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

SCHEDULE 13D
Under the Securities Exchange Act of 1934

Royale Investments, Inc.

(Name of Issuer)

Common Stock (par value $.01 per share)

(Title of Class of Securities)

780 74A104

(CUSIP Number)

Gerald S. Tanenbaum
Cahill Gordon & Reindel
80 Pine Street
New York, NY 10005
(212) 701-3224
(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

October 14, 1997

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(b)(3) or (4), check the following box |_|.

Check the following box if a fee is being paid with the statement |X|. (A fee is not required only if the reporting person: (1) has a previous statement on file reporting beneficial ownership of more than five percent of the class of securities described in Item 1; and (2) has filed no amendment subsequent thereto reporting beneficial ownership of five percent or less of such class.) (See Rule 13d-7.)

Note: Six copies of this statement, including all exhibits, should be filed with the Commission. See Rule 13d-1(a) for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

SCHEDULE 13D

CUSIP No. 780 74A104 Page 1 of 170 Pages

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSON (ENTITIES ONLY)

Clay W. Hamlin, III

2	CHECK THE APPROXIMATE BOX IF A MEMBER OF A GROUP* (a) |_| (b) |_|		
3	SEC USE ONLY		
4	SOURCE OF FUNDS* 00		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) |_|		
6	CITIZENSHIP OR PLACE OF ORGANIZATION U.S.A.		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER	300,000
	8	SHARED VOTING POWER	
	9	SOLE DISPOSITIVE POWER	300,000
	10	SHARED DISPOSITIVE POWER	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 300,000		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* |_|		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 13.1%		
14	TYPE OF REPORTING PERSON* IN		

*SEE INSTRUCTIONS BEFORE FILLING OUT!
INCLUDE BOTH SIDES OF THE COVER PAGE, RESPONSES TO ITEMS 1-7
(INCLUDING EXHIBITS) OF THE SCHEDULE, AND THE SIGNATURE ATTESTATION.

Item 1. Security and Issuer

Title: Common Stock, par value $.01 per share.

Issuer: Royale Investments, Inc. ("Royale")
3430 List Place
Minneapolis, MN 55416-4547

Item 2. Identity and Background

(a) Clay W. Hamlin III

(b) Business address:

The Shidler Group - Philadelphia
One Logan Square, Suite 1105
Philadelphia, PA 19103

(c) Mr. Hamlin is a Managing Partner of The Shidler Group, the principal business of which is the acquisition and management of real estate properties and, effective October 14, 1997, became President and Chief Executive Officer of Royale, a real estate investment trust. See Item 2(b) above for the address of The Shidler Group-Philadelphia, and Item 1 above for the address of Royale.

(d) None

(e) None

(f) U.S.A.

Item 3. Source and Amount of Fund or Other Consideration

The 300,000 shares of common stock of Royale ("Hamlin Shares") covered by this Schedule 13D were acquired by Mr. Hamlin on October 14, 1997 pursuant to and in connection with the Formation/Contribution Agreement dated as of September 7, 1997 by and among Royale, H/SIC Corporation, Strategic Facility Investors, Inc. ("SFI"), South Brunswick Investment Company, LLC ("SBIC"), Comcourt Investment Corporation ("CIC"), Gateway Shannon Development Corporation ("Gateway"), Crown Advisors, Inc. ("Crown"), Vernon R. Beck and John Parsinen, as amended by an amendment thereto dated as of October 13, 1997 (collectively, the "Formation/Contribution Agreement").

179,920 of the Hamlin Shares were acquired in consideration for the assignment to Royale by Mr. Hamlin of a limited partnership interest in ComCourt Investors, L.P. ("ComCourt"), a Delaware limited partnership which owns commercial office buildings located in Harrisburg, Pennsylvania. At the same time, CIC and SFI transferred to Royale limited partnership interests (which had previously been general partnership interests) in ComCourt and Blue Bell Investment Company, L.P. ("Blue Bell"), a Delaware limited partnership which owns commercial office buildings located in Blue Bell, Pennsylvania. As a result of such transfers by CIC and SFI, Mr. Hamlin as a 50% shareholder of CIC and SFI became entitled to receive an aggregate of 43,195 shares of common stock of Royale. In addition, Gateway transferred to Royale limited partnership interests (which had previously been general partnership interests) in 6385 Flank Drive, L.P. ("Flank"), a Pennsylvania limited partnership which owns a commercial office building in Harrisburg, Pennsylvania, entitling Mr. Hamlin as 100% shareholder of Gateway to receive an additional 2,976 shares of common stock of Royale. The aggregate partnership interests transferred to Royale by Mr. Hamlin and by CIC, SFI and Gateway on behalf of Mr. Hamlin were agreed to have an aggregate value, for purposes of this transaction, of $1,243,500 (based on a price of $5.50 per share of common stock of Royale).

In addition, Mr. Hamlin purchased for $406,500 the right of Westbrook Real Estate Fund I, L.P. ("WR"), Westbrook Real Estate Co-Investment Partnership I, L.P. ("WRCo") and Tiger South Brunswick, L.L.C. ("TSB") (collectively, "Seller") to acquire 73,909 shares of common stock of Royale issuable to Seller in consideration for the assignment to Royale by Seller of limited partnership interests in South Brunswick Investors, L.P. ("South Brunswick"), a Delaware limited partnership. Such funds came from Mr. Hamlin's personal funds.

The Hamlin Shares were issued by Royale at a price of $5.50 per share and were taken by Mr. Hamlin for investment and without a view to the distribution thereof. The certificates for the Hamlin Shares contain a legend reflecting the fact that such shares have not been registered under the Securities Act of 1933, as amended ("1933 Act"). Royale has, pursuant to a Registration Rights Agreement dated as of October 1, 1997, given Mr. Hamlin certain rights to have the Hamlin Shares and all other shares of common stock of Royale issued to Mr. Hamlin pursuant to the FCO Partnership Agreement (as hereinafter defined) registered, at Royale's expense, under the 1933 Act.

Pursuant to the Formation/Contribution Agreement, Mr. Hamlin also contributed, directly and indirectly, on October 14, 1997 certain limited partnership interests beneficially owned by him in ComCourt, South Brunswick and Flank to FCO, L.P. ("FCO"), a Delaware limited partnership of which Royale is the sole general partner, in consideration for the issuance of an aggregate of 5,235 Limited Partner Interests (as defined in the FCO Partnership Agreement) and 115,334 Preferred Units (as defined in the FCO Partnership Agreement) in FCO.

In addition, pursuant to the Formation/Contribution Agreement, CHLB Partnership (a Pennsylvania partnership owned by Mr. Hamlin and his wife Lynn B.

Hamlin, both of whom are general partners of this partnership) contributed all of the limited partnership interests owned by it in Flank in consideration for the issuance to it of 63,243 Limited Partner Interests and 41,741 Preferred Units in FCO. Also, pursuant to the Formation/Contribution Agreement, LBCW Limited Partnership (a Pennsylvania family limited partnership owned by Mr. Hamlin, his wife and children and of which Mr. Hamlin is the sole general partner) contributed on October 14, 1997 all of the limited partnership interests owned by it in Blue Bell in consideration for the issuance to it of 875,284 Limited Partner Interests and 663,808 Preferred Units in FCO. In addition, Mr. Hamlin has the obligation to contribute to FCO in November 2000 his remaining 11% limited partnership interests in ComCourt and Flank ("Retained Interests") in consideration for 50,685 additional Limited Partner Interests and 33,452 additional Preferred Units of FCO to be issued at that time. Mrs. Hamlin does not beneficially own any shares of common stock of Royale other than by reason of her interests in CHLB Partnership and LBCW Limited Partnership.

Preferred Units of FCO may be converted on or after October 1, 1999 into Limited Partner Interests of FCO on the basis of 3.5714 Units of Limited Partner Interest for each Preferred Unit being converted plus an amount in cash equal to the accrued Priority Return Amount (as defined in the FCO Partnership Agreement) in respect of such Preferred Units.

Subject to compliance with the FCO Partnership Agreement, beginning on September 1, 1998, each Limited Partner of FCO has the right to require FCO to redeem all or a portion of the Limited Partner Interests held by such Limited Partner. FCO (or Royale as its General Partner) has the right, in its sole discretion, to deliver to such redeeming Limited Partner either one share of common stock of Royale (subject to anti-dilution adjustment) or a cash payment equal to the then fair

market value of such share (so adjusted) (based on the formula for determining such value set forth in the FCO Partnership Agreement). Such rights of redemption and conversion are immediately exercisable upon the happening of a Special Event (as defined in the FCO Partnership Agreement). If all Preferred Units presently owned by Mr. Hamlin, LBCW Limited Partnership and CHLB Partnership were converted into Limited Partnership Interests and all then outstanding Limited Partnership Interests owned by Mr. Hamlin, LBCW Limited Partnership and CHLB Partnership were redeemed for common stock of Royale at the date hereof, Mr. Hamlin, LBCW Limited Partnership and CHLB Partnership would be entitled to receive an aggregate of 417,137, 3,246,008 and 212,317, respectively, additional shares of common stock of Royale. 170,155 additional shares of common stock of Royale would, at the conversion rate presently in effect, be issuable to Mr. Hamlin in respect of the Limited Partner Interests and Preferred Units issuable in November 2000 for the Retained Interests.

The right to receive common stock of Royale upon exercise of such right of redemption is subject to compliance with a number of significant conditions precedent including compliance with Royale's charter, all requirements under the Internal Revenue Code of 1986, as amended applicable to real estate investment trusts, compliance with the Minnesota Business Corporation Act or any other law then in effect and any applicable rule or policy of any stock exchange or self-regulatory organization.

FCO was formed as a Delaware limited partnership by Royale on October 9, 1997. On October 14, 1997 Royale, as the sole general partner, and the limited partners and preferred limited partners named therein entered into a Limited Partnership Agreement dated that day (the "FCO Partnership Agreement"). Royale has a 20.6946% Percentage Interest in FCO. Until December 31, 2000, a portion of Profits (as defined in the FCO Partnership Agreement) for each fiscal year is to be allocated 19.8% to Royale as the General Partner and 80.2% to all Partners (including Royale as the General Partner but other than the Preferred Limited Partners holding Preferred Units).

Item 4. Purpose of Transaction

The Hamlin Shares were acquired for the purpose of exercising substantial influence with respect to the affairs of Royale and for the purpose of exchanging general and limited partnership interests in special purpose partnerships for the securities of an issuer listed on NASDAQ.

Pursuant to the Formation/Contribution Agreement, effective upon such acquisition ("Effective Time"), the Board of Directors of Royale elected Jay H. Shidler as a director of Royale; Mr. Hamlin as a director, President and Chief Executive Officer of Royale; and William H. Walton (a representative of Seller) and Kenneth S. Sweet, Jr. as directors of Royale. See Item 5 below. Royale has seven directors. David P. Hartsfield, James K. Davis and Denise J. Liszewski, who were designated by Mr. Shidler and Mr. Hamlin, were also so elected as of

the Effective Time as Royale's Chief Operating Officer, Chief Financial Officer and Assistant Secretary, respectively. John Parsinen, Orvin J. Hall and Kurt Schoenrock resigned from the Board of Directors of Royale at the Effective Time. John Parsinen has continued as Secretary of Royale and Vernon R. Beck has been elected a Vice President of Royale. The other officers of Royale resigned as such at the Effective Time. Messrs. Vernon R. Beck, Kenneth D. Wethe and Allen C. Gerke, continued as directors of Royale. It is expected that Mr. Shidler will be elected Chairman of the Board of Royale.

Mr. Hamlin is considering several possible changes with respect to Royale intended to enhance and expedite Royale's ability to attract capital, including, subject to receipt of all necessary stockholder and other approvals, changing its name and reincorporating it in a different state (including, as a result, changing its by-laws and charter in ways that may impede the acquisition of control of Royale by third parties), expanding and changing its investment policies, instituting changes to enhance Royale's ability to grow through acquisitions including acquisitions of interests in entities owning real properties (including changes to its by-laws and charter and the transfer of its properties to FCO), appointing Coopers & Lybrand as Royale's auditors, instituting a deferred compensation and/or stock plan for employees and directors and selling additional shares of its common stock (publicly and/or privately in one or a series of transactions).

Mr. Hamlin has entered into a continuous and self-renewing two year term employment agreement with FCO, commencing as of the Effective Time, unless terminated by either party, with or without cause, effective as of the first business day after written notice to that effect is delivered to the other party.

Item 5. Interest in Securities of the Issuer

(a) Mr. Hamlin owns beneficially (within the meaning of Section 13(d)(3) of the Securities Exchange Act

of 1934, as amended ("1934 Act")) 300,000 shares of common stock of Royale. Mr. Hamlin disclaims beneficial ownership of 300,000 shares of common stock of Royale issued by Royale to Mr. Shidler on October 14, 1997 pursuant to the Formation/Contribution Agreement ("Shidler Shares"). After giving effect to the issuance of the Hamlin Shares and the Shidler Shares and 273,729 shares of common stock of Royale issued by Royale to Crown on October 14, 1997 pursuant to the Formation/Contribution Agreement and the retirement of 27,646 shares of common stock of Royale held by Crown, Royale had outstanding as of the close of business on October 14, 1997, 2,266,083 shares of common stock, $.01 par value per share. Accordingly, the Hamlin Shares represent 13.24% of such outstanding shares. See Item 6 below. Mr. Hamlin and Mr. Shidler have been shareholders and partners of a number of private companies and partnerships which they beneficially owned and controlled (including H/SIC, SFI, SBIC, CIC, Blue Bell, ComCourt and South Brunswick) and have been business associates and co-investors for a number of years.

(b) Except as provided below, there is no written agreement between Mr. Hamlin and any other person, firm or corporation with respect to the voting of the Hamlin Shares. Mr. Hamlin agreed pursuant to a letter agreement dated September 11, 1997 (the "Westbrook Agreement") with Westbrook Real Estate Partners, L.L.C., on behalf of its entities affiliated with South Brunswick Investors, L.P., to permit it to name one of its principals to serve as an independent director of Royale. Mr. William H. Walton was so elected to the Board of Directors of Royale, effective as of the Effective Time.

Mr. Hamlin presently anticipates that he and Mr. Shidler will vote the Hamlin Shares and the Shidler Shares for at least the near term in the pursuit of decisions mutually made by them in respect of matters voted on by the holders of common stock of Royale but they are not obligated to do so. See Item 4 above.

(c) See Item 2 above.

(d) None.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationship with Respect to Securities of the Issuer

See Items 2, 3 and 5 above.

None of the Shares have been pledged.

Messrs. Hamlin and Shidler have entered into an Agreement dated October 14, 1997 with TSB, WR and WRCo, whereby Shidler and Hamlin are, at such entities' sole option, jointly and severally obligated to buy all, but not less than all, of the Limited Partner Interests and Preferred Units held by them for an aggregate exercise price of $3,481,579, subject to the terms and conditions of such Agreement.

Item 7. Items to be Filed as Exhibits

(a) Formation/Contribution Agreement dated September 7, 1997 by and among Royale Investments, Inc., H/SIC Corporation, Strategic Facility Investors, Inc., South Brunswick Investment Company, LLC, Comcourt Investment Corporation, Gateway Shannon Development Corporation, Crown Advisors, Inc., Vernon R. Beck and John Parsinen.

(b) Amendment to Formation/Contribution Agreement dated as of October 13, 1997 by and among Royale Investments, Inc., H/SIC Corporation, Strategic Facility Investors, Inc., South Brunswick Investment Company, LLC, Comcourt Investment Corporation, Gateway Shannon Development Corporation, Crown Advisors, Inc., Vernon R. Beck and John Parsinen.

(c) FCO, L.P. Limited Partnership Agreement dated October 14, 1997 by and among Royale Investments, Inc., as sole General Partner and the Limited Partners and Preferred Limited Partners signatory thereto.

(d) Registration Rights Agreement dated as of October 1, 1997 from Royale Investments, Inc. in favor of the individuals and entities named therein.

(e) Letter Agreement dated September 11, 1997 between South Brunswick Investment Company and Westbrook Real Estate Partners, L.L.C.

(f) Agreement dated October 14, 1997 among Jay H. Shidler, Clay W. Hamlin III, Tiger South Brunswick, L.L.C.,

Tiger/Westbrook Real Estate Fund, L.P. and Tiger/Westbrook Real Estate Co-Investment Partnership.

(g) Employment Agreement dated October 14, 1997 by and among FCO, L.P. and Clay W. Hamlin III.

(h) Assignment dated as of October 14, 1997 by Tiger South Brunswick L.L.C., Westbrook Real Estate Fund I, L.P. and Westbrook Real Estate Co. - Investment Partnership I, L.P. in favor of Jay H. Shidler and Clay W. Hamlin III.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

October 23, 1997 — Date

/s/ Clay W. Hamlin III — Signature

Clay W. Hamlin III — Name/Title

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
1	Formation/Contribution Agreement dated September 7, 1997 by and among Royale Investments, Inc., H/SIC Corporation, Strategic Facility Investors, Inc., South Brunswick Investment Company, LLC, Comcourt

Investment Corporation, Gateway Shannon Development Corporation, Crown Advisors, Inc., Vernon R. Beck and John Parsinen.

2 Amendment to Formation/Contribution Agreement dated as of October 14, 1997 by and among Royale Investments, Inc., H/SIC Corporation, Strategic Facility Investors, Inc., South Brunswick Investment Company, LLC, Comcourt Investment Corporation, Gateway Shannon Development Corporation, Crown Advisors, Inc., Vernon R. Beck and John Parsinen.

3 FCO, L.P. Limited Partnership Agreement dated October 14, 1997 by and among Royale Investments, Inc., as sole General Partner and the Limited Partners and Preferred Limited Partners signatory thereto.

4 Registration Rights Agreement dated as of October 1, 1997 from Royale Investments, Inc. in favor of the individuals and entities named therein.

5 Letter Agreement dated September 11, 1997 between South Brunswick Investment Company and Westbrook Real Estate Partners, L.L.C.

6 Agreement dated October 14, 1997 among Jay H. Shidler, Clay W. Hamlin III, Tiger South Brunswick, L.L.C., Tiger/Westbrook Real Estate Fund, L.P. and Tiger/Westbrook Real Estate Co-Investment Partnership.

7 Employment Agreement dated October 14, 1997 by and among FCO, L.P., and Clay W. Hamlin III.

8 Assignment dated as of October 14, 1997 by Tiger South Brunswick L.L.C., Westbrook Real Estate Fund I, L.P. and Westbrook Real Estate Co-Investment Partnership I, L.P. in favor of Jay H. Shidler and Clay W. Hamlin III.

FORMATION/CONTRIBUTION AGREEMENT

THIS FORMATION/CONTRIBUTION AGREEMENT dated as of the 7th day of September 1997 by and among ROYALE INVESTMENTS, INC., a Minnesota corporation ("Royale"), H/SIC CORPORATION, a Delaware corporation ("H/SIC"), STRATEGIC FACILITY INVESTORS, INC., a Delaware corporation ("Strategic"), the sole general partner of BLUE BELL INVESTMENT COMPANY, L.P., a Delaware limited partnership ("Blue Bell, L.P."); SOUTH BRUNSWICK INVESTMENT COMPANY, LLC, a New Jersey limited liability company ("SBIC"), a general partner of SOUTH BRUNSWICK INVESTORS, L.P., a Delaware limited partnership ("Brunswick, L.P."), COMCOURT INVESTMENT CORPORATION, a Pennsylvania corporation ("ComCourt Corporation"), the sole general partner of COMCOURT INVESTORS, L.P., a Delaware limited partnership ("ComCourt Investors, L.P."), and GATEWAY SHANNON DEVELOPMENT CORPORATION, a Pennsylvania corporation ("Gateway"), the sole general partner of 6385 FLANK DRIVE, L.P., a Pennsylvania limited partnership ("Flank, L.P.").

1. Definitions:

All terms not otherwise defined in this Formation/Contribution Agreement shall have the meanings set forth in this Section 1.

"Advisory Agreement" means the existing Amended and Restated REIT Advisory Agreement dated as of November 22, 1995 between Royale and Crown, attached hereto as Exhibit "Advisory Agreement".

"Agreement" shall mean this Formation/Contribution Agreement.

"Blue Bell, L.P." shall mean Blue Bell Investment Company, L.P., a Delaware limited partnership.

"Brunswick, L.P." shall mean South Brunswick Investors, L.P., a Delaware limited partnership.

"Closing" shall mean the closing of the Transactions.

"Closing Date" shall mean a date which occurs on or before one hundred twenty (120) days after the date of this Agreement, and shall be the earliest date at which the conditions precedent to Closing can or have been satisfied.

"Code" shall mean the Internal Revenue Code of 1986 as amended.

"ComCourt Corporation" shall mean ComCourt Investment Corporation, a Pennsylvania corporation, the sole general partner of ComCourt Investors.

"ComCourt Investors, L.P." shall mean ComCourt Investors, L.P., a Delaware limited partnership.

"Common Units" shall mean 3,181,818 common partnership units in the UPREIT in the aggregate (which, together with the Preferred Units, shall be the aggregate consideration for the Contributed Interests, Retained Interests, and H/SIC Assets). The Common Units will have a distribution yield equal to the dividend yield of Royale Common Stock and will be convertible into Royale Common Stock initially on a one for one basis (subject to the anti-dilution adjustments) and otherwise will have the terms and conditions set forth in the UPREIT Agreement.

"Contributed Interests" shall mean 89% of the H/SIC Partnership Interests (including, without limitation, the H/SIC Partnerships Interests of the H/SIC General Partners) in each of Blue Bell, ComCourt Investors, L.P. and Flank, and 100% of the H/SIC Partnerships Interests in Brunswick, L.P. to be contributed to the UPREIT at Closing in exchange for Common Units and Preferred Units.

"Contributors" shall mean the H/SIC Partners.

"Coopers" shall mean Coopers & Lybrand, L.L.P.

"Crown" shall mean Crown Advisors, Inc., a Minnesota corporation.

"Flank, L.P." shall mean 6385 Flank Drive, L.P., a Pennsylvania limited partnership.

"Gateway" shall mean Gateway Shannon Development Corporation, a Pennsylvania corporation, the sole general partner of Flank, L.P. and Central Pennsylvania, L.P.

"H/SIC" shall mean H/SIC Corporation, a Delaware corporation owned equally by Jay H. Shidler and Clay W. Hamlin, III.

"H/SIC Assets" shall mean H/SIC's furniture, fixtures, equipment, proprietary assets, and rights to compensation for services performed after Closing under H/SIC's management contracts.

"H/SIC General Partners" shall mean Strategic, Gateway, SBIC, and ComCourt Corporation.

"H/SIC Limited Partners" shall mean the limited partners of the H/SIC Partnerships, as such limited partners are more particularly identified on Exhibit "H/SIC Partners".

"H/SIC Partners" shall mean all of the general and limited partners of the H/SIC Partnerships, as more particularly identified, with each of their respective partnership interests, on "Exhibit H/SIC Partners".

"H/SIC Partnerships" shall mean, collectively, Blue Bell, L.P., Brunswick, L.P., ComCourt Investors, L.P., and Flank, L.P. "H/SIC Partnership" shall mean any one (1) of the H/SIC Partnerships.

"H/SIC Partnership Agreements shall mean collectively, the limited partnership agreements of Blue Bell, L.P., Brunswick, L.P., ComCourt Investors, L.P. and Flank, L.P. "H/SIC Partnership Agreement" shall mean any one (1) of the H/SIC Partnership Agreements.

"H/SIC Partnership Interests" shall mean all of the partnership interests of the H/SIC Partners in the H/SIC Partnerships.

"H/SIC Properties" shall mean, collectively, the nine (9) office properties totalling approximately 1,480,436 net rentable square feet owned by the H/SIC Partnerships, as more fully identified on Exhibit "H/SIC Properties". "H/SIC Property" shall mean any one (1) of the H/SIC Properties.

"H/SIC Properties Indebtedness" shall mean approximately $99,000,000 of mortgage debt secured by the H/SIC Properties at the time of Closing. The H/SIC Properties Indebtedness will be prepayable and will bear interest at a fixed rate of 7.5% per year and will be on other terms acceptable to the H/SIC General Partners and Royale. The general terms of the "H/SIC Properties Indebtedness" are set forth on Exhibit "H/SIC Properties Indebtedness".

"H/SIC Corporation Shareholders" shall mean Jay H. Shidler and Clay W. Hamlin, III, the owners of common stock of H/SIC.

"Management Agreement" means the agreement to be entered into at Closing between Royale and Newco, a to be formed corporation owned by Vernon Beck and John Parsinen, pursuant to which Newco will manage all of Royale's net leased retail proper ties. The Management Agreement is set forth in Exhibit "Management Agreement".

"Pennsylvania H/SIC Partnerships" shall mean Blue Bell, L.P., ComCourt Investors, L.P. and Flank, L.P.

"Pennsylvania H/SIC Limited Partners" shall mean the limited partners of Blue Bell, L.P., ComCourt Investors, L.P. and Flank, L.P.

"Pennsylvania H/SIC Partnership Agreements" shall mean the limited partnership agreements of Blue Bell, L.P., ComCourt Investors, L.P. and Flank, L.P.

"Pennsylvania H/SIC Properties" shall mean the real estate owned by Blue Bell, L.P., ComCourt Investors, L.P. and Flank, L.P.

"Preferred Units" shall mean convertible preferred partnership units of the UPREIT with an aggregate face value of $52,500,000.00 and a distribution yield of 6.5% per year (which, together with the Common Units, shall be the aggregate consideration for the Contributed Interests, Retained Interests, and H/SIC Assets). Preferred Units will be convertible into Common Units or Royale Common Stock at an initial conversion price of $7.00 per Common Unit or share of Royale Common Stock (subject to anti dilution adjustments), and will otherwise have the terms and conditions set forth in the UPREIT Agreement. Preferred Units issued at Closing may not be converted prior to the second anniversary of the Closing.

"Registration Rights Agreement" shall mean an agreement between Royale and the H/SIC Partners pursuant to which Royale shall give the H/SIC Partners certain registration rights (commonly known as demand, shelf, and piggyback registration rights) with respect to Royale Common Stock to induce the H/SIC Partners to contribute the H/SIC Partnership Interests.

"Retained Interests Closing" shall mean the second closing which will take place on the date which is three (3) years and one (1) month after the Closing Date at which second closing the Retained Interests shall be contributed to the UPREIT in exchange for Common Units and Preferred Units.

"Retained Interests" shall mean 11% of the H/SIC Partnership Interests held by Pennsylvania H/SIC Limited Partners not contributed in exchange for Units and Preferred Units at Closing, but contributed at the Retained Interests Closing in consideration for Common Units and Preferred Units.

"Royale" shall mean Royale Investments, Inc., a Minnesota corporation which qualifies as a real estate investment trust pursuant to Section 856 of the Code. Royale shall be an internally managed and advised real estate investment trust.

"Royale Acquisition Facility" shall mean the financing to be arranged by H/SIC for Royale for acquisitions of additional properties after the Closing, which financing is more particularly described on Exhibit "Royale Acquisition Facility".

"Royale Common Stock" shall mean the common stock of Royale. Royale Common Stock is publicly traded.

"Royale Properties" shall mean all of the net leased retail properties owned by Royale as of the date of this Agreement as more particularly described on Exhibit "Royale Properties."

"Royale Properties Indebtedness" shall mean the mortgage debt secured by the Royale Properties and more particularly described on Exhibit "Royale Properties Indebtedness."

"Strategic" shall mean Strategic Facility Investors, Inc., a Delaware corporation in the sole general partner of Blue Bell.

"SBIC" shall mean South Brunswick Investment Company, LLC, a New Jersey limited liability company a general partner of Brunswick, L.P.

"Transactions" shall mean collectively all of the transactions contemplated by this Agreement.

"UPREIT" shall mean First Commercial, L.P., a Delaware limited partnership whose one percent (1%) sole general

partner shall be Royale and which will be the operating partnership or umbrella partnership in Royale's umbrella partnership real estate investment trust structure. UPREIT shall also include (a) any entity or entities (limited partnerships, corporations, or limited liability companies) controlled by the UPREIT or Royale and designated by the UPREIT to acquire any of the H/SIC Partnership Interests contributed by the H/SIC Partners in exchange for Common Units and Preferred Units, and (b) any directly or indirectly wholly owned subsidiary entities of First Commercial, L.P. designated by First Commercial, L.P. to enter into agreements relating to real estate or to own real estate for and on behalf of First Commercial, L.P.

"UPREIT Agreement" shall mean the limited partnership agreement of the UPREIT which shall provide that Royale shall be the one percent (1%) sole general partner and whose provisions shall be the customary provisions typically found in the limited partnership agreements of operating partnerships in an umbrella partnership real estate investment trust structure, with such changes that may be necessary or desirable to reflect the specific terms of the Transactions and shall otherwise be in form and substance reasonably satisfactory to the H/SIC Partners and Royale. Certain general terms of the UPREIT Agreement are set forth on Exhibit "UPREIT Agreement Terms."

2. General: Intention of the Parties.

Royale, H/SIC, Strategic, SBIC, Gateway, and ComCourt Corporation are entering into this Agreement for the purpose of setting forth the terms of the Transactions pursuant to which the parties shall create an UPREIT. The UPREIT shall acquire the H/SIC Partnership Interests contributed by the H/SIC Partners in exchange for Common Units and Preferred Units.

3. Structure.

Royale and the H/SIC General Partners shall form the UPREIT prior to Closing. Pursuant to the terms of this Formation/Contribution Agreement,

(a) The UPREIT will acquire the H/SIC Partnership Interests (including,

without limitation, the H/SIC Partnership Interests of the H/SIC General Partners).

(b) H/SIC will transfer the H/SIC Assets to Royale in accordance with Exhibit "H/SIC Management Transfer".

The UPREIT, through the H/SIC Partnerships, will have controlling ownership of the H/SIC Properties, and will focus on acquiring and operating commercial real estate properties.

4. Board of Directors: Senior Management.

(a) As a part of the Transactions. the Board of Directors of Royale will, at Closing, be expanded to seven (7) members. Four (4) of the Directors will be Directors nominated by the H/SIC General Partners; two (2) of the Directors nominated by the H/SIC General Partners shall be Independent Directors (as defined in Royale's bylaws). Three of the Directors shall be Directors nominated by the Board of Directors of Royale as constituted before Closing; two (2) of the Directors nominated by the Board of Directors of Royale as constituted before Closing shall be Independent Directors. Jay H. Shidler shall be the Chairman of the Board of Directors of Royale, and Vernon Beck shall be the Vice Chairman of the Board of Directors of Royale.

(b) At Closing, the officers of Royale shall be the Officers set forth on Exhibit "Senior Management." At Closing, Royale and Clay W. Hamlin, III will enter into an employment agreement, in the form set forth in Exhibit "Senior Management." The powers, duties and responsibilities of the officers of Royale shall be as set forth in the bylaws of Royale or as established by the Board of Directors of Royale.

5. Royale Offices.

From and after the Closing Date, Royale will maintain offices at 3430 List Place, Minneapolis, Minnesota 55416 and One Logan Square, Suite 1105, Philadelphia, Pennsylvania 19103 (or, with respect to the Philadelphia office, at such location in the Philadelphia, Pennsylvania vicinity as Royale shall select).

6. Advisory Agreement; Crown; Management Agreement.

(a) At Closing, Crown shall transfer and assign to Royale, free and clear of all liens and encumbrances (other than the National City debt to be assumed by Royale), all of Crown's assets, including without limitation, the Advisory Agreement and all Royale Common Stock owned by Crown, and Royale shall purchase such assets and terminate the Advisory Agreement effective as of Closing. At Closing, Royale shall pay to Crown all accrued and unpaid fees due under the Advisory Agreement through Closing. In consideration for such transfer

and assignment and for Crown relinquishing all of its rights (if any) for present and future compensation under the Advisory Agreement, including, without limitation, any other compensation in connection with the Transactions, Crown shall be paid at Closing an amount equal to One Million Three Hundred Fifty Thousand Dollars ($1,350,000) plus the value. (computed at $5.50 per share) of any Royale Common Stock transferred by Crown to Royale less Crown's National City debt in the amount of approximately $240,000 to be assumed by Royale. The net amount determined by the immediately preceding sentence shall be paid by Royale to Crown at Closing by the delivery of the number of shares of Royale Common Stock determined by dividing such net amount by $5.50 per share. Crown shall have piggyback registration rights with respect to such shares on terms mutually acceptable to Crown and Royale.

(b) At Closing, Royale shall cause the Management Agreement to be executed and delivered.

7. Consideration for Contribution of H/SIC Partnership Interests and Transfer of H/SIC Assets; Retained Interests.

(a) (1) Royale, the H/SIC General Partners, and H/SIC have agreed that the net equity value of each of the H/SIC Properties, after deducting the amount of the H/SIC Properties Indebtedness, is as set forth on Exhibit "H/SIC Properties." and the value attributable to the H/SIC Assets is as set forth on Exhibit "H/SIC Management Transfer".

(2) As consideration for the contribution of the H/SIC Partnership Interests to the UPREIT and the transfer of H/SIC Assets to Royale, the H/SIC Partners and H/SIC shall receive at the times specified in Section 7(b) and Section 7(c), in the aggregate (A) 3,181,818 Common Units and (B) Preferred

Units with a face value of $52,500.000. Royale, the H/SIC General Partners and H/SIC agree that the aggregate number of Common Units and the aggregate face value of the Preferred Units are to be divided among the H/SIC Partnerships and H/SIC as set forth on Exhibit "H/SIC Properties," and Exhibit "H/SIC Management Transfer" based on the net equity value of the H/SIC Properly owned by a specific H/SIC Partnership and on the value attributed to the H/SIC Assets in each case as shown on such Exhibits.

(b) (1) In consideration for the contribution of the Contributed Interests at Closing, the H/SIC Partners in each H/SIC Partnership shall receive at Closing Common Units and Preferred Units (divided among the H/SIC Partnerships in

accordance with Exhibit "H/SIC Properties") distributed to each of the H/SIC Partners in accordance with "Exhibit "H/SIC Partners Unit Consideration." In consideration for the transfer of H/SIC Assets to Royale at Closing, H/SIC shall receive Common Units and Preferred Units at Closing in accordance with Exhibit "H/SIC Management Transfer"; H/SIC shall have registration rights with respect to Royale Common Stock on terms mutually acceptable to H/SIC and Royale.

(2) Upon the contribution of the Contributed Interests to the UPREIT at the Closing, the Contributors holding the Retained Interests (the "Retained Partners") and the UPREIT shall enter into an amended and restated limited partnership agreement (the "Amended Pennsylvania H/SIC Partnership H/SIC Partnership Agreement") for the Pennsylvania H/SIC Partnerships containing such terms and conditions as are mutually agreeable to the UPREIT and the Retained Partners. The Amended Pennsylvania H/SIC Partnership Agreements shall provide, among other terms, that (A) the UPREIT (or its designee) is the general partner of the Pennsylvania H/SIC Partnerships and shall have exclusive authority to manage the Pennsylvania H/SIC Properties and the Pennsylvania H/SIC Partnerships, including without limitation the expenditure of funds and the distribution of cash flow, (B) the Retained Partners shall be limited partners and shall have no personal liability for any debts, obligations or claims of the Pennsylvania H/SIC Partnerships, and (C) the Retained Partners shall, in the aggregate, have a capital interest in the Pennsylvania H/SIC Partnerships equal to 11% of the aggregate capital of the Partnership. The Retained Partners shall retain full right, title and interest in and to the Retained Interests until the Retained Interests Closing.

(c) (1) In consideration for the contribution of the Retained Interests by the Retained Partners at the Retained Interests Closing, the Retained Partners will receive Common Units and Preferred Units at the Retained Interests Closing distributed among the Retained Partners in accordance with Exhibit "H/SIC Partners Unit Consideration".

(2) At the Retained Interests Closing, the Retained Partners shall (A) execute, acknowledge and deliver to the UPREIT substantially the same documents set forth in Section 20(b) and 20(c) with respect to the Retained Interests, each dated as of the date of the Retained Interests Closing and (B) execute an affidavit setting forth that all of the representations and warranties set forth in Section 9 (including, without limitation, subsection 9(d) relating to securities law matters) relating to the Retained Interests are true and cor-

rect in all material respects on the date of the Retained Interests Closing.

(d) At Closing, the Contributed Interests shall be contributed to the UPREIT with the H/SIC Properties then being subject to the H/SIC Properties Indebtedness.

(e) The contribution of the H/SIC Partnership Interests pursuant to this Agreement shall constitute a capital contribution under the UPREIT Agreement and is intended, except as otherwise required under Section 707 of the Code, to be governed by Section 721(a) of the Code, and the UPREIT, the H/SIC Partnerships, and Royale will report such contribution consistently with this Section. Because the contribution of the Contributed Interests will terminate the H/SIC Partnerships for federal income tax purposes, the parties to this Agreement agree that the H/SIC General Partners shall have the right and obligation to file final tax returns for the H/SIC Partnerships. The H/SIC Partnerships shall not terminate for any other purpose and shall continue to exist after Closing, each H/SIC Partnership continuing to own the H/SIC Property owned by such H/SIC Partnership.

(f) Subject to compliance with applicable federal and state securities law requirements and Code requirements applicable to real estate investment trusts, the H/SIC Partners and H/SIC may elect to receive Royale Common Stock in lieu of Common Units by giving the H/SIC General Partners notice of such election at least ten (10) days before Closing or, as to the Retained Interests, at least

ten (10) days before the Retained Interests Closing.

8. Closing.

Closing will take place on the Closing Date, commencing on 10:00 a.m. on the Closing Date at the offices of Saul, Ewing, Remick & Saul, Three Westlakes, Suite 150, 1055 Westlakes Drive, Berwyn, PA 19312, or at such other place as Royale and the H/SIC General Partners shall agree.

