Capital Properties, Inc.

100 Dexter Road
East Providence, RI 02914
Phone: 1.401.435-7171
Fax: 1.401.435-7179

December 7, 2012

Dear Fellow Shareholder:

The Board of Directors at its meeting on December 3, 2012, on the recommendation of management, unanimously voted in lieu of the regular quarterly dividend normally paid in January to declare an extraordinary dividend of $2.25 per share payable to shareholders of record on December 17, 2012 with a payment date of December 27, 2012, subject to closing the below described Bank Rhode Island loan of $5,725,000. In total, the dividend will be slightly less than $14,850,000. For shareholders owning 100 or more shares, the dividend is payable 20%, or 45¢ per share, in cash, and 80%, or $1.80 per share, in dividend notes ("Dividend Notes") to be issued by the Company. Shareholders owning less than 100 shares of any class of Company stock where the shares are titled in their names and not held by a broker will receive 100% of the dividend in cash, but they may elect to receive it 20% in cash and 80% by Dividend Notes. If you own less than 100 shares of either Class A or Class B stock and wish to exercise the option to receive Dividend Notes, please execute the attached request and return it on or before December 14, 2012 to the Company at 100 Dexter Road, East Providence, Rhode Island 02914, Attention: Barbara Dreyer by certified mail, Federal Express or similar overnight carrier.

The Dividend Notes will have a term of 10 years and will bear interest at the rate of 5% per annum, such interest to be paid semi-annually on June 15 and December 15 with record dates of December 1 and June 1. The Dividend Notes will be subject to a mandatory prepayment in an amount equal to the net cash proceeds derived from any sale of Company real property, including real property owned by its subsidiaries. Net cash proceeds means the total cash proceeds received by the Company less the sum of (a) the cost of selling the property, (b) the Federal and state income taxes arising from the sale and (c) any payments made with respect to any financial institution secured debt. The Dividend Notes will be unsecured and will be treated equally with all other general creditors of the Company. In addition, the Dividend Notes prohibit the Company from mortgaging any of its Capital Center District real property and the real property owned by any of its subsidiaries except for Parcels 3S and 5 unless such mortgage is approved by the holders of two-thirds of the principal balance of the outstanding notes. The Dividend Notes will be transferrable only on the books of the Company.

In deciding to declare the extraordinary dividend, your Board of Directors was cognizant of the Obama Care surtax of 3.8% (effective January 1, 2013) as well as the potential changes in the tax law which on January 1, 2013 could increase the tax on dividends from its present 15% to 39.6% and increase the capital gains tax from 15% to 20%. The Board also took into consideration that Global Partners, LLP may purchase the petroleum storage facility (the "Terminal") within the next 12 to 18 months. As a result, were the Company to elect not to reinvest the proceeds of a sale of the Terminal but to distribute them to the shareholders, the shareholders would bear the higher tax than they would bear today. Recognizing that the sale price of the Terminal is indeterminate and that the sale might not occur, your Board decided to declare a dividend in an amount which the Company can afford even if the Terminal is not sold.

The Board believes the Company will generate sufficient cash flows to pay the interest on the Dividend Notes as well as interest and principal on an additional $3,000,000 which the Company anticipates borrowing from Bank Rhode Island to fund the cash portion of the payment of the dividend. Bank Rhode Island has committed to loan the Company $5,725,000 which includes refinancing $2,725,000 of the balance of the Company's existing debt to Bank Rhode Island. The loan will have a ten-year term and twenty-year amortization and will bear interest at the rate of 3.34% for the first five years. Thereafter, the interest rate will either float at LIBOR plus 2.15% but not less than 3.25%, or be fixed for five years at 2.25% in excess of the Boston Federal Home Loan Bank five year classic advance rate. The Bank will have a first mortgage on Parcels 3S and 5 in the Capital Center District. The loan will contain other covenants, terms and conditions customary for such loans and is scheduled to close on or before December 27, 2012.

At this time, the Board can give no assurance to shareholders that the historical dividend of $.03 per share can be maintained while the Dividend Notes are outstanding. The Board will evaluate the continuation and/or adjustment of any future dividend as facts and circumstances arise.

In arriving at this decision, the Board relied upon the opinion of an independent valuation firm that the declaration of the dividend would not result in the Company's liabilities exceeding the book value or the fair market value of the Company's assets and would not render the Company insolvent and unable to meet its obligations as they become due. In addition, the Board received an opinion from McFarland Dewey Securities Co. (a copy of which is attached and should be retained with your tax records) that the Dividend Notes should be valued at par.

For Federal income tax purposes, to the extent of the Company's earnings and profits, which the Company estimates will be approximately $.55 per share at December 31, 2012, the extra-ordinary dividend will be taxed as an ordinary dividend under the Internal Revenue Code of 1986. Generally speaking, amounts distributed to a shareholder in excess of the Company's per share accumulated earnings and profits are first treated as a nontaxable return of each share-holder's tax cost basis of his shares, and any amount received by a shareholder in excess of his cost basis is subject to being taxed as a capital gain. Since each shareholder's tax situation may be different, shareholders should consult their own tax advisors.

