underwriting commissions and offering costs incurred in connection with the Company's stock offerings are reflected as a reduction of additional paid-in-capital.

Stock Options

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. The Company's policy is to grant options with an exercise price equal to the quoted closing market price of the Company's stock on the business day preceding the grant date. Accordingly, no compensation cost has been recognized for the Company's stock option plans. See Note 11 for discussion of stock compensation.

Reclassifications

Certain reclassifications have been made to prior period balances in order to conform with current period presentation.

12

3. DEFERRED CHARGES AND OTHER ASSETS

	September 30, 1997 ----	December 31, 1996 ----
Deferred leasing costs	\$ 17,611	\$ 14,031
Deferred financing costs	3,559	5,390

	21,170	19,421
Accumulated amortization	(8,667)	(8,994)

Deferred charges, net	12,503	10,427
Prepaid expenses and other assets	6,068	1,413

Total deferred charges and other assets, net	\$18,571	\$ 11,840

4. RESTRICTED CASH

Restricted cash includes security deposits for all of the Company's residential properties and certain commercial properties, and escrow and reserve funds for debt service, real estate taxes, property insurance, capital improvements, tenant improvements, and leasing costs established pursuant to certain mortgage financing arrangements, and is comprised of the following:

	September 30, 1997 ----	December 31, 1996 ----
Escrow and other reserve funds	--	\$ 2,814
Security deposits	\$ 5,154	346

Total restricted cash	\$ 5,154	\$ 3,160

5. MORTGAGE NOTE RECEIVABLE

In connection with the RM Transaction on January 31, 1997, the Company provided an \$11,600 non-recourse mortgage loan to entities controlled by the RM principals, bearing interest at an annual rate of 450 basis points over the one-month London Inter-Bank Offered Rate (LIBOR). The Mortgage Note Receivable, which is secured by the Option Properties and guaranteed by certain of the RM principals, matures on February 1, 2000. In addition, the Company received a three percent origination fee with the Mortgage Note Receivable.

In conjunction with the acquisition of 200 Corporate, one of the Option Properties, on August 15, 1997, the sellers of the property, certain RM principals, prepaid \$4,350 of the Mortgage Note Receivable, leaving a remaining principal balance of \$7,250. The Company also received a prepayment fee of \$163.

6. MORTGAGES AND LOANS PAYABLE

	September 30, 1997 ----	December 31, 1996 ----
TIAA Mortgage	\$ 185,283	--
Harborside Mortgages	150,000	\$ 150,000
Mortgage Financing	--	64,508
Fair Lawn Mortgage	18,140	18,445
First Prudential Facility	--	6,000
Bank Facility	--	23,805
Unsecured Facility	230,000	--
Second Prudential Facility	4,005	--
Contingent Obligation	5,630	5,252
<hr/>		
Total mortgages and loans payable	\$ 593,058	\$268,010
<hr/>		

13

TIAA Mortgage

In connection with the RM Transaction, on January 31, 1997, the Company assumed a \$185,283 non-recourse mortgage loan with Teachers Insurance and Annuity Association of America ("TIAA"), with interest only payable monthly at a fixed annual rate of 7.18 percent (the "TIAA Mortgage"). The TIAA Mortgage is secured and cross-collateralized by 43 of the RM Properties and matures on December 31, 2003. The Company, at its option, may convert the TIAA Mortgage to unsecured debt upon achievement by the Company of an investment credit rating of Baa3/BBB- or better. The TIAA Mortgage is prepayable in whole or in part subject to certain provisions, including yield maintenance.

Harborside Mortgages

In connection with the acquisition of Harborside Financial Center ("Harborside"), on November 4, 1996, the Company assumed existing mortgage debt and was provided seller-financed mortgage debt aggregating \$150,000. The existing financing, with a principal balance of \$105,465 at September 30, 1997, bears interest at a fixed rate of 7.32 percent for a term of approximately nine years. The seller-provided financing, with a principal balance of \$44,535 at September 30, 1997, also has a term of nine years and initially bears interest at a rate of 6.99 percent. The interest rate on the seller-provided financing will be reset at the end of the third and sixth loan years based on the yield of the three-year treasury obligation at that time, with spreads of 110 basis points in years four through six and 130 basis points in years seven through maturity.

Mortgage Financing

Concurrent with the IPO, the Company's initial operating subsidiaries, which own the Company's remaining initial 11 office properties and the initial multi-family residential property, (collectively the "Initial Properties"), issued five-year mortgage notes with an aggregate principal balance of \$144,500 secured and cross-collateralized by the Initial Properties to an affiliate ("PSI") of Prudential Securities Inc. PSI then issued commercial mortgage pay-through bonds ("Bonds") collateralized by the mortgage notes. Bonds with an aggregate principal balance of \$70,000 were purchased by unrelated third parties. Bonds with an aggregate principal balance of \$74,500 were purchased by the Company. As a result, the Company's initial mortgage financing was \$70,000 (the "Mortgage Financing"). Approximately \$38,000 of the \$70,000 was guaranteed under certain conditions by certain partners of the Cali Group partnerships which owned the Initial Properties. The Mortgage Financing required monthly payments of interest only, with all principal and any accrued but unpaid interest due in August 1999. \$46,000 of the \$70,000 Mortgage Financing bore interest at a net cost to the Company equal to a fixed rate of 8.02 percent per annum and the remaining \$24,000 bore interest at a net cost to the Company equal to a floating rate of 100 basis points over one-month LIBOR (5.65625 percent at September 30, 1997) with a lifetime interest rate cap of 11.6 percent. Pursuant to the terms of the Mortgage Financing, the Company was required to escrow \$143 per month for tenant improvements and leasing commissions and \$53 per month for capital improvements. On March 12, 1996, the Company prepaid \$5,492 (\$1,687 -- fixed rate debt, \$3,805 -- floating rate debt) of the Mortgage Financing, resulting in outstanding balances of \$44,313 for the 8.02 percent fixed rate debt and \$20,195 for the floating rate debt. On August 12, 1997, the Company prepaid in full the remaining balance and retired the Mortgage Financing from funds made available primarily from drawing on the Unsecured Facility (see below). On account of prepayment fees, loan origination fees, legal fees and other costs incurred in the retirement of the Mortgage Financing, an extraordinary loss of \$3,583, net of minority interest's share of the loss (\$402) was recorded for the three and nine months ended September 30, 1997.

Fair Lawn Mortgage

In connection with the acquisition of an office building in Fair Lawn, New Jersey on March 3, 1995, the Company assumed an \$18,764 non-recourse mortgage loan ("Fair Lawn Mortgage") collateralized by the property, bearing interest at a fixed rate of 8.25 percent per annum. The loan required payment of interest only through March 15, 1996 and requires payment of principal and interest thereafter, on a 20-year amortization schedule, with the remaining principal balance due October 1, 2003. For the nine months ended September 30, 1997, the Company paid \$305 for amortization of principal on the Fair Lawn Mortgage.

First Prudential Facility

The Company has a \$70,000 revolving credit facility (the "First Prudential Facility") with Prudential Securities Credit Corp. ("PSC"), which may be used to fund acquisitions and new development projects and for general working capital

14

purposes, including capital expenditures and tenant improvements. In connection with the Mortgage Financing, the Company obtained a \$6,005 letter of credit (the "Letter of Credit"), secured by the First Prudential Facility, to meet certain tenant improvement and capital expenditure reserve requirements. The First Prudential Facility bore interest at a floating rate equal to 150 basis points over one-month LIBOR for January 1, 1996 through August 31, 1996. Effective September 1, 1996, the interest rate was reduced to a floating rate equal to 125 basis points over one-month LIBOR. The First Prudential Facility was a recourse liability of the Operating Partnership and was secured by a pledge of the \$74,500 Bonds held by the Company. In conjunction with obtaining the Unsecured Facility (see below), the Company repaid in full and terminated the First Prudential Facility on August 7, 1997. Additionally, the Letter of Credit was canceled in conjunction with prepayment of the Mortgage Financing on August 12, 1997.

Bank Facility

On February 1, 1996, the Company obtained a credit facility (the "Bank Facility") secured by certain of its properties in the amount of \$75,000 from two participating banks. The Bank Facility had a three-year term and bore interest at 150 basis points over one-month LIBOR. The terms of the Bank Facility include certain restrictions and covenants which limit, among other things, dividend payments and additional indebtedness and which require compliance with specified financial ratios and other financial measurements. The Bank Facility also required a fee equal to one quarter of one percent of the unused balance payable quarterly in arrears. In conjunction with obtaining the Unsecured Facility (see below), the Company repaid in full and terminated the Bank Facility on August 7, 1997.

Second Prudential Facility

On November 4, 1996, the Company obtained a revolving credit facility ("Second Prudential Facility") from PSC totaling \$80,000 which bears interest at 125 basis points over one-month LIBOR, and matures on January 15, 1998. The Second Prudential Facility is a recourse liability of the Operating Partnership and is secured by the Company's equity interest in Harborside. The terms of the Second Prudential Facility include certain restrictions and covenants that limit, among other things, dividend payments and additional indebtedness and that require compliance with specified financial ratios and other financial measurements. Additionally, on August 12, 1997, the Second Prudential Facility was amended increasing the total commitment from \$80,000 to \$100,000 and extending the maturity date to August 31, 1998. On October 10, 1997, the Company repaid the \$4,005 remaining outstanding balance under the Second Prudential Facility from the Company's cash reserves.

Unsecured Facility

On August 6, 1997, the Company obtained an unsecured revolving credit facility (the "Unsecured Facility") in the amount of \$400,000 from a group of 13 lender banks. The Unsecured Facility has a three-year term and currently bears interest at 125 basis points over one-month LIBOR. Based upon the Company's achievement of an investment grade long-term unsecured debt rating, the interest rate will be reduced, on a sliding scale, and a competitive bid option will become available.

The terms of the Unsecured Facility include certain restrictions and covenants which limit, among other things, dividend payments and additional indebtedness and which require compliance with specified financial ratios and other financial measurements. The Unsecured Facility also requires a fee on the unused balance payable quarterly in arrears, at a rate ranging from one-eighth of one percent to one-quarter of one percent of such balance, depending on the level of borrowings outstanding in relation to the total facility commitment.

The lending group for the Unsecured Facility includes: Fleet National Bank, The Chase Manhattan Bank, and Bankers Trust Company, as agents;

PNC Bank, N.A., Bank of America National Trust and Savings Association, Commerzbank, and First National Bank of Chicago, as co-agents; and Keybank, Summit Bank, Crestar Bank, Mellon Bank, N.A., Signet Bank, and Kredeitbank NV.

In conjunction with the Company obtaining the Unsecured Facility, the Company drew funds on the new facility to repay in full and terminate both the First Prudential Facility and the Bank Facility. On October 15, 1997, the Company repaid \$160,000 of the outstanding balance on the Unsecured Facility in proceeds received from the Company's common stock offering completed on such date (See Note 11).

15

Contingent Obligation

As part of the Harborside acquisition, the Company agreed to make payments (with an estimated net present value of approximately \$5,252 at acquisition date) to the seller for development rights ("Contingent Obligation") if and when the Company commences construction on the acquired site during the next several years. However, the agreement provides, among other things, that even if the Company does not commence construction, the seller may nevertheless require the Company to acquire these rights during the six-month period after the end of the sixth year. After such period, the seller's option lapses, but any development in years 7 through 30 will require a payment, on an increasing scale, for the development rights. For the nine months ended September 30, 1997, interest imputed on the Contingent Obligation was capitalized, thereby increasing the balance of the Contingent Obligation to \$5,630 as of September 30, 1997.

Interest Rate Swap Agreements

On May 24, 1995, the Company entered into an interest rate swap agreement with a commercial bank. The swap agreement fixes the Company's one-month LIBOR base to a fixed 6.285 percent per annum on a notional amount of \$24,000 through August 1999.

On January 23, 1996, the Company entered into another interest rate swap agreement with a commercial bank. This swap agreement has a three-year term and a notional amount of \$26,000, which fixes the Company's one-month LIBOR base to 5.265 percent.

The Company is exposed to credit loss in the event of non-performance by the other parties to the interest rate swap agreements. However, the Company does not anticipate non-performance by either counterparty.

Cash Paid for Interest

Cash paid for interest for the nine month periods ended September 30, 1997 and 1996 was \$26,922 and \$8,665, respectively.

7. MINORITY INTEREST

Certain individuals and entities own Units in the Operating Partnership. A Unit and a share of common stock of the Company have substantially the same economic characteristics in as much as they effectively share equally in the net income or loss of the Operating Partnership. Minority interest in the accompanying consolidated financial statements relates to Units held by parties other than the Company.

Units are redeemable by the unitholders at their option, subject to certain restrictions, on the basis of one Unit for either one share of common stock or cash equal to the fair market value of a share at the time of the redemption. The Company has the option to deliver shares of common stock in exchange for all or any portion of the cash requested. When a unitholder redeems a Unit, minority interest is reduced and the Company's investment in the Operating Partnership is increased.

On January 31, 1997, 1,401,225 Units were issued in connection with the RM Transaction. As of September 30, 1997 and December 31, 1996, the minority interest unitholders owned 10.0 and 6.9 percent of the Operating Partnership, respectively.

8. EMPLOYEE BENEFIT PLAN

All employees of the Company who meet certain minimum age and period of service requirements are eligible to participate in a Section 401(k) plan (the "Plan") as defined by the Code. The Plan allows eligible employees to defer up to 15 percent of their annual compensation. The amounts contributed by employees are immediately vested and non-forfeitable. The Company, at management's discretion, may match employee contributions. No employer

contributions have been made to date.

16

9. COMMITMENTS AND CONTINGENCIES

Tax Abatement Agreements

Grove Street Property

Pursuant to an agreement with the City of Jersey City, New Jersey, as amended, expiring in 2004, the Company is required to make payments in lieu of property taxes ("PILOT") on its property at 95 Christopher Columbus Drive, Jersey City, Hudson County, New Jersey. Such PILOT, as defined, is \$1,267 per annum through May 31, 1999 and \$1,584 per annum through May 31, 2004.