9. H/SIC Partners Authorization: Representations and Warranties of Contributors.

Attached hereto as Exhibit "H/SIC Partners Authorization Agreement" are brief summaries of agreements (the "H/SIC Partners Authorization Agreements") of the H/SIC Partners authorizing the Transactions and authorizing the H/SIC General Partners to proceed with the implementation and consummation of

the Transactions. As part of the H/SIC Partners Authorization Agreements, each Contributor, for himself, herself, or itself, shall make the following representations and warranties to Royale and the H/SIC General Partners for such Contributor only and for no other Contributor, all of which shall survive Closing:

(a) Authority. Such Contributor has the right, power and authority to enter into this Agreement and to contribute such Contributor's H/SIC Partnership Interests in accordance with the terms and conditions of this Agreement. This Agreement is the valid and binding obligation of such Contributor, enforceable against such Contributor in accordance with its terms.

(b) No Defaults. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will: (i) conflict with or result in a breach of, the terms, conditions, or provisions of or constitute a default under any agreement or instrument to which such Contributor is a party or by which such Contributor is bound, (ii) subject to any approval required under the H/SIC Properties Indebtedness, violate any restriction, requirement, covenant or condition to which such Contributor is subject or by which such Contributor is bound or (iii) constitute in violation of any code, resolution, law, statute regulation, ordinance, rule, judgment, decree or order to which such Contributor is subject or by which such Contributor is bound.

(c) Ownership of Interests. Such Contributor owns the H/SIC Partnership Interests owned by such Contributor, as set forth on Exhibit "H/SIC Partners" hereto, free and clear of all liens, charges, encumbrances, restrictive agreements and assessments, other than restrictions on transfers and other similar provisions as set forth in the relevant H/SIC Partnership Agreement. Upon the contribution of such Contributor's H/SIC Partnership interest (or a portion thereof) to the UPREIT (or its designee(s)), the UPREIT will receive good and absolute title thereto, free from all liens, charges, encumbrances, restrictive agreements and assessments, whatsoever, other than restrictions on transfers and other similar provisions as set forth in the relevant H/SIC Partnership Agreement. Such Contributor hereby waives, with respect to the contribution contemplated by this Agreement, any "right of refusal" or other restriction on transfer set forth in the H/SIC Partnership Agreement of any H/SIC Partnership of which such

Contributor is a partner. There are no outstanding options, contracts, calls, commitments or demands of any nature relating to the H/SIC Partnership Interests of such Contributor.

(d) Securities Law Matters.

(1) Such Contributor is an "accredited investor" as such term is defined under Rule 501 promulgated under the Securities Act of 1933, as amended (the "Securities Act");

(2) Such Contributor's primary residence or principal place of business is in the state set forth on Exhibit "H/SIC Partners";

(3) Such Contributor is acquiring the Common Units and Preferred Units or Royale Common Stock for such Contributor's account for investment purposes only and not with a present view to distribution;

(4) Taking into account the information and resources such Contributor can practically bring to bear on the acquisition of the Common Units and

Preferred Units in the UPREIT or Royale Common Stock contemplated hereby, such Contributor is knowledgeable, sophisticated and experienced in making, and is qualified to make, decisions with respect to investments in securities presenting an investment decision like that involved in the acquisition of the Common Units and Preferred Units or Royale Common Stock, including investments in securities issued by the UPREIT or Royale, and has requested, received, reviewed and considered all information such Contributor deems relevant in making an informed decision to acquire the Common Units and the Preferred Units, or Royale Common Stock;

(5) Such Contributor will not, directly or indirectly, voluntarily offer, sell, pledge, transfer or otherwise dispose of (or solicit any offers to buy, purchase or otherwise acquire or take a pledge of) any of the Common Units and Preferred Units or Royale Common Stock except in compliance with the Securities Act and the rules and regulation promulgated thereunder and with the terms and conditions of this Contribution Agreement;

(6) Such Contributor acknowledges that the Common Units and Preferred Units or Royale Common Stock to be

issued must be held and may not be sold unless they are subject to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws, unless exemptions from such registrations are available at the time of resale;

(7) Prior to the issuance of the Common Units and Preferred Units or Royale Common Stock, such Contributor will execute all such other documents and instruments as may be reasonably necessary to allow, the UPREIT, Royale and the H/SIC General Partners to comply with federal and state securities law requirements with respect to the issuance of the Common Units and Preferred Units or Royale Common Stock and to comply with the terms of this Agreement;

(8) As required by the Pennsylvania Securities Act of 1972, if such Contributor is a resident of, or has his, her or its principal place of business in the Commonwealth of Pennsylvania, such Contributor shall not resell his, her or its Common Units or Preferred Units or Royale Common Stock for a period of twelve (12) months from and after the date of their issuance to such Contributor other than in accordance with such Act;

(9) Except as otherwise provided in Section 7(f), such Contributor acknowledges and agrees that (A) the Common Units to be issued hereunder (whether at Closing or the Retained Interests Closing) shall not be exchangeable or exchanged for Royale Common Stock for a period of thirteen (13) months from and after the date of issuance to such Contributor, (B) Preferred Units to be issued at Closing shall not be exchangeable or exchanged for Royale Common Stock for a period of twenty five (25) months from and after the Closing Date, and (C) Preferred Units to be issued at the Retained Interests Closing shall not be exchangeable or exchanged for Royale Common Stock for a period of thirteen (13) months from and after the date of the Retained Interests Closing.

10. Representations and Warranties of the H/SIC General Partners.

Unless otherwise specifically set forth in this Section 10, the representations, warranties and covenants set forth in this Section 10 shall, as to each H/SIC General Partner be applicable only to (i) the H/SIC Partnership of which such H/SIC General Partner is a General Partner, and (ii) only

as to the H/SIC Property owned by the H/SIC Partnership of which such H/SIC General Partner is a general partner.

Each H/SIC General Partner represents and warrants to Royale, and covenants with Royale, which representations, warranties and covenants are true and correct on the date hereof, shall be materially true and correct at Closing, and shall survive Closing, as follows:

(a) Authority. The H/SIC Partnership is a limited partnership duly organized and in good standing under the laws of the State of Delaware (Pennsylvania for Flank), and is authorized to do business in the Commonwealth of Pennsylvania or the State of New Jersey, to the extent such authorization is required under the laws of such states. The copy of the H/SIC Partnership's Partnership. Agreement and all Amendments thereto (collectively, the "H/SIC Partnership Agreement") including all certificates of limited partnership and all amendments thereto delivered, or to be delivered, to Royale and the list of all of the H/SIC Partners

along with their individual H/SIC Partnership Interests, attached hereto an Exhibit "H/SIC Partners", are true, correct and complete copies thereof as of the date delivered.

(b) Title. The H/SIC Partnership is the sole owner of fee simple title to the H/SIC Property.

(c) Compliance with Existing Laws. To H/SIC General Partner's knowledge and, except as set forth on Exhibit "H/SIC Properties Violations", attached hereto, (i) the H/SIC Partnership is not in violation, in any material respect, of any material building, zoning, environmental or other ordinances, statutes or regulations of any governmental agency, in respect to the ownership, use, maintenance, condition and operation of the H/SIC Property or any part thereof, and (ii) the H/SIC Partnership possesses all material licenses, certificates, permits and authorizations necessary for the use and operation of the H/SIC Property in the manner in which it is currently being operated by the H/SIC Partnership, and the requisite certificates of the fire marshals or board of fire underwriters have been issued for the Property.

(d) Leases. True, correct and complete copies of all of the leases of the H/SIC Property and any amendments thereto (collectively, the "H/SIC Leases"), have been, or will be, delivered to Royale. Attached hereto as Exhibit

"H/SIC Leases" is a description of all of the H/SIC Leases and a current rent schedule ("H/SIC Rent Schedule") covering the H/SIC Leases, which is true and correct in all material respects. There are no leases or tenancies of any space in the H/SIC Property other than those set forth in Exhibit "H/SIC Leases" or, to the H/SIC General Partner's knowledge, any subleases or subtenancies unless otherwise noted therein. Except as otherwise set forth in Exhibit "H/SIC Leases" or elsewhere in this Agreement:

(1) The H/SIC Leases are in full force and effect and constitute a legal, valid and binding obligation of the respective tenants;

(2) No tenant has an option to purchase the H/SIC Property or any portion thereof;

(3) No renewal or expansion options have been granted to the tenants, except as provided in the H/SIC Leases;

(4) To the H/SIC General Partner's knowledge, the H/SIC Partnership is not in material default under any of the H/SIC Leases;

(5) The rents set forth on the H/SIC Rent Schedule are being collected on a current basis and there are no arrearages in excess of one month, except as indicated in Exhibit "H/SIC Leases" hereto, nor has any tenant paid any rent, additional rent or other charge of any nature for a period of more than thirty (30) days in advance;

(6) The H/SIC Partnership has not sent written notice to any tenant claiming that such tenant is in default, which default remains uncured, and the General Partner's knowledge, no tenant is in default under its Lease, except as indicated in Exhibit "H/SIC Leases" hereto;

(7) No action or proceeding instituted against the H/SIC Partnership by any tenant is presently pending in any court; and

(8) There are no security deposits other than those set forth in Exhibit "H/SIC Leases".

(e) Service Contracts. Attached hereto as Exhibit "H/SIC Properties Service Contracts" is a complete and correct list of all contracts or agreements relating to the management, leasing, operation, maintenance or repair of the H/SIC Property (the "H/SIC Service Contracts"). True and correct copies of all of the H/SIC Service Contracts have been delivered to Royale. Except in the case of a default by the vendor under a specific Service Contract, no H/SIC Contract will be terminated, or materially amended or modified prior to the Closing Date without Royale's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed.

(f) Tax Bills. The H/SIC General Partner has delivered to Royale true and correct copies of tax bills issued by any applicable federal, state or local governmental authority and received by the H/SIC General Partner with respect to the H/SIC Property for the most recent past and current tax

years, and any new assessment received with respect to a current or future tax year.

(g) Insurance. Attached hereto as Exhibit "H/SIC Properties Insurance" is a list of all hazard, liability and other insurance policies presently affording coverage with respect to the H/SIC Property. The General Partners shall maintain in fall force and effect all such or equivalent policies until the Closing Date.

(h) Tenant Estoppels. The H/SIC General Partner represents and warrants that it shall use reasonable good faith efforts (without cost or liability to the H/SIC Partners or the H/SIC Partnerships) to obtain and deliver to Royale a tenant estoppel letter from each tenant in the general form required by real estate investment trust purchasers of leased real estate (or in such form or containing such information as may be required by the lease of such tenant) from each of the tenants of the H/SIC Property confirming the information set forth in the H/SIC Rent Schedule.

(i) Condemnation Proceedings. No condemnation or eminent domain proceedings are pending or, to the best of the H/SIC General Partner's knowledge, threatened against the H/SIC Property or any part thereof, and neither the H/SIC Partnership nor the H/SIC General Partner has made any commitments to or received any notice, oral or written, of the desire of any public authority or other entity to take or use the H/SIC Property or any part thereof

whether temporarily or permanently, for easements, right-of-way, or other public or quasi public purposes, except as set forth in the Permitted Exceptions.

(j) Litigation. Except as set forth on Exhibit "H/SIC Litigation" hereto, no litigation is pending or, to the best of the H/SIC General Partner's knowledge, threatened, including administrative actions or orders relating to governmental regulations, against the Partnership or affecting the use, operation or ownership of the H/SIC Property or any part thereof as contemplated herein.

(k) No Defaults. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will: (i) subject to any approval that may be required under the H/SIC Properties Indebtedness or any H/SIC Partnership Agreement, conflict with, or result in a breach of, the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which the H/SIC Partnership is a party or by which the H/SIC Partnership or the H/SIC Property is bound, (ii) subject to any approval required under the H/SIC Properties Indebtedness or any H/SIC Partnership Agreement, violate any restriction, requirement, covenant or condition to which the H/SIC Partnership is subject or by which the H/SIC Partnership or the H/SIC Property is bound, (iii) constitute a violation of any applicable code, resolution, law, statute, regulation, ordinance, rule, judgment, decree or order applicable to the H/SIC Partnership, or (iv) result in the cancellation of any contract or lease pertaining to the H/SIC Property.

(l) Environmental Matters. Except as set forth on Exhibit "H/SIC Environmental Matters", the H/SIC General Partners have no knowledge of any material release, discharge, spillage, uncontrolled loss, seepage or filtration of oil, petroleum or chemical liquids or solids, liquid or gaseous products or any hazardous waste or hazardous substance (as those terms are used in the Comprehensive Environmental Response, Compensation and Liability Act of 1986, as amended, the Resource Conservation and Recovery Act of 1976, as amended, or in any other applicable federal, state or local laws, ordinances, rules or regulations relating to protection of public health, safety or the environment, as such laws may be amended from time to time) at, upon, under or within the H/SIC Property. Except as set forth on Exhibit "H/SIC Environmental Matters", to the General Partner's knowledge, there is no

proceeding or action pending or threatened by any person or governmental agency regarding the environmental condition of the H/SIC Property.

(m) Certificates of Occupancy. The H/SIC Partnership will not amend in any material manner any certificates of occupancy for the H/SIC Property and will maintain them in fall force and effect to the extent that the H/SIC Partnership is responsible for them.

(n) Personal Property. Attached hereto as Exhibit "H/SIC Personal Property" and complete inventory of all personal property ('H/SIC Personal

Property"), if any, used in the management, maintenance and operation of the H/SIC Property (other than trade fixtures or personal property of tenants).

(o) Leasing Commissions. There are, and at Closing shall be, no outstanding or contingent leasing commissions or fees payable with respect to the H/SIC Property.

(p) Partnership Liabilities. Except for (i) the obligations and liabilities of the H/SIC Partnership which the UPREIT is taking the H/SIC Partnership Interests subject to under Section 7(d) above, and (ii) any accrued liabilities and obligations of the H/SIC Partnership which are being adjusted at Closing pursuant to Section 22(d) of this Agreement, the H/SIC Partnership shall not have any liabilities or obligations, either accrued, absolute or contingent or otherwise, which will not be paid or discharged on or before the Closing Date. In addition, except for the claims and liabilities described in the preceding sentence or otherwise described or disclosed in this Agreement (including the Exhibits hereto), the H/SIC Partnership has not received notice of any, and to the knowledge of the H/SIC General Partner, there is, as of the date of execution of this Agreement, no basis for any, claim against (or liability of) the Partnership arising from the business done, transactions entered into or other events occurring prior to the Closing Date which will not be discharged by the H/SIC Partnership before the Closing Date.

(q) Partnership for Tax Purposes. The H/SIC Partnership is, and at all times has been, properly treated as a partnership for federal income tax purposes, and not as an "association" or "publicly traded partnership" taxable as a corporation.

(r) Taxes. Each of the H/SIC Partnership and any predecessor of the H/SIC Partnership has timely filed with the appropriate taxing authorities all returns (including without limitation information returns and other material information) in respect of Federal, State and local taxes (collectively "Taxes") required to be filed through the date hereof and will timely file any such returns required to be filed on or prior to the Closing Date. The returns and other information filed (or to be filed) are complete and accurate in all material respects. All Taxes of the H/SIC Partnership in respect of periods beginning before the Closing Date have been timely paid, or will be timely paid prior to the Closing Date, and the H/SIC Partnership has no material liability for Taxes in excess of the amounts so paid. All Taxes that the H/SIC Partnership has been required to collect or withhold have been duly collected or withheld and, to the extent required when due, have been or will be (prior to Closing Date) duly paid to the proper taxing authority. No audits of any of the H/SIC Partnership's federal, state or local returns for Taxes by the relevant taxing authorities have occurred, and no material deficiencies for Taxes of the H/SIC Partnership have been claimed, proposed or assessed by any taxing or other governmental authority against the H/SIC Partnership. There are no pending or, to the best of knowledge of the H/SIC General Partner, threatened audits, investigations or claims for or relating to any material additional liability to the H/SIC Partnership in respect of Taxes, and there are no matters under discussion with any governmental authorities with respect to Taxes that in reasonable judgment of the H/SIC General Partner or its counsel, is likely to result in a material additional liability for Taxes. To the knowledge of the H/SIC General Partner there are no liens for Taxes (other than for current taxes not yet due and payable) on any of the assets of the H/SIC Partnership. No Contributor is a person other than a United States person within the meaning of the Code. The transaction contemplated herein is not subject to the tax withholding provisions of Section 3406 of the Code, or Subchapter A of Chapter 3 of the Code or of any other provision of law.

(s) Disclosure. No representation or warranty made by the H/SIC General Partners in this Agreement or in any documents delivered or to be delivered by the H/SIC General Partners contains any untrue statement of a material fact, or omits to state a material fact necessary in order to make the statements contained therein not misleading,

or necessary in order to provide adequate information as to the H/SIC Partnerships and the H/SIC Properties and their management, operation, maintenance and repair. All items delivered or to be delivered by the H/SIC General Partners pursuant to the terms of this Agreement are true, correct and complete in all material respects, and fairly present the information set forth therein in a manner that is not misleading.

11. Obligations of General Partners Pending Closing. From and after the

date of this Agreement through the Closing Date, each H/SIC General Partner, only with respect to the H/SIC Partnership of which such H/SIC General Partner is a general partner and the H/SIC Property owned by the H/SIC Partnership of which such H/SIC General Partner is a general partner, covenants and agrees as follows:

(a) Maintenance and Operation of Property. The H/SIC General Partner will cause the H/SIC Property to be maintained in its present order and condition, normal wear and tear, and damage by fire or other casualty (subject to Section 16) excepted and will cause the continuation of the normal operation thereof, including the purchase and replacement of fixtures and equipment, and the continuation of the normal practice with respect to maintenance and repairs so that the H/SIC Property will, except for normal wear and tear and damage by fire or other casualty (subject to Section 16), be in substantially the same condition on the Closing Date as on the date hereof.

(b) Compliance with Governmental Requirements. The H/SIC General Partner shall use its commercially reasonable efforts to cause the Property to be in material compliance with governmental requirements.

(c) Changes in Representations. The H/SIC General Partner shall notify Royale promptly, and Royale shall notify the H/SIC General Partner promptly, if either becomes aware of any occurrence prior to the Closing Date which would make any of its representations, warranties or covenants contained herein not true in any material respect.

(d) Obligations as to H/SIC Leases. The H/SIC General Partner shall not, without Royale's prior written consent (which consent shall not be unreasonably withheld conditioned or delayed), amend, modify, renew or extend any H/SIC Lease in any material respect unless required bylaw, or enter into new leases or approve any assignment

of leases or subletting of leased space, or terminate any Lease.

(e) Obligations as to H/SIC Properties Indebtedness. The H/SIC General Partner shall make, or cause the H/SIC Partnership to make, all payments required to be made under the H/SIC Properties Indebtedness when due; shall perform, or cause the H/SIC Partnership to perform, all obligations under the H/SIC Properties Indebtedness and shall keep, and cause the H/SIC Partnership to keep, the H/SIC Properties Indebtedness free from default.

(f) No Other Indebtedness. Subject to the H/SIC Properties Indebtedness, the H/SIC General Partner shall not incur any indebtedness, other than current accounts payable in the day-to-day operation of the H/SIC Properties.

(g) No Solicitation. The H/SIC General Partner will not solicit or undertake any recapitalization, business combination or other transaction, or engage in any discussions or negotiations with respect thereto, or furnish information (other than as required by law or this Agreement) that would be inconsistent with the Transactions.

12. Representations and Warranties of Royale. Royale represents and warrants to the H/SIC Partners, and covenants with the H/SIC Partners which representations, warranties and covenants are true and correct on the date hereof, shall be true and correct at Closing and shall survive Closing, as follows:

(a) Authority of Royale. Royale is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and is duly authorized to do business and own properties in all jurisdictions in which it does business and owns properties. Royale has all necessary power and authority to execute, deliver and perform this Agreement and consummate all of the Transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement and the Transactions have been approved and duly authorized by all necessary action of Royale. This Agreement is the valid and binding obligation of Royale, enforceable against Royale in accordance with its terms.

(b) No Defaults. Neither the execution of this Agreement nor the consummation of the Transactions contem-

plated hereby will: (i) subject to any approval required under the Royale Properties Indebtedness, conflict with, or result in a breach of, the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which Royale is a party, (ii) subject to any

approval required under the Royale Properties Indebtedness, violate any restriction, requirement, covenant or condition to which the Royale is subject, or (iii) constitute a violation of any applicable code, resolution, law, statute, regulation, ordinance, rule, judgment, decree or order. Royale has made all filings required to be made under the Securities Exchange Act of 1934, as amended (the "1934 Act") and all such 1934 Act filings are true, correct and complete.

(c) Royale Common Stock. All shares of Royale Common Stock exchangeable for Common Units issued in connection with the Transactions will be duly authorized, validly issued, fully paid and non assessable. All issued and outstanding shares of Royale Common Stock were issued in compliance with, or in transactions exempt from, the registration requirements of applicable federal and state securities laws. Royale has an authorized capitalization consisting of 50,000,000 shares of stock, of which 30,000,000 shares are classified as Royale Common Stock, $.01 par value per share, and 20,000,000 shares are unclassified. There are issued and outstanding 1,420,000 shares of Royale Common Stock. All such outstanding shares have been nonassessable. There are no outstanding options, warrants, rights, calls, commitments, conversion rights, rights of exchange, plans or other agreements of any character providing for the purchase, issuance or sale of any shares of the capital stock of Royale, other than the Directors' Stock Option Plan as described in the 1996 Form 10-KSB filed by Royale pursuant to the 1934 Act.

(d) Litigation. Except as set forth on Exhibit "Royale Litigation", there is no action or proceeding pending or, to the knowledge of Royale, threatened against Royale or any subsidiary before any court or administrative agency which would result in any material adverse change in the business or financial condition of Royale.

(e) Corporate Documents. The copies of the articles of incorporation of Royale and bylaws of Royale, the copy of the Advisory Agreement, and the copies of all other books and records of Royale delivered, or to be delivered to the H/SIC General Partners, are true, correct and com-

plete copies thereof as of the date delivered. There are no employment agreements, consulting agreements, advisory agreements or similar agreements, other than the Advisory Agreement.

(f) Title; Royale Properties Indebtedness. Royale is the sole owner of fee simple title to the Royale Properties. Royale is not in default under the Royale Properties Indebtedness. Royale has delivered, or shall deliver, copies of the Royale Properties Indebtedness documents to the H/SIC General Partners.

(g) Compliance with Existing Laws. To Royale's knowledge and except as set forth on Exhibit "Royale Violations" attached hereto, (i) Royale is not in violation, in any material respect, of any material building, zoning, environmental or other ordinances, statutes or regulations of any governmental agency, in respect to the ownership, use, maintenance, condition and operation of the Royale Properties or any part thereof, and (ii) Royale possesses all material licenses, certificates, permits and authorizations necessary for the use and operation of the Royale Properties in the manner in which they are currently being operated by Royale, and the requisite certificates of the fire marshals or board of fire underwriters have been issued for the Royale Properties.

(h) Leases. True, correct and complete copies of all of the leases of the Royale Properties and any amendments thereto (collectively, the "Royale Leases"), have been delivered to the H/SIC General Partners. Attached hereto as Exhibit "Royale Leases" is a description of all of the Royale Leases and a current rent schedule ("Royale Rent Schedule") covering the Leases, which is true and correct in all material respects. There are no leases or tenancies of any space in the Property other than those set forth in Exhibit "Royale Leases" or, to Royale's knowledge, any subleases or subtenancies unless otherwise noted therein. Except as otherwise set forth in Exhibit "Royale Leases" or elsewhere in this Agreement:

(i) The Royale Leases are in full force and effect and constitute a legal, valid and binding obligation of the respective tenants;

(ii) No tenant has an option to purchase the Royale Properties or any portion thereof,

except as otherwise set forth in Exhibit "Royale Purchase Options";

(iii) No renewal or expansion options have been granted to the tenants, except as provided in the Royale Leases;

(iv) To Royale's knowledge, Royale is not in material default under any of the Leases;

(v) The rents set forth on the Royale Rent Schedule are being collected on a current basis and there are no arrearages in excess of one month, except as indicated in Exhibit "Royale Leases" hereto, nor has any tenant paid any rent, additional rent or other charge of any nature for a period of more than thirty (30) days in advance;

(vi) Royale has not sent written notice to any tenant claiming that such tenant is in default, which default remains uncured, and to Royale's knowledge, no tenant is in default under its Lease, except as indicated in Exhibit "Royale Leases";

(vii) No action or proceeding instituted against Royale by any tenant is presently pending in any court; and

(viii) There are no security deposits other than those set forth in Exhibit "Royale Leases".

(i) Service Contracts. Attached hereto as Exhibit "Royale Service Contracts" is a complete and correct list of all contracts or agreements relating to the management, leasing, operation, maintenance or repair of the Royale Properties (the "Royale Service Contracts"). True and correct copies of all of the Royale Service Contracts have been delivered to H/SIC General Partners. Except in the case of a default by the vendor under a specific Royale Service Contract, no Royale Service Contract will be terminated, or materially amended or modified prior to the Closing Date without H/SIC's prior written approval, which approval shall not be unreasonably withheld, conditioned or delayed.

(j) Tax Bills. Royale has delivered to the H/SIC General Partners true and correct copies of tax bills issued by any applicable federal, state or local governmental authority and received by Royale with respect to the Royale Properties for the most recent past and current tax years, and any new assessment received with respect to a current or future tax year.

(k) Insurance. Attached hereto as Exhibit "Royale Properties Insurance" is a list of all hazard, liability and other insurance policies presently affording coverage with respect to the Royale Properties. Royale shall maintain in full force and effect all such (or equivalent) policies until the Closing Date.

(l) Tenant Estoppels. Royale represents and warrants that it shall use reasonable good faith efforts (without cost or liability to Royale) to obtain and deliver to H/SIC General Partners a tenant estoppel letter from each tenant in the general form required by real estate investment trust purchasers of leased real estate (or in such form or containing such information as may be required by the lease of such tenant) from each of the tenants of the Royale Properties confirming the information set forth in the Royale Rent Schedule.

(m) Condemnation Proceedings. No condemnation or eminent domain proceedings are pending or, to the best of the Royale's knowledge, threatened against the Royale Properties or any part thereof, and Royale has not made any commitments to or received any notice, oral or written, of the desire of any public authority or other entity to take or use the Property or any part thereof whether temporarily or permanently, for easements, rights-of-way, or other public or quasi-public purposes, except as set forth in the Permitted Exceptions.

(n) No Defaults. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will: (i) subject to any approval required under the Royale Properties Indebtedness, conflict with, or result in a breach of, the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which Royale is a party or by which the Royale or the Royale Properties are bound, (ii) subject to any approval required under the Royale Properties Indebtedness, violate any restriction, requirement, covenant or condition to which Royale is subject or by which Royale or

the Royale Properties are bound, (iii) constitute a violation of any applicable code, resolution, law, statute, regulation, ordinance, rule, judgment, decree or order applicable to Royale, or (iv) result in the

cancellation of any contract or lease pertaining to the Royale Properties.

(o) Environmental Matters. Except as set forth on Exhibit "Royale Environmental Matters", Royale has no knowledge of any discharge, spillage, uncontrolled loss, seepage or filtration of oil, petroleum or chemical liquids or solids, liquid or gaseous products or any hazardous waste or hazardous substance (as those terms are used in the Comprehensive Environmental Response, Compensation and Liability Act of 1986, as amended, the Resource Conservation and Recovery Act of 1976, as amended, or in any other applicable federal, state or local laws, ordinances, rules or regulations relating to protection of public health, safety or the environment, as such laws may be amended from time to time) at, upon, under or within the Land or any contiguous real estate. Except as set forth on Exhibit "Royale Environmental Matters" to Royale's knowledge, there is no proceeding or action pending or threatened by any person or governmental agency regarding the environmental condition of the Property. To Royale's knowledge, the Royale Properties are free of friable asbestos requiring remediation.

(p) Certificates of Occupancy. Royale will not amend any certificates of occupancy for the Royale Properties and will maintain them in full force and effect to the extent that Royale is responsible for them.

(q) Personal Property. Attached hereto as Exhibit "Royale Personal Property" is a true, correct and complete inventory of all personal property ("Royale Personal Property"), if any, used in the management, maintenance and operation of the Royale Properties (other than trade fixtures or personal property of tenants).

(r) Leasing Commissions. There are, and at Closing shall be, no outstanding or contingent leasing commissions or fees payable with respect to the Royale Properties.

(s) Real Estate Investment Trust for Tax Purposes. Subject to information provided by Royale to Coopers & Lybrand, Royale (1) is complying and, at all times has complied with, all requirements applicable to real estate investment trusts under Section 856 of the Code, and (2) is,

and at all times has been, property treated as a real estate investment trust under Section 856 of the Code for federal income tax purposes.

(t) Taxes. Royale and any predecessor of Royale have timely filed with the appropriate taxing authorities all returns (including without limitation information returns and other material information) in respect of Taxes required to be filed through the date hereof and will timely file any such returns required to be filed on or prior to the Closing Date. The returns and other information filed (or to be filed) are complete and accurate in all material respects. All Taxes of Royale in respect of periods beginning before the Closing Date have been timely paid, or will be timely paid prior to the Closing Date, and the Royale has no material liability for Taxes in excess of the amounts so paid. All Taxes that Royale has been required to collect or withhold have been duly collected or withheld and, to the extent required when due, have been or will be (prior to Closing Date) duly paid to the proper taxing authority. No audits of any of Royale's federal, state or local returns for Taxes by the relevant taxing authorities have occurred, and no material deficiencies for Taxes of Royale have been claimed, proposed or assessed by any taxing or other governmental authority against Royale. There are no pending or, to the best of knowledge of Royale, threatened audits, investigations or claims for or relating to any material additional liability to the Partnership in respect of Taxes, and there are no matters under discussion with any governmental authorities with respect to Taxes that in reasonable judgment of Royale or its counsel, is likely to result in a material additional liability for Taxes. To the knowledge of Royale, there are no liens for Taxes (other than for current taxes not yet due and payable) on any of the assets of Royale.

(u) Fairness Opinion. Royale has received a satisfactory "fairness opinion" from a reputable Financial advisor selected by Royale's Board of Directors with respect to the Transactions.

(v) Disclosure. No representation or warranty made by Royale in this Agreement or in any documents delivered or to be delivered by Royale contains any untrue statement of a material fact, or omits to state a material fact necessary in order to make the statements contained therein not misleading or necessary in order to provide adequate

information as to Royale and the Royale Properties and its and their management, operation, maintenance and repair. All items delivered or to be delivered by Royale pursuant to this Agreement are true, correct and complete in all material respects, and fairly present the information set forth therein in a manner that is not misleading.

13. Obligations of Royale Pending Closing. From and after the date of this Agreement through the Closing Date, Royale covenants and agrees as follows:

(a) Maintenance and Operation of Royale Properties and Royale Business. Royale shall continue to own the properties owned by it and to operate its business as a real estate investment trust as Royale's business is currently operated. Royale will cause the Royale Properties to be maintained in their present order and condition, normal wear and tear, and damage by fire or other casualty (subject to Section 16) excepted and will cause the continuation of the normal operation thereof, including the purchase and replacement of fixtures and equipment, and the continuation of the normal practice with respect to maintenance and repairs so that the Royale Properties will, except for normal wear and tear and damage by fire or other casualty (subject to Section 16), be in substantially the same condition on the Closing Date as on the date hereof.

(b) Government Requirements. Royale shall use its commercially reasonable efforts to comply with governmental requirements applicable to Royale.

(c) Changes in Representations. Royale shall notify the H/SIC General Partners promptly, and the H/SIC General Partners shall notify Royale promptly, if either becomes aware of any occurrence prior to the Closing Date which would make any of its representations, warranties or covenants contained herein not true in any material respect.

(d) Obligations as to Royale Leases and Other Documents. Royale shall not, without H/SIC's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed), amend, modify, renew or extend any Royale Lease in any material respect unless required by law, or enter into new leases or approve any assignment of leases or subletting of leased space, or terminate any Royale Leases. Royale shall not, without H/SIC's prior written consent, amend the articles of incorporation or

bylaws of Royale, or the Advisory Agreement, or enter into any employment, consulting, advisory or similar agreements.

(e) Obligations as to Royale Properties Indebtedness. Royale shall not, without H/SIC's prior written consent, (i) prepay the Royale Properties Indebtedness, or (ii) modify or amend, or permit any of the documents evidencing or securing the Royale Properties Indebtedness or otherwise entered into in connection with the Royale Properties Indebtedness to be amended or modified. Royale shall make all payments required to be made under the Royale Properties Indebtedness when due, shall perform all obligations under the Royale Properties Indebtedness and shall keep the Royale Properties Indebtedness free from default.

(f) No Other Indebtedness. Royale shall not incur any indebtedness, other than current accounts payable in the day-to-day operation of the Royale Properties.

(g) No Solicitation. Royale will not solicit or undertake any recapitalization, business combination or other transaction or engage in any discussions or negotiations with respect thereto, or furnish information (other than as required by law or this Agreement) that would be inconsistent with the Transactions.

14. Title; H/SIC Properties.

(a) At Closing, the H/SIC Properties shall be free and clear of all liens, covenants, restrictions, easements, encumbrances, and other title exceptions or objections excepting, however, the "H/SIC Permitted Exceptions" (hereinafter defined). Title to the H/SIC Properties at Closing shall be good and marketable and such as will be insured by Commonwealth Land Title Insurance Company at regular rates for regular risks, with such endorsements as the H/SIC General Partners shall reasonably require.

(b) As to each H/SIC Property, the "H/SIC Permitted Exceptions" are:

(i) real estate taxes and assessments not yet due and payable;

(ii) covenants, restrictions, easements and other similar agreements, provided that the

same are not violated by existing improvements or the current use and operation of an H/SIC Property, or if so violated that the same do not materially impair the value of the H/SIC Property and that the violation of the same will not result in a forfeiture or reversion of title;

(iii) zoning laws, ordinances and regulations, building codes and other governmental laws, regulations, rules and orders affecting such H/SIC Property, provided that the same are not violated by existing improvements or the current use and operation of the H/SIC Property, or if so violated that the same do not materially impair the value of the H/SIC Property or that such violation will not result in a forfeiture or reversion of title;

(iv) any minor imperfection of title which (1) does not affect the current use, operation or enjoyment of an H/SIC Property, (2) does not render title to such H/SIC Property unmarketable or uninsurable, and (3) does not materially impair the value of the H/SIC Property;

(v) the H/SIC Properties Indebtedness encumbering such H/SIC Property;

(vi) the H/SIC Leases with respect to such H/SIC Property.

(c) From and after the date of this Agreement, the H/SIC General Partners shall not take any action, or fail to take any action, that would cause title to the H/SIC Properties to be subject to any title exceptions or objections, other than the H/SIC Permitted Exceptions.

15. Title; Royale Properties.

(a) At Closing, the Royale Properties shall be free and clear of all liens, covenants, restrictions, easements, encumbrances, and other title exceptions or objections excepting, however, the "Royale Permitted Exceptions" (hereinafter defined). Title to the Royale Properties at Closing shall be good and marketable and such as will be insured by Commonwealth Land Title Insurance Company at regular rates for regular risks, with such en-

dorsements as the H/SIC General Partners shall reasonably require.

(b) As to each Royale Property, the "Royale Permitted Exceptions" are:

(i) real estate taxes and assessments not yet due and payable;

(ii) covenants, restrictions, easements and other similar agreements, provided that the same are not violated by existing improvements or the current use and operation of an Royale Property, or if so violated that the same do not materially impair the value of the Royale Property and that the violation of the same will not result in a forfeiture or reversion of title;

(iii) zoning laws, ordinances and regulations, building codes and other governmental laws, regulations, rules and orders affecting such Royale Property, provided that the same are not violated by existing improvements or the current use and operation of an Royale Property, or if so violated that the same do not materially impair the value of the Royale Property or that such violation will not result in a forfeiture or reversion of title;

(iv) any minor imperfection of title which (1) does not affect the current use, operation or enjoyment of an Royale Property, (2) does not render title to such Royale Property unmarketable or uninsurable, and (3) does not materially impair the value of the Royale Property;

(v) the Royale Properties Indebtedness encumbering such Royale Property;

(vi) the Royale Leases with respect to such Royale Property.

(c) From and after the date of this Agreement, Royale shall not take any action, or fail to take any action, that would cause title to the Royale Properties to be subject to any title exceptions or objections, other than the Royale Permitted Exceptions.

16. Risk of Loss. If prior to Closing (i) condemnation proceedings are commenced against all or any portion of the H/SIC Properties or the Royale Properties (other than a de minimis condemnation, which shall mean a condemnation which does not materially and adversely affect and parking or access area of the H/SIC Properties and does not have a material adverse affect on the value of the H/SIC Properties or the Royale Properties), or (ii) if the H/SIC Properties or the Royal Properties are damaged by an uninsured casualty to the extent that the cost of repairing such damage shall be Five Hundred Thousand Dollars ($500,000.00) or more based on the good faith estimate of an independent contractor selected by the H/SIC General Partners and reasonably approved by Royale, then the H/SIC General Partners and Royale shall have the right, upon notice in writing to the other party delivered within forty five (45) days after actual notice of such condemnation or fire or other casualty to terminate this Agreement, and thereupon the parties shall be released and discharged from any further obligations to each other. If this Agreement is not terminated or in the event of fire or other casualty or condemnation not giving rise to a right to terminate this Agreement, all of the proceeds of fire or other casualty insurance proceeds and the rent insurance proceeds payable with respect to the period after Closing or, of the condemnation award, as the case may be, shall remain with the entity owning the affected property.

