



COMPANY UPDATE / ESTIMATE CHANGES

Key Metrics

FPO - NYSE (as of 7/27/2017)	\$11.09
Price Target	NA
52-Week Range	\$8.01 - \$11.46
Shares & Units Outstanding (mm)	61
Market Cap. (\$mm)	\$676
3-Mo. Average Daily Volume (000)	538
Institutional Ownership	96%
Debt/Total Market Capital (6/17)	48.9%
Dividend	\$0.40
Dividend Yield	3.6%
Interest Coverage Ratio	3.19x

Core FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.24		\$0.23 A	\$0.19	\$0.19
2Q	\$0.27		\$0.23 A	\$0.20	\$0.20
3Q	\$0.28	\$0.19	\$0.19	\$0.20	\$0.19
4Q	\$0.27	\$0.20	\$0.20	\$0.21	\$0.21
Year	\$1.06	\$0.83	\$0.86	\$0.80	\$0.80
P/Core FFO	10.5x		12.9x		13.9x

Core FFO excludes gains from the early retirement of debt and sale of real estate, acquisition costs, and other one-time charges.

Revenue (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$43		\$38 A	\$34	\$35
2Q	\$38		\$35 A	\$34	\$35
3Q	\$40	\$34	\$34	\$35	\$36
4Q	\$39	\$33	\$33	\$35	\$36
Year	\$160	\$138	\$141	\$139	\$141

Quarterly amounts may not add up to full year amounts due to rounding. Previous numbers have not been restated.

Company Description: First Potomac, headquartered in Bethesda, Maryland, is a REIT focused on owning, operating, developing and redeveloping office and business park properties in the greater Washington D.C. region.

First Potomac Realty Trust

FPO -- NYSE – Neutral -- 3

Second Quarter Results

- **First Potomac Realty Trust reported second quarter FFO of \$0.19 per share compared to \$0.22 in the year ago period.** Excluding non-recurring items, Core FFO were \$0.23 per share versus \$0.27.
- **The company's portfolio was 94.4% leased and 92.6% occupied at the end of the second quarter.** Comparable rental rates increased 19.5% on new leases and declined 2.3% on renewals on a GAAP basis. Net absorption was positive in the quarter at 18,159 square feet.
- **Merger Agreement.** In late June, First Potomac entered into a definitive merger agreement with Government Properties Income Trust (GOV - \$18.05). GOV will acquire all of the outstanding shares of First Potomac and assume all debt of FPO. The deal is expected to close before year end. FPO does not plan to have any earnings calls or provide guidance due to the pending merger. Due to the merger agreement FPO will not pay any dividends, except to the extent that dividends and other distributions are necessary to maintain REIT status.
- **We maintain our Neutral rating.** We believe the shares are fairly valued at this time. Yesterday's closing price is near the price GOV plans to pay for FPO of \$11.15 per share.

Note Important Disclosures on Pages 3 and 4.
Note Analyst Certification on Page 3.

Suitability

We assign shares of First Potomac Realty Investors a suitability rating of 3 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's lack of property type diversification and large exposure to government related tenants.

Risks & Considerations

Merger Risk - If the merger between FPO and GOV is not completed, or if it takes longer than expected, we believe FPO's stock price could be impacted.

Interest Rate Risk - Like all REITs, FPO is interest rate sensitive. FPO has 64.5% of its debt at variable rates. However, we note that 57.2% of the company's floating rate debt is hedged. In addition, the company's interest coverage ratio of 3.19x appears adequate. We believe FPO should be able to weather an increase in interest expense in a rising rate environment.

Regional Market Risk - FPO's real estate portfolio is predominately in the Maryland, Washington, D.C., Northern Virginia, and Southern Virginia markets. These markets are dependent on U.S. government spending programs, primarily defense spending. The U.S. government is FPO's largest tenant at 13.8% of total annualized rental revenue.

Acquisitions Versus Dispositions - We believe one internal risk for First Potomac is growing too rapidly through potentially dilutive acquisitions. We also believe dispositions can be dilutive to FFO.

SEC Inquiry Risk - FPO has fully remediated its material weakness discussed in its 2011 10-K. However, the SEC has made an informal inquiry related to this. There were legal costs in 1Q13 associated with this inquiry. At this point, we do not know if any additional costs or actions could be taken as a result of this inquiry. Any additional cost or negative actions could impact earnings.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

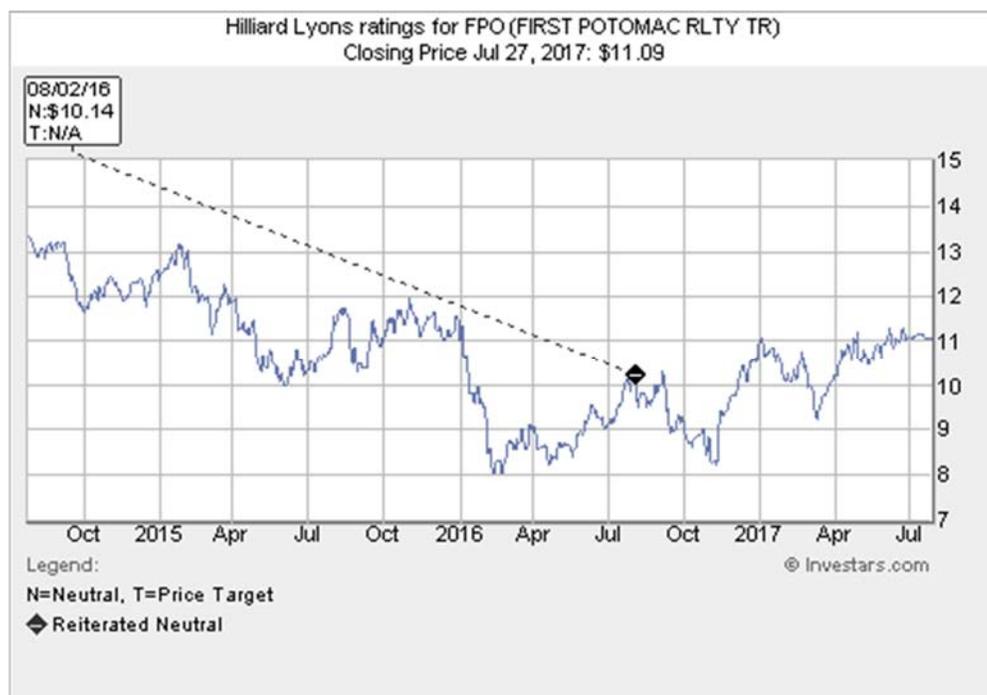
Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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