Harborside Financial Center Property

Pursuant to a separate agreement with the City of Jersey City, New Jersey obtained by the former owner of the Harborside property in 1988 and assumed by the Company as part of the acquisition of the property on November 4, 1996, the Company is required to make PILOT payments on its Harborside property. The agreement, which commenced in 1990, are for a term of 15 years. Such PILOT is equal to two percent of Total Project Costs, as defined, in year one and increases by \$75 per annum through year fifteen. Total Project Costs, as defined, are \$148,712.

10. TENANT LEASES

The Properties are leased to tenants under operating leases with various expiration dates through 2020. Substantially all of the leases provide for annual base rents plus recoveries and escalation charges based upon the tenant's proportionate share of and/or increases in real estate taxes and certain operating costs, as defined, and the pass through of charges for electrical usage.

11. STOCKHOLDERS' EQUITY

To maintain its qualification as a REIT, not more than 50 percent in value of the outstanding shares of the Company may be owned, directly or indirectly, by five or fewer individuals (defined to include certain entities), applying certain constructive ownership rules. To help ensure that the Company will not fail this test, the Company's Articles of Incorporation provide for, among other things, certain restrictions on the transfer of the common stock to prevent further concentration of stock ownership. Moreover, to evidence compliance with these requirements, the Company must maintain records that disclose the actual ownership of its outstanding common stock and will demand written statements each year from the holders of record of designated percentages of its common stock requesting the disclosure of the beneficial owners of such common stock.

On May 13, 1996, the stockholders approved an increase in the authorized shares of common stock in the Company from 25,000,000 to 95,000,000.

On July 29, 1996, the Company filed a shelf registration statement with the SEC for an aggregate amount of \$500,000 in equity securities of the Company. The registration statement was declared effective by the SEC on August 2, 1996.

On August 13, 1996, the Company sold 3,450,000 shares of its common stock through a public stock offering (the "August 1996 Offering"), which included an exercise of the underwriters over-allotment option of 450,000 shares. Net proceeds from the August 1996 Offering (after offering costs) were approximately \$76,830. The offering was conducted using one underwriter and the shares were issued from the Company's \$250,000 shelf registration statement (File No. 33-96538).

Pursuant to the Company's \$500,000 shelf registration statement, on November 22, 1996, the Company completed an underwritten public offer and sale of 17,537,500 shares of its common stock using several different underwriters to underwrite such public offer and sale (which included an exercise of the underwriters' over-allotment option of 2,287,500 shares). The Company received approximately \$441,215 in net proceeds (after offering costs) from the

17

offering, and used such funds to effect certain of the Company's property acquisitions in November and December 1996, pay down outstanding borrowings on its revolving credit facilities, and investing the excess funds in Overnight Investments.

On December 31, 1996, the Company filed a shelf registration statement with

the SEC for an aggregate amount of \$1,000,000 in equity securities of the Company. The registration statement was declared effective by the SEC on January 7, 1997.

On May 15, 1997, the stockholders approved an increase in the authorized shares of common stock in the Company from 95,000,000 to 190,000,000.

Pursuant to the Company's \$1,000,000 shelf registration statement, on October 15, 1997, the Company completed an underwritten public offer and sale of 13,000,000 shares of its common stock using several different underwriters to underwrite such public offer and sale. The Company received approximately \$489,000 in net proceeds (after offering costs) from the offering. The Company used \$160,000 of such proceeds to repay outstanding borrowings on its Unsecured Facility and anticipates using the remainder of the proceeds to fund a portion of the purchase price of the Mack Transaction, for other potential acquisitions, and for general corporate purposes.

Stock Option Plans

In 1994, and as afterwards amended, the Company established the Cali Employee Stock Option Plan ("Employee Plan") and the Cali Director Stock Option Plan ("Director Plan") under which a total of 2,980,188 (subject to adjustment) of the Company's shares of common stock have been reserved for issuance (2,780,188 shares under the Employee Plan and 200,000 shares under the Director Plan). Stock options granted under the Employee Plan in 1994 and 1995 become exercisable over a three-year period and those options granted under the Employee Plan in 1996 and 1997 become exercisable over a five-year period. All stock options granted under the Director Plan become exercisable in one year. All options were granted at the fair market value at the dates of grant and have terms of ten years.

18

Information regarding the Company's stock option plans is summarized below:

Shares under option:	Employee Plan	Director Plan
-----	-----	-----
Granted on August 31, 1994 at \$15.25-\$17.25 per share	600,000	25,000
-----	-----	-----
Outstanding at December 31, 1994		
\$15.25 - \$17.25 per share	600,000	25,000
Granted at \$17.25-\$19.875 per share	220,200	10,000
Less - Lapsed or canceled	(3,588)	--
-----	-----	-----
Outstanding at December 31, 1995		
\$15.25 - \$19.875 per share	816,612	35,000
Granted at \$21.50-\$26.25 per share	795,700	14,000
Less - Lapsed or canceled	(7,164)	--
Exercised at \$17.25 per share	(116,041)	(10,000)
-----	-----	-----
Outstanding at December 31, 1996		
\$15.25 - \$26.25 per share	1,489,107	39,000
Granted at \$33.00 per share	--	5,000
Granted at \$33.875 per share	--	5,000
Granted at \$30.75 per share	171,460	--
Granted at \$30.25 per share	148,000	--
Granted at \$37.0625 per share	170,720	--
Less - Lapsed or canceled	(27,553)	--
Exercised at \$17.25 - \$25.25 per share	(143,315)	--
-----	-----	-----
Outstanding at September 30, 1997		
\$15.25 - \$33.875 per share	1,808,419	49,000
-----	-----	-----
Exercisable at September 30, 1997	641,254	39,000
-----	-----	-----
Available for grant at December 31, 1996	175,040	51,000
Available for grant at September 30, 1997	712,413	141,000
-----	-----	-----

Stock Compensation

In January 1997, the Company entered into employment contracts with seven of its key executives which provide for, among other things, compensation in the form of stock awards (the "Stock Award Rights") and Company-financed stock purchase rights (the "Stock Purchase Rights"), and associated tax obligation payments. In connection with the Stock Award Rights, the executives will receive 199,070 shares of the Company's common stock vesting over a five-year period contingent on the Company meeting certain performance objectives. Additionally, pursuant to the terms of the Stock Purchase Rights, the Company provided fixed rate, non-prepayable loans, aggregating \$4,750, to such executives to finance their purchase of 152,000 shares of the Company's

common stock, which the Company has agreed to forgive ratably over five years. Such loans were for amounts equal to the fair market value of the associated shares at the date of grant. Subsequently, from April 18, 1997 through April 24, 1997, the Company purchased, for constructive retirement, 152,000 shares of its outstanding common stock for \$4,680. The excess of the purchase price over par value was recorded as a reduction to additional paid-in capital. Concurrent with this purchase, the Company sold to the Operating Partnership 152,000 Units for \$4,680.

The value of the Stock Award Rights at September 30, 1997, net of amounts recognized as compensation expense, is recorded as unamortized stock compensation and shown as a separate component of stockholders' equity. Unamortized stock compensation for the Stock Award Rights is amortized to expense as certain performance objectives are reached.

Additionally, the balance of the loans related to the Stock Purchase Rights at the grant date, net of amounts recognized as compensation expense, is recorded as unamortized stock compensation and shown as a separate component of stockholders' equity. Unamortized stock compensation is amortized to expense ratably over the five-year vesting period.

19

Included in general and administrative expense for the three and nine month periods ended September 30, 1997 is \$778 and \$2,257, respectively, relating to the Stock Award Rights and Stock Purchase Rights.

12. IMPACT OF RECENTLY - ISSUED ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128, "Earnings per Share," ("FASB No. 128") which will be effective for periods ending after December 15, 1997. Earlier application is not permitted. FASB No. 128 requires a dual presentation of basic and diluted earnings per share ("EPS") on the face of the income statement for all companies with complex capital structures even where the effect of such dilution is not material. Basic EPS excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company will adopt FASB No. 128 in its December 31, 1997 financial statements and will restate all prior period EPS information. The Company will continue to account for EPS under APB No. 15 until that time.

The following pro forma information presents the Company's results for the periods indicated in accordance with FASB No. 128.

For the three month period ended September 30, 1997:

	Pro Forma Basic EPS	Pro Forma Diluted EPS
	-----	-----
Net income (in \$000's)	\$ 14,375	\$ 14,375
Add: Net income attributable to potentially dilutive securities	--	1,613
	-----	-----
	\$ 14,375	\$ 15,988
	-----	-----
Weighted average shares	36,457,234	41,183,798
	-----	-----
Per Share	\$ 0.39	\$ 0.39
	-----	-----

The following schedule reconciles the shares used in the pro forma basic EPS calculation to the shares used in the pro forma diluted EPS calculation.

Pro Forma Basic EPS Shares:	36,457,234
Add: Stock Options	636,394
Add: Operating Partnership Units	4,090,170

Pro Forma Diluted EPS Shares:	41,183,798

20

For the nine month period ended September 30, 1997:

	Pro Forma Basic EPS	Pro Forma Diluted EPS
	-----	-----
Net income (in \$000's)	\$ 48,859	\$ 48,859
Add: Net income attributable to potentially dilutive securities	--	5,261
	-----	-----
	\$ 48,859	\$ 54,120
	-----	-----
Weighted average shares	36,468,974	41,068,405
	-----	-----
Per Share	\$ 1.34	\$ 1.32
	-----	-----

The following schedule reconciles the shares used in the pro forma basic EPS calculation to the shares used in the pro forma diluted EPS calculation.

Pro Forma Basic EPS Shares:	36,468,974
Add: Stock Options	662,722
Add: Operating Partnership Units	3,936,709

Pro Forma Diluted EPS Shares:	41,068,405

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("FASB No. 130"), which establishes standards for reporting and display of comprehensive income and its components. This statement requires a separate statement to report the components of comprehensive income for each period reported. The provisions of this statement are effective for fiscal years beginning after December 15, 1997. Management believes that they currently do not have items that would require presentation in a separate statement of comprehensive income.

In June 1997, the FASB also issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, ("FASB No. 131"), which establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and require that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. This statement is effective for financial statements for periods beginning after December 15, 1997.

13. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information for the three and nine month periods ended September 30, 1997 and 1996 are presented as if the acquisitions and common stock offerings in 1996, the January 1997 RM Transaction, and the 1997 acquisitions of 1345 Campus, Westlakes, Shelton Place, 200 Corporate and Three Independence Way had all occurred on January 1, 1996. In management's opinion, all adjustments necessary to reflect the effects of these transactions have been made.

21

This pro forma financial information is not necessarily indicative of what the actual results of operations of the Company would have been assuming such transactions had been completed as of January 1, 1996, nor do they represent the results of operations of future periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Revenues	\$63,226	\$57,234	\$187,423	\$176,319
Operating and other expenses	19,122	18,536	56,676	55,213
General and administrative	3,687	3,602	11,344	9,596
Depreciation and amortization	9,436	9,054	27,601	26,505
Interest expense	9,772	9,841	29,534	29,508
	-----	-----	-----	-----
Income before minority interest	21,209	16,201	62,268	55,497
Minority interest	2,140	1,649	6,280	5,661
	-----	-----	-----	-----
Net income	\$19,069	\$14,552	\$ 55,988	\$ 49,836
	-----	-----	-----	-----
Net income per common share	\$ 0.52	\$ 0.40	\$ 1.54	\$ 1.38

CALI REALTY CORPORATION AND SUBSIDIARIES

Item 2:

M A N A G E M E N T ' S D I S C U S S I O N A N D A N A L Y S I S
O F F I N A N C I A L C O N D I T I O N A N D
R E S U L T S O F O P E R A T I O N S

The following discussion should be read in conjunction with the Consolidated Financial Statements of Cali Realty Corporation and the notes thereto.

The following comparisons for the three and nine month periods ended September 30, 1997 ("1997"), as compared to the three and nine month periods ended September 30, 1996 ("1996") make reference to the following: (i) the effect of the "Pre-Acquisition Properties," which represents all properties owned by the Company at June 30, 1996 (for the three-month period comparisons), and which represents all properties owned by the Company at December 31, 1995 (for the nine-month period comparisons), (ii) the effect of the "Acquired Properties," which represents all properties acquired by the Company from July 1, 1996 through September 30, 1997, excluding RM (for the three-month period comparisons), and represents all properties acquired by the Company from January 1, 1996 through September 30, 1997, excluding RM (for the nine-month period comparisons), (iii) the effect of the "Disposition," which refers to the Company's sale of its Essex Road property on March 20, 1996, and (iv) the effect of the acquisition of the RM Properties on January 31, 1997.

Three Months Ended September 30, 1997 Compared to
Three Months Ended September 30, 1996

Total revenues increased \$40.1 million, or 178.0 percent, for the three months ended September 30, 1997 over the same period in 1996. Base rents increased \$33.7 million, or 182.8 percent, of which an increase of \$17.7 million, or 95.9 percent, was attributable to the Acquired Properties, an increase of \$15.9 million, or 86.6 percent, due to the RM Properties, and an increase of \$0.1 million, or 0.3 percent, due to occupancy changes at the Pre-Acquisition Properties. Escalations and recoveries increased \$4.8 million, or 139.7 percent, of which an increase of \$3.2 million, or 92.6 percent, was attributable to the Acquired Properties, an increase of \$1.3 million, or 38.0 percent, due to the RM Properties, and an increase of \$0.3 million, or 9.1 percent, due to occupancy changes at the Pre-Acquisition Properties.