17. Mutual Conditions. Neither the H/SIC General Partners, H/SIC, nor Royale will be obligated to complete or cause to be completed the transactions contemplated by this Agreement unless the following conditions have been satisfied prior to or at the Closing, unless waived by the H/SIC General Partners, H/SIC, and Royale:

(a) No order to restrain, enjoin or otherwise prevent the consummation of this Agreement or the Transactions shall have been entered by any court or administrative body and shall remain in full force and effect (other than order sought by any of the parties to this Agreement).

(b) The obligations to consummate the transactions contemplated hereby shall not have been terminated pursuant to Section 30 hereof.

18. Conditions Precedent to Obligations of H/SIC General Partners and H/SIC. The obligations of the H/SIC General Partners and H/SIC to consummate the transactions contemplated by this Agreement are subject to the fulfillment, prior to or upon the Closing Date, of the following conditions precedent, unless waived by the H/SIC General Partners and H/SIC:

(a) Royale and Crown shall have complied with and performed in all material respects all of the covenants contained in this Agreement to be performed by Royale at or prior to the Closing Date. Without limitation on the other obligations of Royale under this Agreement, all actions required under Section 4 of this Agreement shall have been taken and shall be in effect concurrent with Closing.

(b) From and after the date hereof, there shall have been no material adverse change in the business or financial condition of Royale. For the purpose hereof, a material adverse change shall only mean a change which results in a significant diminution of the value of any of the Royale Properties or of Royale as a whole; and the following shall be deemed not to be a material adverse change: (i) changes in the ordinary course of business which are not in the aggregate material adverse, and (ii) changes resulting from general economic conditions.

(c) Royale shall have obtained from tenants occupying at least eighty percent (80%) of each of the Royale Properties an estoppel certificate in accordance with Section 12(l).

(d) Royale shall have delivered to the H/SIC General Partners a letter from each of the holders of the Royale Properties Indebtedness dated no earlier than thirty (30) days prior to the Closing, stating the outstanding principal balance under the mortgage held by such holder, and accrued interest thereon, if any, and stating that there has not been, and there does not currently exist any default under the Royale Properties Indebtedness.

(e) The representations and warranties set forth in Section 9 and Section 12 shall be true and accurate in all material respects on and as of the Closing Date with the same force and effect as if they had been made at the Closing Date.

(f) Title policies, in the form contemplated by Sections 14 and Section 15 of this Agreement, shall have been delivered to the UPREIT as to the H/SIC Properties and the state of title of the Royale Properties shall be as set provided in Section 15.

(g) The Registration Rights Agreement and the UPREIT Agreement shall have been executed and delivered by all required parties.

(h) The H/SIC Properties Indebtedness shall have been obtained, funded and closed.

(i) All consents and approvals necessary under the H/SIC Properties Indebtedness documents shall have been obtained.

(j) The H/SIC Partners shall have delivered all documents required to be delivered by the H/SIC Partners under this Agreement and otherwise to consummate the Transactions.

(k) Royale shall have executed and delivered, or caused to be executed and delivered, all documents contemplated by this Agreement to be executed by Royale or caused to be executed by Royale or as necessary or desirable to consummate the Transactions.

19. Conditions Precedent to Royale's Obligations.

The obligations of Royale and Crown to consummate the transactions contemplated by this Agreement are subject to the fulfillment, prior to or upon the Closing Date, of the following conditions precedent, unless waived by Royale.

(a) The H/SIC General Partners and H/SIC shall have complied with and performed in all material respects all of the covenants contained in this Agreement to be performed by the H/SIC General Partners at or prior to the Closing Date.

(b) From and after the date hereof, there shall have been no material adverse change in the business or financial condition of the H/SIC Partnerships or H/SIC.

(c) The H/SIC General Partners shall have obtained from tenants occupying at least eighty percent (80%) of

each of the H/SIC Properties an estoppel certificate in accordance with Section 10(h).

(d) The H/SIC General Partners shall have delivered to Royale a letter from each of the holders of the H/SIC Properties Indebtedness dated no earlier than thirty (30) days prior to the Closing, approving the conveyance of the H/SIC Partnership Interests to the UPREIT, and stating that there has not been, and there does not currently exist any default under the H/SIC Properties Indebtedness.

(e) The H/SIC General Partners shall have received a commitment from a reputable lender for the Royale Acquisition Facility.

(f) The representations and warranties set forth in Section 10 shall be true and accurate in all material respects on and as of the Closing Date with the same force and effect as if they had been made at the Closing Date.

(g) The H/SIC General Partners shall have executed and delivered, or caused to be executed and delivered, all documents contemplated by this Agreement to be executed by the H/SIC Partners or caused to be executed by the H/SIC Partners or as necessary or desirable to consummate the Transactions.

20. Deliveries by H/SIC General Partners. At Closing, the H/SIC General Partners shall deliver, or cause the delivery of, the following documents:

(a) The UPREIT Agreement.

(b) Contribution and assumption agreements ("Assignments") and amendments to partnership agreements and limited partnership certificates ("Amendments") setting forth the assignment by each of the Contributors of their Contributed Interests and his, her or its withdrawal from the H/SIC Partnerships (or reduction in interest, in the case of Contributors holding Retained Interests) and the admission of UPREIT (and/or its designee(s)) as partners of the H/SIC Partnerships, which Assignments and Amendments shall be executed and acknowledged by the Contributors and the UPREIT (or its designees).

(c) A release from each Contributor releasing the H/SIC Partnerships and the UPREIT (and its designee(s)) as partners of the H/SIC Partnerships from any obligations

and liabilities with respect to the original formation of the H/SIC Partnerships, and any other matter arising from business done, transactions entered into or events occurring prior to the Closing Date.

(d) The original H/SIC Leases and schedule from the H/SIC General Partners updating the H/SIC Rent Schedule for the H/SIC Properties and setting forth all arrearages in rents and all prepayments of rents.

(e) An original letter executed by the H/SIC General Partners advising the tenants of the H/SIC Properties of the change in control and management of the H/SIC Properties and directing that rents and other payments thereafter be sent to the UPREIT or as UPREIT may direct.

(f) Possession of the H/SIC Properties from the H/SIC General Partners in the condition required by this Agreement, and the keys therefor.

(g) From each Contributor, a certification of non-foreign status as required by the Code.

(h) The Registration Rights Agreement.

(i) All such documents and instruments (including, without limitation, an accredited investor's questionnaire from each of the Contributors for the purposes of confirming accredited investor status) as may be reasonably required to allow the UPREIT or Royale to comply with federal and state securities law requirements with respect to the issuance of the Common Units and Preferred Units or Royale Common Stock, as the case may be.

(j) Such other documents and items (including, without limitation, legal opinions customarily delivered in transactions similar to the Transactions) as may be reasonably required under the terms of this Agreement or relating to the Transactions to reasonably effect the purposes of this Agreement or consummate the Transactions.

21. Royale Performance and Deliveries by Royale. At the Closing, simultaneously with the deliveries pursuant to the provisions of Section 20 above, the UPREIT shall issue to Contributors the Common Units and Preferred Units in the amount and manner specified in Section 7, and the UPREIT (or its designee) and Royale shall execute and deliver those documents (including without limitation those documents described in Section 20 above to which the UPREIT (or its designees) or Royale is a party or a required signatory) and take such other actions required to be taken by Royale at Closing as required under this Agreement. Without limitation on the foregoing provisions of this Section 21 Royale shall deliver, or cause the delivery of the following documents:

(a) The original signed Royale Leases and a schedule updating the Royale Rent Schedule for the Royale Properties and setting forth all arrearages in rents and all prepayments of rents.

(b) Originally executed Royale Service Contracts and copies of books, records, operating reports, files and other materials related to the ownership, use and operation of the Royale Properties, to the extent that any exist and are in the possession of Royale.

(c) The Registration Rights Agreement.

(d) A transfer and assignment agreement by Crown to Royale transferring all of Crown's assets to Royale in accordance with Section 6, and Royale's written confirmation of the termination of the Advisory Agreement.

(e) The Management Agreement in accordance with Section 6.

(f) Then currently dated and effective resolutions of the Board of Directors of Royale authorizing this Agreement and the Transactions, and the execution and delivery by Royale of all documents necessary or desirable to consummate the Transactions.

(g) All of the corporate and financial books and records of Royale.

(h) Such other documents and items (including, without limitation, legal opinions customarily in delivered in transactions similar to the Transactions) as may be reasonably required under the terms of this

Agreement or re-

lating to the Transactions to reasonably effect the purposes of this Agreement or to consummate the Transactions.

22. Closing Charges; Prorations and Adjustments.

(a) Royale or H/SIC General Partners on behalf of the H/SIC Partnerships and out of the funds of such H/SIC Partnerships), as the case may be, shall pay the title examination charges, the title insurance premium, survey costs, environmental assessment charges, notary fees and other such charges relating to the Royale Properties and the H/SIC Properties respectively.

(b) Although H/SIC General Partners and Royale believe that no real estate transfer or recording fees or taxes will be due in connection with the contribution of the H/SIC Partnership Interests, if it is finally determined that such taxes are due and payable in connection herewith, then the H/SIC Partnership for which the transfer of whose H/SIC Partnership Interests shall be deemed subject to real estate transfer tax shall pay the costs of contesting such taxes and shall pay the full amount of such taxes if they are finally determined to be payable. (c) The H/SIC General Partners and Royale shall each pay their own due diligence costs and legal, brokerage, lenders', investment banking and accounting costs and fees related to the Transaction and preparation of this Agreement and all documents required to settle the transaction contemplated hereby.

(d) With respect to each of the H/SIC Properties, as of the 11:59 p.m. of the calendar day immediately preceding the Closing Date, there shall be apportioned between the H/SIC Partnership owning such H/SIC Property and the UPREIT (1) rent under the H/SIC Leases, (2) interest under the H/SIC Properties Indebtedness, (3) taxes, insurance and operating expenses of such H/SIC Property to the extent borne by the owning H/SIC Partnership, and (4) payments with respect to the items listed in the preceding clause (3) that are received from tenants to the extent prepaid (including all security deposits) or paid in arrears to the owning H/SIC Partnership. All management agreements between the H/SIC Partnerships and H/SIC (or any affiliate) shall be terminated as of Closing Date, and all fees due under such agreements through Closing shall be paid by the H/SIC Partnership. Any amount due pursuant to this Section 22(d) shall be paid in cash at the Clos-

ing. To the extent that the amount of the items to be adjusted are not reasonably ascertainable as of the Closing Date, such as tenant chargebacks or collections for tenant reimbursements, they shall be adjusted promptly after the determination of the amount thereof.

(e) It is acknowledged and agreed that, on or prior to the Closing, the H/SIC General Partners shall cause the H/SIC Partnerships to distribute to the H/SIC Partners all cash and assets of the Partnership other than the H/SIC Properties.

23. Partnership Liabilities and Sales of H/SIC Properties.

(a) Subject to the provisions of Section 23(b) hereof, for a period of three (3) years following the Closing Date (the "Non Taxable Disposition Period"), Royale and the UPREIT shall use their good faith, reasonable and diligent efforts:

(1) to cause any sale or other voluntary disposition (other than through a deed in lieu of foreclosure, a foreclosure action, or an act of eminent domain) of the H/SIC Properties to qualify for non-recognition of gain under the Code, whether by means of exchanges contemplated under Code Sections 351, 354, 355, 368, 721, 1031, 1033, or otherwise; provided, however, that the foregoing shall not require Royale and the UPREIT, in their sole and absolute discretion, to sell, or otherwise dispose of, or prevent Royale and the UPREIT in their sole and absolute discretion, from selling or otherwise disposing of any of the H/SIC Properties in transactions qualifying for non-recognition of loss;

(2) to avoid a distribution of property that would cause any Contributor to recognize income or gain pursuant to the provisions of either or both of Code Sections 704(c)(1)(B) and 737; and

(3) to avoid a termination of the UPREIT pursuant to the provisions of Code Section 708(b)(1)(B).

(b) Notwithstanding the above provisions of Section 23(a), the obligation of either or both of Royale and the UPREIT to undertake those activities set forth in Section 23(a) hereof shall, in all events, be subject to, and oth-

erwise interpreted consistent with Royale's fiduciary and statutory obligations to all partners (both present and future) in the UPREIT, and to its stockholders, both present and future. Notwithstanding the preceding sentence, however, the UPREIT and/or Royale shall use every reasonable effort (but shall not be required) to engage in a non-taxable disposition of an H/SIC Property.

(c) In addition to the foregoing, and again consistent with and subject to Royale's fiduciary, statutory and other obligations to all partners (present and future) in the UPREIT, and to all of Royale's stockholders, and likewise in all events consistent with and subject to the exercise of sound and prudent business judgment in furtherance of the interests of all such partners and stockholders, for a period of three (3) years after the Closing Date, the UPREIT and Royale shall use their respective good faith, reasonable and diligent efforts to deal with the aggregate of non-recourse indebtedness ("Aggregate Debt") secured by the H/SIC Properties ("Project Specific Mortgages") and excess non-recourse indebtedness secured by properties owned by the UPREIT other than the H/SIC Properties ("Other Mortgages") in such manner as shall provide Contributors that collective allocation of taxable basis derived from either or both of Project-Specific and Other Mortgages that is set forth in Exhibit "Schedule of H/SIC Debt Allocations." In the event that Royale or the UPREIT determines, during the three (3) year period following the Closing, that it is necessary or desirable to pay down or retire all or any balance due under the Project-Specific Mortgages or Other Mortgages, then the Royale and the UPREIT shall be free to do so, subject to the terms of Section 23(d). In addition, Royale and the UPREIT shall be free from time to time and at any time to make scheduled periodic and other payments required under the Project Specific Mortgages and Other Mortgages, without notice or accountability to any Contributor.

(d) At Closing, the UPREIT and Royale shall confirm, in writing, to the Contributors their respective acknowledgments of, and agreements to comply with, the undertakings set forth in Sections 23(a), 23(b), 23(c) and 23(d).

(1) In the event, on or before the third anniversary of the Closing Date, of (each, a "Tax-Related Event"): (A) a post-Closing sale of an H/SIC Property occurs; or (B) an attempt by the UPREIT to effect an H/SIC Property transfer as permitted by Section 23(a)

above occurs, but the terms of Section 1031 of the Code or the regulations promulgated thereunder have changed such that the mechanics for implementing a tax-deferred exchange of real estate are materially and adversely altered (whether with respect to the timing required to identify and close upon an exchange property or otherwise) from those mechanics in place as of the date of this Agreement, and, in any case, provided that the obligations of the Royale and the UPREIT under Section 23 shall not have otherwise terminated by the terms of such Section, the H/SIC shall give written notice of such Tax-Related Event (a "Tax-Related Notice") to the relevant Contributors for the subject H/SIC Property as soon as practicable after the occurrence of such event becomes reasonably likely, or, if later, on the date on which the UPREIT is, in the reasonable judgment of its securities counsel, legally permitted, under applicable federal and state securities laws and regulations, and the rules and regulations of any securities exchange on which Royale Common Stock may be listed, to disseminate such Tax-Related Notice to such Contributors.

(2) Upon their receipt of a Tax-Related Notice, the Contributors who were H/SIC Partners in the affected H/SIC Property shall designate Jay Shidler, or if he is unable or unwilling to serve, a person selected by a majority in H/SIC Partnership Interests of the Contributors who were H/SIC Partners in the affected H/SIC Property to represent them in connection with the Tax-Related Event that triggers the delivery of the applicable Tax-Related Notice (the "Spokesperson"). The UPREIT and Royale shall be entitled to rely on the first written notice either of them receives that designates a Spokesperson with respect to a given Tax-Related Event, and shall be under no obligation to deal with any person other than that

Spokesperson in connection with the subject Tax-Related Event. The UPREIT and Royale shall have no obligation to deal with any person or entity whatsoever in connection with a Tax-Related Event unless and until a Spokesperson is properly designated. The UPREIT and Royale and their respective independent accountants, attorneys and other representatives and advisors, shall cooperate With the Spokesperson in order to consider strategies proposed by or through the Spokesperson (it being understood that neither Royale or the UPREIT shall have any obligation what-

soever to propose any such strategies), on behalf of affected Contributors, which strategies are designed or intended to defer or mitigate any recognition of gain under the Code by any Contributor or any shareholder or partner in any Contributor (any such gain recognition being referred to herein as an "Adverse Tax Consequence") that may result from a Tax-Related Event, whether such strategies involve any or all of the Contributors on a basis independent of Royale and the UPREIT, or in conjunction with Royale and the UPREIT. The requesting party shall pay its own fees and expenses, and the fees and expenses of Royale and the UPREIT, incurred in connection with the procedure delineated in this Section 23(d)(2). Under this Section 23(d), the UPREIT and Royale are only obligated to cooperate with the Spokesperson on behalf of any Contributor (or any partner, shareholder or member of any Contributor) who may be facing an Adverse Tax Consequence, in connection with such Contributor's determination of the efficacy of tax-deferral or tax-mitigation alternatives proposed by or through the Spokesperson that may involve Royale or the UPREIT. In no event shall either Royale or the UPREIT be required to incur any expense (other than administrative expenses incurred in complying with this Section 23(d)(2)) in connection its cooperation under this Section 23(d)(2), nor shall any transaction duly approved by the Board of Directors of Royale that results in a Tax-Related Event be required to be suspended, postponed, impeded or otherwise adversely affected by virtue of any potential Adverse Tax Consequence.

(e) The provisions of this Section 23 shall not be amended or modified without the consent of (1) the H/SIC General Partners and (2) other Contributors holding at least seventy percent (70%) of the H/SIC Partnership Interests.

24. Preparation of Documents.

(a) Royale shall direct its counsel to prepare all documentation relating to changes in the directors and senior management of Royale, and all Board of Directors resolutions in connection with the Transactions all such documents to be subject to the reasonable approval of the H/SIC General Partners and their counsel.

(b) The H/SIC General Partners shall direct their counsel to prepare the UPREIT Agreement, all documents relating to the formation and governance of the UPREIT and the UPREIT Subsidiary, all documents pertaining to the issuance of the Common Units and Preferred Units, all documents pertaining to the contribution of the H/SIC Partnership Interests, all documents pertaining to the H/SIC Properties, documents relating to the commitment for the Royale Acquisition Facility, the H/SIC Properties Indebtedness (including negotiation of documents prepared by lenders' counsel), and all documents pertaining to the transfer of H/SIC's management of the H/SIC Properties to Royale.

(c) Royale and the H/SIC General Partners shall cooperate in good faith and with due diligence to complete in a timely manner all documents necessary or desirable to consummate the Transactions.

25. Transfer of H/SIC Management. The terms and conditions of the transfer of H/SIC's management of the H/SIC Properties to Royale are set forth on Exhibit "H/SIC Management Transfer" attached hereto.

26. Lease Guarantee Agreement. In order to maintain the projected net lease income for the H/SIC Property known as 429 Ridge Road, Dayton, New Jersey and the H/SIC Property known as 2601 Market Place, Harrisburg, Pennsylvania, the net lease income from the operation of such properties shall be assured by collateralized security and as otherwise more particularly described in Exhibit "Lease Guarantee Agreement."

27. Notices. All notices and other communications under this Agreement shall be addressed as follows, shall be sent by a reputable national overnight delivery service and shall be deemed given one (1) business day after delivery

and acceptance by such reputable national overnight delivery service:

If to H/SIC General Partners or H/SIC:

Mr. Clay W. Hamlin, III
The Shidler Group
One Logan Square - Suite 1105
Philadelphia, PA 19103

with a copy to:

F. Michael Wysocki, Esquire
Saul, Ewing, Remick & Saul
3800 Centre Square West
Philadelphia, PA 19102

If to Royale:

Mr. Vernon R. Beck, Chairman
Royale Investments, Inc.
3430 List Place
Minneapolis, MN 55416-4547

with a copy to:

John Parsinen, Esquire
Parsinen, Kaplan, Levy, Rosberg & Gotlieb, P.A.
100 South 5th Street - Suite 1100
Minneapolis, MN 55402

28. Due Diligence. Royale and the H/SIC General Partners shall cooperate in good faith to assist each other in their respective due diligence efforts and will provide information as reasonably requested, including, without limitation, copies of all existing corporate documentation, partnership documentation, financial information, market studies, leases, engineering reports, environmental reports, surveys, building plans, property contracts, title policies and title reports, zoning and other information, subject at all times to the disclosure requirements of the United States Securities Exchange Commission. In addition, the H/SIC General Partners and Royale shall provide to each other access to their respective properties for inspections (excluding any invasive tests or investigations) of their respective properties, subject to the rights of tenants.

29. No Public Disclosure. Subject to compliance with federal and state securities law disclosure requirements, Royale and the H/SIC General Partners agree that no press releases or other public disclosures shall be made by Royale (or any person or entity affiliated with or controlled by Royale) or any of the H/SIC General Partners (or any person or entity affiliated with or controlled by any H/SIC General Partner) regarding the Transactions without the prior written approval of Royale and the H/SIC General Partners.

30. Termination; Default.

(a) At any time prior to the Closing Date, this Agreement may be terminated (1) by mutual written consent of Royale, the H/SIC General Partners and H/SIC; (2) by

Royale or the H/SIC General Partners if (A) there shall be any order, or any proceedings for the purpose of obtaining such an order, in effect preventing consummation of the transactions contemplated by this Agreement (other than an order sought by any of the parties), or (B) there shall be any action taken, or any statute, rule, regulation or order enacted, promulgated, issued or deemed applicable to the transactions contemplated by this Agreement by any governmental entity that makes consummation of the transactions contemplated by this Agreement illegal, or the economic effect of which would be materially and adversely burdensome to any party to this Agreement or, in the case of any H/SIC Partnership, to the H/SIC Partners of such Partnership (and the party so burdened may elect to terminate), or (3) by Royale or the H/SIC General Partners if the Closing Date is not on or prior to one hundred twenty (120) days from the date of this Agreement.

(b) If this Agreement shall be terminated as provided in Section 30(a), this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto to any other party, except that nothing set forth herein shall relieve a party hereto from liability for its willful breach of this Agreement or its own costs incurred with respect to costs agreed upon by each party prior to such termination. If this

Agreement is terminated, each party hereto agrees to return or destroy all documents and other information received from any other party hereto as soon as practicable after the termination of this Agreement.

(c) Notwithstanding anything contained in this Section 30 or elsewhere in this Agreement to the contrary,

(1) if Royale defaults in the performance of any of Royale's obligations under this Agreement, the H/SIC General Partners and H/SIC shall, as their sole and exclusive remedy, have the right either (A) to seek specific performance of this Agreement by Royale, or (B) to be paid One Hundred Fifty Thousand Dollars ($150,000) by Royale, and, upon such election by the H/SIC General Partners and H/SIC, Royale shall pay to the H/SIC General Partners and H/SIC One Hundred Fifty Thousand Dollars ($150,000) as liquidated damages and the sole and exclusive remedy, with no action for damages other than $150,000;

(2) if the H/SIC General Partners or H/SIC default in the performance of any of the obligations of the H/SIC General Partners or H/SIC under the Agreement, Royale shall, as its sole and exclusive remedy, have the right either (A) to seek specific performance of this Agreement by the H/SIC General Partners and H/SIC or (B) to be paid One Hundred Fifty Thousand Dollars ($150,000) by H/SIC General Partners and H/SIC, and, upon such election by Royale, the H/SIC General Partners and H/SIC shall pay to Royale One Hundred Fifty Thousand Dollars ($150,000) as liquidated damages and the sole and exclusive remedy of Royale, with no action for damages other than $150,000.

31. Miscellaneous.

(a) This Agreement may not be amended except by an instrument in writing signed by the parties to this Agreement.

(b) This Agreement together, including the Exhibits attached hereto and the agreements contemplated by the terms of this Agreement (1) constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, (2) may be executed in several counterparts, each of which will be deemed an original and all of which shall constitute one and the same instrument and (3) shall be governed in all respects, including validity, interpretation and effect, by the laws of the Commonwealth of Pennsylvania. All Exhibits attached to this Agreement are made a part of this Agreement.

(c) This Agreement shall be binding upon, and shall be enforceable by and inure to the benefit of, the parties named herein and their respective successors; provided, however, that this Agreement may not be assigned by any party without the prior written consent of the other parties and any attempted assignment without such consent shall be void and of no effect.

(d) The titles and captions of the Sections and paragraphs of this Agreement are included for convenience of reference only and shall have no effect on the construction or meaning of this Agreement.

(e) The representations and warranties set forth in this Agreement shall survive Closing.

(f) Other than with respect to Section 4 and Section 23, no provision of this Agreement is intended, nor shall it be interpreted, to provide or create any third party beneficiary rights or any other rights of any kind in any client, customer, affiliate, stockholder, partner or employee or any party hereto or any other person or entity.

(g) Royale and H/SIC General Partners each agree to execute and deliver, or to cause the execution and delivery of, such other documents, certificates, agreement and other writings and to take such other actions as may be necessary or desirable in order to consummate expeditiously or implement the Transactions.

(h) The parties to this Agreement understand that the structure of the Transactions may be subject to change as a result of many factors, including, without limitation, federal and state tax considerations, securities laws considerations, the requirements of lenders, and corporate and partnership law considerations. The parties to this Agreement agree to cooperate in good faith to attempt to accommodate any required changes, provided that the ultimate benefits to, and burdens of, this Agreement and

the Transactions to the parties remain as specified in this Agreement, notwithstanding any such changes.

(i) If any provision of this Agreement, or the application thereof, is for any reason held to any extent to be invalid or unenforceable, the remainder of this Agreement and application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of the void or unenforceable provisions.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above.

H/SIC CORPORATION, a Delaware corporation

By:

STRATEGIC FACILITY INVESTORS, INC., a Delaware limited partnership, the sole general partner of Blue Bell Investment Company, L.P., a Delaware limited partnership

By:

SOUTH BRUNSWICK INVESTMENT COMPANY, LLC, a New Jersey limited liability company, a general partner of South Brunswick Investors, L.P., a Delaware limited partnership

By:

COMCOURT INVESTMENT CORPORATION, a Pennsylvania corporation, the sole general partner of ComCourt Investors, L.P., a Delaware limited partnership

By:

GATEWAY SHANNON DEVELOPMENT CORPORATION, a Pennsylvania corporation, the sole general partners of 6385 Flank Drive, L.P.

By:

ROYALE INVESTMENTS, INC., a Minnesota corporation

By:

Crown Advisors, Inc. and all of its shareholders hereby join in this Agreement for the purpose of confirming its obligation to execute and deliver the documents required to effectuate the provisions of Section 6 and consummate the Transactions.

CROWN ADVISORS, INC.

By:

SHAREHOLDERS:

Vernon R. Beck

John Parsinen

AMENDMENT TO
FORMATION/CONTRIBUTION AGREEMENT

THIS AMENDMENT TO FORMATION CONTRIBUTION AGREEMENT ("Amendment") dated as of the 13th day of October, 1997 by and among ROYALE INVESTMENTS, INC., a Minnesota corporation ("Royale"), H/SIC CORPORATION, a Delaware corporation ("H/SIC"), STRATEGIC FACILITY INVESTORS, INC., a Delaware corporation ("Strategic"), the sole general partner of BLUE BELL INVESTMENT COMPANY, L.P., a Delaware limited partnership ("Blue Bell"), SOUTH BRUNSWICK INVESTMENT COMPANY, LLC, a New Jersey limited liability company ("SBIC"), a general partner of SOUTH BRUNSWICK INVESTORS, L.P., a Delaware limited partnership ("South Brunswick"), COMCOURT INVESTMENT CORPORATION, a Pennsylvania corporation ("ComCourt Corporation"), the sole general partner of COMCOURT INVESTORS, L.P., a Delaware limited partnership ("Comcourt"), and GATEWAY SHANNON DEVELOPMENT CORPORATION, a Pennsylvania corporation ("Gateway"), the sole general partner of 6385 FLANK DRIVE, L.P., a Pennsylvania limited partnership ("Flank Drive") (collectively, the "Parties").

BACKGROUND

The Parties are party to a certain Formation/Contribution Agreement dated as of September 7, 1997 (the "Formation Agreement"), pursuant to which the Parties agreed to pursue a series of transactions, the general structure of which is set forth in the Formation Agreement. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Formation Agreement.

Section 26 and Exhibit "Lease Guarantee Agreement" of the Formation Agreement together outline terms calling for the funding of certain escrows by the partners of Comcourt and South Brunswick (the "Partners") at Closing. The Parties have agreed to modify these provisions in a manner intended to facilitate the overall transaction.

The Parties also desire to amend the definition of H/SIC Assets, Section 9(d)(9) and Exhibit "UPREIT Agreement Terms" of the Formation Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree to the following modifications of the terms of the Formation Agreement:

1. On the Closing Date, the Partners shall, in lieu of two escrows designed to subsidize the lease income of Comcourt and South Brunswick (the "Receiving Partnerships"), fund, or cause to be funded, a single rent escrow account (the "Rent Escrow"). The Rent Escrow shall be in the amount set forth in the Exhibit "Lease Income" attached hereto and shall be deposited in an account to be held and disbursed by Bankers Trust Company pursuant to the provisions of that certain Credit Agreement to be executed by Royale, FCO, L.P., FCO Holdings, Inc., Blue Bell, Comcourt, South Brunswick, and Flank Drive in connection with the H/SIC Properties Indebtedness (the "Credit Agreement"). The Rent Escrow shall be delivered in its entirety to the Receiving Partnerships pursuant to the schedule set forth in Exhibit "Lease Income", and the partners shall not be entitled to the return of any portion of the Rent Escrow.

2. On the Closing Date, the Partnerships (and not the Partners) shall, in lieu of two escrows designed to finance certain tenant improvement obligations of the Receiving Partnerships, fund a single tenant improvement escrow account (the "Tenants Costs"). The TI Escrow shall be funded in the amount set forth in the Exhibit "TI Escrow" attached hereto and shall be deposited in an account to be held and disbursed by Bankers Trust Company pursuant to the provisions of the Credit Agreement. The TI Escrow shall be delivered in its entirety to the Receiving Partnerships pursuant to the schedule set forth in Exhibit "Tenants Costs", and the Partners shall not be entitled to the return of any portion of the TI Escrow.

3. The definition of H/SIC Assets in the Formation Agreement is amended to read as follows:

> "H/SIC Assets" shall mean H/SIC's furniture, fixtures, equipment and proprietary assets.

4. Section 9(d)(9) of the Formation Agreement is hereby amended to read as follows:

> "(9) Except as otherwise provided in Section 7(f) and except to the extent the UPREIT Agreement may provide for a shorter holding period or for shorter holding periods, such Contributor acknowledges and agrees that (A) the Common Units to be issued at Closing shall not be exchangeable or exchanged for Royale Common Stock for a period of thirteen (13) months from and after the date of Closing, and (B) Preferred Units to be issued at Closing shall not be exchangeable or

exchanged for Royale Common Stock for a period of twenty-five (25) months from and after the Closing Date. Common Units and Preferred Units received by the Retained Partners at the Retained Interests Closing shall not be subject to any holding period and the Retained Partners shall have the right to exchange immediately for Royale Common Stock such Common Units and Preferred Units received at the Retained Interests Closing."

5. The paragraph captioned "Management Expenses" is hereby deleted from Exhibit "UPREIT Agreement Terms" of the Formation Agreement. The Parties agree that the Limited Partnership Agreement of FCO, L.P. to be executed at Closing satisfies the requirements of Exhibit "UPREIT Agreement Terms."

6. This Amendment may not be amended except by an instrument in writing signed by the parties to this Amendment.

7. This Amendment may be executed in several counterparts, each of which will be deemed an original and all of which shall constitute one and the same instrument and shall be governed in all respects by the laws of the Commonwealth of Pennsylvania.

8. As amended by this Amendment, the Formation Agreement shall remain in full force and effect.

9. This Amendment shall be binding upon, and shall be enforceable by and inure to the benefit of, the parties named herein and their respective successors.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

H/SIC CORPORATION, a Delaware corporation

By: _____

STRATEGIC FACILITY INVESTORS, INC., a Delaware limited partnership, the sole general partner of Blue Bell Investment Company, L.P., a Delaware limited partnership

By: _____

SOUTH BRUNSWICK INVESTMENT COMPANY, LLC, a New Jersey limited liability company, a general partner of South Brunswick Investors, L.P., a Delaware limited partnership

By: _____

(SIGNATURES CONTINUED ON NEXT PAGE)

COMCOURT INVESTMENT CORPORATION, a Pennsylvania corporation, the sole general partner of ComCourt Investors, L.P., a Delaware limited partnership

By: _____

GATEWAY SHANNON DEVELOPMENT CORPORATION, a Pennsylvania corporation, the sole general partners of 6385 Flank Drive, L.P.

By: _____

ROYALE INVESTMENTS, INC., a

Minnesota corporation

By: _____

Crown Advisors, Inc. and its shareholders join in this Amendment.

CROWN ADVISORS, INC.

By: _____

SHAREHOLDERS:

_____
Vernon R. Beck

_____
John D. Parsinen

<TABLE>
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Exhibit "TI Escrow"

Tenant	Square Footage	Tenant Improvements	Commissions	Capital Improvements	Total
<S>	<C>	<C>	<C>	<C>	<C>
429 Ridge Road					
Teleport Communications Group	87,550	291,805	103,723	30,000	425,528
Initial Lease - Existing Obligations					
Teleport Communications Group	26,425	0	359,450		359,450
First Option Space - already exercised					
Teleport Communication Group	28,410	1,136,400	335,790	70,000	1,542,190
Second Option Space - already exercised					
General Property Improvements				104,00	104,000
Total Ridge Road		1,428,205	798,963	204,000	2,431,168
Commerce Court					
Ernst & Young	17,499	197,091	98,617		295,708
Penn State/Geisinger	17,665	247,310	143,565		390,875
Groundwater Sciences	4,702	8,528	0		8,528
Penn State/Geisinger 1st Floor	7,763	33,500	15,053		48,553
Total Commerce Court		486,429	257,235	0	743,664
Conrail Building					
PEMA		51,161			51,161

Total Conrail	51,161	0	0	51,161
TOTAL	1,965,795	1,056,198	204,000	3,225,993

</TABLE>

<TABLE>
<CAPTION>

Schedule 5.6

Lease Income

	Oct-97	Nov-97	Dec-97	Jan-98	Total
<S>	<C>	<C>	<C>	<C>	<C>
429 Ridge Road					
TCG Option Payment Refund				92,333	92,333
Rent	24,222	41,715	41,715	41,715	149,368
Reimbursements	574	988	988	988	3,537
Total Income	24,796	42,703	42,703	135,036	245,238
Less Expense Reduction	(1,636)	(2,817)	(2,817)	(2,817)	(10,088)
Lease Income Reserve	23,160	39,886	39,886	132,218	235,150

Commerce Court	Oct-97	Nov-97	Dec-97	Thereafter	Total
Rent - E &Y	4,140				
Rent - Penn State	14,103				
Rent - Penn State - 1st Fl	5,785				
Rent - Vacant Space	321	553	553	10,695	
Total Income	34,349	553	553	10,695	46,150
Less Expense Reduction	0	0	0	0	0
Lease Income Reserve	34,349	553	553	10,695	46,150
Total Rent Reserve	57,509	40,439	40,439	142,913	281,300

</TABLE>

FCO, L.P.

LIMITED PARTNERSHIP AGREEMENT

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS PURSUANT TO A REGISTRATION OR EXEMPTION THEREFROM

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FCO, L.P.

LIMITED PARTNERSHIP AGREEMENT

The undersigned, being the sole general partner and the initial Limited Partners of FCO, L.P. (the "Partnership"), a limited partnership formed under the Delaware Revised Uniform Limited Partnership Act, do hereby enter into this Partnership Agreement this 14th day of October 1997.

R E C I T A L S:

A. The Partnership was formed pursuant to a Certificate of Limited Partnership filed on October 10, 1997 with the Secretary of State of the State of Delaware under the name "FCO, L.P."

B. The General Partner and the initial Limited Partners desire to set forth the understandings and agreements, including certain rights and obligations, among the Partners (as hereinafter defined) with respect to the Partnership.

- ---

ARTICLE I - INTERPRETIVE PROVISIONS

- ---

SECTION 1.1 Certain Definitions. The following terms have the definitions hereinafter indicated whenever used in this Agreement with initial capital letters:

Act: The Delaware Revised Uniform Limited Partnership Act, ss.ss. 17-101 to 171 -1111 of the Delaware Code Annotated. Title 6, as amended from time to time.

Additional Limited Partner/Preferred Limited Partner: A Person admitted to the Partnership as a Limited Partner or Preferred Limited Partner in accordance with Section 8.7 hereof and who is shown as such on the books and records of the Partnership.

Adjusted Capital Account: With respect to any Partner, such Partner's Capital Account maintained in accordance with Section 4.4 hereof, as of the end of the relevant Fiscal Year of the Partnership, after giving effect to the following adjustments:

(A) Credit to such Capital Account such Partner's share of Partnership Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(g)(1) and such Partner's share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.7042(i)(5).

(B) Debit to such Capital Account the items described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

The foregoing definition of "Adjusted Capital Account" is intended to comply with the provisions of Treasury Regulations Sections 1.704-1(b)(2)(ii) and 1.704-2 and shall he interpreted consistently therewith.

Adjusted Capital Account Deficit: With respect to any Partner, the deficit balance, if any, in that Partner's Adjusted Capital Account as of the end of the relevant Fiscal Year of the Partnership.