If for any reason the Bank Rhode Island loan does not close on or before December 27, 2012, then the Board will reconsider the declaration of the dividend and may elect to withdraw the dividend and not pay it.

Shareholders with questions concerning any aspect of the dividend should feel free to contact the Company's Treasurer, Barbara Dreyer, at the principal offices of the Company at 100 Dexter Road, East Providence, Rhode Island in writing, by telephone at (401) 435-7171 or by email addressed to bdreyer@cappropinc.com.

On behalf of the Board of Directors and management, please accept my best wishes for a happy holiday season and a healthy and prosperous New Year.

Very truly yours,

Robert H. Eder
Chairman

EXHIBIT

December ___, 2012

Capital Properties, Inc.
100 Dexter Road
East Providence, Rhode Island 02914
Attention: Barbara J. Dreyer, Treasurer

Gentlemen:

The undersigned is the owner of ____ shares of Class A common stock and ____ shares of Class B common stock of the capital stock of Capital Properties, Inc. as represented by Certificate Nos. __________ and __________ registered in the name of the undersigned. The undersigned hereby elects to have 80% of the Extraordinary Dividend declared by the Board of Directors on December 3, 2012 paid in the 5% Dividend Notes of Capital Properties, Inc.

Very truly yours,

____
Signature

____
(Print Name)

McFarland Dewey Securities Co., LLC
420 Lexington Avenue
Suite 300
New York, NY 10170
Telephone (212) 867-4949

December 3, 2012

Board of Directors
Capital Properties, Inc.
100 Dexter Road
East Providence, RI 02914

Gentlemen,

Capital Properties, Inc. ("CPI") has asked McFarland Dewey Securities Co., LLC ("MCFD") for an opinion about the likely value of a debt security that CPI proposes to issue as part of a dividend in December 2012 to its shareholders. This debt security (the "Dividend Note(s)") will, among its several features, pay interest semi-annually in arrears at the annual rate of 5% and have a principal value of $12,000,000 which will be paid in full no later than December 31, 2022 At the time of issuance of the Dividend Notes before the end of December 2012, CPI intends to have also outstanding debt securities of approximately $5,700,000 of Secured Notes, having a 10-year maturity and annually amortized on a 20 year basis and secured by a first mortgage on Company owned Parcels 3S and 5 in the Capital Center District in Providence, Rhode Island. Such Secured Notes will prohibit the Company from granting any mortgages (other than mortgages with respect to Parcels 3S and 5) on real property located in the Capital Center District and will prohibit any subsidiary from granting any mortgages on such subsidiary's real property unless otherwise approved by the holders of two-thirds of the principal face amount of the Dividend Notes, and will pay interest of 3.5% monthly in arrears for the first five years following issue.

The Dividend Note will be redeemed in whole or in part by a payment to its holders within 90 days of the closing of the net proceeds of a sale of all or a portion of any real property owned by the Company, or any of its subsidiaries. Net proceeds means the gross proceeds of sale less the sum of (a) expenses of sale, (b) Federal and state taxes related to the sale, and (c) the payment of any secured debt, whether or not secured by the property sold. MCFD is advised that the Company's petroleum storage terminal in East Providence, Rhode Island is subject to a sale option which has been preliminarily exercised. The Company and the option holder are currently involved an appraisal process. There is no assurance that the option holder will proceed to complete the purchase; nor is there an agreement on price.

As part of the approval process, the Company expects to receive an opinion from a third party that the payment of the dividend, including the issuance of the Dividend Notes, will not render the Company insolvent and will not result in the liabilities of the Company, including the Dividend Notes, exceeding the fair market value of the Company's assets.

Over the past several decades, MCFD has provided advice to CPI in connection with certain financial matters. MCFD is therefore familiar, among other items pertaining to CPI, with CPI's businesses, ownership, historic financial performance, general internal projections for likely financial performance in future years, and current financial condition.

In providing this opinion, MCFD has, among other things, relied on CPI for its internal long term financial projections, made general investigation of reported aggregate statistics for the issuance, rating and trading of corporate debt securities issued by other companies, and been briefed on the proposed CPI administration of the Dividend Notes in terms of disclosure about their terms and transfer of such Dividend Notes after they are issued.

In light of such information, such investigation, and after general consideration of corporate debt securities market conditions now and likely to be expected in coming months, and noting the relatively small aggregate size of the Dividend Notes to be issued, it is the opinion of MCFD that such Dividend Notes will have a fair value of "par," i.e. principal face amount, upon their issuance to the shareholders of CPI as a dividend in December 2012.

Very truly yours,

McFarland Dewey Securities Co., LLC

by: ARMcFarland

Alan Roberts McFarland,
Managing Member