Total expenses for the three months ended September 30, 1997 increased \$27.8 million, or 186.6 percent, as compared to the same period in 1996. Real estate taxes increased \$4.4 million, or 200.9 percent, for 1997 over 1996, of which an increase of \$1.8 million, or 82.9 percent, was attributable to the Acquired Properties, an increase of \$2.5 million, or 111.7 percent, due to the RM Properties, and an increase of \$0.1 million, or 6.3 percent, attributable to the Pre-Acquisition Properties. Additionally, operating services increased \$4.7 million, or 177.4 percent, and utilities increased \$2.8 million, or 127.8 percent, for 1997 over 1996. The aggregate increase in operating services and utilities of \$7.5 million, or 154.7 percent, consists of \$4.0 million, or 81.7 percent, attributable to the Acquired Properties, an increase of \$3.6 million, or 75.2 percent, due to the RM Properties, offset by a decrease of \$0.1 million, or 2.2 percent, attributable to the Pre-Acquisition Properties. General and administrative expense increased \$2.3 million, or 168.1 percent, of which \$0.7 million, or 49.5 percent, is attributable to additional costs related to the RM Properties and \$1.6 million, or 118.6 percent, is due primarily to an increase in payroll and related costs as a result of the Company's expansion in late 1996 and early 1997. Depreciation and amortization increased \$5.9 million, or 169.2 percent, for 1997 over 1996, of which \$2.9 million, or 84.2 percent, relates to depreciation on the Acquired Properties, an increase of \$2.8 million, or 79.9 percent, attributable to the RM Properties, and an increase of \$0.2 million, or 5.1 percent, due to the Pre-Acquisition Properties. Interest expense increased \$7.7 million, or 256.6 percent, for 1997 over 1996, of which \$3.3 million, or 110.9 percent, was attributable to the TIAA Mortgage, \$2.7 million, or 90.9 percent, due to the Harborside Mortgages, and an increase of \$3.7 million, or 121.5 percent, due to net additional drawings from the Company's credit facilities as a result of Company acquisitions, as well as changes in LIBOR, offset by a decrease of \$2.0 million, or 66.7 percent, due to the August 1997 prepayment of the Mortgage Financing.

Income before gain on sale of rental property, minority interest, and extraordinary items increased to \$20.0 million in 1997 from \$7.7 million in 1996. The increase of \$12.3 million was due to the factors discussed above.

Net income increased \$7.8 million for the three months ended September 30, 1997 from \$6.6 million in 1996 to \$14.4 million in 1997, as a result of the increase in income before gain on sale of rental property, minority interest and extraordinary items of \$12.3 million, offset by the recognition in 1997 of an extraordinary loss of \$3.6 million (net of minority interest), and an increase in minority interest of \$0.9 million in 1997 from 1996.

Nine Months Ended September 30, 1997 Compared to
Nine Months Ended September 30, 1996

Total revenues increased \$112.2 million, or 177.8 percent, for the nine months ended September 30, 1997 over the same period in 1996. Base rents increased \$93.6 million, or 181.0 percent, of which an increase of \$50.5 million, or 97.6 percent, was attributable to the Acquired Properties, an increase of \$42.3 million, or 81.9 percent, due to the RM Properties, and an increase of \$1.1 million, or 2.0 percent, due to occupancy changes at the Pre-Acquisition Properties, offset by a decrease of \$0.3 million or 0.5 percent, as a result of the Disposition. Escalations and recoveries increased \$12.8 million, or 132.9 percent, of which an increase of \$9.0 million, or 93.5 percent, was attributable to the Acquired Properties, an increase of \$3.4 million, or 35.2 percent, due to the RM Properties, and an increase of \$0.4 million, or 4.2 percent, due to occupancy changes at the Pre-Acquisition Properties.

Total expenses for the nine months ended September 30, 1997 increased \$74.6 million, or 174.9 percent, as compared to the same period in 1996. Real estate taxes increased \$12.2 million, or 191.9 percent, for 1997 over 1996, of which an increase of \$5.3 million, or 83.8 percent, was attributable to the Acquired Properties, an increase of \$6.6 million, or 103.8 percent, due to the RM Properties, and an increase of \$0.4 million, or 5.1 percent, attributable to the Pre-Acquisition Properties, offset by a decrease of \$0.1 million, or 0.8 percent, as a result of the Disposition. Additionally, operating services increased \$13.1 million, or 164.8 percent, and utilities increased \$7.0 million, or 118.0 percent, for 1997 over 1996. The aggregate increase in operating services and utilities of \$20.1 million, or 144.7 percent, consists of \$11.4 million, or 81.9 percent, attributable to the Acquired Properties, and an increase of \$9.4 million, or 67.6 percent, due to the RM Properties, offset by a decrease of \$0.2 million, or 1.2 percent, as a result of the Disposition, and a decrease of \$0.5 million, or 3.6 percent, attributable to the Pre-Acquisition Properties. General and administrative expense increased \$7.2 million, or 209.3 percent, of which \$1.9 million, or 55.0 percent, is attributable to additional costs related to the RM Properties and \$5.3 million, or 154.3 percent, due primarily to an increase in payroll and related costs as a result of the Company's expansion in late 1996 and early 1997. Depreciation and amortization increased \$15.8 million, or 160.2 percent, for 1997 over 1996, of which \$8.2 million, or 83.6 percent, relates to depreciation on the Acquired Properties, an increase of \$7.2 million, or 72.7 percent, attributable to the RM Properties, and an increase of \$0.5 million, or 4.7 percent, due to the Pre-Acquisition Properties, offset by a decrease of \$0.1 million, or 0.8 percent, related to the Disposition. Interest expense increased \$19.3 million, or 212.3 percent, for 1997 over 1996, of which \$8.8 million, or 97.5 percent, was attributable to the TIAA Mortgage, \$8.2 million, or 89.7 percent, due to the Harborside Mortgages, and an increase of \$4.5 million, or 48.8 percent, due to net additional drawings from the Company's credit facilities as a result of Company acquisitions as well as changes in LIBOR, offset by a decrease of \$0.1 million, or 0.6 percent, related to the March 1996 partial prepayment of the Mortgage Financing, and a decrease of \$2.1 million, or 23.1 percent, due to the August 1997 prepayment of the Mortgage Financing.

Income before gain on sale of rental property, minority interest, and extraordinary items increased to \$58.1 million in 1997 from \$20.5 million in 1996. The increase of \$37.6 million was due to the factors discussed above.

Net income increased \$27.1 million for the nine months ended September 30, 1997 from \$21.8 million in 1996 to \$48.9 million in 1997, as a result of the increase in income before gain on sale of rental property, minority interest and extraordinary items of \$37.6 million and the recognition in 1996 of an extraordinary loss of \$0.5 million (net of minority interest), offset by the recognition in 1997 of an extraordinary loss of \$3.6 million (net of minority interest), the gain on sale of rental property of \$5.7 million recognized in 1996, and an increase in minority interest of \$1.7 million in 1997 over 1996.

Liquidity and Capital Resources

Statement of Cash Flows

During the nine months ended September 30, 1997, the Company generated \$82.9 million in cash flows from operating activities, and together with \$410.1 million in borrowings from the Company's credit facilities, \$2.7 million of proceeds from stock options exercised, \$201.4 million from the Company's cash reserves, and \$2.8 million from restricted cash, used an aggregate of \$699.9 million to (i) purchase 75 rental properties and other tenant improvements

and building improvements for \$357.0 million, (ii) pay \$11.6 million for a Mortgage Note Receivable, (iii) pay quarterly dividends and distributions of \$54.1 million, (iv) pay the amortization on mortgage principal of \$0.3 million, (v) repay outstanding borrowings on its credit facilities by \$270.4 million, (vi) repurchase 152,000 shares of the Company's common stock for \$4.7 million, and (vii) pay debt prepayment and other costs of \$1.8 million.

Capitalization

On January 23, 1996, the Company entered into an interest rate swap agreement with a commercial bank. The swap agreement has a three-year term and a notional amount of \$26 million, which fixes the Company's one-month LIBOR base to 5.265 percent.

On February 1, 1996, the Company obtained a credit facility (the "Bank Facility") secured by certain of its properties in the amount of \$75 million from two participating banks. The Bank Facility had a three-year term and bore interest at 150 basis points over one-month LIBOR. The terms of the Bank Facility included certain restrictions and covenants which limited, among other things, dividend payments and additional indebtedness and which required compliance with specified financial ratios and other financial measurements. The Bank Facility also required a fee equal to one quarter of one percent of the unused balance payable quarterly in arrears. In conjunction with obtaining the Unsecured Facility, the Company repaid in full and terminated the Bank Facility on August 7, 1997.

On July 29, 1996, the Company filed a shelf registration statement (File No. 333-09081) with the Securities and Exchanges Commission ("SEC") for an aggregate amount of \$500 million in equity securities of the Company. The registration statement was declared effective by the SEC on August 2, 1996.

On August 13, 1996, the Company sold 3,450,000 shares of its common stock through a public stock offering (the "August 1996 Offering"), which included an exercise of the underwriters' over-allotment option of 450,000 shares. Net proceeds from the August 1996 Offering (after offering costs) were approximately \$76.8 million. The offering was conducted using one underwriter and the shares were issued from the Company's \$250 million shelf registration statement (File No. 33-96538).

On November 4, 1996, the Company obtained a revolving credit facility ("Second Prudential Facility") from PSC totaling \$80 million which bears interest at 125 basis points over one-month LIBOR, and matures on January 15, 1998. The Second Prudential Facility is a recourse liability of the Operating Partnership and is secured by the Company's equity interest in Harborside. The terms of the Second Prudential Facility include certain restrictions and covenants that limit, among other things, dividend payments and additional indebtedness and that require compliance with specified financial ratios and other financial measurements. On August 7, 1997, the Company repaid in full the outstanding balance under the Second Prudential Facility with funds drawn from the Unsecured Facility. Additionally, on August 12, 1997, the Second Prudential Facility was amended increasing the total commitment from \$80 million to \$100 million and extending the maturity date to August 31, 1998.

In addition, on November 4, 1996, the Company assumed existing debt and was provided seller-financed mortgage debt aggregating \$150 million (as more fully described in Note 6).

Pursuant to the Company's \$500 million shelf registration statement (File No. 333-09081), on November 22, 1996, the Company completed an underwritten public offer and sale of 17,537,500 shares of its common stock using several different underwriters to underwrite such public offer and sale (which included an exercise of the underwriters' over-allotment option of 2,287,500 shares). The Company received approximately \$441.2 million in net proceeds (after offering costs) from the offering, and used such funds to acquire certain of the Company's property acquisitions in

25

November and December 1996, pay down outstanding borrowings on its revolving credit facilities, and investing the excess funds in Overnight Investments.

On December 31, 1996, the Company filed a shelf registration statement with the SEC for an aggregate amount of \$1 billion in equity securities of the Company. The registration statement was declared effective by the SEC on January 7, 1997.

On May 15, 1997, the stockholders approved an increase in the authorized shares of common stock in the Company from 95 million to 190 million.

In connection with the RM Transaction on January 31, 1997, the Company assumed a \$185.3 million non-recourse mortgage loan with TIAA (as more fully described in Note 6).

From April 18, 1997 through April 24, 1997, the Company purchased, for

constructive retirement, 152,000 shares of its outstanding common stock for \$4.7 million. Concurrent with this purchase, the Company sold to the Operating Partnership 152,000 Units for \$4.7 million.

On August 6, 1997, the Company obtained an unsecured revolving credit facility (the "Unsecured Facility") in the amount of \$400 million from a group of 13 lender banks. The Unsecured Facility has a three-year term and currently bears interest at 125 basis over one-month LIBOR. Based upon the Company's achievement of an investment grade long-term unsecured debt rating, the interest rate will be reduced, on a sliding scale, and a competitive bid option will become available.

The lending group for the Unsecured Facility includes: Fleet National Bank, The Chase Manhattan Bank, and Bankers Trust Company, as agents; PNC Bank, N.A., Bank of America National Trust and Savings Association, Commerzbank, and First National Bank of Chicago, as co-agents; and Keybank, Summit Bank, Crestar Bank, Mellon Bank, N.A., Signet Bank, and Kredietbank NV.

In conjunction with the Company obtaining the Unsecured Facility, the Company drew funds on the new facility to repay in full and terminate both the First Prudential Facility and the Bank Facility. The Company drew an additional \$70 million to repay in full the outstanding balance under the Second Prudential Facility. As of August 12, 1997, the Company's two remaining revolving credit facilities consist of the Unsecured Facility and the Second Prudential Facility.

On August 12, 1997, the Company prepaid in full and retired the secured Mortgage Financing from funds made available primarily from drawing on the Unsecured Facility.

Following this secured debt prepayment, the Company has four secured mortgage debt instruments remaining; the \$185.3 million TIAA Mortgage, the two mortgages comprising the \$150 million in Harborside Mortgages, and the \$18.2 million Fair Lawn Mortgage.

As of October 31, 1997, the Company has 85 unencumbered properties totaling 7.2 million square feet, representing 58 percent of the Company's portfolio.

On September 18, 1997, the Company entered into a Contribution and Exchange Agreement (the "Agreement") with certain contributing partnerships and other entities affiliated with The Mack Company and Patriot American Office Group (collectively, "The Mack Group"). The Agreement provides for, among other things, the Company to acquire 54 office properties, aggregating approximately 9.2 million square feet, (the "Mack Properties") for a total cost of approximately \$1.2 billion. According to terms of the Agreement, the cost of the transaction (the "Mack Transaction") will be financed through: (i) the assumption of an aggregate of \$299.7 million in mortgage financing (the "Mack Assumed Debt"); (ii) approximately \$469.0 million in cash (using excess proceeds from its October 1997 common stock offering, see Note 11, as well as drawing on the Company's revolving credit facilities); (iii) the issuance of 3,972,318 Common Units in the Operating Partnership, a portion of which may be Contingent Units; (iv)

26

the issuance of 250,256 Preferred Units in the Operating Partnership convertible into Common Units; and (v) the issuance of two million Warrants to purchase Common Units.

Pursuant to the Company's \$1 billion shelf registration statement, on October 15, 1997, the Company completed an underwritten public offer and sale of 13 million shares of its common stock using several different underwriters to underwrite such public offer and sale. The Company received approximately \$489 million in net proceeds (after offering costs) from the offering, the Company used \$160 million of such proceeds to repay outstanding borrowings on its Unsecured Facility, while the Company anticipates using the remainder of the proceeds to fund a portion of the purchase price of the Mack Transaction, for other potential acquisitions, and for general corporate purposes.

Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures. Management believes that the Company will have access to the capital resources necessary to expand and develop its business. To the extent that the Company's cash flow from operating activities is insufficient to finance its non-recurring capital expenditures such as property acquisition costs and other capital expenditures, the Company expects to finance such activities through borrowings under its credit facilities and other debt and equity financing.

The Company expects to meet its short-term liquidity requirements generally through its working capital and net cash provided by operating activities, along with the Second Prudential Facility and the Unsecured Facility. The Company is frequently examining potential property acquisitions and, at any one given time, one or more of such acquisitions may be under consideration.