Affiliate: With respect to any referenced Person, (i) a member of such Person's immediate family; (ii) any Person who directly or indirectly owns, controls or holds the power to vote ten percent (10%) or more of the outstanding voting securities of the Person in question; (iii) any Person ten percent (10%) or more of whose outstanding securities are directly or indirectly owned, controlled, or held with power to vote by the Person in question; (iv) any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with the Person in question; (v) if the Person in question is a corporation, any executive officer or director of such Person or of any corporation directly or indirectly controlling such Person: and (vi) if the Person in question is a partnership, any general partner of the partnership or any limited partner owning or controlling ten percent (10%) or more of either the capital or profits interest in such partnership. As used herein, "control"

shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities. by contract. or otherwise.

Agreed Value: In the case of any (i) Contributed Property acquired pursuant to a Contribution Agreement, the value of such Contributed Property as set forth in or determined pursuant to such Contribution Agreement or, if no such value is set forth or determined for such Contributed Property, the portion of the consideration provided for under such Contribution Agreement allocable to such Contributed Property, as determined by the General Partner in its reasonable discretion, (ii) Contributed Property acquired other than pursuant to a Contribution Agreement, the fair market value of such property at the time of contribution, as determined by the General Partner using such method of valuation as it may adopt in its reasonable discretion and (iii) property distributed to a Partner by the Partnership. the Partnership's Book Value of such property at the time such property is distributed without taking into account, in the case of each of (i), (ii) and (iii)), the amount of any related indebtedness assumed by the Partnership (or the Partner in the case of clause (iii)) or to which the Contributed Property is taken subject.

Agreement: This Limited Partnership Agreement and all Exhibits attached hereto, as the same may be amended or restated and in effect from time to time.

Assignee: Any Person to whom one or more Partnership Units have been Transferred as permitted under this Agreement but who has not become a Substituted Limited Partner in accordance with the provisions hereof.

Bankruptcy: Either (i) a referenced Person's making an assignment for the benefit of creditors, (ii) the filing by a referenced Person of a voluntary petition in bankruptcy, (iii) a referenced Person's being adjudged insolvent or having entered against him an order for relief in any bankruptcy or insolvency proceeding, (iv) the filing by a referenced Person of an answer seeking any reorganization, composition, readjustment, liquidation, dissolution, or similar relief under any law or regulation, (v) the filing by a referenced Person of an answer or other pleading admitting or failing to contest the material allegations of a petition filed against him in any proceeding of reorganization, composition, readjustment, liquidation, dissolution, or for similar relief under any statute, law or regulation or (vi) a referenced Person's seeking, consenting to, or acquiescing in the appointment of a trustee, receiver or liquidator for all or substantially all of his property (or court appointment of such trustee, receiver or liquidator).

Book-Tax Disparity: With respect to any item of Contributed Property, or property the Book Value of which has been adjusted in accordance with Section 4.4(D), as of the date of determination, the difference between the Book Value of such property and the adjusted basis of such property for federal income tax purposes.

Book Value: With respect to any Contributed Property, the Agreed Value of such property reduced (but not below zero) by all Depreciation with respect to such property properly charged to the Partners' Capital Accounts and with respect to any other asset, the asset's adjusted basis for federal income tax purposes; provided, however, (a) the Book Value of all Partnership Assets shall be adjusted in the event of a revaluation of Partnership Assets in accordance with Section 4.4(D) hereof, N the Book Value of any Partnership Asset distributed to any Partner shall be the fair market value of such asset on the date of distribution as determined by the General Partner and (c) such Book Value shall be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

Capital Account: The account maintained by the Partnership for each Partner described in Section 4.4 hereof.

Capital Contribution: The total amount of cash or cash equivalents and the Agreed Value (reduced to take into account the amount of any related indebtedness assumed by the Partnership, or to which the Contributed Property is subject) of Contributed Property which a Partner contributes or is deemed to contribute to the Partnership pursuant to the terms of this Agreement.

Cash Payment: The payment to a Redeeming Party of a cash amount determined by multiplying (i) the number of Partnership Units tendered for redemption by such Redeeming Party pursuant to a validly proffered Redemption Notice by (ii) the Unit Value with respect to such Partnership Units.

Certificate: The Partnership's Certificate of Limited Partnership filed in the office of the Secretary of State of the State of Delaware, as amended from time to time.

Code: The Internal Revenue Code of 1986, as amended from time to time.

Consent: Either the written consent of a Person or the affirmative vote of such Person at a meeting duly called and held pursuant to this Agreement, as the case may be, to do the act or thing for which the consent or vote is required or solicited, or the act of granting such consent or vote, as the context may require.

Contributed Property: Each property or other asset (excluding cash and cash equivalents) contributed or deemed contributed to the Partnership (whether as a result of a Code Section 708 termination or otherwise). For the avoidance of doubt, the properties and assets held by the partnership constituting the Contributed Interests (as defined in the Formation Agreement) shall constitute Contributed Properties to the extent the Contributed Interests are acquired by the Partnership.

Contribution Agreements: Those certain agreements among one or more of the Initial Limited Partners (or Persons in which such Initial Limited Partners have direct or indirect interests) and the Partnership pursuant to which, inter alia, the Initial Limited Partners (or such Persons), directly or indirectly are contributing property to the Partnership on the date of this agreement in exchange for Partnership Units including, without limitation, the Formation Agreement.

Conversion Factor: The factor (carried out to four decimal places) applied for converting Partnership Units to REIT Shares, which shall initially be 1.0; provided, however, in the event that on or after the date of this Agreement the General Partner (i) declares or pays a dividend on its outstanding REIT Shares in REIT Shares or makes a distribution to all holders of its outstanding REIT Shares in REIT Shares, (H) subdivides its outstanding REIT Shares or (iii) combines its outstanding REIT Shares into a smaller number of REIT Shares, the Conversion Factor shall be adjusted by multiplying the Conversion Factor by a fraction, the numerator of which shall be the number of REIT Shares issued and outstanding on the record date (assuming for such purposes that such dividend, distribution, subdivision or combination has occurred as of such time), and the denominator of which shall be the actual number of REIT Shares (determined without the above assumption) issued and outstanding on the record date for such dividend, distribution, subdivision or combination; provided_further, in the event that the Partnership (a) declares or pays a distribution on the outstanding Partnership Units in Partnership Units or makes a distribution to all Partners in Partnership Units. (b) subdivides the outstanding Partnership Units or (c) combines the outstanding Partnership Units into a smaller number of Partnership Units, the Conversion Factor shall be adjusted by multiplying the Conversion Factor by a fraction, the numerator of which shall he the actual number of Partnership Units issued and outstanding on the record date (determined without giving effect to such dividend, distribution, subdivision or combination), and the denominator of which shall be the actual number of Partnership Units (determined after giving effect to such dividend. distribution, subdivision or combination) issued and outstanding on such record date. Any adjustment to the Conversion Factor shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event.

Depreciation: For each Fiscal Year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Book Value of an asset differs from its adjusted basis for fed-

eral income tax purposes at the beginning of such year or other period, Depreciation shall be adjusted as necessary so as to be an amount which bears the same ratio to such beginning Book Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such year or other period bears to the beginning adjusted tax basis; provided, however, that if the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period is zero, Depreciation for such year or other period shall be determined with reference to such beginning Book Value using any reasonable method approved by the General Partner.

Distributable Cash: with respect to any period, and without duplication:

(i) all cash receipts of the Partnership during such period from all sources,

(ii) less all cash disbursements of the Partnership during such period. including, without limitation, disbursements for operating expenses, taxes, debt service (including, without limitation. the payment of principal, premium and interest), redemption of Partnership Interests and capital expenditures;

(iii) less amounts added to reserves in the reasonable discretion of the General Partner, plus amounts withdrawn from reserves in the reasonable

discretion of the General Partner.

Distribution Period: The quarterly period commencing on January 1, April 1, July 1 and October 1 of each year and ending on and including the day preceding the next Distribution Period Commencement Date with respect to the Preferred Units.

ERISA: The Employee Retirement Income Security Act of 1976, as amended from time to time.

Fiscal Year: The calendar year or such other twelve (12) month period designated by the General Partner. Formation Agreement: The Formation/Contribution Agreement dated as of September 7, 1997 by and among Royale, H/SIC Corporation, Strategic Facility Investors, Inc., South Brunswick Investment Company, LLC. Comcourt Investment Corporation, Gateway Shannon Development Corporation, Crown Advisors, Inc., Vernon R. Beck and John Parsinen, as the same has heretofore been and hereafter may at any time be amended, modified and supplemented and in effect.

General Partner: Royale Investments, Inc., a Minnesota corporation ("Royale"), and its respective successor(s) who or which become Successor General Partner(s) in accordance with the terms of this Agreement.

General Partner Interest: A Partnership Interest held by the General Partner that is a general partner interest. A General Partner Interest may be expressed as a number of Partnership Units.

Involuntary Withdrawal: As to any (i) individual shall mean such individual's death, incapacity or adjudication of incompetence, (ii) corporation shall mean its dissolution or revocation of its charter (unless such revocation is promptly corrected upon notice thereof). (iii) partnership shall mean the dissolution and commencement of winding up of its affairs, (iv) trust shall mean the termination of the trust (but not the substitution of trustees). (v) estate shall mean the distribution by the fiduciary of the estate's complete interest in the Partnership and (vi) any Partner shall mean the Bankruptcy of such Partner.

IRS: The Internal Revenue Service, which administers the internal revenue laws of the United States.

Limited Partner: Those Persons listed as such on Exhibit 1 attached hereto and made a part hereof, as such Exhibit may be amended from time to time, including any Person who becomes a Substituted Limited Partner or an Additional Limited Partner in accordance with the terms of this Agreement; provided that such term shall not include the Preferred Limited Partners.

Limited Partner Interest: A Partnership Interest held by a Limited Partner that is a limited partner interest. A Limited Partner Interest may be expressed as a number of Partnership Units.

Nonrecourse Liability: A liability as defined in Treasury Regulations Section 1.704-2(b)(3).

Notice: A writing containing the information required by this Agreement to be communicated to a Person and delivered to such Person in accordance with Section 12.4; provided, however, that any written communication containing such information actually received by such Person shall constitute Notice for all purposes of this Agreement.

Partner Minimum Gain: The gain (regardless of character) which would be realized by the Partnership if property of the Partnership subject to a partner nonrecourse debt (as such term is defined in Treasury Regulation Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt on the relevant date. The adjusted basis of property subject to more than one partner nonrecourse debt shall be allocated in a manner consistent with the allocation of basis for purposes of determining Partnership Minimum Gain hereunder. Partner Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership property in accordance with Treasury Regulations Section 1.704-2(d)(3).

Partner Nonrecourse Deductions: With respect to any partner nonrecourse debt (as such term is defined in Treasury Regulation Section 1.704-2(b)(4)), the increase in Partner Minimum Gain during the tax year plus any increase in Partner Minimum Gain for a prior tax year which has not previously generated a Partner Nonrecourse Deduction hereunder. The determination of which Partnership items constitute Partner Nonrecourse Deductions shall be made in a manner consistent with the manner in which Partnership Nonrecourse Deductions are determined hereunder.

Partners: The General Partner, the Preferred Limited Partners and the Limited Partners as a group. The term "Partner" shall mean a General Partner, a Preferred Limited Partner or a Limited Partner. Such terms shall be deemed to include such other Persons who become Partners pursuant to the terms of this Agreement.

Partnership: The Delaware limited partnership referred to herein as FCO, L.P., as such partnership may from time to time be constituted.

Partnership Assets: At any particulartime, any assets or property (real or personal, tangible or intangible, cboate or inchoate, fixed or contingent) owned by the Partnership.

Partnership Interest or Interest: As to any Partner, such Partner's ownership interest in the Partnership and including such Partner's right to distributions under this Agreement and any other rights or benefits which such Partner has in the Partnership, together with any and all obligations of such Person to comply with the terms and provisions of this Agreement. A Partnership Interest may be expressed as a number of Partnership Units.

Partnership Minimum Gain: The aggregate gain (regardless of character) which would be realized by the Partnership if all of the property of the Partnership subject to nonrecourse debt (other than partner nonrecourse debt as such term is defined in Treasury Regulations Section 1.704-2(b)(4)) were disposed of in full satisfaction of such debt and for no other consideration on the relevant date. In the case of any Nonrecourse Liability of the Partnership which is not secured by a mortgage with respect to any specific property of the Partnership, any and all property of the Partnership to which the holder of said liability has recourse shall be treated as subject to such Nonrecourse Liability for purposes of the preceding sentence. Partnership Minimum Gain shall be computed separately for each Nonrecourse Liability of the Partnership. For this purpose, the adjusted basis of property subject to two or more liabilities of equal priority shall be allocated among such liabilities in proportion to the outstanding balance of such liabilities, and the adjusted basis of property subject to two or more liabilities of unequal priority shall be allocated to the liability of inferior priority only to the extent of the excess, if any, of the adjusted basis of such property over the outstanding balance of the liability of superior priority. Partnership Minimum Gain shall be computed hereunder using the Book Value, rather than the adjusted tax basis, of the Partnership property in accordance with Treasury Regulations Section 1.704-2(d)(3).

Partnership Nonrecourse Deductions: The amount of Partnership deductions equal to the increase, if any, in the amount of the aggregate Partnership Minimum Gain during the tax year (plus any increase in Partnership Minimum Gain for a prior tax year which has not previously generated a Partnership Nonrecourse Deduction) reduced (but not below zero) by the aggregate distributions made during the tax year of the proceeds of a Nonrecourse Liability of the Partnership which are attributable to an increase in Partnership Minimum Gain within the meaning of Treasury Regulations Section 1.704-2(d). The Partnership Nonrecourse Deductions for a Partnership tax year shall consist first of depreciation or cost recovery deductions with respect to each property of the Partnership giving rise to such increase in Partnership Minimum Gain on a pro rata

basis to the extent of each such increase, with any excess made up pro rata of all items of deduction.

Partnership Unit: A fractional, undivided share of the Partnership Interests of all Partners (other than the Preferred Limited Partners) issued pursuant to Section 4.1 hereof.

Percentage Interest: As to any Partner (other than the Preferred Limited Partners), the percentage in the Partnership, as determined by dividing the Partnership Units then owned by such Partner by the total number of Partnership Units then outstanding, as the same may be automatically adjusted from time to time to reflect the issuance and redemption of Partnership Units in accordance with this Agreement, without requiring the amendment of Exhibit 1 to reflect any such issuance or redemption.

Person: Any individual, partnership, corporation, trust or other entity.

Preferred Conversion: As described in Section 9.8 hereof.

Preferred Limited Partner: Those persons listed as such on Exhibit 1 attached hereto and made a part hereof, as such Exhibit may be amended from time to time, in their capacity as limited partners in the Partnership holding Preferred Units, including any person who becomes a Substituted Preferred Limited Partner or an Additional Preferred Limited Partner in accordance with the terms of this Agreement.

Preferred Unit: The Partnership Interest held by a Preferred Limited Partner.

Priority Return Amount: For each Distribution Period, an amount equal to 1.625% of that portion of the Capital Contribution of the Preferred Limited Partner allocable to each Preferred Unit.

Profits and Losses: For each Fiscal Year or other period, an amount equal to the Partnership's taxable income or loss (as the case may be) for such year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

a. Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be added to such taxable income or loss;

b. Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses pursuant to this definition, shall be subtracted from such taxable income or loss;

c. Gain or loss resulting from any disposition of Partnership property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Book Value of the property disposed of notwithstanding that the adjusted tax basis of such property differs from such Book Value;

d. In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year or other period, computed in accordance with the definition of "Depreciation" herein; and

e. In the event that any item of income, gain, loss or deduction that has been included in the initial computation of Profit or Loss is subject to the special allocation rules of Sections 5.2(C) and 5.2(D), Profit or Loss shall be recomputed without regard to such item.

Recourse Liabilities: The amount of liabilities owed by the Partnership (other than nonrecourse liabilities and liabilities to which Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i)).

Redeeming Party: A Limited Partner or Assignee (other than the General Partner) who tenders Partnership Units for redemption pursuant to a Redemption Notice.

Redemption Date: The date for redemption of Partnership Units as set forth in Section 9.2.

Redemption Notice: A Notice to the General Partner by a Redeeming Party, substantially in the form attached as Exhibit 2, pursuant to which the Redeeming Party requests the redemption of Partnership Units in accordance with Article IX.

Redemption Obligation: The obligation of the Partnership to redeem the Partnership Units as set forth in Section 9. 1 (A).

Redemption Period: The 45-day period immediately following the filing with the SEC by the General Partner of an annual report of the General Partner on Form 10-K or a quarterly report of the General Partner on Form 10-Q or such other period or periods as the General Partner may otherwise determine.

Redemption Price: As defined in Section 9.3 hereof.

Redemption Restriction: A restriction on the ability of the Partnership to redeem the Partnership Units as set forth in Section 9. 1 (A).

Registration Rights Agreement: A Registration Rights Agreement, substantially in the form of Exhibit 3 hereto, pursuant to which Royale will agree, among other things, to register under the Securities Act of 1933, as amended, REIT Shares issued in connection with Share Payments made under Article IX hereof.

REIT: A real estate investment trust, as defined in Code Section 856.

REIT Charter: The Amended and Restated Articles of Incorporation of Royale filed with the Department of State of the State of Minnesota on November 2, 1990, as the same may hereafter be amended or restated and in effect from time to time.

REIT Share: A share of common stock representing an ownership interest in the General Partner.

REIT Share Rights: Rights to acquire additional REIT Shares issued to all holders of REIT Shares, whether in the form of rights. options. warrants or convertible or exchangeable securities, to the extent the same have been issued without additional consideration after the initial acquisition of such REIT Shares.

Royale: Royale Investments, Inc., a Minnesota corporation.

SEC: The Securities and Exchange Commission.

Share Payment: The payment to a Redeeming Party of a number of REIT Shares determined by multiplying (i) the number of Partnership Units tendered for redemption by such Redeeming Party pursuant to a validly proffered Redemption Notice by (ii) the Conversion Factor. In the event the General Partner grants any REIT Share Rights on or after the date of this Agreement and prior to such payment, any Share Payment shall include for the Redeeming Party such Redeeming Party's ratable share of such REIT Share Rights other than REIT Share Rights which have expired.

Subsidiary: With respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests is owned, directly or indirectly, by such Person.

Substituted Limited Partner/Preferred Limited Partner: That Person or those Persons admitted to the Partnership as a substitute Limited Partner or substitute Preferred Limited Partner, in accordance with the provisions of this Agreement. A Substituted Limited Partner or Substituted Preferred Limited Partner, upon admission as such, shall succeed to the rights, privileges and liabilities of the predecessor in interest as a Limited Partner or Preferred Limited Partner.

Successor General Partner: Any Person who is admitted to the Partnership as substitute General Partner pursuant to this Agreement. A Successor General Partner, upon its admission as such, shall succeed to the rights, privileges and liabilities of its predecessor in interest as General Partner, in accordance with the provisions of the Act.

Tax Matters Partner: The General Partner or such other Partner who becomes Tax Matters Partner pursuant to the terms of this Agreement.

Terminating Capital Transaction: The sale or other disposition of all or substantially all of the Partnership Assets or a related series of transactions that, taken together, result in the sale or other disposition of all or substantially all of the Partnership Assets.

Transfer: With respect to any Partnership Unit shall mean a transaction in which a Partner assigns his Partnership Interest to another Person and includes any sale. assignment, gift. pledge, mortgage, exchange, hypothecation, encumbrance or other disposition by law or otherwise; provided, however, the redemption of any Partnership Interest pursuant to Article IX hereof shall not constitute a "transfer" for purposes hereof.

Treasury Regulations: The Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time.

Unit Value: With respect to any Partnership Unit, the average of the daily market price for a REIT Share for the ten (10) consecutive trading days immediately preceding the date of receipt of a Redemption Notice by the General Partner multiplied by the Conversion Factor. If the REIT Shares are traded on a securities exchange or the NASDAQ Small Cap Market or National Market System, the market price for each such trading day shall be the reported last sale price on such day or, if no sales take place on such day, the average of the closing bid and asked prices on such day. If the REIT Shares are not traded on a securities exchange or the NASDAQ Small Cap Market or National Market System, the market price for each such trading day shall be determined by the General Partner using any reasonable method of valuation. If a Share Payment would include any REIT Share Rights, the value of such REIT Share Rights shall be determined by the General Partner using any reasonable method of valuation, taking into account the Unit Value determined hereunder and the factors used to

make such determination and the value of such REIT Share Rights shall be included in the Unit Value.

SECTION 1.2 Rules of Construction. The following rules of construction shall apply to this Agreement:

(A) All section headings in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section.

(B) All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders, the singular shall include the plural, and vice versa, as the context may require.

(C) Each provision of this Agreement shall be considered severable from the rest, and if any provision of this Agreement or its application to any Person or circumstances shall be held invalid and contrary to any existing or future law or unenforceable to any extent, the remainder of this Agreement and the application of any other provision to any Person or circumstances shall not be affected thereby and shall be interpreted and enforced to the greatest extent permitted by law so as to give effect to the original intent of the parties hereto.

(D) Unless otherwise specifically and expressly limited in the context, any reference herein to a decision, determination, act, action, exercise of a right, power or privilege, or other procedure by the General Partner shall mean and refer to the decision, determination. act, action, exercise or other procedure by the General Partner in its sole and absolute discretion.

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ARTICLE II - CONTINUATION

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SECTION 2.1 Continuation. The Partners hereby continue the Partnership as a limited partnership under the Act. The General Partner shall take all action required by law to perfect and maintain the Partnership as a limited partnership under the Act and under the laws of all other . urisdictions in which the Partnership may elect to conduct business, including but not limited to the filing of amendments to the Certificate with the Delaware Secretary of State, and qualification of the Partnership as a foreign limited partnership in the jurisdictions in which such qualification shall be required, as determined by the General Partner. The General Partner shall also promptly register the Partnership under applicable assumed or fictitious name statutes or similar laws.

SECTION 2.2 Name. The name of the Partnership is FCO, L.P. The General Partner may adopt such assumed or fictitious names as it deems appropriate in connection with the qualifications and registrations referred to in Section 2. 1.

SECTION 2.3 Place of Business; Registered Agent. The principal office of the Partnership is located at 1209 Orange Street, Wilmington, Delaware 19801, which office may be changed to such other place as the General Partner may from time to time designate. The Partnership may establish offices for the Partnership within or without the State of Delaware as may be determined by the General Partner. The initial registered agent for the Partnership in the State of Delaware is The Corporation Trust Company, whose address is c/o Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

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ARTICLE III - BUSINESS PURPOSE

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SECTION 3.1 Business. The business of the Partnership shall be (i) conducting any business that may be lawfully conducted by a limited partnership pursuant to the Act including, without limitation, acquiring, owning, managing, developing, leasing, marketing, operating and, if and when appropriate, selling, commercial, industrial, office and net leased retail properties, (ii) entering into any partnership, joint venture or other relationship to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing, (iii) making loans, guarantees, indemnities or other financial accommodations and borrowing money and pledging its assets to secure the repayment thereof, (iv) to do any of the foregoing with respect to any Affiliate or Subsidiary and (v) doing anything necessary or incidental to the foregoing; provided, however, that

business of the Partnership shall be limited so as to permit the General Partner to elect and maintain its status as a REIT (unless the General Partner determines no longer to qualify as a REIT).

SECTION 3.2 Authorized Activities. In carrying out the purposes of the Partnership, but subject to all other provisions of this Agreement, the Partnership is authorized to engage in any kind of lawful activity, and perform and carry out contracts of any kind, necessary or advisable in connection with the accomplishment of the purposes and business of the Partnership described herein and for the protection and benefit of the Partnership; provided that the General Partner shall not be obligated to cause the Partnership to take, or refraining from taking, any action which, in the judgment of the General Partner, (i) could adversely affect the ability of the General Partner to qualify and continue to qualify as a REIT, (ii) could subject the General Partner to additional taxes under Code Section 857 or 4981 or (iii) could violate any law or regulation of any governmental body or agency having jurisdiction over the General Partner or its securities.

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ARTICLE IV - CAPITAL CONTRIBUTION

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SECTION 4.1 Capital Contributions.

(A) Upon the contribution to the Partnership of property in accordance with a Contribution Agreement. Partnership Units and/or Preferred Units shall be issued in accordance with. and as contemplated by, such Contribution Agreement, and the Persons receiving such Partnership Units and/or Preferred Units shall become Partners and shall be deemed to have made a Capital Contribution as set forth on Exhibit 1. The Capital Contribution made by each Partner contributing assets to the Partnership as of the date hereof under the Formation Agreement shall be determined by multiplying the number of Partnership Units issued to such Partner by $5.50 and by multiplying the number of Preferred Units issued to such Partner by $25.00. Exhibit I also sets forth the initial number of Partnership Units and Preferred Units owned by each Partner and the Percentage Interest of each Partner, which Percentage Interest shall be adjusted from time to time by the General Partner to reflect the issuance of additional Partnership Units, the redemption of Partnership Units, the conversion of Preferred Units into Partnership Units, additional Capital Contributions and similar events having an effect on a Partner's Percentage Interest. Except as set forth in Section 4.2 (regarding issuance of additional Partnership Units) or Section 7.6 (regarding withholding obligations), no Partner shall be required under any circumstances to contribute to the capital of the Partnership any amount beyond that sum required pursuant to this Article IV.

(B) Anything in the foregoing Section 4. 1 (A) or elsewhere in this Agreement notwithstanding, the Partnership Units held by the General Partner shall, at all times, be deemed to be General Partner units and shall constitute the General Partner Interest.

SECTION 4.2 Additional Partnership Interests.

(A) The Partnership may issue additional limited partnership interests in the form of Partnership Units or Preferred Units for any Partnership purpose at any time or from time to time. to any Partner or other Person (other than the General Partner, except in accordance with Section 4.2(B) below).

(B) The Partnership also may from time to time issue to the General Partner additional Partnership Units, Preferred Units or other Partnership Interests in such classes and having such designations, preferences and relative rights (including preferences and rights senior to the existing Limited Partner Interests) as shall be determined by the General Partner in accordance with the Act and governing law. Except as provided in Article IX, any such issuance of Partnership Units, Preferred Units or Partnership Interests to the General Partner shall be conditioned upon (i) the undertaking by the General Partner of a related issuance of its capital stock (with such shares having designations, rights and preferences such that the economic rights of the holders of such capital stock are substantially similar to the rights of the additional Partnership Interests issued to the General Partner) and the General Partner making a Capital Contribution (a) in an amount equal to the net proceeds raised in the issuance of such capital stock, in the event such capital stock is sold for cash or cash equivalents or (b) the property received in consideration for such capital stock, in the event such capital stock is issued in consideration for other property or (ii) the issuance by the General Partner of capital stock

under any stock option or bonus plan and the General Partner making a Capital Contribution in an amount equal to the exercise price of the option exercised pursuant to such stock option or other bonus plan.

(C) Except as contemplated by Article IX (regarding redemptions) or Section 4.2(B), the General Partner shall not issue any (i) additional RETT Shares, (ii) rights, options or warrants containing the right to subscribe for or purchase REIT Shares (other than options granted under the General Partner's Stock Option Plan for Non-Employee Directors or any stock option or similar plan for officers, directors and employees of the General Partner or any of its Affiliates) or (iii) securities convertible or exchangeable into REIT Shares (collectively, "Additional REIT Securities") other than to all holders of REIT Shares, pro rata, unless (x) the Partnership issues to the General Partner (i) Partnership Interests, (ii) rights, options or warrants containing the right to subscribe for or purchase Partnership Interests or (iii) securities convertible or exchangeable into Partnership Interests such that the General Partner receives an economic interest in the Partnership substantially similar to the economic interest in the General Partner represented by the Additional REIT Securities and (y) the General Partner contributes to the Partnership the net proceeds from, or the property received in consideration for, the issuance of the Additional REIT Securities and the exercise of any rights contained in any Additional REIT Securities.

SECTION 4.3 No Third Party Beneficiaries. The foregoing provisions of this Article IV are not intended to be for the benefit of any creditor of the Partnership or other Person to whom any debts, liabilities or obligations are owed by (or who otherwise has any claim against) the Partnership or any of the Partners and no such creditor or other Person shall obtain any right under

any such foregoing provision against the Partnership or any of the Partners by reason of any debt, liability or obligation (or otherwise).

SECTION 4.4 Capital Accounts.

(A) The Partnership shall establish and maintain a separate Capital Account for each Partner in accordance with Code Section 704 and Treasury Regulations Section 1.7041(b)(2)(iv). The Capital Account of each Partner shall be credited with:

(1) the amount of all Capital Contributions made to the Partnership by such Partner in accordance with this Agreement; plus

(2) all income and gain of the Partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V (including for purposes of this Section 4.4(A), income and gain exempt from tax);

and shall be debited with the sum of:

(1) all losses or deductions of the Partnership computed in accordance with this Section 4.4 and allocated to such Partner pursuant to Article V,

(2) such Partner's distributive share of expenditures of the Partnership described in Code Section 705(a)(2)(B). and

(3) all cash and the Agreed Value (reduced to take into account the amount of any related indebtedness assumed by the Partner, or to which the distributed property is subject) of any property actually distributed or deemed distributed by the Partnership to such Partner pursuant to the terms of this Agreement.

Any reference in any section or subsection of this Agreement to the Capital Account of a Partner shall be deemed to refer to such Capital Account as the same may be credited or debited from time to time as set forth above.

(B) For purposes of computing the amount of any item of income, gain, deduction or loss to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of each such item shall be the same as its determination, recognition and classification for federal income tax purposes, determined in accordance with Code Section 703(a), with the following adjustments:

(1) any income, gain or loss attributable to the taxable disposition of any Partnership Asset shall be determined by treating the adjusted basis of such property as of the date of such disposition as equal to the Book Value of such property as of such date;

(2) the computation of all items of income, gain, loss and deduction shall be made without regard to any Code Section 754 election that may be made by the Partnership, except

to the extent required in accordance with the provisions of Treasury Regulations Section 1.7041(b)(2)(iv)(m);

(3) in lieu of depreciation, amortization and other cost recovery deductions taken into account in computing Profit and Loss, there shall be taken into account Depreciation for such Fiscal Year;

(4) in the event the Book Value of any Partnership Asset is adjusted pursuant to Section 4.4(D) below, the amount of such adjustment shall be treated as gain or loss from the disposition of such asset.

(C) Any transferee of a Partnership Interest shall succeed to a pro rata portion of the transferor's Capital Account transferred unless such Transfer causes a Code Section 708 termination of the Partnership, in which case the Book Value of all Partnership Assets shall be adjusted immediately prior to the deemed distribution pursuant thereto as provided in Section 4.4(D).

(D) Consistent with the provisions of Treasury Regulations Section 1.7041 (b)(2)(iv)(f), (i) immediately prior to the acquisition of an additional Partnership Interest by any new or existing Partner in connection with the contribution of money or other property (other than a de minimis amount) to the Partnership, (ii) immediately prior to the distribution by the Partnership to a Partner of Partnership property (other than a de minimis amount) as consideration for a Partnership Interest and (iii) immediately prior to the liquidation of the Partnership as defined in Treasury Regulations Section 1.704-1(b)(2)(ii)(g), the Book Value of all Partnership Assets shall be revalued upward or downward to reflect the fair market value of each such Partnership Asset as determined by the General Partner using such reasonable method of valuation as it may adopt unless the General Partner shall determine that such revaluation is not necessary to maintain Capital Accounts in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv).

(E) The foregoing provisions of this Section 4.4 are intended to comply with Treasury Regulations Section 1.704- 1(b) and shall be interpreted and applied in a manner consistent with such Treasury Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Partners' Capital Accounts are computed hereunder in order to comply with such Treasury Regulations. the General Partner may make such modification if such modification is not likely to have a material effect on the amount or timing of any distribution to any Partner under the terms of this Agreement and the General Partner notifies the other Partners in writing of such modification prior to making such modification.

SECTION 4.5 Return of Capital Account; Interest. Except as otherwise specifically provided in this Agreement, (i) no Partner shall have any right to withdraw or reduce its Capital Contributions or Capital Account, or to demand and receive property other than cash from the Partnership in return for its Capital Contributions or Capital Account; (ii) no Partner shall have any priority over any other Partners as to the return of its Capital Contributions or Capital Account; (iii) any return of Capital Contributions or Capital Accounts to the Partners shall be solely from the Partnership Assets, and no Partner shall be personally liable for any such return; and (iv) no interest

shall be paid by the Partnership on Capital Contributions or on balances in Partners' Capital Accounts.

SECTION 4.6 Preemptive Rights. No Person shall have any preemptive or similar rights with respect to the issuance or sale of additional Partnership Units.

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ARTICLE V - ALLOCATIONS AND DISTRIBUTIONS

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SECTION 5.1 Limited Liability. For bookkeeping purposes, the Profits of the Partnership shall be shared, and the Losses of the Partnership shall be borne, by the Partners as provided in Section 5.2 below; provided, however, that except as expressly provided in this Agreement, neither any Limited Partner (in its capacity as a Limited Partner) nor any Preferred Limited Partner (in its capacity as a Preferred Limited Partner) shall be personally liable for losses, costs, expenses, liabilities or obligations of the Partnership in excess of its Capital Contribution required under Article IV hereof.

SECTION 5.2 Profits, Losses and Distributive Shares.

(A) Profits. After giving effect to the special allocations, if any, provided in Sec-tion 5.2(C) and (D). Profits in each Fiscal Year shall be allocated in the following order:

(1) First, to the General Partner until the cumulative Profits allocated to the General Partner under this Section 5.2(A)(1) equal the cumulative Losses allocated to such Partner under Section 5.2(B)(4);

(2) Second, to the Preferred Limited Partners in the proportion to the cumulative Losses allocated to such Partners under Section 5.2(B)(3) until the cumulative Profits allocated to such Partners under this Section 5.2(A)(2) equal the cumulative Losses allocated to such Partners under Section 5.2(B)(3);

(3) Third, to each Partner in proportion to the cumulative Losses allocated to such Partner under Section 5.2(B)(2), until the cumulative Profits allocated to such Partner under this Section 5.2(A)(3) equal the cumulative Losses allocated to such Partner under Section 5.2(B)(2);

(4) Fourth, to each Partner in proportion to the cumulative Losses allocated to such Partner under Section 5.2(B)(1), until the cumulative Profits allocated to such Partner under this Section 5.2(A)(4) equal the cumulative Losses allocated to such Partner under Section 5.2(B)(1);

(5) Fifth, to the Preferred Limited Partners in an amount equal to the excess of (x) the Priority Return Amount for each Distribution Period or portion thereof that ends on or prior

to the close of the Fiscal Year over (y) the cumulative Profits previously allocated under this Section 5.2(B)(5); and

(6) Then, the balance, if any, to the Partners (other than the Preferred Limited Partners, with respect to their Preferred Units) in accordance with their respective Percentage Interests.

The allocation of Profits to any Preferred Limited Partner under Section 5.2(A)(5) shall be appropriately prorated in the case of Preferred Units that are outstanding for less than all of any Distribution Period.

(B) Losses. After giving effect to the special allocations, if any, provided in Section 5.2(C) and (D), Losses in each Fiscal Year shall be allocated in the following order of priority:

(1) First, to the Partners (other than the Preferred Limited Partners, with respect to their Preferred Units), in accordance with their respective Percentage Interests, but not in excess of the positive Capital Account balance of any Partner prior to the allocation provided for in this Section 5.2(B)(1);

(2) Second, to the Partners (other than the Preferred Limited Partners, with respect to their Preferred Units) with positive Adjusted Capital Account balances prior to the allocation provided for in this Section 5.2(B)(2), in proportion to the amount of such balances until all such balances are reduced to zero;

(3) Third, to the Preferred Limited Partners in proportion to their Adjusted Capital Account balances until their Adjusted Capital Accounts are reduced to zero; and

(4) Thereafter, to the General Partner;

provided, however, that this Section 5.2(B) shall control, notwithstanding any reallocation or adjustment of taxable income. loss or other items by the Internal Revenue Service or any other taxing authority.

(C) Special Allocations. Except as otherwise provided in this Agreement, the following special allocations will be made in the following order and priority:

(1) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Article V, if there is a net decrease in Partnership Minimum Gain during any tax year or other period for which allocations are made, each Partner will be specially allocated items of Partnership income and gain for that tax year or other period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain during such tax year or other period determined in accordance with Treasury Regulations Section 1.7042(g). Allocations pursuant to the preceding sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(f)(6) and 1.704-2(j)(2).

This Section 5.2(C)(1) is intended to comply with the minimum gain chargeback requirements set forth in Treasury Regulations Section 1.704-2(f) and shall be interpreted consistently therewith, including the exceptions to the minimum gain chargeback requirement set forth in Treasury Regulations Section 1.704-2(f) and (3). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the minimum gain chargeback requirement as set forth in Treasury Regulations Section 1.704-2(f)(4), the General Partner may take steps reasonably necessary or appropriate in order to obtain such waiver.

(2) Partner Nonrecourse Debt Minimum Gain Chargeback. Notwithstanding any other provision of this Section (other than Section 5.2(C)(1) which shall be applied before this Section 5.2(C)(2)), if there is a net decrease in Partner Minimum Gain during any tax year or other period for which allocations are made, each Partner with a share of Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(5) shall be specially allocated items of Partnership income and gain for that period (and, if necessary, subsequent periods) in an amount equal to such Partner's share of the net decrease in Partner Minimum Gain determined in accordance with Treasury Regulations Section 1.704-2(i)(4). The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii). This Section 5.2(C)(2) is intended to comply with the minimum gain chargeback requirements of Treasury Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith, including the exceptions set forth in Treasury Regulations Section 1.704-2(f)(2) and (3) to the extent such exceptions apply to Treasury Regulations Sections 1.704-2(i)(4). If the General Partner concludes, after consultation with tax counsel, that the Partnership meets the requirements for a waiver of the Partner Minimum Gain chargeback requirement set forth in Treasury Regulation 1.704-2(f), but only to the extent such exception applies to Treasury Regulations Section 1.704-2(i)(4), the General Partner may take steps necessary or appropriate to obtain such waiver.

(3) Qualified Income Offset. A Partner who unexpectedly receives any adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6) will be specially allocated items of Partnership income and gain in an amount and manner sufficient to eliminate, to the extent required by Treasury Regulations 1.704-1(b)(2)(ii)(d), the Adjusted Capital Account Deficit of the Partner as quickly as possible, provided that an allocation pursuant to this Section 5.2(C)(3) shall be made if and only to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article V have been tentatively made as if this Section 5.2(C)(3) were not contained in this Agreement.

(4) Partnership Nonrecourse Deductions. Partnership Nonrecourse Deductions for any taxable year or other period for which allocations are made will be allocated among the Partners in proportion tot heir respective Partnership Interests in the Partnership.

(5) Partner Nonrecopurse Deductions. Notwithstanding anything tot he contrary in this Agreement, any Partner Nonrecourse Deductions for any taxable year or other period for which allocations are madewill be allocated to the Partner who bears the economic risk of loss with respect to the liability to which the Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i).

(6) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset under Code Section 734(b) or 743(b) is required to be taken into account in determining Capital Accounts under Treasury Regulations Section --1.704-1(b)(2)(iv)(m)(2) or (4), the amount of the adjustment to the Capital Accounts will be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustinent decreases the basis of the asset), and the gain or loss will be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted under Treasury Regulations Section 1.704-1(b)(2)(iv)(m).

(7) Depreciation Recapture. In the event there is any recapture of Depreciation or investment tax credit, the allocation thereof shall be made among the Partners in the same proportion as the deduction for such Depreciation or investment tax credit was allocated.

(8) Interest in Partnership. Notwithstanding any other provision of this Agreement, no allocation of Profit or Loss (or item of Profit or Loss) will be made to a Partner if the allocation would not have "economic effect" under Treasury Regulations Section 1.704-1(b)(2)(ii)(a) or otherwise would not be in accordance with the Partner's interest in the Partnership within the meaning of Treasury Regulations Section 1.704-1(b)(3).

(D) Curative Allocations. The allocations set forth in Section 5.2(C)(1) through (8) (the "Regulatory Allocations") are intended to comply with certain requirements of Treasury Regulations Sections 1.704-1(b) and 1.704-2. The Regulatory Allocations may not be consistent with the manner in which the Partners intend to divide Partnership distributions. Accordingly, the General Partner is authorized to further allocate Profits, Losses, and other items among the Partners in a reasonable manner so as to prevent the Regulatory Allocations from distorting the manner in which Partnership distributions would be divided among the Partners under Section 5.3, but for application of the Regulatory Allocations. In general, the reallocation will be accomplished by specially allocating other Profits, Losses and items of income, gain, loss and deduction, to the extent they exist, among the Partners so that the net amount of the Regulatory Allocations and the special allocations to each Partner is zero. The General Partner may accomplish this result in any reasonable manner that is consistent with Code Section 704 and the related Treasury Regulations.

(E) Tax Allocations.

(1) Except as otherwise provided in Section 5.2(E)(2), each item of income, gain, loss and deduction shall be allocated for federal income tax purposes in the same manner as each correlative item of income, gain, loss or deduction, is allocated for book purposes pursuant to the provisions of Section 5.2 hereof.

(2) Notwithstanding anything to the contrary in this Article V, in an attempt to eliminate any Book-Tax Disparity with respect to a Contributed Property, items of income, gain, loss or deduction with respect to each such property shall be allocated for federal income tax purposes among the Partners as follows:

(a) Depreciation, Amortization and Other Cost Recovery Iterns. In the case of each Contributed Property with a Book-Tax Disparity, any item of depreciation, amortization or other cost recovery allowance attributable to such property shall be allocated as follows: (x) first, to Partners (the "Non-Contributing Partners") other than the Partners who contributed such property to the Partnership (or are deemed to have contributed the property pursuant to Section 4.1(A) (the "Contributing Partners') in an amount up to the book allocation of such items made to the Non-Contributing Partners pursuant to Section 5.2 hereof, pro rata in proportion to the respective amount of book items so allocated to the Non-Contributing Partners pursuant to Section 5.2 hereof; and (y) any remaining depreciation, amortization or other cost recovery allowance to the Contributing Partners in proportion to their Percentage Interests. In no event shall the total depreciation, amortization or other cost recovery allowance allocated hereunder exceed the amount of the Partnership's depreciation, amortization or other cost recovery allowance with respect to such property.

(b) Gain or Loss on Disposition. In the event the Partnership sells or otherwise disposes of a Contributed Property with a Book-Tax Disparity, any gain or loss recognized by the Partnership in connection with such sale or other disposition shall be allocated among the Partners as follows: (x) first, any gain or loss shall be allocated to the Contributing Partners in proportion to their Percentage Interests to the extent required to eliminate any Book-Tax Disparity with respect to such property; and (y) any remaining gain or loss shall be allocated among the Partners in the same manner that the correlative items of book gain or loss are allocated among the Partners pursuant to Section 5.2 hereof.

(3) In the event the Book Value of a Partnership Asset (including a Contributed Property) is adjusted pursuant to Section 4.4(D) hereof, and such asset has not been deemed contributed to a new partnership, with the contributing partnership then being liquidated pursuant to Code Section 708 subsequent thereto, all items of income, gain. loss or deduction in respect of such property shall be allocated for federal income tax purposes among the Partners in the same manner as provided in Section 5.2(E)(2) hereof to take into account any variation between the fair market value of the property, as determined by the General Partner using such reasonable method of valuation as it may adopt, and the Book Value of such property, both determined as of the date of such adjustment.

(4) The General Partner shall have the authority to elect alternative methods to eliminate the Book-Tax Disparity with respect to one or more Contributed Properties, as permitted by Treasury Regulations Sections 1.704-3 and 1.704-3T, and such election shall be binding on all of the Partners.

(5) The Partners hereby intend that the allocation of tax items pursuant to this Section 5.2(E) comply with the requirements of Code Section 704(c) and Treasury Regulations Sections 1.704-3 and 1.704-3T.

(6) The allocation of items of income, gain, loss or deduction pursuant to this Section 5.2(E) are solely for federal, state and local income tax purposes, and the Capital Account balances of the Partners shall be adjusted solely for allocations of "book" items in respect of Partnership Assets pursuant to Section 5.2(A), (B), (C), (D) and (F) hereof

(F) Other Allocation Rules. The following rules will apply to the calculation and allocation of Profits, Losses and other items:

(1) Except as otherwise provided in the Agreement. all Profits, Losses and other items allocated to the Partners will be allocated among them in proportion to their Percentage Interests.

(2) For purposes of determining the Profits, Losses or any other item allocable to any period, Profits, Losses and other items will be determined on a daily, monthly or other basis, as determined by the General Partner using any permissible method under Code Section 706 and the related Treasury Regulations.

(3) Except as otherwise provided in this Agreement, all items of Partnership income, gain, loss and deduction, and other allocations not provided for in this Agreement will be divided among the Partners in the same proportions as they share Profits and Losses, provided that any credits shall be allocated in accordance with Treasury Regulations Section 1.704-1(b)(4)(ii).

(4) For purposes of Treasury Regulations Section 1.752-3(a), the Partners hereby agree that any nonrecourse liabilities of the Partnership in excess of the sum of (i) the Partnership Minimum Gain and (ii) the aggregate amount of taxable gain that would be allocated to the Partners under Section 704(c) (or in the same manner as Section 704(c) in connection with a revaluation of Partnership property) if the Partnership disposed of (in a taxable transaction) all Partnership property subject to one or more nonrecourse liabilities of the Partnership in full satisfaction of such liabilities and for no other consideration, shall be allocated among the Partners in accordance with their respective shares of Profits. The General Partner shall have discretion in any Fiscal Year to allocate such excess nonrecourse liabilities among the Partners (a) in a manner reasonably consistent with allocations (that have substantial economic effect) of some other significant item of Partnership income or gain or (b) in accordance with the manner in which it is reasonably expected that the deductions attributable to the excess nonrecourse liabilities will be allocated.

(G) Partner Acknowledgment. The Partners agree to be bound by the provisions of this Section 5.2 in reporting their shares of Partnership income, gain, loss, deduction and credit for income tax purposes.

(H) Regulatory Compliance. The foregoing provisions of this Section 5.2 relating to the allocation of Profits, Losses and other items for federal income tax purposes are intended to comply with Treasury Regulations Sections 1.704-1(b), 1.704-2, 1.704-3 and 1.704-3T and shall be interpreted and applied in a manner consistent with such Treasury Regulations.

SECTION 5.3 Distributions.

(A) Distributable Cash for each Fiscal Year shall be distributed in the following order of priority:

(1) First, the General Partner shall cause the Partnership to distribute to the holder of each Preferred Unit an amount in cash equal to the cumulative undistributed Priority Return Amount on December 31, March 31, June 30 and September 30 of each year, commencing on December 31, 1997 (or in the case of a Preferred Unit with an issuance date after December 31, 1997, on the first such distribution date following the applicable issuance date); provided that, if any such distribution date shall be a Saturday, Sunday or day on which banking institutions in the State of New York are authorized or obligated by law to close, or a day which is declared a national or New York State holiday (any of the foregoing, a "Non-business Day"), then such distribution shall be made on the next succeeding day which is not a Non-business Day. In any case in which a Preferred Unit is outstanding for less than all of one or more Distribution Periods, the amount distributable to the Preferred Limited Partner in respect of such Unit shall be appropriately adjusted on the basis of a 360 day year consisting of twelve 30 day months.

(2) Second, there shall be distributed with respect to each Limited Partner Unit (other than a Preferred Unit) an amount equal on a per Unit basis to the amount (other than in General Partner common shares) distributed by the General Partner on its common shares during the Fiscal Year (other than a liquidating distribution), except that the first distribution paid on Units issued on October 15, 1997 shall be pro rated to reflect the actual portion of the period for which the distribution is being paid during which such Units were outstanding. To the extent practicable, distributions under this paragraph shall be made at the same time as the dividend distributions on the General Partner's

common shares.

(3) Third, there shall be distributed to each holder of a Limited Partner Interest (other than the Preferred Limited Partners) an amount equal to (x) the product of the taxable income and gain allocated to such holder for the Fiscal Year under Section 5.2(E) and the maximum federal income tax rate plus 7% reduced by (y) the distributions received by such holder under Section 5.3(A)(2) during the Fiscal Year. To the extent practicable, distributions under this paragraph shall be made in sufficient time to permit Limited Partners to pay required installments of estimated tax and the final tax payment for the taxable year.

(B) After giving effect to Section 5.3(A), the General Partner shall have the authority to cause the Partnership to make other distributions from time to time as it determines, including without limitation, distributions that are sufficient to enable the General Partner to (i) maintain its status as a REIT, (ii) avoid the imposition of any tax under Code Section 857 and (iii) avoid the imposition of any excise tax under Code Section 4981.

(C) Distributions pursuant to Section 5.3(B) shall be made pro rata among the Partners of record on the Record Date established by the General Partner for the distribution, in accordance with their respective Percentage Interests, without regard to the length of time the record holder has been such.

(D) The General Partner shall use its reasonable efforts to make distributions to the Partners so as to preclude any distribution or portion thereof from being treated as part of a sale of property to the Partnership by a Partner under Section 707 of the Code or the Treasury Regulations thereunder; provided that the General Partner and the Partnership shall not have liability to a Limited Partner under any circumstances as a result of any distribution to a Partner being so treated.

SECTION 5.4 Distributions upon Liquidation. Notwithstanding any other provision hereof, proceeds of a Terminating Capital Transaction shall be distributed to the Partners in accordance with Section 10.2.

SECTION 5.5 Amounts Withheld. All amounts withheld pursuant to the Code or any provision of state or local tax law and Section 7.6 of this Agreement with respect to any allocation, payment or distribution to the General Partner, the Preferred Limited Partners, the Limited Partners or Assignees shall be treated as amounts distributed to such General Partner, the Preferred Limited Partners, the Limited Partners or Assignees, as applicable, pursuant to Section 5.3 of this Agreement.

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ARTICLE VI - PARTNERSHIP MANAGEMENT

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SECTION 6.1 Management and Control of Partnership Business.

(A) Except as otherwise expressly provided or limited by the provisions of this Agreement, the General Partner shall have full, exclusive and complete discretion to manage the business and affairs of the Partnership, to make all decisions affecting the business and affairs of the Partnership and to take all such action as it deems necessary or appropriate to accomplish the purposes of the Partnership as set forth herein. Except as set forth in this Agreement, the Limited Partners shall not have any authority, right, or power to bind the Partnership, or to manage. or to participate in the management of the business and affairs of the Partnership in any manner whatsoever. Such management shall in every respect be the full and complete responsibility of the General Partner alone as herein provided.

(B) In carrying out the purposes of the Partnership, the General Partner shall be authorized to take all actions it deems necessary and appropriate to carry on the business of the Partnership. The Limited Partners and the Preferred Limited Partners, by execution hereof, agree that the General Partner is authorized to execute, deliver and perform any agreement and/or transaction on behalf of the Partnership.

(C) The General Partner and its Affiliates may acquire Limited Partner Interests or Preferred Units from Limited Partners or Preferred Limited Partners who agree so to transfer Limited Partner Interests or Preferred Units from the Partnership in accordance with Section 4.2(A).

Any Limited Partner Interest or Preferred Unit acquired by the General Partner shall be converted into a General Partner Interest. Upon acquisition of any Limited Partner Interest or Preferred Unit by an Affiliate of the General Partner, such Affiliate shall have all the rights of a Limited Partner or Preferred Limited Partner, as the case may be.

SECTION 6.2 No Management by Limited partners; Limitation of Liability.

(A) Neither the Limited Partners, in their capacity as Limited Partners, nor the Preferred Limited Partners, in their capacity as Preferred Limited Partners, shall take part in the day-to-day management, operation or control of the business and affairs of the Partnership or have any right, power, or authority to act for or on behalf of or to bind the Partnership or transact any business in the name of the Partnership. Neither the Limited Partners nor the Preferred Limited Partners, in their capacity as Preferred Limited Partners, shall have any rights other than those specifically provided herein or granted by law where consistent with a valid provision hereof. Any approvals rendered or withheld by the Limited Partners or the Preferred Limited Partners pursuant to this Agreement shall be deemed as consultation with or advice to the General Partner in connection with the business of the Partnership and, in accordance with the Act, shall not be deemed as participation by the Limited Partners or the Preferred Limited Partners in the business of the Partnership and are not intended to create any inference that the Limited Partners or the Preferred Limited Partners should be classified as general partners under the Act.

(B) Neither any Limited Partner nor any Preferred Limited Partner shall have any liability under this Agreement except with respect to withholding under Section 7104, in connection with a violation of any provision of this Agreement by such Limited Partner or Preferred Limited Partner or as provided in the Act.

(C) The General Partner shall not take any action which would subject a Limited Partner (in its capacity as Limited Partner) or a Preferred Limited Partner (in its capacity as a Preferred Limited Partner) to liability as a general partner.

(D) No Partner shall take any action that would result in the Partnership being treated as an association taxable as a corporation, or as a corporation, for federal income tax purposes.

SECTION 6.3 Limitations on Partners.

(A) No Partner or Affiliate of a Partner shall have any authority to perform (i) any act in violation of any applicable law or regulation thereunder, (ii) any act prohibited by Section 6.2(C). or (iii) any act which is required to be Consented to or ratified pursuant to this Agreement without such Consent or ratification.

(B) No action shall be taken by a Partner if it would cause the Partnership to be treated as an association taxable as a corporation for federal income tax purposes or, without the consent of the General Partner, as a publicly-traded partnership within the meaning of Section 7.6 of the Code. A determination of whether such action will have the above described effect shall be

based upon a declaratory judgment or similar relief obtained from a court of competent jurisdiction, a favorable ruling from the IRS or the receipt of a written opinion of counsel.

SECTION 6.4 Business with Affiliates.

(A) The General Partner, in its discretion, may cause the Partnership to transact business with any Partner or its Affiliates for goods or services reasonably required in the conduct of the Partnership's business; provided that any such transaction shall be effected only on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons. The foregoing proviso shall not apply to transactions between the Partnership and its Subsidiaries. In addition, neither the General Partner nor any Affiliate of the General Partner may sell, transfer or otherwise convey any property to, or purchase any property from, the Partnership, except (i) on terms competitive with those that may be obtained in the marketplace from unaffiliated Persons or (ii) where the General Partner determines, in its sole judgment, that such sale, transfer or conveyance confers benefits on the General Partner or the Partnership in respect of matters of tax or corporate or financial structure; provided, in the case of this clause (ii), such sale, transfer. or conveyance is not being effected for the purpose of materially disadvantaging the Limited Partners.

(B) In furtherance of Section 6.4(A), the Partnership may lend or contribute to its Subsidiaries on terms and conditions established by the General Partner.

SECTION 6.5 Compensation; Reimbursement of Expenses. In consideration for

the General Partner's services to the Partnership in its capacity as General Partner, the Partnership shall pay on behalf of or reimburse to the General Partner all expenses of the General Partner incurred in connection with the management of the business and affairs of the Partnership, including all employee compensation of employees of the General Partner related to services performed for the Partnership and indemnity or other payments made pursuant to agreements entered into in furtherance of the Partnership's business. Except as otherwise set forth in this Agreement, the General Partner shall be fully and entirely reimbursed by the Partnership for any and all direct and indirect costs and expenses incurred in connection with the organization and continuation of the Partnership pursuant to this Agreement. In addition, the General Partner shall be reimbursed for all expenses incurred by the General Partner in connection with issuance of additional Partnership Interests.

SECTION 6.6 Liability for Acts and Omissions.

(A) The General Partner shall not be liable, responsible or accountable in damages or otherwise to the Partnership or any of the other Partners for any act or omission performed or omitted in good faith on behalf of the Partnership and in a manner reasonably believed to be (i) within the scope of the authority granted by this Agreement and (ii) in the best interests of the Partnership or the shareholders of the General Partner. In exercising its authority hereunder, the General Partner may, but shall not be under any obligation to, take into account the tax consequences to any Partner of any action it undertakes on behalf of the Partnership. Neither the General Partner nor the Partnership shall have any liability as a result of any income tax liability incurred by a Partner as a result of any action or inaction of the General Partner hereunder and, by their execution of

this Agreement, the Limited Partners and the Preferred Limited Partners acknowledge the foregoing.

(B) Unless otherwise prohibited hereunder, the General Partner shall be entitled to exercise any of the powers granted to it and perform any of the duties required of it under this Agreement directly or through any agent. The General Partner shall not be responsible for any misconduct or negligence on the part of any agent; provided that the General Partner selected or appointed such agent in good faith.

(C) The General Partner acknowledges that it owes fiduciary duties both to its shareholders and to the Limited Partners and the Preferred Limited Partners and it shall use its reasonable efforts to discharge such duties to each-, provided, however, that in the event of a conflict between the interests of the shareholders of the General Partner and the interests of the Limited Partners or the Preferred Limited Partners, the Limited Partners and the Preferred Limited Partners agree that the General Partner shall discharge its fiduciary duties to the Limited Partners and the Preferred Limited Partners by acting in the best interests of the General Partner's shareholders. Nothing contained in the preceding sentence shall be construed as entitling the General Partner to realize any profit or gain from any transaction between the General Partner and the Partnership (except in connection with a distribution in accordance with this Agreement), including from the lending of money by the General Partner to the Partnership or the contribution of property by the General Partner to the Partnership, it being understood that in any such transaction the General Partner shall be entitled to cost recovery only.

SECTION 6.7 Indemnification.

(A) The Partnership shall indemnify the General Partner and each director, officer and shareholder of the General Partner and each Person (including any Affiliate) designated as an agent by the General Partner in its reasonable discretion (each, an "Indemnified Party") to the fullest extent permitted under the Act (including any procedures set forth therein regarding advancement of expenses to such Indemnified Party) from and against any and all losses, claims, damages, liabilities, expenses (including reasonable attorneys' fees), judgments, fines, settlements and any other amounts arising out of or in connection with any claims, demands, actions, suits or proceedings (civil, criminal or administrative) relating to or resulting (directly or indirectly) from the operations of the Partnership, in which such Indemnified Party becomes involved, or reasonably believes it may become involved, as a result of the capacity referred to above.

(B) The Partnership shall have the authority to purchase and maintain such insurance policies on behalf of the Indemnified Parties as the General Partner shall determine, which policies may cover those liabilities the General Partner reasonably believes may be incurred by an Indemnified Party in connection with the operation of the business of the Partnership. The right to procure such insurance on behalf of the Indemnified Parties shall in no way mitigate or otherwise affect the right of any such Indemnified Party to indemnification pursuant to Section 6.7(A) hereof.

(C) The provisions of this Section 6.7 are for the benefit of the Indemnified Parties, their heirs, successors, assigns and administrators and shall not be deemed to create any rights in or benefit to any other Person.

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ARTICLE VII - ADMINISTRATIVE, FINANCIAL AND TAX MATTERS

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SECTION 7.1 Books and Records. The General Partner shall maintain at the office of the Partnership full and accurate books of the Partnership showing all receipts and expenditures, assets and liabilities, profits and losses, names and current addresses of Partners, and all other records necessary for recording the Partnership's business and affairs. Each Limited Partner and Preferred Limited Partner shall have, upon written demand and at such Limited Partner's or Preferred Limited Partner's expense, as the case may be, the right to receive true and complete information regarding Partnership matters to the extent required (and subject to the limitations) under Delaware law.

SECTION 7.2 Annual Audit and Accounting. The books and records of the Partnership shall be kept for financial and tax reporting purposes on the accrual basis of accounting in accordance with generally accepted accounting principles ("GAAP"). The accounts of the Partnership shall be audited annually by a nationally recognized accounting firm of independent public accountants selected by the General Partner (the "Independent Accountants").

SECTION 7.3 Partnership Funds. The General Partner shall have responsibility for the safekeeping and use of all funds and assets of the Partnership, whether or not in its direct or indirect possession or control. All funds of the Partnership not otherwise invested shall be deposited in one or more accounts maintained in such banking institutions as the General Partner shall determine, and withdrawals shall be made only in the regular course of Partnership business on such signatures as the General Partner may from time to time determine.

SECTION 7.4 Reports and Notices. The General Partner shall provide all Partners with the following reports no later than the dates indicated or as soon thereafter as circumstances permit:

(A) By March 31 of each year, IRS Form 1065 and Schedule K-1, or similar forms as may be required by the IRS, stating each Partner's allocable share of income, gain, loss, deduction or credit for the prior Fiscal Year;

(B) Within ninety (90) days after the end of each of the first three (3) fiscal quarters. as of the last day of the fiscal quarter, a report containing unaudited financial statements of the Partnership, or of the General Partner if such statements are prepared on a consolidated basis with the General Partner, and such other information as may be legally required or determined to be appropriate by the General Partner; and

(C) Within one hundred twenty (120) days after the end of each Fiscal Year, as of the close of the Fiscal Year, an annual report containing audited financial statements of the Partnership, or of the General Partner if such statements are prepared on a consolidated basis with the General Partner, presented in accordance with GAAP and certified by the Independent Accountants.

SECTION 7.5 Tax Matters.

(A) The General Partner shall be the Tax Matters Partner of the Partnership for federal income tax matters pursuant to Code Section 6231(a)(7)(A). The Tax Matters Partner is authorized and required to represent the Partnership (at the expense of the Partnership) in connection with all examinations of the affairs of the Partnership by any federal, state, or local tax authorities, including any resulting administrative and judicial proceedings, and to expend funds of the Partnership for professional services and costs associated therewith. The Tax Matters Partner shall deliver to the Limited Partners and Preferred Limited Partners within ten (10) business days of the receipt thereof a copy of any notice or other communication with respect to the Partnership received from the IRS (or other governmental tax authority), or any court, in each case with respect to any administrative or judicial proceeding involving the Partnership. The Partners agree to cooperate with each other in connection without the conduct of all proceedings pursuant to this Section 7.5(A).

(B) The Tax Matters Partner shall receive no compensation for its services in such capacity. If the Tax Matters Partner incurs any costs related to any tax

audit, declaration of any tax deficiency or any administrative proceeding or litigation involving any Partnership tax matter, such amount shall be an expense of the Partnership and the Tax Matters Partner shall be entitled to full reimbursement therefor.

(C) The General Partner shall cause to be prepared all federal, state and local income tax returns required of the Partnership at the Partnership's expense.

(D) Except as set forth herein, the General Partner shall determine whether to make (and, if necessary, revoke) any tax election available to the Partnership under the Code or any state tax law; provided, however, upon the request of any Partner, the General Partner shall make the election under code Section 754 and the Treasury Regulations promulgated thereunder. The Partnership shall elect to deduct expenses, if any, incurred by it in organizing the Partnership in accordance with the provisions of Code Section 709.

SECTION 7.6 Withholding. Each Partner hereby authorizes the Partnership to withhold from or pay to any taxing authority on behalf of such Partner any tax that the General Partner determines the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Partner. Any amount paid to any taxing authority which does not constitute a reduction in the amount otherwise distributable to such Partner shall be treated as a loan from the Partnership to such Partner, which loan shall

bear interest at the "prime rate" as published from time to time in The Wall Street Journal plus two (2) percentage points, and shall be repaid within ten (10) business days after request for repayment from the General Partner. The obligation to repay any such loan shall be secured by such Partner's Partnership Interest and each Partner hereby grants the Partnership a security interest in his Partnership Interest for the purposes set forth in this Section 7.6, this Section 7.6 being intended to serve as a security agreement for purposes of the Uniform Commercial Code with the General Partner having in respect hereof all of the remedies of a secured party under the Uniform Commercial Code. Each Partner agrees to take such reasonable actions as the General Partner may request to perfect and continue the perfection of the security interest granted hereby. In the event any Partner fails to repay any deemed loan pursuant to this Section 7.6 the Partnership shall be entitled to avail itself of any rights and remedies it may have. Furthermore, upon the expiration of ten (10) business days after demand for payment, the General Partner shall have the right, but not the obligation, to make the payment to the Partnership on behalf of the defaulting Partner and thereupon be subrogated to the rights of the Partnership with respect to such defaulting Partner.

ARTICLE VIII - TRANSFER OF PARTNERSHIP INTERESTS; ADMISSION OF PARTNERS

SECTION 8.1 Transfer by General Partner. The General Partner may not voluntarily withdraw or Transfer all or any portion of its General Partner Interest. Notwithstanding the foregoing, the General Partner may pledge its General Partner Interest in furtherance of the Partnership's business (including without limitation, in connection with a loan agreement under which the Partnership is a borrower) without the consent of any Partner.

SECTION 8.2 Obligations of a Prior General Partner. Upon an Involuntary Withdrawal of the General Partner and the subsequent Transfer of the General Partner's Interest, such General Partner shall (i) remain liable for all obligations and liabilities (other than Partnership liabilities payable solely from Partnership Assets) incurred by it as General Partner before the effective date of such event and (ii) pay all costs associated with the admission of its Successor General Partner. However, such General Partner shall be free of and held harmless by the Partnership against any obligation or liability incurred on account of the activities of the Partnership from and after the effective date of such event, except as provided in this Agreement.

SECTION 8.3 Successor General Partner. A successor to all of a General Partner's General Partner Interest who is proposed to be admitted to the Partnership as a Successor General Partner shall be admitted as the General Partner, effective upon the Transfer. Any such

transferee shall carry on the business of the Partnership without dissolution.

In addition, the following conditions must be satisfied:

(A) The Person shall have accepted and agreed to be bound by all the terms and provisions of this Agreement by executing a counterpart thereof and such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a General Partner; and

(B) An amendment to this Agreement evidencing the admission of such Person as a General Partner shall have been executed by all General Partners and an amendment to the Certificate shall have been filed for recordation as required by the Act.

(C) Any consent required under Section 10.1(A) shall have been obtained.

SECTION 8.4 Restrictions on Transfer and Withdrawal by Limited Partner.

(A) Subject to the provisions of Section 8.4(D), no Limited Partner or Preferred Limited Partner may Transfer all or any portion of its Partnership Interest without first obtaining the Consent of the General Partner, which Consent may be granted or withheld in the sole and absolute discretion of the General Partner. Any such purported transfer undertaken without such Consent shall be considered to be null and void ab initio and shall not be given effect.

(B) No Limited Partner or Preferred Limited Partner may withdraw from the Partnership other than as a result of a permitted Transfer (i.e., a Transfer consented to as contemplated by clause (A) above or clause (D) below or a Transfer pursuant to clause (C) below) of all of his Partnership Units pursuant to this Article VIII or pursuant to a redemption or exchange of all of his Partnership Units pursuant to Article IX. Upon the permitted Transfer or redemption of all of a Limited Partner's or Preferred Limited Partners Partnership Units, such Limited Partner or Preferred Limited Partner shall cease to be a Limited Partner or Preferred Limited Partner.

(C) Upon the Involuntary Withdrawal of any Limited Partner or Preferred Limited Partner (which shall under no circumstance cause the dissolution of the Partnership), the executor, administrator, trustee, guardian, receiver or conservator of such Limited Partner's or Preferred Limited Partners estate shall become a Substituted Limited Partner or Substituted Preferred Limited Partner upon compliance with the provisions of Section 8.5(A)(l)-(3).

(D) Subject to clause (E) below, a Limited Partner or Preferred Limited Partner may Transfer, with the Consent of the General Partner, all or a portion of his Partnership Units to (a) a parent or parents, spouse, natural or adopted descendant or brother or sister, or a trust created by such Limited Partner or Preferred Limited Partner for the benefit of such Limited Partner or Preferred Limited Partner and/or any such person(s), of which trust such Limited Partner or Preferred Limited Partner or any such person(s) is a trustee, (b) a corporation controlled by a Person or Persons named in (a) above, (c) if the Limited Partner or Preferred Limited Partner is an entity, its beneficial owners, or (d) a family limited partnership comprised of members of the family of a Limited Partner or a Preferred Limited Partner, and the General Partner shall grant its Consent to any

Transfer pursuant to this Section 8.4(D) unless such Transfer, in the reasonable judgment of the General Partner, would cause (or have the potential to cause) the General Partner to fail to qualify for taxation as a REIT, in which case the General Partner shall have the absolute right to refuse to permit such Transfer, and any purported Transfer in violation of this Section 8.4(D) shall be null and void ab initio.

(E) No Transfer of Limited Partnership Units or Preferred Units shall be made if such Transfer would (i) in the opinion of Partnership counsel, cause the Partnership to be terminated for federal income tax purposes or to be treated as an association taxable as a corporation (rather than a partnership) for federal income tax purposes; (h) be effected through an "established securities market" or a "secondary market (or the substantial equivalent thereof)" within the meaning of Code Section 7704 and the Treasury Regulations thereunder, (iii) in the opinion of Partnership counsel, violate the provisions of applicable securities laws; (iv) violate the terms of (or result in a default or acceleration under) any law, rule, regulation, agreement or commitment binding on the Partnership; (v) cause the Partnership to become, with respect to any employee benefit plan subject to Title I of ERISA, a "party-in-interest" (as defined in Section 3(14) of ERISA) or a "disqualified person" (as defined in Section 4975(e) of the Code), (vi) in the opinion of counsel to the Partnership, cause any portion of the underlying assets of the Partnership to constitute assets of any employee benefit plan pursuant to Department of Labor Regulations Section 2510.3-101; or (vii) result in a deemed distribution to any Partner attributable to a failure to meet the requirements of Treasury Regulations Section 1.752-2(d)(1), unless such Partner consents thereto.

(F) Prior to the consummation of any Transfer under this Section 8.4, the

transferor and/or the transferee shall deliver to the General Partner such opinions, certificates and other documents as the General Partner shall request in connection with such Transfer.

SECTION 8.5 Substituted Limited Partner.

(A) No transferee shall become a Substituted Limited Partner or Substituted Preferred Limited Partner in place of its assignor unless and until the following conditions have been satisfied:

(1) The assignor and transferee file a Notice or other evidence of Transfer and such other information reasonably required by the General Partner, including, without limitation, names, addresses and telephone numbers of the assignor and transferee;

(2) The transferee executes, adopts and acknowledges this Agreement, or a counterpart hereto, and such other documents as may be reasonably requested by the General Partner, including without limitation, all documents necessary to comply with applicable tax and/or securities rules and regulations; and

(3) The assignor or transferee pays all costs and fees incurred or charged by the Partnership to effect the Transfer and substitution.

(B) If a transferee of a Limited Partner or Preferred Limited Partner does not become a Substituted Limited Partner or Substituted Preferred Limited Partner pursuant to Section 8.5(A), such transferee shall be an Assignee and shall not have any rights to require any information on account of the Partnership's business, to inspect the Partnership's books or to vote or otherwise take part in the affairs of the Partnership (such Partnership Units being deemed to have been voted in the same proportion as all other Partnership Units held by Limited Partners or Preferred Limited Partners have been voted). Such Assignee shall be entitled, however, to all the rights of an assignee of a limited partnership interest under the Act. Any Assignee wishing to Transfer the Partnership Units acquired shall be subject to the restrictions set forth in this Article VIII.

SECTION 8.6 Timing and Effect of Transfers. Unless the General Partner agrees otherwise, Transfers under this Article VIII may only be made as of the first day of a fiscal quarter of the Partnership. Upon any Transfer of a Partnership Interest in accordance with this Article VIII or redemption of a Partnership Interest in accordance with Article IX, the Partnership shall allocate all items of Profit and Loss between the assignor Partner and the transferee Partner in accordance with Section 5.2(F)(2) hereof. The assignor Partner shall have the right to receive all distributions as to which the Record Date precedes the date of Transfer and the transferee Partner shall have the right to receive all distributions thereafter.

SECTION 8.7 Additional Limited Partners. Other than in accordance with the transactions specified in the Contribution Agreements, after the initial execution of this Agreement and the admission to the Partnership of the Initial Limited Partners, any Person making a Capital Contribution to the Partnership in accordance herewith shall be admitted as an Additional Limited Partner or Additional Preferred Limited Partner of the Partnership only (i) with the Consent of the General Partner and (ii) upon execution, adoption and acknowledgment of this Agreement, or a counterpart hereto, and such other documents as may be reasonably requested by the General Partner, including without limitation, the power of attorney required under Section 12.3. Upon satisfaction of the foregoing requirements, such Person shall be admitted as an Additional Limited Partner or Additional Preferred Limited Partner effective on the date upon which the name of such Person is recorded on the books of the Partnership.

SECTION 8.8 Amendment of Agreement and Certificate. Upon any admission of a Person as a Partner to the Partnership, the General Partner shall make any necessary amendment to this Agreement to reflect such admission and, if required by the Act, to cause to be filed an amendment to the Certificate.

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ARTICLE IX REDEMPTION AND CONVERSION

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SECTION 9.1 Right of Redemption

(A) Subject to compliance with (w) the terms and conditions of the REIT Charter,(x) all requirements under the Code applicable to real estate investment trusts, (y) the Minnesota Business Corporation Act or any other law as in effect from time to time and (z) any applicable rule or policy of any stock exchange or self-regulatory organization (a "Redemption Restriction"), beginning on September 1, 1998, during each Redemption Period each Redeeming Party shall have the right to require the Partnership to redeem all or a portion of the Partnership Units held by such Redeeming Party by providing the General Partner with a Redemption Notice. A Limited Partner may invoke its rights under this Article IX with respect to one or more Partnership Units or all of the Partnership Units held by such Limited Partner. Upon the General Partner's receipt of a Redemption Notice from a Redeeming Party, the Partnership shall be obligated (subject to the existence of any Redemption Restriction) to redeem the Partnership Units from such Redeeming Party (the "Redemption Obligation").

(B) Upon receipt of a Redemption Notice from a Redeeming Party, the General Partner shall either (i) cause the Partnership to redeem the Partnership Units tendered in the Redemption Notice, (ii) assume the Redemption Obligation, as set forth in Section 9.4, or (iii) provide written Notice to the Redeeming Party of each applicable Redemption Restriction.

SECTION 9.2 Timing of Redemption. The Redemption Obligation (or the obligation to provide Notice of an applicable Redemption Restriction, if one exists) shall mature on the date which is seven (7) business days after the receipt by the General Partner of a Redemption Notice from the Redeeming Party (the "Redemption Date").

SECTION 9.3 Redemption Price. On or before the Redemption Date, the Partnership (or the General Partner if it elects pursuant to Section 9.4) shall deliver to the Redeeming Party, in the sole and absolute discretion of the General Partner, either (i) a Share Payment or (ii) a Cash Payment; provided, however, that a Share Payment shall not be made, and a Cash Payment shall instead be made in all cases, if, in the sole discretion of the General Partner, the making of a Share Payment would result in a material risk of termination of the General Partner's status as a REIT under the Code. In order to enable the Partnership to effect a redemption by making a Share Payment pursuant to this Section 9.3, the General Partner in its sole and absolute discretion may issue to the Partnership the number of REIT Shares required to make such Share Payment in exchange for the issuance to the General Partner of Partnership Units equal in number to the quotient of the number of REIT Shares issued and the Conversion Factor.

SECTION 9.4 Assumption of Redemption Obligation. Upon receipt of a Redemption Notice, the General Partner, in its sole and absolute discretion, shall have the right to assume the Redemption Obligation of the Partnership. In such case, the General Partner shall be substituted for the Partnership for all purposes of this Article IX and, upon acquisition of the Partnership Units tendered by the Redeeming Party pursuant to the Redemption Notice shall be treated for all purposes of this Agreement as the owner of such Partnership Units. Such exchange transaction shall be treated for federal income tax purposes by the Partnership, the General Partner and the Redeeming Party as a sale by the Redeeming Party as seller to the General Partner as purchaser.