Accordingly, being able to fund property acquisitions is a major part of the Company's financing requirements. The Company expects to meet its financing requirements through funds generated from operating activities, long-term or short term borrowings (including draws on the Company's credit facilities) and the issuance of debt securities or additional equity securities. In addition, the Company anticipates utilizing the Second Prudential Facility and the Unsecured Facility primarily to fund property acquisition activities.

The Company does not intend to reserve funds to retire the existing TIAA Mortgage and Harborside Mortgages, indebtedness under the credit facilities or other mortgages and loans payable upon maturity. Instead, the Company will seek to refinance such debt at maturity or retire such debt through the issuance of additional equity securities. The Company anticipates that its available cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings and other sources, will be adequate to meet the Company's capital and liquidity needs both in the short and long-term. However, if these sources of funds are insufficient or unavailable, the Company's ability to make the expected distribution discussed below may be adversely affected.

To maintain its qualification as a REIT, the Company must make annual distributions to its stockholders of at least 95 percent of its REIT taxable income, excluding the dividends paid deduction and net capital gains. Moreover, the Company intends to continue to make regular quarterly distributions to its stockholders which, based upon current policy, in the aggregate would equal approximately \$99.3 million on an annualized basis. However, any such distribution, whether for federal income tax purposes or otherwise, would only be paid out of available cash after meeting both operating requirements and scheduled debt service on mortgages and loans payable and required annual capital expenditure reserves pursuant to its mortgage indenture.

Funds from Operations

The Company considers Funds from Operations, after adjustment for straight-lining of rents, one measure of REIT performance. Funds from Operations is defined as net income (loss) before minority interest of unitholders, computed in accordance with Generally Accepted Accounting Principles, excluding gains (or losses) from debt restructuring and sales of property, plus real estate-related depreciation and amortization. Funds from Operations should not be considered as an alternative to net income as an indication of the Company's performance or to cash flows as a measure of liquidity.

27

Funds from Operations for the three and nine month periods ended September 30, 1997 and 1996, as calculated in accordance with the National Association of Real Estate Investment Trusts' definition published in March 1995, are summarized in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
Income before gain on sale of rental property, minority interest, and extraordinary item	\$19,973	\$ 7,644	\$58,105	\$20,465
Add: Real estate-related depreciation and amortization	9,327	3,456	25,592	9,811
Funds from Operations	29,300	11,100	83,697	30,276
Deduct: Rental income adjustment for straight-lining of rents	(1,969)	(29)	(5,913)	(233)
Funds from Operations after adjustment for straight-lining of rents	\$27,331	\$11,071	\$77,784	\$30,043
Weighted average shares outstanding(1)	40,547	19,744	40,406	18,519

(1) Assumes redemption of all Units, calculated on a weighted average basis, for shares of Common stock in the Company.

Inflation

The Company's leases with the majority of its tenants provide for recoveries

and escalation charges based upon the tenant's proportionate share of and/or increases in real estate taxes and certain operating costs, which reduce the Company's exposure to increases in operating costs resulting from inflation.

28

CALI REALTY CORPORATION

Part II -- Other Information

Item 6 - Exhibits

The following exhibit is filed herewith:

Exhibit 10.99 Purchase and Sale Agreement between Shelton Place Limited Partnership, as Seller, and Cali Realty Acquisition Corporation, as Purchaser, dated July 23, 1997.

Exhibit 27 Financial Data Schedule

29

CALI REALTY CORPORATION

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.

Cali Realty Corporation
(Registrant)

Date: November 7, 1997

/s/ Thomas A. Rizk

Thomas A. Rizk
President and Chief Executive Officer
(signing on behalf of the Registrant)

Date: November 7, 1997

/s/ Barry Lefkowitz

Barry Lefkowitz
Chief Financial Officer

30

STANDARD FORM
PURCHASE AND SALE AGREEMENT
(hereinafter "Agreement")

As of the 23rd day of July, 1997

1. Parties: Shelton Place Limited Partnership, a Massachusetts limited partnership, hereinafter called the SELLER, agrees to SELL and Cali Realty Acquisition Corporation, a Delaware corporation, or nominee, hereinafter called the BUYER or PURCHASER, agrees to BUY, upon the terms hereinafter set forth, the following described premises:

2. Description: That certain real estate consisting of land and improvements known as and numbered 1000 Bridgeport Avenue, Shelton, Fairfield County, Connecticut, as more particularly described in Exhibit A ("Exhibit A") (the "Land") hereto together with all other structures (the "Building"), utilities, driveways, sidewalks, curbs, gutters, curb cuts, landscaping, rights of way, easements and other improvements and interests appurtenant thereto, being the same premises conveyed to the SELLER by deed dated May 2, 1996, recorded with Fairfield County in Vol. 1348, Page 130.

3. Buildings, Structures, Improvements, Fixtures: Included in the sale as a part of the Land are: (a) the Building, (b) the improvements located on the Land (together with the Building, the "Improvements"), (c) the fixtures and personal property belonging to the SELLER and located in and used in connection therewith, including without limitation the personal property owned by SELLER and listed on Exhibit A-1 hereto (the "Personal Property"), but excluding therefrom any fixtures or personal property owned by the tenants of the Premises, (d) all rights, privileges, grants and easements owned by SELLER and appurtenant to SELLER'S interest in the Land and Improvements, including without limitation, all of SELLER'S right, title and interest in and to all land lying in the bed of any public street, road or alley, all mineral and water rights and all easements, licenses, covenants and rights-of-way or other appurtenances used in connection with the beneficial use and enjoyment of the Land and Improvements (the Land and Improvements and all such rights, privileges, easements, grants and appurtenances are sometimes referred to herein as the "Real Property"), (e) all of SELLER'S right, title and interest in and to those contracts and agreements for the servicing, maintenance and operation of the Real Property ("Service Contracts") (Exhibit B-1) and telephone numbers in use at any of the Real Property (together with the Permits and Licenses (hereinafter defined) and the Service Contracts, the "Intangible Property"), (f) all trademarks and tradenames owned by SELLER and used in connection with the Real Property, including without limitation any name by which the Real Property is commonly known, and all goodwill, if any, related to said names, all for which BUYER shall have the sole and exclusive rights (collectively, the "Tradenames") provided there shall be no right to use the names Shelton Place Limited Partnership or The Davis Companies, (g) all permits, licenses, guaranties, approvals, certificates and warranties held by SELLER and relating to the Real Property and the Personal Property and which SELLER has a right to transfer (collectively, the "Permits and Licenses"), (h) all leases and other agreements, including, but not limited to, subleases, tenancies and occupancy agreements, with respect to the use and occupancy

1

of the Real Property, together with all amendments and modifications thereto and any guaranties provided thereunder (individually, a "Lease", and collectively, the "Leases"), and rents, additional rents, reimbursements, profits, income, receipts from and after the date of closing and the amount deposited (the "Security Deposit") under any Lease in the nature of security for the performance of the obligations of the tenant or user (individually a "Tenant", and collectively, the "Tenants") under the Leases not returned to tenants or applied against rent, (i) all promotional material, marketing materials, brochures, photographs (collectively, "Promotional Materials"), books, records, tenant data, leasing material and forms, past and current rent rolls, files, statements, tax returns, market studies, keys, plans, specifications, reports, tests and other materials of any kind owned by or in the possession of SELLER which are or may be used by SELLER in the use and operation of the Real Property or Personal Premises (collectively, and together with the Promotional Materials, the "Books and Records"), and, (j) all other rights, privileges and appurtenances owned by SELLER, if any, and related to the rights and interests described above in this Section and used solely in connection with the Property. The Real Property, the Personal Property, the Leases, the Tradenames, the Intangible Property, the Books and Records and the other Property interests being conveyed hereunder are hereinafter collectively referred to as the "Premises."

4. Title Deed: Said Premises are to be conveyed by a good and sufficient

special warranty deed running to the BUYER, and said deed shall convey title to the Premises, free from encumbrances, except

- (a) Provisions of existing building and zoning laws and other laws, ordinance or regulation affecting the Premises;
- (b) Such taxes, subject to adjustment, for the then current year as are not due and payable on the date of the delivery of such deed;
- (c) Any liens for municipal betterments assessed after the date of this Agreement;
- (d) Easements, restrictions, agreements, covenants and other matters listed in Exhibit B or existing of record on June 11, 1997 or first occurring between and including June 12, 1997 and the Closing Date (hereinafter defined) if BUYER does not terminate this Agreement in the manner provided for in this Agreement;
- (e) The Service Contracts, but subject to the provisions of Section 30 hereof; and
- (f) The rights of Tenants or occupants of the Premises under Leases.

The foregoing shall collectively be referred to as the "Permitted Exceptions."

The foregoing notwithstanding, the BUYER shall be entitled to the contingency under Paragraph 8.

5. Purchase Price: The agreed purchase price for the Premises is Fifteen Million Five Hundred Thousand (\$15,500,000.00) Dollars. Three Hundred Thousand (\$300,000.00) Dollars (the "Deposit") have been paid to the Escrow Agent designated in Paragraph 16 of this Agreement as a deposit this day. The Deposit plus the balance of such purchase price in the amount of Fifteen Million Two Hundred Thousand (\$15,200,000.00) Dollars plus or minus adjustments required under Paragraph 14 of this Agreement are to be paid at the time of delivery

2

of the deed to the order of the SELLER by wire transfer of immediately available federal funds to the account of SELLER as designated in written instructions given by SELLER at least two (2) business days prior to closing.

The Deposit shall be held by Escrow Agent in an interest-bearing money market account at an FDIC insured Bank with interest to follow the Deposit.

6. Time for Performance; Delivery of Deed: Such deed is to be delivered at 10:00 A.M. on the 1st day of August, 1997 (the "Closing Date"), at the offices of SELLER'S attorney, unless otherwise mutually agreed upon by BUYER and SELLER in writing. If mutually agreed by the parties, the closing will be by mail or overnight courier.

7. Possession and Condition of Premises: Full possession of said Premises free of all tenants and occupants, except tenants or occupants of the Premises as provided in Exhibit C, is to be delivered at the time of the delivery of the deed, said Premises to be then in the same condition as it is now, reasonable use, wear and tear excepted.

8. Due Diligence Contingency.

- (a) Conditions. Prior to the execution hereof, SELLER has delivered to BUYER copies of documents, reports, financial information and materials relating to the Real Property (the "SELLER'S Due Diligence Materials"). BUYER'S obligation to consummate the transaction contemplated by this Agreement is subject to the conditions of this Paragraph 8. For purposes of this Agreement, the term "Inspection Period" shall mean the period ending on July 25, 1997 (the "Inspection Period Expiration Date").
- (b) Tests, Investigations and Inspections. During the Inspection Period, BUYER, its agents and representatives, may, subject to the terms of this Agreement, enter upon the Premises upon reasonable prior notice to SELLER or SELLER'S designee, as specified in a written notice from SELLER to BUYER, to perform such investigations, inspections and tests of the Premises at BUYER'S sole expense, as BUYER deems necessary, including boundary surveys, Phase I environmental studies, examinations and tests of all structural and mechanical systems within the Improvements, and to go to SELLER'S offices to examine the books and records of SELLER, speak with SELLER'S property managers who SELLER will make reasonably available to BUYER, to review the Due Diligence Materials relating to the Premises, to examine title and compliance of the Premises with all governmental regulation and control and to determine in any and all other respects BUYER deems necessary and appropriate whether BUYER is satisfied with all aspects of the Premises for the purpose of purchasing the same (collectively the "Due Diligence").

Notwithstanding BUYER'S right to receive other of SELLER'S Due Diligence Materials provided for in this agreement, contemporaneously with the execution of this agreement and on an on-going basis until the Closing Date SELLER or SELLER'S representatives shall deliver to

as hereinafter defined, concerning the Premises, which are in SELLER'S possession, custody or control. "Environmental Documents" shall mean all environmental documentation in the possession or under the control of SELLER concerning the Premises, or its environs, including without limitation, all sampling plans, cleanup plans, preliminary assessment plans and reports, site investigation plans and reports, remedial investigation plans and reports, remedial action plans and reports, or the equivalent, sampling results, sampling result reports, data, diagrams, charts, maps, analysis, conclusions, quality assurance/quality control documentation, correspondence to or from any Governmental Authority (as defined immediately below) (such as submissions to any Governmental Authority and directives, orders, approvals and disapprovals issued by any Governmental Authority). A "Governmental Authority" is any agency, board, bureau, commission, department or body of any municipal, county, state or federal governmental unit, or any subdivision thereof, having, asserting or acquiring jurisdiction over all or any part of the Premises or the management, operation, use or improvement thereof. SELLER makes no representation as to accuracy, completeness or right to rely on the Environmental Documents or contents thereof; provided, however, to the best of SELLER'S knowledge and belief, to the extent copies of any documents, materials, inspections, or reports were furnished by SELLER to BUYER, they were true, accurate and complete representations of the same as contained in SELLER'S files in all material respects..

Notwithstanding anything herein contained to the contrary, BUYER shall not perform any "so-called" invasive tests, such as a Phase II, to the land or improvements comprising the Premises without SELLER'S advance written approval, which shall not be unreasonably withheld or delayed; provided that BUYER notifies SELLER of its intent to perform such tests at least three (3) business days in advance describing in reasonable detail the tests to be performed and permits SELLER or its representative to be present for such tests. In addition, in the event that SELLER or SELLER'S representatives shall have cause to meet with the Department of Environmental Protection (up to the Closing Date), SELLER shall immediately notify BUYER, and BUYER and BUYER's representatives shall have the right, without obligation, to attend and participate in all such meetings.

- (c) In furnishing SELLER'S Due Diligence Materials, to the extent documents, inspections, copies, reports, materials or information were furnished by or obtained from third parties, SELLER neither warrants nor represents the accuracy of the information and data contained therein, nor the right of BUYER to rely thereon. In the event that BUYER shall terminate this Agreement, BUYER shall deliver to SELLER, immediately upon BUYER obtaining same, and SELLER shall be entitled to retain in any event, complete copies of all studies, investigations, test results, information and the like obtained by BUYER during the Due Diligence Period ("BUYER'S Due Diligence Materials"); provided, however, BUYER shall not be required to deliver to SELLER any such

BUYER'S Due Diligence Materials not received by BUYER from the parties performing BUYER'S Due Diligence. Such investigations, studies, tests, information and the like shall be delivered to SELLER at no cost or expense to SELLER. By furnishing BUYER'S Due Diligence Materials to SELLER, BUYER, to the extent such inspections, copies, reports or information were furnished by or obtained from third parties, neither warrants nor represents the accuracy of the information and data contained therein, nor the right of SELLER to rely thereon. If BUYER terminates this Agreement in accordance with the provisions of Paragraph 8(c), BUYER shall return the SELLER'S Due Diligence Materials to SELLER.