SECTION 9.5 Further Assurances; Certain Representations. Each party to this Agreement agrees to execute any documents deemed reasonably necessary by the General Partner to evidence the issuance of any Share Payment to a Redeeming Party. Each Limited Partner and Preferred Limited Partner, by executing this Agreement, shall be deemed to have represented to the General Partner and the Partnership that (i) its acquisition of its Partnership Interest is or will be made as a principal for its own account, for investment purposes only and not with a view to the resale or distribution of such Partnership Interest and (ii) if it shall receive REIT Shares pursuant to this Article IX other than pursuant to an effective registration statement under the Securities Act of 1933, as amended, that its acquisition of such REIT Shares is or will be made as a principal for its own account, for investment purposes only and not with a view to the resale or distribution of such REIT Shares and agrees that such REIT Shares may be bear a legend to the effect that such REIT Shares have not been so registered and may not be sold other than pursuant to such a registration statement or an exemption from the registration requirements of such Act.

SECTION 9.6 Effect of Redemption. Upon the satisfaction of the Redemption Obligation by the Partnership or the General Partner, as the case may be, the Redeeming Party shall have no further right to receive any Partnership distributions in respect of the Partnership Units so redeemed and shall be deemed to have represented to the Partnership and the General Partner that the Partnership Units tendered for redemption are not subject to any liens, claims or encumbrances.

SECTION 9.7 Registration Rights. In the event a Limited Partner receives REIT Shares in connection with a redemption of Partnership Units pursuant to

this Article IX, such Limited Partner shall be entitled to have such REIT Shares registered under the Securities Act of 1933, as amended, as provided in the Registration Rights Agreement.

SECTION 9.8 Conversion. (A) Each Preferred Limited Partner shall have the right, at any time or from time to time, to convert on or after October 1, 1999 some or all of its Preferred Units into Limited Partner Interests, effective upon January 1, April 1, July I or October I of any year, by providing the General Partner with a Conversion Notice not less than 30 days prior to the effective date of such conversion. Upon the effective date of any such conversion, the Preferred Units which are the subject of such conversion shall be converted, without necessity of any further action by the General Partner, into Units of Limited Partner Interest on the basis of 3.5714 Units of Limited Partner Interest for each Preferred Unit being converted plus an amount in cash equal to the accrued Priority Return Amount in respect of such Preferred Units. In any case in which the conversion into Limited Partner Interests under this Section would result in the issuance of a fractional Limited Partner Interest, the General Partner shall pay the converting Limited Partner cash in lieu of issuance of a fractional Limited Partner Interest, with the value of such fractional interest being determined by reference to the Unit Value applicable on the date of conversion.

(B) In any case in which there is an unpaid Priority Return Amount with respect to a Preferred Unit that is converted pursuant to paragraph (A) of this Section, the converting partner shall continue to have the right to distributions (and allocations) under Article V and Section 10.2 of this Agreement as if the converting partner continued to hold the converted Preferred Unit until the unpaid distributions (and related allocations) have been paid (or allocated).

SECTION 9.9 Redemption Restriction.

(A) The General Partner shall not take, or cause to be taken, any action which would cause a Redemption Restriction to exist or continue.

(B) The General Partner shall, at its cost and expense, take, or cause to be taken, all such actions that may be necessary or desirable to mitigate the existence or effect of any Redemption Restriction and to facilitate and make effective the rights of redemption and conversion provided in this Article IX.

SECTION 9.10 Special Event.

(A) Notwithstanding any provision of this Agreement to the contrary, upon the occurrence of a Special Event (whether before or after September 1, 1998), each Redeeming Party shall immediately have the unconditional right (irrespective of whether a Redemption Restriction exists or could thereby be created) to require the Partnership to redeem all or a portion of the Partnership Units held by such Redeeming Party by providing the General Partner with a Redemption Notice. A Limited Partner may invoke its rights under this Section 9. 10 with respect to one or more Partnership Units or all of the Partnership Units held by such Limited Partner. Any such redemption shall otherwise be governed by and effected and implemented pursuant to this Article IX as if no Redemption Restriction existed.

(B) Notwithstanding any provision of this Agreement to the contrary, upon the occurrence of a Special Event (whether before or after October 1, 1999), each Preferred Limited Partner shall have the right effective upon the happening of such Special Event, at any time or from time to time, to convert some or all of its Preferred Units into Limited Partner Interests by providing the General Partner with a Conversion Notice. Anv such conversion shall otherwise be governed by and effected and implemented pursuant to this Article IX.

(C) "Special Event" means the occurrence of any of the following:

(I) any person or group (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")) other than the Permitted Holders, directly or indirectly, makes an offer to purchase or commences a tender offer for REIT Shares such that, after acquiring all such REIT Shares offered to be acquired or tendered for, such person or group would then be the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of 20% or more of the total number of REIT Shares then issued and outstanding; or

(II) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than one or more Permitted Holders, is or becomes the beneficial owner (as defined in clause (C)(1) above, except that for purposes of this clause (II) such person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indi-

rectly, of more than 20% of the total voting power represented by all the REIT Shares then outstanding; or

(III) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Royale (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of Royale was approved by a vote of 66 2/3 % of the directors of Royale then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of Royale then in office; or

(IV) the merger or consolidation of Royale with or into another Person or the merger or consolidation of another Person with or into Royale, or the sale of all or substantially all the assets of Royale to another Person (other than a Person that is controlled by the Permitted Holders in the aggregate), and, in the case of any such merger or consolidation, the securities of Royale that are outstanding immediately prior to such transaction and which represent 100% of the aggregate voting power of the REIT Shares are changed into or exchanged for cash, securities or property.

(D) "Permitted Holders" means Jay H. Shidler, Clay W. Hamlin III, Westbrook Real Estate Fund I, L.P. and Westbrook Real Estate Co. Investment Partnership I, L.P. and any corporation, partnership, trust, estate or other legal entity controlled by any of the foregoing Persons (or jointly controlled by Messrs. Shidler and Hamlin).

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ARTICLE X - DISSOLUTION AND LIQUIDATION

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SECTION 10.1 Term and Dissolution. The Partnership commenced as of October 10, 1997, and shall continue until October 31, 2096, at which time the Partnership shall dissolve or until dissolution occurs prior to that date for any one of the following reasons:

(A) An Involuntary Withdrawal or a voluntary withdrawal, even though in violation of this Agreement, of the General Partner unless, within ninety (90) days after such event of withdrawal of a majority of the Limited Partners remaining agree in writing to the continuation of the Partnership and to the appointment of a Successor General Partner;

(B) Entry of a decree of judicial dissolution of the Partnership under the Act; or

(C) The sale, exchange or other disposition of all or substantially all of the Partnership Assets; or

(D) The affirmative vote of the holders of not less than two-thirds of the Limited Partner Interests (for this purpose Preferred Units shall be treated as if they have been converted on the date of such vote into Limited Partner Interests pursuant to Section 9.8 and the Preferred Limited Partners holding such Preferred Units shall be treated as Limited Partners).

SECTION 10.2 Liquidation of Partnership Assets.

(A) Subject to Section 10. 2(E), in the event of dissolution pursuant to Section 10.1, the Partnership shall continue solely for purposes of winding up the affairs of, achieving a final termination of, and satisfaction of the creditors of, the Partnership. The General Partner (or, if there is no General Partner remaining, any Person elected by a majority in interest of the Limited Partners (the "Liquidator")) shall be responsible for oversight of the winding up and dissolution of the Partnership. The Liquidator shall obtain a full accounting of the assets and liabilities of the Partnership and such Partnership Assets shall be liquidated (including, at the discretion of the Liquidator, in exchange, in whole or in part, for REIT Shares) as promptly as the Liquidator is able to do so without any undue loss in value, with the proceeds therefrom applied and distributed in the following order:

(1) First, to creditors, including partners who are creditors, in satisfaction of liabilities of the Partnership, other than liabilities for distributions to Partners and former Partners;

(2) Second, to the Preferred Limited Partners in amounts equal to any

unpaid Priority Return Amounts;

(3) Third, to Partners and former Partners in satisfaction of liabilities for distributions; and

(4) The balance, if any, to the Partners in accordance with their positive Capital Accounts after giving effect to all contributions, distributions, and allocations for all periods.

(B) In accordance with Section 10.2(A), the Liquidator shall proceed without any unnecessary delay to sell and otherwise liquidate the Partnership Assets; provided, however, that if the Liquidator shall determine that an immediate sale of part or all of the Partnership Assets would cause undue loss to the Partners, the Liquidator may defer the liquidation except (i) to the extent provided by the Act or (ii) as may be necessary to satisfy the debts and liabilities of the Partnership to Persons other than the Partners.

(C) If, in the sole and absolute discretion of the Liquidator, there are Partnership Assets that the Liquidator will not be able to liquidate, or if the liquidation of such assets would result in undue loss to the Partners, the Liquidator may distribute such Partnership Assets to the Partners in-kind, in lieu of cash, as tenants-in-common in accordance with the provisions of Section 10.2(A). The foregoing notwithstanding, such in-kind distributions shall only be made if in the Liquidator's good faith judgment that is in the best interest of the Partners.

(D) Upon the complete liquidation and distribution of the Partnership Assets, the Partners shall cease to be Partners of the Partnership, and the Liquidator shall execute, acknowledge and cause to be filed all certificates and notices required by law to terminate the Partnership. Upon the dissolution of the Partnership pursuant to Section 10.1, the Liquidator shall cause to be prepared, and shall furnish to each Partner, a statement setting forth the assets and liabilities of the Partnership. Promptly following the complete liquidation and distribution of the Partnership Assets, the Liquidator shall furnish to each Partner a statement showing the manner in which the Partnership Assets were liquidated and distributed.

(E) Notwithstanding the foregoing provisions of this Section 10.2, in the event that the Partnership shall dissolve as a result of the expiration of the term provided for herein or as a result of the occurrence of an event of the type described in Section 10.1(B) or (C), then each Limited Partner shall be deemed to have delivered a Redemption Notice on the date of such dissolution. In connection with each such Redemption Notice, the General Partner shall have the option of either (i) complying with the redemption procedures contained in Article IX or (ii) at the request of any Limited Partner, delivering to such Limited Partner, Partnership property approximately equal in value (after taking into account the liabilities hereto referred to) the amount otherwise distributable to such Partner under Section 10.4(A)(4) hereof upon the assumption by such Limited Partner of such Limited Partner's proportionate share of the Partnership's liabilities and payment by such Limited Partner (or the Partnership) of any excess (or deficiency) of the value of the property so delivered over the amount otherwise distributable to such Partner under Section 10.4(A)(4). In lieu of requiring such Limited Partner to assume its proportionate share of Partnership liabilities, the General Partner may deliver to such Limited Partner unencumbered Partnership property approximately equal in value to the amount otherwise distributable to such Partner under Section 10.4(A)(4).

SECTION 10.3 Effect of Treasury Regulations.

(A) In the event the Partnership is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g), distributions shall be made pursuant to this Article X to the General Partner, the Limited Partners, the Preferred Limited Partners who have positive Capital Accounts in compliance with Treasury Regulations Section 1.704-1(b)(2)(ii)(b)(2). If any Partner has a deficit balance in its Capital Account (after giving effect to all contributions (without regard to this Section 10.3(A)), distributions and allocations), such Partner shall have no obligation to make any contribution to the capital of the Partnership. Any deficit restoration obligation pursuant to the provisions hereof shall be for the benefit of creditors of the Partnership or any other Person to whom any debts, liabilities, or obligations are owed by (or who otherwise has any claim against) the Partnership or the general partner, in its capacity as General Partner of the Partnership.

(B) In the event the Partnership is "liquidated" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(g) but there has been no dissolution of the Partnership under Section 10.1. I hereof, then the Partnership Assets shall not be liquidated, the Partnership's liabilities shall not be paid or discharged and the Partnership's affairs shall not be wound up. In the event of such a liquidation there shall be deemed to have been a distribution of Partnership Assets in kind

to the Partners in accordance with their respective Capital Accounts followed by a recontribution of the Partnership Assets by the Partners also in accordance with their respective Capital Accounts.

SECTION 10.4 Time for Winding-Up. Anything in this Article X notwithstanding, a reasonable time shall be allowed for the orderly winding-up of the business and affairs of the Partnership and the liquidation of the Partnership Assets in order to minimize any potential for losses as a result of such process. During the period of winding-up, this Agreement shall remain in full force and effect and shall govern the rights and relationships of the Partners inter se.

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ARTICLE XI - AMENDMENTS AND MEETINGS

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SECTION 11.1 Amendment Procedure.

(A) Amendments to this Agreement may be proposed by the General Partner. An amendment proposed at any time when the General Partner holds less than 90% of all Partnership Units will be adopted and effective only if it receives the Consent of the holders of a majority of the Partnership Units and Preferred Units, voting separately, not then held by the General Partner and an amendment proposed at any time when the General Partner holds 90% or more of all Partnership Units and Preferred Units may be made by the General Partner without the Consent of any Limited Partner or Preferred Limited Partner; provided, however, no amendment shall be adopted if it would (i) convert a Limited Partner's Partnership Interest or Preferred Limited Partner's Preferred Units into a general partner interest, (ii) increase the liability of a Limited Partner or a Preferred Limited Partner under this Agreement, (iii) except as otherwise permitted in this Agreement, alter the amount or the Partner's rights to distributions set forth in Article V or X, or the allocations set forth in Article IV, (iv) alter or modify any aspect of the Partners' rights with respect to redemption of Partnership Units or conversion of Preferred Units, (v) cause the early termination of the Partnership (other than pursuant to the terms hereof) or (vi) amend this Section 11.1(A), in each case without the Consent of each Partner adversely affected thereby. In connection with any proposed amendment of this Agreement requiring Consent, the General Partner shall either call a meeting to solicit the vote of the Partners or seek the written vote of the Partners to such amendment. In the case of a request for a written vote, the General Partner shall be authorized to impose such reasonable time limitations for response, but in no event less than ten (10) days, with the failure to respond being deemed a vote consistent with the vote of the General Partner.

(B) Notwithstanding the foregoing, amendments may be made to this Agreement by the General Partner, without the Consent of any Limited Partner or Preferred Limited Partner, to (i) add to the representations, duties or obligations of the General Partner or surrender any right or power granted to the General Partner herein, (ii) cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision herein or make any other provisions with respect to matters or questions arising hereunder which will not be inconsistent with any other provision hereof; (iii) reflect the admission, substitution, termination or withdrawal of

Partners in accordance with this Agreement; or (iv) satisfy any requirements, conditions or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law. The General Partner shall reasonably promptly notify the Limited Partners and Preferred Limited Partners whenever it exercises its authority pursuant to this Section 11.1(B).

(C) Within ten (10) days of the making of any proposal to amend this Agreement, the General Partner shall give all Partners Notice of such proposal (along with the text of the proposed amendment and a statement of its purposes).

SECTION 11.2 Meetings and Voting.

(A) Meetings of Partners may be called by the General Partner. The General Partner shall give all Partners Notice of the purpose of such proposed meeting not less than seven (7) days nor more than thirty (30) days prior to the date of the meeting. Meetings shall be held at a reasonable time and place selected by the General Partner. Whenever the vote or Consent of Partners is permitted or

required hereunder, such vote or Consent shall be requested by the General Partner and may be given by the Partners in the same manner as set forth for a vote with respect to an amendment to this Agreement in Section 11.1(A).

(B) Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written consent setting forth the action to be taken is signed by the Partners owning Percentage Interests required to vote in favor of such action, which consent may be evidenced in one or more instruments (for this purpose Preferred Units and Preferred Limited Partners shall be treated as provided in Section 10.1(D) in the case of a vote pursuant to such Section). Consents need not be solicited from any other Partner if the written consent of a sufficient number of Partners has been obtained to take the action for which such solicitation was required.

(C) Each Limited Partner and each Preferred Limited Partner may authorize any Person or Persons, including without limitation the General Partner, to act for him by proxy on all matters on which a Limited Partner or a Preferred Limited Partner may participate. Every proxy (i) must be signed by the Limited Partner or his attomey-in-fact, (ii) shall expire eleven (11) months from the date thereof unless the proxy provides otherwise and (iii) shall be revocable at the discretion of the Limited Partner or Preferred Limited Partner granting such proxy.

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ARTICLE XII - MISCELLANEOUS PROVISIONS

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SECTION 12.1 Title to Property. All property owned by the Partnership, whether real or personal, tangible or intangible. shall be deemed to be owned by the Partnership as an entity, and no Partner, individually, shall have any ownership of such property. The Partnership

may hold any of its assets in its own name or, in the name of its nominee, which nominee may be one or more individuals, corporations, partnerships, trusts or other entities.

SECTION 12.2 Other Activities of Limited Partners and Preferred Limited Partners. Except as expressly provided otherwise in this Agreement or in any other agreement entered into by a Limited Partner or a Preferred Limited Partner or any Affiliate of a Limited Partner or a Preferred Limited Partner and the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner, any Limited Partner or Preferred Limited Partner or any Affiliate of any Limited Partner or Preferred Limited Partner may engage in, or possess an interest in, other business ventures of every nature and description, independently or with others, including, without limitation, real estate business ventures, whether or not such other enterprises shall be in competition with any activities of the Partnership, the General Partner or any Subsidiary of the Partnership or the General Partner; and neither the Partnership, the General Partner, any such Subsidiary nor the other Partners shall have any right by virtue of this Agreement in and to such independent ventures or to the income or profits derived therefrom.

SECTION 12.3 Power of Attorney.

(A) Each Partner hereby irrevocably appoints and empowers the General Partner (which term shall include the Liquidator, in the event of a liquidation, for purposes of this Section 12.3) and each of their authorized officers and attorneys-in-fact with full power of substitution as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead to:

(1) make, execute, acknowledge, publish and file in the appropriate public offices (a) any duly approved amendments to the Certificate pursuant to the Act and to the laws of any state in which such documents are required to be filed; (b) any certificates, instruments or documents as may be required by, or may be appropriate under, the laws of any state or other jurisdiction in which the Partnership is doing or intends to do business; (c) any other instrument which may be required to be filed by the Partnership under the laws of any state or by any governmental agency, or which the General Partner deems advisable to file; (d) any documents which may be required to effect the continuation of the Partnership, the admission, withdrawal or substitution of any Partner pursuant to Article VIII, dissolution and termination of the Partnership pursuant to Article X, or the surrender of any rights or the assumption of any additional responsibilities by the General Partner; (e) any document which may be required to effect an amendment to this Agreement to correct any mistake, omission or inconsistency, or to cure any ambiguity herein, to the extent such amendment is permitted by Section 11.1(B); and (f) all instruments (including this Agreement and amendments and restatements hereof) relating to the determination of the

rights, preferences and privileges of any class or series of Partnership Units issued pursuant to Section 4.2(B) of this Agreement; and

(2) sign, execute, swear to and acknowledge all voting ballots, consents, approvals, waivers, certificates and other instruments appropriate or necessary. in the sole discretion of the General Partner, to make, evidence, give, confirm or ratify any vote, consent, approval,

agreement or other action which is made or given by the Partners hereunder or is consistent with the terms of this Agreement and appropriate or necessary, in the sole discretion of the General Partner, to effectuate the terms or intent of this Agreement.

(B) Nothing herein contained shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XI or as may be otherwise expressly provided for in this Agreement.

(C) The foregoing grant of authority (i) is a special power of attorney, coupled with an interest, and it shall survive the Involuntary Withdrawal of any Partner and shall extend to such Partner's heirs, successors, assigns and personal representatives; (ii) may be exercised by the General Partner for each and every Partner acting as attorney-in-fact for each and every Partner; and (iii) shall survive the Transfer by a Limited Partner of all or any portion of its Interest and shall be fully binding upon such transferee; except that the power of attorney shall survive such assignment with respect to the assignor Limited Partner for the sole purpose of enabling the General Partner to execute, acknowledge and file any instrument necessary to effect the admission of the transferee as a Substitute Limited Partner. Each Partner hereby agrees to be bound by any representations made by the General Partner, acting in good faith pursuant to such power of attorney. Each Partner shall execute and deliver to the General Partner, within fifteen (15) days after receipt of the General Partner's request therefor, such further designations, powers of attorney and other instruments as the General Partner deems necessary to effectuate this Agreement and the purposes of the Partnership.

SECTION 12.4 Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier, or any courier guaranteeing overnight delivery, (i) if to a Limited Partner or a Preferred Limited Partner, at the most current address given by such Limited Partner or Preferred Limited Partner to the General Partner by means of a notice given in accordance with the provisions of this Section 12.4, which address initially is the address contained in the records of the General Partner, or (ii) if to the General Partner, Royale Investments, Inc., 3430 List Place, Minneapolis, MN 55416-4547 Attn: Chairman.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if hand delivered, five business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; or when receipt is acknowledged, if telecopied.

SECTION 12.5 Further Assurances. The parties agree to execute and deliver all such documents, provide all such information and take or refrain from taking any action as may be necessary or desirable to achieve the purposes of this Agreement and the Partnership.

SECTION 12.6 Titles and Captions. All article or section titles or captions in this Agreement are solely for convenience and shall not be deemed to be part of this Agreement or otherwise define, limit or extend the scope or intent of any provision hereof.

SECTION 12.7 Applicable Law. This Agreement, and the application or interpretation thereof, shall be governed exclusively by its terms and by the law of the State of Delaware, without regard to its principles of conflicts of laws.

SECTION 12.8 Binding Agreement. This Agreement shall be binding upon the parties hereto, their heirs, executors, personal representatives, successors and assigns.

SECTION 12.9 Waiver of Partition. Each of the parties hereto irrevocably waives during the term of the Partnership any right that it may have to maintain any action for partition with respect to any property of the Partnership.

SECTION 12.10 Counterparts and Effectiveness. This Agreement may be executed in several counterparts, which shall be treated as originals for all purposes, and all so executed shall constitute one agreement, binding on all of

the parties hereto, notwithstanding that all the parties are not signatory to the original or the same counterpart. Any such counterpart shall be admissible into evidence as an original hereof against each Person who executed it. The execution of this Agreement and delivery thereof by facsimile shall be sufficient for all purposes, and shall be binding upon any party who so executes.

SECTION 12.11 Survival of Representations. All representations and warranties herein shall survive the dissolution and final liquidation of the Partnership.

SECTION 12.12 Entire Agreement. This Agreement (and all Exhibits hereto) contains the entire understanding among the parties hereto and supersedes all prior written or oral agreements among them respecting the within subject matter, unless otherwise provided herein. There are no representations, agreements, arrangements or understandings, oral or written, among the Partners hereto relating to the subject matter of this Agreement which are not fully expressed herein and in said Exhibits.

SECTION 12.13 Temporary Allocation. With respect to the period from inception of the Partnership through December 31, 2000, in lieu of the allocation provided by Section 5.2(A)(6), the portion of Profits resulting from Partnership operations for each fiscal year shall be allocated (x) 19.8% to the General Partner and (y) 80.2% to all Partners (including the General Partner, but other than the Preferred Limited Partners) in accordance with their Percentage Interests. Profits from Partnership operations for a Fiscal Year shall mean the portion of Partnership Profits in excess of the amounts allocated pursuant to Sections 5.2(C) and (D) and 5.2(A)(1) through (5) of this Agreement, but shall not include Profits that arise from sales or dispositions of Partnership Assets, except in the ordinary course of business. The foregoing allocation of Profits shall be considered to occur pursuant to Section 5.2(A) of this Agreement.

SECTION 12.14 Authorization and Consent. The General Partner, each Limited Partner and each Preferred Limited Partner hereby authorizes the General Partner, in the name and on behalf of the Partnership, to execute, deliver and perform the Senior Secured Credit Agreement dated as of September 30, 1997 ("Credit Agreement") between Royale Investments, Inc. ("Royale") the Partnership, FCO Holdings, Inc., Blue Bell Investment Company, L.P., South Brunswick In-

vestors, L.P. Comcourt Investors, L.P. and 6385 Flank Drive, L.P., as Loan parties and Bankers Trust Company, as Banker and each of Security Documents (as defined in the Credit Agreement) to which it is to be a party or by which it is to be bound and to execute and deliver in the name and on behalf of the Partnership such instruments, agreements and documents and to take or refrain from taking all such action as it in its sole discretion shall deem necessary, desirable or advisable in connection with the foregoing and in connection with the Formation/Contribution Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto as of the day and year first above written.

General Partner: ROYALE INVESTMENTS, INC., as sole General Partner of the Partnership

By: ----------

LIMITED PARTNERS:

SHIDLER EQUITIES, L.P.

By: SHIDLER EQUITIES CORP.

By: ----------
Name:
Title:

LBCW LIMITED PARTNERSHIP

By:

Clay W. Hamlin III, General Partner

- ---
Robert L. Denton

- ---
John E. de B. Blockey, Trustee of
the John E. de B. Blockey
Living Trust dated 9/12/88

- ---
Henry D. Bullock

- ---
Frederick K. Ito

- ---
Jay H. Shidler

- ---
Clay W. Hamlin III

- ---
James K. Davis

TIGER SOUTH BRUNSWICK, L.L.C.

By:

Name:
Title:

WESTBROOK REAL ESTATE FUND T, L.P.

By: WESTBROOK REAL ESTATE
PARTNERS MANAGEMENT T, L.L.C.

By:

Name:
Title:

WESTBROOK REAL ESTATE
CO. INVESTMENT PARTNERSHIP T, L.P.

By: WESTBROOK REAL ESTATE
PARTNERS MANAGEMENT I, L.L.C.

By:

Name:
Title:

CHLB PARTNERSHIP

By:

Name: Clay W. Hamlin III, General Partner

LGR INVESTMENT FUND, LTD.

By:

Name:

- ---
Denise J. Liszewski

- ---
Samuel Tang

- ---
David P. Hartsfield

- ---
Laurence J. Taff

- ---
Kimberly F. Aquino

Exhibit 1

<TABLE>
<CAPTION>

Schedule Of Partners

	No. of Units	Percentage Interest	Preferred partnership Units
<S>	<C>	<C>	<C>
General Partner			
Royale Investments, Inc.	600,000	20.6946%	
Limited Partners and Preferred Limited Partners			
Jay H. Shidler	2,600	0.0897%	126,079
Shidler Equities, L.P.	582,103	20.0773%	457,826
Clay W. Hamlin, III	5,235	0.1805%	115,334
LBCW Limited Partnership	875,284	30.1894%	663,808
CHLB Partnership	63,243	2.1813%	41,741
Robert L. Denton	129,549	4.4683%	85,502
James K. Davis	15,368	0.5300%	10,142
John E. deB. Blockey. Trustee of the John E. de B. Blockey Living Trust dated 9/12/88	89,549	3.0886%	59,102
Henry D. Bullock	34,718	1.1975%	22,914
Frederick R. Ito	17,359	0.5987%	11,457
LGR investment Fund, Ltd.	80,030	2.7603%	52,820
Tiger South Brunswick, L.L.C.	2,875	0.0992%	1,898
Westbrook Real Estate Fund I, L.P.	336,121	11.5931%	221,840
Westbrook Real Estate Co.	33,299	1.1485%	21,977

Investment Partnership I, L.P.			
Denise J. Liszewski	10,227	0.3527%	6,750
Samuel Tang	6,818	0.2352%	4,500
David P. Hartsfield	9,091	0.3136%	6,000
Lawrence J. Taff	`4,091	0.1411%	2,700
Kimberly F. Acquino	1,750	0.0604%	1,155
	2,899,310	100.0000%	1,913,545

</TABLE>

FCO, L.P.

EXHIBIT 2

TO

LIMITED PARTNERSHIP AGREEMENT

Form of Redemption or Conversion Notice

Exhibit 2

Redemption Conversion Notice

The undersigned hereby irrevocably (i) elects to exercise its [redemption] [conversion] rights contained in ARTICLE IX of the Limited Partnership Agreement of First Commercial, L.P. (the "Partnership Agreement") with respect to an aggregate of _____ [Partnership Units] [Preferred Units], (ii) surrenders such [Partnership Units] [Preferred Units] and all right, title and interest therein and (iii) directs that the [REIT shares (or applicable cash amount if so determined by the General Partner in accordance with the Partnership Agreement)] [Units of Limited Partner Interest] deliverable upon [redemption] [conversion] of such [Partnership Units] [Preferred Units] be delivered to the address specified below. Terms used above which are defined in the Partnership Agreement are used herein are defined therein.

Dated:

Name of Limited Partner or Preferred Limited Partner:

Social Security or Federal Employer ID Number:

(Signature of Limited Partner or Preferred Limited Partner)

(Street Address)

(City) (State)(Zip Code)

Signature Guaranteed by:

EXHIBIT 3

TO

LIMITED PARTNERSHIP AGREEMENT

Form of Registration Rights Agreement

REGISTRATION RIGHTS AGREEMENT

Dated as of October 1, 1997

of

ROYALE INVESTMENTS, INC.

for the benefit of

HOLDERS OF LIMITED PARTNERSHIP UNITS AND PREFERRED UNITS

of

FCO, L.P.

and

HOLDERS OF COMMON STOCK

of

ROYALE INVESTMENTS, INC.

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agmement") is made and entered into as of October 1, 1997 by Royale Investments, Inc., a Minnesota corporation (the "Company"), for the benefit of (w) the persons who own limited partnership units ("Partnership Units") and/or preferred units ("Preferred Units"), whether owned as of the date hereof or hereafter acquired, of FCO, L.P., a limited partnership formed under the Delaware Revised Uniform Limited Partnership Act (the "Partnership"), (x) Vernon Beck, Robert L. Denton, Clay W. Hamlin III, John Parsinen and Jay H. Shidler, (y) persons issued shares of Common Stock of the Company ("Common Stock") pursuant to the Contribution Agreement (as defined below), and (z) the respective successors. assigns, transferees and estates of the persons identified in clauses (w), (x) and (y) (herein referred to collectively as the "Holders" and individually as a "Holder"). The Partnership Units and Preferred Units are herein sometimes collectively called the "Units."

WHEREAS, on the date hereof certain Holden have become the owner of Units in connection with the contributions (the "Contributions") of certain general and limited partnership interests and other assets to the Partnership pursuant to the Formation/Contribution Agreement dated as of September 7, 1997 by and among the Company, H/SIC Corporation, Strategic Facility Investors, Inc., South Brunswick Investment Company, LLC, Comcourt investment Corporation and Gateway Shannon Development Corporation, as the same may at any time be amended, modified and supplemented and in effect (the "Contribution Agreement");

WHEREAS, pursuant to the Partnership Agreement the Holders of Preferred Units have the right to convert them into Partnership Units;

WHEREAS, on the date hereof, the Company has become the sole general partner of the Partnership;

WHEREAS, on the date hereof. certain Holders have become the owner of Common Stock pursuant to the Contribution Agreement in consideration of assets transferred to the Company;

WHEREAS, on the date hereof, the Common Stock is publicly held and traded and the Company is an issuer which is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended from time to time (the "Exchange Act");

WHEREAS, in connection with the foregoing, the Company has agreed, subject to the terms, conditions and limitations set forth in this Agreement, to provide the Holders with certain registration rights in respect of shares of Common Stock either (x) issued pursuant to the Contribution Agreement or (y) upon redemption of Partnership Units as and to the extent set forth in that certain Limited Partnership Agreement of the Partnership dated October 14, 1997 among the sole general and initial limited parties party thereto, as the same may be amended. modified or supplemented from time to time and in effect (the "Partnership Agreement").

NOW, THEREFORE, the Company and the Partnership for the benefit of the Holders each agrees as follows:

Section 1. Definitions.

As used in this Agreement, the following capitalized defined terms shall have the following meanings:

Commission: The Securities and Exchange Commission.

Common Stock: Shares of common stock, $.01 par value, of the Company.

Contribution Agreement: As set forth in the preamble.

Contributions: As set forth in the preamble.

Exchange Act: As set forth in the preamble.

Holder or Holders: As set forth in the preamble.

Holders Entitled to Registration Rights: As set forth in Section 2(b).

Majority Holders: At any time, Holders of Registrable Securities, Preferred Units then convertible into Units and Units then redeemable for Registrable Securities who, if all such Preferred Units were converted and all such Units were so redeemed, would then hold a majority of the Registrable Securities.

Minimum Registrable Amount: At any date of determination, Registrable Securities having an aggregate fair market value of at least $3 million.

NASD: The National Association of Securities Dealers, Inc.

Partnership: As set forth in the preamble.

Partnership Agreement: As set forth in the preamble.

Person: Any individual, partnership, corporation, trust or other legal entity.

Preferred Units: As set forth in the Partnership Agreement.

Prospectus: A prospectus included in a Registration Statement, including any preliminary prospectus, and any such prospectus as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement, and by all other amendments and supplements to such prospectus, including post-effective amendments, and in each case including all material incorporated by reference therein.

Registrable Securities: The Shares, excluding (i) Shares as to which a Registration Statement shall have become effective under the Securities Act pursuant to Section 2, 3 or Section 4 of this Agreement and which shall have been disposed of under such Registration Statement, (ii) Shares sold or otherwise distributed pursuant to Rule 144 under the Securities Act and (iii) Shares as to which registration under the Securities Act is not required to permit the sale thereof to the public.

Sale Period: The 45-day period immediately following the filing with the Commission by the Company of an annual report of the Company on Form 10-K or a quarterly report of the Company on Form 10-Q or such other period as the Company may determine.

Securities Act: The Securities Act of 1933, as amended from time to time.

Shares: The shares of Common Stock issued to Holders of Units upon redemption or exchange of their Units pursuant to the Partnership Agreement Or to Holders pursuant to the Contribution Agreement.

Shelf Registration Statement: shall mean a "shelf" registration statement of the Company and any other entity required to be a registrant with respect to such shelf registration statement pursuant to the requirements of the Securities Act which covers all of the Registrable Securities then issued and outstanding or which may thereafter be issued in redemption or exchange of any Units (including, without limitation, Units issuable upon conversion of Preferred Units) on an appropriate form under Rule 415 under the Securities Act, Or any similar rule that may be adopted by the Commission, and all amendments and

supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all materials incorporated by reference therein.

Units: Limited partnership interests in the Partnership issued to Holders in connection with the Contributions.

Section 2. Shelf Registration Under the Securities Act.

(a) Filing of Shelf Registration Statement. Within ten months following the date hereof, the Company shall cause to be filed a Shelf Registration Statement providing for the sale by the Holders of all of the Registrable Securities in accordance with the terms hereof and will use its reasonable best efforts to cause such Shelf Registration Statement to be declared effective by the SEC as soon as reasonably practicable. The Company agrees to use its reasonable best efforts to keep the Shelf Registration Statement continuously effective under the Securities Act until such time as the aggregate number of Registrable Securities outstanding (computed for this purpose as if all outstanding Preferred Units have been converted into Units and all thereafter outstanding Units have been redeemed or exchanged for Common Stock) is less than 5% of the aggregate number of Registrable Securities outstanding on the date hereof (after giving effect to the Contributions, including, without limitation, in respect of Retained Interests (as defined in the Contribution Agreement), and further agrees to supplement or amend the Shelf Registration Statement, if and as required by the rules, regulations or instructions applicable to the registration form used by the Company for such Shelf Registration Statement or by the Securities Act or by any other rules and regulations thereunder for Shelf Registration. Each Holder who sells Shares as part of the Shelf Registration shall be deemed to have agreed to all of the terms and conditions of this Agreement and to have agreed to perform any an all obligations of a Holder hereunder.

(b) Inclusion in Shelf Registration Statement. Not later than 30 days prior to filing the Shelf Registration Statement with the Commission, the Company shall notify each Holder (including any Person who is then entitled to become a Holder pursuant to the Partnership Agreement by reason of owning Units or Preferred Units, including, without limitation, Persons holding Retained Interests) ("Holders Entitled to Registration Rights") of its intention to make such filing and request advice from each such Holder as to whether such Holder desires to have Registrable Securities held by it or which it is entitled to receive not later than the last day of the first Sale Period occurring in whole or in part after the date of such notice included in

the Shelf Registration Statement at such time. Any such Holder who does not provide the information reasonably requested by the Company in connection with the Shelf Registration Statement as promptly as practicable after receipt of such notice, but in no event later than 20 days thereafter, shall not be entitled to have its Registrable Securities included in the Shelf Registration Statement at the time it becomes effective, but shall have the right thereafter to deliver to the Company a Registration Notice as contemplated by Section 3(b).

Section 3. Shelf Registration Procedures.

In connection with the obligations of the Company with respect to the Shelf Registration Statement pursuant to Section 2 hereof, the Company shall:

(a) prepare and file with the SEC, within the time period set forth in Section 2(a) hereof, a Shelf Registration Statement, which Shelf Registration Statement (i) shall be available for the sale of the Registrable Securities in accordance with the intended method or methods of distril4ion by the selling Holders thereof and (ii) shall comply as to form in all material respects with the requirements of the applicable form and include all financial statements required by the Commission to be filed therewith.

(b) subject to the last three sentences of this Section 3(b) and to Section 3(i) hereof, (i) prepare and file with the Commission such amendments and post-effective amendments to the Shelf Registration Statement as may be necessary to keep the Shelf Registration Statement effective for the applicable period; (ii) cause each Prospectus to be supplemented by any required prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 or any similar rule that may be adopted under the Securities Act; (iii) respond promptly to any comments received from the Commission with respect to the Shelf Registration Statement, or any amendment, post-effective amendment or supplement relating thereto; and (iv) comply with the provisions of the Securities Act with respect to the disposition of all securities covered by the Shelf Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the selling Holders thereof. Notwithstanding anything to the contrary contained herein, the Company shall not be required to take any of the actions described in clauses (i), (ii) or (iii)

above with respect to each particular Holder of Registrable Securities unless and until the Company has received either a written notice (a "Registration Notice") from a Holder that such Holder intends to make offers or sales under the Shelf Registration Statement as specified in such Registration Notice or a written response from such Holder of the type contemplated by Section 2(b); provided, however, that the Company shall have 7 business days to prepare and file any such amendment or supplement after receipt of a Registration Notice. Once a Holder has delivered such a written response or a Registration Notice to the Company, such Holder shall promptly provide to the Company such information as the Company reasonably requests in order to identify such Holder and the method of distribution in a post-effective amendment to the Shelf Registration Statement or a supplement to a Prospectus. Offers or sales under the Shelf Registration Statement may be made only during a Sale Period. Such Holder also shall notify the Company in writing upon completion of such offer or sale or at such time as such Holder no longer intends to make offers or sales under the Shelf Registration Statement.

(c) furnish to each Holder of Registrable Securities that has delivered a Registration Notice to the Company, without charge, as many copies of each applicable Prospectus, including each preliminary Prospectus, and any amendment or supplement thereto and such other documents as such Holder may reasonably request, in order to facilitate the public sale or other disposition of the Registrable Securities; the Company consents to the use of such Prospectus, including each preliminary

Prospectus, by each such Holder of Registrable Securities in connection with the offering and sale of the Registrable Securities covered by such Prospectus or the preliminary Prospectus.

(d) use its reasonable best efforts to register or qualify the Registrable Securities by the time the Shelf Registration Statement is declared effective by the SEC under all applicable state securities or "blue sky" laws of such jurisdictions as any Holder of Registrable Securities covered by the Shelf Registration Statement shall reasonably request in writing, keep each such registration or qualification effective during the period the Shelf Registration Statement is required to be kept effective or during the period offers or sales are being made by a Holder that has delivered a Registration Notice to the Company, whichever is shorter, and do any and all other acts and things which may be reasonably necessary or advisable to enable such Holder to consummate the disposition in each such jurisdiction of such Registrable Securities owned by such Holder; provided, however, that the Company shall not be required (i) to qualify generally to do business in any jurisdiction or to register as a broker or dealer in such jurisdiction where it would not be required so to qualify or register but for this Section 3(d), (ii) to subject itself to taxation in any such jurisdiction or (iii) to submit to the general service of process in any such jurisdiction.

(e) notify each Holder when the Shelf Registration Statement has become effective and notify each Holder of Registrable Securities that has delivered a Registration Notice to the Company promptly and, if requested by such Holder, confirm such advice in writing (i) when any post-effective amendments and supplements to the Shelf Registration Statement become effective, (ii) of the issuance by the Commission or any state securities authority of any stop order suspending the effectiveness of the Shelf Registration Statement or the initiation of any proceedings for that purpose, (iii) if the Company receives any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose and (iv) of the happening of any event during the period the Shelf Registration Statement is effective as a result of which the Shelf Registration Statement or a related Prospectus contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein (in the case of the Prospectus, in light of the circumstances under which they were made) not misleading.

(f) make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of the Shelf Registration Statement at the earliest possible moment.

(g) furnish to each Holder of Registrable Securities that has delivered a Registration Notice to the Company, without charge, at least one conformed copy of the Shelf Registration Statement and any post-effective amendment thereto (without documents incorporated therein by reference or exhibits thereto, unless requested).

(h) cooperate with the selling Holders of Registrable Securities to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any Securities Act legend; and enable certificates for such Registrable Securities to be

issued for such numbers of shares and registered in such names as the selling Holders may reasonably request at least two business days prior to any sale of Registrable Securities.

(i) subject to the last three sentences of Section 3(b) hereof, upon the occurrence of any event contemplated by Section 3(e)(iv) hereof, use its reasonable best efforts promptly to prepare and file a supplement or prepare, file and obtain effectiveness of a post-effective amendment to the Shelf

Registration Statement or a related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Securities, such Prospectus will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) make available for inspection by representatives of the Holders of the Registrable Securities and any counsel or accountant retained by such Holders, all financial and other records, pertinent corporate documents and properties of the Company, and cause the respective officers, directors and employees of the Company to supply all information reasonably requested by any such representative, counsel or accountant in connection with the Shelf Registration Statement; provided, however, that such records, documents or information which the Company determines in good faith to be confidential, and notifies such representatives, counsel or accountants in writing that such records, documents or information are confidential, shall not be disclosed by the representatives, counsel or accountants unless (i) the disclosure of such records, documents or information is necessary to avoid or correct a material misstatement or omission in the Shelf Registration Statement, (ii) the release of such records, documents or information is ordered pursuant to a subpoena or other order from a court of competent jurisdiction or (iii) such records, documents or information have been generally made available to the public otherwise than in violation of this Agreement.

(k) a reasonable time prior to the filing of any Prospectus, any amendment to the Shelf Registration Statement or amendment or supplement to a Prospectus, provide copies of such document (not including any documents incorporated by reference therein unless requested) to the Holders of Registrable Securities that have provided a Registration Notice to the Company.

(l) use its reasonable best efforts to cause all Registrable Securities to be listed on any securities exchange on which similar securities issued by the Company are then listed.

(m) obtain a CUSIP number for all Registrable Securities, not later than the effective date of the Shelf Registration Statement.

(n) otherwise use its reasonable efforts to comply with all applicable rules and regulations of the Commission and make available to its security holders, as soon as reasonably practicable, an earnings statement covering at least 12 months which shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder.

(o) use its reasonable best efforts to cause the Registrable Securities covered by the Shelf Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Company to enable Holders that have delivered Registration Notices to the Company to consummate the disposition of such Registrable Securities.

The Company may require each Holder of Registrable Securities to furnish to the Company in writing such information regarding the proposed distribution by such Holder of such Registrable Securities as the Company may from time to time reasonably request in writing.

In connection with and as a condition to the Company's obligations with respect to the Shelf Registration Statement pursuant to Section 2 hereof and this Section 3, each Holder agrees that (i) it will not

offer or sell its Registrable Securities under the Shelf Registration Statement until (A) it has either (1) provided a Registration Notice pursuant to Section 3(b) hereof or (2) had Registrable Securities included in the Shelf Registration Statement at the time it became effective pursuant to Section 2(b) hereof and

(B) it has received copies of the supplemented or amended Prospectus contemplated by Section 3(b) hereof and receives notice that any post-effective amendment has become effective; (ii) upon receipt of any notice from the Company of the happening of anv event of the kind described in Section 3(b)(iv) hereof, such Holder will forthwith discontinue disposition of Registrable Securities pursuant to the Shelf Registration Statement until such Holder receives copies of the supplemented or amended Prospectus contemplated by Section 3(i) hereof and receives notice that any post-effective amendment has become effective, and, if so directed by the Company, such Holder will deliver to the Company (at the expense of the Company) all copies in its possession, other than permanent file copies then in such Holder's possession, of the Prospectus covering such registrable Securities current at the time of receipt of such notice; and (iii) all offers and sales under the Shelf Registration statement shall be completed within forty-five (45) days after the first date on which offers or sales can be made pursuant to clause (i) above, and upon expiration of such forty-five (45) day period the Holder will not offer or sell its Registrable Securities under the Shelf Registration Statement until it has again complied with the provisions of clauses (i)(A)(1) and (B) above, except that if the applicable Registration Notice was delivered to the Company at a time which was not part of a Sale Period, such forty-five (45) day period shall be the next succeeding Sale Period.

Section 4. Piggyback Registration.

(a) Right to Piggyback. Whenever (x) the Company proposes to register any shares of its Common Stock (or securities convertible into or exchangeable or exercisable for such Common Stock) under the Securities Act for its own account or the account of any shareholder of the Company (other than offerings pursuant to employee plans, or noncash offerings in connection with a proposed acquisition, exchange offer, recapitalization or similar transaction) and (y) the registration form may be used for the registration of Registrable Securities (a "Piggyback Registration"), the Company will give prompt written notice to all of the Holders Entitled to Registration Rights of its intention to effect such a registration and will, subject to Section 4(b) and Section 10 hereof, include in such registration all Registrable Securities with respect to which such Holders request in writing to be so included within 20 days after the receipt of the Company's notice.

(b) Priority. If a registration pursuant to this Section 4 involves an underwritten offering and the managing underwriter advises the Company in good faith that in its opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without having an adverse effect on such offering, including the price at which such securities can be sold, then the Company will be required to include in such registration the maximum number of shares that such underwriter advises can be so sold, allocated (x) first, to the securities the Company proposes to sell, (y) second, among the shares of Common Stock requested to be included in such registration by the Holders Entitled to Registration Rights, considered in the aggregate (if such registration was initiated by the Company), and any other shareholder of the Company with shares of Common Stock eligible for registration, pro rata, on the basis of the number of shares of Common Stock such holder requests be included in such registration, and (z) third, among other securities, if any, requested and otherwise eligible to be included in such registration.

(c) Nothing contained herein shall prohibit the Company from determining, at any time, not to file a registration statement or, if filed, to withdraw such registration or terminate or abandon the registration related thereto.

Section 5. Requested Registration.

(a) Right to Request Registration. Upon the written request of Holders Entitled to Registration Rights owning 6% or more of the outstanding Registrable Securities then owned in the aggregate by such Holders (the "Requesting Holders") (computed for these purposes as if all Preferred Units have been converted into Units and an thereafter outstanding Units have been redeemed or exchanged for Common Stock), requesting that the Company effect the registration under the Securities Act of at least the Minimum Registration Amount, the Company shall use its best efforts to effect, as expeditiously as possible, following the prompt (but in no event later than 15 days following the receipt of such written request) delivery of notice to all Holders Entitled to Registration Rights, the registration under the Securities Act of such number of shares of Registrable Securities owned by the Requesting Holders and requested by the Requesting Holders to be so registered (subject to Section 5(c) hereof), together with (x) all other shares of Common Stock entitled to registration, and (y) securities of the Company which the Company elects to register and offer for its own account; provided, however, that the Company shall not be required to (i) subject to Section 5(b) below, effect more than a total of three such registrations pursuant to this Agreement or (ii) file a registration statement relating to a registration request pursuant hereto within a period of six months after the effective date of any other registration statement of the Company

requested hereunder (other than pursuant to Section 2) or pursuant to which the Requesting Holders shall have been given an opportunity to participate pursuant to Section 4 hereof and which opportunity they declined or which registration statement under Section 4 hereof included shares of Registrable Securities owned by Holders Entitled to Registration Rights (so long as such registration statement became and was effective for sufficient, time to permit the sales contemplated thereby); provided further, that the Company shall not be required to file a registration statement relating to an offering of Common Stock on a delayed or continuous basis pursuant to Rule 415 (or any successor rule to similar effect) promulgated under the Securities Act if the Company is not, at the time, eligible to register shares of Common Stock on form S-3 (or a successor form).

Notwithstanding the foregoing, if the Board of Directors of the Company determines in its good faith judgment, (x) after consultation with a nationally recognized investment banking fim, that there will be an adverse effect on a then contemplated public offering of the Company's securities, (y) that the disclosures that would be required to be made by the Company in connection with such registration would be materially harmful to the Company because of transactions then being considered by, or other events then concerning, the Company, or (z) the registration at the time would require the inclusion of pro forma or other information, which requirements the Company is reasonably unable to comply with, then the Company may defer the filing (but not the preparation) of the registration statement which is required to effect any registration pursuant to this Section 5 for a reasonable period of time, but not in excess of 90 calendar days (or any longer period agreed to by the Holders Entitled to Registration Rights), provided that at all times the Company is in good faith using all reasonable efforts to file such registration statement as soon as practicable.

(b) Effective Registration. A registration requested pursuant to this Section 5 shall not be deemed to have been effected (and, therefore, not requested for purposes of Section 5(a) above) (w) unless the registration statement relating thereto has become effective under the Securities Act, (x) if after it has become effective such registration is interfered with by any stop order, injunction or other order or requirement of the Commission or other governmental agency or court for any reason other than a misrepresentation or an omission by a Holder and, as a result thereof, the shares of Registrable Securities requested to be registered cannot be completely distributed in accordance with the plan of distribution, (y) if the conditions to closing specified in the purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied or waived other than by reason of some act or omission by a participating Holder or (z) if with respect to what would otherwise be deemed the fourth, or last, request under Section 5(a) hereof, less

than all of the shares of Common Stock that the Holders Entitled to Registration Rights requested be registered were actually registered due to the operation of Section 5(c) hereof; provided that clause (z) above may not be invoked by the Holders Entitled to Registration Rights unless (I) such request includes at least the Minimum Registration Amount or (II) if such request includes an amount that is less than the Minimum Registration Amount, Rule 144 under the Securities Act is not available to the Holders for the sale of all of the shares of Common Stock owned by the Holders; and provided further that clause (z) above may be invoked only at the request of Holders meeting the foregoing requirements and owning more than 10% of the shares of Registrable then owned (computed as aforesaid) in the aggregate by the Holders.

(c) Priority. If a requested registration pursuant to this Section 5 involves an underwritten offering and the managing underwriter shall advise the Company that in its opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without having an adverse effect on such offering, including the price at which such securities can be sold, then the Company will be required to include in such registration the maximum number of shares that such underwriter advises can be so sold, allocated (x) first, among all shares of Common Stock requested by the Holders Entitled to Registration Rights to be included in such registration, pro rata on the basis of the number of shares of Common Stock then owned by each of them (or, if such holder requests that less than all of the shares of Common Stock owned by such holder be included in such registration, such lesser number of shares) (y) second, to any securities requested to be included in such registration by any other shareholder of the Company having registration rights and (z) third, to any securities the Company proposes to sell.

Section 6. Registration Procedures. If and whenever the Company is required to use its best efforts to effect or cause the registration of any Registrable Securities under the Securities Act as provided in this Agreement pursuant to Section 4 or 5 hereof, the Company shall:

(a) prepare and file with the Commission as expeditiously as possible but in no event later than 90 days after receipt of a request for

registration with respect to such Registrable Shares, a registration statement on any form for which the Company then qualifies or which counsel for the Company shall deem appropriate, which form shall be available for the sale of the Registrable Securities in accordance with the intended methods of distribution thereof, and use its best efforts to cause such registration statement to become effective; provided that before filing with the Commission a registration statement or prospectus or any amendments or supplements thereto, including documents incorporated by reference after the initial filing of any registration statement, the Company shall (x) furnish to each participating Holder and to one firm of attorneys selected collectively by the participating Holders and the holders of other securities covered by such registration statement, but in no event to more than one such counsel for all such selling securityholders, copies of all such documents proposed to be filed, which documents shall be subject to the review of the participating Holders and such counsel, and (y) notify the participating Holders of any stop order issued or threatened by the Commission and take all reasonable actions required to prevent the entry of such stop order or to remove it if entered;

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for a period of not less than 180 days or such shorter period which shall terminate when all Registrable Securities covered by such registration statement have been sold (but not before the expiration of the 90-day period referred to in Section 4(3) of the Securities Act and Rule 174, or any successor thereto, thereunder, if applicable), and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registra-

tion statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement;

(c) furnish, without charge, to the participating Holders and each underwriter, if any, such number of copies of such registration statement, each amendment and supplement thereto (including one conformed copy to each participating Holder and one signed copy to each managing underwriter and in each case including all exhibits thereto), and the prospectus included in such registration statement (including each preliminary prospectus), in conformity with the requirements of the Securities Act, and such other documents as the participating Holders may reasonably request in order to facilitate the disposition of the Registrable Securities registered thereunder;

(d) use its best efforts to register or qualify such Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdiction as the participating Holders, and the managing underwriter, if any, reasonably requests and do any and all other acts and things which may be reasonable necessary or advisable to enable the participating Holders and each underwriter, if any, to consummate the disposition in such jurisdiction of the Registrable Securities registered thereunder; provided that the Company shall not be required to (x) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 6(d), (y) subject itself to taxation in any such jurisdiction or (z) consent to general service of process in any such jurisdiction;

(e) use its best efforts to cause the Registrable Securities covered by such registration statement to be registered with or approved by such insurance regulatory authorities may be necessary by virtue of the business and operations of the Company to enable the participating Holders and other holders, if any, of securities covered by such registration statement to consummate the disposition of Registrable Securities registered thereunder;

(f) immediately notify the managing underwriter, if any, and the Company at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event which comes to the Company's attention if as a result of such event the prospectus included in such registration statement contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company shall promptly prepare and furnish to the participating Holders and any other holder of securities covered by such registration statement and prospectus a supplement or amendment to such prospectus so that as thereafter delivered, such prospectus shall not contain an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that if the Company determines in good faith that the disclosure that would be required to be

made by the Company would be materially harmful to the Company because of transactions then being considered by, or other events then concerning, the Company, or a supplement or amendment to such prospectus at such time would require the inclusion of pro forma or other information, which requirement the Company is reasonably unable to comply with, then the Company may defer for a reasonable period of time, not to exceed 90 days, furnishing to the participating Holders and any other holder of securities covered by such registration statement and prospectus a supplement or amendment to such prospectus; provided, further, that at all times the Company is in good faith using all reasonable efforts to file such amendment as soon as practicable,

(g) use its best efforts to cause all such securities being registered to be listed on each securities exchange on which similar securities issued by the Company are then listed, and enter into such customary agreements including a listing application and indemnification agreement in customary form (provided that the applicable listing requirements are satisfied), and to provide a transfer agent and register for such Registrable Shares covered by such registration statement no later than the effective date of such registration statement;

(h) make available for inspection by any of the participating Holders and any holder of securities covered by such registration statement, any underwriter participating in any distribution pursuant to such registration statement, and any attorney, accountant or other agent retained by such persons (collectively, the "Inspectors"), all financial and other records of the Company and its subsidiaries (collectively, "Records"), if any, as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's and its subsidiaries' officers, directors and employees to supply all information and respond to all inquiries reasonably requested by any such Inspector in connection with such registration statement. Notwithstanding the foregoing, the Company shall have no obligation to disclose any Records to the Inspector in the event the Company determines that such disclosure is reasonably likely to have an adverse effect on the Company's ability to assert the existence of an attorney-client privilege with respect thereto;

(i) if requested, use its best efforts to obtain a "cold comfort" letter and a "bring-down cold comfort" letter from the Company's independent public accountants in customary form and covering such matters of the type customarily covered by such letters;

(j) enter into a form of underwriting agreement that contains customary terms and provisions for similar securities offerings;

(k) make available senior management personnel to participate in, and cause them to cooperate with the underwriters in connection with, "road show" and other customary marketing activities, including "one-on-one" meetings with prospective purchasers of the Registrable Securities; and

(l) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earning statement covering a period of at least 12 months, beginning with the first month after the effective date of the registration statement (as the term "effective date" is defined in Rule 158(c) under the Securities Act), which earning statement shall satisfy the provisions of Section 11 (a) of the Securities Act and Rule 158 thereunder.

It shall be a condition precedent to the obligation of the Company to take any action pursuant to this Agreement in respect of Registrable Securities which are to be registered at the request of any of the participating Holders that the participating Holders shall fumish to the Company such information regarding the securities held by the participating Holders and the intended method of disposition thereof as the Company shall reasonably request and as shall be required in connection with the action taken by the Company.

Each of the Holders agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 6(f) hereof, the Holders shall discontinue disposition of Registrable Shares pursuant to the registration statement covering such Registrable Securities until receipt of the copies of the supplemented or amended prospectus contemplated by Section 5(c)(vi) hereof or until other-

wise notified by the Company, and, if so directed by the Company, the participating Holders shall deliver to the Company (at the Company's expense) all copies (including, without limitation, any and all drafts), other than

permanent file copies, then in any participating Holder's possession, of the prospectus covering such Registrable Securities at the time of receipt of such notice. In the event the Company shall give any such notice, the period specified in Section 6(b) hereof shall be extended by the greater of (x) three months of (y) the number of days during the period from and including the date of the giving of such notice pursuant to Section 6(f) hereof to and including the date when each of the participating Holders shall have received the copies of the supplemented or amended prospectus contemplated by, Section 6(f) hereof.

Section 7. Selection or Underwriters. If any offering pursuant to a registration statement is to be an underwritten offering, the Company will select a managing underwriter or underwriters to administer the offering, provided that in the case of a registration statement pursuant to Section 5 hereof, the Holders holding more than 50% of the shares of Registrable Securities held by the Holders to be included in such underwritten offering shall select the managing underwriter or underwriters, subject to the consent of the Company which shall not be unreasonably withheld.

Section 8. Registration Expenses. The Company shall pay, in connection with any registration pursuant to Section 2, 4 or 5, the following registration expenses incurred in connection there with: (i) all Commission, stock exchange or NASD registration and filing fees, (ii) all fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel in connection with the blue sky qualifications of the Registrable Securities), (iii) printing expenses, (iv) internal expenses (including without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), (v) the fees and expenses incurred in connection with the listing of the Registrable Securities on any national securities exchange or interdealer quotation system, (vi) the reasonable fees and disbursements of counsel for the Company and customary fees and expenses for independent certified public accountants retained by the Company (including the expenses of any comfort letters or costs associated with the delivery by independent certified public accountants of a comfort letter or comfort letters), (vii) the reasonable fees and disbursements of not more than one firm of attorneys acting as legal counsel for (x) all of the selling shareholders, collectively, in respect of a registration pursuant to Section 3 hereof or (y) all of the participating Holders, collectively, in respect of a registration pursuant to Section 4 hereof, (viii) the fees and expenses of any registrar and transfer agent for the Common Stock, (ix) the underwriting fees, discounts and commissions applicable to any shares of Common Stock sold for the account of the Company and (x) all expenses of any Person in preparing or assisting in preparing, word processing, printing and distributing any registration statement, prospectus, certificates and other documents relating to the performance of and compliance with this Agreement. Except as otherwise provided in clause (ix) of this Section 4(e), the Company shall have no obligation to pay any underwriting fees, discounts or commissions attributable to the sale of Registrable Shares.

Section 9. Indemnification; Contribution.

(a) The Company agrees to indemnify and hold harmless each Indemnitee from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any prepricing prospectus, registration statement or prospectus or in any amendment or supplement thereto, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of or are based upon any untrue statement or omission or alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information relating to a participating Holder furnished in writing to the Company by or

on behalf of a participating Holder expressly for use in connection therewith. The foregoing indemnity agreement shall be in addition to any liability which the Company may otherwise have.

(b) If any action, suit or proceeding shall be brought against an Indemnitee in respect of which indemnity may be sought against the Company, such Indemnitee shall promptly notify the Company, and the Company shall assume the defense thereof, including the employment of counsel and payment of all fees and expenses. "The Indemnitee shall have the right to employ separate counsel in any such action, suit or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnitee unless (x) the Company has agreed in writing to pay such fees and expenses, (y) the Company has failed to assume the defense and employ counsel, or (z) the named parties to any such action, suit or proceeding (including any impleaded parties) include both such Indemnitce and the Company, and such Indemnitee shall have been advised by its counsel that representation of such Indemnitee and the Company by the same counsel would be inappropriate under applicable standards of

professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the Company shall not have the right to assume the defense of such action, suit or proceeding on behalf of such Indemnitee). It is understood, however, that the Company shall, in connection with any one such action, suit or proceeding or separate but substantially similar or related actions, suits or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of only one separate firm of attorneys (in addition to any local counsel) at any time for all such Indemnitees not having actual or potential differing interests among themselves, and that all such fees and expenses shall be reimbursed as they are incurred. The Company shall not be liable for any settlement of any such action, suit or proceeding effected without its written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, suit or proceeding, the Company agrees to indemnify and hold harmless such Indemnitee, to the extent provided in the preceding paragraph, from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment.

(c) Each of the participating Holders, severally and not jointly, agree to indemnify and hold harmless the Company, its directors, its officers who sign the registration statement, and any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to an Indemnitee, but only with respect to information relating to such Holder furnished in writing by or on behalf of such Holder expressly for use in the registration statement, prospectus or any prepricing prospectus, or any amendment or supplement thereto. If any action, suit or proceeding shall be brought against the Company, any of its directors, any such officer, or any such controlling person based on the registration statement, prospectus or any prepricing prospectus, or any amendment or supplement thereto, and in respect of which indemnity may be sought against any Holder pursuant to this Section 9(c), such Holder shall have the rights and duties given to the Company by Section 9(b) hereof (except that if the Company shall have assumed the defense thereof such Holder shall not be required to do so, but may employ separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at the Holder's expense), and the Company, its directors, any such officer, and any such controlling person shall have the rights and duties given to an Indemnitee by Section 9(b) hereof. The foregoing indemnity agreement shall be in addition to any liability which the participating Holders may otherwise have.

(d) If the indemnification provided for in this Section 9 is unavailable to an indemnified party under paragraphs (a) or (c) hereof in respect of any losses, claims, damages, liabilities or expenses referred to therein. then an indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities

or expenses in such proportion as is appropriate to reflect the relative fault of the Company and of the participating Holders in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses. The relative fault of the Company on the one hand and a participating Holder on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or by such participating Holder on the other hand and the parties' relative intent, knowledge, access or information and opportunity to correct or prevent such statement or omission.

(e) The Company and the participating Holders agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by a pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 9(d) hereof. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in Section 9(d) hereof shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating any claim or defending any such action, suit or proceeding. Notwithstanding the provisions of this Section 8, no participating Holder shall be required to contribute any amount in excess of the amount by which the proceeds to such participating Holder exceeds the amount of any damages which such participating Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

(f) No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have

been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

(g) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 9 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 9 shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of an Indemnitee, the Company, its directors or officers, or any person controlling the Company, and (ii) any termination of this Agreement.

Section 10. Participation in Underwritten Registrations. A Holder may not participate in any underwritten offering pursuant to Section 4 or 5 hereof unless such Holder (i) agrees to sell its Registrable Securities on the basis provided in any underwriting arrangements which, to the extent applicable solely to the participating Holders, are approved by the participating Holders in their reasonable discretion or which, to the extent applicable to the Company and the participating Holders, are approved by the Company in its reasonable discretion and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents (including lock-up agreements) reasonably required under the terra of such underwriting arrangements which are not inconsistent with the terms of this Agreement.

Section 11. Other Registration Rights. The Company agrees that it shall not enter into any agreement which provides registration rights to any Person that are inconsistent with the provisions contained in this Agreement. If the Company does become a party to such an agreement, the Company agrees

that to the extent that the provisions of such agreement conflict with this Agreement, the provisions of this Agreement shall control.

Section 12. Rule 144 Sales.

(a) The Company covenants that it will file the reports required to be filed by the Company under the Securities Act and the Exchange Act, so as to enable any Holder to sell Registrable Securities pursuant to Rule 144 under the Securities Act.

(b) In connection with any sale, transfer or other disposition by any Holder of any Registrable Securities pursuant to Rule 144 under the Securities Act, the Company shall cooperate with such Holder to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any Securities Act legend, and enable certificates for such Registrable Securities to be for such number of shares and registered in such names as the selling Holders may reasonably request at least two business days prior to any sale of Registrable Securities. ,

Section 13. Miscellaneous.

(a) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given without the written consent of the Company and Holders constituting Majority Holders; provided, however, that no amendment, modification or supplement or waiver or consent to the departure with respect to the provisions of Sections 1 through 12, inclusive, hereof or which would impair the rights of any Holder under such provisions, shall be effective as against any Holder of Registrable Securities, Preferred Units or Units unless consented to in writing by such Holder of Registrable Securities, Preferred Units or Units. Notice of any amendment, modification or supplement to this Agreement adopted in accordance with this Section 13(a) shall be provided by Company to each Holder of Registrable Securities, Preferred Units or Units at least thirty (30) days prior to the effective date of such amendment, modification or supplement.

(b) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telex, telecopier or any courier guaranteeing overnight delivery, (i) if to a Holder, at the most current address given by such Holder to the Company by means of a notice given in accordance with the provisions of this Section 13(b), which address initially is, with respect to each Holder, the address set forth in the Partnership Agreement, or (ii) if to the Company, at .

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five business days after being deposited in the mail, postage prepaid, if mailed when answered back, if telexed; when receipt is acknowledged, if telecopied; or at the time delivered if delivered by an air courier guaranteeing overnight delivery.

(c) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors, assigns and transferees of each of the Company and the Holders, including without limitation and without the need for an express assignment, subsequent Holders. If any successor, assignee or transferee of any Holder shall acquire Registrable Securities, in any manner, whether by operation of law or otherwise, such Registrable Securities shall be held subject to all of the terms of this Agreement, and by taking

and holding such Registrable Securities such Person shall be entitled to receive the benefits hereof and shall be conclusively deemed to have agreed to be bound by all of the terms and provisions hereof.

(d) Headings. The headings in this Agreement are for the convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(e) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAW PROVISIONS THEREOF.

(f) Specific Performance. The Company and the Holders acknowledge that there would be no adequate remedy at law if any party fails to perform any of its obligations hereunder, and accordingly agree that the Company and each Holder, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to compel specific performance of the obligations of another under this Agreement in accordance with the terms and conditions of this Agreement in any court of the United States or any State thereof having jurisdiction.

(g) Entire Agreement. This Agreement is intended by the Company as a final expression of its agreement and is intended to be a complete and exclusive statement of the agreement and understanding of the Company in respect of the subject matter contained herein. This Agreement supersedes all prior agreements and understandings of the Company with respect to such subject matter.

IN WITNESS WHEREOF, the Company has executed this Agreement as of the date first written above.

ROYALE INVESTMENTS, INC.

By: _____

Name: _____

Title: _____

WESTBROOK PARTNERS

September 11, 1997

Mr. Clay W. Hamlin, III
President
South Brunswick Investment Company
One Logan Square
Suite 1105
Philadelphia, PA 19103

Re: South Brunswick Investors, L.P. (the "Partnership")

Dear Clay:

Following up on our discussions of the proposed Royale transaction, Westbrook Real Estate Partners, L.L.C., on behalf of its entities affiliated with South Brunswick Investors, L.P., (collectively "Westbrook"), hereby gives its consent to the transaction described in the two booklets prepared by The Shidler Group entitled "The Royale Merger" dated August, 1997 provided by you, with the following modifications:

(1) The Partnership will merge into First Commercial after the transfer by the Partnership of its undeveloped land to a newly formed mirror image partnership at Shidler's sole cost and expense, (including partnership formation costs, transfer taxes, deed preparation, recording fees, title premiums, etc.). Westbrook will be paid $1,840,000 in cash and will receive 366,633 common partnership units (value of $5.50 per unit) and 241,978 preferred partnership units (face value of $25.00 per unit). South Brunswick Investment Company and Dayton Investors, L.L.C. (collectively "Shidler") will receive 207,537 (value of $5.50 per unit) common partnership units and 136,974 preferred partnership units (face value of $25.00 per unit). These unit allocations are based on relative distributions to Westbrook and Shidler assuming a hypothetical sale value of $27,465,480. The merged entity will pay all costs and expenses and be responsible for all liabilities.

(2) Westbrook will have an option to put its common and preferred units to Jay Shidler and/or Clay Hamlin within 60 days after the second anniversary of the closing of the merger for $3,481,579, payable in cash. This amount plus Westbrook's original investment of $1,840,000 equates to a current gross asset value of $25,000,000 using the Sale scenario methodology (see attached). Subject to transfer restrictions, the option also would be immediately exercisable by Westbrook for $3,481,579 if any quar-

terly dividend distributions were not made in accordance with the attached table.

(3) Westbrook will be permitted to name one of its principals to serve as an independent director of Royale.

Westbrook agrees to take such actions and execute such documentation as reasonably necessary to complete the transaction.

Westbrook's consent is conditioned on its Investment Committee approval and Shidler's compliance with all material terms of the transaction and the accuracy of the information provided, to be reflected in the transaction documentation which shall be acceptable to Westbrook.

Please execute a copy of this letter and return it to me to indicate your agreement.

Yours truly,

/s/ William H. Walton

William H. Walton
Managing Member,
Westbrook Real Estate
Partners, L.L.C.

(Date)

Princeton Technology Center
Allocation of Proceeds by Partner

<TABLE>
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				Merger vs. $25MM Difference
	27,465,480	25,000,000	32,588,891	
	Sale	Sale	Merger	
<S>	<C>	<C>	<C>	<C>
Partners				
Jay H. Shidler	584,769	351,095	3,041,159	690,064
SELP	265,390	201,970	389,255	187,285
Clay W. Hamlin, III	850,152	553,059	1,430,398	877,339
Robert L. Denton	89,700	58,391	150,849	92,458
James K. Davis	32,679	20,156	57,137	36,981
LGR Investment Fund, Ltd.	1,284,669	975,945	1,887,632	911,687
Tiger South Brunswick, L.L.C.	49,246	37,411	72,359	34,948
Westbrook Real Estate Fund I, L.P.	6,089,201	4,807,860	8,591,767	3,783,907
Westbrook Real Estate Co-Inv. Partnership I, L.P.	603,249	476,308	851,175	374,867
	9,849,055	7,482,195	14,471,731	6,989,536
Total Westbrook Consideration	6,471,696	5,321,579	9,515,301	
Westbrook Percent of Total	68.5%	71.1%	65.8%	
Total Shidler Consideration	3,107,359	2,160,616	4,956,430	
Shidler Percent of Total	31.5%	28.9%	34.2%	
Westbrook Adjustment for $27.5MM Value			9,905,926	68.5%
Shidler Adjustment for $27.5MM Value			4,565,805	31.5%
			14,471,731	

</TABLE>

<TABLE>
<CAPTION>

Westbrook Merger			Shidler Merger	
<S>	<C>	<C>	<C>	<C>
		Total Adj. Consideration		Total Adj. Consideration
9,905,926		Merger	4,565,805	Merger
(1,840,000)		Minus Cash	0	Minus Cash
8,065,926		Value Units	4,565,805	Value Units
6,049,445		75% Preferred	3,424,354	75% Preferred
241,978		Preferred Units at $25	136,974	Preferred Units at $25
2,016,482		25% Common	1,141,451	25% Common
366,633		Common Units at $5.50	207,537	Common Units at $5.50
9,905,926			4,565,805	

Westbrook $25MM Sale Put Option

5,321,579	Total Consideration $25MM Sale
(1,840,000)	Minus Cash
3,481,579	Put Option

</TABLE>

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Royale Merger
Westbrook Internal Rate of Return

		Capital Contribution/ (Distribution)	Dividend on 241,978 Shares of Conv. Preferred @ $1.625 Annual Rate	Dividend on 366,633 Shares of Common Stock@ $0.50 Annual Rate	Total Cash Flow Stream
<S>	<C>	<C>	<C>	<C>	<C>
1.	4/21/95	(1,840,000)			(1,840,000)
2.	6/30/95	0			0
3.	9/30/95	0			0
4.	12/30/95	0			0
5.	3/30/96	0			0
6.	6/30/96	0			0
7.	9/30/96	0			0
8.	12/30/96	0			0
9.	3/30/97	0			0
10.	6/30/97	0			0
11.	9/30/97	1,840,000			1,840,000
12.	12/30/97		98,303	45,829	144,133
13.	3/30/98		98,303	45,829	144,133
14.	6/30/98		98,303	45,829	144,133
15.	9/30/98		98,303	45,829	144,133
16.	12/30/98		98,303	45,829	144,133
17.	3/30/99		98,303	45,829	144,133
18.	6/30/99		98,303	45,829	144,133
19.	9/30/99	3,481,579	98,303	45,829	3,625,712
				Total Cash Flow	6,474,640
				Net Cash Flow	4,634,640

</TABLE>

<TABLE>
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Princeton Technology Center
Comparison of Value Received
In a Sale Versus UPREIT Contribution

	Sale	Merger	Difference
<S>	<C>	<C>	<C>
Gross Property Value	25,000,000	32,588,891	7,588,891
Add:			
Partnership Cash Balance	16,269	16,269	0
Less:			
Existing Loan Payoff	12,893,244	12,893,244	0

Tenant Improvement Reserves	2,485,400	2,485,400	0
Leasing Commission Reserves	696,950	696,950	0
Capital Improvement Reserve	253,000	253,000	0
Rent Guaranty Reserves	205,480	205,480	0
1997/1998 Real Property Taxes	0	40,980	40,980
New Mortgage Loan Costs	0	296,481	296,481
Selling Costs (2%)	500,000	0	(500,000)
Transfer Tax (1% for Sale Estimate for Merger)	250,000	7,511	(242,489)
Merger Costs	0	928,494	928,494
Accrued Acquisition Fee	0	0	0
Refinance Fee (1%)	0	0	0
Sales Coordination Fee (1%)	250,000	325,889	75,889
Accrued Asset Management Fee	0	0	0
Accrued Property Management Fee	0	0	0
Net Property Value	7,482,195	14,471,731	6,989,536

</TABLE>

AGREEMENT

THIS AGREEMENT entered into this 14th day of October, 1997 by and between TIGER SOUTH BRUNSWICK, L.L.C., a Delaware limited liability company ("TSB"), TIGER/WESTBROOK REAL ESTATE FUND, L.P., a Delaware limited ("TWR"), TIGER/WESTBROOK REAL ESTATE CO-INVESTMENT PARTNERSHIP, L.P., a Delaware limited ("TWRCO") and Jay H. Shidler ("Shidler") and Clay W. Hamlin, III ("Hamlin"). TSR, TWR and TWRCO are hereinafter collectively referred to as "Westbrook," and Shidler and Hamlin are hereinafter collectively referred to as "S&H."

Westbrook and S&H, or entities affiliated with one or more of them, have this date conveyed their general and limited partnership interests in South Brunswick Investors, L.P. ("SBILP") to FCO, L.P., a newly formed Delaware limited partnership ("FCLP"). As consideration for the transfer of the SBILP partnership interests conveyed by Westbrook, Westbrook has received an aggregate of approximately 372,794 common units of partnership interest in FCLP ("Common Units") and approximately 245,714 preferred units of partnership interest in FCLP ("Preferred Units"). The Common Units and the Preferred Units are collectively referred to herein as the "Units."