Upon request of BUYER at any time after the date hereof, at no expense to SELLER and in such a way as to not unreasonably burden or disrupt SELLER'S business, SELLER shall assist BUYER in its preparation of audited financial statements, statements of income and expense, and such other documentation as BUYER may reasonably request, covering the period of SELLER'S ownership of the Premises.

- (d) (i) If BUYER in its sole discretion is not satisfied with the results of its Due Diligence review for any reason, BUYER may terminate this Agreement by giving written notice (the "Termination Notice") of such election to SELLER, on or before the Inspection

Period Expiration Date. Upon termination, BUYER shall deliver to SELLER of all of the SELLER'S Due Diligence Materials delivered by SELLER or BUYER'S Due Diligence Materials received by BUYER, and thereafter neither party shall have any further liability or obligation to the other hereunder and the Deposit and all interest earned thereon shall be promptly returned to BUYER. BUYER shall promptly return SELLER'S Due Diligence Materials following said termination, but it is not a condition to the return of BUYER'S Deposit and termination of all liabilities between the parties hereto. Except as provided in Section (e) of this Paragraph 8, any matter existing as of the date of this Agreement with respect to the BUYER'S Due Diligence, including, without limitation, title, survey, zoning and/or governmental compliance matters, shall, unless BUYER terminates this Agreement by giving the Termination Notice, be deemed Permitted Exceptions. If this Agreement is not terminated as set forth in the first sentence of this subsection (d), all matters covered by the Due Diligence contingency shall be waived or deemed satisfied.

- (ii) It shall be a condition of BUYER'S obligation to purchase the Premises that there be no material adverse change in any of the foregoing Due Diligence matters first occurring between the Inspection Period Expiration Date and the Closing Date. In the event of any such material change pursuant to the provisions of Paragraph 9 hereof, unless SELLER elects to cure such material adverse change, BUYER'S sole right shall be to

5

terminate this Agreement in which event BUYER'S Deposit and any interest thereon shall be returned.

- (e) All rights of inspection provided for in this agreement and more particularly in this Paragraph 8 and the exercise of such rights shall not constitute a waiver by BUYER of the breach of any representation, warranty, covenant or agreement of SELLER which might, or should, have been disclosed by such inspection provided BUYER closes without being aware of such breach; otherwise, if BUYER discovers that breach prior to closing, BUYER'S sole right shall be termination of this Agreement, not damages. In any and all events, any such representation, warranty, covenant or agreement of SELLER shall be subject to the limitation in paragraph 20(c). For the purposes of this Section (e), BUYER shall be "aware" of such breach if Tim Jones, Dean Cingolani, Riccardo Cardozo or Charles Rich has actual knowledge thereof.

9. Extension to Perfect Title or Make Premises Conform: If the SELLER shall be unable to give title or to make conveyance, or to deliver possession of the Premises, all as herein stipulated, or if at the time of the delivery of the deed the Premises do not conform with the provisions hereof, then the SELLER shall use reasonable efforts to remove any defects in title, or to deliver possession free and clear of any matter relating to title or boundary survey, in which event the SELLER shall give written notice thereof to the BUYER at or before the time for performance hereunder, and, if SELLER elects to cure or is required to do so pursuant to the immediately ensuing sentence, the time for performance hereof shall be extended for a period of up to sixty (60) days as designated in such written notice from SELLER. The SELLER agrees to spend up to but no more than \$50,000 in using reasonable efforts, which shall include the posting of funds to bond attachments or satisfy injunctions or court orders and additionally SELLER agrees to discharge and pay voluntary encumbrances or liens dischargeable by a sum certain, such as mortgages and mechanic's liens, and created or caused voluntarily by SELLER and unpaid real estate taxes on the Premises. BUYER agrees that the matters listed in Exhibit B hereto shall be deemed Permitted Exceptions.

10. Failure to Perfect Title or Make Premises Conform, etc.: If at the expiration of the extended time the SELLER shall have failed so to remove any defects in title, deliver possession, or make the Premises conform, as the case may be, all as herein agreed, or if at any time during the period of this agreement or any extension thereof, the holder of a mortgage on said Premises shall refuse to permit the insurance proceeds, if any, to be used for such purposes, then, at the BUYER'S option, any payments made under this agreement shall be forthwith refunded and all other obligations of all parties hereto shall cease and this agreement shall be void without recourse to the parties hereto.

11. BUYER'S Election to Accept Title: The BUYER shall have the election, at either the original or any extended time for performance, to accept such title as the SELLER can deliver to the said Premises in their then condition and to pay therefor the purchase price without deduction, in which case the SELLER shall convey such title, except that in the event of such conveyance in accordance with the provisions of this clause, if the said Premises shall have been

damaged by fire or casualty insured against, then the SELLER shall, unless the SELLER has previously restored the Premises to their former condition, either

- (a) pay over or assign to the BUYER, on delivery of the deed, all amounts recovered or recoverable on account of such insurance plus deductible, less any amounts reasonably expended by the SELLER for any partial restoration, or
- (b) if a holder of a mortgage on said Premises shall not permit the insurance proceeds or a part thereof to be used to restore the said Premises to their former condition or to be so paid over or assigned, give to the BUYER a credit against the purchase price, on delivery of the deed, equal to said amounts so recovered or recoverable and retained by the holder of the said mortgage plus deductible less any amounts reasonably expended by the SELLER for any partial restoration.

Notwithstanding anything contained in this Purchase and Sale Agreement to the contrary, in the event that the Premises are damaged by fire or other casualty, the cost of repair of which does not exceed One Hundred Thousand (\$100,000.00) Dollars, then BUYER agrees that BUYER shall not be entitled to terminate this Agreement and notwithstanding such damage, BUYER shall accept the Premises in their damaged condition and SELLER shall assign the insurance proceeds to BUYER and pay over the deductible.

12. Acceptance of Deed: The acceptance of a deed by the BUYER or his nominee, as the case may be, shall be deemed to be a full performance and discharge of every agreement and obligation of SELLER herein contained or expressed, unless expressly stated otherwise in this Agreement.

13. Use of Purchase Money to Clear Title: To enable the SELLER to make conveyance as herein provided, the SELLER may, upon prior notice to BUYER, at the time of delivery of the deed, use the purchase money or any portion thereof to clear the title of any or all encumbrances or liens of which BUYER gives SELLER timely notice, provided that all title clearing instruments are delivered at closing with payment and in accordance with the reasonable requirements of BUYER'S title company or consistent with customary local conveyancing practice.

14. Adjustments and Closing Costs: (a) Taxes for the then current year, prepaid rents, tenant security deposits held by SELLER, SELLER deposits held by utility companies, water, sewer use and other municipal or quasi-governmental charges which are for periods beyond the Closing Date, prepaid permit and operating charges and the value of any stored fuel serving the Premises shall be apportioned as of the day of performance of this agreement and the net amount thereof shall be added to or deducted from, as the case may be, the purchase price payable by the BUYER at the time of delivery of the deed. Said apportionments are to be done in compliance with the custom of Shelton, Connecticut. Uncollected rents shall be adjusted when received. BUYER agrees to cooperate with SELLER in SELLER'S efforts to collect past due rents and to use reasonable efforts to attempt to collect unpaid rents due to SELLER. SELLER agrees not to commence legal action against any then current tenant at the Building to collect past due rents

7

without BUYER'S written approval, which shall not be unreasonably withheld or delayed. Payments received from tenants from and after the date of Closing shall be applied first to rents then due for the period current at the time of such receipt, and then to rents in the reverse order of delinquency (i.e. most recently past due rents paid first). BUYER shall use reasonable efforts to collect delinquent rents for the benefit of SELLER, and shall cooperate with SELLER in the collection of any delinquent amounts. BUYER shall receive a credit at closing against the Purchase Price in an amount equal to the sum of all security and other rental deposits and last month or advance rent payments (including interest thereon) paid by listed on Exhibit C-1. Fees paid in advance under any service contracts assumed by BUYER shall also be prorated through the Closing Date. The only Security Deposits held by SELLER as of the date of this Agreement are listed in Exhibit C-1 to this Agreement.

SELLER shall pay all state or county documentary stamps or transfer taxes. BUYER shall pay all title insurance premiums and examination fees, survey costs and the costs of its due diligence investigations, except as may specifically be provided for herein. Each party shall be responsible for its own attorney's fees, and one-half (1/2) of all reasonable escrow fees and SELLER shall pay recording fees and charges necessary or required in order for the Deed to be recorded in the appropriate county register's or recorder's office. SELLER shall pay for recording of lien or encumbrance releases which SELLER is required to deliver. The provisions of this Paragraph 14 shall survive the Closing.

15. Adjustment of Unassessed and Abated Taxes: If the amount of said taxes is not known at the time of the delivery of the deed, said taxes shall be

apportioned on the basis of the taxes assessed for the preceding fiscal year, with a reapportionment as soon as the new tax rate and valuation can be ascertained; and, if the taxes which are to be apportioned shall thereafter be reduced by abatement, the amount of such abatement, less the reasonable cost of obtaining the same, shall be apportioned between the parties, provided that neither party shall be obligated to institute or prosecute proceedings for an abatement unless herein otherwise agreed.

16. Deposit: All deposits made hereunder shall be held by First American Title Insurance Company, One Financial Center, Boston, Massachusetts 02111, as Escrow Agent (the "Escrow Agent") subject to the terms of this Agreement and shall be duly accounted for at the time for performance of this agreement, provided however that in the event of any disagreement between BUYER and SELLER concerning their respective rights to the Deposit, the Escrow Agent shall retain said deposits pending instructions mutually given by the SELLER and the BUYER or by a court of competent jurisdiction. However, if BUYER elects to terminate this agreement on or prior to the Inspection Period Expiration Date or if BUYER elects to terminate this Agreement due to a material adverse change in the condition of the Premises first occurring, between the Inspection Period Expiration Date and the Closing as provided in Paragraph 8(d) (ii), the Escrow Agent shall return the Deposit upon the sole instruction of the BUYER. The BUYER and SELLER jointly and severally agree to indemnify and hold the Escrow Agent harmless from any and all loss, cost, damage or expense, including attorneys' fees, arising out of its obligations as escrow agent hereunder except for Escrow Agent's gross negligence or willful misconduct. Escrow Agent's conduct shall be governed by the provisions of Paragraph 40 hereof.

8

17. Default:

- (a) BUYER'S Default; Damages: If the BUYER shall fail to fulfill the BUYER'S agreements herein at closing, all deposits made hereunder by the BUYER shall be retained by the SELLER as liquidated damages and shall be SELLER'S sole remedy and damages at law and in equity. Both parties agree that the aforesaid amount constitutes a reasonable forecast of damages which would be sustained by SELLER in the event of BUYER'S breach.
- (b) SELLER'S Inability to Perform; Liability: If SELLER shall be unable to perform SELLER'S obligations hereunder, BUYER'S sole remedy hereunder shall be:
 - (i) to seek Specific Performance of SELLER'S obligations hereunder; or
 - (ii) to cancel this Agreement and receive a return of its Deposit and any interest earned thereon.
- (c) SELLER'S Failure to Perform or Default; Liability: In the event of any failure to perform or default on the part of SELLER hereunder (except as set forth in Section (d) of this Paragraph 17), or in the event SELLER fails to comply with any representation or warranty in this agreement, BUYER'S only rights and remedies shall be that BUYER shall be entitled to (i) terminate this Agreement upon notice to SELLER, in which event neither party shall thereafter have any further obligations under this Agreement; or (ii) to commence an action against SELLER seeking specific performance of SELLER'S obligations under this Agreement.
- (d) SELLER'S Willful or Deliberate Failure to Perform. In the event SELLER willfully or deliberately fails or refuses to perform its obligation to deliver title to the Premises in accordance with the terms of this Agreement (i.e. refuses to deliver title or voluntarily places a lien on the Real Property) and pursuant to "(c)" above, BUYER elects to terminate this Agreement rather than seek specific performance, SELLER shall reimburse to BUYER its actual out-of-pocket costs to third parties in pursuing its due diligence investigation of the Real Property up to an amount not to exceed Fifty Thousand (\$50,000) Dollars based upon actual invoices evidencing such expense submitted to SELLER by BUYER.

BUYER shall have no right to seek and hereby waives any right to claim damages, consequential or otherwise, against SELLER for any breach of SELLER'S obligations hereunder.

18. Liability of Trustee, Shareholder, Beneficiary, etc.: If the SELLER or BUYER executes this agreement in a representative or fiduciary capacity, only the estate and entity represented shall be bound, and neither the SELLER nor BUYER so executing, nor any employee, representative, trustee, partner, officer, shareholder, director or beneficiary of any

9

partnership, corporation or trust, nor any limited partner of any partnership, shall be personally liable for any obligation, express or implied, hereunder.

19. Disclaimer of Warranties and Representations: Except for the provisions of Paragraphs 9 and 20 hereof, the BUYER acknowledges that the BUYER has not been influenced to enter into this transaction nor has it relied upon any warranties or representations with respect to the condition of the Premises or any facts or matters relating thereto. The BUYER hereby further acknowledges that BUYER is knowledgeable in the acquisition and ownership of commercial real estate and that BUYER has inspected or will cause to be inspected and/or examined to its satisfaction the Premises and all matters relating to the ownership, title, condition (including for the presence of so-called hazardous materials), zoning and municipal compliance, use and occupancy of and/or to the Premises by such professionals, including, without limitation, attorneys, engineers, surveyors and/or agents as BUYER has deemed appropriate during the Inspection Period referred to in Paragraph 8 hereof; and that, subject only to the "Due Diligence Contingency" contingency in Paragraph 8 of this Agreement, which shall be deemed fully satisfied or waived unless BUYER terminates this Agreement in accordance with the provisions of Paragraph 8, the Premises will be conveyed to and accepted by BUYER in their "AS IS" condition without warranty or representation other than as set forth in Paragraph 20. BUYER acknowledges that the SELLER has made no representations as to the condition of the Premises or their suitability for BUYER'S purposes and that BUYER has assumed the responsibility for this determination. To the extent any written correspondence, offers or other written or oral materials ("Materials") have been exchanged between BUYER and SELLER prior to the date hereof, such Materials shall be deemed merged into and shall be fully superseded by this Agreement and shall be of no further force and effect. The provisions of this Paragraph 19 shall survive the Closing.

20. Entity Warranties and Representations:

(a) SELLER warrants and represents to BUYER as follows:

- (i) SELLER is a limited partnership duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts and qualified to do business in the State of Connecticut, and has full right, power and authority to execute and deliver and to perform its obligations under this Agreement;
- (ii) SELLER'S corporate general partner is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts, and has full right, power and authority to execute and deliver and to perform its obligations under this Agreement without the need of any limited partner consent;
- (iii) The execution, delivery and performance of this Agreement have been duly and validly authorized by all required partnership action of SELLER

10

and corporate action of its general partner and this Agreement has been duly and validly executed and delivered by SELLER;

- (iv) This Agreement and every document to be executed and delivered by SELLER pursuant to this Agreement, when fully executed and delivered by all intended signatories thereto, shall constitute the valid and binding obligations of SELLER, enforceable against SELLER in accordance with their respective terms;
- (v) SELLER has not entered into any Service Contracts except as listed on Exhibit B-1 and that said Service Contracts are terminable on not more than thirty (30) days notice, without penalty or fee;
- (vi) SELLER is not a "foreign person" within the meaning of Section 1445(f)(3) and Section 7701(b) of the Internal Revenue Code of 1986, as amended;
- (vii) As to Leases of the Premises:
 - a. Exhibit C (the "Rent Roll") is true and complete and includes a list of all of the Leases affecting the Premises as of the date hereof and sets forth the following: the name of each tenant, date of the Lease and any written Amendments pertaining thereto;
 - b. SELLER has delivered to BUYER true and complete copies of all of the Leases, including without limitation all amendments, side letters, term commencement agreements,

notices of exercise of options, and all other documents relating to tenants' rights to occupy the Premises in SELLER'S possession.

(viii) All of the Service Contracts, listed on Exhibit B-1 attached hereto, if any, and which BUYER wishes to assume are and will on the Closing Date be unmodified and in full force and effect without any default or claim of default by any of the parties thereto. All sums presently due and payable by SELLER under the Service Contracts have been fully paid and all sums which become due and payable between the date hereof and the Closing Date shall be fully paid on the Closing Date.

(ix) SELLER shall indemnify, defend and hold harmless BUYER from and against all claims, liabilities, losses, damages, penalties and costs, including without limitation reasonable counsel fees, which BUYER may incur, resulting from any misrepresentation or breach of warranty by SELLER under this Paragraph 20. This warranty and representation shall survive the Closing subject to the limitation of Paragraph 20(c).

11

- (x) To the best of SELLER'S knowledge and belief as of the date hereof:
- a. except as set forth in this subsection (x)a., (z), there are no material defaults exist under the Leases, and
 - (z) Landstar has failed to pay a portion of aged previously unbilled electrical usage and charges which have recently been billed to them by SELLER. Subject to the other terms of this Agreement, SELLER reserves and retains those arrearages and the right to collect the same.
 - b. no condition exists, which with the passage of time or giving of notice or both, will become a material default under the Leases.
- (xi) Except as disclosed by SELLER to BUYER as a part of the Due Diligence, there are no actions, suits, labor disputes, litigation or proceedings currently pending or, to the knowledge of SELLER, threatened against or related to SELLER or to all or any part of the Premises, the environmental condition thereof, or the operation thereof, nor does SELLER know of any basis for any such action.
- (xii) There are no outstanding requirements or recommendations known to SELLER by (i) the insurance company(s) currently insuring the Premises; or (ii) any board of fire underwriters or other body exercising similar functions.
- (xiii) SELLER has received no written notice and has no knowledge of (i) any pending or contemplated annexation or condemnation proceedings, or private purchase in lieu thereof, affecting or which may affect the Premises, or any part thereof, (ii) any proposed or pending proceeding to change or redefine the zoning classification of all or any part of the Premises, (iii) any proposed or pending special assessments affecting the Premises or any portion thereof, (iv) any proposed change(s) in any road or grades with respect to the roads providing a means of ingress and egress to the Premises. SELLER agrees to furnish BUYER with a copy of any such notice received within two (2) business days after receipt.
- (xiv) SELLER has provided BUYER with access at SELLER'S offices to all reports in SELLER'S possession and of which SELLER has knowledge related to the physical condition of the Premises and all Books and Records in SELLER'S possession and of which SELLER has knowledge.
- (xv) SELLER has no knowledge of any notices, suits, or judgments relating to any violations (including environmental) of any laws, ordinances or regulations affecting the Premises, or any violations or conditions that may

12

give rise thereto, and has no reason to believe that the Governmental Authorities contemplate the issuance thereof, and there are no outstanding orders, judgments, injunctions, decrees or writ of any Governmental Authorities against or

involving SELLER or the Premises known to SELLER and which would impede SELLER'S ability to complete this Agreement.

- (xvi) There are no full-time employees of the Owner working at or in connection with the Premises. There are not any union agreements affecting the Premises as of the date hereof, nor shall any such agreements affect the Premises as of the Closing Date.
 - (xvii) SELLER has not made a general assignment for the benefit of creditors, filed any voluntary petition in bankruptcy or to SELLER'S knowledge: (a) suffered the filing of any involuntary petition by SELLER'S creditors, (b) suffered the appointment of a receiver to take possession of all, or substantially all, of such SELLER'S assets, (c) suffered the attachment or other judicial seizure of all, or substantially all, of such SELLER'S assets, (d) admitted in writing its inability to pay its debts as they come due or made an offer of settlement, extension or composition to its creditors generally.
 - (xviii) To the best of SELLER'S knowledge and belief, the Premises are not a so-called "Establishment" as defined in the regulations of the Connecticut DEP.
 - (xix) To the best of SELLER'S knowledge and belief, there are no so-called "Hazardous Materials" as defined under Connecticut or United States law or regulations at the Real Property in violation of applicable laws or regulations.
 - (xx) SELLER has not received any notice that any Permits and Licenses held by SELLER pertaining to and required for the ownership or operation of the Premises has been or is about to be revoked or will not be renewed.
- (b) For the purposes of this Paragraph 20 and the other paragraphs of this Purchase and Sale Agreement, "known to SELLER" or "SELLER'S knowledge" or similar equivalent qualifiers shall mean actual knowledge of the following people only: David Mack, Jonathan G. Davis, Paul R. Marcus and/or David Felner. In no event shall this description result in or imply any personal liability, representation or responsibility for any agreements, representations, obligations, liabilities or breaches of SELLER hereunder or elsewhere. Where materials, documents or other Due Diligence materials are provided by, for or on behalf of SELLER, SELLER makes no representations of BUYER'S right to rely upon or the

13

accuracy or completeness of materials not prepared by SELLER even though furnished by, for or on behalf of SELLER.

- (c) The foregoing representations and warranties shall be true as of the Closing Date and shall survive the Closing for a period of nine (9) months. Except for those items which are disclosed by BUYER to SELLER by written notice from BUYER to SELLER within the period which ends nine (9) months from delivery of the deed stating specifically the manner in which such representation or warranty is untrue, then the foregoing warranties and representations shall be deemed fully satisfied and shall be void and without recourse to the parties hereto. To the extent SELLER delivers Estoppel Certificates from tenants covering SELLER'S warranties and representations with respect to the Leases SELLER shall be relieved from such warranties and representations.
- (d) BUYER hereby represents and warrants to SELLER as follows:
 - (i) BUYER is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware under which it organized and has full right, power and authority to execute and deliver and to perform its obligations under this Agreement;
 - (ii) The execution, delivery and performance of this Agreement has been duly and validly authorized by all required action of BUYER and this Agreement has been duly and validly executed and delivered by BUYER;
 - (iii) This Agreement and every document to be executed and delivered by BUYER pursuant to this Agreement, when fully executed and delivered by all intended signatories thereto, shall constitute the valid and binding obligations of BUYER, enforceable against BUYER in accordance with their respective terms, subject to general equitable principals and applicable provisions of law related to bankruptcy, insolvency and creditors' rights generally.

The foregoing representations and warranties are true as of the date hereof and shall be true as of the Closing Date, applicable to the Closing.

21. Construction of Agreement: This instrument, executed in multiple counterparts, is to be construed as a Connecticut contract, is to take effect as a sealed instrument, sets forth the entire contract between the parties, is binding upon and inures to the benefit of the parties hereto and their respective successors and assigns, and may be canceled, modified or amended only by a written instrument executed by both the SELLER and the BUYER. The captions are used only as a matter of convenience and are not to be considered a part of this agreement or to be used in determining the intent of the parties to it.

14

22. Notice: All notices, demands, requests, consents, approvals and other communications, and copies thereof, required or permitted to be given with respect to this agreement shall be in writing and shall be deemed delivered upon the hand delivery thereof during business hours (9:00 a.m. through 6:00 p.m., Monday through Friday (excluding holidays) ("Business Day"), or upon the earlier of receipt or the fifth Business Day after posting by registered mail or certified mail, return receipt requested, postage prepaid, or by delivery by electronic facsimile transmission, or on the next Business Day following delivery to a reliable and recognized overnight courier, in each case addressed or delivered to the respective parties at their respective addresses set forth below, or, if to be delivered by electronic facsimile transmission, then to the respective facsimile telephone numbers set forth below. Photocopies of any notices delivered hereunder shall, concurrently with the delivery thereof, be delivered to the additional parties listed below by the same means of delivery used for delivery of the notices to the contracting parties (except in the case of personal delivery, in which case one or more of the alternate means of delivery may be selected for the delivery of copies):

with respect to deliveries to SELLER:

Shelton Place Limited Partnership
c/o The Davis Companies
One Appleton Street
Boston, MA 02116
Attention: Paul R. Marcus
Jonathan G. Davis
Telephone: (617) 451-1300
Facsimile: (617) 451-3604

with a copy to its attorneys:

Gary P. Lilienthal, Esquire
Bernkopf, Goodman & Baseman
125 Summer Street
Boston, MA 02110
Telephone: (617) 790-3000
Facsimile: (617) 790-3300

with respect to deliveries to BUYER:

Cali Realty Acquisition Corporation
11 Commerce Drive
Cranford, NJ 07816
Attention: Roger Thomas, Esquire
Telephone: (908) 272-8000
Facsimile: (908) 272-6755

15

with a copy to:

Timothy Jones
Cali Realty Acquisition Corporation
100 Clearbrook Road
Elmsford, NY 10523
Telephone: (914) 592-4800
Facsimile: (914) 591-4836

with a copy to its attorneys:

Andrew Levine, Esquire
Pryor, Cashman, Sherman & Flynn
410 Park Avenue
New York, NY 10022

Telephone: (212) 421-4100
Facsimile: (212) 326-0806

with a copy to Escrow Agent:

First American Title Insurance Company
One Financial Center
Boston, MA 02111
Telephone: (617) 345-0088
Facsimile: (617) 951-0101
Attention: Donna Meek

23. Broker's Fee: A broker's fee for professional services shall be due from the SELLER to CB Commercial Real Estate Group, Inc. and Jeffrey R. Dunne (collectively, the "Brokers"), the Brokers herein, all as provided in a separate written agreement relating to the Property between SELLER and Brokers but shall be due and payable only as, if and when title passes to the BUYER and the deed is recorded. The Brokers warrant and represent that they are duly licensed brokers in the State of Connecticut.

24. Brokerage Representations:

- (a) BUYER warrants and represents to SELLER that except for the Brokers BUYER was not introduced to the Premises and entered into this Agreement without the assistance of any real estate broker or person who would be entitled to a fee or commission in connection with this Agreement or the sale of the Premises by SELLER to BUYER and that BUYER dealt with no broker or finder with respect to his purchase of the Premises or this Agreement except the Brokers. BUYER hereby agrees to indemnify and hold SELLER harmless from any claim by any broker or finder except the Brokers that a commission or fee is due to them as a

16

result of having dealt with BUYER in connection with this Agreement or the sale of the Premises to the BUYER, or its nominee as may be provided herein.

- (b) SELLER warrants and represents to BUYER that SELLER entered into this Agreement without the assistance of any real estate broker or person who would be entitled to a fee or commission in connection with this Agreement or the sale of the Premises by SELLER to BUYER except the Brokers. SELLER hereby agrees to indemnify and hold BUYER harmless from any claim by any broker or finder that a commission or fee is due to them as a result of having dealt with SELLER in connection with this Agreement or the sale of the Premises to BUYER.
- (c) Broker warrants and represents to SELLER and BUYER that Broker has not entered into any arrangement or agreement with any other party in connection with this Agreement or the sale of the Premises. Broker hereby agrees to indemnify and hold SELLER and BUYER harmless from any claim by any broker or finder except the Brokers that a commission or fee is due to them as a result of having dealt with BUYER or SELLER in connection with this Agreement or the sale of the Premises to the BUYER, or its nominee as may be provided herein.

The provisions of this Paragraph 24 will survive the Closing.

25. Access: BUYER shall have the right of reasonable access to the Premises for purposes contemplated under the Due Diligence Contingency. SELLER shall cooperate with BUYER in facilitating its due diligence inquiry and shall obtain, and use its best reasonable efforts to obtain, any consents that may be necessary in order for BUYER to perform studies, tests, borings, investigations and inspections on the Premises if permitted by SELLER. SELLER shall also notify BUYER of any dangerous conditions known to SELLER on the Premises, including, without limitation, conditions which due to the nature of the borings, studies, investigations, inspections or testing to be performed by or on behalf of BUYER may pose a dangerous condition to BUYER or BUYER's agents and contractors. Notwithstanding anything herein to the contrary, in no event shall the BUYER or any of its agents, representatives, employees, contractors or the like ("Permitted Parties") cause any damage to the Premises which is not promptly restored by BUYER at its sole cost and expense to as near its condition prior to such damage or disturbance as reasonably possible, unreasonably disturb any tenants or occupant thereat or incur any liability for SELLER. To the extent that any of the Permitted Parties shall in any way disturb or damage the Premises, unreasonably disturb any tenants or occupants thereat or incur any liability for SELLER, they shall, as a matter of due course, but in any event upon being notified by SELLER, promptly restore the Premises at their sole cost and expense to its condition prior to such disturbance and BUYER shall hold SELLER harmless and indemnified from all loss, cost, damage and expense, including reasonable attorneys' fees, as a result of any damage to the Premises or any claim made against SELLER to the extent of any action or inaction by BUYER or the Permitted Parties. SELLER agrees to give BUYER prompt notice of

any claim for which SELLER is seeking indemnity and to give BUYER the right to defend the

17

same with counsel reasonably acceptable to SELLER. BUYER shall notify SELLER of its intention to access the Premises at least twenty-four (24) hours in advance of each such access and shall, if SELLER so requests, allow SELLER or its representative to accompany BUYER or the Permitted Parties during such access and shall reasonably accommodate SELLER by scheduling such access at reasonable times so that SELLER can accompany BUYER or the Permitted Parties if SELLER so wishes. BUYER agrees to maintain appropriate property damage and public liability insurance in amounts reasonably acceptable to SELLER and will deliver to SELLER certificates of such insurance naming SELLER as an additional insured prior to any access or entry onto the Premises.

26. Recording. In the event this Agreement or any notice hereof shall be recorded by BUYER, then, at SELLER'S sole option, this Agreement shall be void and without recourse to the parties hereto.

27. No Binding Agreement. This Agreement is circulated for discussion and negotiating purposes and no agreement with respect to the purchase and sale of the Premises shall be binding upon either of the parties hereto until this Agreement shall have been executed by both the BUYER and the SELLER.

28. Insurance. The SELLER represents that at the time of execution of this Agreement, the SELLER maintains insurance with respect to the Premises. Until the delivery of the deed, the SELLER shall maintain insurance on the improvements in the amount of One Hundred (100%) percent of their replacement value and public liability insurance in an amount at least equal to Five Million (\$5,000,000) Dollars. The procuring of any supplemental insurance shall be at the option and sole expense of the BUYER.

29. Operation and Leasing of the Premises. SELLER agrees that between the date of this Agreement and the date for closing and delivery of the deed, SELLER shall operate the Premises consistently with their current operation and, except as provided elsewhere in this Agreement, will not enter into new leases or modify, alter or amend existing leases for the Premises without BUYER'S consent, which shall not be unreasonably withheld or delayed. At the closing, SELLER shall deliver an up-to-date rent roll in the same form as Exhibit C hereto listing all tenants, payment status of monthly rent and security deposit. SELLER agrees and covenants not to enter into any new contracts or agreements, whether Service Contracts or otherwise, which are not immediately cancelable by BUYER after Closing without penalty or which are not approved by BUYER, which approval shall not be unreasonably withheld or delayed. SELLER also agrees that it shall not voluntarily place any liens, encumbrances or the like against the Premises, and if any such voluntary liens, encumbrances or the like are so placed, that they shall be satisfied or removed of record at Closing. It is a condition of BUYER's obligation to close that, except as stated in Paragraphs 35 and 44 of this agreement, the Rent-Roll delivered at Closing shall be substantially the same as the Rent-Roll annexed hereto as Exhibit C, or as otherwise consented to by BUYER.

Except for Leases or agreements approved by BUYER as contemplated above or in Paragraph 35, SELLER also shall not: (i) enter into any agreement requiring SELLER to do

18

work for any Tenant after the Closing Date without first obtaining the prior written consent of BUYER; (ii) accept the surrender of any Service Contract or Lease, or grant any concession, rebate, allowance or free rent; (iii) renew, extend or modify any of the Service Contracts without the prior written consent of BUYER; (iv) remove any Personal Property located in or on the Premises owned by SELLER and used in connection therewith, except as may be required for repair and replacement, in which event, all replacements shall be free and clear of liens and encumbrances and shall be of quality at least equal to the replaced items and shall be deemed included in this sale, without cost or expense to BUYER. Except as stated specifically in this Agreement, SELLER may operate the Premises and deal with tenants and contractors in the ordinary course.

30. Service Contracts and Operating Agreements.

(a) All Service Contracts and other operating agreements pertaining to the Premises, if any, are listed on Exhibit B-1 attached hereto and made a part hereof. Unless BUYER, by written notice to SELLER given at least twenty (20) days prior to the Closing Date, notifies SELLER in writing that it does not wish to assume the obligations under the operating agreements, then SELLER shall deliver the Premises with all operating agreements in place. In no event shall BUYER assume any property management contracts or any leasing agreement not contemplated in Paragraph 35 of this agreement.

- (b) Seller will make all required payments under any mortgage affecting the Premises within any applicable grace period, but without reimbursement by BUYER therefor. Seller shall also comply in all material respects with all other terms covenants, and conditions of any mortgage on the Premises.
- (c) Up to and including the Closing Date, Seller agrees to maintain and keep such hazard, liability and casualty insurance policies in full force and effect in such amounts and coverage currently maintained and in place.
- (d) Seller shall cancel all Service Contracts, at its sole cost and expense, except for those Service Contracts which BUYER elects to assume as provided in this Agreement.

31. SELLER'S Closing Documents. On the Closing Date, in addition to any other documents required to be delivered by SELLER under this Agreement, SELLER shall execute and deliver or cause to be delivered to BUYER the following:

- (a) A special warranty deed in the form of Exhibit D conveying to the BUYER the Premises in accordance with the terms hereof; the BUYER shall be entitled to nominate a third party controlled by BUYER to take title to the Premises provided that BUYER gives SELLER at least ten (10) days advance notice identifying such nominee and further provided that such nominee and BUYER execute and deliver to SELLER an assumption agreement reasonably satisfactory to SELLER by

19

which such nominee assumes and agrees to be bound by all warranties, representations, obligations and liabilities of BUYER contained in this Agreement in which event the obligations of BUYER and such nominee shall be jointly and severally liable for the obligations of BUYER under this Agreement;

- (b) A bill of sale in the form of Exhibit E conveying to the assignee or nominee of BUYER all SELLER'S right, title and interest in the Personal Property;
- (c) An Assignment and Assumption Agreement Concerning Leases substantially in the form of Exhibit F, and which shall provide that (i) SELLER assigns all its rights under the Leases to BUYER and (ii) BUYER assumes all obligations of SELLER as landlord under the Leases;
- (d) An Assignment and Assumption Agreement Concerning Permits and Licenses, and Service Contracts elected to be assumed by BUYER and Warranties in the form of Exhibit G;
- (e) An affidavit of SELLER stating SELLER'S U.S. taxpayer identification number and that SELLER is a "United States person", as defined in Section 1445(f)(3) and Section 7701(b) of the Internal Revenue Code of 1986, as amended;
- (f) Resolutions of the board of directors of the general partner of SELLER certified by the Clerk thereof authorizing the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, which certificate shall state that said resolutions are in full force and effect as of the Closing Date and have not been amended, modified or rescinded in any manner;
- (g) An incumbency certificate regarding SELLER'S corporate general partner issued by the Secretary of the Commonwealth of Massachusetts;
- (h) Certificate of Legal Existence of SELLER'S corporate general partner issued by the Secretary of the Commonwealth of Massachusetts;
- (i) Certificate of Legal Existence of SELLER issued by the Secretary of State of the Commonwealth of Massachusetts;
- (j) Such standard title affidavits regarding parties in possession and indemnities regarding mechanics' liens as BUYER'S title insurer may reasonably require in order to delete exceptions regarding such matters from its title insurance coverage, including but not limited to standard form survey coverage, parties in possession and mechanic lien affidavits for any work performed at the Premises during the period 120 days prior to Closing required by and addressed to the SELLER'S title insurance company pursuant to local custom;

- (k) A closing and settlement statement in form and substance mutually satisfactory to both parties;
- (l) A letter to each Tenant in form reasonably acceptable to BUYER advising it of the change in ownership of the Premises and the assignment of the Leases to BUYER and the transfer of its security deposit, if any;
- (m) Originals, as in the possession of SELLER, of all Leases and, if any, Service Contracts assumed by BUYER, Promotional Materials, Permits and Licenses, and Books and Records owned by SELLER for the operation and maintenance of the Premises;
- (n) Certificate of SELLER'S authorization to conduct business in the State of Connecticut, issued by the Connecticut Secretary of State;
- (o) To the extent that any of the Promotional Materials, Books and Records, Service Contracts, and Leases known to SELLER to exist are not in the possession of SELLER, and SELLER shall use reasonable efforts, but without out-of-pocket expense, to cause the holders or owners of same to deliver such materials to BUYER, without cost or expense, which obligation shall survive the Closing;
- (p) In the event BUYER determines during its Due Diligence that the Premises are a so-called "Establishment" subject to the Transfer Act under the laws of the State of Connecticut, SELLER shall, at Closing, sign any required documents for filing with the Connecticut DEP provided that no such documents shall result in any liability to the SELLER which SELLER does not already have, result in any expense or potential expense to SELLER, or obligate SELLER to take any action with respect to the Premises for which SELLER is not already responsible, and in no event shall this agreement (in this subsection "(p)") by SELLER or the documents to be signed by SELLER obligate SELLER to take any action with respect to the Premises or the remediation of any oils or hazardous materials thereat, BUYER'S sole right with respect to the discovery of so-called hazardous materials at the Premises during the Due Diligence shall be to timely terminate this Agreement and receive a return of its deposit and any interest thereon. Notwithstanding the foregoing, SELLER will proceed under the provisions and subject to the limitations of Paragraph 9 of this Agreement.
- (q) Any other document reasonably necessary to consummate the transactions contemplated by this Agreement, provided that such document is consistent with the parties' intent as expressed in this Agreement and does not result in any liability, warranty or representation by SELLER;
- (r) On or prior to the date hereof, SELLER agrees to deliver to each Tenant an estoppel certificate in the form annexed hereto as Exhibit H for Tenant's execution, completed to reflect the Tenant's particular Lease status. SELLER

21

agrees to use its best efforts to obtain from all Tenants the estoppel certificates substantially in such form but reflecting the current status of each Lease; provided, however, that if any Tenant shall refuse to execute an estoppel letter substantially in such form, SELLER shall nevertheless be obligated to use its best efforts, not including judicial action or lease termination, to obtain estoppel certificates in the form, if any, in which each Tenant is obligated to deliver as provided in its respective Lease. SELLER agrees to deliver to BUYER, upon receipt, copies of all estoppel letters received by Tenants, in the form received by SELLER. The estoppel certificates required to be obtained pursuant to this Paragraph 31 are collectively referred to as the "Estoppel Certificates". As a condition to BUYER'S obligations to proceed with the Closing, SELLER shall deliver (i) an Estoppel Certificate from each Tenant which leases space at the Premises in excess of 10,000 square feet or more in the aggregate and (ii) Estoppel Certificates representing in total occupancy of at least seventy-five (75%) percent of the total rentable square footage of the Building. For an Estoppel Certificate to be deemed delivered for purposes of this Agreement, it must certify that the Tenant's most recent rental payment under its Lease was made not more than one (1) month prior to the month in which the Closing occurs. If any Tenant refuses or neglects to deliver an estoppel certificate necessary to comply with the foregoing, BUYER'S sole remedy under the Agreement shall be to (i) terminate the Agreement and receive a refund of its deposit and any interest earned thereon, or (ii) accept such Estoppel Certificate, or such missing portion thereof necessary to comply with the foregoing, signed by SELLER, as SELLER is willing to give, and waive such non-delivery.

32. BUYER'S Closing Deliveries.

- (a) On or prior to the Closing Date, and in addition to any other document required to be delivered by BUYER under this Agreement, BUYER shall execute and deliver or cause to be delivered to SELLER, the following:
- (i) The balance of the Purchase Price in cash, plus or minus adjustments contemplated herein, delivered as required under this Agreement;
 - (ii) The Assignment and Assumption Agreements referred to herein;
 - (iii) Such certificates as are reasonably acceptable to SELLER authorizing the execution, delivery and performance of this Agreement and the consummation of the transaction contemplated hereby;
 - (iv) A closing and settlement statement in form and substance mutually satisfactory to both parties;
 - (v) Any other document reasonably necessary to consummate the transaction contemplated by this Agreement, provided that such documents are consistent with the parties' intent as expressed in this Agreement.
- (b) The obligations of BUYER to accept title to the Premises and to perform the other covenants and obligations to be performed by BUYER on the Closing Date shall be subject to the following conditions (all or any of which may be waived, in whole or in part, by BUYER): (i) The representations and warranties made by SELLER herein shall be true and correct in all material respects with the same force and effect as though such representations and warranties had been made on and as of the Closing Date; (ii) SELLER shall have performed all covenants and obligations undertaken by SELLER herein in all respects and complied with all conditions required by this Agreement to be performed or complied with by it on or before the Closing Date; (iii) Title to the Premises is such that the Title Company is able to issue to BUYER a Title Policy meeting the requirements set forth in Paragraph 33 for an "Insurable Title"; (iv) SELLER shall have delivered to Escrow Agent all of the documents necessary for title transfer provided herein for said delivery and made arrangements reasonably satisfactory to BUYER for the deliver of the balance of the documents upon payment of the purchase price to SELLER; (v) There shall have been no change in the compliance of the Premises with all applicable environmental laws from that existing on the date of this Agreement. BUYER'S recordation of the Deed shall be acknowledgment of full satisfaction of the foregoing provisions.
- (c) The obligations of the SELLER to deliver title to and possession of the Premises to BUYER shall be conditioned upon payment to Escrow Agent of the purchase price, adjusted as contemplated herein, pending only continuation of title and recording of the Deed to BUYER in accordance with local custom.

22

33. Title Insurance. SELLER'S obligation to deliver title shall be deemed to have been met if BUYER shall be able to obtain (which shall include SELLER'S ability to provide), at BUYER'S sole cost and expense, from a nationally recognized title insurance company, without additional cost above normal premium rates, a standard form ALTA title insurance policy coverage without exception other than the Permitted Exceptions ("Insurable Title").

34. Form 1099. SELLER, through its counsel, shall be responsible for filing Form 1099 in connection with the sale.

35. Leasing, Leasing Commissions and Tenant Improvements. It shall be SELLER'S responsibility to pay for all tenant improvements required to be provided and/or paid for by Landlord during the currently unexpired term under Leases currently in place. BUYER agrees that BUYER shall assume, agree to pay and be responsible for any and all tenant or leasehold improvements under any new leases entered into by BUYER or entered into by SELLER with

23

the consent of BUYER and as to Leases currently in place for any and all options to extend, lease amendments, renewals or expansions entered or effective after the Closing Date.

BUYER shall assume and agree to pay the obligations for leasing commissions under the agreements listed in Exhibit B-2 and for any and all leasing commissions required to be paid under Leases currently in place for renewals, expansions, amendments and options to extend exercised or entered

after the Closing Date.

At the Closing, SELLER shall establish a reserve fund with BUYER in the following amounts: (i) \$78,387.38, representing an allowance of \$4.125 per square foot based upon 19,003 square feet of vacant space for leasing or rental commissions; (ii) \$380,060.00, representing an allowance of \$20.00 per square foot based upon 19,003 square feet of vacant space for tenant improvements and build out. BUYER may use this reserve fund to pay the foregoing expenses as it sees fit.

The BUYER acknowledges that the foregoing is an agreed upon adjustment between SELLER and BUYER and is neither intended to be a representation by SELLER of actual or prospective costs and/or vacancies for the Premises or the vacant or to become vacant space thereat. BUYER accepts these adjustments as fair and reasonable and agrees that BUYER shall have no right to any further credit or adjustments for future or additional vacant space or on account of costs for leasing or brokerage commissions or tenant improvements or build out over and above these credits or adjustments. SELLER'S and BUYER'S obligations under this Paragraph 35 shall survive Closing.

36. Confidentiality. Prior to closing, BUYER and SELLER agree that the terms of this transaction are confidential and that neither of them will disclose nor permit their employees or agents to disclose the terms of this Purchase and Sale Agreement or the transaction contemplated herein except that SELLER may disclose the terms of this Agreement to its accountants, attorneys and limited partners and for tax reporting purposes and BUYER may disclose the terms of this Agreement to its prospective lenders, investors and consultants, attorneys, accountants, and environmental consultants, who shall be placed under the same confidentiality obligation provided there is imposed upon the same the same agreement of confidentiality as set forth above. Either party may disclose such information as they may be required to disclose by any court of competent jurisdiction or any governmental agency having authority to compel such disclosure. In the event of a conflict between this Paragraph 36 and the Confidentiality Agreement previously entered into between the parties, the Confidentiality Agreement shall control. Notwithstanding the foregoing, BUYER shall have the right to make such public announcements with respect to the purchase as BUYER, as a publicly traded company, upon advice of counsel may deem reasonably necessary or required. BUYER agrees to give SELLER advance written notice of such filings and announcements and to obtain SELLER'S advance written approval which shall not be unreasonably withheld or delayed by SELLER.

37. Seller's Improvements. BUYER and SELLER acknowledge that SELLER is currently in the process of installing a tenant directory board in the lobby and wallcoverings in

24

the first and second floor lobbies. BUYER acknowledges that the directory board has been installed in a satisfactory manner and that the wallcoverings in the first floor lobby have been installed in a satisfactory manner. SELLER agrees to complete the wallcovering installation in the second floor lobby to the same level of quality as the installation of the wallcoverings in the first floor lobby prior to the Closing of this transaction or, at SELLER'S option with BUYER'S consent, not to be unreasonably withheld, to credit against the balance of the Purchase Price due at Closing a sum reasonably acceptable to BUYER to complete the installation of the wallcovering in the second floor lobby to the standards set forth herein, in which event BUYER will install the same. BUYER acknowledges that, except as set forth specifically in this paragraph and in Paragraphs 29, 30 and 35 above, as well as SELLER'S representations and warranties, SELLER shall have no obligations with respect to work or improvements at the Premises and that at Closing all such obligations shall be deemed satisfied and SELLER shall be released from any obligation with respect thereto.

39. Other Offers and Agreements. Notwithstanding the execution and effectiveness of this Agreement, SELLER shall have the right to solicit and enter into "back-up" offers and/or to enter into Purchase and Sale Agreements for the Premises whether pursuant to such "back-up" offers or otherwise provided that any such offers and agreements contain a provision that they are expressly contingent upon the termination of this Purchase and Sale Agreement with BUYER and that in the event BUYER purchases the Premises from SELLER, the parties under such back-up offers or Purchase and Sale Agreements shall have no rights with respect to the Premises.

40. Escrow Agent Conduct Standards.

- (a) The duties and obligations of the Escrow Agent shall be determined solely by the express provisions of this Paragraph 40 and no implied duties or obligations shall be implied against the Escrow Agent. Further, the Escrow Agent shall be under no obligation to refer to any other document between or among the BUYER and the SELLER related in any way to this Agreement, unless Escrow Agent is provided with a copy of such document and consents thereto in writing.

- (b) The Escrow Agent shall not be liable to anyone by reason of any error or judgment, or for any act done or step taken or omitted by the Escrow Agent in good faith, or for any mistake of fact or law, or for anything which the Escrow Agent may do or refrain from doing in connection herewith, unless caused by or arising out of the Escrow Agent's actual and intentional misconduct.
- (c) The Escrow Agent shall be entitled to rely, and shall be protected in acting in reliance, upon any writing furnished to the Escrow Agent by either the BUYER or SELLER and shall be entitled to treat as genuine, and as the document it purports to be, any letter, paper or other document furnished to the Escrow Agent in connection with its role as Escrow Agent. The Escrow Agent may rely on any affidavit of either the BUYER or the SELLER or any other person as to the existence of any facts stated therein to be known by the affiant.

25

- (d) In the event of any disagreement between the BUYER and the SELLER resulting in adverse claims and demands being made in connection with or against the funds held in escrow, the Escrow Agent shall be entitled, at the Escrow Agent's option, to refuse to comply with the claims or demands of either party until such disagreement is finally resolved (i) by a court of competent jurisdiction (in proceedings which the Escrow Agent or any other party may initiate, it being understood and agreed by the BUYER and the SELLER that the Escrow Agent has authority (but no obligation) to initiate such proceedings), or (ii) by an arbitrator in the event that the BUYER and the SELLER determine to submit the dispute to arbitration pursuant to the rules of the American Arbitration Association, and in so doing the Escrow Agent shall not be or become liable to any party, or (iii) by unambiguous written settlement between the BUYER and the SELLER.
- (e) The BUYER and the SELLER each agree to jointly and severally indemnify and hold harmless the Escrow Agent against any and all losses, liabilities, costs (including legal fees), and other expenses in any way incurred by the Escrow Agent in connection with or as a result of any disagreement between the BUYER and the SELLER under this Agreement or otherwise incurred by the Escrow Agent in any way on account of its role as escrow agent.
- (f) The BUYER agrees that, in the event that a dispute arises regarding this Purchase and Sale Agreement and/or any actions by the Escrow Agent, Bernkopf, Goodman & Baseman ("BGB") may continue to represent the SELLER in connection with said dispute and the BUYER hereby waives its rights to object to said representation or any potential conflict as a result of BGB's role as counsel for Escrow Agent in other matters.

41. CONDEMNATION. In the event that prior to Closing, SELLER shall obtain knowledge of the institution or threatened institution of any proceedings, judicial, administrative or otherwise, by eminent domain or otherwise, which propose to affect a material portion of the Premises or any portion of the Building, SELLER shall give notice (a "Condemnation Notice") to BUYER promptly thereafter. Within fifteen (15) days following receipt of the Condemnation Notice, BUYER shall have the right and option to terminate ("Condemnation Termination Notice") this Agreement by giving SELLER written notice thereof. Any damage to or destruction of the entire or any portion of the Premises as a result of a taking by eminent domain shall be deemed "material" for purposes of this Section if the estimate of the damage, which estimate shall be a reasoned determination performed by an insurance adjuster and BUYER's architect, shall exceed \$500,000. Should BUYER so terminate this Agreement in accordance with this Section, neither party shall have any further liability or obligations to the other. In the event BUYER shall not elect to cancel this Agreement, SELLER shall assign all proceeds of such taking to BUYER, which assignment shall be BUYER's sole right with respect to such taking of the Premises, and BUYER shall have the sole right to settle any claim in connection with the Premises. The Closing Date shall be adjourned if the time periods set forth above so

26

require until five (5) days (or the next business day thereafter) after the date for the giving of the Condemnation Termination Notice.

At Closing, SELLER shall execute and deliver all proper instruments as shall be reasonably required for the conveyance to BUYER of all right, title and interest, if any, of SELLER in and to any award or payment made, or to be made, (i) for any taking in condemnation, eminent domain or agreement in lieu thereof of land adjoining all or any part of the Improvements, (ii) for damage to the Land or Improvements or any part thereof by reason of change of grade or closing of any such street, road, highway or avenue, and (iii) for any taking in condemnation or eminent domain of any part of the Land or Improvements.

42. MISCELLANEOUS PROVISIONS.

- (a) If any instrument or deposit is necessary, assuming SELLER is obligated or elects under this Agreement to deliver the same, in order to cure a defect in or objection or exception to title, the following shall apply: (i) any such instrument shall be in such form and shall contain such terms and conditions as may be reasonably required by the Title Company to omit any defect, objection or exception to title, (ii) any such deposit shall be made with the Title Company or arrangements satisfactory to the Title Company are made in accordance with local custom for the timely delivery thereof subsequent to Closing to omit any defect, objection or exception to title, and (iii) Seller agrees to execute, acknowledge and deliver, to the extent reasonably required by the Title Company in accordance with local custom, any such instrument and to make any such deposit.
- (b) This agreement (i) constitutes the entire agreement between the parties and incorporates, (ii) supersedes all prior negotiations and discussions between the parties, (iii) cannot be amended, waived or terminated orally, but only by an agreement in writing signed by the party to be charged, (iv) shall be interpreted and governed by the laws of the State of Connecticut and (v) shall be binding upon the parties hereto and their respective successors and assigns.
- (c) The caption headings in this agreement are for convenience only and are not intended to be part of this agreement and shall not be construed to modify, explain or alter any of the terms, covenants or conditions herein contained. If any term, covenant or condition of this Agreement is held to be invalid, illegal or unenforceable in any respect, this agreement shall be construed without such provision.
- (d) Each party shall, from time to time, execute, acknowledge and deliver such further instruments, and perform such additional acts, as the other party may reasonably request in order to effectuate the intent of this agreement. Nothing contained in this agreement shall be deemed to create any rights or obligations of partnership, joint venture or similar association between SELLER and BUYER.

27

- (e) This agreement shall not be effective or binding until such time as it has been executed and delivered by all parties hereto. This agreement may be executed by the parties hereto in counterparts, all of which together shall constitute a single agreement.
- (f) All references herein to any section, schedule or exhibit shall be to the sections of this Agreement and to the schedules and exhibits annexed hereto unless the context clearly dictates otherwise. All of the schedules and exhibits annexed hereto are, by this reference, incorporated herein.
- (g) In the event of any litigation or alternative dispute resolution between SELLER and BUYER in connection with this agreement or the transaction contemplated herein, the non-prevailing party in such litigation or alternative dispute resolution shall be responsible for payment of all expenses and reasonable attorneys' fees incurred by the prevailing party.

43. Roof Condition: BUYER acknowledges that it has raised certain concerns with respect to the condition of the roof on the Building. At the Closing, SELLER shall establish a reserve fund with BUYER in the amount of Fifty Thousand (\$50,000.00) Dollars on account of the BUYER'S concerns with the condition of the roof. BUYER agrees that this reserve fund is in full satisfaction of any and all obligations of SELLER with respect to existing or future conditions with respect to the roof. BUYER agrees that this amount is an agreed upon maximum and full liability of SELLER in connection with the condition of the roof and its components and is neither intended to be an acknowledgment by SELLER of or a representation by SELLER of actual or prospective costs for addressing conditions with respect to the roof, known or unknown, or a sum which is to be adjusted up or down in the event the roof conditions turn out to be less or more serious than BUYER has determined. BUYER agrees that SELLER has made no warranties or representations concerning the roof or its condition and that, based upon this agreed upon reserve fund, SELLER is released from any and all claims or liability with respect to the roof or its condition. BUYER may use the reserve fund as it sees fit for the purposes of making roof repairs or replacements.

44. Merlin Lease:

A. BUYER acknowledges that there are approximately 19,000 square feet of the second floor consisting of currently vacant space and space being vacated by Blue Cross/Blue

[signatures on following page]

Shield, the leasing of an approximately 5,000 square foot portion of which is integral to the consummation of the transaction contemplated under this Agreement. SELLER has proposed to deliver the Premises at Closing to BUYER with a lease for a 5,000 square foot portion of such space with Merlin Realty Corp., which lease has been executed between SELLER and Merlin Realty Corp. and has been delivered to BUYER for its approval. A copy of the entire lease is attached hereto as Exhibit I. BUYER has refused to approve the lease unless SELLER agrees to certain conditions and SELLER has refused to agree to those conditions unless BUYER agrees to certain conditions, all as hereinafter set forth.

B. In consideration of the BUYER'S approval of the Merlin lease, SELLER agrees as follows: SELLER agrees to deliver at Closing its guarantee of the punctual and full payment of the rent to be paid and shall also guarantee the timely performance of lease obligations of tenant upon occupancy by the tenant under the Merlin Lease. In addition, to secure its guarantee, SELLER will at Closing post with Pryor, Cashman, Sherman & Flynn the first eighteen (18) months' rent (the "Guarantee Security") to be paid under the Merlin lease and BUYER may draw on the Guarantee Security to pay any monthly non-payment of rent, which draw will cure such non-payment. The SELLER'S guarantee shall be in the form of Exhibit J. attached hereto.

C. In consideration of the SELLER accepting the conditions imposed by the BUYER as a condition of BUYER'S acceptance of the Merlin lease, all as set forth in Paragraph B above, the BUYER agrees that: (i) the Merlin Lease is approved; and (ii) the Merlin Lease will provide that the payment of rent by either Guarantor or Tenant will be acceptable payment of rent and that payment of the first eighteen (18) months' rent out of the Guarantee Security will be an acceptable method of payment of rent for the first eighteen (18) months, under the Merlin Lease.

D. This Paragraph 44 shall survive the Closing.

SELLER:

BUYER:

SHELTON PLACE LIMITED
PARTNERSHIP

CALI REALTY ACQUISITION
CORPORATION

By: Shelton Place Investment Corp.,
its General Partner

By: _____
Jonathan G. Davis, President

By: _____

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