FCLP is expected, although there can be no assurance or guarantee, to pay quarterly distributions in the nature of dividends to the holders of its Common Units and Preferred Units ("Dividends"). The aggregate Dividends expected to be paid to Westbrook with respect To the Units is in the amounts and on the dates as set forth on Exhibit A hereto. Such Dividends are hereinafter referred to collectively as the "Westbrook Dividends," and individually as a "Westbrook Dividend."

S&H have agreed with Westbrook that S&H will, at Westbrook's sole option, purchase the Units from Westbrook under certain circumstances.

NOW THEREFORE, for good and valuable consideration the receipt and sufficiency of which is acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Option and Obligation. Westbrook shall have the Option to sell to S&H all, but not less than all, the Units. in accordance with the terms and conditions set forth in this Agreement (the "Option"). The obligation of S&H to purchase the Units upon exercise of the Option shall be the joint and several obligation of each of Shidler and Hamlin. The total purchase price payable for the Units upon exercise of the Option is $3,481,579 (the "Purchase Price").

2. Exercise of Option. The Option may be exercised by Westbrook either: (i) within ten (10) business days after the date on which FCLP fails to make a Dividend payment to Westbrook as set forth on Exhibit A attached hereto, or (ii) at any time between October 15 , 1999 and December 15, 1999. If not exercised, the Option shall expire at the close of business on December 15, 1999, and this Agreement shall be of no further force and effect from and after such date.

3. Method of Exercise. To exercise the Option, Westbrook shall give notice to each of Shidler and Hamlin of its election to do so (the "Notice") within the times described in Section 2 above. The Notice shall be in writing, shall be signed by an authorized person from each of TSH, TWR and TWRCO, and either (i) personally delivered (with receipt acknowledged), or (ii) sent by registered or certified mail, return receipt requested, postage prepaid, addressed to Shidler at The Shidler Group, 810 Richards Street, Suite

1000, Honolulu, Hawaii, and to Hamlin at The Shidler Group, Suite 1105, One Logan Square, Philadelphia, Pennsylvania, 19103. The Notice shall be deemed given when received by each of Shidler and Hamlin.

4. Closing. Closing on the exercise of the Option (the "Closing") shall be at such address, on such date no more than sixty (60) days after the date on which Notice is given and at such time during normal business hours as shall be designated by S&H pursuant to a written notification to be sent by S&H via personal delivery (with receipt acknowledged), or by registered or certified mail, return receipt requested, postage prepaid to Patrick Fox, Westbrook Partners, LLC, 13155 Noel Road-LB 54, Suite 2300, Dallas, Texas 75240.

5. Deliveries and Payment at Closing. At Closing,

(a) S&H shall pay the Purchase Price (allocated among TSE, TWR and TWRCO as they shall jointly direct in the Notice) in full in cash, by bank check or by wire transfer;

(b) Westbrook shall deliver to S&H certificates evidencing the Units, duly endorsed for transfer, or, if the Units are not certificated, an such

assignments, consents and other instruments or documents as may be necessary to convey unencumbered title to the Units to S&H. The Units purchased by S&H shall be allocated between them in such manner as they shall direct in the notification of Closing delivered pursuant to Section 4 above.

(c) Each of TSB, TWR and TWRCO shall deliver to S&H such certificates or other documents as S&H shall reasonably require, to evidence the due authorization of TSB, TWR and TWRCO to transfer the Units; and

(d) Westbrook shall deliver or cause to be delivered to S&H an opinion of counsel addressed to S&H to the effect that the transfer of the Units by Westbrook (i) has been duly authorized by each of TSB, TWR and TWRCO and (ii) is exempt from the registration requirements of the Securities Act of 1933, as amended, and the securities laws of the states, or that appropriate registration(s) under such laws has/have been effected.

6. Assignment and Binding Effect. This Agreement may not be assigned Westbrook without the written consent of both Shidler and Hamlin, except that it may be assigned to an affiliate of Westbrook to the same extent as such affiliate is the assignee of Units. This Agreement may be not be assigned by either Shidler or Hamlin without the written consent of each of TSB, TWR and TWRCO. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective personal representatives heirs, successors and permitted assigns.

7. Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be governed by, and shall be construed and enforced in accordance with, the internal laws of the State of New York, without regard to conflicts of laws principles. except as set forth below. The parties acknowledge that New York has substantial relationship to the underlying transactions related to this agreement and to the parties involved.

8. Consent to Jurisdiction and Service of Process.

All judicial proceedings brought against the parties arising out of or relating to this Agreement may be brought in any state or federal court of competent jurisdiction in the State, County and City of New York. By executing and delivering this agreement, each party irrevocably:

(i) accepts generally and unconditionally the nonexclusive jurisdiction and venue of such courts;

(ii) waives any defense of forum non conveniens;

(iii) agrees that service of all process in any such proceeding in any such court may be made by registered or certified mail. return receipt requested, to borrower at its address set forth in that certain Agreement of Limited Partnership of South Brunswick Land , L.P. dated of even date; and

(iv) agrees that service as provided in clause (iii) above is sufficient to confer personal jurisdiction over such party in any such proceeding in any such court, and otherwise constitutes effective and binding service in every respect.

9. Counterparts. This Agreement may be executed by facsimile signatures and in any number of counterparts, all of which, when taken together, shall constitute one and the same instrument.

10. Further Assurance. It is understood that Westbrook is looking to its counsel, Cadwalader, Wickersham & Taft ("CWT"), to opine to Westbrook that the obligations of S&H hereunder are enforceable under the laws of New York State. CWT shall complete its review of this Agreement promptly after the date hereof. It is S&H's intention that their obligations hereunder be enforceable, and S&H agree to make such amendments to this Agreement as may be reasonably necessary, in the legal opinion of CWT, to render S&H's obligations hereunder enforceable under the laws of New York State.

IN WITNESS WHEREOF, intending to be legally bound, the undersigned have executed this Agreement as of the day and date first above written.

Jay H. Shidler

Clay W. Hamlin, III

TIGER SOUTH BRUNSWICK, L. L.C., a Delaware limited liability company, by its managing members Westbrook Real Estate Fund I. L.P., a Delaware limited partnership, and Westbrook Real Estate Co-Investment Partnership I, L.P., a Delaware limited partnership, by their general partner Westbrook Real Estate Partners Management, L.L.C., by its sole managing member Westbrook Real Estate Partners, L.L.C.

By:

TIGER/WESTBROOK REAL ESTATE FUND I, L.P., a Delaware limited partnership, by its general partner Westbrook Real Esstate Partners Management I, L.L.C., by its sole managing member Westbrook Real Estate Partners, L.L.C.

By:

TIGER/WESTBROOK REAL ESTATE CO-INVESTMENT PARTNERSHIP I, L.P., a Delaware limited partnership. by its general partner Westbrook Real Estate Partners Management I, L.L.C., by its sole managing member Westbrook Real Estate Partners, L.L.C.

By:

EXHIBIT A

SCHEDULED DIVIDENDS

Quarter Ending	Dividend on 245,714 Preferred Units @ 1.625 Annual Rate	Dividend an 372,294 Common Units @ $.50 Annual Rate
12/31/971	$85,716	$46,536
3/31/98	99,821	46,536
6/30/98	99,821	46,536
9/20/98	99,821	46,536
12/31/98	99,821	46,536
3/31/99	99,821	46,536
6/30/99	99,821	46,536
9/30/99	99,821	46,536

- ----------

1 12/31/97 Dividend on Preferred Units assumes a closing of 10/14/97 and a proration of the dividend for 79 days over a 92-day period.

To: Tiger South Btunswick, L.L.C.
tiger/Westbrook Real Estate Fund, L.P.
Tiger/Westhrook Real Estate Co-Investment Partnership, L.P.
The above are collectively referred to as the "TW Parties".

The undersigned Royale Investments, Inc., a Minnesota corporation ("Royale") and FCO, L.P., a Delaware limited partnership ("FCO"), hereby confirm that neither Royale nor FCO shall have any claim against any of the TW Parties

on account of a breach or misrepresentation by South Brunswick Investment Company, LLC, a New Jersey limited partnership ("SBIC") of any representation or warranty made by SBIC in Section 10 of that certain Formation/Contribution Agreement dated as of September 7, 1997 by and among SBIC, Royale and others (the "Formation Agreement").

Royale and FCO hereby release each of the TW Parties from and against any claims either or both Royale and FCO may have on account of any breach or misrepresentation of any representation or warranty made by SBIC in Section 10 of the Formation Agreement.

For good and valuable consideration, the receipt of which is hereby acknowledged, Royale and FCO have executed this letter agreement this 14th day of October, 1997.

ROYALE INVESTNMENTS, INC.

By: _____

FCO, L.P.

By: Royale Investments, Inc., its
General Partner

By: _____

EMPLOYMENT AGREEMENT

CLAY W. HAMLIN, III

This Employment Agreement (this "Agreement"), is made and entered into as of the 14th day of October, 1997 (the "Effective Date"), by and between FCO, L.P., a Delaware limited partnership (the "Employer"), and Clay W. Hamlin, III (the "Executive").

RECITALS

A. The Employer desires to employ the Executive as an officer of the Employer for a specified term, and the Executive is willing to accept such employment upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements hereinafter contained, it is covenanted and agreed by and between the parties hereto as follows:

AGREEMENTS

1. POSITION AND DUTIES. The Employer hereby employs the Executive as the President and Chief Executive Officer of the Employer, or in such other capacity as shall be mutually agreed between the Employer and the Executive. During the period of the Executive's employment hereunder, the Executive shall devote his best efforts and full business time, energy, skills and attention to the business and affairs of the Employer. The Executive's duties and authority shall consist of and include all duties and authority customarily performed and held by persons holding equivalent positions with business organizations similar in nature and size to the Employer, as such duties and authority are reasonably defined, modified and delegated from time to time by the Board of Directors of the Employer (the "Board"). The Executive shall have the powers necessary to perform the duties assigned to him, and shall be provided such supporting services, staff, secretarial and other assistance, office space and accouterments as shall be reasonably necessary and appropriate in the light of such assigned duties.

2. COMPENSATION. As compensation for the services to be provided by the Executive hereunder, the Executive shall receive the following compensation and other benefits:

(a) BASE SALARY. The Executive shall receive an aggregate annual minimum "Base Salary" at the rate of Ninety Thousand dollars ($90,000) per annum, payable in periodic installments in accordance with the regular payroll practices of the Employer. Such Base Salary shall be subject to review annually by the Compensation Committee of the Board during the term hereof, in accordance with the Employers established compensation policies.

(b) PERFORMANCE BONUS. The Executive shall receive an annual cash "Performance Bonus," payable within forty-five (45) days after the end of the fiscal year of the Employer, which for the initial year shall depend upon achievement of the Company's minimum no - growth budget, and also shall be based upon company-wide and individual performance criteria mutually agreed upon from time to time by the Executive and the Board, and which shall be determined by the Board based upon the recommendation of the Compensation Committee thereof.

(c) BENEFITS. The Executive shall be entitled to all perquisites extended to similarly situated executives, as such are stated in the Employer's Executive Perquisite Policy (the "Perquisite Policy") promulgated for the Board by the Compensation Committee of the Board, and which Perquisite Policy is hereby incorporated by reference, as amended from time to time. In addition, the Executive shall be entitled to participate in all plans and benefits generally, from time to time, accorded to employees of the Employer ("Benefit Plans"), all as determined by the Board from time to time based upon the input of its Compensation Committee.

(d) WITHHOLDING. The Employer shall be entitled to withhold from amounts payable to the Executive hereunder, any federal, state or local withholding or other taxes or charges which it is from time to time required to withhold. The Employer shall be entitled to rely upon the opinion of its independent accountants, with regard to any question concerning the amount or requirement of any such withholding.

3. TERM AND TERMINATION.

(a) BASIC TERM. The Executive's employment hereunder shall be for a continuous and self-renewing two (2) year term, commencing as of the Effective Date, unless terminated by either party, with or without cause, effec-

tive as of the first (1st) business day after written notice to that effect is delivered to the other party.

(b) PREMATURE TERMINATION.

(i) In the event of the termination of the employment of the Executive under this Agreement by the Employer because of failure to meet the minimum no-growth budget (attached hereto) or for any reason other than expiration of the term hereof or a "for-cause" termination in accordance with the provisions of paragraph (d) of this Section 3, then notwithstanding any actual or allegedly available alternative employment or other mitigation of damages by or available to the Executive, the Executive shall be entitled to a "Lump Sum Payment" equal to the sum of: (w) his monthly Base Salary then payable, multiplied by the remaining number of months or partial months until expiration of the Basic Term or renewal term, if any, and an annualized and proportional amount equal to the average of the two (2) most recent annual Performance Bonuses that the Executive received; For purposes of calculating the Lump Sum Payment amounts due, the Executive's employment with the Employer shall be agreed to have commenced on October , 1997. In the event of a termination governed by this subparagraph (b)(i) of Section 3, the Employer shall also: (y) notwithstanding the vesting schedule otherwise applicable, fully vest all of Executive's options outstanding under any option or stock incentive plan herein after established by Employer ("Option Plan") and allow a period of eighteen (18) months following the termination of employment for the Executive to exercise any such options; and (z) continue for the Executive (provided that such items are not available to him by virtue of other employment secured after termination) the perquisites. plans and benefits provided under the Employer's Perquisite Policy and Benefit Plans as of and after the date of termination, [all items in (z) being collectively referred to as "Post-Termination Perquisites and Benefits"], for the lesser of the number of full months the Executive has theretofore been employed by the Employer or twenty four (24) months following such termination. The payments and benefits provided under (w), (x), (y) and (z) above by the Employer shall not be offset against or diminish any other compensa-

tion or benefits accrued as of the date of termination.

(ii) Payment to the Executive under this Section 3(b) will be made monthly over twelve (12) months.

(c) CONSTRUCTIVE TERMINATION. If at any time during the term of this Agreement, except in connection with a "for-cause" termination pursuant to paragraph (d) of this Section 3, the Executive is Constructively Discharged (as hereinafter defined), then the Executive shall have the right, by written notice to the Employer given within one hundred and twenty (120) days of such Constructive Discharge, to terminate his services hereunder, effective as of thirty (30) days after such notice, and the Executive shall have no rights or obligations under this Agreement other than as provided in Section 5 hereof. The Executive shall in such event be entitled to a Lump Sum Payment of Base Salary and Performance Bonus compensation as well as all of the Post-Termination Prerequisites and Benefits, as if such termination of his employment had been effectuated pursuant to paragraph (b) of this Section 3.

For purposes of this Agreement, the Executive shall be deemed to have been "Constructively Discharged" upon the occurrence of any one of the following events.

(i) The Executive is not re-elected to, or is removed from, both of the positions with the Employer set forth in Section I hereof, other than as a result of the Executive's election or appointment to positions of equal or superior scope and responsibility; or

(ii) The Executive shall fail to be vested by the Employer with the powers, authority and support services normally attendant to any

of said offices; or

(iii) The Employer shall notify the Executive that the employment of the Executive will be terminated or materially modified in the future or that the Executive will be Constructively Discharged in the future; or

(iv) The Employer changes the primary employment location of the Executive to a place that is more

than fifty (50) miles from the primary employment location as of the Effective Date of this Agreement; or

(v) The Employer otherwise commits a material breach of its obligations under this Agreement.

(d) TERMINATION FOR CAUSE. The employment of the Executive and this Agreement may be terminated "for-cause" as hereinafter defined. Termination "for-cause" shall mean the termination of employment on the basis or as a result of: (i) the Executive's death or his permanent disability, which latter term shall mean the Executive's inability, as a result of physical or mental incapacity, substantially to perform his duties hereunder for a period of either six (6) consecutive months, or one hundred and twenty (120) business days within a consecutive twelve (12) month period; (ii) a material violation by the Executive of any applicable material law or regulation respecting the business of the Employer, (iii) the Executive being found guilty of, or being publicly associated with, to the Employer's detriment, a felony or an act of dishonesty in connection with the performance of his duties as an officer of the Employer, or the Executive's commission of an act which disqualifies the Executive from serving as an officer or director of the Employer, or (iv) the willful or negligent failure of the Executive to perform his duties hereunder in any material respect. The Executive shall be entitled to at least thirty (30) days' prior written notice of the Employer's intention to terminate his employment for any cause (except the Executive's death), specifying the grounds for such termination, affording the Executive a reasonable opportunity to cure any conduct or act (if curable) alleged as grounds for such termination and a reasonable opportunity to present to the Board his position regarding any dispute relating to the existence of such cause.

(e) TERMINATION UPON DEATH. In the event payments are due and owing under this Agreement at the death of the Executive, such payments shall be made to such beneficiary, designee or fiduciary as Executive may have designated in writing, or failing such designation, to the executor or administrator of his estate, in full settlement and satisfaction of all claims and demands on behalf of the Executive. Such payments shall be in addition to any other death benefits of the Employer made available for the benefit of the Executive, and in full settlement and

satisfaction of all payments provided for in this Agreement.

(f) TERMINATION UPON DISABILITY. The Employer may terminate the Executive's employment after the Executive is determined to be disabled under the current Employer program or by a physician engaged by the Employer. In the event of a dispute regarding the Executive's "disability," such dispute shall be resolved through arbitration as provided in paragraph (d) of Section 9 hereof except that the arbitrator appointed by the American Arbitration Association shall be a duly licensed medical doctor. The Executive shall be entitled to the compensation and benefits provided for under this Agreement during any period of incapacitation occurring during the term of this Agreement, and occurring prior to the establishment of the Executive's "disability" during which the Executive is unable to work due to a physical or mental infirmity. Notwithstanding anything contained in this Agreement to the contrary, until the date specified in a notice of termination relating to the Executive's disability, the Executive shall be entitled to return to his positions with the Employer as set forth in this Agreement, in which event no disability of the Executive will be deemed to have occurred.

(g) TERMINATION UPON CHANGE OF CONTROL.

(i) In the event of a Change in Control (as defined below) of the Employer and the termination of the Executive's employment by Executive or by the Employer under either 1 or 2 below, the Executive shall be entitled to a Lump Sum Payment equal to the sum of: (w) his monthly Base Salary then payable, multiplied by the lesser of the number of full months the Executive has theretofore been employed by

the Employer or twenty-four (24); plus (x) two (2) times the average of the two (2) most recent annual Performance Bonuses that the Executive received; provided, however, that if the Executive has been employed by the Employer for fewer than two (2) years, then the amount set forth in (x) above shall be equal to two (2) times the average of the annual Performance Bonuses that the Executive has theretofore received from the Employer. The Employer shall also: (y) notwithstanding the vesting schedule otherwise applicable, fully vest all of Executive's options outstanding under any Option Plan and allow a period

of eighteen (18) months following the termination of employment of the Executive for the Executive's exercise of such options; and (z) continue for the Executive (provided that such items are not available to him by virtue of other employment secured after termination) all of the perquisites, plans and benefits provided under paragraph (c) of Section z, for the lesser of the number of full months the Executive has been employed by the Employer or twenty-four (24) months following such termination. The payments and benefits provided under (w), (x), (y) and (z) above by the Employer shall not be offset against or diminish any other compensation or benefits accrued as of the date of termination. The following shall constitute termination under this paragraph:

1. The Executive terminates his employment under this Agreement pursuant to a written notice to that effect delivered to the Board within six (6) months after the occurrence of the Change in Control.

2. Executive's employment is terminated, including Constructively Discharged, by the Employer or its successor either in contemplation of or after Change in Control, other than on a for-cause basis.

(ii) For Purposes of this paragraph, the term "Change in Control" shall mean the following occurring after the date of this Agreement:

1. The Consummation of the acquisition by any person (as such term is defined in Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the " 1934 Act")) of beneficial ownership (within the meaning of Rule l3d-3 promulgated under the 1934 Act) of forty percent (40%) or more of the combined voting power embodied in the then-outstanding voting securities of the Employer; or

2. Approval by the stockholders of the Employer of: (1) a merger or consoli-

dation of the Employer, if the stockholders of the Employer immediately before such merger or consolidation do not, as a result of such merger or consolidation, own, directly or indirectly, more than fifty percent (500%) of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation in substantially the same proportion as was represented by their ownership of the combined voting power of the voting securities of the Employer outstanding immediately before such merger or consolidation; or (2) a complete or substantial liquidation or dissolution or an agreement for the sale or other disposition, of all or substantially all of the assets of the Employer.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because forty percent (40%) or more of the combined voting then-outstanding securities is acquired by: (1) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of the entity; or (2) any corporation or other entity which, immediately prior to such acquisition, is owned directly or directly or indirectly by the stockholders of the Employer immediately prior to such acquisition.

(iii) If it is determined, in the opinion of the Employer's independent accountants, in consultation with the Employer's independent counsel, that any amount payable to the Executive by the Employer under this Agreement, or any other plan or agreement under which the executive participates or is a party, would constitute an "Excess Parachute Payment" within the meaning of

Section 280G of the Internal Revenue Code of 1986, as amended (the "Code") and be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), the Employer shall pay to the Executive a "grossing-up" amount equal to the amount of such Excise Tax and all federal and state income or other taxes with respect payment of the amount of such Excise Tax, including all such taxes with respect to any such grossing-up amount. If at a later date, the Internal Revenue Service assesses a defi-

ciency against the Executive for the Excise Tax which is greater than that which was determined at the time such amounts were paid, the Employer shall pay to the Executive the amount of such unreimbursed Excise Tax plus any interest, penalties and professional fees or expenses, incurred by the Executive as a result of such assessment, including all such taxes with respect to any such additional amount. The highest marginal tax rate applicable to individuals at the time of payment of such amounts will be used for purposes of determining the federal and state income and other taxes with respect thereto. The Employer shall withhold from any amounts paid under this Agreement the amount of any Excise Tax or other federal, state or local taxes then required to be withheld. Computations of the amount of any grossing-up supplemental compensation paid under this subparagraph shall be made by the Employer's independent accountants, in consultation with the Employer's independent legal counsel. The Employer shall pay all accountant and legal counsel fees and expenses.

4. CONFIDENTIALITY AND LOYALTY. The Executive acknowledges that heretofore or hereafter during the course of his employment he has produced and received, and may hereafter produce, receive and otherwise have access to various materials, records, data trade secrets and information not generally available to the public (collectively, "Confidential Information") regarding the Employer and its subsidiaries and affiliates. Accordingly, during and subsequent to termination of this Agreement, the Executive shall hold in confidence and not directly or indirectly disclose, use, copy or make lists of any such Confidential Information, except to the extent that such information is or thereafter becomes lawfully available from public sources, or such disclosure is authorized in writing by the Employer, required by law or by any competent administrative agency or judicial authority, or otherwise as reasonably necessary or appropriate in connection with the performance by the Executive of his duties hereunder. All records, files, documents, computer diskettes, computer programs and other computer-generated material , as well as all other materials or copies thereof relating to the Employer's business, which the Executive shall prepare or use, shall be and remain the sole property of the Employer, shall not be removed from the Employer's premises without its written consent, and shall be promptly returned to the Employer upon termination of the Executive's employment hereunder. The Executive agrees to abide by the Employer's reasonable policies, as in effect from time

to time, respecting confidentiality and the avoidance of interests conflicting with those of the Employer.

5. NON-COMPETITION OF COVENANT.

(a) RESTRICTIVE COVENANT. The Employer and the Executive have jointly reviewed the tenant lists, property submittals, logs, broker lists, and operations of the Employer, and have agreed that as an essential ingredient of and in consideration of this Agreement and the payment of the amounts described in Sections 2 and 3 hereof, the Executive hereby agrees that, except with the express prior written consent of the Employer, for a period equal to the lesser of the number of full months the Executive has at any time been employed by the Employer or twenty-four (24) months after the termination of the Executive's employment with the Employer (the "Restrictive Period"), he will not directly or indirectly compete with the business of the Employer, including, but not by way of limitation, by directly or indirectly owning, managing, operating, controlling, financing, or by directly or indirectly serving as an employee, officer or director of or consultant to, or by soliciting or inducing, or attempting to solicit or induce, any employee or agent of Employer to terminate employment with Employer and become employed by any person, firm, partnership, corporation, trust or other entity which owns or operates a business similar to that of the Employer (the "Restrictive Covenant"). For purposes of this subparagraph (a) a business shall be considered "similar" to that of the Employer if it is engaged in the acquisition, development, ownership, operation, management or leasing of office or net leased retail property (i) in any geographic market or territory in which the Employer owns

properties either as of the date hereof or as of the date of termination of the Executive's employment; or (ii) in any market in which an acquisition is pending at the time of the termination of the Executive's employment. If the Executive violates the Restrictive Covenant and the Employer brings legal action for injunctive or other relief, the Employer shall not, as a result of the time involved in obtaining such relief, be deprived of the benefit of t he full period of the Restrictive Covenant. Accordingly, the Restrictive Covenant shall be deemed to have the duration specified in this paragraph (a) computed from the date the relief is granted but reduced by the time between the period when the Restrictive Period began to run and the date of the first violation of the Restrictive Covenant by the Executive. In the event that a suc-

cessor of the Employer assumes and agrees to perform this Agreement or otherwise acquires the Employer, this Restrictive Covenant shall continue to apply only to the primary service area of the Employer as it existed immediately before such assumption or acquisition and shall not apply to any of the successor's other offices or markets. The foregoing Restrictive Covenant shall not prohibit the Executive from owning directly or indirectly, capital stock or similar securities which are listed on a securities exchange or quoted on the National Association of Securities Dealers Automated Quotation System which do not represent more than five percent (5%) of the outstanding capital stock of any corporation.

(b) REMEDIES FOR BREACH OF RESTRICTIVE COVENANT. The Executive acknowledges that the restrictions contained in Sections 4 and 5 of this Agreement are reasonable and necessary for the protection of the legitimate proprietary business interests of the Employer, that any violation of these restrictions would cause substantial injury to the Employer and such interests; that the Employer would not have entered into this Agreement with the Executive without receiving the additional consideration offered by the Executive in binding himself to these restrictions; and that such restrictions were a material inducement to the Employer to enter into this Agreement. In the event of any violation or threatened violation of these restrictions, the Employer shall be relieved of any further obligations under this Agreement, shall be entitled to any rights, remedies or damages available at law, in equity or otherwise under this Agreement, and shall be entitled to preliminary and temporary injunctive relief granted by a court of competent jurisdiction to prevent or restrain any such violation by the Executive and any and all persons directly or indirectly acting for or with him, as the case may be, while awaiting the decision of the arbitrator selected in accordance with paragraph (d) of Section 9 of this Agreement, which decision, if rendered adverse to the Executive, may include permanent injunctive relief to be granted by the court.

6. INTERCORPORATE TRANSFERS. If the Executive shall be voluntarily transferred to an affiliate of the Employer, such transfer shall not be deemed to terminate or modify this Agreement, and the employing corporation to which the Executive shall have been transferred shall, for all purposes of this Agreement, be construed as standing in the same place and stead as the Employer as of the date of such transfer. For all rele-

vant purposes hereof, the tenure of the Executive shall be deemed to include the aggregate term of his employment by the Employer or its affiliate.

7. INTEREST IN ASSETS. Neither the Executive nor his estate shall acquire hereunder any rights in funds or assets of the Employer, otherwise than by and through the actual payment of amounts payable hereunder; nor shall the Executive or his estate have any power to transfer, assign, anticipate, hypothecate or otherwise encumber in advance any of said payments; nor shall any of such payments be subject to seizure for the payment of any debt, judgment, alimony, separate maintenance or be transferable by operation of law in the event of bankruptcy, insolvency or otherwise of the Executive.

8. INDEMNIFICATION.

(a) The Employer shall provide the Executive (including his heirs, personal representatives, executors and administrators), during the term of this Agreement and thereafter throughout all applicable limitations periods, with coverage under the Employer's then-current directors' and officers' liability insurance policy, at the Employer's expense.

(b) In addition to the insurance coverage provided for in paragraph (a) of this Section 8, the Employer shall defend, hold harmless and indemnify the Executive (and his heirs, executors and administrators) to the fullest extent permitted under applicable law, and subject to the requirements, limitations and specifications set forth in the Bylaws and

other organization documents of the Employer, against all expenses and liabilities reasonably incurred by him in connection with or arising out of any action, suit or proceeding in which he may be involved by reason of his having been an officer of the Employer (whether of not he continues to be an officer at the time of incurring such expenses or liabilities), such expenses and liabilities to include, but not be limited to, judgments, court costs and attorney's fees and the cost of reasonable settlements.

(c) In the event the Executive becomes a party, or is threatened to be made a party, to any action, suit or proceeding for which other Employer has agreed to provide insurance coverage or indemnification under Section 8, the Employer shall, to the full extent permitted under applicable law, advance all expenses (including the reasonable

attorneys' fees of the attorneys selected by Employer and approved by Executive for the representation of the Executive), judgments, fines and amounts paid in settlement (collectively "Expenses") incurred by the Executive in connection with the investigation, defense, settlement, or appeal of any threatened, pending or completed action, suit or proceeding, subject to receipt by the Employer of a written undertaking from the Executive covenanting: (i) to reimburse the Employer for all Expenses actually paid by the Employer to or on behalf of the Executive in the event it shall be ultimately determined that the Executive is not entitled to indemnification by the Employer for such Expenses; and (ii) to assign to the Employer all rights of the Executive to insurance proceeds, under any policy of directors' and officers' liability insurance or otherwise, to the extent of the amount of Expenses actually paid by the Employer to or on behalf of the Executive.

9. GENERAL PROVISIONS.

(a) SUCCESSORS; ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the Executive, the Employer and his and its respective personal representatives, successors and assigns, and any successor or assign of the Employer shall be deemed the "Employer" hereunder. The Employer shall require any successor to all or substantially all of the business and/or assets of the Employer, whether directly or indirectly, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Employer would be required to perform if no such succession had taken place. (b) ENTIRE AGREEMENT; MODIFICATIONS. This Agreement constitutes the entire agreement between the parties respecting the subject matter hereof, and supersedes all prior negotiations, undertakings, agreements and arrangements with respect thereto, whether written or oral. Except as otherwise explicitly provided herein, this Agreement may not be amended or modified except by written agreement signed by the Executive and the Employer.

(c) ENFORCEMENT AND GOVERNING LAW. The provisions of this Agreement shall be regarded as divisible and separate; if any of said provisions should be declared invalid

or unenforceable by a court of competent jurisdiction, the validity and enforceability of the remaining provisions shall not be affected thereby. This Agreement shall be construed and the legal relations of the parties hereto shall be determined in accordance with the laws of the State of Pennsylvania as it constitutes the situs of the corporation and the employment hereunder, without reference to the law regarding conflicts of law.

(d) ARBITRATION. Except as provided in paragraph (b) of Section 5, any dispute or controversy arising under or in connection with this Agreement or the Executive's employment by the Employer shall be settled exclusively by arbitration, conducted by a single arbitrator sitting in Philadelphia, Pennsylvania in accordance with the rules of the American Arbitration Association (the "AAA") then in effect. The arbitrator shall be selected by the parties from a list of eleven (11) arbitrators provided by the AAA, provided that no arbitrator shall be related to or affiliated with either of the parties. No later than ten (10) days after the list of proposed arbitrators is received by the parties, the parties, or their respective representatives, shall meet at a mutually convenient location in Philadelphia, Pennsylvania, or telephonically. At that meeting, the party who sought arbitration shall eliminate one (1) proposed arbitrator and then the other party shall eliminate one (1) proposed arbitrator. The parties shall continue to alternatively eliminate names from the list of proposed arbitrators in this manner until each party has eliminated five (5)

proposed arbitrators. The remaining arbitrator shall arbitrate the dispute. Each party shall submit, in writing, the specific requested action or decision it wishes to take, or make, with respect to the matter in dispute, and the arbitrator shall be obligated to choose one (i) party's specific requested action or decision, without being permitted to effectuate any compromise or "new" position, provided, however, that the arbitrator is authorized to award amounts not in dispute during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Employer shall beat the cost of all counsel, experts or other representatives that are retained by both parties, together with all costs of the arbitration proceeding, including, without limitation, the fees, costs and expenses imposed or incurred by the arbitrator. Judgment may be entered on the arbitrator's award in any court having jurisdiction; including, if applicable, entry of a permanent injunction under paragraph (b) of Section 5-

(e) PRESS RELEASES AND PUBLIC DISCLOSURE. Any press release or other public communication by either the Executive or the Employer with any other person concerning the terms, conditions or circumstances of Executive's employment, or the termination of such employment, shall be subject to prior written approval of both the Executive and the Employer, subject to the proviso that the Employer shall be entitled to make requisite and appropriate public disclosure of the terms of this Agreement, without the Executive's consent or approval, as required under applicable statutes, and the rules and regulations of the Securities and Exchange Commission and the Stock Exchange on which the shares of Employer may from time to time be listed.

(f) WAIVER. No waiver by either party at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by the other party, shall be deemed a waiver of any similar or dissimilar provisions or conditions at the same time or any prior or subsequent time.

(g) NOTICES. Notices given pursuant to this Agreement shall be in writing, and shall be deemed given when received, and, if mailed, shall be mailed by United States registered or certified mail, return receipt requested, postage prepaid. Notices to the Employer shall be addressed to the principal headquarters of the Employer, Attention: Chairman. Notices to the Executive, shall be sent to the address set forth below the Executives signature on this Agreement, or to such other address as the party to be notified shall have given to the other.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

FCO, L.P.
a Delaware limited partnership
by its general partner,
Royale Investment Inc.

By: _____

CLAY W. HAMLIN, III

_____
Clay W. Hamlin, III

ASSIGNMENT

THIS ASSIGNMENT ("Assignment") dated as of the 14th day of October, 1997 by TIGER SOUTH BRUNSWICK, L.L.C., WESTBROOK REAL ESTATE FUND I, L.P., AND WESTBROOK REAL ESTATE CO-INVESTMENT PARTNERSHIP I, L.P. (collectively, the "Assignors") for the benefit of Jay H. Shidler ("Shidler") and Clay W. Hamlin, III ("Hamlin").

Background

On the date hereof, the Assignors are assigning to Royale Investments, Inc. ("Royale") certain limited partnership interests in South Brunswick Investors, L.P., a Delaware limited partnership. In consideration for such assignment of limited partnership interests, Royale has agreed to issue and deliver to the Assignors 147,818 shares of Royale common stock (the "Shares").

In connection with a separate transaction. the Assignors have agreed to deliver the Shares to Shidler and Hamlin.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Assignors hereby assign:

(i) to Shidler, all interest in and to, and the right to receive, directly from Royale, fifty percent (50%) of the Shares; and

(ii) to Hamlin, all interest in and to, and the right to receive, directly from Royale, fifty percent (50%) of the Shares.

Assignors agree that they shall direct Royale to issue the Shares as set forth above.

IN WITNESS WHEREOF, the Assignors have executed this Assignment as of the date first set forth above.

TIGER SOUTH BRUNSWICK, L.L.C., a Delaware limited liability company, by its managing members Westbrook Real Estate Fund I, L.P., a Delaware limited partnership, and Westbrook Real Estate Co-Investment Partnership I, L.P., a Delaware limited partnership, by their general partner, Westbrook Real Estate Partners Management I, L.L.C., by its sole managing member Westbrook Real Estate Partners, L.L.C.

By: _____

Print Name: _____

WESTBROOK REAL ESTATE FUND I, L.P., a Delaware limited partnership, and WESTBROOK REAL ESTATE CO-INVESTMENT PARTNERSHIP I, L.P., a Delaware limited partnership, by their general partner Westbrook Real Estate Partners Management I, L.L.C., by its sole managing member Westbrook Real Estate Partners, L.L.C.

By: _____

Print Name: _____

Royale Investments Inc,
3430 List Place
Minneapolis, MN 55416

Ladies and Gentlemen:

On this date, the undersigned are transferring to Royale Investments Inc. ("Royale") certain limited Partnership interests in Blue Bell Investment Company, L.P., South Brunswick, L.P., Comcourt. Investors, L.P., and 6385 Flank Drive L.P. (collectively, "Assignors"), as more particularly set forth in those certain Assignments of Partnership Interests dated the date hereof and being delivered to Royale together with this letter. As consideration for the assignment of the interests, Royale has agreed to issue to the Assignors 600,000 shares of Royale common stock (the "Stock"). This letter shall constitute instructions to Royale from the undersigned that the stock should be issued in the form of two certificates for 300,000 shares each, in the names of Jay H. Shidler and Clay W. Hamlin, III respectively. This letter may be signed in one or more counterparts and facsimile signatures shall be acceptable for purposes of this letter.

Very truly yours.

STRATEGIC FACILITY INVESTORS, INC.

By:

Clay W. Hamlin, III

COMCOURT INVESTMENT CORPORATION

By:

Clay W. Hamlin, III

GATEWAY SHANNON
DEVELOPMENT CORPORATION

By:

Clay W. Hamlin, III

Clay W. Hamlin, III

Jay H. Shidler, by his attorney-in-fact

By:

Clay W. Hamlin, III

TIGER SOUTH BRUNSWICK, L.L.C., a Delaware limited liability company, by its managing members Westbrook Real Estate Fund I, L.P., a Delaware limited partnership, and Westbrook Real Estate Co-Investment Partnership I, L.P., a Delaware limited partnership, by their general partner Westbrook Real Estate Partners Management I, L.L.C., by its sole managing member Westbrook Real Estate Partners, L.L.C.

By:

Print Name:
Print Title:

WESTBROOK REAL ESTATE FUND I, L.P., a Delaware limited partnership, and WESTBROOK REAL ESTATE CO-INVESTMENT PARTNERSHIP, L.P., a Delaware limited partnership, by their general partner Westbrook Real Estate Partners Management I. L.L.C., by its sole managing member Westbrook Real Estate Partners, L.L.C.

By.

Print Name:
Print Title: